

ECONOMIC RESEARCH – SEPTEMBER 2025

INVESTMENT INSIGHT

UK



- ✓ The bond market offers attractive yields
- ✓ Prospects for pound appreciation
- ✓ Securitized real estate remains particularly attractive
- ✓ A cautious approach to UK equities

BRITISH BONDS AND REAL ESTATE ARE IN DEMAND

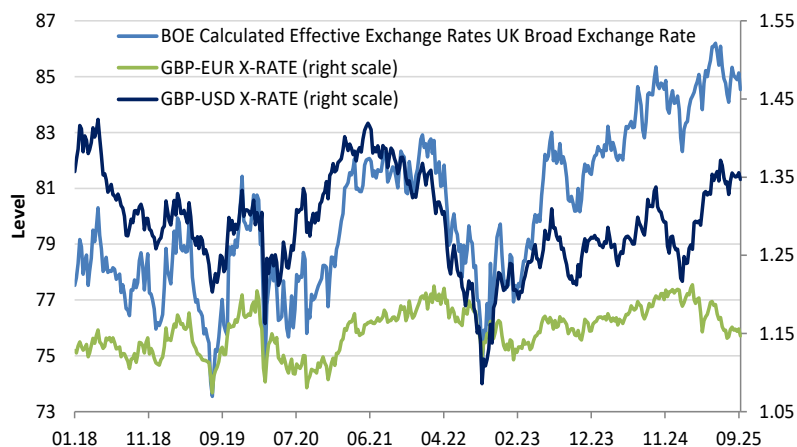
UK bond market offers attractive real yields

The UK bond market, or Gilts, continues to present a compelling value proposition, particularly for investors seeking stable income in an environment of prolonged high interest rates. The yield on the 10-year government bond is trading around 4.6%, which, with a current inflation rate of 3.8%, provides a positive real yield of approximately 80 basis points.

Yield curve dynamics and investment strategy

The UK yield curve remains virtually flat, with the two-year yield closely tracking the 10-year yield. This structure reflects the market's anticipation that the BoE will maintain a restrictive monetary policy stance for the foreseeable future. However, we believe that the current environment, driven by persistent inflation and a challenging growth outlook, could temporarily push long-term rates even lower, potentially into negative territory. This would offer a chance for capital gains. While the next monetary policy decision may not be enough to fully capture this movement, we maintain a positive view on the Gilt market's medium-term prospects.

Pound effective exchange rates



Sources : Bloomberg, BBGI Group

Prospects for the pound against the US Dollar

Against the US dollar, the currency pair (USD/GBP) has reached the top of our targeted range of 1.25-1.35, stabilizing around 1.355. We anticipate that as the Fed pursues its easing cycle while the BoE maintains its restrictive stance, the interest rate differential will widen in the pound's favor, allowing it to appreciate and potentially resume a positive trend against the dollar, with a potential upside of around 5%.

The pound's disappointing performance against the Euro and Franc

The pound has been disappointing against the euro, with the GBP/EUR exchange rate trading around 1.15, below our expectations. The situation is even more complex against the Swiss franc. This is a clear reflection of the Swiss franc's strong status as a safe haven in an environment of geopolitical tensions and global economic uncertainty, which has outweighed the appeal of higher yield, a trend that is likely to continue for some time.

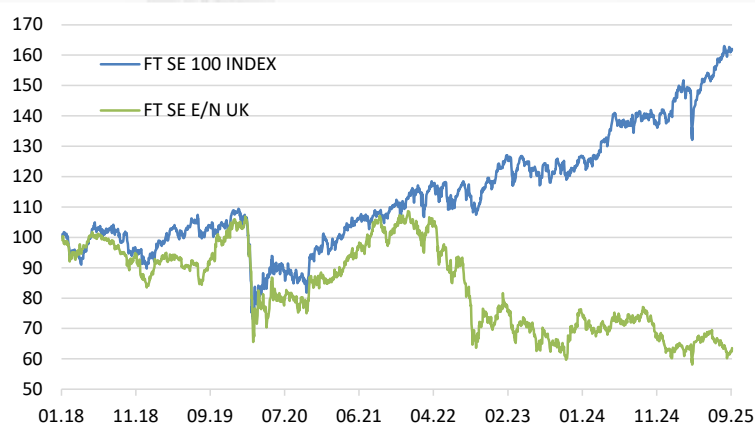
Securitized real estate remains a compelling opportunity

While the broader real estate market shows signs of stabilization, the real opportunity lies in Real Estate Investment Trusts (REITs). Many of these are trading at a significant discount to their net asset value (NAV), with an average price-to-NAV ratio of 64%. This discount, combined with attractive dividend yields, often exceeding 5%, offers a compelling value proposition. The sector also benefits from high-quality assets and strong balance sheets that generate stable, inflation-indexed rental income streams, making it a viable alternative to other asset classes.

Cautious approach to UK equities

The FTSE 100 index has performed extremely well since June, climbing to around 9,200 points, near its historic highs. However, we believe that at these levels, the potential for further upside is limited. The index's valuation, with a price-to-earnings (P/E) ratio of around 13.5x for 2026, is no longer considered cheap compared to global benchmarks. Furthermore, the UK market lacks strong domestic catalysts, with the economy expected to experience weak growth. The FTSE 100's heavy exposure to the global economy also makes it vulnerable to a slowdown in global trade or in the US and Chinese economies. Therefore, a cautious approach is recommended, as future performance will be more dependent on global conditions than on domestic dynamics.

UK equities and securitized real estate



Sources : Bloomberg, BBGI Group

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