# UK gilt market struggles with fallout from 2022 mini-budget as investor confidence remains fragile



The discourse surrounding the UK gilt market remains fraught with uncertainty, particularly in the wake of the financial turmoil instigated by former Prime Minister Liz Truss's controversial "mini-budget". This budget, which introduced a series of unfunded tax cuts, was instrumental in triggering a severe market reaction, characterised by a spike in gilt yields and forced selling by leveraged pension funds. The complexities surrounding these events continue to resonate in current economic discussions, highlighting the challenges facing the UK as it navigates its recovery.

Goldman Sachs recently reaffirmed that the aftermath of Truss's fiscal policies has left a lasting mark on the UK financial landscape. Analysts Friedrich Schaper and George Cole pointed out that the once reliable correlations within UK markets — such as those between gilt yields and the British pound, or the expected negative relationship between bonds and equities — have largely diminished. Their analysis indicates a worrying shift towards "emerging market-like" behaviour, where simultaneous sell-offs in currencies, bonds, and equities have become distressingly commonplace during periods of economic downturn.

As markets grapple with these evolving dynamics, foreign investors have grown increasingly wary. The perceived instability of the gilt market poses a significant deterrent, further complicating investment decisions. While the recent weeks have shown some signs of stabilisation, the road to restoring investor confidence and market credibility remains a lengthy one. Goldman has suggested that improvements could arise from better macroeconomic data and fiscal discipline, creating a more favourable environment for investment over time.

Adding another layer to this analysis, the Bank of England is gearing up to consult industry stakeholders about potential reforms aimed at reinforcing the resilience of the gilt repo market. This initiative, led by Deputy Governor Sarah Breeden, stems from the lessons learned during the tumultuous events of late 2022, emphasising the necessity for structural reforms to bolster market stability.

Despite the prevailing clouds of uncertainty, there are glimmers of hope. Recent developments, including a trade agreement between the UK and the US, have positively impacted investor sentiment. This agreement, which notably reduces tariffs on UK goods like cars and eliminates tariffs on steel and aluminium, could inject much-needed confidence into the UK market. Furthermore, an anticipated downward adjustment in interest rates by the Bank of England could foster a more conducive climate for economic growth and attract disillusioned investors seeking refuge from the volatility of other global markets.

However, analysts caution against an overly optimistic perspective. The UK remains burdened by high levels of debt and sluggish growth. A deeper understanding of the relationships between government borrowing, gilt yields, and market reactions is vital, particularly in light of analyses suggesting that the impacts of increased borrowing have been overstated in the past. Such insights could better inform current fiscal strategies and market recoveries.

In reflection, the UK’s financial trajectory offers a stark warning to other economies. As the country attempts to regain its footing, the interplay between fiscal and monetary policies, alongside the restoration of market confidence, will be critical to avoid further destabilisation. While some analysts maintain that the UK’s debt situation has the potential to improve, the lingering effects of past missteps continue to cast a long shadow over its economic landscape.

### Reference Map

1. Paragraphs 1, 2, 4, 5, 6
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3. Paragraph 3
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## Bibliography

