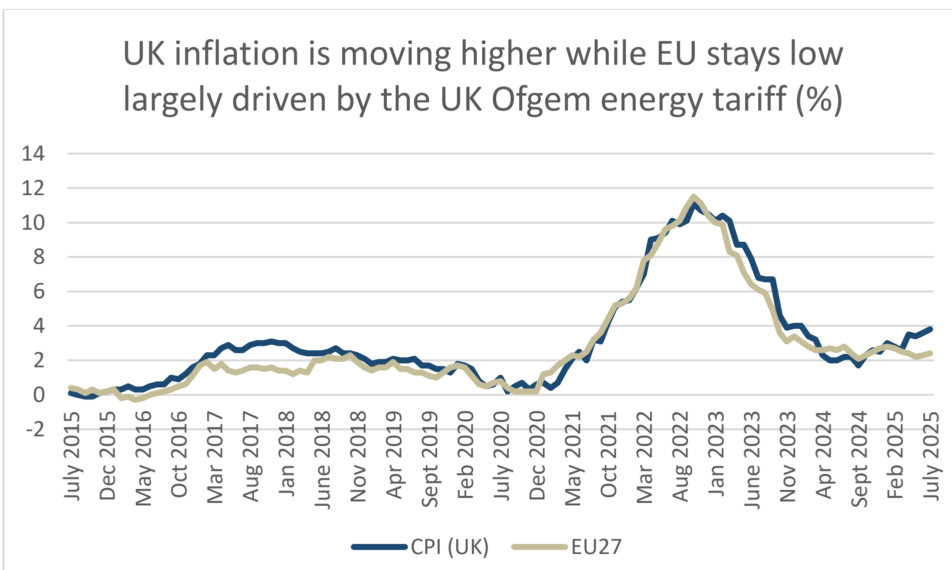
AozoraStep
For professional clients

8th September 2025

UK Equities at an Inflection Point[1]

UK Equities: Why now?

While this might sound like a cheap sales comment, I believe now is the perfect time to invest in UK equities. It was a dreadful summer with every other week another tax hike being leaked through the press. This week, it felt like we had another bond market meltdown. But this specific event could mean that it marked the bottom of UK equities – sometimes a trigger like this is needed. There are so many cheap valuations out there across so many sectors, which largely reflect the multiple tax hike threats. At the same time, any positive developments, such as interest rate cuts (which seems more likely now), could therefore move valuations higher, very rapidly. The timing of the Autumn Budget (26 November) is crucial. Mid-November we will receive the October inflation print, which will likely move lower, as the year-on-year quarterly Ofgem energy tariff will reduce from +10% (currently) to +2%. This also explains why UK inflation has remained elevated compared to Europe, i.e. just a "technical glitch" (yes, some NIC related inflation is surely in there as well, but overall, the Ofgem energy tariff is the main driver here).



Source: Office for National Statistics

[1] all assumptions and observations are based on internal modelling and data analysis

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

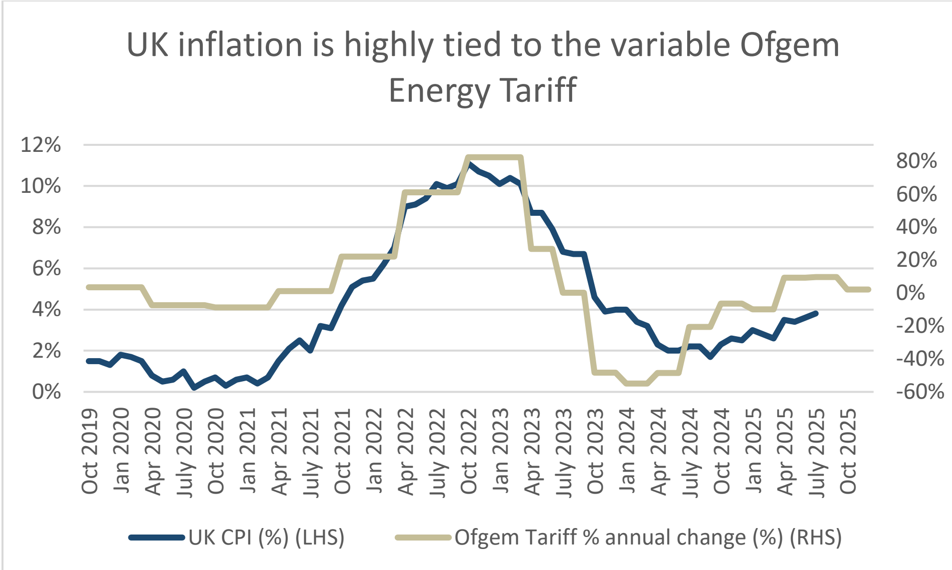
The importance of the Ofgem energy tariff

