WEEKLY ANALYSIS

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ATTRACTIVE BOND YIELDS IN THE UNITED KINGDOM

Fragile economic climate. Persistent uncertainty. Risk of stagflation. Inflation not yet under control. BoE will have to cut rates. High risk premium for bonds. Securitized real estate on hold. FTSE 100 target achieved.

Key points

- Economic weakness continues into 2025
- Uncertainty does not support the British economy
- Leading indicators confirm GDP stagnation
- Labour market still adjusting
- Household confidence not improving
- Inflation not yet under control
- BoE hesitates but will probably cut rates in May
- The bond market now looks more attractive
- Towards a period of stabilization for the pound
- Securitized real estate still awaiting rate cuts
- FTSE 100 reaches target of 8,800 points

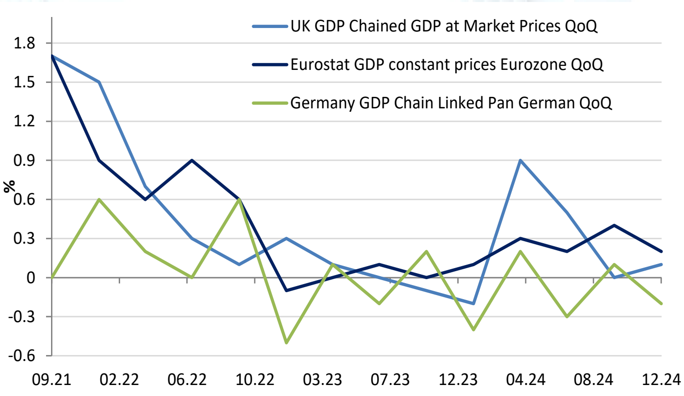
Economic weakness continues into 2025

After the upturn in December 2024, which saw monthly GDP rise by a comfortable +0.4%, January's results were far less encouraging, with the economy unexpectedly contracting by -0.1%. The Trump effect is certainly partly responsible for this economic slowdown. However, this was the 4th monthly contraction in seven months, and follows on from the disappointing economic statistics for the 2nd half of 2024. The drop in manufacturing and construction output was due to exceptionally difficult weather conditions in January. These sectors could therefore rebound with milder conditions in the 2nd half of the quarter. The manufacturing sector remained weak as Trump's tariff threats threatened the stability of world trade. By contrast, the service sector remains in an extremely moderate growth zone, with an increase of +0.1%.

Shortly before these figures were published, GDP figures for the 4th quarter were already pointing to a weakening in economic momentum. Year-end GDP was buoyed by the month of December, rising by a very timid +0.1% to record year-on-year growth of +1.4%, revised to +1.5%.

Our cautious forecasts were thus confirmed for the last quarter, which turned out to be extremely weak, as we had expected. It should also be pointed out that this result was essentially achieved thanks to a +0.8% (revised to +0.5%) rise in public spending. The British economy avoided a recession this winter, but the published data remain worrying. Services also contributed to this slightly positive result. Household consumption still appears to be at half-mast, recording a third month of weakness, as does investment, which declined by -0.9% after making a positive contribution to GDP in the previous quarter. Recent economic data for the UK still suggest a lack of supporting factors for growth in Q1 2025. The BoE is not optimistic either, with its forecast of +0.1% in Q1.

Quarterly GDP growth-United Kingdom



Sources: Bloomberg, BBGI Group SA

Uncertainty does not support the British economy

The first few weeks of Trump's presidency have by no means been smooth sailing, and have also had an effect on British sentiment. The massive rise in uncertainty and the radical change in tone towards the USA's economic and political partners have not been without effect on the UK.