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UK Markets Hit by 2022-Style Selloff Amid Concerns Over Chancellor Rachel Reeves

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The UK experienced a sharp financial market selloff on Tuesday, as investor confidence declined after emotional scenes in the House of Commons involving Chancellor Rachel Reeves.

UK government bonds recorded their most significant single-day drop since the 2022 mini-budget crisis under Liz Truss. The yield on the 10-

year gilt rose by more than 20 basis points, reflecting investor concerns about the government's fiscal strategy and the chancellor's position.

Markets reacted to the government's sudden reversal of a proposed £5 billion reduction in Personal Independence Payments, a central element of its welfare reform agenda. The U-turn created a gap in the fiscal framework and raised questions about the Labour government's commitment to fiscal discipline. Reeves, who appeared emotional during the Commons session, did not immediately clarify her stance, prompting speculation about her role and the direction of economic policy.

The pound declined more than 1 percent against the dollar as global markets responded to the political developments. Some analysts compared the market turmoil to the market turmoil following the Truss government's unfunded tax plans, which had shaken investor trust in UK fiscal management.

Market observers warned that uncertainty around the government's fiscal approach could unsettle investors, particularly those already cautious about high debt levels and a fragile economic outlook. Some analysts said there were concerns Reeves could be replaced by a figure seen as less committed to fiscal restraint, adding further pressure on gilt yields and sterling.

Prime Minister Keir Starmer later expressed complete confidence in Reeves, calling the Commons episode a personal moment unrelated to any policy dispute. He confirmed she would remain as chancellor to calm markets and reaffirm the government's economic direction.

The episode highlights the challenge facing the Labour government as it balances spending priorities with a need to maintain fiscal credibility. Attention will likely remain on Reeves in the run-up to the autumn budget, as investors and the public look for clear signals about the government's economic strategy.