



The Horizons Briefing:

Macro-economic insights for strategic decision-makers

Executive Summary

Short-term squeeze or seismic shift: how does the largest oil supply shock in history unwind?

For business leaders, this week's expected breakthrough sharpens rather than settles the question: how much of this do we plan around, and how much do we treat as already behind us?

With a US-Iran framework agreement signed and the Strait of Hormuz due to be reopened in principle by the 19th June, the largest energy supply shock in modern history has entered a new phase. After months in which LNG and crude flows through Hormuz effectively collapsed and global LNG balances tightened sharply, a path to physical normalisation is finally visible. But a path is not an arrival. The signing authorises reopening; it does not by itself restore volumes. Oil settled at its lowest level since early March on news of the deal, and equity markets have responded in kind. Yet the speed of the relief rally raises its own uncomfortable question: are markets now pricing out the risk too quickly, just as they earlier priced in the disruption too slowly?

Four broad themes emerge from this turning point.

01

A reckoning deferred? Price adjustments lag behind the reality of supply loss

Throughout the crisis, commodity pricing has not fully reflected physical fundamentals, and the deal risks widening that gap rather than closing it. Pricing has moved quickly to reflect expectations that the disruption is now resolved and ultimately behind us, relying on a swift reopening of the strait, the lifting of the naval blockade, and a smooth restart of Gulf flows to unwind the shock. Expectations of de-escalation and weaker global demand have reinforced the move lower in futures pricing.

However, a signature does not move barrels. The agreement reopens the strait in principle, but the physical restoration of flows may take considerably longer. Reopening in practice depends on mine clearance, the rebuilding of war-risk insurance capacity, tanker re-routing back through the Gulf, and the restart of fields shut in for months. Oil wells are not switches, and reservoir and wellbore conditions deteriorate during prolonged shut-ins.

Global inventories are expected to continue falling toward operational stress levels through 2026, increasing the likelihood that physical fundamentals begin to play a

02

much larger role in price formation the longer restoration is delayed. Even once the waterway is formally open, restocking demand could keep physical markets tighter than the futures curve now implies.

The central risk is therefore not simply the disruption itself, but the growing disconnect between current commodity pricing and the scale of underlying supply loss. Where the danger was once that pricing lagged a worsening shock, it is now that pricing has run ahead of a recovery that has been announced but not yet delivered, and the longer flows take to restore, the more likely fundamentals are to dominate price formation.

The structure of the deal sharpens this gap. In effect, the US has set the nuclear question aside, pushing it into a 60-day negotiating window, in order to secure the reopening of the strait. That choice front-loads the energy relief but leaves the conflict's hardest issue unresolved and explicitly time-limited.

So far, so calm: Markets continue to price for a contained outcome

So far, the macroeconomic impact has remained more moderate than might typically be expected from a shock of this scale. Growth forecasts have been revised lower, inflation expectations and bond yields have moved higher, and consumer spending expectations have softened, but PMIs and broader activity indicators continue to point toward slower growth rather than outright recession.

However, the underlying macro backdrop is weakening. Labour markets across major economies were already cooling prior to the crisis, governments are entering the shock with significantly reduced fiscal flexibility, and households remain exposed after several years of elevated inflation and higher rates. Europe and the UK appear particularly vulnerable given higher energy import dependence, elevated utility cost exposure and weaker sovereign financing positions.

Baringa modelling suggests downside risks rise materially under a more fundamentals-driven commodity pricing environment, with sharper deterioration in inflation, unemployment and consumer spending outcomes if energy prices move higher for longer.

03

Winners and losers: sector earnings diverge sharply

The sector outlook is becoming increasingly polarised across major economies. Energy has seen the largest upward revisions to earnings expectations through the crisis, benefiting directly from tighter oil and gas markets, though these revisions now face reversal as crude eases. Defensive sectors such as Utilities and Telecommunications have also remained comparatively resilient. By contrast, more consumer and demand-sensitive sectors have weakened as higher input costs and pressure on household incomes feed through into margins and demand.

Consumer Discretionary remains the clearest area of deterioration across the UK and Europe, while Industrials and Consumer Staples are also showing signs of weaker earnings momentum, though these are the sectors most likely to recover momentum as energy prices retreat.

Technology continues to materially outperform in the US, supported by structural investment trends and stronger domestic demand resilience.

04

Future scenarios: what if the deal doesn't hold?

The central macroeconomic risk is no longer simply the disruption itself, but the durability of the agreement and the pace of physical recovery. Current market pricing assumes not only a clean reopening but a prompt return of volumes and a smooth path through the nuclear negotiations.

If field restarts disappoint, if mine clearance and insurance capacity rebuild slowly, or if the 60-day talks stall and the ceasefire frays, a renewed tightening in oil and gas markets could trigger a materially sharper stagflationary downturn than is currently reflected in financial markets, arriving into markets that have already moved on.

Whatever comes next, our experts are here to help you think it through. We bring the insights and strategic guidance you need to stay ahead.

“The agreement reopens the strait in principle, but the physical restoration of flows may take considerably longer. Reopening in practice depends on mine clearance, the rebuilding of war-risk insurance capacity, tanker re-routing back through the Gulf, and the restart of fields shut in for months.”

- 01** Mutual mistrust locks US & Iran into a prisoner's dilemma
- 02** As a result the Strait of Hormuz remains effectively closed
- 03** A historic shock: muted response
- 04** The market verdict: disruption is severe, but manageable
- 05** Why prices haven't risen – and why that might change
- 06** Running on empty: inventories continue to fall
- 07** Inflation expectations have risen, but markets still do not price a sustained energy shock
- 08** If markets reprice toward physical fundamentals, inflation and unemployment risks rise sharply
- 09** If markets reprice toward physical fundamentals, inflation and unemployment risks rise sharply
- 10** Cooling labour markets leave economies more exposed
- 11** Cuts on hold: financial markets price for a delayed easing cycle
- 12** Bond markets begin to reprice for stagflation
- 13** Thin ice: why the UK is more exposed than most
- 14** Fiscal inheritance leaves governments in a tight spot
- 15** Signs of economic weakness emerge in PMI
- 16** Growth forecasts are down - but markets still expect quick resolution
- 17** Uneven exposure: how the squeeze on households varies by market
- 18** Squeeze, not collapse: the consensus outlook for consumer spending
- 19** From squeeze to contraction: consumer spending scenarios under fundamentals-driven pricing
- 20** The UK faces a more asymmetric consumer downturn across household types
- 21** The 2026 sector story: performance diverges sharply across regions
- 22** Tech leads, energy climbs, cyclicals soften: the US sector picture in full
- 23** Eurozone sector outlook: sector divergence sharpens
- 24** UK sector outlook: consumer sectors take the strain

Mutual mistrust locks US & Iran into a prisoner's dilemma

The Hormuz crisis reflects a classic prisoners' dilemma. Both Washington and Tehran would benefit from a deal, but neither trusts the other to move first. **Why Iran won't go first** The US withdrew from the original 2015 Nuclear deal after Iran complied. From Tehran's perspective, making concessions before receiving sanctions relief risks repeating that mistake. **Why the US won't go first** Washington fears that upfront concessions would provide economic relief used to continue the conflict while leaving Iran's nuclear capabilities and regional influence intact. **Why both sides remain stuck** Each side sees cooperation as desirable, but fears being exploited. The result is continued escalation despite a better outcome being available to both. **What appears to have broken the deadlock** The US withdrawing its demand to address the nuclear question in the first agreement appears to have broken the deadlock. This will be seen as a significant concession by international and Gulf partners and will come at some reputational risk to the White House who had sought a better deal than the Obama era agreement.



COOPERATES

1. Sanctions relief before verification
2. Unconditional security guarantees



DEFECTS

1. Phased/conditional sanction relief
2. Renewed military action



COOPERATES

1. Opens Strait
2. Halts enrichment
3. Hands over uranium

BEST COLLECTIVE OUTCOME

- Hormuz open + nuclear rollback achieved
- Sanctions lifted, economy recovers

IRAN'S NIGHTMARE — JCPOA 2018 REPLAY

- Opens the Strait + nuclear concessions for free
- Loses leverage, receives nothing in return



DEFECTS

1. Keeps Strait closed
2. Continues enriching
3. Retains proxies

US'S NIGHTMARE — JCPOA ERA REPEATED

- Gave sanctions relief, Iran kept all capabilities
- Gets economic relief without giving up deterrent

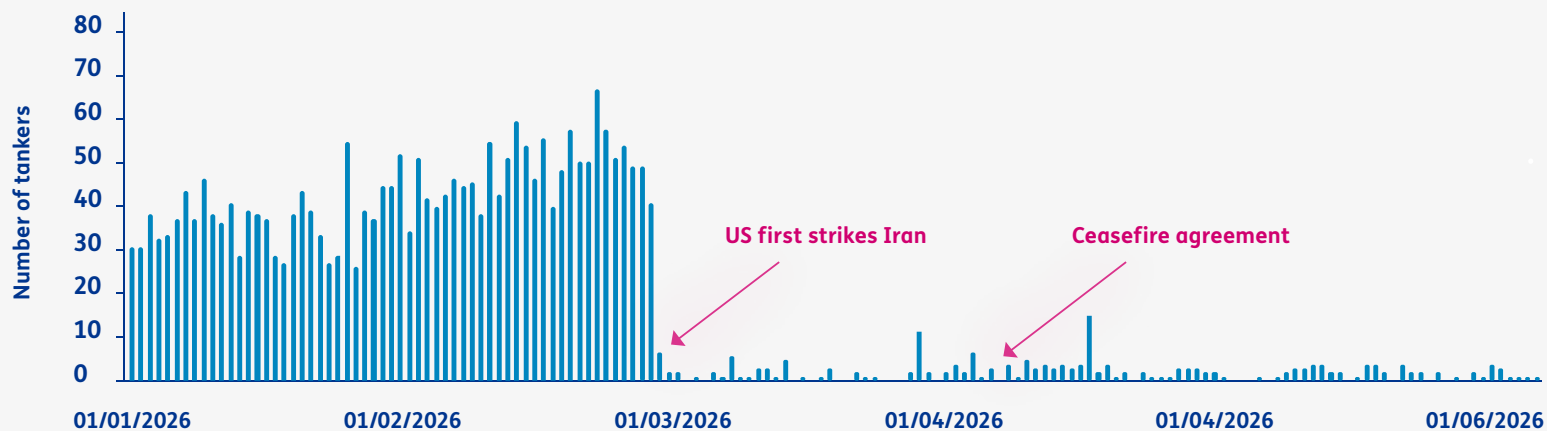
WE WERE HERE - RECENT EQUILIBRIUM

- Strait closed, Iran enriching at 60%, new sanctions weekly
- Economy collapsing, proxies weakened, no guarantees of sustained end to conflict

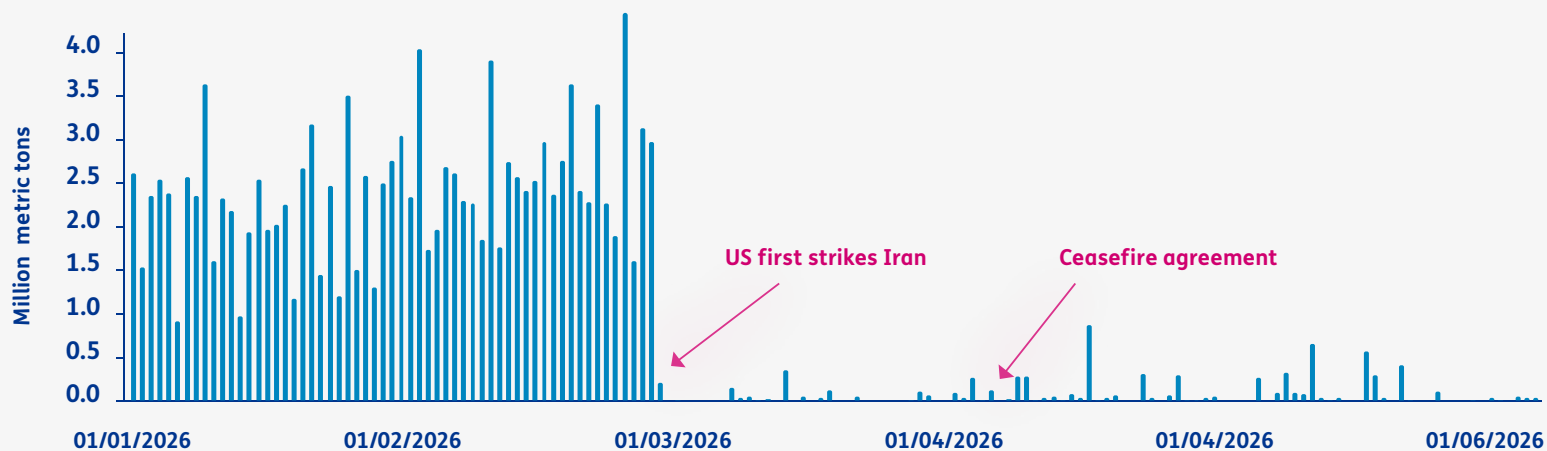
As a result the Strait of Hormuz remains effectively closed

Since the outbreak in the Middle East conflict, crude oil and LNG outbound shipments through the Strait of Hormuz to destinations outside the Persian Gulf have **effectively ground to a halt** with loaded cargoes remaining stranded inside the Gulf.

