Agenda Item	7.b
Report No	RES/37/25

The Highland Council

Committee: Corporate Resources

Date: 20 November 2025

Report Title: Treasury Management - Mid-Year Report 2025/26

Report By: Chief Officer – Corporate Finance

1. Purpose/Executive Summary

1.1 This report is the mid-year treasury management review for the financial year 2025/26 which is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in Local Authorities (revised 2021).

1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year to 30 September 2025 and compares activity to the expected activities contained in the annual Treasury Management Strategy Statement and Investment Statement (TMSS) which was approved by Council on 27 March 2025.

1.3 This Treasury Management Mid-Year Review 2025/26 is submitted to the Committee for consideration.

1.4 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end, and through this report a mid-year forecast position is shown as at 30 September 2025 in **Appendix 1**.

2. Recommendations

2.1 Members are asked to:

i. **Consider** and **note** the Treasury Management Mid-Year Review 2025/26.

3. Implications

3.1 **Resource:** Loan charges are forecast to be slightly underspent from the budget provision. However, this figure depends on the level of capital expenditure undertaken during the rest of the financial year and market interest rates for short- term borrowing and deposits which will continue to be monitored. While Bank base rates have reduced over the year to date, there is not always a direct relationship between base rates and the PWLB or market rates available to the Council. The Council's forecasts for the year had also assumed an expected reduction in interest rates so some aspect of a 'saving' from interest rate reductions are already captured within the loan charge budget estimate. Due to high levels of economic uncertainty, there is a risk that any approach the Council takes to its borrowing may not accurately anticipate future market movements. This is mitigated through regular review of assumptions, and regular engagement with the Councils Treasury advisors and review of economic forecasts.

3.2 **Legal:** There are no Legal implications arising as a direct result of this report.

3.3 **Risk:** See section 3.1.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no Health & Safety implications arising as a direct result of this report.

3.5 **Gaelic:** There are no Gaelic implications arising as a direct result of this report

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is a monitoring and update report and therefore an impact assessment is not required.

5. Background

5.1 Treasury Management is defined as: "*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

5.2 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2021). The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an Annual Strategy Report for the year ahead, a mid– year report and an Annual Review Report for the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

5.3 This Treasury Management Mid-Year Review 2025/26 covers the following:

- An economic update for the first six months of 2025/26, provided by the Council's Treasury Advisers, MUFG (previously Link)
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's capital expenditure (prudential indicators)
- A review of the Council's investment portfolio for 2025/26
- A review of the Council's borrowing strategy for 2025/26
- A review of any debt rescheduling undertaken during 2025/26
- A review of compliance with Treasury and Prudential Limits for 2025/26

6. Economic Update (provided by MUFG)

6.1 The Council has appointed MUFG (previously Link) as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. **Appendix 2** provides an economic update from MUFG.

6.2 The Council's treasury advisor, MUFG, provided the following forecasts on 11 August 2025 (PWLB rates are certainty rates: gilt yields plus 80bps)

MUFG Corporate Markets Interest Rate View 11.08.25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

6.3 Additional notes by MUFG on the forecast table above are provided below.

6.4 MUFG Corporate Markets' latest forecast sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

6.5 The Authority has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20bps) which has been accessible to most authorities since 1 November 2012.

7. Treasury Management Strategy Statement and Annual Investment Strategy update

7.1 The Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by Council on 27 March 2025. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as **security** of capital, **liquidity** and then **yield.** There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position.

7.2 The investment portfolio yield for the first six months of the year was an average rate of 4.25% (2024/25 5.15%) against a benchmark (SONIA - Sterling Overnight Index Average, daily average) of 4.19%.

7.3 The daily average level of funds available for investment purposes in the first six months of 2025/26 was £70.1m (2024/25 £83.1m). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of council tax payments, receipt of grants and progress of the Capital Programme.

7.4 In line with the investment strategy, the Council will only place deposits with counterparties with a high creditworthiness.

7.5 The Council continues to hold most of its investments in Money Market Funds (MMF) to meet cashflow requirements and minimise the requirement to borrow. Due to the Bank Rate decreases, rates on Money Market Fund investments have also decreased.

