WEEKLY ANALYSIS

M. Alain Freymond — Associé & CIO

THE BOE'S CURRENT STANCE IN THE FACE OF THE INFLATIONARY THREAT

GDP is under serious threat from the oil shock. A recession is possible in the first half of the year. Inflation is set to rise above 4%. Yields are surging. Financing costs are rising. Risks are mounting for the UK real estate and equity markets.

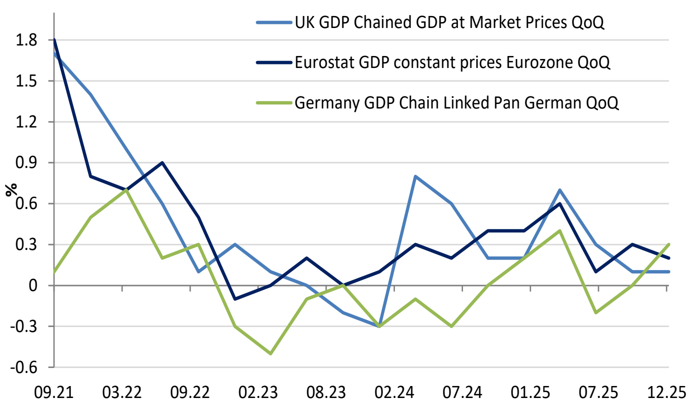
Key points

- The UK confirms near-stagnation in Q4
- A difficult end to the year and a major geopolitical shock in 2026
- An imminent reversal in PMI leading indicators
- A deterioration in the labor market
- Household confidence set to take a hit
- Inflation once again threatened by the oil shock
- BoE maintains status quo in the face of inflationary threat
- Sharp rebound in bond yields
- Changes in expectations for the pound sterling
- Real estate penalized by the rate reversal
- Negative outlook for the FTSE 250 in H1 2026

The United Kingdom confirms near-stagnation in Q4

While the BoE had hoped three months ago that the British economy would maintain a moderate pace of growth, the reality of the figures released in February 2026 by the ONS has dampened that optimism. GDP growth slowed more sharply than expected, coming in at just +0.1% in Q4 2025, below the consensus forecast of +0.2%. Downside risks and weak external demand, identified as likely headwinds, weighed heavily on the manufacturing sector. Indeed, while the services sector, the country's true engine, posted virtually zero growth (0.0%) for the third consecutive month, industrial production rebounded by +1.2%, pulling the entire economy upward to narrowly avoid a contraction, thanks in particular to the return to normal of automotive production (following last summer's cyberattacks). Construction, meanwhile, plummeted by -2.1%. Business investment remains frozen, as geopolitical uncertainty continues to paralyze major projects. Household consumption remained the only real hope, but it has slowed to a crawl. This disappointing performance limits annual growth to +1% for the full year 2025. Per capita GDP, moreover, declined for the second consecutive quarter. Given this underperformance, the fragile trajectory we described has been confirmed and is worsening. Looking at the components, the contribution of net exports proved particularly disappointing, shaving 0.3 percentage points off growth due to shipping disruptions. Moreover, retail bankruptcies surged by 14% in this quarter alone, illustrating the severity of the shock for British small and medium-sized enterprises. For the first quarter of 2026, forecasts are expected to darken and fall below the consensus (+0.3%) that prevailed before the outbreak of war in the Middle East; we now anticipate only a modest expansion of +0.1%.

Quarterly GDP growth - United Kingdom



Sources: Bloomberg, BBGI Group SA

A difficult end to the year and a major geopolitical shock in 2026

The British economy entered 2026 in a highly vulnerable position, oscillating between faint signs of resilience and persistent headwinds. Data from the first weeks of the year suggested falling inflation and a cooling labor market, pointing to prospects for monetary easing. However, the outbreak of a major conflict in the Middle East in late February 2026, involving strikes between the United States, Israel, and Iran, sent massive shockwaves through global markets. European gas prices doubled in a matter of days, and the price of a barrel of Brent crude oil surged by more than 26% to exceed the psychological threshold of $100. This external energy shock has struck a British economy already on its last legs.