

Analysts

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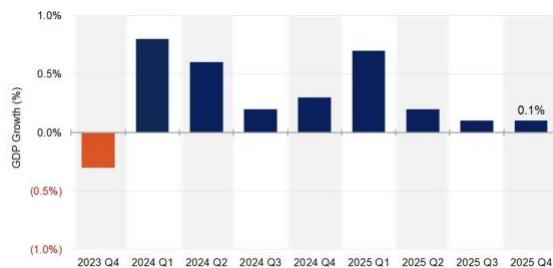
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Basic Information

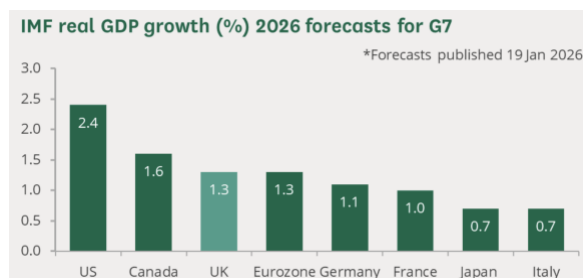
Real GDP (USD Tn)	3.3
CPI	3.0%
PPI	3.4%
Con. Confidence	-17
Currency	GBP

Chart info

2025 Performance



2026 GDP Forecasts

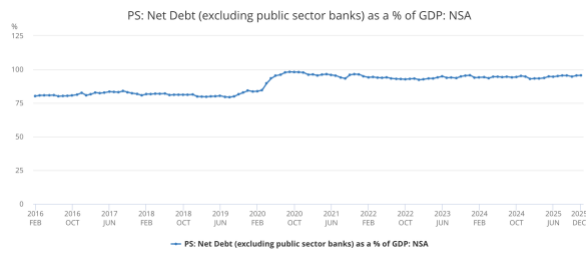


Overview of United Kingdom

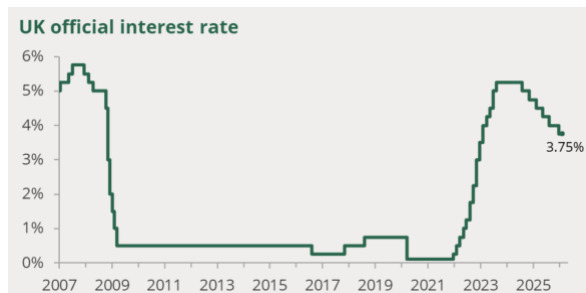
- The United Kingdom (UK) is a highly developed, services-oriented economy and is one of the world's largest financial centres despite structural headwinds following its exit from the European Union. The UK operates as a fully sovereign monetary and fiscal entity, with the British Pound (GBP) serving as a freely floating currency and an important global reserve asset. London continues to play a central role in global capital markets, foreign exchange trading, and cross-border financial services.
- Monetary policy in the UK is conducted by the Bank of England (BoE), which operates under a flexible inflation-targeting regime with a 2% CPI target. Since the post-pandemic inflation shock, the BoE has pursued one of the most aggressive tightening cycles among advanced economies, reflecting persistent domestic inflation pressures driven by elevated services inflation and strong nominal wage growth. At the same time, the UK's fiscal framework remains constrained by high public debt levels and limited fiscal space, placing a greater burden on monetary policy.
- Inflation has remained a defining issue plaguing the economy, as it is expected to have the highest inflation of any G7 economy for 2026, as well, with the CPI rate hovering around 3-4% for the majority of 2025.
- Economic momentum in the UK has weakened materially over the past two years. Real GDP growth has been close to stagnation, reflecting the cumulative impact of tighter financial conditions, declining real household incomes, and weak business investment. While headline inflation has moderated from its peak, underlying inflationary pressures remain elevated, constraining the pace at which policy can pivot towards easing. As a result, the UK faces a challenging macro trade-off between controlling inflation and avoiding a prolonged period of below-trend growth.
- The UK economy is heavily services-led, with services accounting for approximately four-fifths of total output. Key growth sectors include financial services, professional and business services, information technology, and healthcare. Manufacturing plays a comparatively smaller role than in continental Europe but remains strategically important, particularly in high-value segments such as aerospace, pharmaceuticals, and advanced engineering. However, weak productivity growth and chronically low capital investment continue to weigh on the economy's long-term growth potential.

