

WEEKLY ANALYSIS

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SIGNIFICANT DISCOUNT FOR UK EQUITIES

Possible recession in the first half of 2023 in the UK. Decline in capital market tensions. New regime for the BoE. Exit from the crisis for the pound sterling. Expected correction in real estate. Positive conditions for equities.

Key points



- The UK economy is resisting inflationary pressures and rising interest rates
- Negative GDP to end 2022
- Leading indicators still not very encouraging
- Labour market still little affected
- Household confidence remains at half mast
- No tangible signs of price declines yet
- Regime change for key interest rates
- Decline in bond market tensions
- Exit from the crisis for the pound sterling
- Significant fall in house prices
- Still positive conditions for UK equities

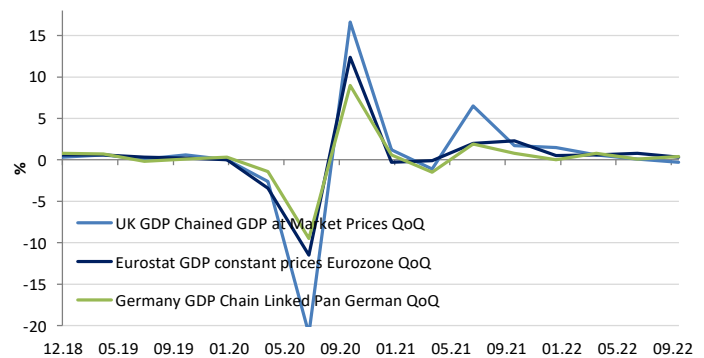
The UK economy is resisting inflationary pressures and rising interest rates

UK GDP finally slipped by -0.2% in the 3rd quarter, which is another surprise compared to the more negative expectations of a -0.7% contraction expected by economists. The revision of the 2nd quarter had already provided a positive surprise, showing a just positive GDP when forecasters were already predicting a contraction of the economy. Over twelve months, the GDP grew by +2.4%, significantly less than the measure taken in the previous quarter. Private consumption fell by -0.5%, while public spending supported growth with an increase of +1.3%. Capital formation, which rose significantly by +2.5%, also made a positive contribution. On the foreign trade side, the +8% increase in exports over the quarter was particularly significant, while imports fell by -3.2% over the period.

This rather positive result should not, however, mask the deteriorating economic conditions that have been at work for several months. Inflation and interest rate developments are gradually affecting monetary conditions and the health of households. The outlook for the UK economy looks bleaker than the GDP figures currently show. During the quarter, we

note a more visible deterioration in September, particularly in services, which were the main contributors to the month's decline. Services related to household consumption fell by -1.7%, clearly due to price increases. The construction and industrial sectors reacted better, recording small increases of +0.4% and +0.2%, partly offsetting the decline in services. Overall, private consumption stalled with a contraction of -0.5%, while investment spending was still able to advance by +2.5% thanks to public spending. Finally, the good performance of exports allowed foreign trade to add 3% to GDP growth.

Quarterly GDP growth - United Kingdom



Sources: Bloomberg, BBGI Group SA

Negative GDP to end 2022

The last quarter is likely to be the turning point for the economic trend in the UK. Persistently high inflation continues to reduce real disposable income of households, while interest rates are also expected to start to bite into the ability of households to maintain their consumption levels. A contraction of -0.3% in Q4 is expected to continue into the early part of the year and certainly into the first half. The probability of a recession is now 90% before a recovery in the second half of 2023.

A monthly GDP increase of +0.5% in October should not be overestimated as it represents a recovery from the decline in September and the death of Queen Elizabeth II.