BREXIT 2020 INVESTMENT GUIDE

A SAFE BREXIT INVESTMENT

Contents

> UK Investors can't ignore Brexit. Why? Because it will be the one most important factor affecting ROI in your investment portfolio over the next few years.

INTRODUCTION

As the Brexit story evolves, financial markets continue to react with volatility, with U.K. investors increasingly (and rightly) concerned about protecting their investment portfolios. In this article we outline a few scenarios and how it could affect your investments, future choices and propose some smart alternatives with a Brexit-aware portfolio.

Regardless of which side you stand on in Brexit, there's no denying that the uncertainty around when the UK will leave the EU, and the circumstances in which it may happen, are causing market jitters across a whole spectrum of investments including property, the stock market and other asset classes.

Before delving into how certain investments could be affected, let's take a look at the political climate and current economic backdrop in the UK and globally.

BREXIT ELECTION WORRIES

Dubbed as the 'Brexit election' there are now mounting concerns for investors over manifesto pledges from political parties.

The UK leaving the EU is no longer the only concern for many investors. There's now more apprehension over which political party will be leading the UK over the next 5 years.

Some of the radical policies like nationalisation and increasing corporation tax from the Labour party will deter foreign investors. Investors and fund managers are underweight in UK-focused funds - more than 21billion euros have been withdrawn from mutual and exchange traded funds investing mostly in UK equities since 2016, according to Morningstar.

Investors have traditionally feared Labour and this time, it is no exception. They have pledged substantial tax hikes on businesses – potentially higher than any other G7 country.

According to calculations by the Institute of Fiscal Studies (IFS), around three-quarters of the revenue for Labours plans will be sucked from taxes on companies and their shareholders. These tax increases could cut shareholders returns by up to 9%.

Some fund managers are now favouring a Brexit deal and are more comfortable with the conservative parties approach after Boris Johnsons 'leaving without a deal' mantra has faded for now into obscurity.

Whilst the Lib Dems appear to have faded with the opposite stance to the conservatives, and uncertainty over the polls with the Brexit factor again muddying the waters, a minority Labour government or coalition is still a possibility and cannot be ignored.

In the event of an impressive Conservative majority, this would clear the investing landscape and Brexit endgame. Less uncertainty would release pent up demand from businesses and consumers and pave the way for modified growth predictions.

In contrast, a Conservative minority or small majority could spell political gridlock, increasing the likelihood of the UK crashing out of the EU by the end of January or further procrastination and delay with variations of worser scenarios.

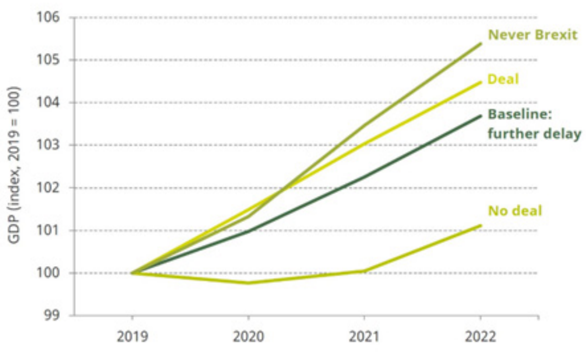
> We all remember how ambiguous the polls can be – the UK electorate have become more volatile and unpredictable in recent elections.

Whatever the election result, uncertainty won't be going away anytime soon, as the Brexit endgame still has to playout in a manner which not even Nostradamus could have prognosticate. We could be faced with a second referendum with a Labour coalition or an extension to the transitional period with the Tories.

Betting on the election result is a risky game – but are there more predictable investment alternatives that possess a shock absorbing characteristic to the uncertainty of **medium to long term Brexit tremors?**

BREXIT SCENARIOS

The four Brexit scenarios and possible knock on effect on GDP growth and the UK economy.



Data taken from Institute for Fiscal Studies (IFS) 08 Oct 2019.

