

ECONOMIC RESEARCH – SEPTEMBER 2025

INVESTMENT INSIGHT

UK



- ✓ **Growth slows after a robust start to the year**
- ✓ **The UK economy is running out of steam**

BRITISH BONDS AND REAL ESTATE ARE IN DEMAND

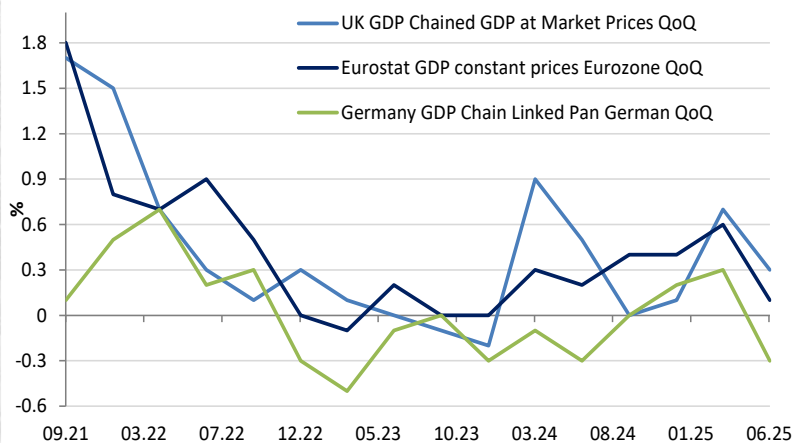
GDP growth returns to a moderate pace

After an exceptionally strong start to 2025, the UK economy experienced a notable slowdown in the second quarter. Real gross domestic product (GDP) growth settled at a more modest +0.3% quarter-on-quarter, a significant deceleration from the +0.7% surprise performance recorded in Q1. This performance places the United Kingdom in a mixed position when compared to its G7 peers, with growth that is well above the Eurozone's +0.1% and Germany's contraction of -0.3%, but remains significantly lower than the United States' +0.8%.

Domestic demand loses momentum

The slowdown in Q2 can be attributed primarily to the cooling of domestic demand. Business investment saw a significant decline, falling by 4.0% over the quarter and completely offsetting the increase from the previous period. Simultaneously, household consumption contributed a near-zero +0.1%, revealing a pronounced caution among consumers. This weakness highlights a worrying imbalance in the economy, as these key drivers of growth failed to provide the necessary impetus. The most recent monthly data for the start of the third quarter indicates that this subdued trend is continuing, with persistent global trade tensions and slowing external demand acting as significant headwinds.

Quarterly GDP growth - United Kingdom



Sources : Bloomberg, BBGI Group

The mixed picture of Q3 leading indicators

The British economy is entering the final quarter of 2025 in a state of near stagnation, with economic data painting a mixed but not entirely reassuring picture. On the one hand, the service sector has maintained slight growth, and the unemployment rate, despite a modest increase to 4.7%, remains at a historically low level. Additionally, wage growth, while slowing, continues to support household purchasing power, even if this is not yet translating into robust consumer spending. The service sector, as the cornerstone of the economy, continues to show a degree of resilience that prevents a more widespread downturn.

Structural impediments to robust growth

Conversely, negative indicators are becoming more prominent. The industrial production sector has declined, and the trade deficit has widened, underscoring the difficulties faced by exports in the tense international context. While the UK is benefiting from a less restrictive trade agreement with the United States compared to the EU, its structural weaknesses persist. These include persistently low productivity, a heavy dependence on imports, and significant regional economic disparities. These long-standing issues are weighing on overall performance and preventing a more vigorous and widespread recovery.

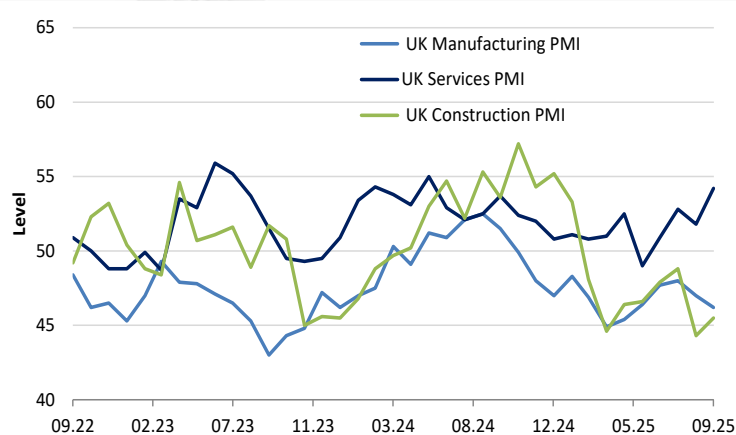
A favorable environment for bonds and real estate

This complex economic climate has led the Bank of England (BoE) to maintain a restrictive monetary policy, creating a unique and favorable environment for fixed-income assets. UK bond yields are offering positive real returns, a rare and attractive opportunity for investors. Similarly, the real estate market is showing clear signs of stabilization after a period of correction. The securitized real estate segment is particularly appealing, confirming its positive outlook. We maintain our preference for these asset classes, as their fundamentals are well-supported by current monetary and economic conditions.

A call for cautious equity positioning

UK equities have reached high levels, suggesting that the risk-reward ratio is no longer as favorable. The optimism that drove the market to these heights may be called into question in the coming months as global economic uncertainties persist. The outlook for the end of the year is clearly skewed to the downside, with risks to household consumption, corporate investment, and overall economic activity remaining a key concern for investors. We therefore recommend adopting a cautious and selective approach to the equity market. Given the robust performance of bonds and the stabilization of real estate, we advise a strategic rebalancing of portfolios towards these more defensive segments for the coming months.

PMI indicators (manufacturing, services, construction)



Sources : Bloomberg, BBGI Group

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