

Panmure Gordon



THE UK ECONOMY: IS THE PESSIMISM OVERDONE?

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Outline of today's presentation

Brexit has had an observable impact on the UK economy

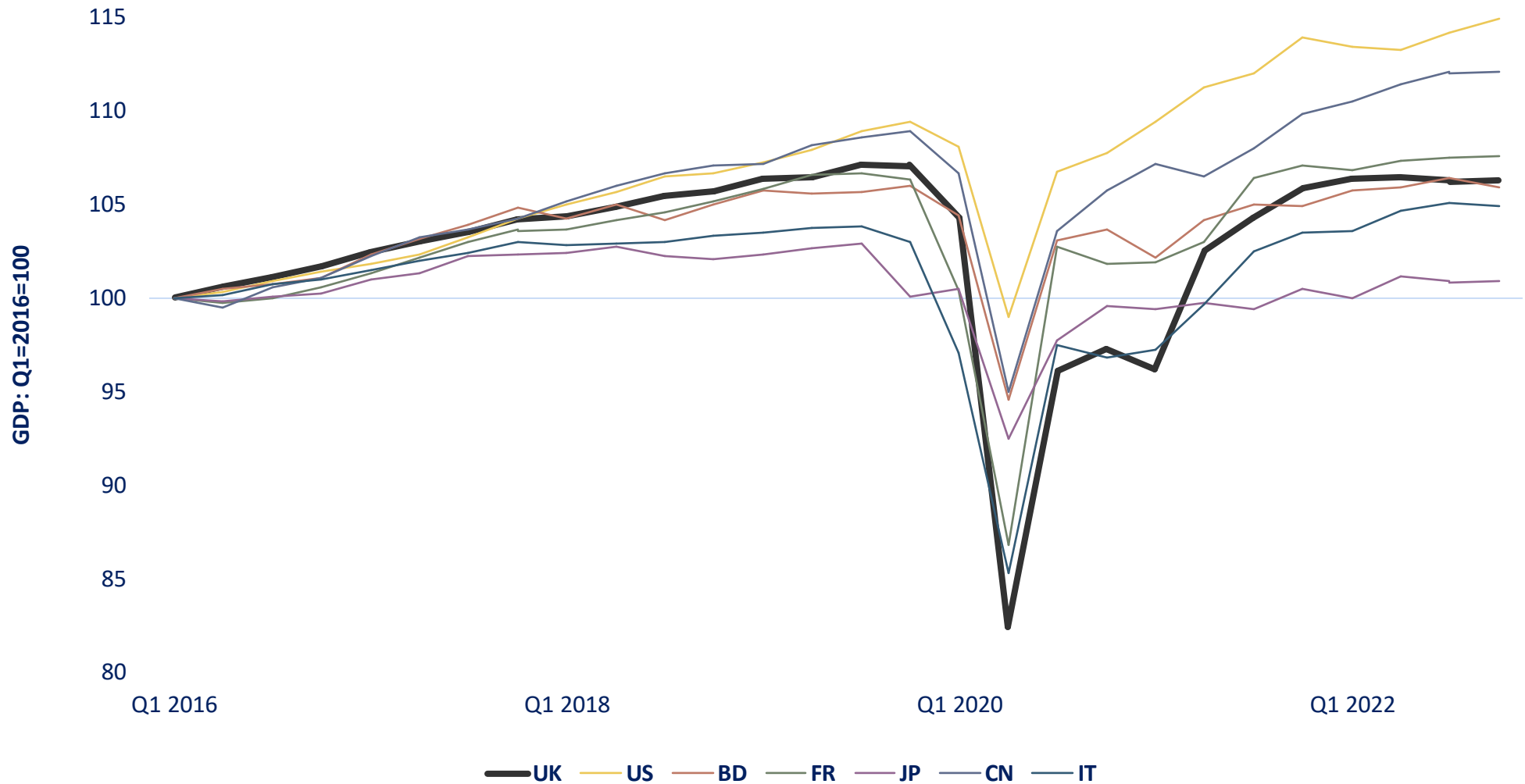
Demographics and debt dynamics remain favourable

Capital deepening is the (almost) inevitable path

Higher interest rates favours unloved UK public markets

Brexit: Economic growth is not everything, but...

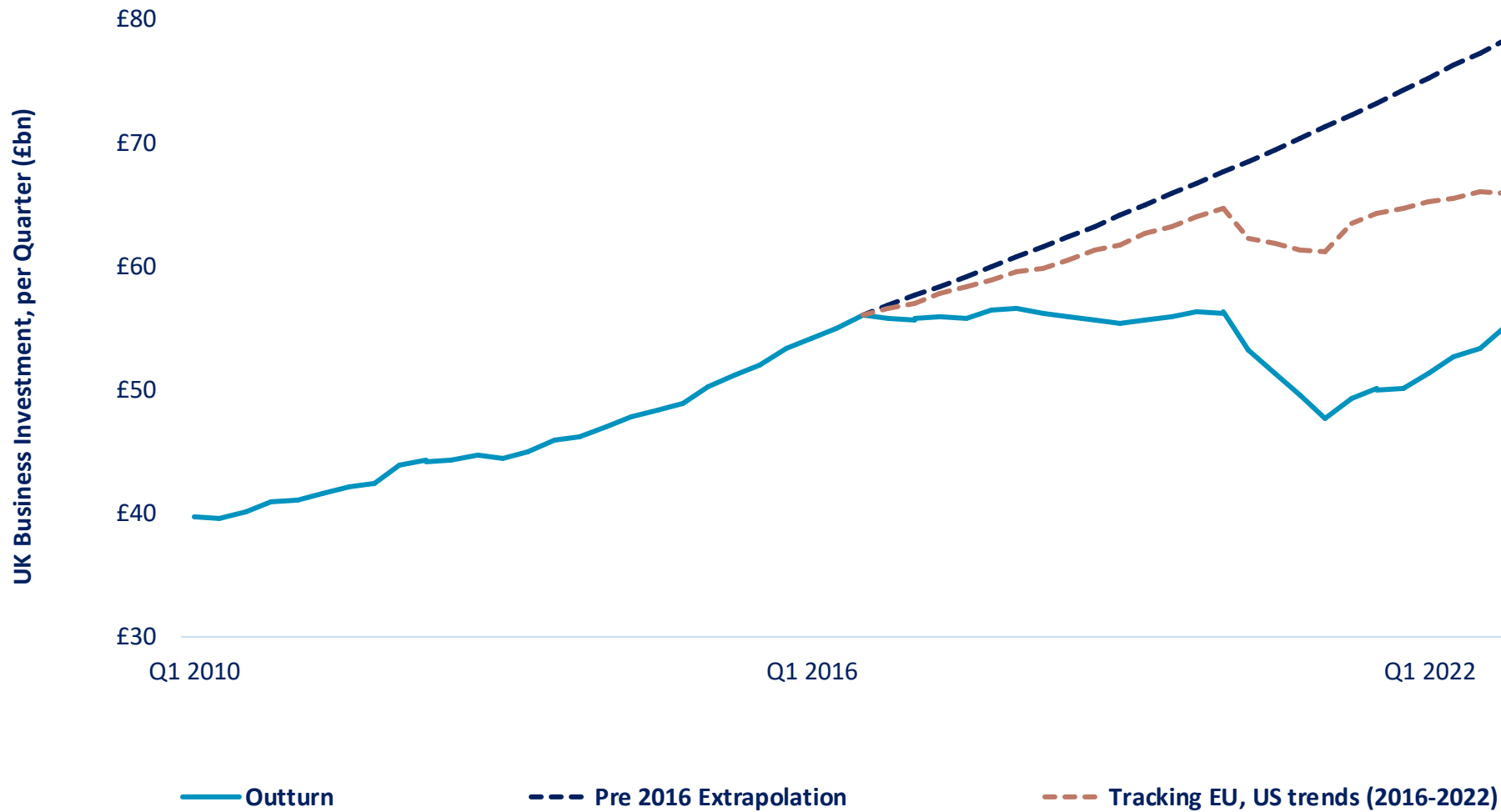
GDP since 2016 is mid-range amongst the G7...