Brexit on existing deal by 31st Jan 2020

If this were to come with tax cuts and further spending increases together worth 1 to 1½% of GDP, then growth should pick up to (a still poor) 1½% a year in the short term. Some pent-up investment should occur, and consumer confidence would improve, as the risk of a no-deal Brexit recedes.

A ‘no-deal’ Brexit on 31st Jan 2020 or later

This would be considerably worse for the economy.

We assume this would be a Tory-led government, which would implement further fiscal loosening totalling 2% of GDP. Interest rates are cut to zero alongside £50 billion of quantitative easing. Private consumption and investment growth falls while net trade is also a drag on growth. Overall, the economy does not grow over the next two years, and grows by just 1.1% in 2022.

Revoking Brexit

This could lead to the most favourable economic outcome.

We assume this would require a Labour-led government which, as well as revoking Brexit, would also implement significant tax and spending increases, an overall fiscal loosening and some tightening of labour market regulations. Interest rates would also rise more quickly. This might result in growth of 2% a year. Crucially, this scenario involves a Labour-led coalition rather than a majority Labour government.

UK Continues Brexit Delay

In this scenario, we assume a further fiscal loosening of between 1 and 2% of GDP.

There would be a chance of small rate cuts. Growth remains below 1% in 2020 and, while it then picks up, it remains very poor, below 1½% in 2021 and 2022.

> A Labour Liberal Dem coalition may be the most desired outcome, but only if the Lib Dems can temper Labours hard left economic policies.

INVESTING IN 2020 & BEYOND

Let's take a closer look into some of the popular investment strategies and how they could be affected by the up and coming UK election and Brexit scenarios in 2020.

PROPERTY

STOCK MARKET

SAVINGS & ISA's

FINE WINES

As a retail or DIY investor, how you can plan for the different scenarios and to dampen the negative impact on your existing investment portfolio, and invest smarter for continued portfolio growth.

1. PROPERTY MARKET & HOUSE PRICES

A common investment strategy over the years has been property which has been a stalwart for long term investment strategy that has served well for retail and the larger company property investors.

Whether you possess a small or large property portfolio, a landowner or a landlord, the evolving Brexit story and how it unfolds will be a deciding factor on whether you sell, hold or buy.

Expert house price predictions - Brexit Election and Beyond

With the election looming on December 12th, the housing market will no doubt be affected by the ongoing uncertainty.

Property prices in 2019 have fallen in some areas and sales have been subdued – there's a wait and see approach from landlords deciding what to do with their buy to let properties as well as homeowners pondering whether to move or stay put whilst awaiting to see how the election and Brexit unfolds.

What will a no-deal Brexit mean for house prices?

Even if the conservatives win a majority, and push through the existing deal, there is no guarantee that a No deal Brexit won't resurface later during the negotiations with Europe on trade, law, security matters.

KPMG has predicted that property prices could fall by around 6% following a no-deal Brexit, but in a worst-case scenario they could drop by as much as 20%

The Office for Budget Responsibility said in July, 2019 that a no-deal Brexit could lead to house prices falling by almost 10% by 2021.

What will the Conservatives Brexit deal mean for house prices?

If the Boris factor hasn't worn off amongst voters and if the pre-election polls are reflecting the nations mood, then the conservatives maybe capable of winning a majority.

If you’re a landlord heavily invested in the Buy-to-Let market, you maybe looking to sell in the next year. A wide ranging study of around 2,000 landlords by the RLA predict that a third of landlords plan to sell at least one property over the next 12 months.

This will translate to him being able to push his deal through parliament and get on with leaving Europe in a somewhat controlled manner, albeit under a cloud of uncertainty and the vicissitudes of negotiating with the European council. This could lead to stability and some recovery in the housing market for 2020.

What is the outcome if Brexit is revoked: a 2nd referendum and us staying in Europe?

This is seen by some as the best outcome for the property market. With the medium term growth projections painting a more positive outlook, there would be an initial recovery and a more positive growth story from the housing market.

