

Lansdowne Developed Markets Long Only Strategy

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With thanks to Darren Winder at Lazarus for charts and ideas

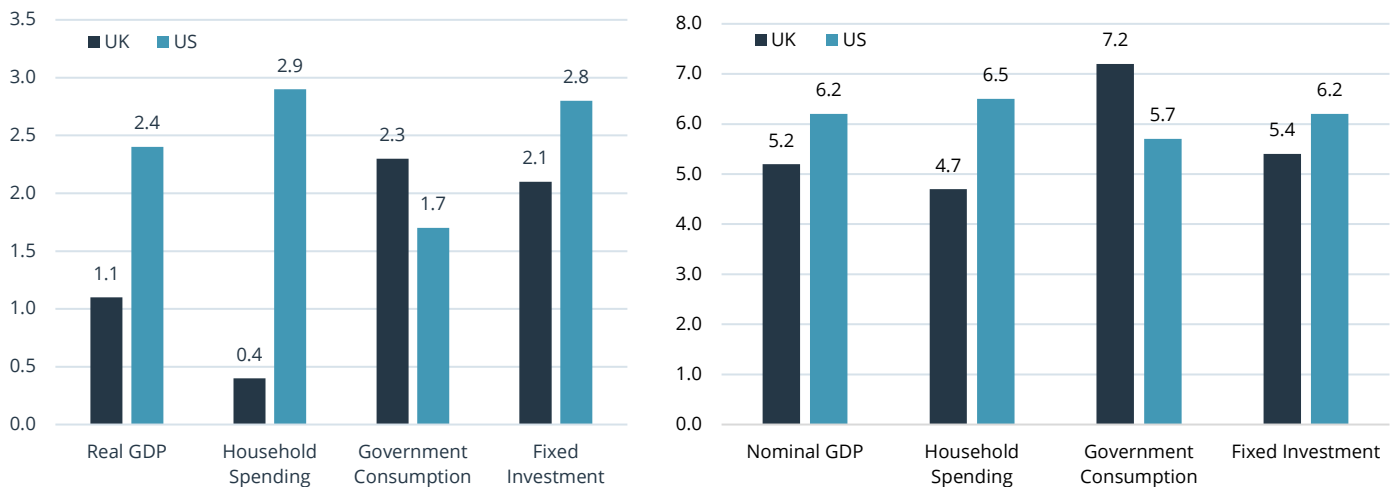
UK Growth Prospects – The Starting-Point

The increased debate on the future of the UK and its growth prospects is welcome and long overdue. Without durable plans to improve the productivity of land, labour and capital, sustained growth required to inspire future generations will remain in a vicious circle of short-term decision-making and political volatility.

While we have lots of ideas as to how such policies may evolve, the note below focuses on the present. We contend that actual data tells a very different story from that generally assumed about current growth.

This is shown in the charts below which segment UK and US economic growth (real and nominal) in the 2020s. As can be seen both Business Investment and Government Spending have grown at similar levels even with the OBR, US tech hegemony and anti-business policies from governments of various hues.

