Santander

Think Investments

Spring 2024

Together with

Santander Asset Management

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

Spring is traditionally a time for fresh starts, for getting organised and setting up plans for the rest of the year and sometimes further ahead. That might mean sorting out your garden, clearing out your cupboards or making sure your finances remain on track.

In this edition of Think Investments, we look at some things to think about to make sure your money is working as hard for you as possible.

First up, you may remember our Investment Hub prize draw? Congratulations to Mr Thomas, who has won the holiday.

As we approach the end of this tax year, it's a good time to review your ISA if you have one. If you don't, then now is the ideal time to think about whether it's the right thing for you. The changes to ISAs announced in the 2023 Autumn Statement will be live from the start of the new tax year in April, and you can remind yourself of them in our second article.

Finally, it looks like interest rates will remain higher for a while to make sure inflation is kept under control. We consider what that means for investing and what an eventual fall in interest rates will mean for bonds.

As always, we hope you find Think Investments an interesting and helpful read.

Brian Strachan
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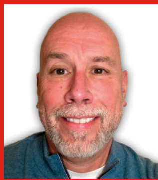
Santander Asset Management UK



Investing can help make your dreams a reality

Santander's Investment Hub is one way to help keep your finances in order and make sure you're in charge of your investing journey.

You can view and manage your investments with your Santander Investment Hub at any time in one secure online location. You can update your personal details, check your investment values and access important information in your own Investment Hub document library. Our dedicated contact centre team is available to help with any question you might have.

Some unexpected good news for one lucky customer

One Santander Investment Hub customer found investing even more rewarding than he had expected. By investing in his Investment Hub account during the offer period, Mr Thomas was entered into the holiday prize draw.

All Santander customers who invested £5,000 or more into their Investment Hub account during the holiday offer period were automatically entered into a prize draw.

It was a tremendous and very welcome surprise for Mr Thomas when Elizabeth Das, his local Financial Planning Manager, called him with the news that he'd won the holiday prize draw. He was delighted to hear that he now had £20,000 to spend on his dream holiday and is looking forward to the trip to Japan he's planning for later this year. Look out for future prize draws for our Investment Hub customers in branch or on our website.

Victoria McCafferty (Bridgwater Branch Manager), Mr Thomas (winner), Kevin Dall (Primary Market Manager) & Elizabeth Das (Financial Planning Manager).

Easy ways to get the most from your investment

Did you know that the way you pay your Investment Hub fees could reduce the value of your investment?

If you haven't recently checked how you pay your Investment Hub fees, now could be a good time to take another look.

Setting up a variable Direct Debit is one of the best ways to pay:

- ☑ Remove the need to keep a cash balance in your Investment Hub.
- ☑ Avoid investments being sold to pay fees and lets the investment grow to its full potential.
- ☑ Maximise tax efficiency by ensuring tax wrapped funds are not sold.

Get set up

To set up a variable, one-off or regular Direct Debit for Investment Hub Platform Service Fees (and Model Portfolio Service Fees if applicable), go to Your Hub Services on the Hub dashboard.

Or give us a call on 0800 328 1328 and we can help.

Please note your email address is required to set up a variable Direct Debit, so we can tell you the amount to be collected. Alternatively, you can pay cash into your Cash only Account via a one-off debit card payment on your Investment Hub.

For useful videos you can visit santander.co.uk and search 'Managing your investments online'.

Now is the time to make the most of your ISA allowance

It's always important to make sure your money is working as hard for you as possible.

One way to do that is by taking full advantage of your annual Individual Savings Account (ISA) allowance.

Simplifying ISAs to help you save and invest

In the 2023 Autumn Statement, the government announced a number of changes aimed at simplifying ISAs and helping people make the most of their ISA allowance. From the start of the 2024/2025 tax year on 6 April 2024, it'll be possible to:

- Pay into more than one ISA of the same type in each tax year instead of being limited to one of each type (cash, stocks and shares, and innovative finance).* That's as long as you stick to your overall annual ISA allowance.
- Transfer part of any money you have paid into your ISA in the current tax year between ISA managers. Previously any money paid in in the current tax year would have to be transferred in full.

