

May was a rollercoaster month for gilt holders



Month in brief

The Labour party suffered heavy losses in local elections which triggered a leadership jostle

Gilt yields spiked with UK political uncertainty, but fell back towards the end of the month

Global equities continued to do well, with £4tn in equity IPOs expected

Pension scheme funding ended the month much where it started

UK long-term borrowing costs hit their highest levels since 1998 during May as disastrous results for the Labour Party in local council elections prompted a leadership crisis for Prime Minister Sir Keir Starmer. Yields subsequently fell as leading challenger Andy Burnham vowed to abide by fiscal spending rules, and a deal to end the US war with Iran inched closer.

Bond prices around the globe tumbled as fears of inflation from higher oil prices intensified at the start of May. In the UK, this was compounded by uncertainty over the future leadership of the Labour party as Andy Burnham emerged as a leading challenger to the premiership of Sir Keir Starmer. Markets were speculating that Burnham would abandon Rachel Reeves' self-imposed fiscal spending limits (which would lead to a rise in gilt issuance) were he to become Prime Minister. A softening of approach from Burnham coincided with data suggesting that the Bank of England (BOE) is less likely to quickly raise interest rates, which facilitated a rally in the UK government bond market towards the end of the month.

Brent crude, the international benchmark for oil prices, fell by almost 20% over the month as optimism grew that the US and Iran may be nearing an agreement to re-open the Strait of Hormuz. Government bonds have rallied as the oil price has declined, increasing investors' hopes of avoiding a worst-case scenario for global inflation if a resolution is agreed soon. By the end of May, markets had dialled back the probability of a rate hike from the Federal Reserve in 2026 to 50%.

Global equity markets have continued to rally despite the prolonged uncertainty of conflict in the Middle East. Initial public offerings with a collective valuation of \$4tn are expected from SpaceX, OpenAI and Anthropic alone which would be tantamount to a 6% expansion of the US public equity market.



Click to watch Coca's two-minute video.

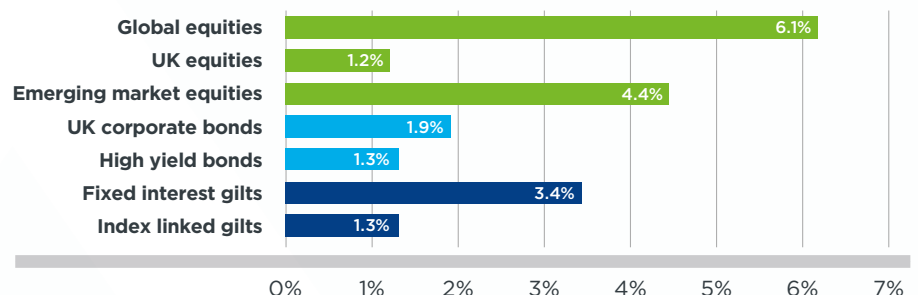
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Global equities continued to rally

One month to 30 May 2026

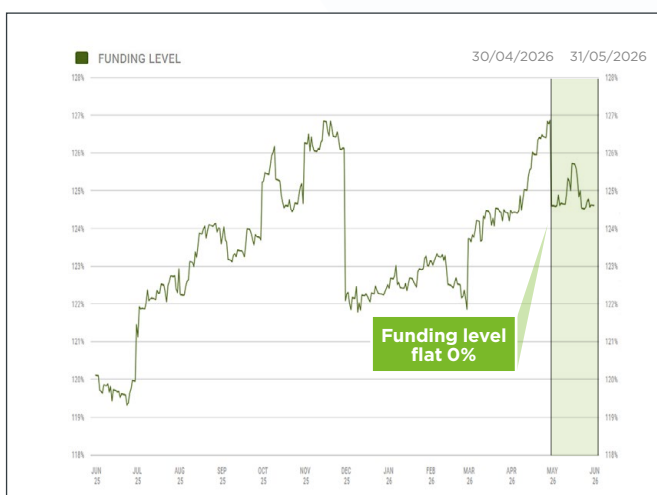
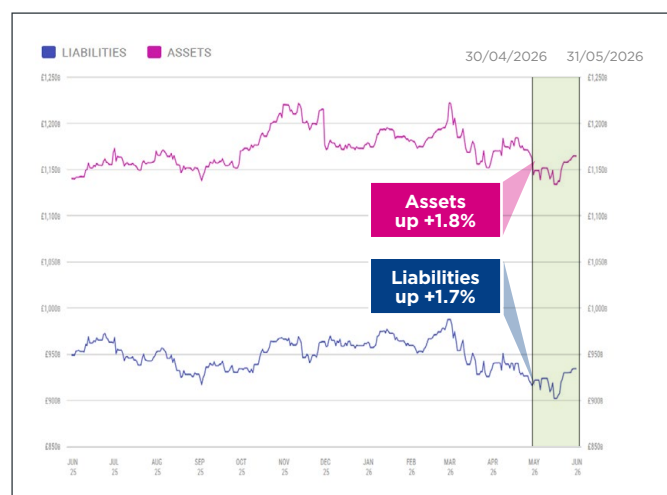


Artificial Intelligence (AI) stocks remain the driving force of positive returns with semiconductor companies like Nvidia making their strongest start to the year since the Dot-com bubble.

Corporate bond spreads narrowed slightly over May and remain very compressed by historic comparisons as inflation fears eased. Combined with a fall in yields, this saw the asset class deliver strong returns in May. The fall in long-term inflation expectations saw index-

linked gilts underperform fixed interest gilts with both delivering positive returns.

The aggregate funding level of UK DB pension schemes on a low-risk basis finished the month broadly where it started. Funding jumped mid-month as government bonds sold off, but an overall fall in yields during the month was broadly offset by a fall in long-term inflation expectations and decent returns from growth assets.



Source: XPS DB:UK www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 16.9% equities, 20.0% corporate bonds, 6.9% multi-asset, 5.1% property, 3.8% private markets and 47.3% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates.

Find out more

To discuss any of the issues covered in this edition, please get in touch with **Coca Hall**. Alternatively, please speak to your usual XPS contact.



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