Source: World Bank

Business investment has flatlined since 2016...

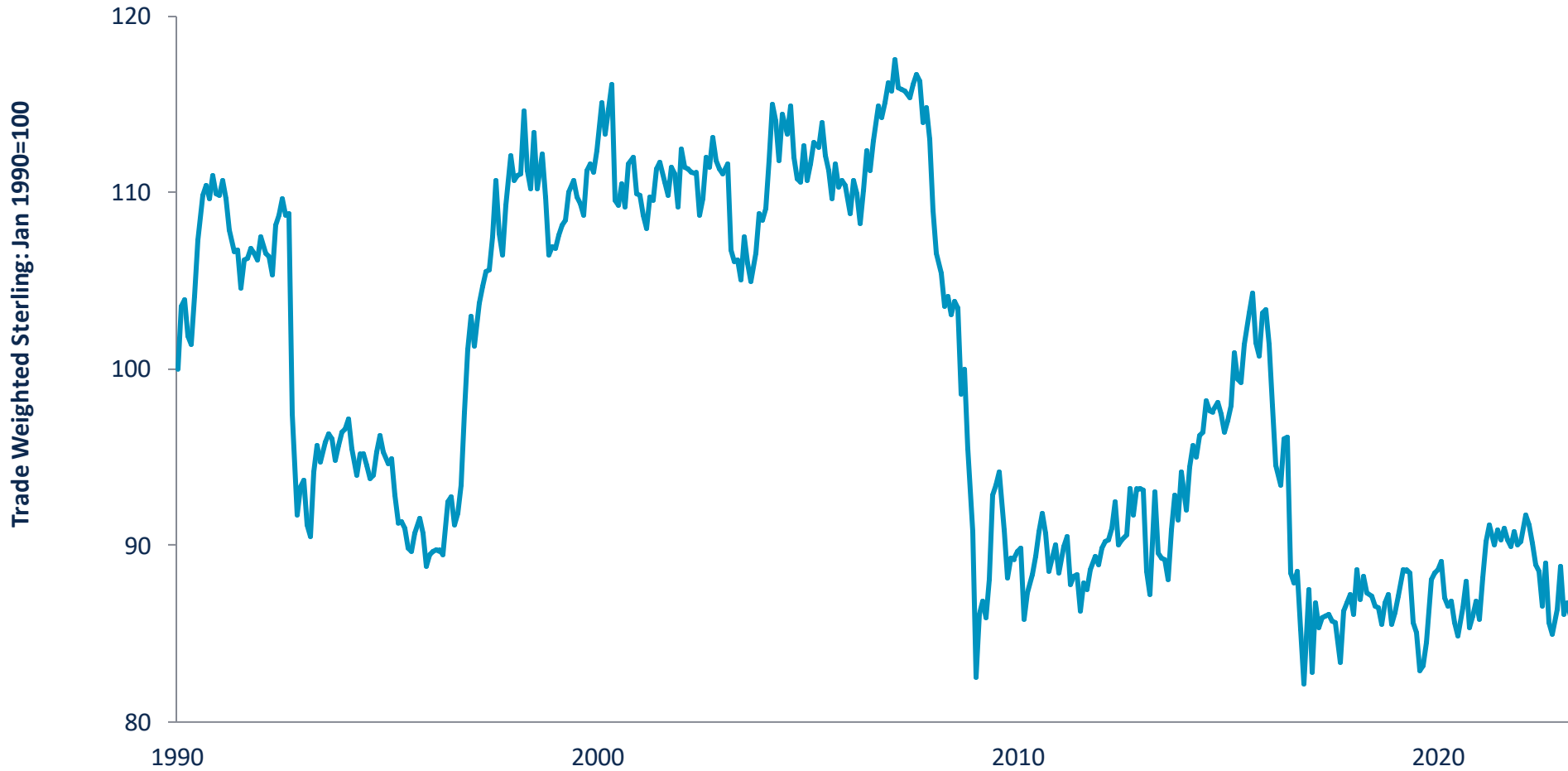
A £10bn/quarter shortfall from US/EU trends...



Source: ONS, Eurostat, Panmure Gordon

The big post-GFC devaluation has never been recovered...

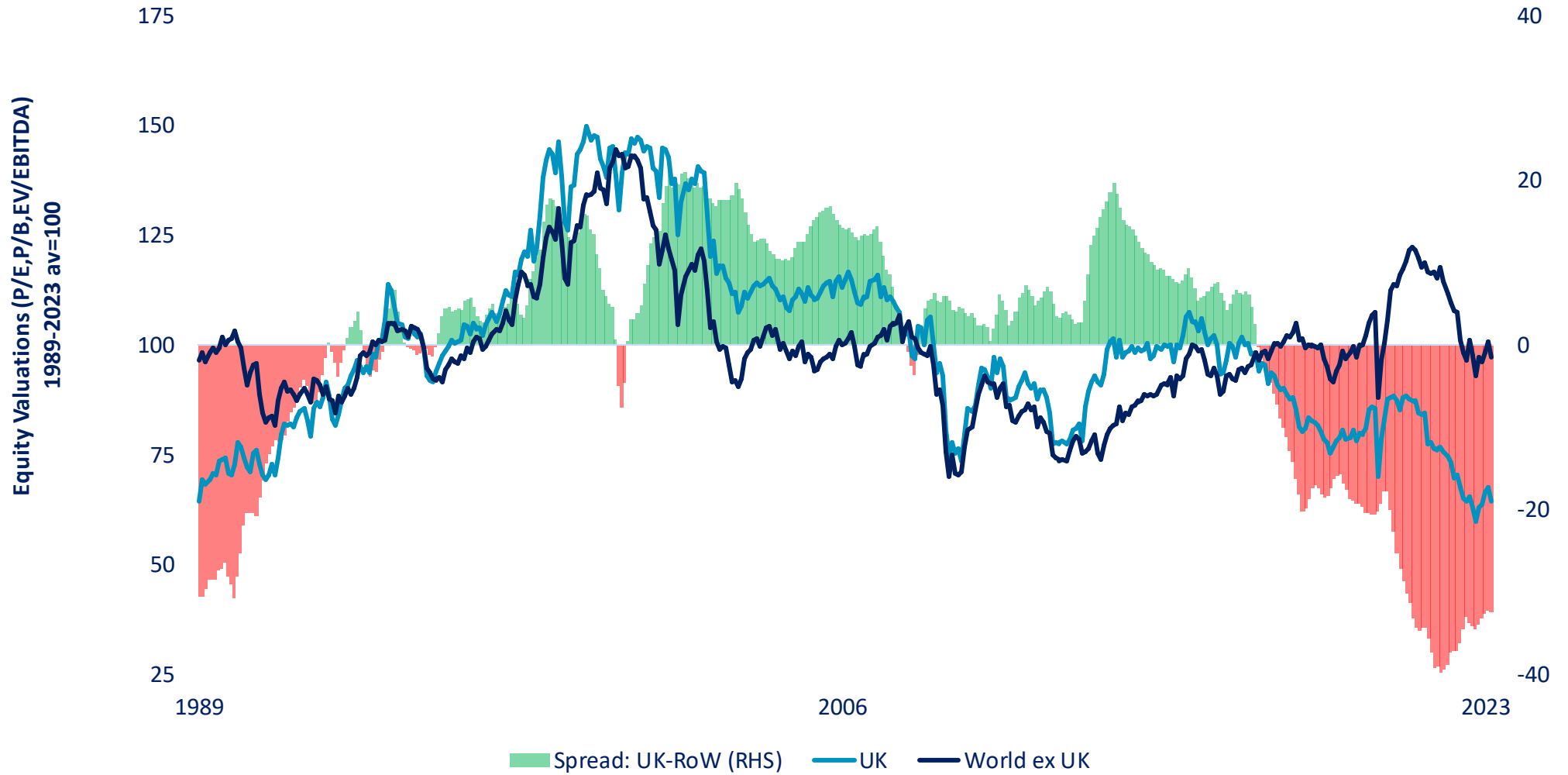
The UK currency has been a safety valve, but an expensive one...



