

Investing in the UK

November 2025

Quick read

The UK Autumn budget was one of the most closely-watched events in UK markets this year. We unpack the implications and how this affects our views on UK stocks and bonds.

The 2025 Autumn Budget offered a mixed outlook. The UK government confirmed £22B of budget headroom. Freezing income-tax thresholds – now extended to 2030/31 – will boost revenue by pulling more people into higher tax brackets as wages rise. Even so, the Office for Budget Responsibility (OBR) says the UK's finances remain vulnerable, so it's a good moment for investors to assess views on UK stocks and bonds.

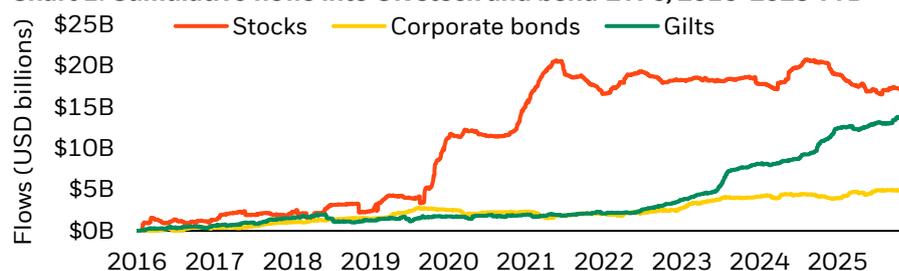
Setting the scene

The Autumn Budget came against a backdrop of mixed economic data in the UK. Wage growth has slowed and unemployment has edged higher, which should ease inflation pressures, while gross domestic product (GDP) growth data – a measure of how the economy is performing – was softer than expected for the third quarter (Q3). However, there are bright spots, in our view. Household consumption spending rose 0.2% from Q2 to Q3,¹ and the household savings ratio remained elevated at 10.7% in the latest available Q2 data.² Bank earnings also show ongoing growth in retail deposits,³ indicating that UK consumers have savings that could be spent or invested.

This mixed economic data has fed into a less certain outlook for interest rates. Even with economic and wage growth slowing, inflationary pressures remain uncomfortably strong, leading to a tight 5-4 vote in favour of holding interest rates at 4% at the Bank of England's (BoE) November meeting. We expect a 0.25% rate cut at the December meeting, and financial markets are currently pricing in just under 2.5 more 0.25% rate cuts by the end of 2026 (including a cut at the December meeting),⁴ which would bring interest rates closer to 3.5%. This looks reasonable, in our view, given the balance of inflation and labour market risks – but with high levels of uncertainty around both of these factors, there's a significant chance that interest rates could be cut by more or less than investors currently expect.

Political and economic uncertainty has resulted in limited appetite for UK assets. Our analysis shows that the average allocation to UK stocks in portfolios in Europe, the Middle East and Africa (EMEA) fell from 0.7% in Q2 to 0.6% in Q3, while the average UK bond allocation stands at 0.4%, skewed heavily towards UK corporate bonds.⁵ Global investments into exchange-traded products (ETPs) also point to – at best – apathy towards the UK stock market. Since 2016, \$17B has been added to ETPs tracking UK stocks, with net selling so far this year (-\$1.8B).⁶ This pales in comparison to the \$81.4B added to European stock market ETPs globally in 2025 alone.⁷ Investors have favoured UK corporate bonds over government bonds (gilts) this year, adding \$1.1B to the former and \$0.8B to the latter – a marked shift from 2024, when \$4.3B was added to gilt ETPs and investors sold UK corporate ETPs.⁸

Chart 1: Cumulative flows into UK stock and bond ETPs, 2016-2025 YTD



Source: BlackRock and Markit, as of 17 November 2025.

UK stocks

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

UK bonds

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

References to specific investments are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such investments.

1,4 Source: Bloomberg, as of 20 November 2025. 2 Source: Office for National Statistics (ONS), September 2025. 3 Source: Barclays, November 2025. 5 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. 6,7,8 Source: BlackRock and Markit, as of 17 November 2025.

