



## GOVERNMENT BOND YIELDS RISE AS POLITICAL AND ECONOMIC CONCERNS COMBINE

This week Donald Trump’s visit to China failed to deliver any progress on ending the war in the Middle East. As China is the biggest buyer of Iranian oil, there were hopes that this week’s meeting of the Chinese and American presidents would spur some progress. Instead, tension has been rising following an exchange of rocket fire and Trump’s rejection of Iranian proposals for reopening the Strait of Hormuz. Alongside rising political tension, some investors are warning that the oil price could spike higher when temporary measures, such as releasing strategic oil reserves, run out.

Political tension has also been rising in the UK as Keir Starmer’s position as Labour leader comes under pressure following the party’s terrible results in last week’s elections. Wes Streeting’s resignation has fired the starting pistol for the race to replace Starmer, but markets are much more concerned by Andy Burnham’s potential return to parliament. Rising inflation has pushed global government bond yields higher this week, but UK gilts have moved more than European or US bonds as political concerns add to economic ones.

### THE MARKETS THIS WEEK

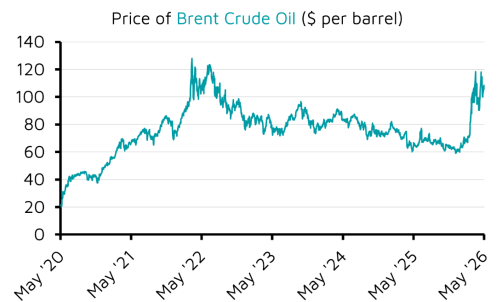
| FTSE 100 | S&P 500 | Nikkei 225 | STOXX 600 | Hang Seng | US 10 Yr | UK 10 Yr | Brent Crude | Gold   | Copper | GBP USD |
|----------|---------|------------|-----------|-----------|----------|----------|-------------|--------|--------|---------|
| +0.32%   | +0.86%  | -1.78%     | -0.53     | -2.00%    | +0.18%   | +0.23%   | +8.84%      | -1.67% | +1.15% | -1.98   |



#### OIL: WARNING THAT PRICES MAY SPIKE IF STRAIT OF HORMUZ STAYS CLOSED

Oil analysts warned that energy prices could soon surge higher if the Strait of Hormuz remains closed. On Tuesday, Donald Trump said the US-Iran ceasefire was on “life support” with only a “1% chance of living” after rejecting Tehran’s latest proposal. Iran demanded sanctions are lifted, an end to the conflict on all fronts, and Iranian control of the Strait of Hormuz. Both sides of the conflict have accused the other of violating the ceasefire in recent weeks.

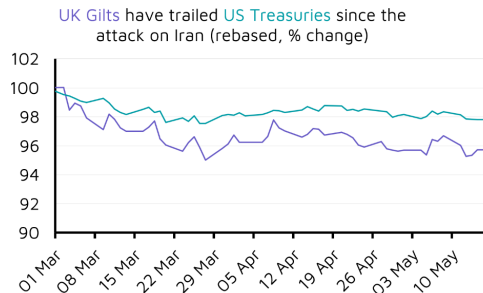
Morgan Stanley warned oil prices could exceed \$150 a barrel if the strait remains closed beyond May, while Saudi Aramco cautioned refined fuel inventories are reaching critically low levels ahead of summer demand. JPMorgan Chase also warned developed-world oil inventories may approach operational stress levels by early June, increasing pressure for a negotiated reopening of the waterway. Meanwhile, the International Energy Agency warned of increased volatility as strategic oil reserves are drawn down at a record rate.



#### UK: GILT YIELDS RISE AS STARMER FIGHTS TO REMAIN PRIME MINISTER

UK government bonds fell as yields hit their highest level in years as Keir Starmer’s leadership faces major challenges. Last week’s poor election results caused more than 90 Labour MPs to call for the prime minister to set out a timetable for him to stand down. Starmer has rejected the call to quit but is set for a leadership challenge following health secretary Wes Streeting’s resignation.

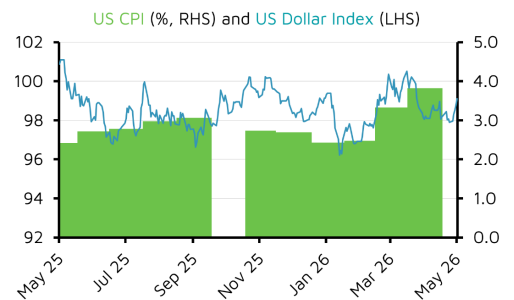
Bond markets fear that Starmer’s potential challengers will increase government borrowing to pay for new spending commitments. A drop in bond prices pushed 10-year UK gilts yields above 5.1% and 30-year gilt yields hit 5.8%, the highest since 1998. Sterling fell against the dollar and the euro. Better UK GDP growth helped gilt yields ease slightly as the UK economy expanded by 0.6% in the first quarter. Speculation about Starmer’s future overshadowed the King’s Speech which set out plans to speed integration with EU legislation, cut financial services regulation and require regulators to encourage economic growth.



#### US: KEVIN WARSH CONFIRMED AS FED CHAIR AS US INFLATION RISES

Kevin Warsh will take over from Jerome Powell as chair of the Federal Reserve after the US Senate confirmed his appointment. The final vote was almost a formality after Warsh received approval from the Senate banking committee. Warsh was nominated by President Donald Trump back in January but his confirmation process was held up by the Trump administration’s criminal investigation into Powell.

Warsh faces a tricky balancing act as he takes office. Over the last two years Trump has been fiercely critical of Powell for not cutting US interest rates aggressively and before his nomination Warsh made it clear he favoured reducing rates as well. However, US inflation has remained persistently above the Fed’s official 2% target and it has increased sharply in recent weeks, partly due to high oil and gas prices caused by the US attack on Iran. Bond markets now see no chance of a Fed rate cut in 2026 and the dollar index has risen on the potential for a rate hike later this year to tackle inflation.



Data sourced from FE Analytics, St Louis Federal Reserve, Investing.com

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