- From an external perspective, the UK maintains deep trade and financial linkages with the United States and the European Union, which together account for a substantial share of exports, imports, and capital flows. Post-Brexit trade frictions have introduced persistent non-tariff barriers, contributing to weaker export growth and elevated costs for firms. Combined with a structurally negative current account balance, this leaves the UK more reliant on sustained capital inflows, increasing sensitivity to global risk sentiment and relative interest rate differentials.
- The Budget 2025, announced in November, has been a central theme in the economy and is characterised by higher taxes and an increasingly challenging environment for wealth.
- It also highlights a highly contentious political environment, with the ruling Labour Party facing historically low approval ratings. Both the Prime Minister and the Chancellor are viewed unfavourably by the electorate, increasing the likelihood of a change in government. This political volatility has been a recurring feature over the past five years, contributing to persistent policy uncertainty.
- Looking ahead, the UK's macro outlook is characterised by a slow and uneven recovery. Disinflation is expected to continue, but at a slower pace than in some peer economies, reflecting domestic cost pressures and labour market tightness. While easing inflation should gradually support real incomes, high interest rates and the ongoing mortgage refinancing cycle are likely to remain a drag on consumption and investment in the near term. As such, the UK enters the next phase of the cycle with limited policy flexibility and heightened sensitivity to both domestic policy decisions and global financial conditions.

Public Sector Debt



BoE Interest Rate



Policy Developments

Fiscal Policy

- UK fiscal policy has tightened into late-2025, reflecting an emphasis on credibility after the 2022 gilt shock and the mechanical impact of higher debt-service costs. UK public sector net debt stands at 94.5% of GDP. This leaves limited room for discretionary fiscal expansion without risking renewed term-premium pressure in gilts.
- The UK's independent fiscal watchdog projects that borrowing falls from 4.5% of GDP in 2025–26 to 1.9% by 2030–31, while debt rises from 95% of GDP to 96% by the end of the decade (OBR, November 2025). The key takeaway is that the UK is not entering a low-debt, high-stimulus regime; instead, fiscal policy is framed around gradually narrowing deficits while preventing debt from rising further.
- This is imperative as tighter fiscal settings (and the need to maintain credibility) reduce the probability of large counter-cyclical stimulus, leaving the growth cycle more sensitive to monetary conditions and risk sentiment.

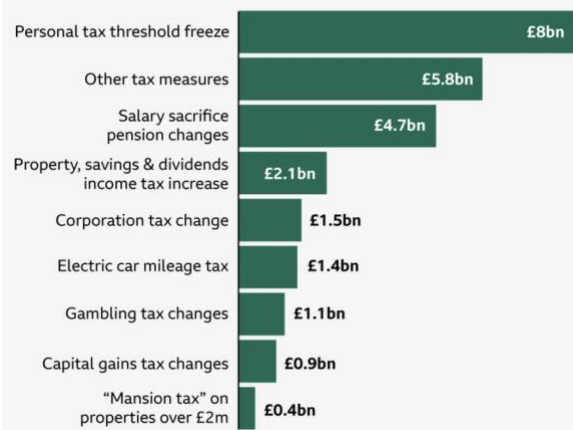
Monetary Policy

- UK monetary policy has moved into an easing phase, but the BoE remains cautious due to stickier domestic services inflation. The rate currently stands at 3.75%, but the path for future cuts remains unclear. This signals that the committee sees a credible disinflation path but remains uncertain about the persistence of domestically generated inflation.
- Inflation has continued to cool, but not uniformly. Headline CPI is 3.2% YoY in November 2025 (down from 3.6% in October). More importantly for policy, CPI services inflation remained elevated at 4.4% YoY. That service “stickiness” is what keeps the BoE from cutting aggressively even as growth is soft.
- On the balance sheet, the BoE continues quantitative tightening. While the MPC set the QT pace at its September 2025 meeting, the policy remains live through 2026 with the planned reduction is £70bn of gilt holdings over Oct 2025–Sep 2026, taking the APF gilt stock to £488bn. The signal for markets is that even with lower policy rates, the BoE is still withdrawing duration and liquidity, particularly relevant for the gilt term premium and long-end volatility.
- With Bank Rate at 3.75% and services inflation still at 4%+, the BoE's cutting cycle is likely to be measured rather than rapid. QT, alongside cuts, can keep financial conditions tighter than rate levels alone would suggest.
- [UPDATE] With the unemployment rate hitting a five-year high of 5.2%, and inflation falling to 3% in February, the path to an easing cycle has become more clear as the BoE is likely

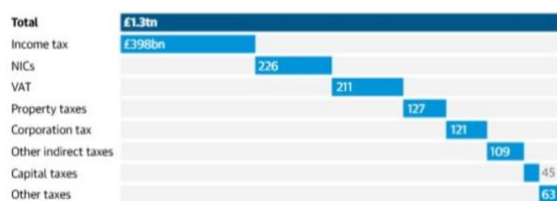
to cut rates in the next meeting to provide reprieve to the weakening labour markets amidst cooling inflation.

