DART CAPITAL

Investment Brief

October 2022

Introduction

Richard Whitehead
Chief Executive

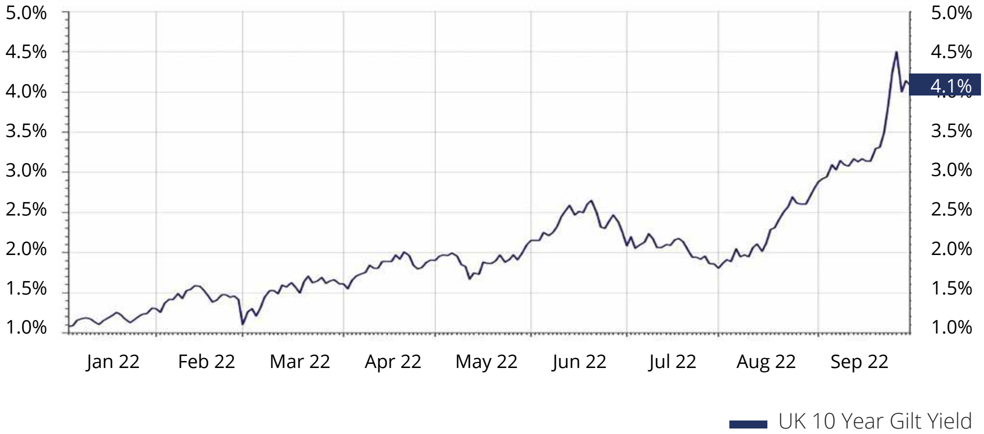
2022 has continued to demonstrate extremes of all kinds over the past quarter. The brutal war in Ukraine and the ongoing energy crisis across Europe has exacerbated the economic uncertainty. Each major economic power seems to have their own unique issues and in Europe this is made worse by the overhanging threat of a shortage of energy or energy related products. Back at home, a significant proportion of UK inflation is currently energy related but with the help of political intervention in this market, we will begin to see inflation dissipate.

As Alex discusses later in this Investment Brief we began to see some improvement in sentiment in July and a strong recovery in equity markets.

By mid August our portfolios were well on their way to recovering a significant part of their year to date losses. A further increase in the value of the dollar and a sudden decline in equity markets quickly reversed this during what became a difficult September owing to the uncertainty of future interest rates.

One of the key concerns in the UK is the trajectory of such interest rates and the corresponding borrowing margin that banks add to this. Forward guidance from Bank of England officials seems non-existent and across the analyst community it seems no-one has a clear idea of where they may go. Interest rates in the UK are currently 2.25% but the ten-year gilt yield (which is normally a reliable indicator of the average likely future interest rate) began the year at 1%, reached 2.7% in late June then fell back to 1.8% in August. At the height of market volatility (and UK political stupidity) this overtook the US ten year Treasury rate to briefly touch 4.5%. It has since fallen back a little to 4.1%. It seems it could be 2% or 5%...

UK 10 Year Gilt yield over 2022



Source: Refinitiv Datastream
01/01/22 - 30/09/22

Borrowing rates are key to managing the future cash needs of companies, particularly those with the need to grow and expand. There is also the uncertainty for mortgage holders, particularly for those looking to re-mortgage or apply for fixed rates. It is difficult for corporations to plan ahead with so much confusion one way or another or indeed those young families looking to move into the housing market.

The one positive of such turmoil in the interest rate market is that for the first time in nearly fifteen years there are significant opportunities in the bond market, whether short or medium dated. It is here where we are looking to adjust our positioning in portfolios to take advantage of better long term fixed rates. This, as ever, carried out with the wish to preserve capital and seek an optimum return.

House View

Alexander George, CFA
Associate Director of Research

Although our sale of an interest-rate sensitive Gilt after the July rally helped mitigate losses somewhat amidst the sharp sell-off in bonds over August and September, unfortunately it did not stop the rest of the portfolio being impacted by the painful rupture in the bond market which also dragged down equity markets over the second half of the quarter.

Notably, the sharp rise in global bond yields – and associated impact on other asset classes – has given the opportunity to buy assets with positive real (inflation-adjusted) yields which, we believe, will provide a solid bedrock for portfolio performance over coming years. Over the quarter we selectively increased exposure to corporate bonds where we believe prices have become particularly dislocated from solid fundamentals, and implied returns are high in anything but the most challenging outcome for the global economy. We are also closely monitoring the opportunity in US Treasuries, where real yields are at their highest level in over a decade.

Across our equity exposure, we remain heavily focused on profitable companies with strong balance sheets which can weather this challenging economic environment, whilst across portfolios as a whole we retain sizeable exposure to overseas assets which helps provide protection during periods of domestic political upheaval such as that experienced over recent weeks.

