# WEEKLY ANALYSIS

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# SIGNIFICANT DISCOUNT FOR UK EQUITIES

Reduced risk of recession. Wages support purchasing power. Inflation declining too slowly. Relaunch of rate hike cycle. Capital and real estate markets in disarray. Favorable valuations for equities.

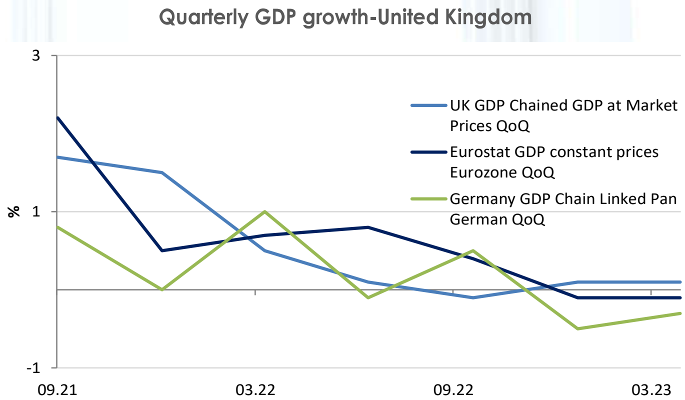
## Key points

- British economy still flirting with recession
- Difficult 2nd quarter ahead
- Further worrying declines in leading indicators
- Nominal wages continue to rise
- Household confidence strengthens gradually
- Inflation still falling too slowly
- BoE forced to maintain restrictive policy
- Towards new highs for interest rates
- Sterling benefits from more attractive yields
- Real estate collapses in the face of rising interest rates
- Significant discount for UK equities

### British economy still flirting with recession

We were expecting another difficult first quarter, albeit probably a slightly positive one for the British economy, threatened by a complicated situation in the employment market, real estate, foreign trade, industrial production, inflation and finally, domestic demand. Zero growth in UK GDP in Q4, following a -0.4% fall in Q3, would have enabled the UK economy to avoid a technical recession, which has now been averted by the expected resilience of the economy at the start of 2023. The +0.1% growth recorded is not very encouraging, however, and still leaves a great deal of uncertainty on the British economy's ability to avoid a recession, even though this has often been predicted for several quarters. It has to be said that uncontrolled inflation and rate hikes have not yet had the logically expected effects, as they have not weighed sufficiently on momentum to push the economy into a decline. In our view, the outlook is logically no better today than it was a few months ago, particularly given the persistence of inflation and the need for the BoE to pursue its policy of rate hikes in an attempt to bend the trajectory of price rises.

The British economy is therefore virtually in recession, and the outlook for Q2 2023 is once again uncertain. Over the year as a whole, GDP grew by just +0.2%. Over the quarter, private consumption was virtually unchanged, growing by barely +0.1%, while investment rose by +1.3% and it was the -2.5% contraction in government spending that weighed on GDP growth. Recent monthly evolution showed a fall of -0.3% in March, which was not offset by a recovery of +0.2% in April, accompanied by a fall in industrial production of -1.9%. This result is not encouraging for the second quarter, which is already marked by persistent inflation and a further rise in BoE key rates. The environment in the UK remains highly uncertain.




*Sources: Bloomberg, BBGI Group SA*

### Difficult 2nd quarter ahead

PMI leading indicators for June remain mixed, with essentially a further deterioration in the manufacturing sector below the growth threshold and a gradual erosion in services, which are still in the growth zone, with GDP nonetheless up +0.2%. The rebound has been driven by consumer spending and retail sales, but this is probably not the first sign of a recovery or a trend reversal. The weakness of the economy seems to us to be persistent, and April's rebound is certainly no more than a reaction to the drop in activity recorded in March.