

# UK assets: where do we stand after the Autumn budget?

**BlackRock**

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## Quick read

The UK Autumn budget has been one of the most closely-watched events in UK markets this year. We unpack the implications – and how this impacts our views on UK equities and fixed income, with actionable investment ideas.

### Leaning into UK assets

#### ...with large cap equity

ISF	iShares FTSE 100 UCITS ETF
IUKD	iShares UK Dividend UCITS ETF
	BlackRock UK Income Fund

#### ...with fixed income

SLXX	iShares Core GBP Corp Bond UCITS ETF
	BlackRock Corporate Bond Fund
IGLT	iShares Core UK Gilts UCITS ETF

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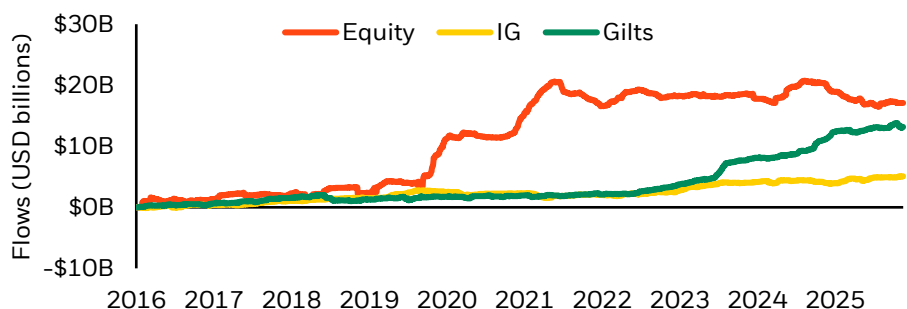
**For markets seeking clarity on the UK's fiscal path, the 2025 Autumn Budget sends a mixed but consequential signal.** The Budget confirmed an increase in fiscal headroom to £22B, supported by an extended freeze on income tax thresholds through 2030/31 – which offsets the pre-Budget pullback in income tax rises. But the accompanying Office for Budget Responsibility (OBR) report sounds a clear warning: even with these measures, the Budget "still leaves the UK public finances relatively vulnerable to future shocks". Against this backdrop, we take stock of our views on UK assets.

**Heading into the budget, gilts have come under pressure this year amid growing investor caution towards countries running high deficits**, with the US, UK, Japan and France – among others – under scrutiny. While the UK's debt-to-GDP ratio, at just over 95%,<sup>1</sup> remains broadly in line with other G7 economies, the legacy of previous budgets (notably 2022) coupled with political uncertainty, high policy rates and persistent inflation have raised questions of fiscal credibility – and set the stage for a potential volatile market reaction. Against this backdrop, we lean into portfolio diversification beyond traditional safe-haven assets.

**UK macro signals are mixed.** October inflation was in line with expectations, leaving market pricing of a 25bp December rate cut largely intact (see more on p.2) – a view we share, alongside our Global Fixed Income team. The OBR has revised its 2025–26 CPI forecast to 3.0% (from 2.6%), adding to inflation risks. Labour market data shows decelerating wage growth and weakening demand, while Q3 GDP data came in softer-than-expected. The OBR also cut its productivity forecast by 0.3pp, trimming 2026 GDP growth to 1.4% (from 1.9%) despite raising 2025 growth to 1.5% (from 1.0%).<sup>2</sup> Still, pockets of resilience remain: household spending 0.2% QoQ in Q3, and the latest data showed the household savings ratio still elevated at 10.7% in Q2.<sup>3</sup> Q3 bank earnings point to ongoing retail deposit growth,<sup>4</sup> suggesting there is dry powder to put to work.

**ETP flows point to muted engagement with UK assets:** since 2016, a cumulative \$17B has been added to UK equity ETPs, with 2025 flows at -\$1.8B YTD – a stark contrast to the record \$82.4B added to European equity ETPs this year. In fixed income, investors have shown a clear preference for sterling corporates (\$1.1B) over Gilts (\$0.8B) in 2025, contrasting with the \$4.3B added to Gilts in both 2023 and 2024 and corporate outflows in 2024. In the runup to the Budget, we saw a rotation out of Gilts, with outflows of \$0.3B from October to November MTD, entirely driven by front-end selling.<sup>5</sup> The UK also remains notably under-represented in European portfolios. Our analysis shows that the average EMEA multi-asset portfolio reduced its UK equity allocation from 0.7% in Q2 to 0.6% in Q3 2025, while fixed income exposure is heavily concentrated in sterling corporates, at 74% of the overall 0.4% UK allocation.<sup>6</sup>

**Chart 1: Cumulative flows into UK equity and fixed income ETPs, 2016–2025 YTD**



Source: BlackRock and Markit, 17 November 2025.

