momentum
global investment management

# Whatever you do, *don't disturb the Gilt Market*

## THE NUMBERS THAT MATTER

**£15bn**
FISCAL HEADROOM

**4.2%**
BORROWING AS A SHARE OF GDP

**1.2%**
FORECAST GDP GROWTH IN 2026

In recent years, UK Budgets have rarely been positive market events, with far more downside risk from governments attempting to appease voters through tax cuts or frivolous spending. Encouragingly, this Budget contained no such howlers, and gilt markets are not spiralling out of control in Truss-esque fashion. As a reminder, Kwasi Kwarteng's 2022 mini Budget included some fairly punchy tax cuts, including abolishing the 45% income tax rate, cutting the basic rate to 19% and reversing planned increases in corporation tax and National Insurance, while also finding room to scrap the cap on bankers' bonuses, just in case the package was not controversial enough. Today, the fear was less around tax cuts and more around unfunded increases in spending on public services and welfare. However, much to the relief of bond and pension fund managers, the Budget was very much a non-event. In fact, it would be surprising if it made many headlines outside the UK. That might sound underwhelming, but given the UK's recent fiscal adventures, it should probably be taken as good news.

In terms of the fiscal outlook, it was encouraging to see the government sticking to its fiscal rules despite the challenging external backdrop from the Iran war. Healey noted that the government retains around £15 billion of fiscal headroom, rising to around £20 billion by 2030/31. Borrowing, otherwise known as the budget deficit, was stated as 4.2% of GDP, however this is forecast to fall to 1.8% by 2030/31. Of course, these numbers rely on the government delivering on its assumptions around tax revenues and spending, so should be taken with the usual pinch of salt. The economic backdrop remains fairly uninspiring, as the OBR sees growth of just 1.2% this year and 1.0% next year. Nonetheless, for gilt investors, the direction of travel and continued commitment to the fiscal rules were arguably more important than any Budget day fireworks. That restraint is crucial when higher borrowing costs are already expected to have added around £14 billion a year to the government's interest bill compared with the Spring.

The clearest theme was support for household finances, particularly energy bills. Around 20 million households in Council Tax bands A to D will receive a £100 payment, at a cost of £2.6 billion, while the VAT cut on electricity will be extended to July and the 5p fuel duty cut maintained. Healey also announced plans to remove standing charges from household gas bills. None of these measures are enormous in isolation, but together they provide some breathing space as higher energy prices from the Iran war feed through to households.

Perhaps more interesting was who got handed the bill. Banks will face a temporary three percentage point increase in the Bank Surcharge, taking it to 6%, explicitly to help fund the immediate energy support. Bank stocks reacted positively, as many had feared the surcharge would rise as far as 8%. A similar approach was taken to the high street. Small Business Rates Relief will become more generous, with the threshold for retail, hospitality and leisure rising from £12,000 to £18,000, taking around 70,000 businesses out of business rates altogether.

Meanwhile, Machine Games Duty on higher stakes machines rises from 20% to 25%, while adult gaming centres and vape shops will be carved out of business rates relief. Banks are helping households with their bills, while gambling and vape shops are helping to keep the rest of the traditional high street alive. Elsewhere, wealthier voters saw a 2% rise in taxation on income from property and savings.

Other interesting measures were aimed at encouraging entrepreneurship and home ownership, while protecting pensioners. Founders' Relief will introduce a 10% Capital Gains Tax rate on lifetime gains of up to £10 million for qualifying founders from April 2027, while a new pension tax allowance will effectively protect those relying on the full State Pension from income tax. For younger generations, the Lifetime ISA will be replaced by a new First Time Buyer ISA, whilst the planned Cash ISA allowance reduction from £20,000 to £12,000 brought in by Reeves at the last Budget was scrapped. Around 70,000 first time buyers are also expected to be supported by a new government backed 20% equity loan scheme. Taken together, there was a welcome attempt to reward people for starting businesses, saving and getting onto the housing ladder, rather than simply reaching for higher taxes.

Defence and energy security were also prominent, as the government committed to fully funding the UK's Defence Investment Plan and increasing defence spending to 3% of GDP by 2030, before moving towards the NATO commitment of 3.5% by 2035. The Budget also pledged a further £10 billion of economic and military support for Ukraine, although the path towards meeting the longer-term defence ambitions will not be set out until next year's Spending Review. Beyond defence, the Budget pointed towards investment in clean energy, domestic energy security, data centres and regional growth. The new Data Centre Covenant was also notable, offering strategically important projects greater government support to secure grid connections and power, while requiring developers to contribute towards energy costs and local infrastructure. Alongside greater fiscal devolution, the common thread was fairly clear: more investment in the UK's energy, defence and digital infrastructure, while shifting more decisions on where money is spent away from Westminster.

Taken together, this felt more like a gardening of the Budget than a fundamental overhaul. Healey trimmed in some areas and planted a few seeds elsewhere, but ultimately respected the constraints of the fiscal rules and avoided doing anything that might seriously unsettle bond markets. The bigger political and fiscal decisions remain ahead, particularly with ambitions around defence, social care and public investment still competing for limited room. Next year's Budget is likely to prove far more consequential, coming much closer to an expected general election and potentially forcing some harder choices over tax and spending. For now, though, the priority was simpler: provide some targeted support, keep the fiscal numbers broadly on track and, above all, ***don't disturb the gilt market.***

*Source: Live Coverage from BBC News and Sky News.*

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