**MEDICAL & GENERAL**
*Independent Financial Advisers*

MARKET PERSPECTIVES · MONTHLY CLIENT COMMENTARY
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# The Rising Price of Borrowing, and Bond Investors Losing Patience

*Governments are being made to pay up, the oil majors post bumper profits, and a trade war reignites with Canada. What it could mean for a long-term investor.*

| LONG BOND YIELDS | UK NATIONAL DEBT | AUTUMN BUDGET |
|---|---|---|
| **Multi-decade highs** | **£2,984.9bn** | **28 October** |
| US 30-yr ~5.25%, UK ~5.7% | 94.1% of GDP (ONS, Jul) | Healey's first Budget |

*Sources: Bloomberg, CNBC, ONS, HM Treasury. Figures approximate and to be refreshed at publication.*

A WORD FROM JONATHAN

## A month about the cost of money.

I'm publishing this month's newsletter early, ahead of a bank holiday weekend. This month has offered so much choice of content — but I've been strict, and one theme kept pulling the others together.

If a single thread runs through this month's letter, it is the cost of borrowing — who pays it, who profits from it, and what it tells us about the world we are investing in.

Governments are discovering that lenders are no longer a captive audience: the bond market is demanding the highest yields in a generation to fund public spending. The oil majors have banked bumper profits from the Middle East conflict and the spike in energy prices it drove. A trade war has flared up again between the United States and Canada. And ahead lies a fixed date that will shape the months to come: the new Chancellor's first Budget, on 28 October.

MARKETS & THE ECONOMY

## The bond market puts governments on notice

The most important development in markets this month happened not in shares but in the quieter, larger world of government bonds. Across the developed world, investors have been demanding the highest yields in years — in some cases decades — to lend to governments. This is not a single-market wobble; it is a genuinely global repricing.

The numbers tell the story. The US 30-year Treasury yield has climbed above 5.2%, reaching its highest since 2007 earlier this month, and a recent 30-year auction cleared at the loftiest level since 2001 — a quarter of a century. In the UK, thirty-year gilt yields have reached around 5.7%, their highest since 1998, with some forecasters expecting 6% before year-end. French borrowing costs have hit their highest since 2008, German since 2011, and Japan's long bond is near an all-time high. Everywhere you look, governments are paying more.

The reasons are consistent from country to country: investors want more compensation for lending against a backdrop of large and growing government debt, years of above-target inflation, a flood of new bonds to absorb, and — in the US — a wave of corporate borrowing for the AI build-out, all competing for the same capital.

| ~5.25% | ~5.7% | £2,984.9bn |
|---|---|---|
| **US 30-year Treasury yield** | **UK 30-year gilt yield** | **UK national debt, end-July** |
| Highest since 2007 | Highest since 1998 | 94.1% of GDP |

The backdrop to all this is the sheer scale of what governments now owe. UK public sector net debt stood at £2,984.9 billion at the end of July — just below £3 trillion, and equivalent to 94.1% of GDP (Office for National Statistics, 21 August). It edged down slightly on the month as the economy grew but still stands at a level last seen in the early 1960s. In the United States, the national debt is close to $40 trillion — around the annual size of the entire US economy — and projected to keep rising. Globally, total debt reached a record $348 trillion last year. When the sums are this large, even a small rise in the rate lenders demand adds enormous cost: the UK now spends roughly £109 billion a year servicing its debt — about 8% of all public spending — while the US figure has passed $1.2 trillion. America now spends more on the interest on its debt than it does on its vast armed forces — a threshold historians have long associated with the waning of great powers.

Beneath the headline yields lies a deeper shift — and it is the one worth grasping. For two decades, governments enjoyed what the Institute for Fiscal Studies neatly calls "borrower's privilege": a steady, price-insensitive demand for their debt from central banks and regulated institutions kept borrowing cheap almost regardless of the amount issued. That privilege is fading. Central banks, having bought vast quantities of bonds during the low-rate era, are now stepping back. In their place are private investors who are more discerning about price — and who have somewhere else to put their money.

