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ECONOMIC RESEARCH – JUNE 2025

INVESTMENT INSIGHT UK

- ✓ The bond market offers attractive yields
- ✓ Towards a period of stabilization for the pound
- ✓ Listed real estate performs well in the first half of the year
- ✓ UK stocks are risky again

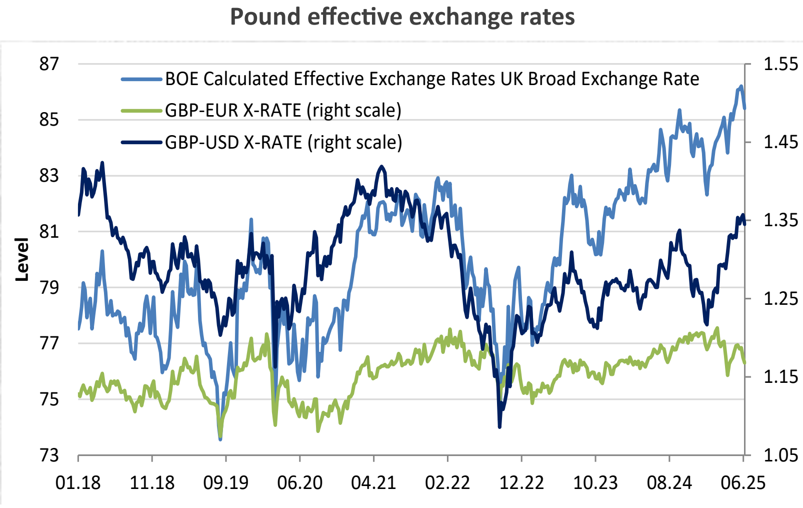
FOCUS ON BONDS AND REAL ESTATE

The bond market offers attractive yields

The UK government yield curve has flattened, with 10-year yields at 4.45% and remaining significantly above the CPI of +3.4%. While this offers attractive yields, the risk premium has narrowed, and a further decline in inflation will be needed to push long-term rates lower. Compared to other major economies, UK sovereign debt is considered relatively safe.

Toward a period of stabilization for the pound

After appreciating earlier in the year, the pound is now entering a period of stabilization against the dollar and euro. The interest rate differential between the UK and these regions has narrowed, reducing the main driver of currency fluctuations. We expect the exchange rate to hover within a tight range for several months, with a lack of major economic surprises from either side likely to maintain this trend. This stability could offer a predictable environment for investors and businesses engaged in cross-border transactions.



Sources : Bloomberg, BBGI Group

Real estate sector shows resilience

The direct real estate market appears to be stabilizing, with a notable increase in commercial real estate investment in Q1 2025. This momentum is driven by returning foreign investor confidence and attractive asset valuations. Securitized real estate has also performed well, offering significant discounts to net asset value and attractive yields. The sector's resilience is notable despite a still-uncertain macroeconomic environment.

Attractive prospects for UK real estate

At current valuations, UK securitized real estate offers appealing opportunities. With a price/net asset ratio of 72% and a yield of 5.36%, the sector remains attractive to investors. A renewed interest in the market will depend on future adjustments in interest rates, which would lower financing costs and further support investor interest in the coming months.

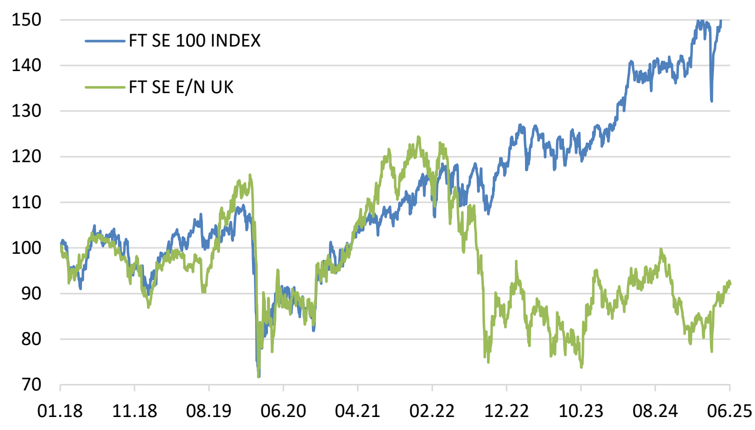
British stocks remain risky

The FTSE 100 has returned to its highest level of the year, but we remain cautious. Despite attractive metrics like a high dividend yield and a comparatively low PE ratio, the UK market lacks catalysts to attract significant international investment. We believe that the UK market is not attractive enough to warrant greater interest from international investors.

A call for reduced exposure to UK equities

Given the lack of clear catalysts and the market's high volatility, we recommend temporarily reducing exposure to UK equities. While the recent rebound has been strong, the risk-reward profile is no longer favorable, particularly when compared to more dynamic and promising opportunities in other markets. We maintain our cautious stance on the UK market, anticipating that external factors could continue to influence its trajectory.

UK equities and securitized real estate



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