Inflation is the most important variable to understand when investing in UK domestically focused equities. This is largely due to the 25% of UK inflation-linked government debt. To demonstrate this (and I've mentioned this in more detail this note here last month), the 2022/23 energy crisis explains this very well, as interest expense on the 25% of UK inflation-linked government debt climbed to 63% of total interest expense (or £67bn). Over the last four years, inflation linked debt cost the UK government 44% of total interest expense[2]. But it could have come a lot worse if the government would have not capped the Ofgem tariff at £2,500 per annum in 2022/23, as headline inflation rates would have potentially reached 20% due to the difference in annual Ofgem tariff moving to 212% (£4,279) vs. 82% at the £2,500 capped rate. The cap cost the government £23bn[3], but it would have been much more expensive to pay the interest on the inflation-linked government debt, as inflation could have doubled without the cap. Without a spike of energy costs by mid-November this year, the Ofgem tariff would likely go negative for January-March 2026 (-35% at 78p/therm vs. 120p/therm in November 2024) and further down the curve, giving the OBR the ability to lower its inflation forecasts, which translates into lower interest rates.

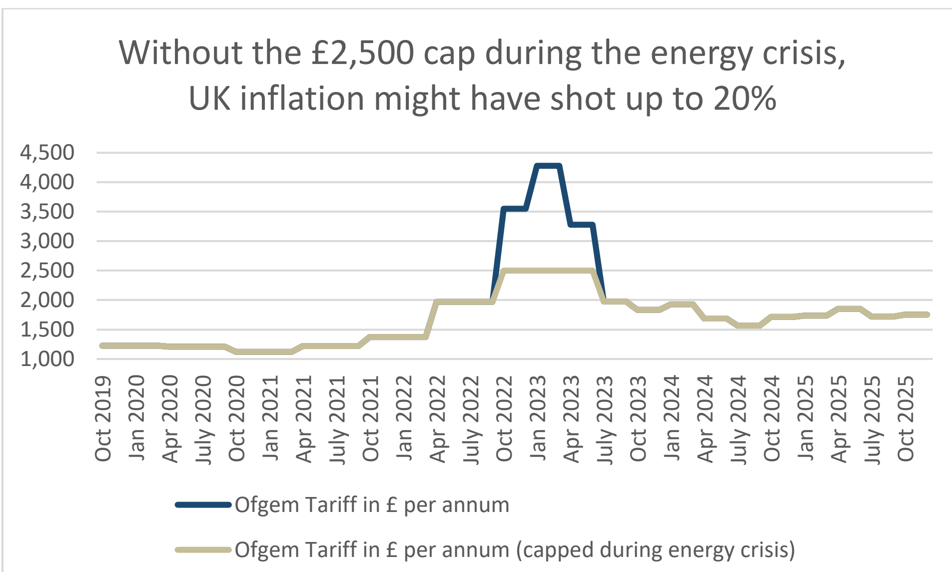
[2] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2025, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/june2023

[3] https://obr.uk/box/the-cost-of-the-governments-energy-support-policies/#:~:text=the%20cost%20of%20the%20EPG,due%20to%20higher%20energy%20prices.

