State of Play

Balancing act

23 November 2023

This week represents a crucial week for the Prime Minister, Rishi Sunak. Facing a general election by the end of next year, his Chancellor, Jeremy Hunt, has an opportunity to set out their stall financially in this week's Autumn Statement. Given the reaction to unfunded tax cuts in last year's 'mini budget', they will have to tread very carefully to avoid a repeat market meltdown. How might this affect savers and investors? Simon Durling, from Santander Asset Management, shares his thoughts in this week's State of Play.

Key highlights from this week's Autumn Statement

- National insurance cut by 2% for 27 million workers
- The new 'pot for life' concept will give employees the ability to select their own pension provider
- Simplification of ISA rules to help savers and investors

The economic balancing act

It has been just over a year since Rishi Sunak won the Conservative Party leadership election, succeeding former Prime Minister Liz Truss. After her leadership was dramatically shortened by her approach to unfunded tax cuts. The Prime Minister and his Chancellor, Jeremy Hunt, will be faced with a huge financial balancing act in this week's Autumn Statement. When the Chancellor unwound virtually all the previous administration's announcements, calm returned to financial markets. In October 2022, inflation reached a peak of 11.2%[1] before Rishi Sunak pledged in January to half inflation by the end of this year. While this appears to have been achieved following the sharp drop in price rises last week to 4.7%[1], he will be mindful of the consequences of announcements made by his Chancellor, which have the potential to undermine their financial credibility.

Economic management is split between fiscal and monetary policy. The former is how a government chooses to tax individuals and businesses, collecting revenue to spend on public services. Monetary policy rests with central banks, who decide on interest rates and how much money exists in the economy to maintain financial and price stability. Both can directly affect consumer demand and inflation, however, many would argue the task of bringing down inflation this time around has little to do with the government, as many will argue it had nothing to do with it rising in the first place. Post-pandemic, central banks misjudged the return of much higher price rises and were slow to react. Since then, the Bank of England has increased interest rates 14 times, choosing to press the pause button in September to assess the slowdown in both the economy and inflation. Since then, inflation has fallen more sharply and the economic data points to a slowdown of either very low growth or even a mild recession in the months ahead.

The political reality

Both Rishi Sunak and Jeremy Hunt are facing tough choices, in part because politics and financial decisions often require different decisions. The Prime Minister will know that according to the latest polls, his government face a heavy defeat regardless of when he chooses to call an election next year.[2] The Conservatives will have been in power for 14 years by the time the public gets to vote, with history suggesting that this tends to lead to an appetite for change. In recent years, the impact of the pandemic and the subsequent return of inflation have created major headwinds for policymakers, leading them to be reactive to events, rather than map out proactive plans. Many commentators have said in recent days that the Autumn Statement allows the government to signpost a more proactive agenda, with many headline-grabbing decisions having already been leaked to the press in advance. If they go too far with tax cuts, the additional money in people's pockets could be seen as inflationary and may worry investment markets, much like last year's 'mini budget'. However, the political reality is that they have to be somewhat bolder than they may want and risk some of their financial credibility to build an agenda that gives them the best chance with the electorate next year. So, given the balancing act and the political realities, what were the key announcements?

The Autumn Statement summary

Savings	Key points	**Allowing multiple ISA subscriptions –** The government will allow multiple subscriptions to ISAs of the same type every year from April 2024. **Allowing partial transfers between providers –** The government will allow partial transfers of ISA funds in-year between providers from April 2024. **Removing the requirement to reapply for an existing ISA annually –** The government will remove the requirement to reapply for an existing dormant ISA from April 2024. **Expanding the Innovative Finance ISA to include Long-Term Asset Funds –** The government will allow Long-Term Asset Funds to be permitted investments in the Innovative Finance ISA from April 2024. **Expanding the Innovative Finance ISA to include open-ended property funds with extended notice periods –** The government will allow open-ended property funds with extended notice periods to be permitted investments in the Innovative Finance ISA from April 2024. **Allowing certain fractional shares contracts as a permitted investment –** The government intends to permit certain fractional shares contracts as eligible ISA investments and will engage with stakeholders on implementation. **Digitalise the ISA reporting system –** The government is announcing the digitalisation of the ISA reporting system to enable the development of digital tools to support investors. **Harmonise ISAs to those over 18 years of age –** The government will harmonise the account opening age for any adult ISAs to 18 from April 2024. **ISA, JISA, LISA & CTF Annual Limits –** The government is freezing the Individual Savings Account (£20,000), Junior Individual Savings Account (£9,000), Lifetime Individual Savings Account (£4,000 excluding government bonus) and Child Trust Fund (£9,000) limits at their current levels for 2024-25.
Pensions	Key changes	**LTA Abolition –** The government will legislate in the Autumn Finance Bill 2023 to remove the Lifetime Allowance. The measure will clarify the taxation of lump sums and lump sum death benefits, and the application of protections, as well as the tax treatment for overseas pensions, transitional arrangements, and reporting requirements. This will take effect from 6 April 2024.

