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Market Outlook

August 2023

The decision by the US Federal Reserve (Fed) at the end of last month to raise interest rates was quickly followed by the European Central Bank. Consequently, it was no real surprise that the Bank of England (BoE) followed suit by raising interest rates by 0.25%. Unlike the Fed which has been effective in its approach to inflation the BoE has been criticised for its less than accurate forecasting which suggested that inflation would peak at 6% somewhat short of its high of 11.1%.

Therefore, the announcement that Ben Bernanke, the former head of the US central bank is to lead a review of the BoE forecasting has been welcomed in many quarters. Mr Bernanke steered the US economy through the financial crises of 2008 while he was Chairman of the Fed from 2006 to 2014 and is widely respected. He is not expected to report back to the Bank Governor until Spring next year. Whilst this will not alleviate the interest rate pain of the property sector, it may go some way to helping those with mortgages or renting in the future.

The Fed has not been immune from criticism, Fitch the Ratings agency downgraded US debt from the prestigious AAA to AA+. This comes on the back of what the agency considers governance erosion following Donald Trump's attempts to overturn the 2020 election and the growing political polarisation in the United States of America.

On the stock market front, the US market is up circa 20% since the start of the year compared to our own main index which has returned just 3%. Much of the rise in the USA can be attributed to just seven stocks which account for some 70% of that rise. They are all 'tech' stocks which are seen as a play on the new buzz word AI (Artificial Intelligence). This rise is far too narrow, and smacks of previous dot com booms. With demanding P/E's (price earnings ratios) in high double figures the danger is that any upset in the world of AI could spark a sell off. This will hit passive investors very hard as 30% of the US equity stock market is held by passive (index tracker) funds. It's worth remembering that Black Monday in October 1987 saw the US Index fall 20% in one day. Given the high number of index tracking funds plus the sophistication of globally linked, computerised trading systems current times could make investors wish for those halcyon days. On a brighter note, our own index is not so AI dependent and has a broader business base. In the words of Sir Winston Churchill, 'those that fail to learn from history are doomed to repeat it'. Wise words, and those investors who fail to understand that a price supported by outlandish potential earnings must be suspect. A quick glance at Amazon which survived the dot com boom/bust of 2000 which saw the share price fall 95% from December 1999 to October 2001 clearly gives a perfect exemplar.

The marginal easing of mortgage rates will come as a relief to many households although they have much further to go before the pain of recent months starts to be alleviated. That the recent Office for National Statistics (ONS) figures show that inflation has fallen to 6.8% is to be welcomed.

The fall of inflation to 6.8% was welcome news but regretfully this does not signal the end to possible interest rate rises. The BoE is not likely to want to take any precipitous action that could endanger their policy of bringing inflation down to the 2% range. Whilst food and energy prices have shown weakness, wage inflation remains an issue. The forecast of ‘jam tomorrow’ remains elusive and the numbers from the ONS will be closely monitored in the closing months of this year as the Government’s target of halving inflation this year remains problematic.

Finally, on a more cautionary note, the rise in the yield of the 10-year US Government bond to over 4%, the highest in sixteen years, suggests that the fear of interest rate rises remains very much an issue for US investors. This is a space that needs watching as it could have ramifications globally.

Outlook by Asset Class/Region

Asset/Region	View
Cash	Positive
Government Bonds	Neutral
Credit Fixed Income	Neutral
Property	Positive
UK Equity	Neutral
US	Neutral
Emerging	Negative
Asia	Negative
Commodities	Negative
Alternatives	Neutral
Technology	Positive

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Important information

Pensions are a long term commitment, you may not be able to access your pension funds until the age of 55 (currently), investments can go down as well as up and you might not get back your initial capital. Pension and tax legislation does and can change in the future which could impact your pension.

Please note: The Financial Conduct Authority does not regulate tax planning.

As a mortgage is secured against your property it may be repossessed if you do not keep up the mortgage repayments.

The value of your investment and any income from it could fall or rise, and you may not get back the full amount you invest.

Past performance is not a reliable indicator of future results. We always recommend you talk to a qualified financial adviser before making any investment decisions.

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