update

Knightsbridge Wealth

Dear Friends and Colleagues,

It seems that Boris Johnson is not for messing around.

Fresh from meeting with the Queen, the new prime minister gave his big speech on the steps of Downing Street. He then proceeded to fire just about everyone and replaced them with a lot of high-profile Brexit supporters. So at least we now know he's taking this seriously.

The future is unpredictable and, whilst it is possible to improve your forecasting skills, it's not easy and it's no basis for investing – even if you are really good at it.

Instead of trying to predict the future, we work with clients to build a portfolio that can withstand a range of different outcomes. In other words, you need to diversify.

Boris Johnson has thrown down the gauntlet in no uncertain fashion. He's fired 17 cabinet ministers. Their pro-Brexit replacements, along with the appointment of Dominic Cummings – a key architect of the Leave campaign – make a very clear statement: if Britain doesn't leave the EU, then it's not down to me.

In short, we now have a pro-Brexit prime minister, with a pro-Brexit management team. We also very probably have a significant volume of aggrieved backbenchers. So what does that mean?

This looks like the best of a limited set of options for Johnson.

The big threat to Johnson is that his weak parliamentary majority ends up forcing a general election before Britain leaves the EU.

If Britain does end up having a general election before it leaves the EU, then all the polls suggest that it will end up being – in effect – a second referendum on Brexit.

The risk then has been that the Tories would be damaged by the Brexit Party, while the Liberal Democrats would do the same to the Labour vote.

So this clear mission statement from Johnson does two things. Firstly, if there is any chance of convincing people who had planned to vote for the Brexit Party that he can be trusted to get Brexit done, then this is the way to do it. He can't neutralise the threat from the Brexit Party, but he's taking all the steps possible to lose fewer votes to them.

Secondly, it really does force the potential rebels in his party to put up or shut up. Partly driven by her own lack of conviction, Theresa May tried to compromise, and to keep everyone happy. It didn't work. So, rather than put up with passive aggressive sniping and backroom grumbling every five minutes, Johnson is making his position very clear.

So he's basically saying to the rest of Parliament, in front of the electorate: "I'm going to do what the people told us to do in that referendum three years ago."

That's also his message to Brussels: "I want a deal, and I'm sure we can come to one, but one way or another, we're leaving at the end of October."

Which all boils down to: "If we don't get Brexit, or we get a 'no-deal' Brexit, then it's not my fault."

Given how beaten up sterling is, it is unlikely that the new administration is going to be angling for a lower currency to boost exports.

But if Britain becomes the free-trading hub of Europe, the Singapore of the West, with low taxes, strong rule of law and a booming economy – if it goes in the direction that was sold in the run-up the the EU referendum – then sterling should rise. Let's see if we can get there.

We've just got Brexit to get through first.

Over to you, Boris.

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.

Market Report

Bonds

Be selective in Emerging Markets credit

Risk-free yields in some major developed markets are near or below zero. Even if rates stay unchanged, many short to medium term bonds would deliver negative total returns. Investors can preserve wealth by taking profits on assets that will deliver negative returns in most likely scenarios.

Emerging market credit should benefit from global liquidity, resilient (though slowing) global growth, sound credit fundamentals, as well as the relative attractiveness of the asset class against other credit market segments. While emerging economies are at an earlier stage in the business cycle than developed markets, there are big differences between countries and market sectors. Exposure to global risk varies from country to country.

Green Bonds are a sound, sustainable investment to global Investment Grade bonds. While an individual Green Bond usually performs in line with an otherwise identical non-Green Bond.

Equities

Can advance moderately

Pre-emptive Fed rate cuts create a supportive backdrop for stocks and, given low interest rates, equity valuations look attractive relative to Bonds. Whilst global economic conditions are likely to stabilize in the second half of the year, risks around China/US trade remains elevated. Equities can, though, advance moderately. Japan and US look more attractive than Europe.

The US should deliver superior profit growth in 2019 and 2020 and remains favoured over the Eurozone. The US Fed also has more ammunition than the European Central Bank to combat slowing growth should trade tensions escalate.

Commodities

Gold strengthening

Global trade tensions, soaring financial market uncertainty and the prospect of Federal Reserve rate cuts are likely to spur inflows into non-commercial positions in gold futures/options and exchange-traded funds. Gold prices are likely to strengthen and the metal remains a valuable insurance asset, as adding it can help to reduce the overall volatility in a portfolio.

