

News in Review

9 November 2022

"The road ahead will be a tough one... but the economy will recover, and inflation will fall"



At the latest meeting of the Bank of England's Monetary Policy Committee (MPC) concluding on 3 November, Bank Rate rose by 0.75 percentage points, an eighth consecutive increase and the biggest for 33 years.

Members of the MPC voted by a majority of seven to two to raise Bank Rate to 3%; of the two dissenting voices, one preferred an increase of 0.5 percentage points and the other a smaller 0.25 percentage point rise. Borrowing costs are now at their highest since 2008.

After the vote, Andrew Bailey, Governor of the Bank of England, repeated that the Bank's primary objective was to bring down inflation, which last month rose at its fastest rate in 40 years. He commented, *"The road ahead will be a tough one... The level of economic activity in our economy is likely to be flat, and even fall, for some time but the economy will recover, and inflation will fall."*

Indeed, the MPC is forecasting that gross domestic product (GDP) will continue to fall throughout 2023 and into 2024, while unemployment – currently at its lowest level for 50 years – is set to almost double to 6.5%. Latest projections by the MPC reveal *'a very challenging outlook for the UK economy'*, with recession *'for a prolonged period'*. The minutes of the next MPC meeting will be published on 15 December 2022.

Similar story across the pond

A day earlier, the US Federal Reserve also raised its key interest rate by 0.75%, a

fourth consecutive three-quarter point rise. Now at a target range of 3.75% to 4%, the highest level since 2008, the rate hikes seem likely to continue. Indeed, speaking shortly after the meeting, Chairman Jerome Powell signalled that the Fed's work is far from finished, *"We still have some ways to go and incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected."*

In the same speech, however, Mr Powell suggested easing off on the pace of rises might be possible sooner rather than later, *"It may come as soon as the next meeting [in December] or the one after that ... No decision has been made"* he added.

COP27 underway in Egypt

As the COP27 summit kicked off in Egypt, the United Nations Secretary General, António Guterres, used his opening address to warn that, *"We are on a highway to climate hell with our foot still on the accelerator."*

On Monday, world leaders descended on the Egyptian city of Sharm El-Sheikh to begin two weeks of negotiations on climate action. Prime Minister Rishi Sunak, having U-turned on his decision not to attend the conference, spoke about the importance of energy security, *"Putin's abhorrent war in Ukraine and rising energy prices across the world are not a reason to go slow on climate change"* he said. *"They are a reason to act faster."*

More stark words came from the Kenyan President William Ruto, who stressed the

need for rapid action, *"Further delay will make us busy spectators as calamity wipes out lives and livelihoods"* he said. President Joe Biden is expected to attend later this week after the US midterm elections.

A major talking point of the opening days of the summit was the decision to include 'loss and damage' on the agenda. After negotiations that dragged on until Sunday morning, developing countries finally got their way; the possibility of reparations paid by rich countries for the impacts of climate change will now be officially discussed at COP for the first time.

Markets

Tuesday's primary focus for markets was on the crucial US midterm elections that will determine control of Congress. London stocks closed just above the waterline, with the FTSE 100 ending the session up 0.08% at 7,306.14 and the FTSE 250 closing ahead 0.75% at 18,697.89.

Wall Street ended the day higher, with investors betting on a political stalemate that could prevent major policy changes. It was the third straight day of gains on the US stock market, leaving the Dow Jones down less than 10% year-to-date, to close on 33,160.83. The S&P 500 was 0.56% firmer at 3,828.11.

Here to help

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