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Knightsbridge Wealth

technical news

For professionals working with international clients

Investor Visa scheme continues

Despite a flurry of media reports last month announcing the suspension of the Tier 1 Investor visa scheme – the Home Office then confirmed that the Tier 1 Investor scheme is not currently suspended and the application form is still open online.

The Immigration Minister, Caroline Noakes, announced the UK government's intention to reform the Tier 1 Investor scheme, stating that the reforms would be introduced in the spring of 2019. Following her announcement, many of the main newspaper sites and media outlets in the UK reported that the Tier 1 Investor scheme would be suspended at midnight on either 6th or 7th of December. After considerable confusion and some delays in obtaining an update, a spokesperson at the Home Office confirmed (on Tuesday 11 December) that they remained committed to reforms, but that the Investor scheme had not in fact been suspended at this time.

The Home Office's sudden announcement appears to stem from concerns that this immigration route was being used for money laundering purposes or related activities. There has been no further official information from the Home Office as to what changes will be made to the Tier 1 Investor visa route. However, it is thought that tougher rules will be introduced. In particular, it seems likely the UK authorities will be paying close attention to the source of funds for the investments which lie at the heart of this visa category, and possibly the benefits brought to the UK economy. The Home Office has suggested that independent, regulated auditors will assess applicants' financial and business interests as part of the future consideration process.

In recent years, the highest number of Tier 1 Investor visas have been granted to applicants from Russia and China. Last year, there were 350 successful applications in total, with around 3,000 such visas granted in the last ten years. Under the current regulations, applicants are required to have a UK bank account, be of "good character" and invest £2 million for an initial visa which could then lead to an application for indefinite leave to remain (or permanent residence) after five years of living in the UK.

Following the news, there was both surprise and frustration at the lack of information regarding what would happen after the suspension and what the new rules will be. For potential investors who have prepared their applications or who are currently considering this immigration route, it might seem advisable to submit their applications as soon as possible whilst the current rules remain in place, or else to keep a close watch on any further updates from the Home Office.

It is clearly a time of flux for those advising clients on investments and immigration, and Knightsbridge Wealth is organising a number of brainstorming meetings to discuss threats and opportunities this creates. If you would like to attend one of these, please get in touch.

Politics and trade wars

The market correction that started in October has taken on a life of its own and volatility has continued on the back of new events, such as the arrest of the Huawei CFO in Canada and the leadership challenge to Theresa May in the UK. Unpredictable political events will continue to cause volatility, making forecasting returns and markets in 2019 fraught with danger. However, in staying focused on the economic fundamentals, there appears to be more upside than downside in 2019.

Which brings us to the UK and one basic question: when will the UK market become so cheap that all uncertainty is fully priced into it? We may be approaching that juncture and many are seriously considering an extra investment into UK assets. We have noticed an increase in international investors looking to return to the country they abandoned in droves over the last two years.

Any positive view on markets is also predicated on the outcomes of a couple of crucial issues: the Federal Reserve's (Fed) management of rising interest rates and the trade war between the US and China.

The Fed's monetary policy has markets worried that a recession may be forthcoming if interest rates keep rising without paying attention to the strength of the US economy or to underlying inflation levels. The Fed has the opportunity, for the first time in its history, to engineer a 'soft landing' of the US economy, namely to extend the economic cycle without causing a recession by hiking too much.

And will Trump agree a trade deal with China? He has the option to get a trade truce signed with China and to remove all tariffs on imports and exports. This would not solve all the contentious issues between both countries (such as intellectual property, hacking, etc) but it would go a long way towards reassuring companies that they can invest in their businesses and keep exporting (or importing) without fear of surprises.

Both of these issues should be resolved satisfactorily for the markets, with a decent pause in Fed hikes and a proper cease-fire between Trump and the Chinese ahead of the 2020 presidential election. However, there is obviously some risk that it may not turn out that way, with the inevitable market volatility that would accompany it.

The one investment area most dependent on the outcome of these issues is emerging markets. Upon favourable Fed and US-China outcomes, they could soar, having underperformed the world this year. Conversely, their downside could still be significant if both events turned out wrong.

One additional concern for markets is the slowdown in the US and Chinese economies. Whereas both should be quite orderly and some form of fiscal stimulus could be applied, it is unclear how far the slowdown could go. There has been frontloading of export orders both in the US and China to get ahead of potential trade tariffs and we are now starting to see some stockpiling in the UK ahead of a possible hard Brexit. Although future corporate earnings should still deliver attractive growth, markets may fret at the sight of much lower GDP figures in early 2019. We would see this as catch-up, rather than anything sinister.

In a nutshell, headlines should not deter investors from finding attractive markets worldwide. Politics may continue to cause further volatility in the New Year but, as always, the focus should be on economic fundamentals.

