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ASK RUSS

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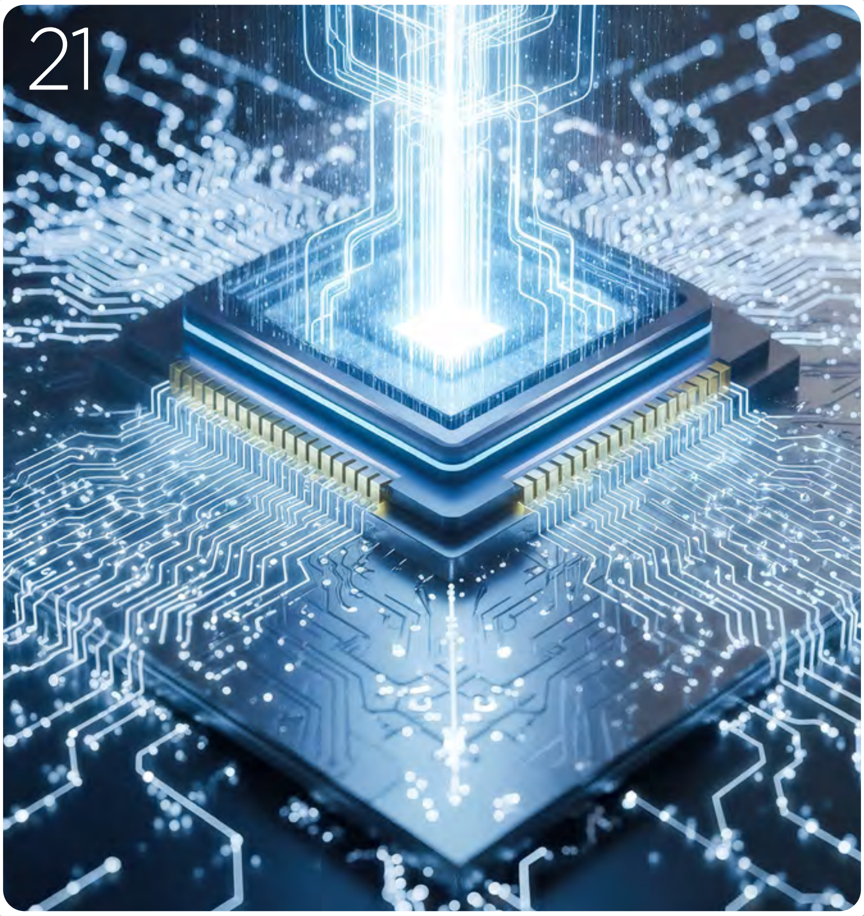


Reasons for optimism despite all the turmoil and noise

While ultimately the damage to most investors' portfolios has likely been relatively light so far this year there has certainly been plenty for us all to fret about in 2026.

We have yet to see the full inflationary impact of the Iran war and the shutting off of the Strait of Hormuz but most are aware it is coming, while confidence in the AI story is being put under some strain by lofty valuations. Meanwhile, some high-profile IPOs in the coming months will provide another big test of market sentiment.

However, while there are certainly reasons for caution there are some reasons for optimism too.

Heading into a turbulent period in decent shape

As Berenberg's chief economist Holger Schmieding observes: "Many fundamentals remain favourable: i) Labour markets remain more resilient than in the past on both sides of the Atlantic; ii) healthy balance sheets serve as buffers against downside risks for households and businesses that do not need to correct prior excesses; iii) many governments are stepping up investment and defence spending; and iv) financial institutions are mostly in good health."

So, although we may be heading into a period of turbulence, the global economy is arguably better positioned than it has been on the cusp of previous crises.

The latest US quarterly earnings season revealed significant resilience in corporate earnings. According to Bank of American Merrill Lynch (with data based on 90% of the S&P 500 having reported), some 64% of companies beat earnings per share and sales expectations in the first quarter, the highest rate in five years.

Guidance was also stronger than is typical, with 1.6 times more above than below consensus earnings outlooks delivered by big US companies. This compares with a long-term average of 0.8 times.

For all the noise around right now, the earnings reported by the world's biggest companies are probably the biggest determining factor in how markets perform and, for the time being at least, the situation there looks supportive for sentiment.

The second-quarter earnings season which kicks off in mid-July with the big Wall Street banks will provide the next opportunity for investors to examine the health of big US businesses.

Editor's View: Tom Sieber

A broadening out of returns and the case for remaining calm and diversified

Another cause for some cautious cheer is the broadening out of equity market returns beyond just the US in 2026 – with UK, European and emerging markets stocks enjoying some time in the sun before the US resumed market leadership in the wake of the conflict in the Middle East.

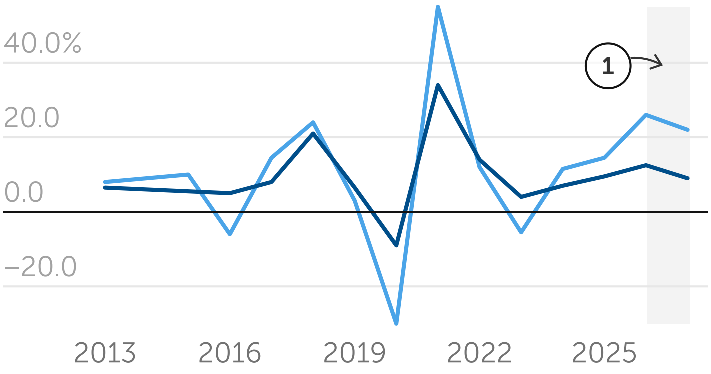
This doesn't mean we should be blasé about the real risks around inflation and elevated valuations. It's just to say that the world is rarely as bleak or as buoyant as the most confident commentators would suggest.

The best thing investors can do is not to panic and to stick to their long-term plan and maintain a level of diversification which means if something goes wrong in one part of a portfolio, its impact can be absorbed elsewhere.

Finally we're keen to hear about your experiences of managing your own portfolios and you can find out more about how to participate below.

Strongest S&P 500 and median stock earnings growth since 2021

— S&P 500 earnings per share growth (year-on-year) — Median stock earnings per share growth (year-on-year)



1 Forecast

Forecasts are consensus
Source: BofA Global Research

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Micron hits $1 trillion on AI wave ahead of crunch quarterly earnings

The share price of memory chip play Micron Technology has enjoyed an astonishing run heading into its upcoming quarterly results on 24 June helping it to a $1 trillion market valuation for the first time.

The most recent catalyst was research published by investment bank UBS which raised the price target on the stock from $535 to $1,625.

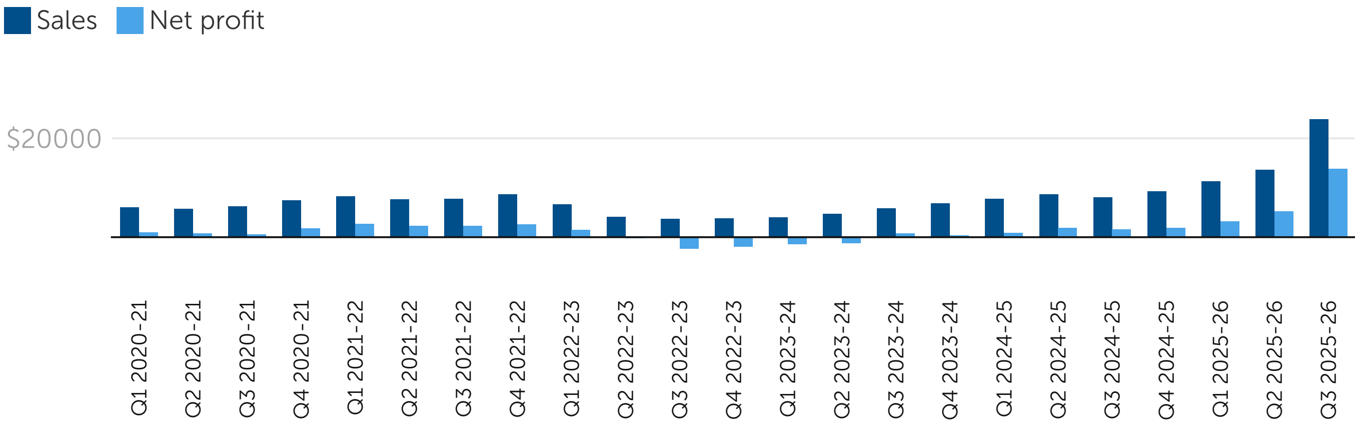
AI-related demand for its DRAM (working memory) and NAND (long-term flash storage) chips has surged, driving sales and profits to fresh highs.

The company has refined its focus on this market – exiting consumer electronics to focus on serving customers in the data centre space and the AI infrastructure hyperscalers like Microsoft, Alphabet, Meta and Amazon.

DRAM has long been known as a deeply cyclical market, something Micron's own track record illustrates well. Profits surged in 2000, 2005-06, 2010, 2013-15 and 2017-19, but the company also slipped into losses in 2001-03, 2007-08, 2012 and 2016, while Covid-19

Micron's sales and net profit have surged

(Billions of dollars)



Financial year end in August
Source: Company accounts

AJBell

disrupted both operations and financial performance in 2020.

The case now being made is that this boom-and-bust era may finally be fading, helped by the proliferation of AI, the long lead times required to build new multi-billion-dollar fabrication plants,and the reality that Moore’s law is no longer delivering the same gains, if any. That means chipmakers can no longer lift capacity simply by producing more chips per silicon wafer at existing sites.

Industry consolidation has also left just three major DRAM producers in the market today: Micron, South Korea’s SK Hynix and Samsung Electronics. Micron’s HBM3E product has given it an advantage versus its Korean rivals because it consumes less power which is an important advantage for energy-constrained data centres.

Investors will be monitoring the third-quarter numbers closely to see if the company can achieve its ambitious guidance to hit gross margins above 80%. Given the supply constraints in this market there will be a lot of focus on the multi-year agreements the company has running into 2027 and 2028.

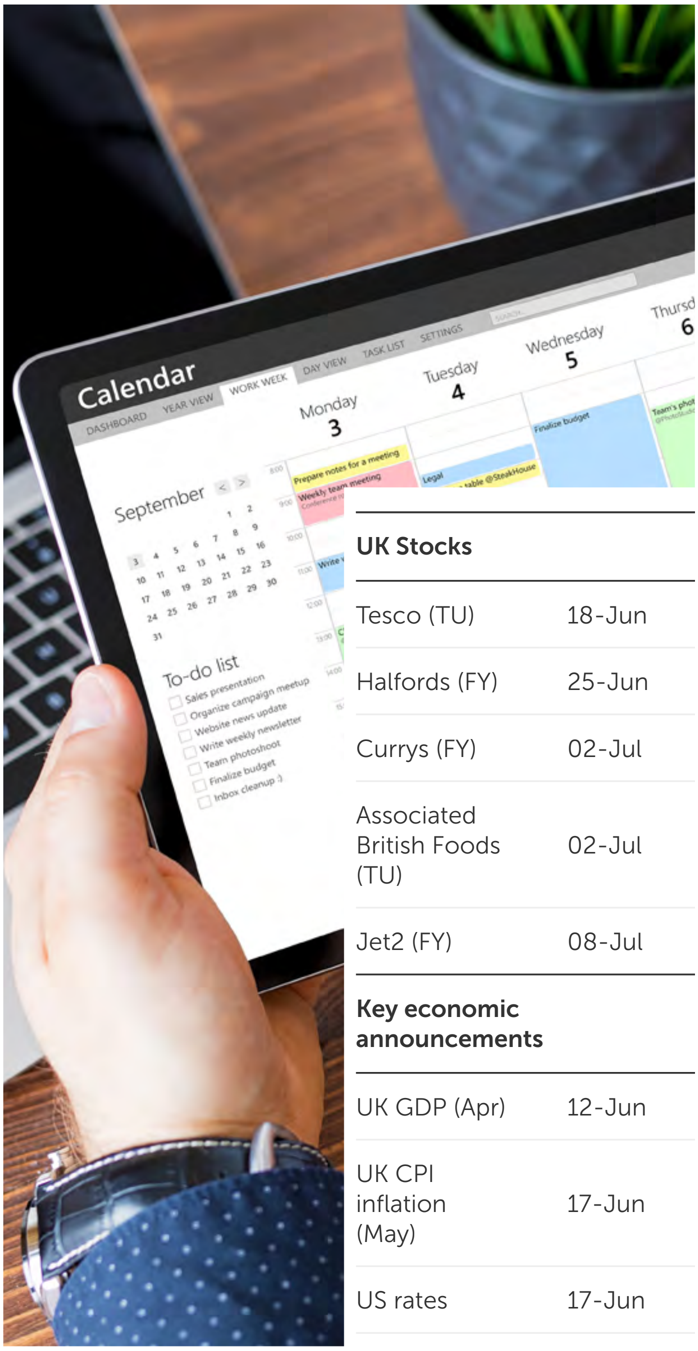
The company also continues to expand its US footprint with expansions in New York and Virginia, and investors may be looking for an update on this rollout. Management may also address increasing clamour for a stock split as the share price ticks towards four figures.