Also from 6 April 2024:

- The opening age for cash ISAs will increase from 16 to 18 and over.
- The requirement for an investor to make a fresh ISA application where an existing ISA has received no subscription in the previous tax year will be removed.
- 'Long Term Asset Funds' (a new type of fund structure for illiquid assets) will be allowed as permitted investments in an Innovative Finance ISA, which does not require access to funds within 30 days.
- Open-ended property funds with extended notice periods will be allowed to be permitted investments in an Innovative Finance ISA.

The government also plans to hold discussions with industry on allowing certain fractions of shares to become permitted ISA investments.

In addition, the ISA allowances of £20,000 for an adult ISA and £9,000 for a junior ISA for the current tax year (2023/2024) have been frozen for the new tax year (2024/2025).

These changes mean you can move your money about more easily, for example to make sure you're accessing the best available interest rates in a cash ISA.

*Treatment of Lifetime ISAs unclear at the time of going to press.

The changes above are subject to change until final details are provided by HMRC.

Please be aware that HMRC may allow these changes to be optional for ISA managers and therefore some ISA managers may choose not to offer these.

It's important to keep in mind that moving money between ISAs is a technical process. For example, it must be transferred from one ISA product to another. You can contact your new ISA provider who will request a transfer for you. If you withdraw money as cash to pay into another ISA, it'll lose the existing tax-efficient status, and if you then pay it into another ISA, it'll count towards your ISA allowance.

Remember the tax-efficiencies

If you have a cash ISA, you don't pay tax on any interest received. With a stocks and shares ISA, you don't pay tax on income or capital gains from the investments held in the ISA. Because you're not paying tax in this way, there's more of your money that can benefit from compound growth over time. If you're investing for the long-term – at least five years or more – then this extra growth can make a difference in helping you to reach your financial goals.

From the start of the 2024/2025 tax year, the Capital Gains Tax (CGT) annual exempt amount for individuals and personal representatives is reducing to £3,000. This was £6,000 for individuals and personal representatives in the 2023/2024 tax year.

This makes the tax efficiencies of an ISA even more valuable, and it makes even more sense to use as much of your ISA allowance as you can.

Targeting longer term growth through your ISA

While inflation finally started to fall in 2023, the Office for Budget Responsibility (OBR) believed inflation would not reach the Bank of England's 2% target until 2025.[1] This means the Bank of England is likely to maintain interest rates at a higher level for as long as it thinks is needed to get inflation back to the 2% target level.[2]

It might be tempting to take advantage of these higher rates by keeping some – or all – of your allowance in a cash ISA, but you could be missing out on the opportunity to make more from your money by investing in other available ISA products.

Depending on your goals, timescales and attitude to risk, you could consider a stocks and shares ISA. These aim to give your money greater potential for growth by investing in the stock market, often in a multi-asset fund which lets you access a broad range of investments in one fund.

Where cash is a good option for your emergency fund and short-term goals (like a holiday or a new car), investing is intended for longer time periods (typically 5 years or more). This allows for the inevitable ups and downs of investment markets to smooth out over time. Taking this approach could help to offset the impact of today's high inflation or possibly even beat it when inflation starts to fall.

It's important to remember that no investment is guaranteed, investments can go down as well as up, and you may get back less than you put in.

Whether and how you make the most of your ISA allowance will depend on your personal circumstances. You might find it helpful to speak with a financial adviser before deciding on the best options for you and your money.

Stocks and shares ISAs: a growing trend

At the end of the 2021/2022 tax year, the market value of adult ISA holdings was £741.6 billion. This is an 8% increase from the end of the 2020/2021 tax year.[3]

14% increase

The market value of stocks and share ISAs increased from **£398.7 billion** (2020/2021) to **£456.4 billion** (2021/2022)

1% decrease

The market value of cash ISAs decreased from **£287.6 billion** (2020/2021) to **£284.7 billion** (2021/2022)

1 OBR – Economic and fiscal outlook: November 2023, 22/11/23
2 Bank of England – Monetary Policy Report: November 2023, 2/11/23
3 Gov.UK – Commentary for annual savings statistics: June 2023, 22/6/23

Article provided by Santander Asset Management UK for Santander investment customers.