1. <https://www.ft.com/content/927c23e3-86fc-4f91-9c8c-89811650ed0a> - Please view link - unable to able to access data
2. <https://www.ft.com/content/927c23e3-86fc-4f91-9c8c-89811650ed0a> - An analysis by Goldman Sachs highlights ongoing volatility and dysfunction in the UK gilt market, exacerbated by the country's dependency on foreign debt buyers. Post-Truss, traditional financial correlations—like bonds hedging equities or gilt yields moving with the pound—have broken down. UK assets now exhibit emerging market-like behavior, such as coordinated sell-offs in currency, bonds, and equities during economic downturns. This shift deters foreign investors and questions the gilt market’s structural health. Although some recent improvements suggest partial stabilization, Goldman Sachs warns the road to rebuilding credibility and stability will be long and challenging. The situation serves as a cautionary tale internationally, even as the U.S. escapes similar market penalties.
3. <https://www.reuters.com/sustainability/boards-policy-regulation/bank-england-seek-feedback-gilt-repo-reforms-breeden-says-2025-05-14/> - The Bank of England (BoE) plans to consult the financial services industry on potential reforms aimed at bolstering the resilience of the gilt repo market, according to BoE Deputy Governor Sarah Breeden. This initiative follows the market turmoil in 2022 that was triggered by significant declines in British government bond prices after the "mini-budget" introduced by then Prime Minister Liz Truss. The BoE's Financial Policy Committee had already identified the need to strengthen the gilt repo market in November. In a speech delivered at the annual meeting of the International Swaps and Derivatives Association in Amsterdam, Breeden announced that the BoE will launch a Discussion Paper later in 2025 to initiate dialogue with industry stakeholders on possible structural reforms.
4. <https://www.reuters.com/world/uk/global-markets-britain-analysis-2025-05-08/> - UK markets, long depressed by repercussions from Brexit, government policy missteps, and fiscal instability, are showing signs of recovery. A newly signed UK-U.S. trade deal, anticipated Bank of England (BoE) interest rate cuts, and the prospect of renewed UK-EU cooperation are key factors boosting investor confidence. The FTSE 100 has recently matched its longest winning streak, and the British pound is near a 38-month high against the U.S. dollar. These developments are drawing investors disillusioned with U.S. market volatility and trade policy unpredictability. Under the new trade pact, U.S. tariffs on UK cars will drop from 27.5% to 10%, and tariffs on steel and aluminum will be eliminated, fueling optimism in the UK’s industrial sectors. Analysts believe this clarity alleviates uncertainty, encouraging spending and investment, potentially boosting GDP. Despite ongoing concerns about the UK's weak growth and high debt, analysts anticipate easing inflation pressures and further BoE rate cuts. Large investors and fund managers are beginning to diversify toward UK assets, viewing Britain as a relatively stable refuge from U.S. fiscal and trade instability. The UK is increasingly being seen as a safer and more attractive market amid global uncertainty.
5. <https://www.ft.com/content/96469060-9ee1-4205-922a-6f720fb14c1e> - The October 2022 market crisis, triggered by UK Prime Minister Liz Truss and Chancellor Kwasi Kwarteng's mini-Budget, caused a significant spike in gilt yields. The Bank of England estimated that 37 basis points of this spike were due to standard market behavior, and another 66 basis points were due to forced selling by leveraged pension funds. Recent analysis by Sushil Wadhwani suggests that the impact of increased government borrowing on the rise in gilt yields may have been overstated. Wadhwani estimates the borrowing accounted for less than one-quarter of the yield rise. He attributes the spike to a combination of global yield increases, attacks on UK macroeconomic institutions, and forced deleveraging of pension funds. Wadhwani's analysis implies that the projected borrowing increases accounted for only 68 basis points of the rise in gilt yields, challenging prevailing assumptions and potentially aiding current UK fiscal policy strategies.
6. <https://www.reuters.com/breakingviews/uk-debt-tantrum-is-problem-not-panic-now-2025-01-09/> - Recent increases in UK bond yields have been compared to a similar situation in 2022, though there are key differences. Finance Minister Rachel Reeves and Bank of England Governor Andrew Bailey should not ignore the current situation. 30-year bond yields are around 5.4%, the highest level since 1998, and have risen faster than in other Western countries. The current causes have foreign roots, primarily due to increased US bond yields resulting from President-elect Donald Trump's fiscal plans. Three issues stand out for the UK due to high yields: reduced fiscal space for Reeves, the structural need to attract new buyers for bonds, and the question of whether the Bank of England should continue its quantitative tightening program. This episode reflects a problem rather than a panic, but it remains a significant concern.
7. <https://www.ft.com/content/9e8b0c6e-cd30-4e31-b97d-0db0bbe6220b> - In autumn 2022, the UK faced a financial crisis due to the Truss "mini-Budget" which introduced the largest package of unfunded tax cuts in decades. This spooked the bond market, which led to significant deleveraging by pension funds using Liability Driven Investment (LDI) strategies. This destabilized the market further, creating a doom loop that necessitated intervention from the Bank of England. New analysis by the Bank of England suggests that the crisis was both a reaction to the mini-Budget and the flawed strategies of LDI. The Wall Street Journal's op-ed claims the Bank might be responsible, pointing to long-term low interest rates. However, the research indicates that while monetary policy had an impact, it was primarily the unfunded tax cuts and the market's response that triggered the crisis. This scenario underscores the complexity of fiscal and monetary policy interactions and the necessity of understanding market vulnerabilities.