With the introduction of the governments final stage of the tapered scrapping of tax relief descending on landlords in 2021, profit margins will be squeezed even further, and is driving more landlords to reduce their portfolios or leave altogether.

Being forced to sell prematurely or sell and take profits before the market declines, will of course incur capital gains tax, so investing your money into tax free alternatives is certainly worth considering for future investments.

Buy-to-let investors and second home owners are to be targeted by Labours plans to tax holiday homes and increase council tax, aswell as introducing rental controls and capping rent rises inline with inflation.

Uncertainty remains the fate of UK consumers, investors and businesses and it is difficult to predict what will happen with a ‘known unknown’ like Brexit, when it comes to choosing which companies to invest in.

2. STOCKS & SHARES INVESTING

There are always opportunities for the selective stock picker, but until the outcome of Brexit and the Election is more clearly defined, opting for a value or growth proposition is made that much harder in the current climate.

Broad UK exposure or a FTSE tracker that targets companies overseas taking advantage of sterling weakness is looking like a well-trodden path and looks overpriced.

Investors could ignore the UK and look at the US, but it’s difficult to ignore the fact the UK is 25% cheaper – a valuation buffer that could show potential, with a conservative majority election win.

For value to work longer term, you would have to ignore other global factors like trade tensions (US-China; US - Euro-zone), Trumps crusade with his protectionism trade policies.

A varied combination of capital growth and income may be the best approach, but it’s probably wise not to bet big either way for now.

If US-China tensions are resolved, Asia and China funds may still be a good place to put your cash, as it was at the beginning of the year, out favouring UK and European fund sectors.

A wise choice could be to look at globally diversified funds and investments or even bond portfolios.

What could a no-deal Brexit mean for the UK markets?

Sterling has previously priced in a lot of the downside of a hard Brexit, but has recently seen an uplift throughout Aug-Nov 2019 period, an increasing no deal scenario would cause the pound to weaken. We assume this would happen under a Conservative-led government where Interest rates are cut to zero alongside £50 billion of quantitative easing.

Index provider MSCI has predicted the UK stock market could plunge by 15pc if the winning party fails to reach agreement and Britain tanks out of Europe without a deal.

The Institute for Fiscal Studies (IFS) assumes a 5% immediate drop in UK share prices over two years. Note that the UK's FTSE-100 index of large internationally exposed shares actually rose by 10% after the EU referendum in 2016 due to sterling's 20% fall. But we would not expect such a large decline in sterling this time around, and the near-20% fall in the more domestically oriented FTSE-250 index in the immediate aftermath of the 2016 referendum.

What will a Conservative Johnsons Brexit deal mean for UK markets?

Assuming a large majority conservative win at the election, this could cause stocks to soar, as the threat of potential reversal of the privatisation of railway, energy and water companies would be extinguished. Businesses would also be spared the onerous tax increases proposed by Labour.

Some agree that Brexit, particularly its effect on the value of the pound, would influence the market, but you could take a more positive outlook.

Around 70pc of the FTSE 100's revenues come from outside of Britain, and a weak pound often provides a boon for people invested in blue-chip stocks.

The opposite is also often true: if the pound rallied after the general election and a Brexit agreement, the FTSE 100 could become much less appealing to investors.

Therefore, an orderly and speedy Brexit in the case of a Conservative win could swing either positively or negatively in terms of its effect on the stock market.

The closeness of the result may also come into play. In previous election years, the British stock market has done well when the result is easy to call. Its performance is usually much worse in years when the result is a close shave, as looks to be the case this year.

A Conservative Government: where to invest?

Maybe invest in international tech companies heavily invested in AI and Robotics. An tech based ETF should march on as we adopt to new technologies.

Look for companies in the building and infrastructure sector as huge spending pledges have been made by both leading parties and UK infrastructure is set to do well.