Interest rates: higher for longer

After one of the steepest series of interest rate rises in history amid efforts to control inflation, the US, UK and European central banks have finally pressed pause.

The central banks ended 2023 waiting to see whether they've done enough to curb inflation before taking any further action.

The message from the central banks is 'higher for longer'

Bank of England Governor Andrew Bailey said in November that it was "far too early to be thinking about rate cuts" and cautioned against complacency on inflation.[4] Even much-improved inflation data in October[5] didn't prompt a change of heart, and Bailey's views are echoed by his peers at the Federal Reserve and European Central Bank.

For the time being, interest rates are likely to remain higher for longer. It's possible falling inflation and economic weakness could prompt central banks to begin cutting rates. However, as 2023 drew to a close in the UK, key economic indicators around jobs and vacancies that affect peoples' ability to spend money and help grow the economy, were still relatively robust.[6]

An eventual drop in interest rates will favour bonds

Financial markets always look to the future: what you see on the news today isn't necessarily what analysts are thinking about. Bond and share prices started taking higher interest rates into account before they affected the economy, and that's one of the main reasons we've seen so much turbulence in financial markets over the past two years.

4 The Guardian – Bank of England, Fed and ECB poised to leave interest rates on hold, 20/12/23
5 ONS – Consumer price inflation, UK: October 2023, 15/11/23
6 ONS – Vacancies and jobs in the UK: December 2023, 12/12/23

An environment of rising interest rates and high inflation is challenging for bond investors. Bonds aren't generally considered risky compared to shares, but they're riskier than cash. So if cash interest rates rise, bonds start to look less attractive. Not only that, the income available on bonds already in circulation becomes less valuable relative to bonds being issued today, as these new bonds will more closely reflect current interest rates.

As demand falls, so do prices. That's bad for bond investors who often use them to balance out the ups and downs of shares.

When inflation is under control and interest rates are cut, the opposite tends to happen. The value of the 'coupon' on bonds already in circulation increases relative to new bonds being issued today and prices rise. That's good for bond investors.

There are caveats though. If economic growth stalls and business prospects weaken, some companies may default on their debt. This could lead to bond prices falling. As such, it's important to be with a fund manager with the resources to work out how creditworthy companies really are.

Overall, a drop in interest rates would be good for the bond market. The Bank of England and its peers around the world may be holding back for now, but there's hope amongst market experts that they could cut interest rates this year.

What do higher interest rates mean for financial markets?

Higher interest rates put pressure on households and businesses alike. Households coming to the end of fixed term mortgages will inevitably pay higher rates, which reduces their disposable income. Businesses forced to refinance will also have less money available to invest. For this reason, many economists are expecting the major economies to slow markedly in 2024, and potentially tip into recession.[7]

Bond yields and pricing

Bond prices move in the opposite direction to their yield; as bond prices have dropped, yields have risen. That means investors can now get an attractive income on bonds for the first time in over a decade. Equally, the risks have diminished: inflation – the great enemy of bond returns - appears to be coming gradually under control. Further interest rates rises are becoming increasingly unlikely.

Bond basics

A bond is essentially a loan to a company or a government. Here's how it works:

- You buy a bond for a fixed price – that's the loan.
- The company or government pays you interest at a fixed rate for a fixed number of years. That's called a 'coupon'.
- At the end of that time the company or government gives you your original loan amount back. That's called 'redemption'.
- Your overall return – the coupon and repayment at the end of the term – is the 'yield'. This is expressed as a percentage of the bond's current market price.

Bonds can be traded once they're already in existence. The value of the bond you hold might be more or less than you bought it for; this is influenced by factors including whether the interest rate on the bond is competitive compared to cash, how long it's got to run and how convinced the markets are that the company or government will be able to pay the bond back at redemption.

7 FitchRatings – World Growth to Fall Sharply in 2024 but US Recession Avoided, 8/12/23

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