That somewhere is high-quality corporate debt. A record wave of investment-grade corporate issuance — swollen by the technology giants borrowing to build AI data centres — now competes directly with governments for capital. And a handful of the strongest companies — from Microsoft to the healthcare group Johnson & Johnson — now hold higher credit ratings than the US government itself, which lost its last top-tier rating in 2025. In a striking inversion of the natural order, these companies can at times borrow almost as cheaply as — and by some measures more cheaply than — the government that taxes them. When a company is judged a safer bet than the state itself, governments must work harder to attract lenders. That is a large part of why recent auctions have had to pay up. Authorities are not powerless: mid-month, the US Treasury doubled its buybacks of long-dated debt, which briefly pulled yields back and steadied share prices. But the relief proved short-lived, and yields soon crept up again — a sign of how firmly the market has set its view.

**What this could mean for clients**

The bond market is, in effect, the mechanism that disciplines governments — and it is currently charging a visibly higher price for fiscal laxity and stubborn inflation. That feeds through to the cost of mortgages, of corporate borrowing, and of government itself. But there is a silver lining: for savers and cautious investors, yields on high-quality bonds are at their highest levels in close to two decades. Those already holding bonds have seen the capital value of their holdings fall as yields rose, since price and yield move in opposite directions. But for income, rather than only capital growth, bonds are doing real work again.

UK POLITICS & FISCAL POLICY

## The Budget is set — and a word about acting on rumours

The new Chancellor, John Healey, will deliver his first Budget on Wednesday 28 October — the earliest Budget since 2021, and the first of the Burnham government. The fiscal backdrop is tight: July's borrowing came in above the official forecast, and independent economists reckon the Chancellor's room for manoeuvre has narrowed from around £24 billion in the spring to nearer £17 billion. Healey, for his part, has stressed “fiscal discipline” and a commitment to the government’s fiscal rules.

I won’t add to the speculation about what the Budget might contain — there will be more than enough of that elsewhere between now and late October. What I would gently counsel is caution about acting on it. In my career I have seen people make decisions in the run-up to a Budget — prompted by rumours and leaks about what it might contain — that, with hindsight, they might have wished they had not.

Last year’s Budget offers the cautionary tale. It was so heavily and inconsistently trailed in the press that the Commons Speaker, Sir Lindsay Hoyle, rebuked the government, dubbing it “the hokey-cokey Budget: one minute something is in, the next minute it is out”. At one point a leaked report that a planned income-tax rise had been dropped actually moved the bond market — before a word had been said in the Commons.

PENSIONS & PUBLIC FINANCES

## The triple lock, in numbers

One figure that has drawn steady attention from economists is the cost of the state pension triple lock — the guarantee that the state pension rises each year by the highest of inflation, average earnings, or 2.5%. According to the Office for Budget Responsibility, the triple lock now costs around £12 billion a year more than if the pension had simply risen in line with earnings since 2011.

The mechanism is powerful over time. Since the triple lock was introduced in 2011, the state pension has risen by roughly 89% — well ahead of both inflation (around 60%) and earnings (around 66%) over the same period. Total spending on the state pension is now approaching £150 billion a year.

It is precisely because that cost is large and growing that independent bodies such as the OBR and the Institute for Fiscal Studies have repeatedly identified the policy as one area where future savings could, in principle, be found. None of that tells us what any government will do — only that it is a well-documented pressure on the public finances, and one worth understanding rather than being surprised by.

MARKETS & ENERGY

## A bumper quarter for the oil majors

Months of conflict in the Middle East and elevated oil prices produced an extraordinary quarter for the world’s largest energy companies. Between them, the major Western oil producers — BP, Chevron, ExxonMobil, Shell and TotalEnergies — earned tens of billions of dollars in the second quarter, with several posting among their strongest results on record. ExxonMobil alone made $14.5 billion; Chevron $12.1 billion, among its best-ever quarters; BP’s profit more than doubled on a year earlier.

The revealing part is not the size of the profits but their distribution — proof that even a commodity shock does not reward all producers equally. The companies furthest from the conflict, with uninterrupted production and wider margins, saw the biggest leaps in profit. Saudi Aramco, closest to the fighting, made the largest sum of all — around $32.7 billion — yet grew the least, and saw its output fall by roughly a quarter as it was forced to reroute crude away from the troubled Strait of Hormuz.