Market & Economic Outlook

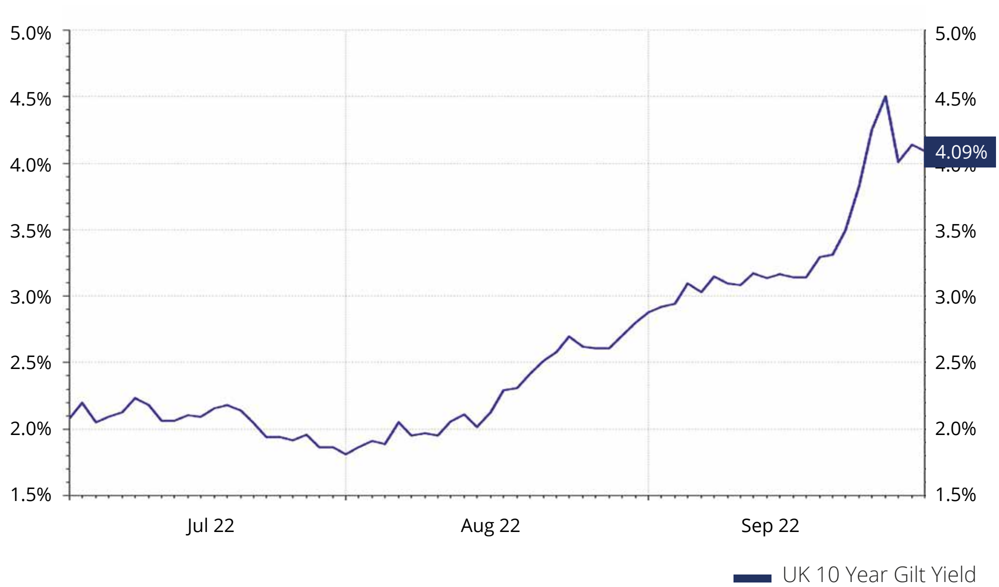
Whilst we remain alert to the challenges facing equity markets – most notably interest rates and energy costs –we do note that any positive resolution to the war in Ukraine, or sign that the US Federal Reserve are softening their stance on tightening monetary policy, would drive a sharp rally in equity markets. Notably, on the latter, the Bank of England has already joined the European Central Bank in announcing renewed government bond purchases in an attempt to cap surging bond yields, and we expect western Central Banks to continue to intervene in order to keep government borrowing costs manageable. Alongside government fiscal support, demonstrated well by the UK government's plan to cap energy bills for households and businesses, with similar measures announced by most European governments, the risk of a sharp weakening in overall economic activity this winter has reduced significantly, albeit with a detrimental impact on government debt levels which will continue to increase.

Moving onto the UK specifically, the market's reaction to the Conservative party's mini-budget in late September - which included a cut in stamp duty, national insurance and income tax rates for the highest earners - was certainly extreme, causing a sharp decline in the Pound and rise in Gilt yields, before the market stabilised after some of the proposals were reversed. From the perspective of markets, it is positive that the Conservative leadership are now fully aware of the market's lack of tolerance for extreme policies, and we expect a slightly more balanced policy backdrop over coming months. Although in the circumstances it would be easy to look at the US as a safe haven, we do note that the US government are faced with very high debt levels themselves, declining tax receipts as property and stock prices have fallen sharply this year, and welfare spending requirements which continue to grow, with this backdrop bearing a significant similarity to the challenges facing the UK and European governments.

Fixed Income

Three months ago, we expected the market to price in a slowing of Federal Reserve interest rate hikes, and this very much happened in July with the bond market rallying on suggestions from the Chairman of the Federal Reserve, Jerome Powell, that pace of hiking will slow from its current pace. We used this as an opportunity to dial back our exposure to longer-dated government bonds when the 10-year Gilt and US Treasury yields fell to 1.8% and 2.6% respectively by early August, in large part because we felt the market had over-reacted to Powell's comments. We did this by selling our significant holding in a Gilt with 9 years to maturity which made up a large proportion of our interest rate risk at that time (with the proceeds allocated to an ultra-short dated Gilt with minimal interest rate risk), and this served to benefit portfolios as yields surged back over the subsequent two months, with the yield on the same Gilt reaching 4% by the end of the quarter.

We used the decline in UK Gilt yields over July to sell-down exposure in early August, which helped reduce losses as bond yields bounced back over the second half of the quarter.



Source: Refinitiv Datastream
01/07/2022 - 30/09/2022

Particularly important in driving the move higher in yields over August and September was the strong US inflation data which led to the Federal Reserve continuing to push ahead with significant interest rate hikes, their most recent move bringing the Federal Funds rate to 3.25%, with this rate now expected to be over 4% by early next year. From here, whilst the Federal Reserve will inevitably slow their pace of interest rate hikes as the economy slows, we are wary that the significant weakness in the housing market – with survey data indicating that nationwide property prices have already declined over 15% from their peak - and slowing of the labour market, will take time to feed through into the inflation figures over the next year. This so-called “sticky” inflation backdrop makes it challenging for the Federal Reserve to slow their pace of projected tightening until next year.

