

RPG
**Crouch
Chapman**
Financial Services

**Annual (equivalent) gross
rates in excess of 8% backed
by the treasury on redemption**

8%

**Too good to be true?
Grab your glasses!**



Gilts

With last week's movements in bond markets, US bond investors now expect interest rates to be at 5% at the end of 2023, meaning that more than 3 interest rate cuts have been removed from this year's market pricing in just over a month.

In ordinary language, this means the markets expect Inflation to be yet higher for yet longer. This is a long way away from the days of the "transitory" inflation narrative. Short term, spike etc.

UK government bond (gilt) yields are now at a 15 year high following unexpectedly strong labour market data. Bond yields - which move inversely to the price - have soared in response to recent figures that point to entrenched inflation pressure in the UK economy.

15-year gilt yields - last 17 years

Based on figures for June 2023



Illustration purpose only - latest Gilt Yields Chart
Source: Sharingpensions.co.uk (2 June 2023)

The 2024 gilt (expiry on 31 January 2024) is currently trading at 97.12 which offers a gross equivalent yield of 8.65% for a 45% tax payer.

The 2025 gilt (expiry on 31 January 2025) is currently trading at 92.92 which offers a gross equivalent yield of 8.98% for a 45% tax payer.

Gilts are not subject to any capital gains tax, regardless of the bondholder's tax band. However, any disruption to markets that brings apparent bad news also brings opportunities – it is simply a matter of identifying them.

What is a Gilt?

A gilt is a loan to the government. They are issued in lots of £100. The loan will be for a set period, and interest is payable (coupon). At the end of the loan, the amount borrowed, £100 per lot, is repaid by the government.

What is the opportunity?

When interest rates are higher than the coupon on the gilt, which is fixed, this makes the government loan less attractive, and owners can sell these. So the loan which is worth £100 on the redemption date, will trade at less than £100. This gain is free of tax.

Are you sitting on Cash, earning little or no interest? Banks still carry risk of default – we have recently seen corporate failures in this sector in the US, the speed of which was alarming. Gilts are recognised by the Financial Conduct Authority (FCA) as the lowest risk investment available in the UK. They are backed by the UK Government. Bank deposits in the UK only carry a maximum capital guarantee of £85,000 in the event of a default.

In selecting either a managed portfolio of short dated gilts, or individual gilts, you are able to stage the maturities and access secure levels of return in a tax efficient manner.

If you would like to discuss Gilts or to discuss or review either the security, or return on your deposits please contact your usual RPG Crouch Chapman advisor, or contact our Financial Services team direct.

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It is important to remember that the value of investments and the income from them can fall as well as rise. You may get back less than you originally invested and past performance is not a reliable indicator of future results.