Taxation Budget 2025

How Budget will raise taxes by £26bn by 2029-30



Forecast breakdown of UK tax revenue in 2029-30



Geopolitical Events

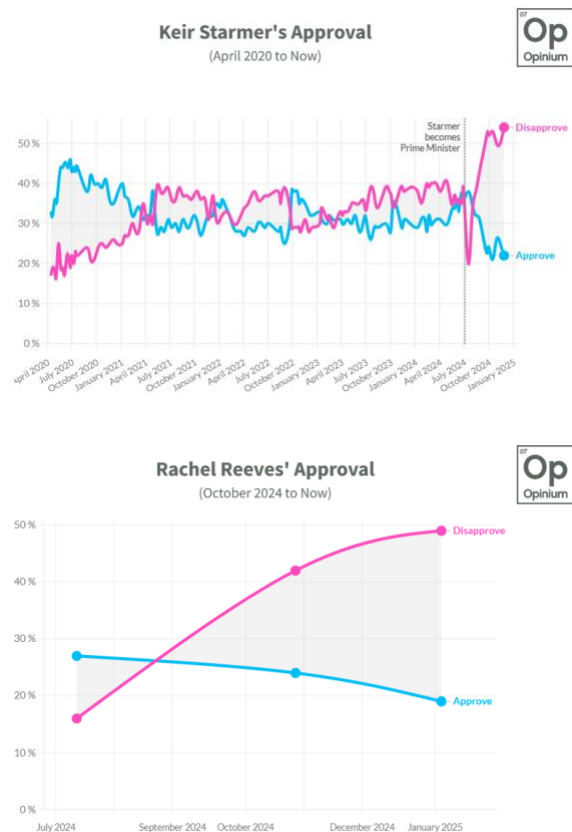
Budget 2025

- Budget 2025 represents a critical test of the UK's fiscal credibility at a time when global bond markets have become increasingly sensitive to political and policy uncertainty. Against a backdrop of elevated public debt and investor scrutiny following the 2022 gilt crisis, the Budget is framed less as a growth stimulus and more as an exercise in maintaining market confidence and avoiding renewed risk in UK government bonds. Recent developments in other advanced economies, most notably France, have reinforced the risks of fiscal slippage, highlighting the importance of policy discipline for countries reliant on global capital markets.
- A central feature of Budget 2025 is the continued reliance on fiscal drag as a revenue-raising mechanism, achieved by extending the frozen personal tax thresholds. This approach disproportionately increases the tax burden on middle-income earners, with individuals earning around £50,000 experiencing a significantly larger rise in effective tax rates compared with higher earners by the end of the decade (Financial Times, November 2025). While politically expedient, this strategy risks dampening household consumption and reinforces concerns that fiscal consolidation is being achieved through stealth rather than productivity-enhancing reform.
- From a structural perspective, Budget 2025 has done little to address the UK's longer-term growth challenges. Investor concerns around the competitiveness of UK capital markets have intensified following the decision by major corporates to prioritise US listings over London, contributing to declining liquidity and reduced equity issuance on the London Stock Exchange. The absence of decisive reforms to stamp duty, pension fund investment incentives, and retail equity participation (areas where international peers such as Sweden have demonstrated success) suggests that the Budget falls short of catalysing a sustained revival in domestic capital formation.
- The macro-financial implications of Budget 2025 are therefore mixed. While adherence to fiscal discipline helps contain immediate downside risks in gilt markets, the lack of a credible strategy to lift productivity and investment limits the upside for medium-term growth. Bond investors may take reassurance from the avoidance of unfunded tax cuts or aggressive spending commitments, but equity and currency markets are likely to remain sceptical in the absence of reforms that strengthen the UK's growth narrative and global competitiveness.