**1** Source: OBR, October 2025. **2** Source: ONS, end-September 2025. **3** Source: OBR, 26 November 2025. **4** Source: Barclays, as of 10 November 2025. **5** Source: BlackRock and Markit, as of 17 November 2025. **6** Source: BlackRock Investment and Portfolio Solutions, BlackRock Aladdin, Morningstar, as of 30 Sept 2025. Portfolio average allocation based on 179 EMEA moderate multi-asset portfolios reviewed in each quarter of 2025.

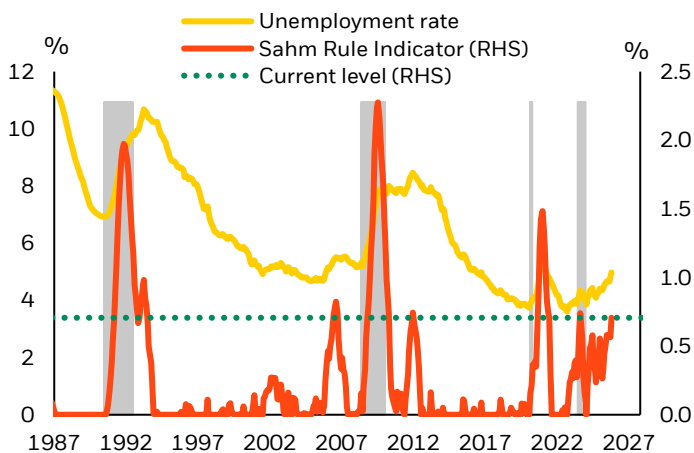
## Where do we stand on the UK?

### 1 Monetary policy matters

**The trajectory of UK monetary policy has become increasingly intertwined with fiscal developments as the Bank of England (BoE) nears its estimated neutral rate.**

The Monetary Policy Committee (MPC) held the Bank Rate at 4% in November, even as signs of softening growth mounted: moderating wage growth, unemployment edging higher, and decelerating GDP in Q3. Inflationary pressures, however, remain uncomfortably persistent. Against this stagflationary backdrop, the MPC remains finely balanced – November's 5-4 vote reflects a divergence between members prioritising the risk of entrenched inflation and those more attuned to emerging labour market slack. Market pricing currently implies just under 2.5 cuts by end-2026, placing the terminal rate near 3.5%.<sup>7</sup> This looks fair for now given the symmetry of risks, though considerable uncertainty leaves room for repricing in either direction. Importantly, unlike the US Federal Reserve, the BoE lacks a dual mandate, which could leave it in a difficult position should inflation prove persistent.

**Chart 2: UK "Sahm Rule" indicator uncomfortably high**  
Sahm indicator vs. unemployment rate



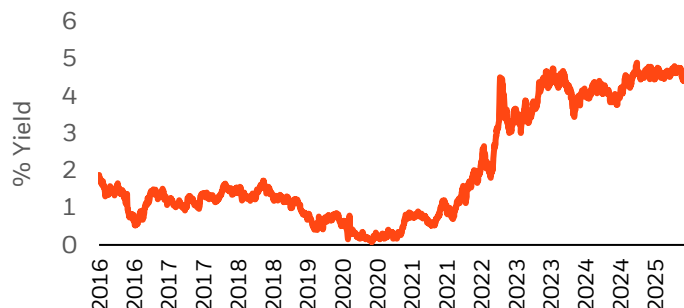
Source: Goldman Sachs, Haver Analytics, as of 14 November 2025. Note: calculated as monthly employment rate minus the minimum of the trailing 12m.

### 2 Gilts

**Post-budget, we see merit in taking more duration risk in Gilts.** While divergent growth and inflation signals cloud the near-term outlook, the broader trajectory of moderating wage pressures, softening activity, and gradual disinflation supports the case for lower yields further out the curve. Notably, Gilt term premia remain elevated relative to developed market sovereign peers,<sup>8</sup> leaving room for compression as fiscal credibility improves and focus shifts towards growth risks. The government's renewed commitment to fiscal consolidation and a more sustainable deficit path should reinforce the positive supply trends that spurred bull flattening over the past month,<sup>9</sup> with the basis-point decline in 10Y yields reflecting rising confidence in the UK's fiscal trajectory. **The latest changes to quantitative tightening further strengthen our preference for duration, with the BoE reducing the share of long-dated Gilt sales to 20% – improving the technical backdrop over short and intermediate tenors, which make up the bulk of the £21B in active Gilt sales.**<sup>10</sup>