The 8th of April ceasefire has, so far, **had no practical impact**: transit volumes have not recovered to pre-conflict levels due to fears around security, toll demands, higher insurance costs, etc. The expected signing of a memorandum of understanding on the 19th June will not immediately change these fundamentals with stakeholders remaining concerned about the credibility and longevity of any deal.



Arrival of Tankers into the Strait of Hormuz



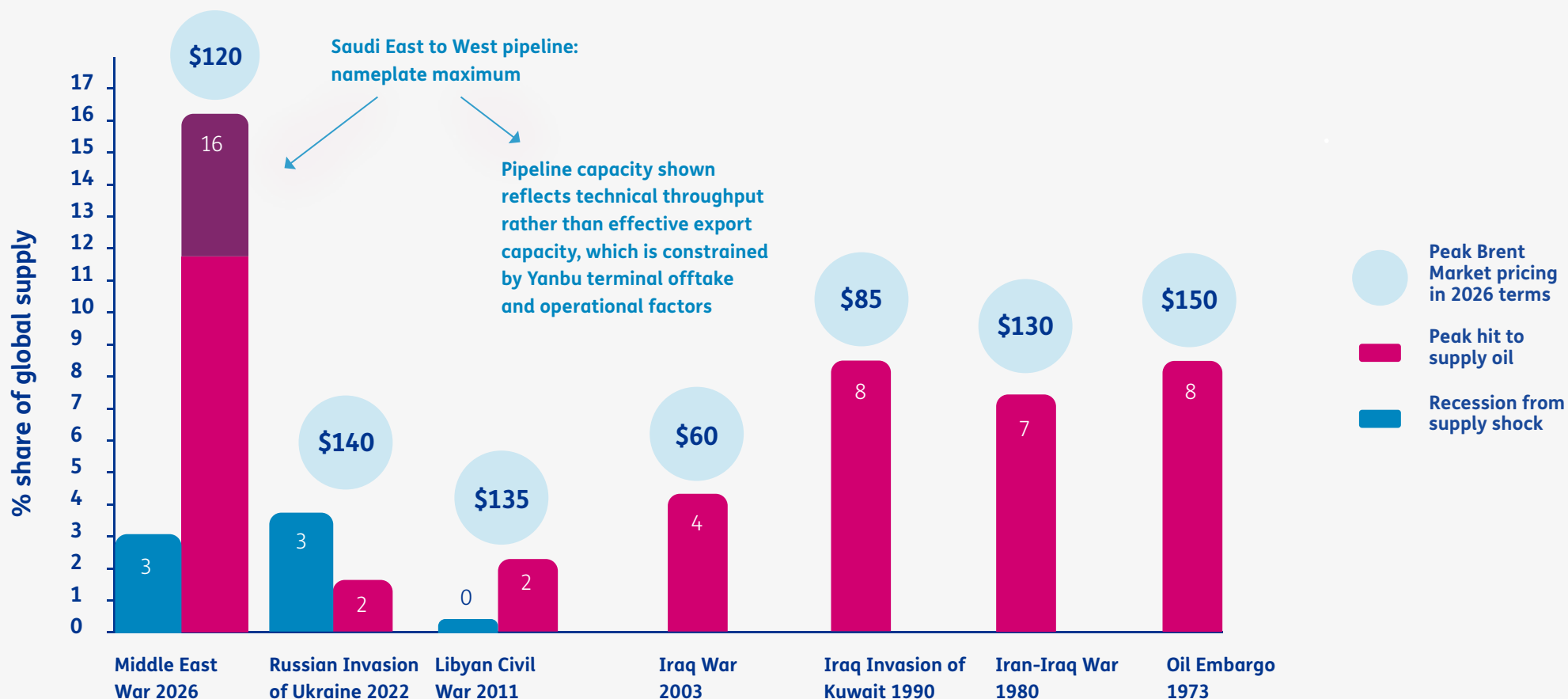
Transit Trade Volume of Tankers in the Strait of Hormuz

A historic shock: muted response

The disruption to oil and gas flows from the Persian Gulf now represents **the largest energy supply shock in modern history**, materially exceeding the scale of the 1973 Oil Embargo, the Iran–Iraq War and Iraq’s invasion of Kuwait in terms of affected global supply.

Yet despite the unprecedented scale of the physical disruption, peak oil prices only briefly reached around \$120/bbl, **remaining below the peaks seen during several previous energy crises**. This disconnect between the scale of supply loss and market pricing marks one of the defining features of the current shock.

Historical Energy Shocks: share of oil and gas production shock



“Markets continue to price a rapid resolution, not the reality of the supply shock. If volumes fail to return soon, a sharp repricing becomes increasingly likely.”

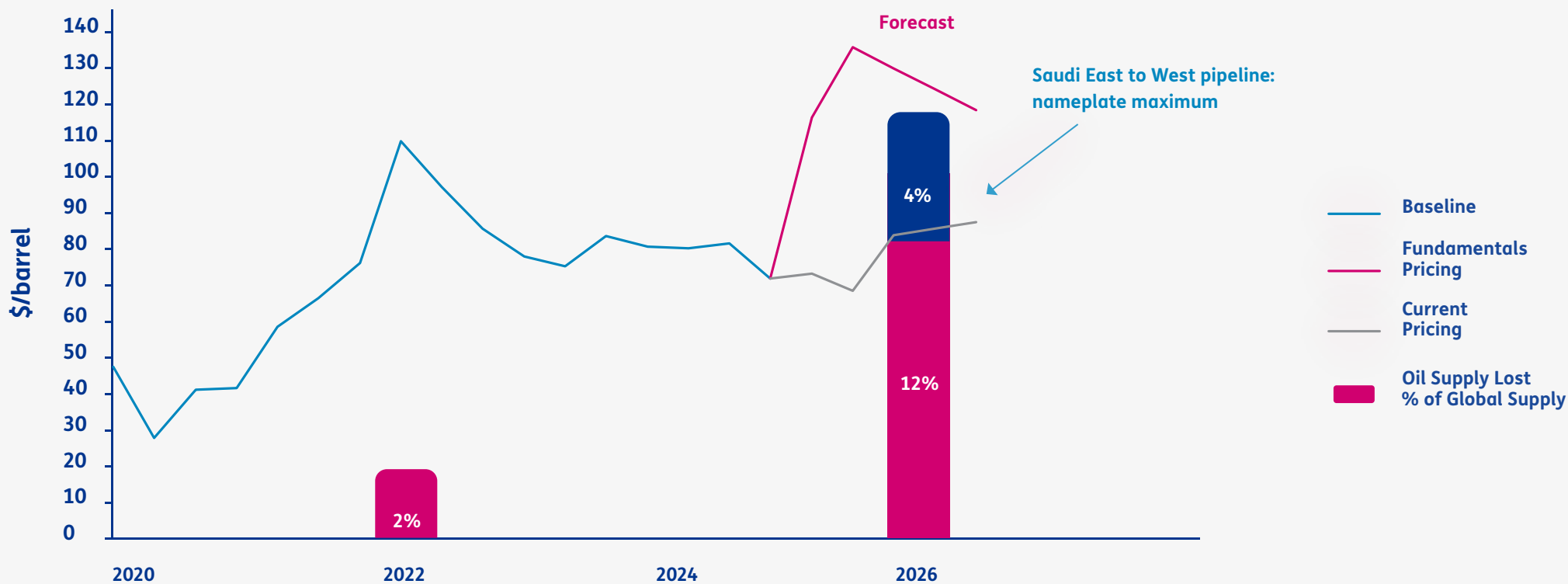


Caspian
Conran

The market verdict: disruption is severe, but manageable

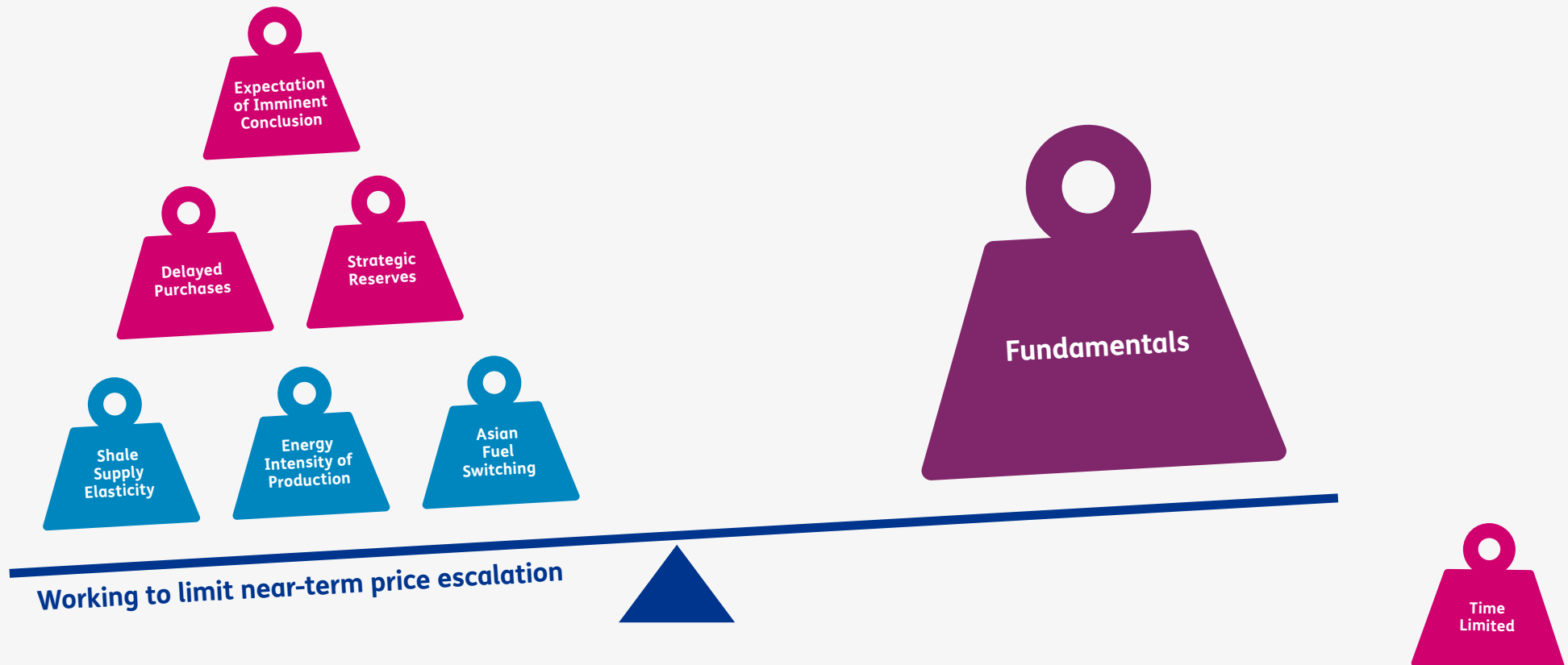
Despite a materially larger supply disruption than previous shocks, **commodity prices have remained relatively muted**. Current oil pricing continues to sit well below levels implied by the scale of lost supply and historical crisis comparisons. Markets appear to be pricing a disruption that remains severe but ultimately manageable, supported by expectations of demand adjustment, strategic stock releases, OPEC spare capacity and rerouting infrastructure such as Saudi Arabia's East-West pipeline. The result is a market that remains structurally tight and highly vulnerable to further escalation, but without the panic pricing typically associated with a double-digit loss of global oil supply.