What's expected from Micron in the third quarter

Micron quarterly forecasts

Revenue	$34.11bn
Earnings per share	$19.62

Source: Zacks



UK Stocks

Tesco (TU)	18-Jun
Halfords (FY)	25-Jun
Currys (FY)	02-Jul
Associated British Foods (TU)	02-Jul
Jet2 (FY)	08-Jul

Key economic announcements

UK GDP (Apr)	12-Jun
UK CPI inflation (May)	17-Jun
US rates	17-Jun
UK rates	18-Jun
US Core PCE Index (May)	25-Jun
US GDP (final Q1 estimate)	25-Jun
US jobs	02-Jul

Overseas stocks

Oracle (Q4) ☽	16-Jun
FedEx (Q4) ☼	23-Jun
Micron (Q3) ☽	24-Jun
Nike (Q4) ☼	30-Jun

Key: Q=Quarter. HY= Half year. FY=Full year. TS= Trading statement. ☽ = After market close. ☼ = Before market open. CPI = consumer price index

Asia's growth and valuations make a compelling case for income investors

Asia is a fruitful place for income and portfolio diversification, with more companies returning cash to investors as a reward for taking the risk of owning their shares. Parts of Asia are also attractive from a valuation perspective.

Investors in the UK might be less familiar with Asian stocks and so the easiest way to get exposure is via funds. The range includes ones that invest in companies listed across the broader Asia Pacific region; funds that cover emerging markets including Asia; and country-specific ones such as China or Japan.

Dealing with volatility

Sat Duhra, a fund manager for Henderson Far East Income, says investors with Asian exposure have faced several "exogenous risks" in recent years with conflict in the Middle East being the most recent shock. East and South Asian countries are vulnerable to Middle East oil supply issues, including Japan, South Korea, and India.

That creates a near-term headwind, but investing is about taking a long-term view. The Henderson fund manager says the growth drivers of Asian markets are broad based and have already demonstrated resilience in uncertain times.

"They stretch across technology, financials, infrastructure, consumer and wide-ranging corporate reform," adds Duhra. "Asia has a unique position as a hub for technology supply chains; banks are bringing millions of consumers into the banking system accelerated by a digital rollout and infrastructure is benefitting from significant power demand boosted by AI."

Risks vary from country to country in Asia which means investors considering this space need to be comfortable with higher levels of volatility compared to a UK or global equity income fund.

How Asian regions differ

Developed markets in Asia Pacific typically have more mature companies and one might expect to get higher yields from markets such as Australia

Examples of key markets in Asia Pacific and their dividend yields

Market	Proxy ETF Used	Dividend Yield
Hong Kong	iShares MSCI Hong Kong ETF (EWH)	4.7%
Japan	iShares MSCI Japan ETF (EWJ)	4.1%
Singapore	iShares MSCI Singapore ETF (EWS)	3.9%
Australia	iShares MSCI Australia ETF (EWA)	2.9%
China	iShares MSCI China ETF (MCHI)	2.2%
South Korea	iShares MSCI South Korea ETF (EWY)	1.3%
Taiwan	iShares MSCI Taiwan ETF (EWT)	1.1%

These ETFs are not available to UK investors.

Source: Morningstar, 22 May 2026

and Singapore. These places have a stronger dividend culture and often pay out a higher proportion of profits as dividends versus companies in emerging markets.

In contrast, dividend growth rates might be stronger from Asian locations that sit within the broader emerging markets category such as India and Indonesia, albeit coming from a lower base and with lower headline yields.

For example, Hong Kong and Singapore are omnipresent with financial and property companies, and one would expect more stables dividends from them. Korea and Taiwan are known for their technology companies and while earnings from this sector can be more cyclical, dividends are increasingly on the menu.

Asian tech advantages

Sam Konrad from Jupiter Asian Income is one of the fund managers extoling the virtues of Asian tech companies. He helps to run a portfolio that includes Taiwanese semiconductor groups MediaTek and TSMC.

"(Many tech) companies we own have very few, if any, true competitors globally," he says. "They're also lower risk because they trade at lower valuations than the US tech stocks. They have extremely strong net cash balance sheets, and they are paying dividends and they're growing those dividend payments quite quickly. US tech stocks might be fantastic companies, but you get almost zero dividend yield if you invest in any of them."

Growth engine

Exposure to growth-style companies is an underappreciated benefit of Asian income funds in general.

UK-focused equity income funds often invest in mature companies that generate strong cash flows to pay generous dividends, but which are not growing earnings that fast. There is nothing wrong with such companies as they can be a source of reliable dividends, and investors might find the bulk of their returns come from income rather than capital growth.

Asian equity income funds can be different as they typically have a blend of both income and growth styles.

Just look at the long-term performance for a group of dividend-flavoured Asian equity funds versus the UK's FTSE 100 index to see how the styles have translated into long-term returns. The funds in the accompanying table have a not too dissimilar yield to the FTSE 100, but they have been more fruitful investments.

All the names in the table feature in AJ Bell's

High-yielding Asian funds and trusts

Fund/Trust/Index	Yield	5 year return	10 year return
Invesco Asia Dragon Trust	3.1%	55%	282%
Jupiter Asian Income	2.7%	106%	268%
JPM Emerging Markets Income	3.0%	66%	223%
Lazard Emerging Markets Equity	2.6%	94%	205%
Jupiter Japan Income	2.1%	56%	184%
Fidelity China Special Situations	2.7%	–17%	167%
Average	2.7%	45%	222%
MSCI Emerging Markets index	2.1%	50%	190%
MSCI AC Asia index	1.8%	55%	192%
FTSE 100 index	2.7%	76%	145%

Source: AJ Bell, FE Analytics, MSCI, Stockopedia. Total return in GB to 18 May 2026

Favourite Funds and Investment Trust Select lists. They all have Asian exposure and yield at least 2%. The average total return from these six funds and trusts is 222% over the past 10 years – far exceeding the 145% return from the FTSE 100. Interestingly, the average performance is also better than the 190% return from the MSCI Emerging Markets index, and 192% from the MSCI AC Asia index, according to data from FE Analytics up to 18 May 2026. These are popular stock market benchmarks for the respective regions.

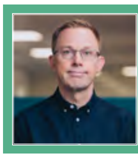
Notable performers

Invesco Asia Dragon tops the 10-year performance list, an investment trust which last year merged with Aberdeen's Asia Dragon vehicle. It has value tilt and looks to buy when there is fear in the market and sell when the share price recovers. This might sound risky, yet it will only invest in a company when it has high conviction. The portfolio currently has a large China focus with notable exposure to technology and financial stocks, and the investment trust yields 3.1%.

Jupiter Asian Income has more than doubled investors' money over the past five years with a 106% total return, and 268% over 10 years. It looks for companies with strong earnings and dividend growth, and Australia and Taiwan combined represent just over half of its portfolio on an equal basis. Key holdings include Singapore financial services provider DBS, and Australian oil and gas producer Woodside Energy.

Although it is not on the AJ Bell Favourite Funds list, it is worth noting passive fund L&G APAC ex-Japan Quality Dividends Equal Weight ETF for its ability to remove concentration risks.

The 3.8% yielding ETF tracks the performance of a basket of Asia Pacific-listed shares that demonstrate consistent dividend growth, offer high forward dividend yields relative to the market, and exhibit strong quality characteristics. It applies an equal weight process, meaning each company represents the same proportion of the portfolio when the ETF rebalances everything twice a year.



By **Dan Coatsworth**
Head of Markets

Can Netflix deliver on growth after losing Warner Bros bid battle?

Streaming giant Netflix has been the great disruptor in the world of home entertainment over the last decade or so. It is therefore jarring to see a big plank of the company's current strategy seemingly ape the linear TV model which it helped overturn as it embraces advertising and live sports events.

At the same time, the company losing out in a bid battle with Paramount Skydance over Warner Bros Discovery, while well received by investors who were unconvinced on the deal's merits, has left it at a crossroads.

The takeover was intended to boost Netflix' footprint in prestige TV through Warner Bros' HBO business as well as giving it a stronger brand identity and reinforcing its leading position in the streaming space.

Netflix

Key stats
Share price: $85.85
Market value: $268.8 billion
PE 2026: 23.2
Dividend yield 2026: n/a

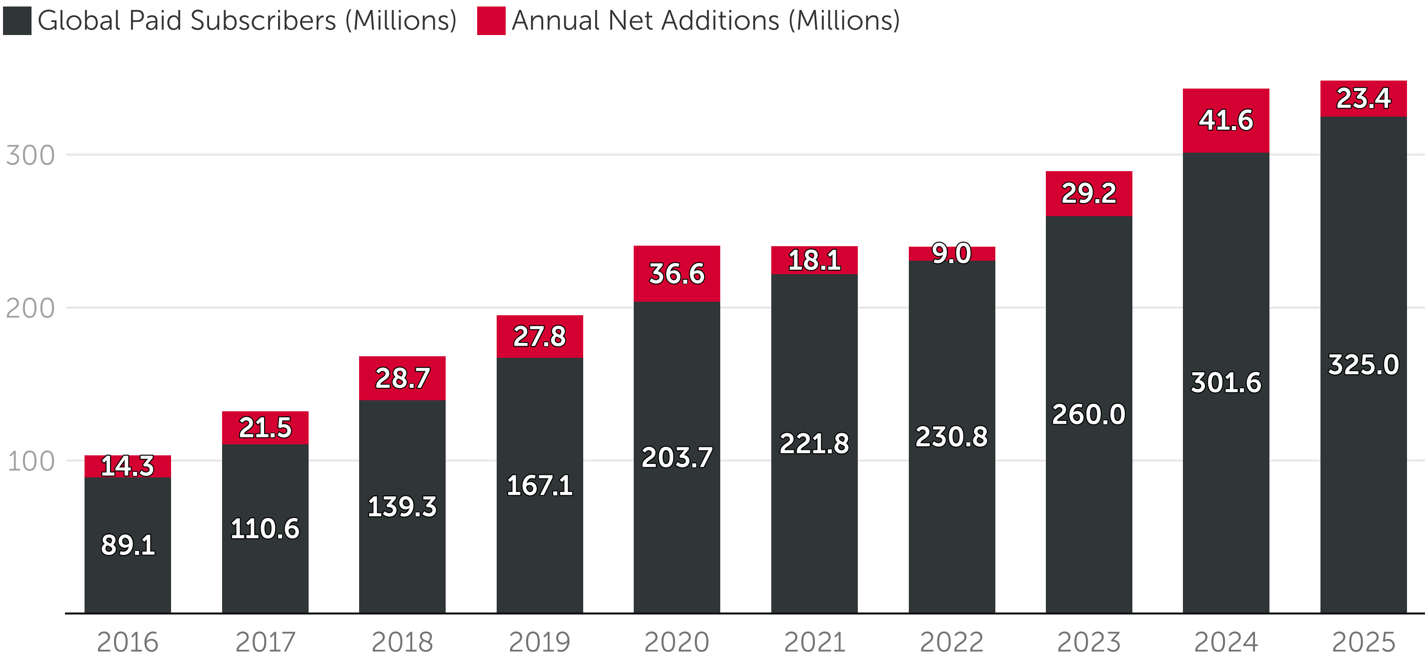
PE = price to earnings
Source: Stockopedia, as at 2 June 2026

The advertising growth story

Can the company continue to grow organically having failed to secure a deal for Warner Bros? The answer may well depend on advertising. Netflix first launched an ad-supported tier in November 2022, initially rolling it out across 12 countries including the UK and US. This was a response to a stagnating user base (which contracted for the first time in 10 years at the start of that year) and similar plans on the part of competitors. It also created a more affordable way of accessing its platform, including for those caught up in its crackdown on password sharing among friends and family.

