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2025 is a very special year for Redmayne Bentley as we will celebrate our 150th anniversary in December. As we look ahead to this significant milestone, we want to thank our clients, readers and listeners for your support.



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UK equity markets have experienced a resurgence in 2025, with year-to-date returns for the FTSE 100 index exceeding 10% and outperforming other major equity benchmarks in the US and Asia in local currency terms.

Underlying contributors to the strong recent performance of UK equities can be found in the UK-listed banking sector, with multiple names rising more than 30% year to date. Having risen over 20%, Barclays remains a laggard and one of the few trading below tangible net asset value. Contrary to peers such as Lloyds and NatWest, Barclays retains a large investment banking operation that continues to drag on group level profitability. A recent three-year strategy aims to redistribute risk capital to higher returning areas of the business, driving profitability and implementing cost controls. While the bank works through the three-year plan, shareholders are in line to receive nearly £10bn of capital distributions through dividends and share buybacks. These distributions are expected to be skewed to the latter, with the absolute level of dividends remaining consistent at £1.2bn but growing at the per share level given reductions in overall share count. More on Barclays can be found within the Stock Focus article.

Within one of the widely considered ‘safe markets’ of government bonds, numerous recent financial press articles point to trouble brewing. Nervousness around fiscal deficits and requirements for increased spending against slowing rates of economic growth have led longer-dated bond yields to continue their upward trend. The open market remains the key driver of longer-dated bond yields, while central bank activity influences shorter-dated maturities given their duration proximity to the base rate. Rising longer-term yields indicate investors requiring greater returns for the increased length of lending to the government and a more classically upward sloping yield curve, which shows the yields on offer at different maturity lengths. At the front end, attractions remain with less sensitivity of bond prices and tax efficiencies on offer from buying low-coupon gilts below par value.

As we approach the mid-point of the calendar year, we can look back on a volatile first half with recent movements in financial markets a more muted affair. Trade tariffs appear priced-in and capital flows potentially looking away from the US, as indicated by a declining trade-weighted dollar index. Geopolitical events remain a concern alongside the evolution of government fiscal positions. With a significant tax bill on the horizon in the US, further trade deals to be negotiated, and an Autumn Statement which will be upon us faster than one may think, there’s plenty of considerations for investors coming in the second half of the year.

RISK WARNING

Please note that this communication is for information only and does not constitute a recommendation to buy or sell the investments mentioned. Investments and income arising from them can fall as well as rise in value. Past performance and forecasts are not reliable indicators of future results and performance. The information and views were correct at time of publishing but may have changed at point of reading.

STOCK FOCUS



BARCLAYS BANK

ALASTAIR POWER | INVESTMENT RESEARCH MANAGER



Following nearly a decade of lacklustre performance within the banking sector, blue chip banks have been a significant contributor to the recent strong performance of UK equity markets. Shareholders of retail-focused names such as Lloyds and NatWest have experienced returns exceeding 30% this year but Barclays has lagged and remains the cheapest FTSE 100 constituent bank across various metrics.

Barclays stands out among UK-listed peers for the scale of its investment bank, in that it generates the largest proportion of revenue and remains a top-ten-ranked name. Under former CEO Jes Staley's strategy outlined in 2015, the bank returned focus to core operations within the UK and US, exiting African operations, retail banking outside of the UK, and private banking operations outside of the key hubs of the UK, Monaco, and Geneva. Within the investment banking

business, further focus was retained on core activities within London and New York, with an aim to increase profitability levels.

Fast forward to today and the focus on building a simpler and more focused bank remains, with a new three-year plan recently outlined. The organisational structure has been simplified with five reporting divisions and focus remains on rebalancing the bank's risk capital to higher returning business lines, aiming to reduce the proportion allocated to the investment bank to 50% by 2026. More recent activity includes the acquisition of Tesco Bank in 2024, a partnership with General Motors in the US, and the launching of a new tiered savings product. In addition to reallocating risk capital, the bank seeks to achieve £1bn in cost efficiency savings by 2026, reducing the cost-to-income ratio into the high fifty percent range.

“While the bank continues to drive profitability, shareholders have been rewarded with increased dividend distributions and a plan to return at least £10bn to shareholders through a combination of dividends and share buybacks by 2026.”

In the 2024 financial year, the highest returning segments of the bank were found in the UK, with strong performance across Barclays UK, the UK corporate bank, and private bank wealth management. Profitability within the investment bank remained underwhelming and below target, with a similar experience within the US consumer banking division. In relation to UK retail bank NatWest, UK segment returns within Barclays were in line, if not better. Overall levels were lower, however, due to the investment bank and US corporate bank diluting group profitability with Barclays reporting returns on tangible equity of 10.5% against 17.5% for NatWest.

Within first quarter results for the 2025 financial year, Barclays indicated strong performance within the investment banking division with market volatility aiding revenue generation for the fixed-income, currencies and commodities trading business. Overall group profitability was higher as a result, but

results highlight the volatility associated with the investment banking business and requirement to diversify returns across more stable business lines such as mortgages and credit cards.

A more obscure area of revenue growth within the bank occurs within the treasury department, where the bank's money and financial risks are managed. The department's structural hedging activity involves reducing the risk of mismatches that occur between the banking book of assets and liabilities. To do so, the department utilises interest rate swaps, receiving a fixed rate in exchange for paying a floating rate of interest. These products offset the variable interest rate exposures of qualifying products within the banking book to both smooth income and protect against unexpected falls in interest rates. As a result of increased interest rates, the activity aids in generating additional revenue as legacy low return hedges expire and are replaced with new contracts at higher fixed rates of interest. In financial year 2024, the activity generated revenue contributions of £4.7bn, up from the £3.6bn generated in financial year 2023.