2026 Elections



Labour Approval Ratings

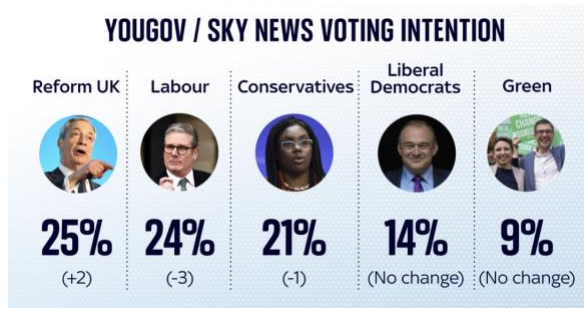


- Overall, Budget 2025 reinforces a policy mix centred on risk containment rather than growth acceleration. In an environment where global capital is increasingly mobile and sensitive to policy credibility, this approach leaves the UK vulnerable to prolonged low growth and continued underperformance relative to peers. As such, the Budget stabilises expectations in the short term but does little to alter the UK's longer-term macro trajectory.

2026 Electoral Cycle and Political Climate

- The next Westminster election must be held by 2029 unless called earlier. May 2026 represents a major sub-national electoral test, with local government elections in England alongside devolved elections in Scotland and Wales. While not determinative of national power, these contests serve as an important barometer of political momentum ahead of the next general election window.
- The 2026 local elections are widely viewed as a referendum on government competence rather than ideology as around 5,000 council seats are due to be contested across a large number of English local authorities. With thousands of council seats contested across England, the scale of the vote makes it the largest national political event before 2029. Outcomes are likely to influence internal party dynamics, leadership stability, and the probability of an early general election.
- The political environment remains highly fragmented. Opinion polling indicates a multi-party competitive landscape, with traditional two-party dominance weakened. Reform UK's rise has materially altered the electoral arithmetic, drawing support from both Conservative and working-class voters and increasing volatility in marginal constituencies.
- The ruling Labour Party faces significant political headwinds, with Prime Minister Sir Keir Starmer's approval ratings deteriorating sharply. Recent polling indicates that approximately 22% of the public view him favourably, while 69% hold an unfavourable view, resulting in a deeply negative net rating. This decline has occurred amid mounting political controversy and internal pressure, including criticism following his decision to appoint Peter Mandelson as Britain's ambassador in Washington, despite knowledge of his connections to Jeffrey Epstein. The sustained weakness in personal approval has reinforced perceptions of a fragmented governing party and heightened speculation over leadership stability, adding to broader political uncertainty.
- Chancellor Rachel Reeves is similarly experiencing historically low approval levels. Net favourability ratings have been reported near -59 toward the end of 2025, placing her among the least popular UK chancellors in recent polling history. Public dissatisfaction appears closely linked to fiscal decisions in Budget 2025, particularly the effective tax increases arising from extended threshold freezes despite prior political assurances. The combination of fiscal tightening

Competing Parties Approval Ratings



and subdued economic conditions has amplified criticism of the government's economic strategy and contributed to declining confidence in Labour's stewardship of the economy.

- Reform UK has emerged as the primary disruptor in the current political cycle. Opinion polling through early 2026 indicates that Reform has, at times, led national vote share, drawing support from both disillusioned Conservative voters and segments of working-class Labour voters. Its rise reflects broader dissatisfaction with mainstream parties and has materially altered the electoral arithmetic, particularly in marginal constituencies across the Midlands and North of England. While questions remain regarding organisational depth and ground-level campaigning capacity, Reform's sustained polling strength has shifted the policy debate toward immigration, welfare conditionality, and fiscal restraint.
- The Conservative Party remains in a rebuilding phase following its 2024 general election defeat. Under its current leadership, the party has sought to reposition itself as a fiscally conservative and institutionally credible alternative to Labour. However, it continues to face internal ideological divisions between centrist and right-leaning factions, particularly on immigration, taxation, and relations with Reform UK. Polling suggests that a significant portion of its 2019 voter base remains fragmented, limiting its immediate recovery prospects and reinforcing volatility within the right-of-centre electorate.

