The BlackPoint Allocation View

UK Sector Strategy & Cross-Asset Positioning · The Month Ahead · August 2026 edition · published 1 August 2026

Higher for longer — rotate from duration into the reflation trade

Our view. July inverted June's thesis. The MPC held at **3.75%** but the vote turned **hawkish 6–3** — Greene, Mann and Pill voting to hike — with the MPR flagging upside inflation risk. The **Hormuz accord the market banked on failed**: Brent re-firmed ~21% to **~$90**, and the 10-year gilt jumped to a **14-month high of 5.07%** on the hawkish turn and a fiscal premium under the new Burnham government. Yet growth re-accelerated — the **July flash PMI returned to expansion at 52.1** — even as June CPI fell to **2.6%** (services still sticky at 3.6%). The easing/duration trade is over. **This month we rotate:** Gilts and bond-proxy Utilities off Overweight, and the overseas-earner defensives (staples, health) to Neutral as sterling firms; into the reflation and rate-beneficiary trades — **Energy back to Overweight, Banks upgraded, materials off Underweight** — with Insurance the income Overweight higher-for-longer helps.

THE MACRO DIAL

BANK RATE 3.75% held 30 Jul, 6–3 hawkish	CPI (JUNE) 2.6% services 3.6% sticky	CORE CPI 2.6% → ~3.5% Q4 (house)	UNEMPLOYMENT 4.9% pay 3.4%; payrolls −71k
JUL PMI 52.1 back to expansion	BRENT ~$90 +21% m/m; accord fails	FTSE100 FWD YIELD 3.4% vs 10y gilt 5.07%	10Y GILT 5.07% 14-mth high; hawkish + fiscal

UK SECTOR POSITIONING · VS FTSE 350

SECTOR (ICB)	WT %*	RATING	Δ	ACTIVE %	WHAT CHANGED / WHY
Banks	11.5	O/W	▲	+2.0	Higher-for-longer NIM; hawkish hold steepens the curve; capital return, ~5% yield
Insurance	5.0	O/W	=	+2.0	Rate-resilient capital return; top index yields 7–9% (L&G ~8.7%)
Financial services	8.5	N	=	0.0	Mixed; LSEG quality offsets cyclical drag
Consumer staples	15.5	N	▼	0.0	Sterling tailwind reverses; rotate out of overseas-earner defensives
Health care	11.0	N	▼	0.0	Quality defensive, but firm sterling fades the overseas-earner FX leg
Utilities	3.5	N	▼	0.0	Bond-proxy de-rates as 10y hits 5.07%; easing tailwind gone
Energy	9.5	O/W	▲	+2.0	Hormuz accord fails; Brent re-firms to ~$90; inflation hedge, upgrade risk
Industrials	12.0	N	=	0.0	A&D order books strong but valuation full
Basic materials	7.0	N	▲	0.0	Commodity reflation + upgrade momentum; soft China caps to Neutral
Consumer discretionary	10.5	U/W	=	−2.2	Rate-sensitive; 10y 5.07% and housebuilder stress
Real estate	2.5	U/W	=	−1.6	Financing-cost sensitive; 5.07% gilt deepens the headwind
Telecommunications	1.5	N	=	0.0	Stable; small index weight
Technology	1.0	N	=	0.0	Negligible UK weight; expensive, long-duration

*Benchmark weight approximate. Active % is the suggested over/underweight, derived from the scorecard composite in the data-pack engine (page 7); Δ vs prior month (▲/▼). A regime-shift month — six sector calls move, all one rotation.

THREE CALLS THAT CHANGED THIS MONTH

Energy → Overweight
UPGRADE ▲
The Hormuz accord failed; Brent re-firmed ~21% to ~$90. Cheap, high-yielding, an inflation hedge with upgrade risk.

Banks → Overweight
UPGRADE ▲
A hawkish hold keeps the NIM tailwind alive and steepens the curve; ~5% yields, the cleanest rate-beneficiary.

