GlobalCapital

UK DMO Roundtable
Confronting global turmoil

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How UK DMO is confronting global turmoil

Tactical adaptations helped the UK Debt Management Office achieve the second largest financing remit in its history in fiscal year 2025/2026. If it found last year challenging for borrowing, it may be nothing compared to the one that has just begun. The DMO received its remit for 2026/2027 only a few days after war erupted in the Middle East. How much the government and the Bank of England will have to intervene to help the economy during the crisis and its aftermath is the subject of much uncertainty. However things play out, they raise the prospect for Gilt-Edged Market Makers, the UK's primary dealers, and investors of higher public spending, rising inflation and increases in interest rates; not the cuts that were forecast at the beginning of 2026.

Against this backdrop, *GlobalCapital* assembled the DMO's chief executive, market participants and investors for this roundtable to consider the Office's performance and the evolution of the Gilt market.

***GlobalCapital*: Jessica, would you please talk us through the key highlights of the DMO's funding remit for 2025 to 2026, including any major tweaks or innovations in terms of executing this year's programme from previous years.**

Jessica Pulay, UK Debt Management Office: Thank you *GlobalCapital* for the very kind invitation to participate in this roundtable this afternoon and thanks to everybody who is joining here today to focus on the work of the UK Debt Management Office over the year.

It's a timely moment to be hosting a roundtable as the DMO's 2025/2026 year ends tomorrow [March 31]. In the past year, which started on April 1, 2025, the DMO has successfully raised £303.9bn-worth of Gilts, only very marginally over our Gilt remit of £303.7bn. We also sold £11bn of Treasury bills for debt management purposes as planned.

This was the second largest financing remit in the DMO's history and also the highest-ever financing remit — higher even than the Covid year of 2020/2021 — in terms of net Gilt supply after taking account of the Bank of England's quantitative easing programme. With that in mind, we took a decision to ensure that we had a broad and diversified programme of issuance to allow us to appeal to the widest possible investor base across the yield curve.

However, given the elevated size of the remit, it was important to introduce a couple of tactical adaptations to ensure optimal delivery of that remit. First, market feedback was relatively consistent in suggesting that structural demand for long-dated conventional Gilts was likely to be lower in the 2025/26 year — and, arguably, also going forward — than it has been in the past. This reflects the fact that a number of defined benefit (DB) pension schemes are now close to having fully matched their liabilities using Gilts, which has resulted in a shift in investment strategies and mandates. We took that feedback, which reflected the changing profile of demand from investors, and overlaid that with the DMO's own analysis of cost and risk. The combination of those two factors led to a significant reduction in the proportion of long-dated

Roundtable participants

Moderator: **Addison Gong**, SSA editor, *GlobalCapital*	**David Parkinson**, head of sterling rates sales, Santander	**Ian Hale**, head of European inflation trading, RBC Capital Markets	**Jessica Pulay**, chief executive officer, UK Debt Management Office	**Carina Lindberg**, head of GBP trading, Nomura	**Gordon Shannon**, partner, co-head of investment grade, TwentyFour Asset Management	**Matthew Amis**, investment director, Aberdeen Group plc	**James Athey**, fixed income fund manager, Marlborough

Gilts we were issuing this year to approximately 10% of the total, down from almost double that figure in the previous financial year, and from 30% in the 2018/2019 financial year. For the DMO, long-dated Gilts mean anything over 15 years.

As a corollary to that we increased the short-dated proportion of our issuance, a decision which also reflected operational considerations. The proportion of medium-dated issuance is more or less unchanged from the previous year, as is the inflation-linked proportion.

Another important tactical adaptation was to increase the so-called unallocated portion of issuance. This represents Gilts which can be sold at any maturity and through any issuance method. This feature provides an element of flexibility within the UK government's overall debt issuance framework, which remains focused on being a transparent, predictable and regular borrower. The size of the unallocated proportion was increased to over £30bn, or around 10% of the overall financing remit, representing a significant increase from the £20.7bn in the 2024/2025 financial year. This increased flexibility typically allows us to upsize our syndicated offerings as warranted by investor demand. However, very importantly, this year it allowed us to introduce a new modality, programmatic Gilt tenders (or P-tenders) from April 2025.

