August 2026

Investment News

Our market round-up and news affecting UK investments

Broken ceasefire pushes cost of UK government borrowing higher

Month in brief

Tensions escalate in the Middle East as June's fragile ceasefire is broken

Andy Burnham succeeds Sir Kier Starmer as UK Prime Minister

Gilt yields reach historic highs whilst major central banks opt to keep interest rates steady

US intervenes to prop up Yen currency

A series of tit-for-tat attacks between Iran and the US has signalled the effective end to June's ceasefire in the Middle East. Despite murmurings of peace talks towards the end of July, the renewed conflict has reignited fears over disruption to global oil supplies, driving a sell-off across bond markets and lifting yields to fresh highs.

Against this backdrop, the UK's new Prime Minister, Andy Burnham, faces the challenge of balancing fiscal ambitions with increasingly nervous bond holders. UK gilt yields rose sharply during July as investors priced in the risks associated with further disruptions to oil supplies through the Strait of Hormuz. Yields were further pressured by concerns over Burnham's willingness to adopt a more flexible approach to fiscal rules alongside a planned cost of living support package.

The Bank of England (BoE) voted to keep the bank rate unchanged, continuing with their wait-and-see approach. Markets are pricing in just a 30% probability of a rate rise this year following central bank guidance that rates are unlikely to increase in the near term. Nevertheless, the BoE expects CPI inflation to rise from its current rate of 2.6% to above 3% by year-end before gradually returning towards its 2% target.

In the US, Treasury yields reached a 19-year high after the Federal Reserve also left interest rates unchanged. Recent data showed US economic growth slowing from an annualised 2.1% in the first quarter to 1.5% in the second quarter. By contrast, the Eurozone economy expanded by 0.4% in the second quarter, with the European Central Bank also maintaining lending rates at current levels as Eurozone inflation hit 2.9% in July.

Click to watch Asaam's two-minute video.

Asaam Arif
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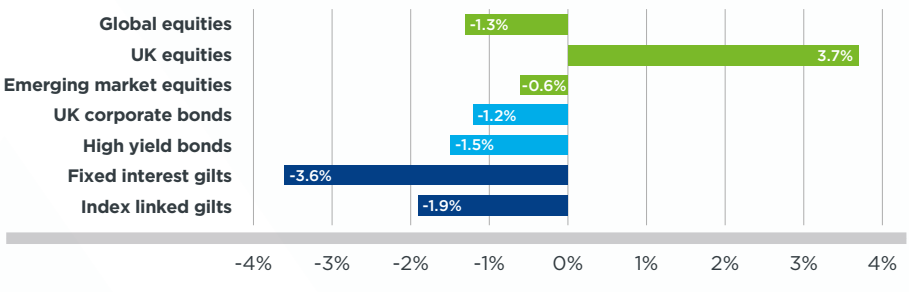
UK equities outpace global markets

One month to 31 July 2026

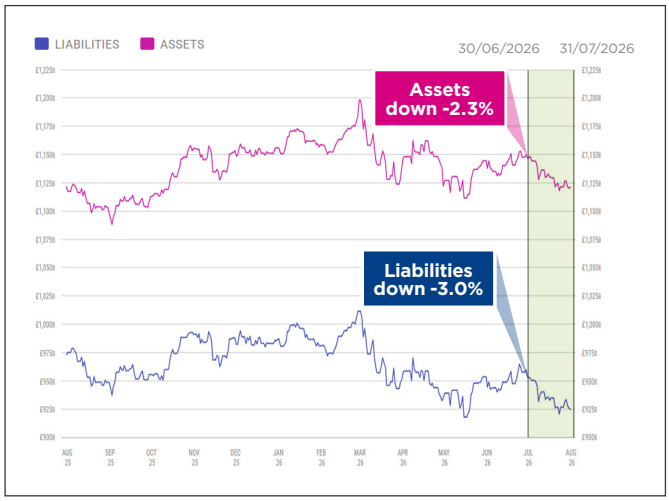


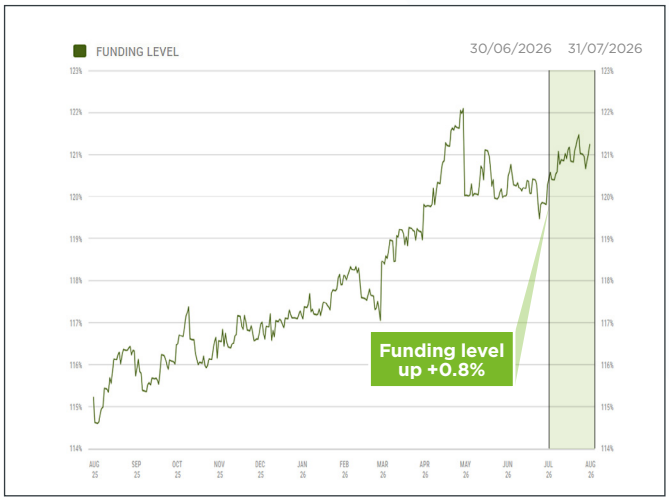
Japan has experienced a similar mix of pressures during the month. Concerns of a global oil shock, combined with Prime Minister Sanae Takaichi's long-term $2tn spending programme, pushed the Yen to a 40-year low and Japanese government bond yields to their highest level in three decades. In response, the US Treasury intervened by selling Euros to purchase Yen to prop up the Japanese currency, indirectly protecting the US from higher borrowing costs.

In equity markets, confidence in the "Magnificent Seven" has weakened amid concerns over whether substantial artificial intelligence investment will translate into adequate profits. As a result, global equities declined over July.

UK equities proved more resilient at least with a lack of exposure to a volatile tech sector. Emerging markets experienced particularly sharp swings, with South Korea's tech heavy KOSPI Index falling 22% over the month despite recovering 18% into month end. Fixed interest and index-linked gilts both delivered negative returns over the month, while corporate bond spreads remained tight.

On a low-risk basis, the aggregate funding level of UK defined benefit pension schemes improved modestly over July. Higher gilt yields, driven by the sell-off in government bonds, were somewhat offset by weaker growth asset performance.





Source: XPS DB:UK **xpsgroup.com/DBUK**

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 Asaam Arif. Alternatively, please speak to your usual XPS contact.

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