Pensions - continued	**Key changes**	About £250 million will be made available to invest alongside UK pension funds into life sciences and technology companies. Employees will have a legal right to require a new employer to pay pension contributions into their existing pension pot, so workers can have just one pension pot for life. These measures will provide £75 billion for financing for high growth companies by 2030, the chancellor said.
Tax cuts	**National Insurance cuts**	Main rate of National Insurance cut from 12% to 10% from 6 January, affecting 27 million people. Class 2 National Insurance - paid by self-employed people earning more than £12,570 - abolished from April. Class 4 National Insurance for self-employed - paid on profits between £12,570 and £50,270 - cut from 9% to 8% from April.
Minimum wage	**National Living Wage increases**	Legal minimum wage - known officially as the National Living Wage - to increase from £10.42 to £11.44 an hour from April.
Benefits	**Key changes**	State pension payments to increase by 8.5% from April, in line with average earnings. Universal Credit and other working-age benefits to increase by 6.7% from April, in line with September's inflation rate. Funding of £1.3bn over the next five years to help people with health conditions find jobs. Further £1.3bn to help people who have been unemployed for over a year.
Economy	**Key highlights**	The independent Office for Budget Responsibility (OBR) expects the economy to grow by 0.6% this year and 0.7% next year, rising to 1.4% in 2025; then 1.9% in 2026; 2% in 2027 and 1.7% in 2028. It forecasts that headline inflation - the rate prices are rising - will fall to 2.8% by the end of 2024 and to the Bank of England's 2% target rate in 2025. Underlying debt forecast to be 91.6% of GDP next year; 92.7% in 2024-25; 93.2% in 2026-27; before declining to 92.8% in 2028-29. Borrowing forecast to fall from 4.5% of GDP in 2023-24; to 3% in 2024-25; 2.7% in 2025-26; 2.3% in 2026-27; 1.6% in 2027-28 and 1.1% in 2028-29.
Business and infrastructure	**Key points**	"Full expensing" tax break - allowing companies to deduct spending on new machinery and equipment from profits - made permanent. The 75% business rates discount for retail, hospitality and leisure firms extended for another year. Funding of £4.5bn to attract investment to strategic manufacturing sectors, including green energy, aerospace, life sciences and car-making.

Source: Gov.uk, 22 November 2023.

Market update

This week's Autumn Statement received a muted reaction from UK investors, with the FTSE 100 falling slightly (at time of writing) after the announcements and importantly, bond yields were unmoved, unlike last Autumn. I suspect the reason is that although a wide range of announcements were made, given the limited tax cuts, the Office for Budget Responsibility (OBR) confirmed in their expert view that none of the choices made will keep inflation higher for longer over the next year.[3] Investment markets broadly have been positive, although some of the rises seen since the inflation data pointed to a peak in interest rates have slowed. As I mentioned in last week's update, attention is now turning to when they may cut interest rates, rather than if. Andrew Bailey, the Governor of the Bank of England, will be aware of the market optimism and has been in the press this week to warn that inflation will take longer to return to target than investors are pricing in. He warned that the challenge is not yet won and there are several factors that could lead to price rises being stickier in the months ahead.[4] Bond yields have fallen significantly in the last three weeks as investors adjust to a more dovish outlook (where they expect rate cuts, not rises). This week sees a shortened week in the US because of the Thanksgiving holiday, with investors waiting in anticipation of next week's economic numbers for the US to assess whether higher rates are finally starting to slow the economy.

The value of seeking guidance and advice

It is important to seek advice and guidance from a professional financial adviser who can help to explain how to build an appropriate financial plan to match your time horizons, financial ambitions and risk comfort. If you already have a plan in place or have already invested, it is important to allocate time to review this to ensure this remains on track and appropriate for your needs.

Learn more!

Investing can feel complex and overwhelming, but our educational insights can help you cut through the noise. Learn more about the Principles of Investing here.

Note: Data as at 23 November 2023.

[1] Office for National Statistics, 15 November 2023
[2] IPSOS, 17 November 2023
[3] The Office for Budget Responsibility, 22 November 2023
[4] The Guardian, 21 November 2023

Important Information

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