P-tenders have been a really important tool in navigating, and adapting to, more uncertain market conditions. They have been warmly received by the market and we have, at this point, raised over £21bn-equivalent in P-tenders. These have been effective as they have allowed us to be more agile and responsive to changes in market conditions within the overall predictable framework. Unlike Gilt auctions, where both the operation date and the bonds to be auctioned are set prior to the beginning of each quarter, P-tenders are slightly different. While the P-tender dates are set in the calendar, we start engaging with market participants to take feedback on the choice of bond to be issued a week ahead of the operation date and the exact bond will only be decided a minimum of two days before the tender date. That increased level of investor engagement has allowed us to be more dynamic in the way we approach the market, and it has, in my view, been an important factor in achieving such smooth delivery of the DMO's financing remit this year.

Clearly, a number of factors go into the choice of which bond is to be issued via P-tenders. In addition to feedback about demand and market conditions, there are also the broader debt management considerations, such as the impact of issuance of a particular bond on the overall redemption profile. We have tended, but not exclusively, to issue bonds which are off-the-run, and typically, the planning assumption for the P-tenders is for their sizes to be smaller than our regular auctions. We do review these planning assumptions on a regular basis to ensure that they are most suited to reflect market conditions at the time. We have now held 22 P-tenders this year and they have become an established feature of our issuance programme within a relatively short space of time. In September last year we held two P-tenders on the same day, which demonstrated that the format also has the flexibility to take into account investor preferences for different bonds.

It is also important to note that we can still hold ad hoc Gilt tenders for market management purposes, to the extent that these are required by the market.

That gives an overview of some of the adaptations that we made to our programme this year that have resulted in robust auction covers and, overall, the successful delivery of the 2025/26 financing remit.

***GlobalCapital*: Thank you, Jessica. With everything that you said in mind, do you mind giving us some colour on the new remit year for 2026/2027 and how the DMO plans to approach the market this year?**

Pulay, UK DMO: We will see the continuation of some of these innovations which we have made over the course of this past year in the 2026/2027 remit year. The new remit will also continue along the lines of some of the very important themes that we have been emphasising: the transparency of how we communicate with the market, the overall level of investor engagement and also the need to ensure that we remain predictable and reliable.

This is a financial year conducted against the backdrop of lower Gilt redemptions. This results in an overall lower borrowing target for the DMO, as announced on March 3, 2026, alongside the spring forecast, of £257.1bn in the net financing requirement. This comprises Gilt sales of £252.1bn, which includes higher green Gilt sales of £12bn, as well as a net contribution from Treasury bills for debt management purposes of £5bn. We also issue Treasury bills for cash management purposes.

This remains a relatively large Gilt sales remit, despite the £47.1bn reduction in the net financing requirement compared to the previous year. We will be continuing with our strategy of a well-diversified Gilt issuance programme, so there will be operations in all maturities and all Gilt types. We have continued to skew towards shorter-dated issuance in our planning. Sales of short Gilts will comprise £97.3bn, which is going down in absolute terms — from £110.9bn in 2025/26 — because the overall remit size is going down.

In both absolute terms and proportionately, long Gilts are going down from £40.2bn from the beginning of 2025/26 to £23bn for the new financial year. The unallocated portion of issuance has increased proportionately and will be £30.5bn, reflecting continued market feedback around the importance of some flexibility in the financing programme at the margins to facilitate adaptation to changing patterns of demand and evolving market conditions to help us deliver funding in a smooth, efficient and cost-effective way.

***GlobalCapital:* Let's hear what the GEMMs and investors think about what Jessica just shared.**

Ian Hale, RBC Capital Markets: Last year, the market was clearly faced with a number of challenges, both globally with "liberation day" and tariffs through the summer and geopolitical issues more recently, and domestically with political concerns and questions about fiscal sustainability. The shift to shorter issuance in line with changes in structural demand certainly stood the DMO in very good stead for facing some of those challenges. Given the size of the remit, the reduced weighted average life and duration was much easier for the market to absorb, and more suited to the evolving client base for Gilt investors. The implementation of the P-tender programme and that flexibility has really benefited the market. It was particularly useful over the course of the last month or so when the market situation evolved and investors have tried to rebalance portfolios.

