

War, inflation and politics rattles gilts

19 May 2026

- Gilts market rattled again
- Iran war rekindles Inflation pressure
- Labour leadership challenge adds uncertainty



Key Points

1. The UK Government Bond (Gilts) market is getting rattled once again. With yields increasing, particularly for longer-dated maturities.
2. The US/Iran conflict, Hormuz closure and naval blockade has resulted in a material energy supply shock that is rekindling inflation.
3. A challenge to Starmer's leadership creates risk of a leftward lurch and reduced fiscal credibility.

Gilts market rattled again

The return of war, inflation and shaky government finances means UK Government Bonds (Gilts) are not the safe assets they were.

Gilts' traditional role in a portfolio – certain returns, low volatility, and diversification – has been slowly, then suddenly, undermined.

Now, we face a larger energy shock, with upside risk to inflation. Gilts are under pressure once again – and back in the headlines.

What are gilts yields?

The gilts yield is the rate of return an investor can expect by buying a gilt today and holding it to maturity. Theoretically, the longer the term, the higher the yield. Also as yields are not adjusted for inflation, the higher the expected inflation over that term, the higher the yield as investors want a real return after taking the inflation rate into account. For example, a bond with 5% yield to maturity in 10 years time when inflation is expected to run at 2% per annum, means the investor is expecting a real (after-inflation) return of 3% per annum. If inflation assumptions increase to 3%pa, a similar investor will now want a 6% yield to get a 3% real return. So higher inflation expectations push yields up.

What's the relationship between yields and bond prices

The price of a bond is a present value calculation totalling a series of fixed cashflows to maturity, divided by an expected rate of return (the yield to maturity).

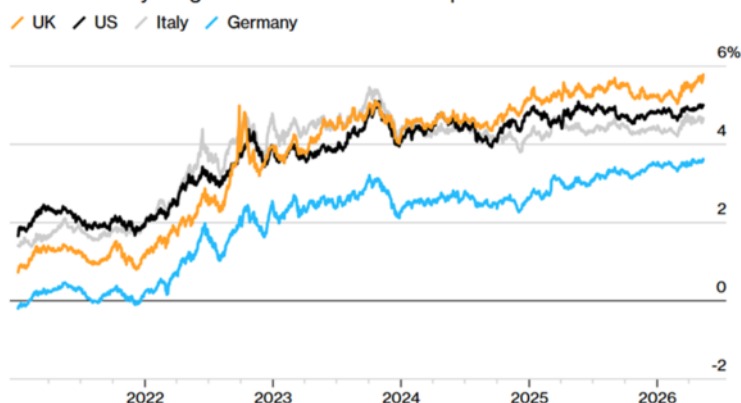
As anyone who slices a pizza knows, the higher the number of slices, the smaller the slice of the pizza. It's the same for bonds. The higher the yield, the smaller the price.

Why are Gilts Yields rising now

Gilts are in the headlines once again, as the benchmark 10 year gilt yield has increased from 4.48% at end December 2025 to 5.17% on 15th May 2026. Meanwhile the 30 year gilt yield has increased from 5.21% to 5.85%, respectively. This is because of 1) rising inflation expectations and 2) for longer-dated bonds, growing concern that the UK may not be able to meet its debt obligations in the long-term without a drastic change of policy or improvement in productivity and 3) the risk that a challenge to Starmer's leadership could result in a more left-leaning, fiscally less responsible government.

UK Bond Yields Overshoot Peers

Yields on 30-year government debt in developed markets



Source: Bloomberg

Source: [Bloomberg.com](https://www.bloomberg.com) as at 12th May 2026

What does it mean for clients

Yields spiking means Gilts prices are falling. So, holders of gilts funds will see values declining.

Fortunately, our investment committee decided to remove any Gilts holdings from client portfolios in mid 2025, as concerns grew around UK government finances. A brief reintroduction in early 2026 (when inflation finally came down towards 2%), has since been reversed with the outbreak of the US/Iran conflict which could unleash inflation once again, adding more pressure to Gilts.

Instead, our investment committee has been focusing on modifying and reducing the overall bond allocation and using "all-weather" alternative strategies that have a low volatility like bonds, but a different return pattern that is positively related to inflation.

Where next for markets

Equity markets will continue their usually bumpy ride with positive trends from corporate earnings and AI investment supporting them, and fear around the US/Iran conflict, energy shocks and recession risk introducing bouts of volatility. As usual, it pays to keep calm and stay invested to weather market volatility.

But by not holding Gilts, there is one less thing to worry about in the stable part of the portfolio.

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