British politics collides with economics

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So here we are again ...

You've probably had a notification from your news app of choice, pointing out something like "UK interest rate in biggest jump for 33 years."

Today

The way we see things today is slightly less ... provocative ... than the **"BREAKING NEWS"** suggests.

Everyone knew that the Bank of England (BoE) would raise rates. From a financial market perspective, today's 0.75% rise in rates was completely and utterly expected. 100% of forecasters expected a rate rise.

... And almost everyone knew how much rates would rise by. There wasn't much disagreement on the scale of the rate rise either. Of 45 economists surveyed by Bloomberg, 39 expected a 0.75% move. And the others were evenly split between 0.5% and 1%. Hardly a load of extreme predictions!

... And everyone knows why the BoE is raising rates in the first place. While most people might not *know* that this is the biggest rate rise since 1989 (because normal people don't track that), they absolutely *do* know why it's happening; to tackle inflation, which is also at highs not seen in decades.

In fact, what we've seen today might be better summarised as *"UK policymaking authority does what was expected, when it was expected, for understandable reasons."*

Of course, predictable and rational economic behaviour has been at a premium in the UK recently, so it may *feel* a little surprising to see a policymaker do something sensible. But the fact is that the BoE is continuing to do what it needs to do. Gradually taking the steam out of the domestic economy – where it can – in order to eventually bring down inflation. No market scaring tactics. No panic. Nothing out of the ordinary.

The outlook

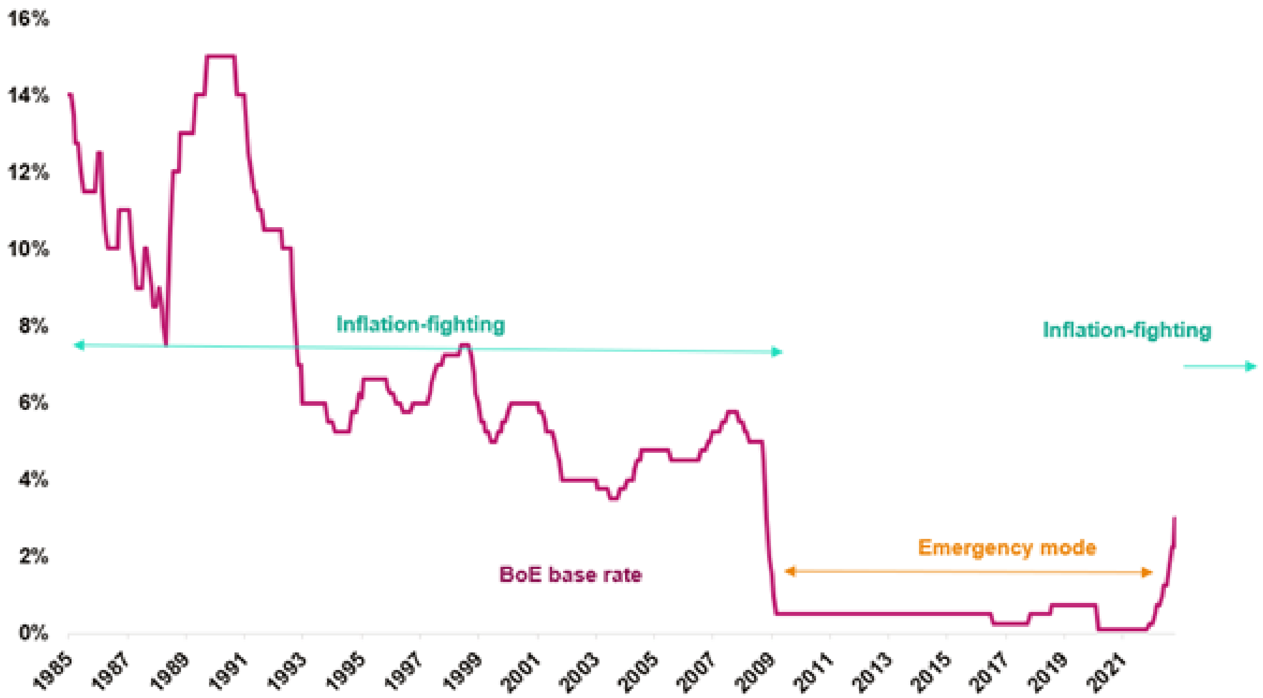
People will spend the next few days picking apart the wording of the statement afterwards. But ultimately, the BoE will be driven by the data. If inflation remains high, rates will keep rising. And if inflation begins to fall next year, they might not rise as far.

But much of that data just doesn't exist yet. The BoE don't *know* how quickly the economy will respond to higher rates, nor what the outlook is for energy prices over the next few months. They have a broad plan, and they'll adapt it as necessary.

Anyone looking for firm commitments on how high rates will go is missing the point. The real point is that we are re-entering an "inflation-fighting" world – the kind we were in up until 2009 (see chart). In *that* world, central banks focus on inflation, not on whether the economy needs emergency life-support.

The transition back to that world will be jarring for many who've not seen it before – both as investors and in day-to-day lives. The BoE itself expects that the UK is likely to be entering a protracted recession (actually it's been saying this for some time, despite what Liz Truss may have been raving about). Again, alarming at a headline level but not actually different from our expectations, nor a world that we are unprepared for.

From a portfolio sense, we're prepared for the shocks that can come with a transition. Having managed our clients' money in the same way *before* 2009, we know our investment process can handle the new (old) environment.



Source: 7IM and Bank of England

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