

Looking back and, most importantly, ahead

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The slower pace of living for most people over the Christmas and New Year season is often a time for taking stock of the year that has been and the prospects of the one beginning. This year, there has been more than usual to occupy walks in the park and dinner-table conversation.

In what seems a distant memory already, and despite the stickiness of inflation, a restrained decline in interest rates, and the increasingly hostile and divisive condition of the geopolitical landscape, Tacit investors benefited from positive nominal, and more importantly real (after inflation) returns across all strategies.

Tacit is primarily an investment manager, so the question 'What next?' dominates our research and our thinking. But investment conditions are not the only issues on most of our clients' minds. The recent Budget has materially altered the landscape for many of the investors we manage money for, through increased taxes targeted at primarily at those with assets, either personal or in money purchase pension schemes.

Consequently, and most important to us as investment managers, is that the investment horizon and risk profile of those investment funds are likely to be different from when they were part of an inheritance planning strategy.

Which brings us full circle to the investment solutions that a changed and changing market and economic environment makes possible. The long war on inflation which Paul Volker, Chair of the Federal Reserve, declared in the late 1970s ushered in nearly four decades of declining interest rates and bond yields. Investing in sovereign debt became increasingly un-rewarded and unattractive to private investors until the recent reversal of that bull market in bonds. Now is it possible to buy UK gilts that will give a positive total return after inflation and costs, and this is particularly attractive to higher rate UK income taxpayers who benefit from the exemption from tax on the capital gains on gilts held to redemption. Managing gilt strategies has become a lost art which few private investment managers will offer their clients. At Tacit, we recognise this opportunity because of the depth of our professional experience which reaches back to a pre-Volker world that rewarded capital committed to the government bond market. Whilst many search for more complicated, and generally expensive, strategies to reduce risk, we see the UK Gilt market as a cheap, effective tool now that yields have risen again to levels not seen in over 20 years.

Overall, our strategies remain predominantly invested overseas and the recent behaviour of the Pound confirms further to us that this approach is the right one for our strategies. Where we do have UK exposure, it is actually shorter dated UK Gilts which are beginning to look most attractive as yields rise BUT, importantly, the pull to maturity to £100 par means that they will move towards this value in the final two years before redemption. Effective investment is thus a matter of selection and timing. In one sense, the changing tax and investment environment is forcing investors to re-evaluate their financial plans and their investment strategies, yet in another, it is opening opportunities which have not been viable for several decades. At Tacit, we remain open to the risks underlying these complex situations but also to the opportunity such an environment can throw up for clients without the biases of larger product driven competitors.

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