UK property: lethargy replacing energy

A former chairman of the Royal Institution of Chartered Surveyors (RICS) in reacted to Halifax's latest house-price index by saying "Lethargy is replacing energy" in the property market. In the three months to November, house prices were 0.3% higher than in the same three months a year earlier, with the average cost of a home now £224,578. This is down from the 1.5% annual growth recorded in October, and the lowest rate of growth since December 2012.

But while this isn't exactly a ringing endorsement of the state of the UK housing market, it's important to look beyond the inevitably gloomy headlines. In the 12 months to September, the parts of the UK that saw the biggest drops in house prices were both in London – in Kensington & Chelsea and Westminster, with annual drops of 9.9% and 6.3% respectively.

The areas with the strongest growth were the Forest of Dean and Burnley. In both places, house prices rose by approximately 10.5%, according to figures from estate agent Savills. They were followed closely by Stirling, with a 10% increase.

With house-price growth at its lowest rate in six years, the overall market as a whole is certainly sluggish. In cities and major towns across Britain, properties are taking longer to sell, sitting on the market for 102 days, which is six days longer than in 2017, according to the Centre for Economics and Business Research. Moreover, the average number of sales per surveyor has fallen to 14.1 across a three-month period, the lowest it has been since 2009, says Savills. However, it's useful to acknowledge the extent to which the wider market can be brought down by price falls in the southeast, which has been overvalued for a long time. Of the 20 cities monitored by the Hometrack UK Cities House Price index, prices fell year-on-year by 0.4% in London and 1.1% in Cambridge. Yet, prices were up 7.7% in Leicester, 7.4% in Edinburgh and around 6% in Manchester, Birmingham, Liverpool and Nottingham.

There's been a lot of discussion of the idea that the UK market is struggling because people looking to buy are biding their time on Brexit. Yet there's actually "little evidence that Brexit uncertainty has led to pent-up demand in the housing market", according to consultancy Capital Economics. If it has dampened transactions, the effect has been "minor". Since the referendum, housing transactions have averaged 100,000 per month. That's down only a little, relative to the average of 102,000 seen over 2014 and 2015.

There is obviously a case for suggesting transactions might have gone up if we hadn't voted to leave the EU, but a multitude of non-Brexit related factors have been weighing on activity in recent years. These include higher stamp duty for second homes, lower mortgage interest tax relief, and rising interest rates driving up the cost of borrowing. "So even if a Brexit deal is struck, we see little prospect of a rise in housing transactions next year." Now is not the ideal time to sell your London home. And the stagnant number of transactions is hardly encouraging for estate agents and surveyors. But for most of the UK, the housing market is actually holding up reasonably well.

Property round-up

A few recent changes in the property sector aim to make it easier for people to buy a home, while an MP fights back against unscrupulous developers. Here's an overview of the latest stories of interest:

Homeowners on private estates face unregulated and uncapped maintenance fees according to a Member of Parliament, who has raised a bill on the subject. These fees, otherwise known as service charges, management charges or estate fees, are ostensibly to cover the cost of maintaining communal sites such as grass verges or children's play areas – spaces retained by the developer rather than being adopted by the local authority.

Companies then either charge residents directly, or sell the contracts on to property-management firms. Yet the fees are being used as "the latest cash cow by unscrupulous property companies", according Helen Goodman, MP for Bishop Auckland.

One of Goodman's constituents saw their maintenance fee rise from £60 to £134 in four years, while another faced a 50% rise in one year. Despite this, the public spaces are often not kept up to a proper standard. The MP presented her private member's bill in parliament on 15 November, so there is a long way to go before legislation could be enacted, but the reading draws attention to the scale of the problem.

From 1 December, all regulated law firms will be required to publish the prices they charge for various services, including residential conveyancing, and spell out what these prices cover. Firms' websites will also need to outline their complaints procedure, and explain how and when complaints may be made to the Legal Ombudsman or Solicitors Regulation Authority (SRA).

Consumers should easily be able to compare the services of different providers and choose the one that best meets their needs, says the SRA. Having this information in advance should help consumers avoid being taken by surprise by larger-than-expected bills when work has already been completed. As well as clearly setting out prices, firms will also have to provide a typical timescale for quoted services.

Specialist mortgages known as "joint-borrower sole-proprietor" (JBSP) mortgages are becoming an increasingly popular way for parents to help their children buy property. Where a parent buys a property with their children, this can boost the amount the child can borrow, as the lender will take into account the parent's income as well.

Yet because the parent's name will be on the property deed as well as the mortgage agreement the transaction attracts the 3% surcharge on the purchase of a second home, and the child will also not be able to benefit from the stamp-duty exemption for first-time buyers.

JBSP products offer a way around this by allowing for a family member to provide financial support without being named on the property deed. Barclays has offered a loan of this type for some time, but the market is growing, with Metro Bank now entering the market.

