



Knightsbridge  
Wealth

# update

Dear Friends and Colleagues,

It took almost seven months but, following a speech on 17 January, there can be little doubt now that the UK prime minister does indeed have a plan for leaving the EU. Brexit really does mean Brexit – it wasn't just a sound bite after all.

So the UK is on course to trigger Article 50 before the end of March, starting the Brexit process.

The PM has stated that the UK will not seek to retain membership of the single market, but will try and negotiate as much access to it as possible. Meanwhile, control of borders, sovereignty, and the ability to negotiate trade deals will be returned to the UK. Ambitious plans.

Going into the negotiations, one would hope that ambitions are high since, during the talks, there will have to be give and take – on both sides. When talks begin and all parties realise the limits of what is possible without causing too much disruption to their respective economies, cooler heads will prevail and a deal to be brokered. This will probably look something like a free trade agreement covering goods, less favourable terms for services, and a not too onerous immigration policy.

A phased implementation may be possible, easing the transition.

And if it all goes wrong? Well, we now know that the UK will leverage tax and regulation to compete on the global stage. Whatever the outcome, the structure of the UK economy may look very different five years from now.

Sterling is likely to be volatile, but there is room for a rally. The Bank of England has just made another dramatic rise in its growth forecast for this year. It expects the economy to grow 2% in 2017, up from a November forecast of 1.4%, which was itself an upgrade from the 0.8% forecast made in August.

The Bank had been criticised for being too gloomy when it drastically cut its growth forecast after June's vote in favour of Brexit. Since then, it has been forced to upgrade its forecasts for growth.

The Bank also credited stronger growth in the US and Europe, rising stock markets and the greater availability of credit for households, for its more optimistic outlook for the UK economy.

Britain does not live in a Brexit bubble. The global economy is becoming stronger. Far from a feared 'Trump Dump,' there has been a Trump Jump with businesses predicting that presidential promises of a fiscal stimulus to support infrastructure investment and tax will boost growth. The rest of Europe is also posting some better economic growth figures.

Both these factors have a positive effect on the UK economy, an exporting nation that is enjoying the fruits of a weaker currency.

In these challenging times, it has never been more important for international clients to work with a firm that specializes only in meeting their needs. Our strategic partnership with UBS (Union Bank of Switzerland) gives the best of both worlds – personal service and the ability to react in a way that only a small firm can, partnered by one of the world's most prestigious brands.

London will remain the globe's premier financial centre, and Knightsbridge Wealth advises clients, from all over the world, who values the regulation and security that London provides.

We look forward to working with you.

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# Market Report



## Equities

### Profit from US share buybacks and dividends

Corporate earnings growth is picking up in many key regions, including the US, Eurozone and Japan. Quantitative momentum has climbed to its highest reading since mid-2014, suggesting a supportive environment for global equities to outperform bonds. Globally diversified equities are a suitable asset class. Regionally, the US remains a preferred equity market as a meaningful acceleration of corporate earnings growth to 11% is expected in 2017.

## Bonds

### Ever lower

Following the substantial rise during the 4th quarter of last year, global government bond yields have stabilized. The market is pricing in a realistic outlook on growth, inflation and monetary policy and thus expect yields to move mostly side-ways in the months ahead. Against the outlook for gradually rising US inflation, US TIPS (Treasury Inflation Protected Securities) should continue to outperform nominal bonds. US High Yield bonds are likely to outperform high-grade bonds over the next six months - mostly due to their attractive average yield of 6.3% and low expected default rates. They look a more attractive investment that European High Yields and exposure there should be reduced.

## Alternative Investments

### Navigating rising US rates

The US Federal Reserve has started to hike interest rates. Most hedge fund strategies are resilient to rising interest rates while high-grade bonds have performed poorly. Investors looking for an alternative to their high-grade bond exposure should consider a diversified hedge fund portfolio characterized by low directional exposure to both fixed income and equities.