Looking at our fixed income allocation, following the painful move up in bond yields this year the yield available on good quality bonds is now far higher than it has been for a decade, with this part of the portfolio now yielding 5%, despite being predominately exposed to high quality government and investment grade issuers. We are seeing a particularly attractive opportunity within investment grade bonds, with the yield to maturity on our favoured corporate bond fund now around 7% having been dragged higher by rising government bond yields, a level which is triple that of the start of the year. Whilst we don't expect the journey to be smooth given current uncertainty over the trajectory of inflation and interest rates, it is notable that investment grade corporate bonds don't need a particularly strong risk environment to make solid returns from here, with investors being well compensated for default and liquidity risk in our view. To demonstrate the return potential here, were the market yield on this fund's portfolio of bonds to decline from 7% to 6% in two years' time, we estimate that the fund would deliver a total return of around 20% over this 2-year time frame.

At an individual bond level, the sell-off in corporate bonds this year means that a new investor in a 2033 maturity 5.5% Tesco bond (which currently trades at £95, having started the year at a price of £127) will receive £55 in coupon payments over the next 10 years, and then £100 at redemption. Should this bond be trading at par (£100) in 12 months time, investors will have made a total return of c.11% buying at these levels.

Within government bonds, we have been tracking US Treasuries, where we currently have no direct holdings (although our Strategic Bond funds do provide some indirect exposure). The increasingly attractive valuation on Treasuries is shown by the real (inflation-adjusted) yield on US inflation-protected Treasuries (known as TIPS), which has increased to c.+1.5% (from -1% at the start of the year), a level which implies that a 10-year TIP held to maturity would deliver an annualised return in US Dollar terms of 1.5% plus average US CPI inflation over the period. Given the elevated level of yields, and resiliency which Treasuries have historically provided during periods of global slowing growth, Treasuries, or their inflation-linked equivalent, look attractive should valuations remain at these levels.

Real (inflation-adjusted) yields* on US Treasuries have increased to their highest level in a decade

*Based on 10-year breakeven inflation rates

Source: Refinitiv Datastream 01/01/2010- 30/09/2022

Although Gilts also look attractive at these levels, with yields now slightly above that available on US Treasuries, given the volatility in the Gilt market we would likely favour shorter-maturity bonds which can be held to maturity should we look to take advantage of opportunities in this area of the market.

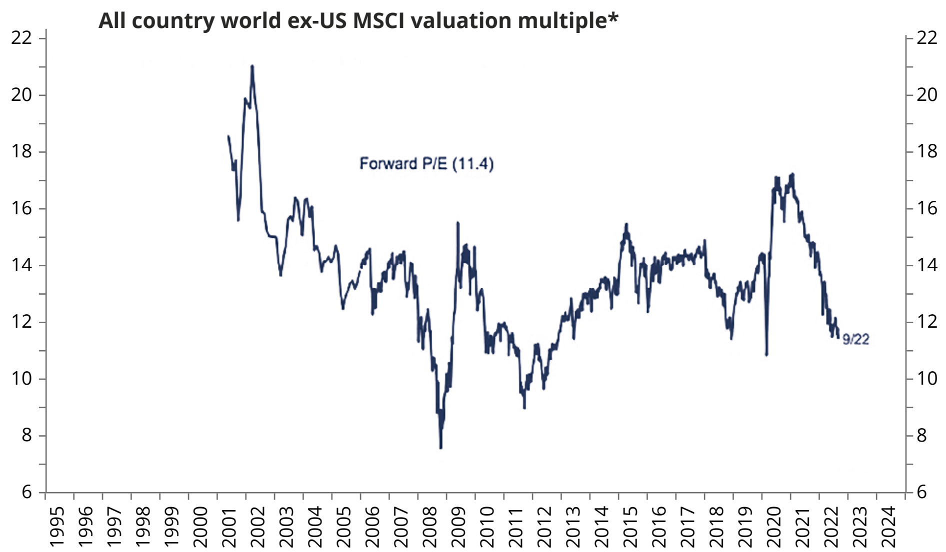
Equities

Within equities, having strongly favoured profitable "value" stocks since the fourth quarter of 2020, we now see significant opportunity across a wider range of stocks, as higher growth stocks have underperformed sharply amidst the sharp rise in bond yields.

Within the US market, we have been taking advantage of the dislocation in US technology stocks by buying an investment trust which has a large- and mega-cap bias, with significant holdings in the likes of Microsoft, Apple and Google, yet it trades on a c.14% discount to its Net Asset Value owing to investor outflows from the sector. This is allied with the opportunity in small-cap stocks, where our favoured manager in this space – De Lisle America - is able to buy businesses with solid operating performance and balance sheets at extremely low valuations.

Across most other regional markets, equity valuations are below historical averages, with the global equity benchmark excluding US equities - MSCI ACWI ex-USA - trading on its lowest valuation for 10 years, and we see plenty of opportunity to generate positive returns over coming years from this part of the portfolio.

Outside of the lows of March 2020, equity valuations are at their lowest levels for a decade



*Price divided by forward consensus expected earnings per share. Monthly data through December 2005, weekly thereafter

Source: yardeni.com

Our comfort in the long-term case for equities is bolstered by the fact that publicly listed companies have, in general, strengthened their balance sheets over recent years, particularly across small and mid-cap stocks where cheap financing has been less readily available. This contrasts sharply with private equity strategies, which have used the very low interest rate environment of the last decade to load up on debt that will need to be re-financed at far higher interest rates over coming years, and is an area which we expect to experience the most pain over coming years.