Source: Bank of England

The scarring of UK equity markets is very clear...

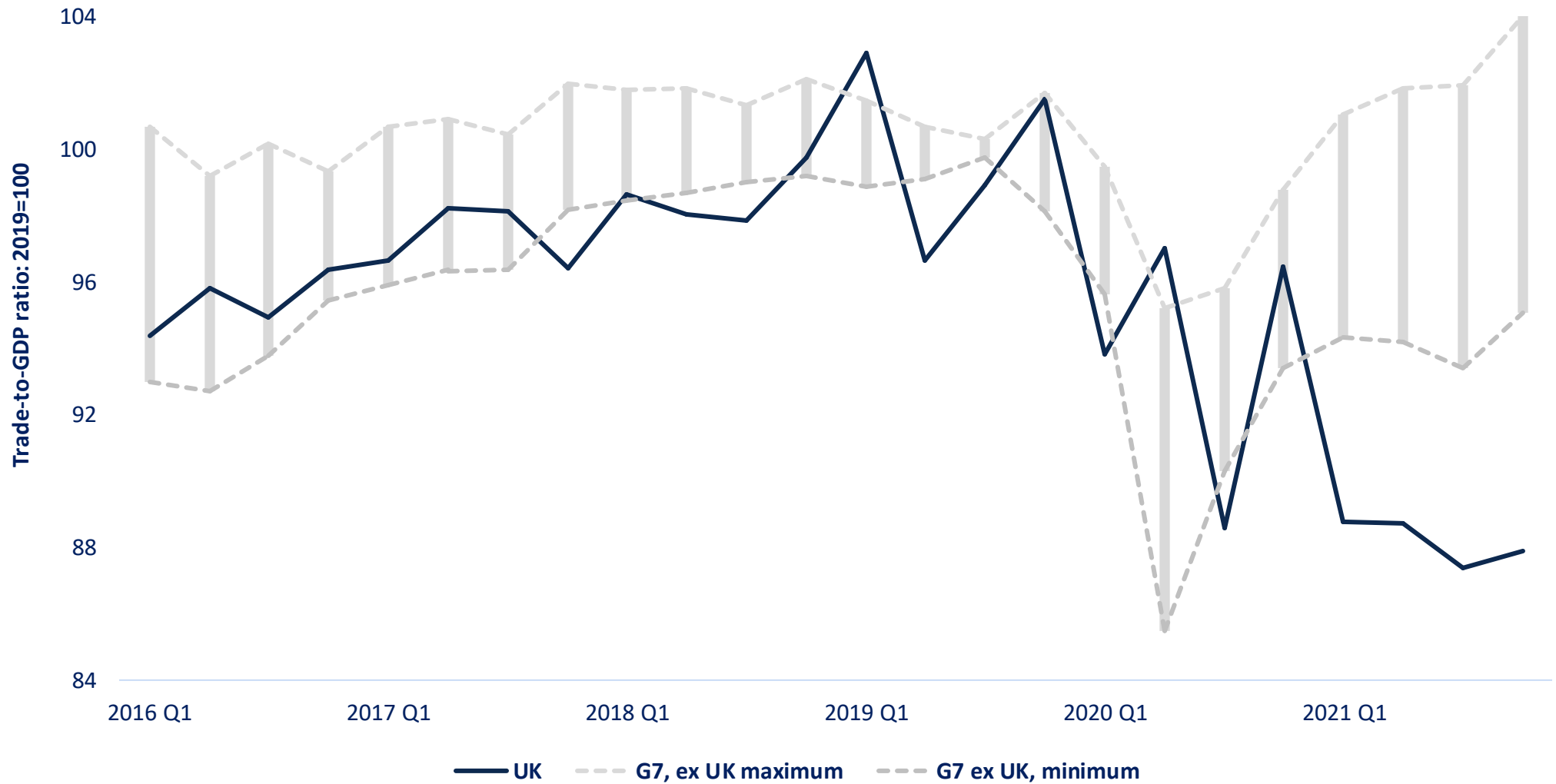
Under allocation to UK-listed companies has been a stubborn theme...



Source: Refinitiv, Panmure Gordon

Trade is a noisy data series...