While the bank continues to drive profitability, shareholders have been rewarded with increased dividend distributions and a plan to return at least £10bn to shareholders through a combination of dividends and share buybacks by 2026. Total dividends of £1.2bn are expected to remain consistent on an absolute basis through to 2026, with dividends per share increasing due to a reduced share count given previously mentioned buybacks.

Despite improving profitability, cost control measures, and shareholder distributions, Barclays continues to trade at a discount to the recently reported 372p tangible net asset value per share while UK-listed peers such as Lloyds, NatWest, and Standard Chartered all trade at premium ratings. To replicate the premium valuation, we can reasonably require the returns on equity of the bank to exceed the cost of equity. With consistent improvements in profitability hard to come by within the investment bank, successful redistribution of risk capital to other areas feels to be a necessity through the three-year strategy to 2026. ■

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INSIGHT

SOVEREIGN BONDS

RUTH HARRIS | INVESTMENT RESEARCH ANALYST



It has been a turbulent few years for sovereign bonds, including UK gilts, as global markets transitioned out of a prolonged period of unusually low interest rates following the pandemic and the subsequent energy crisis. As yields rose on sovereign bonds, prices fell, leading to many holders seeing falls in capital value, especially in long-dated bonds which are more sensitive to changing interest rates. However, while many central banks cut rates through 2024 as inflation moderated, yields have

remained stubbornly high. Those hoping for a strong uplift in prices as yields fell, especially for long-dated gilts, may have been disappointed. Many financial market participants are now anticipating a 'higher for longer' rate environment. So far, 2025 has highlighted that central banks have most influence on the front end of the curve, while the longer end is determined by financial market participants and long-term outlook.

Since the beginning of the year, there has been a divergence of performance between short-dated and long-dated gilts. Two-year gilts have seen declining yields, and higher prices, and are now trading just under 4.0%. Meanwhile at the long end, yields on 30-year gilts have continued to climb and consistently trade above 5.0%. While this could be attractive to some retail investors looking to ‘lock-in’ an attractive return, long-dated gilts are much more exposed to interest rate risk, as well as the economic and political environment, over a longer period.

“For UK retail investors, gilts may look attractive at current yield levels and offer a tax-efficient return. Low-coupon gilts, which do not pay a high income, often trade at a discount and are not subject to a capital gains tax, which may be useful for those who have maxed out ISAs and capital gains allowances.”

There are many interacting factors which affect sovereign bond markets, including investor concerns around the sustainability of a government’s debt and fiscal risk. While previously such concerns were focused on emerging market sovereign debt, or more ‘peripheral’ European countries such as Greece or Italy, there are increasing concerns among financial market participants around fiscal sustainability in developed markets, especially given mounting geopolitical tensions. The fallout from the Truss-Kwarteng 2022 mini-budget highlighted how unfunded, unexpected fiscal policies can easily spook investors.

More recently, Donald Trump’s liberation day tariffs have stoked concerns and led to investors beginning to sell US sovereign bonds (treasuries) which were typically seen as a ‘safe-haven’ asset in times of economic strife. There could be many contributing factors, including the risk of inflation which is typically negative for bond prices, or fiscal uncertainty

adding a political risk premium to the yield. There is a contagion effect for the global bond markets, as yields in other countries tend to follow movements in the US. Gilts tend to trade at a small yield premium to treasuries and so, as yields move upwards in the US, we see a similar rise in the UK, pushing bond prices lower.

Beyond the increased risk premium, fiscal expansion also impacts yields through supply and demand dynamics. Both the US and UK are having to borrow more in order to meet fiscal pledges. Likewise, Germany recently announced a large expansion of spending on defence and infrastructure, leading to a sharp jump in the yield on bonds. The Labour government announced a gilt issuance of almost £300bn for 2025. As supply increases, governments must compete for buyers and prices fall while yields rise. However, there will likely continue to be typical buyers of long-dated gilts, such as pension funds and insurers looking to match liabilities.

While the growth outlook, sticky inflation, geopolitical risks, and fiscal demands may concern some fixed income investors, there remains attraction in the gilt market. Buying has recently picked up with the possibility that they may become a new ‘safe haven’ asset as investors pivot away from the US. Despite the challenges facing the Labour government, the situation in the UK looks relatively benign and predictable when compared to the US. Furthermore, turbulence in equity markets may result in investors looking to decrease the risk in their portfolios, with fixed income a likely beneficiary.

For UK retail investors, gilts may look attractive at current yield levels and offer a tax-efficient return. Low-coupon gilts, which do not pay a high income, often trade at a discount and are not subject to a capital gains tax, which may be useful for those who have maxed out ISAs and capital gains allowances. Furthermore, investing domestically as opposed to in foreign sovereign bonds allows investors to avoid exposure to adverse currency movements, which could wipe out returns. Short-dated bonds may be particularly attractive given less exposure to the long-term prospects for the economy, though there may be reinvestment risk if yields fall quicker than expected. The outlook for long-dated gilts remains more uncertain given the economic and geopolitical challenges facing the government and the potential impact on the yield curve affecting prices. ■

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