

This is MONEY

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Outlook for sterling remains 'very negative and will likely hit parity before Christmas'

James Penny, chief investment officer at TAM Asset Management:

'With the pound trading at record lows it might seem that GBP is in a crisis which looks set to deepen. Indeed investors have likened the volatility in GBP to that of an emerging market currency which is certainly not a rosy outlook. The negativity seems inexorably linked to a stock market referendum on the government's approach to fiscal discipline which is dour.'

'With the pound falling this adversely affects domestic companies in the AIM and FTSE250 and conversely provides a boost to those in the FTSE100, whom have more of their revenue in international currencies. If GBP hits parity to the dollar this will remain largely a symbolic breach rather than something which will prompt some sort of official fiscal or monetary intervention.'

'However, should cable hit parity then one could reasonably expect the BoE to step in with emergency rate hikes to protect the pound from further falls. This obviously comes with its own downsides when it comes to pricing in a recession in the UK and how UK company earnings are priced as a result which will likely be negative on UK assets.'

'GBP looks very negative and will likely hit parity before Christmas as a result of both the dour UK scenario but also the US rate hiking cycle which looks set to continue apace. From an investment perspective, anything trading at a steep discount always remains poised to break out and up when the paradigm shifts back in the other direction. Whilst this is hard to envisage in the short term, we see the potential for a pound recovery increasing as we move into 2023 and look towards a FED who might be getting ready to pause their hiking cycle.'