Bulletin

KMG CHARTERED FINANCIAL PLANNERS

SERIOUS ABOUT WEALTH

April 2023

New banking crisis or not?

Bank stability relates to the ability of a bank to maintain its financial health and continue operating effectively in the face of adverse economic conditions. A stable bank, and banking system, is crucial not only for the bank's own sustainability but also for the entire financial system.

The importance of this was highlighted during the global financial crisis of 2008-2009, the deepest, longest recession in living memory with the consequences seen even now.

A few trillion dollars were printed, new rules brought in and the banking system survived. Regulators made rules to ensure they would be in a better position should something similar happen again.

Although in the US hundreds of smaller banks went bust in the UK we have a relatively small number of super-banks, and other than Northern Rock and Bradford & Bingley, such a fate was averted with taxpayers' money. Depositors didn't lose money, even if cash was tied-up in the likes of Icelandic Banks for a while, and we are seeing something akin to this again since the SVB bank troubles a few weeks ago.

So is what is happening now similar to 2008, or a temporary crisis in confidence with hundreds of billions of dollars withdrawn? We don't think so. But remember, banks don't hold enough cash to repay all of their depositors, although they have increased their liquidity levels, they lend out the difference and a bank-run can happen extraordinarily quickly.

In the short term, central banks have kept the banking system afloat and shown they are willing to push through changes, with some disregard for legal niceties, to allow consolidation (think Credit Suisse being bought by UBS over a single weekend). Nonetheless, bigger banks are holding money rather than smaller ones, and people are looking for other options to keep their money safe, which is why in the short-term Government bonds have taken back their role of hedging against troubled times. Whatever lies in store for the banks, it is happening because of the very fast increase in interest rates after more than a decade of ultra-low rates, the consequence of Covid, war and money-printing that brought about inflation. To some of us older folks, a 4% interest rate might not seem extraordinary but the increase from 0.1% to 4% in about a year is a remarkable rate of increase by anyone's standard. If, as was the case for SVB bank, you are holding debt that yields almost nothing as income and suddenly to keep depositors you need to offer much higher interest, then you have a problem. This is a symptom of monetary policy and inflation, but really became an issue because of the bad investment and risk management of the bank Board themselves.

Many things hang on confidence and banking, indeed the economic system itself, are included. Hence the mad scramble over the past couple of weeks, and why Central Banks and politicians are so adamant that they will support the system and why, if not before, we believe we are now at the top end of the interest rate rises.

The downside, other than for those who lost their livelihoods as a result, is that we continue through a period of readjustment. There will be companies that cannot cope with a higher cost of debt as well as inflation that means wages are rising at the same time as other costs. So, while fixed income is now a more attractive place than it was, the stresses of the current environment are bound to end in more blow-outs in specific areas – we just don't know where at this stage. Hence, we are taking a sensibly cautious approach to such things. There are some remarkable yields now offered, but if something looks too good to be true, we are probably better off staying well clear.

What does this mean for your investments? Well, it is still a fragile environment where confidence can come and go in a flash. It means volatility continues. It means it will take time for the benefits of lower inflation to come through during the course of the year but it also means there is more likelihood that interest rates settle, and ultimately if people know where they are and the worry of imminent disaster fades, then we get on with the business of living, investing and dealing with the problems in a more sensible and productive manner; and that includes rewarding good investments.

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Budget - More tax relief for the rich??!

By **Nick Matthews**
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There has been quite a lot written about this subject since the Budget was announced, and the help towards the higher earning members of the NHS who undoubtedly saw little benefit in working more or longer with the NHS if it meant they would be taxed more punitively.

It was pretty surprising to see a blanket removal of the amount you can accumulate within a pension fund, since this would always benefit the better-off in society. A more specific allowance within the NHS would have courted dissent, but ultimately would have been more defendable and would have taken away the stick that Labour are already using to beat the Conservatives for helping their wealthy voters.

What it means is that from the new tax year the majority of people can put more into their pension and less tax for those accumulating larger funds.

