UK'S FTSE 100 MID-TERM ECONOMIC OUTLOOK: NAVIGATING FTSE 100'S DYNAMICS & ECONOMIC IMPLICATIONS

A structured analysis of UK's main sectors across 2026 and the dynamics around FTSE 100

LATEST ECONOMIC DATA:

1.1%	3.75%	4.9%	49.7	5.09%	3.2%
Reported GDP (YoY) during Q1	BoE's Interest Rate decision, with the decision being 7-2 (18th of June)	Latest unemployment rate (April)	S&P Global Composite PMI (May)	6-month growth of UK's FTSE 100	Retail Sales (YoY) (May)

I – GENERAL OUTLOOK:

UK's FTSE 100 – Between dynamism and uncertainty:

Over the latest 6 months, UK's FTSE 100 has delivered a steady 5%-growth momentum, with the index ranging from 9,921 in January 2026 to a 10,917.71 peak on the 27th of February, with the nadir point being reached during the 23rd of March at 9,710.52 amid the geopolitical and economic uncertainty provoked by the conflict between the United States of America, Israel, and Iran around the Strait of Hormuz, showing a strong and resilient performance amid those specific uncertainties. With macroeconomic signals showing signals of potential optimism around the second half of 2026, the British economy is not having any strong indicator to inspire conviction on the long run. Further indications will be driven mostly by the macroeconomic movement across major indicators.

Foundations within the British Economy: strong market folded by uncertainty:

The headlines around the growth perspectives of the British economy are optimistically projected. The UK Economy expanded by 0.6% across Q1, while the YoY movement was at 1.2%, beating macroeconomic forecasts who were projecting the growth at 0.7% for the period. This output, which is the strongest growth observed on a quarter since Q1 in 2025, is mostly driven by the recovery mechanisms following the cooling down of tensions across the Middle East, and the upstream momentum carried by the services sector. Nonetheless, different columns and economists are wary to flag any potential issues, with the Middle East conflict still carrying momentum amid the uncertainty around naval traffic in the Strait of Hormuz, input costs, and potential energy prices that could threaten growth during Q2.

Nonetheless, strong, and positive outcome around the labour market could signal some optimism on the short-term run. Unemployment came at a rate of 4.9% in April, and regular wage growth stood at 3.4% YoY. Although the growth remains steady, signals of concern may still carry around the decisions taken by the Bank of England, as the unemployment rate rose slightly at 5% for May, while the growth of wages across the private sector was only at 2.9%, showing that the labour market could lose potential momentum on the middle run, without any concerning points to be flagged on the long run.

Ambiguous signals are also sent from the activity data that has been thrived. With a 49.3 data being reported in May, and a fifty point to be estimated for the UK's S&P Global Services PMI for June, the private sector might continue its stall period for the upcoming months. Furthermore, the FX market, and particularly the Sterling Pound adds further complexity. The GBP/USD stood at around 1.3454, while the GBP/EUR is sitting around 1.15 at the current moment, with both rates carrying flat indications over the latest 6 months, with the latter showing 0.6% year to date growth, while the former is standing at a negative -.198% year to date evolution, showing the uncertain, yet pragmatic approach of the BoE and the fluctuations carried across the dollar, especially given its modest 3.14% growth over the last 6 months. For an index that generates 80% of its revenue overseas, the momentum shows direct earnings mechanisms, with implications being mostly structured around the domain of energy, pharma, or even financial services.

II – BANK OF ENGLAND'S DECISION: HOLDING THE RATES, BUT FOR HOW LONG?

On the 18th of June, the Bank of England decided to hold its interest rate at 3.75%, a decision that follows the rate's flat movement ever since the latest rate drop that occurred on the 18th of December 2025. The decision of the BoE is explained by the decrease in energy prices, which remain high due to the persistent environment in the Middle East, an issue directly acknowledged by the BoE. Moreover, the inflation fell at 2.8%, but signs of concerns, especially regarding energy price dynamics still fuelling any further uncertainty. Nonetheless, the overall picture remains more nuanced than ever.

In effect, the vote was spilled in favour of the decision by 7 votes, against 2 votes, with economists Huw Pill and Megan Greene pushing for a rate hike at 4%, especially amid the latter's publishing of reports tracking the business confidence and monitoring of services for 2027 that shows potential worries around a potential unstable economic outlook.

