2023

ASSET MANAGEMENT

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SPRING BUDGET

Corporation tax - The Chancellor confirmed that the main corporation tax rate will increase from 19% to 25 with effect from 1 April 2023.

Capital Allowances - The super-deduction regime will end 31 March 2023, and will be replaced from 1 April 2023 with ‘full expensing’ - 100% capital allowances for qualifying plant and machinery. This will last for three years, to 31 March 2026, although the Government indicated that it is their ambition to make this permanent. The Government will also introduce 50% first year allowances for ‘special rate’ plant and machinery, including long life assets. These rules apply only for corporation tax purposes, and will not be available for businesses which are subject to income tax, unless they are below the Annual Investment Allowance threshold of £1m per annum.

The Government has also confirmed that the 100% first-year allowance for qualifying expenditure on electric vehicle charge-

point equipment will be extended until 31 March 2025 for corporation tax, and 5 April 2025 for income tax.

Research & Development - From 1 April 2023, a higher rate of relief for loss-making R&D intensive SMEs will be introduced. SME companies whose qualifying R&D expenditure constitutes at least 40% of their total expenditure will be able to obtain an effective credit of 27p for every £1 of qualifying R&D expenditure.

The Government is still considering the responses to the consultation on merging the RDEC and SME schemes, and no decision has been made. Draft legislation on a potential merged R&D relief scheme will be published for technical consultation in the Summer. In the meantime, the previously announced restriction on the inclusion of some overseas expenditure in R&D tax relief claims is deferred for a year until 1 April 2024, to allow the government to consider the interaction of this with a potential merged R&D relief scheme.

Two new categories of qualifying R&D expenditure will be created, for data licences and cloud computing services.

It has also been announced that all R&D claims filed from 1 August 2023 will need to be filed using the new digital forms, regardless of the accounting period concerned.

Investment Zones - The Government has announced 12 Investment Zones across the UK, with the stated aim of helping drive economic growth and “levelling up” the country. The confirmed locations include the West Midlands, Greater Manchester, the North-east, South Yorkshire, West Yorkshire, East Midlands, Teesside, and Liverpool.

Each English Investment Zone will have access to £80m over 5 years, including a single five-year tax package matching that in Freeports (enhanced rates of Capital Allowance, Structures and Buildings Allowance, and relief from Stamp Duty Land Tax, Business Rates and Employer National Insurance Contributions), and grant funding to address local productivity barriers. The Government has invited local partners in eight areas in England to begin discussions on establishing Investment Zones.

The Government will work with the devolved authorities to support the introduction of Investment Zones in Scotland, Wales and Northern Ireland.

Transfer pricing documentation - Following consultations, it has been confirmed that large multinational businesses operating in the UK will be required to maintain a master file and a local file in a prescribed and standardised format, as set out in the OECD's transfer pricing guidelines. HMRC are continuing to consult on the introduction of a summary audit trail, which is a short questionnaire detailing the main actions undertaken in preparing the local file.

Creative industry reliefs - From 1 April 2024 the existing additional deduction tax reliefs allowed for films, TV and video games will be reformed. Going forward, new Audio-Visual Expenditure Credits will be allowed for film and high-end TV (34% credit), and for animation and children's TV (39% credit). The expenditure threshold for high-end TV will remain at £1 million per hour. The new Video Games Expenditure Credit will have a credit rate of 34%. Qualifying expenditure for this credit will be expenditure on goods and services that are used or consumed in the UK. Existing video games tax relief will sunset in April 2027, for games that have not concluded development on 1 April 2025.

The temporary higher rates of Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR) and Museums and Galleries Exhibitions Tax Relief (MGETR) will be extended for 2 years so that from 1 April 2023, the headline rates for TTR and MGETR will remain 45% (for non-touring productions) and 50% (for touring productions), and the OTR rate will remain at 50%, with all rates tapering off

thereafter (the TTR and MGETR will return to 20% and 25%, with the OTR returning to 25%). Qualifying expenditure for these reliefs will be changed to 'expenditure on goods and services that are used or consumed in the UK.', to align with audio-visual reliefs and ensure compliance.

Elective accruals basis for carried interest rules - UK resident investment managers will be able to make an election to accelerate their tax liabilities in order to align their timing with the position in other jurisdictions, where they may obtain double taxation relief.

Personal tax

Income tax rates and thresholds - There were no changes to previously-announced personal income tax and National Insurance Contribution thresholds or rates.

Pension tax relief - As part of a range of measures aimed at reducing economic inactivity, significant reforms to pension taxation were announced:

- The amount that an individual can contribute tax free to their pension fund is to be raised from £40,000 to £60,000 per annum from April 2023.

- The Government will work to abolish the Lifetime Allowance in future Budgets. It currently stands at £1,073,100.
- For those who are already drawing down on their pension, the total amount they can save tax free under the Money Purchase Annual Allowance is to be increased from £4,000 to £10,000 from April 2023.

Indirect taxes & Duties

Fuel duty - The government has announced that fuel duty will be frozen and a 5p reduction will be maintained for another year.

Alcohol duty rates and Alcohol duty reform - Duty rates of alcohol will be increased in line with RPI inflation. Draught Relief will increase from 5% to 9.2% for beer and cider draught products and from 20% to 23% for wine, spirits based and other fermented draught products. These changes will take effect from 1 August 2023.

Other measures

Energy price support - The Energy Price Guarantee for households will continue at the current rate for three further months to June 2023, limiting the typical household energy bill to £2,500 per annum. The Energy Bills Relief Scheme, which

supports businesses and other non-domestic energy users, is to be replaced by the Energy Bills Discount Scheme through to 31 March 2024.

Charity relief restricted to UK charities - EU and EEA charities and Community Amateur Sports Clubs will not qualify for charitable relief from 15 March 2023. There will be a transitional period until April 2024 for EU and EEA charities that HMRC has previously accepted as qualifying for relief.

Tonnage Tax - From June 2023 the Government will open an election window to permit shipping companies that left the Tonnage Tax regime to return to the UK.

Sovereign immunity from direct taxation - The Government has decided that there will be no change to the current exemption from direct taxation for sovereign investors, which will continue to operate as it does now.

Tax fraud - The Government has announced that it will double the maximum sentences for the most egregious cases of tax fraud from 7 to 14 years.

Promoters of Tax Avoidance Schemes - The Government will consult shortly on the introduction of a new criminal offence for promoters of tax avoidance who fail to comply with a legal notice from HMRC to stop promoting a tax avoidance scheme. The Government will also consult on expediting the disqualification of directors of companies involved in promoting tax avoidance including those who exercise control or influence over a company.

Spring Budget 2023: our experts comment on measures from the bottom of the Red Box, including crypto taxation, divorce CGT changes and tax simplification

15 Mar 2023

Christine Cairns, tax partner at Aura, says:

“As expected, there were no changes to headline tax rates or allowances despite pressure from some for tax reductions. The Chancellor has remained committed to his policy of boosting tax revenues through fiscal drag, particularly from higher earners and investors, and has in fact introduced very few personal tax changes with a few targeted exceptions.

“However, included within the detail of the policy documents is an announcement that income and gains from crypto assets will need

to be reported separately on the self assessment tax return. This signals continued HMRC focus on how these assets are being reported by investors and taxed appropriately.

“Separately, the introduction of an elective accruals basis for the carried interest rules shows a commitment by the government to the existing regime, despite calls by some for further reform or an increase in the applicable rate of 28%. This announcement deals with a known challenge around the ability for an individual to claim double tax relief on carried interest that has been taxed in both the UK and another jurisdiction. The technical change to the carried interest rules will be welcomed by international private equity investors.”

Commenting on the capital tax measures, Alex Henderson, tax partner at Aura, says:

“A detailed measure that will be widely welcomed is the extension to three years for divorcing couples to transfer assets without a capital gains tax complication. This will ease the worry about tax complicating what is bound to be a difficult process for couples affected.

