

Relief rally for UK gilts

Key takeaways

UK government bonds (gilts) made historic gains thanks to assurances from Labour's top leadership contender. Meanwhile, UK shares quietly outperformed their peers.

Gilts bounce back

Gilt markets breathed a sigh of relief last week. The yields on 10-year gilts retreated from their post-2008 highs of over 5% – meaning their prices gained – while 30-year gilts enjoyed their best week since December 2023.

Although gilt prices responded to last week's surprisingly low April inflation reading of 2.8% (0.5% down from March), softer employment numbers, and a retreating oil price, they were more influenced by the UK's political backdrop. Early last week, Labour leadership contender, Andy Burnham, pledged to stick to the UK's fiscal rules.

The promise from Greater Manchester's sitting mayor, to stand by the government's borrowing limits, was sufficient to trigger a relief rally as traders reduced their bets on higher gilt issuance, and higher interest rates from the Bank of England. Even so, gilts still remain 'in the red' for 2026.

AI stocks underpin eight weeks of gains for S&P 500 Index

Amid another turbulent week, punctuated by an initial sell-off in US government bonds (Treasuries), whipsawing sentiment as to the Iran conflict, and a 10% decline in oil prices, the S&P 500 Index of US companies snapped back from a three-session losing streak to close the week a little over 1% higher in sterling terms. This marks the eighth consecutive week of gains for the index – its longest winning streak since 2023.

So far this year, just five giant US technology stocks Alphabet (Google), Apple, Amazon, Broadcom, and Nvidia have accounted for almost half (46.6%) of the S&P 500's return of 9.8%, thanks to their exposure to the AI buildout theme. Meanwhile, US chip-making companies have raced away, with the 30-stock Philadelphia Semiconductor (SOX) Index ahead 72% so far this year.

Modest reception for Nvidia's 'blowout' results

Nvidia, presently valued at well over \$5trn, delivered another set of astounding figures last week when it brought up the tail end of the first-quarter US earnings season. The company at the epicentre of the AI buildout saw quarterly revenue jump 85% on last year to \$81.6bn. This was a significant beat of analysts' expectations which, remarkably, brought up 15 consecutive quarters when Nvidia has beaten such estimates.

Investors gave the blockbuster results, which accompanied a bumper dividend payment, a lukewarm reception and the share price dipped slightly. Even so, Nvidia has accounted over 12% of this year's gains in the S&P 500 Index, with its bullish guidance for the remainder of the year underlining that the AI buildout theme has several more years ahead of it.



Market moves

Global stock markets made modest gains.

UK shares outperformed with gains of 2.6%. European shares were close behind; they added 2.3%.

UK government bonds enjoyed a relief rally, US government bonds made more muted progress. The gold price eased just over 1%.

What to look out for this week

Kevin Warsh took the oath of office and was sworn in as the 17th chair of the Federal Reserve last Friday. Mr Warsh's first rate-setting meeting is slated for mid-June.

Today brings US consumer confidence and house price data followed by PCE (personal consumption expenditures) inflation, GDP and consumer spending numbers on Thursday.

Friday promises flash inflation prints for Japan, Germany, France, Italy and Spain.



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