Brent Crude prices (\$/barrel)



Why prices haven't risen – and why that might change

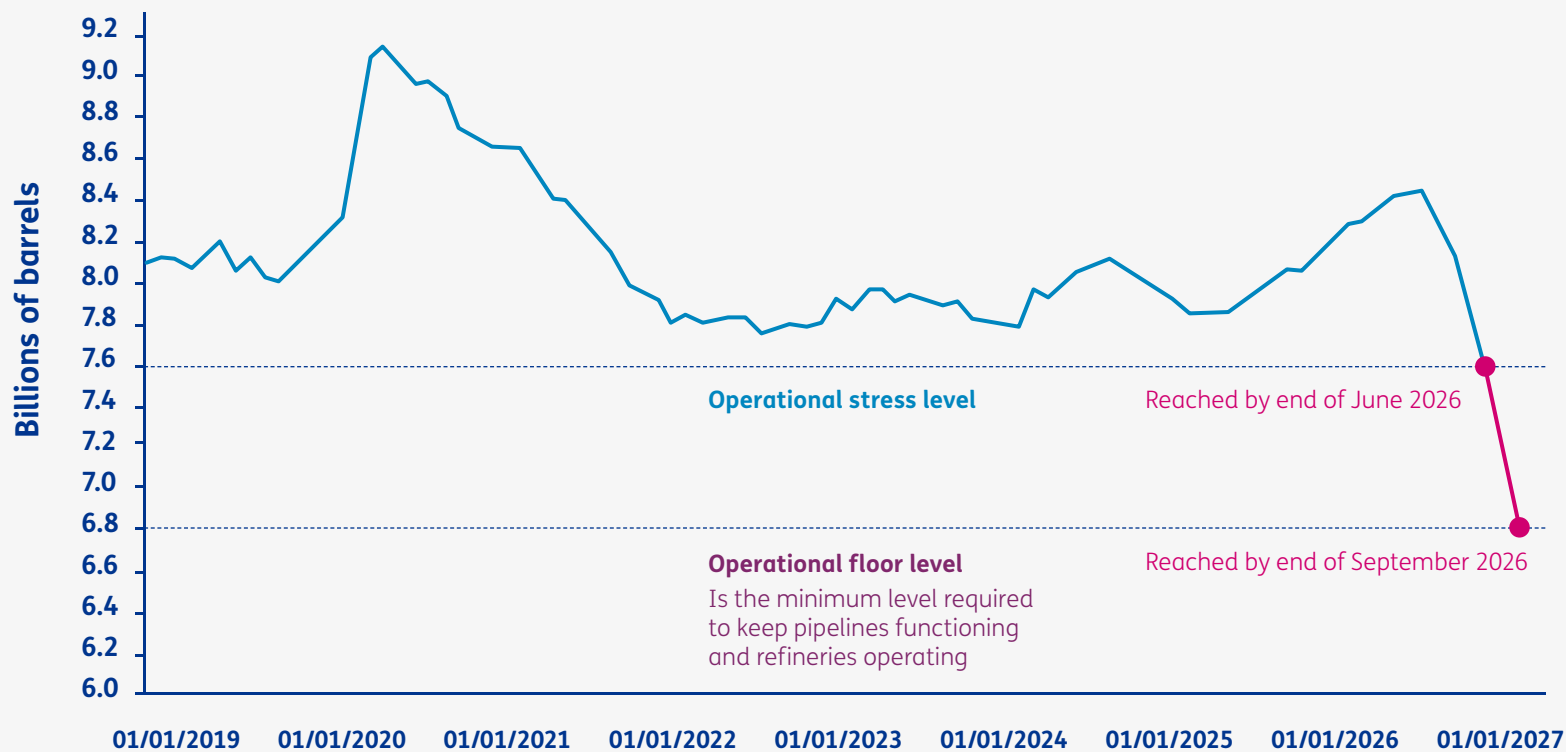
Despite the scale of the disruption, several short-term factors have worked to limit further price escalation across global energy markets. Strategic reserve releases, delayed procurement activity and expectations of an eventual de-escalation in the conflict have all reduced immediate buying pressure. At the same time, structural changes in the global energy system, including greater US shale responsiveness, lower energy intensity across advanced economies and fuel switching in Asia, **have helped dampen the short-term demand response to higher prices**. However, many of these mitigating forces are inherently temporary. Delayed purchases eventually need to return to market, strategic reserves are finite, and expectations of rapid resumption of significant flows become harder to sustain as disruption persists. As these buffers weaken, underlying market fundamentals and the scale of the physical supply disruption are likely to play a larger role in price formation.



Running on empty: inventories continue to fall

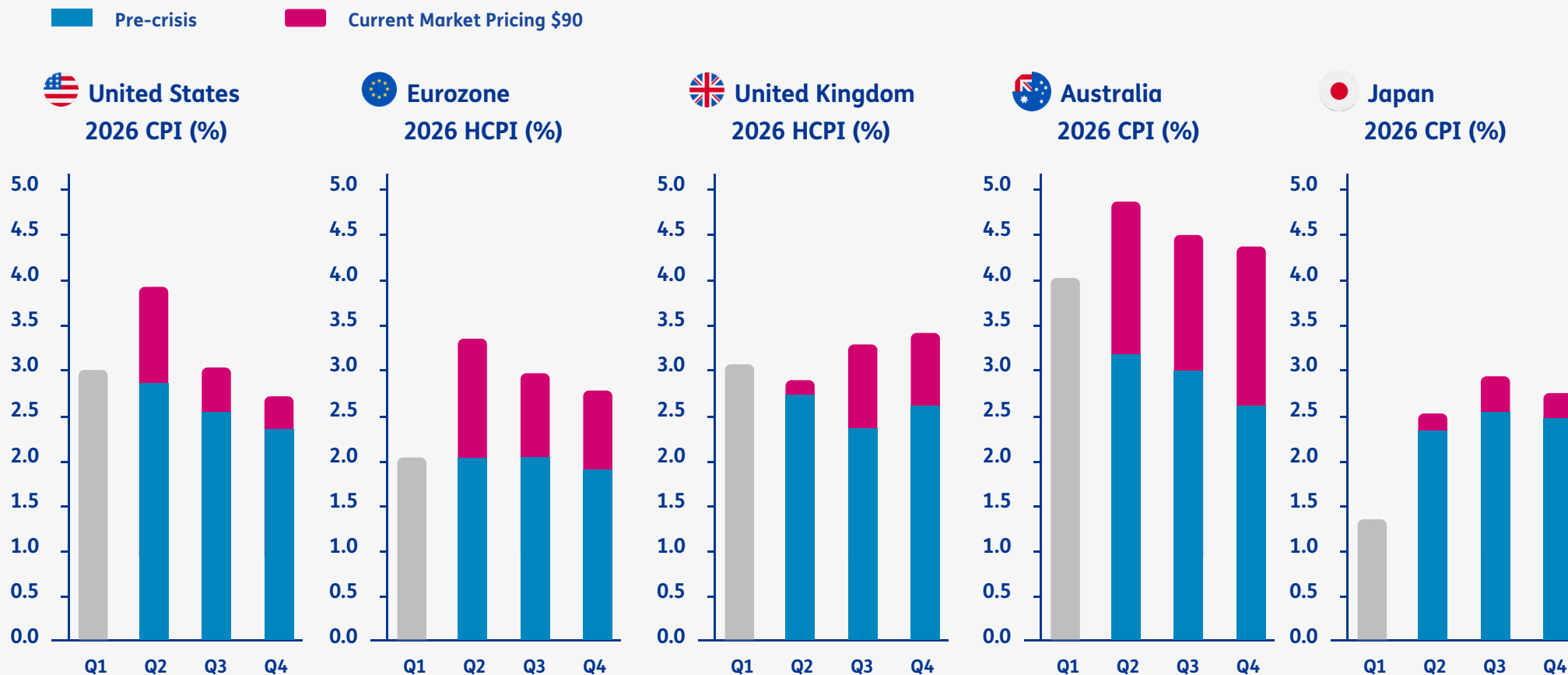
The ability of markets to absorb supply disruption is expected to weaken materially if global oil inventories continue to decline through 2026. Visible inventories are projected to fall toward levels historically associated with operational stress by mid-2026, before approaching operating floor levels later in the year if volumes don't return. At these levels, inventories increasingly lose their role as a market buffer and instead become constrained by the minimum volumes required to maintain normal refinery operations, pipeline flows and logistics systems. As spare inventories are exhausted, **oil markets become progressively more sensitive to additional disruption**, outages or demand surprises. This increases the likelihood that underlying physical fundamentals play a larger role in price formation over time, particularly if disruption to Gulf export flows persists.

Total visible oil inventories, in billions of barrels



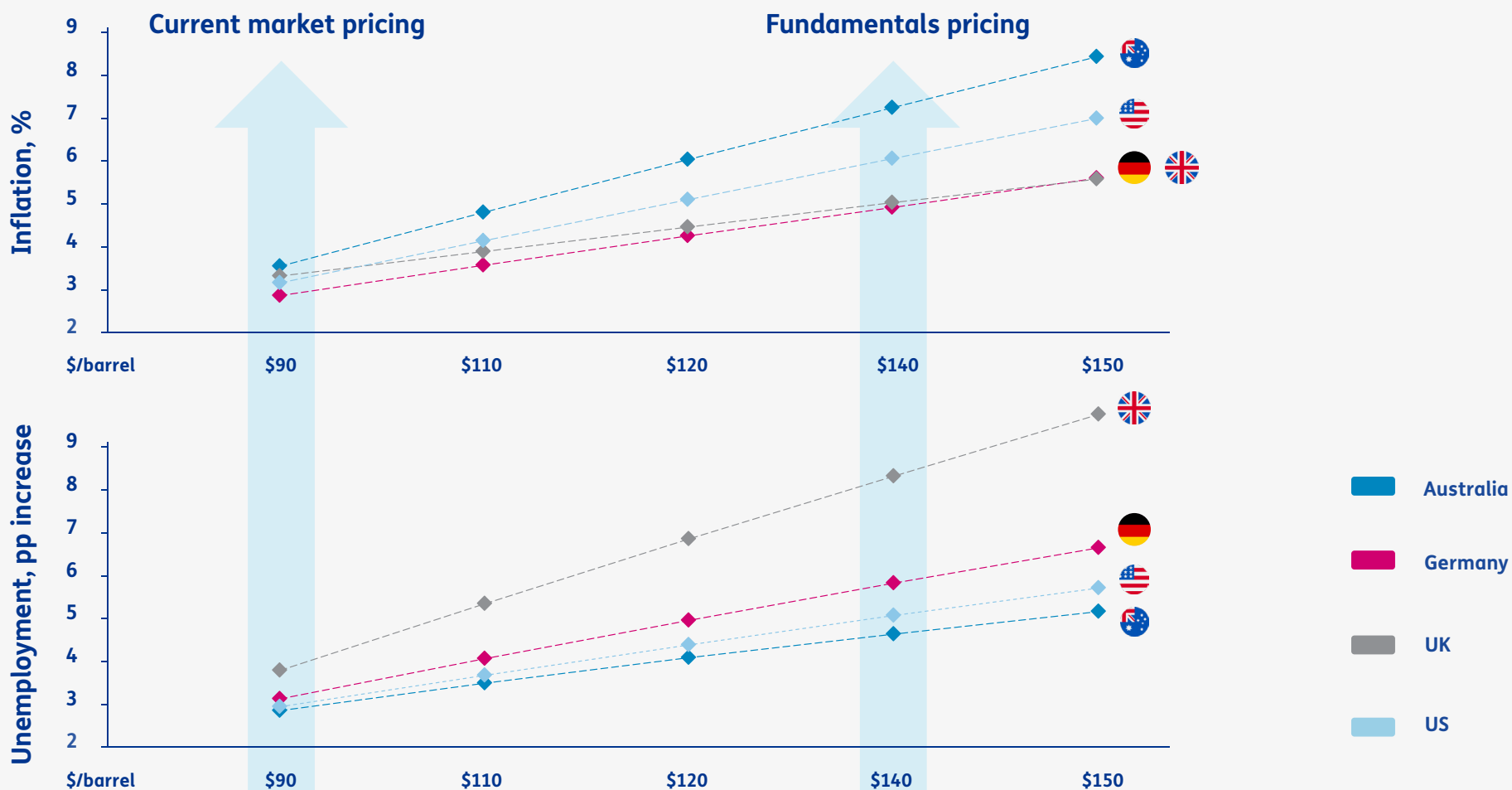
Inflation expectations have risen, but markets still do not price a sustained energy shock

Inflation expectations have moved higher across major economies following the disruption to Gulf energy supplies, reflecting the pass-through of higher oil and gas prices into fuel, transport and broader input costs. However, the overall repricing remains relatively moderate given the scale of the underlying supply shock. **Markets continue to imply a temporary inflation impulse** rather than the beginning of a prolonged inflationary cycle comparable to previous major energy crises. The inflation impact is also uneven across economies. More energy-import dependent markets, including parts of Europe and Asia, remain more exposed to sustained commodity price strength, while economies with larger domestic energy production or lower direct energy intensity appear comparatively insulated.



