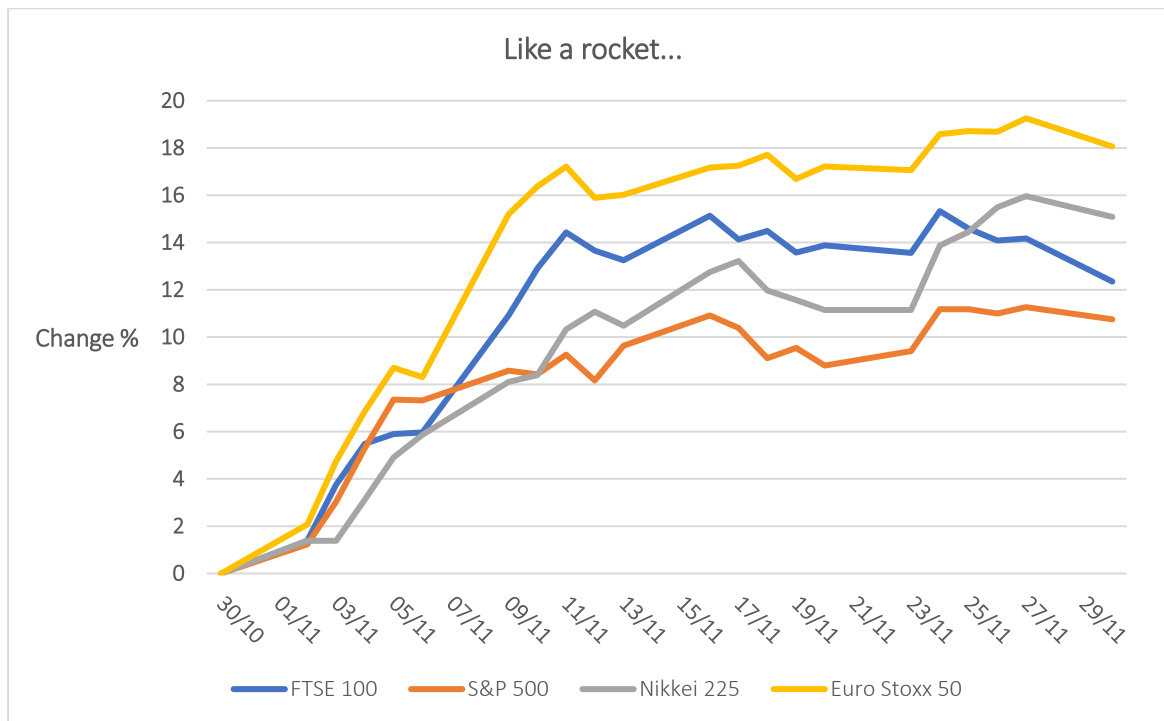
Fireworks in November

November was an exciting month for the world's stock markets.



Source: Investing.com

November was an exhilarating month on the world's stock markets, as the graph above illustrates. It cannot be said that many experts – bar room or otherwise – expected it look like this.

Cast your mind back to Halloween and, apart from trick or treat, there was plenty to be concerned about. For a start the US presidential election was imminent. While it was widely forecast that Joe Biden would win, there was much less certainty that Donald Trump would recognise he had lost. One layer down, serious worries were voiced about a gridlocked US government with a Democratic president unable to pass legislation through a Republican controlled Senate.

On a global scale, the primary concern was the second or, in some cases, third wave of the Covid-19 pandemic, prompting a new round of lockdowns with their inevitable impact on economic growth.

All that October gloom evaporated quickly in November. For example, the FTSE100 had its best month since January 1989, rising by 12.4%. It had even been on course to set a new record before a sharp fall on 30 November, possibly from profit-takers. Across on Wall Street, the Dow Jones Index had its best month since January 1987. At one point in November the Dow hit a new all-time record of over 30,000 – a "sacred number", according to the outgoing president, who had pinned his re-election hopes on a strong economy.

So, what happened to make the world's markets move from depression to euphoria? With hindsight two likely causes stand out:

- The US election was not the disaster that had been feared. Mr Trump has gradually, if indirectly, indicated that he will be moving out of 1600 Pennsylvania Avenue in January, despite ongoing lawsuits and social media outbursts. At the same time, markets seem to have concluded that, Georgia Senate run-offs notwithstanding, a gridlocked administration may not be such as bad idea if it means the status quo is maintained.
- The news of three successful vaccine trials suddenly allowed investors to see a way out of the pandemic in 2021.

November was once again a reminder of the potential danger of trying to time investing in markets: it was not a month to miss while sitting on the sidelines holding cash.

Capital gains tax: increases on the way?

A recent report could herald changes to capital gains tax.

Last July the Chancellor asked the Office of Tax Simplification (OTS) to undertake a review of capital gains tax (CGT) "in relation to individuals and smaller companies". The request was something of a surprise for two reasons. Firstly, there had been no suggestion that Mr Sunak wanted to reform CGT. Secondly, two earlier reports on another capital tax, inheritance tax (IHT), had been sitting in the Treasury's in-tray for over a year, awaiting attention.