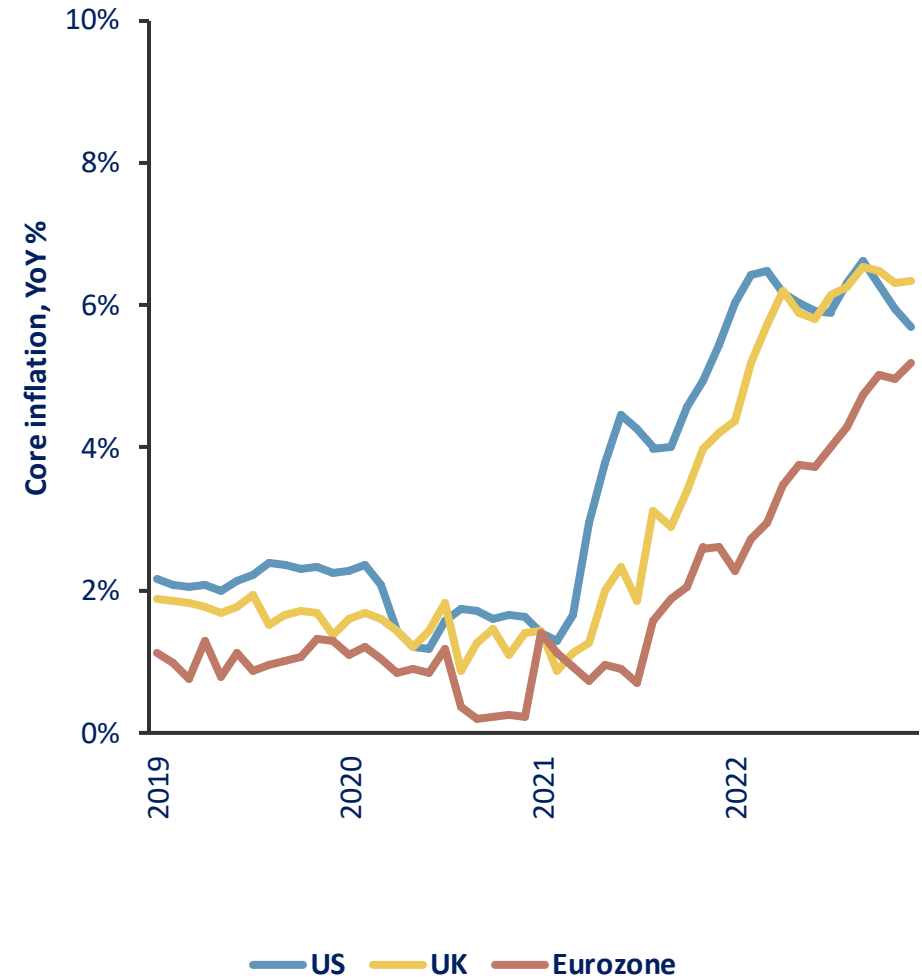
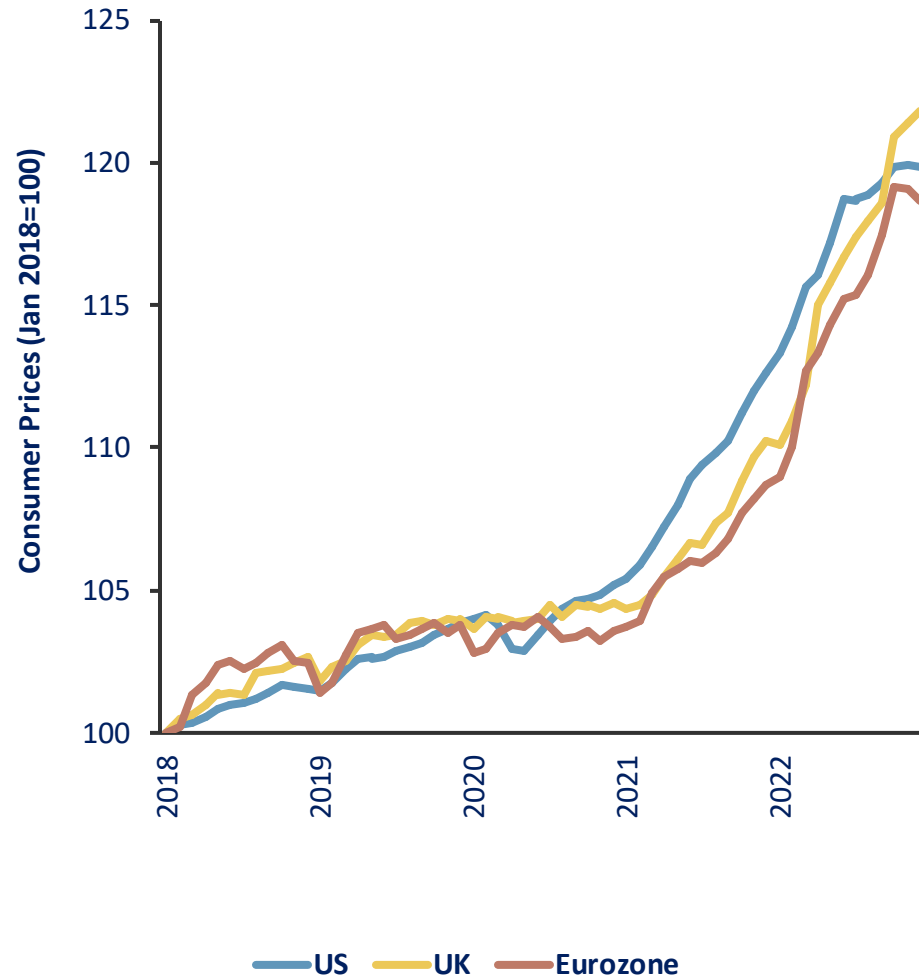
But trade density in the UK's GDP mix has fallen away sharply...



Source: OBR

And a word on UK inflation...

Recent UK inflation trends match those seen in other major developed economies...



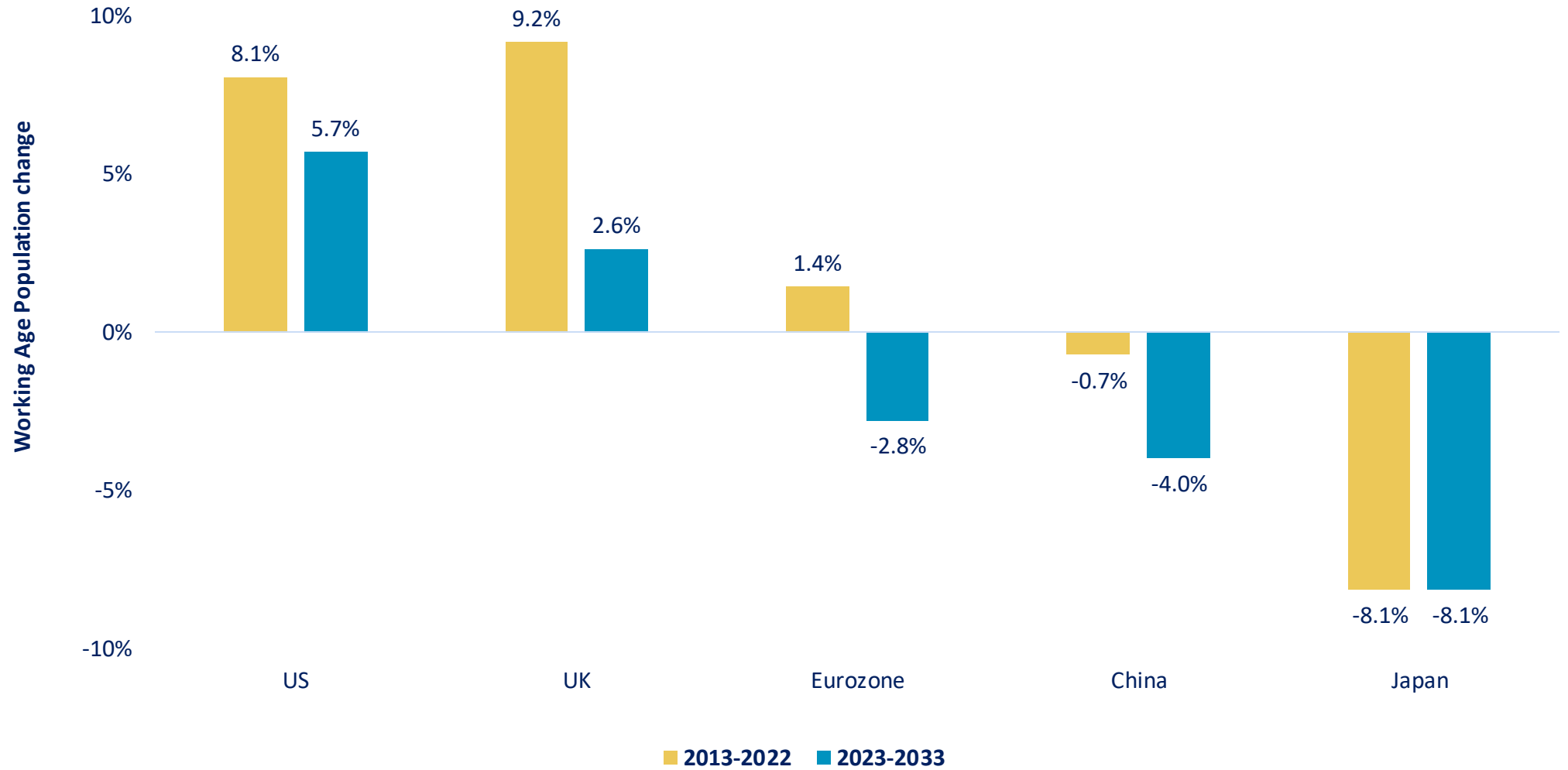
There are some less-tangible Brexit upsides... as yet unrealised...

