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AUGUST 2026

WE MAKE INVESTING EASIER

Uncovering the SpaceX of today *and* tomorrow

Having descended to earth after a stratospheric IPO, what comes next?

SECTOR REPORT

INCOME INVESTING

Which sectors pay the biggest dividends?

RETIREMENT IN FOCUS

Gifting to loved ones in retirement? What you need to know

FEATURE

The price signal helping to research quality stocks

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Editor's View: Tom Sieber

When is the right time to sell an investment?

How long do you persist with an investment that isn't working out. It's often one of the hardest questions for investors to answer and a conundrum most of us will have wrestled with at some point.

I'm not talking here about periods of short-term volatility or market corrections when there is a strong argument for holding your nerve in the face of wider panic, as we have discussed in these pages before. Instead, this is about the investments which have consistently disappointed on a longer-term basis.

It can be frustrating having done your research and convinced yourself of the merits of a particular fund or share to see the market take not a blind bit of notice and leave your holding languishing for long periods.

Yet as John Maynard Keynes observed, "markets can remain irrational longer than you can remain solvent" or in other words the pain of holding on to a losing position in the hope or expectation it can turn around can eventually tell. Crystallising a loss can feel painful too but at a certain point you may have to admit defeat and accept the hit as a necessary prerequisite for putting your money to work in a more fruitful fashion.

What to think about with a fund

But when and how do you decide it's actually time to move on and call it quits? First, it's worth saying that the decision-making process will have differences depending on whether we're talking about a fund or a stock.

With a fund, you would certainly want to look at performance through a long-term lens. Crucially, you'd want to think about the role it is playing in your portfolio. It might for example be generating less racy returns than more fashionable holdings but if it is offering some stability that might still be useful to you.

If a fund consistently underperforms over a long period and the manager shows little sign of being able to address the weak performance then that can certainly be a reasonable cue to cut your losses.

In my view it's even more of a spur to hit the sell button if there is a big shift in the investment philosophy which attracted you to the fund in the first place. Ideally you don't want managers who sway with the wind but ones who will stay the course in the hope and expectation this consistency will pay off in the long run.

With a share, again a dramatic shift in strategy can be a cue to reassess. But a plunging share price isn't an automatic reason to sell a great company, so long as the investment case remains intact and the business has just encountered a short-term speed bump.

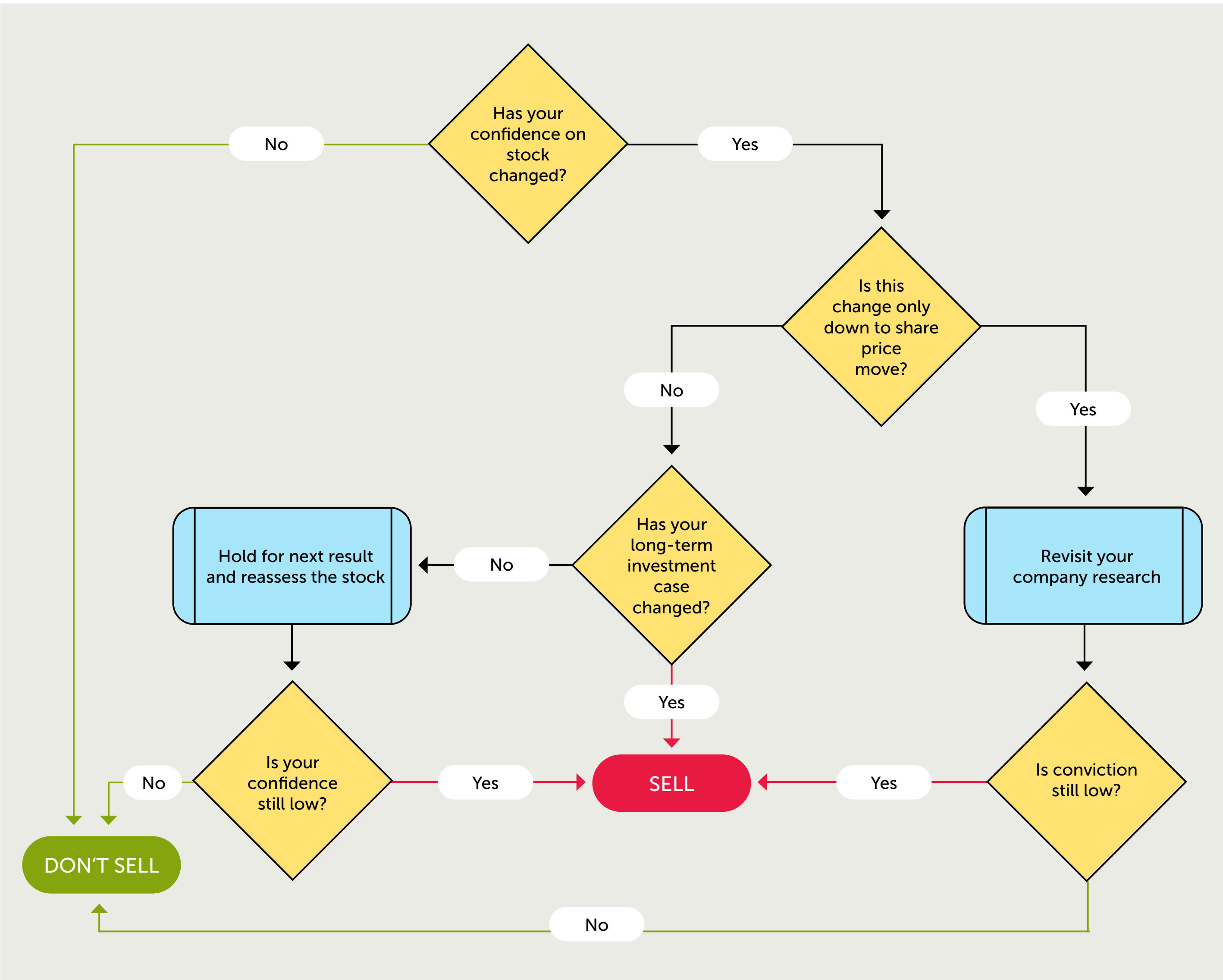
Asking tough questions

You should ask yourself some tough questions, such as has the fundamental investment thesis changed, are you simply reacting to a share price fall, and is it worth monitoring the stock a little longer to see if your continued confidence is justified?

What investors are often waiting for is a catalyst which can help drive an improvement in the share price. This could be a marked improvement in trading, a change at the top, a major contract win or the announcement of a credible recovery plan.

The flow chart below could help give you a rough framework to base your decisions on.

Valuation, the trajectory of profit and cash flow, a company's M&A strategy, a change of management or even just the emergence of more compelling opportunities elsewhere are all reasons you might reconsider an investment. Just make sure it's a considered decision not one made in haste.



Nvidia needs to address margin and competition worries

AI chip maker Nvidia is heading into its quarterly results with arguably the most subdued sentiment it has seen since the AI theme got underway – bar perhaps the period around Liberation Day tariffs in April 2025.

As Bank of America (BofA) analysts observe there are four main points of concern for investors. One is the pressure it might face on gross margins from increased costs, particularly for memory-related kit. Another is competition from custom-made AI chips – something which Alphabet-owned Google has been at the forefront of in partnership with Broadcom of late.

BofA's Vivek Arya thinks these worries are overdone – suggesting the company has underappreciated pricing power which will allow it to pass on higher costs to customers and therefore protect its profitability. He also notes that custom chips have been around for several years, from the likes of Google, Amazon and Meta, and that hasn't

Nvidia is trading at its lowest PE in nearly eight years

Source: LSEG

proved an impediment to its recent growth. In his view Nvidia will sustain a 65% to 70% share of overall AI capital expenditure over the long term.

Investors will be looking for evidence to back up this confidence in both its competitive position and margin performance when it unveils its second-quarter earnings on 26 August.

Concern about being a crowded trade and investing in customers

Arya gives slightly more credence to fears that Nvidia is now a crowded trade given it is in 78% of active S&P 500 funds and to reservations about its use of cash to invest in customers – such as Coreweave, Nebius and ChatGPT-owner OpenAI – rather than rewarding shareholders with dividends and share buybacks.

The resemblance to vendor financing, where clients are lent money to pay for goods and services, may have uncomfortable echoes for those who can recall the dotcom boom and subsequent crash. Back then companies like Cisco and internet equipment giants provided this financing, which boosted demand in the near term but exacerbated the slowdown which followed.

Nvidia Q2 forecasts

Revenue	$91.8bn
EPS	$2.09

Source: Zacks, data to 21 July 2026

AJBell

The more sober feeling in the market towards Nvidia is reflected in its valuation. Based on consensus forecasts the company trades on less than 19 times 12-month forecast earnings – its lowest level in nearly eight years.

UK Stocks	
Hays (FY)	20-Aug
JD Sports Fashion (TU)	20-Aug
Prudential (HY)	27-Aug
Dunelm (FY)	08-Sep

Overseas stocks	
Home Depot (Q2) ☼	18-Aug
Cisco (Q4) ☽	19-Aug
Walmart (Q2) ☼	20-Aug
Palo Alto Networks (Q4) ☽	24-Aug
Nvidia (Q2) ☽	26-Aug
Crowdstrike (Q2) ☽	02-Sep
Salesforce (Q2) ☽	02-Sep
Broadcom (Q3) ☽	03-Sep

Key economic announcements	
UK CPI inflation (Aug)	19-Aug
FOMC Meeting Minutes	19-Aug
Jackson Hole Symposium	21-Aug
US Core PCE Index (Aug)	26-Aug
US GDP (second Q2 estimate)	26-Aug
US jobs	04-Sep

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

Can Musk turn SpaceX's space-age vision into profits?

SpaceX

Key stats
Share price: $138.7
Market value: $1.8 trillion
PE 2027: 98.5
Dividend yield: N/A

PE = price to earnings
Source: Stockopedia

What is SpaceX today and what are its ambitions?

Answering these questions are key to understanding the investment case behind the newly-listed business.

The successful initial public offering of shares in the Elon Musk controlled company SpaceX, means thousands of retail investors now have a financial interest in the company.

Following the end of the blackout period restricting investment banks from publishing their research, those reports are now in the public domain, which means consensus analysts' forecasts can be compiled.

It is fair to say that SpaceX is an unusual company with lofty ambitions, and although it has developed a profitable business launching rockets and operating satellites, the group is not forecast to become cash flow positive for several years, as capital expenditures ramp up.

This means most of SpaceX's $1.7 trillion market value is based on estimated future cash flows, which stretch many years into the future. This makes SpaceX's theoretical market value more sensitive to movements in interest rates.

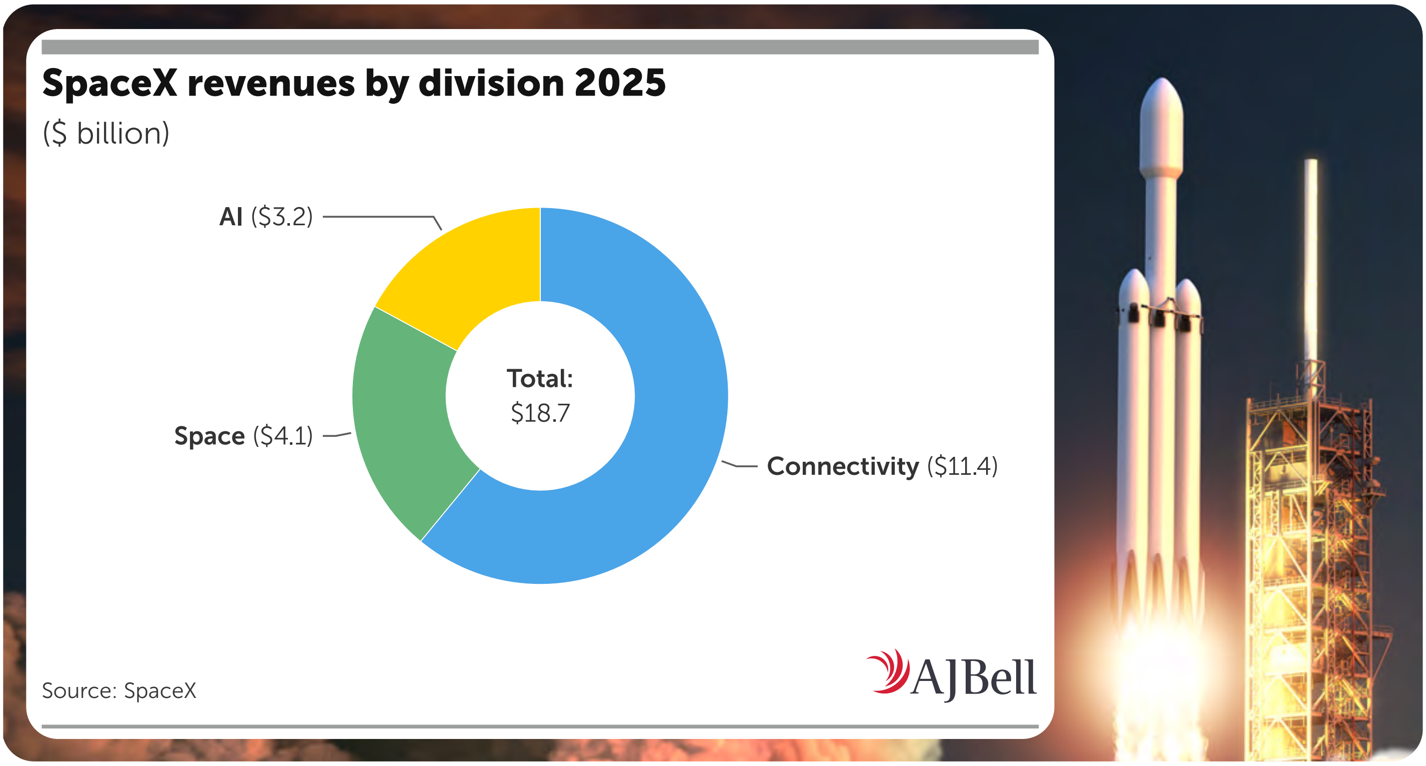
Musk's vision will require significant external funding and solid execution, and with the entrepreneur controlling around 82% of SpaceX's voting shares, he is pivotal to the culture and success of the company.