Utilities → Neutral
DOWNGRADE ▼
The easing tailwind is gone and the 10-year is at 5.07% — the bond-proxy de-rates. Take July's upgrade off.

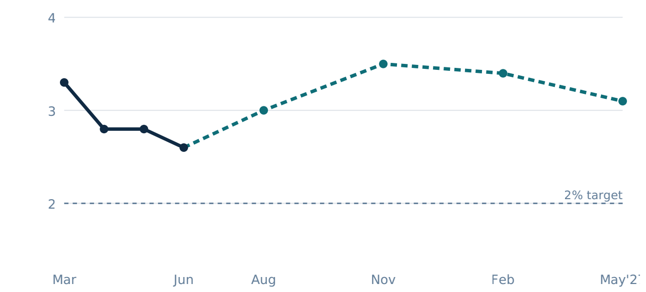
MACRO FOUNDATION · THE MONTH JUST GONE, THE MONTH AHEAD

What changed in July. The committee held at **3.75%** but the vote turned **hawkish 6–3** — Greene, Mann and Pill dissenting for a 4.00% hike — and the Monetary Policy Report flagged **upside inflation risk**. The trigger was energy: the Hormuz accord the market had priced in **failed to hold**, and Brent re-firmed **~21% on the month to ~$90**. Gilts sold off hard, the 10-year reaching a **14-month high of 5.07%**, with a fresh fiscal premium after **Andy Burnham took office as PM on 20 July**. Against that, the real economy actually firmed: the **July flash PMI returned to expansion at 52.1** (manufacturing a 22-month high), and unemployment ticked down to **4.9%**. June CPI still fell to **2.6%**, but the fall was fuel-led and **services stayed sticky at 3.6%** — the hawks' case.

The regime. We now read the UK as **higher-for-longer with reflation risk**: the easing path has been pushed out, the energy premium is back, long yields carry a fiscal term-premium, and growth is re-accelerating rather than cracking. That is a rotation signal — away from duration and bond-proxy defensives, toward rate-beneficiaries, cyclical value and the energy complex.

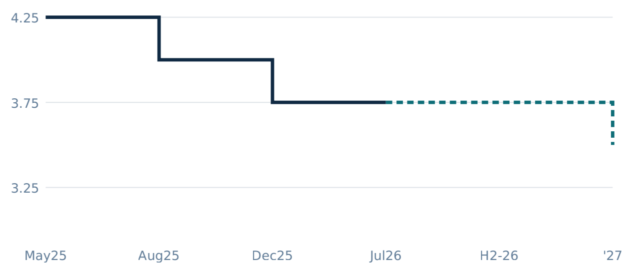
Headline CPI: ONS actual vs house path

%, YoY · solid navy = ONS actual (to June) · dashed teal = BlackPoint model



Bank Rate · decisions and house path

% · navy = realised · dashed teal = house path, terminal ~3.50% (hawkish risk of 4.00%)



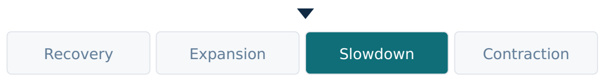
THE MONTH AHEAD · WHAT WE EXPECT INTO AUGUST

Energy still lifts the headline — but now from both ends. The **July Ofgem cap reset (+13%)** feeds the annual comparison, and this month firmer Brent pushes **motor fuels the same way** rather than offsetting it. We see headline climbing toward **~3.0% by August and ~3.5% by Q4**, with services the swing. The Burnham government's **planned cut to domestic-electricity-bill taxes** is a genuine two-way risk to that path.

The next checkpoint is 18 September — the following MPC decision. With three members already voting to hike and services at 3.6%, a hot services print or a Brent break above $100 would move the debate from "hold" to "hike." The **autumn Budget** under a new PM is the other live driver of gilts and sterling.

