RATHBONES

Weekly Digest

By John Wyn-Evans
Head of Market Analysis

Back home

28 October 2025

As economic data softens and fiscal pressures mount, the upcoming Autumn Budget will test the UK government's ability to steady public finances while keeping the recovery on track.

In 1970, the England football team released a single called *Back Home* before departing for the World Cup in Mexico. It reached number one in the charts. These days it might be an apt title for a single released by 'non-doms' and other high earners who are leaving the UK in protest at the increasingly punitive tax regime – although, unlike 1970s football supporters, I doubt many of those left behind will be "thinking about [them]" or "cheering every move".

Back home is where we return this week as we move to within a month of the much-anticipated Autumn Budget, to be unveiled on 26 November. I'm acutely aware that much of the content of these commentaries focuses on events and markets beyond these shores, for which I make no apology. Global geopolitics, the dominance of US companies and the influence of the Federal Reserve, especially, remain the main drivers of financial markets, not to mention "you know who".

Furthermore, the UK wealth management industry and self-directed investors are increasingly global in their outlook and portfolio construction, wishing to take advantage of the wider and deeper pool of opportunities available. For example, there's very little technology exposure in the FTSE 100, which leaves a large gap in access to many of today's most important trends.

Quick take

- With the Autumn Budget less than a month away, attention is turning to how the Chancellor will balance stretched public finances while easing pressure on households.
- Softer inflation data offers some hope for rate cuts next year, but frozen tax thresholds and potential increases elsewhere could tighten the squeeze on take-home pay.
- Markets remain calm for now, with gilt yields edging lower and some optimism that a credible Budget could help restore confidence in the UK's fiscal outlook.

Milestones or millstones?

The run-up to this year's Budget is almost as drawn out as last year's, because the Chancellor, Rachel Reeves, has delayed it to late November. It's no secret that the country's finances are stretched. With limited prospects that the majority of Labour MPs will support spending cuts, the burden of balancing the books will once again fall on taxpayers.

The extent of tax increases will depend, to some degree, on the state of the economy, although there's a broad consensus that somewhere above £25bn will be required – possibly more if Ms Reeves

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

gives herself more 'headroom' to allow for further fiscal shocks. You might recall that after last year's Budget we thought the £9bn of headroom she left herself was worryingly thin – and that she might have to return to the tax well despite promising not to do so. And here she is, bucket in hand.

Every piece of economic data released now is viewed through the lens of the Budget. Every milestone passed allows economists to tighten the range of forecasts. So far, the picture is mixed. The public finances for September showed a higher deficit than forecast. The cumulative shortfall of £99.8bn for this tax year is running around £7bn higher than the Office for Budget Responsibility's (OBR's) projections – or £13bn if measured purely on the gap between tax income and day-to-day spending. The OBR itself is expected to downgrade long-term UK GDP growth forecasts in its pre-Budget report to the Chancellor, citing weaker trend productivity growth, which will widen the gap even further.

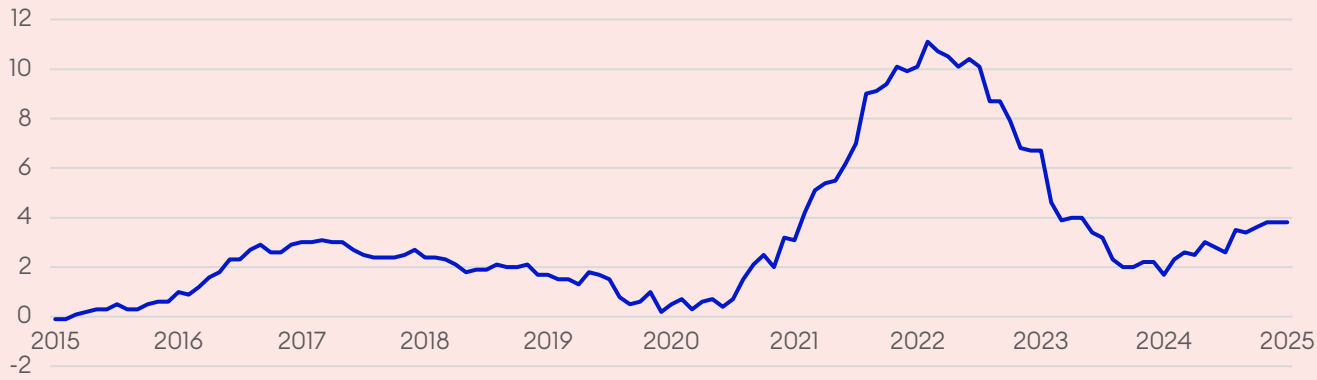
Better news came in the form of September's inflation data, with the headline rate below forecasts at 3.8% and the core rate unexpectedly falling to 3.5% (figure 1). Because October's energy price increases were lower than last year's, the annual rate of inflation should have peaked for now. Reports suggest the Chancellor is acutely aware of the pressure inflation puts on real household incomes. One idea being floated is to scrap VAT on household energy bills. It also makes it less probable that she will raise the basic rate of VAT or extend it to items for which there's no VAT. The *quid pro quo* could be higher income taxes and, at the very least, another freeze in tax thresholds.