Oil

Disruption will subdue supply

OPEC and its allies agreed to extend the production cut deal reached last year in December, which expired in June, by another nine months, until the end of March 2020. Ongoing high compliance with the deal is likely, and further disruption in Iran and Venezuela, will subdue oil supply in coming months, which is likely to strengthen prices.

Hedge Funds

Useful source of stability

Hedge funds are a useful source of return and stability in a multi-asset portfolio, especially during times of market volatility. They can offer superior risk-return compared to many other asset classes and access to uncorrelated investment opportunities, which provides downside protection and diversification benefits.

With potentially tougher times ahead, investors should consider holdings in this asset class. Heightened stock dispersion, volatility, rising interest rates and a maturing cycle more broadly should be conductive of performance. UBS anticipates average annual returns of between 3-6%.

Foreign Exchange

Sterling risk remains

Easier monetary policy globally should support safe-haven currencies, where central banks have limited room to ease policy further.

Market concerns about a no-deal Brexit are overdone. A reversal of this and fading US Dollar attractiveness should lead to a rebound in Sterling against the US Dollar.

The Euro is likely to follow a neutral path against the Dollar. The Fed is driving the exchange rate by committing unexpectedly to rate cuts, even though the US economy is on a stable path. The European Central Bank will follow the Fed with monetary easing.

Will London's tumbling house prices spread?

London house prices are falling at the fastest rate since the tail-end of the financial crisis.

The latest house price reading from the Office for National Statistics found that prices in the UK's capital slid by 4.4% year-on-year in May. That's the biggest fall since 2009. The big question is: will this spread across the UK?

The Office for National Statistics house price index is quite new, but it's comprehensive and up to date. While a 4.4% slide in London house prices does seem like a big drop, there's no obvious reason to discount it.

If you live outside London, and are hoping for a big slide elsewhere in the UK (prices across the country rose by about 1.2% in May), it wouldn't be wise to expect it to spread.

There are three main reasons to believe that London is a out of trend. For a start, London prices went up by a lot more than those elsewhere in the country. It's easy to forget this, because a lot of property comment is written by people living in London, for people living in London. But the reality is that not every part of the UK has seen the ludicrous price boom that London has enjoyed. As a rule of thumb, in England and Wales, the further from London you go, the less wild the price appreciation.

Scotland is somewhat different in that Edinburgh is the centre of property price gravity, while Aberdeen has its own unique cycle linked to the price of oil. But prices have still lagged the southeast of England considerably.

As for Northern Ireland, prices there have yet to catch up with their 2007 peak, because Northern Ireland was swept up in the Irish property bubble and the epic bust that followed.

So London is now falling hardest because prices there soared the most.

Secondly, London was always the most vulnerable to all the legislative changes that have been made to try to cool the housing market. London was the buy-to-let capital. But it also offered the lowest yields (because prices were so high). So over-leveraged London landlords were the first to feel the pain when the withdrawal of tax relief on buy-to-let mortgages kicked in.

Right after the changes were announced, one of the big banks calculated that London house prices would probably fall by about 20% overall as a result, and that now looks like it was a pretty good forecast. And it's not just buy-to-let. London was also the main destination for all the global capital that wanted to find a secure bolthole. Once foreign investors started being taxed more heavily, and their affairs began to attract ever-so-slightly more scrutiny than before, the market at the top end of London felt the squeeze more than anywhere else.

Finally, there's Brexit. It's a pretty minor factor – relative to tax changes and increased suspicion of wealthy foreign buyers – but if it's going to hit anywhere, then it's London. (That said, the slide in the pound does have the side effect of making London property appealing to those globetrotters who do still want to buy here.)

Here's what it would take to create a UK-wide property crash.

Overall, house price growth across the board (at around 1.2%) is now significantly lower than wage growth (around 3.6%) or inflation (between 2% and 2.8%). In other words, house prices are falling in 'real' (after inflation) terms across the board.

If house prices fall in real terms, then they become more affordable. That defuses a lot of the political tension in the atmosphere (for most people, property ownership defines which side of the 'wealth inequality' divide they feel they are on).

Another benefit of prices falling in real terms, but staying basically flat in nominal terms, is that it doesn't look too scary to existing homeowners. People will learn to cope with owning a house that doesn't appreciate by roughly double their annual wage every year. But no one likes the idea that they might fall into negative equity.

So, a fall in real terms keeps household and bank balance sheets looking healthy, while making life easier for potential first-time buyers.

For a harder fall or a full-on crash, you'd realistically need to see a rise in unemployment, a rise in interest rates, or both. Both of those factors create large numbers of people who suddenly can't pay their mortgages, and therefore become forced sellers (sometimes via repossession). Neither of those seems likely in the near term. And ideally, by the time we get to an economic environment where either of those things rise sharply, we'll have a more affordable market in any case.

