



Neil Birrell,  
Chief Investment Officer

#### IN BRIEF

- The war in the Middle East continues to dominate and directly impacted interest rate decisions by the major central banks.
- Financial markets remained reasonably strong, expecting the best, but feel fragile.
- UK political instability is having a real impact.

**For information purposes only.** Any views and opinions expressed here are those of the author at the time of writing and can change; they may not represent the views of Premier Miton and should not be taken as statements of fact, nor should they be relied upon for making investment decisions.

**Investing involves risk.** Premier Miton is unable to provide investment, tax or financial planning advice. We recommend that you discuss any investment decisions with a financial adviser.

### We don't know what to do.

Events at home and abroad are moving so fast and are of such a magnitude, it is hard to write commentaries like this and keep them relevant, so let's start off with events that have taken place, where there was certainty, to a point, anyway.

In most developed countries economies are managed through government fiscal policy and central bank interest rate policy. Central banks are typically independent of the government and charged with managing inflation, usually by being set a target, which is often 2%. Interest rates are the most important tool central banks have to manage inflation, which in itself is inextricably linked to economic growth and the wealth of a nation, as well as impacting on the success of its businesses.

The central banks run teams of economists to model the potential outcomes of their policy decisions; it is an inexact science as there are so many variables. Getting it wrong can be very costly.

In April the US Federal Reserve Bank (Fed), European Central Bank (ECB), Bank of England (BoE) and Bank of Japan (BoJ) all held policy meetings and announced there would be no change to interest rates. The votes were not always unanimous, but a common thread of their accompanying statements went along the lines of "there is so much uncertainty in the economic outlook due to the war in the Gulf we do not have enough information to make a decision". Conventional theory would suggest that resolution to the conflict would see inflation and interest rate expectations fall and an escalation or elongation, would have the opposite effect.

Central bank decision making is so important they cannot afford to get it wrong, so being non-committal due to unknown outcomes of events can be dangerous. But in April they had little choice. Deciding to reduce interest rates would be expected to further fuel rising inflation, even though it should benefit faltering economic growth, however, the risks were too great.

### Financial markets were sensitive to news flow, but resilient to bad news

Through April the oil price reacted sharply to improving and worsening expectations of the war ending, bond markets did display some volatility, whilst equity markets felt like they were assuming the war would reach a conclusion relatively soon. However, equity markets also felt fragile, in that, if it became clear there was no end in sight, they could fall quickly.

The problem is, this has been the case for some weeks now. As I write this, hopes of an agreement being reached are rife and equity markets are moving higher as the oil price falls. That is good news, but in my view, we should only believe it when it actually happens and not with any confidence until there is some evidence of its longevity.

Maybe too many years of being sceptical of lasting political resolutions to long term ingrained disputes have coloured my view!

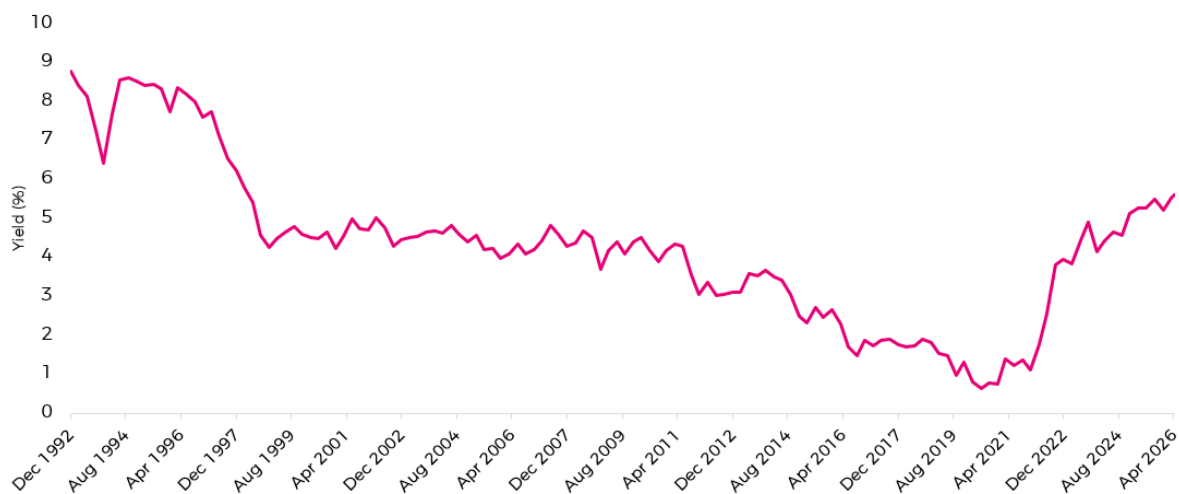
At some point, if the conflict is not resolved, that is likely to be taken fully on board in equity markets, when the realisation could have a meaningfully negative impact.

