

Markets Steady as Starmer Backs Reeves Amid Fiscal Uncertainty

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Financial markets have shown signs of recovery following Prime Minister Keir Starmer's firm support for Chancellor Rachel Reeves, helping to ease investor concerns after a turbulent day in Westminster.

On Wednesday, Reeves became visibly emotional during Prime Minister's Questions after the government reversed major welfare reform plans,

leaving a £5 billion gap in the UK's fiscal framework. The chancellor's public display and speculation over her future unsettled markets, prompting fears about the stability of the government's economic policy.

On Thursday, the yield on 10-year UK government bonds dropped to 4.52%, down from 4.61% the previous day, signaling renewed investor confidence after the Prime Minister emphasized his close working relationship with Reeves. The pound also rebounded slightly to \$1.3668, though it did not fully recover from Wednesday's fall. Analysts pointed to the markets' strong response to political developments, suggesting that Reeves's leadership is seen as critical to preserving fiscal discipline.

Concerns arose after the welfare policy reversal undermined the government's planned savings and cast doubt on its fiscal rule, specifically, that day-to-day spending should be covered by tax revenue, with borrowing limited to investment. Reeves has consistently presented herself as a guardian of fiscal responsibility. Her departure, analysts warned, could jeopardize investor trust and lead to higher borrowing costs. Will Walker Arnott, head of private clients at Charles Stanley, remarked that the markets appeared to be "enhancing the career prospects of a politician," showing clear support for Reeves's continued presence in the Treasury.

A Treasury spokesperson later clarified that the chancellor's emotional reaction stemmed from a personal matter, not political pressure. Nonetheless, the moment highlighted the strain within the government as it grapples with the political and financial fallout from its welfare U-turn. Mohamed El-Erian, chief economic adviser at Allianz, noted that once a risk premium is introduced into the markets, it can be difficult to remove, adding that investor nerves are likely to persist.

Market experts warned that uncertainty over the government's next fiscal steps, be it tax increases or further spending cuts, must be addressed quickly to reassure investors. As borrowing costs influence mortgage rates through bond markets, financial stability remains a key concern for households and lenders alike. With Starmer's backing and Reeves reaffirming her commitment to fiscal rules, attention now turns to how the government will navigate the growing economic pressures ahead of the autumn budget.