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com



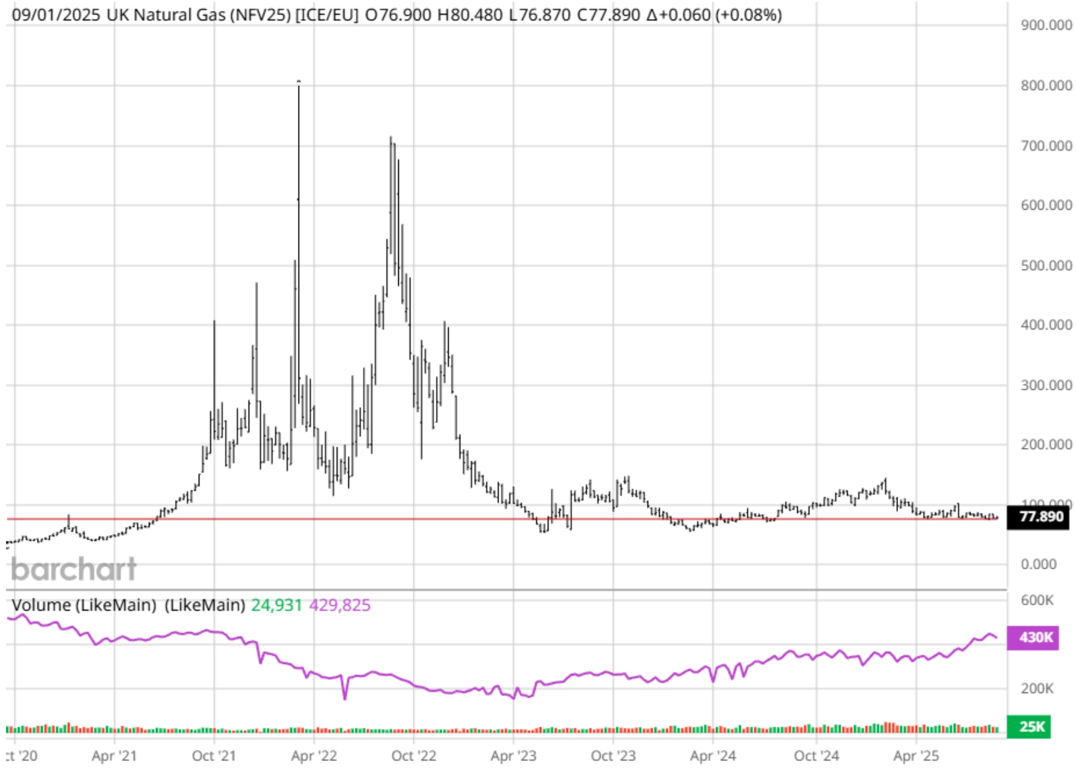
Source: Office for National Statistics, Ofgem



Source: Office for National Statistics, Ofgem

<u>UK January 2026 natural gas price per therm</u>

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com



Source: Barchart

Leaked tax hikes

The current projections for tax hikes in this Autumn Budget range between £10-50bn[4]. One thing everyone can agree on is that taxes will definitely go up next year. Below is a list of most of the proposed tax hikes through media leaks (which does not mean that Labour is actually going ahead with them). Overall, this is a grim list, but I believe that with the lower inflation and lower interest rates next year, we could have a tailwind of reducing government debt faster than the OBR estimates this year.

[4] https://www.bloomberg.com/news/articles/2025-01-17/faltering-uk-growth-risks-30-billion-hole-in-reeves-budget, https://niesr.ac.uk/wp-content/uploads/2025/08/JC883-NIESR-Outlook-Summer-2025-UK-v6-1.pdf?ver=s6FUUOXWFbrV1jGyxKiX, https://www.swgroup.com/autumn-budget/#faq-question-title-6839-6d71892a-0131-47af-939b-06c42cd25e20

