**APPENDIX A**

**Interest Rate Forecast Commentary; Arlingclose**

**Underlying assumptions to interest rate forecast**

- The Bank of England (BoE) Monetary Policy Committee (MPC) left Bank Rate unchanged at its September meeting, after voting unanimously to increase Bank Rate to 0.75% (an 0.25% increase) in August. The MPC voted again to leave Bank Rate unchanged in October.

- The projected outlook for the UK economy means forecasts maintain significant downside risks. The UK economic environment is relatively soft, despite seemingly strong labour market data. Gross Domestic Product (GDP) growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average. The UK economy still faces a challenging outlook ahead of exit from the European Union and Eurozone growth softening.

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the BoE target of 2% throughout most of the forecast period. The rising price of oil and a tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

- The global economy appears to be slowing, particularly the Euorzone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank (ECB) is adopting a more strident tone in conditioning markets for the end of quantitative easing, the timing of first rate rises in 2019 and their path thereafter. Meanwhile European political issues (primarily in Italy) continue to cause concerns.

- The US economy is expanding more rapidly. The Federal Reserve Bank (the Fed) has tightened monetary policy by raising interest rates to the current 2% to 2.25% range; further rate increases are likely, which will start to slow the pace of economic growth. Central banks actions and geopolitical risks have and will continue to produce significant volatility in financial markets.