

# UK / EUROPEAN BONDS

OCTOBER 2025

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Head of Portfolio Management

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# UK AND EUROPEAN GOVT BONDS

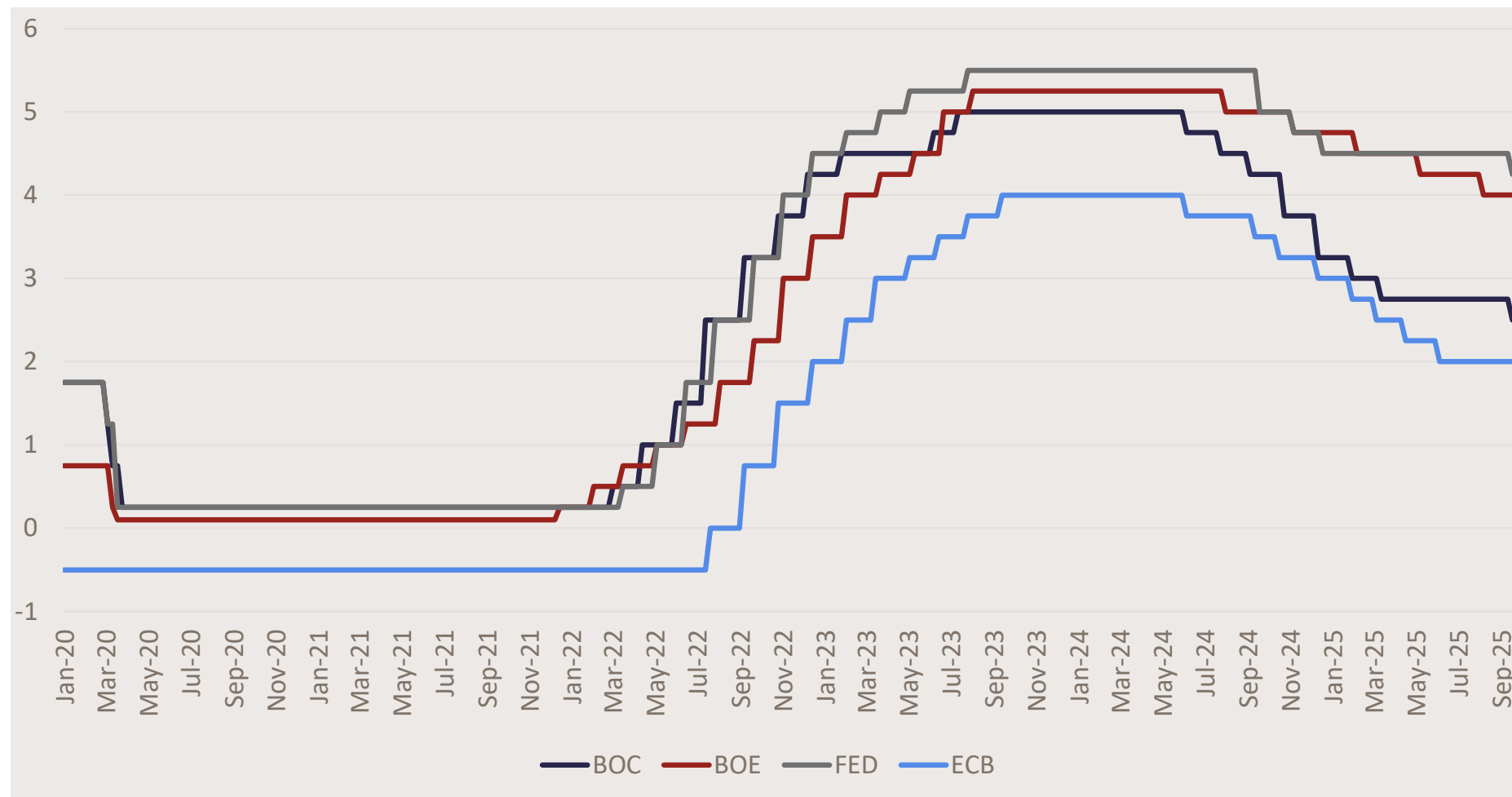
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## Key themes are as follows:

- Interest rate cycle – are we at the low or are there more rate cuts to come?
- Inflation divergence – UK versus EU – will this ultimately converge?
- Fiscal outlook is uniformly worrying for different reasons
- Peripheral European spreads – an inversion since the 2011 European debt crisis
- Case studies: France versus Italy / Irish government bonds

