LOOKING BACK LOOKING FORWARD

Kymin Guide 2021

10 KEY QUESTIONS FOR 2021

Kymin
Financial Planners

Contents

Introduction

2020 was a year like no other. 'Lockdown' became the Word of the Year and millions of people were forced to work from home.

Now it looks like we are back to square one, the UK is beginning its third national lockdown and being locked down in the cold and dark of January may be very different to the sunshine of early Spring.

…And yet – as we hope this special report for our clients will show – there are plenty of grounds for optimism. We have looked back at ten of the major stories and events of 2020 and looked forward to how they might develop in the coming year and beyond. We hope you enjoy the report – but please remember that it is only commentary and opinion. It should not be taken as specific financial planning advice.

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How are we going to pay for Covid-19?

November was another month when borrowing by the UK Government was at an all-time high. According to the Office for National Statistics borrowing was £31.6bn, the highest November figure on record.

As we enter another lockdown, business leaders are demanding more cash for hard pressed businesses. There will unquestionably be calls for the furlough scheme to continue beyond April. And sooner or later the Government is going to find that a great many of the Bounce Back loans it has guaranteed are not going to come anywhere near to bouncing back.

So how will it all be paid for? we suspect that – like the infamous PPI saga – the bill for Covid-19 will simply go on increasing. The Adam Smith Institute are suggesting that every week of lockdown costs the taxpayer £6bn and reduces economic activity by £5bn. The only way the Chancellor can ever hope to pay for it is not – as has been suggested, by one-off tax raids – but by building a vibrant, growing economy. Hopefully we will see the first steps towards that in Rishi Sunak's Spring Budget.

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What's happened with Brexit?

December variously saw the UK and EU 'in the last chance saloon' for 'one final throw of the dice.' There was 'a huge gulf between the two sides' and then came 'Le Bust-Up.' The month was truly a headline-writer's dream but – as we all suspected – a deal was eventually done and, some 4½ years after the Referendum, the UK severed its ties with the EU at 11pm on December 31st.

What next? The TV companies duly dispatched camera crews to Dover on January 1st but, given that it was a bank holiday, there was little to report. The truth is that it will take some time for the full impact of Brexit to be known. There will be advantages and disadvantages: most people's perceptions of whether their glass is half-full or half-empty will still depend on how they voted in June 2016.

You suspect that, in the short-term at least, there will be an end to the bickering. Both the UK and the EU need to deal with Covid-19 and both have economies to rebuild – and the ever-present threat of China to contend with.

It will be interesting to see how the UK's relations with the Biden administration develop. Biden himself is fiercely proud of his Irish roots and is almost certainly a supporter of a united Ireland: he may well side with the EU in any dispute over Northern Ireland.

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Will UK Retail ever Recover?

2020 was the worst year for high street job losses in 25 years. The collapse into administration of Debenhams, Arcadia and many other chains has been well-documented. This trend only looks set to continue – retail footfall was down 60% on Boxing Day, traditionally one of the busiest shopping days of the year.

If Covid-19 has done anything it has accelerated trends that might otherwise have taken 20 to 30 years to arrive – not the least of which is us all buying everyday items from Amazon that we would normally have bought on the high street.

When Rishi Sunak became Chancellor it was widely supposed that all he needed to do to revive the high street was reform business rates. Covid-19 has demonstrated that the problems go far deeper than that, and it is difficult to be optimistic. Small, market towns with local shops and loyal customers will, you suspect, be fine. Cities may find a way to survive. The towns in the middle – those with a Debenhams, a Top Shop, a Boots, a barely-viable M&S – may have some very difficult years ahead.

Will Boris Johnson still be PM at the end of the year?

On December 12th 2019 – little more than a year ago – Boris Johnson led the Conservatives to an 80 seat majority in the General Election. He was 55 at the time – and with the 'Red Wall' having turned blue, there seemed little doubt that he would lead his party to another election victory and remain at 10 Downing Street into his 60s.

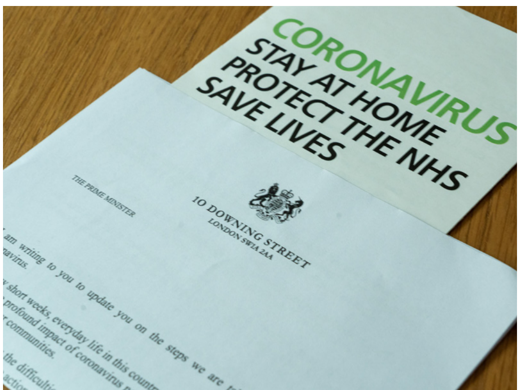
Then, of course, Covid-19 struck, with Johnson himself spending time in intensive care. With the PM clearly taking time to recover, and the response to the pandemic deemed less than successful, Chancellor Rishi Sunak was mooted as a possible successor. Former leadership challenger Jeremy Hunt was another name mentioned.

…But with his health seemingly restored and the Brexit negotiations completed, Johnson's position now seems much more secure. The Conservatives are back in front in the polls: Conservative Home's headline this morning is 'Johnson's position is stronger than it looks.' And if he should fall under the proverbial bus? Our money would be not on Sunak or Hunt, but on International Trade Secretary Liz Truss, who has secured an impressive number of post-Brexit free trade deals.

Will we say goodbye to Vladimir Putin in 2021?

2020 saw Russian President Vladimir Putin cementing his hold on power and – like Xi Jinping in China – pave the way to becoming 'President for life.' Now it appears that may not be the case: the last two months of the year saw rumours circulate about Putin's health, with suggestions that he might step down this month.