7.6 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs with security and liquidity being the key considerations.

8. New External Borrowing

8.1 The Capital Financing Requirement (CFR) represents the accumulated net capital expenditure for the General Fund and Housing Revenue account which the Council requires to fund by way of long-term debt until the capital projects, comprising the CFR, are fully written off by way of annual loan charges to revenue accounts.

8.2 The balance of external and internal borrowing is generally driven by market conditions, and the need to take a balanced view of savings available from short term and internal borrowing, versus the mitigation of re-financing risk which can be achieved from longer-term borrowing, but at a potentially higher cost.

8.3 The table below shows the estimated CFR at 31/03/26 and how it is expected to be funded by short-term borrowing and historic long-term borrowing. The reduction in difference between CFR and borrowing compared to the TMSS is a result of cashflow requirements in 25/26.

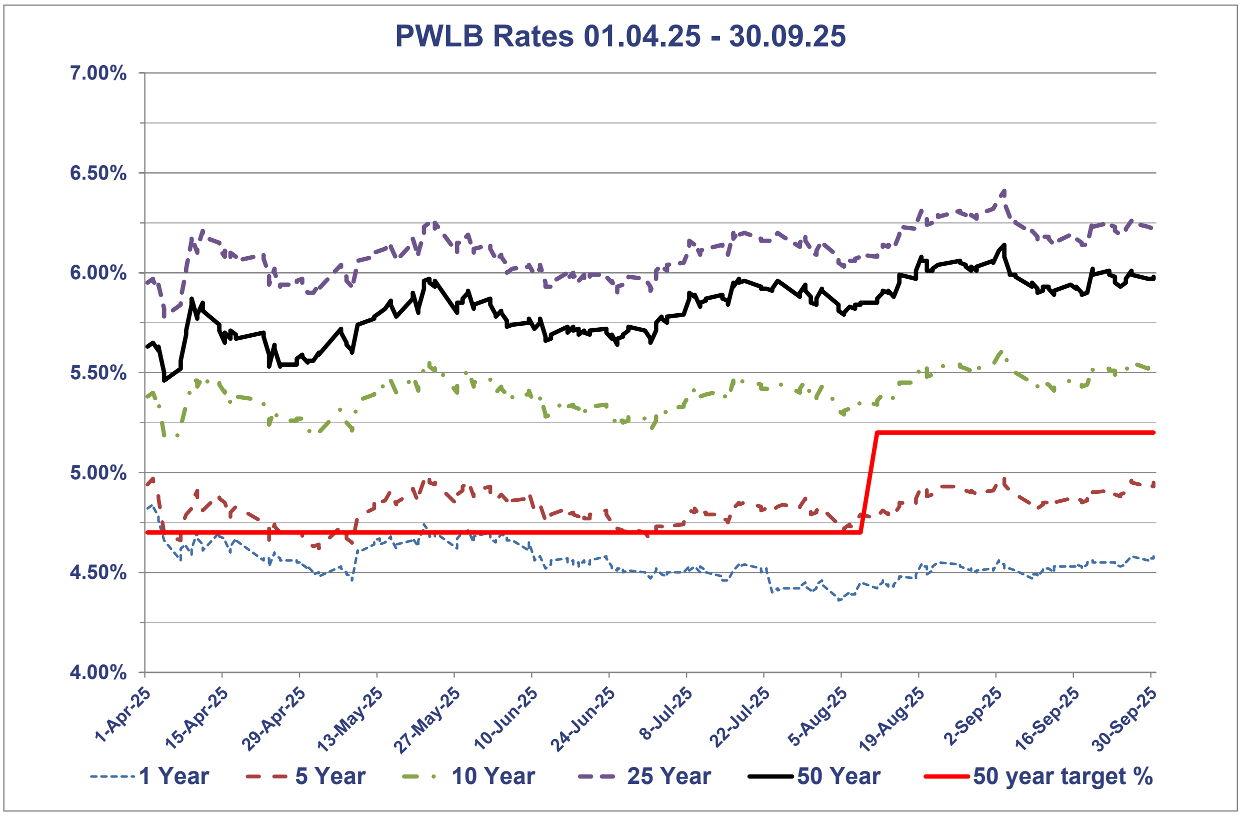
8.3.1

	£m
Estimated Capital Financing Requirement (CFR) at 31/03/26 See appendix 1 – indicator 2	1,751.9
Less PPP/NPD (school PPP contract liabilities)	-229.0
Estimated CFR 31/03/26	**1,522.9**
Opening Long Term Debt 01/04/25	1,101.1
Long term maturities	-50.8
New PWLB loans	200.8
Estimated Long Term Debt 31/03/26	**1,251.1**
Opening short-term borrowing 01/04/25	193.0
Raised and repaid to 30 Sept 2025	-36.0
Add estimated net borrowing for new capital expenditure and replace maturities in 2025/26 (November to March)	-6.8

Estimated Short Term Debt at 31/03/26	**150.2**
Estimated total long term and short-term debt 31/03/26	**1,401.3**
Difference between CFR and borrowing = Funding from internal balances and cash flow	121.6

8.4 The graph and table below show the movement in PWLB rates from 1 April 25 until 30 September 25 incorporating the certainty rate (0.20% discount on rates for local authorities who have applied for it and in June 2023 discount of an additional 0.40% for HRA was re-introduced). Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

MUFG still forecasts rates to fall back over the next two to three years as inflation dampens, although there is upside risk to all forecasts at present. The CPI measure of inflation is expected to fall below 2% in early 2027 but hit a peak of 4% or higher later in 2025.