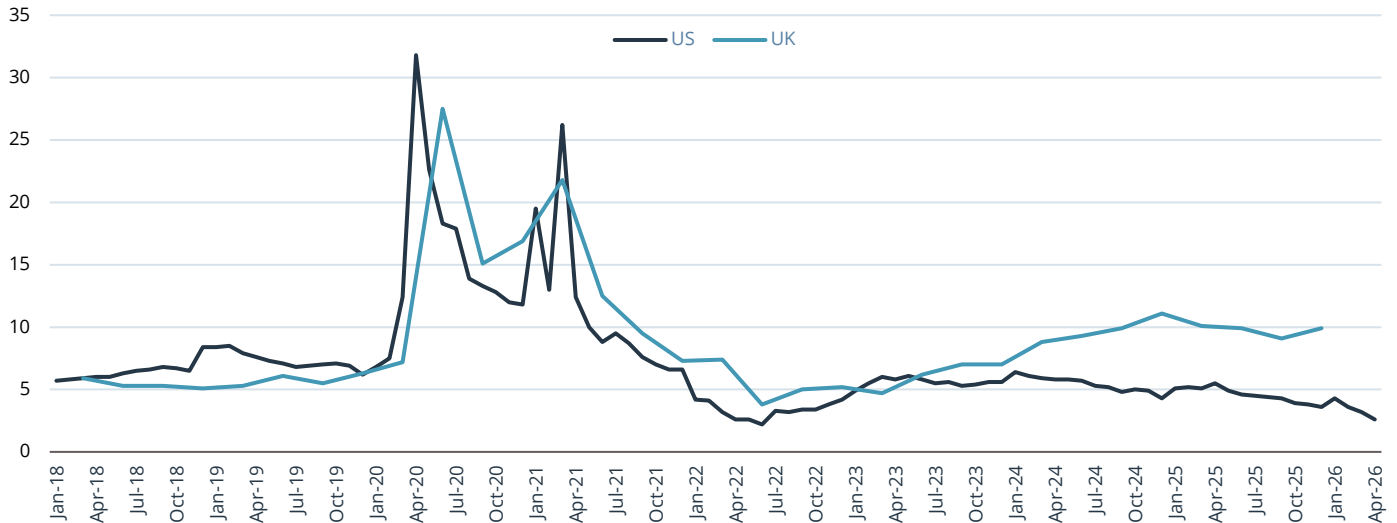
2020-2025 UK/US Growth (% CAGR, Real and Nominal)



Source: Lazarus Economics. Data as at 31/05/2026

That growth has not been equivalent has purely been a function of household consumption (c. 60% of GDP). The main driver of this is shown in the chart below. In the UK, households are saving at roughly double their pre-COVID levels, whereas in the US spending is at historic highs.

UK/US Household Saving Ratio (2018-date, %)



Source: Lansdowne. Data as at 30/04/2026

The impact of this needs internalising within current debates. Were the saving ratio at historic norms, GDP growth would have been close to 2pct in the last few years. This also ignores the second-order benefits such growth would likely have entailed. Fiscal receipts would be £50-60bn higher, bond yields likely lower and investment (both private and public) stimulated. In this scenario, there would be more opportunities and fewer constraints. For example, finding more tax revenue for defence would no longer be an issue that required some of the painful political tradeoffs and difficult decisions that we have seen the government grapple with over the past few weeks.

One can debate what caused this but two factors seem to us undeniable. First, interest-rates are too high, creating an incentive to save that is expanding fiscal deficits and long-term borrowing costs. Secondly, increased saving reflects uncertainty in the private sector (both from people/companies worrying about increased costs in the future and being reluctant to borrow to invest in the future). This obviously is not entirely a function of policy (energy shocks, AI uncertainty being hard to blame on a government) but likely has been amplified by the political chaos and gloom of the last decade.

If asked what lessons policy-makers might learn from the above two spring to mind. First, the prize of sustained economic growth is far closer than generally imagined. Even with all the aspects of sub-optimal policy and funding, growth outside of consumption is consistent with 2% GDP and stabilizing the savings ratio alone should enable us to get close to that figure. Should that be enhanced by improved strategic thinking 3-4% GDP growth is a perfectly reasonable aspiration. At such levels, a virtuous circle of falling deficits, bond yields and political stabilisation likely alone would generate much of this acceleration.

Secondly, policy makers continuing the mistakes of the last decade is the biggest risk to this outcome. Monetary policy-makers need to check they are not misreacting to supply shocks, and governments need to check that a new 'policy idea' does not just feed uncertainty.

Most importantly, as we contemplate yet another change in prime minister, it is important for politicians to remember the importance of the 'do no harm' principle, or, more topically, to avoid own goals. The economic situation has the potential to be far better than currently assumed if time is allowed for needed long-term measures to be developed and implemented. The political syllogism ('We need to do something. This is something. Let's do this.') is a temptation to be resisted, by this, or any subsequent prime minister, when faced with this equation.