

Gilt rally gives the Chancellor a small reprieve ahead of Autumn Budget

Month in brief

A turnaround in the gilt market has eased pressure on UK public finances ahead of the Autumn Budget

The Federal Reserve cut its main lending rate for the second time this year

The US and China agreed to a 1-year tariff truce

Equity markets were up as gold prices plummet from recent highs

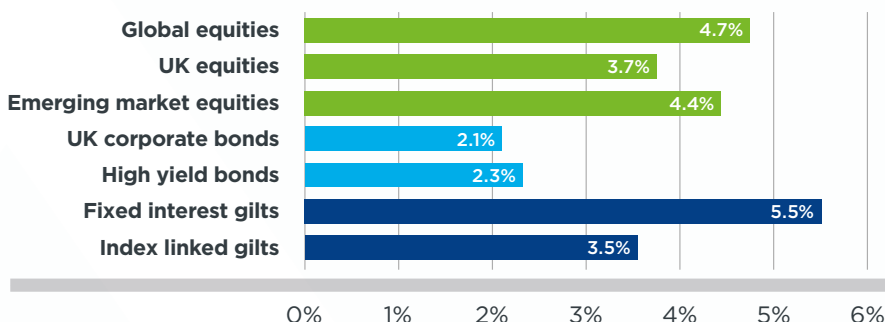
Long-term UK borrowing costs have dropped from stubborn highs as the 20 year gilt yield fell back by 0.3%pa over the month to finish just above 5%pa. Better than expected UK inflation figures triggered a rally in the gilt market which has eased some pressure on Chancellor Rachel Reeves ahead of her Autumn budget as she fights to close the fiscal spending gap.

October has set the scene for the Chancellor ahead of her Autumn Budget. Gilt yields have been belligerently high in recent months, elevated in part by a downgrade to UK productivity, which has constrained Reeves' ability to close the fiscal spending gap (the difference between public spending and tax receipts). However new inflation data was lower than anticipated as 12-month CPI stood at 3.8% in September, 0.2% lower than expectations. The Bank of England subsequently held the bank rate at 4% in their early November meeting. Falling gilt yields in October have reduced the implied cost of government borrowing by up to £3bn as the Chancellor looks to turn the Budget deficit into a surplus by 2030. A weakening labour market and higher than target inflation mean that the Chancellor is still likely to look for ways to both raise taxes and reduce public spending.

In a widely anticipated move, the Federal Reserve (Fed) cut their main lending rate by a quarter percentage point to a range of 3.75% to 4.00% in late October. However, amidst a waning labour market and a halt to their quantitative tightening, Fed Chair Jay Powell released a dovish statement that a rate cut in December was not a certainty. The probability of a third rate cut in 2025 subsequently fell from 87% to 74%. The European Central Bank (ECB) kept rates steady for a third consecutive meeting at 2% in October. The news comes as Eurozone inflation had risen to 2.2% in September but then dropped to 2.1% in October.

Major equity markets produced positive returns over the month.

One Month to 31 October 2025



Click to watch Matthieu's two-minute video.

Matthieu Michaux
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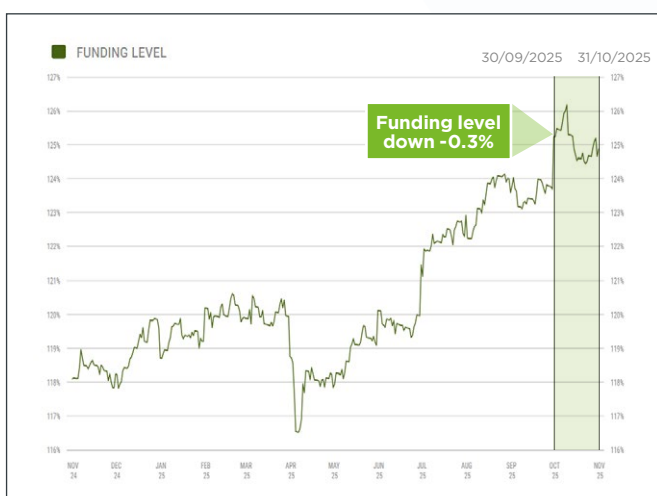
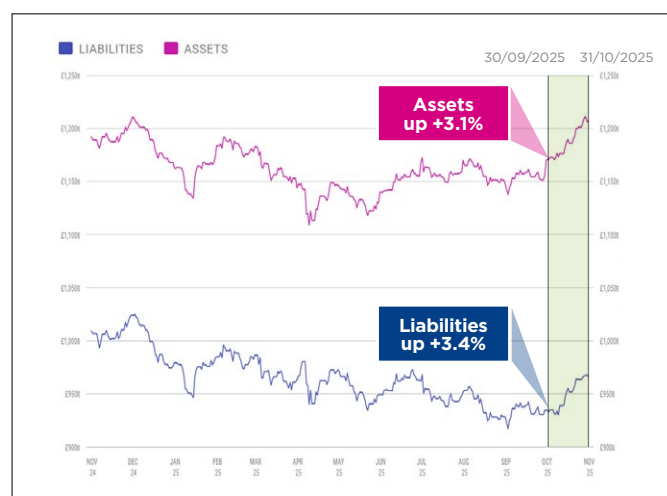
Oil prices experienced a volatile month, falling to a five-month low as the market was hit with concerns of oversupply. Brent Crude oil prices initially dropped 3% to \$61.50 per barrel in mid-October with a projected surplus of 3.2 million barrels a day from October to June 2026, far greater than the expected. American sanctions on Russian oil resulted in a turnaround as Brent Crude then soared 9% from its October low after President Trump's announcements.

Tensions between two of the largest trading nations in the world heightened again in October as China announced strict export controls on rare earth materials. In retaliation, Trump looked set to impose 100% levies on all Chinese imports from November. Before additional tariffs could be imposed, the two sides agreed to a one-year truce but the outcome serves as a strong reminder of China's negotiating

power against its biggest rival trading nation.

Equity markets experienced a positive month with global equities delivering 4.7% and emerging markets returning 4.4%. Despite record breaking performance of late, gold suffered a steep correction as it plummeted 9% from its peak, having reached almost \$4,400 per troy ounce in mid October. Corporate bond spreads continue to tighten both in the UK and globally. The strong returns on fixed interest gilts outperformed those of their index linked counterparts owing to a reduction in future inflation expectations over the month.

Funding levels remained resilient with positive returns for major growth asset classes offsetting most of the negative impact of falling gilt yields on aggregate UK DB pension scheme funding over October.



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 **Matthieu Michaux**. Alternatively, please speak to your usual XPS contact.



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