This means that an investment in SpaceX has a higher than usual key man risk element.

Given the company is currently loss making, it is useful to compare how it looks today with what it might become in the future.

What is SpaceX today?

Group revenue for 2025 was $18.7 billion, growing by a third from the prior year. The largest contributor was the 'connectivity' division Starlink, which generated revenue of $11.4 billion.



Starlink is the world's largest LEO (low earth orbit) constellation with 9,600 broadband and mobile satellites, serving more than 12 million customers across 164 countries.

JPMorgan estimates the company has a broadband market share of 3% with the potential to grow its share to 8% by 2030. Starlink is an important cash flow generator for the group and the only profitable part, delivering EBITDA (earnings before interest, depreciation, and amortisation) of $7.2 billion in 2025, equivalent to a margin on sales of 63%.

Rocket launch leadership

Launching satellites is SpaceX's core competency and a key competitive advantage. Its technological leadership is characterised by rapid reusability and affordability which are unrivalled in the industry.

The company has completed around 670 orbital launches with a 99%-plus success rate, representing more than 80% of all launches into the earth's orbit since 2023.

SpaceX's next generation Starship V3 promises to deliver a step change in the technology with a 10-fold improvement in cost combined with a four-fold increase in load capacity compared with the current rocket technology, Falcon 9.

The Falcon business generated revenues of $4.2 billion in 2025, anchored by contracts with NASA (National Aeronautics and Space Administration), national security missions as well as commercial customers. The launch business made a loss of $657 million.

AI infrastructure and data centres

AI infrastructure is the third leg of SpaceX and arguably the most important. It came into existence through the acquisition of Musk's privately held company xAI, which owns Grok, a large language model which competes with OpenAI's ChatGPT, Anthropic's Claude and Google's Gemini.

Shortly after the IPO, SpaceX announced the $60 billion acquisition of AI coding firm Cursor in an all-stock transaction.

Cursor had been training its models on xAI's infrastructure, so the purchase was made to get direct control of an enterprise distribution channel for Grok, rather than building one from scratch.

Cursor has more than 50,000 enterprise clients and claims roughly two-thirds of Fortune 500 developer bases use the product.

The AI business posted a loss of $6.4 billion in 2025 on $3.2 billion of revenues.

In summary, the Starlink business is funding the other activities with the launch business nearly at break-even while the AI business is currently heavily loss making.

What could the future SpaceX look like?

JPMorgan analyst Doug Anmuth sums up SpaceX's ambitions: "SpaceX's ambitions are bigger than any company's we've ever seen, to build the systems and tech to make life multi-planetary, to leverage the power of the Sun to help build out AI, and to ultimately build bases on the Moon and cities on other planets."

Analysts at Bank of America believe SpaceX is uniquely positioned as "the only company operating at scale across launch, manufacturing, communications infrastructure, orbital operations, and prospective compute deployment".

The key to Musk achieving his vision seems inextricably linked to the successful roll out of AI infrastructure which sits at the heart of all SpaceX's activities.

The company is aiming to tap into the demand for AI data centres and has a target to grow capacity eight-fold by 2028 while also improving the capability of Grok through the integration of Cursor.

From 2029 onwards Anmuth expects SpaceX to build data centres in orbit utilising the rapid rocket launch and reusability capabilities of Starship. Data centres operating in orbit are expected to offer a significant cost advantage over terrestrial-based datacentres.

Space-based datacentres can receive almost continuous direct sunlight in certain orbits, reducing the need for power grids, fossil fuels or large battery systems.

In addition, the cold environment in Space makes it possible to radiate heat away without consuming large quantities of water for cooling, which is a growing challenge for facilities on Earth.

What did SpaceX' debut quarterly results reveal?

In its first ever quarterly results as a public company released on 4 August, SpaceX revealed an almost doubling of revenues to $7.8 billion and a net loss of $541 million, both ahead of analysts' estimates.

Starlink connectivity revenues grew 66% to around $4.3 billion, driven by a doubling in the number of subscribers while AI revenue was up 250% year-on-year to $2.6 billion.

The better-than-expected results were overshadowed by ballooning capital expenditures, which jumped to over $18 billion from $2.8 billion, compared with analysts' forecasts of $13 billion, as the company ploughed $15.8 billion into AI infrastructure.

Investors have become increasingly sceptical about AI spending delivering the expected returns on investment as hyperscalers ramp-up spending in the race to develop the best large language models.

SpaceX shares fell by around 10% after the results to $112, to sit around 20% below the $135 IPO price, and 50% below the highest price of $225.60 reached on 16 June. A subsequent rally helped lift the shares just above the IPO level.

The maiden results trigger the release of 911 million insider-held shares on 6 August, which, if these insiders exercised their ability to sell would roughly double the size of the free-float.

SpaceX consensus forecasts

	2026	2027
Revenues ($bn)	39.3	73.7
Net profit ($bn)	–0.1	16.4
EPS (S)	–0.4	1.4
Free cash flow ($bn)	–28.8	–49.2

Source: LSEG, Stockopedia

How will growth be funded?

SpaceX's plans require lots of external funding because the Starlink cash flows are not big enough to fund all the investments required.

Anmuth estimates it will take until 2031 for SpaceX to become cash flow positive while noting that any cost overruns or delays could extend the period of negative free cash flows.

Over the five-year period from 2026 to 2030 Anmuth models $350 billion of negative cash flows, mostly funded by debt. The peak negative free cash flow year is expected to be 2029, when it is forecast to reach $107 billion.

AI hyperscalers often frame the argument for huge capital expenditures on the premise that the risks of not participating in the buildout are higher than not spending and falling behind in the AI race.

How big is the AI market?

SpaceX's estimate for AI's total addressable market of between $26 trillion to $28.5 trillion suggests there is enough room for a few players to take a meaningful market share, rather than a 'winner takes all' outcome.

That said, with so many large well-funded competitors and alternative open-source models vying for superiority, all we can say with any certainty is that there is a wide range of possibilities.

Competitors by business segment

Competitors in the Space segment include United Launch Alliance (Lockheed Martin and Boeing), Blue Origin (Jeff Bezos) and Nasdaq-listed Rocket Lab.

In satellites, competitors include Amazon Leo, Eutelsat One Web and AST Space Mobile.

AI frontier model competitors include Alphabet, OpenAI, Anthropic while in cloud and AI data centres SpaceX competes with Amazon, Microsoft and Meta Platforms. Specialist cloud computing operators Nebius and CoreWeave are also competitors given their focus on AI.

As SpaceX moves into chip design and manufacturing it will face competition from Nvidia, AMD and Intel as well as custom AI chip designers Broadcom and Marvell.

TSMC is the largest manufacturer of advanced AI chips, while Samsung and SK Hynix dominate in high bandwidth memory chips.

It is worth pointing out that critics consider SpaceX's projected addressable market as unrealistic.

In his post IPO analysis, New York University professor and valuation expert Aswath Damodaran comments: "If the prospectus is to be believed, SpaceX has the largest total addressable market of any company in history, with a total addressable market of $28 trillion, and AI accounts for $26 trillion of that market estimate.

Damodaran, for his part, estimates a total addressable market of between $3 trillion and $4 trillion.

Will Tesla join the SpaceX fold?

While analysts do not believe a combination with Tesla is imminent, the shared AI ambition of the two companies makes the logic of a merger or takeover compelling.

JPMorgan's Doug Anmuth offers the following perspective: "A phased/partial combination could de-risk the likely regulatory & governance hurdles and provide a longer runway toward what we think may ultimately be an all but inevitable combination."

Does SpaceX have direct competitors?

The short answer is no, because of the way SpaceX operates.

SpaceX is vertically integrated which means it controls all aspects of its operations from design and manufacturing through to distribution and sales. Analysts argue that this business model enables the company to build faster and remain cheaper than industry standards.

Over time SpaceX intends to extend its vertical integration to include chip design and manufacturing through the Terafab initiative with Tesla & Intel.

Vertically integrated businesses have strategic advantages beyond the financial benefits (higher margins) such as quality control and pricing power.

These factors mean that SpaceX has few genuine competitors, although it has many competitors in each business segment in which it operates.

By **Martin Gamble**
Shares and Markets Writer

Dave Lewis serves up a recovery plan for struggling Diageo, can it work?

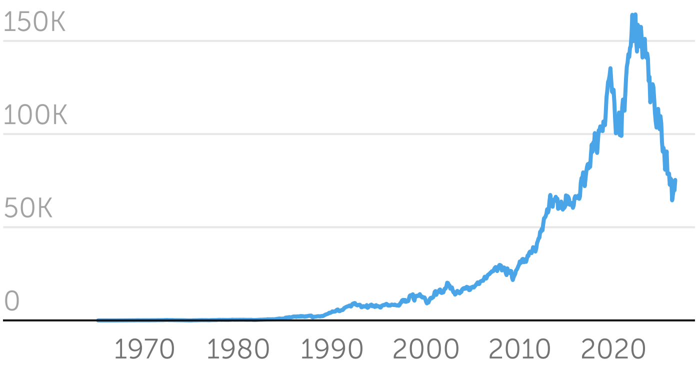
Current Diageo CEO Dave Lewis is known as a specialist in corporate turnarounds and he certainly has a big job on his hands at his current employer.

Headquartered in London's West End, the company owns several iconic brands including Johnnie Walker whisky, Smirnoff vodka and Guinness as well as Captain Morgan rum, Tanqueray premium gin and Baileys cream liqueur. As well as this enviable portfolio, Diageo has a robust distribution network and strong marketing capabilities.

Yet the shares have more than halved from 2022 highs. Hit by a combination of consumer spending pressures, inventory backlogs and shifting appetites for alcohol, accelerated by the proliferation of weight loss drugs. Debra Crew replaced Ivan Menezes after his untimely passing June 2023 but struggled to address these challenges before her departure in September last year.

Diageo

Total return (%)



Source: LSEG

Diageo

Key stats
Share price: £17.86
Market value: £38.6 billion
PE 2027: 14.5
Dividend yield: 2.8%

PE = price to earnings
Source: Stockopedia, as at 7 August 2026

The headwinds facing the business undermined what was for some time a successful 'premiumisation' strategy where Diageo relied on people trading up to more expensive, high-margin spirits. Instead, people are trading down to cheaper options or reducing their intake all together.

Lewis putting his turnaround credentials to the test

Thanks to his previous success, most notably at Tesco, the appointment of Lewis in November 2025 was welcomed by the market. A decision to halve the annual dividend and a cut full-year growth forecasts in February, as he sought to give himself a steady base from which to improve Diageo's fortunes, led to some short-term pain for the share price.

On 6 August, to a largely positive market reception, Lewis unveiled his detailed recovery strategy for the business. There were several key elements to the plan. Diageo will cut $1 billion in costs over the next three years. This will be achieved by a rehaul of the operating model and supply chain with thousands of job cuts.