We saw a drop in demand for inflation protection as the inflation profile came in lower through the back-end of last year and the DMO was able to focus more on shorts and mediums and reduce linker issuance through the last quarter, and that flexibility has been really useful in dealing with that situation. Though, with the issues in the Middle East, we see a bit of a pick-up once again in linker issuance in the coming quarter.

Linker issuance also shortened, like nominal issuance, and that has helped the market manage through the structural shift in some of the pension demand.

Clearly, it's going to be an uncertain and volatile time going forward, and all the points Jessica made around flexibility and really working with the market will really help the smooth functioning of the market, and was definitely welcomed by the market.

Carina Lindberg, Nomura: I'd echo a lot of the points Ian made. What Jessica mentioned around the DMO priding itself on always being very transparent, predictable and reliable has been such an important part of what the DMO does. The flexibility within that helped the last remit navigate the market very well.

The global backdrop was very uncertain and changing very quickly, and the DMO navigated very well the changing market dynamics both domestically and globally by making adjustments where possible throughout the year. That's going to stand the DMO in great stead for this financial year given what's happening in the Middle East. The P-tender will be a great use in what looks to be a challenging and uncertain market backdrop.

The strong connectivity the DMO has with both the GEMMs and the investor base is key because it allows for up-to-date views of how market dynamics are impacting investor demand and what can be done to help best facilitate that changing dynamic. In the last few months of 2025, a lot of the themes made inflation protection not seem particularly necessary, but the narrative changed very quickly within a matter of weeks in March, and the DMO is already able to be proactive in increasing linker issuance for the next quarter.

That dynamic interaction with the investor base and the GEMMs is really important, and I feel the DMO is in the right position to navigate next year, which seems to be trickier from a global standpoint than the previous one.

David Parkinson, Santander: A lot of the ground has been covered really effectively. But I'm thinking back to 2020/2021, which was a record year for gross issuance with the DMO having a £485.5bn remit and closing the year within £0.5bn of the target, despite the challenges of Covid. At the time, I described it as like landing a jumbo jet on a postage stamp in a hurricane. Given we've just finished the biggest ever *net* Gilt sales and finished within £0.2bn of the target, I think it's a similar achievement, so hats off to the DMO.

The DMO has always had this combination of predictability and flexibility, and the flexibility, as the pace of change of market structure accelerated, stood the DMO and the market in really good stead. The weighted average maturity [WAM] of issuance has been reduced from over 20 years a few years ago, to less than 10 last year. The P-tenders have been very effective and important.

The last thing I'd say about the current fiscal year is the pace of issuance. The DMO did a good job of getting ahead of the run rate and, by the last two quarters of the fiscal year, it just didn't feel like we were in the year of the biggest net supply ever. That's a really good position for both the DMO and the market to be in.

For the year coming up, I think everybody's relieved to see the smallest remit for three years. It's the lowest issuance of longs for 20 years, with record unallocated issuance — both were welcomed by the market when the remit came out.

One last thing I'd mention is the DMO's willingness to look at reform of the T-Bill market, which may, over the next year or two, prove to be instrumental in helping smooth the funding of the government's deficit.

"A lot of this liquidity is abundant when you least need it and it does tend to vanish when you need it most"

James Athey, Marlborough

> "A narrative around increasing spending could reignite concerns around fiscal or debt sustainability, as was a concern earlier in the year"
>
> Carina Lindberg, Nomura

Gordon Shannon, TwentyFour Asset Management: Thanks for all the comments. The DMO handled a difficult position very well. There's a slight danger, though, of giving the market too much of what it wants. I wish people outside of the room would give us more of what we want — less wars, less spending. But for today's discussion, I absolutely get the less long-dated issuance and that you are weighing up cost and risk there, but I do wonder how much we're building up a harder path ahead as the sensitivity to current market conditions is increased.

What works well for that is the reduction in inflation-linked issuance, because the UK's current 25% linker issuance makes it all the more sensitive to what I think is going to be an increase in the inflation environment. There's a very real chance that even beyond the next couple of years, the market might want more inflation protection. It doesn't necessarily mean you should allow us to have it, because that might become very expensive for the government. Those are my maybe slightly more negative thoughts.

