



Knightsbridge
Wealth

update

Dear Friends and Colleagues,

Last month saw the 30th anniversary of the 1987 stock-market crash. The papers and financial websites were filled with interviews with traders who were around at the time, swapping tales of fortunes lost and reputations made as the Dow Jones crashed by 23% in a single day – unheard of before or since. Meanwhile, in an eerie echo of the Great Storm of 1987, which coincided with the crash in the UK, last month saw Storm Ophelia turn the skies red over London. Could it happen again? The short answer, of course, is yes. What's more interesting – and disturbing – are the differences between now and then.

In 1987, markets were just getting used to moving at the speed of computer algorithms. Today, arguably the 'plumbing' of markets is more resilient (partly because of the 'flash crash' of 2010), if only because there are more circuit-breakers in place to arrest any future declines on that scale. A bigger concern though is valuations. While 1987 was frightening, it was also just a blip in a long bull market. Share prices had risen very rapidly during the first half (the Dow had jumped by an incredible 44% in the first seven months of the year, while the FTSE 100 had gained 40%).

Today's environment is in many ways far trickier. The level of volatility is quite extraordinary, in that there's virtually none. Equities are far more overvalued than in 1987, and on some measures even more than in 1929. These days the tech bubble is the only time in history that you can convincingly point to where equities were significantly more expensive than they are now. That makes investing

very tricky for today's investors. From bonds with minimal yields to stocks to property, nothing is cheap.

Given that backdrop, holding a larger-than-usual amount of cash makes sense. However, there's also the problem that we're all going to have to plan for a much longer life, and that means we'll need ever-bigger retirement pots too, particularly if robots have pinched all our jobs.

In a recent UBS client survey, over 80% of respondents felt that now is the 'most unpredictable' time in history. Numerous political risks have flared up in recent months, from the conflict over North Korea and the quest for Catalan independence to diplomatic tensions between Turkey and the US. But while there will always be short-term concerns, investors who seek safety in cash may miss out on rising equity markets at a time of synchronized global growth. Instead, we recommend diversifying across asset classes to reduce investor exposure to low-probability tail risks.

Knightsbridge Wealth advises two key groups of clients:

Firstly, those from all over the world who recognize London as

a well-regulated and respected financial centre, and who want to have a portion of their wealth managed here;

Secondly, those who move to London, either for the short-term or long-term, require specialist advice – including investment, tax, housing and immigration.

The importance of obtaining high quality advice, in a well-regulated financial centre, has never been so important for international clients.

We look forward to working with you.

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

Replace well-worn bonds

Risk free yields in many major developed markets are near or below zero. Even if rates remain unchanged, many short to medium term bonds would deliver negative total returns. Investors who avoid negative yields and instead add longer-dated paper at a slightly positive yield often take an even greater risk, as seen in recent market correction.

Investors can preserve wealth by taking profits on assets that will deliver negative total returns in most likely scenarios, and taking advice on new bonds to replace them.

Commodities

Another Positive year

If things remain steady, this would mark the first consecutive year of gains since 2009/10. Performance has been heavily skewed to industrial and precious metals and livestock. With global growth at or above trend, and supply staying largely disciplined, commodity prices can rise further. Fuelled by firmer Chinese economic activity and supply-side measures, base metal indexes are up by more than 20% this year, meaning a sell-off is now likely.

Gold

A valuable insurance tool

Gold provides insurance value by helping investors protect against flare-ups in geopolitics or any sharp gyrations in equity market volatility. Once again, this approach has proven its worth this year. Since the Fed is likely to hike interest rates in December, this will prompt the gold price to fall further in the near term. Price setbacks over the coming months could be used to add exposure to the yellow metal.

Oil

Values have surged

Strong oil demand and muted supply growth on the back of high OPEC compliance, and modest US supply growth have sent Brent crude oil prices to the highest level since July 2015. With supply-growth likely to lag demand growth again in the rest of this year, the oil market is likely to remain under-supplied and costs continuing to rise. The key risk is a breakdown in the OPEC deal.

Equities

Value in Europe

Solid economic growth and a moderate rise in inflation provide a suitable backdrop for Eurozone 'value's stocks to outperform the wider market. This is because value has a cyclical sector bias, with a heavy weighting in financials. The relative performance of value tends to move in tandem with bond yields. Bond yields are likely to move higher, driven by rising US interest rates and the prospect of the European Central Bank tapering its bond purchases earlier next year.

Attractive investment themes include frontier markets and energy efficiency. The combination of frontier working-age population and urbanisation will boost growth in frontier markets over the next 5-10 years. The share of the working age population and urbanisation should continue to rise, increasing demand for healthcare, infrastructure, tourism, leisure and financials. Higher growth and lower inflation should support the stock market and earnings growth.