Our favoured UK mid-cap fund, which has been in the eye of the sell-off this year, demonstrates this well. Six of its top 10 largest holdings have net cash positions, meaning that they have more cash on their balance sheet than debt. Whilst this hasn't stopped their share prices decline this year amidst the market turbulence, it should ensure that equity holders are the ones that benefit once the economic outlook becomes more stable, and these companies won't be forced to borrow at high interest rates in the meantime. This balance sheet strength is combined with a continued M&A tailwind, with two of their largest holdings – Homeserve and

Euromoney - having already received takeover bids this year at attractive premiums. The fund is also less domestically sensitive than some might assume with 60% of its underlying revenue generated outside of the UK, with c.25% of overall revenue coming from the US alone.

One of the fund's largest holdings, Watches of Switzerland Group (WOSG), demonstrates the degree of de-rating the fund has experienced this year. In its most recent quarterly earnings report, WOS, which are the key distributor for Rolex in the UK and are expanding their business in the US, delivered 25% year-on-year sales growth at constant currency rates, aided by an annualised increase in prices of 7% over the last 12 months. The company further noted that they aren't facing significant inflation on its cost base and that its order book remains strong, and that 1/3 of its revenue now comes from the US. Despite these factors, the stock has fallen c.50% this year amidst the broad-based sell-off.

Japanese equities have been a comparative safe haven from the volatility of western markets, with the lack of interest from overseas investors having driven valuations across much of the market down to very low levels by the end of this year, whilst balance sheets are exceptionally strong with most corporates actually benefitting from the rise in global interest rates. Furthermore, the Yen – which is exceptionally cheap by historic standards – looks set to rally should the Bank of Japan re-appraise their yield curve control programme which has driven the currency down to very weak levels. Notably, in contrast to the US, Japan has a very strong net international investment position, which should be supportive of the currency once the Central Bank becomes less extreme in its policies.

Whilst some Emerging Markets are certainly struggling due to the significant rally in the US Dollar and the rise in the global cost of capital, the most impacted economies have tended to be Frontier Markets, such as Sri Lanka, to which our favoured Emerging Market fund has very little exposure. Furthermore, the fund has benefitted from its longstanding position in Brazil – which has significant commodity resources at its disposal – and energy stocks, which have delivered strong gains this year.

Alternatives

Amidst the heightened uncertainty around consumer spending and rising interest rates, Property REITs which own high quality assets with good growth prospects are now trading at large discounts to their underlying net asset values (NAVs), and also provide attractive dividend yields. Importantly, whilst this sector has historically carried high levels of debt, our favoured REITs, Balanced Commercial Property Trust and Tritax BigBox, have low loans to value of c.18% and 24% respectively.

Tritax owns large logistics warehouse assets essential to business supply chains, and continues to see strong demand from tenants. Following a torrid year for its share price so far, the trust trades at a c.40% discount to its Net Asset Value, and has a dividend yield of over 5% with the prospect of further dividend growth, which makes it particularly attractive for new investors such as us, albeit only at a controlled weighting given the volatility of the share price. Perhaps most importantly from a risk perspective, the trust's conservative debt structure does not have a maturity until late 2024, thus minimising near-term refinancing risk.

Whilst the price of gold and silver has come under pressure amidst rising global interest rates, we note that supply across these metals remains very tight and that the period of elevated inflation that we are experiencing makes gold and silver more, not less, attractive as inflation hedges in our view. Further to this, the dramatic fiscal policy measures by the UK government are emblematic of the measures we can expect over coming years, as governments continue to run large fiscal deficits – funded by Central Bank money printing – in an attempt to keep voters happy.

Closing thoughts

Over the quarter we continued to move dynamically to take advantage of the opportunities created by the heightened levels of market volatility, whilst retaining an emphasis on high quality assets with strong balance sheets. We continue to expect markets to rally strongly once there is any sign Central Banks are able to slow their pace of monetary tightening, and believe a diversified portfolio with strong fundamentals and attractive valuations best positions us to capture this eventual move.

Market Commentary – Q3 2022

Alexander George, CFA
Associate Director of Research

Having enjoyed a strong July, global equity markets fell back over the remainder of the quarter as the knock-on effects of rising bond yields and a hawkish Federal Reserve pushed valuations down further.

UK

Headline inflation declined to 8.6% in the 12 months to the end of August, driven largely by lower petrol prices. Towards the end of the quarter the Bank of England raised the base rate by 50 basis points, bringing it up to 2.25%, and they are now projected to bring it to 3.5% by the end of the year. Under the new Prime Minister, Liz Truss, UK fiscal policy has been more aggressive than other countries, with the government announcing a cap on energy bills for households – a measure which could cost £150bn (or more) - and a halving of bills for businesses from previous dire projections. These measures were followed by further policies introduced in the mini-budget on the 22nd September, which included a cut in stamp duty, national insurance and income tax rates for the highest earners (although the latter has since been removed). These mini-budget measures were taken particularly poorly by markets, largely because they were unfunded and the new chancellor indicated that there were more radical proposals to come.