Those signals can also show any potential future implications around the direction that the BoE might stick with. While all members seek that a potential hold of the rate could still be feasible around the short-term perspective given the labour momentum, and the lower-than-expected growth of labour costs for companies, the limits of the current context could still occur any time soon. Some members have cautioned around the potential expectations of firms and households regarding the inflation, especially in the context of uncertainty around energy prices that could carry potential limitations over the wage growth and supported costs in the second half of the year and onwards 2027, with the risk around energy prices still being seen from a bearish perspective, especially in the context of potential logistical lagging from different firms exposed to the effects of the conflict in the Middle East. Proponents for a rate hike at 4% suggest that the rationale of secondary inflationary effects across the British economy could persist further even with a potential solving of the geopolitical conflict.

Inflation's perspective:

While YoY's CPI data was reported at 2.8%, lower than the 3% forecast estimate, and mostly estimate from a decrease in food, core services prices, the vision of the BoE remains unchanged around inflation targets, with forecasted value of 3% for Q3 and 3.25% for Q4 still showing expectations around a slow but steady inflationary hawkish momentum across the upcoming months, showing potential limitations of a monetary policy that is still trailing back in a moment where a specific and concrete direction should be taken, with criticism being raised on whether the right mechanisms are rightly implemented at the current moment.

Implications on the FTSE:

The rate environment the index is now operating at a different level from the beginning of the year. While analysts were expecting at least two operational cuts over the first half of the year, the uncertainty triggered by the crisis in the Middle East in March shows that a fragile consensus is persisting around the environment, while a clear direction of the FTSE is yet to be fully determined. Different industries, including financial services might benefit from the short-term momentum around potential rate hikes, but would face adverse credit risk if the economy worsens further. At the same time, different industries, including retail, housing, or consumer discretionary could be the most impacted sectors from the potential hikes that may be announced soon. The key event will be during BoE's next meeting, which will occur on the 30th of July, and especially in the chosen tone of the monetary policy committee.

III – SECTOR ANALYSIS – MAIN DRIVERS OF THE FTSE 100

The FTSE 100's 6-month return of 5.09% is not a general broad market without any structure. Different industries and domestical momentum have been driving the performance of the main British index, even amid the current macroeconomic uncertainty, with the industries of financials, energy, or pharma carrying momentum heading into the second half of 2026.

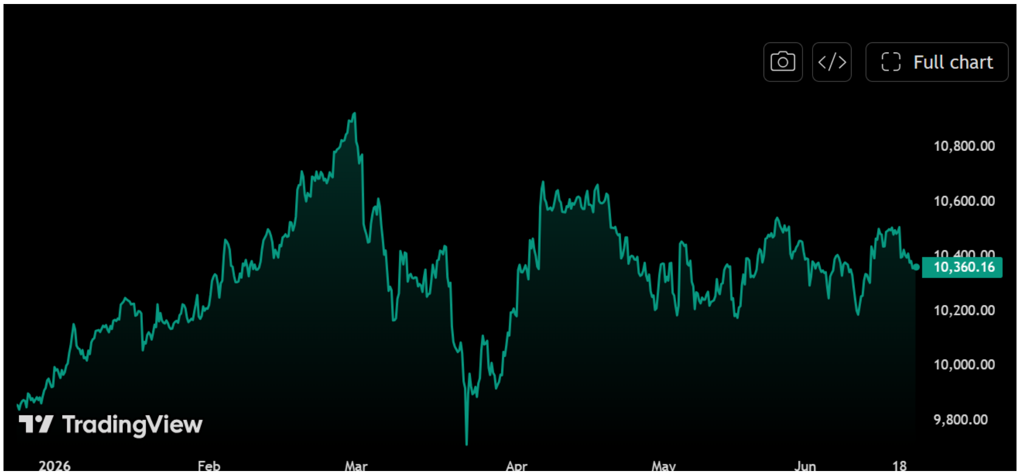
Sector	Year-to-Year growth	Major firms	Events and reasoning over FTSE 100
Financials	7.2%	HSBC, Barclays, Lloyds	Net interest margin supported from the stable rate of the BoE, hawkish but unstable costs that might be incurred amid inflationary uncertainties
Energy	4.1%	Shell, BP	Conflicting stability amid the bullish momentum in the Brent Crude Oil over the year, energy stocks and ETFs that remain volatile even amid the peace agreement announced between the USA and Iran
Mining & materials	-2%	Rio Tinto, Glencore	Chinese demand uncertainty around iron persisting, uncertain and unpredictable signal around gold
Pharma & defence	11.4%	Astra Zeneca, Rolls-Royce	+12% YTD growth for Astra Zeneca, structuration being the main driver
Exposure to rate implications	-5.8%	British Land, Land Securities	Mortgage rate remaining hawkish at 6.6%

