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Market View
Royal receptions and central bank shifts in the US and UK

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Date 19 September 2025

Reading time 4 minutes

At a glance

King Charles III hosted President Trump in a high-profile state dinner, aiming to strengthen diplomatic and investment ties.

The Federal Reserve cuts interest rates while the Bank of England will slow balance sheet reduction.

Major tech firms pledged new UK investments, while high inflation and borrowing costs keep policymakers and investors on alert.

It's been a whirlwind week for both the United States and the United Kingdom, full of pageantry and some pivotal central bank moves.

King Charles III hosted President Donald Trump at Windsor Castle for a state dinner, in what was a glittering showcase of some of the most influential and best-connected people in the world at the nearly-thousand-year-old castle.[1]

For the Labour government, which faces rising pressure at home, the purpose of the state visit was two-fold – strengthening ties with Trump after what has been a tense five months marked by US tariffs against its global trading partners, and an attempt to spur further investment in the UK. Trump's visit coincided with a multibillion-dollar transatlantic technology agreement, in which companies such as Nvidia, OpenAI, Microsoft[2] and Alphabet announced plans to invest billions of dollars in the UK.[3]

Changing of the guard at central banks

Meanwhile, the Federal Reserve (Fed) and the Bank of England (BoE) both held meetings this week. While the outcomes were largely expected, we did witness a change of the guard in their respective rate cutting regimes. The Fed, which has held rates steady all year, cut interest rates by 0.25% to 4.25%[4] and signalled that two more rate cuts could happen this year, which would result in a cumulative decline of 0.75% for 2025.[5] The Fed cited risks facing the labour market as reasons for the cuts, which we wrote about last week (see "With September rate cut imminent, the Fed stands at a crossroads.")

By contrast, the BoE, which cut rates three times this year, lowering the base rate by 0.75%, held rates steady at 4% at its September meeting. The BoE's primary focus is keeping inflation around 2%, and although UK inflation remains at 3.8%, it is projected to fall. Despite lower central bank rates, the UK government borrowing costs remain higher than those in the US, driven in part by investor concerns about the UK's growth outlook and fiscal worries. The November budget may have also convinced the BoE to hold rates until it receives further clarity.

Quantitative tightening update

This week, the BoE focused on "Quantitative Tightening," which means reducing the amount of money it has invested by letting old bonds expire without buying new ones, or by selling some of the bonds it already owns. The BoE began QT in 2022, initially reducing its balance sheet by £80 billion, increasing to £100 billion in recent years. However, as gilt yields surged this summer and markets grew jittery, the BoE faced pressure to slow the pace of QT.

Ahead of the meeting, markets expected that the BoE would announce a reduction of pace of QT. Earlier this week, the BoE confirmed it will reduce its balance sheet by £70 billion, broadly in line with consensus. This will be split between £49 billion from maturing bonds with the remainder from active sales.[6] The central bank is trying to strike a balance: continue to shrink its balance sheet to levels it deems appropriate for reserve management but avoid triggering more market volatility or pushing borrowing costs even higher.

Since beginning gilt sales in the fourth quarter 2022, the BoE has organised auctions to reduce the Asset Purchase Facility (APF) evenly across different maturity sectors. Starting in October, the bank plans to sell fewer gilts with long maturities compared to those with short or medium maturities. As a result, of the £21bn of active sales, 20% or £4.2 billion will come from long maturities. The remainder will come from short- and medium-term maturities.[7]

Cautious optimism

This week's events highlight the delicate balance policymakers must strike as they navigate economic headwinds and shifting global relationships. While central banks move cautiously to support growth and control inflation, strengthened diplomatic and business ties between the US and UK could help foster investment opportunities and help steer the economy towards a more sustainable growth path.

[1] NYTimes: Behind Castle Walls, the Rich and Powerful Celebrate Trump

[2] BBC: Nvidia and Microsoft bosses hail huge UK AI investment - BBC News

[3] BBC: US firms pledge £150bn investment in UK, as Starmer hosts Trump

[4] Federal Reserve: Federal Reserve Board - Federal Reserve issues FOMC statement

[5] NYTimes: Fed Cuts Rates for First Time This Year

[6] Bank of England: Bank Rate maintained at 4% - September 2025 |

[7] Bank of England: Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 17 September 2025

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Jeremy is our Deputy Chief Investment Officer. He sits on the Investment Committee and chairs the Fixed Income Committee. His coverage encompasses both rate and credit products and works closely with the funds team.