**Chart 3: Gilt yields have been driven higher by term premium – which is starting to come down**

10Y Gilt yields, 2016 – 2025 YTD

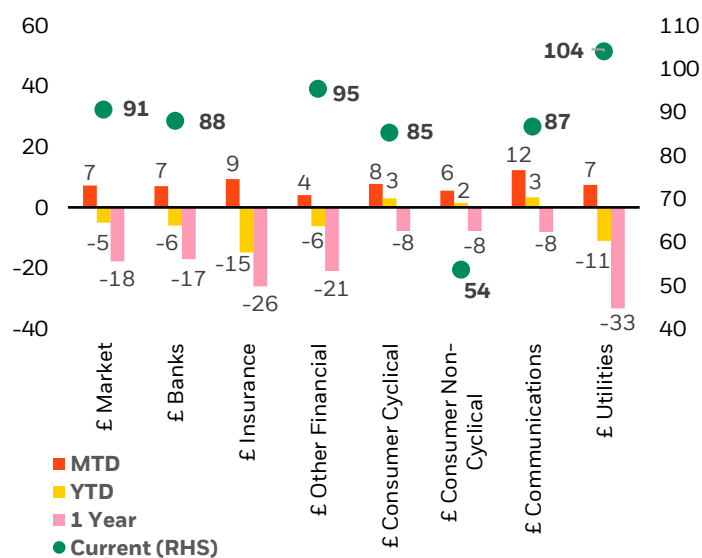


Source: Bloomberg Intelligence, as of 12 November 2025.

### 3 Sterling corporates

**Sterling investment grade (IG) credit continues to offer a compelling mix of resilience, quality, and income in a market characterised by low volatility and steady investor demand.** Spreads tightened by 2bps in October, recovering c.5bps from mid-month wides,<sup>11</sup> underscoring the market's defensive tone even as broader global credit markets consolidated. The sterling IG index, now trading c.140bps over gilts, remains well-anchored relative to its 5Y average of 160bps, reflecting robust corporate balance sheets and a measured supply backdrop.<sup>12</sup> Issuance YTD, while elevated, has been absorbed by strong institutional demand, suggesting ongoing technical support. The market's global composition – with nearly 50% of issuers domiciled outside the UK – continues to diversify credit risk and dampen local idiosyncrasies, while UK risk premium near post-Brexit highs due to Autumn Budget uncertainty offers selective value for active allocators.<sup>13</sup> Sector dispersion remains a key performance driver, with utilities, infrastructure, and high-quality industrials showing durable spread compression, supported by stable cashflows and predictable earnings.<sup>14</sup> Against this backdrop, we think sterling credit remains well-positioned to deliver attractive risk-adjusted income, combining defensive characteristics with meaningful diversification within global fixed income portfolios.

**Chart 4: Spread tightening in sterling credit has broadened out beyond utilities YTD**



Bloomberg Sterling Corporate Index.

**7, 8, 9, 11** Source: Bloomberg, as of 19 November 2025. **10** Source: Goldman Sachs, as of 17 November 2025. **12** Source: Goldman Sachs, as of 14 November 2025, and BlackRock Fundamental Fixed Income, as of 4 November 2025. **13** Source: Barclays, as of 12 November 2025. **14** Source: BlackRock Fundamental Fixed Income, as of 4 November 2025.

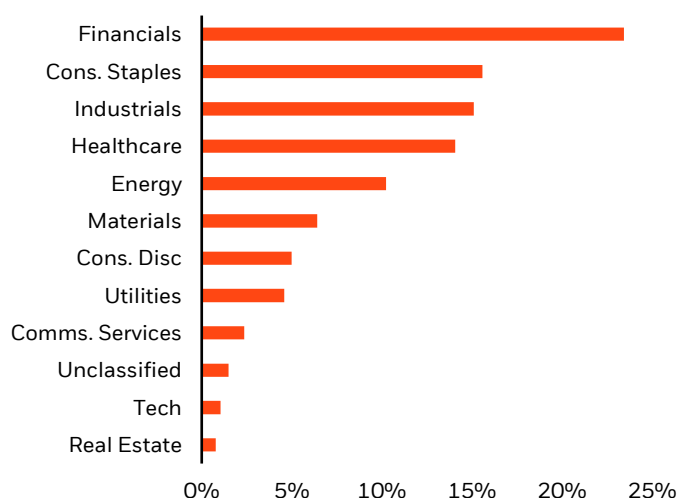
## Where do we stand on the UK?

