the ADVISER

Brought to you by AGL Wealth Management

Welcome to the latest edition of our newsletter, our update on developments in the world of financial services. In this issue we take a look at International Markets, Latest Budget, Pensions and the Housing Market

Another bail-out for Greece

The Greek crisis continued to attract much of the limelight during the first half of July although mounting concerns over the outlook for China's economy and stockmarket also took their toll on investor sentiment.

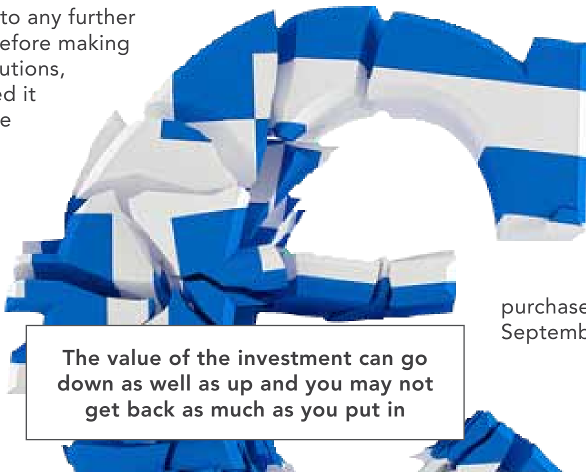
Following Greece's failure to pay a scheduled 1.5bn (£1.06bn) repayment to the International Monetary Fund (IMF), the country's leaders imposed an extended bank holiday, enforced stringent capital controls and closed the Athens Stock Exchange for the whole of July. By the middle of the month, European leaders had finally managed to reach agreement over the terms of another rescue package for Greece although, in return, Greece will have to implement extensive and controversial reforms.

However – and perhaps inevitably – the bail-out deal was not hailed with unanimous approval. In particular, the IMF reacted very coolly to the agreement, indicating it would be reluctant to contribute funds to any further Greek bail-out. Before making any more contributions, the IMF suggested it would want to see further reforms within Greece and also urged governments within the eurozone to consider giving debt relief to Greece.

Furthermore, the new deal has to be officially approved during August, when Greece is next scheduled to make a debt repayment to the European Central Bank (ECB). The uncertainty of Greece's predicament undermined confidence during the early part of the month, and equity markets experienced relatively high levels of short-term volatility as discussions continued between the main protagonists.

Nevertheless, investors were relieved by the news of a fresh bail-out, and share prices in the region generally ended July in positive territory. In Germany, the Dax index rose by 3.3% while, in France, the CAC 40 index climbed 6.1%. For its part, Spain's Ibex 35 index rose by 3.8%. The eurozone's annualised rate of inflation remained unchanged at 0.2% during July, while the region's rate of unemployment stayed at 11.1% in June.

Despite the Greek crisis, the IMF maintained its forecast for economic growth in the eurozone over 2015 at 1.5%. Notwithstanding the uncertainty created by the crisis, the organisation does not believe it has affected the broader outlook for the global economy. Nevertheless, the IMF warned that a sustained backdrop of exceptionally low inflation posed a risk to the eurozone's economy and suggested the ECB might have to extend its stimulus programme of asset purchases beyond September of next year.



The value of the investment can go down as well as up and you may not get back as much as you put in

In This Issue:

P1	Another bail-out for Greece
P2	Markets now fret on China
P2	Osborne updates dividend tax regime
P3	Yet another pension revolution?
P3	Taking control
P3	Where next for UK equities?
P4	The effects of interest rate changes
P4	Housing market update

Need Advice? Get in touch today

AGL Wealth Management
69 Buchanan Street
Glasgow
G1 3HL

T. 0141 348 7710
E. info@aglwealth.com

Markets now fret on China

July proved another eventful month for investors, to say the least. Over the first fortnight or so, investors' attention remained focused on developments in Greece, following the country's failure to make a scheduled €1.5bn (£1.05bn) debt repayment to the International Monetary Fund (IMF).High levels of uncertainty took their toll on share prices in the region, and leading indices dropped during early July. Nevertheless, by the middle of the month, European leaders had managed to reach agreement over the terms of another bail-out package for Greece, in return for some substantial, if controversial, reforms. The deal was greeted with a degree of scepticism in certain quarters, however – particularly from the IMF.