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

UK Autumn Budget 2025 Proposals

Tax type	Change	Tax revenue (£bn)	Comment
Income tax	Freeze on personal and higher-rate income tax threshold to be extended from 2028 to 2030	8	Only brings tailwinds from 2028
Inheritance tax	Lifetime gifting limit on how much can be passed on tax-free before death Reducing the existing taper relief that discounts the rate of IHT on gifts made at least three years before death Extending the freeze on the £325,000 nil-rate-band threshold to 2030 Restricting or reducing the £175,000 residence nil-rate band on the main home	5	Currently, £7.5bn is raised annually from IHT. The OBR already estimates annual IHT revenue to exceed £14bn by 2029-30 (0.45% of GDP vs. 0.2% before). Inheritance tax is charged at 40%. The £5bn was derived from a Resolution foundation proposal to replace the IHT with Lifetime Receipts Tax
Fuel duty	From 52.95p to 57.95p	2	Could impact inflation (nearly 9.5% impact)
Pensions	Removing the 25% tax-free lump sum on pension withdrawals	2	£18bn has been pulled from pensions this year vs. £11.25bn last year, £8-9bn years before
	Remove the state pension triple lock	15.5	£15.5bn is the additional costs by 2029-30 estimated by the OBR
Property and Wealth	Council tax to be based on property value	9	Would require a lot of lead time for consultation and would be very harmful for London
	Mansion tax on homes or land worth above a certain value	24	Would primarily impact London, where the housing market is already struggling. £24bn assume 2% tax on >£10m assets
	Stamp duty land tax	1	Making sellers liable for taxes on properties above a certain value, assuming £40k for 25k sales >£500k value each year
	National insurance for landlords on rental income	2	Landlords will need to submit their rental income under Making Tax Digital from 2026/27
ISA Allowance	Cash ISA allowance could be cut from £20k to £4k	2	This could drive more savings into UK stock & shares ISA and be positive for UK equities
VAT Threshold	VAT threshold could be reduced from £90k to £30k	2	This would impact SMEs greatly
Bank corporate tax	Tax rate could be increased from 28% to 30%	1	£1bn is equivalent to 2% of the £45bn pre-tax profit of the big four UK banks (Barclays, NatWest, Lloyds, HSBC)
Dividend	Scrap £500 free tax allowance on dividends	2	Given the 34.2m UK working population, assume 15m would pay 25% capital gains tax on £500
Betting and gambling	Online casino tax change from 21% to 50% and slots and gaming machines from 20% to 50%	3	-

Sources: https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/inheritance-tax, https://www.bishopfleming.co.uk/insights/autumn-budget-2025-tax-rise-predictions-stealth-and-wealth, https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance, https://www.telegraph.co.uk/money/pensions/news/savers-pull-18bn-pensions-ahead-inheritance-tax-raid/, https://www.aozorastep.com/The%20UK%20doom-loop%20and%20how%20it%20can%20be%20averted.pdf p. 14, https://www.vatcalc.com/uk/uk-to-raise-vat-registration-threshold-no-wait-its-going-to-cut-it, https://www.resolutionfoundation.org/publications/ineffective-savings-accounts/, https://www.themj.co.uk/reform-council-tax-level, https://taxjustice.uk/blog/how-to-raise-60-billion-for-public-services-our-ten-tax-reforms/,

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf p. 6, https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/betting-gaming-duties/, https://www.ajbell.co.uk/news/articles/uks-reeves-leaves-door-open-gambling-tax-rise-autumn-budget

It all depends on the OBR forecast

As a reminder, below are the OBR forecasts from May 2025 for the years 2025-2029. In my opinion, the OBR forecast on the bank rate and 10yr Gilt yield is way too high (i.e. the market), which could lead to positive surprises if they turn out to be lower. Annual GDP growth and inflation figures could vary over the next few months as the June GDP growth comparison to last year was very low at 0.7% (hence, higher annual GDP growth in June 2025, but lower in July 2025 to be reported next Friday), and the inflation figure will likely show a large uptick in September (reported mid-October) due to the low 2.6% CPI in September 2024. Equities are always forward looking, and I believe 2026 could leave the troubles of rising inflation, high interest rates and low growth behind us, especially due to the Ofgem tariff inducing deflationary pressures from January next year. Therefore, on a 6-months view, I not only believe that it is time to invest in UK equities (domestic focus), but also in the 50-year inflation-linked government bond (TG73).

The OBR forecast

Year	Bank Rate	10yr Gilt Yield	CPI Inflation	Real GDP Growth
2025	3.9	4.58	3.2	1.0
2026	3.8	4.74	2.1	1.9
2027	3.8	4.90	2.0	1.8
2028	3.8	5.06	2.0	1.7
2029	3.8	5.21	2.0	1.8

Source: OBR, https://obr.uk/economic-and-fiscal-outlooks/

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

UK GDP growth and CPI monthly history

Month	GDP Growth (%)	UK CPI (%)
Mar 2024	1.1%	3.8%
Apr 2024	0.9%	3.0%
May 2024	1.6%	2.8%
Jun 2024	**0.7%**	2.8%
Jul 2024	1.0%	3.1%
Aug 2024	1.2%	3.1%
Sep 2024	1.2%	**2.6%**
Oct 2024	1.4%	3.2%
Nov 2024	1.2%	3.5%
Dec 2024	1.7%	3.5%
Jan 2025	1.2%	3.9%
Feb 2025	1.4%	3.7%
Mar 2025	1.2%	3.4%
Apr 2025	1.2%	4.1%
May 2025	0.8%	4.0%
Jun 2025	1.4%	4.1%
Jul 2025	12-Sep	3.8%
Aug 2025		17-Sep