# GLOBAL INTEREST RATES

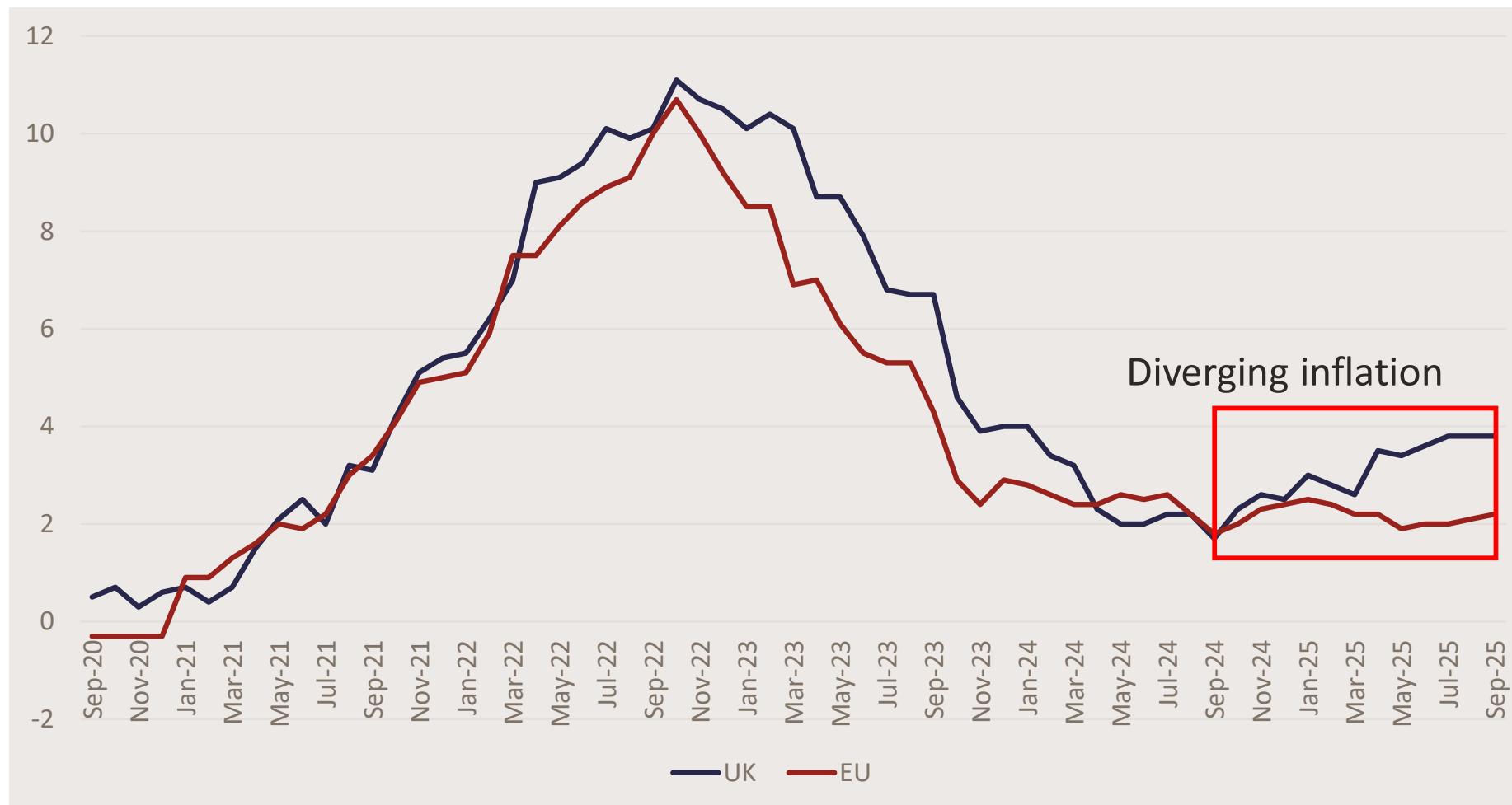
Short term interest rates are being lowered by G7 central banks (ex Japan)



Source: Bloomberg LLP, Oct-25

# INFLATION RATES

**UK and EU inflation broadly in line but recent increase in UK prices are an issue**



Source: Bloomberg LLP, October 2025

# A BRIEF HISTORY OF THE EURO

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## **Dramatic storyline involving multiple crises but with an eventual resolution**

- 1999-2002                      Introduction of EUR allowed many countries to borrow at lower rates
- 2004-2007                      Increased borrowing by periphery and housing bubbles in Spain / Ireland
- 2008                                Global financial crisis meant governments forced to bail out banks
- 2009                                Greece reveals 13% budget deficit / loses investment grade / requires aid
- 2010-2011                      Contagion spreads to Ireland, Portugal, Italy and Spain
- 2012                                Greek default – the largest sovereign default in history – EUR 200bn
- 2012                                ECB President Draghi announces OMT – unlimited support for periphery
- 2013 – 2015                      Recovery as peripheral spreads narrow sharply / QE introduced

