

MACRO RESEARCH INSIGHT

CROSS-ASSET ANALYSIS

UK ASSETS

September 2026



THE BOE MAINTAINS ITS TIGHT MONETARY POLICY STANCE – Part 3

- ✓ Persistent tensions on sovereign yields
- ✓ Interest rate support for the British pound remains
- ✓ Direct real estate stabilizes
- ✓ “Value” profile protection against high interest rates

THE BOE MAINTAINS ITS TIGHT MONETARY POLICY STANCE – Part 3

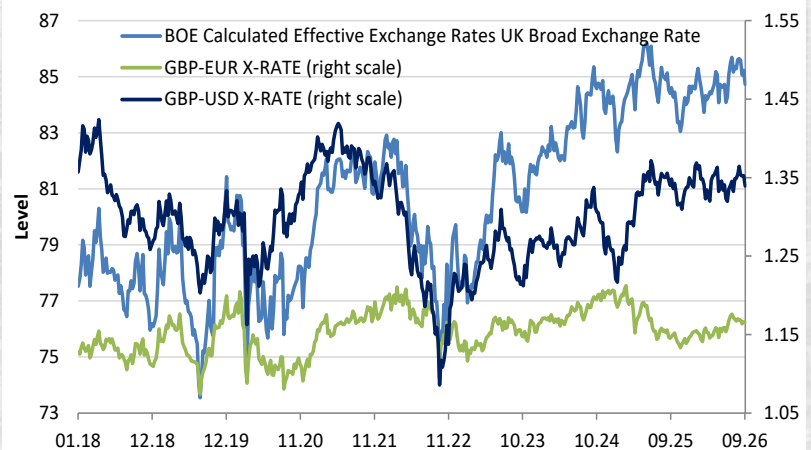
Bond Market Volatility and Sovereign Yield Pressures

Driven by the combined effect of the Bank of England's continued restrictive monetary policy and persistent strength in U.S. Treasuries, the yield on the 10-year gilt rose to 5.21% in mid-September, up from 5.0% in May. Meanwhile, the 2-year gilt yield stands at 4.54%, reflecting market expectations that any significant monetary easing will be postponed until 2027. The yield spread between the 10-year gilt and the German Bund has widened to approximately +2.30 percentage points, underscoring the substantial inflation risk premium demanded by international investors on British sovereign debt.

Resilience and Yields in Corporate Credit

In the City's corporate credit market, credit spreads have remained remarkably stable, supported by solid balance sheets and the absence of a corporate default wave. The investment-grade bond segment offers an average yield to maturity of 5.8%, while high-yield corporate credit is trading near 7.4%. The actual 12-month rolling default rate stands at 2.8%, significantly better than the stress-scenario projections of 4.2% made earlier in the spring. This operational resilience has encouraged portfolio managers to maintain tactical allocations toward high-quality corporate debt.

Pound Effective Exchange Rates



Sources : Bloomberg, BBGI Group

Policy Rate Support for Sterling

The British pound maintained notable stability across foreign exchange markets throughout the summer. Trading at 1.35 USD in mid-September, sterling has fluctuated within a defined band of 1.33 to 1.36 USD, while strengthening against the euro to 0.855 GBP per 1 EUR (1.17 EUR per 1 GBP). This structural strength stems directly from policy divergence: with the Bank Rate held at 3.75% and three Monetary Policy Committee members voting for further rate hikes, the BoE maintains a tighter stance than the European Central Bank. Highly attractive real yields on U.K. sovereign debt continue to pull in foreign capital, helping offset the current account deficit and shielding the broader economy from imported inflation.

Housing Stabilization and Mortgage Rates

The U.K. residential real estate sector showed unexpected resilience over the summer, defying forecasts of a sharp downturn. The Nationwide index reported a 0.2% month-over-month price increase in August, the first monthly uptick since April, bringing the average home price to £275,465, while the Halifax index indicates an average price near £300,000. Household borrowing capacity has stabilized as 2- and 5-year fixed mortgage rates leveled off between 4.25% and 4.50%. With approved mortgage volumes holding steady at approximately 56,000 loans per month and housing inventory gradually recovering, full-year 2026 home price growth is projected to land in a modest range of +1.0% to +1.5%.

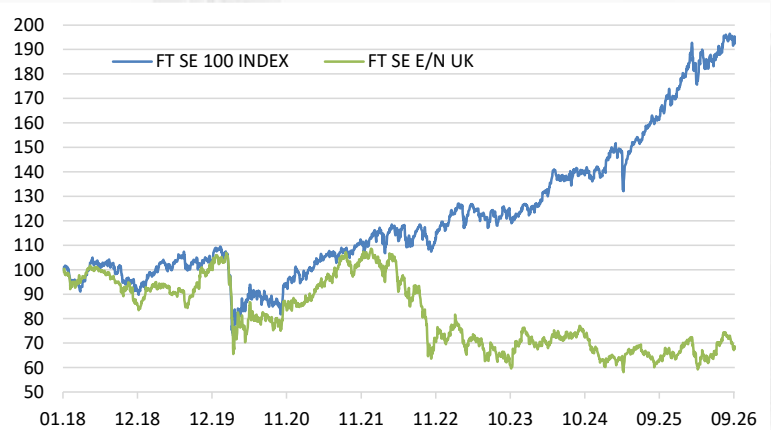
Strategic Value in Undervalued REITs

In securitized commercial real estate, U.K.-listed REITs offer an increasingly compelling risk-adjusted entry point compared to direct physical property investments. The EPRA NAREIT UK Index has rebounded +14.5% from its March lows, driven by an influx of institutional capital into high-conviction logistics and healthcare assets. With average dividend yields exceeding 5.5% and shares trading at a modest 22% discount to net asset value (NAV), public REITs provide an attractive yield spread over 10-year gilts (5.21%) and an effective vehicle for real estate exposure without direct property management overhead.

Equity Outperformance and Share Buybacks

U.K. equity indices significantly outperformed global peers during the third quarter, with the FTSE 100 breaking above the symbolic 10,600-point threshold to post a year-to-date gain exceeding +13.6%. This outperformance is anchored by the London exchange's defensive, value-heavy composition: energy majors, commodity producers, and defense contractors have capitalized on elevated global input prices, while top-tier domestic banks continue to harvest high net interest margins. Trading at a forward P/E of 13.5x with a 3.7% dividend yield, the FTSE 100 remains heavily discounted relative to the S&P 500 (22.5x) and Euro Stoxx 50 (15.0x).

UK Equities and Securitized Real Estate



Sources : Bloomberg, BBGI Group

Contact US : BearBull Global Investments Group | Dubai International Financial Centre (DIFC) | Al Fattan Currency House | Tower 1 | Unit 702 Dubai | United Arab Emirates | Tel +97142722719 | www.bearbull.ae

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