Investments - Flash

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ATTRACTIVE RETURNS IN THE UNITED KINGDOM

The BoE will lower its rates faster than expected

In the current context of economic stagnation, the BoE is preparing to change its policy. Considered restrictive, with the key interest rate higher than inflation, creating a high real rate that slows down activity, it will have to quickly adjust its message by indicating that the risks to growth now outweigh the risks of inflation. After a long period of reducing the size of its balance sheet by selling government bonds, it is now poised to reverse its approach. It will need to inject liquidity into the system to lower gilt yields and support the economy. As for the leverage of key interest rates, services inflation would need to be better contained before it decides to act. We believe the BoE will set the stage for a future cut at its December meeting, but will likely wait until February to proceed with a 25bp rate cut. In this context, the fixed income market offers an attractive value proposition. The yield spread with the 10-year German Bund remains significant, at nearly 200bp. This risk premium, combined with the strength of UK sovereign credit, makes government bonds attractive to investors seeking inflation protection and capital appreciation potential when the BoE begins its rate-cutting cycle.