Global Matters Weekly

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Higher for Longer, For Longer?

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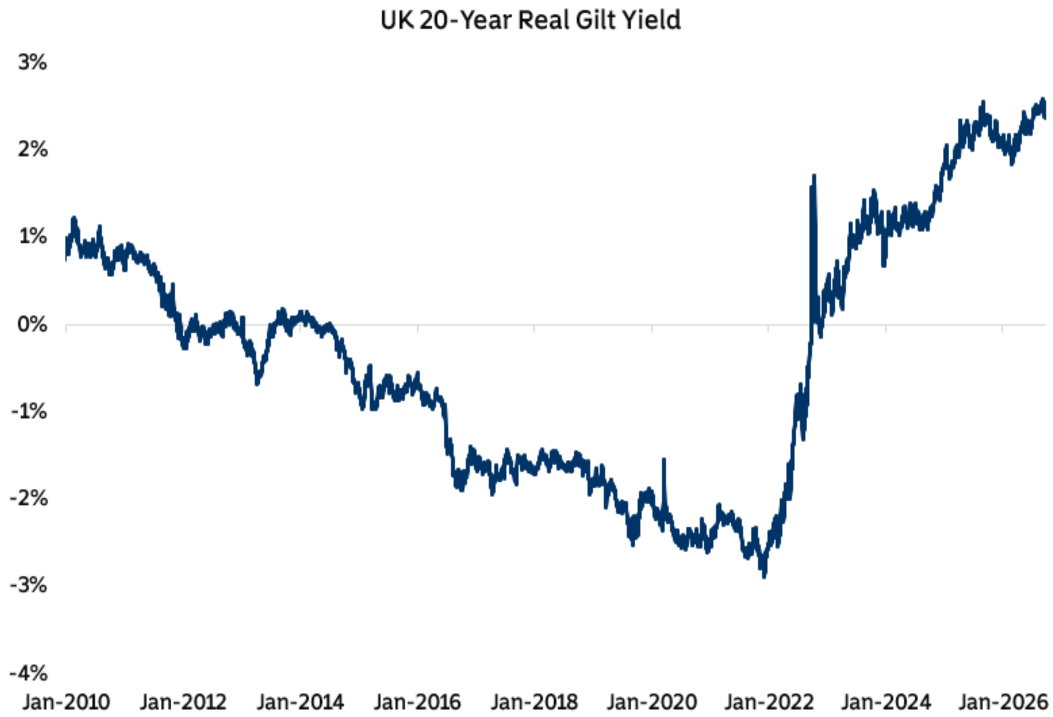

Source: Bloomberg Finance L.P., data as at 22 September 2026.

What does the chart show?

The UK 20-year real gilt yield, the real return on long-dated index-linked government debt relative to RPI inflation, has risen from around -2.5% during the pandemic era to roughly +2.4% today, near its highest sustained level in more than two decades.

Short-term rates are heavily influenced by the Bank of England, while long-dated real yields reflect expectations for future real rates, alongside bond supply, investor demand and the premium investors require for long-term debt. They're a useful guide to where real rates may settle, though not a pure measure of the economy's "neutral" rate.

The key development over the past year has not been further sharp increases, but persistence. Despite shifting Bank of England rate expectations, real yields have stayed close to their post-2022 highs. This appears consistent with markets assigning a lower probability to a return to the ultra-low real-rate environment of the 2010s, though higher term premia (due to gilt market supply/demand dynamics) and other factors are also contributing.

Why this is important

Higher real yields have implications across almost every asset class. For bond investors, they mean more attractive starting returns. For equity investors, a higher discount rate reduces the present value of future earnings, pressuring valuations, particularly for growth-oriented companies. For pension schemes and other long-term investors, higher real yields can reduce the present value of long-dated liabilities, though the net impact depends on how assets and liabilities are structured.

More broadly, the question is shifting from "when will rates fall?" to "where will they ultimately settle?" If the 2010s prove to have been the exception rather than the norm, the equilibrium level of rates could be materially higher than many investors became accustomed to.

Bottom line: The real story may not be "higher for longer," but "higher for longer than expected." If today's elevated real yields reflect a lasting shift rather than a temporary dislocation, assumptions built around the exceptionally low yields of the 2010s may need revisiting across asset valuations, pension liabilities and portfolio construction.

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