

Milestone 4

Student's name

Course name

University affiliation

Date

A. Investment Instruments.

1. Investment returns

The average returns on the NYSE stock market are reported to be 10% annually. But not every market time is typical, and not every individual has a typical investment portfolio. These figures suggest that when projecting a stock portfolio's long-term success, investors would do well to estimate returns of less than 10%, such as 7-8%. Many variables may affect the price of a company's stock, including supply and demand, market mood, revenue fluctuations, and political difficulties (Rutterford, 2004). As a result, the typical rate of return an investor earns on stocks may fluctuate depending on many variables. In a global economy, seemingly unrelated financial issues, such as rising trade tariffs between two countries, may affect the value of specific equities. Due to its inherent instability, the stock market may be affected by unexpected developments worldwide and quick shifts in the cost of items sold in the United States.

The dividend yield is a useful metric for determining a company's long-term viability as an investment and the possible return on a given investment (Fama et al., 1993). While the appropriate dividend yield might shift based on market circumstances, it typically ranges from 2% to 6%. U.S. market yields are at 4.17 percent on average, whereas yields for financial services firms in the S&P 500 are just 2.5 percent on average (Rutterford, 2004).

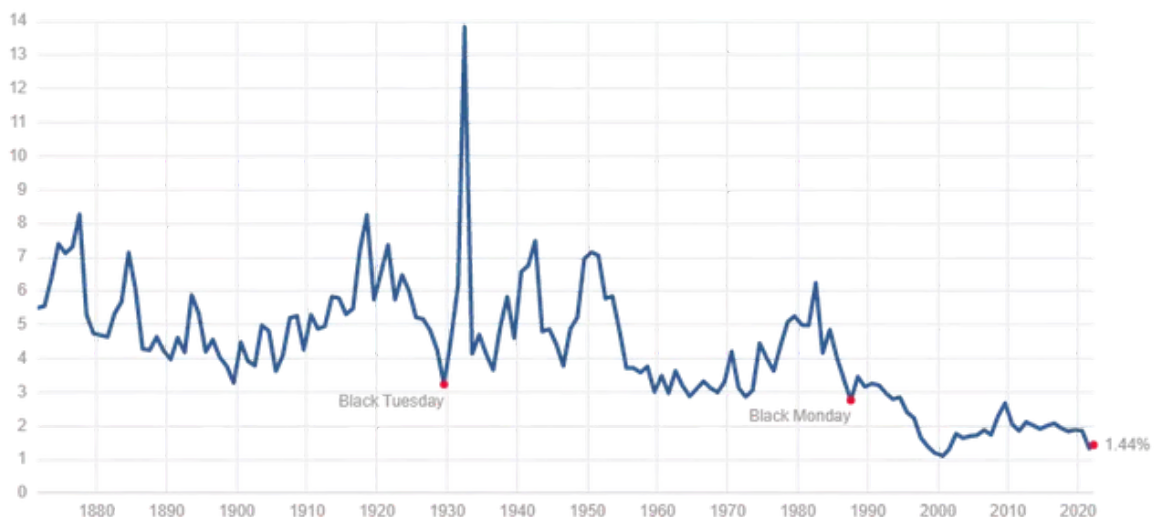


Fig i: Historical Dividend Yield in U.S. Markets(Simply Wall St, 2019).

The Tax Cuts and Jobs Act of 2017 created the current federal capital gains tax rate. Each year, the government revises the thresholds at which various tax rates apply. At present, a single filer pays no long-term capital gains tax on income up to \$40,400, 15% on income between \$40,401 and \$445,850, and 20% on income beyond \$445,851. Gains on investments held for less than a year are subject to the same tax rates and brackets as regular salary. These rates apply to single filers from 10% on the first \$9,950 of taxable income to 37% on the excess above \$523,600. Capital gains are taxed differently in each state; for example, there is no capital gains tax in the nine states that do not impose an income tax.

The prices relative to intrinsic values in U.S. markets have a net effect on the economy's growth. The potential to make forward-looking predictions about GDP growth, inflation, and the public funding target rate is impacted by how well the value of an announcement is quantified. Differences in the intrinsic values of many U.S. macroeconomic statements account for a considerable portion of the diversity in each of these announcements' influence on U.S. Treasury rates.