### The broader picture

The strength of BP and Shell also shows how the FTSE 100's heavy weighting in energy has cushioned UK-tilted portfolios during a period of high oil prices. A higher oil price is unwelcome at the petrol pump, but for a UK-weighted portfolio it is not the unmitigated bad news it first appears.

A note of realism, though. These profits came from a war-driven price spike; they are unlikely to last and have already drawn politicians on both sides of the Atlantic to weigh windfall taxes. Record results from one exceptional quarter are best read as a feature of an unusual year, not a new normal.

MARKETS IN CONTEXT

## Records, a possible breakthrough, and the tech wobble

Equity markets have spent the month pulled between two forces: hope of a de-escalation in the Middle East, and fresh questions about the towering valuations of the technology sector.

On the geopolitical side, the signals have been genuinely mixed. Earlier in the month a proposed arrangement involving Iran and Oman — touching on the passage of shipping through the Strait of Hormuz — briefly drove equity markets to record highs, as oil prices and bond yields eased on hopes the conflict might be nearing resolution. Since then, the mood has turned again: the US has signalled its toughest-ever sanctions on Tehran, with Treasury Secretary Scott Bessent describing the effort in stark terms — "an economic D-Day, the single greatest financial offensive ever marshalled against an adversary" — and oil has pushed back above $93. It would be premature to call the outcome either way; the situation has reversed more than once, and may again.

The technology sector has been the other story — and a more cautionary one. Even as the AI-linked giants continue to report strong results, their shares have become harder to please. When one of the newly public space-and-satellite companies reported earnings this month, its revenue had nearly doubled — yet the shares fell sharply, because management signalled that its heavy spending was "far from over". It was a textbook example of a pattern we have seen repeatedly: when a company is priced for perfection, even excellent results can disappoint.

Beneath that lies a subtler concern the market has begun to voice, sometimes called "circular financing": the largest chip-maker has been striking enormous deals that help fund the very customers who then buy its chips, so that money flows out and returns as revenue. Supporters see a virtuous circle locking in genuine demand; sceptics see an intricate web of interlocking commitments that flatters the numbers. Both may prove partly right. The point for investors is that the market has begun, sensibly, to ask harder questions — and that when expectations are this high, even results that are merely very good can send shares down.

That question faces its sternest test this week. Nvidia — the company at the centre of the entire AI trade, and among the largest in the world — reports its results on 26 August, in a week thick with market-moving events. Notably, despite its dominance, Nvidia's shares have lagged the wider US market this year, a sign that even the standard-bearer is being held to an exacting standard. Whichever way the figures land, the reaction will say as much about investors' nerves as about the company itself. Amongst all this, gold has climbed to around $4,600 an ounce, near its highest level in months, amid demand linked to inflation concerns, a softer dollar and geopolitical uncertainty.

GLOBAL ECONOMY

## Who paid, and who gets the money back

A striking illustration of how economic burdens and benefits can fall on different shoulders emerged this month. After the US Supreme Court struck down the "Liberation Day" tariffs earlier in the year, roughly $100 billion in duties is being refunded — but to the importing companies that paid them at the border, not to the households widely thought to have borne the real cost through higher prices. And the trade story is far from over: talks between Washington and Ottawa collapsed this month, and Canadian Prime Minister Mark Carney has announced dollar-for-dollar retaliatory tariffs on US imports, beginning 8 September, in response to fresh 50% US levies on Canadian goods.

One estimate put the burden on US families at over $230 billion. It is a reminder that a tax refunded is not necessarily returned to those who ultimately bore its cost - particularly relevant while trade policy remains a source of market uncertainty.

IN CLOSING

## A word to end on.

It has been a month in which the cost of borrowing moved to the centre of the picture — for governments, for companies, and, in time, for the rest of us. A great deal remains unresolved: whether the Iran conflict cools, what the Chancellor announces on 28 October, and how the AI giants' results land are all still unknown, and I'll return to them next month. In the meantime, I hope you enjoy the bank holiday weekend when it comes.