



Future Directions Newsletter 11

– April 2023

Welcome to our latest newsletter.

As before, we have put together a few articles that we hope you may find useful, as well as some internal news.

We hope that you have had a lovely start to the year and are looking forward to some warmer weather as we go through the Spring.

From all at Future Directions



Article: The attractions of UK equity income

Traditionally, many investors tended to focus on equities for growth and bonds for income. Over recent years, however, income-seeking investors have come to recognise the attractions of equity income. Given that dividends are paid out of profits, a company that pays a dividend is likely to be relatively mature; companies that are new or still in the expansion phase are less likely to pay a dividend as they may not (yet) make any profit – and, if they do, it may need to be reinvested into the business. Therefore, companies that are able to pay high dividends tend to be comparatively well established with robust balance sheets, stable operations, strong cash flow, earnings growth, and an ability to control their costs. Consequently, these companies are positioned to deliver positive performance over the long term.

Equity markets can be volatile, and it is important to remember to take a long-term view. The value of shares will go down as well as up, but knowing that there is a regular dividend payment available can help make up for some of that uncertainty. However, a successful equity income strategy is not merely a matter of picking the company that pays the highest dividend. Even well-established companies can decide to cut or cancel their dividend during difficult periods, and we sometimes see cancellations when – for example, during a period of recession – firms need to hold onto their profits. If there is uncertainty about a company's financial position, management is more likely to favour cancelling pay-outs to shareholders in the short term than risk falling into long-term disrepair. As an investor, therefore, a well-diversified portfolio is the best way to protect yourself from the risk that one or two companies might take this decision, and it may be worth considering one of the many UK equity income funds available. To be eligible for the Investment Association's UK Equity Income sector, a fund must invest at least 80% of its assets in UK equities and have a yield of at least 100% of the yield of the FTSE All Share Index on a three-year rolling basis, and 90% on an annual basis. However, to be successful in the long term, an equity income strategy needs to balance better-than-average yields with the potential for some capital growth. You just need to find the mix that's right for you.

Article: UK rates rise to 4.25%

The Bank of England (BoE) raised its key base rate by one-quarter of a percentage point to 4.25% at the Monetary Policy Committee's (MPC's) March meeting, marking the eleventh consecutive increase in UK rates. MPC members voted by seven to two in favour of the quarter-point rise. Although two members called for no change, the majority judged that an increase was warranted, given a recent intensification in inflationary pressures. Having fallen to 10.1% in January, the UK's annualised rate of consumer price inflation unexpectedly jumped in February to 10.4% then back down to 10.1% again in March – far above the BoE's target inflation rate of 2%. Nevertheless, the BoE expects inflationary pressures to ease over the rest of the year to 4%, although this remains somewhat higher than the Office for Budget Responsibility's forecast of 2.9%. The British Chambers of Commerce welcomed the BoE's bid to cool inflation, but warned that rates alone are "a blunt instrument" that will not address all the factors fuelling inflation. The economic outlook appears a little brighter; the BoE expects growth to pick up slightly in the second quarter of 2023, helped by recent declines in wholesale energy prices and a robust labour market. Meanwhile, the central bank insisted that the UK's banking system "remained resilient" following the collapse of Silicon Valley Bank (SVB) and Signature Bank in the US, and the failure of Credit Suisse, but acknowledged the "large and volatile moves in global financial markets" caused by their collapse.

Article: 2023/24 limits for ISAs

Individual Savings Accounts (ISAs) are tax-efficient vehicles that allow you to save and invest without having to pay income tax or capital gains tax. They can be a good way for people to start saving or to add to their existing portfolio of savings and investments. The ISA allowance for the 2023/24 tax year stands at £20,000, of which £4,000 can be saved into a Lifetime ISA for those under the age of 40. You can also open a Junior ISA (JISA) for a child under the age of 18 if they don't already have a Child Trust Fund (or transfer the CTF to a JISA first); the JISA allowance for the 2023/24 tax year is £9,000. ISAs are provided by banks, building societies, asset managers, insurance companies, and the state-owned National Savings & Investments (NS&I). You can invest your entire ISA allowance into cash, stocks and shares, or any combination of the two. Moreover, you can transfer your ISAs between providers as often as you like (subject to your providers' rules). Even if you cannot afford to take advantage of the full annual ISA allowance, it is still worth saving what you can via a regular savings plan, which can start from as little as £50 a month. Do not forget one of the golden rules of ISA investing – if you do not use it, you lose it – so make the most of each year's tax-free ISA allowance. Please note that levels and bases of, and reliefs from, taxation are subject to change.

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