Netflix has seen significant subscriber growth

(Millions)



Source: Netflix

While it encountered a healthy degree of scepticism at the time this approach has proved highly successful both in terms of reviving user growth but also diversifying its revenue base. The company generated $1.5 billion in ad revenue in 2025 and expects this to double to $3 billion in 2026 – with an internal goal of hitting $9 billion by 2030.

Bank of American Merrill Lynch analyst Jessica Reif Ehrlich says: “Netflix is further scaling the tier internationally by announcing plans to enter around 15 additional countries (representing ~10% of global advertising) and is testing ad personalization based on viewing behaviour.

“Netflix is continuing to improve its advertising offering with new formats and more technology, and the company believes it can actually decrease ad loads while increasing ad revenue through addressable, targeted ads and increased sponsorship.”

However, the company’s first-quarter earnings announcement announced in April 2026 disappointed investors. The shares dropped nearly 10% amid an underwhelming short- and medium-

Netflix revenue growth

Period	Revenue ($bn)	Year-on-year revenue growth (%)
Q1 2025	$10,543	12.5%
Q2 2025	$11,079	15.9%
Q3 2025	$11,510	17.2%
Q4 2025	$12,051	17.6%
Q1 2026	$12,250	16.2%
Q2 2026E	$12,574	13.5%

Source: Netflix

How is Netflix using AI?

Netflix is using AI in the production of content, for now largely in areas like special effects and pre-production, but it has been put to use more extensively in areas like translation, to personalise content and advertising and in streaming infrastructure.

term outlook as the second-quarter outlook came in below expectations and full-year guidance was largely left unchanged. As a kicker, the departure of co-founder and long-time CEO Reed Hastings added an element of uncertainty for the market.

Earlier in its growth journey Netflix spent exceptionally heavily on content to attract subscribers and this meant it was typically negative in terms of free cash flow. That has changed, guidance for 2026 is for free cash flow of $12.5 billion. Its financial mission statement specifically references growing free cash flow alongside sustaining revenue growth and growing margins.

The company offered a demonstration of its financial strength with its recently announced $25 billion share buyback. It does not pay dividends and has never done so in its time on the stock market.

Bolstering its live content

Netflix is still allocating plenty of cash to content, including, increasingly, to live sporting events. These are prized because they draw massive, immediate and concentrated viewership which is not provided by other forms of content and is therefore highly attractive to advertisers. It recently secured three additional NFL games for the upcoming American football season.

For the time being Netflix has focused on one-off broadcasts rather than bidding for rights to a full season of games. It is also looking at other forms of live and daily programming, including comedy and awards shows, to help ensure users are regularly engaging with the platform.

It remains a competitive market – with Amazon Prime Video, Disney, Paramount (likely boosted by the acquisition of Warner Bros Discovery) and Apple TV its main competitors. Netflix has around 325 million global subscribers, Prime Video 220 million (within a broader Prime membership) and Disney 196 million.

Outside of the big streaming platforms, Netflix faces competition for eyeballs with the likes of YouTube, Instagram and TikTok.

It has responded by launching a dedicated vertical video feed called 'clips' into its mobile app as a way of funnelling people into its own long-from content.

Growth potential and valuation

Despite being the leader in streaming, Bank of America Merrill Lynch estimates the company represents 5% of global TV viewership and has captured less than 45% of its addressable market.

Netflix share price and valuation

— Netflix share price ($) — Netflix 12-month forecast PE

PE = price to earnings ratio
Source: LSEG

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As the chart shows, despite material gains for the share price in the last 10 years, Netflix' valuation has actually contracted as earnings have grown. Though at 23 times forecast 2026 earnings, the shares do trade at a premium to both Paramount Skydance at 16.1 times and Disney at 14.1 times.

By **Tom Sieber** Editor

The stocks which offer you growth at a reasonable price

Sometimes value and growth as investing styles are seen as polar opposites. However, they can be combined – with the growth *at a* reasonable price (GARP for short) approach attempting to encompass both these factors.

The focus here is on high earnings growth where the price is low relative to forecast earnings – something which can be measured using the price/earnings to growth ratio, or PEG for short.

Where did GARP and the PEG come from?

GARP and the accompanying PEG metric were popularised by the late investor and business writer Jim Slater in the early 1990s and detailed in his 1992 book *The Zulu Principle*. His son Mark Slater has his own investment firm Slater Investments which has several funds where some of these principles are applied. The largest of which by assets is Slater Growth.

Most investors will be familiar with the simple price to earnings ratio but, just to recap, this number is derived by dividing the current share price by the earnings attributable to each individual share, typically known as earnings per share (EPS).

PE = share price ÷ EPS

Because markets are inherently forward looking it is more useful to use a forecast EPS for the year ahead rather than rely on a number which has already been announced. This is known as the forecast or prospective PE (a ratio based on historic EPS is known as a trailing PE).

Putting it into practice

To put this into practice, let's look at software business Sage (using data from ShareScope). For the year to 30 September 2026, it is forecast to generate earnings per share of 50p, meaning at the share price at the time of writing of 855p it trades on a forward PE ratio of 17.1 times.

This price/earnings to growth or PEG ratio goes a step further than the PE and introduces earnings growth into the equation. It is calculated as:

PEG = PE ratio ÷ annual EPS growth

Using the Sage example again we divide the PE of 17.1 by forecast EPS growth of 17.6% to arrive at a PEG of 0.97. As a rule of thumb, a PEG of one or less is considered attractive.

Utilising ShareScope's screening tools we have identified FTSE 350 companies which are trading at a PEG of 0.7 or less to try and identify some potential GARP candidates. We have calculated the PEG using the forecast PE and EPS growth for the next financial year each company is due to report on. One reason a stock might trade at a discounted valuation in PE terms is heavy levels of debt. Something which is not factored into the PE ratio. To account for this, we have excluded any names with a net debt to earnings ratio of more than three times.

This has automatically excluded banks and some other financial stocks from our search because this metric isn't readily available for this type of business.

The list of low PEG stocks

The table shows the 32 companies which qualify.

An initial glance reveals healthy representation for resources firms on the list.

Earnings for oil and gas companies are expected to grow substantially with energy prices surging to multi-year highs thanks to the conflict between the US and Iran. However, commodities markets are inherently volatile which means earnings in turn can experience wild upswings and downswings and forecasts are more fluid than they are for other parts of the market.

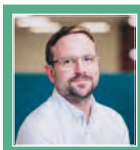
Other names on the list are on the other side of the market reaction to events in the Middle East. GKN Aerospace owner Melrose Industries has seen its shares sold off thanks to the disruption to its aviation sector clients. While rail and airport food concessions operator SSP Group has also seen its shares pressured by the upheaval in the global travel sector.

Property services firm Savills has been hit by poor sentiment towards real estate resulting from shifting inflation and interest rate expectations.

It is notable to see several consumer-facing names in the list despite a tricky backdrop. Even if Marks & Spencer's PEG is flattered by a rebound in earnings from the previous year's low point which resulted from a well-publicised and damaging cyber-attack.

Electronics retailer Currys does not have a similar dynamic at play and has also been a strong share price performer in 2026. It is benefiting from being one of the last physical retailers in its market with any scale. This allows it to help people navigate an increasingly complex world of consumer technology through the lifecycle of a product – from credit services to repairs and recycling. While it offers credit services to customers, Currys is not exposed to risks around rising levels of bad debt because a third party underwrites these.

A third firm in this category is footwear brand Dr Martens. The company has had more than one misstep since joining the stock market in 2021. However, in May 2026 it announced a 61% surge in pre-tax profit to demonstrate the merits of a recovery plan spearheaded by CEO Ije Nwokorie.



By **Tom Sieber** Editor

Low PEG stocks in the FTSE 350

Company	Year-to-date share price performance (%)	PEG
Galliford Try	−0.6%	0.69
Genus	−12.5%	0.69
Melrose Industries	−22.2%	0.65
Compass Group	5.2%	0.63
Johnson Service Group	12.2%	0.63
Savills	−18.6%	0.61
Johnson Matthey	0.9%	0.59
Dr. Martens	−6.9%	0.57
SSP Group	−17.9%	0.56
Currys	18.7%	0.56
AEP Plantations	16.9%	0.53
CMC Markets	42.1%	0.51
Avon Technologies	−8.7%	0.48
Rio Tinto	31.4%	0.47
Airtel Africa	−5.9%	0.45
W.A.G Payment Solutions	3.9%	0.34
XP Power	103.0%	0.34
Atalaya Mining	−1.3%	0.31
Playtech	21.9%	0.30
PageGroup	−48.3%	0.30
Marks & Spencer Group	12.3%	0.27
Fresnillo	−4.8%	0.22
Ithaca Energy	42.2%	0.21
Burberry	−11.2%	0.19
IG Group	39.0%	0.17
Anglo American	31.7%	0.14
Shell	17.7%	0.11
Harbour Energy	42.0%	0.08
Endeavour Mining	8.8%	0.07
Hochschild Mining	12.0%	0.05
BP	24.7%	0.03
Pan African Resources	−8.6%	0.02

PEG = Price / earnings to growth

Source: ShareScope

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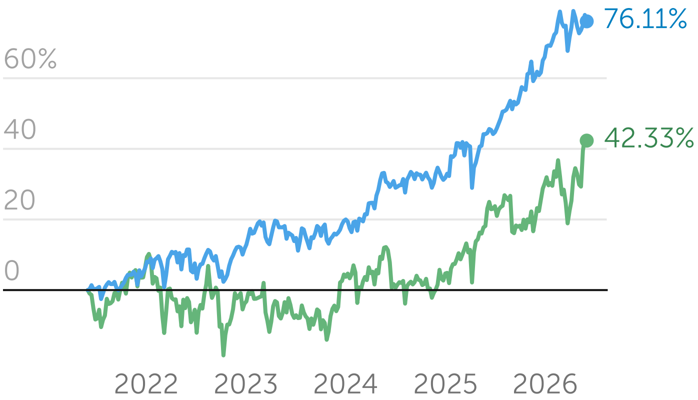
Are Legal & General's bumper dividends sustainable?

Insurer Legal and General is a cornerstone of income investors portfolios with the shares offering the highest dividend yield in the blue-chip FTSE 100 index, currently around 8%.

L&G total return lags FTSE 100



Source: LSEG

L&G is a good example of the powerful effect of reinvesting dividends on total shareholder return.

While the share price performance looks uninspiring over the last five years, down around 3%, the total return including dividends has been a respectable 43%, although it has lagged the FTSE 100's 76% return.

A high dividend yield can be a signal that investors expect the dividend to be cut, but a high yield can also just be a function of a sluggish share price.

Legal & General

Key stats
Share price: 269.8p
Market value: £14.8 billion
PE 2026: 10.2
Dividend yield 2026: 8.3%

PE = price to earnings

Source: Stockopedia, LSEG. Data as of 2 June 2026

Why Jefferies has recently raised questions over the dividend

Analysts at investment bank Jefferies recently downgraded L&G, arguing the company's income story is deteriorating based on a flat forecast for free cash flow generation through 2028.

The analysts point out that their forecasts sit around 8% below consensus estimates for net surplus cash generation (a proxy for free cash flow) and 10 percentage points below consensus estimates for regulatory solvency ratios.

As this distance from consensus estimates indicates, Jefferies' take is a deviation from the broader view of the business and L&G recently announced a £1.2 billion share buyback, the largest in its history, and has committed to returning more than £5 billion to shareholders between 2025 to 2027.

The lion's share of the share buyback is returning proceeds from the sale of L&G's US insurance business to Meiji Yasuda for approximately £1.8 billion, with the rest earmarked for business growth.

Including a 2% increase in the divided, L&G anticipates returning a total of £2.4 billion to shareholders in 2026, equating to around 16% of the company's current market value.

Which financial metrics are the most important?

When evaluating insurance companies, the standard accounting dividend cover (earnings per share divided by earnings per share) can be misleading due to non-cash market movements required by IFRS (International Financial Reporting Standards) rules.

Instead, analysts and management judge dividend safety by looking at the amount of capital the business generates from operations alongside regulatory solvency coverage. (the amount of surplus capital the business holds above the minimum)

In its full year results on 11 March L&G revealed operating surplus capital of £1.5 billion or 26.78p per share, up 8% and a dividend of 21.79p per share, which equates to a dividend cover of 1.2 times.

This means L&G generated roughly 23% more regulatory capital than it paid in dividends, before considering future growth capital. Net operating surplus capital generation was £1.3 billion.

Core operating profit grew 6% to $1.6 billion and core operating earnings per share grew 9% to 20.93p.

What does the balance sheet look like?

