

**ECONOMIC RESEARCH – JUNE 2026**

**INVESTMENT INSIGHT**

**UK**



- ✓ **Bond yields stabilizing at high levels**
- ✓ **British pound supported by interest rates**
- ✓ **Direct real estate less attractive than discounted REITs**
- ✓ **British stocks still consolidating**

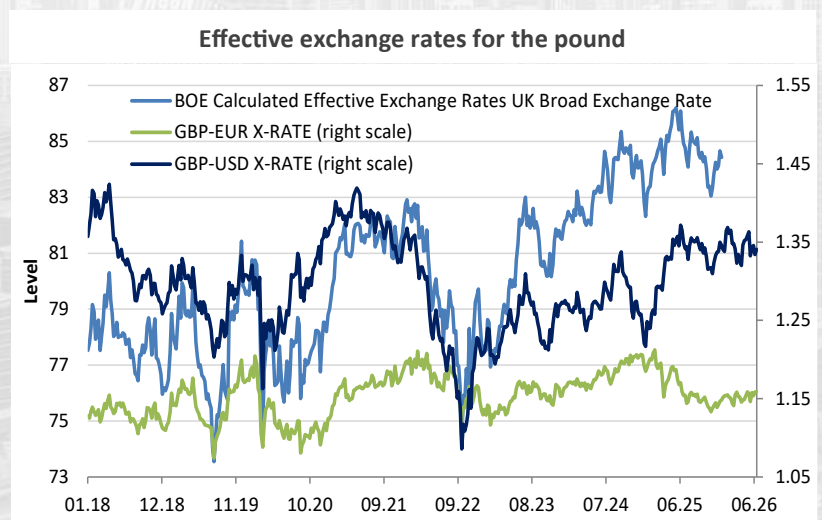
**WILL THE BOE ADOPT A RESTRICTIVE MONETARY POLICY AS EARLY AS JUNE?**

**Bond Yields Stabilize at 5% Peak**

The UK bond market came under severe pressure as consumer inflation expectations surged to +4%, forcing the 10-year Gilt yield to climb and stabilize around 5.0%. Simultaneously, the policy-sensitive 2-year Gilt yield reached 4.4% as investors priced in an aggressive "higher for longer" Bank of England stance and heavy sovereign debt issuance. This rapid rise in real yields is driving up government borrowing costs and eroding domestic financial asset valuations. High-yield refinancing costs are plateauing at 7.5%, lifting projected default rates to 4.2% by year-end.

**Pound Sterling Supported by Rate Spreads**

The pound sterling has demonstrated remarkable resilience in foreign exchange markets, holding its ground at 1.35 USD and 0.87 EUR since the start of the year. This currency stability is driven entirely by widening interest rate differentials, with the Bank of England maintaining a significantly more restrictive stance than the European Central Bank. These positive real yields are creating highly attractive carry trade opportunities that successfully mask a deteriorating domestic macroeconomic backdrop. However, long-term appreciation remains firmly capped by structural twin deficits and constant vulnerability to volatile energy shocks.



Sources : Bloomberg, BBGI Group

## Direct Real Estate Bugged Down by Credit Costs

The UK housing market is showing signs of fragile stabilization but remains heavily weighed down by high borrowing costs. Average 2-year fixed mortgage rates have plateaued around 4.75%, causing home prices to drop -0.6% month-over-month in May and dragging annual growth down to just 1.7%. Although the raw volume of mortgage approvals ticked up slightly in May, the total monetary value collapsed from £68 billion to £44 billion. This intense affordability crisis for new buyers is expected to pull residential real estate prices downward for the full year 2026.

## Securitized REITs Offer Massive NAV Discounts

While direct property markets struggle, the securitized commercial real estate sector is presenting deep value opportunities for institutional capital. Listed UK real estate companies continue to trade at a massive 30% discount to their revalued net asset values as the market prices in upcoming commercial appraisal downgrades. Despite these anxieties, the EPRA NAREIT UK Index has rebounded +11.1% from its March low, driven by an attractive average market yield of +5.7%. This lucrative spread over short- and long-term interest rates makes UK REITs highly compelling on an international scale.

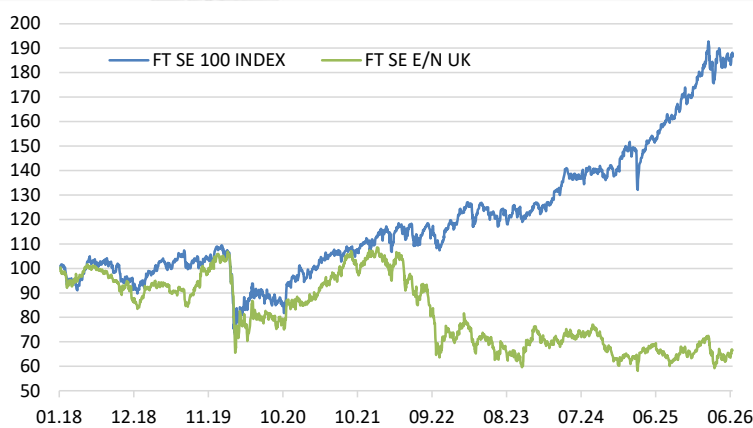
## FTSE 100 Consolidates on Value Disconnect

The FTSE 100 has severely underperformed its continental European peers, rising by only +5.4% since the start of the year due to its structural lack of high-growth technology listings. However, London's flagship index offers global asset managers an incredibly strong valuation cushion, trading at a deep historical discount of 13x forward earnings compared to the S&P 500's 22x. Additionally, the index's robust average dividend yield of nearly 3.8% provides a vital safety buffer against broader macroeconomic volatility. This cheap valuation framework keeps large caps resilient despite stagnant economic conditions.

## Multinational Agility Outpaces Domestic Sectors

A stark equity duality is widening in the London market, with multinational conglomerates heavily outpacing struggling domestic listings. Large-cap energy, mining, and healthcare giants are seeing positive earnings-per-share revisions, buoyed by robust global commodity prices and dollar-denominated overseas profits. Conversely, domestic-facing sectors, particularly retail banks and high-street retailers, face aggressive downward earnings revisions as local consumer spending freezes. This internal rift makes a defensive strategy favoring the City's large international exporters the only viable path for British equity portfolios.

British stocks and securitized real estate



Sources : Bloomberg, BBGI Group

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