## UK politics returns to an unstable state

In the UK, the 1990's was a period of high and volatile inflation, currency turmoil after the UK joined the Exchange Rate Mechanism, very weak public finances and high interest rates, combined with weak monetary policy credibility. This all led to high interest rates and very high government borrowing costs.

The chart below shows the yield on the UK 30 Year Gilt since 1991, you can think of it of how much the government has to pay (the annual interest rate) to borrow money for 30 years, a bit like you taking out a 30-year mortgage. As you can see, we are now back up at levels not seen since the 1990's.

UK 30 Year Gilt yield - 31.12.1992 to 06.05.2026



Source: Bloomberg data from 31.12.1992 to 06.05.2026. The performance information presented on this page relates to the past. Past performance is not a reliable indicator of future returns.

Why is this the case? Two years ago, we were heading for a general election that was hopefully going to bring a period of political stability. The incumbent Conservative government had been through leadership and policy turmoil that had rocked financial markets; the "Liz Truss" budget had a seismic impact. The Labour government in waiting which promised fiscal prudence, middle-of-the road economic and social policies and a restoration of high political ethical standards.

Unfortunately, those hopes have been disappointed. Even though we have been through two very tough budgets from the Chancellor, it is fair to say she has met her fiscal rules, but the overall level of debt is very high, economic growth is stagnant at best, inflation is still a problem, the cost of government borrowing has risen and tougher fiscal policies are likely to be forthcoming.

Not a great backdrop. But, as I write this, on the day of the local elections, there is a clear threat to the leadership of the government, which, depending on the outcome, could result in economic, social and fiscal policies that are less prudent than those currently applied. Essentially, that would probably bring higher government spending leading to higher levels of tax and debt. This is why the prices of Gilts have fallen, meaning their yields rise. Whilst history rarely repeats itself exactly, there are similarities and that is why the cost of government borrowing has risen so much very recently.

Clearly, the big jump in the yield from 2022 to 2025 was driven by rising inflation, but we have additional potential concerns now and investors look forward to what might be happening as well as backwards for lessons learned.

### **This could be out of date by the time you had read it.**

As I noted at the start, things could be very different, very quickly and then change again in a heartbeat. But the principles discussed above hold true.

That is why it is so important to take a long-term view when investing. Events in the short term and related market moves are unpredictable, but they are more predictable over the long term. It can be an expensive game to be too reactive, although opportunities are always thrown up that we can take advantage of, but that's when you are sat in front of a Bloomberg screen all day with all the information it provides, but even then, it's not enough.

Over the next few days, there could be events that shape our short- and medium-term future, particularly in the UK. The range of potential outcomes is significant.

In a month's time it should all be clearer, for better or for worse, but it might not be.

**Neil Birrell**  
Chief Investment Officer

## **Glossary**

### **Bonds (or fixed income)**

Types of investments that allow investors to loan money to governments and companies, usually in return for a regular fixed level of interest until the bond's maturity date, plus the return of the original value of the bond at the maturity date. The price of bonds will vary, and the investment terms of bonds will also vary.

### **Equities**

Another name for shares (or stock) in a company

### **Yield**

The dividend per share divided by the stock's or fund's price per share and expressed as a percentage. The historic yield is the dividend income distributed during the past year and expressed as a percentage of the share price on a particular day.

## **Risks**

**Forecasts are not reliable indicators of future returns.**

## Important Information

This is a marketing communication.

Whilst every effort has been made to ensure the accuracy of the information provided, we regret that we cannot accept responsibility for any omissions or errors.

Reference to any investment should not be considered advice or an investment recommendation.

All data is sourced to Premier Miton unless otherwise stated.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts, images (collectively, the "Information") is the property of Premier Fund Managers Limited and/or Premier Portfolio Managers Limited ("Premier Miton") or any third party involved in providing or compiling any Information (collectively, the "Data Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, manipulated, reproduced or distributed in whole or in part without prior written permission from Premier Miton. All rights in the Information are reserved by Premier Miton and/or the Data Providers.

Marketing communication issued by Premier Miton Investors. Premier Portfolio Managers Limited is registered in England no. 01235867. Premier Fund Managers Limited is registered in England no. 02274227. Both companies are authorised and regulated by the Financial Conduct Authority and are members of the 'Premier Miton Investors' marketing group and subsidiaries of Premier Miton Group plc (registered in England no. 06306664). Registered office: Paternoster House, 65 St. Paul's Churchyard, London EC4M 8AB.

019041/080526