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The pound in your pocket

Harold Wilson's great lie to the British public in 1967, following the 14% devaluation of sterling against the US dollar from $2.80 to $2.40 (those were the days!) was that the devaluation "…does not mean that the pound…in your pocket….has been devalued."

Unfortunately, it meant precisely that, and this year the seemingly relentless long term vulnerability of sterling has come to centre stage yet again: since January we have witnessed a decline of about 7% against the US dollar and the euro. This has probably not been helped by the downgrading of Britain's credit rating, although it has to be said that this was widely expected by the foreign exchange markets and simply means that we are now on an even footing credit-wise with the likes of the USA and France.

The implications for the economy and for investors are potentially profound: sterling's weakness will be bad for inflation, because imports will cost us more, but good for many UK companies. More than 70% of FTSE 100 earnings are from outside the UK, and these earnings will be flattered in sterling terms. It will also be (and indeed already has been) generally good for investors with portfolios with a substantial commitment to overseas markets, which includes the portfolios that we look after, where we continue to maintain higher levels to overseas markets than ever before. The returns for sterling investors in dollar denominated stockmarkets (which is not just the US but effectively extends to most of South East Asia and emerging markets) are effectively enjoying a strong tail-wind , which could quite easily continue for a while.

So, whilst the restaurant bills on foreign holidays this year will cause us all to wince a bit, bear in mind that portfolios have benefitted to a much greater extent. And if the airport exchange rates really are too much to bear, you could take the helpful and uplifting advice of our government and simply 'staycation'.

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