SECTOR OF FINANCIALS:

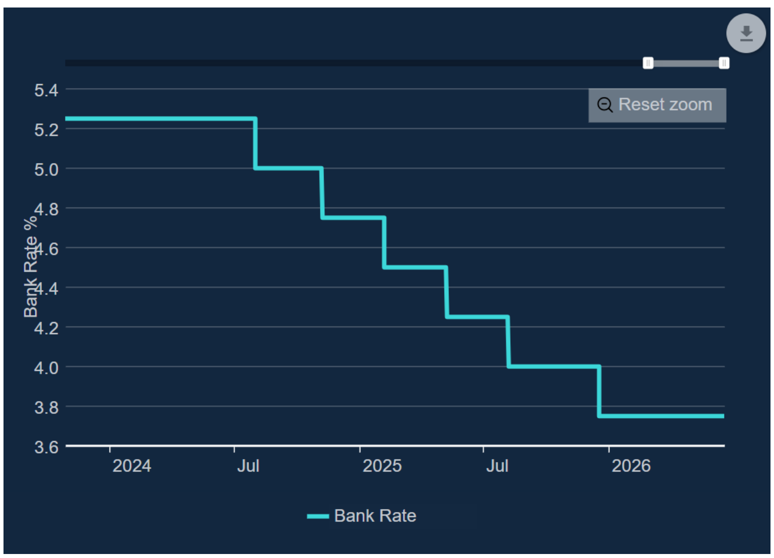
The sector of Financials represent the biggest driver of the FTSE, with 26% of the revenue in the index coming from the dynamics and margins adjusted by the major operations from different banks, including Barclays, which has comforted positive dynamics around reinvestment yields for main insurers across the country, especially in the sector's buyback programme adding further per-share return.

Nonetheless, the risk could be two-sided for the industry. Any potential hike in BoE's rate, the credit quality, and potential investments, including treasury yields or bonds could deteriorate significantly, while margins would shrink, especially given that any potential inflationary context could weaken any trading volume involving the British Pound.

Graphic 3.1 – FTSE 100's 6-month evolution (source: TradingView).



Graphic 3.2 – Evolution of Bank of England's interest rate (source: Bank of England).



ENERGY SECTOR:

Giants Shell and BP have been surprisingly the main stabilisers of FTSE's Energy share during the highly uncertain context that struck Europe between March and April amid the conflict in the Strait of Hormuz. Because of the highly increasing prices across the Brent Crude Oil over the period, in which the commodity reached as high as 115.61 on March 9th, the two firms have had a steady 6 months, with Shell having a 11.64% growth over the period, whereas BP reached a 15.58% steady growth, which helped firms at generating strong and stable cash flow momentum over the period, even amid their respective 1-month decline of -6.09%, respectively -14.86% following an easing in the conflict between the USA and Iran, with Brent Crude Oil yielding around $ 75 as per the 22nd of June. The momentum can also be confirmed through the latest earnings reporting, with BP resulting a £ 52.62 billion revenue over Q1 2026, much higher than the expected £ 46.78 billion figure. Nonetheless, any potential way that the conflict might swing in could be challenging for the whole energy sector. In fact, a durable peace agreement between the USA and Iran would wind away any premium earned from the energy shocks of the companies, which has already shown in the steep decrease across the last month of oil crude futures across the US market. Investors looking for investing in BP or Shell might face some consequences, especially if the diplomacy asymmetry intensifies in the upcoming weeks. The internal industry is still sustained in production, with oil and gas still having a large amount of production over the period, as 4,070 million tonnes of oil and 2,968 million tonnes in gas as per 2024, sustaining the continuous expansion of the two companies.