Over the medium term Diageo expects to deliver low single-digit organic sales growth and mid single-digit growth in profit. Not the sort of guidance likely to generate huge excitement but if delivered consistently it could be sufficient to help rebuild the company's credibility with the market.

This growth will be underpinned by expanding the shining star of Diageo's business in recent years – Guinness – across the globe, investing more in affordable brands like Smirnoff and Captain Morgan and expanding in the fast-growing 'ready-to-drink' segment. Think pre-mixed cocktails served in a can.

This is an area where Diageo has an existing footprint through brands like Smirnoff Ice, Gordon's Gin & Tonic and Captain Morgan and Cola but Lewis says it will now introduce canned cocktail products for all Diageo's core spirits brands.

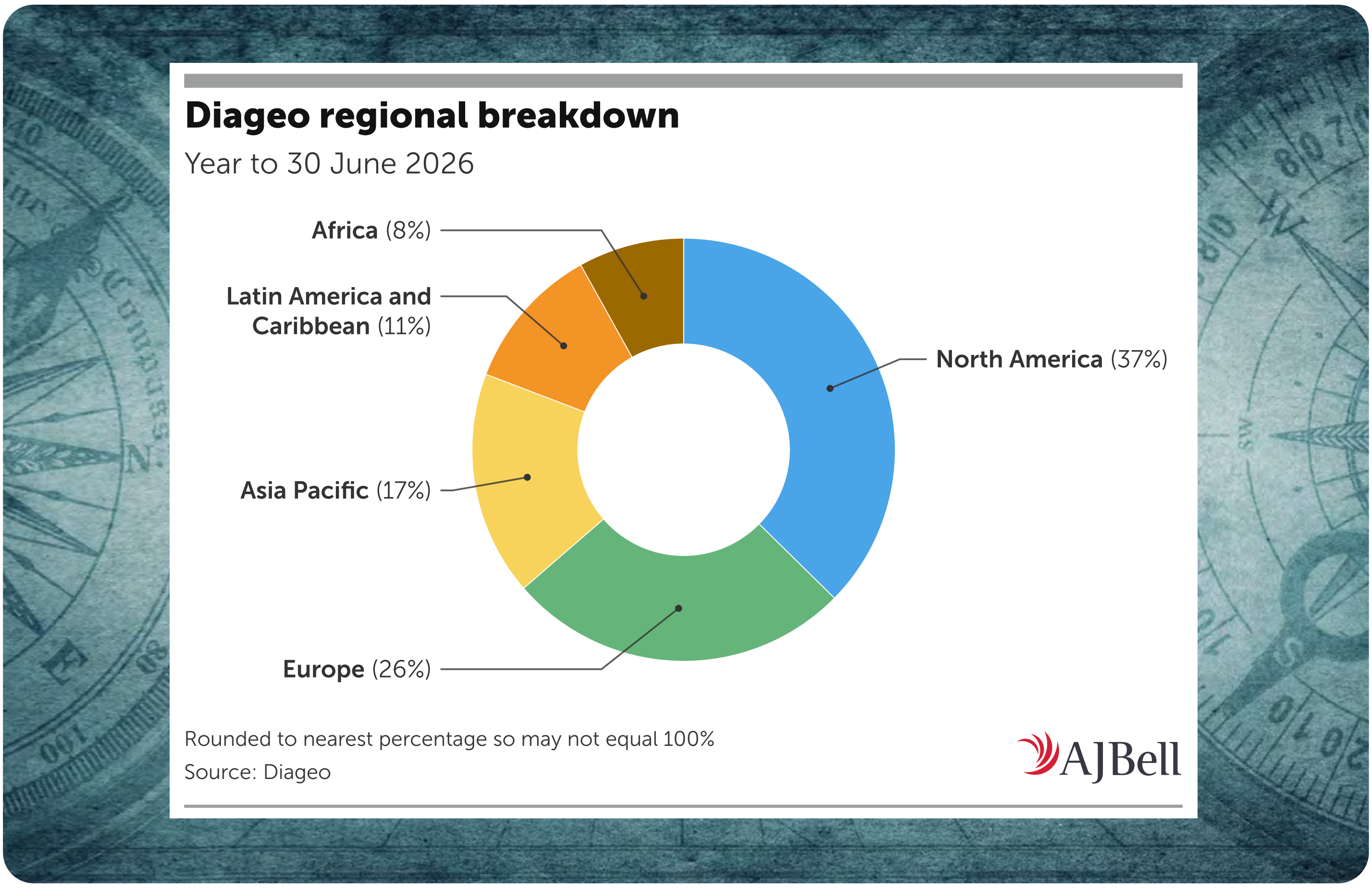
One risk a company trying to shift to a more mass-market appeal faces is the integrity of its premium brands being compromised. Berenberg analyst Javier Gonzalez Lastra thinks this can be avoided.

He notes: "Investment in pricing [price cuts] will remain very selective, and management emphasised on several occasions that no margin or profit rebase is required. It will not be easy, but we believe Diageo has a very clear execution plan."

A key feature of the plan is its focus on organic growth. There may be relief that Diageo is not going to seek out acquisitions as a shortcut to reshaping its portfolio. These could provide a distraction to management and would bring integration risks.

Getting the US back on track is key

Getting the North American business back on track is significant for Diageo given it derives a hefty chunk of its revenue from this market.



Writing ahead of the strategy update, Bank of America analysts observed: "The US business can be stabilised, but probably not returned to growth. We remain cautious on the industry outlook (in the US) and therefore believe that a return to sustained growth for Diageo is unlikely.

"That said, with sharper execution, targeted price adjustments and clearer portfolio prioritisation, we believe Diageo can improve relative performance and potentially regain share. We see a longer-term 'new normal' of broadly flat sales for Diageo in the US."

While Lewis' suggestion of a return to growth across the Atlantic could be achieved, he did acknowledge it would take two years to stabilise the business before this happened. Tequila is a key spirit for Diageo and the industry as a whole and Berenberg's Lastra thinks there are levers Diageo can pull here.

"This category has been hit hard by changes in immigration trends in the US, diminished consumer purchasing power and increased competition in lower-priced tiers," Lastra says: "Casamigos needed to be priced down, and that is being executed. Don Julio is rightly positioned in the ultra-premium segment. Despite the downturn, tequila continues to be the most exciting spirits category, and Diageo will try to continue to dominate."

The numbers announced alongside the changes laid bare the challenging position Diageo is in. Net sales were down 3% to $19.6 billion and there was a 27.2% drop in reported operating profit to $3.16 billion, linked to impairment charges. This followed the recent trend of stalling revenue growth and falling profits seen since the peak years between 2022 and 2024.

A key debate for investors is whether Diageo is just suffering from a cyclical downturn or whether it faces longer-term decline thanks to a lasting shift in consumer habits driven by obesity treatments, and younger demographics drinking less.

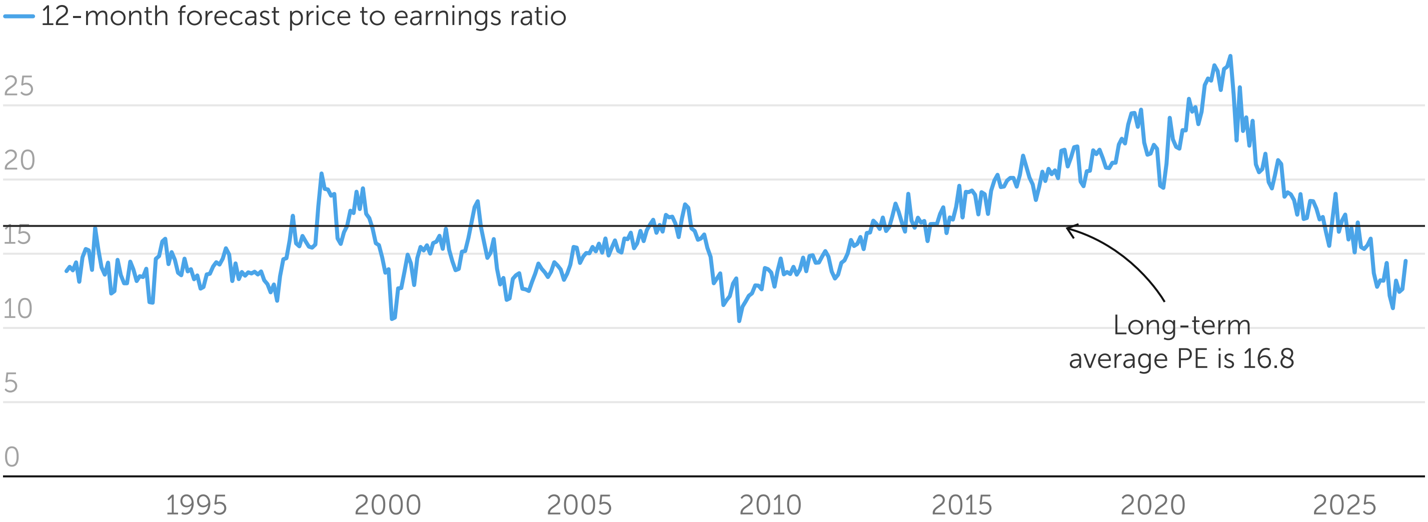
Given that on conservative estimates, humans have been consuming alcohol for at least 13,000 years it might be premature to suggest a permanent shift away from booze on the basis of recent changes. Diageo has also shown some ability to respond to shifting trends. Its Guinness Zero brand, for example, is seeing extremely strong growth, albeit from a low base.

What about competitors and the valuation?

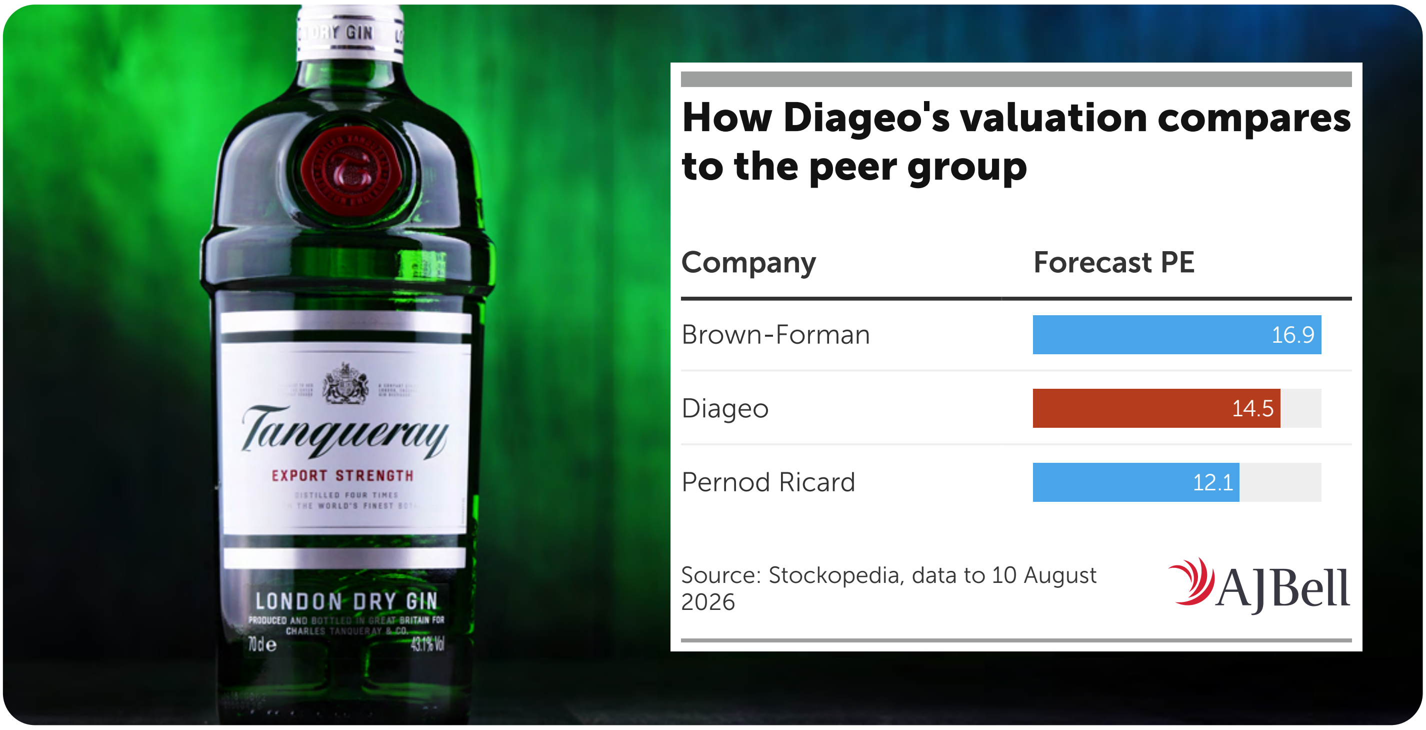
Major competitors to Diageo include Pernod Ricard, Jack Daniels owner Brown-Forman, Bacardi and Suntory Global Spirits. Yet the company is the undisputed global leader in premium spirits.