Source: CAIM, October 2025

# CURRENT 5-YEAR EUROPEAN YIELDS

These are ranked – note the narrow spreads between periphery and Germany

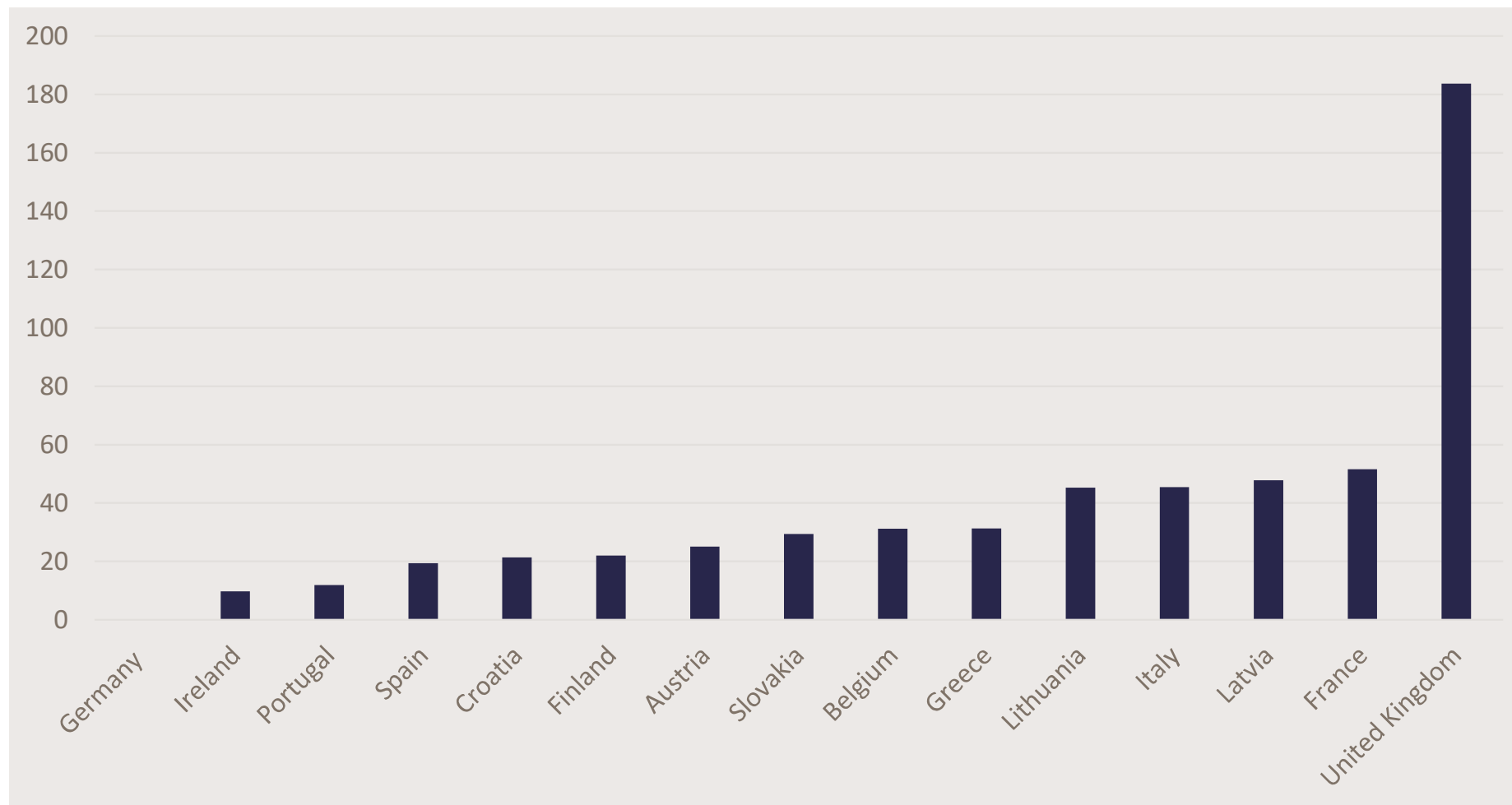
	Germany	2.30	OBL 2.2 10/30
	Ireland	2.40	IRISH 2.4 30
	Portugal	2.42	PGB 0.475 30
	Spain	2.49	SPGB2.7 01/30
	Croatia	2.51	CROATI2 ¾ 30
	Finland	2.52	RFGB 0 09/30
	Austria	2.55	RAGB 0 02/31
	Slovakia	2.59	SLOVGB0 ¾ 30
	Belgium	2.61	BGB 2.6 10/30
	Greece	2.61	GGB1 ½ 06/30
	Lithuania	2.75	LITHUN2 ⅞ 30
	Italy	2.75	BTPS 2.95 30
	Latvia	2.78	LATVIA2 ⅞ 30
	France	2.82	FRTR2.7 02/31
	United Kingdom	4.14	UKT4 ⅞ 03/30

Source: CAIM / Bloomberg 30-Sep-2025



# YIELD SPREADS VERSUS GERMANY 5YR

**France is now the highest yielding EU sovereign!**



# IRELAND – CASE STUDY

## In July 2011 Ireland lost its investment grade credit rating

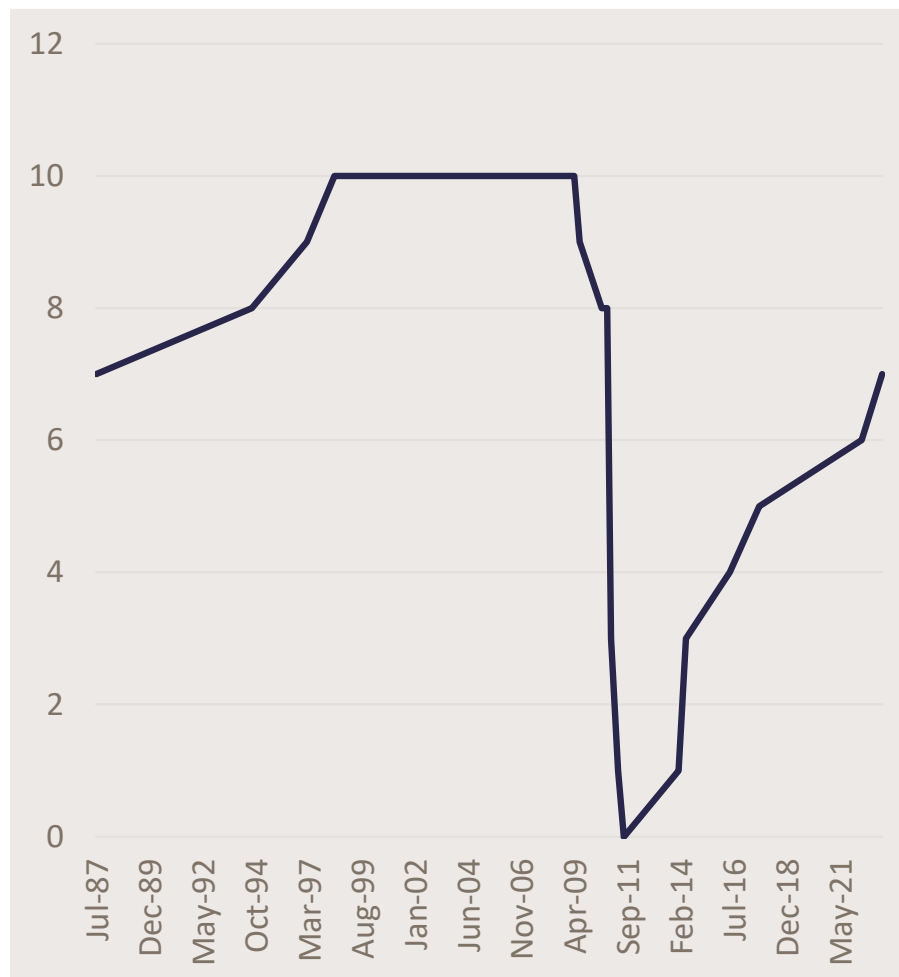
Aa3	21/04/2023
A1	06/05/2022
A2	15/09/2017
A3	14/05/2016
Baa1	16/05/2014
Baa3	17/01/2014
Ba1	12/07/2011
Baa3	15/04/2011
Baa1	17/12/2010
Aa2	05/10/2010
Aa2	19/07/2010
Aa1	02/07/2009
Aaa	17/04/2009
Aaa	04/05/1998
Aa1	13/02/1997
Aa2	31/08/1994
Aa3	15/07/1987

