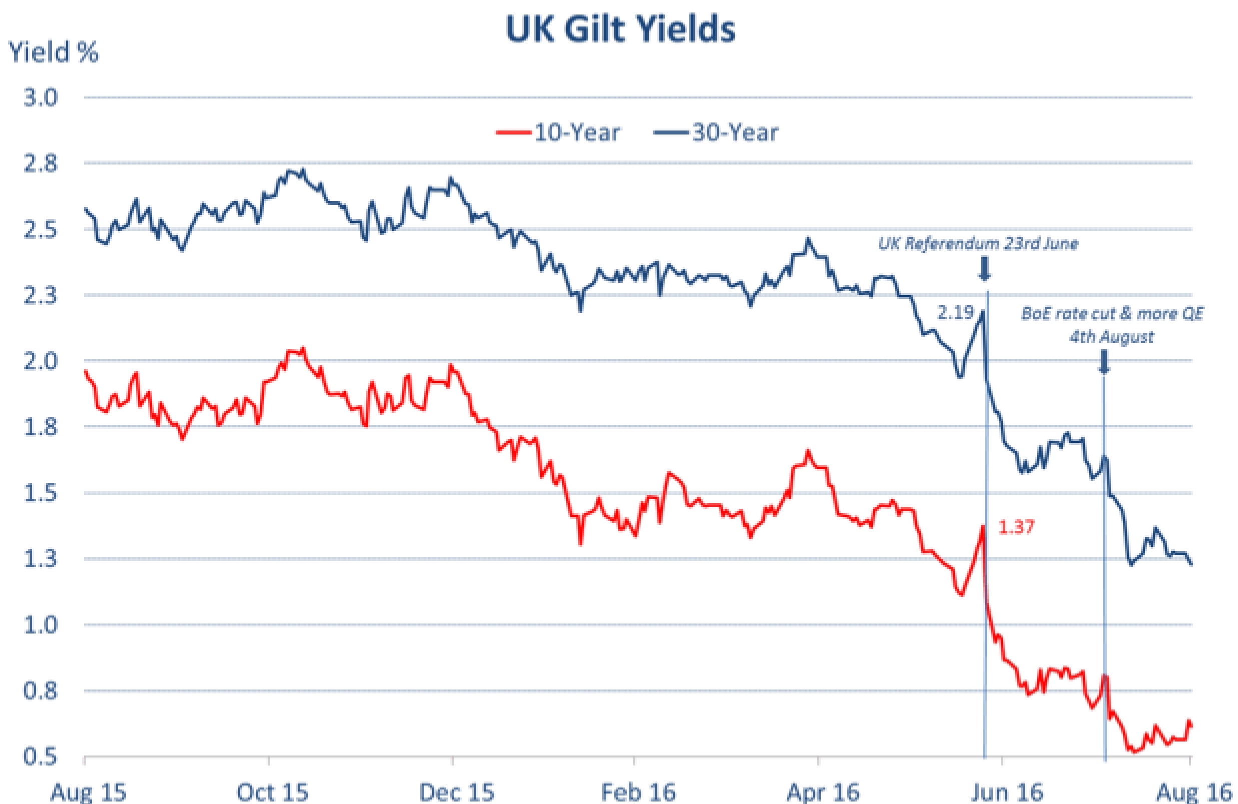
Over two months have passed since the UK voted to leave the EU. Since then, the media and economists have focussed on the incoming economic data to assess the impact. However, the most notable impacts are evident within financial markets, particularly interest rates. Bond yields *(e.g. government securities such as US Treasuries or UK Gilts)* have been falling globally, particularly post the EU referendum result. Yields (interest rates) move inversely to the price of bonds. This is concerning as it suggests the markets expect much lower rates of economic growth and inflation in the years ahead.

On a positive note, it means that the cost of government borrowing is at or close to record lows. Clearly an ideal time for a fiscal boost through, for example, investment in infrastructure – we await the new Chancellor's Autumn Statement with interest.



In the UK, the cost of government borrowing over 10-years, *(10-year UK gilt)* has fallen from 1.37% on 23rd June *(the day of the EU referendum vote*) to 0.62% today. By way of context, in August 2007, just before the credit crunch began the corresponding rate was 5.25%. A low of 0.5% was reached on 16th August 2016 – a fall of 87 basis points. The Bank of England's decision to cut its Bank Rate to 0.25% on 4th August alongside side a further round of quantitative easing (QE) accelerated the move lower.

The fall in the yield on the 30-year gilt, from 2.19% on 23rd June to 1.23% today is even more striking. This compares with a rate of 4.6% in August 2007. The plunge in gilt yields is providing a major headache for pension fund managers. Government bonds, such as UK gilts are purchased to finance pensions. Pension funds are reluctant to sell their long-dated bonds e.g. 30-year gilts. As a result the price of them is rising and the yield is falling. This makes providing guaranteed returns, used for retirement incomes, much more expensive. This has given rise to what has been dubbed a new cost of saving crisis.

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