On a valuation basis, Diageo is at a discount to the average price to earnings ratio over the last

Diageo's long-term valuation trend



Source: LSEG



How Diageo's valuation compares to the peer group

Company	Forecast PE
Brown-Forman	16.9
Diageo	14.5
Pernod Ricard	12.1

Source: Stockopedia, data to 10 August 2026

35 years of 16.7 times and, as the table shows, to one of these rivals. Investors may need to decide if the 20-times plus rating the company enjoyed between 2012 and 2022 was an aberration or something it can return to if Dave Lewis delivers on his plan.

Lewis has suggested enhanced dividends and buybacks could be on the table once the company has completed some disposals and got its debt down – with some short-term spending required to deliver the restructuring programme he has outlined. Based on current forecasts the stock yields nearly 3%.

By **Tom Sieber** Editor

Discover a key price signal for investors researching quality stocks

The late Charlie Munger may not be as well-known as his close counterpart Warren Buffett, but his track record speaks for itself.

Between 1962 and 1977 his investment partnership Wheeler, Munger & Co generated a compound annual growth rate of 19.8% before fees, compared with 5% for the Dow Jones Industrials Average.

Munger was instrumental in transforming Berkshire Hathaway's investment philosophy away from buying cheap 'cigar butts' toward buying 'wonderful businesses at a fair price.'

Munger persuaded Buffett to buy premium chocolate maker See's Candies when it was making just $4 million of pre-tax profits. It subsequently went on to deliver more than $4 billion in cumulative profits for Berkshire providing the cash to fund dozens of other acquisitions.

In 2008 Munger convinced Buffett to buy a $230 million stake in Chinese electric vehicle maker BYD. A decade later the stake was worth around $9 billion.

Munger was an early shareholder in membership warehouse and ecommerce giant Costco Wholesale where he served as a director from 1997 to his passing in 2023.

Outside of his shareholding in Berkshire, Costco became one of Munger's most lucrative investments and compounding machines.

When Larry met Charlie

After reading Lawrence 'Larry' McDonald's 2009 book about the collapse of Lehman Brothers (where McDonald was a trader) Munger invited him to Omaha during the Berkshire Hathaway annual results weekend.

The nuggets of wisdom that Munger shared with McDonald during a 40-minute private conversation have become foundational pillars in McDonald's subsequent books and lectures.

In his latest book, '*How to Listen When Markets Speak*' co-written with James Robinson, McDonald reveals the following quote from that conversation;

"Larry, if all you ever did was buy high-quality stocks on the 200-week moving average, you would beat the S&P 500 by a large margin over time. The problem is that few human beings have that kind of discipline."

Munger and Buffett on charts

While we will never know whether Munger spoke those words, it seems unlikely he would reference something as mechanical as a moving average rule.

Munger's business partner Warren Buffett studied technical indicators and read charts early on in his career, but after reading Benjamin Graham's '*The Intelligent Investor*' at 19 years of age, he abandoned the approach.

Buffett once joked that he realized technical analysis didn't work when he tried turning a price chart upside down and got the same answer.

Why the underlying principles are more important

It seems more plausible that McDonald took Munger's key investment principles of discipline and patience and reframed them to fit his trading style and mentality.

The principles highlight how emotional control and temperament matter more than complex mathematics in investing. Great businesses rarely become available to buy on the stock market at reasonable valuations.

Having the patience to wait months or perhaps years for a company to become available at a reasonable price is rare in the investment world.

Subsequently having the discipline and courage to buy when others are selling can feel very uncomfortable, but these principles are the bedrock upon which Berkshire Hathaway was built.

Searching for quality stocks trading at the 200-week moving average

We crunched the data to find quality companies and then calculated where the share prices were trading relative to the 200-week moving average.

> A moving average takes price data over a specified timeframe and calculates an average. It is described as moving because the data window moves forward to encompass new data and therefore changes regularly.

To qualify for high quality, we focused on a return on equity and free cash flow to sales.

A high double digit return on equity often means a company has a defensible edge such as a strong brand or unique product.

Companies which can generate more than 10% free cash against sales can be considered high quality. It also means they have the means to self-fund growth and return funds to shareholders.

Selection of companies trading near, at, or below 200 week moving average

Company	FCF/Sales 5yr avg	price versus 200w
Property Franchise Group	28%	12%
Johnson Service Group	16%	11%
Unilever	12%	8%
Hollywood Bowl	13%	7%
Tristel	15%	5%
AstraZeneca	14%	1%
Sage	16%	0%
Nichols	10%	–4%
London Stock Exchange Group	22%	–5%
Kainos Group	15%	–11%
Alfa Financial Software	25%	–11%
Experian	17%	–12%
RELX	22%	–1...
Rightmove	56%	–1...
Thorpe (F W)	14%	–21%
AutoTrader	52%	–25%
Craneware	19%	–27%
James Halstead	12%	–28%
Diageo	15%	–32%

Source: ShareScope. Data at 7 August 2026

What's special about the 200-week moving average?

There is no magic to the 200-week moving average.

In an ideal world, where profits are growing, share prices should move up over time which technically drags the 200-week moving average up to create a rising trend.

Two hundred weeks is equivalent to just under four years, which should be long enough for fundamental factors like sales and profits to exert more influence on the share price.

Therefore, stocks trading near the moving average can signal that a company or industry is experiencing some turbulence or hiccup. That could present an opportunity or a reflect deeper problems.

What are the caveats?

Quality companies should be strong enough to get back on track to consistent levels of profitability, but this is not always the case, so good judgement is required to differentiate opportunities from businesses which have permanently lost their mojo.

Unilever shares are trading just above their 200-week moving average and have gone pretty much sideways over the last decade.

The company is undergoing a radical restructuring as it looks to transition from a sprawling soaps-to-sauces conglomerate to a pure-play household and personal care group.

Following the demerger of its Magnum Ice Cream business, Unilever announced a deal to combine its foods division with McCormick which is targeted to close by mid-2027.

This will slim Unilever down to its 30 'power brands' including Dove, Sure, Lynx, Domestos and Persil, which collectively account for nearly four fifths of group turnover. These elite brands have a superior growth profile.

After years of relying on price hikes the company latest half year results showed evidence of volume-led growth with second quarter growth reaching 5.5%, its best quarterly performance in a decade.

Companies caught up in the AI-related software sell-off

Following Anthropic's release of a suite of industry specific generative AI tools in February, software companies and data analytics firms sold off on disruption fears.

Several UK companies caught up in the crosshairs include accountancy software group Sage, credit rating company Experian, RELX, Rightmove, auto classifieds marketplace AutoTrader, and even the London Stock Exchange.

Some of these companies have regained poise but they remain significantly below where they were trading before February.

Now the dust has settled, the question for investors is which companies are potential beneficiaries, and who are the true victims.

Analysts have noted that AI agents require accurate data to avoid hallucinating, which means companies that own proprietary data like RELX and LSEG could benefit by developing their own AI tools.

Similar reasoning could be applied to Sage which has successfully integrated AI tools, helping to boost subscriptions and recurring revenues.

It might be a slightly different story for companies that act as gatekeepers to their data, especially where it can be derived from public sources.

For example, in a defensive move, Rightmove recently embarked on a £60 million investment programme to partner with Google to deploy Gemini and Vertex AI.

Analysts at JP Morgan have highlighted that Amazon Autos' potential expansion into the UK market, paired with native AI search could threaten AutoTrader's position as the primary starting point for car buyers.

By **Martin Gamble**
Shares and Markets Writer

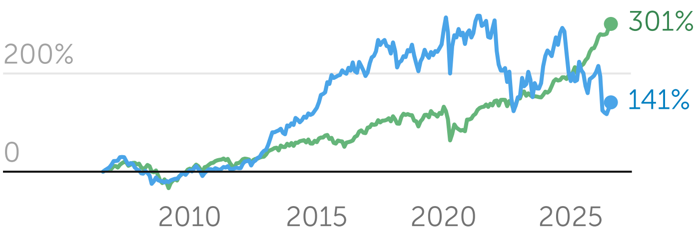
UK housebuilders: battered valuations, buybacks and the search for a recovery

Shares in UK housebuilders are sensitive to interest rate expectations and economic activity. When sentiment is in their favour, these stocks can deliver robust returns to investors. The opposite applies when there are economic or interest rate headwinds.

The housebuilding sector is in the middle of arguably its most difficult period since the financial crisis. Margins are being pressured by a combination of a stagnating property market and rising build costs.

Housebuilder shares are under real pressure

Total return (%)



Source: LSEG

Both of these factors are linked to the consistent inflationary pressures seen since the pandemic which have resulted in interest rates staying higher for longer.

What's gone wrong of late?

Just as the sector thought it could count on a cycle of continuing rate cuts, the Iran conflict has intervened in 2026 to change the dynamics around inflation and rates and nip a nascent property market recovery in the bud.

In particular, events in the Middle East have pushed yields on UK government debt higher. Because the cost of borrowing is largely dictated by movements in gilt yields, this upwards move undermines mortgage affordability and availability and is already affecting demand for new homes.

Investment bank Berenberg notes: "Weak customer demand means the industry lacks the ability or willingness to pass on build-cost inflation in higher house prices, resulting in further margin erosion. We forecast an average decline in pre-tax profit of 15% [for 2027]."

That said, the UK has strong long-term supply-demand dynamics and housebuilders operate in a market with significant barriers to entry. The fact the youngest UK housebuilders of any scale is 50 years old is evidence of this.

The property market has been a priority for successive governments and this remains the case today. We've seen the Help to Buy scheme followed by the launch of the Lifetime ISA and various changes to stamp duty along the way, all designed to stimulate demand and facilitate access to the property market.

Hints of new measures to support first-time buyers, which could potentially encompass a revival of the Help to Buy scheme which was so helpful to the industry have given shares in housebuilders a modest boost, though they remain highly depressed on a long-term view.

A shift to share buybacks

Investors in the sector have been rewarded for their patience over recent years with regular and generous dividends thanks to resilient balance sheets and healthy levels of cash generation. However, there has been a recent shift in the sector towards share buybacks.

In July 2026 Barratt Redrow slashed its ordinary dividend to a nominal 1p per share and unveiled a £386 million buyback programme and said buybacks would take priority in the future.

This followed pressure from activist investor Phoenix Asset Management which has been using its stake in the builder to push for buybacks.

Separately, Taylor Wimpey reduced its capital distribution target from 7.5% to 4% with up to half of this potentially filled by buybacks as it launched an immediate £42 million buyback and scaled back its first-half dividend.

Berkeley, which has a track record of giving investors long-term visibility on plans for capital returns, expects to distribute £640 million to shareholders between 2026 and 2030 with around two-thirds earmarked for buybacks.

This gives housebuilders a bit more flexibility if they feel they need to conserve cash – as pausing or cancelling dividends will typically provoke a more severe market reaction than suspending a buyback. It also reflects management team's views that their market valuations are anomalous at this point.

There is some evidence to lend credence to this view. The table shows the total returns offered by housebuilders on a five, 10 and 20-year view and compares the current price to net asset value with the average over the last 10 years.

Housebuilders have sunk to lowly valuations

Company	Five-year total return (%)	10-year total return (%)	20-year total return (%)	Price to NAV	Price to NAV 10-year average
Barratt Redrow	–38.5%	42.0%	11.9%	0.5	1.0
Bellway	–21.8%	55.8%	199.0%	0.7	1.1
Berkeley	–20.9%	61.8%	274.0%	0.9	1.6
Crest Nicholson	–71.7%	–44.9%	n/a	0.2	0.9
MJ Gleeson	–58.3%	–13.8%	27.1%	0.5	1.5
Persimmon	–44.2%	56.7%	125.0%	1.0	1.9
Taylor Wimpey	–24.0%	19.2%	–31.7%	0.7	1.4
Vistry	–64.7%	–16.0%	2.5%	0.3	1.0

NAV = net asset value

Source: ShareScope, data to 4 August 2026

Put together, major UK housebuilders trade on discounts to NAV which are 55.2% wider than their 10-year average.

