

From rate-cut hopes to Budget fears: what drove UK gilts in late 2025?

By Zygimantas Mascinskas
November 2025

UK government bonds rallied in the three months to 15 December as weaker inflation revived expectations of Bank of England rate cuts, but concerns over the public finances caused sharp swings in longer-dated debt ahead of the November budget.

The two-year gilt yield fell 22.3 basis points from 3.961 per cent on 15 September to 3.738 per cent on 15 December, according to data from S&P Capital IQ. The benchmark 10-year yield fell 14.1 basis points to 4.583 per cent, while the 30-year yield dropped 23.1 basis points to 5.234 per cent.

The overall fall in yields, which move inversely to bond prices, hides how quickly sentiment changed during the period.

Yields initially rose in September after government borrowing came in above expectations. Public borrowing between April and August reached £83.8bn, £11.4bn more than forecast by the Office for Budget Responsibility (OBR), adding to concerns over Chancellor Rachel Reeves's room for manoeuvre ahead of the Budget.

The 10-year yield rose from 4.724 per cent on 15 September to 4.862 per cent on 25 September, while the 30-year yield climbed to 5.583 per cent. Inflation remained well above the Bank of England's 2 per cent target, leaving investors to weigh pressure on the public finances against how quickly interest rates could fall.

That picture changed in October. September inflation unexpectedly remained at 3.8 per cent instead of rising to 4 per cent as economists had expected. Markets raised the implied probability of a December rate cut from about 46 per cent to 75 per cent following the figures.

The reaction in gilts was significant. Between 25 September and 22 October, the 10-year yield fell 35.6 basis points to 4.506 per cent. The 30-year yield fell by a similar amount to 5.221 per cent, while the two-year yield dropped 24.5 basis points.

Jed Cartledge, economist at Oxford Economics, said weak growth and high government debt-interest payments supported the case for lower rates, while persistent inflation urged caution. "Inflation does seem to be at least on the correct trajectory," he said.

But fiscal concerns returned in November. Gilts sold off sharply on 14 November after the government abandoned plans to increase income-tax rates, raising questions over how Reeves would create enough headroom against her fiscal rules.

The 10-year yield rose as much as 13 basis points during that trading day. S&P Capital IQ data show it had reached 4.712 per cent by 19 November, up from 4.523 per cent on 6 November. The 30-year yield rose even further over the same period, climbing 23.6 basis points to 5.457 per cent.

Those moves began to reverse before the Budget and continued after Reeves delivered it on 26 November. The OBR estimated government had almost £22bn of headroom against its current-budget rule, while forecasting borrowing would fall from 4.5 per cent of GDP in 2025-26 to 1.9 per cent by 2030-31.

The strongest reaction came at the long end of the gilt market. The two-year yield fell 2.2 basis points on Budget Day, compared with 6.8 basis points for the 10-year yield and 9.8 basis points for the 30-year yield.

Menno Heimel, Chief Financial Advisor at Pimco, described the Budget as “on balance.... a small win” and said markets appeared to be “pricing out the event risk”.

“At the minimum, it removed the tail risk of a really bad outcome,” he said.

But investors did not treat the Budget as the end of the UK’s fiscal concerns. Cartledge said it improved perceptions “a little but didn’t fundamentally assuage investor concerns”, pointing to weak growth, political uncertainty and measures which would not take effect for several years.

“Markets still had to trust that this would actually happen,” he said.

The rally also lost some ground after the Budget Day. By 15 September, the 10-year yield had risen six basis points from its 26 November close to 4.583 per cent, while the five-year was 5.8 basis points higher. The two-year, however, edged lower.

Heimel favoured the front end of the gilt market as a way to position for a lower eventual Bank of England rate but remained cautious on longer-dated debt because of lingering political risks.

That divide had not resolved. Ten-year yields remained nearly 30 basis points below their September peak but had already climbed back some way from their Budget-day low. Rate-cut expectations were supporting gilts, but the long end showed investors were not yet ready to put Britain’s fiscal risks behind them.