>futureMoney

6th July 2023

Market Update

Demand & Supply

The objective of the Bank of England is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. A key part of this is to keep inflation low and stable, with a government set target of 2%. The main tool in targeting this level is through the adjustment of interest rates. When inflation is above target, interest rates are raised. This reduces the demand for loans as borrowing is more expensive and encourages those with cash to put this in the bank, earning an improved rate of return, rather than spending it in the wider economy. This reduces aggregate demand within an economy, which, as the basic economic theory of demand and supply suggests, leads to lower prices for goods and services and therefore to lower inflation.

Lagging Impact

Interest rates eventually do have an impact on demand levels, yet it is not typically a fast acting transmission mechanism. While there are many variables affecting the lag between application and impact, 12-18 months is often considered the timescale it can take for the bulk of an interest rate change to be felt across the economy, but there are arguments to suggest that the delay is now longer than it used to be.

Fixed Rate Deals

In the present day UK mortgage market fixed rate deals are the most popular, whereas historically tracker mortgages were more in demand. When interest rates increase, an individual with a tracker mortgage will feel the impact of a rate rise immediately, yet those with a fixed rate mortgage will only be affected when it is time to re-mortgage. Looking at this picture nationally and most mortgage holders will have taken out 2 to 5 year fixed rate loans over recent years. Some will have to secure new deals over the coming months, while others will be sheltered from the higher borrowing costs for a number of years yet. Therefore those facing the monthly burden of mortgage costs will find their disposable incomes notably smaller eventually, but this will only gradually feed through to the economy via reduced demand. The same story is also true for other forms of debt, with any individual or business in need of refinancing over the coming years likely to see the cost of servicing that debt rise significantly.

Increased Chance of Recession

This makes the future economic picture more challenging. The UK economy has proven more resilient than expected over recent months, with recession so far avoided and with unemployment at just 3.8%. Yet such strength is fuelling inflation and is therefore leading to a more aggressive path from the Bank of England, which recently increased rates by 0.5% (compared to a 0.25% expectation) and which is now widely expected to take even further action over the coming months. This means that while the economy is currently performing better than expected, the Bank of England has to be increasingly aggressive and so a downturn is more likely to emerge at some point over the coming year.

The enclosed are comments and opinion only of the Future Money Fund Management Team intended for use by professional Financial Advisers. They do not constitute advice or verified factual information.

International Comparisons

These factors are not exclusive to the UK, but they do appear more acute. Headline inflation is stationary in the UK and core inflation (headline inflation excluding fuel and food) is rising. Meanwhile, in both the US and Europe, headline inflation is falling quickly and core inflation also appears to be gradually retreating. Further interest rate rises are expected (especially so in the US), but with UK economic growth already the lowest and inflation the highest, it seems that the burden of tighter monetary policy will be felt more significantly on these shores.

The Lesser of Two Evils

The current dilemma facing central banks is whether to raise interest rates to stem inflation, or to ease off in order to protect economic growth. With high inflation itself being an eventual threat to economic growth, the Bank of England and its peers are pursuing the former, believing a battle with inflation to be the lesser of two evils. While a mild recession may well be necessary, recovery and financial stability will ultimately emerge and be worthy reward.

The enclosed are comments and opinion only of the Future Money Fund Management Team intended for use by professional Financial Advisers. They do not constitute advice or verified factual information.

>futureMoney

6th July 2023

Important Information
Please note that the contents are based on the author's opinion and are not intended as investment advice. This information is aimed at professional advisers and should not be relied upon by any other persons.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request.

For any information about the Future Money funds please contact the authorised corporate director, Margetts Fund Management Ltd, on 0121 236 2380, admin@margetts.com or at 1 Sovereign Court, Graham Street, Birmingham B1 3JR. A copy of their Terms of Business which relates to investments into the funds can also be obtained using these contact details.

Issued by Future Money Ltd

Future Money Limited is authorised and regulated by the Financial Conduct Authority

Future Money Ltd

15 Victoria Place · Carlisle · Cumbria · CA1 1EW

0203 4570 387

www.futuremoney.co.uk