Source: Moody's October 2025



# IRELAND CREDIT RATING AND YIELD SPREAD

**LHS chart is Ireland's credit rating, RHS chart is 5-year yield spread versus Germany in bp**



# ITALY VERSUS FRANCE

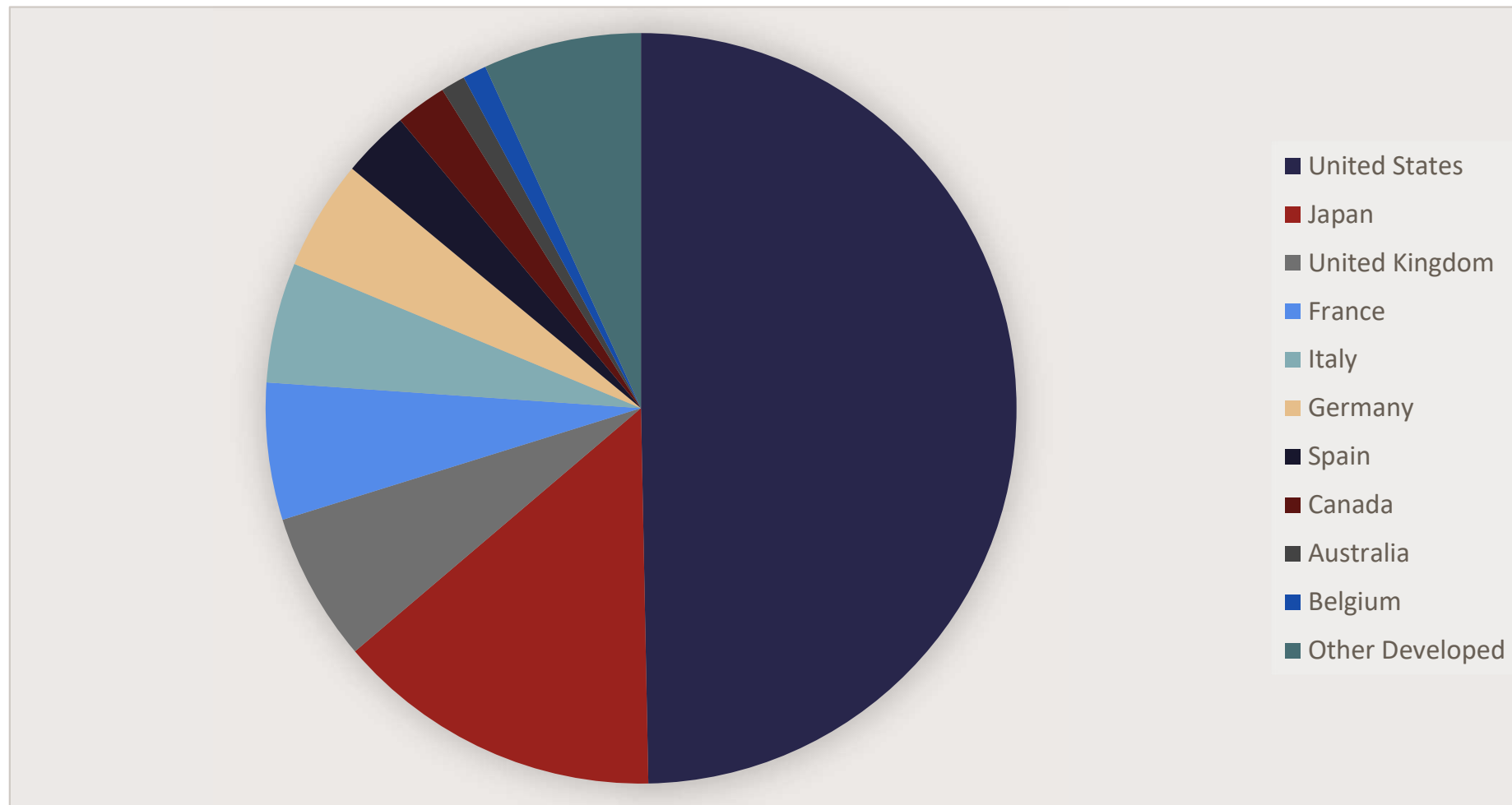
The chart show the 5-year yield spread between France and Italy, which is now < 0