Graphic 3.3 – Evolution of US's Brent Crude Oil over 6 months (source: TradingView)

Graphic 3.4 – Evolution of the BP and Shell prices over 6-months (source: TradingView).

MINING & MATERIALS:

The mining sector has been the most volatile sub-section of FTSE 100 across the latest half of year, and the divergence of the sector makes the analytical reasoning worth looking in details. Copper and gold miners have held up better gains and momentum over the period, compared to many markets where commodities mining is important, including the ASX 200. For the FTSE, the main copper firm, Antofagasta has faced pressure from macro risk-off rather than any fundamental deterioration, while firms positioned in iron and gold, including Fresnillo faced bigger swings due to the volatility espoused across gold and iron futures prices. The industry is also, at the same time, one of the most profitable sectors in the FTSE 100, as forecasts suggest a 10% contribution to the overall profit of the FTSE 100 by the end of the year.
Nonetheless, the underlying commodities dynamic that is present and that has seen surges for different firms during the Middle East crisis (BHP adding 2.23%, Anglo American rising to 2.15%) also shows some signs of slowing down. With different commodities, including gold (-6,74% over the last 6 months) and silver (-12,52% in the same 6-month period), facing uncertainty around price dynamics due to the surged volatility in the dynamic of

the conflict in the Strait of Hormuz and the increased probability in observing FED interest rates cuts later in the year, showing that the industry faces different uncertainties. Particularly, iron ore and based industrial materials are more impacted than any other commodities, especially amid the uncertainty in the demand from the Chinese market, mainly due to changes across different industries within China, including real estate's fall and shift to scrap and local demand, impacting heavily iron prices at a global level. One momentum that could give hope for different British firms, including BHP or Fresnillo would be the expected Manufacturing PMI in China on the 29th of June, which was previously at 50 for May. If the Chinese manufacturing industry recovers from the previous small declines since the beginning of the year, it could yield further gains for British mining firms, while any stall or further decline of the PMI prolonging further uncertainty for commodities in a context and environment that is yet to be clearly defined.

Graphic 3.5 – Evolution of Gold Futures January-June 2026 (source: TradingView):

Graphic 3.6 – Evolution of Silver Futures January-June 2026 (source: TradingView):

PHARMA AND DEFENSE:

