January 2025

The Premier Partnership Limited

Your Family Office

2025 Happy New Year

NewsLETTER

Welcome to 2025, and a very happy, healthy and prosperous New Year to you all.
We wrote last January about a year when elections would dominate political thinking. More than 1.5 Billion people cast their votes across 73 countries, almost half the population of the world. The results are now in and voters have delivered a damning indictment to holders of public office. The incumbent in everyone of the 12 developed western countries lost vote share in the polls. The first time this has happened in over 120 years of modern democracy. The good news is that by comparison 2025 has very few elections, so perhaps a more peaceful year is due.

Economics

We have commented before in our Newsletter about the use, or otherwise of an annual economic forecast, but it doesn't stop us writing them - so here goes. Making a periodic review of your investment framework and the outlook for markets is a good discipline, but why everyone chooses to do it in January is anyone's guess.

We prefer to gather our thoughts and commit them to paper on a more regular basis, so if you do not receive our Monthly Investment Report, please let us know and we can add you to the list. In essence, we believe 2025 will be a quieter year generally than 2024, and gains in equity markets will be limited to around the 6-9% range of long term average gains, rather than the 20% plus gains achieved in 2024. Given the strength of markets over the year, it is not impossible to predict an equity market correction during 2025, because nothing ever goes up in a straight line. Technology will still be a driver of equity price gains in 2025 as they were in 2024, because investors continue to believe artificial intelligence will drive demand for everything from servers and data storage to microchips. The inauguration of Donald Trump on 20 January could also give markets a boost as investors believe he will usher in more business friendly policies and tax cuts.

Interest rates will remain higher than many were predicting mid year, and because of stubborn inflation staying above its target 2% in the USA, the Federal Reserve (American version of the Bank of England), has already stated it will only be considering 2 rate cuts in 2025, instead of the widely predicted 4 cuts, and then only if economic conditions permit. So expect interest rates in the UK to follow suit as the UK Government continues with its inflationary policies.

Bitcoin and Crypto currencies generally will continue to confuse (me in particular), and since 5 November, the price of Bitcoin has risen 40% and in December broke through the $100,000 a coin barrier.

As I write the price is $93,053 per coin, so I am immensely confident in predicting that in 2025 cryptocurrencies generally will remain incredibly volatile. We are not, and never will be investors in cryptocurrencies that generally represent, in our opinion, giant Ponzi schemes. (A Ponzi scheme is a form of fraud that lures investors and pays profits to earlier investors using funds provided by more recent investors). In a Ponzi scheme a con artist offers investments that offer high returns with little or no risk. The returns are said to originate from a business or a 'secret idea' that only the con artist knows, but in reality the business or idea does not exist. So it is a figment of imagination backed by nothing - rather like Bitcoin!

The global economy in 2025 will be characterised by a continuance of the trends that began in 2024, with global growth expected to be subdued compared to pre-pandemic levels. Inflation is likely to stabilise or remain moderately high in developed nations, where supply chain disruptions and labour shortages continue to affect prices.

The interest rate environment will likely remain in a transitional phase as Central Banks accommodate inflation. Gold and silver may well retain their position of being an investor's favourite as a hedge against inflation. Geopolitical risks will continue to be a major factor for investors to consider during 2025, and in particular how President Trump will carve up Ukraine to end the Russian invasion.

The Magnificent 7

No, not a return of the famous western copy of the Seven Samurai, but the driving force behind the American stock markets rise, two years in a row. We often mention them, but who are they?

Apple, Microsoft, Meta, Amazon, Nvidia, Tesla & Alphabet

These are the stock market behemoths that have provided over 50% of the gains in the US market in 2024. These companies are often described as the backbone of the modern digital economy, with their global influence spanning multiple areas, such as cloud computing, AI, social media, e-commerce, all the way up to electric vehicles. Collectively, they have contributed significantly in the technological revolution, and investors closely follow these companies due to their market dominance, innovation potential and their ability to generate huge commercial profits.

We know their names, but do we know what they actually do? Here is a brief synopsis.

Apple (AAPL) – Apple is a leader in consumer electronics, known for its iconic products like the iPhone, iPad, Mac computers, and Apple Watch. The company also has a strong ecosystem, including services such as iCloud, Apple Music, and the App Store. Apple has consistently been one of the most valuable companies in the world.

Microsoft (MSFT) – A major player in software, cloud computing, and enterprise services, Microsoft is famous for its Windows operating system and Office productivity software. Its cloud division, Azure, has been a key growth driver in recent years, and the company is also expanding into artificial intelligence, gaming, and cybersecurity.

Nvidia (NVDA) – Nvidia is a leader in the graphics processing unit (GPU) market, with a dominant presence in gaming, data centres, and AI. Nvidia's GPUs are critical for everything from video games to machine learning and artificial intelligence applications, making it one of the most important companies in the tech world today.

Alphabet (GOOGL) – The parent company of Google, Alphabet is a giant in internet services, including search, advertising, YouTube, Android, and Google Cloud. Its dominance in digital advertising and data analytics, along with ventures into AI and autonomous vehicles, has fuelled its growth.

Amazon (AMZN) – Amazon is the largest e-commerce platform globally, but its influence goes far beyond retail. Amazon Web Services (AWS) is a dominant player in the cloud computing space, while Amazon has also expanded into entertainment (Prime Video), groceries (Whole Foods), and even logistics.

Meta Platforms (META) – Formerly Facebook, Meta is the leader in social media with Facebook, Instagram, WhatsApp, and Oculus in its portfolio. The company has made significant investments in the metaverse and virtual reality, though its core business continues to thrive from digital advertising.