Source: Bloomberg LLP, October 2025

# GLOBAL DEVELOPED MARKET DEBT

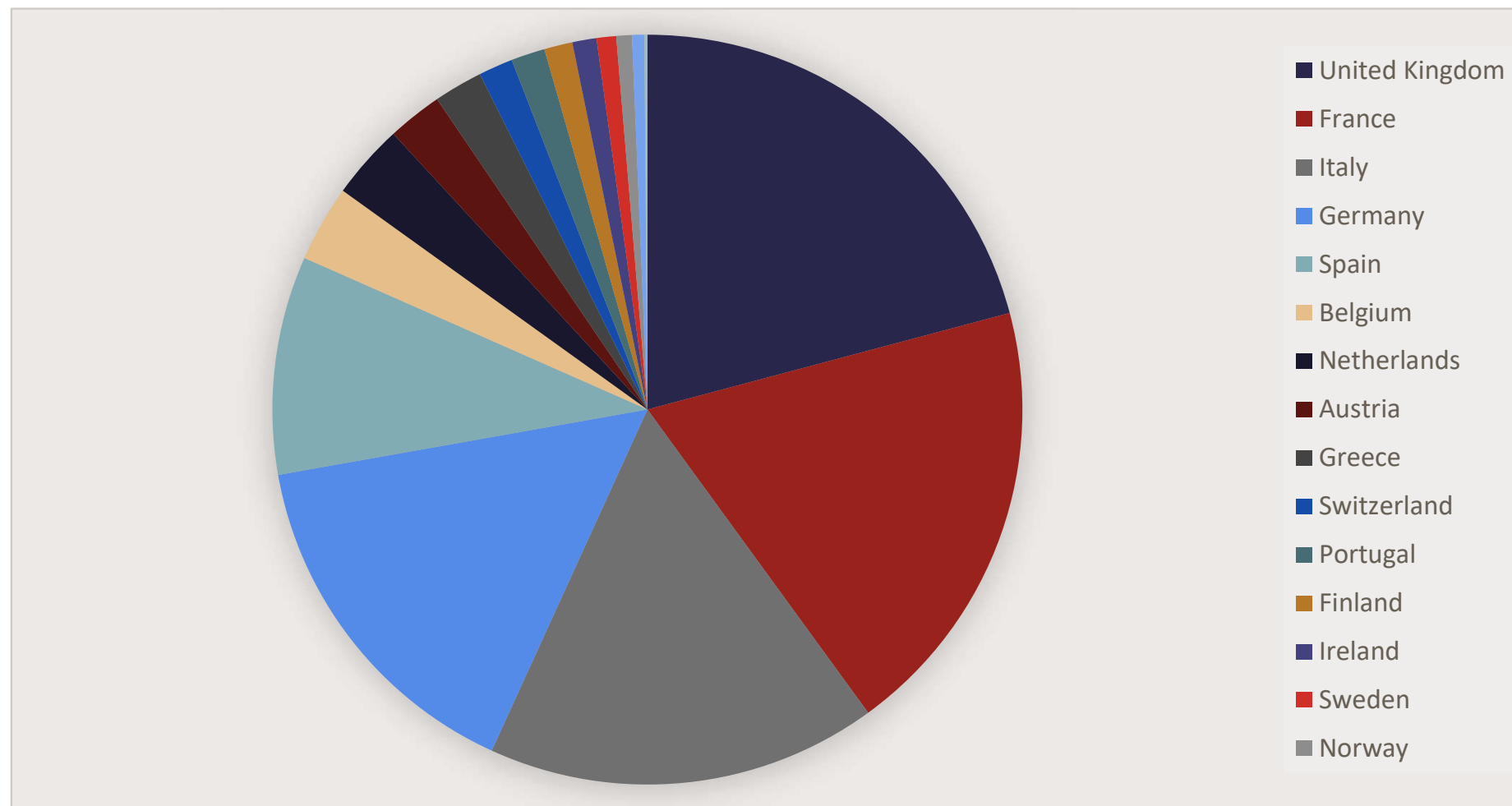
**US and Japan contribute around 2/3 of developed markets debt by amount outstanding**



Source: Bloomberg, October 2025

# EUROPEAN GOVT. BOND MARKETS

**UK, France, Italy, Germany, Spain and Belgium together account for 85% of the total**



Source: Bloomberg, October 2025

# FACTORS AFFECTING THE GILT YIELD CURVE

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## There are multiple factors affecting long-dated and short-dated Gilt yields

- Yields on short maturity Gilts are primarily linked to UK monetary policy
- Longer-dated Gilt yields are driven by many other factors, including:
  - Government credibility
  - Longer term inflation expectations
  - Supply: current and projected issuance of Gilts
  - Debt sustainability based on macroeconomic developments
  - Demand from DB pension schemes
  - UK sovereign credit rating