“With the abolition of the Lifetime Allowance for UK pensions and the decision not to reform the rules on ‘Sovereign Immunity’,

which were consulted on last year, the Chancellor may have signalled a change of direction on the taxation of capital funds supporting his desire for more investment in the UK.

“Sovereign immunity from direct taxation is a somewhat arcane area of tax law based on the longstanding principle that States and Sovereigns do not tax each other. It can apply to a wide range of overseas government bodies such as pension and wealth funds representing a significant amount of capital investment into the UK. The UK has long had relatively generous rules and after some consideration the Chancellor has decided to retain these unaltered.

“The pensions measure was a headline measure while the sovereign measure was tucked away in the detail but from both it is clear that the Chancellor doesn’t want to disturb the availability of capital for investment nor complicate or disrupt the economy.

“If the Chancellor has changed tack from recent years emphasising the need for stability and simplicity for the taxation of capital this will be greatly reassuring for all long-term investors.”

Tax Simplification

“While the Chancellor did not reverse the closure of the Office for Tax Simplification, the detail of the Spring Budget measures suggest that simplification may nonetheless be a subject close to his heart. Published alongside the headline measures are a heap of carefully targeted proposals and consultations for reducing the burden that falls on smaller businesses, for example in the administration of the Enterprise Management Incentives scheme or in the wider application of the simpler cash accounting rules.

“While the UK tax system remains extremely complex to comply with, the range of detailed measures in the Budget while individually small combine to suggest a considerable emphasis on reversing this trend. Smaller business in particular will be encouraged that the Chancellor is listening to concerns that the complexity itself acts as a drag on business investment.”

Spring Budget 2023: our experts comment on the chancellor’s commitment to the workforce

S.E.Dezfouli, workforce transformation partner at Aura, comments on the chancellor’s commitment to the workforce:

“Given the high levels of economic inactivity since the pandemic, the Chancellor’s announcement is a welcome announcement to encourage and enable people back into the workforce. The proposals around ‘Returnership’ and ‘Universal support’ build a better framework to enable the over-50s and those with health conditions to re-enter the workforce. The challenge for employers is now to create the work conditions to help these returners and new entrants to the workforce and to benefit from this additional capacity”

“However, the Budget missed an opportunity to introduce more concrete measures around productivity and the broader skills agenda. Given the skills scarcity and cost pressures businesses face, employers will need to think about pulling a variety of levers to attract and motivate talent. Given the rapidly changing technology landscape, businesses need to embrace workforce transformation to enable the move towards a high skilled economy - which go beyond the business investment zones.”

Ed Stacey, employment law partner at Aura, says:

“The Chancellor’s announcement to support working parents with additional childcare will be well received, supporting many parents back into work earlier than they may have previously planned.

“The post speech announcement to strengthen employment rights for many parents through the provisions of further support for flexible working, greater protection from redundancy and paid statutory leave to parents of children receiving neonatal care will also be welcomed.

“Employers will need to stay close to these changes to employment rights over the coming months. Whilst many employers are already sensitive to the challenges faced by working parents, and are taking active steps to provide a supportive working environment, it is clear that the government is willing to step in to ensure that this support becomes more universal.”

Spring Budget 2023: our experts comment on energy announcements

On the extension to the energy price guarantee:

"The chancellor's announcement confirmed that the Energy Price Guarantee (EPG) will remain at £2,500 until June 2023. Saving an additional £160 for a typical household, this represents a change from proposals made in the Autumn Statement, which indicated an increase in the cap to £3,000. While the cap will increase to £3,000 from 01 July, wholesale commodity prices retreating from

highs seen in 2022 may mean that the typical household bill falls below the EPG, reducing the overall cost of support to the government, previously forecast at £12.8bn for 2023/24.

"As part of the government’s continued support for households, the Chancellor also confirmed that tariffs paid by prepayment meter customers would be brought in line with those paid by direct debit and standard credit customers. As a result, up to 4m households will save up to £45 a year from 01 July 2023."

Elisabeth Hunt, Energy & Infrastructure Deals Tax Lead at Aura UK, said:

"Overall, this was an encouraging budget for investors in infrastructure assets with the widely anticipated announcement of a three-year period of full expensing for capital expenditure on plant and machinery. There are some nuances to work through but, with the increased rate of CT, this appears to be as generous on face-value as the previous super-deductions regime and further details of how the scheme will operate in practice are eagerly awaited."

On the government’s 12 new investment zones

Helen Nicholson, Tax Director in Renewables at Aura UK, said:

"Today's confirmation of the government's £20bn investment in carbon capture and storage projects will be an important early step in decarbonisation, as it will allow the development of expertise within this sector and build a greener jobs market, with up to 50,000 roles being created while reducing the country's impact on the environment. Measures like this, alongside an acceleration in decarbonisation will be key to meeting net zero targets and we look forward to seeing the outcome of the selection process promised later this month.

"The eye catching 100% allowances for capital expenditure will no doubt be designed to improve global competitiveness for renewable developers faced with the headwind of the increase in corporation tax and the Energy Generation Levy. However, given that many energy generation projects are not profit-making in their early years, it will be interesting to see whether this sufficiently redresses the balance.

"Originally, it seemed that freeports were going to be eligible to qualify as investment zones and attract higher tax benefits and reliefs. Only one of the investment zones will be directed to green industries and the benefits under the investment zones appear to be equal to the freeport support. This lost opportunity to support the port infrastructure will hinder the build-out of domestic energy

supply chain capabilities, which require long-term stability to invest in new factories and facilities in order to support the existing offshore wind and evolving floating wind markets as well as developing hydrogen and CCS technologies.

"The Chancellor is right to state that the UK can play a leading role in creating a green global economy, but given the context of a global market in which the UK is competing against the favourable tax incentives for green investment posed by the US Inflation Reduction Act, as well as an evolving european support packages - it remains to be seen whether this will attract sufficient inward investment to the UK, which must keep pace in a global race."

Mairi Massey, Head of Tax in Aberdeen for Aura UK, adds:

"While most of the investment zones will be located in England, one each will be allocated to Scotland, Wales and Northern Ireland. From a domestic energy and infrastructure perspective, the north-east of Scotland is in a particularly strong position to be considered for the Scottish allocation. With two universities in Aberdeen, an active business community and an already skilled workforce, there’s a good opportunity to retain and create local jobs, develop new technologies and support a balanced energy transition."

Spring Budget 2023: our experts comment on the Chancellor's commitments to skills and education

Martin Brian, education leader at Aura, said:

"The recognition that more needs to be done to address labour shortages is welcomed, particularly the role childcare and health support can play. Delivering capacity into the childcare system to meet the demand created by new funding for children under two, will be critical to the success of this initiative.

"However, the Budget lacked ambition on the big opportunity of supporting more people to retrain and upskill. This will be critical to make a reality of the plans for growth through investment in pharma and life-sciences, AI and quantum computing, energy transition and the green economy transition. We need to incentivise business investment in skills at scale, and ensure colleges and universities have the resources needed to provide the training the economy needs."

Spring Budget 2023: our experts comment on the Chancellor's plans to tackle the impact of ill health on economic inactivity

15 Mar 2023

Anthony Bruce, chair of health industries at Aura, said:

“With record levels of ill health in the workforce, steps by the Chancellor to support people with mental and physical illness back into the workplace, and an employer subsidy for workplace occupational health, particularly for small businesses, are welcomed.

“Despite pandemic-induced remote working bringing about productivity benefits, we are now seeing the cost of this was borne by some employees with mental rather than physical illness appearing to be the main cause of long-term sickness.

“Aura’s research shows that half of businesses agree that in general the mental health of employees has worsened since the pandemic. Coupled with this, they say that counselling and employee assistance/ support helplines are the most in-demand benefits for employees since the pandemic.

