INVICTUS
Independent Financial Advice

Invictus IFA
Minster Gardens,
Nottingham,
NG16 2AT

T: 0115 88 00 244
M: 07793 323027
E: info@invictusifa.co.uk
www.invictusifa.co.uk

News in Review

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'We have the tools and determination we need to reduce inflation and I am confident the Bank will play their part in making that happen'

The Monetary Policy Committee (MPC) voted to raise Bank Rate last week, hiking the rate from 1% to 1.25%, the fifth consecutive rate rise. The MPC voted six to three to raise the rate by 0.25 percentage points, with the members in the minority voting for a 0.5 percentage point rise to 1.5%. Pushing the Bank of England's (BoE) benchmark rate above 1% for the first time since 2009; the increase was widely expected, with analysts believing another hike was necessary to rein in inflation.

The MPC revised its inflation forecast to *'slightly'* above 11% in October, an increase on a previous estimate of 10% and the eighth time the Bank has had to alter its predictions. If this estimate of 11% plays out in the coming months, the 2% inflation target will be overshot almost six-fold. The anticipated increase in October reflects higher projected household energy prices following an additional rise in the Ofgem price cap, plus rising food prices and a tight labour market.

Responding to a letter from BoE Chairman Andrew Bailey, Chancellor Rishi Sunak said that he recognised *'the impact that high inflation has on households and that it is challenging for households up and down the country to meet their living costs, which is why it is imperative to bring inflation back down to target and to keep it anchored there. I welcome that the Bank is prepared to take firm and decisive action to achieve this.'*

Referring to a trio of tools; independent monetary policy, fiscal responsibility and supply side reform, the Chancellor concluded, *'We have the tools and determination we need to reduce inflation and I am confident the Bank will play their part in making that happen.'*

Further rate increases are expected this year, with commentary suggesting that investors are pricing in a 3% base rate by year end. This would require three half-point rate increases and a quarter-point increase at the four remaining meetings of 2022. The next MPC meeting is scheduled for 4 August 2022.

Fed approves largest interest rate rise since 1994

Central banks around the world are taking similar steps, including in the US. Across the pond, Federal Reserve officials agreed a 0.75 percentage point rate rise last Wednesday, increasing the Fed's benchmark federal-funds rate to a range between 1.5% and 1.75%. The largest US interest rate increase in 28 years, the Fed signposted that it would continue lifting rates in 2022 as it strives to tackle surging inflation. The third rate rise since March, more are expected, with the median Fed policymaker indicating interest rates to sit at around 3.4% by the end of 2022.

At a press conference following the two-day meeting, Fed Chairman Jerome Powell described the rate rise as *"unusually large,"* adding, *"It is essential that we bring inflation down... Inflation has obviously surprised to the upside over the past year and further surprises could be in store. We therefore will need to be nimble."*

By choosing to raise rates more aggressively, the Fed is seeking what it calls a *'soft landing'* which would slow inflation without causing a recession. The next Federal Open Market Committee (FOMC) meeting will be held during the last week of July.

Travel woes

Railway workers kicked off three days of strikes on Tuesday (21st), with Thursday (23rd) and Saturday (25th) also earmarked, in what is due to be the biggest national rail strikes in 30 years. With only half of Britain's rail network expected be open on the strike days, with a very limited service, economists expect the strike to cost the nation more than £100m. Kate Nicholls, Chief Executive of UKHospitality, said this is a *"huge blow"* to businesses already dealing with staff shortages and soaring energy prices, she continued, *"Our customers and staff rely heavily on public transport to visit our venues, especially in towns and cities, where recovery is proving most difficult."*

Meanwhile, chaos at UK airports continues as the aviation industry is still in the process of ramping up staff levels, after many workers were made redundant or changed jobs during the pandemic.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.