It means pensions become an even better way to pass money to the next generation, since such funds are free from inheritance tax.

It might mean there are more consultants and other experienced staff who carry on working for longer in the NHS, although I am not sure that is the only reason people have been retiring early.

Certainly it creates an opportunity to make more tax-efficient savings for many people and no doubt we will be looking at this for many of you over the coming months.

Perhaps the biggest problem is that Labour have already declared they will unwind the changes should they win the Election in 2024/5. And we have no idea how that would be put into practice. Would they simply create yet another regime, with the confusion that entails, or will they be moremretrospective and make it so the current changes never existed?! Will any benefits you can get by making extra contributions now simply cause more tax issues further down the road?

Let's wait and see, and perhaps take current promises with a large pinch of salt from a Government that has plenty of difficult decisions to make, but ultimately seems to be in the last throw as an authority.

Higher standards – Yes please!

By **Christine Norcross**
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In July last year our regulator the Financial Conduct Authority set out final rules for a new consumer duty to apply to the wider financial services landscape to ensure consumers are always at the heart of the advice chain. Whilst you may or may not have come across the term 'Consumer Duty' you can be sure that all financial advisers, platform providers, investment management firms and really anyone involved in designing retail products or services are already fully aware of the term and its implications.

The FCA's Consumer Duty represents what the regulator terms a "paradigm shift" in its expectation of firms and has introduced a new Consumer Principle which requires firms "to act to deliver good outcomes for retail customers". This is in recognition of the barriers many consumers face in pursuing their financial objectives and therefore the FCA wants to see firms deliver higher standards of customer care and protection, and to go further in equipping consumers to make effective decisions in their own interests.

The wide-ranging proposals will require firms to review their product suites, communications, end-to-end customer journey and to consider changes in areas including governance and accountability, management information and reporting, product design, pricing, distribution, servicing and staff training.

Essentially, sourcing suitable products at a fair price, providing good standards of customer service and communicating so people can understand shouldn't be controversial or rocket science. But, as we know, not all firms are created equally and here at KMG we welcome the scrutiny on the sector and expect that overall this should drive up better outcomes for us all, whilst of course acknowledging it will take time to work through the whole system.

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Higher standards - yes please!

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Ultimately, when the industry as a whole gets this right, we all win:

- consumers will get the right products and services at a price that is fair
- firms will retain customers and attract new ones
- regulators will need to step-in less often
- and therefore, of course, the wider economy will benefit.

As you have come to expect from KMG we have been working on our Consumer Duty implementation plan for some time and whilst we already have embedded practices which put our clients first, we are taking this opportunity to shake-out our processes and review everything from the top down to ensure you as our valued clients get the best service we are proud to provide.

Technology - some positive advances?

Sources from 7IM and The Guardian

Change is everywhere!

For some time we have emphasised the impact of technology, the changes it will increasingly have on all of our lives and as a result, the investment opportunities that it offers despite set-backs over the past year as the World went from near zero to 4% or 5% interest rates with a corresponding squeeze on values in the short term.

Unashamedly, the information below comes from various sources but highlights ideas of how we look at the future, and the type of thinking that guides our belief that the conditions that exist today, whether for security purposes or because, as we have seen in France, we want the promises of the past without the future manpower to provide it without changing the way things are done - namely by employing technology to make the World a more productive and efficient place. Afterall, change is everywhere!

- Personalised Medicine: Advances in gene-editing, therapeutics, and telemedicine are converging to create a new standard for healthcare – and new possibilities for patients.
- A Greener Economy: The economic and environmental realities of climate change have spurred unprecedented public and private sector investments in CleanTech, renewable energy production, decarbonisation initiatives, and more.