James Athey, Marlborough: The fact that ultimately the remits are huge by any standards of course creates difficulties for all of us, and I absolutely echo everything that's been said so far. In reference to the points that Gordon made there, I'd maybe go the other way. In terms of the changes to the remit the DMO could go further.

Using the unallocated bucket in the way the DMO has is a brilliant innovation. That creates a flexibility that's good for both issuers and investors, and the GEMMs in the short term. Having a larger amount of shorter-dated issuance means you've just got more bonds rolling off over any given period, and it provides the ability to then extend issuance if the curve is flat or keep it short if the curve is steep, as opposed to issuing lots of 30 years today, which locks you in at 5.5%-6% for 30 years without any flexibility whatsoever. The long average duration of the UK's outstanding issuance has bought us the flexibility to move shorter at a time where the 10s-30s cash yield curve is actually pretty steep. The potential for investigating further use of the bills market — not necessarily as extremely that the US has — also might be something of value to the broad Gilt investor base going forward.

So hats off to Jessica and the team. They've done a brilliant job under really difficult conditions. As an investor in the Gilt market, I really appreciate the changes they've made, which have helped to underpin the market. I'd say we could go a little bit further, with even less long-dated issuance over the coming 12 months.

Matthew Amis, Aberdeen: I echo James's report of a job well done by the DMO. For the DMO to deliver £303bn over the fiscal year while also having room to cancel various auctions and syndications at the back-end of the year allowed gilts to perform from November through February, actually putting us in good stead for this crisis that we're all going through.

Looking across different markets, Gilts are actually performing how we would expect in this crisis. A lot has been going on, but if we compare to the back-end of the Japanese curve for example, the UK curve in recent years has looked for any excuse to sell off, and the fact that the UK back-end of the curve has been predictably dull over the last month is a testament to the DMO and its strategy to step away from long-end issuance. The shifts made by the DMO have been positive in giving the Gilt market that space going into the back-end of the fiscal year and that should be applauded.

Pulay, UK DMO: With some comments made around inflation-linked Gilts, I just wanted to flag that, if you look at the amount of inflation-linked Gilts, we will be issuing £23.5bn in 2026/2027, or 9.3% of the total programme, down from £30.9bn, or 10.3% of the programme in 2025/2026, and £28.9bn the year before that.

The second point I wanted to come back on was the comments around the long-dated proportion, just to re-emphasise that we were able to make those adjustments to the long-dated proportion, not least because the UK continues to have, by a substantial margin, the longest weighted average maturity in our total debt stock in the G7. This stands at 13.3 years, significantly longer than the country in second place.

The other point to note in terms of this coming year's Gilt remit, which I had not previously emphasised, is the introduction of something new for the coming year. More accurately, it is actually a refreshment of a tool which we have had previously but which has not been deployed for many years: this is switch auctions. We have the potential to consider the deployment of switch auctions in the 2026/2027 year.

The planning assumption is that these will not be employed in the first quarter. However, market engagement is currently being undertaken to determine whether these could represent a useful tool going forward.

***GlobalCapital:* Let's stay with investors and GEMMs. How do you think recent international developments — the war in the Middle East and expectations of rising inflation and rates globally — will impact the UK's economic performance and the Gilt market's performance in the coming months?**

Lindberg, Nomura: There's clearly a lot of uncertainty around how this crisis evolves from here, and no one has a crystal ball, but based on what we've seen from the data already and from speaking to market participants, there's a lot of uncertainty around how the rise in energy prices will be felt in the real economy.

There are direct increases in both household and business energy bills and petrol prices, but also clear second-round effects that can be driven by oil and gas price rises on food, fertiliser and the production of goods. The closure of the Strait of Hormuz obviously exacerbates that and an understanding that, even if there is a resolution soon, there still may be some lasting scars from this on the global economy, especially in Europe and the UK.

The key thing for markets is how governments react to that. We've already started to see European countries impose energy price relief measures, and there're talks about whether something similar could happen in the UK. In 2022, there was the energy price guarantee, though that was against a slightly different backdrop, which was more about spiraling gas prices, but this crisis so far has been more of an oil shock, so there's a less direct mechanical input into the energy price cap set by Ofgem. But we've already seen the government take a targeted approach with the intention to continue to do so.