Regulatory Arbitrage: Edinburgh reforms, ELMS

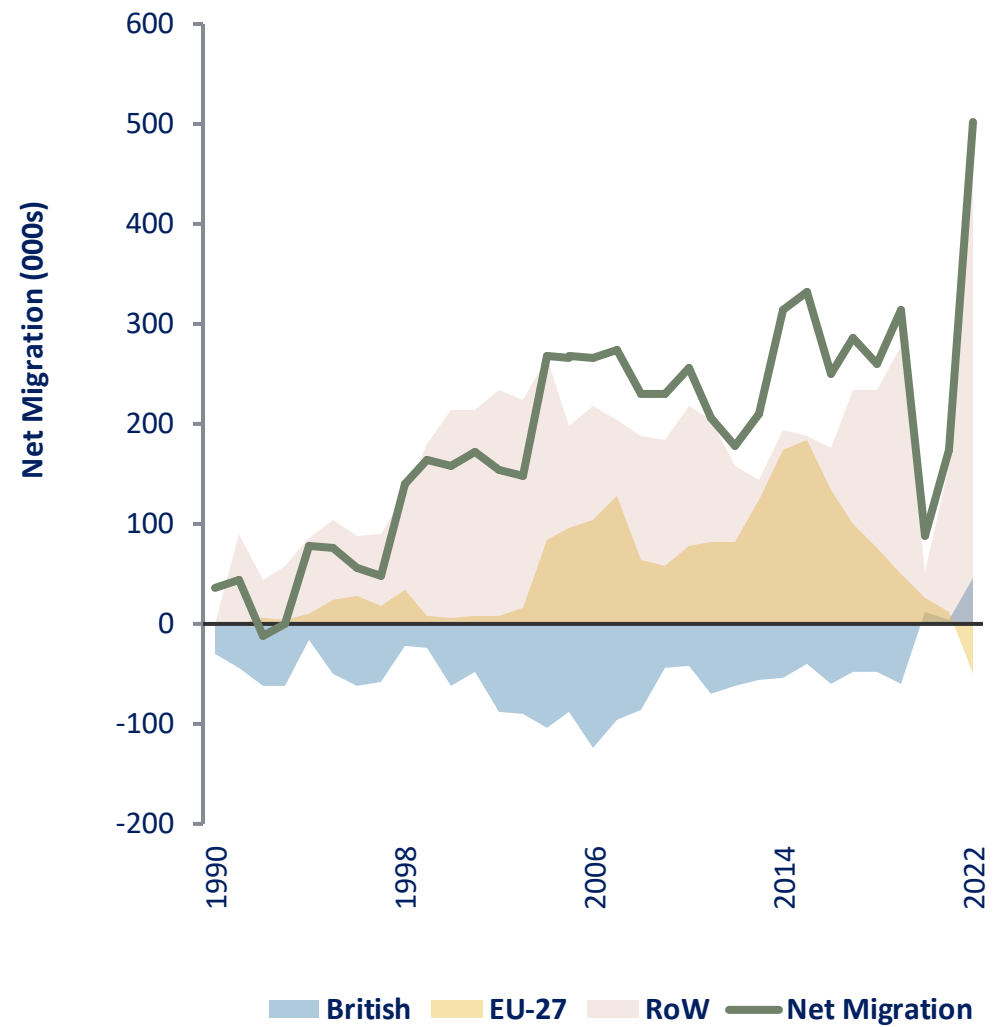
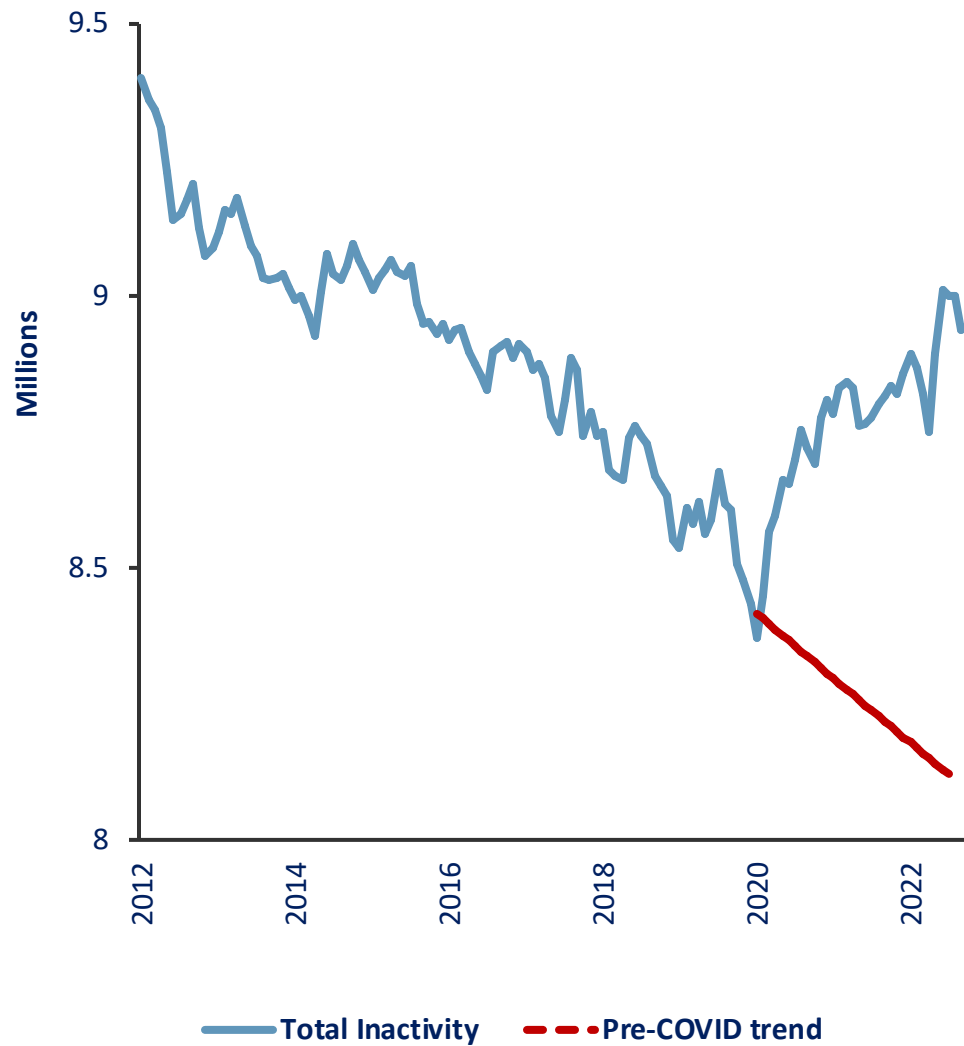
Custom-made Industrial Strategy: IRA, GDIP

Market access for labour and goods: level playing field

Demographics remain favourable by international standards...



