

# Overweight UK Gilts/Underweight World Government Bonds

Recommended since February 28, 2026

**Investment thesis:** We expect UK gilts to outperform world government bonds (GBP hedged), driven by attractive valuations, a growth and inflation outlook that points to a relative fall in gilt yields, and positive yield carry. While fiscal risks remain, we believe they are captured in gilts to a greater extent than other government bonds and self-imposed fiscal rules should limit further repricing. The UK, though, is particularly exposed to external supply shocks, such as recent developments in Iran.

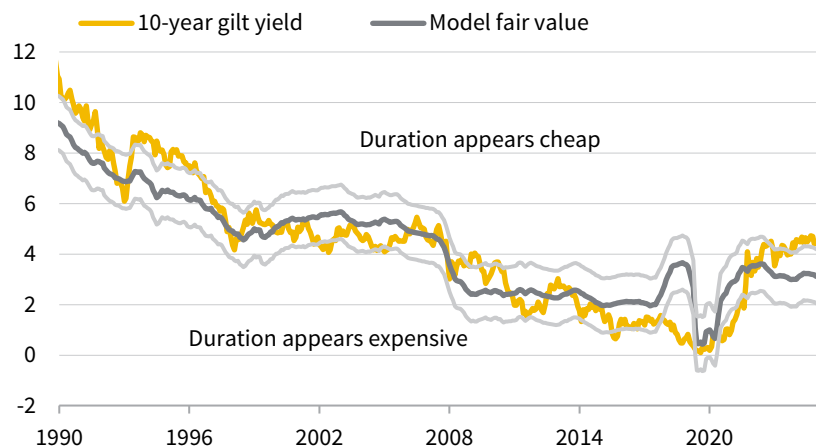
**Key support 1:** Gilts yields are trading more than 1 standard deviation above their model implied fair value level (model based on trailing growth and inflation data). Gilts have outperformed in previous episodes when they exhibit this level of 'cheapness' and move lower toward the fair value range. Gilts yields are also trading high relative to other developed markets (DM) fixed income. Even without a change in yields, gilts should outperform based on positive carry—the yield on gilts is 1.10 percentage points higher than the world government bond underweight.

**Key support 2:** The balance of risks points to lower relative gilt yields. UK growth is set to remain weak and below DM peers, with limited clear catalyst for renewed momentum, and signs of increased economic slack emerging. The BOE has been the most dovish DM central bank as policy cycles desynchronize, although Middle East developments heighten uncertainty on the policy rate path from here. Fiscal concerns are priced to a greater extent than other DMs. Self-imposed fiscal rules and market-imposed discipline should limit long-dated yields pushing comparatively higher.

**Key risks:** The UK is particularly vulnerable to external supply shocks. The Iran War is an example within which gilts could underperform, especially if the war leads to a protracted inflationary impact, although domestic growth and inflation momentum had been waning. A change in UK political leadership could increase focus on government borrowing, but the impact should be limited unless the new leader explicitly scraps the fiscal rules (seen as a tail risk).

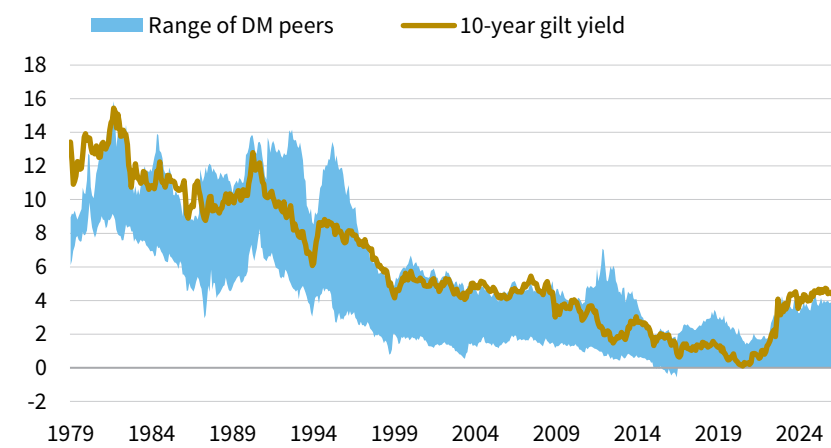
## Valuations: 10-year gilts

January 31, 1990 – February 28, 2026 • Percent (%)



## 10-year UK gilt yield compared to the range of DM peers

January 31, 1979 – February 28, 2026 • Percent (%)



Sources: National Sources and Thomson Reuters Datastream.

Notes: For LHS, the model fair value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and RPI/CPI change. CPI data are as of January 2026. For RHS, DM peers include the 11 G10 countries.