8.5 The 50-year PWLB rate for new long-term borrowing started 2025/26 at 5.63% and was 5.98% at the end of September 2025. Rates were volatile during this period.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
30/09/2025	4.58%	4.95%	5.53%	6.23%	5.98%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.55%	4.82%	5.40%	6.11%	5.83%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

8.6 There was £120m of PWLB borrowing to the end of September 2025.

Amount £'m	Start Date	Maturity Date	Rate %
5.0	11/04/2025	01/11/2027	4.19
10.0	11/04/2025	01/02/2023	4.30
10.0	11/04/2025	03/07/2028	4.21
10.0	14/04/2025	01/09/2026	4.56
10.0	16/04/2025	01/09/2028	4.23
5.0	19/06/2025	01/05/2028	4.19
10.0	19/06/2025	01/12/2027	4.56
10.0	21/08/2025	01/06/2027	4.53
10.0	04/09/2025	01/06/2028	4.30
10.0	15/09/2025	01/08/2028	4.65
10.0	25/09/2025	02/08/2027	4.64
20.0	30/09/2025	04/01/2028	4.67
120.0			

8.7 It is anticipated that over the remainder of the financial year there will be additional borrowing to fund the Capital Programme, consideration will be given to the profile of the existing debt portfolio and funding will be undertaken with both long-term or short-term borrowing depending on market rates and availability. Decisions will be made using rates and other available market information to achieve optimum value and risk exposure in the long-term. Markets remain volatile and although short-term borrowing opportunities continue to be available to the Council, there are fewer Offers which means rates payable are unlikely to reduce in the short to medium term. The strategy remains flexible, and consideration will be given to the appropriate mix of long and short-term borrowing based on prevailing market conditions.

8.8 In consultation with MUFG, the market situation is constantly monitored and borrowing strategies reviewed on a regular basis.

9. Debt Rescheduling

9.1 No debt rescheduling was undertaken during the first six months of 2025/26 as there were no cost-effective opportunities and officers continue to monitor and investigate potential debt rescheduling opportunities.

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Capital Expenditure Limits." The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS) agreed on 27 March 2025.

10.2 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in **Appendix 1**, comparing the initial limits agreed for the year and updated year-end forecasts.