The ultimate health of the balance sheet is determined by the amount of capital L&G holds over and above the regulatory minimum solvency requirement, measured as a percentage. For L&G this stands at a healthy 210%.

Solvency coverage dipped from 230% in 2025 due to reallocation of capital to fund the share buyback.

The company operates a self-imposed solvency coverage 'buffer zone' of between 160% to 190% which means it is sitting 20 percentage points above the top end of the range and 110% above the regulatory minimum.

In summary, the most important metrics to follow for L&G are operating surplus capital per share, solvency ratio and core operating earnings per share.

Management believes the business can sustainably grow the dividend by around 2% a year, which is lower than the expected growth in capital generation. This means the dividend payout ratio, or proportion of earnings and cash flow paid out to shareholders, should naturally fall over time.

What is L&G's strategy?

L&G is well positioned to benefit from structural tailwinds driven by ageing populations, and corporate demand to de-risk balance sheets. This means demand for workplace retirement solutions and bulk annuities is almost guaranteed to grow over the next couple of decades.

Under CEO António Simões, L&G is undergoing a strategic refresh designed to simplify the group and unlock hidden value. The direction of travel is towards a leaner, asset-light fee earner.

Simplification involves selling non-core capital-heavy assets including the high-profile £1.16 billion divestment of UK housebuilder Cala group and the $2.3 billion sale of its US insurance entity.

These actions free up capital to support the core capital return policy and provide funds to invest in growth.

Three strategic pillars

L&G's core profit engine comes from its global leadership position in PRT (pension risk transfers), sometimes referred to as bulk annuities. It is the UK's largest annuities provider generating 2025 volumes of $13.6 billion.

These work just like individual annuities which involve people giving their pension assets to an insurance company in return for a guaranteed income for life.

L&G does this for defined benefit pension schemes which are looking to outsource investment risk. One of the biggest PRT deals in the last few years was Boots' £4.8 billion full scheme buy in, which secured benefits for 53,000 retirees and deferred members.

The company is aiming to secure £50 billion to £65 billion is cumulative UK PRT volumes by 2028, while also scaling up its footprint in the higher growth US and Canadian corporate pension markets.

A second pillar of the recent strategy refresh was to combine Legal & General Investment Management and Legal & General Capital into a single, unified global asset management business, managing roughly £1.2 trillion.

The plan is to shift away from low-margin passive products towards higher margin private markets, including credit, real estate and infrastructure.

L&G is targeting asset management operating profits of between £500 million and £600 million by 2028.

The third pillar is retail where L&G is looking to exploit its workplace defined contribution pension platform to capture millions of employees early on in their careers.

The retail strategy is to cross-sell savings, life insurance and retirement drawdown pots to corporate members. The company is targeting £40 to £50 billion in cumulative net flows into the workplace pension business through 2028.

What risk factors should investors consider?

Persistent geopolitical tensions and energy market shocks threaten to keep inflation and interest rates higher for longer. This scenario has both good and bad points for L&G's business.

On the one hand, higher interest rates are good because they lower L&G's liabilities which are essentially annuity obligations discounted by a higher discount rate,

On the other hand, higher interest rates make cash deposits and easy-access savings accounts more attractive.

This can cause income investors to favour risk-free cash over riskier dividends, putting pressure on share prices.

Higher interest rates could tip the global economy into recession, which might expose credit risks in L&G's investment portfolios and real estate assets.

Almost all private sector defined benefit pension schemes closed their doors to new members decades ago, which means they will eventually disappear.

One of the core assumptions underpinning L&G's pension assets is life expectancy. Breakthroughs in medical science from AI could result in people living longer than L&G's actuarial models predict.

This means the company may end up paying more than expected, eroding long-term profitability.

How L&G stacks up against peers?

L&G has the biggest dividend yield and one of the lowest PE ratios among UK and European peers. Over the last five years dividend growth has been lacklustre for L&G compared with Aviva and European insurers AXA and Alianz, which have grown dividends by double-digits.

Legal & General peer comparison

Company	2026 PE	Dividend yield (%)	Dividend five-year growth rate (%)
L&G	10.3	8.1%	4.4%
Standard Life	11.0	7.2%	3.1%
M&G	11.1	6.5%	2.4%
Aviva	10.5	6.4%	7.3%
Axa	9.6	5.8%	10.2%
Allianz	12.3	4.5%	12.2%
Prudential	12.2	1.8%	10.4%

PE = price to earnings ratio
Source: Stockopedia, LSEG

By **Martin Gamble**
Shares and Markets Writer

Where can you invest in the short term?

Ask the experts

Paul Angell is on hand to answer your questions about investments.

If you'd like a question considered for a future edition send it in now.

What guidance is available for someone with only a couple of years until retirement who is already well provided for through a mix of pensions and savings, but would like to generate a little extra for discretionary spending? I have no mortgage and would like to maximise my remaining time in paid employment.

Where is the best place to invest for the short term (two to three years) and what is the best vehicle to use?

Mike

Paul Angell, AJ Bell Head of Investment Research, says:

Being able to use the last few years of your career to focus on earning for the fun stuff is a great place to be. While it makes sense to cordon off that money for spending, when it comes to investing, it's typically better to look at your portfolio as a whole.

You are hopefully headed into a long and enjoyable retirement, which means some of your savings might not be used for another 20 to 30 years. That means plenty of time to keep some of your money invested in the markets.

It can be helpful to think of your retirement

savings in three buckets. One for expenses coming in the next one to two years, one for income that you can use in the next three to seven years to pay for day-to-day expenses like food and transport or a treat such as a holiday, and one for the long term which you might use to pass down money to family at some point, or re-up your income pot. The first bucket is best held in short-term investments, while the income bucket focuses on income funds, and the long-term bucket has your stocks and shares. You can read a bit more about the three-bucket approach in this article Dan Coatsworth wrote in our last issue, but we'll focus on that first bucket of short-term investments here.

The first bucket is where your question comes into play of investing for the short term. If you're planning on a big one-off purchase right as you retire, like a shiny new sports car, your strategy might be similar to this short-term bucket. Note that you'll want to keep your 'treat' money separate from that short-term investment money, even though you employ a similar strategy for both. If you aren't planning on any big purchases and instead will be spending in smaller chunks along the way, you'll want to think extra carefully about what goes into your short-term versus your income buckets.

Investing for the short term

Investment options are a bit limited with this time horizon because it doesn't necessarily give enough time for markets to recover should they fall. For this reason, cash or cash-like investments are good for short-term investing. One option here is a money market fund.

These funds produce a return that is generally similar to central bank interest rates, which is typically much better return than the interest you'd earn from cash in the bank. This is because money market funds aren't subject to net interest margin (the, higher, interest a bank receives on its own deposits versus the, lower, interest it passes onto its customers). Money market funds invest in ultra short-term, typically between 0-90 days maturity, high quality, deposits and similar instruments to create their return. There's lots of these funds available, but our investment team includes the BlackRock ICS Sterling Liquidity fund on our Favourite funds list.

Due to the ultra-low risk nature of the investments, these funds can deliver returns without market pullbacks. That said, the exact level of return will differ year on year depending on the prevailing level of interest rates in the UK economy. For example, from May 2021 to 2022, when interest rates were low, the BlackRock ICS Sterling Liquidity fund returned 0.13%. But between May 2023 and 2024 against the backdrop of higher interest rates, the fund returned 5.15%. A good estimate for annual returns is typically the current level of interest rates minus the fund's fees, however this will fluctuate depending on how interest rates move around over the year, as well as any frictions in the management of the fund. Fortunately, the fluctuations will just be in the level of returns delivered, rather than losses for investors – provided interest rates remain positive.

While most money market funds invest in similar instruments, they are not all the same. When shopping around for the best funds its worth considering the quality of holdings (the higher rated and the shorter maturity the safer), the fees and the yield (a good proxy for the fund's expected 12-month return).

The sector average return for short-term money market funds over the past five years has been 15.8% to the 20 May, but the BlackRock fund

delivered a 17.8% return in that same period, thanks to its low fees and good positioning. Looking at past performance can give you an idea of how well the management team has done, although it's not a guarantee for investments in the future, and can be indicative of more risk having been taken in the fund, hence the importance of looking at the quality of holdings (as previously mentioned).

What about government bonds?

Another option for short term investments is UK government bonds (gilts) that are maturing in the next two to three years. These bonds are effectively an IOU from the British government, so default risk is infinitesimally small. Gilts are also exempt from capital gains tax, offering big advantages for investors who have used their ISA allowance, particularly for those gilts paying a small amount of income.

Gilts do require a bit more work on your end than a money market fund, because you will have to find and purchase the gilts as your income flows in, but they do currently provide solid returns (above 4%) for minimal risk.

When purchasing, you will want to look at the yield of the gilt to consider if it could keep up with what you expect inflation to be over the next few years. If you don't want to take that risk, you can also purchase short maturity inflation-linked gilts, which currently pay out a return which matches inflation with a little extra on top.

There are UK government bond funds as well, but these are typically longer maturity, so more volatile and do not offer the same tax benefit. They can also be sensitive to broader economic events. For example, many gilt funds have yet to recover from the pick-up in inflation and interest rates in 2022 exacerbated by the war in Ukraine and the UK's mini-Budget.

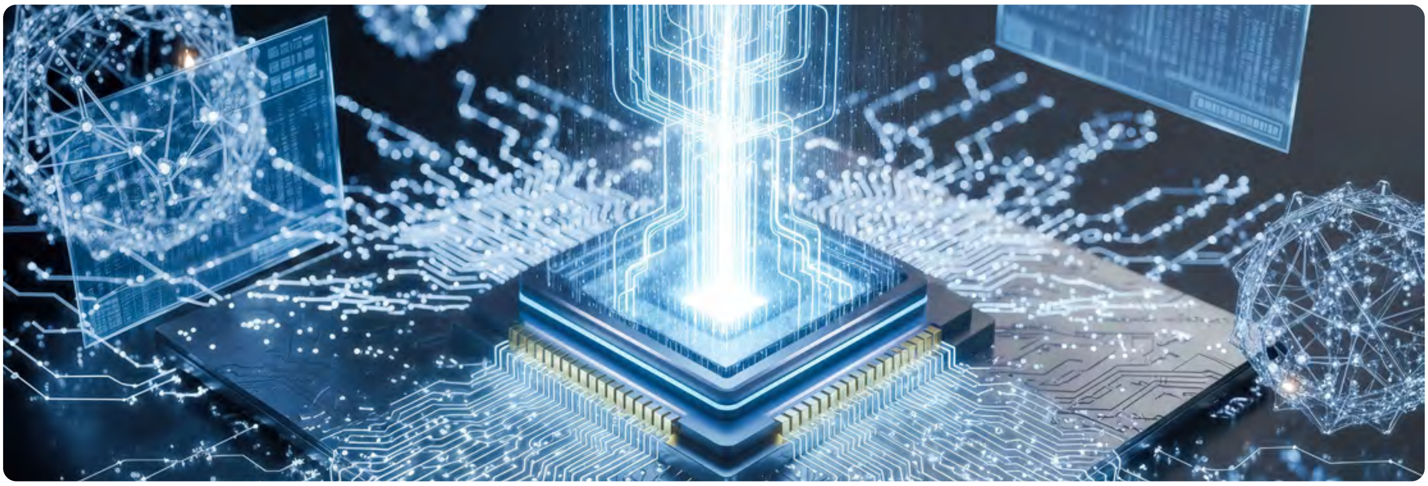
Where should you hold any investments?

Which investment vehicle your money will be best off in depends on your specific circumstances, but there's a few instances where a SIPP may be a better fit. especially if you're looking for one final boost to your retirement savings. If you are still getting matched pension contributions from your employer (and they aren't going towards a workplace pension instead), then that could give a big boost to your savings before they even touch the market.

However, if you won't be getting contributions from your employer on this investment, the main benefit to watch for is income tax relief. If you are in a higher income tax bracket now than you will be when you retire, that means that you may be able to pay a lower rate of tax by contributing to your SIPP now, getting tax relief, and then paying income tax at a lower rate when you withdraw in retirement. You'll also be able to withdraw up to 25% of the SIPP value as tax-free cash.

There are, however, limitations on both benefits. Your tax relief will usually max out at £60,000 or 100% of your relevant earnings, whichever is lower. So, if you are putting large sums in your SIPP, this is a restriction to be aware of. Most people have a tax-free lump sum allowance of £268,275, which limits the total monetary value of their tax-free cash across all their pensions.