Energy efficiency is gaining an

importance around the world thanks to government initiatives, while rising environmental pollution has led to greater worldwide awareness. Energy-efficient products are expected to grow by 7-8% per year.

Foreign Exchange

Dollar strength impacts emerging markets

Renewed US Dollar strength has recently put pressure on emerging markets currencies and near-term setbacks cannot be ruled out. Although emerging markets are exposed, stronger fundamentals should make them more resilient compared to some years ago. Main risks are weaker economic activity and a prolonged deterioration in risk sentiment.

Dollar, Euro and Sterling all look fairly priced, the Australian Dollar looks expensive, whilst the Canadian Dollar looks like good value.

Hedge Funds

Uncorrelated opportunities

Hedge funds are a useful source of return and stability in a multi-asset portfolio, especially during times of market volatility. They offer superior risk-return characteristics to many other asset classes and access to uncorrelated investment opportunities, which provide downside protection and diversification benefits. Our strategic partners at UBS anticipate annual returns of 4-6% for the asset class as a whole.

Knightsbridge Wealth launches UK Welcome™ – the home of Tier 1 Investor Visa expertise

The Tier 1 (Investor) Visa is designed for high net worth individuals who want to relocate themselves and their family to the UK. Only a few hundred of these visas are granted per year so it is imperative you deal with experts in the field. UK Welcome™ exists to ensure your transition into the UK is as smooth as possible. We've been doing this for over 10 years.

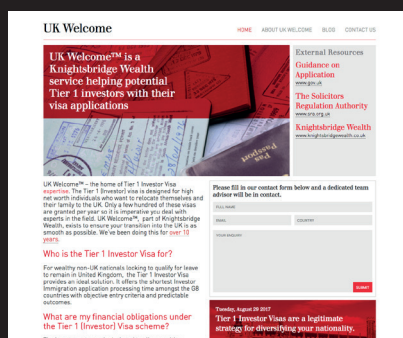
Who is the Tier 1 Investor Visa for?

For wealthy non-UK nationals looking to qualify for 'Leave to Remain' in United Kingdom, the Tier 1 Investor Visa provides an ideal solution. It offers the shortest Investor Immigration application processing time amongst the G8 countries with objective entry criteria and predictable outcomes.

The investor category is designed to allow wealthy individuals who make a substantial financial investment in the UK to obtain permission from the UK to enter as an investor under the Tier 1 category. The applicant must invest a minimum of £2m in the UK. Tier 1 Investor migrants must, upon arriving in the UK, invest at least £2m in UK Government Bonds, Loan Capital in active and trading UK-registered companies, or UK equities. Companies must not be mainly engaged in property development. Throughout the period, the applicant can be employed or self-employed, and has no recourse to public funds.

A Tier 1 Investor Visa grants leave to enter the UK for an initial period of three years, and is then extended for a further two years, if the above conditions are maintained.

At the end of five years, the applicant, and their dependents, will be eligible to apply for permanent residence (Indefinite Leave to Remain). They will need to take and pass the Life in the UK test, unless the applicant is under 18 or over 65. After a further year, an application can be made for British citizenship. If approved, possession of a passport will also give the applicant and family members citizenship of the European Union and the right to



live, work and retire in any one of the members of the Union.

It is not a requirement to make the UK your main home. The UK Border Agency permits absences of up to six months in every year. However, excessive absences from the UK could affect the success of the application.

If your eventual aim is to secure British citizenship, you must not have been absent from the UK for more than 450 days in the five-year period preceding the application, and not more than three months in the year before the application. Absences for those looking to secure a passport should be kept to 90 days or less a year. The Home Office retains discretion to waive absences in excess of the 450-day limit on occasion.

It was reported last year that the number of foreign investors moving to Britain dropped more than 80 per cent during the year to March 2016, as the popularity of the 'golden visa' regime was impacted by higher costs, stricter rules and more competition. This year however, reports have surfaced that more foreign investors are looking to the UK's Tier 1 Entrepreneur Visa with a view to entering the country, and finding out how business will be conducted in post-Brexit Britain.

The collapse in the value of the pound has helped London become a hotspot again for foreign investors in recent months, attracting more investment than anywhere else in Europe. Various reports indicate that London has eclipsed the amount of foreign investment received by some

of Europe's biggest cities, including Berlin and Paris. Immigration experts attribute rising interest in the Tier 1 Entrepreneur Visa to an urgency among business people to 'gain a foothold' in the western European market.