# UK MACROECONOMIC OUTLOOK

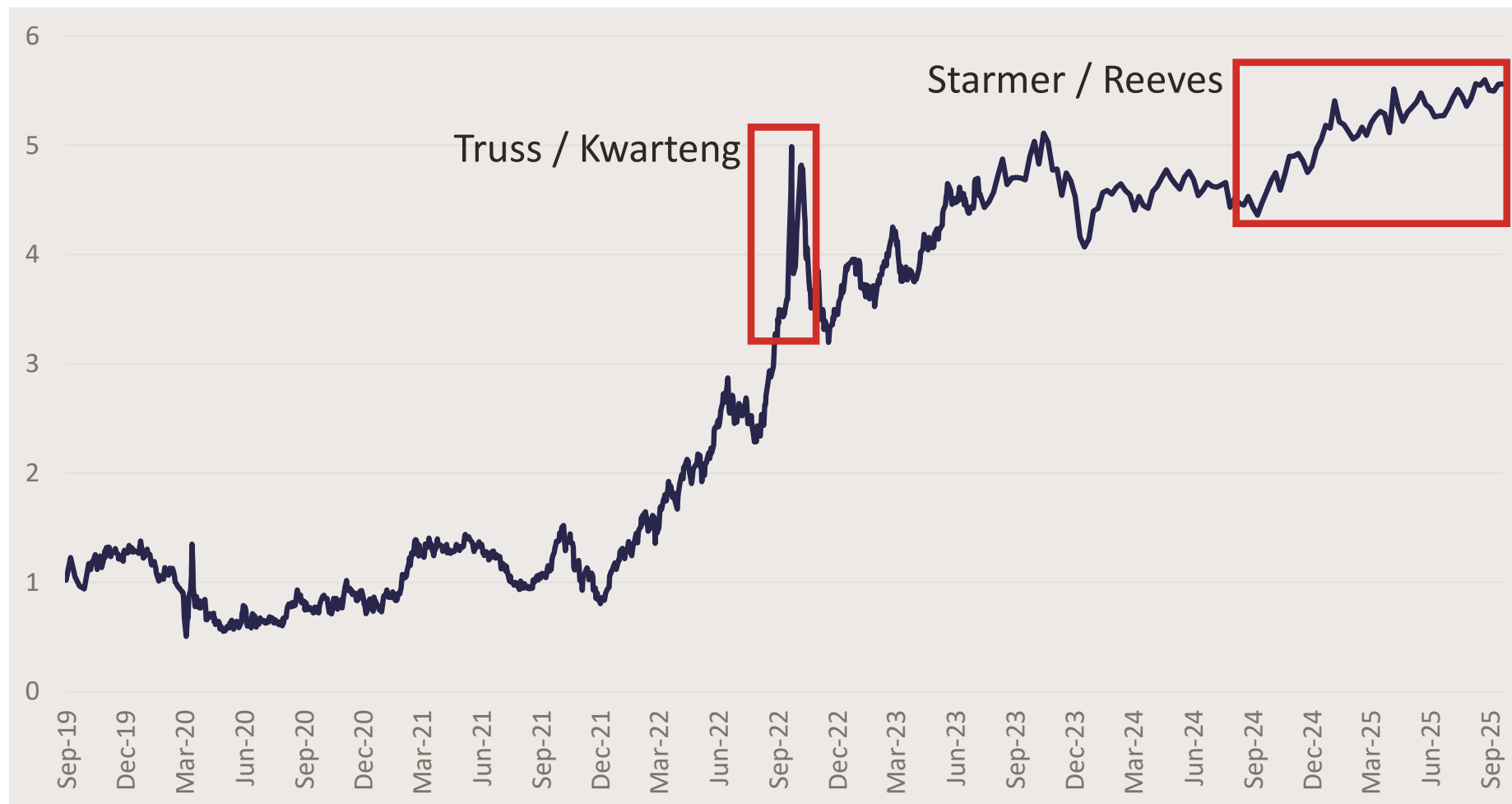
**Slower growth and falling inflation will allow rate cuts**

	2020	2021	2022	2023	2024	2025	2026
Real GDP (yoy%)	-10.3	9.48	5.28	0.28	1.13	1.25	1.25
CPI (yoy%)	0.85	2.58	9.05	7.38	2.53	3.75	2.50
Unemployment (%)	4.55	4.63	3.80	4.05	4.26	4.75	5.00

