



Interest rates now at 0.25%...

The Bank of England halved its base rate in August. By the end of the year, it could be lower still.

At its first formal meeting after the Brexit vote, in early July the Bank of England's interest rate setters (the Monetary Policy Committee) surprised some economists by not cutting rates. The (non-) move resurrected criticism of Mark Carney, the Bank's Governor, as "an unreliable boyfriend".

In August, the surprise came from the opposite direction. Not only did the Bank cut interest rates, but it also announced more quantitative easing (QE – buying of government and corporate bonds) and new low rate loans of up to £100bn to banks and building societies to encourage lending. As if that were not enough, the bank also said "if the incoming data proves broadly consistent with the August Inflation Report forecast, a majority of members expect to support a further cut in Bank Rate...during the course of the year". Fortunately, Mr Carney has made clear he does not favour negative interest rates, but another cut will take him very close to what used to be called the 'zero bound'.

Savings rates have been dropping for some time, but this has not stopped deposit-taking institutions from cutting further, in some cases by more than the 0.25% reduction made by the Bank of England. One of the most attractive interest-paying current accounts has announced a 1.5% reduction in interest payable.

The extra £70bn of QE has pushed down government bond yields: lend money to the government for a decade and you'll be paid only less than 0.7% a year. Once again this has pushed down annuity rates and exacerbated the problems of funding final salary pension schemes. Lower interest rates also drove down the value of the pound, which could ultimately mean higher inflation.

For investors, as opposed to depositors, the Bank's moves were beneficial, giving a lift to the value of UK shares and bonds, and, by dint of sterling's fall, foreign assets.

Despite the rate cut and its aftermath, there are still opportunities to invest for income. However, advice is more vital than ever now, as the pool of remaining income investments is becoming potentially riskier.

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.