

WEEKLY ANALYSIS

M. Alain Freymond — Associé & CIO



THE BOE WILL LOWER ITS KEY INTEREST RATES SOONER THAN EXPECTED

GDP down in Q3. Q4 potentially negative. Confidence eroding. New risks for employment. Inflation holding steady. Rate cuts on the horizon. Bond markets attractive. Outlook for the FTSE100 reduced.

Key points



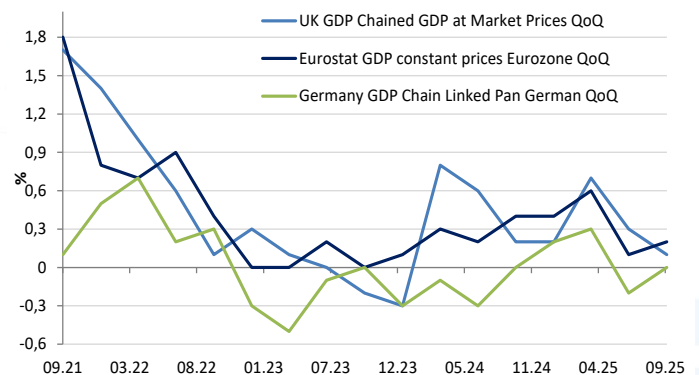
- The UK misses out on hoped-for rebound in Q3
- Difficult end to the year for UK growth
- Slowdown in services clouds the outlook
- End of resilience in the job market
- Household confidence erodes
- Inflation shows insufficient signs of slowing
- BoE set to change tone
- Bond market offers attractive yields
- Changing expectations for sterling
- Real estate favored by upcoming rate cuts
- Moderate outlook for FTSE100 in Q1 2026

The UK misses out on the hoped-for rebound in Q3

Three months ago, the BoE was hoping that the UK economy would maintain a moderate pace of growth of around +0.4%, but the preliminary Q3 figures have dampened this optimism. GDP growth slowed more sharply than expected, coming in at just +0.1%, below the consensus of +0.2% and closer to our own more moderate expectations. Downside risks, global trade tensions and weak external demand, which we had identified as likely headwinds, weighed heavily on the productive sector. While services managed to maintain slight growth of +0.2%, industrial production fell by -0.5%, pulling the entire economy down. Business investment, which had fallen by -4.0% in the previous quarter, showed no signs of a strong rebound, as geopolitical uncertainty continued to freeze large-scale projects. Household consumption remained the only real driver, but it slowed down, constrained by a monetary policy that, although effective against inflation, weighs on purchasing power. This disappointing performance requires a review of the outlook for the whole of 2025. The annual growth rate of +1.3% at the end of September will undoubtedly have to be adjusted downward for 2025 as a whole. Given this poor quarterly performance,

it seems reasonable to adjust our forecasts for 2025 downward, now anticipating annual growth closer to +0.9% to +1.0%. The fragile trajectory we described has thus been confirmed and is unlikely to change direction in the coming months. The UK is certainly avoiding a technical recession for the moment, but the country is entering a period of near-stagnation that could force the Bank of England to ease its stance earlier than expected if it wants to avoid a more severe slowdown in activity. After outperforming the other G7 economies in the first half of the year, it stalled in Q3 following fears triggered by announcements of tax increases, which had a significant impact on both consumers and businesses. The decline in manufacturing activity (five-week cyberattack on JLR) and the second consecutive quarterly decline in investment were significant factors, as was household caution, while public spending supported growth.

Quarterly GDP growth-United Kingdom



Sources: Bloomberg, BBGI Group SA

Difficult end to the year for UK growth

The UK economy is approaching the end of the year and looking ahead to early 2026 in a state of near stagnation, oscillating between weak signs of resilience and persistent headwinds. Data from recent weeks suggest sluggish growth, stubborn inflation, and a labor market showing signs of cooling, painting a subdued outlook for the end of the year, with a possible contraction in household consumption.