## Gold

### Risk in short term

Political and policy uncertainty will remain a topic this year which will be good for gold, as will a weaker US Dollar. Unexpected hikes in the US interest rates are a risk in the short term.

## Crude oil

### Use setbacks to increase exposure

Oil price dynamics this year have been muted. Production cuts by oil nations have set a floor while fears of a snapback in US supply and still-rising US oil inventories have capped the price upside.

This state of calm will not last. The next main price trigger is a material decline in OECD oil inventories, which should push up prices to \$60 a barrel over the next 3-6 months. Toward year-end, price headwinds should intensify, spurred by higher OPEC and rising US shale production.

## Currencies

### The peak of the US cycle

In recent years, the US Dollar has been highly overvalued. US monetary policy was normalizing while ultra-expansionary measures in many other countries are still being introduced. The tide may be about to turn, as the laggard counties pick up the economic pace and close the gap relevant to the US recovery. A re-thinking of ultra-loose policies in the Europe, Sweden, Japan and the UK should help the currencies regain lost ground against the USD.

## Commodity Prices

### Rising this year

The year started with commodity prices up by, on average, between 1.5% and 3.5%. This solid performance can continue as global growth and industrial activity steps higher this year. Energy and precious metals have the highest return profile, followed by agriculture and industrial metals.

Increased industrial production worldwide will spur stronger demand growth for base metals and higher prices this year. However, the year-on-year price rally should incentivize additional supply. The performance winners of 2016 (zinc and tin) could fall back this year, whereas some of the laggards (copper, lead and nickel) currently offer investors more interesting investment opportunities.

# London property: Private Investors exploring commercial options

After three years of double-digit returns, 2016 was dull for UK property investors. The UK Monthly Property index, which tracks the performance of £45bn-worth of direct real estate investments, returned less than 1%. Meanwhile, the listed property stocks, which dropped sharply after the Brexit vote, recovered most of the ground they lost, but were still lower at the end of the year than the beginning.

In reality, the UK property sector was struggling even before the vote. The rise in stamp duty had hit the high end of the residential market hard, especially in London, while retail property was under pressure from excess supply and the steady growth of online shopping. This all pointed to a dull period ahead, albeit not a significant downturn. In contrast, European property markets have fared better as investor demand for income has pushed up values, while there has also been rental growth in some cities. UK-based investors in Europe have benefited from a drop in sterling, though this is now being reversed.

Buy-to-let landlords are turning to commercial property in their search for higher yields and greater stability. The number of residential landlords diversifying into commercial property has tripled in the past three years, according to auction house Allsop. In part, this is due to tax changes that are set to make buy-to-let a lot less lucrative for investors.

"Where you increase the tax burden in one sector of the market, the money will look very quickly for where it can gain some small advantages," according to Duncan Moir at Allsop. Since most buy-to-let landlords are already familiar with the residential property market, they don't want to get out of housing completely, so they are opting for mixed-use properties, such as shops or restaurants, with a flat above them.

There can be several benefits to diversifying into commercial property. First, there's tax: commercial and semi-commercial property is exempt from the additional stamp duty that now applies to the purchase of second homes. The changes to tax relief on interest expenses for buy-to-let landlords that take effect in April will also not apply to commercial landlords, even if units have flats attached.

Second, gross rental yields are generally higher in this sector, because of the guaranteed rent increase structures often built into tenancy agreements. Commercial tenants also tend to cover several costs that residential landlords would usually pay for themselves, including insurance and repairs. Finally, commercial leases can produce a more reliable long-term income, as businesses tend to be more willing to sign up to a longer lease than residential tenants.

However, high-street banks can be inflexible when it comes to commercial lending. Providers are less likely to offer interest-only mortgages, and will often only lend for the period of an existing lease. It's an illiquid market, so lenders want to see you paying down the capital over the period of the loan. Investors should also keep in mind that rates will usually be higher than with residential loans, and that banks may increase non-fixed rates in response to market fluctuations.