The United States has what is known as a floating exchange rate policy, meaning that the exchange market currency determines its exchange rates. A significant minority of nations (about 40%) in the global economy use a currency with a floating exchange rate, like the U.S. dollar. In its semiannual Report to Congress, the Treasury Department analyzes the policies of the United States' key trade partners in terms of both economic and exchange rate changes. However, during the first quarter of the 2020 fiscal year, the LSE market recorded a dividend yield of 0.96. On average, the dividend is paid out twice yearly (excluding specials), with a cover ratio of around 2.8. With a 94 percent degree of accuracy, the premium tools have projected the London Stock Exchange Group.

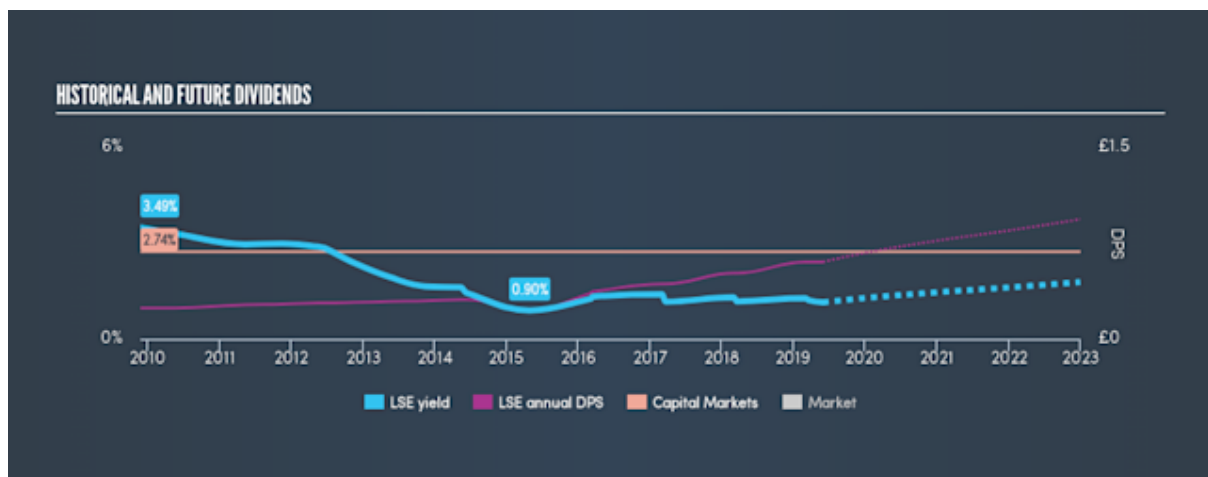


Fig ii: London Stock Exchange Dividend yield (Simply Wall St, 2019).

The London Stock Exchange facilitates the global issuance of securities such as shares and bonds by corporations and governments across the globe. Taxes on stock sales proceeds range from 10% to 20%, depending on the taxpayer's marginal tax rate (Simply Wall St, 2019). Follow the steps in this manual to determine your final cost. In certain schemes, you may owe capital gains tax if you sell your shares right away, while in others, you may owe tax if you hold on to the shares and sell them later.

Intrinsic Value: The projected free cash flow for the London Stock Exchange Group is \$65.76 (Simply Wall St, 2019). The cost per share of the London Stock Exchange Group is now \$98. Therefore, today's Price to Intrinsic Value Projected Free Cash Flow of the London Stock Exchange Group is 1.5. (Simply Wall St, 2019). Intrinsic Value of London Stock Exchange Group compared to its historical position and its position in its industry.

Excluding the two years of the ERM, the United Kingdom has enjoyed a floating exchange rate every year since 1972. The pound's value is determined by supply and demand. Money is seldom allowed to float completely freely. If the pound's value rises too quickly, the British government may get concerned. Exporters will become very price uncompetitive, perhaps leading to business closures and the loss of thousands of jobs (Simply Wall St, 2019).

If this happens, the government may try to intervene by buying foreign currency with pounds to increase the country's foreign exchange reserves. Since this will cause an artificial rise in the demand for foreign currencies compared to the pound, the pound's value should decrease.