Cynics pointed out that while the Conservatives' 2019 manifesto promised no increases to the rates of income tax, VAT and national insurance, there was no such protection for CGT. Certainly, the ideas put forward by the OTS would raise extra revenue for the Treasury's depleted coffers, but probably not the £14bn seen in some of the November headlines.

The OTS made eleven proposals for the government to consider. The more significant were:

- CGT rates should be more closely aligned with income tax rates, implying the maximum tax rate on most gains could rise from 20% to 45%.
- The annual exempt amount, currently £12,300 of gains, should be reduced to a "true de minimis level" of between £2,000 and £4,000.

When IHT relief applies to an asset, there should be no automatic resetting of CGT base values at death, as currently occurs. The OTS also suggested that the government should consider whether to end *all* rebasing at death, meaning that the person inheriting an asset would be treated as acquiring it at the base cost of the person who has died.

The £1m Business Asset Disposal Relief, which only replaced the £10m Entrepreneurs' Relief in March 2020, should itself be replaced with a new relief more focused on retirement.

The OTS paper underlines just how favourably capital gains are currently treated relative to income. As the tax year end approaches, the report is also a reminder to examine your use-it-or-lose-it options for the 2020/21 annual exemption and to top up your CGT-free ISA.

Continuing challenges in the search for income

Deposit rates are continuing to fall.

On 24 November, the interest rate cuts that National Savings & Investments (NS&I) announced back in September took effect. The headline change was a drop in Income Bond rates from 1.15% to just 0.01%.

Reports suggest that NS&I has seen predictably heavy outflows, although savers have struggled to find alternatives. Such has been the flow of money, top-of-the-table offers have frequently lasted only a few days before their providers – often smaller banks –received all the funds they required. There is a certain irony here, as back in the summer the same institutions were quietly complaining about NS&I cornering the market.

According to Moneyfacts, the interest rate monitoring website, in November the average rate on easy access interest accounts was just 0.22%. Locking your money up for a fixed term produced a higher, but hardly enticing return – the average one-year fixed rate bond was just 0.61%, a record low. Even the best five-year return, from the Sharia banking sector, was an expected profit rate of 1.5%.

Half a decade is a long time to tie up cash at such an historically low rate, but the chances of interest rates rising any time soon appear to be close to nil. The Bank of England has recently been sounding out institutions about their ability to cope with *negative* interest rates. To judge by experience in other countries where negative rates already exist, only large savers and corporate depositors would actually pay to park their money at a bank, while everyone else received a zero return.

In practice, the UK government is already borrowing at negative interest rates. For example, in late November, most conventional government bonds (gilts) with a maturity date of up to March 2025 guaranteed their purchasers a loss (i.e. a negative yield), if held to the end of their term.

If you are looking for an income return above today's miniscule deposit rates, then you have to accept some risk to your capital. While dividends from shares have fallen globally in the wake of the pandemic, there are now signs that the worst may be over and that dividends could start increasing in 2021. For information on the funds that could benefit from such a turnaround, please contact us.

When I'm 66 – SPA's latest milestone

The latest phasing of State Pension Age (SPA) increase is now finished.

On 6 October 2020, the SPA reached 66. Unless current legislation is changed, it will remain there until 6 April 2026, at which point the next increase, to age 67, starts to be phased in over the following two years. Thereafter the move to 68 is less certain.

Over two years ago the Department for Work and Pensions (DWP) announced that the phasing to 68 would start in April 2037 and again run for two years. However, at the time the DWP avoided introducing any legislation, saying that it would undertake a review of the latest life expectancy projections before acting. Since then the Secretary of State at the DWP has changed three times, but there has been no news of a review. Meanwhile the rise in life expectancy has slowed dramatically, suggesting that the step up to 68 may be delayed.