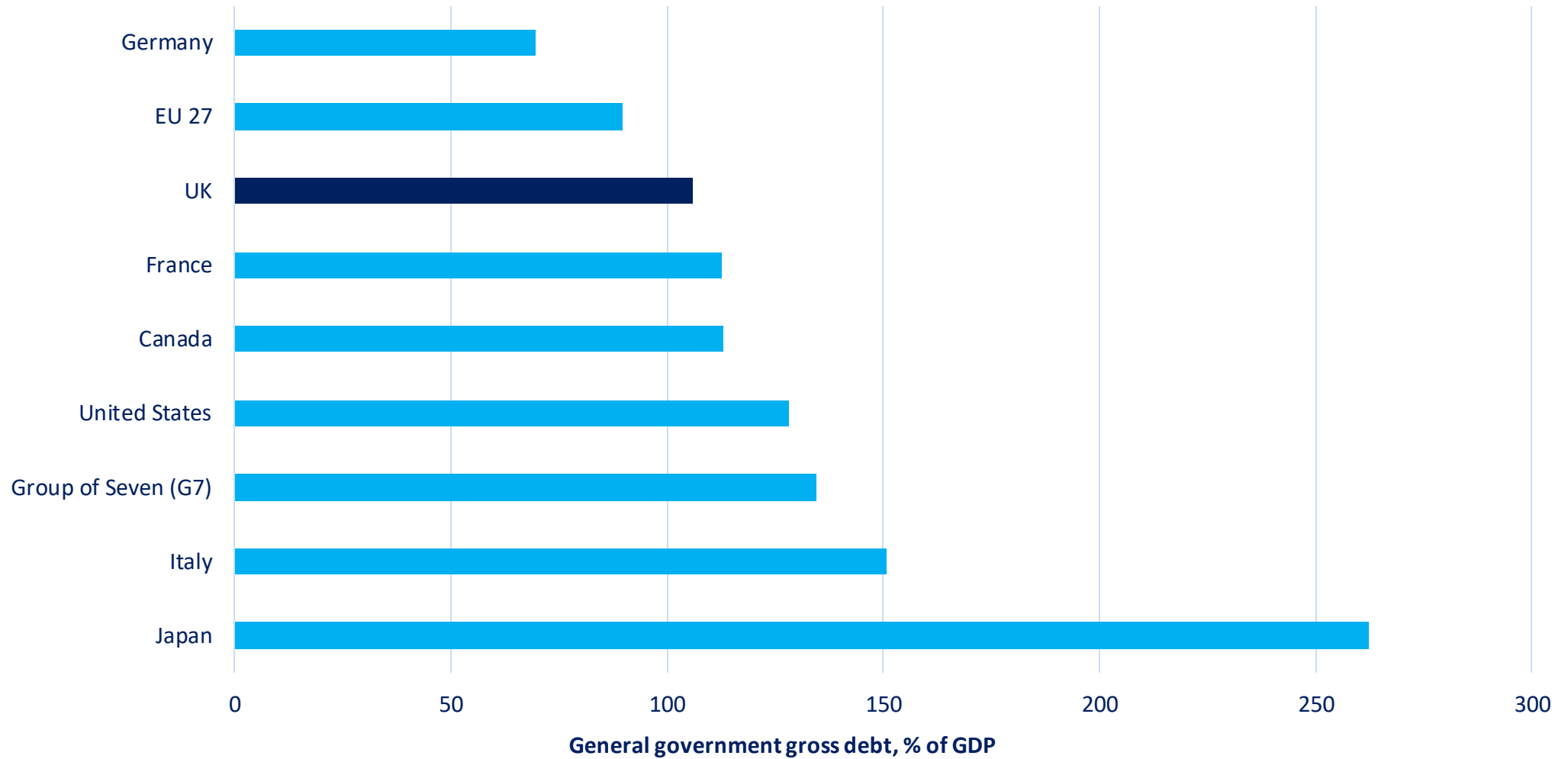
Two very different stories on working age inactivity, and net migration...



Source: ONS

Debt levels remain relatively low by international standards...

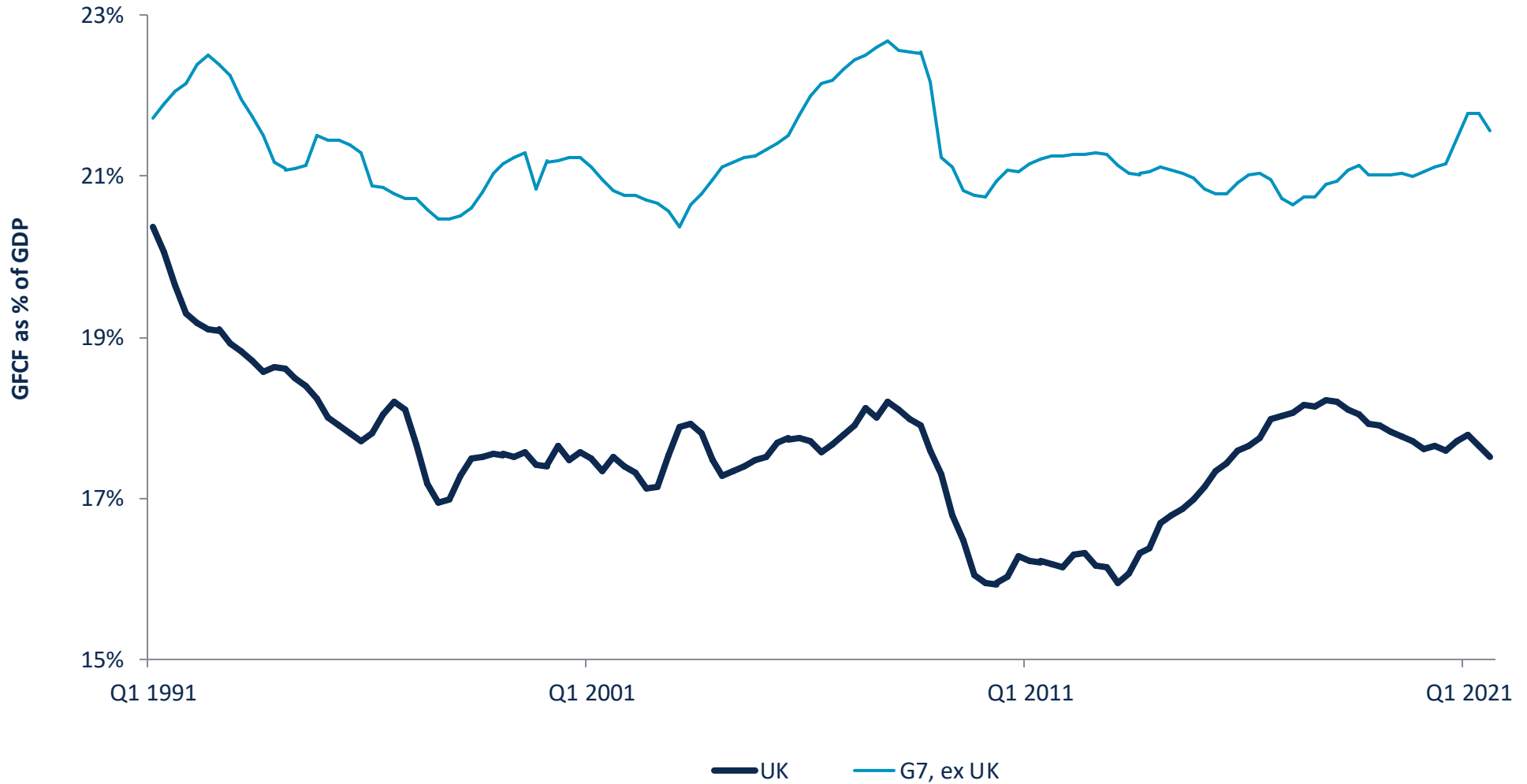
With headline long duration on the UK debt stock...



Source: IMF

The UK has run a capital-light model...

