

# WEEKLY ANALYSIS

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## UK STOCKS ON SALE

Recession in 2023. A resilient 1st quarter. Temporary recovery in household confidence. Inflation not under control. BoE on pause. Bond yields adjust. Real estate succumbs. Equities still attractive.

### Key points



- UK economy moves closer to a recession
- Q1 2023 could still be resilient
- Leading indicators still mixed
- Job market still resilient
- Household confidence has improved
- Temporary revival of inflation?
- The Bank of England is now in a holding pattern
- Rates also adjust in the bond market
- The British pound is trying to forget about itself
- Real estate no longer resists rising rates
- UK equities still attractive

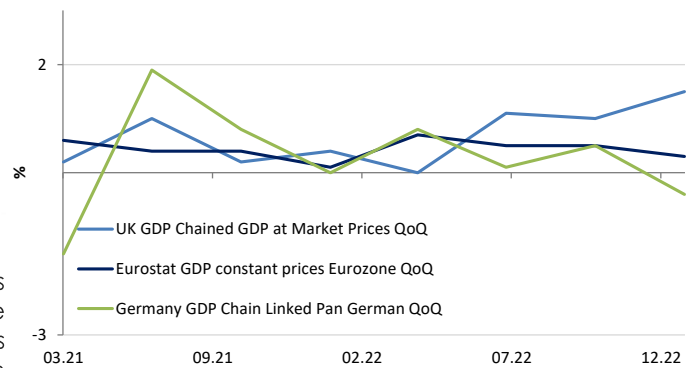
### UK economy moves closer to a recession

British GDP finally slipped by -0.4% in the 3rd quarter and ends the last three months of 2022 on a perfect stagnation of the economy. With 0% growth in Q4, the British economy is therefore practically in recession at the end of 2022. The outlook for Q1 2023 is again negative, the expected contraction of -0.3% at the end of March would confirm the country's entry into recession. This result for the last quarter of 2022 causes a drop in growth over a year from +1.9% at the end of September to just +0.4% at the end of December. The consumption increased very slightly (+0.1%) during the last three months, as did government spending (+0.8%). The -1% drop in exports and the +1.5% rise in imports weighed on the overall result. The end of the year was difficult as we expected for the British economy, marked in particular by a decline in disposable household income. However, it benefited indirectly from the exceptional vacations linked to the funeral of Queen Elizabeth II.

In monthly sequences, there was a clear weakness in December, marked by a -0.5% fall in monthly GDP. This decline appears to have been driven by a decline in services, which fell by 0.8%. The decline is clear in the consumer services segment, which sank by -1.2% and remains well below (-9%) its pre-pandemic level.

This is not an encouraging result for the beginning of 2023 and may be the last before a sharper decline in activity. Inflation and interest rate developments are gradually affecting monetary conditions and household health. The outlook for the UK economy looks bleaker than the GDP figures currently show.

Quarterly GDP growth-UK



Sources: Bloomberg, BBGI Group SA

### Q1 2023 could still be resilient

The leading PMI indicators reacted rather well in January and February, while the monthly GDP for January already recorded a surprising +0.3% increase. The services sector was the most important contributor (+0.43%) along with education (+0.15%), while construction (-0.1%) contributed negatively to the result. The outlook for the first quarter remains gloomy, however, as it is largely marked by negative statistics in the employment market, the real estate sector, foreign trade, industrial production, inflation and the cost of credit.