Source: Office for National Statistics

Why the gold (and especially silver) rally is not over yet

Perhaps the biggest mistake of mine this year was to lack an understanding of the gold rally. Having finally taken a look at purely the technicals makes me believe that the current gold-, and especially silver rally, is not over yet. Below I have collected the data on gold and silver rallies over the last 50 years (silver price data only starts from 1982). What is remarkable is that the current length of the rally is equivalent to the 2008-11 rally, yet silver has appreciated only around the same as gold. During the 2008-11 rally, silver ended up outperforming gold by 3x. Silver back then appreciated rapidly only over the last two months from February 2011 to late April 2011 (+65%). Whereas currently, silver is up only 25% since late May, which suggests the rapid silver appreciation is still to come. In this sense, adding a silver and gold miner like Fresnillo to the portfolio might still make sense, despite the miners having rallied by much more than the metals this year already.

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

Last 50 years of gold bull runs

From	Until	Years	Gold performance
12/01/1979	26/09/1980	1.7	221%
27/07/2001	02/09/2011	10.1	605%
28/12/2001	07/02/2003	1.1	35%
20/05/2005	14/07/2006	1.2	59%
17/08/2007	14/03/2008	0.6	53%
24/10/2008	02/09/2011	2.9	163%
28/09/2018	07/08/2020	1.9	71%
23/09/2022	31/08/2025	2.9	121%

Source: World Gold Council, Investing.com

Last 50 years of silver bull runs (data only starts from 1982)

From	Until	Years	Silver performance
04/07/1982	13/02/1983	0.6	132%
22/06/2003	24/04/2011	7.8	964%
22/06/2003	04/04/2004	0.8	80%
21/08/2005	26/11/2006	1.3	108%
12/08/2007	02/03/2008	0.6	72%
19/10/2008	24/04/2011	2.5	513%
15/03/2020	02/08/2020	0.4	125%
09/10/2022	31/08/2025	2.9	125%

Source: Investing.com

Last 25 years of silver vs. gold bull runs

Silver time period	Silver rally (years)	Gold rally (years)	Silver performance	Equivalent Gold rally	Silver performance multiple
2003-11	7.8	10.1	964%	605%	159%
2002-04	0.8	1.1	80%	35%	229%
2005-06	1.3	1.2	108%	59%	183%
2007-08	0.0	0.6	72%	53%	136%
2008-11	2.5	2.9	513%	163%	315%
2018-20	0.4	1.9	125%	71%	176%
2022-25	2.9	2.9	125%	121%	103%

Source: Investing.com

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

AozoraStep

For professional clients

Source: World Gold Council, Investing.com

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com

Legal Disclaimer

The contents of this document have been prepared solely for the purpose of providing information about David Herrmann trading as AozoraStep and the services and products he is offering, which are targeted for professional investors only. AozoraStep is a trading name of Vittoria & Partners LLP ("V&P"). V&P will be appointed to as the investment manager or adviser to any AozoraStep related products. V&P has seconded David Herrmann (IRN: DXH02219) to undertake regulated activities under the trading name. V&P is authorised and regulated by the Financial Conduct Authority (FRN: 709710). This document is intended for Professional Clients only. The opinions and views expressed are those of David Herrmann and may change without notice and should not be construed as investment, tax, legal or other advice. David Herrmann and V&P do not guarantee the completeness and accuracy of the information provided and all content can become out of date. Potential products or services mentioned in this presentation are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly, persons are required to inform themselves and observe any such restrictions. In respect to investments described in this document, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned in this document may fall as well as rise and may have tax consequences. The performance of the investment strategy that David is planning to offer is based on a personal track record and approved by Sedulo for the time period Q1 2019 - Q1 2021 and by HiCloud Accounting for the time period 2020 - 2024, only with further examinations being done on an occasional basis. All references to AozoraStep in this presentation should be read in the context of David Herrmann's secondment to V&P to undertake regulated activities.

21 Knightsbridge, London SW1X 7LY
www.aozorastep.com · david@aozorastep.com