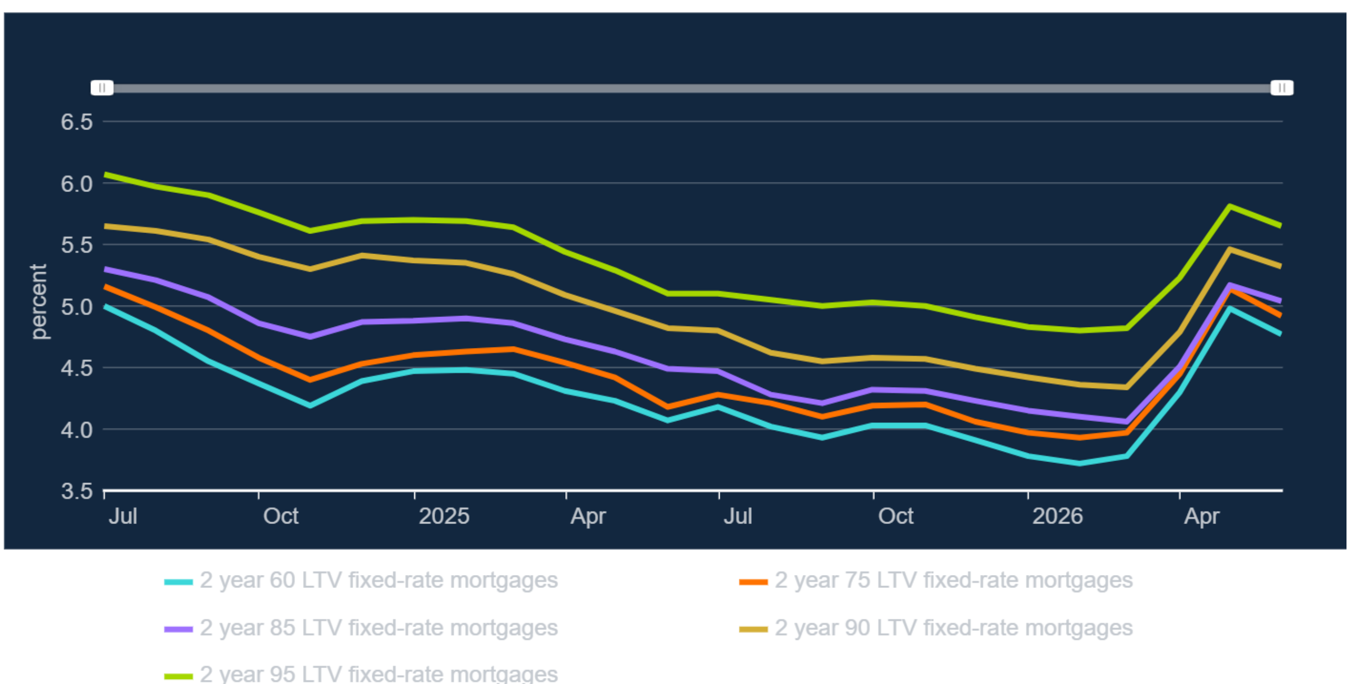
In the pharma sector, AstraZeneca and GSK have been the main contributors to FTSE's performance, while also showing that the pharma industry might be less prone at being impacted by any geopolitical or any economic announcement shock. In fact, both firms have expanded their operational sights, with AstraZeneca's projects in oncology garnering from different decisions, including the firm's choice at keeping its UK headquarters, while GSK's new CEO Luke Miels spurred further the focus on vaccines and speciality medicines, with revenues garnering during the first quarter, with revenues at AstraZeneca going 8% on a yearly basis during Q1 2026, while the sales at GSK growing by 5% on the same yearly basis. Their revenues, being generated globally, may implicate a lower GBP, especially as both firms have established markets across North America and the rest of Europe.

Defence, on the other hand, shows mixed signals. Although firms such as BAE Systems or Rolls Royce all advanced across the first half of the year, stocks drifted lower during late April as Trump's swinged decisions over Iran have filled further uncertainty, showing that the defence industry is more prone to any potential change that could occur at the geopolitical level.

RATE CHANGES AND BROADER IMPLICATIONS:

Over recent period, the general quarter growth of UK's GDP has always been consistent, bar with the last two quarters across the second half of 2023, when successive declines of -0.2%, respectively -0.3% were observed due to a technical recession being observed, given the hawkish interest rates combed by the Bank of England to tackle inflation, while falling consumer demand and output have filled this slight decline in the British economy. In recent periods, the growth has been moderately stable over the period, with a 0.6% growth in Q1 2026 being observed. Housebuilders and REITs remain the most sensitive indexes to any changes at the economic and political spectrum. The average quoted two-year fixed mortgage rate, standing at 3.93% as per January 2026, rose to 4.92% in May, with the rate being expected to remain up the level given the uncertainty ahead of the second half of 2026, while the average standard variable rate swinging at 7.13%, depicting the further uncertainty that might remain.
Though, some figures might reassure households and the housebuilding industry. In effect, mortgage approvals reached a 15-month high in April, when 65,945 were recorded, boosting housebuilder sentiment ahead of the further session scheduled for July, while remortgage approvals were at 46%, showing that demand remains stable amid the uncertainty.
Nonetheless, the earlier major trigger last week, when Keir Starmer announced his resignation as UK's Prime Minister on the 22nd of June, introduces a new risk on the British internal market. Different indicators, including Severn Trent and United Utilities falling by 1.5% on the day of announcement, and the signal announced by the win of Burham's victory inside the Labour party shows that any potential idiosyncratic risk for domestically-exposed positions might become prone, especially if a new government may not be formed, with any potential movement in interest rates being potentially filled by a risk of prolonged political crisis across the country. Right now, any new meeting of the MPC on July 30th and the investiture of Burnham's Chancellor might be the two events signalling any potential hope for internal markets, which perspectives being less certain than three months ago.

