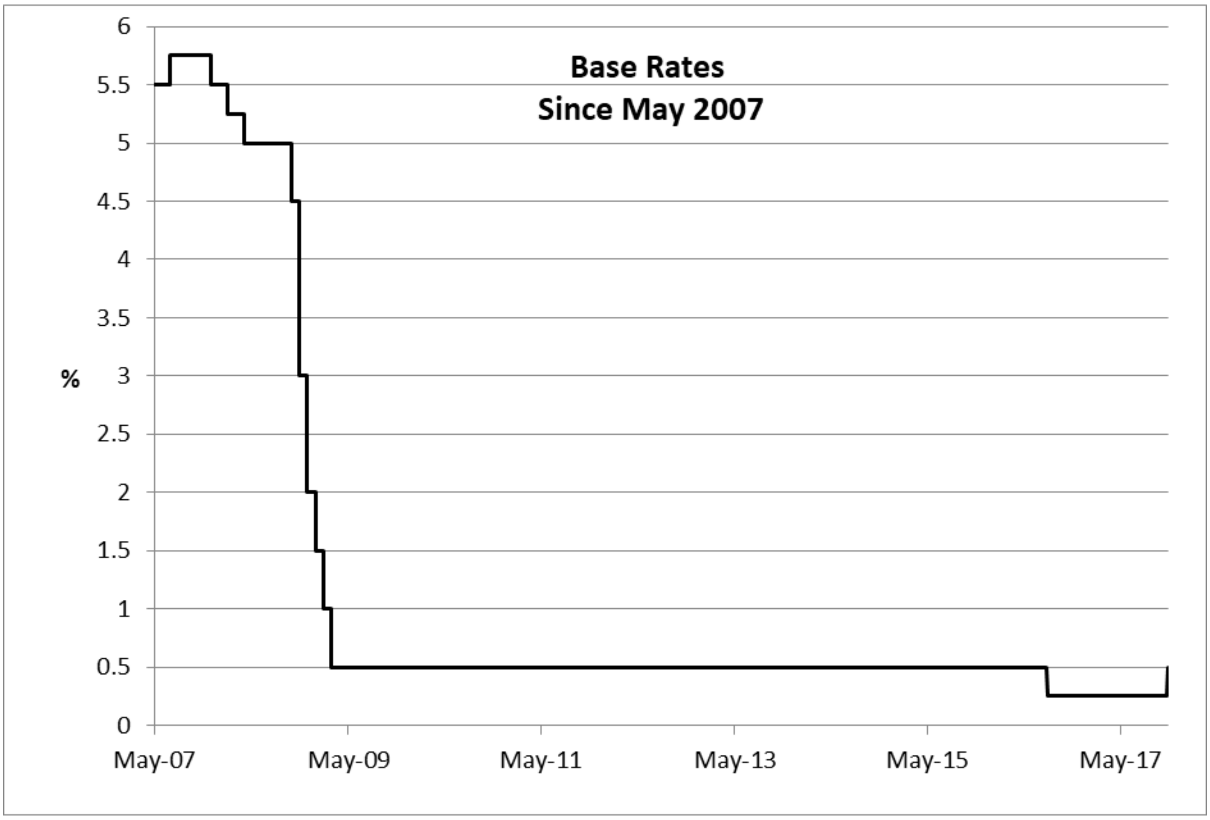
The only way is up – after 3,773 days…

November marked the first rise in the Bank of England Base Rate in over ten years.



Source: Bank of England

At the start of November, the Bank of England raised its base rate for the first time since 5 July 2007. Just over a decade ago, the previous increase was 0.25%, from 5.5% to 5.75%. This time around the increase was the same, but represented a doubling in the base rate.

The move had been widely expected after several senior Bank officials dropped heavy hints that an increase was likely before the end of the year. In the run up to the announcement, the markets assumed a 0.5% rate as a done deal and focused on whether the rate increase would be “one and done” or the start of a series of rate rises.

The answer to that was given by the Bank’s Governor, Mark Carney. He noted that money markets were forecasting two more rate rises over the next three years, a “gently rising path” consistent with inflation reaching target by the end of that period. In other words, the Bank currently expects base rate to reach the dizzy heights of 1% around early 2020.

If anything, news on inflation released less than a fortnight after the rate rise, pushed out the date of the next increase. Instead of rising above 3%, as widely expected, and thereby prompting an explanatory letter from Mr Carney to the Chancellor, CPI inflation remained unchanged.

The combination of 3% inflation and a 0.5% base rate is not good news if you hold cash on deposit: the gap between the two (plus any tax) is a measure of how fast buying power is being eroded. For alternative options, please talk to us.

The value of your investment 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.