


# Autumn Statement Reaction

**Less than eight weeks on from attempting to digest the 'mini-budget' delivered by then Chancellor, Kwasi Kwarteng, we are faced with the introduction of yet another set of divisive policies. The objective sounds relatively straightforward – repair the UK economy and ultimately find a way to cover the enormous post-pandemic deficit in a way that maintains prosperity for virtually everyone.**

Execution, however, is an entirely different matter, with many moving parts. In what should have been a dress rehearsal for last week's Autumn Statement, September's announcement bared hardly a resemblance, either in tone or in content. You might say – how very 2022. Commonality was seemingly limited to an acknowledgement that growth should remain one priority. Of course, the real dress rehearsal was in mid-October, in the form of an Emergency Statement delivered by Jeremy Hunt, which sought to reverse the tax cuts promised by his predecessor. Fast forward four weeks, and despite the recognition for the need for economic growth, the rhetoric this time around appeared to be far more realistic and, thus far, has been better received by the investment community. Although much of the content of both budgets had been leaked in the days and weeks leading up to the official announcement, the contrasting initial reaction within our domestic large-cap stockmarket does tell somewhat of a story – namely that investors largely agree that money needs to be raised somehow.

There was a sense leading up to last week that no stone was going to be left unturned – no one was 'safe', and when one considers just how far-reaching some of the content was, those fears were largely realised. Among the latest measures were a raft of tax rule changes for both businesses and individuals – the former, although not as severe as they arguably might have been, will undoubtedly continue to squeeze already difficult trading conditions. There was, however, a mild pro-business flavour throughout much of the announcement, despite some of the early criticism – demonstrated through measures such as import tariff cuts and an increase in the national research and development budget. The approach to personal taxation, which appeared to target savers and the highest earners, has been criticised by many members of the Chancellor's own party, either for 'not being Conservative enough' or for being ambiguous. One notable boost for investors was that the current ISA allowance remained untouched – which, given the significant reductions to both dividend and capital gains tax allowances, further strengthens the case to fully utilise ISA allowances each tax year. There was recognition that those worst off will likely feel the effects of inflation most and as a result, the national living wage will be increasing from April next year. Personal tax allowance thresholds (previously frozen until 2026) will now be frozen for a further two years too, although in real terms this is generally deemed a negative for household income. One significant and largely welcomed announcement was for pensioners, with the current 'triple lock' system (aimed at keeping state pension payment and credits in line with inflation) being protected for the foreseeable future, after weeks of speculation that it could be removed.

In addition to growth and stability, public services was the other stated priority area which needed to be addressed. Defence spend arguably grabbed far less of the airtime than one may have thought given the challenging backdrop, although the minimum 2% of GDP ideology will be maintained. There was a boost for both education and health sectors through budget increases – the upshot being that aggregate spend across these areas will increase, in real terms, over the next five years. Another big topic was energy, both in traditional fossil fuel generation and in renewable form. Whilst current and prospective owners of electric vehicles were informed they would be expected to contribute to road tax from 2025, some companies were grappling with the concept of a new temporary 45% levy on low-carbon electricity generation. Although more energy independent than some of our continental neighbours, the Chancellor was keen to highlight the importance of becoming more self-sufficient, with plans to invest a further £6 billion in energy efficiency and to go ahead with the much-debated




Sizewell C nuclear plant. Despite maintaining the climate pledge from last year's COP26 event, some may feel aggrieved that some potential longer-term reassurance was missing, particularly given both the temporary nature of the increased windfall taxes aimed at those generating fossil fuels and indeed its proxy extension into the renewable energy space. On balance, the statement felt like it was perhaps somewhat a short-sighted, sideways move for the transition towards a lower carbon economy, all things considered.

In line with the Bank of England's sobering outlook on our economy, the Chancellor did also confirm that the UK is now in recession – defined by many as two consecutive quarters of negative economic growth. He was quick to point out that the measures announced last week are aimed not only to get spiralling prices under control but also to ensure that any recession is as shallow as possible. That said, you could be forgiven for feeling that, certainly visually, we are not really in one yet. Employment is deemed 'full' and despite prices remaining high, figures released from the Office for National Statistics (ONS) last week showed that non-food UK retail sales volumes increased by 0.6% during October (a sharp rebound from the 1.5% decline a month earlier). However, there is a fear that any residual pent-up demand and excess savings leftover from periods of lockdown will soon fade and that elevated footfall in shops is largely people trying to 'get ahead' before spending conditions tighten. Another consideration is that we have enjoyed both a prolonged summer heatwave and one of the warmest Autumns on record, meaning that, in reality, many households and businesses are yet to face the inflated energy bills that have received so much press coverage over the last few months. To this end, it was confirmed that the existing help for energy bills package will be extended, albeit to a lesser extent, beyond April 2023.

Whilst in no way an exhaustive list of the announcements made, or indeed a full summary of the ramifications among the investment landscape, I have tried to feature some of the key talking points and considerations affecting our clients. The measures announced will not alter our long-term investment approach or indeed our ability to manage portfolios, and we therefore remain broad-minded regarding the investment options available to us and hyper-selective regarding any investment made. We will, of course, continue to provide monthly commentaries and regular investment podcasts, in addition to quarterly reviews and periodic strategy factsheets, which will detail not only market conditions, but also how we are managing the portfolios through the challenging backdrop.

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