

# Weekly Analysis

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## ADJUSTING THE OUTLOOK FOR UK ASSETS

Recession postponed until 2024. Household confidence improves. Inflation finally falling significantly. Prudence and pragmatism from the BoE. Rates normalize. Rebound in securitized real estate and equities.

### Key points



- British economy still flirting with recession
- Recession postponed until early 2024
- Timid recovery in leading indicators
- Significant downturns in the labor market
- Household confidence improves
- Inflation finally falling more noticeably
- BoE maintains pragmatic caution
- Normalized outlook for interest rates
- Not yet the right time for sterling
- Positive outlook for securitized real estate
- Discount still attractive for equities

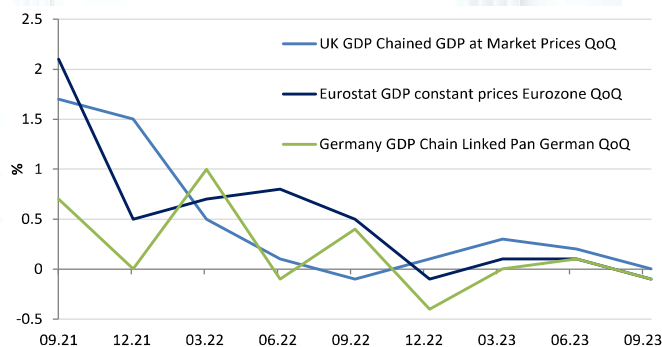
### British economy still flirting with recession

For several quarters, the British economy had been resisting economists' forecasts of a probable recession. After a 2nd quarter that had already surprised forecasters with a slight increase of +0.2%, the British economy surprised once again in the 3rd quarter by avoiding a contraction in GDP. With this surprise result of zero growth in Q3, the British economy remains threatened by a complicated situation in the employment market, real estate, foreign trade, industrial production, inflation and finally domestic demand. This zero result indicates that, once again, the British economy has managed to avoid a recession at the end of September, ruling out the immediate specter of a downturn in 2023.

Despite inflation being still out of control, restrictive monetary policy, and rising financing costs, their expected effects had not yet materialized by the end of September. These factors had not sufficiently weighed on momentum to push the economy into decline. The outlook does not seem logically any better today, particularly in view of the persistence of inflation at excessively high levels and the BoE's understood

need to pursue its restrictive policy in an attempt to bend the trajectory of price rises. The economy's overall resilience this time was due rather to an improved trade balance (+0.43%), lower imports (-0.26%) and higher exports (+0.17%), while the contribution of household spending turned negative (-0.25%). Domestic demand is finally starting to weaken, with private consumption declining by -0.4% after rising by +0.5% in the previous quarter, while government spending is also slipping by -0.4% after a fine previous rise of +2.5% in Q2. The British economy is still in overdrive and flirting with decline. The forces at work are likely to bite harder on consumption and investment in the months ahead. On an annual basis, GDP growth is still up +0.6%.

Quarterly GDP growth-United Kingdom



Sources: Bloomberg, BBGI Group SA

### Recession postponed until early 2024

Household resilience is stalling at a time when government spending is also contracting. As a result, a real slowdown is likely to set in over the next few months and continue into the new year. The publication of GDP for October should already confirm this forecast of a decline in UK activity. The UK economy is set to shrink by a further -0.1%, which could well continue for the full quarter. This likely development could, however, be slowed by an improvement in inflation, which finally seems to be slowing, as suggested by the October CPI (0%), the retail price index (-0.2%) and producer prices (+0.1%).