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Elston Insights

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Debt Indigestion

- Debt indigestion is a problem
- And a bout of it hit this week
- Reeves era and Truss moments are different but that doesn't help

Government debt indigestion is one of the key themes of our 2025 Investment Outlook.

It looks like there's a bout of it this week. Concerns on Trump tariff policies, US debt issuance and zombie-like inflation is rattling the bond market - particular at the longer-dated end. BoE (and hence GBP) is exposed because it is stuck between an inflation rock and a low growth hard place.

With rate cuts less likely, and zombie-inflation proving sticky, there are dual pressures on long-dated gilts.

Whilst for some it might be satisfying to blame higher UK bond yields on Rachel Reeves, comparisons to the "Truss moment" are not entirely fair. There is a difference in my view. Here's why: Truss yield spike: fear that UK books not balancing, disregarding OBR, not showing workings - only UK yields affected. Idiosyncratic UK bond market risk. Conclusion? Politicians ignoring how markets work.

Reeves yield spike: fear that US and UK books not balancing PLUS US/UK debt issuance indigestion. US & UK yields simultaneously affected. Idiosyncratic UK AND Systematic US/UK bond market risk. Conclusion? Markets ignoring what politicians say.

The Reeves era of yield pressure is different from the Truss/ moment of her 2022 budget. But that doesn't help.

A review of bond duration and how to mitigate the risk of zombie inflation is required to cope with bond indigestion.

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Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

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