Where the UK sits in the cycle

Phase drives the sector tilt — a reflating late cycle favours rate-beneficiaries and cyclical value



UK: late-cycle, growth re-accelerating & inflation sticky

Transmission to markets. Higher-for-longer + a firmer economy + a re-firming oil price → **rate-beneficiaries** (banks, insurance) and the **energy / materials complex** over **bond-proxy defensives** (utilities) and **rate-sensitive domestics** (discretionary, real estate). The FTSE 100/250 split below still frames it.

CROSS-ASSET POSITIONING

The allocation matrix the sector view sits inside. Ratings are relative; Δ is versus last month. The central UK call is expressed through the **FTSE 100 vs FTSE 250** split, and the month's big cross-asset move is **Gilts off Overweight**.

ASSET CLASS	RATING	Δ	RATIONALE
UK equities	N	=	On hold Bank, cheap vs DM; express through the 100/250 split — now with energy and financials leadership.
— FTSE 100	O/W	=	Sterling / overseas earners, income and defensives; firm sterling trims translation, but the index's energy and bank weighting improves.
— FTSE 250	U/W	=	Domestic cycle, rate-sensitive; the 10-year at 5.07% caps the mid-cap even as PMI firms.
Gilts	N	▼	Hawkish 6–3 hold, three dissents to hike; 10y 5.07% (14-mth high) plus a fiscal premium — carry is attractive but regime and momentum are negative.
IG credit (£)	N	=	Carry improved by higher all-in yields; spreads tight.
HY credit (£)	U/W	=	Compensation thin for late-cycle default risk.
Sterling	N	▲	Hawkish BoE and higher yields support the pound; twin-deficit and fiscal risk under the new government cap it.
Commodities	O/W	▲	Brent re-firms to ~$90 as the accord fails; geopolitical bid; retain gold as a structural hedge.
Cash	N	=	Yields attractive; reinvestment risk recedes as cuts are pushed out.

House view. Shaded rows are the within-equity 100/250 expression of the headline-neutral UK equity stance.

WHAT CHANGED, AND WHY IT MATTERS

Gilts back to Neutral. Last month's modest Overweight rested on a resumed easing path; that thesis broke. The hawkish 6–3 hold, three votes to hike and a 10-year at a 14-month high (5.07%) push the regime and momentum signals firmly negative. We stop short of Underweight only because **5%+ carry is genuinely attractive** and eventually self-correcting — but duration is no longer a call we want to own into an autumn Budget under a new, fiscally looser government.

Commodities to Overweight. The failed accord and the re-firm in Brent (+21% on the month) turn the energy signal positive; we lift commodities and keep gold as the tail hedge.

Sterling off the floor. A hawkish Bank and higher yields have pulled the pound to ~1.33 and firm; we move to Neutral. The twin-deficit and new-government fiscal risks stop us going further — and a firmer pound is precisely what removes the tailwind under the overseas-earner defensives on the sector side.

The swing factors. The single biggest is the **Middle East**: the accord's failure is what re-armed the hawks and the energy trade, and a durable deal would reverse both. After that, **services inflation** (the hawks' case, and the risk of a September hike) and the **autumn Budget** (the fiscal premium in gilts and sterling) are the two to watch.

UK SECTOR STRATEGY · THE ACTIVE CALLS

Positioning is built bottom-up from the scorecard (overleaf) and top-down from the regime. This is a rotation month — we lead with what moved and where conviction is highest.

OVERWEIGHTS — rate-beneficiaries & the reflation trade

Energy (▲ upgrade). The month's headline call. The Hormuz accord failed and Brent re-firmed to ~$90; cheap majors (Shell, BP) with ~4–5% yields and buybacks become an inflation hedge with earnings-upgrade risk. Catalyst: the fading of the accord. Implication: back to Overweight.

Banks (▲ upgrade). The hawkish hold reverses last month's worry: the NIM tailwind persists rather than fading, the curve steepens, and ~5% yields plus buybacks reward the rate-beneficiary. Implication: the cleanest way to own higher-for-longer.

Insurance. Life insurers offer the index's top yields (L&G ~8.7%, Phoenix ~8%) with rate-resilient capital return — the one income Overweight that higher-for-longer actively helps. Implication: income that likes higher rates.