Source: BOE, Sep-25

# 30-YEAR UK GILT YIELDS

**Credibility of government is a key issue for UK Gilts**

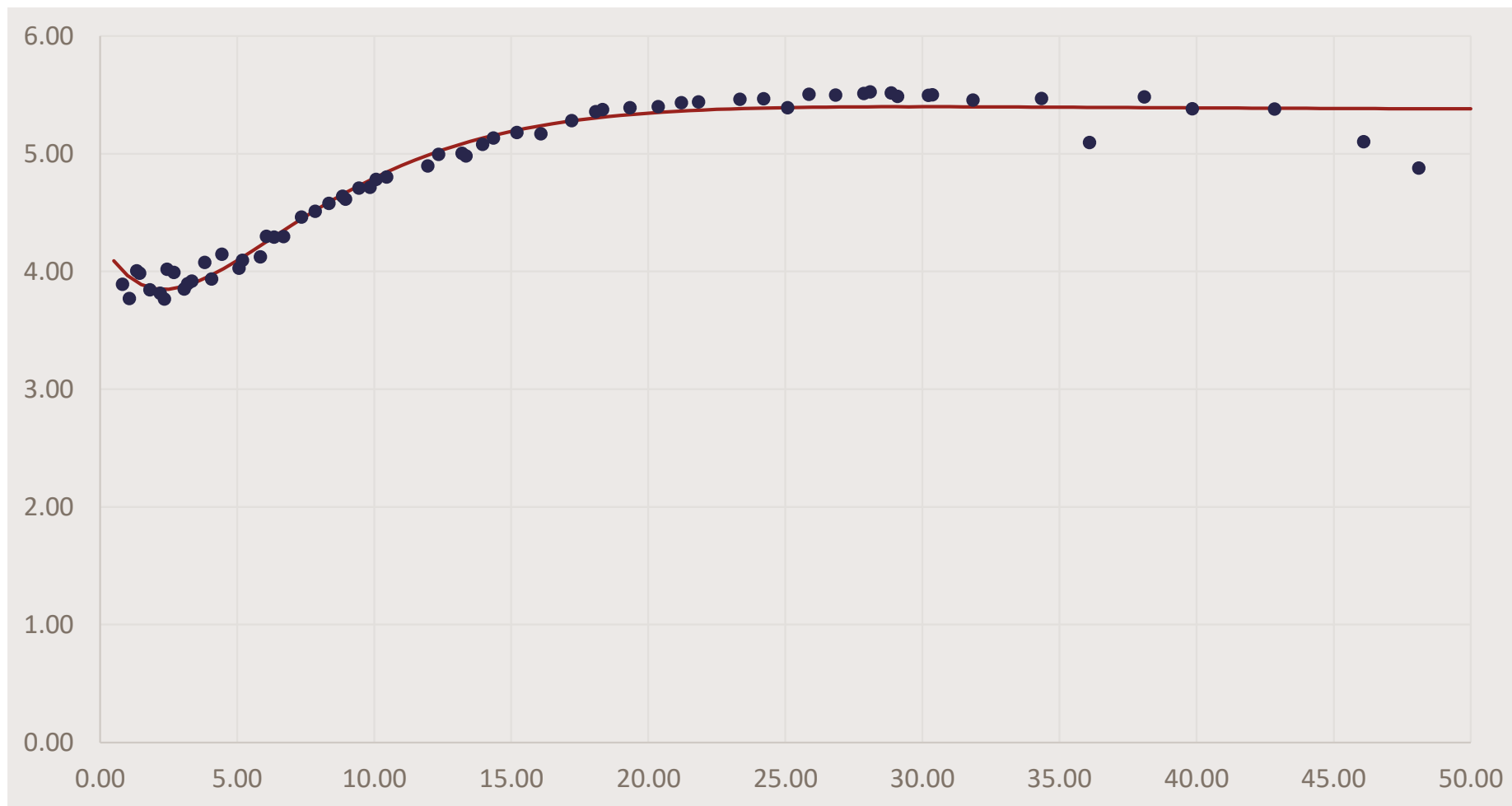


Source: Bloomberg Oct-25



# GILT YIELD CURVE MODEL

Challenging to 'fit' a yield curve model due to multiple idiosyncracies



Source: CAIM / Bloomberg LLP, October 2025

# SHORT END OF THE GILT CURVE

**Inverted yield curve and 'coupon effect' impact individual pricing**

	Coupon	Maturity	Yield	Price
United Kingdom Gilt	3.5	22/10/2025	4.01	99.97
United Kingdom Gilt	0.125	30/01/2026	3.29	98.99
United Kingdom Gilt	1.5	22/07/2026	3.86	98.15
United Kingdom Gilt	0.375	22/10/2026	3.74	96.56
United Kingdom Gilt	4.125	29/01/2027	4.00	100.15
United Kingdom Gilt	3.75	07/03/2027	3.99	99.67
United Kingdom Gilt	1.25	22/07/2027	3.84	95.53

Source: CAIM / Bloomberg Oct-25

# SHORT END OF THE GILT CURVE

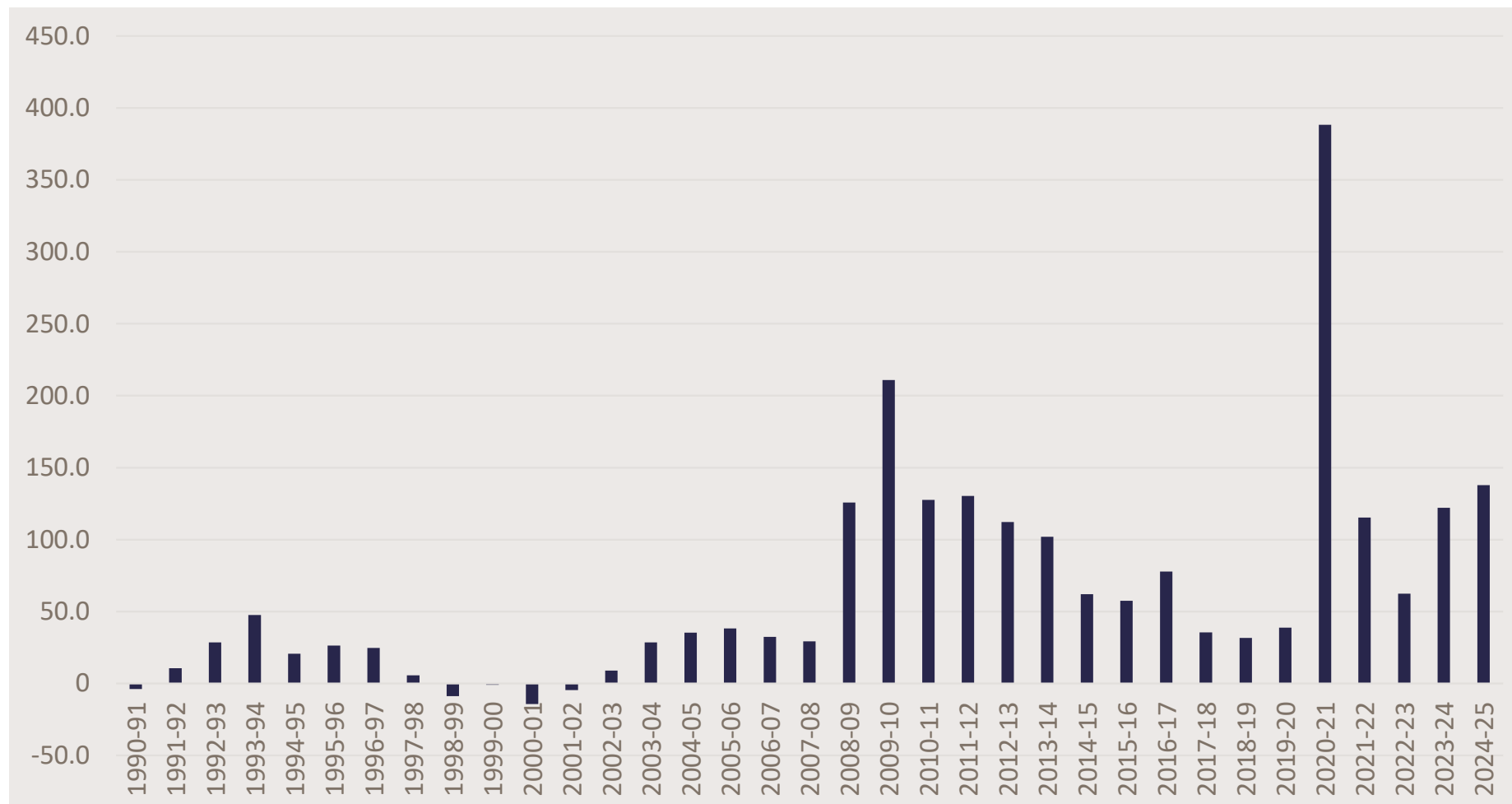
**Long dated Gilt yields are distorted by demand from liability matching and coupon effect**