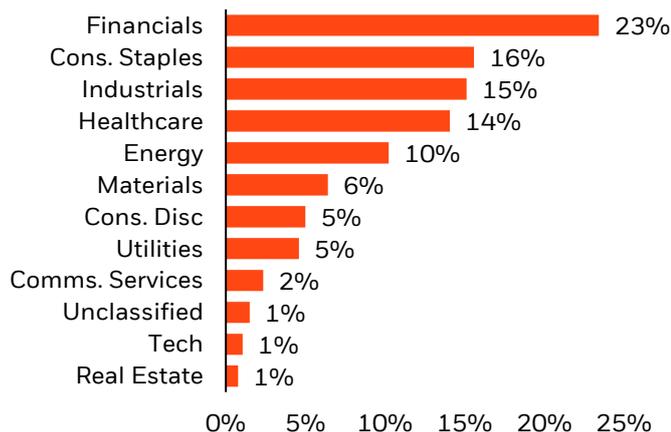
Our view on UK stocks

While our conviction on global stocks is weakening, we see room for UK companies to continue playing an important role in portfolios, for two key reasons. Firstly, the UK economy and stock market are heavily tilted towards services, rather than manufacturing (which represents just 9% of total UK GDP).⁹ The UK government was also one of the first to strike a trade deal with the US after the April tariff announcement. Data also shows that out of all developed markets, the UK stock market has the lowest correlation to shifts in world trade.¹⁰ These factors make UK stocks a potential insular trade against a backdrop of ongoing global trade tensions. Secondly, while we maintain conviction in the artificial intelligence (AI) theme over the long term and see this as a tailwind for US tech stocks, the UK stock market has limited exposure to companies involved in AI and could therefore provide some diversification to this dominant theme.

Large, mid or small caps?

We continue to prefer 'large cap' UK stocks (which tend to be well-established multinationals, such as those in the FTSE 100 Index) over their mid and small cap peers (such as those in the FTSE 250 and FTSE SmallCap indices). This is partly because large caps earn a significant proportion of their revenue from abroad, making their earnings more diversified and less exposed to potential headwinds for the UK economy. We also like the mix of sectors in the FTSE 100, with more than two-thirds of the Index comprised of financials, consumer staples, industrials and healthcare companies.¹¹ We see tailwinds for UK financials companies, particularly banks. While the rate of spending by UK consumers has slowed, they appear to still be relatively healthy, with savings levels having grown according to bank earnings. Industrials firms may benefit from the pickup in European defence and infrastructure spending, and we like the healthcare sector as an area of relatively strong balance sheets and profitability, which currently trades at reasonable valuations and is seeing improving earnings.

Chart 2: FTSE 100 Index sector composition



Source: BlackRock and Bloomberg, as of 20 November 2025.

Focusing on the fundamentals

UK stocks currently trade at 14.1x their expected earnings over the next year (known as the forward price-to-earnings ratio, or 'forward P/E'), compared to 16.3x for European companies and 26.9x for US stocks.¹²

In addition to relatively attractive valuations, we see room for UK companies' earnings to improve further: companies and analysts have been revising earnings expectations higher, which should provide a tailwind for UK stocks.

Opportunity for income

UK stocks also tend to offer attractive income levels, with the FTSE 100 currently providing a dividend yield of almost 3.4% – above the 3.1% offered by both European stocks (based on the Euro Stoxx Index) and European 'investment grade' corporate bonds (those with relatively high credit ratings).¹³

Chart 3: 12-month estimated dividend yield for major stock market indices



Source: BlackRock and Bloomberg, as of 20 November 2025.

As well as these tailwinds, our **UK Fundamental Equity team** highlights that:

- 1. Merger and acquisition activity shows significant interest in UK companies.** The team notes that there have already been 31 bids for UK companies in 2025, with an average premium of 39% to the share price.¹⁴ This level of activity underlines the value that others are seeing in the market.
- 2. UK corporate earnings have outpaced those of European peers** over the past decade, a trend that has not been reflected in the performance of these markets – meaning there could be room for sentiment towards UK companies to recover.
- 3. The UK is home to some of the world's leading companies.** From established retailers to innovative players in fast-growing areas such as big data and AI, opportunities span both traditional and cutting-edge sectors. The team's focus is on identifying and investing in those businesses with durable advantages and long-term growth potential.

Our view on UK gilts

UK government bonds (gilts) have been under pressure for much of this year, as investors have become less comfortable about the scale of the government deficit.