The Kremlin has denied claims that Putin is to quit, and that he might be suffering from Parkinson's Disease. State officials say that the President is in 'excellent' health, while the rumours insist his family have urged him to stand down in the New Year. A Russia without Vladimir Putin would be one of the more interesting stories of 2021…



Who is Joe Biden and what can we expect?

Joseph Robinette Biden Jr first entered the US Senate in 1973. Nearly 50 years later he is poised to become the 46th President of the United States, with the inauguration scheduled for January 20th (when we confidently expect the 45th President to be playing golf).

Biden – who will be 78 when he assumes office – was Barack Obama's Vice-President and if early appointments are any guide, many of his key advisers will be diehards from the Clinton and Obama administrations. Former Chair of the Federal Reserve Janet Yellen will be his Treasury Secretary, for example.

If reports are to be believed Biden will pledge a $7tn (£5.3tn) 'recovery package' for the US economy. We can also expect the US to re-join the Paris Climate Accord, with Biden being far more sympathetic to climate change than his predecessor. He supports a minimum wage of $15 (£11.03) per hour, and he will look to expand 'Obamacare' and undo as many of Trump's policies as possible.

The key question, of course, is will he see out his term as President? His Vice-President, Kamala Harris, is 56 and was formerly a member of the Senate for California. She is generally held to be to the left of Biden on many issues.

What are we going to do about China?

China has spent much of the last two years in an ongoing trade dispute with the US. It is likely that relations will be warmer with the incoming Biden administration than with Donald Trump, but tensions will remain. There are plenty of arguments with other countries as well – with India over the disputed border territory, and an ongoing trade spat with Australia to name just two.

What is undeniable is that China's power and influence continues to grow. November brought the signing of the Regional Comprehensive Economic Partnership (RCEP) which saw 15 countries – including Australia and New Zealand – form the world's largest trading bloc, covering nearly a third of the global economy. Throw in the now well-established 'Belt and Road' trading initiative, and China's influence can only continue to grow. Accusations of spying and influence will increase and more disputes with other countries – both on the ground and in cyberspace – are inevitable in the years ahead.

Is Germany facing a year of upheaval?

Angela Merkel has been Chancellor of Germany for almost as long as any of us can remember. She is currently due to stand down before the federal elections in September 2021. With Annegret Kramp-Karrenbauer having fallen by the wayside the likeliest candidate now seems to be Markus Soder, the Bavarian state premier.

But the CDU are facing challenges, not just from the right-wing Alternative fur Deutschland (AfD), but from a new protest group. The Querdenker (German for 'lateral thinkers') have brought thousands on to the streets in protest against lockdown. The government has high approval ratings at the moment, but much could change by September.

As always it is the German engine driving the European economy, and it continues to produce a healthy trade surplus of around €20bn (£18.1bn) a month. But there is increasing pressure to see this surplus rebuild the economy and infrastructure of Germany, rather than that of Spain, Italy or Greece.

Who will be the Economic Winners and Losers?

In terms of winners, the short answer, according to a recent article in City AM, is India. The writer suggested that continuing tensions with China would push India increasingly towards the incoming Biden administration, with the country reaping the consequent economic benefits.

India is now on course to become the world's third largest economy by 2030, with China now forecast to overtake the US by 2028. A recent economic league table had the UK moving back up to 5th in the world, with the Centre for Economic and Business Research saying the UK had climbed back above India (for now) and would steadily pull away from France over the next ten years.

Despite the pandemic there are certainly grounds for optimism in the UK. The roll-out of the vaccine has seen business confidence reach its highest level for nine months (although that survey was, admittedly, before the latest lockdown) and three-quarters of businesses say they plan to hire new staff next year.

To give just one example, the start-up company Britishvolt recently announced that it had chosen Blyth in the North East as the site of the UK's first ever battery 'gigaplant,' producing lithium ion batteries for electric vehicles. The plant will employ 3,000 people, with a further 5,000 jobs created in the supply chain.

The road out of the pandemic will not be a smooth one, but talking to clients and other owners and directors of SMEs we detect a real determination to recover and recover quickly. To paraphrase what has quickly become a cliché, to build their businesses back better.

What does all this mean for my Savings and Investments?

If we had told you at the beginning of 2020 that the world would be hit by a global pandemic, that large parts of our economies would be closed for months and that we'd still be battling the pandemic at the end of the year you would – entirely justifiably – have concluded that 2020 would be a poor year for world stock markets.

In fact, stock markets proved remarkably resilient with several of the world's major markets enjoying excellent years. The South Korean market led the way, rising 31% in the year. China's Shanghai Composite index was up 14%, Japan's Nikkei Dow by 16%. India's stock market rose by a similar amount, while in the US the Dow Jones index was up 7% and the S&P500 was another index to rise 16%. The US tech index – the Nasdaq – rose by an eye-watering 42%.

In Europe Germany's DAX index rose 4%, but the French market was down and, sadly, the UK's FTSE-1oo index suffered its worst year since the financial crisis, falling by 14%.

What will happen in 2021? We can't say and – as we wrote in the introduction – this Report is not intended as financial planning advice. What we can say, is that a long term approach to savings and investments, and regular planning with your financial adviser, will pay off. All markets will have good and bad years but, as we have seen above, good performance can happen in what seems to be the worst of circumstances.

Central banks will continue measures to revive their economies. As we have written before, new companies will find new ways to bring new products to new markets. And we will remain in touch with our clients, be that face-to-face or virtually.

Your financial planning remains at the heart of what we do, and we are never more than a phone call or an e-mail away.

This guide is based on Kymin Financial Planners understanding of the information provided as of Friday 8th January 2021.

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