If markets reprice toward physical fundamentals, inflation and unemployment risks rise sharply

Current market pricing continues to imply a relatively contained macroeconomic shock, with oil prices remaining well below levels typically associated with disruptions of this scale. However, a move toward more fundamentals-driven pricing, particularly if inventories **continue to tighten and disruption persists**, would imply materially larger inflationary and economic impacts across major economies. Inflation expectations would likely move significantly higher, while tighter financial conditions and rising input costs would increasingly weigh on growth and labour markets. The impact would also remain uneven across economies. More import-dependent and energy-sensitive markets, particularly in Europe, appear substantially more exposed to both inflation and unemployment deterioration under a higher sustained oil price environment.



“Going forward, we will need to see a step up in ship movements through the Strait of Hormuz to fully recover the economic momentum lost in the first half of this year.”

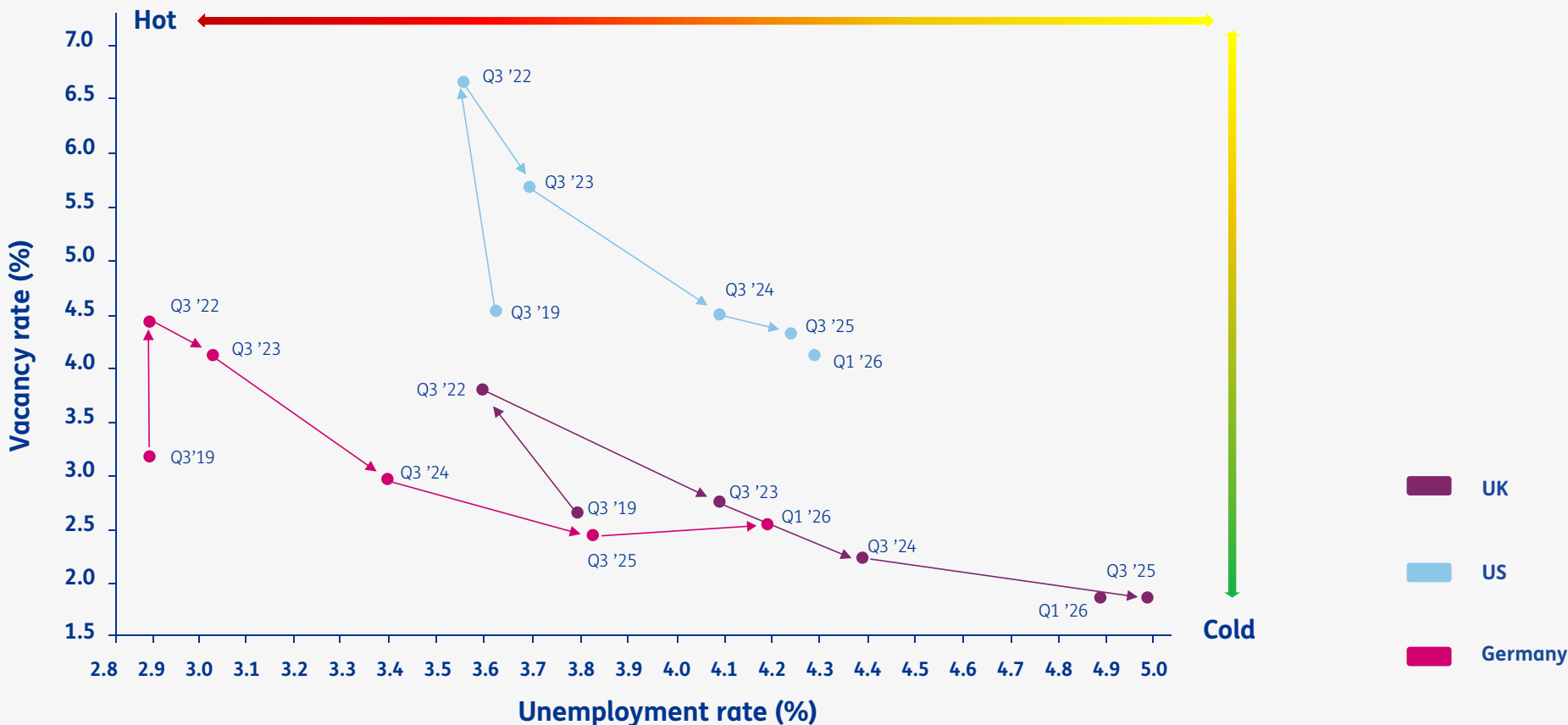


**Nick
Forrest**

Cooling labour markets leave economies more exposed

Labour markets across major economies have already cooled materially from the post-pandemic tightening cycle, with vacancy rates falling and unemployment rates gradually rising across both Europe and the US. The pace of weakening has been particularly notable in the US, where labour market conditions **have moved steadily away from the extreme tightness seen in 2022–23**. European labour markets have also softened, although conditions remain uneven across countries. This weakening backdrop increases the risk that a sustained energy shock feeds more quickly into slower hiring, rising unemployment and broader economic deterioration, particularly if higher energy prices further compress business margins and household spending power.

Beveridge curve – unemployment and job vacancy rates from Q3 2019 to Q1 2026

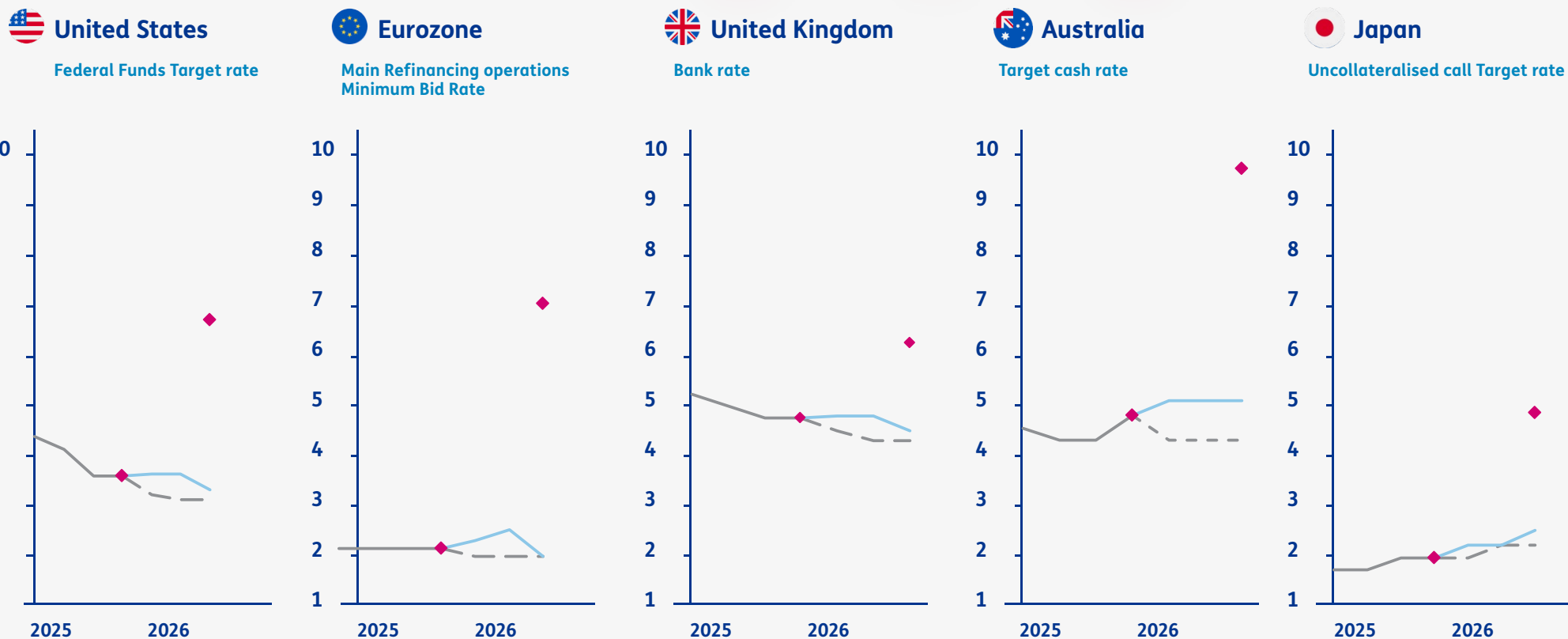


Cuts on hold: financial markets price for a delayed easing cycle

Despite the rise in energy prices and inflation expectations, financial markets continue to price a delayed easing cycle rather than a return to broad-based monetary tightening across major economies. Current pricing implies central banks remain expected to eventually resume rate cuts as growth slows and inflation pressures moderate over time. A more prolonged or fundamentals-driven repricing in oil markets **would increase the risk that central banks are forced to hike rates**. Estimates for the rates needed to keep inflation at target under fundamentals pricing show the need for a significant rate tightening cycle.

Policy rate forecast estimations pre and post crisis

— Historic
 - - - Pre crisis
 — Current market pricing \$90
 ◆ Fundamental pricing \$140

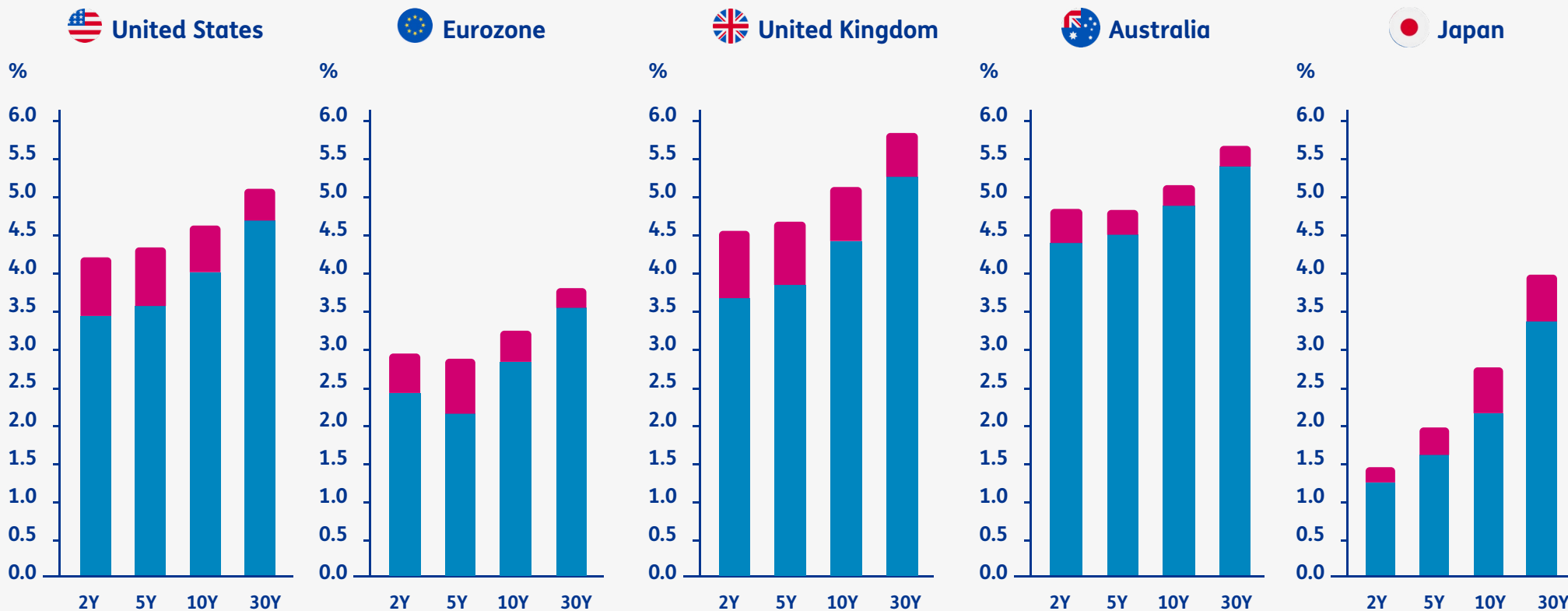


Bond markets begin to reprice for stagflation

Government bond yields have risen across major economies since the onset of the crisis, reflecting a worsening outlook for both inflation and growth. The increase in yields **has been most pronounced at the longer end of the curve**, suggesting markets are increasingly reassessing medium-term inflation persistence, fiscal pressures and the likelihood of higher-for-longer interest rates. While moves remain relatively moderate compared with previous periods of severe macro stress, the direction of travel increasingly points toward a more stagflationary macro backdrop as energy costs rise and growth expectations weaken simultaneously.