United Kingdom

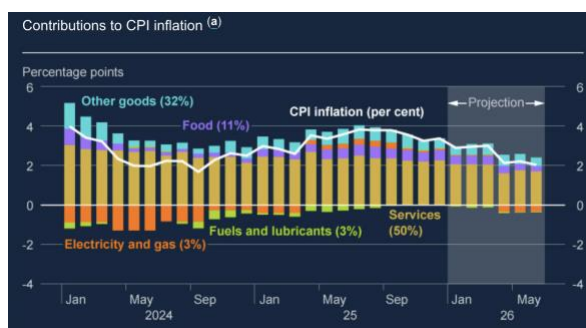
Weak Employment in the UK

Unemployment is much higher among young people

UK unemployment rates for 16 to 24 year olds, and people aged 16 and over



Contributors to CPI



Concentration of properties to face Mansion Tax

Local Authority	% of properties above £2m
Kensington and Chelsea	18.5%
Westminster	12.3%
Elmbridge	7.5%
Richmond upon Thames	7.2%
Camden	6.9%
Hammersmith and Fulham	4.5%
Merton	3.6%
Waverley	3.3%
Wandsworth	2.9%
Sevenoaks	2.9%
Windsor and Maidenhead	2.8%
City of London	2.5%
Barnet	2.4%
Three Rivers	2.3%
Guildford	2.3%
St Albans	2.2%
Islington	2.2%
Cotswold	2.0%
Haringey	2.0%
Runnymede	2.0%

Facing a 2-pronged battle

The UK enters 2026 in a low-growth, disinflation-but-sticky-services regime. Real activity remains soft as monthly GDP grew 0.1% in Dec 2025 (after 0.2% in Nov), with services positive (+0.3%) but production (-0.9%) and construction (-0.5%) dragging.

Inflation is easing, but the composition still matters for policy and real income dynamics. CPI slowed to 3.0% YoY in Jan 2026, while services inflation remains elevated (a key persistence signal for the BoE).

Labour market conditions are weakening and adding downside risk to consumption and supporting the case for rate cuts. Recent reporting highlights unemployment rising to 5.2% which is a 5-year high for the economy.

The unemployment rate is especially high for young professionals as many businesses have slowed hiring, pointing to measures in Chancellor Rachel Reeves's last two Budgets, including a hike in employer National Insurance contributions and a rise in the minimum wage, as increasing their costs.

Although the budget aims to increase the fiscal headroom through increased taxations, its ripple-effects will be felt across the economy. The "low-hiring, low-firing" environment created is only one aspect to consider, as severe taxes on wealth will continue to weigh on UK's attraction for the uber-wealthy and drive capital away.

Forward-looking baseline remains "modest recovery, below-trend" UK real GDP is forecasted to grow at 1.3% in 2026, reinforcing the view that the UK is improving but not accelerating.

2026 is likely characterised by a slow grind higher in activity as headline inflation falls and real incomes stabilise, but with meaningful downside sensitivity to labour-market deterioration and external financial conditions.

BoE Interest Rate vs Inflation



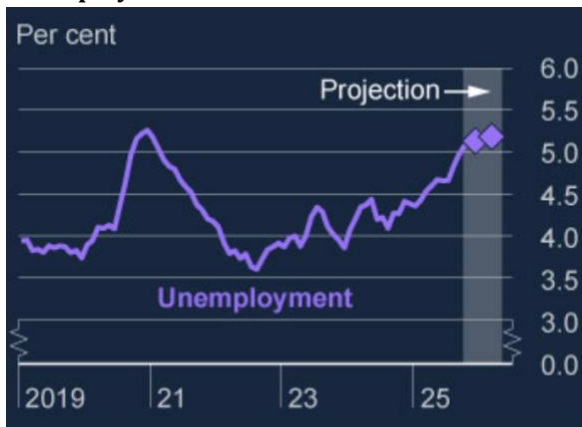
Bank of England – A Cautious Easing Cycle

The BoE has moved into a cautious easing stance, but is not signalling a rapid cutting cycle. In Feb 2026, the it held Bank Rate at 3.75% with a tight 5–4 vote, as four members preferred an immediate 25bp cut to 3.50%.

The policy reaction function is now dominated by concerns surrounding inflation and a weak labour market. With headline CPI at 3.0% but services inflation still elevated, the BoE appears to be balancing two risks: cutting too early into persistence versus holding too long into a weakening labour market.

Market pricing and commentary in Feb 2026 increasingly point to near-term cuts, but the split vote suggests the BoE wants more confirmation from services/wages. The 5.2% unemployment rate print will likely force the BoE to cut in the near-term, though whether this can be a sustained easing cycle is not necessarily a guarantee.

Unemployment Forecast



FTSE100 1Y Chart



Asset Class Deep dive

Equities (FTSE100)

The FTSE 100 has entered 2026 with strong upward momentum, breaking decisively to new record highs and maintaining a clear medium-term uptrend. The index is trading firmly above its key moving averages, with both the 50-day and 200-day averages sloping upward, signalling sustained bullish technical structure.