The latter ruse is a classic example of 'financial repression' – government policies that make it harder, if not impossible, for households to keep up with inflation. By its nature, it is also rather sneaky. The OBR calculates that the starting income for paying any tax, which has been frozen at £12,570 since 2021–22 (a policy introduced by the Conservatives), would now be £15,520 if it had been indexed to inflation. The 40% income tax threshold, based on the same premise, should be more than £61,000 rather than stuck at £50,270. That means someone earning £60,000 pays around £2,500 more in tax every year. Sadly, unless the UK can find a way to accelerate growth in the economy's productive capacity, there will be more of this sort of thing in future.

The latest GDP figures showed that the economy grew 1.3% in the year to August. If inflation continues to fall, that would give the Bank of England some scope to continue cutting interest rates. That would be welcome news, especially for those having to refinance maturing five-year mortgages taken out with rock-bottom rates in 2020. There's one more cycle of monthly data to

Figure 1: Inflation cools but pressure remains

UK consumer prices rose 3.8% in September, coming in below forecasts and offering some relief for households. But the rate is still high enough to limit the Bank of England's room to cut interest rates.



Source: ONS, Rathbones

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

negotiate before the Budget. Let's hope there are no nasty surprises, or those milestones could turn into millstones for the Chancellor.

Turning to markets

The FTSE 100 is not a great barometer of the UK economy or politics. That said, it can reflect large movements in the pound because such a high proportion of FTSE 100 companies' earnings are from overseas. That tends to make a falling pound positive for the index, by increasing corporate earnings in sterling terms. Domestic influences are more visible in the performance of sterling, government bonds and smaller companies with greater UK exposure.

The message from markets is more measured than much of the media commentary, which often carries its own political slant and a tendency towards sensationalism. The pound is relatively steady, although flattered to some degree by underlying dollar weakness as investors diversify their exposure. It has drifted lower against the euro this year, but that has more to do with increased demand for the euro as investors anticipate fiscally driven reflation. Interest rate differentials also play a role. With hopes growing for further rate cuts, sterling looks less attractive to income seekers, but that's not a structural problem.

The gilt market, along with other sovereign bond markets, has also regained some poise. The 10-year gilt yield is at the lower end of its range for the year, at 4.4%, meaning bond prices have risen recently. There are no signs of alarm among investors – perhaps a reflection of already low expectations. Some analysts are even optimistic that the Budget could act as an inflection point for improved sentiment on gilts if it sets the UK on a sustainable fiscal path, however painful that might be for some taxpayers.

It's also worth remembering that the UK's fiscal situation, in terms of the gross debt-to-GDP ratio, is better than that of the US, Japan, Canada, France and Italy. Indeed, the only other G7 country with a stronger position is Germany, which is currently embarking on aggressive fiscal expansion. Few governments seem willing or able to impose another round of austerity – just look at the turmoil in France or the government shutdown in the US. This broader picture remains an important context for portfolio construction.

With four weeks still to go until Budget Day, there's plenty of scope for more surprises and speculation. The Chancellor faces no easy choices, and it will be fascinating to see how much political capital she is willing to spend when her backbenchers are pushing back on one side and Reform is applying pressure on the other.

She has a chance to be Gordon Banks, England's World Cup-winning goalkeeper, who pulled off what's sometimes described as "the greatest save ever" from Pelé's header against Brazil. Or she could channel her inner Peter Bonetti, who flapped hopelessly at Gerd Müller's winner for West Germany in the quarter-final.

