Market Moves:

Andy Burnham as Prime Minister

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Recent political developments have understandably prompted questions about the implications for financial markets. While changes in national leadership, such as Andy Burnham succeeding Sir Keir Starmer as prime minister, can create short-term uncertainty, market participants are typically more focused on the practical details of future fiscal, economic and regulatory policies than on political appointments themselves.

Government bond markets have remained relatively calm after Mr Burnham publicly committed to maintaining the fiscal rules introduced by former chancellor Rachel Reeves. These rules were designed to ensure that the public finances remain sustainable while still allowing borrowing to support long-term investment.

In their current form, the rules require day-to-day government spending to be funded through tax revenues rather than borrowing, while public debt is expected to be falling as a share of national income over a defined period. Their purpose is to reassure investors that the government will manage the public finances responsibly, helping to keep borrowing costs lower and maintain confidence in UK assets. Financial markets scrutinise adherence to these rules closely when assessing the sustainability of government spending plans, and any perceived weakening of fiscal discipline could result in higher gilt yields and increased borrowing costs for the state.

Surprise at the Treasury

The appointment of John Healey as Mr Burnham's chancellor came as a surprise to many observers, with markets having viewed Shabana Mahmood as the most likely candidate and Ed Miliband as an outside possibility. Mr Healey is nevertheless seen as a credible choice given his previous Treasury experience. However, investors are likely to monitor his approach to fiscal discipline carefully, particularly as he resigned as defence secretary after pushing for higher levels of defence spending than were ultimately agreed.

Mr Burnham has already suggested there could be greater flexibility within the fiscal rules, potentially allowing additional borrowing provided it is used to finance assets of equivalent value. While increased investment in productive assets could support economic growth, markets may still demand a higher premium for lending to the government, potentially pushing gilt yields higher and increasing the cost of borrowing.

Mr Burnham's initial focus has been on easing cost-of-living pressures and supporting smaller businesses. Policies that have been announced or discussed include removing VAT on household electricity bills, reducing public transport costs and providing tax relief for hospitality businesses. These measures are intended to provide an immediate boost to household finances while supporting town centres that have faced significant challenges in recent years.

For now, the gilt market is likely to adopt a relatively cautious, wait-and-see approach until further details of the government's spending plans emerge. Investors will take some comfort from Mr Healey's Treasury experience, although this may be tempered by concerns about his support for higher defence spending, a priority that appears to be shared by the new prime minister.

Potential policy changes

The scale of the proposals outlined so far appears relatively modest in fiscal terms, suggesting they could potentially be accommodated within the existing fiscal framework without requiring significant tax increases elsewhere. However, there is still limited clarity on the ultimate breadth and cost of these measures, or the extent to which savings in other areas might offset them.

Like his predecessor, Sir Keir Starmer, Mr Burnham has pledged not to raise VAT, income tax or National Insurance. Indeed, some of the strongest signals to date suggest that any future tax reforms would focus more heavily on wealth than earnings. Homeowners, business owners, investors and those undertaking estate planning could therefore find themselves more affected by future Budget measures, although this remains speculative at present.

Business owners may also see changes. Mr Burnham has been critical of barriers that discourage companies from expanding and has expressed support for reforming the VAT registration threshold, which critics argue creates a cliff edge that can deter growth. He has also suggested reducing business rates for smaller firms and has voiced concerns about recent increases in employer National Insurance contributions. Taken together, such measures could provide meaningful support for smaller businesses and high street operators.

Investors may face a more challenging environment. One proposal reportedly under consideration is aligning capital gains tax rates more closely with income tax rates, increasing the tax burden on profits generated from the sale of assets such as shares, investment properties and businesses. There have also been suggestions that existing capital gains tax reliefs could be scaled back. While none of these measures have been confirmed, they would represent a further shift towards taxing accumulated wealth and are likely to be monitored closely by investors and entrepreneurs.

Those planning to pass wealth to future generations could also face significant changes. A close ally of Mr Burnham has suggested abolishing the capital gains tax uplift on inherited assets, while Mr Burnham himself has questioned aspects of the current inheritance tax regime, including recent changes affecting farmers. He has previously floated the idea of replacing inheritance tax with a dedicated levy to help fund health and social care. Although reforms of this nature would be politically sensitive and likely take time to implement, they illustrate a broader theme within his economic thinking: raising a greater proportion of government revenue from accumulated wealth rather than earned income.

While speculation around future tax reforms is understandable, acting before proposals have been formally announced can often lead to unnecessary complexity and unintended consequences. Financial planning decisions are generally best made in response to confirmed legislation rather than political speculation.

Markets wait and see

In the immediate aftermath of a leadership transition, it is common for bond, currency and equity markets to adopt a wait-and-see approach as investors assess the new administration's spending plans, tax policies and commitment to maintaining sustainable public finances.

From an investment perspective, the key issues remain the outlook for economic growth, government borrowing, inflation and interest rates. Markets tend to respond most strongly when greater clarity emerges on these factors rather than to political developments alone.

While periods of uncertainty can generate market volatility, history demonstrates that diversified portfolios are well positioned to navigate changing political environments. Long-term investment outcomes continue to be driven primarily by economic fundamentals, corporate earnings and valuations.

We will continue to monitor developments closely and assess policy announcements as they emerge. For now, we believe maintaining a disciplined, long-term investment approach through diversified portfolios across asset classes and regions remains the most appropriate course of action.