Traditionally, travel freedom and opportunity confines as well as economic, political and security concerns have fuelled investment into second passports.

While citizenship programmes are generally not for the poor-of-purse; residency programmes are often the more 'inexpensive' option but few residency programmes offer a path to citizenship without lengthy stay requirements. Long stay requirement programmes include the UK's minimum £2m Tier 1 investor programme but it maintains a wide appeal.

Often very successful business people from the Middle East or Africa want the mobility that a second passport entails, with those granting EU access especially highly prized. But, equally for others, alternative citizenship can offer a safe-haven in times of trouble. Clients often seek a more secure future – whether that be in investment of their assets, or in physical security.

The UK system has tended to assume that the more money an applicant has the more desirable the applicant will be. The Highly Skilled Migrant Programme, a points-based system introduced under Labour in 2002, awarded more points for those with higher earnings. Tier 1 visas simply take this principle to its logical extreme.

It would appear that Brexit uncertainty combined with the UK's unique mix of a safe-haven and access to European markets has created a new demand of Tier 1 applicants.

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Return of Euro crisis

Just a few weeks ago, the outlook for the Eurozone was better than it had been at any time since 2011. Political stability seemed to have returned, and investors started buying back in. But political risk had not gone away. It had simply been swept under the carpet for a few months.

The most serious of the ructions is the threatened breakaway of Catalonia from Spain. The heavy-handed response of the Spanish government has only heightened nationalist sentiment and its departure now looks likely over the next few years. For the European Union (EU), that would make Brexit look like a mere overture. Should it allow Catalonia to join and use the Euro? What would the European Central Bank do about Spanish banks which are only tenuously solvent at the best of times?

There are no easy answers. If it accepts Catalonia, it risks a permanent rift with Madrid. If it takes a hard line, it will take a generation for the newly independent state to forgive Brussels – and another region will have splintered away.

Over in Austria, the fiercely euro-sceptic Sebastian Kurz won elections last weekend and is likely to end up governing in coalition with the far-right Freedom Party. Alongside radical tax cuts, Kurz campaigned on a platform of restricting immigration, and standing up to Brussels. He has aligned himself with eastern Europe in refusing to accept migrant quotas, and has said the UK is likely to benefit from Brexit. He will be the first avowedly anti-European prime minister of a major EU country.

In Poland, the EU is engaged in an increasingly bitter fight with the ruling Law & Justice Party. A conflict over reforms to the judicial system has turned into an escalating power struggle, with the European Commission threatening sanctions. Where that is going to end up is hard to say. The Poles are committed Europeans, and its economy has benefited hugely from inward investment from the western half of the continent. It has far more to lose than the UK ever did. Even so, it shows no signs of submitting meekly to Brussels.

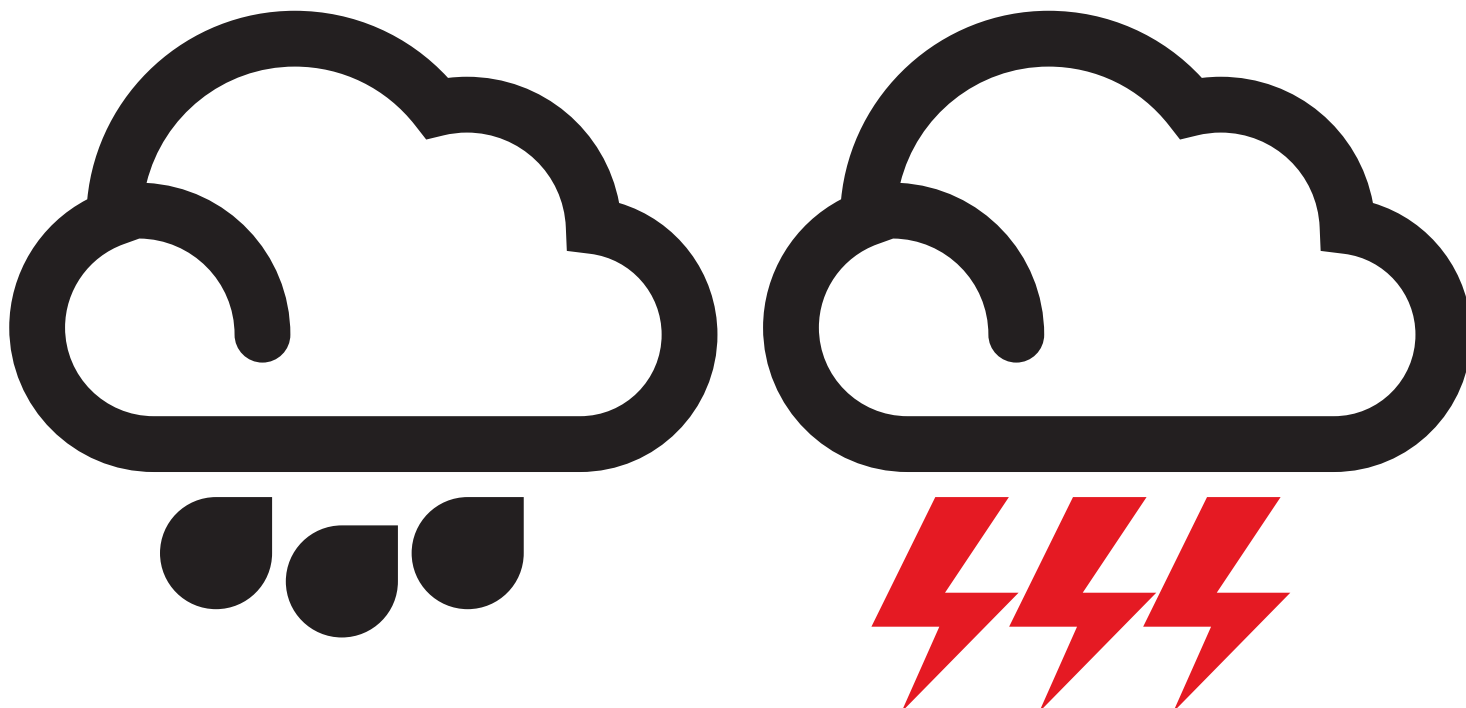
Meanwhile, Germany is not the rock of stability it once was. Angela Merkel had a bruising election, and no coalition has yet been formed. While she remains chancellor, she is a weakened figure, and will have less ability to impose solutions on the rest of the continent.

