

# WEEKLY ANALYSIS

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## RELATIVE ATTRACTIVENESS OF BRITISH ASSETS

Negative GDP in Q2. Resilient leading indicators. The BoE fears inflation at +12%. Monetary policy measured. Decreasing risks for the pound. Opportunities in bonds. Attractive relative valuations for equities.

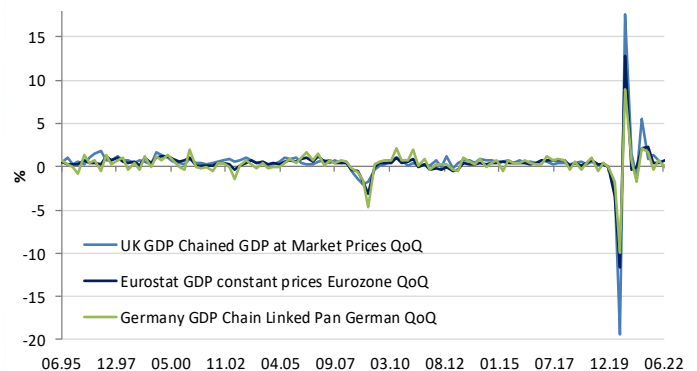
### Key points



- UK GDP advanced by +0.8% in Q1
- The 2nd quarter could be down by -0.2
- Surprising resilience of leading indicators in Q2
- Unemployment rate nears all-time low
- Loss of household confidence threatens consumption
- BoE fears inflation will rise to +12% in 2022
- New opportunities in the bond markets
- The BoE is gradually adjusting its monetary policy
- Risks to the British pound diminish
- Direct real estate shows signs of weakness
- Risk premiums still attractive for UK equities

Industrial production recorded a negative month (-0.1%) in April, followed by a fairly clear recovery of +0.9%. The consumption also seemed to be affected by the decline in purchasing power in connection with the historic price increase, which is still not slowing down.

Quarterly GDP growth-UK



Sources: Bloomberg, BBGI Group SA

### The British economy finally recorded a +0.8% GDP growth in Q1

British growth proved to be more resilient at the beginning of the year according to the Office for National Statistics than many expected. With an increase of +0.8%, the United Kingdom achieved a good performance in the first quarter in a context that was already clearly deteriorating on the international level. This positive result, following a +1.3% rise at the end of the year, contradicted expectations of a clear continuation of the deceleration in the pace of growth and brought the year-on-year increase to +8.7%. The household consumption proved rather resilient, with an increase of 0.6% during the quarter. It is one of the main contributors to the positive results despite a degree of consumer confidence that had already fallen significantly. Investment in capital goods also rose. Government spending, on the other hand, made a negative contribution, contracting by -1.1%. Foreign trade subtracted -4.9% to the GDP due to a -4.4% decline in exports and a +10.4% increase in imports. The UK economy ended the first quarter on a rather positive note, but the monthly results for the first months of the second quarter were less optimistic for GDP growth.

### The 2nd quarter could be down by -0.2%

Consumer confidence is still down sharply at the end of June (-41) and is well below the low reached when the Covid crisis broke out in March 2020 (-34). Since July 2021, consumer confidence has deteriorated and has not yet shown any signs of stabilizing. It is now at its lowest level in 40 years. However, consumption is unlikely to fall dramatically in the second quarter and should not penalize GDP growth too strongly. Retail sales have logically been affected by the morose sentiment of households. After an upward trend in the first month, the month of May was significantly negative (-0.8), while in June the decline was reduced (-0.1%). The food segment recorded an increase, while the other sectors stalled under the pressure of generalized price increase.

Economic statistics have been more negative in recent weeks and clearly suggest an ongoing economic slowdown in the UK as well. However, May's GDP increase of +0.5%, supported by positive behavior in a large number of sectors, may be enough to compensate for the -0.3% decline in April and the likely June drop in growth. The outlook for the second quarter should be revised downwards and a negative growth of -0.2%