There is little sign of any perceptible recovery in sentiment towards London property.

One major factor is how leaving the EU will affect the financial sector. Some cracks are already starting to show, with Lloyd's of London planning to move part of its operation to within the EU to protect the 11% of group revenue that it generates.

However, other sectors, notably technology-related companies, are moving into London, while the City of London itself has attracted some interest from companies squeezed out of the West End market. There are other bright spots: Apple has signed up on 500,000 sq ft of space in Battersea Power Station, while Google is going ahead with a new headquarters at King's Cross.



## Interest rates: lower for longer?

Many analysts believe that interest rates will not only remain low for a while but could also stay below 2% until somewhere in the middle of this century. Will rates ever get back to 'normal'?

Low interest rates could be a near permanent feature of the future economic environment. That's not to say that interest rates won't rise, particularly in the US. They went up in December and, if the Federal Reserve swings into action, we could see as many as six or seven rises over the next 18 months. That could take rates through the 2% barrier, maybe to hit 2.5%.

However, some banking commentators believe that rates could then come crashing back down to 0% almost as quickly.

Why? There are three headwinds against rising interest rates, all of which will combine to produce a situation with tricky investment implications. Headwind one is the sheer level of debt. Global debt has risen by \$57trn since 2007 and no major economy has decreased its debt to GDP ratio, according to consultants, McKinsey. Put simply, this mountain of debt would be

just too big to service if interest rates went near 5%. In addition, if President Trump goes ahead with his planned infrastructure spend, he's going to need to borrow a vast additional amount of money to add to the US Treasury's current debt mountain.



A massive hike in rates against this backdrop would be hugely deflationary, entirely offsetting any benefits from Trump's increased public spending. There will be huge pressure to keep rates low to prevent this from happening.

Second, normal interest rates might be possible if global economic growth rates were normal. But they aren't. Trump was propelled to power by a sense that US growth isn't what it used to be.

Many economists argue that much of this lower growth can be accounted for by the demographic changes under way in countries including the US and UK. As our societies get older, we save more, spend less and drag down headline GDP growth rates. That feeds into a deflationary cycle and drags down long-term interest rate expectations.

The most obvious headwind is simply tactics and timings. It is very difficult to see how rates could return to 5% without too much market disruption – something central bankers are keen to avoid

Against this backdrop, if you're after after income, there is little choice but to look for yield where it can be found – particularly corporate bonds issued by firms with strong balance sheets.

## Looking for income? Head to Japan

Investors in search of income have traditionally paid no attention to Japan. But that should change soon. After two decades of treading water, the stock market is offering a relatively appealing yield of just under 2%, compared to 1.5% in the US.

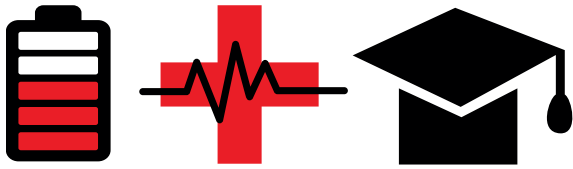
And this could grow much further. Dividend payout ratios are very low in Japan, where companies pay out less than 40% of their profits in dividends. In the US, the figure is around 50%. In Switzerland it is 80% and in Britain it is more than 100%. British firms are currently paying out more than they are making in profits, an unsustainable

situation. It also bodes well that, having endured a deflationary recession of more than two decades, Japanese corporate balance sheets are now amongst the strongest in the world, and with more net cash than listed businesses in any other country. The balance sheets of US companies, by contrast, are groaning with years of accumulated debt.

But Japan's appeal extends beyond an income boost. Japanese companies are also buying back stocks in huge numbers: around ¥6trn in 2016. The Bank of Japan is hoovering up exchange-traded funds as part of its

monetary-easing programme. The world's biggest pension fund, Japan's Government Pension Investment Fund, has raised its equity allocation target to 25%. Private investors are also piling in.

