

May 2024

## UK Election and Other Matters

It is important to put the UK election in context. The biggest election going on in the world right now is in India and as this country will, in the foreseeable future, become as dominant an economy as in China and America the outcome of the Indian election is significantly more relevant for the rest of the world, and indeed for your investment portfolio, than the UK election. We doubt there will be a significant change in economic direction whatever the outcome of the Indian election, and it is important to recognise that their demographic is better than that of almost everybody else in the world; at the same time the evolution of technology and artificial intelligence in that country is really quite remarkable.

We have some time to travel before we know the outcome of the American election. However, again, whoever wins the White House and most importantly Congress and the Senate, the direction of travel in America in terms of economic policy and therefore relevance to your investment return is unlikely to change even if foreign policy becomes a lot more erratic and challenging for us all - especially if Trump is successful.

In the UK it is important to recognise that only about 30% of the FTSE 100 index has anything to do with the UK economy, the rest (70%) being part of very global-orientated corporations who form part of your portfolio. We also have a small exposure to UK smaller companies but in general we remain extremely focused on the wider global dynamic which is so relevant to stability and reasonable investment returns. Domestically, whoever wins the election in the UK, the reality of economic performance is pretty dismal and therefore the outcome has to be fairly benign in terms of managing the economy. For, as Truss and Kamikaze demonstrated, idiotic economic management very rapidly destroys global confidence which the UK relies upon to maintain its position as approximately the 6<sup>th</sup> largest economy in the world.

We suspect that the total tax-take in the UK won't rise because by historic standards it is already at the upper end of the state's ability to collect revenue. However, as has been proved by the Conservative party, it is perfectly possible to raise money without increasing headline rates as is proven by the stealth taxes in freezing income tax allowances, reducing capital gains tax allowances and other nefarious activity which doesn't allow headlines to scream taxes are going up - when indeed they have increased substantially!

Therefore, expect more of the same in the UK and on the agenda for whoever wins the next election; this includes a possible hung parliament. There may be such things as VAT on school fees, the removal of charitable status for private education, the reduction in higher rate tax relief on pension contributions, withdrawal of many allowances relating to capital gains, inheritance tax, agricultural relief and business relief and, at some point in the not too distant future, some form of wealth tax which might include the removal of principal private residence relief on home ownership.

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The reality for all developed economies who have ageing populations, significantly collapsing birth rates (which is very true in the UK) and a lack of positive migration is that inevitably, if we are not to crucify the old, the sick and the young, and if we are to maintain reasonable public services then we will have to find alternative ways of raising revenue to pay for these things whilst at the same time balancing a reasonable opportunity for enterprise, innovation, and economic growth.

So, here lies the conundrum: does growth mean we have to destroy the planet? It is most likely that we will increase the amount of electricity that we use, but will do so from an increasing array of renewable resources in such a way that the global economy can evolve without destruction. But again, every country in the world, possibly except for Russia, is now focused on this inevitable requirement if we are not to boil, freeze, drown, or suffer unacceptable levels of poverty.

Therefore, investment opportunities remain phenomenal, particularly as we evolve and enter the 4<sup>th</sup> industrial revolution. With respect, therefore, to advising you in the coming months and years and managing your investment portfolio, we remain absolutely focused on the issues herein and many more in evolving strategies and advising you as best we can. We are always thinking forward rather than dwelling on the past which as the famous saying observes "the past was a foreign land; they did things differently there".

We look forward to discussing all the above with you in due course as matters unfold.

Yours sincerely

*The KMG Team*

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