The two questions are: how will that be paid for? What implications could that have for rising issuance? A narrative around increasing spending could reignite concerns around fiscal or debt sustainability, as was a concern earlier in the year.

This is not UK-specific, but it is a factor of how the market deals with a war that has a global impact on energy prices. The second-round effect is what this means for growth and the economy, not just in the UK but globally.

Uncertainty never seems to breed a lot of investment and growth. So I think there's nervousness about how companies deal with this crisis if it persists, and what potentially falling GDP numbers could mean for the fiscal headroom. Right now, there are a lot of questions of what things might mean, and we're still seeing how this war evolves, how the government reacts, and what the data show. But it certainly is something that will need to be navigated in the coming six to 12 months.

"For the year coming up, I think everybody's relieved to see the smallest remit for three years"

David Parkinson, Santander

Hale, RBC: This is obviously a sharp change to the outlook for market participants, and one has to consider what that means for both monetary policy and fiscal policy, and what that combined will do for the Gilt market. The initial reaction was that markets globally were priced for rate cuts in the UK and the US, and not so much in Europe, but that thinking had to change relatively sharply.

These initial moves were all about global markets repricing the monetary policy outlook, and inevitably, markets can overshoot in these situations and price in significant rate hikes over the course of the year. The market has been grappling with how many hikes may actually arise, so the initial response was just about that, and we've seen the biggest moves in interest rates being the 10s/30s euro curve, the front-end of the sterling curve and Sonia futures.

When it comes to the fiscal position, as we went into the end of February lots of investors that we spoke to were very bullish on Gilts. As we came through the budget last year and in January, and many of the fiscal concerns, market participants were comfortable with the outlook and with UK's issuance profile, and were quite constructive on Gilts, pricing in lower yields going into the end of February, before the events in the Middle East unfolded in the following week.

So, from that position the inflation backdrop, as Carina said, has clearly worsened. The monetary policy backdrop has worsened. All of that is going to feed into some of those borrowing numbers and any fiscal measures that may be taken to help alleviate some of the pain for the economy and for consumers. These have to be factored in going forward.

Interestingly, the pricing of Gilts versus swaps (the asset swaps) have been relatively stable, and 10-year spreads for example have been in a sub-5bp range since the onset of the war. So at this juncture, the market is not unduly fretting about what might change in fiscal policy and UK-specific issues that are unfolding as a result of these tensions. Markets are looking at the situation and thinking that this is a different economic circumstance to 2022. This is likely to have a growth impact, and the central banks' reaction function is unlikely to be the same as back in 2022.

Parkinson, Santander: As Carina said, the challenges here aren't UK-specific and the key thing for the market will be how governments and central banks respond to the energy crisis.

The Bank of England has signalled, helpfully, that it is unlikely to rush its decisions. As far as the government's concerned, the Gilt market's two secret weapons over the last 18 months or so have been the WAM reduction, courtesy of Jessica, and the fiscal rules being seen as broadly credible, courtesy of the chancellor.

So as well as a measured response by the Bank, the Gilt market is going to be looking to the government to maintain a fiscal stance that encourages Gilt investor confidence going forward and that's going to be absolutely key.

Shannon, TwentyFour: In terms of the economy, I'm certainly very concerned that the downside of this conflict hasn't been really priced in. But as we've said, no one's an expert, so I can't know.

Maybe just one interesting thing around the idea of overshooting and

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> **Jessica Pulay, UK Debt Management Office**

some of the price moves particularly at the front end. There were a number of rumours that it was mainly driven by hedge fund activity and that there was a cascade of exits from what had been a very crowded position from a lot of the macro pod shops. Perhaps the GEMMs on this table know better in terms of what proportion of those Gilts have been placed there, and therefore how much risk was built at any given time, as the Gilt market appears to have more liquidity than it does under stressful conditions relative to Treasury bills.

Amis, Aberdeen: We went into this crisis with most investors thinking this would be a blip, that we could look through this and the Bank of England could be back to cutting interest rates once this has gone. I think we've passed that. The Bank of England is firmly on hold for us in 2026.