Government bond yields, 8th May compared to pre-crisis (27th Feb)

■ Pre-crisis ■ 10th June



“Most businesses have been waiting this out. The ones that are planning for continued disruption are already in a stronger position.”

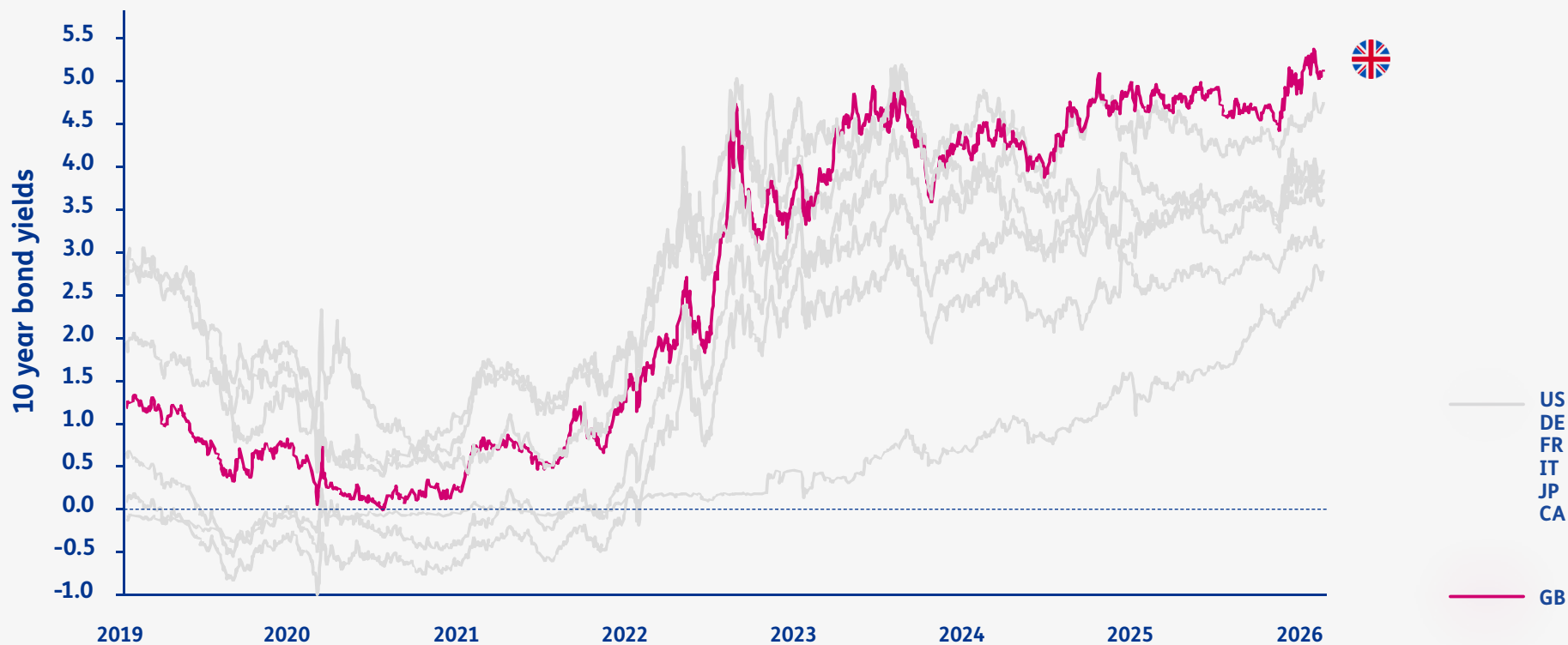


Ellen
Fraser

Thin ice: why the UK is more exposed than most

The UK enters the current energy shock with one of the weakest sovereign financing positions in the developed world, with 10-year gilt yields remaining above those of other major G7 economies. Persistently elevated borrowing costs reflect a combination of weaker growth expectations, inflation persistence, fiscal concerns and a continued political risk premium following recent years of market instability. **This leaves the UK comparatively more exposed to any further deterioration in inflation or energy market conditions**, with higher yields increasing refinancing costs for both the government and broader economy at a time when fiscal flexibility remains limited.

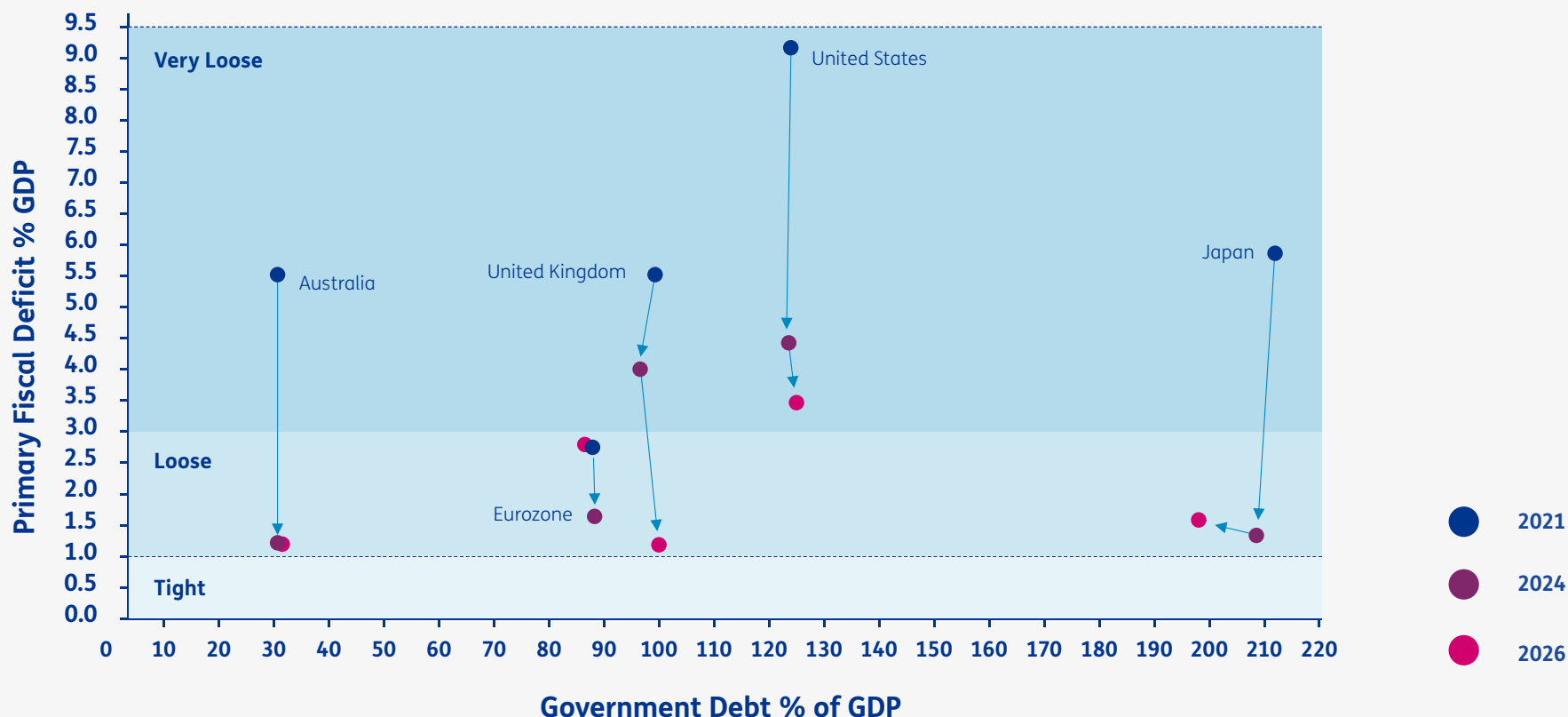
UK has the highest borrowing costs in the G7



Fiscal inheritance leaves governments in a tight spot

The extraordinary fiscal looseness that followed the pandemic is now beginning to reverse across major economies as **governments attempt to stabilise debt trajectories and rebuild fiscal credibility**. Higher borrowing costs, weaker growth and rising debt burdens are increasingly constraining fiscal flexibility, forcing many governments toward tighter fiscal settings despite slowing economic momentum. This creates a more challenging macroeconomic backdrop for absorbing a prolonged energy shock. Unlike previous crises, governments now have materially less fiscal space to shield households and businesses from sustained rises in energy costs without risking further deterioration in sovereign financing conditions.

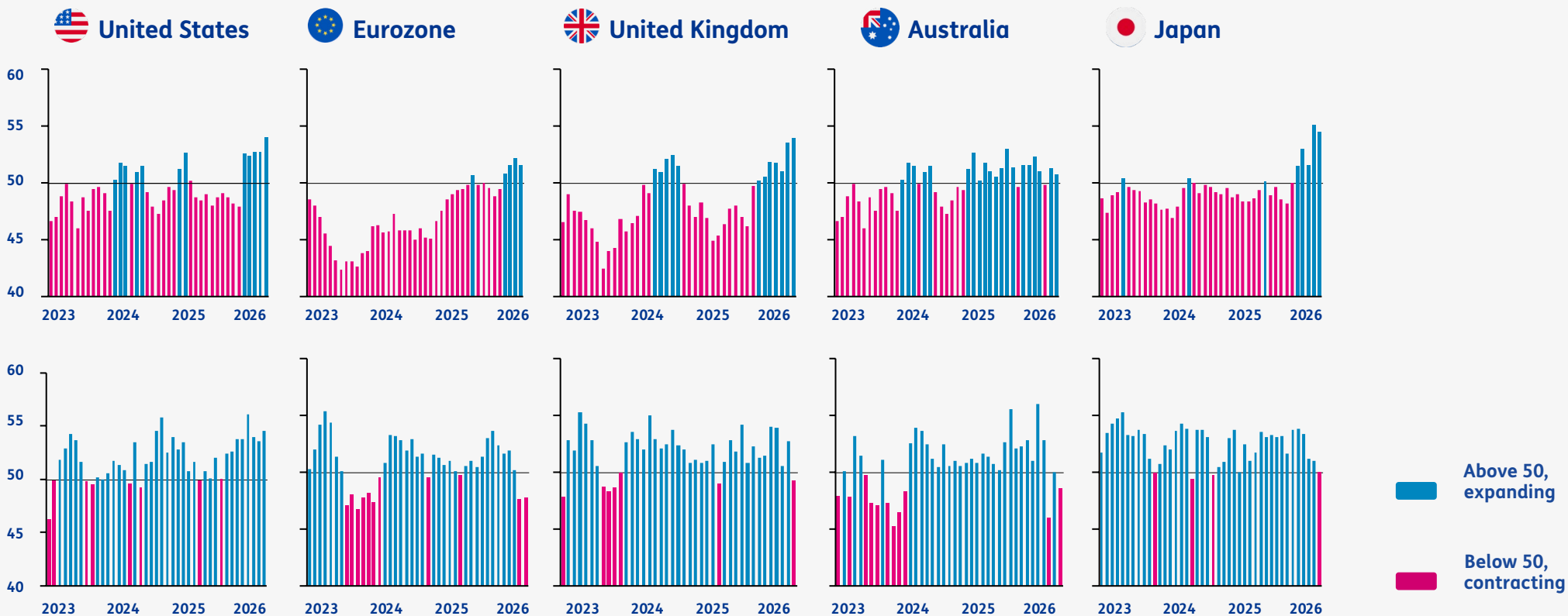
Primary Fiscal Deficit vs Government Debt



Signs of economic weakness emerge in PMI

The initial economic impact of the Hormuz disruption had appeared limited, **but signs of weakening business activity are now becoming more visible**. While manufacturing PMIs remain surprisingly stable, recent services surveys point to a broader loss of momentum. The slowdown is most evident in Europe, Japan and Australia, where services activity has weakened after proving relatively resilient through the early stages of the crisis. This suggests higher energy costs, trade uncertainty and weaker confidence are beginning to weigh on domestic demand. The US remains comparatively resilient, with US energy prices being more insulated than other Europe and Asia from the Hormuz shock. While not yet consistent with a global recession, the data suggests early signs of falling economic momentum.