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

Economic highlights

UK. There has been some better data in the UK. September retail sales beat expectations, with the 0.5% month-on-month increase in total sales volumes above all economists' forecasts (Bloomberg consensus -0.4%). The boost to clothing sales from good weather in July and August faded but was offset by strong online sales of other goods. The September increase took sales volumes to a three-year high. In cash terms, retail sales growth accelerated to 4.0% year-on-year, the fastest pace since January 2024. Even so, with overall GDP still sluggish, the strong result could reflect consumers cutting back on services (where inflation is higher) to spend more on goods instead. Retail sales prices rose by 1.7% year-on-year in September, whereas the services component of the Consumer Prices Index increased by 4.7% year-on-year. Overall consumer prices also delivered a positive surprise, with the headline rate coming in at 3.8% versus the 4% forecast. This should mark a peak for inflation as the large household energy price increases from 2024 drop out of the calculation. Interest rate futures reflected the news by bringing forward the expectation of the next base rate cut from March to February, signalling that markets now anticipate an earlier easing of policy.

US. With the US government shutdown ongoing, there has been a lack of official data and more reliance on private surveys. However, the government was compelled to release the latest inflation measures to calculate inflation-linked bond payments and cost-of-living adjustments for benefits. The core Consumer Price Index rose 0.23% in September, below consensus expectations, and the year-over-year rate ticked down to 3.02%. The shelter component decelerated to 0.21% (versus 0.44% last month and 0.28% on average in the past three months), reflecting slower rent inflation (0.20% versus 0.30% last month and 0.26% over the prior three months) and a sharper decline in owners' equivalent rent inflation (0.13% versus 0.38% last month and 0.32% over the prior three months). This trend should continue as weak rent growth for new leases gradually flows through to the official statistics. Core goods inflation was firm at 0.2%, but computer software prices declined sharply again (-3.7% after -4.9% last month). Car insurance, rental and leasing prices all declined, together weighing on the core by about 2 basis points. Headline CPI rose 0.31%, reflecting a 1.51% increase in energy prices and a 0.25% increase in food prices. After holding rates steady in recent months, the data gives the Federal Reserve the green light to lower interest rates this week.

Europe. Germany's IFO Business Climate survey beat expectations slightly (88.4 versus 88.0). That was driven by business expectations (91.6 from 89.7) improving to their highest level since February 2022, although the current situation assessment deteriorated (85.3 vs 86.0) to an eight-month low. Jam tomorrow? We remain confident that the European supertanker will turn, but it's a long process. Total lending fell in the eurozone in September, but the more important number, credit flows to households and companies, stabilised. Loans to households ticked up to 2.6% year-on-year, from 2.5% in August, while lending to corporates inched down to 2.9% year-on-year, from 3.0%. Encouragingly, the small decline in corporate lending was driven mostly by short-term loans, while long-term borrowing, typically used to finance investment, was actually up by 0.2 percentage points year-on-year in September.

China. The announcement outlining China's forthcoming 15th Five-Year Plan (2026 to 2030) proved something of a damp squib. The urgency to achieve technological self-sufficiency and deepen industrial capabilities has clearly intensified, although this agenda might clash with the authorities' own "anti-involution" ambitions – reversing the unprofitable investment and domestic competition that have led to deflation. Many of the priorities outlined repeat earlier policy themes, focusing heavily on industrial upgrading and tech self-reliance, with less emphasis on broad consumption stimulus or debt and financial risk management.

The value of investments can go down as well as up and you could get back less than you invested. Past performance is not a reliable indicator of future performance. This information should not be taken as financial advice or a recommendation.

Additional information

If you no longer wish to receive this publication, please call 020 7399 0000 or speak to your regular Rathbones contact.

Rathbones, Greenbank and Rathbones Financial Planning are trading names of Rathbones Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Registered in England No. 01448919.

Rathbones Investment Management International Limited is the registered business name of Rathbones Investment Management International which is regulated by the Jersey Financial Services Commission and is licensed by the Guernsey Financial Services Commission. Registered office: 25/26 Esplanade, St. Helier, Jersey, JE1 2RB. Company Registration No. 50503. Branch: Upper House, 16-20 Smith Street, St Peter Port, Guernsey, GY1 2JQ. License No. 3058882. Rathbones Investment Management International Limited is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulation Authority in the UK and its services are not covered by UK regulatory protections.

Copyright ©2025 Rathbones Group Plc. All rights reserved. No part of this document may be reproduced in whole or in part without express prior permission.

Call:

For contact details of your nearest office please visit

www.rathbones.com/about-us/our-offices

Visit:

rathbones.com

Email:

enquiries@rathbones.com

For specialist ethical, sustainable and impact investment services:

Greenbank

0117 930 3000

enquiries@greenbankinvestments.com

greenbankinvestments.com

For offshore investment management services:

Rathbones Investment Management International

01534 740 500

rathboneimi.com

@rathbonesgroup

Rathbones Group Plc

@RathbonesPlc

RATHBONES