The benefit of an ISA is flexibility. Although you won't get the same income tax relief boost on the way in, you can withdraw at any time, and the withdrawal doesn't interfere with your 25% tax-free cash from your pension. You can also withdraw at any age, whereas you'd need to wait until 55, rising to 57, for your SIPP.



Why CPUs are becoming critical to the future of AI investing

Semiconductor stocks have been surging ever since ChatGPT's launch in 2022 sparked the AI theme into full flame. While names like Nvidia have been prominent, the list of AI beneficiaries is getting longer and is now encompassing CPUs, the brain handling logic in computers and laptops.

Nvidia was the standout beneficiary in the race to develop large language models because its GPU chips, which were originally designed for gaming, proved to be faster and more adaptable for training generative AI.

Semiconductor shares are benefiting from huge demand for high bandwidth memory chips which are required to run alongside Nvidia's AI chips. Notwithstanding a recent correction which has taken some heat out of the market.

As the industry pivots towards inference and AI applications, from training and learning, the demand for CPUs now appears to be exploding. We discuss these trends and outlook for CPU makers later in the article.

Why have semiconductor stocks boomed?

The benchmark PHLX Semiconductor index, commonly known as the SOX has been on a tear since 2022, rising almost six-fold.

The SOX is a market value weighted index comprising the 30 largest US traded companies involved in the design, production and sale of semiconductors.

What is the difference between a CPU and GPU?

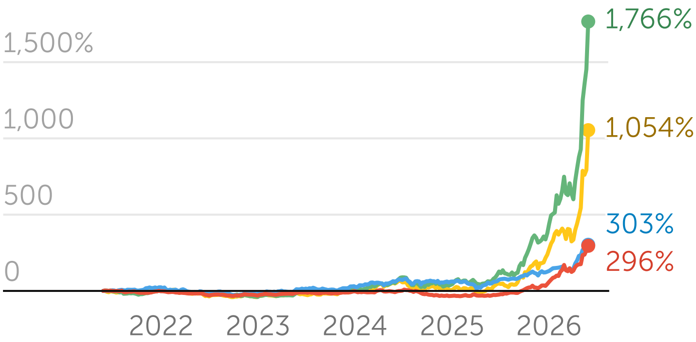
It might be useful to use a football analogy. Think of GPUs or graphics processing units as the players doing all the work on the pitch, they are the engine room.

The CPUs or central processing units are like managers and coaches, directing play, issuing instructions and orchestrating the set pieces and strategy.

CPUs are responsible for retrieving data from storage, cleaning and formatting it, and feeding it to the GPUs at the exact right moment.

Memory chip stocks outperform SOX index

% share price change



Source: LSEG

Surging demand for high-end AI data storage chips has tipped the notoriously cyclical semiconductor industry into a severe shortage that analysts believe will last for at least the next two years.

That has created a huge tail wind for the likes of Korea-based SK Hynix with the company on track to more than quadruple profits this year, based on consensus forecasts.

Profits growth reflects strength in memory chip prices which have surged dramatically as capacity has been diverted towards AI data centres amid rapid demand from hypyerscalers like Microsoft and Alphabet.

This means the electronics industry has been starved of capacity which has had a knock-on effect on RAM (Randon Access Memory) prices.

RAM is an umbrella term used for temporary system memory, sometimes referred to as flash memory.

The price of pre-packaged 32G computer RAM has jumped from $100 in late 2025 to more than $350 in early 2026.

Can't chip makers just increase capacity?

There is little doubt that capacity will rise to meet demand eventually, but the question of when is harder to pin down for a couple of reasons.

Firstly, AI systems built around Nvidia GPUs to train large language models like ChatGPT need hundreds of gigabytes of ultra-fast memory.

This a special type of memory known as HBM (High Bandwidth Memory) and very few companies can make it at scale to satisfy the huge demand coming from the AI data centre build out.

To put that growth into context, Morgan Stanley recently increased its forecast for AI-related capital expenditures to $850 billion in 2026, nearly doubling 2025 levels, and this total is expected to reach more than a trillion dollars in 2027.

Effectively, demand for AI chips has transformed HBMs into a niche product and one of the most important components in AI technology systems.

HBMs are harder to manufacture than regular chips because they use advanced packaging and are part of a complex supply chain.

The second reason clouding the capacity question is that the industry has shrunk to just three major players in recent years who collectively control around 95% of production.

This structure means the remaining chip makers have much greater pricing power and revenue visibility. In summary, only a few firms can manufacture HBM at scale while supply chain complexity makes it harder to roll-out new capacity.

The key players in HBM are Korean companies SK Hynix and Samsung Electronics, whose shares are up 16-fold and three-fold respectively over the last five years, and US chip maker Micron Technology, which is up nine-fold, and recently became the 13th US company to reach $1 trillion in market value.

Could the next shortage be in CPUs?

In its first-quarter results call on 23 April Intel said the ratio of CPUs to GPUs in AI data centres has already moved from 1:8 to 1:4 in agentic scenarios where inference is dominant.

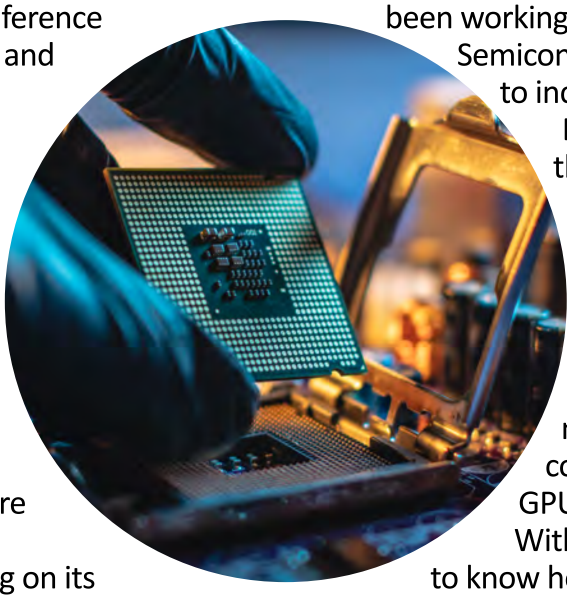
The company believes the ratio could converge towards parity or go even further as data centre workloads pivot towards inference.

That represents a structural increase in CPU demand per unit of AI capacity deployed of between four and eight times, which is significant.

Inference is driving CPU demand

As enterprises develop more use cases for AI and integrate them into their businesses, analysts expect the volume of inference to explode.

In early 2026 spending on inference overtook spending on training and analysts project it will account for 70% to 80% of all AI infrastructure budgets by the end of the year.



Because inference can run on a wider variety of hardware than training including cheaper, specialized custom chips and even consumer devices, it has the potential to break Nvidia's stranglehold on the AI hardware supply chain.

That said, Nvidia is not sitting on its hands with CEO Jensen Huang recently saying its new Vera CPU, designed for AI agents, gives it access to a new $200 billion market.

"This (Vera CPU) is going to be our new major growth driver," said Huang while visiting Taiwan.

Why agentic AI is a key driver

While a company might spend $100 million training an AI model, that is dwarfed by the billions spent running it for global customers over the life cycle of a data centre.

As the industry moves towards autonomous AI agents, often referred to as agentic AI, the number of prompts increases exponentially as a feedback loops kick in.

AI agents operate in continuous autonomous loops to generating code, execute tests, query databases, and interact with software. This shifts the demand driver from single users to AI agents.

In short, the shift to inference positions CPUs higher up the value chain while they are also cost-effective for small language models and edge computing (where the processing is completed close to its source).

Is CPU capacity as constrained as HBM capacity?

There is mounting evidence of capacity constraints with Intel saying it is "absolutely constrained" and prioritising capacity into data centres at the expense of low-end consumer electronics.

Meanwhile, AMD's CEO Lisa Su has stated that global demand for CPUs has far outstripped the company's forecasts. In response the company has been working with partners like TSMC (Taiwan Semiconductor Manufacturing Company) to increase capacity.

Despite these supply pressures, the constraint in CPUs is distributed among several players like Intel, AMD and ARM, as well companies like Alphabet which has developed custom-made AI chips with Broadcom.

This means the market is more competitive and less concentrated than the markets for GPUs and memory storage.

With AI moving so fast it is difficult to know how long the CPU shortage will last but the shift towards autonomous agents looks durable and remains a key driver for inference and therefore CPU demand.

Leading CPU makers financial forecasts

	2026 PE*	2027 PE*	EPS growth 25-27
Intel	107.0	74.4	n/a**
AMD	69.8	39.6	490%
Broadcom	39.7	24.6	373%
Arm	116.0	116.0	357%

* 2027 2028 where year end not Dec.
**Intel made a loss in 2025
Source: Stockopedia,S&P Global

By **Martin Gamble**
Shares and Markets Writer

What would a return to stagflation mean for investors' portfolios?

Ask the experts

Russ Mould is on hand to answer your queries about the financial markets.

If you'd like a question considered for a future edition send it in now.

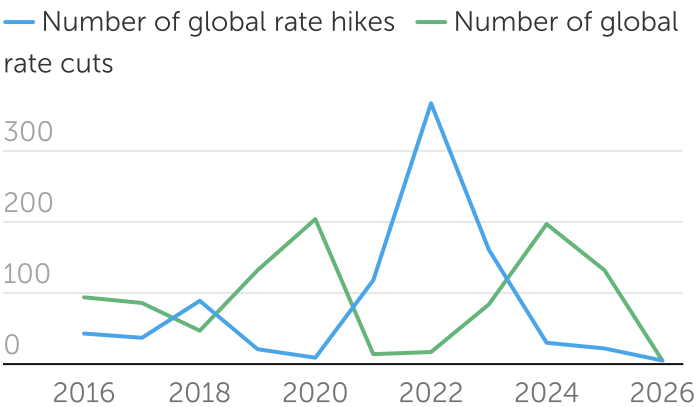
I keep hearing about stagflation and how its bad for markets but could you explain what it is and why it's potentially negative for investors?
Jane

Russ Mould,
AJ Bell Investment Director, says:

When assessing the direction of monetary policy on a global basis, economists and investors have a small and confusing sample with which to work this year. A mere 10 changes in policy from major central banks to date in 2026 compares to 80 at the end of May in 2025, and this time the decisions are split evenly between five cuts and five increases, whereas the trend of a year ago is obvious, given how 63 cuts outpaced 17 hikes.

Financial markets seem convinced that the next move in interest rates will be up, from each of the Bank of England, the Bank of Japan, the European Central Bank and the US Federal Reserve, although in the case of the UK and America that represents a major switch from January when consensus was looking for two or three cuts at least.

Central banks split on the right direction for interest rates



Source: www.cbrates.com

The war in the Middle East could yet bring a range of economic outcomes

SCENARIO:	INFLATION	DEFLATION
CASE FOR	Onshoring	Interest payments on excessive debts
	War (trade or military)	Austerity to tackle sovereign debt
	Commodity shortages	Bursting of financial bubble
	Low unemployment	Malinvestment in prior upcycle
	High wage growth	Ageing population
	Strong money supply growth	Weak trade unions
PRECEDENTS	UK early 1970s	UK, USA, Europe 1930s
	USA early 1970s	EU 2010s
	Emerging Markets 2010s	Japan 1990-2020
*GOOD FOR**	Cyclical / value stocks, small caps	Bonds
	Commodities	Cash
	Index-linked bonds	Secular growth stocks - tech
	Real estate	Secular growth stocks - biotech
	Alternatives / collectibles	Companies with pricing power
*BAD FOR**	Cash	Equities (especially small caps)
	Bonds (especially long-duration)	Commodities
	Companies without pricing power	Real estate
	Secular growth stocks	Alternatives / collectibles

Source: Based on historical asset class performance data

In sum, it is tempting to argue that neither central banks nor financial markets know what is coming next. This is totally understandable, as it is easy to argue that inflation, deflation or stagflation could all yet be the ultimate result of tariffs and trade disputes, military conflict in Eastern Europe

The war in the Middle East could yet bring a range of economic outcomes

SCENARIO:	STAGFLATION	GOLDILOCKS
CASE FOR	Trade wars and tariffs	Productivity gains from technology
	Oil price shocks	Free trade
	Excessive borrowing and high interest bills	Population growth (or immigration)
	Rising interest rates	Little or no military conflict
	Rising unemployment	Modest unemployment
	Increased union power and wages	Weak trade unions
PRECEDENTS	UK late 1970s	UK 2010s
	USA late 1970s	USA 2010s
		Emerging markets 2020s
GOOD FOR	Gold	Bonds (especially long duration)
	Real' assets	Equities (especially growth stocks)
	Companies with pricing power	Equities (dividend compounders)
		Real estate
		Alternatives / collectibles
BAD FOR	Cash	Gold
	Bonds	Commodities
	Equities (especially small caps)	Cash
	Alternatives / collectibles	Cyclicals / value stocks

Source: Based on historical asset class performance data from LSEG

and the Middle East, an oil price shock, high levels of sovereign borrowing and poor demographics in the West and the potential impact of artificial intelligence and agentic agents upon jobs and pay.

