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ECONOMIC RESEARCH – MARCH 2025

INVESTMENT INSIGHT UK

- ✓ 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

ATTRACTIVE BOND YIELDS

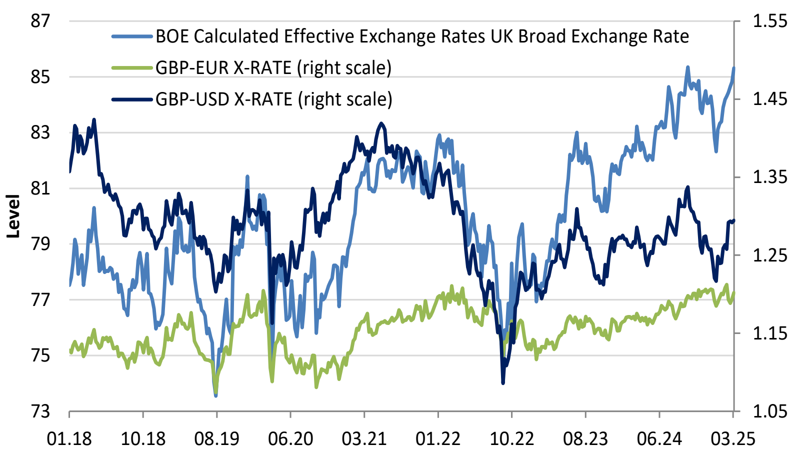
The bond market is gaining appeal

The bond market is gaining appeal, with anticipated rate cuts expected to soften the yield curve's short end. While ten-year UK yields offer a premium over inflation, British debt is still seen as less secure. The yield curve is projected to normalize, improving prospects for long-term bonds.

Stabilization ahead for the pound

After a temporary period of strength, the pound has returned to its two-year fluctuation band against the dollar, currently at 1.30. We expect this trend to continue before the next Bank of England (BoE) decision. Against the Swiss franc, the pound has appreciated to 1.15 and is likely to continue towards 1.16 due to the significant interest rate differential. The pound has also stabilized against the euro, fluctuating between 1.18 and 1.21. Our forecast for the pound remains one of stabilization.

Pound effective exchange rates



Sources : Bloomberg, BBGI Group

Securitized real estate awaits rate cuts

The UK physical property market showed a positive trend in the first quarter, with prices rising steadily. This is supported by an increase in real estate loan approvals, which have shown steady growth over the past two years despite higher interest rates. In contrast, the securitized real estate market has been unable to return to a positive trend and has stabilized at a low level. While attractive due to a significant discount of 68% and a yield of 5.83%, a recovery in this market is dependent on a downward adjustment in financing costs.

FTSE 100 reaches target

The FTSE 100 has achieved our target of 8,800 points, rising by 6.33% in the first quarter. This recovery was driven by the index's attractive relative valuations and high average yields. Despite this gain, British equities still lag behind other major European markets, such as the Stoxx 50, which is up 9.7% on average. The UK market is not yet attracting significant foreign investment. Given the recent rally, we suggest a reduction in exposure to UK equities as the index has reached its anticipated target.

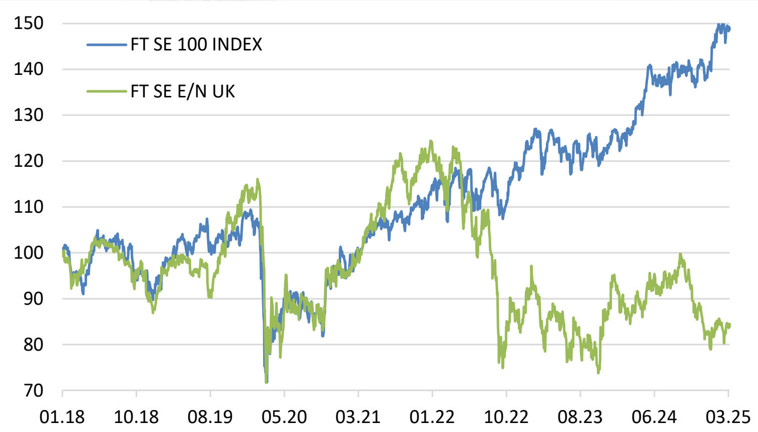
Global economic weakness continues

Following an upturn in December 2024, the UK economy unexpectedly contracted by 0.1% in January. This marks the fourth monthly contraction in seven months and is linked to difficult weather conditions and manufacturing weakness due to global trade threats. Services, however, remain a bright spot, showing moderate growth. Fourth-quarter GDP confirmed this weak momentum, with a rise of only 0.1%, primarily supported by public spending.

Uncertainty impacts the UK economy

The British economy continues to be affected by global uncertainty. The threat of a trade war and the indirect effects of US economic policies are particularly impactful for a country that has struggled with foreign trade since Brexit. The BoE has lowered its key rates, but a return to a sustained growth path remains dependent on international factors. Recession risks are still significant, but the BoE's monetary policy, along with a more restrictive fiscal policy, may help mitigate these risks. Our forecast for 2025 is for a moderate growth path of +1%.

UK equities and securitized real estate



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