For the first time in years, Japanese stocks have strong domestic support. With US fiscal expansion expected to underpin the dollar, and on-going quantitative easing pointing to further yen weakness, earnings should also keep climbing. Japan remains a promising bet for 2017.



## ‘Sustainable’ investments back in the spotlight

A combination of long-term themes proved to be a successful investment in recent years with sustainable themes such as energy efficiency and water scarcity contributing to good performance. Trends like population growth and aging will offer strong support for a diverse range of such long-term themes through the economic cycle.

Our strategic partners at UBS recently highlighted three sustainability-linked long-term investment themes, whose returns will be driven by multi-decade demographic, social, and technological trends.

- **Energy efficiency:** Reducing energy waste is typically cleaner and cheaper than generating or extracting new fuel. With global energy consumption set to rise almost 50% by 2040 and tightening government regulations, demand is increasing for technologies that enhance the efficiency of energy use in vehicles, buildings, and investment technology infrastructure.

- **Emerging market healthcare:** Demand for medical services is rising fast in developing countries as populations’ age. This provides plenty of opportunities for private hospital firms, pharmaceutical companies, and ambulance services from China and Brazil to India and South Africa.

- **Education services:** As governments struggle to keep pace with rising demand for education and training, the private sector has the resources to fill the gaps. Already, about three-quarters of Brazil’s university students study at for-profit institutions. Communications technology is also making it easier for companies to offer affordable education in developing countries.

The market assumption that US President Trump would behave differently from US candidate Trump is being challenged. A lack of details about the US policy proposals is compounded by uncertainty about the administration’s relations with Congress which is only resolved slowly.

Uncertainty about the policy framework arises from the low levels of government experience in the administration. The gradual emergence of clarity on policy details will still be accompanied by insecurity about the implementation of policy, and the possibility of policy reversal.

The politics of immigration continues to play an important role in Europe. The UK government is likely to focus on its control in the EU exit negotiations. Immigration remains a very important part of the German political landscape, and will be a major issue in French and Dutch election campaigns. Anti-immigration parties may achieve increased support, but are unlikely to take control of the policy agenda.

Opinion polls fail to capture the extent of populism accurately; low response rates, inaccurate answers, and the “shy voter” syndrome conspire to increase the problems of interpreting opinion polls. Economic big data is likely to exclude those lower income groups that are inclined to populism, thereby creating complacency about the economic drivers of inequality and anti-establishment politics.

## Land of the Rising Stocks

Japanese stocks are among the assets most geared to rising US rates, a strong dollar and weak yen, and an increase in global growth. The broad Topix market index gained almost 20% once Trump’s reflation of the US economy began to be priced in. The more widely quoted Nikkei 225 index posted a similar performance and has now managed a fifth consecutive rising year – a feat last achieved during the 1980s bubble years.

The good cheer looks set to last. Now that the yen is falling again, the earnings of the stock market’s heavyweight exporters should increase once more. The Japanese economy looks on track for 1% growth this year, just about good enough to suggest that the Bank of Japan won’t provide added monetary stimulus for now. But it is determined to anchor ten-year bond yields at zero, which should be enough to put further downward pressure on the yen. This is especially true since likely US interest-rate rises mean the yield on US assets will head higher.

Still, Japanese stocks are not merely a Trump- dollar-yen story. In 2014, Japan started getting serious about corporate governance and investor stewardship. That means keeping investors happy by returning more money to them in dividends and share buybacks.

Foreign investors have drifted away from Japan recently, so there is ample scope for them to return to the party. In short, there is considerable potential buying power waiting in the wings. Capital Economics thinks the Nikkei could gain 14% this year.