Price action since late-2025 shows a consistent pattern of higher highs and higher lows, reinforcing the strength of the prevailing trend. The recent acceleration phase suggests increased investor conviction, supported by moderating inflation data and rising expectations of a Bank of England rate cut in the coming quarters.

5Y FTSE100 Performance



The rally is structurally underpinned by the FTSE 100's composition. Approximately 70–75% of index revenues are generated overseas, meaning performance is driven more by global earnings, commodity prices, and USD dynamics than purely domestic UK demand. Defensive sectors such as healthcare, consumer staples, and utilities, alongside financials and defence, continue to provide earnings resilience.

Valuations remain comparatively attractive relative to US peers, with the FTSE 100 trading at lower forward multiples and offering a higher dividend yield. This has reinforced its appeal in an environment of slowing but still positive global growth.

FTSE100 vs S&P500



Technically, the index appears extended relative to shorter-term averages, suggesting the potential for near-term consolidation. However, the broader uptrend remains intact unless price breaks decisively below the 50-day moving average, which currently acts as dynamic support.

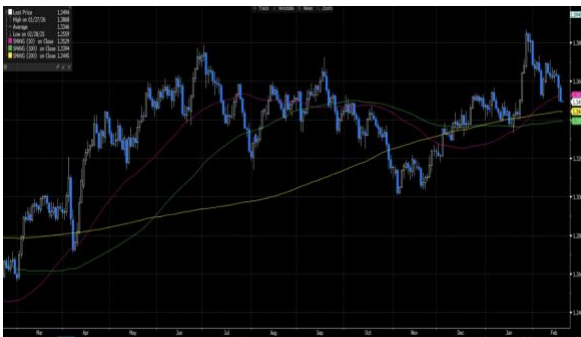
Forward-looking, the base case for 2026 is for continued but more measured upside, contingent on a gradual Bank of England easing cycle and stable global risk sentiment. A sustained recovery in the more domestically exposed FTSE 250 would provide confirmation that easing financial conditions are feeding into UK demand.

Upside gain stems from faster-than-expected disinflation, clearer rate-cut guidance, and supportive global liquidity conditions, which could compress equity risk premia further and support multiple expansion.

Downside risks include renewed inflation persistence delaying policy easing, further labour market deterioration weighing on domestic earnings expectations, or a global risk-off episode strengthening the USD and tightening financial conditions.

Overall, the FTSE 100 should be viewed as a globally diversified defensive index with easing-cycle optionality rather than a pure proxy for UK domestic growth. Performance in 2026 is likely to remain more sensitive to global macro dynamics than to incremental shifts in UK economic activity alone.

GBPUSD 1Y Chart



FX (GBP)

GBP continues to exhibit broad trading strength within a multi-month consolidation and has recently broken above key moving averages on the chart, signalling a transition from range-bound behaviour toward mild upside momentum. Price action trading above both the 50-day and 200-day averages reinforces the constructive technical stance.

Sterling's near-term performance reflects a macro environment characterised by moderating UK inflation and USD weakness. Markets are increasingly pricing rate cuts through 2026 as labour market slack builds and wage pressures soften. This has introduced two-way volatility but has not materially undermined the broader technical structure.

UK US 10Y Yield Spread vs GBPUSD



Expect GBPUSD to gradually strengthen in 2026 under a scenario of controlled global dollar softness and a measured UK easing cycle.

From a technical standpoint, the breakout above longer-term moving averages suggests constructive momentum into mid-2026. However, the move remains orderly rather than impulsive, indicating that markets are pricing gradual policy normalisation rather than a sharp macro inflection.

Forward-looking, the base case for 2026 is for GBP/USD to remain supported in a broad 1.34–1.40 range, contingent on:

- A gradual easing cycle rather than aggressive cuts
- Continued moderation in UK inflation
- A stable or weakening US dollar environment

Upside risk stems from a scenario where US rate cuts outpace UK easing, widening relative yield support for sterling and pushing GBP toward the upper end of forecast ranges.

Downside risks include sharper UK labour market deterioration forcing faster policy easing, renewed fiscal or political uncertainty, or a broad USD strengthening cycle driven by global risk aversion.

Overall, sterling enters 2026 in a technically constructive position with moderate fundamental support. However, sustained appreciation is likely to be capped by narrowing rate differentials and structural external imbalances, reinforcing a view of controlled range trading rather than a structural breakout.

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