### 4 UK equities

**UK equities, as highlighted on p.1, remain unloved by global and domestic investors. While we've dialled down conviction in broad global equity allocations in the current environment, we see room for UK equities to continue to play a role in portfolios.**

We maintain a preference for large cap UK equity exposure over mid caps, supported by the international revenue generation bias and a more favourable sector mix. The FTSE 100 index's structural tilt towards value and defensives offers potential cushion during broad equity downside episodes, even if it limits upside participation. We're comfortable with the sector composition (see chart 5): UK banks' strength continues to underpin our conviction in broader European financials, and we see UK consumers as stable, with savings capacity yet to be deployed. We also see structural tailwinds for UK industrials amid the pickup in European defence and infrastructure spending, and maintain conviction in healthcare as a high-quality sector with low valuations and improving earnings momentum. Despite this year's rally, UK equities – trading at 14.1x forward P/E – we see room for earnings momentum to improve further, with revisions tilting positive across both short-term and 12-month horizons.<sup>15</sup> Our focus remains on taking equity risk where there are solid fundamentals.

**Chart 5: FTSE 100 sector tilts**



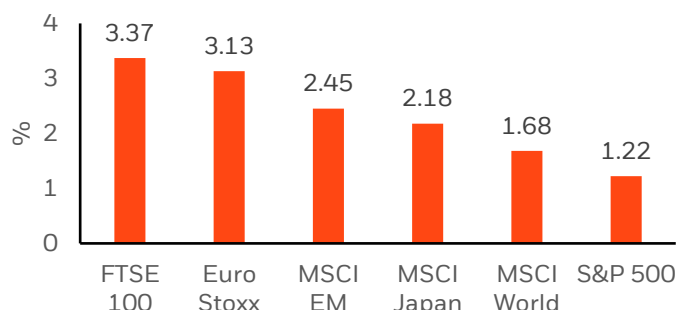
Source: BlackRock, and Bloomberg, 20 November 2025.

From a global asset allocation perspective, UK equities offer diversification benefits on two fronts: as an insular trade amid ongoing global trade tensions, and as a counterbalance to AI-driven market concentration. As we've noted previously, the UK equity market has the lowest beta to shifts in world trade among DM equity markets.<sup>16</sup> The broader UK economy, as our Fundamental Equity team highlights, is relatively well-shielded from the turbulence of global trade tensions, as services dominates output, and manufacturing represents less than 9% of total GDP.<sup>17</sup>

Meanwhile, the UK equity market's relative lack of tech exposure provides an effective offset to concentrated positions in US mega-cap and AI-linked equities – an increasing area of client focus.

Finally, the income component of UK equities enhances their role within global portfolios. The current FTSE 100 dividend yield (3.4%) exceed that of both European equities (3.1%) and European IG credit (3.1%),<sup>18</sup> reinforcing the attractiveness of the UK market as a source of stable income and diversification within a broader equity allocation.

**Chart 6: 12m estimated dividend yield for major equity indices**



Source: BlackRock and Bloomberg, 20 November 2025.

Our **UK Fundamental Equity team** acknowledges the runup in UK equities this year, but believes momentum can continue for several reasons:

- Valuations remain compelling relative to other DM equity markets, and both public and private buyers have been active. So far in 2025, there have already been 31 bids for UK companies, at an average premium of 39% to the share price – a clear indication of the value investors see in UK assets.
- Fundamentals remain resilient: while sentiment towards UK equities has lagged, corporate earnings have actually outpaced those of European peers over the past decade.
- The UK economy appears relatively insulated from escalating global trade tensions.
- The UK continues to host world-leading companies – from established retail and consumer franchises to innovators in areas such as big data and AI. The team remains focused on identifying businesses with durable competitive advantages and long-term growth potential across both traditional and cutting-edge sectors.

Source: BlackRock Fundamental Equities, November 2025.

**15, 18** Source: BlackRock and Bloomberg, as of 20 November 2025. **16** Source: Goldman Sachs, October 2024. **17** Source: BlackRock Fundamental Equities, November 2025.

### **BlackRock UK Income Fund**

The Fund is actively managed and the IA has discretion to select the Fund's investments. In doing so, the IA will refer to the FTSE All-Share Index (the "Index") when constructing the Fund's portfolio, and also for risk management purposes to ensure that the active risk (i.e. degree of deviation from the index) taken by the Fund remains appropriate given the Fund's investment objective and policy. The IA is not bound by the components or weighting of the Index when selecting investments. The IA may also use its discretion to invest in securities not included in the Index in order to take advantage of specific investment opportunities. However, the geographical scope of the investment objective and policy may have the effect of limiting the extent to which the portfolio holdings will deviate from the Index. The Index should be used by unitholders to compare the performance of the Fund.

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### iShares Core UK Gilts UCITS ETF GBP (Dist)

Counterparty Risk, Credit Risk (Non SRRI), Liquidity Risk

### iShares UK Dividend UCITS ETF GBP (Dist)

Concentration Risk, Counterparty Risk, Equity securities

### BlackRock Corporate Bond Fund

Counterparty Risk, Credit Risk, Derivative Risk, Liquidity Risk

### BlackRock UK Income Fund

Concentration Risk, Counterparty Risk, Equity securities

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