The government will also feel concerned if the pound falls too far below its previous level. While this is fantastic news for exporters, it raises the cost of importing goods and may lead to inflation. The government plans to purchase British pounds on the currency markets using part of its foreign reserves this time. As a result, the pound's demand will be inflated compared to other currencies, and the currency's value will rise. Exchange differences are subject to more stringent regulations in certain circumstances, the most important of which is when a company uses foreign currency liabilities to protect the value of foreign currency assets, such as its net investment in an overseas subsidiary, from the impact of currency fluctuations.

2. Analysis of returns

An examination of the returns generated by the NYSE reveals that the average returns generated by its securities are around 6% greater annually than those generated by other securities such as those generated by the NASDAQ. This figure demonstrates that the higher profits on the NYSE result from the greater risks investors take. By this metric, NYSE companies are more troubled than their peers of comparable sizes. In addition, the risk component in distress-related return is especially apparent for NYSE equities. Higher NYSE returns might be attributed to the risk premium. The profitability of listing on the NYSE will influence the choice more than any other factor.

Conversely, the London Stock Exchange offers a springboard to expansion, allowing businesses to attract much-needed funding and giving investors access to various international markets. Spreading out your investments over a longer period lessens the likelihood that you will suffer a loss. Evidence for this is found by selecting the lowest

annualized return across a range of holding periods. The Alternative Investment Market (AIM) is a popular choice for public company listings. The reason is primarily that the regulatory burden is lower, making doing business in the Alternative Market quicker and cheaper. In contrast to the Main Market, firms are not needed to have been in business for at least three years on the Alternative Market, and neither is there a minimum 'free float' or market capitalization. In turn, this means that AIM is more likely to attract high-growth firms at an early stage of development; in fact, Grant Thornton reports that AIM companies expand their revenues by an average of 40% in the three years after their IPO.

3. How the different types of instruments move in the two markets

Stocks traded on the New York Stock Exchange (NYSE) have outperformed other NYSE products. The New York Stock Exchange (NYSE) was an integral part of the financial infrastructure that fueled the country's industrialization throughout the nineteenth century. Thousands of new firms were established, which required a steady supply of working capital to succeed. Many of these companies raised money to grow by selling shares of stock on the New York Stock Exchange. New York Stock Exchange traders may choose between using brokers or doing their transactions electronically. In essence, an auction structure underlies every stock trade that takes place. The floor of the NYSE is bustling with brokers trading equities. In an auction, potential buyers and sellers compete for the highest price possible. Brokers act on behalf of the investor, whether individual traders or large institutions like pension funds. Since stocks have historically produced the highest returns, beating other products such as bonds, they are a major factor in determining whether firms are listed.

However, stocks have consistently been LSE's best-performing product. The LSE raised £49.2 billion in capital in 2021, which solidified the U.K. as a leading global financial player and expanded businesses experiencing rapid expansion (Bresnick, 2021). The United States of America, Canada, Australia, and the European Union are just some of the nations

whose firms have chosen to list their shares on the London Stock Exchange in recent years. London has maintained its long-standing track record of successfully recruiting multinational corporations.

4. Risks versus returns

Putting your money into the stock market and holding on to it for the long haul might be one of the most lucrative ways to build wealth. Of course, there is the possibility of failure. Market activity has been sluggish for new listings, and the NYSE has recently seen significant volatility. This volatility may be attributed to various causes, including company-specific characteristics and regulatory shifts (Fama et al., 1993). This degree of noncompliance has not been witnessed on the NYSE since 2000–2001. Penny stocks, which trade for less than \$5 per share on average, have a noncompliance rate of 16 percent, compared to the exchange-wide average of 3 percent. Listings on the NYSE have a high degree of compliance; however, compared to other markets (where noncompliance rates average 50%), the NYSE is still relatively compliant. The number of delistings and new listings in 2008 was much lower than the long-term average of 300. (McKenna, 2021). As a result, worldwide IPO earnings dropped by 68% from the previous year. The present downturn differs significantly from the one in 2001 in that it hurts the market as a whole, rather than just one specific sector.