Why Persimmon and Berkeley have higher valuations

Persimmon is a notable exception to the buyback trend. Having reset its operations after a difficult period which encompassed issues around build quality, governance and executive remuneration, the company has outperformed the wider sector. Not only in share price terms but arguably based on its financial and operational performance too.

This is reflected in a valuation premium to its peers, one also enjoyed by Berkeley. Both these companies, unlike their peer group are expected to put up double-digit margins in 2027 based on Berenberg's forecasts.

In Persimmon's case this is supported by a vertically integrated model, or in plain English because it owns and runs its own brickworks, tile works and timber-frame factories. This helps shield it from some of the worst impacts of cost inflation.

Berkeley's margin advantage is built on its focus on the premium end of the market, allied to a willingness and capacity to take on complex redevelopments on brownfield sites which other housebuilders won't. Both Berkeley and Persimmon additionally benefit from large landbanks acquired over a long period at attractive prices.

Housebuilder margins

Company	Forecast 2027 operating margin
Berkeley	19.0%
Persimmon	11.9%
Taylor Wimpey	9.6%
Barratt Redrow	9.0%
Bellway	9.0%
Vistry	7.0%
MJ Gleeson	5.7%
Crest Nicholson	5.0%

Barratt Redrow and MJ Gleeson have June year ends, Bellway's year end is 31 July, Berkeley's is 30 April, Crest Nicholson's is 31 October

Source: Berenberg

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Housebuilders net cash/net debt levels

Company	Last reported net cash/net debt (million)
Barratt Redrow	£773
Berkeley	£363
Taylor Wimpey	£343
Persimmon	£117
Bellway	£42
MJ Gleeson	–£1
Crest Nicholson	–£38
Vistry	–£144

Net debt shown as negative number

Source: Company reports, Berenberg

AJBell

The other end of the scale

The outliers at the other end of the valuation scale are Crest Nicholson and Vistry. Crest Nicholson has been brought low thanks to several factors. These include a bias towards a south of England market where affordability constraints are more acute, higher levels of borrowing than the wider peer group and legacy issues around fire safety provision and poor execution on major projects.

Vistry stands out for its focus on regeneration and affordable housing projects. It pivoted towards these areas in order reduce its exposure to the ups and downs of the housing market. Rather than buying land, building homes and waiting for individual buyers, Vistry lines up partners, in the form of institutional investors, local councils, housing associations and government agencies like Homes England, to purchase properties upfront.

However, this strategy has ultimately proved less than successful as demand from these areas has not been as predictable as hoped. The company has been beset by an accounting scandal in its Southern division, with two former accountants in the business now being probed by the financial regulator, and has been forced to sell the portion of its homes which do exist in the private market at a discount to generate cash.

Berenberg analyst Harry Goad says: “We worry that all three of its core customer groups – housing associations, institutional investors and private investors – remain, for differing reasons, in challenged predicaments when it comes to purchasing units (individual or in bulk), which we think is feeding through to Vistry’s need to be more competitive on its pricing strategy as it looks to optimise cash generation.”

Both Crest Nicholson and Vistry also have weaker balance sheets than most other big housebuilders, with recent reporting that credit insurer Allianz Trade is reducing the cover it extends to suppliers of Vistry.

What could change things?

Housebuilders are going through a difficult period, and as the recent examples of Vistry and Crest Nicholson demonstrate, do not have unblemished track records. However, valuations largely reflect this. A key consideration for investors is what can act as a catalyst for the sector to potentially unlock this value, with the answer likely to lie in an improvement in the outlook for inflation and interest rates.

By **Tom Sieber** Editor

Should my father put money for his grandchildren in a Junior ISA or pension?

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.

My father wants to invest for his grandchildren. I want him to pay into a pension for them, so they can benefit from investment growth for as long as possible. He says he wants to invest in a way that means he'll be around to see them enjoy it. Who is right?
Sharon

Sarah Coles,
Head of Personal Finance, says:

For the sake of family harmony, you'll be pleased to hear that you're both right. The Junior ISA would let your father fund tax efficient investments that can give his grandchildren the best possible start in adult life, while the Junior SIPP could transform their retirement prospects.

The Junior SIPP offers a double-whammy of tax-efficiency: he can put in up to £2,880 a year, and the government will top it up to £3,600 with tax relief. This applies despite the fact that most children don't pay income tax. Growth is then tax free too.

In addition, it's the ultimate way to take advantage of the power of compounding, because he'll be getting growth on his growth for decades. If, for example, a child was born today and he paid in the maximum each year until their 18th birthday, the total going into the pot (including tax relief) would be £64,800. Assuming growth after charges of 5%, even if they didn't pay in another penny for the rest of their life, by the age of 60, their pension pot could have grown to £420,310. It's an incredible head start for their retirement savings.

No up-front tax relief with a Junior ISA

The Junior ISA, by comparison, grows tax free and can be withdrawn entirely free of tax. However, there's no up-front tax relief, so if he was to pay in £2,880 a year for 18 years, the total going into the pot would be £51,840. By the time the Junior ISA matured at the age of 18, with tax free growth of 5% after charges, that pot could be worth £73,330.

The Junior ISA would also allow him to save a larger sum each year, with an annual allowance of £9,000 per child. If your father has this sort of sum to put aside each year for any grandchildren, it could grow into £229,158 by the age of 18, which is a life-changing sum of money.

It has the added advantage that at the age of 18, it rolls over into an adult ISA, and the grandchildren can access it at any time after that. Life is increasingly expensive for this generation, so there will be times throughout their lives that this money could prove a real lifeline. Being able to access this sort of nest egg can make a world of difference to everything from how they fund a potential university course to how they get onto the property ladder.

The money in a Junior ISA belongs to them at the age of 18 and they are free to use it in any way they choose. It means it's important to talk to them about their investments as they go along, so they understand the potential good this money can do if invested and spent strategically.

There will be people who are concerned about this prospect. If so they want to invest in the name of the parent or grandparent, so they have more control over how the money is spent. If your father is weighing this up, he needs to consider the fact that if he wants to invest tax-efficiently, he will need to use some of his annual ISA allowance for this – which will restrict his ability to invest tax-efficiently for himself. He should also think about the potential for inheritance tax, if his estate is likely to bust the nil rate bands.

What are the inheritance tax considerations?

If he invests regularly in the child's name, there's a chance the gifts will fall into the £3,000 annual gifting allowance, or that it could leave his estate immediately if it falls under the rules covering regular gifts from income. If he's giving bigger gifts, they will fall out of his estate after seven years from the date he hands them over.

However, if he decided to invest in his own name, and give it to them when they're older, he will need to live for seven years after this for it not to be counted as part of his estate. This can be incredibly difficult to plan for and is why Junior ISAs and Junior SIPPs can be so valuable from an inheritance tax perspective.

In many cases, families will strike a balance, putting some money into a Junior ISA and some into a Junior SIPP. It offers the best of both worlds, so your father can see his grandchildren make the most of his gift as they enter adult life and still take comfort from the fact he'll be doing the best thing for them after he has gone too.

What you need to know about gifting money to loved ones

More people are thinking about passing wealth on during their lifetime rather than as a legacy in a will. The idea of giving with "warm hands" has gathered pace in recent years and is likely to receive even more attention as we approach April 2027, when unused pension pots are set to become part of an estate for inheritance tax (IHT) purposes.

Giving money away can be one of the most effective ways to reduce a future IHT bill, but the rules are more complicated than many people realise. Get them wrong and your family could face an unexpected tax charge.

Here are some of the key areas people where people might trip up.

Make the most of allowances while you can

Everyone can give away up to £3,000 each tax year under the annual IHT exemption. If you didn't use last year's allowance, you can carry it forward for one year, potentially allowing gifts of up to £6,000.

While useful, this allowance has remained frozen since 1981. Had it risen in line with price inflation, it would be worth nearly £12,000 today.

You can also make gifts of up to £250 per person under the small gifts exemption, although this cannot be used for someone who has already benefited from your annual exemption.

Wedding gifts offer a valuable opportunity

Special IHT exemptions apply to gifts made in anticipation of a wedding or civil partnership. You can give up to £5,000 tax-free to a child, £2,500 to a grandchild or great grandchild, or up to £1,000 can be given to anyone else.

Used strategically, two parents could potentially pass on £24,000 between a couple immediately free from IHT by combining the annual and wedding allowances.

However, timing is critical. The gift must be made before the ceremony, and the wedding or civil partnership must go ahead. Gifts made afterwards generally lose the benefit of the exemption and become potentially exempt transfers.

Gifts from income can be extremely valuable

One of the most generous but overlooked IHT exemptions allows unlimited gifts from income.

To qualify, the gifts must form part of your normal expenditure, come from surplus income rather than capital, and not affect your standard of living.

Income can include earnings, pension income, investment income and savings interest. However, money raised from selling investments generally does not count as income for these purposes.

The challenge is proving the exemption applies. Although officially it is up to the person making the gift(s) to demonstrate that they are eligible for the exemption, in reality, your personal representatives will have to declare the gifts made after you've passed way using the relevant IHT paperwork.

Annual and wedding gifting allowances could allow a couple to pass on £24,000 free from inheritance tax

	Parent 1	Parent 2
Annual exemption (current year)	£3,000	£3,000
Annual exemption (carried forward)	£3,000	£3,000
Wedding gift to own child	£5,000	£5,000
Wedding gift to fiancé/fiancée of own child	£1,000	£1,000
Total gifts exempt from IHT	**£12,000**	**£12,000**

Assumes two parents each using their current and carried-forward annual exemptions, plus the wedding gift exemptions for their own child and that child's future spouse or civil partner
Source: AJ Bell

Keeping clear records of income, expenditure and gifts can make life considerably easier for them later on, along with evidence that you maintained your normal lifestyle without dipping into capital.

Don't misunderstand the seven-year rule

Outside of the main allowances and exemptions, you normally need to survive seven years after making a gift for it to fall fully outside your estate for IHT purposes.

One area that causes confusion is taper relief, as many people assume it reduces the value of a gift or applies automatically to all gifts after three years. Neither is true.

Taper relief only applies where IHT is actually payable on a failed gift, typically because gifts made in the seven years before death exceed the available nil-rate band. Even then, it reduces the tax due, not the value of the gift itself.

For larger gifts, professional financial advice can help you understand the potential tax consequences and ensure you don't give away more than you can comfortably afford.

Beware gifts with strings attached

Giving away an asset does not automatically remove it from your estate.

If you continue to benefit from something after gifting it, HMRC may treat it as a "gift with reservation of benefit". The asset can then be pulled back into your estate for IHT purposes.

The classic example is gifting your home to children while continuing to live there rent-free. But the rules can also catch holiday homes, artwork and even business assets where the donor retains certain rights.

Consider protection during the seven-year period

If you've made substantial gifts, life cover can help protect beneficiaries from a potential IHT bill should you die before the seven years are up.

However, any policy intended for this purpose should normally be written in trust. Otherwise, the insurance payout itself could form part of your estate and potentially worsen the IHT problem you were trying to solve.

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

Which UK sectors pay the highest dividends?

Income may be a key reason to invest, but not all dividends are equal. Knowing what level of income to expect from different industries is a useful way to enhance your research.

We have studied the top 350 companies by value on the UK stock market to see how dividends vary from sector and by company. Multiple industries stand out as decent dividend payers, with many offering yields above 4% on average.

Which sectors stand out?

Generous dividend-paying sectors includes those that typically generate stable cash flows. Utilities, tobacco/vaping companies and insurers tick the right boxes.

Sectors with low or no dividends include technology and biotechnology where there is a constant demand on their cash to fund further development work and expansion.

Interestingly, larger technology companies have started to pay dividends in recent years as cash flows have ramped up. While the dividend yields can be low from these companies, the growth rates can be large.

Running the numbers on the UK

We looked at the FTSE 350 index of UK-listed companies to establish which sectors have the highest prospective dividend yields, based on forecast payouts and the latest share price. We excluded sectors where there was only one representative.

At the time of writing, the FTSE 350 in aggregate yielded 3.7% which provides a benchmark for assessing sector-average dividends.

You might think that looks unattractive compared to the 4.9% best-buy rate on a five-year fixed rate cash account. Bear in mind you will get a flat rate of interest on cash savings whereas there is the potential for dividends to go up each year, and for your investment to make a capital gain as well.

Why insurance is a dividend winner

The top yielding sector among the FTSE 350 is non-life insurance (aka property and casualty insurance) with a 9.4% prospective yield on average. Remember this is based on forecast payouts and there is no guarantee you would make that return. Companies can cut or cancel dividends at any time.

Property and casualty insurance spans activities such as motor and home insurance, while also protecting businesses against risks including negligence claims, bodily injury, and property damage.

