20 September 2017

Perfect Storm Threatening UK Investors
Brian Raven, Chief Executive of Tavistock Investments Plc

- UK investors may be facing unanticipated risks
- UK interest rate rises will trigger substantial capital losses for bondholders
- Ending of QE will spark liquidity problems in global bond markets

Tavistock Investments Plc looks after the personal wealth of tens of thousands of people, providing them with both financial advice and investment management. In early August 2017, the company distributed a Guidance Note to all of its financial advisers highlighting its concerns over what it described as a “Perfect Storm” threatening UK and global bond markets.

Tavistock stated: “Such is the strength of our house view that we are taking the unusual step of writing to you directly to recommend that you alert your clients now and advise them accordingly.”

This is because private investors may now be facing risks that they are unaware of. None of us can see into the future, but we have experience, information and intuition. Tavistock’s view is that the current mix of circumstances in both the UK and global economies means that many private investors may be facing risks that were not anticipated previously and which they need help to understand.

UK interest rate rises (which it regarded then, as likely in the short term) will trigger substantial capital losses affecting the most cautious clients, and those least likely to be prepared for, or able to sustain them – those in or nearing retirement. The key issue for UK bonds is that yields are low and durations are high, averaging around 10 years. This means that every 1% increase in interest rates would trigger a 10% capital loss.

The appropriate strategy would be to move to shorter duration portfolios with a much greater overseas emphasis. However, the difficult UK situation will be compounded by the ending of QE which will spark liquidity problems in global bond markets.

Tavistock recommends increasing shorter duration allocations to global government, corporate, and high yield bonds, as well as emerging market local currency bonds. It believes such an approach will offer the potential to achieve positive real returns. However, it warned this strategy would only work if non-UK holdings were hedged back to sterling, to protect against the rise in the pound that will inevitably accompany increased interest rates.

The potential accuracy of Tavistock’s predictions can be seen from recent market activity based on the assumption of shorter term BOE action on rates. Since the beginning of September 2017, there has been a +4.5% rise in the pound versus the dollar, a -2.6% decline in 10 year gilt prices and a -2.1% fall in the FTSE 100 (*Source of Data: Tavistock Wealth & Thomson Reuters Eikon).* This is an indication of how serious matters could become when rates do actually begin to rise.

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Notes to editors

About Tavistock Investments PLC

Tavistock Investments Plc is an AIM listed investment management business that has successfully established its own distribution through the strategic acquisition of five independent financial advisory businesses. Key group companies are: Tavistock Wealth which manages the Group's Acumen Funds and its Centralised Investment Proposition (CIP), Tavistock Partners which provides compliance, administration and accounting services to Partner Advisers (RIs) and The Tavistock Partnership which provides similar services to Adviser Firms (ARs). Tavistock has over 160 advisers in the Group and in excess of £3 billion in assets under advice.