A week in the UK Market

Given the mass global pandemic issues, with forecasts of a crash, the UK property market has overturned all expectations and entered a 'mini-boom'. There are many doubts as to how long this growth will last, but for now, housing prices are estimated to be up by 2.4% since March 2020. Several factors are behind the recent upturn in property prices. The main reason is undoubtedly to take advantage of the stamp duty holiday imposed by Chancellor Rishi Sunak in a bid to boost the market since the lockdown property freeze.

The Stamp duty holiday has been imposed so that homes valued up to and including £500,000, will no longer be liable to pay stamp duty upon purchase of that house. Purchases above the half a million limit will still see benefit as you will pay 0% on the first £500,000 and then 5% on the next £425,000, 10% on the next £575,000 and 12% on any subsequent remainder of the property value.

While first time buyers will be no better off as they are already exempt from stamp duty on properties worth up to £300,000, the average homebuyer will save approximately £2,000 on purchasing their next home. As a result, the stamp duty holiday has seen the demand for houses has shot up 88% since the backlog of properties has unfrozen. Many would think that it is best time to buy, however, sellers are taking advantage of this recent surge in demand by increasing their selling prices. They are simply looking to offset the stamp duty benefit back onto the buyer themselves, thus making the sellers better off.

Elsewhere in the last week, the Pound-to-Euro exchange rate has looked dismal to say the least. The GBP/EUR opened the week trading at 1.12 but swiftly fell, closing (at the time of this report) to 1.08 by the end of the week. The fall in the pound has been attributed to the ongoing Brexit negotiations, more specifically, the Northern Irish Protocol. Following Brexit, the only border that the UK and EU now share is the infamously historic border between Northern Ireland and Republic of Ireland. Therefore, interaction between the two countries must be negotiated and settled as of the 1st January 2021 if they are to avoid the protocol at all.

The aim of both parties was to avoid a return of a land border, reduce tariffs and eliminate checks between the UK, Republic of Ireland and Northern Ireland. Johnson has confirmed the protocol will see the UK authorities apply EU customs rules to goods entering Northern Ireland and the Internal Market Bill would give ministers the right to disapply previously agreed rules relating to the movement of goods, including any under the Northern Ireland protocol.

The EU has expressed their frustration as the changes the UK are intending to make, put them in breach of the international treaty signed last year. With Boris Johnson's announcement bidding to make such amendments to the withdrawal, this has caused extensive Brexit trade fears and the potential damage it could have on the UK Corporate sector.

With the EU threatening legal action against the UK, the fears that Boris Johnson will change the Irish Protocol, contained within the Withdrawal agreement, has caused excessive uncertainty as to the future UK/EU relations. As such, the value of sterling has seen better days.

The chart shows a selected extreme scenario and is for illustrative purposes only. Past performance is not a reliable indicator of future returns. The value of investments and the income from them can go down as well as up, so your clients may not get back what they invest. Investors should note that the views expressed may no longer be current and may have already been acted upon. Changes in currency exchange rates may affect the value of an investment in overseas markets. Investments in small and emerging markets can also be more volatile than other more developed markets.

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