London's stock market could see underperforming stocks. In 2020, U.K. equities had behind their international counterparts. This scenario contrasts sharply with the 57.6% allocation to Wall Street equities. Investors that only consider firms based in the United Kingdom risk losing out on the opportunity to profit from some of the world's largest and most fascinating companies. While investing in foreign markets may seem daunting at first, the procedures are identical to those involved in investing in U.K. shares, so there is no need to worry (McKenna, 2021). Technology has facilitated faster buying and selling, more

transparency of share prices, and lower transaction costs. It's also important to know that the United Kingdom has double tax treaties with various nations. Still, it's up to the individual investor to recover that tax, which is especially important for dividend income. When the W-8BEN form is filed, the 30% U.S. withholding tax is reduced to 15%, making U.S. equities more attractive to foreign investors (McKenna, 2021).

Companies and investors will be discouraged by the poor performance of stock market instruments due to these tradeoffs, which will have a detrimental impact on the listing. Consumer confidence is at an all-time low, and property values have been falling for sixteen months straight due to the state of the economy. The present crisis may be traced largely to excessive liquidity and too optimistic risk assessments. An excessive amount of risk-taking happened because risk models failed to consider the consequences of the recent, severe decreases in liquidity. Over time, the mortgage industry shifted from an originate and hold approach to an originate and distribute one. The lack of adequate risk management, monitoring, and foresight throughout this period has been particularly felt in the financial sector (Simply Wall St, 2019).

B. Interest and Inflation.

Increasing inflation diminishes the buying power of a bond's future coupon income, lowering the current value of the bond's future fixed payment flows. Due to the compounding effect of decreasing buying power for cash flows acquired in the far future, rising inflation is particularly damaging to bonds with longer maturities. Large corporations in the U.S. market have a greater correlation with inflation than medium-sized ones, while medium-sized firms have a stronger correlation with inflation than tiny ones. When inflation increased, the value of foreign equities in established countries generally fell, while the value of foreign stocks in developing economies fell even more precipitously. Stocks of larger U.S. companies may be advantageous in conditions of somewhat increasing inflation.

Bond prices tend to decline in tandem with increases in interest rates and decreases in rates. In a rising rate environment, newly issued bonds will have greater coupons, reducing the value of bonds issued while rates were lower because of their lower coupons (Cattlin, 2022). The past measures taken by the Fed provide insight into the feasibility of these futures. For instance, the Federal Reserve cut interest rates significantly before and during the financial crisis of 2007 and 2008 to stimulate the sluggish economy. After eight years, rates have not moved much from zero. The Fed increased interest rates nine times between 2015 and 2018 as the economy improved.

In light of the faltering economy, the Federal Reserve lowered interest rates twice in 2020 to near zero to mitigate the economic fallout from the coronavirus outbreak. The Federal Reserve has already raised interest rates in response to rising inflation, the first rise since 2018, and more increases are expected until 2023. (Simply Wall St, 2019).

The Bank of England base rate is the foundation upon which interest rates in the British market are built. The Bank of England (BoE) controls interest rates consumers and companies pay by adjusting the rates at which high street banks may borrow money from the BoE.

A higher interest rate would be applied to a loan if the borrower had a high risk of not paying back the whole amount.

Inflation has a ripple effect that extends to multinational corporations that do business abroad. If inflation in the United Kingdom is greater than in other countries, British products will become costlier for foreign buyers. The result is less interest in purchasing products made in the United Kingdom.

C. Taxation.

Because of differences in tax policy between the United Kingdom and the United States, the U.K. market represents a preferable location for the IPO listing of the firm. In the United Kingdom, there are two distinct clearing options. Certain sections of the U.K. tax legislation provide for obtaining statutory tax clearances (McKenna, 2021). It is common practice to get such approvals to verify that the applicable anti-avoidance regulations do not apply to the proposed transaction (Simply Wall St, 2019). If the application is correct and full, and the transaction is completed per the application, then the statutory clearance will be obligatory on HMRC. For non-statutory clearances, the situation is less clear and must be evaluated individually. In the United States, state tax rules may differ greatly. California, for instance, has its alternative minimum tax (AMT) in addition to the federal AMT. Furthermore, capital gains are taxed like ordinary income in California, regardless of the holding term. Capital gains held for more than a year in Massachusetts are taxed at the same rate as normal income (5%), but those held for less than a year are taxed at 12%. (Simply Wall St, 2019).

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