Manufacturing and Services PMI

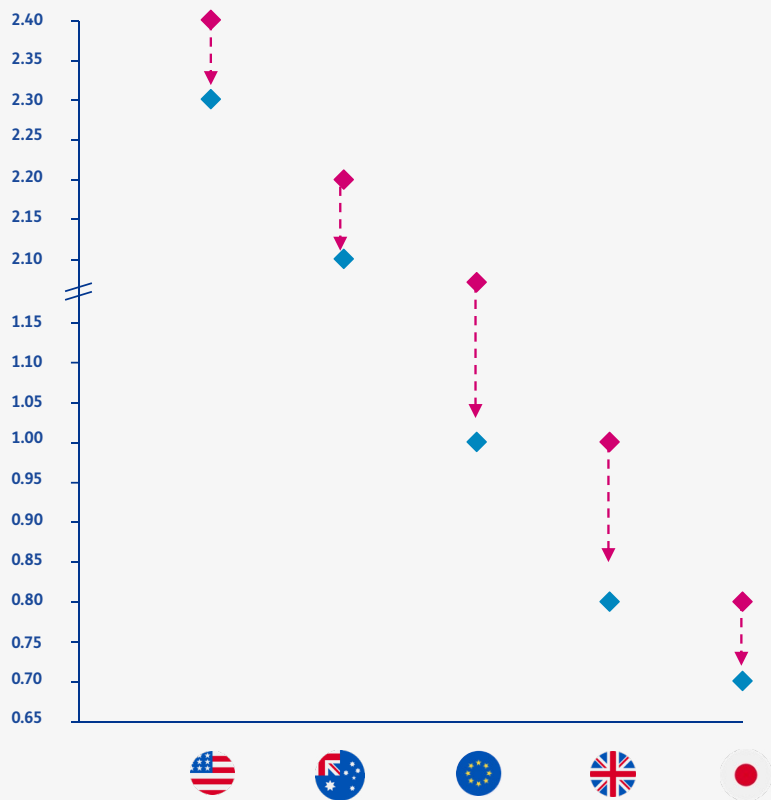


Growth forecasts are down - but markets still expect quick resolution

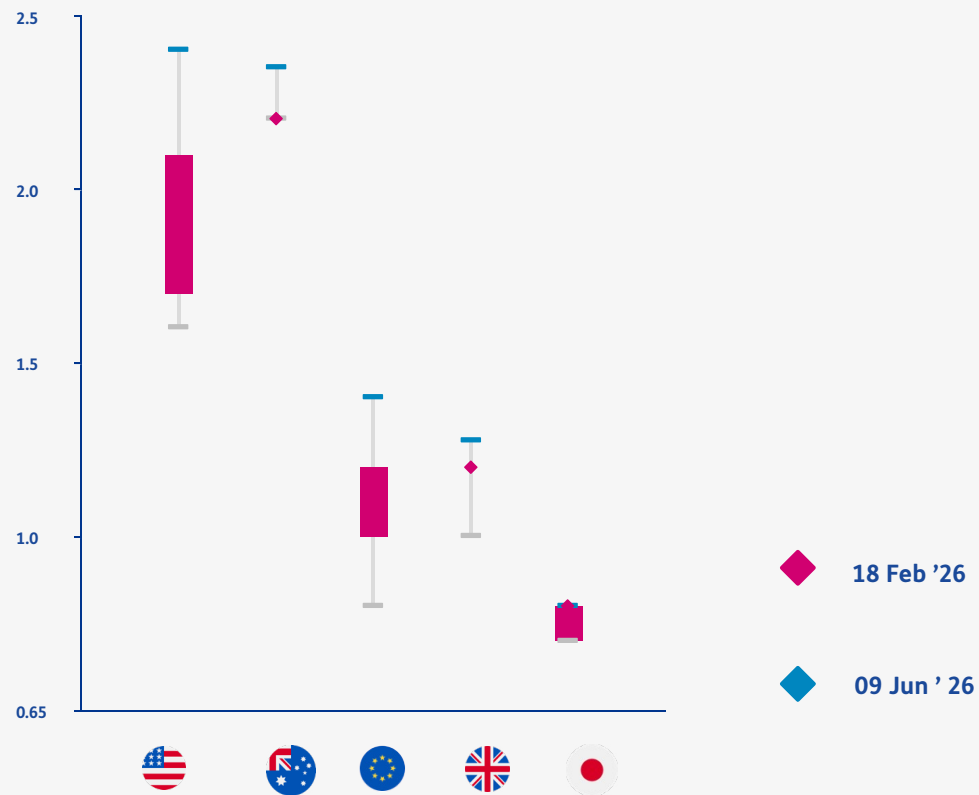
Growth forecasts have been revised lower across major economies since the onset of the crisis, reflecting the impact of higher energy prices, weaker consumer demand and tightening financial conditions.

However, **the scale of the downgrades remains relatively modest so far**, with most economies still expected to avoid outright recession under current market pricing assumptions. This again highlights the extent to which markets continue to treat the shock as manageable and ultimately temporary, despite the historically large disruption to global energy supply and trade flows.

Pre and post crisis EY 2026 real GDP forecasts (% YoY)



Range of Real Global GDP forecasts EY 2026



“The global economy has withstood the disruption from the closure of the Strait of Hormuz remarkably well, demonstrating the agility of global oil and gas markets.”

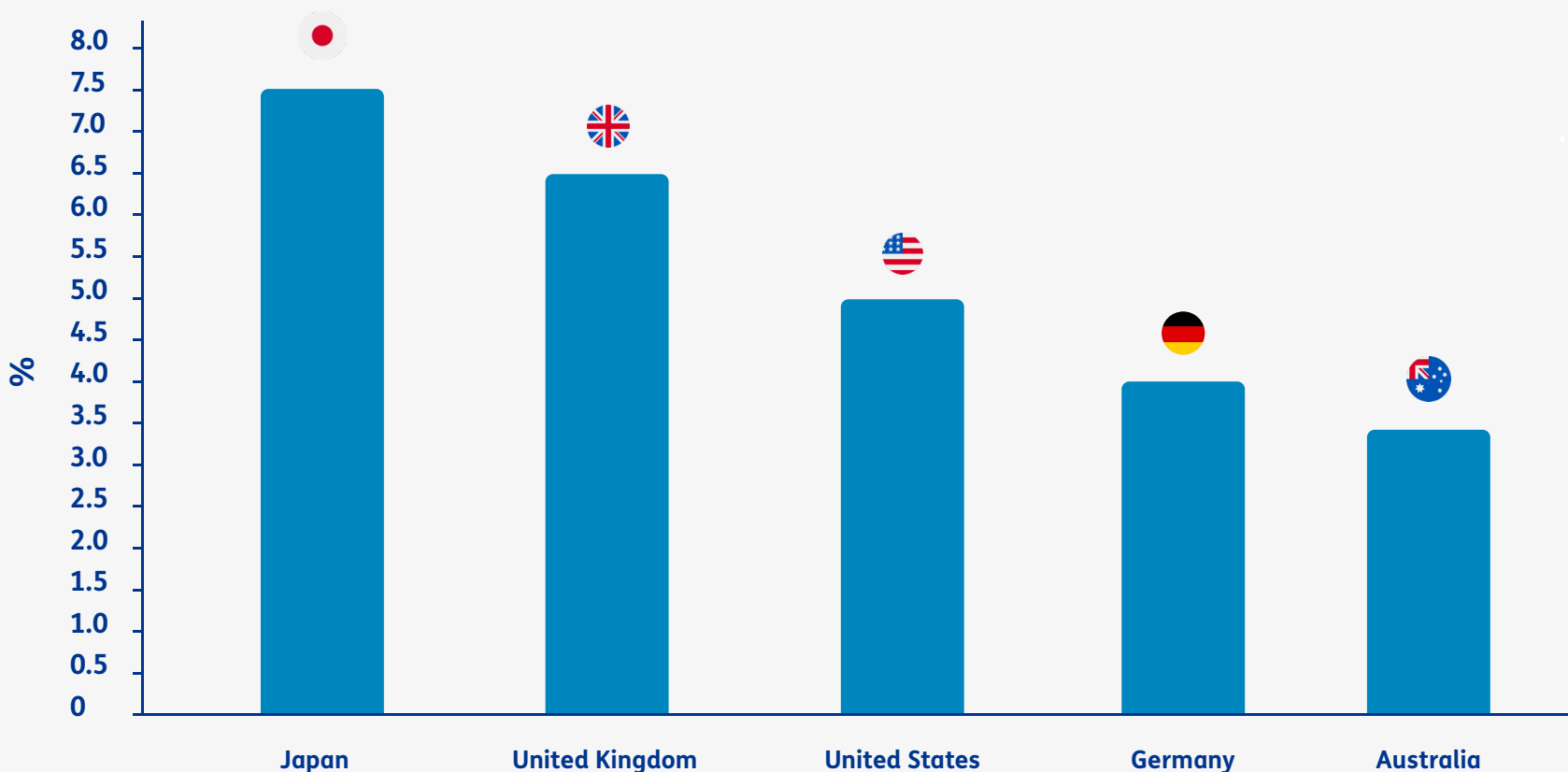


**Nick
Forrest**

Uneven exposure: how the squeeze on households varies by market

Consumer vulnerability to sustained energy price increases **varies materially across major economies**, reflecting differences in household utility costs relative to disposable income. Households in markets where utilities already account for a larger share of take-home pay are likely to experience a faster squeeze on discretionary spending as energy prices rise. This increases the risk of demand destruction, weaker consumer confidence and broader pressure on consumer-facing sectors. The variation also highlights why the macroeconomic impact of the energy shock is unlikely to be uniform, with some economies and consumer groups significantly more exposed to sustained commodity price strength than others.

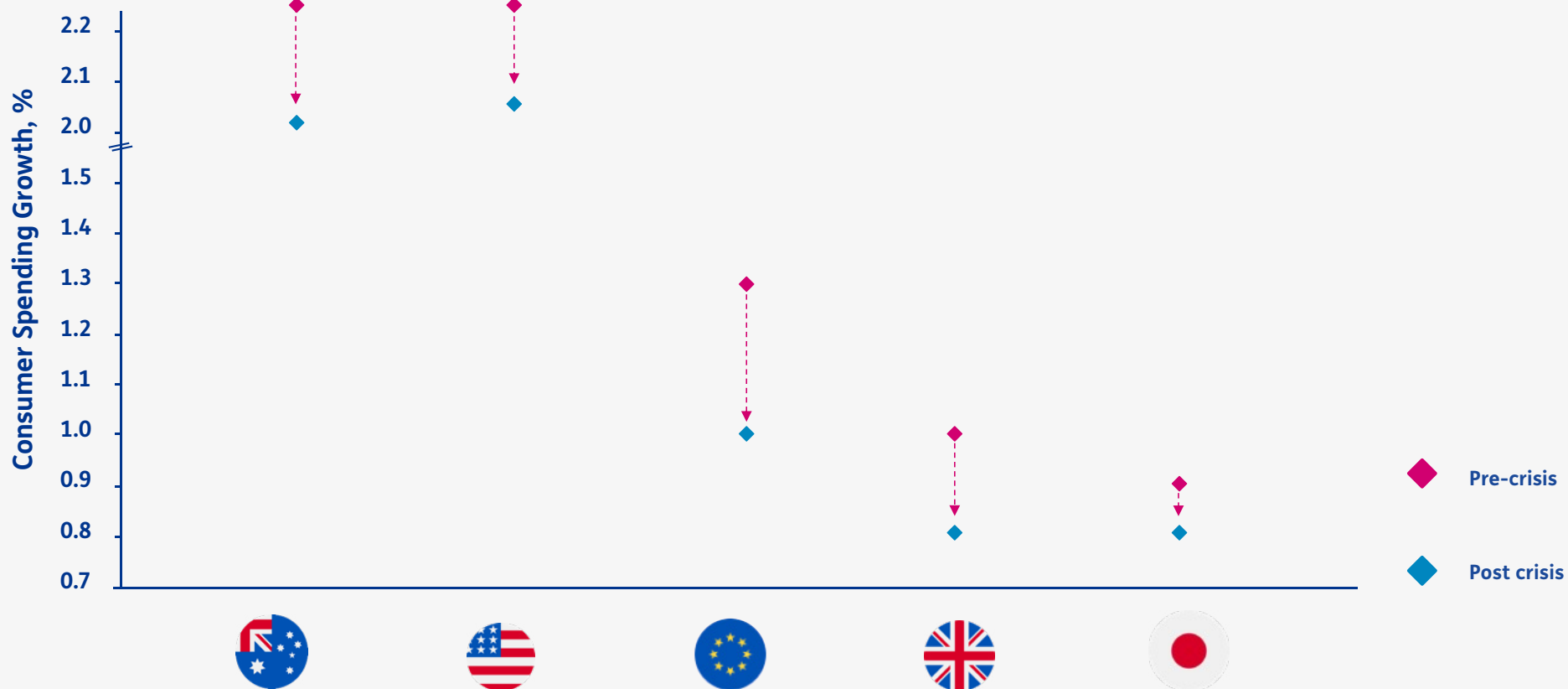
Utilities as a % of take-home pay



Squeeze, not collapse: the consensus outlook for consumer spending

Consumer spending expectations have weakened across major economies since the onset of the crisis, reflecting the expected impact of higher energy prices, rising household costs and softer economic confidence. However, the scale of the downgrade remains relatively modest, with markets continuing to price a slowdown in consumption growth rather than a severe collapse in household demand. This again reflects the broader market assumption that the current energy shock, while historically large in physical terms, will ultimately remain contained enough to avoid a much sharper deterioration in consumer activity.