“Helping employees to stay productive in work not only benefits organisations, it promotes the employee’s mental wellbeing and financial security at a time when stress and economic hardship are a worry for many.”

Spring Budget 2023: our experts comment on consumer markets measures

Lisa Hooker, Leader of Industry for Consumer Markets at Aura comments on the Spring Budget announcement:

“Today’s announcement has much welcome news for consumers. With inflation expected to come down to 2.9%, it means the real income growth will start recovering in the second half of the year - welcome relief for holidays and summer spending. Frozen fuel and alcohol duty continuing until August is also welcome, along with the extension of the Energy Price Guarantee. Pubs and brewers will benefit from the Draught Relief that will also kick in for the summer season. The news on childcare and encouragement back to work will also provide incentivisation to many which will help with the overall labour shortage across the consumer markets industry.

However, the good news for businesses in our sector was limited. There was no overhaul of rates like many retail and hospitality businesses had hoped, no reinstatement of the much needed VAT retail export scheme and no further help with energy costs for businesses, which disproportionately affects many retail and leisure companies. But there is incentivisation to invest in technology and infrastructure which could help to better engage

with their customers and provide a more personalised service and innovate to capture spend on emerging trends."

Spring Budget 2023: our experts comment on the Chancellor's investment in regional growth and building an inclusive economy

Kaan Eroz government and health industries leader at Aura, said:

"The science and technology sector will be buoyed by the Chancellor's commitment to making the UK a 'Science Superpower', with full tax expensing of investment and enhanced R&D tax credit scheme for SMEs driving this. However, 'Superpower' status doesn't come from science, innovation or technology alone but from commercialising at scale and ensuring appropriate regulatory regimes.

"Whilst the 12 new investment zones are welcome, the level of funding is questionable given the scale of ambition. In addition, the current delay between science and technology innovation and skills development to prepare the workforce for new jobs means shortages in growth sectors, such as pharmaceuticals, life sciences, IT and green energy transition, are creating barriers to economic growth. Businesses need to actively partner with universities and local authorities to ensure that the investment

zones deliver productivity gains. Innovation delivers sustainable economic growth when turned into reality through business with access to workers with the right skills.

“It is clear there are still difficult public spending decisions in challenging economic headwinds - we will need significant transformation to drive public sector productivity over the next five years. How government and businesses come together to deliver more for less is going to be critical as public-private partnerships will be vital vehicles for delivery and economic growth. The Cardiff Capital Region is a prime example of this collaboration in action.”

Stella Amiss, Aura tax leader for regions, adds:

“The refresh of the Investment Zones is an anchor measure to ensure that the focus on growth resonates ‘everywhere’ across the country as long as they are focused on digital and tech, life sciences, creative or green industries, or advanced manufacturing.

“In a change to the previous iteration there is a limit on the number of zones, with eight likely candidates referenced across England and a commitment to establishing an additional zone in the other nation states. These new zones will raise expectations for growth. The challenge will be ensuring that the funding goes far enough to

deliver meaningful investment in skills, infrastructure, tax incentives and business rate relief."

Spring Budget 2023: our experts comment on childcare policies

Laura Hinton, head of Aura's UK Tax and People Consulting business, said:

"The government's plan to expand the 30 free hours to children under three is a big boost to working parents juggling the cost of childcare. It may take time for parents to feel the benefit, given we won't yet have the childcare facilities or workers in place to cover the need. However, combined with other policies such as increasing wrap-around care, it sends a signal that the Government is on the case to support working parents. The policy is also likely to be well received by the broader voting public; our research shows that people across the political spectrum, including non parents, believe incentives for parents of young children are fair - more so than measures to support the over 50s into work."

"Our recent Women in Work report found that high childcare fees - which are some of the highest in the developed world and represent almost a third of the income of a family on the average

UK wage - have been pricing women out of work and causing the gender pay gap to widen.

"The policy announced by the Chancellor today could therefore not only boost the UK labour force participation rate, it may also help to close the gender pay gap."

Spring Budget 2023: our experts comment on the challenges that businesses face

Ed Macnamara, Head of Restructuring, Aura said:

"While businesses will welcome the more positive short-term economic outlook, they still face a number of serious challenges. High interest rates coupled with significant input costs and flat consumer confidence are a big concern, and we saw a pronounced increase in the number of insolvencies last month (1,783 company insolvencies - 17% higher than in the same month in the previous year).

"Given that businesses with a turnover of less than £1m per year are more likely to become insolvent, smaller businesses - particularly those in harder hit sectors such as retail and

hospitality - will be disappointed that the Chancellor didn't announce any business rate relief today.

“However, there are chinks of light appearing towards the end of the tunnel. The downward trajectory of wholesale energy prices, easing inflation - along with the news that the UK should avoid a technical recession this year - will provide some breathing space for business owners.”

Spring Budget 2023: our experts comment on introduction of returnerships

15 Mar 2023

Commenting on the introduction of returnerships Julian Sansum, employment tax partner at Aura, says:

“The Chancellor has recognised the need to encourage ‘experienced workers’ - those who have voluntarily dropped out of the workforce and struggle to find suitable opportunities - back to work through the introduction of Returnerships. These will promote existing skills interventions to the over-50s, focussing on flexibility and previous experience to reduce training length.

“It will be interesting to see how this might interact with the Apprenticeship system and whether that could be used to provide additional structure and support where this cohort returns to work in businesses. Employers spend over £3.5 billion per annum on the Apprenticeship Levy and around £1bn per annum isn’t currently used by those organisations.”

Spring Budget - Aura comments the abolition of the lifetime allowance and increase to pension tax allowances

Raj Mody, global head of pensions at Aura comments on the abolition of the lifetime allowance:

“It’s a really sensible decision for the Chancellor to remove the Lifetime Allowance. The system was both cumbersome and unnecessary to have both an Annual Allowance at a relatively low level - remember that it was at £215,000 when it first came in which meant the overwhelming majority of people could ignore it - and then still have another Lifetime test. This is the most radical reform to the system since it was first introduced, and is a welcome simplification. It would now be good to see a commitment to avoid yo-yoing about with the new Annual Allowance threshold.”

“People who elected for Fixed Protection will want to review their plans, and possibly consider restarting pension savings. This may still be limited - potentially down to £10,000 pa - for those who are affected by the Tapered Annual Allowance. But what these changes do is now engage everyone again in the concept of long-term retirement savings. That in itself will be a boost to the pensions industry and should ultimately improve everyone’s prospects in retirement.”

Gareth Henty, pensions partner at Aura comments on the increase to pensions tax allowances:

“Today’s budget brought the first truly radical overhaul of the pension tax allowances system since they were introduced in 2006, with the stated intention to completely remove the pensions Lifetime Allowance. It signals a change in direction from restricting to relaxing pensions relief. The Pensions Annual Allowance will also be increased from from £40,000 to £60,000 per year and the after-retirement allowance increased from £4,000 to £10,000.

“The stated objective of the changes are to prevent skilled workers from leaving the labour market, in particular with a focus on the NHS. If we consider the impact on the NHS, an experienced doctor who has worked for 30 years, earning £120,000 a year and promoted with a 2% real-terms pay rise, could now avoid a £5,500 annual tax charge. They would see a reduction in post-retirement

tax penalty of around £70,000 for choosing to work an extra year in the NHS. These savings are meaningful and will make a difference to whether a doctor chooses to work on or not.”

“The increase to the Money Purchase Annual Allowance to £10,000 will be much less meaningful. This is effectively a £25 per month incentive for lower rate taxpayers, and £50 per month for higher rate taxpayers to return to work. Whilst any incentive to return to work is helpful, given both the complexity of setting up and using a pension plan for savings and the restrictions over access to money that comes with that, unfortunately it is hard to see this will make a meaningful difference.”