	Coupon	Maturity	Yield	Price
United Kingdom Gilt	4	22/01/2060	5.48	77.25
United Kingdom Gilt	0.5	22/10/2061	5.12	24.34
United Kingdom Gilt	4	22/10/2063	5.49	76.28
United Kingdom Gilt	2.5	22/07/2065	5.40	52.77
United Kingdom Gilt	3.5	22/07/2068	5.40	68.46
United Kingdom Gilt	1.625	22/10/2071	5.13	38.35
United Kingdom Gilt	1.125	22/10/2073	4.90	30.45

Source: CAIM / Bloomberg Oct-25

# NET GILT ISSUANCE SINCE 1990/91

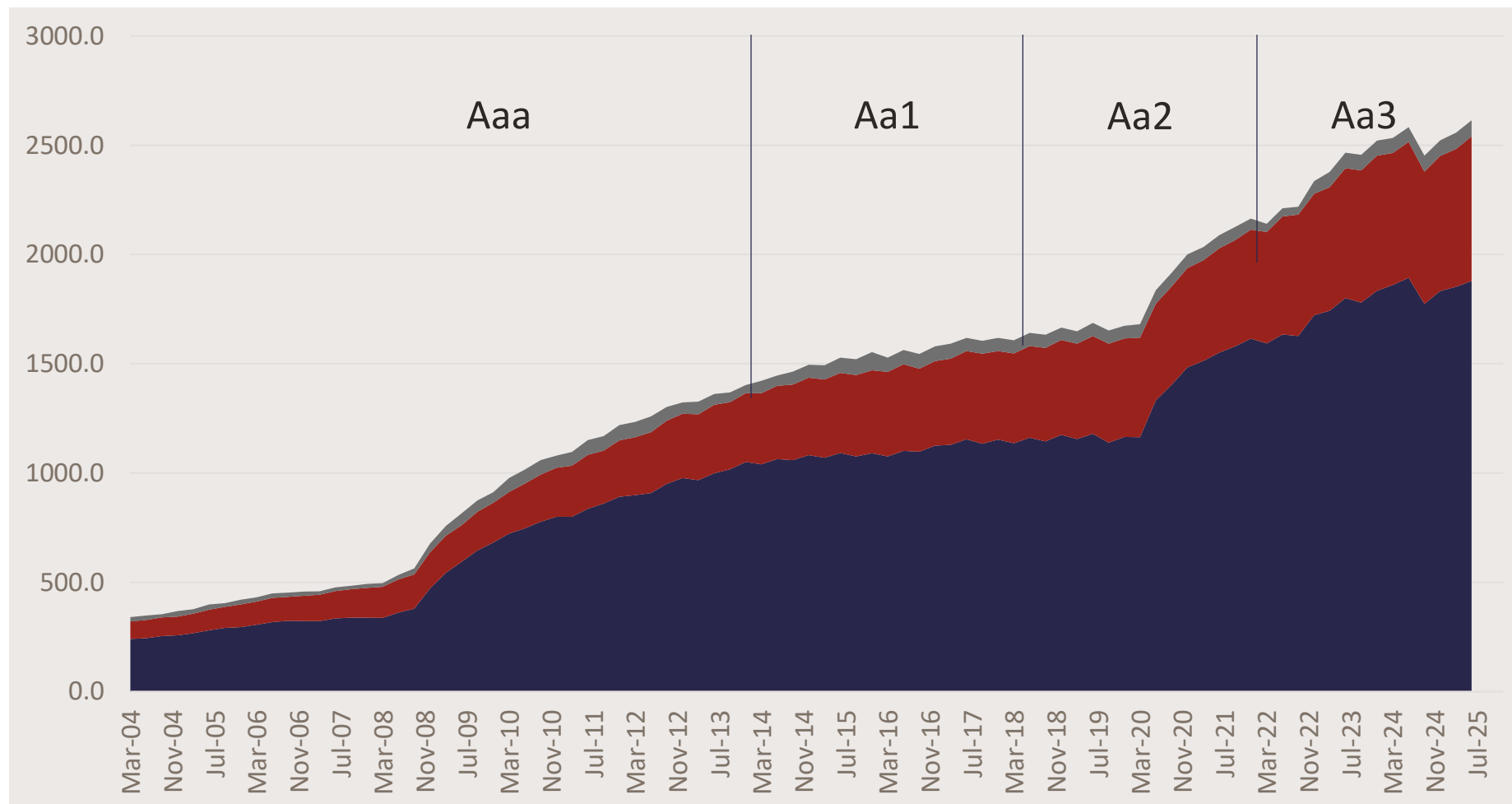
**Very significant net issuance during covid pandemic, but recent trend is still concerning**



Source: DMO October 2025

# SIZE OF UK GILT MARKET

The market cap of UK gilts increased from GBP 300bn to GBP 2.5tr (Conv. / IL / T-Bill)



Source: UK DMO October 2024

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