The surge in yields was significant, with the yield on the 10-year Gilt increasing 230 basis points from its low on the 2nd August to reach 4.5% at its peak on the 27th September, with the move accelerated by the news that pension funds had been selling Gilts in order to fund losses in their liability driven investing (LDI) programmes. The move up in yields was so significant that the Bank of England announced a temporary re-start of their bond buying programme, and delayed their plans to reduce the size of their balance sheet. The announcement helped calm the market somewhat, with the yield on the 10-year Gilt declining to 4% by the end of the quarter. Following the strong rally in the US Dollar, the Pound fell 8.3% against the greenback, to end the quarter at $1.12. UK large-cap stocks, as represented by MSCI UK All-Cap, ended the quarter down 5% in capital return terms.

US

Although US economic data has shown signs of weakening as we had anticipated, particularly the housing market which has seen a sharp decline in prices and transactions amidst rising mortgage rates, the US Federal Reserve's continue to prioritise fighting inflation, and keeping inflation expectations contained, over supporting the economy. Particularly notable was Powell's comment in August that the tightening of policy "…will also bring some pain to households and businesses". The August inflation figures, released in mid-September, were particularly important in driving the market to expect a 75 basis points hike in the FOMC's meeting later that month, as it showed core CPI inflation accelerating to 0.8% month-on-month. This was largely due to the shelter, a lagging component of CPI, which covers rent and home owners equivalent rent, which increased at its fastest pace for many years, likely reflective of the previous strength in the housing market prior to the downturn which started in May of this year when mortgage rates started to move significantly higher.

US Treasury yields moved significantly higher over the period, with the yield on the 10-year Treasury increasing 83 basis points to end the quarter at 3.8%. The US equity market remained choppy over the quarter, with continued weakness in certain higher valuation stocks, such as semiconductor graphics business Nvidia falling a further 20%. The S&P 500 ended the quarter down 5.3% in US Dollar terms.

Europe

Consumer and business sentiment across the Eurozone currency bloc remains weak, as surging natural gas prices have forced governments to consider rationing of energy to businesses. Having reversed course on their negative interest rate policy, the European Central Bank raised the base rate by 75 basis points to 1.25% in their September meeting in an attempt to bring down inflation expectations, although the ECB also have – unlike the US and UK – the challenge of suppressing bond yields across the periphery of their monetary union, most notably Italy where yields have moved up significantly more than in Germany and France. The yield on the 10-year Bund increased 76 basis points to end the month at 2.1%. European equities, as represented by MSCI Europe ex-UK, ended the quarter down 4.7% in local currency terms.

China

The Chinese economy remained weak, with the ongoing weakness in the property sector causing a significant drag on growth. There were nascent signs of a pick-up in Chinese industrial activity in September, with President Xi instructing inspections to ensure that infrastructure projects are being implemented.

Over August, in a move that is conducive with maintaining Chinese stocks listed on US exchanges, the China Securities Regulatory Commission signed an agreement to allow US inspections of Chinese audit firms. Although this process remains in its early stages, it was pleasing to see progress from both sides regarding this matter. MSCI China H index lost 21% in local currency terms over the period.

Commodities

The oil price continues to be pulled between tight supply, which shows little sign of abating, and concerns over weakening demand as the global economy slows, with the latter concerns dominating ending the month down 12% at $96 per barrel (based on Brent Crude). The gold price came under pressure in US Dollar terms, ending the quarter down 8.1%.

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An unprecedented period for bonds

Dan Patterson
Investment Analyst

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Investment Analyst

What is a bond?

A bond represents a loan from an investor to a borrower. The borrower uses this money to fund its operations and the investor receives interest on the investment in return. This interest is returned via a number of interest payments over the life of the bond (coupons) and a lump sum payment at the end (principal). It is also notable that bond coupon payments are, unlike equity dividends, contractual obligations a company must stick to unless it wishes to lose control of the business to bondholders. As an example, a 5-year 5% coupon bond based on £100 notional value will deliver payments of £5 each year across the next five years followed by a repayment of £100 after 5 years. Bonds have historically exhibited lower risk than equities given the steady nature of these returns and have helped investors navigate more volatile equity markets, often exhibiting a lower correlation, particularly government bonds, relative to equity markets as investors sell equities to buy bonds in times of uncertainty.

Types of bonds

There are primarily two types of bond, government bonds and corporate bonds. A government bond offers investors the backing of the government in event of a default. In theory, this is referred to as the risk-free rate of return, as developed market governments are unlikely to default on their debt, especially for those governments which issue bonds in their local currency, who have the ability to print money and return investors capital on demand. In practice, investments are never fully risk free however. Government bond examples includes Gilts (UK) & Treasuries (US).