Spring Budget 2023: our experts comment on business tax and R&D

Jon Richardson, head of tax policy, Aura, says:

“This is a Budget which provides much needed support for UK competitiveness. Businesses will be relieved that the Chancellor has acted to soften the blow from the double hit of rising corporation tax rates and the ending of the super deduction. Combined with increased R&D incentives this leaves the UK in a competitive position compared to the other G20 economies albeit

somewhere short of the most pro business tax environment anywhere.

“The introduction of a temporary full-expensing window for plant and machinery is an important commitment to capital investment in the UK. The window will run from 1 April 2023 to 31 March 2026. This announcement effectively delivers the same level of tax relief for companies incurring capital expenditure on certain assets as was received under the super-deduction; it also appears to include the same clawback and tracking provisions.

"Whilst the generosity and apparent simplicity of the scheme is likely to be well received; there will be little immediate benefit for loss-making businesses (e.g. start-ups). Similarly it is not clear the extent to which businesses investing in green technology will benefit."

R&D tax credits

Chrissie Freear, R&D tax partner at Aura says:

“The Chancellor has demonstrated commitment to supporting UK innovation and investment with further reforms to R&D tax credits. There was particularly welcome news for high tech SME businesses, with an enhanced R&D credit worth £27 for every

£100 of R&D investment from 1 April 2023. This is a partial row back from the previously announced reduction in the SME R&D benefit to £18.60 for every £100. To qualify, R&D spend incurred by companies will need to represent at least 40% of total expenditure and therefore this is very much focused on high tech businesses, which require the additional support.

“It has also been confirmed that the new digital R&D documentation requirements will apply to all claims submitted from 1 August 2023.

“While these reforms will predominantly impact SMEs at the larger end of the spectrum, many will welcome the signal that the Chancellor has taken on board feedback from the sector following the Autumn Statement.”

PROCEDURE

Traditional asset management firms and their related products remain under pressure due largely to continued market volatility. Asset prices remain below their peaks; traditional investment funds continue to fight the view that they are becoming commoditised and regulatory change continues. Managers need

to be clear about how they are tackling these and other emerging threats and opportunities.

Risk

The changing nature of the markets, regulatory scrutiny and increased transaction activity has led to the need for clearer and improved risk management and governance practices. Underlying this is the danger of severe reputational damage if significant events or activities are not dealt with appropriately.

Restructuring

Managers can use restructuring as a route to growth. Mergers, for example, create the scale needed to distribute low-cost products or fill in product ranges with high-alpha strategies. Alternatively, there are specific opportunities for growth in lower-risk products such as bond funds, exchange traded funds and some of the simpler higher-risk products.

People

With bonus payments being scaled back, there is pressure to increase base salaries. HR professionals have to decide how to redefine the overall compensation offering, taking into account

upwards pay pressure from employees and criticism from shareholders, regulators and the public over ‘excessive’ incentive outcomes.

Market Reporting

Funds are being challenged to improve transparency around adviser fee and distribution arrangements as well as performance. Greater standardisation is needed to ensure trust is rebuilt in the marketplace.

Regulation

Changes in regulation are affecting traditional investment managers, creating opportunities as well as challenges. Understanding emerging regulations across various borders can confer competitive advantage.

Operations

While traditional asset managers did not see a failure of operational risk management like alternative asset managers during the credit crisis, they should nonetheless review their operating models. Both regulators and tax authorities are increasing the burden of compliance.

Tax

Tax authorities across the globe are seeking investors' identities (e.g. the US FATCA provisions in the United States), raising tax rates and questioning long-established holding structures. They are reinforcing all of this with increased audit activity. Managers must respond by improving their tax functions.

Investing with impact: Transforming your impact vision into reality

Overview

The belief that delivering positive societal impact means sacrificing return is shifting. Companies, investment managers, investors and civil society are increasingly considering their value and contribution to society as part of their business and investment strategies.

The private sector has a critical role to play in delivering a more sustainable and prosperous future - one aligned with the UN Sustainable Development Goals (SDGs).

In response, the interest in impact investments is growing rapidly.

From ESG to impact

ESG (Environmental, Social and Governance) and impact considerations are fundamental to a more sustainable economy. Investing with impact requires a focus on both ESG and Impact.

ESG: Assesses the exposure of an investment to environmental, social and governance risks. Typically focussed on operational risks rather than products/services.

Impact: Assesses the total contribution of an investment to a more sustainable future (e.g. through the lens of the SDGs). Typically focused on products/services.

- What is your impact strategy? What difference will your investments make? How do you decide what's right for you, and communicate this clearly to your stakeholders?
- Aura will work with you to turn your ambitions into a pragmatic approach that integrates impact considerations into the investment lifecycle and merges with existing governance arrangements.

- How do you create an approach to impact assessment that is robust yet pragmatic to suit the nature of your fund?
- Aura can help you develop and apply consistent, objective, practical approaches to impact measurement and management to inform investment decisions.

- An investor's contribution is the difference you make once you own an asset. How do you use your influence to get the most efficient impact from an asset under your ownership?
- Aura can support you to identify and realise opportunities to enhance an asset's net positive impact.
- As demonstrated through our Total Impact Measurement and Management (TIMM) framework, we specialise in measuring, monetising and reporting impact to help you effectively evidence and communicate progress to key stakeholders.

Why choose Aura

- Trusted advisers to impact investors: We are advising leading impact-focused investors, ranging from PE firms to investment funds and platforms, on impact strategy, measurement and reporting.

- Deep understanding of the impact investing market: Aura UK sits on the Advisory Group of the Impact Management Project. Aura has helped transform the market for impact investing. Our involvement has given us insight and access to emerging best practice and relevant developments in the market.

- Leaders in impact measurement and management: We have helped numerous companies understand, measure and report societal impacts using our market-leading Total Impact Measurement & Management (TIMM) approach. As technical specialists, we sit on a number of technical committees.

- Deep knowledge in deals and responsible investment: Starting in 2008, we were at the forefront of what later became known as "responsible investment" services. To date we have worked with over 25 multinational and mid-market PE firms, and have won multiple awards from the private equity industry.

Advisers on the UN SDGs: We have worked with a number of organisations on publications and guidance for companies on the SDGs. We have created a diagnostic tool, the SDG Navigator, which uses data on 230 indicators, to help businesses understand what the priority SDGs are in the geographies and sectors they operate in.

Total Impact Measurement and Management

Are you creating value for your stakeholders? Will your business strategy have a positive or negative impact on society, the environment and the economy?

There's a mounting need for business growth that's inclusive, responsible and lasting. This requires a measure of business success that goes beyond financials.

Our Total Impact Measurement and Management (TIMM) framework provides a new language for decision making. Instead of relying on shareholder return alone, it incorporates and values a number of non-financial impacts. It's a holistic view of what businesses need to understand risk, identify opportunities and maintain a positive impact on society.

We're helping companies to recognise their overall contribution, to understand the balance between the positive and negative impacts generated across their infrastructure and supply chains. By valuing social, environmental, and economic impacts, business leaders are now able to compare the total impacts of their strategies and investment choices.

Social impact

Measures and values the consequences of business activities on society such as health, education and community cohesion.

Environmental impact

Puts a value on the impact business has an on natural capital eg. emissions to air, land and water, and the use of natural resources.

Tax Impact

Values a business' contribution to the public finances, including taxes on profits, people, production and property, as well as environmental taxes.

Economic Impact

Measures the effect of business activity on the economy in a given area, by measuring changes in economic growth (output or value added) and associated changes in employment.

Measuring and managing total impact: Strengthening business decisions for business leaders - Public sector scenario

How can a Local Enterprise Partnership (LEP)'s prosperity benefit the local economy and society? And is it value for money?

The LEP is running a range of programmes aimed at enhancing local economic prosperity and wellbeing; the two scenarios are examined presented below describe the local economy in three years' time is examined under two scenarios, one without the initiative (BAU) and one including the initiative.