Looking ahead, there is still much to be resolved before Greece's next scheduled debt repayment – this time to the European Central Bank, in August. Over July as a whole, Germany's Dax index rose 3.3% while France's CAC 40 index climbed 6.1%. June figures showed the rate of unemployment in the euro area remained at 11.1%, while the eurozone's annualised rate of inflation remained unchanged over July at 0.2%.

July also saw share prices plunge in China, prompting officials there to implement emergency measures to stabilise volatile financial markets. During the month, the Shanghai Composite index fell 14.3%, losing as much as 8.5% in a single day. Elsewhere in the region, Japan's annualised rate of inflation remained broadly unchanged at 0.4% in June, compared with May, reigniting concerns about deflation. However, retail sales rose in June at a better-than-expected annualised rate of 0.9%. Japan's main Nikkei 225 index rose 1.7% over July.

In the UK, the FTSE 100 index rose 2.7% during July, boosted by a raft of robust corporate earnings announcements. The UK economy also continued to grow, expanding at a quarterly rate of 0.7% during the second quarter of 2015. Growth was boosted by a sharp rise in oil and gas production.

Across the Atlantic meanwhile, the US economy expanded at an annualised rate of 2.3% during the second quarter, fuelling speculation the Federal Reserve might implement an increase in interest rates. However, the IMF urged policymakers to delay making any increase in US rates until 2016, warning that a rise could jeopardise economic growth by pushing up the value of the US dollar. Over July as a whole, the Dow Jones Industrial Average index edged back 0.4%.

The value of the investments, and the income from them, can go down as well as up and you may not get back as much as you put in.

Osborne updates dividend tax regime

From an investment perspective, the most notable change in the post-election 'Summer Budget' was arguably the scrapping of the existing dividend tax credit regime. Under this system, dividends are paid with a notional 10% tax credit, meaning non- and basic-rate taxpayers have no further liability.

From April 2016, the tax credit will be replaced by a £5,000 tax-free dividend allowance for all taxpayers. Above that, investors will pay tax at 32.5% or 38.1%, depending on their marginal rate of tax. Chancellor of the Exchequer George Osborne said 85% of those who receive dividends will see no change or be better off. Still, the move could hurt those with large shareholdings held outside an ISA.

Elsewhere, the Chancellor showed his commitment to peer-to-peer (P2P) lending with the creation of an 'innovative finance ISA'. According to the Budget document: "The Government will introduce the innovative finance ISA for loans arranged via a P2P platform, from 6 April 2016, and has today published a public consultation on whether to extend the list of ISA-eligible investments to include debt securities and equity offered via a crowd funding platform."

Meanwhile, providers of tax-incentivised schemes came under pressure as Osborne announced rule changes for Venture Capital Trusts (VCTs) and Enterprise Investment Schemes. These aim both to bring the UK system into line with European Union rules on state aid and ensure funding is directed towards earlier-stage companies.

In his March Budget, the Chancellor announced businesses would be subject to a £15m cap on the amount they received from venture capital but this fell to £12m in the Summer Budget. Osborne also restricted the types of deal that may be done under the structure. Venture capital may no longer be used to fund management buyouts or acquisitions. Also, VCT funding will only be available to newer companies – those that have made their first commercial sale within the past seven years.

The Chancellor confirmed that the sale of the Government's 80% stake in Royal Bank of Scotland – in public hands since the financial crisis –would, alongside other assets, deliver "the largest privatisation proceeds of all time". In June Osborne announced the Government was planning a sale and these latest comments suggest this could now happen within months. This, along with new tax rules for banks, is likely to weigh on sentiment in the banking sector until the outcome is clearer.

Please note that levels and bases of, and reliefs from, taxation are dependent on your individual circumstances and are subject to change.

Yet another pension revolution?

For anyone who has spent the past 12 months getting to grips with the new pension rules, the news another 'revolution' may be round the corner will not necessarily be welcome. However, this now looks likely following Chancellor of the Exchequer George Osborne's announcement of a new consultation on the UK's pension regime.

There are no firm details as yet, but the Chancellor expressed a wish to simplify the pension system, observing: "Pensions could be taxed like ISAs – you pay in from taxed income and it is tax-free when you take it out. In between it receives a top-up from the Government."

The reaction from the financial sector has been mixed. Although many welcome the impulse to simplify the regime, they believe ISAs have retained a 'halo' effect precisely because they have been relatively immune from government tinkering. As one industry commentator observed for example: "What the current regime could really do with is some stability and relief from further meddling.

