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INSIGHT

Confidence must be tempered

By **Keith Breslauer** | Thu 9 September 2021



We all know that confidence is a key component of life – how many crucial junctions have we all passed through where the decision to leap, or err on the side of caution, has led us to the exact life we are each living now?



Keith Breslauer

Having worked in distress and opportunistic real estate investment for more than 30 years, I know that without risk there is no reward. However, you can have too much of a good thing – and confidence and opinions without a real base are increasingly becoming a worrying shape on the horizon.

The variance of public opinion about current affairs and politics had already been widely discussed in the wake of the Brexit referendum and the Trump presidency, before the Covid-19 pandemic brought this into even sharper focus.

It is not a bold statement to say that individual views and levels of tolerance around restrictions are skewed by social media and are growing increasingly polarised as we favour strong sentiment over nuanced views. However, this has a very real impact on behaviour that can itself deliver false readings to those who are trying to interpret it.



The mood in the UK is fairly positive right now. Despite the upheaval and significant costs of the measures taken by the UK government, economic concerns among the population have been largely mollified as interest rates have remained low due to that same government intervention. This has driven the value of assets to unprecedented levels – in turn creating a positive feedback loop for consumer confidence.

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Indeed, GfK's consumer confidence index at the end of August revealed that levels of optimism were close to record highs. Combined with a build-up of savings – the ONS recently reported that British households built up their savings to the second-highest level on record with £190bn of additional savings accumulated – things are definitely looking rosy.

You might ask what the problem is with this. The issue is that this confidence feeds into the various growth industries in which numerous investors are desperately searching for returns. In turn, this means that these same investors are largely accepting of growth projections and business plans that are fuelling even higher valuations in some companies.

This is particularly problematic in the technology sector – you only need to look at some investment into newly created SPACs, or special-purpose acquisition companies, to realise we are in la-la land.

Meanwhile, back on planet Earth, there is a serious risk that inflation is not only here to stay, but also set to rise further – despite a target of 2%, the Bank of England is now expecting it to rise to 4%. Wage increases are also picking up, and the latest figures showed a rate of wage growth not seen since the 1980s.

It is not inconceivable that this could fuel an increase in rates or a sharp reaction by the bond market against government debt that would force an even higher interest rate to hold such debt.

The danger is this would burst the bubble of confidence that is driving consumer spending, corporate valuations and the price of assets – taking them well below where they should be with the pendulum swinging too far to the other side of bearishness. Confidence, yes, but don't forget to employ some caution and realism too.

Keith Breslauer is managing director of Patron Capital