It is important to note that, although only one party is the legal owner of the house, both parties remain on the hook for payments. This means that both would see their credit rating affected if payments are missed. Parents may also be turned down by the lender if they are close to retirement.

Oil slide to boost growth

Oil is well and truly off the boil. In early October it reached a four-year peak of $86 per barrel. Since then, it has fallen by a third to a one-year low of around $60 a barrel.

US sanctions on Iranian oil exports have removed far less oil than expected from the global market. "Everyone was pumping oil as hard as they could because of worries about the Iran sanctions, but then there were exceptions for Iran's eight biggest customers," Cornelia Meyer of Meyer Resources, told the BBC's Today programme. The US granted waivers to allow Iran's largest oil buyers – including China, India and Japan – to continue importing from the Islamic Republic. "That led to excess oil in the market."

The oil cartel Opec, which produces about a third of global output, could consider cutting its output to prop up prices in a meeting on 6 December. But the group "is under pressure from President Trump to keep prices low", says Emily Gosden in The Times. US producers have increased their output recently, while estimates of global demand have fallen as growth appears to have cooled.

The oil-price retreat bodes well for US household spending, which accounts for around 70% of the economy, because consumers will enjoy lower petrol prices. Meanwhile, says Justin Lahart in The Wall Street Journal, lower prices will have a less negative impact on the US shale sector than in 2014 because production is more efficient now. The industry employs fewer people and makes up a smaller share of overall capital spending. The bottom line is that "the negative economic impact of falling oil prices is less significant than it was four years ago, while the positive aspects are just as strong".

The drop in oil prices should also benefit emerging markets that are oil importers, such as South Africa and India. Every $10 per barrel fall in oil prices boosts GDP by about 0.5%-0.7% in major emerging markets that import oil, such as Turkey, Korea, Chile, the Philippines and Thailand.

The big losers are countries that export oil. Every $10 per barrel drop in the oil price could lower the economic output of the Gulf states by an annualised 3%-5% a year and the United Arab Emirates, Russia and Nigeria by 1.5%-2%.

On a global scale, the upshot should be a small net boost to growth from lower oil prices. Households will profit from lower inflation while any decrease in investment and tightening of fiscal policy in emerging market oil producers should be very small.

Postponing the Bond bear market?

2018 was widely predicted to be the year that ended the lengthy bond bull market. And for much of the year, markets followed the script. Concerns about rising inflation and the Federal Reserve's gradual retreat from monetary stimulus saw bond yields rise steadily (and thus prices fall). Yet market jitters throughout the year have, in the past couple of months, metamorphosed into full-blown fear of a pending slowdown or even recession, sending bond yields down sharply. And the latest decision on interest rates from the Fed provided no comfort to markets – indeed, it supplied the impetus for the latest sell-off in equities.

On the very day when Jerome Powell took over from Janet Yellen as chairman of the Fed in February, the S&P 500 fell by 4% – the worst one-day hit the US market had taken since 2011. Although the US market recovered to hit new highs later in the year, it was a clear sign of what was already troubling investors – what would happen as monetary policy moved from being ultra-loose to a gradual tightening?

Powell took over as the Fed was starting to reverse quantitative easing (printing money to buy government bonds). But that couldn't remain the case for good. And it fell to Powell to oversee the start of the reversal of quantitative easing (QE) – or as it's become known, quantitative tightening (QT). Put simply, QE adds money to the market. The central bank prints cash and buys (mostly, although not exclusively) government bonds. In turn, the people who would have bought those bonds, or who owned those bonds, buy other assets instead.

QT is the opposite. The Fed takes cash out of the market by shrinking the quantity of government bonds it holds.

When a bond matures and the Fed receives the cash, it simply destroys it rather than reinvesting the money in a fresh bond. The Fed is currently destroying around $50bn a month in this way, and in its final interest-rate setting meeting of the year last week, Powell confirmed that it plans to continue at that pace all through next year.

This in turn is what has rattled markets. While investors had expected the Fed to raise interest rates (which it did, by 0.25 percentage points to a range of 2.25% to 2.5%), they had also hoped for a "dovish" message, given the recent slide in the stock market. Yet, while officials indicated there would be two rather than three interest rate hikes next year, the overall message was nowhere near as soothing as investors had hoped. Hence the "flight to safety" rally enjoyed by US Treasuries.

So what next? Ten-year yields are still significantly higher than at the start of 2018. Donald Trump's tax cuts mean the US government will run a huge deficit next year – about 4.7% of GDP – which, in turn, means more government borrowing and

a much larger supply of US Treasuries for investors to soak up. Therefore, it would be logical to expect yields to rise in 2019.

However, if fears of recession or over-tightening by the Fed grow, the appeal of so-called "risk-free" Treasuries may prevail. Therefore, the bear market in fixed-interest may be further off than thought.

Contact us

If you require further information about our services and how we can assist your clients, then please call us or send us an email about how and when we can contact you.

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