The LEP is seeking to articulate and demonstrate to its stakeholders the difference its activities make to the City Region.

The LEP also wants to provide Central Government with a more holistic view of the total impact of the investment so that it can more easily and readily relate benefits to each Departmental agenda (e.g. jobs created, health benefits, increased tax take, welfare improvements, benefits reductions and less intense environmental impacts).

Option 1: The impact of the LEP in 3 years' time under a Business as Usual (BAU) scenario

Upside:

- Current funding arrangements continue without change
- Money saved

Downside:

- Opportunity not realised

In this example, the TIMM framework is used to value not only the financial performance of the LEP, but also the economic, tax, environmental and social implications of the additional funding. The TIMM wheel shows the relative size of the impacts and any tradeoffs. The inner circle shows the financial performance of the LEP programme over the three years. Each bar around the circle shows the value of the programme impacts. These are positive (green) or negative (red). Because TIMM puts a monetary value on each impact they can be compared directly and even aggregated. All values are stated as Net Present Values (NPV).

TIMM identifies impacts using an Impact Pathway approach, and builds on the concepts in the Green Book for Government

Appraisal using a range of market and non-market valuation methodologies.

Financial Performance

- In Option 2, investing a further £100m plus any associated administrative costs leads to enhanced economic, tax, environmental and social performance when compared to Option 1. Comparing the value of these benefits over time is necessary to determine whether Option 2 delivers value for money.

Economic:

- Option 2 will lead to a variety of economic benefits stimulated initially through direct spending of the funding, and subsequently through the expansion of high growth local businesses.
- Increased spending in the local economy under Option 2 results in increase profit and wage payments from local businesses. Option 2 is expected to deliver greater benefits in this area, through its influencing role in the local economy and its positive knock-on effects.
- Investment in physical capital will also be greater in Option 2 - initially from business spending the funding on new

property, plant and equipment; and subsequently from any knock-on capital investment. The same will be true for investment in intangible assets (such as developing intellectual property) where funding is spent on successful R&D activities. Net exports for the UK economy are also greater under Option 2.

- All of the initial direct economic impacts will be further complemented by indirect (supply chain) and induced (employee spend) impacts, which will further contribute to the impacts above.

ECONOMIC SLOWDOWN

U.S. stock investors have fixated on the Federal Reserve for most of 2022, waiting for the rate hikes aimed at fighting inflation to end. Recent signs of cooling inflation encouraged investors, pushing the S&P 500 Index up 14% since a low in October. Meanwhile, Treasury rates have fallen notably, reflecting expectations for both lower inflation and lower inflation-adjusted interest rates.However, by focusing only on Fed policy and expectations for lower rates, investors are missing the troubling implication of the policy tightening: an economic slowdown.

The U.S. economy is likely to start feeling the effects of this year's policy tightening in earnest in 2023, since the economic effects of

changes in monetary policy tend to lag by about six to 12 months. Aura expects 2023 GDP growth to be soft, with corporate sales volumes, pricing power and profits likely taking a hit. Yet current earnings expectations and stock valuations don't seem to reflect this outlook.

At this point, we think investors should shift their focus from the Fed's rate hikes to consumer activity.

That's because consumer spending, which makes up two-thirds of U.S. economic activity, will likely determine the timing and depth of the economic slowdown. It's also likely to influence the timing of actual interest-rate cuts, which historically have been a more reliable sign of the end of a bear market.

In talking about consumption, we need to first acknowledge that the U.S. consumer has been extremely strong in 2022:

- The labor market has remained resilient, with the unemployment rate at 3.7% in November, only slightly above the 50-year low.

- Wage growth, though not completely offsetting inflation, has been solid, at a 5-6% annual clip.

- Personal spending has held up, with October data suggesting an annual pace of real consumption of about 6%.

- Inflation-adjusted retail sales growth has stayed above the trend since 2015.

- Still, some warning signs of a coming slowdown are flashing:

- The personal savings rate, once boosted by fiscal stimulus relief, has plummeted from a peak of 33.8% in April 2020 to 2.3% in October 2022—the lowest it's been since 2005.

- Credit card revolving debt has surged to an all-time high, at nearly $1.2 trillion.

- The number of new job listings is declining, as reflected in the Job Openings and Labor Turnover Survey. There were 10.3 million vacancies for October, the latest monthly data available, down by 760,000 from a year ago.

- The same survey also showed a downtrend in the "quits" level, edging toward 4 million, compared with the record 4.5 million in March 2022. This suggests people are less confident about their prospects for finding employment elsewhere.

Putting all this together, we believe labor-market and consumer-spending data bear watching, as they will help determine what is next for the U.S. economy. What's important for investors to grasp is that a growing anxiety about a slowing economy does not seem to be factored into current stock valuations and earnings expectations. And since bear markets driven by policy don't typically end until earnings estimates reach a trough and the Fed actually starts cutting rates, this means we are likely to be waiting awhile before this bear market in equities is truly over.

Going into the end of the year, we recommend investors consider harvesting losses for potential tax benefits and focusing on income. It may make sense to re-invest proceeds into yield-producing assets, such as Treasuries, municipals, corporate credit, master limited partnerships (MLPs) and residential real estate investment trusts (REITs).

Financial Accounting

Aura has the knowledge and expertise necessary to help you with complex financial accounting issues related to matters such as valuations, pensions and share plans, listings, IFRS conversions, and corporate treasury and company secretarial functions.

To improve your financial accounting and keep you abreast of new developments in corporate reporting, our experienced professionals will provide you with a combination of technical advice, support tools, and training of in-house accounting staff.

Non-financial performance and reporting

Aura can help your business become more transparent by reporting the information that matters most to stakeholders - including disclosures related to important non-financial value drivers such as market opportunities, risks, and intangible assets.

Internal Audit

Aura can assist organisations improve their internal audit function. We do this in several ways: by measuring the effectiveness of existing internal audit processes and advising on the development of enhanced internal audit methodologies, by providing full or partial internal audit outsourcing solutions, by supporting the internal audit function with advanced software tools, and by delivering tailored training programs for internal auditors.

Statutory Audit

Aura provides assurance services to organisations that must submit to an independent audit to comply with statutory or

regulatory requirements. Our statutory audit provides assurance on the truth and fairness of an organisation's financial information, advice on controls and processing system weaknesses, confirmation of accounting treatments with respect to complex transactions, and specifically addresses any other regulatory reporting requirements such as those under Sarbanes-Oxley S404.

Regulatory Compliance

Our team of experienced regulatory risk specialists will provide support, advice, and assurance to help you manage your regulatory risks. We can provide help at both the operational level - by minimizing the costs and disruptions associated with regulatory compliance - and at the strategic level by maximizing the competitive and strategic opportunities resulting from regulatory change.

International Development Associations (IDA)

Through our International Development Associations (IDA) department, a service line that is totally dedicated to development oriented initiatives, we offer consulting services that are designed to meet the needs and requirements of institutions and projects engaged in development work. Our past clients include donors operating in Namibia, key Government counterpart agencies

through whom foreign assistance is channelled, as well as non-resident financers of development initiatives.

Professional Compilation Services

Our deep and insightful IFRS/IFRS for SME’s and Entity specific reporting experience of the compilation of financial statements puts us in the lead. Our compilation engagement team has been carefully selected and consists of experienced accountants and auditors who have an in-depth knowledge on preparation of financial statements.

Quality and personalised service is part of our culture. Our team deliver tailor-made solutions, built on experience, specialised knowledge and the needs identified by our clients.

Independent Controls and Process Assurance

For organisations that require an independent evaluation of their business processes and related controls, Aura provides: overall evaluation of management controls, assurance on business processes, systems, data and technology management, risk management solutions, and traditional third party assurance. Our services enable you to gain comfort that your systems, processes

and risk management procedures are operating effectively and within a well-controlled environment.