Graphic 3.7 – Evolution of the 2-year Mortgage Rates across the UK (source: Bank of England):



IV – RISK EVALUATION & IMPLICATIONS ON FTSE 100:

With all factors being analysed, a key table showing all potential risks, whether they are economic, political, or geopolitically triggered, is shown among with the implications it might have on the FTSE 100's performance:

Risk	Brief detail	Probability of assessment	Implication on FTSE 100	Key event(s) for the risk to be triggered	Sectors to be impacted
Hawkish stance of the BoE, further inflation on energy and petrol prices	Because of further geopolitical conflicts, energy and petrol prices remain high, while wages stagnate in both public and private sectors, forcing the BoE to trigger eventually two rate hikes in the second half of 2026, reaching a total of 4.25% by December 2026.	The probability might sit in the middle, given the uncertainty around the conflict in the Middle East might lead to any potential movement of the BoE. No certainty is confirmed, especially if any internal shock might trigger further uncertainty around petrol prices or the instance chosen by the BoE.	Potential -3% to -5% on the index, with the financials being cushioned on NIM support but further quality risk building up, while any rate-sensitive positions being shafted away.	Decision of the MPC on July 30th, any peace deal or signal in the Middle East, evolution of the Brent Crude Oil and dynamics of BP and Shell, Monetary Policy Report at the next meeting of the BoE.	REITs, housebuilders, households, consumer discretionary, domestic firms relying on energy and petrol.
Succession for the new Prime Minister or further continued political crisis	Nominations for the head of the Labour Party are due to commence on the 9th of July, while a successor is to be announced soon, with the focus being on the next Chancellor, which might see further implications for a left winded fiscal shift if Burnham succeeds.	High, with Burnham being sign as the main successor for the leadership of the Labour Party. Though, fiscal signals are still uncertain, as no indications have yet been indicated, although sterling fell to $1.319 and yields at 4.85%.	The key watch will be the appointment of the next Chancellor and the further fiscal policies announced. While the FTSE has shown a steady 1.03% growth over the previous week, any divergence from the domestical scene might be visible by the end of the summer.	Chancellor appointment announcement, autumn budget being structured, any new signals around tax changes	Broad UK market
Weaker GBP	As GBP lost ground on both	Moderate but not unlikely,	For each 5% depreciation on	Chancellor appointment	Inflationary impact on

	the USD and EUR, while signal is also weak on other currencies such as the CHF or the AUD. Further depreciation could escalate due to potential fiscal uncertainty, making any decision for the BoE more complicated.	with the GBP being weak on the price side across major currencies, but any strengthening would depend on the way the fiscal policy moves.	the GBP, any adverse movement in the CPI can be reported up to 0.5%, with this implication showing a further dilemma for the BoE over its rate decision. At the same time, overseas traders of the FTSE 100 could benefit from stronger currencies against the GBP.	and followed fiscal policies, BoE's policy, and its correlation with FED's movements.	domestics; slightly bullish instance for energy, or pharma consumers.
China demand slowdown	Cooling in the industrial activity across China's construction demand might trigger a reduction in the iron demand and thus affecting the commodities and mining industry of the UK.	Moderate, depending mostly on the upcoming Chinese PMI's signals ahead of potential economic stimulus package that could be announced.	Mining sector decreasing between 5 and 8%, dragging a total index fall by -2% in the worst case.	Chinese PMI announcement, steel output data, property sector credit area.	Mining and materials mostly, including Glencore or Rio Tinto.

V – SCENARIO FORECASTING:

The following assessment is based on the reflections of the author over the FTSE 100 based on public macroeconomic outlook and forecast data present. This paper is not a guarantee or investment recommendation for any accredited particular or investor and shall not be used for such purposes by any reader of this material.

As the FTSE 100 is standing at 10,508.03 GBP on Friday, ushering in a steady 1.03% growth over the last week, and the further swings observed over the week, including a 10,339.29 nadir on the 23rd of June following Starmer's resignation, the forward over the second half of the year might depend on many crucial factors, including the continued cycle (or hawkish) stance of the Bank of England, the durability or evolution in the conflict between the USA and Iran, as well as the new fiscal direction chosen by the new government that will be designed. With any potential implications, three distinctive scenarios for the whole British economy and the FTSE's movement could be attributed:

- Bull case (25% probability) – FTSE ranging higher between 10,700 and 11,100.
- Neutral/Current case (50% probability) – FTSE stabilising between 10,300 and 10,700.
- Bear case (25% probability) – FTSE clinching below 10,300, with a nadir point being near 9,900 GBP.