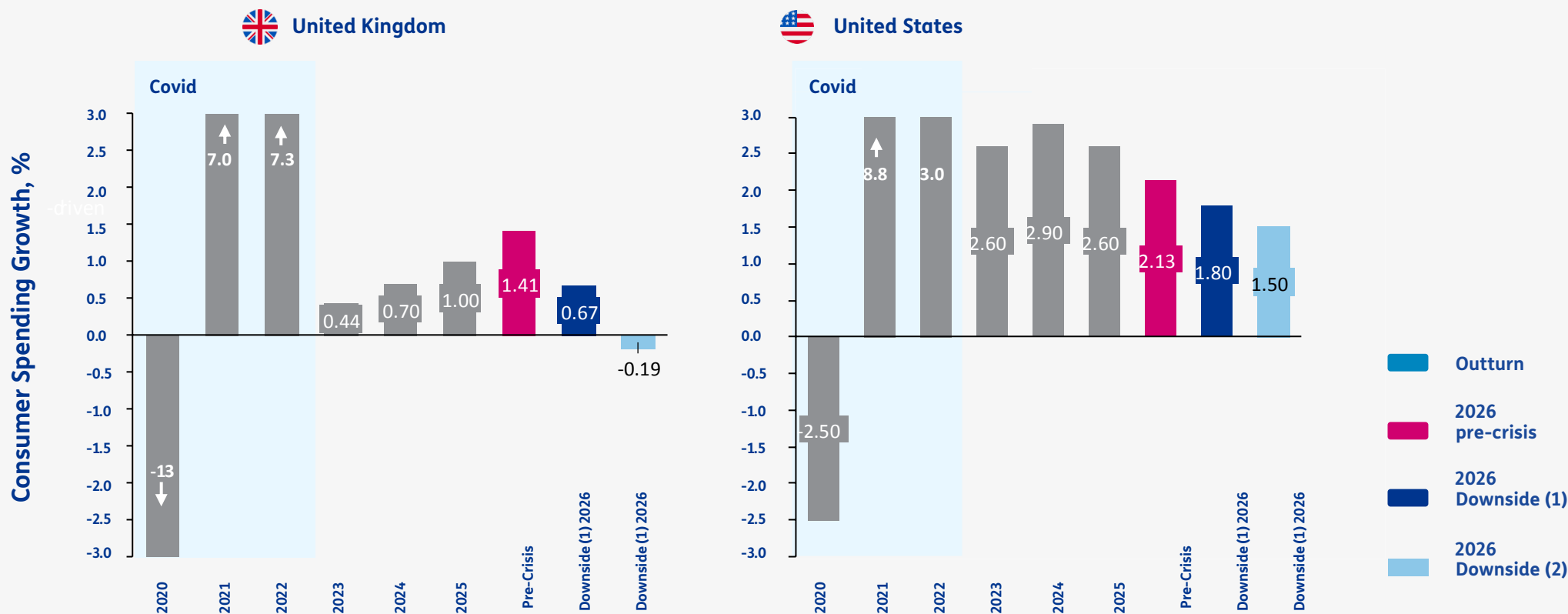
Consumer spending change since crisis CY 2026



From squeeze to contraction: consumer spending scenarios under fundamentals-driven pricing

While current market pricing implies only moderate consumer weakness, Baringa modelling suggests the downside could become materially more severe if commodity markets move closer to fundamentals-driven pricing. Under a sustained higher energy price environment (D1), **the squeeze on household disposable income intensifies rapidly**, leading to materially weaker consumer spending outcomes across both the UK and US. In a more severe downside scenario (D2), consumption growth in the UK deteriorates toward levels more typically associated with recessionary conditions. It is notable, however, that the US avoids a major contraction due to Henry Hub’s insulation from global markets and the prevalence of 15 year mortgages which insulated households from any rate shock relative to the UK. The modelling highlights how sensitive consumer demand remains to sustained energy price strength, particularly after several years of elevated inflation, weakening labour market conditions and tighter financial conditions.

Year-on-year growth in consumer spending- historical data and forecasts



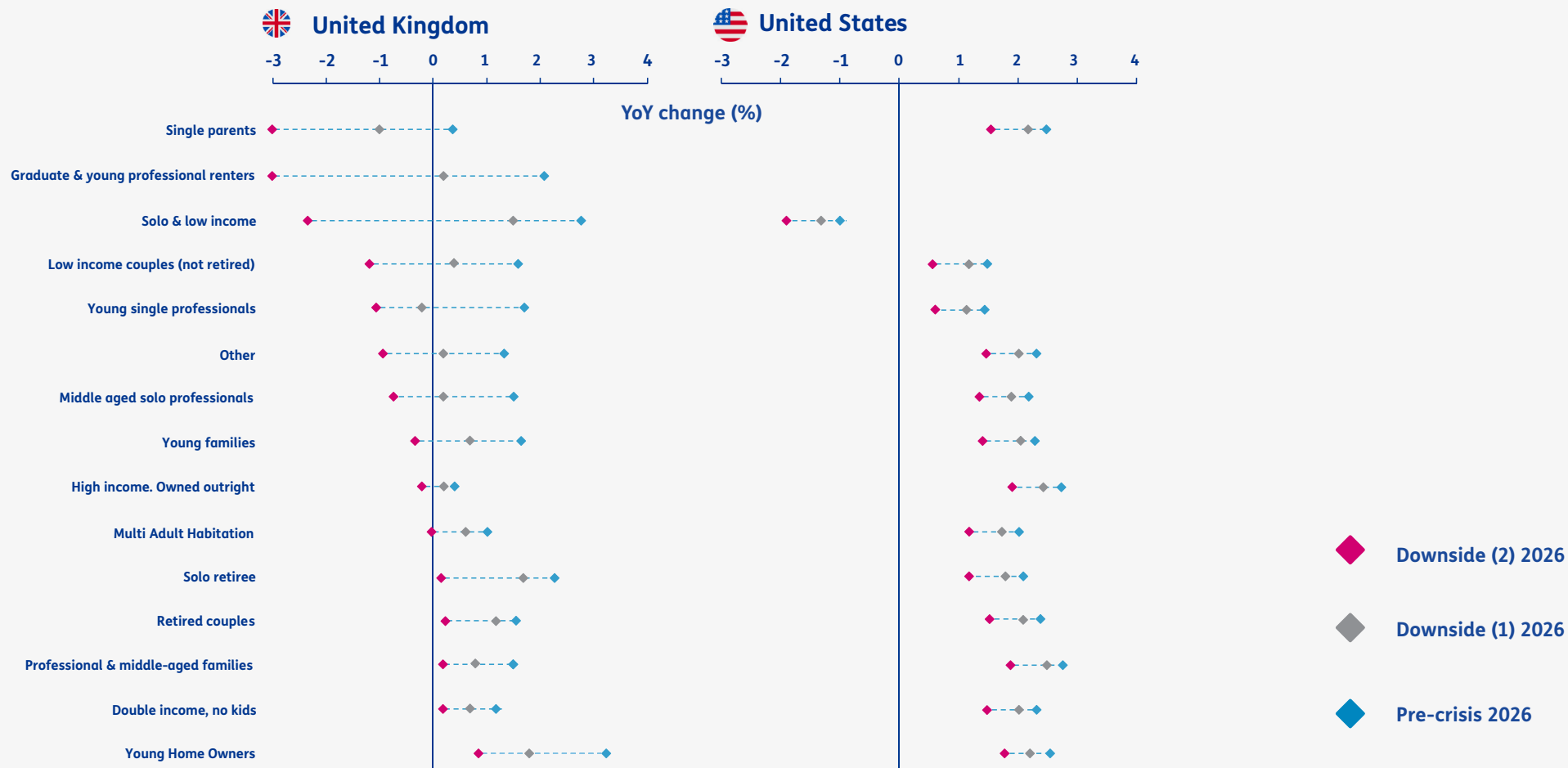
“The US has been better insulated than Europe, but better insulated isn’t the same as insulated. Businesses running on thin margins are already feeling it.”



**Tom
Harper**

The UK faces a more asymmetric consumer downturn across household types

The expected consumer impact appears materially more asymmetric in the UK than in the US, with lower-income and more financially exposed household groups facing significantly larger downside risks under higher energy price scenarios. In the UK, weaker income growth, higher utility cost exposure and greater sensitivity to mortgage and borrowing costs lead to a much wider dispersion of outcomes across consumer segments. Lower-income households, renters and single-parent households **appear particularly vulnerable to sustained pressure on disposable incomes**. By contrast, the US consumer outlook remains comparatively more resilient across most segments, reflecting stronger income dynamics, lower household energy cost exposure and greater insulation from global gas market pricing.



The 2026 sector story: performance diverges sharply across regions

Sector performance is expected to diverge sharply across regions in 2026. The US remains the strongest market, with technology and communications delivering the fastest revenue growth and margin expansion. Europe presents a more mixed picture, with growth concentrated in energy and selected industrial sectors, while consumer-facing industries continue to lag. **Energy stands out as a relative winner across all regions**, supported by higher commodity prices and improved profitability. By contrast, consumer discretionary and consumer staples sectors face a more challenging backdrop as weaker demand and rising costs weigh on performance. Overall, the outlook points to an increasingly selective market environment. Growth and profitability are concentrated in a small number of sectors, while large parts of the consumer economy continue to experience subdued momentum.