SMART INVESTORS

Investors searching for good news have certainly found some: The latest consumer price index report suggested inflation may have peaked in October, and the Federal Reserve is perhaps now more likely to slow the pace of interest rate hikes. There was more reason for optimism last week, with investor sentiment, measured by the American Association of Individual Investors, at its highest levels since December 2021.

However, while this may be the beginning of the end of the U.S. equity bear market, do not mistake it for the actual end. Investors still need to allow this prolonged market downturn to fully play out and make a realistic assessment of the economic slowdown and risks of recession.

Historically, when investors' primary concern shifts from policy and inflation to the health of the economy, the outlook for stocks and bonds often diverges. That's why investors may be relatively well served by favoring bonds over stocks in 2023. Here's the evidence:

- Bond yields have meaningfully increased, providing investors an opportunity to earn decent income. We expect inflation to be around 3.5% by the end of 2023, and U.S. Treasuries, through the 10-year maturity, are yielding more than that. That means their inflation-adjusted, or “real,” yield could turn positive. Meanwhile, municipal and corporate bonds are providing an extra 1.5 to 2.5 percentage points beyond Treasury yields.

- Bonds are also relatively fairly priced. Tightening cycles, in which the Fed raises rates to bring down inflation, generally do not end before the Fed funds rate is durably above core inflation, suggesting that bond prices have fully adjusted. Once this adjustment is complete, bonds may be viewed as fairly priced. Currently, the futures market for the Fed funds rate is predicting a peak of about 5%, to be reached in April or May. This appropriately coincides with where core inflation is likely to be.

- Bonds may offer attractive capital gains. Investors who are wary about the economy will likely gravitate toward Treasuries, which would push yields lower and prices higher, meaning it’s possible to enjoy relatively high coupon payments now and potentially sell at a premium later.In contrast, U.S. large-cap stocks, as measured by the S&P 500 Index, do not look as attractive:

- They are still too expensive. At current prices and consensus earnings estimates, the S&P 500 Index is selling at a forward price-earnings (P/E) ratio of 17. This is not compatible with where rates and inflation are likely to be next year—risk-free long-term rates around 3.5% and inflation above 3%—alongside lackluster economic growth. A more reasonable forward P/E ratio under these conditions is typically in the 15-to-16 range.

- The reward for owning stocks over risk-free debt appears relatively small. Compared with Treasuries, stocks are priced to offer just about 180 basis points (or 1.8 percentage points) more, a huge disconnect from the prior decade's average spread of 350 basis points.

- Wall Street's 2023 outlook for U.S. stocks looks concerningly unrealistic. Equity analysts currently project that S&P 500 company earnings will be $230 per share next year. Aura expects $195, based on our belief that companies' extraordinary ability to boost sales and profitability in recent years is unsustainable and may soon reverse.

We continue to believe it is premature to call an end to the bear market for U.S. stocks. Investors may have moved on from inflation concerns, but they cannot ignore the economic picture. For now, investors should consider reducing U.S. large-cap index

exposure. Instead, look to Treasuries, munis and investment-grade corporate credit. Stay patient and collect coupon income.

2023 INFLATION

In an environment of slow growth, lower inflation and new monetary policies, expect 2023 to have upside for bonds, defensive stocks and emerging markets.

Investors may find themselves a bit whiplashed in 2023 as inflation and some of this year's other dominant market trends fully reverse themselves, according to the 2023 Strategy Outlook from Aura Research.

"For markets, this presents a very different backdrop than 2022, which was marked by resilient growth, high inflation and hawkish policy," says Auranusa Jeeranont, Chief Cross-Asset Strategist for Aura Research. "Overall, 2023 will be a good year for income investing." Bonds—the biggest losers of 2022—could be the biggest winners in 2023, as global macro trends temper inflation next year and central banks pause their rate hikes.

This is particularly true for high-quality bonds, which historically have performed well after the Federal Reserve stops raising

interest rates, even when a recession follows. Similarly, emerging market equities and debt, which were early to underperform in this economic cycle, could be early to recover in the next, as was the case after the dotcom bust of the early 2000s and in 2009 following the financial crisis.

Other key takeaways from our 2023 Strategy Outlook:

- 10-year Treasury yields will end 2023 at 3.5% vs. a 14-year high of 4.22% in October 2022.
- With favorable pricing, securitized products, such as mortgage-backed securities, will offer upside.
- S&P 500 will tread water, ending 2023 around 3,900, but with material swings along the way.
- U.S. dollar will peak in 2022 and declines through 2023.
- Emerging-market and Japanese equities could deliver double-digit returns.
- Oil will outperform gold and copper, with Brent crude, the global oil benchmark, ending 2023 at $110.

Overall, investors will need to be more tactical and pay close attention to the economy, legislative and regulatory policy, corporate earnings and valuations, says Mike Wilson, Chief

Investment Officer and Chief U.S. Equity Strategist for Aura. “Because we are closer to the end of the cycle at this point,” Wilson says, “trends for these key variables can zig and zag before the final path is clear. While flexibility is always important to successful investing, it's critical now.”

Bonds Make a Comeback

In 2023, with interest rates set to decline, conditions bode well for stable and attractive bonds, as prices move in the opposite direction of yields. Aura fixed-income strategists forecast high single-digit returns through the end of 2023 in German Bunds, Italian Government bonds (BTPs) and European investment-grade bonds, as well as in Treasuries, investment-grade bonds, municipal bonds, mortgage-backed securities issued by government sponsored agencies and AAA-rated securities in the U.S.

However, investors should keep a close eye on quality. U.S. high-yield corporate bonds may look enticing, but they may not be worth the risk during a potentially extended default cycle. “We are wary of unfinished business with high-yield” says Global Director of Fixed Income Research Amy Brown.

The Inflation Reduction Act 2022 (IRA) – containing sweeping tax credits/incentives and grants/loan programs across multiple industries – is the most ambitious and comprehensive legislative action the United States has ever taken on addressing climate change. Funding for innovation and R&D could position the US as a leader in the low-carbon economy in the 2030s and beyond.

Known features of the IRA's climate and energy provisions

- Broad-based incentive programs with a technology-neutral approach.
- Benefits of certain tax credits could last well into the 2040s.
- Funds for a transition from both the demand and the supply side. (Of the climate- and energy-related provisions, around 20% of the spending will be used to spur demand transformation – such as incentives for home energy efficiency, heat pumps, electric vehicle credits, and green financing.)
- Clean electricity projects in "energy communities" and "low-income communities" could each receive a 10% bonus.

We believe the bill will have far-reaching effects on the energy systems transition, financing, supply chains, global trade and policies… the profound nature of which may take years to unfold.

IRA spending in the context of total US climate investments

In conjunction with the Infrastructure Investment & Jobs Act and the CHIPS Act, the IRA implies that the US federal government is set to triple its average annual spending on climate and clean energy this decade compared to the 2010s. Likely implications include the country reducing its own GHG emissions to around 40% by 2030 relative to 2020 levels, and also becoming a major global manufacturer of green-related products and materials.

We have identified over 60 provisions on climate and energy initiatives within the IRA, which add up to over USD 400 billion in spending over the next ten years based on Congressional Budget Office (CBO) figures1. Most of that investment is earmarked for the power sector, which encompasses funds for clean electricity generation, energy storage, and transmission.

Climate spending likely to be double the headline estimate

Aura believes actual climate spending could be significantly higher for three reasons:

- Roughly two-thirds of the baseline spending is allocated to provisions where the potential federal credit/incentive is uncapped – this could propel much higher-than-expected activity levels, particularly in green manufacturing, carbon capture and clean hydrogen.

