

UK Government Bond Markets Rebound After Starmer Reaffirms Support for Reeves

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UK government bond markets rallied sharply after Prime Minister Keir Starmer publicly backed Chancellor Rachel Reeves, easing investor concerns that had triggered a spike in borrowing costs and heightened fears of fiscal instability.

Earlier this week, yields on 10-year UK government bonds, commonly known as gilts, rose abruptly to nearly 4.7%, marking the sharpest daily increase since the market turmoil of 2022. The sell-off came amid speculation over Reeves's future and questions around Labour's fiscal stance, following an emotional appearance by the Chancellor in Parliament and Starmer's initial hesitation to express direct support.

The market reaction highlighted how sensitive investors remain to signs of uncertainty. However, Starmer's subsequent and clear statement that Reeves was "locked in" as Chancellor helped to restore calm. Bond yields fell back, the pound steadied, and the FTSE 100 advanced, driven by gains in financial and retail stocks. The rally signalled a renewed sense of stability in response to Starmer's intervention and the government's ongoing commitment to its fiscal rules.

Reeves, who has vowed to reduce public debt and restore the UK's economic credibility, faces a challenging fiscal backdrop. Public debt is nearly 100% of GDP, and annual debt interest payments have soared past £100 billion. Despite these constraints, she has ruled out immediate spending cuts or tax rises, promising instead to grow the economy while maintaining investor confidence.

Investment firms such as BlackRock and Schroders reportedly increased their purchases of gilts during the downturn, interpreting the sell-off as an overreaction rather than a signal of long-term risk. However, analysts have warned that the episode should serve as a cautionary tale: without clear and consistent messaging, even minor political wobbles can have outsized effects on financial markets.

The Chancellor now faces increasing pressure to deliver a credible autumn Budget that balances Labour's policy goals with strict fiscal discipline. The bond market's sharp movements underscore how critical economic credibility has become, particularly in the wake of the 2022 crisis that followed unfunded tax cuts under Liz Truss.

While the government avoided deeper turmoil this time, maintaining stability will require careful management of both public expectations and market demands. With economic growth still modest and inflationary pressures lingering, the UK government's room to manoeuvre remains narrow, leaving little tolerance for missteps.