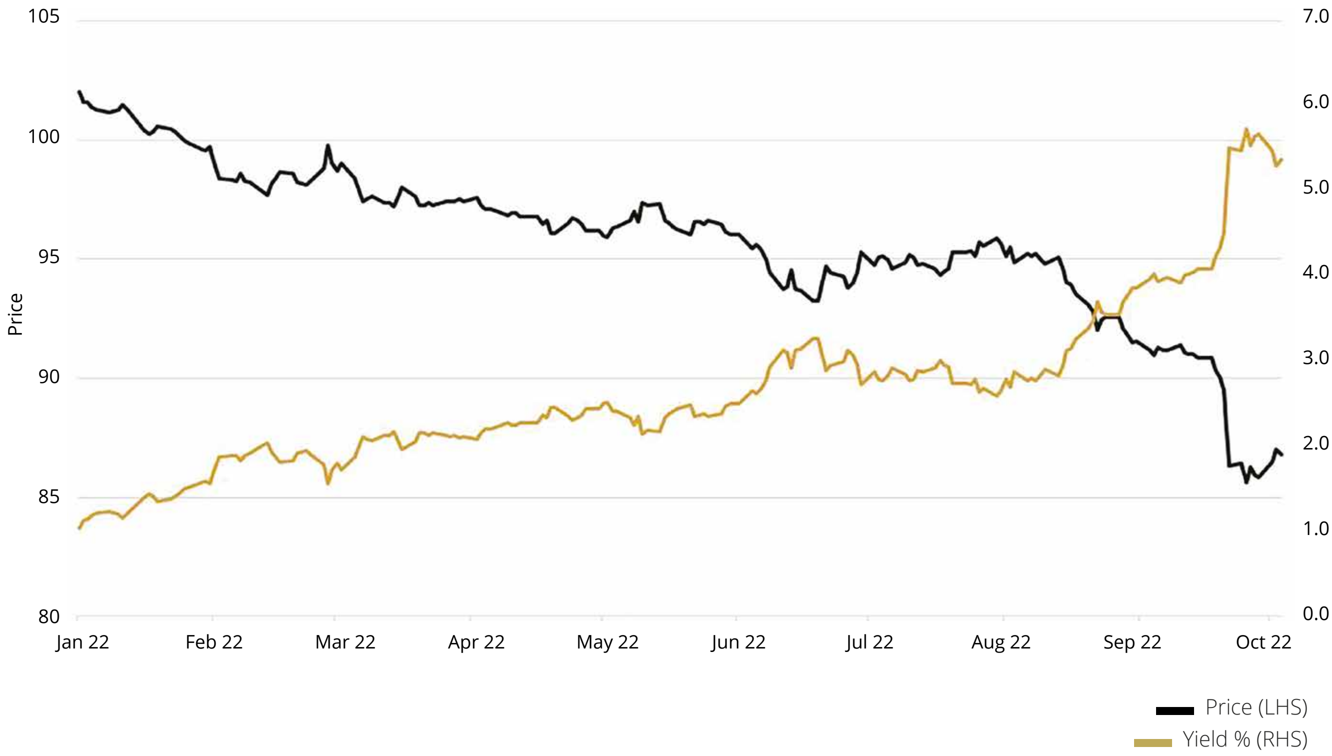
Corporate bonds on the other hand are issued by companies who are responsible for paying back the interest payments. Unlike national governments, corporations include a higher degree of risk to reflect the possibility of bankruptcy. The yields on these bonds tend to be higher to reflect this chance of default, with the difference in yield versus a government bond referred to as the credit spread. Where developed market government bonds generally carry a credit rating of AAA (the best), corporate bond ratings can vary considerably, with high quality companies such as Unilever having a credit rating of 'A' and smaller less established businesses being rated lower, with the lowest rating being 'D'.

Credit ratings are split into two categories, Investment Grade (anything BBB or higher) and High Yield (anything BB or lower). Generally, Investment Grade bonds include companies that exhibit greater financial strength thus allowing the company to issue debt at a lower yield relative to High Yield, which includes companies that may exhibit more challenged financial positions and volatile underlying cash flows and therefore issue debt at higher yields to compensate investors for this risk.

How are bonds priced?

As with most asset classes, bonds are valued based on interest rates. As interest rates rise, the relative value of a bonds fixed interest payments become comparatively less attractive therefore making the price investors are willing to pay for it lower. For example, a 2% yield on a bond may be attractive when interest rates are 0.1%, however quickly become unattractive should the risk-free interest rate offered by governments rise to 3%. This price and yield dynamic is illustrated below using a Unilever bond.

Unilever: 1.5% 2026 Bond



Source: Refinitiv Datastream

What has happened to bonds this year?

2022 has been an unprecedented year for bonds, with the Bloomberg Global Aggregate index (global benchmark), which is a split of roughly 60/40 government and corporate bonds down >20% for the first time in history in local terms. The main driver for this historic move is the shift in central bank policy. COVID supply constraints, and more recently the Russia-Ukraine war has placed upward pressure on global prices, at a time when economies are emerging out of lockdowns. This supply demand imbalance has overwhelmed global supply chains, resulting in a surge in global inflation, forcing central banks to hike rates aggressively. In the UK for example, inflation is now expected to peak at 11% in October. Typically, governments have used the tool of interest rates (monetary policy) to help support demand during recessionary periods, encouraging spending by reducing rates to stimulate the economy, however battling inflation at the same time has led to a conflict of interests.