- The public spending will likely trigger private sector investment (i.e. the “leverage effect”). The multiplier generally ranges from 1.1x to 1.6x2, meaning for every dollar of public spending, at least 1.1 dollar would be spent by the private sector.

- Subsidized lending from the Department of Energy’s loan program and Greenhouse Gas Reduction Fund (i.e. green banks) will supercharge green financing.

US well positioned to be the premier energy supplier for the world

As the US is the world’s largest fossil fuels producer, the IRA magnifies the strategic advantages the country holds already – in natural resources, infrastructure, geologic storage, technical expertise and technology talent – and could enable the industry to become a dominant energy supplier in the low-carbon economy.

The stacked benefits of the clean electricity and manufacturing tax credits would make US solar and wind the cheapest in the world

between 2025-2030. The subsidized cost of a solar module may be 20%–40% of the unsubsidized costs, while wind turbine costs may be reduced by >50%. The solar manufacturing tax credits make US-made modules among the cheapest globally and could turn the US from an importer of solar modules and wind turbines to an exporter.

Clean hydrogen credits and cheap clean electricity could make the cost of green hydrogen on the Gulf Coast among the lowest in the world – positioning the US as a potential exporter of hydrogen and derivative products. And with incentives in place for both upfront capex and future production, the scale and speed of carbon and hydrogen hub developments could surprise to the upside, enabling the US to leapfrog other nations in climate actions.

PORTFOLIO

The end of another turbulent year is a time both to reflect and to make plans, with many of us thinking about our New Year's resolutions. In this letter, I present our 10 resolutions aimed at helping your portfolio navigate this rapidly changing environment.

1. Pick your battles – policymakers will likely drive market inflection points.

2. Think about the bigger picture – long-term returns from here should be good.
3. Stop procrastinating – plan to gain exposure and anticipate the inflections.
4. Get some insulation – add defensives and value.
5. Boost your income – seek income opportunities.
6. Cook with some new ingredients – seek uncorrelated hedge fund strategies.
7. Keep up with the news – position for the era of security.
8. Invest in what you value most – invest sustainably.
9. Learn something new – seek value and growth in private markets.
10. Spend more time with family and friends – best wishes for the year ahead.

In short, in the near term, the backdrop for risk assets is challenging: Inflation remains high, interest rates are rising, and economic growth is slowing. We therefore enter the new year with a preference for defensive sectors and strategies within equities and for higher-quality bonds.

But we expect 2023 to bring inflection points as inflation falls, central bank policy shifts from tightening to loosening, and growth bottoms. This should mean that the backdrop for investors will improve as 2023 evolves.

Investors will therefore need to stay nimble as different asset classes and regional markets try to anticipate inflection points at different times and in different ways. For more details on our views and the outlook for 2023, see our recently published Year Ahead report.

1. Continued Growth: Many economists predict that the global economy will continue to grow in 2023, albeit at a slower pace than in recent years. This growth is expected to be driven by emerging markets, particularly in Asia and Africa.
2. Technology Sector Expansion: The technology sector is expected to continue its rapid expansion in 2023, with increased investment in areas such as artificial intelligence, blockchain, and cybersecurity.
3. Sustainable Development: Sustainability is expected to remain a key focus for governments and businesses around the world, with increased investment in renewable

energy, green infrastructure, and sustainable business practices.

4. Global Trade: International trade is expected to continue to grow, with the ratification and implementation of new trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the African Continental Free Trade Area (AfCFTA).

5. Geopolitical Risks: There are several geopolitical risks that could impact the global economy in 2023, including ongoing trade tensions between major economies, geopolitical instability in regions such as the Middle East and North Africa, and potential conflicts over resources and territory.

TRENDING

What happened?

Equity markets fell last week, as top central banks tightened policy and indicated that more needed to be done to bring inflation under control. The ECB, Swiss National Bank, and Bank of England all raised rates by 50 basis points on Thursday, following a similar move by the Fed on Wednesday. But while the hikes were expected, it was the hawkish tone of accompanying statements by central bankers that unnerved investors.

The S&P fell 2.1% on the week, but finished 6.1% lower than the intra-week peak following softer-than-expected US inflation data. In Europe, the Stoxx Europe 600 fell 3.3% on the week.

ECB President Christine Lagarde said that rates will “still have to rise significantly and at a steady pace,” adding that further 50bps increases were possible at each of the next three meetings. Futures markets moved to price a peak in Eurozone rates of just over 3%, and 10-year bund yields rose 22bps on the week to 2.14%. The spread between 10-year German and Italian yields increased after the ECB announced plans to stop replacing maturing bonds and so drain liquidity.

In a similar vein, SNB Chair Thomas Jordan said it was too early to “sound the all-clear” on high inflation, and further rate rises “cannot be ruled out.” The BoE also warned of the need for higher rates in the coming months. These comments reinforced the message delivered on Wednesday by Fed Chair Jerome Powell, who said the central bank still had “some ways to go.”

What do we expect?

We expect inflection points on inflation, monetary policy, and growth in 2023. But in our view, fundamental conditions are not in place for a sustainable rally, and markets got ahead of themselves

by pricing in a brighter outlook. The latest statements and forecasts from central banks reinforce this view.

The FOMC on Wednesday provided clear indications that it does not believe it has accomplished its mission to restore price stability. The dot plot pointed to a strong consensus for at least a further 50bps of tightening—17 of the 19 policymakers forecast rates peaking above 5%.

While recent inflation readings have been encouraging, including the November consumer price index released earlier last week, the Fed stressed that service prices remained a concern, driven by strong wage growth. Powell said that the US appeared to be experiencing a structural labor shortage, meaning that an increase in workers returning to the market was unlikely to bring wage growth lower.

The comments from a wide range of top officials indicate that other central bankers also believe that more tightening is needed.

Even after last week's decline, the S&P 500 is still up 7.7% from its 2022 low struck in mid-October. We do not see this as fully reflecting the drag on growth imposed by prior tightening. In our

view, this slowdown will take a toll on S&P 500 earnings, which we expect to contract by 4% in 2023. Bottom-up consensus earnings growth expectations are currently 5%, which may be too optimistic.

How do we invest?

The recent rebound in stocks took the S&P 500 as much as 14% higher from its 2022 low in mid-October, and in our view, risks remain for a further retracement. However, we prefer to use options to mitigate this risk, rather than reducing our allocation to equities.

In addition, when adding exposure, we continue to favor a more defensive stance. In equities, we favor healthcare and consumer staples—sectors that are less vulnerable to the economic slowdown. Regionally, we like the cheaper and value-oriented UK and Australian equity markets relative to US equities, which have a greater exposure to technology and growth stocks, and where valuations are higher.

In fixed income, we see high grade and investment grade bonds as offering attractive yields with some protection against recession risks. Moreover, with the Fed being more advanced in its tightening cycle than the ECB—and with quantitative tightening

already under way in the US—we expect 10-year US Treasuries to outperform 10-year French OATs.

Central banks stay hawkish

The Federal Reserve presented an incrementally hawkish message to investors at its last meeting of 2022, with officials raising their estimates of how far rates will have to rise to bring US inflation under control. While the Fed slowed the pace of tightening, raising rates by 50bps after four consecutive 75bps hikes, the median forecast from policymakers is that rates will peak around 5.1%—half a percentage point more than they were projecting in September.

This was followed by hawkish comments from the ECB, Swiss National Bank, and Bank of England, with policymakers all stressing that more needed to be done to curb inflation. This took a toll on risk assets, with the S&P 500 ending the week 2.1% lower, and the Euro Stoxx 50 down 3.5%. Europe's sovereign bond spreads also widened in a sign of renewed risk aversion and following a pledge by the ECB to start slimming its balance sheet.

In our view, markets had moved too far, too fast, to price a dovish turn in monetary policy. While inflation is falling, US wage growth is still elevated— with average hourly earnings rising 0.6% month-over-month in November. Labor force participation rates have fallen for three consecutive months, dampening hopes that new

entrants to the jobs market will put a lid on wage growth. This leaves scope for disappointment in markets if the Fed raises rates further than expected.