Examples of average UK dividend yields by sector

Sector	Yield
Insurance	9.4%
Oil	6.5%
Life insurance	5.9%
Tobacco	5.8%
Asset managers	4.8%
Housebuilders	4.6%
Home improvement retailers	4.5%
Banks	4.3%
Utilities	4.2%
Food retailers	4.0%
Media agencies	4.1%
Gold miners	3.9%
Building materials	3.9%
Industrial suppliers	3.3%
Telecoms	3.2%

Data based on average per FTSE 350 grouping, using share prices on 17 July 2026 and forecasts for the next financial year to be reported

Source: AJ Bell, ShareScope

There are three listed stocks in this sector on the UK market, but we have excluded Beazley pending a takeover. That leaves Admiral and Lancashire, the latter currently among the highest yielding stocks on the UK market at 14%. Note that analysts expect Lancashire to see consecutive cuts to its dividend over the next three years in a row, albeit still decent payouts. For example, it yields 12% based on forecasts for 2028's dividend.

Property and casualty insurers receive premiums from customers which brings cash into the business. They estimate future claims costs and hold reserves to meet those liabilities. Before an insurer pays out claims, they invest the premium income to generate additional returns. Because they typically do not need to invest much to keep their business ticking over, insurers often return excess capital to shareholders through dividends and share buybacks.

Why it pays to focus on cash flow

A key metric to study is free cash flow. This is the cash a company has left over after it has invested money to maintain and grow the business. To calculate free cash flow, deduct capital expenditure from operating cash flow.

For example, a company might generate £1 billion of cash from its operations, and then spends £300 million on new factories, equipment, and technology. The £700 million cash left over can fund dividends, share buybacks, pay down borrowings, make acquisitions or simply be kept in reserve for a rainy day.

It is up to the company to decide how it allocates surplus cash, and the split can vary from year to year. While that can complicate matters, certain companies recognise the importance of dividends to shareholders so they have a policy that spells out the proportion of profits or free cash flow they will pay out as dividends.

This can help investors to get a sense of what to expect. It typically means that if profit or free cash flow rises, so does the dividend – and vice versa. You should be able to find the dividend policy in a company's annual report.

Insurance dividends

Property and casualty insurers	Yield
Lancashire	14.0%
Admiral	4.8%
Life insurers	**Yield**
Legal & General	7.5%
Chesnara	7.1%
Standard Life	6.4%
Aviva	6.3%
Prudential	2.1%

Yields based on share prices on 17 July 2026 and forecasts for the next financial year to be reported

Source: AJ Bell, ShareScope

It is similar dynamic as to why life insurance companies can also pay decent dividends, with the average yield among UK-listed sector constituents being 5.9%. Prudential is an outlier on a 2.1% prospective yield. The other names, including Legal & General and Chesnara, are more in the 6% to 7% range.

Oil and gas dividends

Company	Yield
Energean	9.1%
Harbour Energy	8.4%
BP	5.0%
Shell	3.6%

Yields based on share prices on 17 July 2026 and forecasts for the next financial year to be reported

Source: AJ Bell, ShareScope

Oil dividends ebb and flow

Investors attracted to oil companies for income need to recognise the sector's unpredictable earnings. As 2026 has already demonstrated, oil prices can move up and down quickly. In good times, oil companies can make big money once they have sunk the cost of big projects. In leaner times, there is a risk of dividend cuts. The average yield across the UK-listed oil and gas producers is currently 6.5%.

Elsewhere, tobacco and vaping companies sell addictive products. Consumers buy them no matter what is happening with the economy, which means there is an element of predictability to their earnings. The key risks to consider are competition and a regulatory and political clampdown on usage. The two UK stocks in this sector as British American Tobacco and Imperial Brands, and their average prospective dividend yield is 5.8%.

Utilities power up income portfolios

Electricity, water, and gas utilities are more fruitful

Utilities dividends

Water companies	Yield
Pennon	6.2%
Severn Trent	4.4%
United Utilities	4.1%
Conventional Electricity	**Yield**
Drax	4.1%
SSE	3.0%
Multi-utilities	**Yield**
National Grid	4.1%
Metlen Energy	3.7%
Centrica	3.6%

Yields based on share prices on 17 July 2026 and forecasts for the next financial year to be reported

Source: AJ Bell, ShareScope

sources of dividends for investors. The average yield across these business lines on the FTSE 350 is 4.2%, with water companies being the most generous of the bunch. They benefit from predictable demand and regulated revenues, creating stable cash flows that support regular dividend payments.

A key risk to consider is new prime minister Andy Burnham who has spoken in favour of nationalising utilities. He even referenced a desire to bring 'life's essentials back under public control' as part of his first speech outside Number 10.

Who are the other key dividend payers?

Asset managers have a 4.7% dividend yield on average, though the range goes from 1.4% to 7.9%.

Asset manager dividends

Company	Yield
Ashmore	7.9%
Pollen Street	6.9%
Foresight	6.3%
Rathbone Brothers	6.2%
Ninety One	6.1%
M&G	5.9%
Aberdeen	5.8%
Man	4.5%
Jupiter Fund Management	3.7%
IntegraFin	3.4%
Quilter	3.4%
Bridgepoint	3.2%
St James's Place	2.0%
JTC	1.4%

Yields based on share prices on 17 July 2026 and forecasts for the next financial year to be reported. Excludes Schroders pending a takeover

Source: AJ Bell, ShareScope

AJBell

They are typically capital-light business which can mean a high proportion of profit converts into cash.

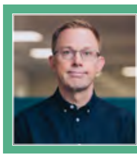
Banks have a 4.3% average yield which might come as a surprise. Banks have long been associated with rich dividends, yet the yields are now lower than you might have found in the past because the sector has enjoyed share price strength. For example, NatWest is up by a third in share price terms over the past year.

Housebuilders and home improvement retailers score well for dividends, yet the income streams are less dependable than more defensive-style sectors such as tobacco and utilities. That is because they follow economic cycles and in less favourable conditions property-related companies might scale back dividends.

Gold miners look interesting based on near-term dividend expectations, but like property stocks there is a risk of a cut in dividends when precious metal prices weaken.

It's worth touching on the telecoms sector. While it has historically been a reliable source of income, the sector's current 3.2% average yield is a reminder that trends can evolve.

BT and Vodafone are the two main telecom stocks in the FTSE 350, and they are undergoing meaningful change. They have prioritised network investment, business restructuring, and debt reduction over dividends. The companies might argue that shareholders will benefit down the line, but for now it means these are not the income champions they once were.



By **Dan Coatsworth**
Head of Markets

Can earnings growth continue to sustain US and UK markets?

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.

While there is lots of talk about US stocks being overvalued, earnings growth keeps on being delivered, Can strong earnings help maintain the momentum? And how do things compare in the UK?
Malcolm

Russ Mould,
AJ Bell Investment Director, says:

One of the most encouraging features of 2026, from an equity market point of view, remains positive earnings momentum. On both sides of the Atlantic, positive earnings surprises from companies continue to outweigh negative ones, and aggregate profit forecasts for the major indices continue to rise, not fall.

In an era where algorithm-driven funds dominate so much of the near-term trading flow, and passive funds create an ever-greater degree of reflexivity, thanks to the cycle of more buying-higher share prices-higher index weightings and then more buying and so on (and on), this matters more than ever.

It also means that any easing of that upgrade momentum or, worse, a reversal that is so abrupt it leads to downgrades could have serious consequences. The algo-led funds would dispassionately respond with selling, and the passive funds could, presumably, be at risk of creating a reflexive self-feeding cycle that leans to the downside every bit as vigorously as it currently does to the upside.

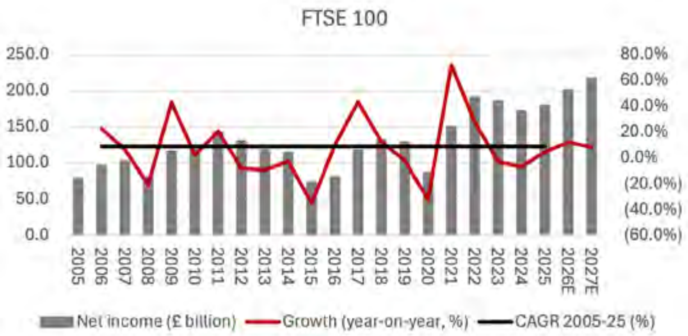
Up, up, and away

For all of the brickbats thrown at the FTSE 100, and the prevailing political and economic uncertainty, the good news for investors with exposure to UK equities on the earnings front is three-fold.

First, analysts believe that aggregate earnings across the UK's premier index will set a new record high in 2026, and again in 2027. That at least helps to explain why the index stands within a fraction of the all-time set in February, before the Middle Eastern war broke out.

Ask Russ: Your questions answered

FTSE 100 earnings are expected to set new record highs in 2026 and 2027

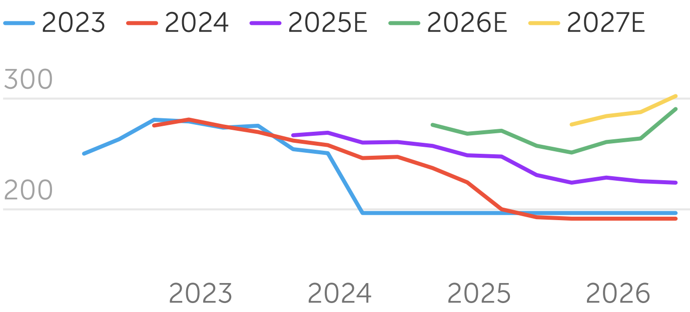


Source: Company accounts, Marketscreener, consensus analysts' forecasts

Second, the consensus forecast growth figures of 12% in 2026 and 8% in 2027 do not appear overly ambitious, given that the compound annual growth rate (CAGR) over the last twenty years has been 8.6%, a figure which looks credible in the context of trend GDP growth, average inflation rates and a little productivity and corporate profit margin expansion sprinkled on top. Granted the outlook here in the UK remains murky, but the FTSE 100 generates two-thirds of its profits overseas.

Finally, analysts are upgrading their estimates. This is a nice change. Usually, they trim forecasts as a year develops and forecasts prove optimistic, but 2026 and 2027 are proving to be welcome exceptions to this rule, at least for now.

Analysts are upgrading forecasts for UK corporate earnings



Source: Company accounts, Marketscreener, consensus analysts' forecasts

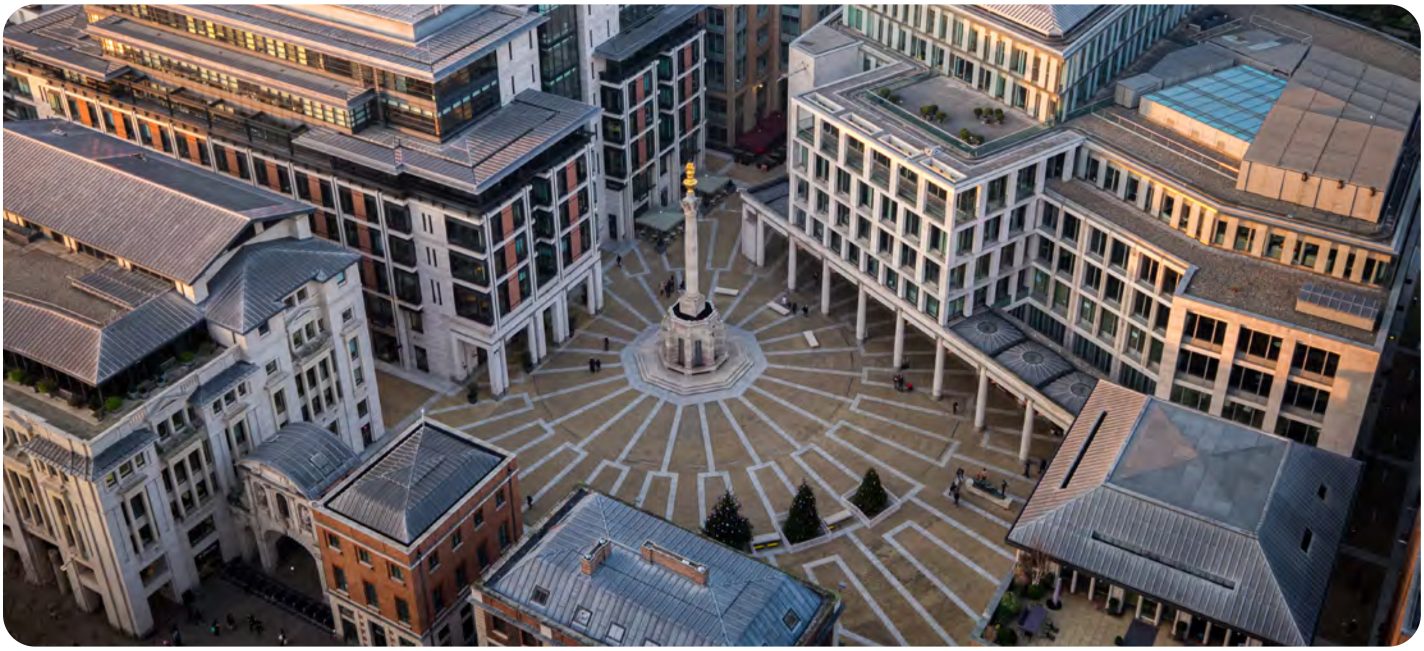
The net result is the FTSE 100 trades on barely 13 times forward earnings for 2026 and 12 times for 2027. These are not unduly low multiples relative to the index's own history but nor are they expensive either, which may offer some downside support should anything unexpectedly go wrong.

