If we look at the last 14 years, the reality is that we have been in a bubble that has sent many things such as global property and equity prices to stratospheric levels. This bubble was created by extremely low interest rates and was pumped up further by other central bank actions including quantitative easing (QE). But now the bubble is deflating fast as interest rates rise due to soaring inflation, and we're experiencing an extremely bumpy re-entry as we come back down to earth. But whilst we're re-entering the higher interest rate environment of old, it is a manifestly different world.

This is because a megatrend that has dominated the past 40 years has run its course. The last four decades have been characterised by greater moves towards deregulation, globalisation and freer and freer trade. Supply-side shocks in this period were all largely positive for the economy – including the deregulation and privatisations spearheaded by Reagan and Thatcher in the early 80s, the collapse of the Soviet Union, the introduction of the Single Market, labour supply increasing from places like China, India and Eastern Europe, and the shrinking of the globe through technological advances. Demographics, in the shape of a growing supply of working-age population, was also a positive economic factor.

It has been clear for the past six years that this megatrend has been under threat and that the move towards ever-freer trade and globalisation was not one-way traffic. Trump's election in the US and the outcome of the UK's Referendum on the EU were clear indicators of this. As a result, we saw things like restrictions on labour movement to the UK, and US tariffs on Chinese imports which led to trade wars. In effect, whilst the West dominated the last 40 years, China is now jockeying for position as the dominant global force, with Russia's invasion of Ukraine a clear symbol of its intent. The foundations on which the last 40 years were built are shaking.

Prior to the pandemic, global interest rates were on a slow march higher anyway, with inflation under control. But two major supply-side shocks of the negative variety – the pandemic and Russia's invasion of Ukraine – have put a rocket-booster under inflation that has necessitated interest rates to go up more sharply.

The pandemic put a spanner in the works of global supply chains, and it made us much more aware of how we had taken for granted how efficient and integrated global trade truly was. But it also highlighted how dependent economies were on supplies of vaccines, PPE and medical equipment from elsewhere. What we gained in efficiency (lower cost) we lost in supply-chain resilience.

The pandemic disrupted the supply of goods which coincided with a spike in demand (as lockdowns prevented spending on services such as travel) that sent prices spiralling. In hindsight, to ward off a depression resulting from the pandemic, global central banks, particularly the Federal Reserve also provided too much stimulus, with more money printing leading to higher asset prices in what was dubbed 'the everything rally'. The pandemic's effects on inflation were hoped to be transitory but Vlad the Invader – i.e. Vladimir Putin's invasion of Ukraine – put paid to this.

The big inflationary impacts of the situation in the ‘breadbasket of Europe’ have been on food prices and energy costs, but things like car parts, fertiliser and building materials have been affected significantly too.

All of this means that interest rates are going to go back to levels not seen since 2008. For most people under the age of 40, they won’t ever have experienced Bank Rate at these levels.

The sharp increase in interest rates means that repayments on an average repayment mortgage will have increased 50 percent based on a five-year fixed rate now compared to April. Someone making repayments on a £340,000 mortgage taken out this month are paying the same monthly repayments as someone who took out a £500,000 mortgage in the Spring. The business model for buy-to-let properties now looks vastly different too. And people taking out car loans will also be surprised by the increased cost – not just of buying the car but of borrowing the money to fund the purchase. In the business world, the cost of borrowing will affect many companies, not least with the interest rate on Bounce Back Loans for instance bouncing much higher than would have been anticipated. All of this comes whenever households are already weighed down by higher food, energy and other prices.

Higher interest rates will bring down inflation. But the era of low prices is gone as a result of the megatrend changes that have been happening. The era of low energy costs is over – for now at least – due to the supply taps of cheap gas from Russia being turned off, on top of the cost implications of needing to address climate change. Germany in particular is affected by the Russian gas situation, so watch out for your BMW cars and Bosch washing machines spiralling in cost. US efforts to by-pass China by manufacturing its own semiconductors for instance, will also lead to higher prices that will feed through to consumer goods prices going forward. The supply of global labour has also been falling due to an aging population and taking back control of our borders has exacerbated challenges associated with getting labour. Reduced supply of workers means higher wages and this is here for the foreseeable.

Many consumers will bemoan higher interest rates. But whilst there is clear pain associated with them, the reality is that extremely low interest rates aren't all positive. They have led to unaffordable housing for many and incentivised poor investment decisions and behaviours. Despite rock bottom interest rates, for instance, UK business investment remained at historically low levels. Extremely low interest rates also propped up things that things that shouldn't have been sustainable therefore distorting competition. It thwarted what the economist Joseph Schumpeter called the forces of 'creative destruction', whereby business failures could unleash resources for more successful businesses. All of this meant that productivity suffered.

Given the new higher cost world that we're going to have to get acclimatised to – even after inflation is curtailed, focusing on higher productivity to improve economic prosperity and our standard of living is more important than ever.

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