Of course, it does mean that the huge numbers of people who seem to be relying on property to provide their pension as well as a roof over their heads, might have to think about diversifying their portfolios.

Special Feature: Boris Johnson's first 100 days

Is the promise to cut tax and boost spending likely?

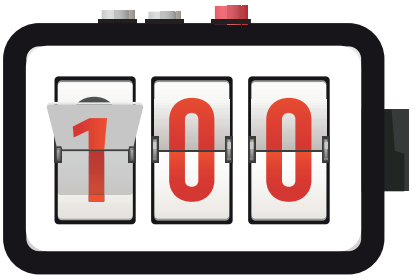
Boris Johnson has fulfilled a lifelong ambition and become prime minister, but he needs to bear in mind the fate of his predecessor if he wants to succeed. Theresa May came into office with a radical domestic agenda, but it never saw the light of day because of her inability to lead the country out of the European Union. Johnson must ensure that his entire focus is on delivering Brexit by 31 October, the date at which the temporary extension to Article 50 expires. With less than 100 days to go, this means all domestic policy planning needs to be put aside to prepare fully for a no-deal exit and whatever disruption that might cause.

Leaving the EU will be the easy part. The bigger task will be "healing our divided nation". Johnson's breezy optimism is likely to only take us so far if he is to achieve that. He will have, for example, to choose between cutting taxes and red tape, and raising spending to regenerate the regions.

Yet faced with a choice between increased spending and lower taxes, Johnson seems to want both. During the leadership campaign he pledged more police, a budget boost for schools and even hinted at pay rises for the public sector. But at the same time, he has promised to raise the threshold for paying the higher rate of income tax from £50,000 to £80,000 and cut corporation tax and business rates. The Institute of Fiscal Studies says that his planned increase in the threshold of the higher rate of income tax alone will cost £9bn.

The total cost of his pledges has been estimated at £20bn, but past experience suggests that many of his most expensive ideas will be either quietly forgotten or put in the filing cabinet marked 'long-term ambitions. Even if they are not immediately dropped, the fact that most of them don't come with a timeline means that their implementation could be stretched out over many years. In any case, Savid Javid, Philip Hammond's successor as Chancellor, will not want to preside over a borrowing binge that hits sterling and creates a crisis.

Even if the fiscal pledges are watered down, the weakening UK economy means the deficit (the annual overspend) is still likely to rise substantially. Indeed, the National Institute of Economic and Social Research believes that, even in the best-case scenario, there is a 25% chance that the UK economy has already slipped into a technical recession, and there is a possibility of a severe downturn if negotiations with the EU go badly. Under these conditions, it is unlikely the government's medium-term fiscal objectives will be met.



And if the UK economy runs into trouble, Johnson may not be able to rely on the Bank of England to bail him out. During the last recession, the Bank eased the austerity with very loose monetary policy, which made it easier and cheaper to get money. But in a recent speech, the Bank's chief economist, Andy Haldane, suggested that a Brexit shock would be different and would require changes to tax policy and structural reforms, which are the remit of the government not the bank. It seems that the Bank is signalling that Johnson cannot rely on the Bank to cushion the blow of a bad Brexit.

A new Brexit plan

Britain's new PM has already outlined a plan for Brexit. Firstly, he wants to make secure the rights of the 3.2 million EU citizens resident in the UK after Brexit. Next, he wants to make payment of the £39bn Brexit bill conditional on a free-trade agreement. Thirdly, he wants to get Brussels to ditch the 'backstop' arrangement that avoids a hard border in Ireland, with negotiations over 'alternative arrangements' taking place in parallel with trade talks. Finally, he wants to ramp up preparations for a no-deal exit so that the EU knows he is serious about walking away.

If Johnson expects the EU to blink, by making major concessions, he should think again. EU officials believe they cope with a no deal, having passed laws to protect their interests in road haulage, aviation and financial clearing houses, and hired extra border staff. At the same time, many in the Irish Republic would rather lose some income than abandon the backstop and thus endanger the peace process by restoring a hard border with Northern Ireland. The best possible outcome is that the EU will agree to make some changes to the Withdrawal Agreement, or rewriting the political declaration. That is, however, unlikely to satisfy UK's Parliament.

