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News in Review

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"The beginning of a sign that a corner has been turned"



Data released last Wednesday revealed that UK inflation slowed for a second consecutive month, though prices still rose by 10.5% in the year to December.

The small drop, down from 10.7% in November, came despite food prices soaring to their highest level since 1977 in the month. Restaurant and hotel prices also rose sharply in December, while petrol and diesel costs eased slightly.

On Thursday, Andrew Bailey, Governor of the Bank of England (BoE), implied that the Bank might be close to stopping interest rate rises soon. In an interview, he hinted that the 4.5% peak priced in by the markets was aligned with the BoE's own thinking. Commenting on the road ahead, Mr Bailey said that December's figures, although expected, were *"The beginning of a sign that a corner has been turned."* He continued, *"What we think is the most likely outcome is that it (inflation) will fall quite rapidly this year, probably starting in the late spring, and that has a lot to do with energy pricing."*

A similar corner might have been turned in the US, with Treasury Secretary Janet Yellen saying on Monday that she has a *"good feeling that inflation is coming down"* and that the combination of a strong labour market and easing inflation were *"very hopeful signs"*. She also spoke about the impact of receding energy and goods prices, reduced shipping rates, improvements in supply chains and rental housing costs which are likely to ease over the next six months.

Meanwhile, last week, the latest data from Japan revealed that prices rose by 4% last month, to reach a 41-year high.

Levelling up the UK

Last Wednesday, the UK government released details of the latest round of its Levelling Up Fund, with over a hundred projects across the UK awarded a share of £2.1bn.

The money will be divided between better transport links (£672m), community regeneration (£821m) and the restoration of local heritage sites (£594m). Among 111 areas benefiting are a new rail link in Cornwall, the Eden Project North in Morecambe, a new AI campus in Blackpool and a major regeneration scheme in Gateshead.

Michael Gove, the government's Levelling Up Secretary commented on the kicking off of Round 2 funding, *"We are firing the starting gun on more than a hundred transformational projects in every corner of the UK that will revitalise communities that have historically been overlooked but are bursting with potential."*

UK retail sales slide in December

The volume of retail sales fell by 1% in December, according to figures published by the Office for National Statistics on Friday. Sales during the Christmas shopping period came in well below the 0.5% rise that had been forecast in a Reuters poll of economists, resulting in a second consecutive monthly decline in retail sales volumes.

Consumer confidence also fell in January, GfK's monthly consumer confidence

index revealed, returning near to historic lows after three months on the up. Enduring concerns about the economy, as well as the soaring cost of living, are prompting many to keep spending tight, analysts suggest.

Optimism in Davos

Delegates at the World Economic Forum (WEF) in Davos voiced tentative optimism on the economy last week, pointing to evidence of consumer resilience and demand for small business loans.

A major talking point was US president Joe Biden's Inflation Reduction Act (IRA), a \$369bn package that aims to stimulate investment in technologies that will help cut the country's greenhouse gas emissions.

Markets

The FTSE 100 struggled after latest office for National Statistics (ONS) data showed government borrowing reached £27.4bn last month, jumping by £16.7bn against the same month a year earlier due to £7bn in costs from energy support schemes and soaring interest payments on debt. ONS said this was the highest monthly figure for December borrowing since records began in 1993. The FTSE 100 ended Tuesday down 0.35% at 7,757.36. The FTSE 250 closed up 0.27% to end the day on 19,855.31.

Here to help

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

***The value of investments can go down as well as up and you may not get back the full amount you invested.
The past is not a guide to future performance and past performance may not necessarily be repeated.
All details are correct at time of writing (25 January 2023)***