Turbocharged

The outlook looks even brighter in the US, after a bumper first-quarter reporting season and upgrades galore for the second quarter at the same time.

Thanks to technology stocks in particular, but with energy and industrials chipping in and only healthcare showing any weakness, analysts now believe that the S&P 500 index's members will also generate record earnings in 2026 and 2027.

Analysts also continue to upgrade their forecasts. At the start of this year, consensus estimates were looking for 17% growth in S&P 500 aggregate earnings to $310 a share. Now analysts expect a 23% rate of increase to $323, with a further 16% advance in 2027 to $376.



US earnings are also expected to run above historic trend growth levels in 2026 and 2027

Source: Company accounts, Marketscreener, consensus analysts' forecasts

However, there are three key differences between the UK and US.

First, the US equity market does look expensive relative to its history. Even the bumper profits expected for 2026 and 2027 leave the S&P 500 on forward earnings multiples of nearly 23 times and 20 times, respectively. The 10-year average is around 18 times, according to FactSet, although the bulls will argue that a price-to-earnings growth (or PEG) ratio of barely one times for 2026 does not leave them as hostages to fortune.

Second, the growth rates that analysts predict for the next two years are miles above the 20-year compound annual growth (CAGR) rate of 6.4%.

The bull case will assert that productivity gains thanks to AI more than justify the assumption of an era of premium growth and only time will tell if that is the case. But the 40-year CAGR for S&P 500 earnings per share is just 6.7%. That longer period encompasses not just the technology, media, and telecoms profits boom of 1998 to 2000 but also the long-term economic benefits of the broadband, wireless telecoms, and internet build-out that have exceeded even the wildest dreams of investors and analysts back at the turn of the century.

Finally, the 10-year CAGR is forecast to be more than 10% three years in a row, based on 2026 and 2027 estimates. Even the cyclical peaks of 2000 and 2006, before the tech and mortgage bubbles collapsed, topped out at 9.5% and 8.0% respectively.

Sharp falls in earnings in 2001 and 2007-09 punctured any 'new era' thinking then and prompted devastating bear markets.

It may well be different this time, but the absence of any acceleration in American companies' long-term earnings growth seems to back up the assertion of the American Nobel Laureate economist Robert Solow that, "you can see the computer age everywhere but in the productivity statistics".

Should the so-called Solow Paradox hold true then the combination of lofty valuations and earnings disappointment could be a recipe for greater volatility in US equities.

How I invest: The accountant going all-in on just three stocks

Diversifying your portfolio and transferring it into less risky assets, like bonds, is the usual advice for a 76-year-old starting to look at retirement.

And Joe acknowledges this, aware that typically, you'd opt to spread your risk. "I don't do it that way. I've got just three shares... I couldn't advise anyone else to do what I do," he says.

This doesn't tell the whole story, the accountant has around £3 million in other assets as well and £400,000 in short-dated gilts, which he is keeping separate from these equity investments

Joe, or 'glass fish' as his wife calls him, a pet name awarded after purchasing a memento which his spouse dislikes on a trip to Venice, also has around £275,000 split across three stocks: S4 Capital, RIT Capital Partners and Diageo.

This money is what Joe calls his "play inheritance". With seven children and three grandchildren already "it needs to go a long way", he jokes.

He explains that all his wealth, including his non-equity holdings, will be passed along at some point.

A plan for supercharged gains from stocks

His plan with the equities? To push his money as hard as he can for the next 10 years and "not touch it at all" hoping it'll go up at least three times in value over the next six years.

His 'comfortable' return-loss scale? To make "at least 50%" on the investments, and "at most, lose 20%".

Before going into why he likes these three stocks, Joe explains his personal investment rules.

First, he's aware of the risks. Going all in on equities in any portfolio would be graded as high risk since equities rank at the top of the asset risk ladder, coming in ahead of bonds and cash.

This is why they offer the potential for higher returns, although there's no guarantee, even for Joe who is confident in his picks.

They're also riskier because if a company goes bust, the shareholders are the last to get paid out, if there's any money left at all. All of that goes to the banks and bond holders to pay off the debt first, as Joe well knows.

Having worked as a professional accountant for the past 57 years, Joe has seen his fair share of good and bad companies up close.

This has given him a practical knowledge base which he uses when picking his investments. His "principles" as Joe calls them, are: "I back people, because it's always the people that do well", adding that what unites the individuals behind all three of his picks is that they're "people who make things happen…and they think really strongly about the money side".

That brings him to the other area of focus, cash and specifically "how much that business can generate".

S4 Capital

When it comes to S4 Capital, Joe says he invested because of its founder and CEO, Martin Sorrell.

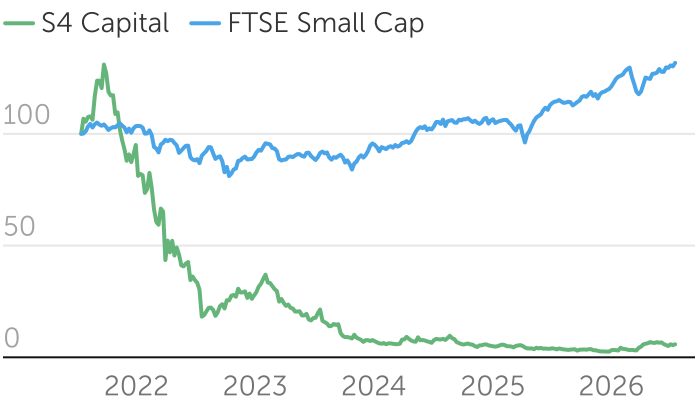
"I think he's terrific," Joe says, "I think he just understands markets, and he understands the future as much as anybody can understand the future. Yeah. He understands finances because he was a finance director previously", referring to his time at Saatchi & Saatchi from 1977 to 1984.

S4 Capital is a digital-first advertising, marketing, and technology services company and takes up 50% of Joe's equity allocation.

Sorrell frequently argues that AI should benefit S4 more than legacy ad groups. However, investors remain divided on whether artificial intelligence will expand demand for S4's services or commoditise parts of its business.

S4 Capital vs FTSE SmallCap

Total return (%)



Source: LSEG

On the numbers and money side, S4's net revenue was down almost £150 million in Q1 this year and client spending on technology was down 10%.

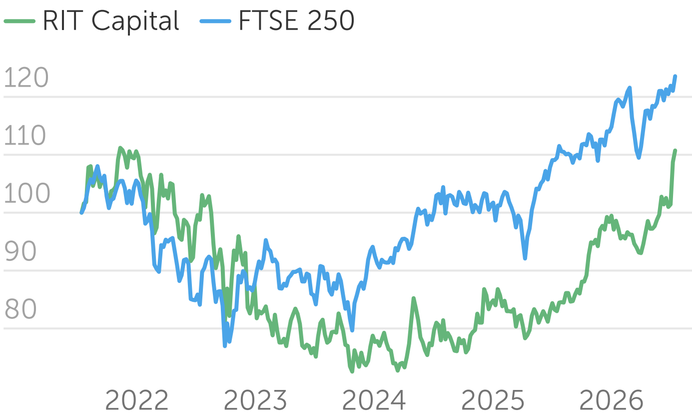
Over the past 12 months, its share price has increased almost 63%, according to MarketWatch data, but over five years it's down 95%.

RIT Capital Partners

Moving onto RIT Capital Partners, which was Joe's initial buy when he started with this 'all in on equities' strategy eight years ago, the people that drew him into it were the founding Rothschild family, who remain the largest shareholder today.

RIT Capital vs FTSE 250

Total return (%)



Source: LSEG

A publicly traded investment trust, Joe said the family behind it "while a different generation running it now, I just think they've been so solid, sensible and reliable", adding that he feels 'safe' having his money with them.

A non-member of the Rothschild family, Maggie Fanari, was brought in as CEO four years ago, and Joe was also full of praise for her.

"She's great… she's got a lot of access to a lot of different things", Joe adds, in a nod to SpaceX, which the trust had a small stake in pre-IPO. Their ability to invest in unlisted stocks was appealing to Joe. "I think they've got some terrific stuff," he says.

Over the past year, the trust has returned more than 30%, besting the broader global equity market, with the broad MSCI All-Country World

Index chalking up 24%. But over five years its performance has lagged, making just 7.4% versus 74% for this benchmark.

The trust is currently trading on a near 20% discount, which Joe thinks is "ridiculous" and is down to the fact that it does own unlisted assets.

The company has launched several measures to try and tackle the discount, including a £300 million tender offer at a 15% discount and a continued share buyback policy.

Diageo

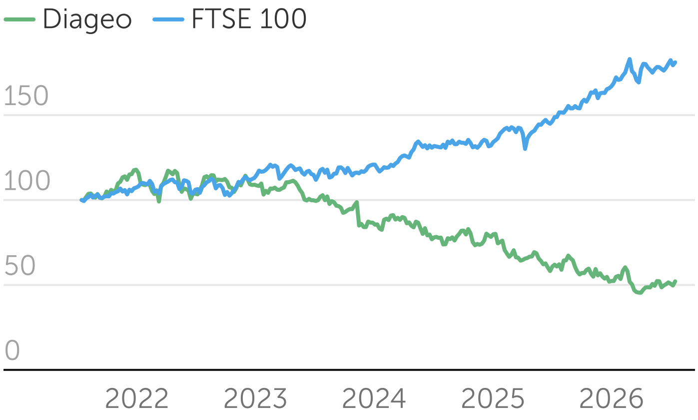
Joe's final investment is alcoholic drinks maker Diageo, which owns Guinness, Jonnie Walker and Don Julio.

The company has struggled over the past year, with a drop in its spirits sales in North America in particular proving to be a sticky issue. This has collided with a broader social trend of people drinking less, either from Gen X's 'sober curious' outlook and the rise of weight loss drugs inhibiting people's desires to drink all putting a bit of a dampener on the company.

Diageo's share price is down almost 20% since this time last year, and down 55% over five years.

Diageo vs FTSE 100

Total return (%)



Source: LSEG

Recently appointed CEO and turnaround specialist Dave Lewis' plan to get Diageo's sales back on track is to move away from focusing purely on premium brands and moving towards a more balanced approach that includes

mass-market affordability.

Joe, however, likes the company because "it's not going to be overtaken by technology" unlike a large number of other companies he thinks run that risk.

"It generates lots of cash and it's run now by a really good chap Dave Lewis... he's only been there a short time and you just look at the things that he's doing and I just think yeah if I was doing his job that's exactly what I would do," Joe adds, joking that Lewis could probably sort out the UK's public finances if given the chance to.

The mistake Joe admits he made

While being incredibly bullish, both in his outlook and risk profile, Joe is aware that he's not always got everything right.

His largest regret is not about the stocks he bought but the ones he sold, failing to run his winners for long enough.

Conduit Holdings, Quilter, Costain, Lloyds and Barclays were all trades Joe did well on but "if I could have just sat on my hands more then I'd have made even more... so I've learned when you buy something, don't sell it".

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

Is picking a bond fund like picking an equity fund?

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.

I'm looking to choose some bond funds as I'm heading into retirement. Can I go about it the same way as picking equity funds? I'm not exactly sure what to look for in terms of investing style.
Harry

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

Choosing bond funds can feel more intimidating than equities on the surface, because the bond market is vast and nuanced. While the main traits you'll need to look for in a fund manager are the same, it's important to understand the different options available for bond funds and the functions they can serve. We'll start there.

Just like equities, bond funds range across different sectors, regions, and management styles. Understanding what each option means is the first step to choosing a fund that's right for you.