That's largely because of potential concerns about the sustainability of the debt burden feeding through to higher interest rates, or 'yields', on newly-issued government debt, as well as concerns about an increasing supply of bonds – both of which can have a detrimental effect on the prices of existing bonds. While the UK's position is comparable to other G7 economies, with debt as a proportion of annual gross domestic product (GDP) hovering just above 95%,¹⁵ the combined effects of previous Budgets, changing headlines in the run-up to the latest Budget, high interest rates and still-sticky inflation have led to some political and economic uncertainty.

⁹ Source: Bloomberg, November 2025. ¹⁰ Source: Datastream, WorldScope, Goldman Sachs Global Investment Research, July 2024. Based on the period 1997–2024. ^{11,12,13} Source: BlackRock and Bloomberg, as of 20 November 2025. P/E ratios based on FTSE 100, Euro Stoxx and S&P 500 indices. ¹⁴ Source: BlackRock Fundamental Equities, November 2025. ¹⁵ Source: Office for Budget Responsibility (OBR), October 2025.

Leaning into longer-term gilts

Post-Budget, we look to take more duration risk in gilts. The greater the length of time until a bond matures, the longer its duration, and the higher the uncertainty around interest rates, economic growth and various other factors that could impact the value of the bond. Investors therefore tend to view long duration bonds as higher risk than short duration bonds, and they usually demand a higher interest rate, or 'yield', for taking on this additional risk.

The near-term outlook for the UK remains clouded by mixed economic growth and inflation signals. Yet the broader trajectory of slowing wage growth, softening economic activity and gradual disinflation could lead to a fall in longer-term interest rates, which would lead to bond prices rising (due to the inverse relationship between a bond's yield and its price) – with the potential for greater moves in prices of longer duration bonds, whose prices tend to be more sensitive to changes in interest rates. We also believe that greater clarity about government spending could lead to investors recalibrating their views on gilts, potentially seeing them as less risky after the Budget, once some of the political uncertainty has subsided. This could also contribute to falls in yields (and rises in prices) for gilts, as the additional amount of yield that investors have demanded in the run up to the Budget due to this risk could ebb away.

Our view on sterling corporate bonds

We continue to see potential opportunities for investors to generate income from bonds issued by companies with a quality tilt – that is, those with strong balance sheets, which appear relatively well-placed to repay this debt – otherwise known as 'investment grade' bonds.

Sterling investment grade bonds offer a compelling mix of resilience, quality and income in a market characterised by low volatility and steady investor demand. While the supply of new bonds has been quite high this year, this additional supply has been met with strong demand from investors and therefore hasn't had a significant negative impact on bond prices.

Favourable geographic and sector exposure

Although these bonds are issued in sterling, nearly 50% of the companies issuing them are based outside the UK,¹⁶ making the sterling investment grade bond market relatively well diversified across regions.

Sector dispersion also remains a key driver for the market, with bonds issued by companies in the utilities, infrastructure and high-quality industrials sectors demonstrating stable cashflows and predictable earnings.¹⁷ Against this backdrop, sterling corporate bonds remain well positioned to deliver attractive risk-adjusted income, in our view.

16 Source: Barclays, as 12 November 2025. **17** Source: BlackRock Fundamental Fixed Income team, 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.

BlackRock Corporate Bond 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 ICE BofAML Sterling Corporate and Collateralized 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 Index should be used by unitholders to compare the performance of the Fund

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iShares Core £ Corp Bond UCITS ETF GBP (Dist)

Concentration Risk, Counterparty Risk, Credit Risk (Non SRR), Liquidity Risk

iShares Core FTSE 100 UCITS ETF GBP (Acc)

Concentration Risk, Counterparty Risk, Equity securities

iShares Core UK Gilts UCITS ETF GBP (Dist)

Counterparty Risk, Credit Risk (Non SRR), 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

Description of Product Risks

Concentration Risk

Investment risk is concentrated in specific sectors, countries, currencies or companies. This means the Fund is more sensitive to any localised economic, market, political or regulatory events.

Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund/Share Class to financial loss.

Credit Risk

Credit risk, changes to interest rates and/or issuer defaults will have a significant impact on the performance of fixed income securities. Potential or actual credit rating downgrades may increase the level of risk.

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The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due. If a financial institution is unable to meet its financial obligations, its financial assets may be subject to a write down in value or converted (i.e. "bail-in") by relevant authorities to rescue the institution.

Equity securities

The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

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Derivatives may be highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in greater fluctuations in the value of the Fund. The impact to the Fund can be greater where derivatives are used in an extensive or complex way.

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