Winter 2023 Newsletter

1st December 2023

We hope this newsletter finds you well.

In this edition, we delve into the current global political and economic landscape, providing insights into the impact on financial markets and how these changes may affect our and your investment position/strategy.

Primary discussion points to cover since our Autumn Newsletter:

- Inflation – Has fallen considerably and is heading to the government target. How will this affect their monetary policy?
- The Global Economy – With two wars raging, Russia – Ukraine & Israel – Palestine, is the world too volatile to invest in?
- The UK Autumn Statement – A lot of positives for most people.
- Market outlook and strategy for 2024

Inflation – Finally under control, so how will this affect the government's position on interest rates?

At long last, the Monetary Policy Committee (MPC) seem to have brought UK inflation back to a much more modest level, near the target 2.5%. The last YoY figures for October sitting at 4.6%, a stark difference to the 10%+ figures we were seeing just a few months ago, is a clear sign that the strategy employed by the MPC is working.

Interest rates were previously forecast to peak at 6.5%, and remain high long into 2025, but can we expect a change of tac from the MPC now that inflation has fallen faster than anticipated? With inflation heading the 'right way', much of the pressure caused by the 'Cost of Living Crisis' (the primary focus of the MPC for almost two years) is relieved. Markets are now forecasting rates to reduce as early as Q1 of 2024, and this is becoming ever more likely with each piece of positive news released by the Office of National Statistics (ONS). Remember though, prices are still rising, just not as quickly as they were before...

We will have to wait until the next MPC meeting to get a better gauge of where rates will likely go from here, but the following figures nicely highlight how monetary policy has affected inflation so far:

Figure 1: Annual Rate of Inflation – Dec 2016 – Oct 2023. Source: ONS

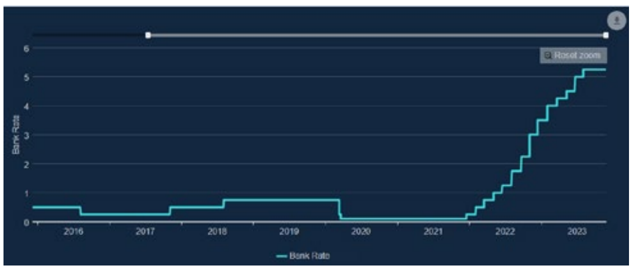

Figure 2: The Bank of England Base Rate – Jan 2016 – Oct 2023. Source: Bank of England

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The Global Economy – Another conflict in the headlines, but market confidence growing in a more volatile world.

2023 has been another year of conflict, and though the war between Russia & Ukraine has slipped deeper into the tabloids, the politically divisive war between Israel and Palestine has certainly taken its place. For as long as financial market data has existed, conflict has caused market uncertainty, and uncertainty has caused increased volatility, and yet… in a world that is accustomed to rapid change, it seems as though many investors are more comfortable with the added risks and potential rewards that markets can offer.

After a few years of turmoil, bond and equity markets are now holding strong and might be set for a run of form toward Christmas and into the new year.

The UK Autumn Statement – What are the key points?

1. Jeremy Hunt says he will cut the main 12% rate of employee NICs to 10%, with this to take effect from January 2024. This will save someone on the average salary £450 pa.
2. Inflation is expected to fall to 2.8% by the end of 2024, according to the spending watchdog, down from 11.1% last year when Hunt and Rishi Sunak took office.
3. The state pension will be increased by 8.5% from £203.85 to £221.17 per week in April 2024, due to the triple lock guarantee.

The autumn statement has received a positive response since its release and talk of further economic growth and reduced taxes will almost certainly provide a boost to investors. Furthermore, the ONS has reduced its figure for the chance of recession next year, which only adds to the consumer confidence we hope will return to investment markets.

Executive Summary & Overall Market Outlook

We would first like to emphasise just how extraordinary and unique the circumstances that we have all lived through over the last few years have been, so here is a fun (or not so fun) fact that may highlight this; 2023 has officially rounded off the most volatile period in financial markets since the 2nd World War…

So, in a time where markets are as volatile as they get, where do we feel the opportunities lie?

For the time-being, we feel that money-market investments remain an attractive option for lower risk investors and those with a low capacity for loss, but as interest rates begin to taper, equities and government bonds should offer a golden opportunity for investment at relative bargain prices. Furthermore, bond markets are set to begin the next ‘super cycle’ as interest rates begin to fall, with forecasts predicting yields to return to a nominal c.5% annualised return over the next decade or so.

No matter the situation, it is always important to remember that war, recessions, banking crisis and even a global pandemic have all happened before and likely will all happen again at some point (should the world as we know it keep spinning!). The fact is that investing for the long-term with appropriate horizons and budget planning has been a strategy that has stood the test of time.

We would like to wish you a very Merry Christmas and we look forward to seeing you in the new year.

Kind regards,

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