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State of Play

1 July 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. As Stamp Duty concessions come to an end, will house prices fall or will the move simply cool an overheated market?

House price growth at its highest since 2004

You have to rewind the clock back to 2008 to witness a time when house prices last fell significantly. Following a financial crisis that gripped the world economy, central banks responded by cutting interest rates to near zero and printing money in an attempt to save the financial system - measures (and rate levels) which remained for nearly 10 years. However, despite the cuts and the unprecedented (at the time) printing of money, risk averse banks reeling from near collapse tightened their lending to home buyers, causing the housing market to choke and confidence to drain away from potential purchasers.

Fast forward just over a decade to the start of the COVID-19 pandemic and resulting national lockdown, for a short time last year the housing market ground to a halt. Given how indicative the housing market is seen by governments and businesses as to the confidence of consumers and the momentum in economic activity, it was probably no surprise that, in addition to interest rate cuts and more quantitative easing, the Chancellor of the Exchequer Rishi Sunak introduced a temporary concession to incentivise buyers to go house hunting after the first national lockdown ended.

Data released by the country's biggest building society confirmed what most of us already knew, that the housing market temperature has risen back to overheating. According to The Nationwide House Price Index the average

price of a UK home rose by 13.4% in the year to June. There are a couple of caveats with this figure to provide some context. Firstly, given the depressed market in June last year it's not surprising that the feverish activity of the last few months has fed into this steep rise. Secondly, Nationwide bases its index on its own mortgage approvals but unlike the Halifax House Price Index, it covers only 10% of the mortgage market. Nationwide only takes into account owner occupied properties and houses sold at 'true market prices', i.e. right to buy sales at discounted price are excluded. Nationwide has been publishing quarterly property price reports since 1952, and monthly indices since 1993.

Regardless, some property commentators will feel vindicated after last year criticising the UK Government for incentivising a market that, despite the pandemic, was in good health. The concessions were due to finish in March this year but because there were nearly 200,000 property sales at risk, the decision was made to extend to the end of June.

The big question being asked is 'what will happen next?'. Concerns remain about market confidence once the incentive has finished and when the furlough scheme closes at the end of September. House prices have risen steeply for a prolonged period, outpacing wage rises by a significant factor, therefore putting the dream of buying a first home out of reach for many. Despite these factors a combination of very low interest rates keeping affordability to record low levels and the ongoing generational lack of supply means prices may keep rising in the short-term, albeit at a much slower pace than of late.

Another important changing factor is buyer behaviour. When you analyse the data, what strikes you is the regional differences of the price rises and the huge shift in families choosing to move out of the towns and cities and into the countryside or at least the surrounding suburbs to those major cities. This is best demonstrated by London, which usually leads the way on price rises, as it was the second lowest change over the year at 7.3%, just in front of Scotland at 7.1% rise. Now that many have been forced to work from home due to the pandemic, the benefit of life outdoors, no commuting and the flexibility to adapt work around family life has been enough to influence the change in aspiration for lots of house buyers or home movers.

Nobody can be 100% confident whether prices will continue their path into 'bubble' territory or whether they will fall back once the incentives end, but long-term factors will probably play a huge part in the next chapter. The lack of supply has been a challenge that has been failed by successive governments for nearly 50 years and one that is unlikely to be solved in the short-term despite Prime Minister Boris Johnson's plans to loosen the planning laws in an attempt to get Britain building. Supply issues in the manufacture, production and distribution of building materials, in particular concrete, will hamper the housing sectors ability to grow capacity for the

next few months. The market is also dominated by only a handful of major housebuilders, with large land stocks keen to control supply to underwrite their average sale price. Even though many first time buyers are unable to save for the deposit and fees required to buy their first home, some are able to rely on the bank of mum and dad. I suspect on reflection that prices will slow rather than fall at least until greater supply is provided or perhaps when interest rate rises feed into the mortgage deals available from banks.

Crypto currency regulatory concerns

This week the Financial Conduct Authority (FCA) has ruled that Binance, the world's biggest crypto-currency exchange, is banned from conducting any regulated activity in the UK and also warned consumers to be wary of Binance adverts promising high returns from crypto asset investments - reinforcing the view that regulators are taking aim at crypto currencies as they approach critical mass. This follows the Japanese Financial Services Agency banning Binance and US officials seeking information from Binance to help with money laundering enquiries. On 17 June the World Bank rejected a request from El Salvador to help them make Bitcoin legal tender, with the International Monetary Fund saying that they saw 'macroeconomic, financial and legal issues' if El Salvador adopted Bitcoin alongside the US dollar.

Regulatory intervention is unsurprising given recent volatility. Bitcoin, the ubiquitous crypto currency, is an extreme example: on 2 January 2021 the value of one Bitcoin was $32,149 (US dollar); by 16 April it was $62,624; and by 26 June it was $32,275. This equates to an almost 50% fall in value in just two months. It is that type of fluctuation that has led the FCA to warn that these unregulated assets, that hold none of the usual safety nets, mean that people who invest must be prepared to lose all of their money.

Are these concerns going to stop the crypto craze in its tracks? Unlikely, but we are seeing an acceleration of regulatory intervention in the crypto market. It is inconceivable that regulatory bodies and policy makers were going to allow a shadow payments system to mature without oversight. As crypto currency usage continues to grow then it is inevitable that regulation will follow suit, which in all probability will remove some of the advantages that crypto currencies were designed to bring.

Market update

Most major indices saw modest increases over the last week which continued their upward trend of recent weeks. Alongside stock markets, oil prices climbed for the fifth week in a row, hitting prices last seen in October 2018. As economies reopen and demand increases, prices have followed as Organization of Petroleum Exporting Countries (OPEC) is slowly unwinding last year's record output curbs in order to sustain the gradual price rise now being witnessed. The Institute of Directors Confidence Tracker has been positive for the last 12 months and June recorded the highest level of

optimism since July 2016 when the tracker was launched, further cementing the view that the gradual reopening creates a positive environment for both business and markets.

Find out more!

Listen **here** to our latest Market Views from Stefano Amato, Head of Multi Asset Solutions in the UK, as he shares his thoughts on the main themes dominating markets.

Note: Data as at 29 June 2021.