UNDERWEIGHTS — rate-sensitive domestics

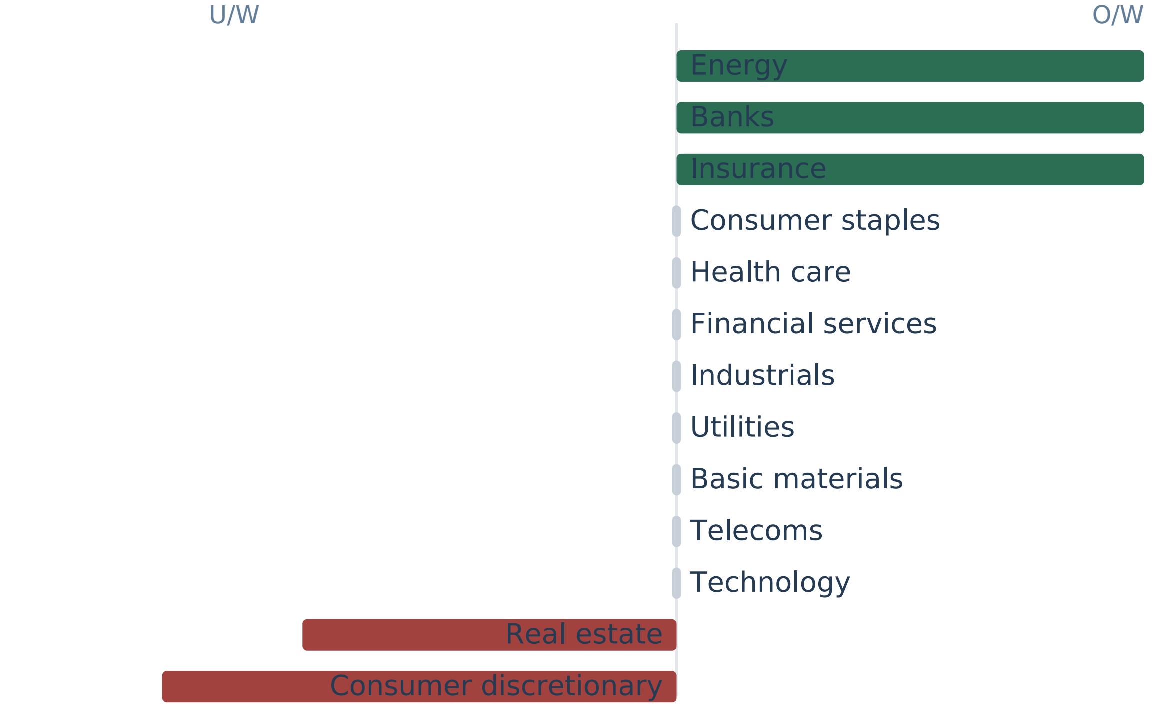
Consumer discretionary. The 10-year at 5.07% compounds soft domestic demand and housebuilder rate stress; the clearest funding underweight. Implication: keep UK-domestic cyclical exposure light.

Real estate. Financing-cost sensitive with gilt yields at a 14-month high; ~6–7% income does not offset the widening discount-rate headwind.

NEUTRALS — the rotation out. Staples and **Health care** (▼) come off Overweight: both are overseas-earner defensives whose weak-sterling tailwind reverses as the pound firms — quality we hold, but no longer a tilt. **Utilities** (▼) de-rate as the bond-proxy loses its easing tailwind at 5.07%. **Basic materials** (▲) rise off Underweight on commodity reflation. Industrials, Financial services, Telecoms and Technology stay Neutral.

Sector tilt vs FTSE 350 · August 2026

House active weights · a deliberate, modest net-long reflation tilt (+2.2) as growth re-accelerates



SECTOR SCORECARD · THE QUANT SPINE

Each sector is scored 1–5 (5 = most favourable) across five factors; the equal-weighted composite then passes through a documented **regime gate** to set the rating. The whole derivation is formula-driven in the data pack — every call is reproducible, not asserted.

