On the political ropes?

British PM, Kier Starmer, could be facing his biggest hurdle yet…

Key points:

- · US bond yields remained rangebound over the week due to a lack of catalysts, with the political landscape marked by Trump's low approval rating and Epstein file leaks.
- · There has been a mixed market reception to the President's 50-year mortgage plan; affordability remains a key voter concern amidst rising goods prices and inflation.
- · A U-turn from Rachel Reeves this morning has created yet more uncertainty around the Budget, with the government doing a good job of undermining any credibility it has left.
- · In Japan, Takaichi's appointments and pronouncements over the past week have echoed her desire for a push back towards Abenomics.
- · As we head into Thanksgiving and year-end, we think the macro backdrop could remain relatively stable and supportive of risk assets.

London, 14 Nov 2025: US and Eurozone bond yields continued to remain relatively rangebound over the past week, in the absence of any decisive catalysts to drive price action. In Washington, at least the shutdown is now at an end, though disruptions to economic data mean that after the delayed September releases are disclosed, there may be a hiatus with respect to the October data, which would normally have been released this month.

Meanwhile, the political spotlight on Trump has put him on the defensive, as his Presidential approval rating slides to a new low point during his second term in office. Leaks relating to the Epstein files have created discomfort, with pressure building that full disclosure should be made, amidst suspicion that the administration may have something it would rather hide. Meanwhile, the political losses in recent gubernatorial elections have put the focus back on affordability as the number one issue at the front of voters' minds.

Trump's attempts to endorse a plan for 50-year mortgages, in order to help lower borrowing costs given the slower paydown of capital repayments, have had a pretty mixed reception in the market. In this regard, housing is an issue where too many individuals feel unable to trade up to larger homes, despite rising incomes, given that they don't want to surrender existing mortgages that they took out (or refinanced) when long-term borrowing costs were down as low as 2%.

However, this seems to be an issue without a quick fix, in the absence of a plan to deliver mortgage portability, unless interest rates can fall materially further. Meanwhile, higher goods prices are increasingly blamed on tariffs and, with most economists seeing inflation continuing to push higher in the coming six months, it seems likely that criticism directed towards Trump for failing to address affordability may only continue to grow.

Noting this political concern, it will be interesting to observe whether the President accepts that inflation is an issue and so tones down his pressure on the Fed to cut rates during the coming months, given the risk that easing monetary policy further, in an economy which continues to perform relatively well, could only end up adding to prices.

Of course, a sharper downturn in the US labour market could force the Fed's hand, if unemployment starts to climb in the months ahead. Yet, we would continue to argue that after adjusting for changes in population growth in the wake of the reversal in the flow of migrants, softer monthly jobs numbers won't necessarily push unemployment much higher as a result.

In our view we see a 50/50 chance of one more rate cut at the December FOMC, given the potential for some data weakness in the near term due to the government shutdown, but we are sceptical that the Fed will be in a position to lower rates any further in 2026.

Arguably if we witness real GDP growth as high as 3.5% next year in the US, powered by rapid ongoing AI turbocharged investment spending along with 3.5% on inflation, then this infers nominal GDP expanding as much as 7% in 2026. This should be broadly supportive for earnings and risk assets in general. However, this economic trajectory would not appear to need or want lower interest rates.

Against this backdrop, Treasury yields may continue to be rangebound, with risks ultimately skewed to the upside. From this perspective, it is worth emphasising that prevailing levels of interest rates and yields feels like they are very much at 'normal' levels. Those who may have only started their careers in macro analysis and financial markets post 2008 may think that rates are too high and need to fall, as rates in the last decade appear more normal through their eyes. Yet arguably this was a period when interest rates and valuations in fixed income markets were distorted, not today. Moreover, it is also interesting to observe that many of those championing the need for lower interest rates the loudest at this time are those who are working in private markets.

