US interest rates: we have lift off

A long-awaited event happened in mid-December.

The mid-December front pages of the national press were pre-occupied with the launch of a rocket from Kazakhstan containing Tim Peake, the UK's first European Space Agency astronaut. At virtually the same time, the business pages were pre-occupied with another fanfare-laden lift off: a rise in US interest rates.

The transatlantic interest rate rise was the first increase since June 2006 and the first change in rates since the US Federal Reserve brought them down to a 0%-0.25% range in December 2008. The market had originally been anticipating a rise in September, but the Fed stayed its hand, worried about the ructions in Chinese financial markets. In December there were no such concerns.

The Fed's move does not mean a UK interest rate rise is any more imminent. Unusually, global interest rates are out of sync, so in December, shortly before the US increase, the European Central Bank (ECB) *cut* one of its main interest rates. Further ECB cuts have not been ruled out, while at the same time many pundits are predicting another 0.25% will be added to US interest rates in March. The market's current expectation for the UK is that it may be almost another year before base rate moves off the 0.5% where it was parked in March 2009. However, it has to be said that there are many people – including the Bank of England's governor – who have been embarrassed by their predictions of when UK interest rates would pick up.

Stock markets were initially buoyed up by the end of the wait for the US rate rise, but very quickly second thoughts and volatility set in. It remains the case that the average dividend yield of shares in most major markets is well above the level of short term interest rates – in the UK the gap is between a 0.5% base rate and about 3.7% average for the 640 constituents of the FTSE All-Share.

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.