At the same time, the spread on bonds mentioned earlier which compensates investors for the risk of default has also risen as economic conditions for businesses have become more challenging. A spread of over 200bps has historically been indicative of investors pricing in a sizable weakening of economic growth. It is rare that spreads widen and yields rise at the same time given the aforementioned technique of reducing rates to improve economic conditions, with both being negative for existing bond holder returns this year.

UK 10 Year Gilt Yield
Sterling Corporate Bond Spreads

Source: Refinitiv Datastream
01/01/10 - 30/09/22

Where are we spotting opportunities?

A year where such unique circumstances have unfolded has caused forward looking returns to become much more attractive. A normalisation in either spreads or yields from current elevated levels will provide strong returns to shareholders. In particular, the UK Investment Grade universe now offers significant value with the Sterling Corporate bond index yielding 6.5%, the highest since the 2008 Global Financial Crisis. In our view, this level more than compensates investors given the quality of the underlying issuers and is a market where our active managers are taking advantage of compelling opportunities. For example, in some cases Investment Grade issuers are providing similar yields to High Yield issuers (those perceived to be lower quality) which demonstrates the indiscriminate selloff this year across fixed income markets.

Corporate Bonds				Forward Returns	
Peak Date	Spread Peak (bps)	UK 10y Yield	Total Yield	12m	24m
30 Sep 22	244	4.1%	6.5%	-	-
24 Mar 20	288	0.5%	3.4%	13.3%	5.3%
25 Feb 16	227	1.4%	3.6%	14.4%	16.2%
01 Dec 11	348	2.3%	5.8%	18.8%	22.3%
30 Mar 09	576	3.2%	8.9%	31.2%	39.0%

In summary

2022 has been one of the worst years in history for bonds as the confluence of unforeseen exogenous shocks previously mentioned have rattled through global economies and thus forced central banks to sharply shift monetary policy. Despite the overwhelming nature of this year's moves, it is important to remain mindful of how volatility can present some of the most attractive entry points for forward looking returns as illustrated below. We would also argue that the financial system alongside consumer and corporate balance sheets are in much better shape relative to 2008 which should serve to protect stronger issuers against this backdrop.

Historic forward 12 and 24 month returns have been strong when Sterling Investment Grade spreads have peaked over 200 bps, especially when gilt yields have been elevated also.

ICE BofE Sterling Corporate Index - Option Adjusted Spread

Source: Refinitiv Datastream 01/01/2006-30/09/2022

Bps – Basis points, each unit denoting 0.01%.

Forward returns calculated using ICE BofA Sterling Corporate Index from peak date referenced within the table.

The Growth Plan Statement 2022

Clare Hough
Senior Paraplanner

Kwasi Kwarteng's first set piece as Chancellor was never going to be easy, even before the 0.5% interest rate increase the day before, which took interest rates to 2.25%. Prime Minister Liz Truss has already revealed most of what was to be expected in the 'mini-budget' including:

- A two-year £2,500 Energy Price Guarantee (EPG) for consumers;
- Similar but shorter term support for business and other non-domestic energy users;
- Cuts to National Insurance Contribution (NIC) rates; and
- A reversal of the planned April 2023 increases in the rate of corporation tax.

However, the Chancellor's launch of 'The Growth Plan' contained some surprises (at the time) such as the end of additional rate income tax (outside Scotland).

The main points of the 'growth plan' are noted below:

Tax Announcements

Income tax

The reduction of basic rate income tax from 20% to 19% has been brought forward by 12 months to April 2023. This is the first cut to basic rate tax in 15 years – the last being in 2008/09.

To support charities, a four-year transition period for gift aid relief will maintain the income tax basic rate relief at 20% until April 2027. There is also a one-year transitional period for relief at source which will allow pension schemes to continue claiming relief at 20%.

These income tax rate cuts do not apply to Scottish taxpayers.

Initially, to "incentivise enterprise and hard work and simplify the tax system", the additional rate tax of 45% that applies to annual income over £150,000 was to be abolished from 2023/24. However, at the time of writing, the government has U-turned on this plan following opposition from the markets, other parties and a growing number of Tory MPs and it was unlikely to get through a Commons vote.

Dividend taxation

From 2023/24, the tax rates applicable to dividends will be reduced by 1.25 percentage points, taking them back to 2021/22 levels. It is assumed that the additional rate of dividend tax will also reduce by this amount now that the 45% tax band will remain in place.