This, that and the other

In general terms, the possible outcomes are as follows:

- Inflation means the price of goods and service rise, possibly sharply, as demand outstrips supply. The economy may be running hot, and nominal GDP growth may be rapid, and higher than the central bank base interest rate. The Austrian school of economics argues that inflation is always the result of growth in the money supply as central banks run policy too loose for too long. Either way, the result is that money loses its purchasing power and one unit of currency is able to buy less over time, thanks to higher prices. (There is also the dream scenario of a 'Goldilocks' economy, where growth jogs along, inflation stays around central banks' 2% target and interest rates stay low, to the benefit of all. This is what we saw in the 2010s).

- Deflation means the price of goods and services fall over time (disinflation means they rise, but more slowly than before). This usually means demand is weak or supply is strong, or both. Weak demand can result from wealth destruction owing to poorly directed investments in the prior upcycle, a financial crash, excessive borrowing or higher interest rates, and a major economic slowdown or recession is a likely outcome. Austrians will again point to money supply, although a reduction in it on this occasion. The result here is money's value is enhanced relative to that of goods or services.

- Stagflation is the worst of both worlds: rising prices but little or no economic growth thanks to weak demand, rising unemployment, and limited wage increases. Whereas central banks can in theory rein in inflation by tightening monetary policy, with higher interest rates and modest growth in money supply, and beat off deflation by loosening policy to boost demand for the credit that can fuel investment and spending, stagflation leaves them between a rock and a hard place. They want to raise rates to beat inflation but cut them to boost employment and growth.

Portfolio playbook

From the perspective of investment portfolios, each outcome has potential implications for asset allocation strategies across the major options of equities, bonds, real estate, commodities, cash, and alternatives (such as collectibles, cryptocurrency, and the like).

Inflation is likely to lead to strong nominal growth in GDP and corporate profits, to the potential benefit of share and commodity prices, unless the economy overheats to such a degree that companies cannot match cost increases with price increases, to the detriment of margins. Overheating could also force central banks to jack up interest rates to levels so high that corporates and consumers keep cash in the bank, stop spending and investing and the economy finally cools.

Deflation is likely to lead to recession, falling corporate profits and dividend cuts. This is likely to be bad for equities, commodities and real estate, let alone collectibles, but can highlight the value of the fixed coupons on bonds and any returns from cash.

Stagflation is tricky. Rising prices but weak demand will hurt corporate profits and thus share prices, while inflation will erode the real-terms value of coupons from bonds and any interest gleaned from cash or cash equivalents. Interest rates are likely to rise, as central banks take the view inflation is the bigger long-term danger, to pose a further challenge to equities.

Only investors can judge for themselves which scenario is going to play out, why and how financial markets may respond, but the best policy may be to prepare for multiple outcomes, not just one, with a balanced portfolio across a range of asset classes.

No-one could have predicted the war in the Middle East, and no-one can yet fathom how it ends and what any peace deal may mean, but the ramifications could be considerable, as the oil price shocks and stagflation of the 1970s suggest. Bonds and cash were terrible investments in that decade, shares fell initially and then rallied but did poorly in real, inflation-adjusted terms over the decade and only gold really shone.

Why most people don't receive the full state pension

The full new state pension is quoted as a flat rate £241.30 per week, or just over £12,500 a year, giving the impression that all pensioners with 35 or more qualifying years now get this. In practice, and over 10 years since the new system was introduced, many don't.

The picture is more complex, mainly due to transitional rules introduced when the system was reformed. These transitional rules mean millions of people who reached state pension age on or after 6 April 2016 receive less, or in some cases, more than the headline rate.

The state pension is a vital underpinning of many people's retirement income, so it is important to consider how these transitional rules might affect you.

A system still in transition

The 'new' system applies to people reaching state pension age on or after 6 April 2016, when the rules were overhauled for simplification and to move people to building up their state pension benefit based on their own national insurance (NI) record. The new payment is a single tier, removing the separate basic state pension and additional state pension (often called SERPS or the second state pension) going forward. But the move didn't wipe the slate clean overnight and the old system continues for those who reached pension age before 6 April 2016.

To reflect that people reaching state pension age for some time will have built up most of their NI records under the previous system, transitional rules were brought in to make sure they do not lose out because of the changes.

When someone reaches state pension age now, a calculation compares:

(i) What they would have received under the old system, that is basic state pension based on NI rules then, plus any additional state pension they might have built up; and

(ii) Their single tier pension under the new rules, based on their NI record and how many years they have towards the 35 now required.

Where someone had built up an entitlement to the additional state pension (SERPS etc) under the old system but hadn't reached state pension age by 6 April 2016 to claim it, their starting amount might

be over the headline full rate of £241.30 per week. Anything above the prevailing full flat rate is known as a 'protected amount'.

Contracting out might mean a lower pension

But millions of people were also in schemes that were 'contracted out' of the additional state pension at some point in their working lives, in fact, the government estimates that this applies three quarters of people reaching state pension age between 2016 and 2036, as it was very common in large public sector schemes.

Contracting out meant they and their employer were paying lower rates of NI than other workers, or some of their NI contributions were used to fund a pension pot instead of the additional state pension for those years. To reflect that these workers were opted out of the additional state pension, DWP make a deduction from their 'new' entitlement under (ii) in the calculation detailed earlier in this article. This will be compared to figure (i) when calculating the starting amount of state pension under the transitional rules.

Although contracting out was abolished more than a decade ago, we'll still see it continue to impact people's state pension entitlements for around another 15 or 20 years. The amount of deduction is based on the length of time and earnings in the period of contracting out.

How many people get the full state pension?

The latest figures underline just how widespread the complexity is. According to the DWP, 5,208,000 people currently receive the new state pension, with just over one million of these receiving a protected payment. This indicates that 20% of people in the new regime receive more than the full headline rate of £241.30. At the other end of the spectrum, over 40% of people receiving the new state pension are receiving less than the full headline rate. This might be due to contracting out, or gaps in their own NI records.

Some people may have an opportunity to boost their state pension to the full amount if they have gaps in their record. The first thing to do is check your own NI record and see if it is possible to claim credits for missing or partial years. This might have been in a period of lower earnings, claiming means tested benefits or taking time to care for children or grandchildren.

Buying additional years through voluntary NI contributions is also possible, if someone has already checked for NI credits. But it's not always possible to pay voluntary contributions to make up for those years in which you were contracted out. This can catch people out as contracted out years are often still be marked as 'full year' in an NI record, even though you'll still face a reduction in lieu of the lower NI contributions paid in comparison to someone who was not contracted out. Voluntary contributions might be offered if you have partial or missing years since contracting out was abolished.

A nod to the future

While the system is gradually becoming simpler for younger generations, today's retirees are still living with the legacy of two different pension regimes. Historic features of the old system, particularly contracting out, continue to shape outcomes for millions of pensioners.

For anyone approaching retirement, checking your state pension forecast and understanding your NI record is essential to avoid surprises, and to see if you can take any action.

By **Charlene Young**
Senior Pensions and Savings Expert

How I invest: 'I need the cash to live': rewiring a portfolio for unemployment

The UK job market is a tough place to be right now, with the jobless rate unexpectedly rising to 5% in the latest ONS figures, just as the number of job vacancies fell to its lowest level in five years.

Losing your job is one of the most stressful experiences someone can go through and for Luke, it's caused him to totally change course on how he's investing to support himself while he looks for a new job.

In his 40s, Luke found himself unexpectedly unemployed last summer after a career in financial services.

Alongside a tough hiring market, looking for a new job during an extended cost-of-living crisis made worse by the war in Iran and the consequential energy shock is an especially painful combination and, as a result, Luke has taken to his Stocks and shares ISA as a tool to derive some income in the absence of monthly pay packets.

Pivoting his portfolio to meet his immediate needs

After the pandemic, Luke bought into the Ninety One Global Gold Fund, which invests around 60% into gold mining stocks. This was about a third of his portfolio but says he was "too early" in retrospect, with the investment plodding along with no major growth for several years before it was kicked into gear in 2025 when gold experienced a year of record highs.

From the start of 2020 to date, the fund has made almost 230% total returns but if you had sold out at the start of 2025 before the gold rally, you would have only made around 30% over those five years, according to data from FE Analytics.

Making 30% between July and August 2025 alone, Luke took some of the profits out of the gold fund and put them into the high dividend paying stocks he'd selected to bring in some income "to help tide me over".

Ninety One Global Gold Fund – five-year performance

Total return (%)

Source: FE Analytics

Investing for income

Using your portfolio to provide an 'income' is a well-established practice, but it's usually done during retirement.

Typically, you transition your portfolio from more aggressive wealth building focus to providing a more stable cash flow via dividends and bonds, or selling portions of your assets as needed.

The broad concept can be applied at any point in your investment journey, and for Luke he strategically put his gold returns into high dividend yielding UK shares like Aviva, Legal & General and British American Tobacco.

All these stocks offer a dividend yield ranging from 5% to 8% annually, and Luke drew up his own dividend calendar to buy into them just before their payments went out before swiftly exiting the stocks.

This is known as a 'dividend capture' strategy and involves owning an investment purely for short-term income rather than hold the stock long-term.

It's a semi-questionable investment method, as dividends are not guaranteed, even from companies heralded for them, something Luke acknowledges.

"People say to invest with a five-year time horizon, but I don't have a job at the moment. So I need to look at things which are going to bring in a bit more of a return in the short-term," he says.

"I need that cash to live," he says later on. Coming into June, Luke is looking at bringing in around £1,200 worth of dividend income.

"Once I'm back in employment and I've got a regular income stream and spare money to invest then I'll start splitting my money and putting it towards retirement say."

Putting that 'income' to work

Luke first started in investing in 2009, coming into the market right at the 'bottom' after the 2007/8 financial crisis, and it was here he developed his investment approach: looking at the top-down macroeconomic environment and investing in what he thought would do well in the coming years.

While his holding timeframe has shrunk dramatically during his current situation, Luke's investment process remains the same: "look at the macro and then work out what the macro trend is and then try to ride that wave for a while".

The Ninety One gold fund is still his "star performer" and Luke is assessing where to put any spare dividend income once he's covered day-to-day expenses and his top-down view is steering him towards oil and commodity exchange traded funds (ETFs) and away from the Magnificent Seven.

Luke is "understandably", fairly pessimistic at the moment, although he says he's always had "quite a cynical attitude" and is concerned that the US equity market is in bubble territory, akin to the dotcom boom.

"It's better to be cynical and protected than optimistic and broke," he says.

At the time of speaking, the Strait of Hormuz remained closed and no deal between the USand Iran had been agreed.

Oil has stayed around the $100 per barrel mark, and concerns are brewing about the state of global reserves and how long the world economy can handle a $110 or $120 per barrel rate.

Even if a deal was agreed this would not solve the supply issue overnight as a full reopening and getting regional energy infrastructure back on stream will take months".

Casting his view on the bond market Luke is hesitant to dive into UK government debtfor income amid the political turmoil prompting a surge in gilt yields.

Stocks over funds and trusts for income

Investing on such a short timeline means Luke has also had to weighed up what type of products he's investing in.

While specific stocks are well known for their dividend paying qualities, equity income funds and investment trusts are other established options which can offer a diversified stream of income leaving you less exposed to one or more of your individual holdings cutting or cancelling their payout.

The Association of Investment Companies (AIC) has a list of 'dividend heroes', trusts which have paid out and increased their dividend annually for at least 20 years, with some delivering this for six decades.

Luke says that he has looked at these, but because his investment timeline is out of synch with the usual long-term picture, he feels these aren't the best options for him now.

Research by AJ Bell's Investments team found that around 70% of income funds only pay out a dividend twice a year, which isn't ideal for Luke's needs right now.

And when it comes to the oil and commodity exposure, he's opting for ETFs to keep the costs of investing down. ETFs trade on the public market 24 hours a day, meaning you can instantly buy and sell at market price.