When the Eurozone crisis blew up in 2011, it exposed the fault lines in the euro. Huge trade surpluses were built up in a hyper-competitive German economy. There was no way of adjusting for that through the currency, and neither was there an effective mechanism for recycling the money. Germany kept on growing, while much of the rest of the continent was plunged into a depression. Italy has not grown since it joined the euro, and in France industrial production is still below its 2007 level. In the last three years, the European Central Bank has thrown €2.2trn of freshly printed money at the economy. That has papered over the cracks, but not fixed any of the underlying problems. The German surplus keeps growing, and has now reached an unsustainable 8% of GDP. Spain has recovered, but the rest of the periphery remains in trouble.

Merkel and French president Emmanuel Macron might have made a start on fixing that. A Eurozone finance minister with powers to raise taxes and spend money across the bloc might have worked. But we will never find out for the simple reason it is not going to be tried. The political momentum has disappeared. So the Eurozone will remain as unbalanced as it has ever been. And that means it will remain potentially unstable. The Eurozone crisis is back.



Brexit: Deal or no deal



The divorce bill is still being haggled over. With every week that passes, the UK gets closer and closer to its exit from the European Union, yet no closer to getting a deal with its former partners. There is clearly a serious possibility that it will tumble out of the EU with no agreement – leading to perhaps the biggest crisis for the economy since the crash of 2008. That poses some tough questions for investors. Here are five smart strategies.

First, go long on volatility. Stock-markets have been quiet this year. On the day the announcement is made that no deal has been reached, that is going to change. Whatever the long-term consequences, in the short-term the markets are going to hate it. Every major business organisation, and dozens of economists, will be predicting catastrophe. Expect some wild swings in the FTSE – perhaps a 10% drop on the day itself.

Next, sell the Pound and shift assets overseas. No one really knows what the consequences of crashing out of the EU without a deal might be. It might turn out into the full catastrophe predicted by Remainers, with lorries queuing all the way from Dover to Bromley and Waitrose running out of avocados.

Or it might turn into the liberation that hardcore Brexiters dream of, with countries queuing up to sign trade deals with us. Most plausibly, there will be some losses and some gains and net-net it won't make a lot of difference. But, in the first instance, every global fund will be getting out of Britain and that means the Pound will fall. The more money you have overseas the better.

Thirdly, expect another blast of quantitative easing. In the wake of the referendum the Bank of England, fearing a slowdown, responded by boosting the economy with a cut in interest rates and a blast of printed cash. There is no reason it should not respond to 'no deal' with another round of stimulus as well. That will help asset prices, hurt the Pound, and give another boost to house prices.

