COLOMA
WEALTH MANAGEMENT

# 2026 INCOME OUTLOOK

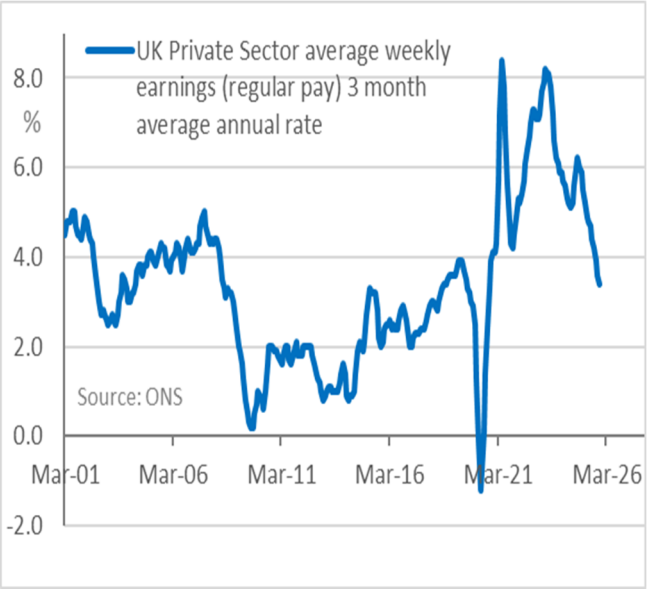
As UK interest rates continue to fall, I look at the issues that are likely to impact income investments for the rest of the year.

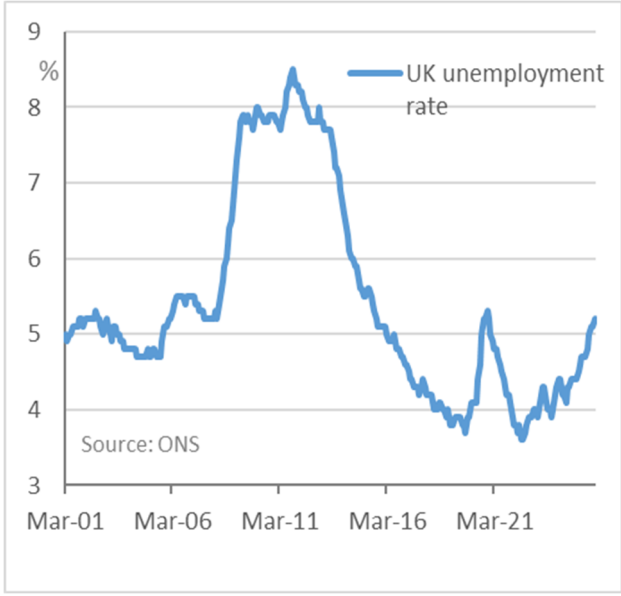
**Why has the UK labour market weakened and will it continue to weaken further?**

Over the past three years conditions in the UK labour market have gone from boom times to a more sober environment. At the lower end of the labour market employers, faced with an increase in National Insurance Contributions and a National Minimum Wage that has risen twenty percent in real terms over the past five years, are trying to economise on labour. For graduates, life has also become much tougher with a collapse in entry level jobs. According to the job website Adzuna graduate vacancies have fallen by 45% over the last year. Some of this is no doubt a function of Artificial Intelligence reducing the need for research and information gathering roles. However, it also probably reflects genuine uncertainty about the future structure and shape of white-collar organisations. All this has seen unemployment rise from a low of 3.6% in 2022 to its current rate of 5.2%. Over the same period private sector average weekly earnings (regular pay) has decelerated from a peak annual growth rate of 8% to its current rate of 3.4%. Please see charts below.

The risk going forward is that the unemployment rate continues to rise. With economic growth expected to register just above 1% for the next two years employers may increasingly focus on cutting labour costs, as a means to grow profits, rather than trying to grow the revenue line. Furthermore, rapid developments in Artificial Intelligence may begin to facilitate this.

CHARTS 1&2: THE UK LABOUR MARKET HAS BEEN WEAKENING STEADILY




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**What is the outlook for UK interest rates?**

UK interest rates have fallen much more slowly than those in Eurozone as the Bank of England has worried that high pay growth, due to a tight labour market, would lock in elevated rates of inflation. However, this is now in the process of dissipating. Instead, the Monetary Policy Committee could be faced with ongoing rounds of cost cutting that continues to drive unemployment higher and inflation lower. In this scenario the risk is that the Bank of England would have to move rates significantly lower, say to 2.5%, to boost growth and business confidence.

**How would a change in Prime Minister impact UK income investments?**

The prime minister seems to have survived his difficulties related to the appointment of Peter Mandelson as United States ambassador. His next major test will be the local authority elections on May 7th. If these prove to be disastrous then the Labour party may well decide to elect a new leader. The most likely replacement is Angela Rayner. Her election could be expected to cause some concern in UK financial markets as she is viewed as more left wing than Kier Starmer. However, once the electioneering is over, in order to govern effectively, she will likely have to appoint a fiscally conservative Chancellor. So, the risk of another meltdown in the UK government gilts market is viewed as modest.

**How could Artificial Intelligence impact the economy and interest rates?**

In recent weeks financial markets have been beset by worries about the impact of Artificial Intelligence on incumbent businesses. These have been fanned by the news that tech firm Anthropic uses AI for 90% of its in-house coding and by claims by the Microsoft CEO that AI will be able to perform a lot of white-collar tasks in about 18 months to 2 years. Whilst AI will undoubtedly disrupt office employment it will not happen instantaneously. The real world is messy complicated and imperfect compared to the environment of an AI lab. Barriers that the new technology will have to overcome are legacy IT systems, change management, legal liability, regulation and inertia. Furthermore, jobs are bundles of tasks some of which can be automated and many of which probably can't as things stand. Data from Anthropic suggests that only 4% of occupations currently use AI more 75% of the time. Whilst AI has certainly impacted a number of specific industries such as legal research, marketing and coding, the macroeconomic impact is likely to be one of evolution rather than revolution. At the moment the biggest impact is being felt via a reluctance to invest in new entry level staff as companies have little visibility on the future shape of their organisation in the face of the rapid advancements in AI. On a five year view AI is a labour saving technology so at the margin it will lower inflation and interest rates and raise unemployment.

**Conclusion**

With the risks to interest rates very much to the downside the emphasis is on locking in the current attractive yields on offer. For example, the 15 year UK government Gilt yields 4.75% while the Segro 5.75% 2035 bond still pays over 5%. In property GP surgery landlord Primary Health Properties offers value with a yield of 6.6% while in infrastructure International Public Partnerships (INPP) pays 6.4% and still trades at a discount to fair value (Net Asset Value).

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For information only. Investors should seek professional advice for their own circumstances before making an investment.