We'll see over time see how this de-escalates. From an investor perspective, this has now been over a month, and it's been a long month. We've had our fingers burnt a few times, by a few false dawns from tweets and remarks from [US president Donald] Trump. From our perspective, it's about sitting on our hands and seeing how this evolves. We're at an interesting point about where we went from 'oil higher, its inflationary, bonds/govvies bad' to 'oil higher, its growth negative govvies good'.

So, from our perspective, we're trying to judge where the geopolitics goes — a thankless task — and also how the market reacts. We've had two different reaction functions so far regarding outright yields. So for us, it's now a time for sitting back and seeing how this evolves.

Where the oil price goes is obviously key. The only good thing for the UK is natural gas, which hasn't had same huge increase of 2022, so that's positive for the UK economy. But again, from our perspective, it's in wait-and-see terms. It's about staying low and seeing where this goes over the next couple of weeks, because now it's about the medium-term scarring of the global economy.

Athey, Marlborough: I'll try not to relitigate all the points we've heard already and I broadly agree with most of them. As I said right at the outset, the level of uncertainty is incredible. We've had these unprecedented shocks over the last five years and this adds to that list. There is a danger of comparing directly to the last time we had an inflation episode that was driven by energy disruption in 2022 and, on that topic, just to be pedantic about the use of the phrase 'second-round effects.

This is something where I think it's an ill-defined or poorly defined term. To some people it means a wider impact on inflation on goods from the rise in oil prices and input costs. If I remember correctly, a second-round effect really is about the broadening of inflationary pressures beyond the energy and goods baskets via wage growth. And higher wage growth then leads to an input cost into service prices and what you get is genuine inflation.

The Bank of England's speeches recently have recognised this and have also accurately recognized that it's less of a risk than it was in 2022. When you hear someone like Megan Greene, who, I think we could probably agree, has been the most hawkish member of the Monetary Policy Committee, coming out and dampening down expectations for those second-round effects, it really seems to me that the Bank of England is in a better place to understand and hopefully set policy appropriately for the issues that we're about to face.

But the difficulty in coming up with a base-case or a modal expectation as an investor is made worse by the size of the tail risks in both directions. As Matt said, the longer this energy disruption goes on, the more non-linear the effect on energy prices becomes. Then we're into worlds which are very abnormal, very illiquid and of course it becomes very difficult to hold on to any risk in those environments. We're hoping we don't get there, but it's the one thing that's not within our ken when it comes to the people in this room. It's more from the government perspective.

I'm reiterating a point we've already heard: large, broad-based government support measures at a time where fiscal credibility is already pretty low could be incredibly self-defeating and dangerous.

If there are fiscal measures, from a Gilt investor perspective, those that are targeted and reasonable in size would be very helpful. Any notion of a material shift to the left from either this government or replacement personnel may be a clear and present danger to the Gilt market. That's something I'm certainly attuned to.

***GlobalCapital:* How the investor base is evolving is a very important topic for all government bond issuers including the UK. Jessica, if you don't mind kicking off with some colour about how you saw the Gilt investor base evolve in the past 12 months or so.**

Pulay, UK DMO: One of the ways in which the UK seeks to support market access, but also to manage both risks in terms of liquidity and changes in the profile of demand, is to maintain a diverse investor base: that includes domestic investors — for example, pension funds, insurance companies, bank treasuries and asset managers — but also internationally, which includes [central bank] reserve managers, official institutions and so on.

This diversity ensures that the government has ongoing access to cost-effective financing in all types of market conditions. The involvement of a wide range of investors is very important in facilitating that. I think the successful results witnessed over the course of the 2025/26 year, for example evidenced in our auction cover ratios, which have been extremely robust, illustrate this. Furthermore, the record-size syndications in 2025/2026 testify to this: we saw the largest-ever single transaction for the UK government at £14bn printed in September last year through a syndicated bond.

All this points to the importance of a diversity of different investors. Over time, it is inevitable that the domestic and international investor bases will evolve, and the UK is certainly no exception to that. We have talked about some of the changes to defined benefit pension schemes and the fact that they have largely matched their liabilities at this point, and that they are seeking to complete buyout transactions — the so-called bulk purchase annuities, sometimes known as pension risk transfers, or PRT. We understand that there were around £100bn of these transactions in total in 2023 and 2024. Early data would suggest that this activity declined a little in 2025 and was not accelerating at the same pace.

