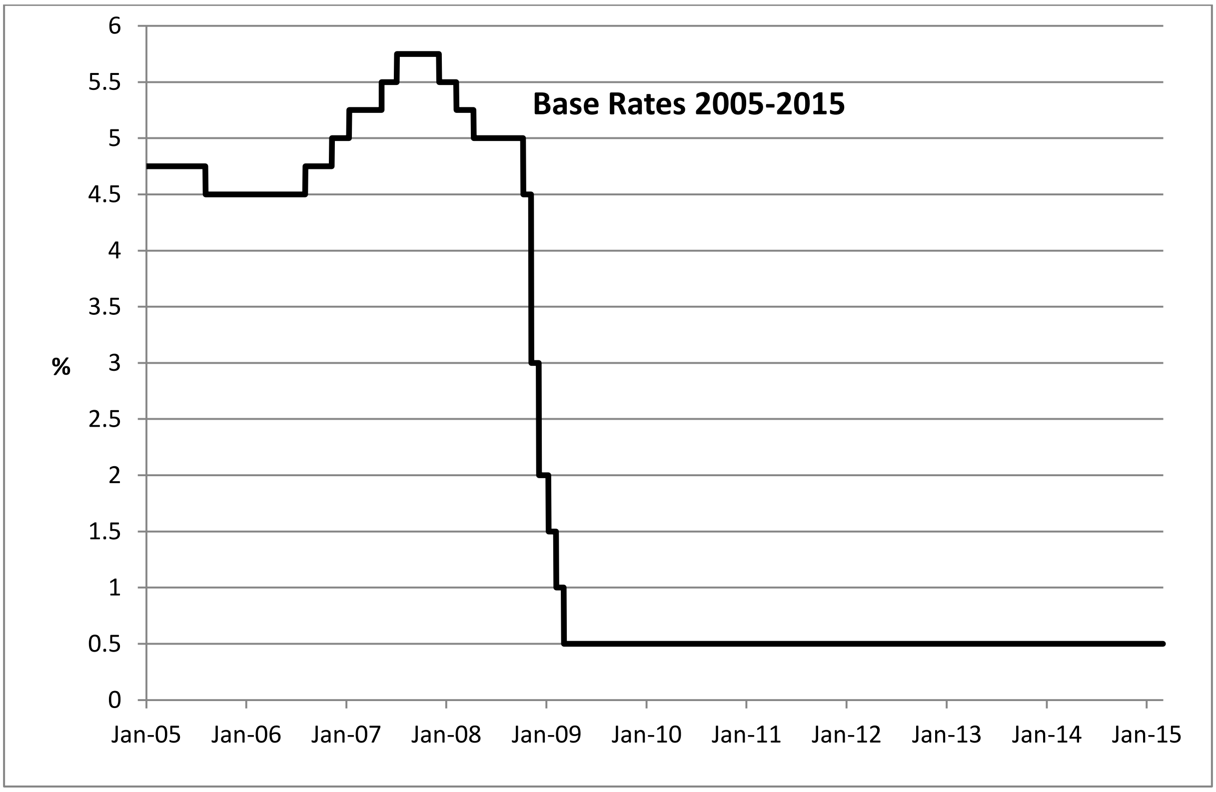
0.5% base rates: the story continues

5 March marked the sixth anniversary of 0.5% base rates.



When base rate fell to 0.5% back in the dark days of March 2009, there were no expectations that such a low figure would endure well into the next decade. The cut to an historic low was seen as a temporary measure, soon to be reversed as normality returned to the financial world.

Six years on, near zero interest rates remain the order of the day in many leading economies: the corresponding US rate is 0.25%, the Eurozone rate is 0.05% and in Japan 0% rules. By staying put, the UK base rate has now emerged as the highest. Until last month the Bank of England's view was that cutting rates any further would not be possible because of the problems it would cause the financial system. However, the Old Lady's no-lower stance has now been abandoned: the Bank's latest Quarterly Inflation Report says that in certain circumstances it could decide "…to cut Bank Rate further towards zero from its current level of 0.5%." The Bank is confident that the financial system could now cope with lower rates.

At present the money markets are still expecting UK interest rates to rise, albeit with the first increase over a year away and 1% base rate nearly three years away. The Bank's Governor did hint that rates could rise earlier if there is a larger than expected positive economic response to lower oil prices, but after so many assorted warnings from Mr Carney since he took charge, the markets chose not to take much notice.

On the other side of the Atlantic, the possibility is growing that the US Federal Reserve will start raising rates in June. If that happened, it would be the first US rate increase since June 2006 and could cause some ructions in global markets.

Meanwhile, if you are holding money on deposit, consider yourself lucky that negative interest rates have not reached the UK yet, as they have in Switzerland and Denmark. There remain many opportunities to generate more than 0.5% income from your capital – ask us to run through the extensive shopping list.

The value of investments can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.