

# Special Coverage: BoE holds steady, slows QT to ease gilt pressures

## Key takeaways

- ◆ The Bank of England (BoE) held the bank rate at 4% in its September meeting, with two members preferring a 0.25% cut. The MPC gave no pushback against market pricing for a possible cut in November, leaving the door open, if inflation continues to moderate.
- ◆ The BoE also slowed its pace of Quantitative Tightening (QT) to £70bn for the next 12 months, instead of the £100bn previously suggested. Crucially, it will sell fewer long-dated bonds, responding to the recent surge in 30-year gilt yields, which hit the highest in almost 30 years. The key call for the BoE was to weigh inflation expectations against downside risks to growth. For investors, the BoE's stance was as expected: restrictive enough to keep inflation on course towards target, but pragmatic enough in avoiding further stress in the gilt markets.
- ◆ With downside risks prevalent and lingering uncertainty to UK fiscal policy, we stay neutral on UK equities. The decision isn't a game-changer to our overweight stance on UK gilts, especially in medium-to-long maturities, with slower QT easing supply pressures and growth still weak. Also, the valuations look compelling against a backdrop of slowing inflation and weakening growth. Gilts remain one of the most attractive sovereign bond markets in developed economies, offering positive real yields with policy likely to turn more supportive.



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## What happened?

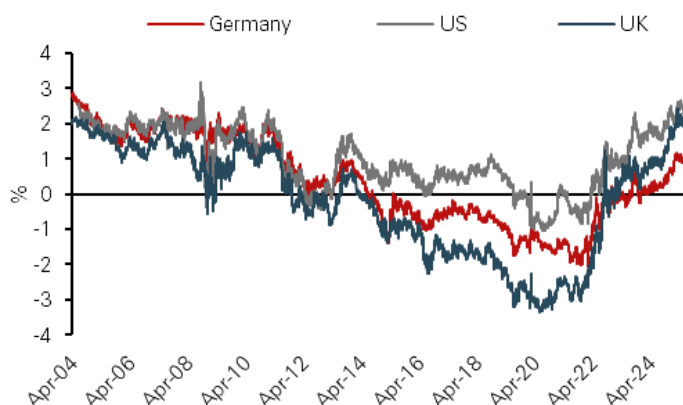
- The BoE's policy stance looked clear as the members voted by 7-2 to hold rates at 4.0%, with two dissenters (Dhingra, Taylor) arguing for a 0.25% cut. The MPC didn't challenge market pricing of a 15-20% chance of a November cut, suggesting that the bar for easing is not high if data softens further.
- Essentially, the BoE was arguing that if it wasn't for fears of another wage-price spiral, they would be much more open to cutting rates. The BoE also noted the slowdown in the labour market, the potential risk to investments due to US tariffs, and the undercurrent of economic gloom.
- The issue with the BoE delivering a rate cut is that inflation is running too hot in the UK, at 3.8% y-o-y. The more headline-grabbing food inflation is still over 5%. There's a risk that this would lead to a push for higher wages. The BoE's own survey has seen a rise in inflation expectations for businesses – something they will want to keep a lid on. That's why the BoE decided not to follow the Fed in cutting rates, preferring to wait until the fall in inflation is more established.
- With this in mind, we believe the BoE is unlikely to cut rates again until April next year. Then, with the likely September peak in inflation comfortably in the rearview mirror, the BoE can start cutting rates towards our estimate of the 'neutral' rate of 3.0% by Q1 2027.

- The BoE announced that it will cut the pace of QT, reducing gilt sales to £70bn over the next 12 months, down from £100bn. So, the Bank will sell fewer long-dated gilts (20+ years), shifting the mix more towards short-and-medium-term maturities. This comes after 30-year gilt yields spiked recently to their highest levels in nearly 30 years, raising concerns about disorderly market conditions and higher government borrowing costs.
- Long-dated gilts are usually more sensitive to supply shocks and demand imbalances. Heavy sales generally risk pushing yields sharply higher, as we had seen in September 2022's mini-budget crisis. Hence, by scaling back sales, the BoE is signaling it's attentive to market functioning and is willing to adapt QT mechanics to avoid amplifying volatility. We see this as a sensible recalibration, not a policy pivot. So, it seems that the BoE is keeping rates high to tame inflation but slowing QT to avoid self-inflicted stress in the gilt market.
- From the fiscal point of view, with public debt reaching a tad bit above 96% of GDP, the Treasury's fiscal space is constrained. Hence, slower QT should help ease upward pressure on borrowing costs and indirectly support fiscal sustainability too.

## Investment implications

- We think that this recalibration is a move in the right direction in making gilts more attractive to long-term investors. However, we think the move is relatively modest, as it only prevents a bigger glut of gilt supply at the longer end rather than reducing it. Medium-term gilts may see more issuance but are better absorbed by markets.
- Ahead of the budget, the gilt market may remain volatile because gilt yields and fiscal sustainability are interwoven. Our fundamental point of difference with the markets is on the terminal point for rate cuts: we see rates falling to 3.0% over the next 12 months, whereas the market thinks there will only be two cuts, at a push.
- Hence, we maintain our overweight stance on UK gilts, especially the medium-to-long maturities, where risk/reward looks better after the adjustment. As the chart of real gilt yields in the 5-10-year range shows, investors can get an attractive, inflation beating yield. With downside risks to growth, we prefer to take gilts exposure over UK equities, where we remain neutral as earnings are uneven, with defensives offering relative resilience but cyclicals struggling under soft demand.

### Real yields on government bonds have been rising across developed markets



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 18 September 2025. Past performance is not a reliable indicator of future performance.

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