Tax Year	Basic rate	Higher rate	Additional rate
2022/23	8.75%	33.75%	39.35%
2023/24	7.50%	32.50%	38.10%

(Source: HM Treasury Policy Paper – Income Tax, issued 23/09/22)

National Insurance contributions

The Health and Social Care Levy – initially introduced via a 1.25% rise in NI contributions (NICs) in April 2022 – will now be scrapped. This will be done in two parts:

- NI rates will reduce from 6 November 2022, effectively removing the temporary 1.25% increase for the remainder of the 2022/23 tax year;
- The 1.25% Health and Social Care Levy will not come into force from 6 April 2023 as previously planned.

(Source: HM Treasury Policy Paper – Reversal of the Health & Social Care Levy Factsheet, published 23/09/22)

There is no change to the increased 2022/23 Class 1 primary threshold and Class 4 lower profits threshold announce in the Spring Statement 2022.

Stamp Duty Land Tax

Stamp duty land tax rates for residential property will be revised from 23 September 2022, doubling the nil rate band threshold from £125,000 to £250,000.

Relief for first time buyers will also increase, raising the nil rate band threshold from £300,000 to £425,000 and the maximum value on which they can claim the relief from £500,000 to £625,000.

These changes only affect England and Northern Ireland. The Scottish Government has announced that it will set out its own plans for land and buildings transaction tax as part of the normal budget process and the Welsh Government has not yet provided any information about its land transaction tax.

(Source: HM Treasury Policy Paper – Stamp Duty Land Tax Factsheet, published 23/09/22)

Corporation Tax

The increases to corporation tax rates, due to take effect from April 2023, have been cancelled meaning that the main rate of corporation tax will remain at 19%.

The corresponding increase in diverted profits tax from 25% to 31% will also be cancelled from April 2023, as will the 5% reduction in the bank corporation surcharge, meaning it will remain at 8%.

(Source: HM Treasury Policy Paper – Corporation Tax Rise Cancellation Factsheet, published 23/09/22)

Other Announcements

Investment Zones

To drive growth and unlock housing across the UK by lowering taxes and liberalising planning framework to encourage rapid development and business investment. The government are in discussions with 38 local authorities to establish investment zones in England and will also work closely with the devolved administrations and local partners to drive local growth in Scotland, Wales and Northern Ireland. The investment zones will be developed alongside the existing freeports programme.

(Source: HM Treasury Policy Paper – Investment Zones Factsheet, published 23/09/22)

Infrastructure planning reform

The Planning and Infrastructure Bill will accelerate major infrastructure projects across England by streamlining the regulatory and consent processes involved.

Pensions charge cap

Regulations will be introduced to remove 'well designed performance fees' from the occupational defined contribution pension charge cap.

VAT free shopping

A new VAT free shopping scheme is to be developed for overseas visitors to Great Britain. This will enable them to obtain a VAT refund on goods bought on the high street, in airports and other departure points and exported from the UK in their personal luggage. This scheme is to be delivered as soon as possible, following consultation.

Duty

Planned increases on duties for wine, beer, cider and spirits have been cancelled.

The Energy Prices Schemes

By the time the Growth Plan was delivered, the Government had already announced two separate schemes aimed at limiting the impact of soaring gas and electricity prices.

The domestic energy scheme sets out a range of measures to protect consumers from the £3,549 Ofgem utility price cap originally due to take effect from three months from 1 October. The key element is the Energy Price Guarantee (EPG) that supersedes the Ofgem cap and is set at an annual rate of £2,500 for two years from 1 October 2022. This will be applied in the same way as the Ofgem cap in that it is a set of limits on standing and unit charges not on total bills.

The £400 flat rate payment spread over six months, announced in May, will remain in place and other financial assistance, such as the £300 additional payment for pensioners, will also stay. For households using heating oil and LPG, there will be discretionary payments of £100.

The non-domestic energy scheme was revealed by the Department for Business, Energy and Industrial Strategy (BEIS). This scheme will provide support for all eligible non-domestic customers for six months from 1 October 2022 and the Government will publish a review in three months' time focussed on the 'most vulnerable non-domestic customers. This review will form the basis for discussion about ongoing support after the scheme ends.

Summary

The aim of the Chancellor's plan was to reduce inflation and spark a "virtuous cycle of growth". His initial 'mini- budget' unveiled the biggest raft of tax cuts in 50 years, worth c£45bn, funded through further borrowing. However, along with the energy support package, expected to cost c£60bn over the next six months, this spooked investors, the Bank of England launched an emergency bond-buying programme and the International Monetary Fund (IMF) publicly issued a rebuke as it felt that the government's fiscal policy was at odds with the Bank of England's monetary policy and the IMF would prefer that the energy support scheme was aimed at the neediest only rather than the blanket support the government is providing.

It was not helped by the fact that Mr Kwarteng did not explain his strategy before unleashing the measures and did not include independent forecasts from the Office for Budget Responsibility (OBR). He was originally due to deliver his fiscal statement on 23 November however, during a speech at the Conservative party conference, he noted that he would publish more details "shortly" of his medium-term plans for cutting debt alongside full forecasts from the OBR. This statement is largely expected to be delivered during October and is aimed at calming the market and helping to reduce the upward pressure on interest rates, providing the forecasts ahead of the next MPC meeting on 3 November.

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