Bull case – peace is durable, fiscal policy is normalised and known in advance, RoE continues to maintain status-quo:

For this scenario to occur, any peace deal announced between the USA and Iran holds stable, with would see the Brent Crude Oil to fall around $75 to $80 per barrel by next quarter, while inflation falls faster than the predictions of 3.25% by the BoE, while the 30th of July's announcement sees a more optimistic outlook over macroeconomic factors on the British economy. In the political scene, the political crisis is not holding over, with Burnham being announced as the winner of Labour's elections, with a Chancellor being appointed and following the continued direction, while fiscal policy becomes clearer from the first public speeches given. Rate sensitiveness becomes minimal, with households being more advantaged and pushing mortgage rates further, while any sector, including the mining industry retaining their crisis-period gains.

Neutral/current case – Burnham victory, potential short-term BoE hawkish stance:

The scenario sees a late-September victory of Burnham, with the next challenge seeing any revival in economic growth and fiscal optimism, with a clearer strategic road delivering any directional movement for internal and domestic signals. On the geopolitical scene, the peace deals or efforts at normalising the situation across the Middle East are sluggish, with the Strait of Hormuz potentially opening but on brief cycles as renewed tensions or strikes could lead to the former's closure, keeping the Brent Crude Oil at $80 to $90 per barrel. The BoE may force a potential hawkish stance at 4% either in July or September, with the CPI also reaching the BoE's 3.25%'s estimate, triggering any potential short-term intervention to tackle any potential inflation. For FTSE, gains will rely on potential further strategic and operational expansion in the pharma and financials industries, while investors or retailers facing more severe consequences.

Bear case – Uncertainty over fiscality, BoE adopting a full hawkish instance:

Any internal uncertainty in the Labour's internal factions could see potential surges of new faces for the internal elections across the party, while any potential triggering of early parliamentary elections would result in potential blow facing consequences for both Labour and Conservatives, as Reform UK rallies strong across national opinion polls. Any potential change in the Labour that does not formulate any concrete fiscal continuity or policy could result in higher wealth taxes, higher insurance prices, and further inflation that could be fulfilled across the market, and thus resulting in increases government borrowing costs, which would weaken the GBP further from any major global currency. At the same time, any peace deal is falling, with conflict persisting further, triggering the Brent Crude Oil to stay at levels above $95 per barrel, forcing the BoE to trigger potentially two hikes in the interest rate, reaching a high 4.25% instance, affecting both the British economy and the FTSE at a large level.

Scenario summary:

Factor	Bull	Neutral	Bear
BoE's decision	Holding the rate at 3.75%	One hike at 4%	Consecutive hikes reaching 4.25%
CPI	Below the target of 3.25%	Between 3 and 3.25%	Above the target-level 3.25%
Brent Crude Oil	$75-$80 per barrel	$80-$90 per barrel	Above $90 per barrel
UK political landscape	Burnham victory and Chancellor signalling early fiscal policy	Burnham victory but unclear fiscal policy announced	Uncertainty in the Labour, risk of early elections, no fiscal policy on the loose
FX dynamics	Recovery of GBP/USD towards 1.33	1.31-1.34	Persisted drops as per the last 6-month dynamics
10-year gilt yield	4.4%-4.6% range	4.7-5% range	5.5% momentum

Sector positioning	Overweight rate-sensitive positions and miners, underweight energy	Overweight financials, pharma and defence, neutral mining	Defensive rotation for the pharma industry, hawkish for mining and energy

Conclusion:

With nominations for the Labour leadership starting on July 9th, the July 30th decision becomes the clearer scope of the next step that the Bank of England will incur. With a new Prime Minister to be expected by early September, the next 60 days could be the most crucial in the direction of the British economy, arguably the strongest and most uncertain context since the crisis occurring during Liz Truss' period in 2022 and the sluggish economic growth under Rishi Sunak in late 2023. For FTSE 100 investors, the index's international revenue could provide a neutral buffer, but any negative internal movement could bear further risks related to sterling-denominated assets or exposure to geopolitical risks over the summer.