SECTOR	RATING	MACRO	VALUATION	EARN. MOM.	PRICE MOM.	YIELD	COMPOSITE
Banks	O/W	4	4	4	4	3	**3.8**
Insurance	O/W	4	4	3	3	5	**3.8**
Financial services	N	3	3	3	3	3	**3.0**
Consumer staples	N	3	3	3	3	4	**3.2**
Health care	N	3	4	3	3	3	**3.2**
Utilities	N	3	3	3	2	4	**3.0**
Energy	O/W	4	4	3	4	4	**3.8**
Industrials	N	3	2	4	4	2	**3.0**
Basic materials	N	3	4	4	4	3	**3.6**
Consumer discretionary	U/W	2	3	2	2	2	**2.2**
Real estate	U/W	2	3	2	2	4	**2.6**
Telecommunications	N	3	3	3	3	4	**3.2**
Technology	N	3	2	3	3	1	**2.4**

Macro = sensitivity to the current regime. Composite = equal-weighted average; rating = O/W if macro fit ≥ 4 and composite ≥ 3.3, U/W if macro fit ≤ 2, else Neutral. Earnings momentum is a consensus-aggregate proxy (AJ Bell revision direction + trailing-vs-forward P/E + price momentum), not I/B/E/S revision breadth. Green shading = 4–5; red = ≤2.

HOW TO READ THE SCORECARD

The regime did the work this month. Nothing changed in the yield or valuation columns for energy and banks — what moved was **macro fit**. As the regime flipped from “disinflation and easing” to “higher-for-longer and reflation,” banks’ and energy’s macro scores rose to 4 and cleared the gate, while the bond-proxy defensives (utilities, and the FX-driven staples/health) slipped to 3 and dropped out of Overweight.

The income cluster splits. Insurance stays top of the tilt because its edge is rate-resilient yield, which higher-for-longer rewards. Utilities and staples, whose edge was duration and weak-sterling translation, lose it. Same “income” label, opposite rate sensitivity — the scorecard separates them.

Where cheap still isn’t a catalyst. Basic materials screens well on valuation and momentum and rises off Underweight, but soft China macro keeps its macro fit at 3 — Neutral, not a buy. Technology stays Neutral-to-poor: expensive, low-yield and long-duration into higher-for-longer.

Method note. The composite is a deliberately simple equal-weighted average — transparency over false precision. The value is consistency month to month: the scorecard is archived in the data pack, so this month’s regime-driven macro re-scoring becomes part of the record.

RISKS, SCENARIOS & WHAT WE'RE WATCHING

SCENARIO PATHS

Base — higher for longer (~55%)
No durable Hormuz deal; Brent holds ~$85–95. Growth stays firm (PMI > 50), services sticky; the Bank holds hawkish and the first cut slips into 2027. **Calls work as set:** Energy / Banks / Insurance lead, Gilts neutral, defensives trimmed.

Downside — the hawks win (~25%)
Services won't fall from 3.6% and/or Brent breaks >$100; the three dissenters gain a majority and the Bank hikes to 4.00%. Gilts sell off further. **Reverse:** deepen the rate-sensitive underweights, lean harder into banks/insurance, raise cash.

Upside — disinflation resumes (~20%)
A durable accord pulls Brent to ~$75–80; services finally breaks and the Bank signals cuts. **Reverse:** re-add duration (gilts, utilities) and rate-sensitives — real estate, discretionary, FTSE 250 — and trim the energy Overweight.

PRINCIPAL RISKS

- **Middle East / Hormuz.** The dominant swing factor — the accord's failure re-armed both the hawks and the energy trade. A durable deal would pull Brent back, revive the easing case, and reverse the Energy Overweight and the gilt downgrade.
- **Services persistence & the hawks.** Three members already vote to hike and services sits at 3.6%; a hot services print or a Brent break >$100 could force a 4.00% hike as soon as 18 September.
- **Fiscal / the autumn Budget.** A new Burnham government, stretched finances (June borrowing £16bn; the OBR's July Fiscal Risks report) and a planned electricity-tax cut keep a term-premium in gilts — the backdrop to the gilt downgrade.
- **Sterling, two-sided.** Hawkish-driven strength eases import inflation but pressures FTSE 100 translated earnings; a dovish turn or a fiscal wobble would flip it.