"The only way to encourage more people to save is to keep the rules as simple as possible. ISAs are a truly trusted product within the financial services industry – they are simple, easy to understand and accessible. It would be disastrous if people were to save for retirement only to find in later life that a cash-strapped government changes the rules again to tax income for a second time."

The Chancellor's move to taper tax relief on pensions for high-earners had been well-flagged. From April 2016, for every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000. Wealth planners have urged higher earners to take advantage of the reliefs where possible up to the end of this tax year. However, Osborne did not – as some had expected – make changes to the salary-sacrifice regime, meaning higher-earners on the margin can still use this to bring them below the threshold.

Elsewhere, the Chancellor chose not to provide any greater clarity on the resale of annuities, deferring further details until the autumn. In the meantime, prospective retirees must continue to digest the new rules, plus the limits to the lifetime allowance announced in the March Budget. The Chancellor may have ambitions to make the pension regime simpler but, for the time being, complexity reigns.

Taking control

Chancellor of the Exchequer George Osborne's post-election 'Summer Budget' contained some radical and surprising measures – aimed, for example, at 'non-doms' and buy-to-let landlords – while offering a number of sweeteners for the middle-classes, such as inheritance tax exemptions.

The welfare budget also proved a key priority, with Osborne reminding people that – as the example of Greece has demonstrated – "if a country is not in control of its borrowing, the borrowing takes control of the country". The Chancellor's flagship measure was the gradual introduction of a 'National Living Wage' of £9 per hour.

The Chancellor confirmed his plans to taper pension tax relief for higher earners. From April of next year, for every £2 of adjusted income over £150,000, an individual's annual allowance will be reduced by £1, down to a minimum of £10,000. More unexpected was the announcement of a savings 'green paper', to consult on whether pensions should look more like ISAs.

Changes to inheritance tax had been widely flagged and the Chancellor announced that a new £175,000 allowance for a family's main home, when it was left to children or grandchildren, would be introduced. With the existing £325,000 allowance, it will allow parents to pass up to £1m to their children free of inheritance tax.

Overall, the Chancellor hailed a "safety first" Budget that cut welfare and gave Britain a pay rise. While there will be some significant winners and losers, ultimately, it appears the middle came out on top.

Where next for UK equities?

UK share indices have reached fresh all-time highs, boosted not only by a strengthening economic backdrop but also by a wave of relief from markets following an unexpected majority for the Conservative Party at May's General Election. Share prices have rallied since the dark days of the financial crisis and both the FTSE 100 and the FTSE 250 indices have now breached their previous peaks. But where might they go from here?

Although the General Election's surprising result has helped to alleviate political uncertainty to some extent, wider concerns remain over the future of the eurozone and the broader impact of a so-called 'Grexit'. Looking further into the future, the proposed referendum on the UK's place within the European Union – and consequent speculation over the possibility of a 'Brexit' at some point – is unlikely to do much to reassure investors.

Notwithstanding these broader concerns, the UK economy appears to be in relatively good shape. The labour market has strengthened and growth in average earnings has gathered pace. Although the Consumer Prices Index recently dipped into negative territory, prices are expected to pick up and, once the Bank of England concludes its programme of asset purchases, interest rates will finally start to increase.

Rates have now remained at an all-time low of 0.5% for more than six years and this has profoundly affected valuations and demand for different asset classes. Against a backdrop of exceptionally low interest rates, investors have been forced to look elsewhere for yield. A return to an environment of rising interest rates – even if the increases are as gradual as the Bank of England has stressed – is likely to affect demand for different asset classes and could lead investors to reassess their attitude to risk and reward. Assets that have served as income-paying proxies for bonds are likely to prove particularly vulnerable once interest rates start to rise and bond yields return to more normal levels. These effects are likely to be compounded by the fact other leading central banks – particularly the US Federal Reserve – are widely expected to increase borrowing costs in the latter part of this year.

It is an unescapable fact that uncertainty in financial markets tends to generate volatility in the short term. Nevertheless, equity investment is a longstanding commitment and there are still plenty of opportunities for discerning investors prepared to take a longer-term view. While there will be some significant winners and losers, ultimately, it appears the middle came out on top.

The effects of interest rate changes

A change in interest rates is likely to turn many people's thoughts to their mortgage interest payments. Most mortgage repayments tend to be variable, so the amount you pay will fluctuate as base rates change.