A Johnson deal is a relatively hard deal Brexit in which case UK multinationals will provide a hedge against uncertainties in future trade negotiations with solid income.

*PLEASE NOTE – As with all alternative investments, the price can increase as well as decrease in value.

What are the possible outcomes for the stock market if Brexit is revoked: a 2nd referendum and us staying in Europe?

Before the election was announced under Theresa's Mays leadership, and prior to Labour laying their cards on the table, much of the Brexit analysis was based on us staying in without regard for which party held the Brexit baton. We assume this would occur under a Labour led or coalition government, and therefore the Labour policies need to be taken into account.

In the short term, implementation of the full Labour manifesto would offset at least some of the economic benefits of remaining in the EU.

Widespread nationalisations, handing 10% of share capital of large companies to employees while redirecting some dividends to the Treasury, or other policies that might reduce private sector investment significantly, would challenge the UK's traditional 'business model' and risk damaging growth by an amount it is difficult to quantify.

The Telegraph's Questor calculated that Jeremy Corbyn's corporation tax increases would cut shareholders' returns by 8.6pc.

In the more likely scenario - a Labour coalition with the Liberal Democrats, and if the Lib Dems can temper Labours hard left economic policies, then this may be the most desired outcome by the market.

Labour Government: where to invest?

Avoid utilities, banks and gambling sectors.

Consider infrastructure, construction and government contractors, e.g. Balfour, Costain and Kier, as well as housebuilders

UK based pharmaceuticals and healthcare companies will welcome a Government making huge spending pledges for the NHS, the risk here is that drugs prices might be questioned.

Labour/Liberal Democrat coalition Government: where to invest?

DB X-Trackers FTSE 250 ETF - The increased chances of no Brexit at all will lift the prospects of the more UK focussed businesses in the UK

Environmental initiatives will hopefully be more in focus in a coalition, and so opting for green initiatives could be well rewwarded.

Janus Henderson Index-Linked Bond - Inflation has painfully crept higher in past Labour governments, could we see the same again aided by Brexit being avoided altogether?

With investors fearful of how Brexit will unfold, how should they approach ISA's in the coming year.

3. ISA's INVESTMENTS & SAVINGS

The answer has been to throw more money in cash and decide how to invest it at a later date.

Customers are using the flexible rules of an investment ISA without committing to the market just yet, and according to Hargreaves Lansdown, the UK's largest fund supermarket, this is demonstrated by an increase in volumes compared to the previous period last year.

With Britain's leading providers cutting interest rates, things are not looking good for savers.

Whilst cash is seen as a safe harbour, the downside risk is that sterling could take a tumble on negative political outcomes.

With record low interest rates, putting your money into a savings account isn't making your money work hard for you.

Interest rates in the UK are likely to stay the same or be cut further in the short to medium term.

Rates might be falling, but if you are a saver who has some money you don't need right now, there is an argument for locking it up for a year or two on the basis that over the next few months, rates are more likely to fall than go up.

So what can you do?

Take advantage of the deals still out there. Some interest rates are still decent at 1.45%.

You could make use of the savings accounts that come with a 25% government bonus. These are the lifetime Isa and the help-to-buy Isa. Super low interest rates are less important if you are getting hundreds or thousands of pounds of free cash.

There's one investment that has enjoyed a Brexit Boom. If a tracker fund had invested in one case of of each 'Fine Wine 50' at the end of Dec 2016, and sold it in Aug 2017, it would have made a profit of £38,538.

TAKE ADVANTAGE OF THE FINE WINE BOOM IN 2020

Find Out Why
Fine Wine Is
An Excellent
Investment Choice
Right Now!

> The best investors are the ones that continually review their choices and investment decisions. Taking positive action and responding to current changes to economic and market conditions can all be about timing.

7 REASONS TO INVEST IN FINE WINE RIGHT NOW!

1. Moderating Risk by Diversifying

If you are overextended in a particular asset class like the UK stock market or property, and you want to reduce your risk exposure, fine wine investment can be the physical asset to diversify your portfolio.