Nevertheless, these transactions are still ongoing and these involve the buyout by insurance companies of pension funds' liabilities. Now, importantly, insurance companies are governed by the Solvency II regime. They typically have a swap benchmark rather than a Gilt benchmark, which means they would typically favour holding assets other than Gilts, such as corporate bonds. However, given the evolution of asset swap spreads in Gilts relative to credit spreads in corporate bonds, Gilts have actually looked a relatively attractive asset class for insurance companies to hold. As a result, it might have been anticipated that insurance companies would have sold the Gilts they bought, but in fact, they have tended not only to hold on to those Gilts, but, in some cases, to add to their holdings. This includes insurance companies internationally and domestically. This has clearly been supportive also of long-dated Gilts. Furthermore, defined contribution schemes are also likely to continue to grow and they are likely to continue to accumulate Gilts, even though that might be more slowly over the coming years.

Bank treasuries have been particularly strong buyers of Gilts over the course of this past year. Their demand for high quality, liquid assets — obviously also determined by asset swap levels — has meant that they have been robust and consistent buyers of Gilts, not least given the attractiveness of Gilts relative to, for example, bank reserves, which are a typical substitute. We have seen that, over the course of the past year, bank treasury holdings have increased relatively quickly. They have also been buyers of Treasury bills, in addition to Gilts. Going forward, we would expect that to remain robust.

The Gilt market is predominantly a wholesale market and the great majority of Gilts are held institutionally. However, we have seen growing evidence of increased participation by retail investors, typically concentrated in certain sectors of the curve. Although the overall proportions remain relatively low, the appetite has been growing quite significantly. We would expect that to continue, depending on what happens in the wider world and Gilts' relative value against other asset classes.

There has been commentary around the proportion of international investors active in holding Gilts. In fact, the proportion of holdings by international investors, at around 30%, has remained relatively constant over time. It is also important to note that this is not a phenomenon which is specific to the UK. In fact, the average holding across the G7 by international investors is slightly higher than the holding in the UK. It is, though, important to unpack what the nomenclature of international investors actually means, because a significant proportion of these investors are actually UK funds which might be domiciled in other jurisdictions.

In addition, a significant proportion of the international component represents official institutions — that is, central banks and sovereign wealth funds. This reflects not least the very important role of Sterling as a reserve currency. Gilts, together with some other Sterling-denominated assets, now account for 5%-6% of global reserves.

GlobalCapital: What are the GEMMs' observations of the Gilt investor base? How do you view hedge fund activity in the market?

Parkinson, Santander: I've been in the Gilt market for 30 years. For most of that time, the pension fund bid for the long end has been the defining feature of this market, but that has changed really quite rapidly. So hats off to the DMO for responding in such a timely fashion to that as the structure of demand changes.

You did get a period where people wrote stories like: 'Who's going to buy all the Gilts?' or 'Record remits, who's going to buy them all?'. I've always thought that was a bit of nonsense. The DMO might be a price taker, but as long as the market remains orderly, the price mechanism will ensure that buyers turn up for the Gilts. As Jessica has set out, that's exactly what we've seen.

Retail investors have bought about £70bn in Gilts over the last three years and bank treasuries perhaps £130bn. We all thought insurers were going to be sellers of Gilts, but they have actually been buyers. That's all about the price mechanism. If overseas investors holding Gilts have remained constant in percentage terms, it does mean they've been net buyers in absolute terms. So the price mechanism is working.

Defined contribution schemes are buying Gilts because Gilts are attractive, not as a hedging instrument to them — they don't

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Ian Hale, RBC Capital Markets

hedge — but because they’re attractive on an asset allocation basis. That’s all about the price mechanism as well.

So the important thing, for everything to work, is that the market remains orderly. The DMO’s contribution to that is predictability and flexibility, and the government’s contribution to that needs to be predictability and maintaining confidence in the fiscal trajectory.