Four, sell the losers. The overall impact of the EU on the British economy is exaggerated, but there is no point pretending it does not mean anything. Financial services are going to be hit, not least because the rest of Europe is determined to use Brexit as an excuse for undermining the City. The car industry, a major exporter,

will struggle. So might aerospace. Those problems will fix themselves in due course but in the short-term, pain is still pain. From the banks to the car parts suppliers to the airlines, companies in those industries are going to take a hit when it becomes clear we are leaving without a deal.

Finally, buy the winners. The Brexit camp has not been very good at selling the economic benefits of getting out of the EU, so the upside has been largely ignored. That doesn't mean there isn't one. One of the big benefits of 'no deal' would be getting out of the customs union – that would mean escaping the tariffs the EU imposes on the rest of the world. Food would be a lot cheaper as we tap into world markets, and that will give a big boost to the supermarket and restaurant chains. Retailers will benefit as prices, despite a cheaper Pound, come down – especially the chains that compete fiercely on price.

On top of that, the UK will save the money it was going to spend on the divorce bill and that will help the public finances. The companies that rely on government contracts will be helped by that.

Global real estate in a ‘bubble’

Many are obsessed with property prices and they being a part of an investment portfolio. UBS have just issued a superbly researched and comprehensive report on ‘bubbles’ in global real estate. Bubble risk seems greatest in Toronto, where values have increased significantly in the last year. Stockholm, Munich, Vancouver, Sydney, London and Hong Kong all remain in risk territory, with Amsterdam joining this group.

In contrast, property markets in Boston, Singapore, New York and Milan seem fairly valued, while Chicago remains undervalued.

International clients continue to be drawn to London, seeing it as a ‘safe’ investment in all circumstances. However, it is worth remembering that a homebuyer in London in 1988 had to wait 25 years, i.e. until 2013, for the investment to outperform the UK average.

The UBS Global Real Estate Bubble Index scores London in bubble-risk territory. The high-end market suffers from oversupply. Prime sales prices and rents have exhibited a downward trend since the middle of last year. Market prices are likely to stagnate from here, and high market valuations and political uncertainty call for cautiousness.

London’s inflation-adjusted housing prices are almost 45% higher than five years ago and 15% higher than before the financial crisis a decade ago. But real income remains 10% lower than in 2007. The rise in house prices has been decelerating since the UK referendum in June 2016, and real prices are 2% lower.

Mortgage rates are at all-time lows. Nevertheless, housing remains highly unaffordable for London’s citizens. A skilled service worker needs to work almost 16 years to buy a 60m² home near the city centre. Favourable credit conditions and the help-to-buy scheme have kept demand in the lower-price segment high.

But the prime market now faces oversupply, as increased stamp duties on luxury and buy-to-let properties hamper demand. As a consequence, sales prices and rents in the high-end segment have fallen in almost all London boroughs since mid-2016.

The fall in the value of the Pound makes an attractive market entry point for foreign investors, whose impact on the market should not be overstated. London house prices may stabilize in the coming quarters. Low affordability, the economic slowdown and uncertainty about the UK’s relationship to the EU are keeping demand in check. On the other hand, supply will slow further this year, considering the decline in housing construction. It would be sensible to be cautious given the high market valuations and enormous political uncertainty.

According to the UBS Global Real Estate Bubble Index, the bubble risk in select world cities has increased significantly over the last five years. These ‘super-cities’ are almost detached from their countries in terms of property values. Yet, economic fundamentals will always catch up with them.

Falling mortgage rates over the last decade have made buying a home vastly more attractive, which increased average willingness to pay for home ownership. In European cities, for example, the annual mortgage interest payments for apartments are still below their 10-year average, despite real prices escalating 30% since 2007. In Canada and Australia, too, a large part of the negative impact of higher purchase prices on affordability has been cushioned by low mortgage rates.

In world cities, the expectation of long-term rising prices firmly supports the demand for housing investment. Many market participants expect the best locations to reap most growth in the long run. Prices in the most attractive cities are expected to outperform average cities or rural areas in the long run. Hong Kong, London and San Francisco are exemplars of this theory.

The intuition is that the national and global growth of high-wealth households creates continued excess demand for the best locations. The superstar narrative has received additional impetus in the last couple of years from a surge in international demand, especially from China, which has crowded out local buyers.

Which cities offer the best value? The UBS study concludes three US cities: Chicago, Los Angeles and Boston. In Chicago, prices are 30% below their 2006 peak. In Boston, population growth is vigorous, supply is slowing and prices are likely to continue to rise. And in Los Angeles, prices remain 20% below their 2006 peak. Housing affordability is stretched and will slow house price growth.

In the past, rising interest rates almost always triggered a crash in housing markets. It would be wise to be conservative when it comes to property investment at the present time.



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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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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