PRESS RELEASE

CHARLES STANLEY

DIY investors adjust interest rate expectations

- DIY investors expect interest rates to reach between 3% and 3.25% in May 2025
- Investors also predict inflation will be 2.4% by that time
- 38% of DIY investors optimistic that inflation will reach the government's inflation target of 2.0% or lower by May 2025

Self-directed investors - dubbed DIY investors, in that they actively choose their own investments - expect that interest rates will fall to an average of 3.18% within six months' time, according to new research from Charles Stanley Direct.

The current base rate from the Bank of England is 4.75%. When surveyed in summer 2024, DIY investors wrongly expected interest rates to now be averaging 2.97%. Sharing their expectations again now, DIY investors are anticipating a fall of 150pbs by May 2025 - still a substantial cut for the BoE to make.

That said, nearly one in five (18%) DIY investors expect interest rates to be between 4.1% and 4.5% by May 2025, and one in ten (11%) expect interest rates to hit between 3.6% and 4.0% by that time.

A number of factors can influence the Monetary Policy Committee's (MPC) decision on what the base rate should be, including inflation, exchange rates, and credit availability, in efforts to keep inflation low and stable, aiming for its target of 2.0%

Currently inflation stands at 2.3%. Charles Stanley Direct's research also asked DIY investors what they think the UK inflation rate will be in six months' time. On average, investors think inflation will be 2.4% by May 2025, a marginal increase from the current rate.

One in five (19%) DIY investors think inflation will stay in the range of 2.1%-2.5%, while 16% think it will ease and reach the Government's target, measuring between 1.6%-2.0%. Overall, 38% of DIY investors think inflation will be 2.0% or lower.

Rob Morgan, Chief Investment Analyst at Charles Stanley Direct, comments: "UK inflation and interest rates are very closely connected, and the nation has been on quite a journey with both in the past couple of years especially with announcements in the Budget bringing greater uncertainty about the two. Many young investors have had to navigate a high inflationary and interest rate environment for the first time in their lives, and additional public spending, extra costs for businesses through national insurance and minimum wage rises could drive higher prices over 2025, especially in the service sector. This may limit the extent the Bank of England feels comfortable lowering interest rates.

"DIY investors hoping for a steeper trajectory of cuts may therefore be left disappointed, and they need to ensure their investment strategies are suitable for their personal needs and are able to weather market conditions. Crucially, investors must remember that investing is for the long term, and to avoid knee-jerk reactions. While DIY investors actively choose their own investments, seeking professional advice can also help them in ensuring their investments are working as best they can for them."

Rob Morgan shares his top considerations when investing:

1. **Investing works best over the long term**

When you buy shares, you are buying small slices of companies and stand to get a share of growth and increasing profits. That's why over the long-term investing wisely can significantly increase your wealth over time.

There are risks, especially in the shorter term. Profits don't always go up and companies can shrink as well as grow. In addition, the stock market rises and falls depending on people's confidence in the economy and in businesses, which can lead to investments losing value. It's therefore necessary to think long term, invest in a range of assets to spread the risk and only commit an amount you aren't going to need for at least five years.

2. **Diversification helps you manage investment risk**

What is higher risk in the short term can be far less so in the long run. A well-managed and diversified portfolio gives you the prospect of decent long-term returns that can drive your wealth forwards rather than backwards in relation to the cost of living. In fact, saving too much in cash could be more damaging to your financial position over long periods than taking risks with investments, especially if you are not maximising the interest available on cash with competitive products.

3. **Any market condition can have an impact on investments**

Inflation can have a knock-on impact on many investments. When inflation expectations and interest rates increase investors require a higher return from investments to compensate for the additional risk they take. Most investments are in the same boat – values must fall so that investors receive a return aligned with the new 'risk free rate'. When making any investment decision, it is important to carefully assess how stocks and funds are positioned to navigate the market. For example, some funds may be more geared towards more stable, dividend producing stocks which may be more well suited for inflation protection.

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Methodology
The research was conducted by Censuswide with 1,000 18+ DIY Investors across the UK Research conducted between 08.11.2024 - 12.11.2024. A separate survey was conducted by Censuswide with 1007 DIY Investors in the UK ('Self-Directed'), defined as; investors who actively choose their own investments, making their own asset allocation decisions, aged 18+ between 05.07.24 – 10.07.24.
Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles and are members of The British Polling Council.

Generational divides are as follows: Gen Z (18-27), Millennial/ Gen Y (28-43), Gen X (44-59), Baby Boomers (60-78), Silent Generation (79+). Responses were not high enough in the Silent Gen to be statistically significant.

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