



Britannia ruling the waves or waving the rules?

By James Penny Chief Investment Officer at TAM Asset Management Ltd

Prime Minister Sir Keir Starmer, elected on a landslide victory in 2024 on a slogan of “Country first, party second” on Monday announced his intention to step down as the UK’s Prime Minister with a promise of an orderly transfer of power to his successor. Whilst it remains positive that the PM is stepping aside for the good of the country, it seems as though his decision was heavily influenced from within the Labour party. After his landslide victory in the Makerfield By-election, that successor appears to be Andy Burnham. However, until that happens, it would appear that the UK is simultaneously searching for a new Prime Minister, a new James Bond and a new Dr. Who all at the same time.

While attention will naturally focus on the leadership succession and potential cabinet appointments, we as investors must distinguish between political noise and the factors which will ultimately drive investment performance which are linked to fiscal & monetary policy, inflation, growth, international trade and the government’s relationship with capital markets.

Initial market moves appear relatively contained which is a good thing. Sterling has remained broadly stable against both the euro and the US dollar, while gilt (government bond) prices have shown limited reaction. This may reflect the extent to which a potential leadership transition had already

been “priced in” as well as the expectation that any formal handover would take place over a number of months rather than immediately and thus, trying to price in a market reaction ahead of time has simply too many variables at this juncture. The main boon here is the transition has kicked off without a UK centric shakeout.

It is also important not to attribute all market movements to domestic politics. Recent changes in energy prices and the wider geopolitical backdrop from the Iran Peace deal have materially influenced short term UK inflation expectations and subsequent interest-rate pricing which are both pillars on which the price of Gilts rests. A fall in oil prices, if sustained, could reduce near-term pressure on headline inflation and lessen the need for further monetary tightening from the Bank of England. That narrative has been supportive of shorter-dated government bonds, where valuations remain particularly sensitive to expectations for Bank of England policy. Likewise, many looking at the performance of gilts this year would be forgiven for thinking its underperformance has come as a direct result of the UK political and economic backdrop but sadly the moves in UK debt have more to do with the Iran conflict, oil and the outsized effect that raised oil prices have on the UK inflation dynamic.

Short term, much has been made lately of the longer-term implications to UK bonds from Andy Burnham’s comments around the government not being “in hock” to the bond market.

In theory this statement makes the point that if the UK Government wants to borrow from the market (UK Gilts) the level of borrowing should not be dictated by the anticipated reaction of the bond market.

One doesn’t need to dip too far back in history to see what happened to the last Prime Minister (Truss) who went to the market asking for a blank cheque.

This fear of unchecked borrowing by the UK government, at a time when the UK Debt to GDP is already running at 95% is keeping investors weary of lending money to the government for longer periods of time without a credible plan to pay it back. That being said, longer duration UK gilts actually rallied slightly on the news of the resignation showing that Andy Burnham has, in the past couple of weeks done good job of walking back his views here in favour of fiscal prudence which has gone down well.

As we look forward, we believe Andy Burnham will bring a new lease of life into the Labour party and whilst it won’t necessarily deliver a noticeable step change on day one, it will at least get the governing political party back into “business” mode in terms of running the country. On the flip side, Burnham’s lack of foreign policy experience remains a key concern amongst the UK’s allies so we will be keeping an eye on his progress in deal making and integration on the world stage.

We believe Andy Burnham could announce Wes Streeting as the new Chancellor of the Exchequer which should be a boon for UK government bonds given Streeting’s more right leaning view of fiscal and monetary prudence with a view on broadening out views around North Sea drilling in pursuit of energy independence, defence spending and the re-industrialization of the north. Wider ideas around “progressive capitalism” in generating wealth being on par with distributing wealth was also well received. Both the Pound and Gilts strengthened on his prospects of securing this job underpinned by the belief that Streeting would get a senior cabinet role given his agreement to step out of a leadership contest for the top job.

Whilst the political turnover of PM’s in the UK is not something to be proud of, we remain confident that this transition of power will likely continue a centralist Labour approach which should promote relative stability and prudence. In turn this should help stabilise UK financial assets, which in the case of Gilts are down just under 2% in 2026 and trading at a discount to some of their EU peers. We could well see Gilts close the gap into the remainder of 2026.

Importantly, a reinvigorated labour government will likely fare better than the previous incumbent in delivering positive change, better trade with Europe and more job creating initiatives which is to the benefit of all in the UK and its economic stance. This in turn could promote more political stability

and confidence back in centralist UK parties which could well stabilise the next UK election and entice more international investors back into the UK market, its infrastructure, innovation, debt and stock market.

We remain alert to the risks posed in borrowing levels, over spending without budget cuts and unsustainable policy change from this new leader but as we stand today, we are not changing our view on UK assets, and we believe there remains good value from the UK market and the companies within its shores.

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