Tesla (TSLA) – Tesla is the world leader in electric vehicles (EVs) and clean energy solutions. Known for its cutting-edge technology and strong brand, Tesla has revolutionized the automobile industry with electric cars, energy storage solutions, and solar energy products. Its CEO, Elon Musk, has also made headlines for his leadership and ambitious goals.

The Great Wealth Transfer

In the next 25 years over $100 Trillion in assets covering everything from property to markets to wine and artwork will be transferred from the Baby Boomers to the Millennials and Gen Z's in the USA alone. Over $18 Trillion is expected to be handed over by 2030, a mere 5 years away. This will be the largest intergenerational transfer of assets in history, and it is taking place all over the world as well, and cash strapped Governments want their share.

Witness the recent Budget changes to pensions and inheritance tax in the UK as an example. So succession planning will become a very big part of the financial planning landscape in years to come. The wealthiest estates will carry the burden of increased taxation, and the UK's largest 40 taxpaying estates paid an average of £9.2 Million each in estate duties in the year 2021/22, which is the latest year we have the figures for. The headline rate of Inheritance Tax (IHT) is 40%, charged above a tax free allowance value of £325,000 per person - so £650,000 for a couple. If the estate contains a main residence that is passed on to direct descendants (son/daughter) then an extra £175,000 allowance per person can be used, known as the Residence Nil Rate Band (RNRB).

Estates have been able to use these allowances to reduce or mitigate the effect of IHT, but the recent changes in The Budget, including for farming and business assets, could make it much harder to reduce the effect of taxation in the future.

The Autumn Budget, which we have commented on in our 'Budget Special' Newsletter, made several changes to Inheritance Tax, capping Agricultural and Business Property Relief at 50% above a threshold of £1 Million per person from 2026. Pension wealth, which was previously outside the scope of IHT considerations, will now form part of a deceased person's estate from 2027. For many this will mean exploring different options for succession wealth planning, from simply giving it to our children early, to more complex Trusts or Family Investment Company structures. There are ways to reduce or mitigate IHT, but time is the enemy here. Under the 'potentially exempt transfer' rules, individuals can give gifts of unlimited value, where if the donor survives 7 years, the gift is IHT exempt.

A popular misconception on succession planning is concerning gifting your main residence to your children. Many state that they have gifted their house to their children, but do not follow the rules to make the transfer exempt. If you gift the property, and continue to live in it, you have to pay a market value rent to your children for the privilege. If you do not pay rent and change the conveyance of title, the IHT exemption will not apply. This of course is particularly relevant to farmers, who, more often than not, actually live on the farm. The UK has historically high taxes, and according to the Office of Budget Responsibility (OBR), they have never been higher, and there is more to come.

Rachel Thieves (sorry Reeves!) increase in business taxes, along with the IHT position above, is taking its toll on the British economy as corporate confidence is sapped. British businesses hired fewer people in December 2024 since 2021, with managers blaming the rise in Employer National Insurance costs for the slowdown. This downward trend in business sentiment will not produce the economic growth the Chancellor is expecting as a result of her tax hikes.

So expect further tax hikes to come, and start planning your intergenerational wealth transfer a little earlier.

Trust Definitions

We have mentioned Trusts earlier in this edition, and they are a subject we often discuss in estate planning and tax mitigation. However, rather like Wills - the words and jargon used around Trusts can be confusing, so in this edition we thought we would unclutter the jargon a little, to allow Trusts to be more understood.

What are Trusts For?

A Trust is a way of managing assets - be that money, property, investments etc, on behalf of others. They can control and protect family assets, provide the mechanism and structure to look after young or disabled people, along with providing asset protection when someone has lost capacity.

In order to structure a Trust correctly, you need to assemble the various people who will undertake the various roles, as described below:

The Settlor

The Settlor is the person who provides the Trust with its assets and the person who decided what the Trust is for and how the assets are to be utilised. There are different types of Trust structure, dependant upon what the Trust's objective and function is, and we have commented on these previously.

The Trustees

When a Trust is created and the Settlor has transferred the relevant asset(s) into the structure, you then need to appoint people to 'manage' the assets, and these are know as the Trustees. The Trustees become the legal owners of the assets settled into the Trust. Legally there has to be a minimum of one Trustee, and preferably two or more, dependant upon the size of the Trust. Their activities are governed by the Trust Deed - created by the Settlor - and they are responsible for the running and day to day activities of the Trust including payment of any taxes due. In reality, most Trustees appoint professional firms such as ourselves to cover those aspects of management of assets.

Beneficiaries

The Beneficiaries are the named people for whom the trust has been created, and this could be one person, a whole family, a charity, or a series of charities, or a defined group of people. The Beneficiaries can receive income and/or capital from the Trust assets, and this can span down generations of family members. The primary role of the Beneficiary is to enjoy the values of the assets held in a Trust on their behalf, until for example they become a certain age. A common use is the settlement of capital for minors to pay for future school/university fees.

Summary

This has been a quick canter through the 'names' of the people involved in Trust Planning, and is not meant to be advice on the use of Trusts themselves. There are many different types of Trust that cover a wide range of planning scenarios, and following the Budget changes to pensions and IHT planning, Trusts have moved back into focus as a legitimate piece of succession planning.

Outlook

The outlook for 2025 offers a mixed but nevertheless promising picture for investors, despite the predicted anaemic GDP growth figures. A global diversified portfolio will capture the parts of the world that do well, and will protect against specific sector or country volatility.

To finish - a final prediction: Manchester City will not win The Premier League!

Until next time……..

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