

Market Bulletin

7 November 2019

New Bank of England Governor to be greeted by a change in the fiscal wind

Today the Bank of England's (BoE) Monetary Policy Committee met, and voted by a majority of 7-2 to keep the policy interest rate at 0.75%.

The outlook for UK interest rates remains highly dependent on the outcome of the 12 December general election. The only certainty for the Bank of England at this stage is that whoever wins the election is planning to loosen the purse strings. The fiscal headwind the Bank of England has faced for much of this expansion is about to become a tailwind.

Of course whether the election serves to resolve Brexit uncertainty remains to be seen. The polls currently point towards a Conservative majority government, but there is also a significant possibility that the election results in a hung parliament. A Conservative majority might provide the most near-term clarity as it would be highly likely that the UK would leave the EU on 31 January 2020 with Boris Johnson's negotiated deal. However, the Brexit reprieve may prove short-lived if the period of transition is not lengthened, given the final partnership still needs to be thrashed out. The negotiated backstop has much of the UK leaving the customs union, which will still require a lot of re-routing of supply chains. This may limit the extent of a post-deal economic bounce.

By contrast, a hung parliament may not deliver decisive near-term Brexit progress but could ultimately lead to a compromised solution. This would most likely be a softer Brexit than that delivered by the Conservative party alone. For a detailed analysis of the upcoming election and implications for markets please see "*On the Minds of Investors - Will a general election in the UK solve the Brexit impasse?*"

Regardless of the election outcome, a knee-jerk policy response from the Bank looks unlikely. Both because of a need to remain apolitical immediately after an election, and because sterling will likely do much of the Bank of England's work. An appreciation in sterling on the back of a market-friendly outcome would dampen imported inflation, while a depreciation in a less market-favourable scenario could boost UK inflation and limit the need for an immediate policy response.

AUTHOR



Ambrose Crofton
Global Market Strategist

The Bank assess that the UK economy remains on solid footing, but that Brexit uncertainty and slowing global growth have weighed heavily on the economy this year. The Bank expects that Brexit uncertainty for households and businesses will have been reduced by the recent agreement of a new deal between the EU and the UK, as the perceived chance of a no-deal exit has fallen. It therefore forecasts that based on more supportive fiscal policy, improving domestic dynamics from reduced uncertainty, and a recovery in global growth, that growth should improve markedly in the coming year.

And on inflation the Bank forecast that inflation will still be above target by the end of the forecast horizon. As these forecasts are now based on the assumption of a deep free trade agreement between the UK and the EU, and a modest easing in monetary policy over the forecast period, we would expect that the Bank is unlikely to cut interest rates next year if a deal is implemented shortly after the election.

Bank of England Governor Mark Carney is due to step down at the end of this January, and we will have to wait until after the election to find out who his successor will be. The incoming governor is likely to inherit a similarly uncertain economic outlook. The Bank is likely to remain paralysed—with rates on hold—until both Brexit and global fogs have cleared.

The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designed as a tool to help clients understand the markets and support investment decision-making, the program explores the implications of current economic data and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not in scope for any MiFID II / MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programs, as non-independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy is given and no liability in respect of any error or omission is accepted. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yields are not reliable indicators of current and future results.

J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our [Company's Privacy Policy](https://www.jpmorgan.com/global/privacy) (<https://www.jpmorgan.com/global/privacy>). For further information regarding our local privacy policies, please follow the respective links: [Australia](https://www.jpmorgan.com/country/AU/EN/privacy) (<https://www.jpmorgan.com/country/AU/EN/privacy>), [EMEA](https://am.jpmorgan.com/us/en/asset-management/gim/mod/legal/external-privacy-policy) (<https://am.jpmorgan.com/us/en/asset-management/gim/mod/legal/external-privacy-policy>), [Japan](https://www.jpmorganasset.co.jp/wps/portal/Policy/Privacy) (<https://www.jpmorganasset.co.jp/wps/portal/Policy/Privacy>), [Hong Kong](https://am.jpmorgan.com/hk/en/asset-management/per/privacy-statement/) (<https://am.jpmorgan.com/hk/en/asset-management/per/privacy-statement/>), [Singapore](http://www.jpmorganam.com.sg/privacy) (<http://www.jpmorganam.com.sg/privacy>) and [Taiwan](https://www.jpmmrich.com.tw/wps/portal/Footer/Privacy) (<https://www.jpmmrich.com.tw/wps/portal/Footer/Privacy>).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by J.P. Morgan Institutional Investments, Inc., member of FINRA; J.P. Morgan Investment Management, Inc. or J.P. Morgan Alternative Asset Management, Inc.

In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only.

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

0903c02a82744636