Figuring out what to do while looking for a new job in any respect is tough but one where the world feels chaotic – US, Iran, oil, gilts are just some of the headlines Luke noted – is tough but he is able to keep a steady head on his shoulders when it comes to his portfolio.

"Many people invest emotionally and it all goes horribly wrong. You have to set yourself an objective and once you hit it, you have to bin it off," he says.

"It's that classic quote 'the things you own will own you'." Never be too emotionally attached to physical objects or investments is a mantra Luke aims to stick to.

By **Eve Maddock-Jones**
Funds and Investment Trust Writer

Why India missed out on the emerging markets rally

Emerging markets (EM) have enjoyed a recovery in returns and investor sentiment during the past few months, mainly fueled by AI optimism. But one of the areas experts had pegged as a long-term winner just a few years ago is now noticeably absent from the EM conversation: India.

Cast your mind back five years ago and the investment industry was laser focused on India as an opportunity to provide some much-desired growth.

At the time, the world was still adjusting to the Covid-19 pandemic and assessing what had fundamentally changed. One of the major shifts was the redistribution of supply chains away from China as the epicentre of the pandemic, with India becoming one of the go-to options to fill the hole.

What put India in the spotlight?

India's prime minister Narendra Modi had already embarked on his 'Make in India' program seven years previously, with the goal to transform India into a global manufacturing hub, but the exodus from China in the pandemic galvanised it, and investors took note.

Rob Secker, investment specialist at T Rowe Price and part of the Emerging Markets Discovery Equity Fund team, says the historic premium Indian equities traded on expanded during the pandemic and in the years after.

"Investors were attracted by the country's resilient economy, strong earnings growth, and also by the fact that, in contrast to the region's

India topped the fund sector leaderboard in 2021

Best and worst performers

	Total return
IA India/Indian Subcontinent	28.3%
IA North America	25.5%
IA Commodity/Natural Resources	24.0%
IA UK Smaller Companies	22.9%
IA Listed Property	22.5%
IA Global EM Bonds Local Currency	–7.6%
IA EUR Government Bond	–8.5%
IA EUR Mixed Bond	–8.9%
IA China/Greater China	–10.7%
IA Latin America	–11.5%

Source: FE Analytics

How Indian funds have performed versus Chinese and broad emerging markets counterparts

Total return and rank out of 51 sectors

Name	Year-to-end of May and rank		1 year and rank		3 years and rank		5 years and rank		10 years and rank	
IA Global Emerging Markets	25.2%	3	51.5%	4	74.4%	2	46.0%	12	173.9%	8
IA India/Indian Subcontinent	–11.1%	51	–12.1%	51	11.2%	41	30.8%	19	128.1%	14
IA China/Greater China	3.6%	22	26.0%	9	32.3%	20	–14.9%	49	104.1%	20

Total returns data is cumulative to last month end overall
Source: FE Analytics

AJBell

largest economy and market, China, India was outperforming on both a macroeconomic and market basis," he says.

This layered on top of broader EM themes such as a rising middle class and a youthful population plus India's status as the world's largest democracy led to bumper returns.

In 2021 the IA India fund sector managed to snag the top spot out of all the Investment Association's sector, with the average Indian equity fund making 28.3%. In contrast, the average IA China fund lost 10.7% that year.

Cut back to today though, and this rally has faltered, with India ranking bottom over the past 12 months and year-to-date in 2026, with the average fund down between 11% and 12% on average, respectively.

Three culprits: AI, China and Iran

The reason sentiment has come off the boil for India is three-fold, according to Abbas Barkhordar, manager of the Schroder AsiaPacific Fund.

First, is that India's simply lacking competitive AI stock options, a miss given it's the biggest investment theme of the moment.

The aforementioned EM equity rally is, like most of the market momentum to be found right now, based a handful of AI 'winners' and in this region, China, South Korea and Taiwan are taking the lead.

China has ChatGPT rival DeepSeek, though this is privately owned, while South Korea has Samsung and SK Hynix while Taiwan has Taiwan Semiconductor Manufacturing Company (TSMC), with the latter three all linked to the production of the semiconductor chips and tools needed to sustain the US companies' major AI rollout.

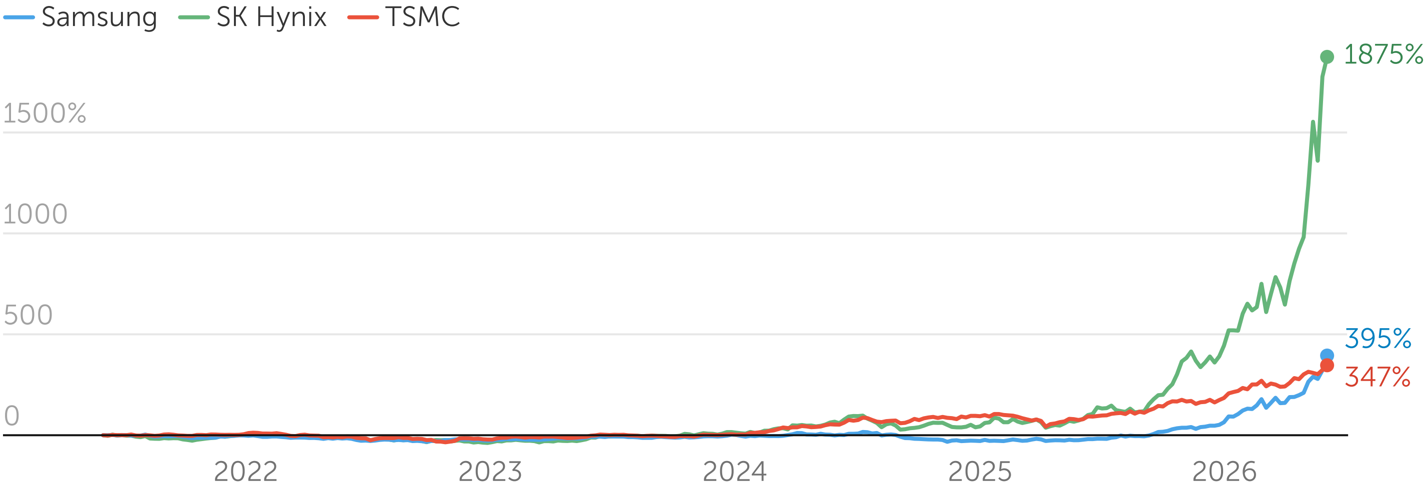
"India really has very little in that space," Barkhordar says. "If anything, India is viewed more as a potential loser from AI because so much of the traditional business models involve outsourcing, particularly around IT services for example is an area of big disruption."

Mike Sell, head of global emerging market equities at Alquity Investment Management and manager on the firm's dedicated Indian Subcontinent Fund, agreed that the lack of obvious AI plays was a major cause of the lackluster attitude he was seeing among other investors towards this market, but he countered that this could actually make it a selling point if investors are conscious of diversifying their portfolio away from AI-linked investments.

"I'm not saying that AI is not great, it absolutely is, and you want to own that in your portfolio. But

Emerging markets AI plays have surged of late

Total return (%)



Source: LSEG

that's not the only thing you want to own," he says.

The second catalyst is the resurrection of Chinese equities' performance after it tanked during the pandemic.

DeepSeek made China a firm competitor in the AI race on the large language model side of things but it's ability to quickly build up the data centres and infrastructure needed to push its domestic AI capabilities has solidified investors' optimism about the opportunity it presents.

Nvidia chief executive Jensen Huang said late last year that it can take "about three years" to build a data centre in the US, but in China "they can build a hospital in a weekend."

Sell said this was classically why sectors go in and out of style. Investors tend to follow the returns. He argues that India is especially vulnerable to this lack of long-term thinking from overseas investors because they tend to treat EM allocation as a one-in-one out approach rather than having a blend.

To him, China and India are not a like-for-like portfolio allocation but they are often treated as such as there is undoubtedly some crossover in terms of the long-term structural trends, there should be a tactical, deliberate allocation to either region for the right reasons, not one or the other when the returns tide turns.

The third headwind for India is the war in Iran, which is not an exclusive headache, but it's especially vulnerable to the energy crisis since it imports more than half its energy from the Gulf states.

Rita Tahilramani, co-manager, Aberdeen New India Investment Trust says this was having negative knock-on effects for inflation, the currency and foreign investor sentiment.

Recent reports suggested that the country's central bank would be forced to step in if the rupee continues to fall versus the US dollar.

Why India falls down on income grounds

Sometimes though, the underinvestment is driven by the type of stock investors are after, especially when they're not purely focused on just growth.

AJ Bell recently covered how income funds were investing in a broader investment universe to achieve their desired dividends, and EM equities have become a more common source for global managers.

But JPM Emerging Markets Income Fund has maintained an underweight positions in India versus the MSCI EM index for more than a decade. Manager Omar Negya says it's not a market which is "typically strong" for income as most companies prioritise reinvesting their profits for growth rather than paying out a dividend.

In the MSCI EM index, India makes up the fourth

Why sentiment has cooled towards India

1. No AI champions
India lacks competitive AI stocks. Its large IT outsourcing sector is seen as a potential loser from AI disruption, not a beneficiary.

2. China's comeback
DeepSeek and rapid data centre build-outs have revived investor enthusiasm for China, drawing EM allocations away from India.

3. Iran conflict & energy
India imports over half its energy from Gulf states. The war in Iran is pushing inflation higher and weighing on the rupee.

largest weighting at almost 12%, behind Taiwan (25%), China (23%) and South Korea (19%). In the JPMorgan fund, India makes up just 5.5%, a 6.4% deviation from the benchmark.

"The market is not a natural fit for the strategy given its typically rich valuations, in contrast to the value/quality style of the fund," Negyal explained focusing instead on opportunities in Asia, China and Latin America.

Valuations: still on a premium

Schroders' Barkhordar doesn't prioritise income, but he has also held a long-term underweight towards India versus the benchmark because of the high valuations on Indian assets.

After a period of earnings downgrades in some sectors, valuations have now normalised to around 19 times, Aberdeen's Tahilraman says, bringing them closer to the historical averages.

While Tahilramani is bullish on the outlook, Barkhordar says he's maintained a "substantial underweight" (7.5% versus 13.5%) in India simply because it hasn't delivered like other Asian equity markets.

Barkhordar is growth rather than income focused and says that looking back at 2021, valuations were "run very hard" as "people were very positive then because the market had done well. But to us, the valuations looked quite stretched".

He says that even though they are still cheap now by historic standards, he's not been pulled back in yet as the outlook on AI, Iran and energy and the currency is too unclear for his liking.

It's not all doom and gloom

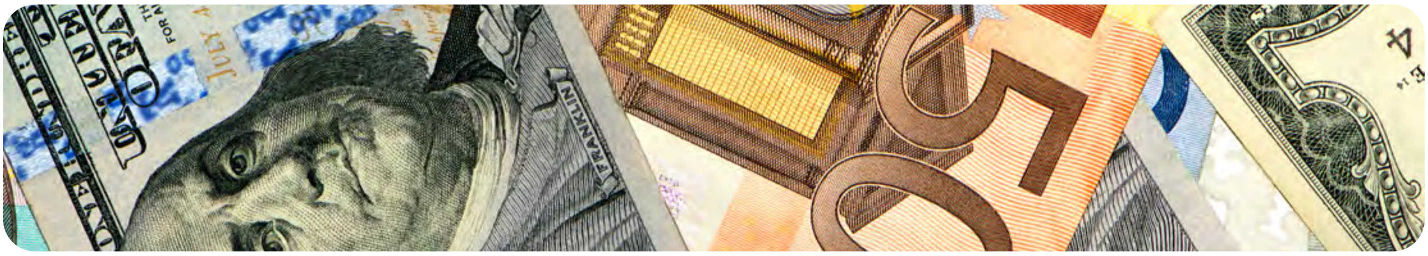
Barkhordar credits the Indian government's work galvanising the country's domestic growth, and on a geopolitical basis, India was in a less contentious position with the US and other major economies than China is, signing deals with the UK and EU for example, which Barkhordar says isn't something to be ignored.

"There are potential long-term positives, which we've never lost sight of. But in the short term, they haven't really been able to outweigh the other negatives, and valuations have been too high, he says.

"It's really that combination. It's not some big structural problem we have with India, which is still very attractive as the demographics are pretty good versus the rest of Asia."

But for him to consider moving away an underweight position, Barkhordar would need to see some positive progress on the trifecta of headaches hanging over India's investment case right now.