- Genomic Sequencing & Diagnostics: The global sequencing industry is expected to reach $15 billion in revenue by 2030
- Therapeutics: Sales of next-generation medicines could potentially comprise 18% of the $1.35 trillion pharmaceutical market in 2030
- Telemedicine & Digital Health: At maturity, 1 in every 3 patient visits is expected to be virtual, as applications and adoption accelerate

To illustrate this point further, perhaps the most important commodity in the World today is a semiconductor (also called a chip, or a microchip or an integrated circuit). Most of us happily live our lives without thinking about them for a second. But basically, they make everything work: cars and computers, phones and headphones, TVs, fridges and dishwashers. If it's electronic, it has semiconductors. And as the world has become more and more high-tech, semiconductors have become more and more important. So important, in fact, that since 2015, semiconductors have been the most traded good in the world by dollar value. There were more than 1.1 trillion chips sold in the world in 2021; that's about 130 million every hour.

The chart overleaf shows exactly that trend.

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Technology - Positive advances?

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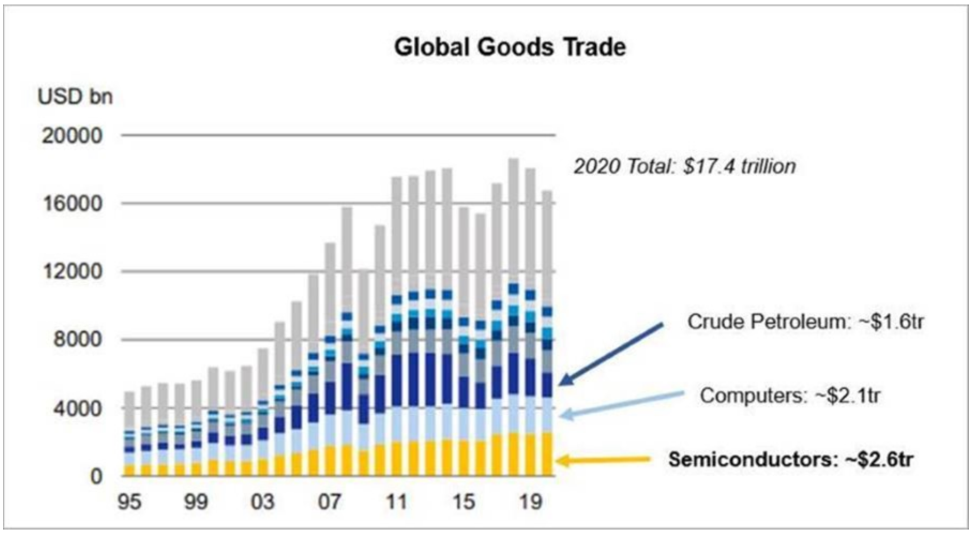
In recent years, more money has been spent on buying semiconductors than on buying crude oil.
Even more striking is where those semiconductors are made. If you want a semiconductor, Taiwan is definitely your first port of call. One single Taiwanese company has a 54% market share of semiconductors, with three other Taiwanese companies adding another ~10% of global market share! That's over two-thirds of all semiconductors made in a country just a bit bigger than Belgium …



The world's most famous cartel, OPEC, has a 40% market share of global oil – and much of twentieth century geopolitics was focused on the Middle East because of that concentration of power. Now the same thing is happening with semiconductors. A massively important global resource concentrated in a very small area (especially if you include South Korea). Guess where the geopolitical action is going to be in the next fifty years?

7IM are reducing the interest rate paid on platform cash

Currently if you hold cash on the 7IM platform you will have benefited from interest being paid at 0.75% below base rate. Unfortunately, with the rise in interest rates 7IM have advised they are no longer able to continue paying at this rate since the underlying cash accounts have not increased their rates at the same pace. It seems strange, but I think we all have experience of banks not passing on interest rate rises as quickly as they raise the charges on their loans.

From 1st April the interest rate will drop to a maximum flat 2%, which is still quite competitive in the platform space particularly as they do not charge a platform fee on cash holdings. Their rate will vary as interest rates rise and fall and they will publish the current rate online, but it will not be directly pegged to the base rate any longer.

Save the date!

KMG Seminar 2023:

Wednesday 11 October 2023

Venue: Denbies Vineyard, Dorking

Confirmation of times and speakers will be sent out nearer the time.
We look forward to seeing you there!