When diversifying you are essentially placing less bets, not more because you are moderating risk.

> Last year UKV PLC delivered on average return for their clients of 14.2%.
>
> Learn from the UK's leading fine wine investment experts.

2. Past Performance

Case study: Lafite Rothschild 1982 versues FTSE 100

The figures speak for themselves with an annual average growth of 19.41% against the FTSE 100 index's 6.79%.

Fine wine is a genuine alternative asset class.

	FTSE-100 Index	Lafite Rothschild 1982 (1 Case)	Lafite Rothschild 1982 (18 Cases)
Price In 1984	£5,000	£275	£4,950
CAGR	6.61%	15.08%	15.08%
Max Growth (1yr)	59.23%	140.83%	140.83%
Min Growth (1yr)	-41.62%	-39.90%	-39.90%
Avg Growth (1yr)	6.79%	19.41%	19.41%
Price (Dec 2018)	£33,640.50	£37,500.00	£675,000.00
Total Growth	572.81%	13,536.36%	13,536.36%
Profit (Dec 2018)	£28,640.50	£37,225.00	£670,050.00

3. Brexit Proof

A fine wine portfolio could be the best hedge against a 'No Deal' scenario or a stagnating economy.

Fine wine is priced in GBP. Buying now in the UK whilst sterling has recovered from the initial Brexit bounce in 2016 - if the pound falls further, a weaker sterling makes wine cheaper for overseas buyers, so this will stimulate demand from China, Russia, Brazil & India.

4. Reliable returns

Last year UKV PLC delivered on average return for their clients of 14.2%.

The **fine wine market enjoyed a 'Brexit Boom'** following the UK vote to leave the European Union - and the so called 'lesser' vintages are leading the charge.

If you pick the right wine you can expect an average increase of 1% per month. **All of which is tax free.**

5. Exempt from Capital Gains Tax

The tax treatment of wine is unusual and based on the assumption that all wine is bought predominantly for consumption and that if left for extended periods of time would become undrinkable. For this reason, wine falls under the 50 Year Rule and is deemed to be a Wasting Asset by HMRC.

Due to this, fine wine is regarded as one of the last remaining tax free areas where private individuals are not taxed on gains.

We would add however, that with the constant change in tax legislation we suggest you speak with your personal tax consultant or accountant regarding this and your own individual tax circumstances.

*PLEASE NOTE – As with all alternative investments, the price can increase as well as decrease in value.

6. Supply & Demand

The fundamentals of fine wine investing comes down to two factors: supply and demand.

OK, so this applies to all markets, but there are some unique characteristics of fine wine supply and demand to take note of. First on the supply side, unlike other luxury markets, supply cannot be increased because once the production of any chateau in a particular vintage year comes to market – that's it, there is no more.

As fine wine matures and improves with age, it becomes more desirable and when drunk, reduces supply even further, and pushes the price up as more investors seek out fewer bottles. And the situation is compounded by an ever increasing global demand. The result is a perfect inverted supply curve.

7. UKV PLC are established Fine Wine Experts

We monitor trading trends internationally through an extensive network of merchants and brokers alerting our team as to which wines are under demand to optimise continuous growth for our clients, ultimately to achieve high end returns.

If you pick the right wine you can expect an average increase of 1% per month. **All of which is tax free.**

We also run a premier client programme with benefits.

Early notification of UKV acquisition of select sought after stock.

• Full reimbursement of storage and insurance, for wine(s) purchased through UKV.

• 50% reduction in sales commission on wine sold through UKV.

• Personal market updates luncheons at a prestige London restaurant with your wine consultant.

• A complementary visit to Vinopolis in central London, wine tour, dinner and drinks.

• Invitations to attend one of the many corporate wine tasting vents.

• Preferential rates on tours of some of the finest vineyards and chateaux of

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