UPGRADE / DOWNGRADE TRIGGERS

• **Energy back to Neutral** if a durable accord pulls Brent below ~$80. • **Gilts back to Overweight** if the Bank signals cuts or growth rolls over. • **Rate-sensitives (real estate, discretionary, FTSE 250) upgrade** if the 10-year falls back below ~4.7%.

WHAT WE'RE WATCHING · AUGUST CATALYST CALENDAR

DATE	EVENT	WHY IT MATTERS FOR THE CALLS
~12 Aug	ONS labour market (AWE & LFS)	Tests the firmer-labour read (4.9%) behind the pro-cyclical tilt
~20 Aug	July CPI (ONS)	Services and the Brent re-firm are the swing for the September decision
late Aug	Ofgem sets the October price cap	The next energy-CPI step; ~+2–5% expected
ongoing	Middle East / Hormuz & Brent	The single swing factor for the Energy O/W and the gilt call
18 Sep	Next MPC decision	First read on whether the three hawks gain ground

METHODOLOGY, RATINGS LOG & DISCLOSURES

Ratings. Overweight / Neutral / Underweight relative to the FTSE 350. Δ marks the change versus the prior month (▲ upgrade, ▼ downgrade, = unchanged). Conviction is High / Medium / Low. Horizon blends a tactical 3–6 month view with a strategic ~12-month anchor.

Empirical engine. Every sector and cross-asset call is derived by formula in the data pack: standardised 1–5 factor scores (macro fit, valuation, earnings momentum, price momentum, yield) → equal-weighted composite → a regime-gated rating rule, with weights and thresholds visible and tunable. This month's moves trace almost entirely to the macro-fit re-scoring as the regime shifted to higher-for-longer. Earnings momentum is a consensus-aggregate proxy, not terminal revision breadth.

Data & attribution. Public, attributable sources only — ONS, Bank of England, Ofgem, OBR (macro); FTSE Russell / LSEG and MSCI factsheets (index and sector weights, valuation, yield); AJ Bell Dividend Dashboard and DividendMax (consensus dividends, profits, cover, revision direction); ICE / LBMA (commodities). The forward CPI path is the BlackPoint model. Every series and its provenance sit in the accompanying data pack.

Ratings changes this month

DATE	SECTOR / ASSET	FROM	TO	RATIONALE
31 Jul 26	**Energy**	N	**O/W**	Accord fails; Brent re-firms to ~$90; inflation hedge, upgrade risk
31 Jul 26	**Banks**	N	**O/W**	Higher-for-longer NIM; hawkish hold steepens the curve; capital return
31 Jul 26	**Utilities**	O/W	**N**	Easing tailwind gone; 10y 5.07%; bond-proxy de-rates
31 Jul 26	**Consumer staples**	O/W	**N**	Sterling firms on the hawkish BoE; overseas-earner tailwind reverses
31 Jul 26	**Health care**	O/W	**N**	Firm sterling fades the FX leg; held at Neutral as quality ballast
31 Jul 26	**Basic materials**	U/W	**N**	Commodity reflation + upgrade momentum; soft China caps
31 Jul 26	**Gilts**	O/W	**N**	Hawkish 6–3 hold; 10y 5.07% (14-mth high) + fiscal premium
31 Jul 26	**Sterling**	U/W	**N**	Hawkish BoE + higher yields support; fiscal risk caps
31 Jul 26	**Commodities**	N	**O/W**	Brent re-firms ~$90; geopolitical bid; gold hedge retained

Append-only log. The full dated history is maintained in the data pack's Ratings Log tab.