In order for private assets to deliver attractive returns after fees, there needs to be ongoing multiple expansion and access to cheap leverage. In the absence of this, any alchemy that these managers may profess to have seems more of an illusion.

After all, this should not be too surprising when you consider that when companies are highly levered and loaded with debt, if borrowing costs remain high, then quickly all free cashflow is eaten up in debt servicing costs. Meanwhile, not much needs to go wrong before these credits can become impaired.

Consequently, there may be a growing divergence in the performance trends of public and private assets in the coming year, which calls into question some of the recent fashion and obsession for everything private.

In European markets, it has been another quiet week. However, in the UK, weaker employment and growth data all added to growing economic fears, which have weighed on the pound. Meanwhile, with Rachel Reeves' Budget less than two weeks away, it seems appropriate to question whether this government will be driving the economy deliberately into recession next year, just in order to satisfy statisticians at the OBR and because Labour can't restore credibility by demonstrating that it can limit future increases in welfare spending.

A recession could help bring inflation down (depending on how much further and how quickly the pound may continue to fall), but although this may support the case for rate cuts and lower short-dated yields, there is a risk that longer-dated borrowing costs trade in an opposing direction, should a contracting economy actually end up making the UK fiscal position worse, not better. This said, a U-Turn from Rachel Reeves on income tax this morning has created yet more uncertainty with respect to the Budget, with the government doing a good job of undermining any credibility it has left at this point.

In addition, rising threats within the Starmer government continue to build. With the political fallout from the Budget unlikely to be at all pleasant, one wonders how much longer Starmer will keep Reeves and whether it becomes inevitable that the Prime Minister himself will be ousted next May, given prospects for disastrous results at the Council elections, which will take place at that time.

Yet any change in personnel could only mean worse news for UK assets, if this means that Labour moves further to the left. Financial markets have made clear that they don't believe in policies of ever higher spending and taxation, but this seems what this government is committed to delivering. On this basis, the national outlook remains very challenged indeed.

In Japan, Takaichi’s appointments and pronouncements over the past week have all echoed her desire for a push back towards Abenomics. It is clear that she hopes that by delivering easier fiscal policy and monetary policy, then this will stimulate Japanese nominal GDP growth.

In this respect, the Japanese Prime Minister openly stated her desire for nominal growth to outstrip bond yields and in this way can act to bring down Japan’s debt-to-GDP ratio. Although this sounds attractive, the problem Takaichi faces is that, unlike during the Abe administration, Japanese inflation is already too high, not too low.

Japan CPI has averaged around 3% for more than three years and it seems that the current policy mix could push this even higher. This can be compounded by renewed currency weakness, with the yen continuing to slide, with investors needing to fear intervention or higher interest rates for the time being.

Ultimately, we think that Japan would be very unwise to push inflation higher. The ageing of society means that the supply of labour is shrinking and already driving wages higher. In this respect, we already see next year’s Shunto rising another 5% or 6%.

It would seem to make much more sense to continue to normalise monetary policy, allowing the BoJ to focus on delivering a 2% inflation target, in conjunction with pursuing a pro-growth agenda. Yet, if Takaichi undermines the BoJ’s ability to conduct consistent policy, there could be a building risk of a policy error causing markets to overshoot in the months ahead.

Looking ahead

Next week will be the last full week of trading ahead of Thanksgiving and on the return from that, December markets and the year-end will be very much in view. In a number of respects, we think that the macro picture can remain relatively stable and supportive of risk assets for the time being, but it is hard to say how long that sense of calm can continue to prevail, and we always know that there are unforeseen shocks around the corner.

Who knows whether the Epstein files will claim another high profile victim (or will the former Price Andrew be tempted into making some cash for himself by writing his own book to reveal all!) It may be the case that we have now passed the moment of ‘Peak Trump’. As for Starmer, his peak certainly came on the night of last year’s election and has been on a seemingly irrecoverable slide, ever since. It looks like the Traitors are now circling, waiting to choose their moment….

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