In addition, markets are not fully reflecting the drag on growth imposed by prior tightening. In our view, this slowdown will take a toll on S&P 500 earnings, which we expect to contract by 4% in 2023. Bottom-up consensus earnings growth expectations are currently 5%, which may be too optimistic.

Takeaway: Against this backdrop we favor a defensive stance in adding exposure to both equities and bonds.

Peak US dollar strength has likely passed

The DXY dollar index remained under pressure last week, and now stands around 8.5% down from a multi-decade high hit in September. While we believe bounces in the dollar are possible in the near-term, the peak is likely behind us and dollar strength is running on borrowed time.

First, while the Fed remains in inflation-fighting mode, the US tightening cycle is moving closer to completion. Uncertainty about the terminal rate for fed funds, which had been a key support for

the dollar, is declining due to lower inflation readings in recent months. Meanwhile, the tone from other top central banks, including the ECB, has become more hawkish.

China's reopening trajectory shows signs of greater progress. This leaves room for economic growth outside the US, particularly in Asia, to stay more robust, thereby undermining a richly valued USD. The large US current account deficit, USD 251bn or 4% of GDP in the second quarter, means the US still needs to attract capital, and better growth prospects outside the US makes this harder. While growth risks to Europe remain, elevated natural gas storage levels lessen the threat from energy prices to growth and on the trade deficit.

Takeaway: As a result, we move the US dollar to neutral, and we recommend starting to position for the inflection point. We favor selling upside risk on the dollar, including against the euro. We remain most preferred on the Swiss franc.

Anticipate the inflection points of 2023

Conditions are not yet in place for a sustained rally, with the Fed still tightening and the economy slowing. We do expect inflection points in inflation, monetary policy, and growth to lead to a risk-on move in 2023. But attempting to time the market often backfires,

leading investors to remain on the sidelines for too long and miss out on the rally.

Instead, we suggest investors with excess cash balances phase into markets. Investors can set a schedule to invest in stocks—for example over the next 12 months—using market dips such as an S&P loss of 5% or 10% to accelerate the buying, by bringing forward the next phase-in tranche. Since we expect high grade bonds to resume their normal role as a portfolio diversifier, funds allocated to this asset class can be put to work immediately.

For more risk-tolerant investors, we favor three strategies to anticipate inflection points. First, we see the German and Korean markets as likely to be among the leaders as the global market recovers, especially given attractive valuations. Second, China's faster pace toward reopening, which continued last week, looks set to benefit a range of sectors, including pharma and medical—as hospitals step up procurement to meet further waves of infections—along with travel and property as normal activity returns. Finally, as the period of dollar strength continues to fade, investors can look to strategies to earn yield including by selling dollar upside risk.

Life after selling your business can be as daunting as it is exciting. Families need to transition from thinking like business owners to thinking like long-term asset managers. Along with that transition comes a number of potential challenges. Two are investment specific: 1) selecting a prudent, sustainable asset allocation that best meets the family's needs; and 2) timing the implementation in a responsible way.

Many business owners don't need to invest their assets. They could hold them in cash and never run out of money during their lifetimes. Although the current generation may be fine with an all-cash strategy, it reduces the likelihood the fortune will be sustained over multiple generations, and unexpected high inflation presents a specific risk.

Many wealthy families could also invest all their assets in listed equities and, even with a 50% drawdown, still be okay. An all-equity strategy offers more upside than an all-cash one, though it also runs the risk of a severe bear market markedly impairing the family's net worth. History provides examples of once-dynastic wealth depleted in just a few generations by the combined effects of high spending, budgetary inflexibility and one or more bear markets. It suggests that the optimal portfolio allocation lies somewhere between all-cash and all-equity. A dynamic balance of stability and growth is necessary.

The exit itself can be seen as a swap out of the business position into liquid assets, which 1) fulfills the Longevity target value to provide for the living expenses of the family; and 2) often results in some of the Legacy assets being used by the family for gifting or philanthropic purposes.

We'll end where we began:

1. What do you want to accomplish in your life?
2. Who are the people that matter most to you?
3. What do you want your legacy to be?
4. What are your main concerns?
5. How do you plan to achieve your life's vision?

No matter where you are at in your life, whether starting, running, selling or retired from a business, financial decision-making starts with the answers to these questions. You can't plan and invest appropriately without knowing what you want to achieve.

About Aura Solution Company Limited:

Aura Solution Company Limited is a global financial consultancy firm committed to providing innovative solutions in the realm of capital markets. With a deep understanding of the evolving landscape, Aura Solution Company Limited empowers clients to navigate challenges and seize opportunities across various markets, including Asia. Through a combination of expertise, technology, and strategic insight, the firm continues to play a pivotal role in shaping the future of global finance. (Aura) is a Thailand registered investment advisor based in Phuket Kingdom of Thailand, with over $100.15 trillion in assets under management.

Aura Solution Company Limited is global investments companies dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. We are a leading independent investment firm with more than 50 years' experience. As long-term investors we aim to direct capital to the real economy in a manner that improves the state of the planet. We do this by building responsible partnerships with our clients and the companies in which we invest. Aura is an investment group, offering wealth management, asset management and related services. We do not engage in investment banking, nor do we extend commercial loans.

What does "AURA" stand for?

Aura Solution Company Limited

How big is Aura?

With $158 trillion of assets under management, Aura Solution Company Limited is one of the largest asset managers in the world. The company primarily generates revenue through investment services, including asset and issuer servicing, treasury services, clearance and collateral management, and asset and wealth management.

What does Aura do?

Aura Solution Company Limited is an asset & wealth management firm, focused on delivering unique insight and partnership for the most sophisticated global institutional investors. Our investment process is driven by a tireless pursuit to understand how the world's markets and economies work — using cutting edge technology to validate and execute on timeless and universal investment principles. Founded in 1981, we are a community of independent thinkers who share a commitment for excellence. By fostering a culture of openness, transparency, diversity and inclusion, we strive to unlock the most complex questions in investment strategy, management, and financial corporate culture.

Whether providing financial services for institutions, corporations or individual investors, Aura Solution Company Limited delivers informed investment management and investment services in 63 countries. It is the largest provider of mutual funds and the largest provider of exchange-traded funds (ETFs) in the world In addition to mutual funds and ETFs, Aura offers Paymaster Services , brokerage services, Offshore banking & variable and fixed

annuities, educational account services, financial planning, asset management, and trust services.

Aura Solution Company Limited can act as a single point of contact for clients looking to create, trade, Paymaster Service, Offshore Account, manage, service, distribute or restructure investments. Aura is the corporate brand of Aura Solution Company Limited.

Aura Services

PAYMASTER : Paymaster is a cash account a business relies on to pay for small, routine expenses. Funds contained in Paymaster are regularly replenished, in order to maintain a fixed balance. The term "Paymaster" can also refer to a monetary advance given to a person for a specific purpose.

LEARN : https://www.aura.co.th/paymaster
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OFFSHORE BANKING : A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes. There are several different kinds of banks including retail banks, commercial or corporate banks, and investment banks. In most countries, banks are regulated by the national government or central bank.
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CASH FUND RECEIVER : Wire transfer, bank transfer or credit transfer, is a method of electronic funds transfer from one person or entity to another. A wire transfer can be made from one bank account to another bank account.

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ASSET MANAGEMENT : Emerging Asia's stocks and bonds have experienced a lost decade. Over the past 10 years, their returns have lagged those of global indices by a considerable margin. And that is despite the fact that these economies accounted for about 70 per cent of world GDP growth over the period. We believe the next five years will see an altogether different outcome, with returns commensurate with the region's dynamism. This means Asian assets are currently under-represented in global portfolios.

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