

*There may be*  
TROUBLE

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*ahead for*  
*the UK*

# *There MAY be TROUBLE ahead for the UK*

Just over ninety years ago, Irving Berlin wrote “Let’s Face the Music and Dance”, a song made famous over the decades by performers such as Frank Sinatra and Nat King Cole. Its opening line, “there may be trouble ahead”, feels particularly apt today in capturing the challenges now confronting the UK economy. That unease is underscored by the Ipsos Economic Optimism Index, which shows public expectations for the UK economy at its lowest level on record from data that goes back to 1978.

Six interconnected issues point to a fragile near-term outlook for the UK economy and could weigh on its financial markets:

**1) Inflation is set to rise again:** After renewed instability in the Middle East and growing concerns over higher energy prices, inflation expectations among UK households have risen sharply. The Citi and YouGov survey show consumer inflation expectations over the next twelve months jumped to 5.0% in April from 3.3% in February.<sup>1</sup> When consumers expect prices to rise, increases in reported inflation often follow.

It's not just about energy prices, regulated and administrative price increases are set to push inflation higher this year. Water and sewage bills are set to rise by 26% in the current fiscal year, while broadband and mobile phone charges have risen by around 10%.<sup>2</sup> Deutsche Bank estimates that administrative changes alone could add roughly 0.7% points to the headline inflation rate, which stood at 3.3% in March.<sup>3</sup>

For investors, the key risk is not simply higher prices, but inflation that comes in above expectations. If price pressures prove persistent, interest rates may need to remain higher for longer, weighing on both bond markets and domestically focused equities.

## **2) Falling confidence in UK house prices drags down**

**consumption growth:** Household spending is under pressure from falling housing confidence and weak real incomes. Residential prices matter because it influences confidence and access to borrowing.

The Royal Institution of Chartered Surveyors housing survey, a leading indicator of consumer behaviour, has weakened noticeably and is trending down. Historically, falling housing sentiment has been followed by weaker household consumption.

At the same time, real take-home pay growth fell slightly in the last quarter of 2025, the latest available data. Wages are still struggling to keep pace with the cost of living. When falling incomes combine with softer house prices, consumption tends to slow sharply, raising the risk that household spending contracts sometime in 2026.

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**3) High and rising tax burden:** The tax share of the economy is already at its highest level since the Second World War. The Office of Budget Responsibility forecasts it to rise even high to 38.5% by the start of the next decade.<sup>4</sup>

Higher taxes can help stabilise government finances in the short run, but they often come at the cost of lower economic growth. As taxes increase, households save more, and businesses become more cautious about investing in anticipation of weaker demand.

There is also a behavioural aspect. When governments borrow heavily today, households may anticipate higher taxes tomorrow. As a result, they hold back on spending, limiting the stimulative effect of fiscal policy. The outcome is slower growth and growing pressure on the government's fiscal rules.

**4) Greater vulnerability to an energy price shock:** The UK has become increasingly sensitive to movements in global energy prices. Over many decades domestic production of oil and natural gas has steadily declined, leaving the country more dependent on imports. While renewable energy plays a growing role in electricity supply, it has not been sufficient to insulate the economy from price volatility or reduced exposure to global energy supply shocks.

Industrial electricity costs in the UK remain high compared with many international peers. This weakens competitiveness and acts as a deterrent to inward investment, particularly for energy-intensive sectors such as manufacturing, technology, and data infrastructure. A high-profile example is OpenAI's reported decision to pull out of plans for a £31 billion investment in UK data centres, citing concerns around energy costs, a decision that has come to symbolise the UK's broader competitiveness challenges.<sup>5</sup>

**5) Weak productivity remains a structural problem:** Productivity growth is one of the most important long-term drivers of economic prosperity, wage growth, and sustainable public finances. For the UK, it remains chronically weak.

Over the past two and a half centuries, UK productivity growth has varied dramatically, reaching nearly 4% per year in the decades after the Second World War.<sup>6</sup> Since 2011, however, it has averaged just 0.4% per year, among the weakest since the early 19th century.<sup>7</sup>

The public sector has been a particular drag, but even excluding it, UK productivity has lagged the US markedly. Contributing factors include years of under-investment, austerity, financial

sector deleveraging and a growing share of the workforce on long-term sickness leave.

There is no easy solution. Without stronger productivity growth, economic expansion tends to rely on rising debt and undermines investor confidence.

**6) Political uncertainty is increasing:** Political risk is another growing concern for investors. Support for Reform UK and the Greens has surged, while both Labour and the Conservatives have continued to lose ground in opinion polls. Current projections suggest that no single party is likely to secure a decisive majority, raising the prospect of coalition negotiations and weaker policy clarity.

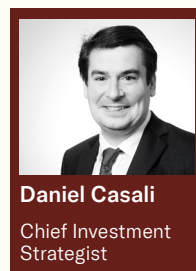
Labour's poor polling performance raises an additional risk. A weak showing in upcoming 7 May local elections raises the likelihood of a leadership challenge to Prime Minister Keir Starmer. A key risk is a lurch to the left, which could lead to higher welfare spending and public sector wage rises, adding to inflationary pressure and straining the public finances.

### *Investment implications*

The central message for investors is that the UK outlook may deteriorate further before it improves. This does not require avoiding UK assets altogether, but it does argue for greater selectivity and disciplined diversification.

Maintaining diversified portfolios remains essential, both across geographies and sectors. UK listed companies with substantial international revenues are generally better placed to navigate domestic weakness.

In short, there may be trouble ahead, so investors could be better served by managing risk through a greater emphasis on globally exposed UK stocks, which offer a more resilient way to navigate an uncertain UK economic path.



# *Speak to us*

## *Sources*

<sup>1</sup> LSEG, Evelyn Partners

<sup>2,3</sup> Deutsche Bank, Here We Go Again – Spring Price Resets, 2 April 2026

<sup>4,6,7</sup> OBR, Economic and fiscal outlook, March 2026

<sup>5</sup> The Guardian, Open AI shelves Stargate UK in blow to Britain's AI ambitions, 9 April 2026

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