What are you looking for?

For example, some bond investors might be looking for holdings that are steady performers. They will likely be drawn towards developed market government bonds and investment grade corporate bonds because these two areas have a lower chance of the debt not being repaid when the bonds come to maturity.

Other investors may be on the hunt for larger returns and be willing to take more risk through sectors like high yield bonds. High yield refers to debt from issuers who are considered higher risk in terms of their ability to repay their loans and therefore must offer a better coupon (level of income) for investors to want to buy the bonds.

Both types of funds come with different levels, and types of risk. Government bond funds primarily take duration risk. This means they are exposed to changes in expectations for inflation and interest rates. As these expectations fall government bonds do well and as these rise they suffer.

Corporate bond funds additionally take on credit risk. They are focused on the quality of the company issuing the debt, and how likely they are to pay it back versus the amount the company is willing to pay as a coupon.

Some managers will hold both government and corporate bonds within a single fund, which are categorised as strategic bond funds. Be careful with this label, because there's a lot of variety that can sit under it.

Some bond funds with this 'strategic bond' label will just hold different types of corporate bonds, like investment grade and high yield. Others would be more truly 'strategic' and actively manage allocations to both types of risk through government and corporate bonds. A fund's factsheet will typically provide both the fund's duration, and its level of exposure to corporate bonds.

One example of a fund holding corporate and government bonds on AJ Bell's Favourite funds list is the Artemis Strategic Bond fund.

Active versus passive

While many active equity funds have failed to outperform their passive counterparts in the past decade, the picture is more mixed for bond funds. Our research has shown that the average active bond fund has edged out the passive alternatives in the past, net of fees, and there are a few reasons why.

One element is trading costs: bond indices often have thousands of holdings, which makes trading expensive for bond tracker funds, particularly when there are changes to the index. To limit this issue, passive funds will typically hold what they call a representative sample of bonds, which means the fund will hold a group of bonds that has the same sort of composition as the index rather than the exact same bonds.

There is also arguably more structural opportunity for market inefficiency in bond markets. Bond indices are constructed so companies that issue the most amount of debt make up the largest part of the index. This is very different to equity markets, where the companies that are deemed the most valuable make up the largest part of the index.

Choosing a bond fund

With that background, here's a few steps to take when choosing a bond fund.

1. Determine your goal

What is the reason you are purchasing this bond fund? Are you looking to derisk your portfolio, create more diversification, start taking income, or something else?

2. Match your bond fund to your goal

Different types of bonds will fit each of these goals. If you are looking for income, for example, you might be okay with taking slightly more credit risk through high yield bonds. If you are looking to derisk part of your portfolio, you may look towards government bonds or investment grade corporate bonds for additional stability.

3. Think about your 'Five Ps'

In a previous column, we spoke about the Five P's when choosing a fund: philosophy, performance, people, price, and process. These same principles apply for bond funds but remember that past performance doesn't guarantee the same for the future.

4. Does the fund do what it says on the tin?

This is the extra check that's important to do with bond funds. People typically invest in them to diversify their risk from pure equity exposure. But some bond funds move more in line with the equity market than you may expect.

If you are looking at corporate bond funds, make sure they have an appropriate amount of duration risk (i.e. similar to their index), and if you're looking at government bond funds, ensure they aren't taking credit risk. If you've chosen a strategic bond fund, make sure you understand if it is truly spanning government and corporate bonds, or just corporate. Either is fine, but they will act differently in your portfolio.

5. Go shopping

Have a look around at different bond funds before making your decision. If you aren't sure where to start, you can look at our Favourite funds list, which features corporate, government and strategic bond funds.

If you aren't sure how to diversify your portfolio with bond funds or want to start earning income from your investments but are nervous about how to split your assets, you can also use a multi-asset fund to get a blend of both bonds and equities. The AJ Bell fund range offers growth as well as income funds that mix bonds and equities depending on your risk profile, within single fund.

Can fund managers really ignore where the companies they invest in are based?

Global equity fund managers will often argue that it doesn't matter where a company is listed; all that matters is that they are buying the best companies available regardless of where in the world they happen to be.

This has logic. Large companies are often global in nature and generate revenue from both inside and outside of their domestic market.

The UK's FTSE 100 is a good example of this, where upwards of 70% of its constituents' collective revenue is generated outside of the UK.

Translating that to a portfolio and the STS Global Income & Growth Trust, which can invest in any stock market in the world, has 33% invested in London-listed companies, but only 8% of the overall revenue comes from the UK.

"When I was investing in the 1990s, people would spend hours debating whether to add 2% to Europe or take 2% out of Japan or whatever it might be. But investing purely on a geographic basis like that doesn't make much sense. "What you should be thinking about is where businesses make money," says STS' lead manager James Harries.

What's behind a shift in fund manager thinking?

Part of this shift in global managers' general approach is that since the 1990s, as Harries mentioned, stock markets have become much more global. The explosion of the internet is just one development which has made it much more straightforward to run a business with a global reach.

The shift in philosophy is also part of managers' efforts to drown out the 'noise', by which they mean the headline, news grabbing events which can fuel short-term thinking and fog the long-term investment picture they're trying to focus on. Being more ambivalent about their regional exposure reflects this thinking.

But that only works to a degree. Because while almost all active fund managers will press the point that they are driven by the bottom-up, stock specific fundamentals of what makes Company A better than Company B to invest in, sometimes its location will tip the scales.

"It's the sort of thing that doesn't matter until it does," says AJ Bell's head of investment solutions James Flintoft.

"Most fund managers will tell you it doesn't really matter because they're looking for the best opportunities globally. And then suddenly when, say the Italian election rolls around and Italian stocks are up and down all over the place, or the euro is in crisis it suddenly matters that your fund is invested there," Flintoft explains.

A recent example of this was in 2025 when the idea of US exceptionalism was challenged by President Trump's Liberation Day tariffs, which led to a deliberate move by active managers to shift some of their investments out of the US and into Europe. Between one day and the next, nothing had changed about those companies other than the political, economic and sentiment backdrop of the countries that they were listed in.

"I'm a big believer that a macro-overlay is a useful lens," says Flintoft.

The AJ Bell investment team, which Flintoft is a part of, do consider a company's headquarters and listing venue when investing because this helps avoid major concentration risks and sometimes, they do want to exposure to specific macro-economic drivers in different areas.

For example, China represents 8% of the AJ Bell Global Growth fund and Flintoft explained in the team's latest quarterly review, that "China has had some positive economic boosts, building up its own technology capability and looking stable as a large-scale economy in comparison to erratic decisions from the US. Some parts of the market, like electric vehicles, have taken off as demand has risen from drivers in Europe following the start of the Iran War".

Choosing what to avoid

It isn't only a case of choosing which macro-economic drivers you want to be exposed to but also, what risks a manager might want to avoid in their fund.

Jumping back to 2016 when the result of the Brexit vote surprised many people, the UK market was handed a higher risk premium overnight by the market as it became tainted by the main thing investors fear: uncertainty.

James Thomson, manager of the Rathbone Global Opportunities fund, deliberately reduced the fund's UK exposure directly because of Brexit-related concerns.

Prior to the referendum, the Global Opportunities fund had 24% invested in the UK and by 2018 this was just 4%. Today, it's back up to almost 8%, but still a long way from the pre-2016 level.

Indeed, the UK stock market has been unable to shake off its 'unloved' status among global investors for the past decade, due to a long list of market wobbling events. Brexit followed by years of political instability and change at a time when tech stocks have dominated stock market returns and investor appetites; a sector in the UK is light on.

Looking purely at bottom-up fundamentals, many argue that the UK has proven quality businesses at historically low valuations, but global managers aren't buying them partly because of where they're based.

Experts in the field

Another consideration for global equity managers is that while they can partake in any market, often what gives them that ability to find the best companies is deep, qualitative research.

Paul Angell, head of investment research at AJ Bell, discussed in a recent Deep Dive edition of the *AJ Bell Money & Markets Podcast* how having a footprint in the same area as the companies you're investing in can make a big difference.

This is because, while the trading information of any public company is available equally to all and you can have a meeting with a representative virtually or take a passing visit when you're in the same area, "you kind of understand the politics a little bit more" with boots on the ground. "You understand the direction of travel and the local markets," he explained.

Sticking with the Rathbone fund, and while Thomson and his deputy manager Sammy Dow have come back around to the UK, they deliberately avoid investing in emerging market (EM) equities.

Dow explains that while the pair are always looking for the best companies, some of which he admits "may well be in emerging markets" they chose not to directly invest in EM "firstly, as we don't feel we have the expertise to invest in those markets", as Angell was discussing.

"That is partly due to geography, in terms of our ability to meet regularly with management, which is a crucial part of our process. Another part is language, in terms of our ability to interact clearly and concisely, with the risk of key information being lost in translation."

This extends beyond emerging markets too. "Partly it is market structure with, for example, Japan being home to many more conglomerates, rather than our preferred pure play businesses," Dow explains.

"Allied to that, we feel we have more than enough scope to gain exposure to emerging market revenue and profit growth through developed markets listed businesses, where you have the added reassurance of long established and trusted corporate governance criteria and a more level playing field."

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

Should my wife enter drawdown before she gets her state pension?

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 wonder if you could lay out the options for my wife. She has a SIPP worth about £110,000, as well as a small occupational pension of about £5,600 a year. She has seven years before she will receive a full state pension.

She also has some cash savings mainly in ISAs, plus a Stocks and shares ISA again mainly in income producing bonds.

Most of her SIPP investments are now in income paying investments of shares/REITs and bonds. She was considering going into drawdown, but we do not really need any lump sums at this stage.

My question is can she go into drawdown and just take income, and as she is not a taxpayer it would be tax free? Or is it better taking the cash free lump sum now and reinvesting in an ISA, as if she waits until later when she is receiving her future state pension she would then be a taxpayer?

John

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

Before looking at your wife's choices, it helps to understand the main ways people can take money from their pension.

From age 55, rising to 57 from April 2028, you can usually take up to 25% of your pension as tax-free cash. What happens to the rest is up to you. You could take it as taxable lump sums, move it into drawdown, or use it to buy an annuity, which pays a guaranteed income for life. With drawdown, you keep your pension invested and can choose how much taxable income to take and when.

Not an all-or-nothing decision

It also doesn't have to be an all-or-nothing decision. You can mix and match the different options. For example, you could use some of the pension to buy an annuity, move some into drawdown and take some as lump sums. You also don't have to access the whole pension at once. You can take benefits from part of the pot and leave the rest invested for later.

Ask Rachel: Your retirement questions answered

In your wife's case, there are probably three main routes to think about. If she doesn't need any tax-free cash now, the simplest option is to leave the SIPP where it is. It can remain invested and may continue to grow, and if it does, the amount available as tax-free cash could also be higher in future.

A second option is to take all her tax-free cash now. Based on a SIPP worth £110,000, this would be around £27,500. She could then reinvest this money in ISAs, where it could continue to grow tax-free. However, because the annual ISA allowance is £20,000, she would need to move the money across over more than one tax year. It is also worth remembering that money held inside a pension already benefits from tax-free growth, so this route may not offer much advantage over simply leaving the pension untouched.

She can move her whole pension pot into drawdown and start taking income, but if she does this without taking tax-free cash first, she loses the chance to take it later.

A third option is to move only part of the SIPP into drawdown and use it to provide income while she is still a non-taxpayer. The personal allowance is currently £12,570. If she already receives £5,600 a year from her occupational pension, she could potentially take a further £6,970 of taxable income from the SIPP without paying income tax, assuming she has no other taxable income. To do this, she could crystallise £9,293 of the pension, taking £2,323 as tax-free cash and £6,970 as drawdown income.

One important point to be aware of is that taking taxable income from a defined contribution pension usually triggers the money purchase annual allowance (MPAA). This would limit future contributions to defined contribution pensions, including tax relief, to £10,000 a year.

It depends what you're trying to achieve

The best choice depends on what your wife is trying to achieve, as well as factors we don't know, such as how her occupational pension will increase, how her SIPP performs and what happens to personal allowances in future. If her aim is to maximise tax-free cash, leaving the pension invested may be the most straightforward approach.

On the other hand, taking some drawdown income now could make use of her unused personal allowance while she is still below the tax threshold. It would also reduce the part of the pension that will eventually be taxable. Once her state pension starts in seven years' time, she is, as you say, likely to become a taxpayer, so using some of that allowance now could reduce the amount of tax paid over her lifetime.

Ultimately, this is a judgement call. It will depend on her wider income, whether her occupational pension increases in value each year, future tax allowances and how her pension investments perform.