



UK TREASURY MAY LOOK TO PROPERTY TAX REFORM AS THE COST OF BORROWING RISES

This week falling bond prices pushed gilt yields up to their highest in more than 25 years. The UK is not alone. Long-dated bond yields have moved higher for most developed countries. The move was mostly reversed by the weekend. However, long-dated gilt yields have moved steadily higher this year, and this will be of concern to the government as it attempts to balance its spending commitments with its pledge not to increase income tax, NI and VAT. These taxes raise more than 60% of government revenue, so it has put itself in a difficult position.

One area it may look to is reform of stamp duty and council tax. As former deputy PM Angela Rayner knows to her cost, this system is overly complex and is open to accusations of unfairness. With so much wealth tied up in housing, it is also an attractive target for a government that desperately needs to raise revenue. The government may see reform of property taxes as a way of generating more tax income without squeezing growth in the short-term, and maybe even as a way of tackling the problem of affordability for lower earners.

THE MARKETS THIS WEEK

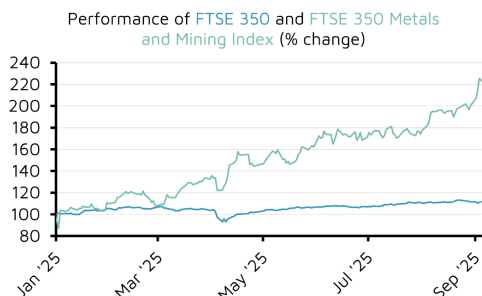
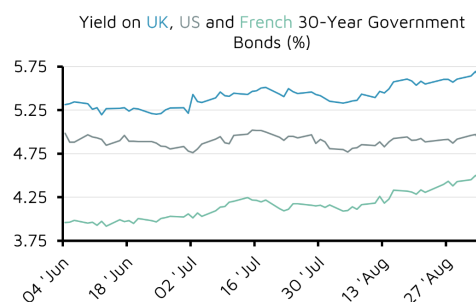
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.77%	+0.57%	+1.70%	+0.33%	+1.42%	-0.07%	-0.02%	-1.30%	+4.11%	+0.24%	-0.07%



BONDS: INFLATION AND COOLING US JOBS MARKET KEEP LID ON YIELDS

Bond markets were volatile as fears of higher inflation gave way to speculation of faster interest rate cuts. The yield on 30-year UK gilts hit 5.75%, the highest since 1998, and the yield on long-dated US and Japanese bonds also rose. The rise in UK long-term yields was caused by a drop in the pound, concerns about inflation and worries about how the scale of government borrowing. In the US, investors see tariffs as a way for the US government to avoid significant extra borrowing, so a court ruling that many US tariffs are illegal caused some of the selling in US treasuries.

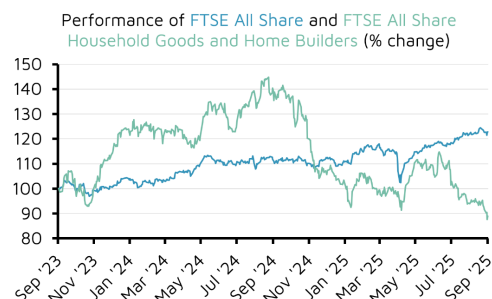
The increase in long-term bond yields is a trend that has been running for the last 12 to 18 months as markets consider the huge amount of money governments need to borrow to meet their spending commitments, as well as the potential for higher inflation. However, government bonds mostly recovered their losses as signs of job market weakness in the US increased speculation that the Federal Reserve will cut rates faster than previously thought.



GOLD: TALK OF RATE CUTS AND FED INDEPENDENCE DRIVES UP PRICE

Gold hit \$3,500 an ounce as the steep increase in the gold price this year accelerated. The decline in the value of the dollar has helped boost global demand from opportunistic buyers, while demand from central banks and other institutional buyers has remained strong.

Speculation that the Federal Reserve will cut interest rates in the short term has also added to gains, as some jobs data shows US economic growth slowing. Investors are also concerned about rising inflation. US president Donald Trump's efforts to undermine the independence of the Federal Reserve are also a factor. Goldman Sachs predicts the price could rise to between \$4,000 and \$5,000 an ounce in 2026 if concerns about Fed independence causes even a small move out of US treasury bonds and into gold. The increase in the price of gold has filtered through to gold mining stocks as the FTSE 350 Metals and Mining Index has increased 32% in the last three months, compared to 5% increase in the FTSE 350 Index.



HOUSING: WILL POLITICS AFFECT THE OUTLOOK FOR HOUSE BUILDERS?

UK house price growth cooled in August as the annual rate of growth slowed to 2.1%. This is despite the rising number of houses for sale and an increase in mortgage approvals in July. Despite cooling house price inflation, affordability remains stretched. The government is looking at reforming property taxes in the Budget, including reform of stamp duty to make it easier to buy and sell property. Meanwhile, a lack of progress on planning reforms has weighed on UK house builders share prices in recent months and Taylor Wimpey is expected to leave the FTSE 100 at the next rebalance of the index later this month.

Housing may be a key issue in next year's US mid-term elections. Treasury secretary Scott Bessent said housing affordability could be declared a national emergency by the Trump administration as it considers reforming building and planning rules, as well as ways of reducing mortgage borrowing rates and the cost of buying and selling homes.

Data sourced from Investing.com

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