By **Eve Maddock-Jones**
Funds and Investment Trust Writer



Why you need to think about valuation and concentration risks when investing globally

The principle of reducing risk by spreading investments across different sectors and companies can be given another layer of diversification by considering investing in international markets.

Helpfully, there is an excellent range of products and instruments which allow you to participate in the returns from markets across the globe.

While there are additional risks to consider when investing internationally like currency fluctuations and different accounting standards, there are also advantages.

These include getting access to industries not well represented in the UK, such as technology in the US, semiconductors in Taiwan, pharmaceuticals in Switzerland and automation in Japan.

Emerging economies have better growth profiles driven by younger populations and rising middle classes with India and Vietnam being prime examples.

International markets can trade on lower valuations because of higher political uncertainty or temporary economic weakness.

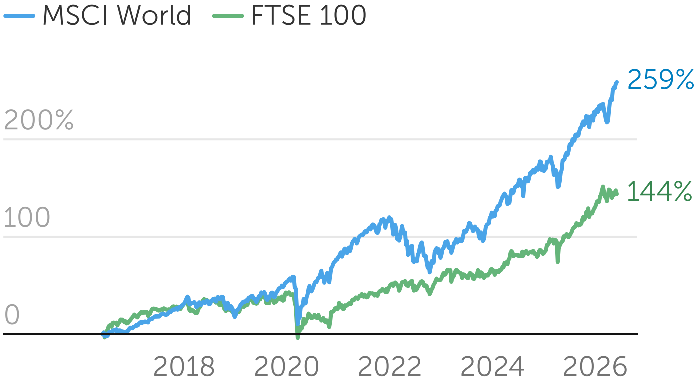
Global equity trackers are very concentrated

An effective and cheap way to achieve global equity diversification is by buying ETFs (exchange traded funds) which track one of the two leading global equity indices.

The MSCI World Index tracks developed equity markets while the FTSE All World Index tracks both emerging developed and emerging markets. As the chart shows the MSCI World has handily outperformed the FTSE 100 over the last 10 years.

Global stocks have outperformed UK shares over 10 years

Total return (%)



Source: LSEG

AJBell

It is worth bearing in mind that due to the strong performance of US markets over the last 15 years, global indices are more concentrated than they were a decade ago.

The US represents around two thirds of the index, up from 45%, while the top 10 companies make up a quarter of the index versus roughly 10% in 2016.

Top holdings are dominated by large US technology companies including Nvidia, Apple, Microsoft, Amazon and Alphabet.

Higher concentration reduces some of the potential diversification benefits while a significant US valuation premium raises risks that future returns may be lower.

Is the US valuation premium sustainable?

Undoubtedly the US is home to some of the fastest growing technology companies at the cutting edge of the AI revolution.

Goldman Sachs recently raised its 2026 earnings per share forecasts for the S&P 500, implying 24% year-on-year growth followed by a further 13% in 2027.

It may seem counter-intuitive, but anticipated earnings growth and stock market returns do not always move in lockstep. The main reason is that markets are forward looking.

For example, near the end of recessions investors typically look beyond near-term earnings growth (which will look awful) to anticipate economic recovery.

A similar pattern is often observed near the end of economic expansions, though in reverse as investors start to recognise that earnings assumptions may already be priced into valuations.

In simple terms, what you pay for growth is just as important as the growth itself which is always uncertain. As Oaktree founder Howard Marks has noted, buying a good company does not always make a good investment and overpaying can lead to trouble.

Selection of global forward price to earnings ratios

Market	Forecast PE
MSCI Emerging Markets	11.8
FTSE 350	12.4
Stoxx 600	14.2
Topix	16.5
S&P 500	21.1

PE = price to earnings ratio
Source: LSEG

It is useful to think of valuation like a piece of elastic, the further it stretches beyond a certain point the more it is likely to spring back to normal.

As the table shows, the S&P 500 trades on almost double the forward PE (price to earnings) ratio of the MSCI Emerging markets index.

The rating has expanded from around 1.3 times a decade ago and a similar trend can be seen for the FTSE 350 index which was trading at parity with the US as recently as 2016.

The relative cheapness of the UK market against the US goes some way to explaining the raft of takeovers seen in the UK over the last few years.

Emerging markets and Japan outperform

Valuations are not a direct guide to future performance, but they can play a role in identifying imbalances in underlying market sentiment which are ripe for reversal.

Despite the S&P 500 making all the headlines with record breaking highs the Japanese Topix index and the MSCI World index have both outperformed the US benchmark over the last year.

This demonstrates one of the key advantages of having a genuinely diversified global portfolio of investments.

By **Martin Gamble**
Shares and Markets Writer

Listen for more

You can access the free AJ Bell Money & Markets Deep Dive podcast in the usual podcast places and the Deep Dive episodes are dedicated to looking at an individual topic in depth. An upcoming episode will look in detail at investing overseas.

How can I make the most of my last years working?

Ask the experts

Sarah Coles is on hand to answer your personal finance questions.

If you'd like a question considered for a future edition send it in now.

I retire soon and want to make the most of the time I have left earning a regular salary. I'm already well set up financially so what shall I do with any spare cash.

Should I look to invest for income generation so I don't touch my main retirement pot and just cream off the income for treats etc? Should I be thinking of moving into more cash like investments away from individual company stocks and ETFs? And should I use an ISA or a SIPP?

Simon

Sarah Coles,
Head of Personal Finance, says:

It's human nature to think of different chunks of your savings and investments as completely separate. This kind of mental accounting can be useful, but there are times when it can lead us astray.

Instead of thinking of the money you put aside now separately from the rest of your portfolio, you can consider it as part of the mix. If you have enough cash or cash-like assets to cover the cost of extra spending and treats in early retirement, you don't need to think of this as a short-term investment.

You might want to use it to boost your income throughout retirement, so you have more left over each month for luxuries. How you invest this will depend enormously on how you plan to take this income. If you were to get an annuity with the whole pension pot, it means crystalising it in the near future, so if you aren't already derisking your investment portfolio, this is an absolute priority. It means any investment would need to be down the lower-risk end of the spectrum.

If you are planning to use drawdown in your pensions, you will want to do some derisking and diversification, shifting some of the pot into less volatile assets as you approach retirement. It makes sense to consider investing for income, but you're also likely to want to keep some invested for growth.

You could be retired for three decades or longer, so some of these investments are for the very long term. The money you are setting aside now could fit into this broader picture. If you're taking a mix and match approach, with some drawdown and some annuities, you will need to find the right balance of income, risk and growth for your needs.

The next question is around the right vehicle for the money. If you want to use it for very short-term cash needs, an ISA may be a sensible approach. SIPPs can take more time and effort when it comes to withdrawing funds. The process is longer and there are more questions about how you withdraw it, whether as a tax-free lump sum or income or a combination of the two. Using ISAs gives you easier access to the money.

However, if you are using this money to boost your income as you go along, or create gains you can spend on luxuries, the tax breaks on a SIPP may be particularly appealing - especially if you're a higher earner – assuming you don't earn enough for it to affect your annual allowance. You need to balance this against the fact that ISAs offer flexibility and tax-free withdrawals, so it usually makes sense to hold ISAs alongside your SIPP too.

Young investors are paying the price for regional education inequality

Mark Gardner Award for Journalism

This award was set up in memory of Mark Gardner, a member of the AJ Bell Media Team who sadly passed away in 2022. Well done to University of Salford student Kenzie Harrison who took the £5,000 prize associated with the award – a sum which was supplemented considerably thanks to the generosity of Mark's family. The brief for participants was to discuss whether investing in the stock market should be taught in schools. Kenzie impressed the judges who praised her for "a well argued article," with "good quotes that added colour and a human element."

For many young working-class northerners, investing has often felt like a fantasy reserved for generationally wealthy Londoners, who already have a foot in the door.

Yet as direct access to investing and stocks becomes increasingly accessible, this perception is beginning to shift. A 2026 survey by Censuswide commissioned by Finder found around 40% of UK adults had invested in stocks and shares, along with two thirds of Gen Z, demonstrating young people's clear interest in economic autonomy.

Concerningly, this rise in investing has not been distributed evenly across the country, and it seems that Britain's poorest regions are being left behind. While more than two-thirds of Londoners had invested, the North East trails the rest of England at just 49%.

This disparity is often framed as a question of income, but recent research by Wealthify seems to reveal a gap in education. After polling over two thousand Brits on their level of financial literacy, the North East consistently scored the lowest, particularly on questions regarding inflation and investing.

Similarly, under 30s performed worse than all other age groups, highlighting concerns about whether the next generation of investors is sufficiently prepared to navigate the stock market.

This lack of access to knowledge suggests young people from the North East are at a disadvantage to their peers before they even consider investing.

While the data illustrates this inequality, Dom Lott, a twenty-year-old Hartlepudlian studying at Kingston University, has experienced it first-hand:

"I didn't do any economics or business at school. I didn't have an education in investing at all. The people I know who are quite successful generally come from a wealthier background."

"Their parents have a background in finance, so a lot of [knowledge] comes from their parents."

Without that foundational knowledge to build on, Dom's early investments were essentially gambling, and he sometimes found himself losing as much money as he'd earned.

He said he wished he had been taught earlier where to invest, and how to mitigate risk when investing. He said:

"You need to be educated on that, otherwise it does just increase wealth disparity. Being able to save any amount of money and then invest it will just be a great benefit to the people in the North East."

For Dom, and many others like him, the solution is clear: schools must step in to teach what many may never learn, or risk widening the existing inequalities found across the country.

Kenzie Harrison.

How can I access the pension I built up in the US?

Ask the experts

Rachel Vahey is here to answer questions on pensions.

If you'd like a question considered for a future edition send it in now.

I worked in the US for a few years before returning back to the UK. Whilst out there I built up a $31,000 pension in 401A and 403Bs (education equivalents of a 401K). Unlike my UK-based SIPP pension which I can access from 55, I cannot access these until 59.5 years old.

I know there is a tax treaty between the US and UK. Fortunately, I still have a US bank account and credit card. Please can you tell me how I access this pension from the UK and pay tax on it? Do I need to report to the IRS as well? My tax-free allowance will be used up by my UK pensions.

Ian

Rachel Vahey,
AJ Bell Head of Public Policy, says:

In the modern global business environment, it's easy to see how someone can build up pension wealth in one country and then take the income in another.

A first instinct may be to think about transferring your pension to the UK. However, pensions cannot be transferred between the UK and the US, as the two countries' regimes are essentially incompatible.

So, instead, let's start by looking at the features of your US pensions. Although you can access your UK SIPP from age 55 (rising to age 57 from 2028), you cannot access these funds until you are approaching your 60th birthday otherwise you could incur hefty US penalties. Most providers will

let you take either regular income payments or you could withdraw your entire accumulated balance all at once. While that gives you full access, there will be tax implications, and the entire amount is subject to income tax in the year you withdraw it.

Theoretically, you may also be able to use your account balance to buy an annuity, but in reality most US providers will only set up an annuity for someone with a US address or tax ID. There could also be tax implications on taking this route.

If you decide to withdraw money from your account, first contact your US pension provider, who will be able to tell you your current balance and what withdrawal options you have. You will also want to check whether non-US residents can maintain the accounts.

In broad terms, if you are now UK tax resident and no longer US tax resident, your income will be subject to the UK-US double tax treaty. A double tax treaty is an agreement between two countries to prevent the same income or gains from being taxed twice. It determines which country has the right to tax you and, if both claim the right, outlines either a tax exemption or a credit for taxes already paid.

How it could work in practice

In practice, this means the US may still tax withdrawals from these pensions first. But if you also report the income to HMRC on your UK Self Assessment tax return as foreign pension income, you can usually claim foreign credits for any US tax paid, so you should not be taxed twice on the same money.

(Be aware that HMRC recently clarified their position on lump sum payments from US pensions, confirming that they will also be subject to UK tax, with a foreign tax credit allowed for any US taxes paid.)

You should also check with your US provider whether the plans levy withholding taxes automatically for overseas residents unless treaty claims are submitted in advance.

As you have a US bank account the income can be paid directly into that. However, you will bear the currency risk of converting dollars into pounds, and your retirement income will fluctuate with exchange rates.

Whether you also need to file with the IRS depends mainly on your US status. If you are not a US citizen or green card holder and have no other US filing obligations, you may not need to file annual US tax returns once treaty paperwork is in place.

This can be a very complicated area, especially when it comes to lump sum payments, so it may be a good idea to get cross-border tax advice before taking income, and especially before taking a full encashment.