## Knightsbridge Life™ launched

International clients need life assurance as much as anyone else. It provides capital to beneficiaries in the event of death or illness, repays mortgages, and is an essential inheritance tax planning tool for non-domiciled individuals.

However, few mortgages are protected and little inheritance tax provision is made, simply because it is virtually impossible to obtain assurance for international clients. This is because premiums are based on mortality tables and these are not published for the vast majority of countries.

It's why we have taken control of the life assurance process, by launching Knightsbridge Life, to ensure a bespoke service. We organise all the underwriting and medicals. Using this information we take each client's unique needs to the entire market of insurers.

The global life assurance market is complex, with the underwriting risk ultimately held by a group of global re-insurers. Understanding where risk is, being able to deal directly with those deciding terms, sets Knightsbridge Life apart from other life insurance brokers.

Since cover is under-written on an individual basis, it can be arranged regardless of the country of residence of the client – which includes jurisdictions carrying perception of risk, such as Pakistan or Libya, or countries like Russia and Turkey, where mortality tables are not available.

Life assurance companies face real difficulties when dealing with international clients. A doctor may, for instance, be slow in responding to requests for medical evidence. Even where it is provided, the source may not be trusted or may be in a different language. Based on this information, the company will usually request a number of tests by a nurse on a home visit, or a more thorough medical. This needs to be carried out in a restricted time frame, by a nurse or doctor recognized by the insurer.

We arrange all the medical examinations at a client's convenience, and in the country and location of their choice.

A comprehensive report will be available to both the client and the insurer.

As independent advisers, we are able to select any life company from the whole of the market. But what matters most is our experience, expertise and depth of knowledge. In common with all high value transactions, it is important to build an understanding of each client's unique needs and circumstances, matching these with the insurance company that will provide the best combination of cover and price.

Virtually all clients, with a UK connection will have a need for life assurance, in addition to the more usual requirement to protect a family. This could be to ensure a mortgage debt is paid, or to cover inheritance tax for a property.



## Knightsbridge Wealth's senior team and support staff have over 200 years experience in the world's largest Banks



### Alexander Wade

Alexander is one of the most experienced London advisers in the international market, specialising in this field over the last 20 years at HSBC, consistently recognised as one of its most accomplished advisers. He has over 24 years' experience in financial services. He is particularly interested in the Middle East market and understands the specific issues which are relevant there.



### Stuart Poonawala

Stuart has worked in financial services since 1998. In 2003, he helped to found HSBC's specialist London arm advising international clients which quickly became one of the bank's most successful UK divisions. In 2009, he launched Kubera Wealth, our sister company, focussing on providing quality advice to the UK market.



### Graeme Cowie

Graeme is responsible for building our professional connections with international lawyers and accountants, as well as co-ordinating our relationship with key fund managers at a number of international Private Banks and Discretionary Fund Managers. He has spent over 20 years in financial services and investment management, most recently spending more than six years at UBS where he led the Strategic Partnership team.



**Adam Young**  
Senior Strategic  
Financial Planner



**Kellie Lewis**  
Client Relationship  
Manager



**David Barnard**  
Office Manager



**Chris Salacinski**  
Strategic Financial  
Planner



**Kelly Kular**  
Personal Assistant  
to the Partners



**Daniel Hawes**  
Relationship  
Officer



### Declan Doolan joins the team

Knightsbridge Wealth welcomes Declan Dooley to the team. He becomes our Financial Planning Manager, and will build our Knightsbridge Life insurance proposition.

Declan grew up watching his parents run a successful financial planning

practice in Rockhampton, Australia and it inspired him to enter the profession. In 2015 he was Grand Finalist in the Association of Financial Planning Rising Star Awards, recognizing those who provide quality advice, excellence in client engagement and active contribution to the profession.

Declan has a keen interest in travel, football and all sorts of live music.

UPDATE

## Contact us

If you require further information about our services or would like to discuss your financial situation with us, then please call us on the number below, or send us an email about how and when we can contact you.

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