

## KWARTENG SACKED AS GOVERNMENT FACES HUMILIATING REVERSAL OF ITS PLANS TO CUT TAXES

This week we saw the lady is for turning after all. Growing opposition on the Conservative backbenches, international criticism and extremely hostile financial markets forced Liz Truss to sack Kwasi Kwarteng as chancellor and rethink plans to cut taxes. The government has been in damage limitation mode all week as it tried to reassure its critics that a bit of economic orthodoxy is not too bad after all. News that Kwarteng had to rush back to London for a crisis meeting on the fate of his mini-budget saw sterling rise and brought some calm to the gilt markets.

The reputation of the Bank of England also took a hammering this week, as it appeared to be briefing against its own governor at one point. Andrew Bailey gave pension schemes until the end of the week before the bank withdrew its support for the gilt market but this appeared to have little effect. Instead it was speculation about a government U-turn that was the catalyst for the end of this week's gilt sell off. A new chancellor and revision of the planned tax cuts may have calmed markets but the severe damage to Liz Truss's credibility will be harder to reverse.

### THE MARKETS THIS WEEK

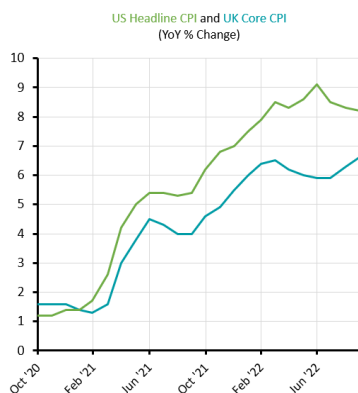
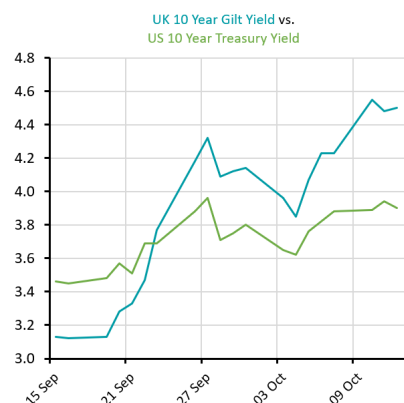
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-2.01%	+0.83%	-3.24%	-0.95%	-6.39%	+0.07%	-0.23%	-4.25%	-3.61%	-2.35%	+0.91%



#### UK: BANK OF ENGLAND AND TREASURY BATTLE FOR CREDIBILITY

Liz Truss has been trying to restore credibility in her government's fiscal plans as she sacked chancellor Kwasi Kwarteng and reviewed the tax cuts set out in the mini-budget. Criticism of the government's plans has been growing and Truss is trying to face down increasing hostility from Conservative MPs. Truss has been forced to review tax cuts after she explicitly ruled out a reduction in government spending despite the Institute for Fiscal Studies predicting that cuts of £60bn will be needed to pay for them.

The Bank of England's credibility was also strained by its threat to end intervention in the gilt market at the end of this week, while briefing that support may continue. The Bank's confused messaging and low take up of its support for gilts saw gilt yields return to the levels they touched last week before speculation about a government policy U-turn caused gilts to rally late in the week. Separately, BoE chief economist Huw Pill said the next interest rate meeting would see a significant response to rising inflationary pressures.



#### US: RISING CORE INFLATION CAUSES WILD DAY FOR US MARKETS

US inflation came in higher than expected and sparked a wild day's trading in equity and currency markets. Headline inflation as measured by the Consumer Price Index was 8.2% for the year to September. This was a small drop from 8.3% for the August reading but was higher than expected. However, core inflation, excluding energy and food prices, increased from 6.3% to 6.6%.

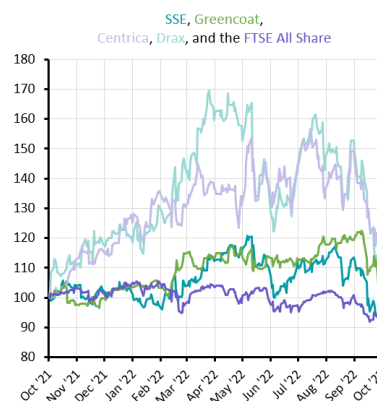
Minutes from last month's US Federal Reserve interest rate meeting showed the bank's decision makers are concerned about doing too little to fight inflation. The higher core inflation reading saw equities and bonds fall sharply and the dollar jump higher due to fears of even more aggressive monetary tightening. However, sentiment changed significantly later in the day and US stocks reversed an intraday loss of -2.4% to end the day up 2.6%. The dollar reversed most of its gains but US Treasury yields ended the day higher as their value failed to recover.



#### EQUITIES: GOVERNMENT PLANS TO CURB RENEWABLE ENERGY PROFITS

In a week of U-turns, Liz Truss had already partially reversed her commitment not to impose a windfall tax on energy companies. The government announced plans to impose a revenue cap on energy generators that do not use fossil fuels after failing to get the industry to sign up to fixed price contracts. The new revenue cap will affect companies that generate electricity from onshore wind, biomass, nuclear and solar energy. The details of the cap have yet to be announced but the government expects its tax on revenue will raise billions for the Treasury.

The news caused the shares of renewal energy companies like SSE, Centrica, Greencoat UK Wind, Drax and RWE to fall. These companies have seen a huge increase in revenues and profits as gas prices have soared, but their shares have been under pressure recently due to the government's attempts to get them to move to fixed price contracts. There are currently no plans for a windfall tax or revenue cap for gas powered electricity generators.



Data Sourced from FE Analytics and FactSet

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