Weekly Analysis

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BRIGHTER PROSPECTS FOR BRITISH ASSETS

A recession more akin to a slowdown. Economic recovery possible in the 1st half of the year. Rapid fall in inflation. Key interest rates to be cut soon. Positive outlook for bonds, real estate and equities.

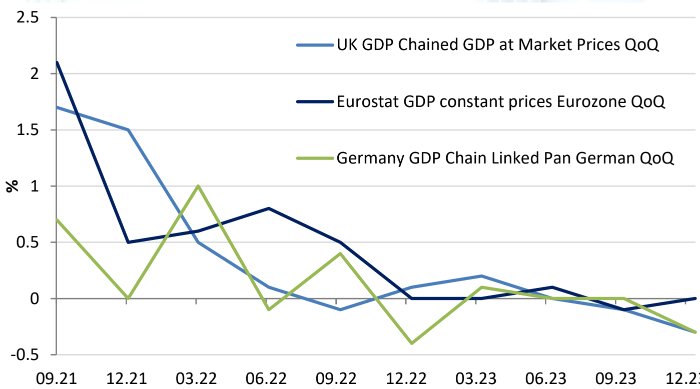
Key points

- The UK has finally entered recession
- The start of 2024 could already be more positive
- Slight improvement in leading indicators
- Tensions in the labor market easing
- Households seem more confident
- Inflation falls and approaches BoE targets
- BoE soon in a position to cut rates
- Attractive yields and capital gains prospects for sterling bonds
- Stable GBP/USD exchange rate
- Time to bet on securitized real estate
- Discount still attractive for equities

The UK has finally entered recession

For several quarters, the British economy had been resisting economists' forecasts of a likely recession. After a 2nd quarter revised to stagnation, the 3rd quarter recorded an initial very slightly negative trend of -0.1%, which deteriorated towards the end of the year (-0.3%), finally pushing the British economy into recession by the end of 2023. Year-on-year, GDP went from positive growth of +0.3% in September to -0.2% in December. The UK thus entered recession in the 2nd half of 2023, once again surprising observers who had expected a better year-end performance. Prime Minister Rishi Sunak, who had hoped to revive British momentum, will have to accept that a technical recession has been imposed instead. For the time being, however, the recession appears to be very moderate, suggesting stagnant growth rather than the onset of an economic collapse. This situation could go a long way to motivating the BoE to lower its key rates without delay, once again becoming the first central bank to complete its monetary policy turnaround. Rising interest rates in response to soaring inflation are taking their toll on consumer confidence, at least in the short term. This time, the decline in GDP was due to an unexpected drop in private consumption (-0.1%), a -0.3% decline in public spending and a -2.9% drop in exports. The latter plunged more sharply than imports (-0.8%), while investment in capital goods still seemed rather solid (+1.4%). Domestic demand is therefore beginning to weaken more noticeably, if we consider the negative revision of Q3 data already indicating a -0.9% fall in consumption. That said, statistics for early 2024 could already suggest a slight improvement.

Quarterly GDP growth-United Kingdom



Sources: Bloomberg, BBGI Group SA

The start of 2024 could already be more positive

The technical recession of the last two quarters remains very and could prove even more modest after revision of year-end data. In any case, we're looking at a less pessimistic situation for the British economy this time around, compared with previous recessions. In 1980, the onset of recession was marked by a decline of around -3% in GDP, and those of 1990 (-1.6%) and 2008 (-2%) were also greater than the decline of the last two quarters. The GDP figures published for January show an increase of +0.2%, suggesting that the beginning of the year already seems to have seen a certain return to overall growth, supported this time by the service sector, retail and wholesale trade, and the construction sector.