Andy Burnham enters Downing Street

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PRIVATE BANKING

Andy Burnham was invited by King Charles III to form a government on Monday, July 20, becoming Britain's 59th Prime Minister, its seventh in a decade, after Keir Starmer stepped down following election defeats and scandals. As Westminster adjusts, attention turns to what this means for the economy, public finances and markets, against a backdrop of structural tension in UK macro assets.

1. Who is Andy Burnham?

Fifty-six, Cambridge-educated, former MP for Leigh (2001–2017) and Cabinet minister under Blair and Brown. Reinvented himself as Mayor of Greater Manchester from 2017, the "King of the North," where the regional economy grew roughly twice the national rate. Returned to Parliament via a June by-election and was elected Labour leader unopposed on 17 July.

Three things matter for investors: he's a communicator, not a technocrat (his first PM speech was note-free); he has genuine domestic popularity, unusual since 2019; and he sits to the left of Starmer on spending. His 2025 "in hock to the bond market" remark still haunts him.

2. The programme, and can he deliver it?

Devolution is the core idea, a "Number 10 of the North" in Manchester, alongside a major council-house building programme, social care reform, an education rethink, business rates relief, welfare reform, and a rough-sleeping pledge. A cost-of-living package is expected within weeks; a ten-year plan later this year.

The constraint: Burnham has recommitted to existing fiscal rules and the 2024 tax lock (no rises to income tax, VAT, NI). The arithmetic doesn't close: a £15bn defence increase is only partly funded, and social care reform is costly.

Our read: he delivers devolution (cheap, legislative) and capital investment (via the National Wealth Fund and similar vehicles), but not the full spending programme without tax rises. The November Budget is where the tax lock is tested. Expect a shift toward asset taxes (CGT, council tax revaluation, land value tax, IHT/social care levy, pension relief). A headline wealth tax is already off the table, signalling stability over redistribution in year one.

3. Economic consequences

The inheritance is weak: growth near 1%, unemployment at 5%, and an Iran/Hormuz energy shock reviving inflation risk, pushing the BoE toward hikes (one by year-end, another by March 2027). This is the first UK government in a generation facing a tightening, not easing, cycle.

Three channels to watch: a composition shift toward capital investment within a broadly unchanged envelope (modestly productivity-positive); wage pressure, especially via the National Living Wage, which feeds services inflation; and an uncertainty tax, pre-Budget speculation on CGT and property taxes freezing UK transaction activity.

4. GBP impact

Sterling has traded in a tight range, having already firmed on a smooth transition and reports that Shabana Mahmood, seen as fiscally conservative, could become Chancellor. The set-up is supportive but fragile: some see room for further carry-driven gains before the Budget; others warn the rally has already priced the good news.

Base case: range-bound GBP with modest upward bias into autumn. The risk case is a Budget seen to breach the fiscal rules, a 3–5% GBP event, and current volatility pricing looks complacent.

5. Gilts

Yields rose on handover day, 10-year near 5%, though long gilts have found support from Mahmood speculation, which would lower the odds of an unfunded spending shock. The core risk isn't solvency but inflation credibility: near-term spending that lifts demand delays the return to 2% inflation more than spending pushed further out. Focus is shifting to sequencing and whether the fiscal rules stay operational.

6. UK equities

- **FTSE 100:** largely unaffected; closed July 20 at 10,526.32, down 0.7% on Iran/oil-driven macro, not politics. Roughly 75% overseas revenue keeps it more dollar- and energy-sensitive than Westminster-sensitive. Neutral.
- **FTSE 250 / domestic cyclicals:** policy beneficiaries with sequencing risk. Partnership builders, contractors, defence primes and North Sea producers gain; a land value tax would hurt housebuilders' landbanks. Effectively a gilt-yield trade, add beta once the Budget and BoE peak are clear.
- **Regulated sectors/financials:** the key battleground. Water utilities face nationalisation risk (Thames Water); financials get modest support from regulatory easing; wealth managers stay exposed to CGT/IHT/pension speculation into November.

UK equities remain cheap, but valuation alone won't re-rate the market. That needs a credible Budget, tax/regulatory clarity, and visible capital deployment.

Investment conclusion

The market's central fear, fiscal indiscipline, has been deferred, not resolved. A likely fiscally conservative Chancellor and recommitted fiscal rules have removed the tail risk, already priced into sterling. But the spending arithmetic doesn't close, and November settles the question.

Positioning:

1. **Neutral UK duration:** don't chase the long end; 30y yields carry a large political premium against a deteriorating debt trajectory. Express any constructive view via options, post-Budget.
2. **Neutral GBP, tactically constructive vs EUR:** the relief rally has run, but trend and carry still align.
3. **Selective constructive UK domestic equities:** favour builders, contractors, defence primes, North Sea; underweight utilities, rail, wealth managers into the Budget. Add FTSE 250 beta once the Budget/BoE peak is visible.
4. **Neutral FTSE 100:** held for global earnings and energy exposure, not UK politics.

What changes our view: an asset-tax-funded Budget moves us to long duration, long domestic beta. A defence carve-out, net-worth debt metric, or an outsized NLW settlement moves us to underweight duration, short sterling. November is the date that matters.

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