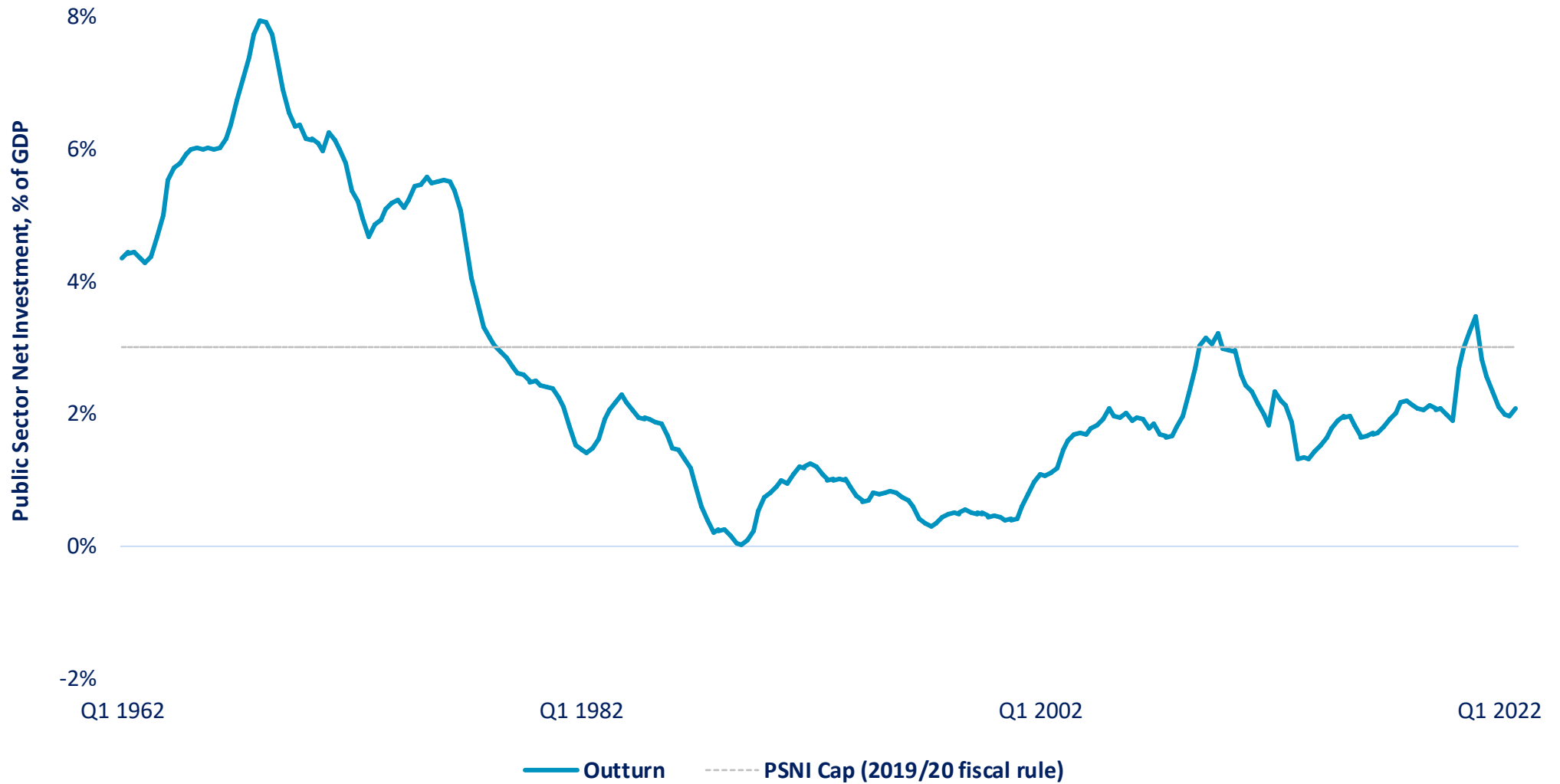
Gross Fixed Capital Formation has persistently lagged G7 equivalents...



Source: ONS, Eurostat

The public sector has divested of assets for four decades...

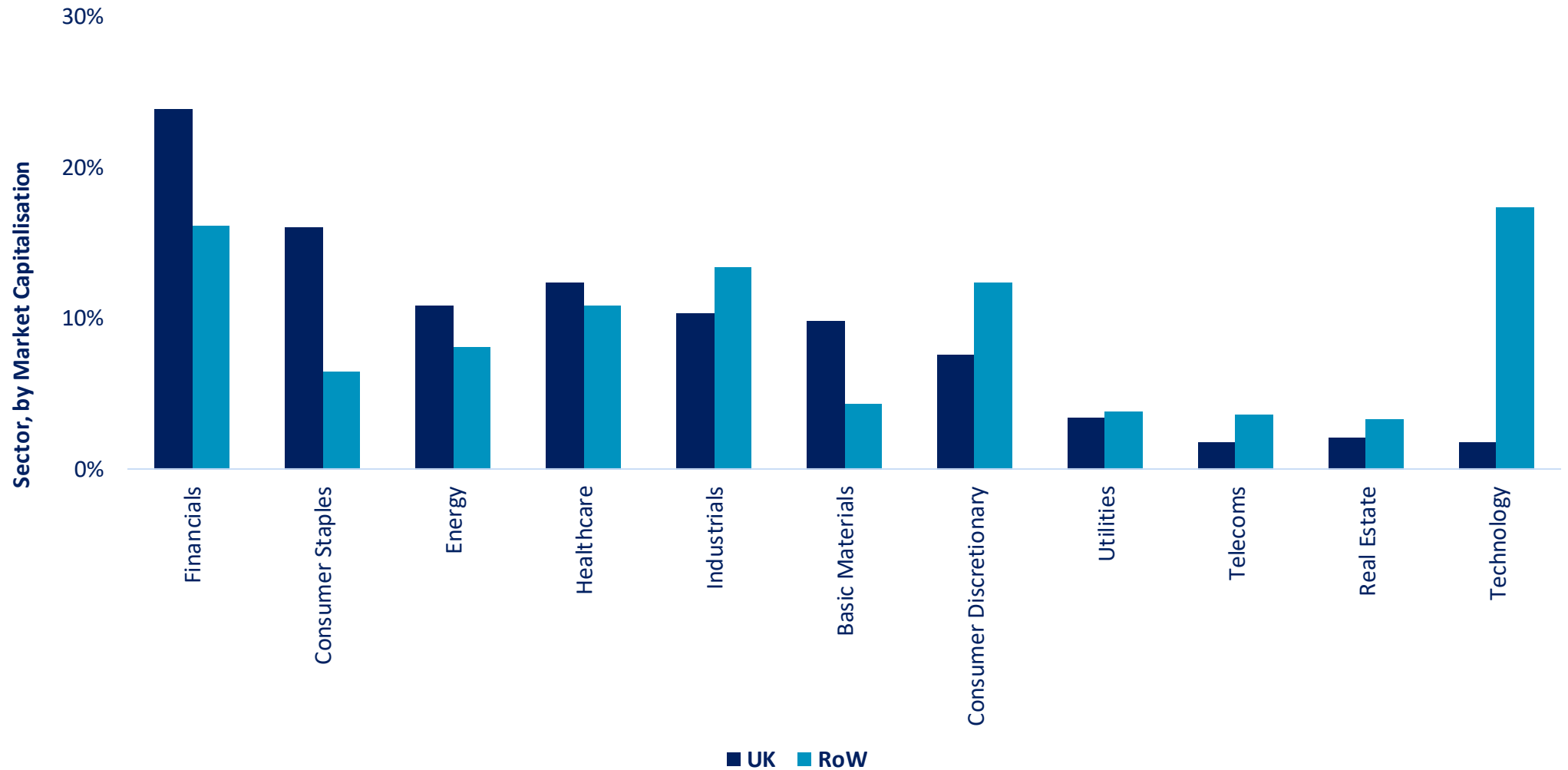
A pivot back is inevitable...