A primary catalyst for a change in interest rates is the control of inflation. Mortgage repayments form part of the inflation statistics, and the housing market is a key consideration for the Bank of England when determining interest rates. Rising interest rates can be used to help to cool demand if the market appears to be overheating, because higher mortgage costs can help to deter people from moving.

If you believe interest rates are likely to rise – or simply prefer the certainty of knowing how much you will be paying each month – a fixed-rate mortgage can help you plan. Your repayments will be set for an agreed period of time and will therefore not be vulnerable to interest rate rises – although you will also not benefit from cuts.

Another possibility is a capped-rate mortgage, which means not only will your rate not increase above a specific level but also you will receive the benefit of any cuts. Either way, once the agreed period finishes, the mortgages will revert to the bank's standard variable rate.

As mortgages are held over long periods of time, even minor changes in repayments can add up to substantial sums over time. It is therefore always worth discussing a new mortgage with your financial adviser once a discount or lock-in period has ended.

If you are a saver, rising rates are good news, as higher rates mean higher income. However, some banks are slow to pass on increases so you should ensure you are enjoying the best deal and perhaps consider a move if you are not. A reduction in rates, however, means a reduction in income. Similarly, therefore, it is worth keeping an eye on alternative deals or bonus options in order to maximise your return.

Interest rates also have an impact on those buying an annuity because they lock you into a long-term income stream based on current rate expectations. Rises are therefore generally good news, while cuts tend to be less well received. However, there are many different options for those heading into retirement so the best idea is to seek expert advice.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Housing market update

Despite some uncertainties ahead of May's General Election, the UK's collective enthusiasm for house purchase appears largely undiminished. A record 38% of properties were sold to cash buyers without a mortgage during the first quarter of 2015, compared with 36% over 2014, according to mortgage lender Nationwide. For its part, Halifax has reported the UK is suffering from a shortage of available properties for sale that continues to generate an imbalance between supply and demand in the housing market.

Mortgage approvals reached their highest level since February 2014 during April, according to Bank of England data, rising at a rate of almost 10% over the month.

Nevertheless, first-time buyers remain under a certain amount of pressure, with the Council of Mortgage Lenders reporting a 24% drop in the number of mortgages taken out by first-time buyers during the first quarter of 2015, compared with the final three months of 2014.

Halifax reported an annualised rise in property prices of 8.6% during May, whereas Nationwide calculated a more modest increase of 4.6% over the same period. Between April and May, however, Halifax reported a monthly drop of 0.1% in house prices, while Nationwide found that prices registered an increase of 0.3%. Average house prices rose to £195,166 in May, according to Nationwide while, in comparison, Halifax's calculations found average prices edged down to £196,067.

Demand for property continues to be underpinned by the economic recovery, a strengthening labour market, low mortgage rates and growth in average earnings that is running ahead of inflation. Nevertheless, inflationary pressures are expected to rebound later in the year. Meanwhile, tight conditions imposed by mortgage lenders are likely to continue to curb lending activity, particularly once interest rates – which have remained at a historic low of 0.5% since March 2009 – start to rise. Looking further ahead, Halifax expects increases in property prices relative to earnings will help to curb growth in prices.

In the housebuilding sector, Barratt Developments continues to see "upward momentum" in private average selling prices, and has also highlighted strong demand for its new-build properties that is supported by an improving mortgage market. Elsewhere, housebuilder Bellway regards the current pricing environment as "positive" and hailed a moderation of the pace of growth in house prices that has helped to create a more sustainable backdrop – particularly in the busy London market.

Content courtesy of Adviser Hub UK Ltd.

The contents of this newsletter do not constitute advice and should not be taken as a recommendation to purchase or invest in any of the products mentioned. Before taking any decisions, we suggest you seek advice from a professional financial adviser.

AGL Wealth Management Ltd is authorised and regulated by the Financial Conduct Authority.

Registered in England No. 06911689 Registered Office: 1st Floor, 2 Woodberry Grove, North Finchley, London N12 0DR.

The value of your investments can go down as well as up and you may not get back the original amount invested.

The information contained within this newsletter is subject to the UK regulatory regime and is therefore primarily targeted at customers in the UK.

T: 0141 348 7710 F: 0141 555 5960 E: info@aglwealth.com www.aglwealth.com