2026 Sector Summary for the UK, Europe and US

Operating Margin growth from 2025, % PP

	UK	US	Europe
Energy	2.4	3.3	4.8
Consumer Discretionary	-0.4	0.6	0.3
Consumer Staples	0.05	0.07	0.6
Technology	0.9	4.7	0.8
Telecommunications	1.2	1	2.1
Utilities	2.9	1.3	0.2

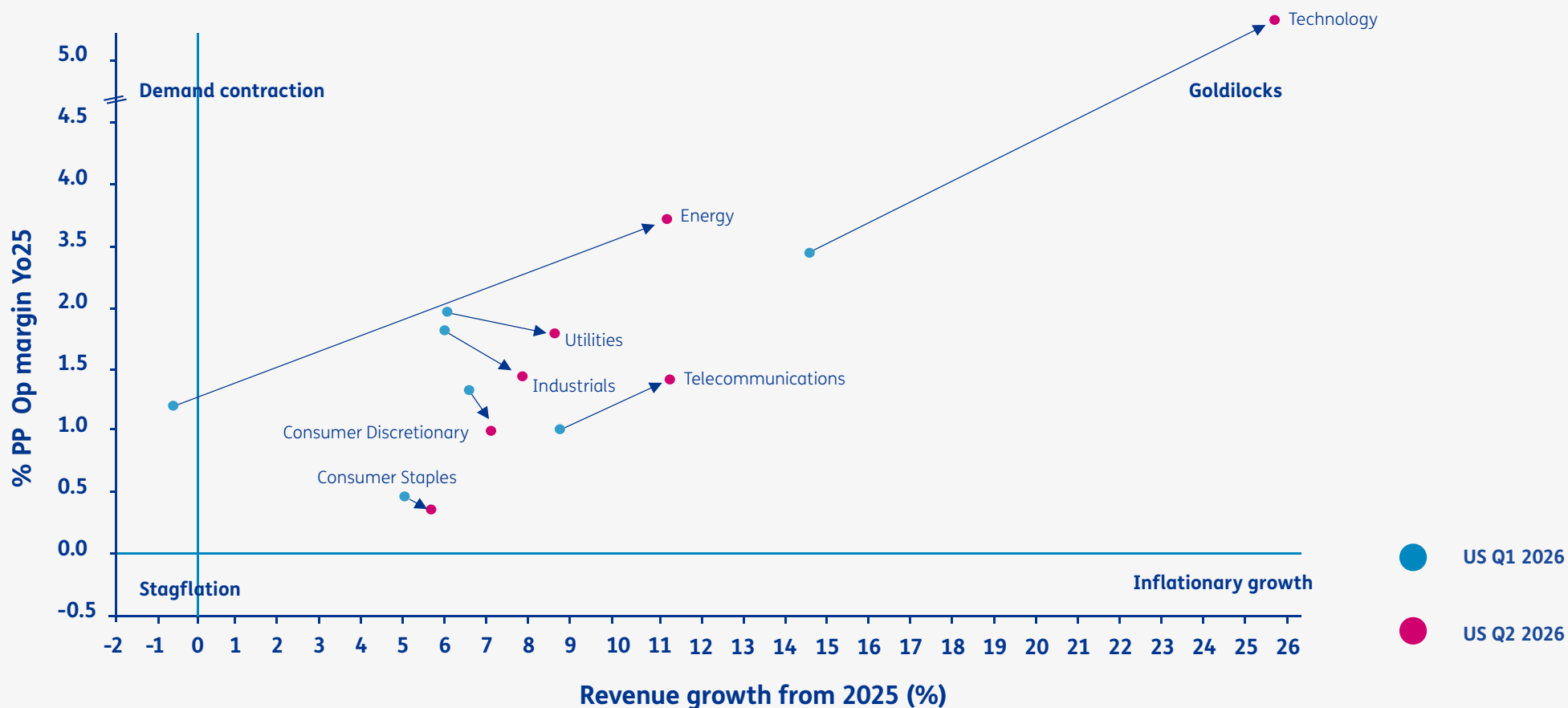
Revenue growth from 2025, %

	UK	US	Europe
Energy	20.9	11.3	9.7
Consumer Discretionary	4.6	7.2	3.6
Consumer Staples	2.7	5.6	0.6
Technology	6.6	25.7	14.5
Telecommunications	4.5	11.3	1.2
Utilities	6.9	8.6	2.2

Tech leads, energy climbs, cyclicals soften: the US sector picture in full

The US outlook remains more resilient than Europe, supported by stronger domestic demand, a more insulated energy position and continued strength in technology investment. **Technology continues to dominate the earnings outlook**, remaining firmly in a “goldilocks” position with strong revenue growth and expanding margins. Energy has also seen a clear upgrade following the Iran crisis, benefiting from higher oil and gas prices, while Telecommunications remains relatively defensive and resilient. More cyclical sectors are beginning to soften. Consumer Discretionary, Industrials and Consumer Staples have all seen margin expectations weaken as higher input costs and slowing demand begin to weigh on earnings. Utilities have also shifted toward slower, more defensive growth. Overall, the US continues to look more like an inflationary slowdown than a sharp downturn, with the economy still materially outperforming most other developed markets.

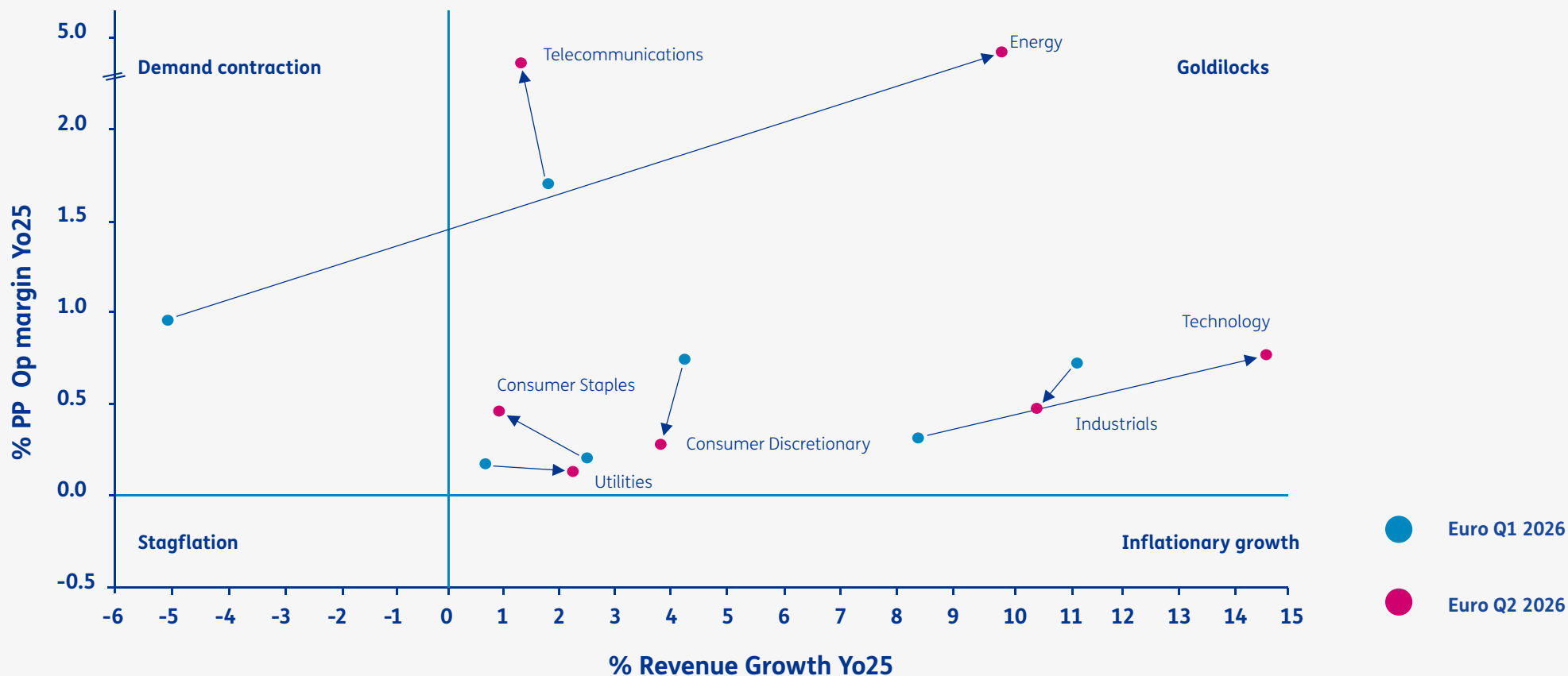
US 2026 Sector Revenue & Op Margin Forecast



Eurozone sector outlook: sector divergence sharpens

The Eurozone outlook is becoming increasingly split following the Iran crisis. Energy has seen the largest upward revision, with higher oil and gas prices materially improving the sector earnings outlook. Technology and Industrials have also remained relatively resilient despite the weaker macro backdrop. By contrast, Consumer Discretionary is deteriorating as higher energy costs and pressure on real incomes weigh on demand. Utilities and Consumer Staples remain defensive, but with limited growth momentum. Overall, **the shock is reinforcing a more inflationary and uneven European growth environment** rather than triggering a broad-based collapse in activity.

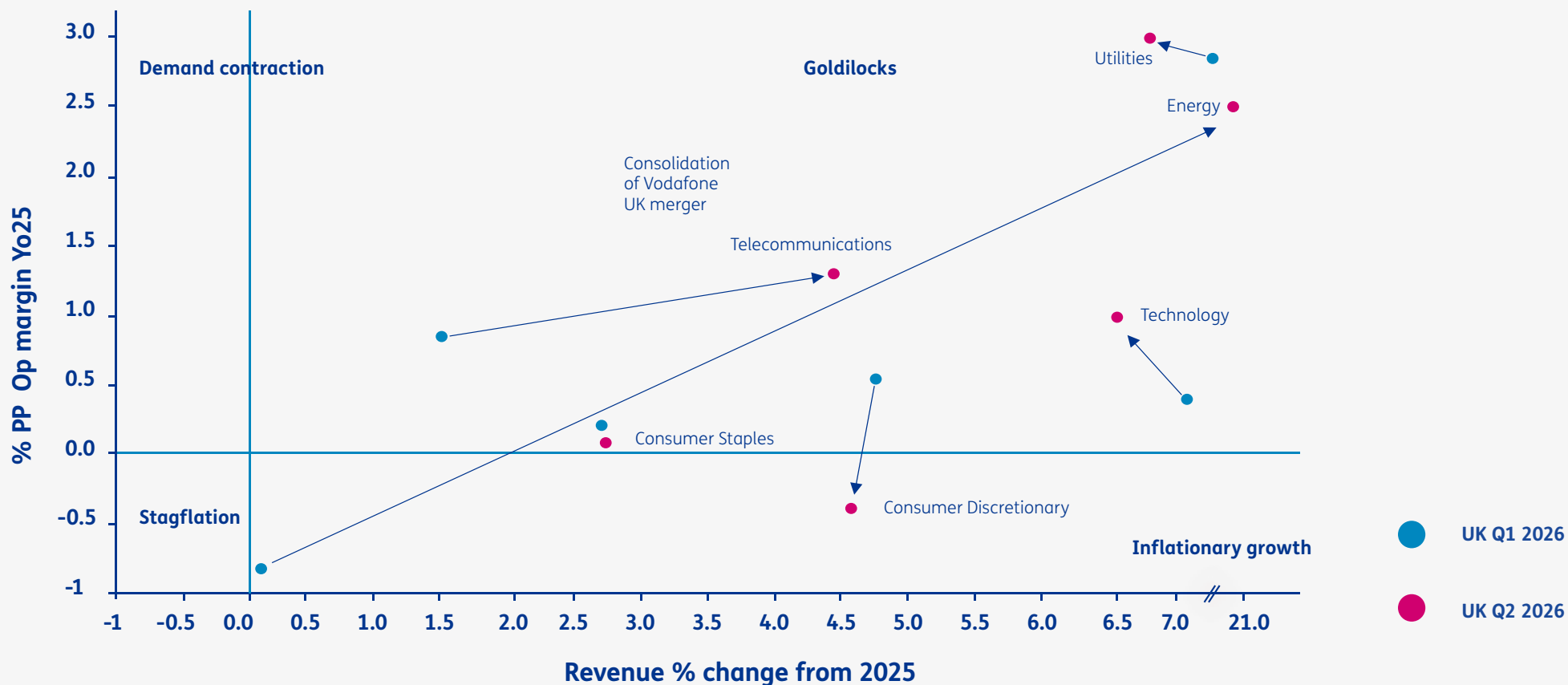
Eurozone 2026 Sector Revenue & Op Margin Forecast



UK sector outlook: consumer sectors take the strain

The UK sector outlook **has become more polarised** following the Iran crisis, with defensive and energy-linked sectors outperforming while consumer-facing sectors weaken. Energy has seen a clear uplift from higher commodity prices, while Utilities remain resilient given their defensive earnings profile. Telecommunications has also improved due to revisions in BT revenue expectations, not related to the Iran crisis. By contrast, Consumer Discretionary has deteriorated sharply as higher household costs and weaker confidence weigh on spending and margins. Technology remains relatively resilient, although momentum has softened versus earlier expectations. Overall, the UK outlook points toward a slower, more inflationary growth environment with widening divergence between defensive sectors and consumer-exposed industries.

UK 2026 Sector Revenue & Op Margin Forecast



Global Macro Team



Nick Forrest

Partner in Policy,
Regulation
& Economics



**Caspian
Conran**

Lead Economist



**Daisy
Proctor**

Economist



**Zhelyan
Vichev**

Economist



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