Designation: Chief Officer – Corporate Finance

Date: 27 October 2025

Authors: Rachel MacDonald, Principal Accountant
Mairi MacCallum, Treasury Officer

Background Papers: Treasury Live and CiA financial ledger systems

Appendices: Appendix 1 – Estimated Treasury Position and Prudential Indicators
Appendix 2 - Economics Update

Appendix 1

Estimated Treasury Position and Prudential Indicators
Figures are for financial year unless otherwise titled in italics

Prudential Indicator		2025/26 Original £m	2025/26 Revised £m
1.	**Capital expenditure**		
	Gross capital expenditure		
	General Fund including PPP	186.8	210.6
	Housing Revenue Account	52.2	58.0
	Total gross capital expenditure	**239.0**	**268.6**
	Income - General Fund	(36.4)	(86.3)
	Income - HRA	(16.8)	(16.6)
	Total income	**(53.2)**	**(102.9)**
	Net capital expenditure		
	General Fund	150.4	124.3
	HRA	35.4	41.4
	Total net capital expenditure	**185.8**	**165.7**
	Loan charge instalments		
	General Fund	(37.8)	(35.6)
	HRA	(13.7)	(12.2)
	Total instalments	**(51.5)**	**(47.8)**
	Net borrowing for new capital expenditure		
	General Fund	112.6	88.7
	HRA	21.7	29.2
	Total net borrowing for new capital expenditure	**134.3**	**117.9**
2.	**Capital Financing Requirement (CFR) at 31 March**		
	General Fund excluding PPP/NPD	1,027.4	1,051.5
	Housing Revenue Account	455.4	458.5
	Joint Boards	12.9	12.9
	PPP	178.1	212.9
	IFRS16 Leases	35.0	16.1
	Total	**1,708.8**	**1,751.9**

Prudential Indicator		2025/26 Original £m	2025/26 Revised £m
	Treasury Position at 31 March		
	Borrowing – Long term	1,299.2	1,251.1
	Borrowing – Short term	150.0	150.2
	Other Long-Term Liabilities (PPP/NPD and IFRS16 Leases)	146.0	165.6
	Total Debt	**1,595.2**	**1,566.9**
	Investments	(50.0)	(50.0)
	Net Borrowing	**1,545.2**	**1,516.9**
3.	**Ratio of financing costs to net revenue stream**		
	General Fund including PPP/NPD	10.6%	12.0%
	General Fund excluding PPP/NPD and IFRS 16 (local indicator for HIP with a 10% cap)	8.7%	8.6%
	Housing Revenue Account	44.5%	41.9%

Prudential Indicator		2025/26 Maximum £m	2025/26 Actual £m
4.	**Authorised Limit for Borrowing**	1,596.4	1,328.1 (Sept 2025)
5.	**Operational Boundary for Borrowing**	1,482.8	1,328.1 (Sept 2025)
6.	**Interest rate exposures of debt net of investments**		
	Upper Limit (Fixed)	1,708.8	1,290.8 (June 2025)
	Upper Limit (Variable)	598.1	(15.2)* (Sept 2025)
7.	**Maturity structure of fixed rate borrowing (against maximum position)**		
	Under 12 months	30.0%	19.1% (Sept 2025)
	12 months to 2 years	30.0%	9.7% (Sept 2025)
	2 years to 5 years	40.0%	17.1% (Sept 2025)
	5 years to 10 years	50.0%	5.5% (June 2025)
	10 years and above	100.0%	51.5% (June 2025)
8.	**Upper limit for the maturing of investments made for periods longer than 364 days**	20.0	Nil
9.	**Short term borrowing as a % of outstanding long-term debt (maximum position)**	25.0%	14.4% (May 2025)
10.	**Variable interest debt as a % of outstanding long-term debt (maximum position)**	35.0%	2.8% (Aug 2025)

*Negative as higher level of investments than variable borrowing

Appendix 2

Economics Update (provided by MUFG 9 October 2025)

3.1 Economics Update

- The first half of 2025/26 saw:
  - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
  - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
  - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
  - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
  - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.
- Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

- With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).

- CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

- An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves’ future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK’s fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.
- The FTSE 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors’ global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

- There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.

- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

- The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

- The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.