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News in Review

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'It's time we recognised the quality that other countries see in the UK'

In an open letter to UK institutional investors last week, Boris Johnson and Rishi Sunak urged pension schemes to invest more of savers' money into UK assets, to help drive the economic recovery and boost long-term growth prospects. They believe the country needs an *'investment big bang'* to unlock *'hundreds of billions of pounds'* sat in schemes, and that UK institutional investors should invest a greater proportion of their capital in UK assets, such as infrastructure and pioneering firms.

In the letter, which comes ahead of an Investment Summit at Downing Street in October, Sunak and Johnson highlighted that UK investors are currently under-represented in owning these assets, whilst some of the world's largest pension funds, including from Australia and Canada, have benefited from the opportunities that UK long-term investments afford. They wrote, *'It's time we recognised the quality that other countries see in the UK, and back ourselves by investing more money into the companies and infrastructure that will drive growth and prosperity across our country... we want to see UK pension savers benefiting from the fruits of UK ingenuity and enterprise, being given the opportunity to back British success stories, and secure higher returns and better retirements.'*

MPC maintain policy

Last Thursday, the Bank of England's Monetary Policy Committee (MPC) voted in favour of maintaining monetary policy, keeping Bank Rate unchanged at 0.1% and bond buying at current levels. Just one member of the eight-person Committee voted to end the bond buying programme early.

In his accompanying economic outlook, Governor of the Bank of England, Andrew Bailey, spoke about the big news story – inflation. The Bank expects inflation to peak at 4% in Q4 and Q1 2022, before falling back to around 2.5% at the end of next year, returning to target in H2 2023. The prices of traded goods have contributed to the surge in inflation, reflecting several developments including oil prices, supply bottlenecks and a global upturn in the prices of basic commodities. Bailey concluded, *"The MPC's view is that there are good reasons to suggest that above-target inflation will be temporary. But if this outlook appears to be in jeopardy, the MPC will not hesitate to act."*

The Bank expects UK GDP to have risen *'slightly'* faster than expected in Q2, offset by slowing momentum in Q3, *'as suggested by higher-frequency indicators of card spending, consumer confidence and mobility, which have either levelled off or fallen slightly in recent weeks.'* Consequently, UK GDP is still expected to grow by 7.25% this year, followed by growth of 6% next year.

Sterling extends gains against euro

In recent weeks, sterling has performed strongly, as confidence gathers surrounding high vaccination rates, easing restrictions and although still elevated, declining virus cases. On Tuesday, sterling extended gains to hit its strongest level against the euro since February last year.

US indices reach highs on positive jobs data

Across the pond, better than expected jobs data boosted markets at the end of last week. The labour market in the world's largest economy remains firmly in recovery mode, registering the seventh consecutive month of jobs expansion. Nonfarm payroll employment rose by 943,000 in July, far outstripping the 870,000 jobs expected in a Reuters survey of economists. The unemployment rate dipped to 5.4% from 5.9%, also beating the median estimate of 5.7%. On Tuesday, the Senate voted to approve a $1trn infrastructure bill.

Cautious optimism for home markets

At home, cautious optimism appears to be outweighing concern about rising Delta variant rates in Asia and to a lesser extent in the US, resulting in another record high for the domestically focused FTSE 250.

China's export growth slows

New coronavirus infections in July have resulted in authorities in many Chinese cities imposing lockdown on affected communities, ordering millions to be tested and suspending some business activity, including factory work. This has resulted in an unexpected slowdown in export growth – exports in July rose 19.3% year-on-year, compared to a 32.2% gain in June – analysts polled by Reuters had forecast a gain of 20.8% for the month.

Here to help

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