Source: ONS

The sectors that normally perform best in a rising rate environment are FTSE overweights...

UK is a big underweight on technology...



Source: Panmure Gordon, Refinitiv

Concluding Thoughts...

UK is poorly served by economic commentary

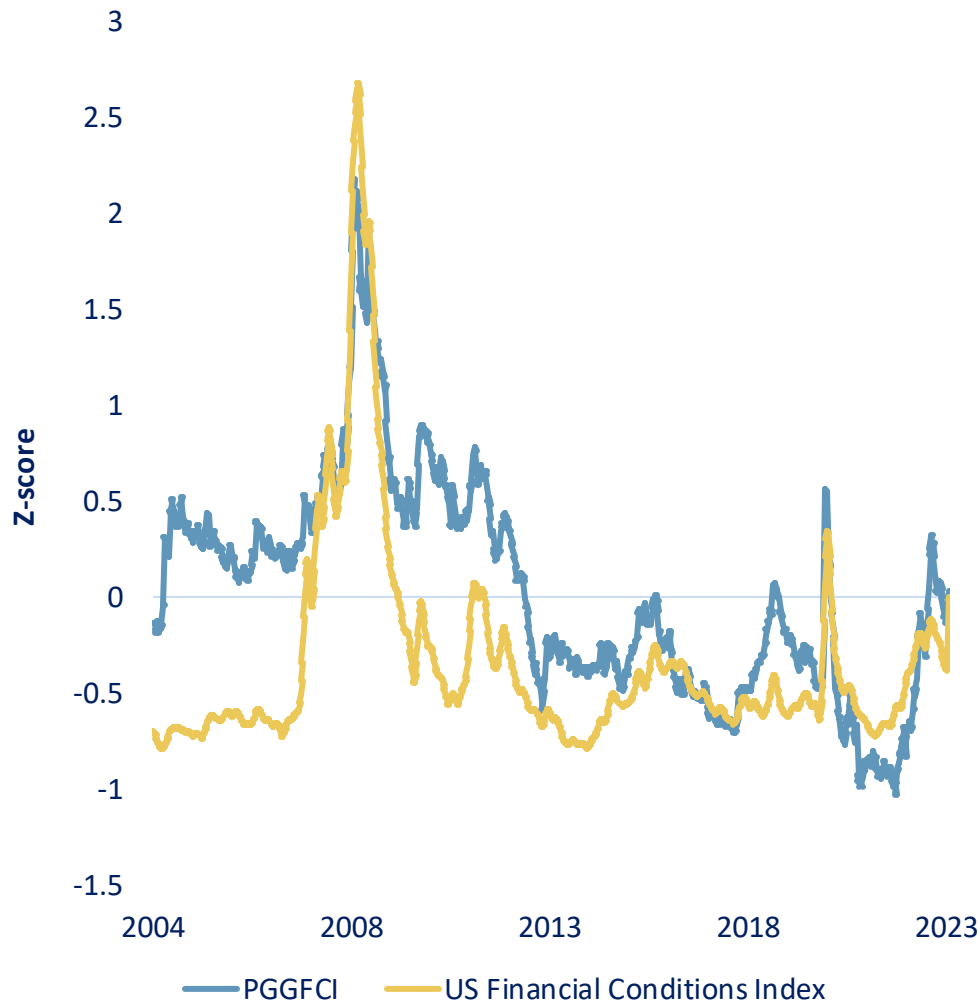
Trends are more nuanced – political frustration with baselines

Transition to higher rates favours incumbents over insurgents

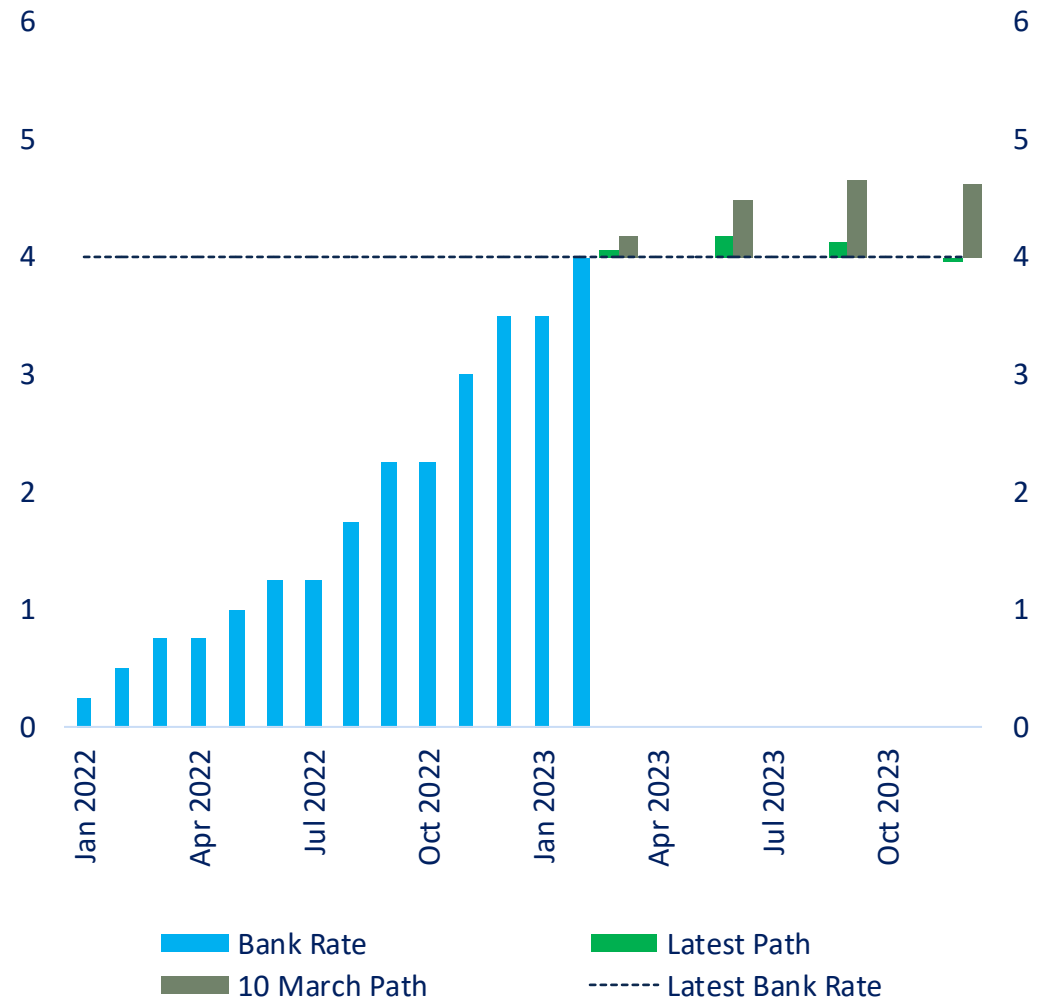
And a final word on banking crises...

Financial conditions are not tight, but have quickly tightened...

Reversal from the very easy stance of mid-2021...



UK interest rate expectations matching the Fed, ECB pivot...



Source: Panmure Gordon, Refinitiv

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QUESTIONS

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