Home > Insights > Market views

Market View
Burnham's early moves and the Bank's inflation test

from Jeremy Sterngold Deputy Chief Investment Officer

Date 31 July 2026

Reading time 4 minutes

At a glance

The new government's first measures should lower household bills and measured inflation

June CPI fell to 2.6%, but is expected to rise again as higher energy costs feed through

The Bank of England held rates at 3.75% but by a narrower majority than expected

In his first speech as Prime Minister, Andy Burnham announced that his government would give British households "some breathing space" on the cost of living. [1] Within three days, his government moved to deliver a temporary cut in VAT on household electricity, a lower cap on bus fares and additional support to tackle rough sleeping.

Several of these policies are expected to lower measured inflation over the coming quarters. However, such cuts are only intended to be temporary and are unlikely to address the underlying price pressures the Bank of England (BoE) is looking to target. For this reason, the BoE is likely to continue to focus on whether broader inflation pressures across the economy, such as wage growth, are easing on a more lasting basis.

This was the backdrop to the BoE's latest set of forecasts, announced by the Monetary Policy Committee (MPC), alongside the quarterly Monetary Policy Report (MPR). Below, we look at what the government's early measures mean, what the inflation data shows and the implications for UK interest rates.

What Burnham has announced so far

From 1 October, VAT on domestic electricity will fall from 5% to zero for six months. The government estimates that this will save the average household roughly £45 a year. This will be funded by cancelling the previous governments digital ID programme.[2] The cap on single bus fares in England outside London will return to £2 from January, reversing the increase to £3.[3]

These measures are relatively modest in the context of the wider public finances, but they are designed to provide support for households quickly. A ten-year plan is promised for later this year, and the new Chancellor, John Healey, first budget is expected in the autumn. For now, investors only have clarity on the direction of policy rather than the detail.

Inflation has eased, although energy costs remain a risk

The inflation backdrop the new government has inherited is better than the one that dominated the spring. Consumer price inflation (CPI) rose by 2.6% in the twelve months to June, down from 2.8% in May.[4] Much of this improvement came from transport, where annual inflation eased from 6.8% to 5.7% as the energy shock from the Middle East unwound.

Beneath the headline figure, core inflation — which excludes energy, food, alcohol and tobacco — was 2.6% in June, its lowest since 2021.[5] Services inflation, the measure that best captures domestic wage and pricing pressure, has also fallen, from 4.5% in March to 3.6%.[6]Together, these figures suggest that the domestic disinflation the BoE has spent two years waiting for is arriving.

However, headline inflation is now rising. Renewed tensions in the Middle East, have pushed energy prices higher in July, and the BoE now expects CPI to peak at around 3.2% in the final quarter of this year, as energy costs feed through supply chains.[6]

Interest rates held, but split widens

The MPC held its main interest rate at 3.75% by six votes to three, with the three dissenters preferring an immediate rise to 4%.[6] Forecasters had expected a seven-two split, and markets had priced a hold as near certain, so the wider dissent was a surprise.

The difference of opinion is not about the current inflation picture but whether higher energy costs will affect wage settlements and companies' pricing decisions. Those who supported a rate increase appear to favour acting early, to reduce the probability that those effects take hold. However, for now there is limited evidence that higher energy prices are feeding into wage agreements or broader pricing decisions. Many pay settlements for this year were agreed before energy prices rose and are not being reopened.[7]

What this means for portfolios

On balance, we believe the BoE is unlikely to raise interest rates further. Although the hawkish dissent on the Committee is notable, the UK's growth backdrop is weak and the labour market soft — conditions the BoE has argued should limit the risk that higher energy costs lead to more persistent inflation.[8] For the BoE to consider raising interest rates, it would require a significant escalation in the Middle East conflict leading to sustainably higher energy costs. This could then lead to persistent domestic pressure in wages and services.

For UK government bonds, the next major focus is likely to be the autumn Budget rather than in this week's decision. Investors will want to see how the government plans to fund its commitments and manage public borrowing. Longer-dated government bond yields are already at their highest since 2008.[9] However, until the new budget is published, the additional yield investors demand for holding bonds is unlikely to compress meaningfully. Against this backdrop, we recommend investors to be selective about when they buy UK government bonds as there will be opportunities to lock in attractive yields.

1 Andy Burnham's first speech as Prime Minister, 20 July 2026, GOV.UK

2 New PM cuts tax on household electricity bills to give breathing space on cost of living -

GOV.UK

3 £2 bus fares from January 2027 - GOV.UK

4 Consumer price inflation, UK: June 2026, Office for National Statistics

5 Inflation in the UK: Economic indicators, House of Commons Library

6 Monetary Policy Report — July 2026, Bank of England

7 Bank Rate maintained at 3.75% — June 2026 Monetary Policy Summary and Minutes, Bank of England

8 Monetary Policy Report — July 2026, Bank of England

9 Monetary Policy Report — July 2026, Bank of England