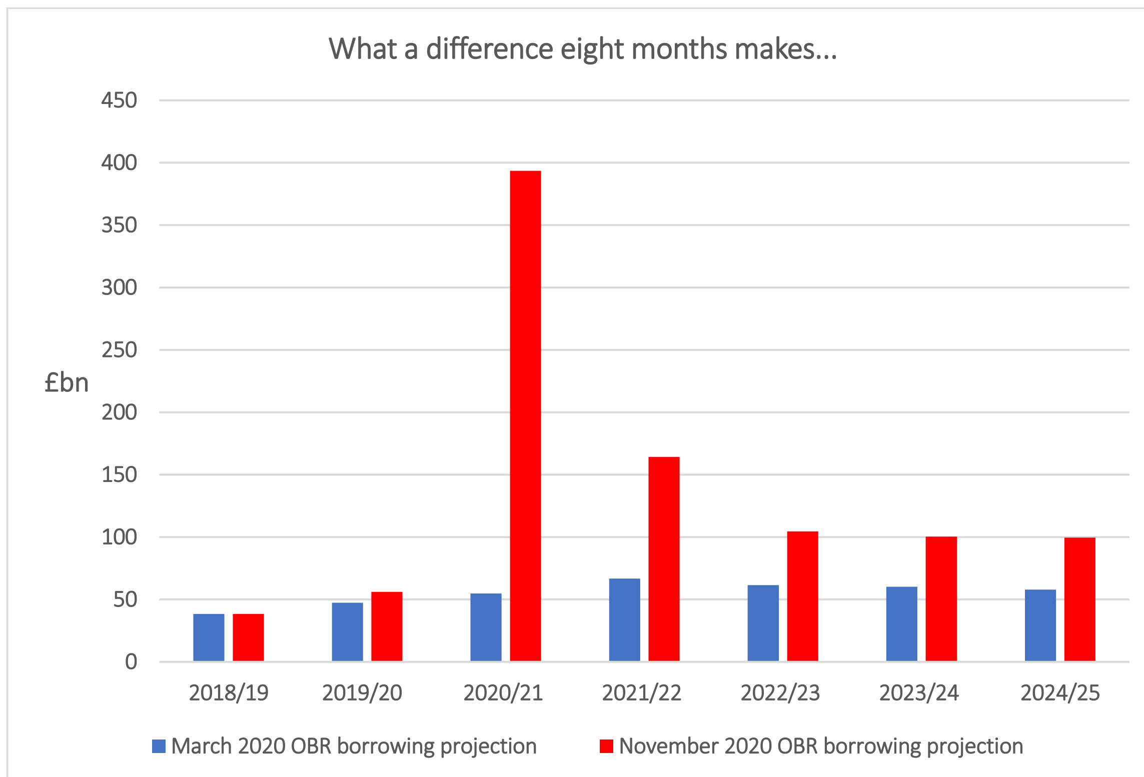
The arrival of an SPA of 66 prompted the Institute for Fiscal Studies (IFS) to publish a briefing note examining the impact of the SPA changes to date. These started with the controversial stepped increase in women's SPA from 60 to 65 between April 2010 and November 2018. With the help of DWP data, the IFS showed that each year's increase in women's SPA produced a corresponding increase in the proportion of women remaining in work.

For example, the employment rate of 65-year-old women jumped from 21% in the third quarter of 2018 to 35% in the second quarter of 2020 as they were no longer able to claim a state pension. For 65-year-old men, there was also a sharp rise over the same period, from 34% in the third quarter of 2018 to reach 45% in the second quarter of 2020.

As the IFS says, "With the new state pension worth £175 per week, having to wait longer to claim a new state pension significantly reduces the incomes of most people affected by this reform." Food for thought (and reason for reviewing your private pension provision) if your retirement planning still revolves around age 65…

Not the Autumn Budget or the Autumn Statement

The Chancellor's November 'Financial Statement' revealed more spending and more government borrowing, but no mention of tax rises.



Source: Office for Budget Responsibility

The UK budgetary cycle is in something of a mess at present. In 2019, unusually the was no Budget thanks to December's general election. For the same reason, the three-year Spending Review which should have been accompanied the Budget was abbreviated to a one-year Spending Round. Just as unusually, it was presented by a Chancellor, Sajid Javid, who never got to deliver a Budget.

His successor, Rishi Sunak, did present a 2020 Budget in March, but abandoned plans for an Autumn 2020 Budget because of the uncertainties caused by the pandemic. He was also due to deliver a three-year Spending Review this autumn, but Covid-19 meant that, once again, the timeframe was shortened to twelve months.

The one-year review emerged on 25 November alongside the latest Economic and Fiscal Outlook projections from the Office for Budget Responsibility (OBR). The OBR's last Outlook had been published on 11 March, coincidentally on the day that the World Health Organization declared Covid-19 to be a pandemic.

The OBR's November calculations were dramatically different from those it produced in March. Whereas in spring the OBR had forecast that the government would borrow £55bn in the current financial year (2020/21), by November that figure had risen to £394bn – the tall red column on the graph.

Over £280bn of that extra borrowing can be attributed to the costs of dealing with the pandemic. In 2021/22, a further £55bn will be spent dealing with Covid-19, pushing up that year's borrowing to nearly £165bn.

While the Chancellor detailed a raft of spending measures for the coming financial year, he said very little about tax. The nearest hint was to comment '…we have a responsibility, once the economy recovers, to return to a sustainable fiscal position". The OBR was slightly less obtuse, noting that "even on the loosest conventional definition of balancing the books, a fiscal adjustment of £27 billion … would be required to match day-to-day spending to receipts by the end of the five-year forecast period". That would equate to an increase of over 11% in income tax receipts – the largest single source of revenue.

The spring 2021 Budget – assuming it is not deferred – is likely to be when Mr Sunak starts talking tax increases. Now is the time to focus on your year end tax planning.