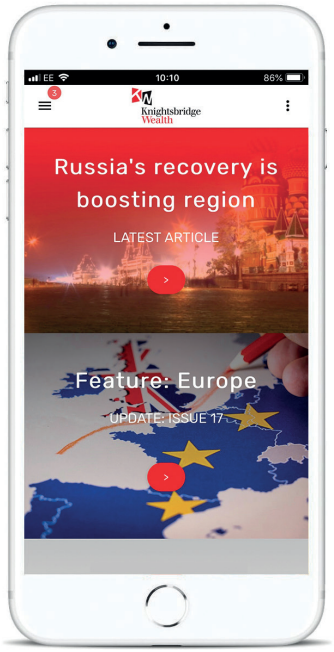
That may be the best Johnson can hope for given the parliamentary arithmetic. Conservative MPs who are enthusiastic about Europe do not intend to make his life easy and are likely to work hard to block a no-deal Brexit. The only alternatives left would then be a 'back me or sack me' general election, ignoring Parliament (leading to a constitutional crisis); or 'running down the clock' and forcing Parliament to revoke Article 50 entirely. MPs would then be put on the spot and have to choose whether to honour or dishonour the result of the referendum."

Are British stocks set for a bounce?

UK stocks have been stubbornly out of favour ever since the referendum, returning just 19% over three years compared with 43% for American equities. A cocktail of fears about a no-deal Brexit, a Corbyn government and wider political uncertainty has depressed returns. Yet that opens up an opportunity for value investors. The murky outlook has also sent the pound to a two-year low against the dollar. A falling currency deters foreign investors. The weak pound is not all bad news, however. With so many FTSE 100 companies drawing revenue streams from overseas – Societe Generale estimates that 63% of the blue-chip index's sales are generated outside of Europe – their profits are flattered in sterling terms. The poor exchange rate also simplifies the investment calculation for British investors. Their pound won't go as far in other stock-markets such as the US, which is another reason to keep funds at home. UK stocks look cheap enough to promise healthy long-term returns. The cyclically adjusted price/earnings ratio of 16 is cheaper than most major markets and developed Europe as a whole.

Another sign that UK stocks are a bargain with plenty of upside is a high dividend yield of 4.2%. Reinvested income is crucial to long-term returns. Investors hoping to tap into the miracle of compounding would do well to buy British.

Keep in touch with the Knightsbridge mobile app



Knightsbridge Wealth's app keeps clients and contacts up to date with issues affecting their financial planning.

Download onto your smartphone or tablet now by clicking on the 'Download app' button on the hope page at www.knightsbridgewealth.co.uk

New appointments

Mohammed Ahad
Financial Planning Manager

"I have been involved in financial services for over 15 years and continue to pursue the greatest standards of improvement and success in my profession. I studied at the University of Roehampton and graduated with an Honours in Business Studies and Management.

I have always been an academic and technically minded in my approach to work and life. This feature continues today as I am on course to achieve Chartered Financial Planner status through the Chartered Institute of Insurance.

My early career saw me take up supervisory and management roles in the retail sector. However, I found myself quickly move into financial services joining Santander in 2004. During this early period, I came to appreciate the real value of managing money and in particular financial planning.

I qualified as a Financial Adviser in 2007 and a few years later joined NatWest Private advising city based clients on their financial planning needs. After business restructuring, I moved into Compliance and spent the next few years overseeing advice quality standards.

However, a return to financial planning was always my desire. The opportunity of helping Knightsbridge manage clients and achieve future growth ambitions greatly excites me."

Jack Keegan
Financial Administrator

"I was born in Northwick Park in North West London and raised just down the road in Stanmore. After leaving school at AS- Levels and going on to complete an NVQ Level 3 took me onto a Degree in Historic Building Conservation, I quickly found out that this was not the career path I wanted to take and took myself off the course. Financial Services has always interested me and and I started working in retail banking with NatWest in the local branches. After just under two years there I went to work in London for Allied Irish Bank.

Always being more intrigued by Wealth Management I joined Knightsbridge Wealth in November 2018 as a Financial Planning Administrator where I provide support to the advising team and to our clients. I have never looked back, and this I believe is when you know you are on the right track. I am currently going through the regulated exams to become qualified earning the prestigious Diploma in Regulated Financial Planning at a stage in the near future.

Outside of the office, I am a huge sports fanatic. I play football twice a week and have now got back into golf as the team are big golfers. I like socialising with friends too.

These days, I continue to remain active through health and fitness in and out of the gym. I have recently taken up playing Golf albeit this is very much a work in progress as I have a tendency to swing the golf club like a cricket bat!"

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.

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Client Relationship Manager

David Barnard
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Kelly Kular
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Daniel Hawes
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Declan Doolan
Financial Planning Manager

Heidi Witham
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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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