Hale, RBC: I would make two points. We’ve seen over the last few years a big increase in the participation of UK and global hedge funds in the Gilt market. Historically, there was less participation from that account base, as we had large buying from the pension fund community and that made it hard for some of the macro hedge funds to understand the reaction function. The prices at which some of that hedging was done were not appealing from the macro hedge fund point of view. But with the LDI [liability-driven investment] pensions stepped back, the Gilt market has looked a more attractive place to deploy capital to hedge funds, both on an outright basis and relative to other markets globally. As Gilts cheapened up in the long end, we saw people taking advantage of that and moving in with more of a willingness and understanding of the reaction function of the market and the participants involved. So there’s certainly a big uptake from hedge funds.

We see activity around a lot of the DMO’s auctions and syndications, which helps smooth the process where you sometimes get dislocations and lumpy flows. The hedge funds are not necessarily long-term holders of these bonds, but they’re happy to step in when there are short-term dislocations and help take the other side of those to help smooth out the operation of the market, which is helpful for its overall functioning.

The other point I would make is somewhat related to the insurance funds and how they’ve stayed in Gilts, because Gilts have been more attractive than moving to credit. If we look at global asset allocation and look wider than fixed income and at the performance of equities and credit, they’ve performed very well over the last few years. We’ve seen some more asset allocation-type of flows just in the last week into Gilts and inflation-linked Gilts. They are coming out of equities, as equities are pausing after the relentless rally of the last five years or so. The relatively attractive levels offered now can bring some of that money in not only from other government bonds or credit but also equities, which helps support the Gilt market.

***GlobalCapital:* Have you observed any change in behaviour from hedge funds in recent auctions and syndications over the last few weeks, when the volatility in the market was significantly higher?**

Hale, RBC: Clearly a lot of risk participation was positioned towards rate cuts from the Bank of England and lower Gilt yields in the front end specifically, although a lot of that was actually expressed in both listed and OTC derivatives in the front end, and a bit less so in the Gilt curve itself. So most of that positioning was in Sonia futures and in swap rates, rather than in the Gilt market particularly. But for sure, there was some readjusting of portfolios as the outlook for monetary policy changed naturally.

Lindberg, Nomura: Not too much to add on that, apart from that last point that Ian makes. There is a scepticism sometimes about the benefit of hedge funds in the market. But actually, they do offer a good short-term liquidity tool for the market’s functioning. And there are also more longer-term hedge fund investors.

I echo Ian’s point, as this most recent crisis unfolds, a lot of the risk was deployed in derivatives and futures terms. While there will be asset reallocations, a vast shock often drives the deleveraging of well-held positions. But actually, the Gilt market has held it very well. There haven’t been significant [relative value] dislocations, whereas after “liberation day” last year, there were some significant dislocations in global bond markets, including in the UK. But we haven’t seen that this time round, which demonstrates a very well-functioning market and that is a really positive note.

Compared to previous crises like Covid, there seems to be uncertainty around what this crisis might mean for equity markets and we’ve definitely seen more support for bond markets, and specifically — as you would expect — short duration bonds.

Going back to the point around the growing investor base, the ability for the DMO to shorten the WAM and focus on shorter issuance, and with the consultation around T-Bills — the DMO has navigated all of that very well to allow itself to have a diversity of client types in different parts of the curve and they do look at value in the yield curve in different ways. With the DMO being a price taker, there are investors that see value and therefore support the curve at a certain level of yields, especially if we were to face a rising bank rate yet again.

Athey, Marlborough: We are one type of client base.. On the liquidity point, the GEMMs are more qualified to speak about this as they have to deal with the market every single day. I can imagine that hedge funds, on a day-to-day basis, are providing liquidity and helping to smooth market function. I just worry that we’ve created a market structure which is susceptible to Minsky-type dynamics in liquidity, whereby that kind of efficiency of the market actually becomes its vulnerability at a certain point.

A lot of this liquidity is abundant when you least need it and it does tend to vanish when you need it most. Bank regulation has obviously pressured banks from holding huge inventory of all sorts of assets, and that includes government bonds, but also there are risks from hedge funds and the way that they manage risk. The fact is that they run very similar approaches and models, and therefore have quite herd-like behaviour. All of these things can lead to that non-linearity when liquidity dries up and that market structure, I must say, does concern me.

Amis, Aberdeen: I just wanted to add one point from the perspective of managing our Gilt funds. We take market positioning as seriously as economic data and fiscal data. It's a key driver of our positioning.

We get most worried when we hear that everybody is in one position, probably a lot more than we did five years ago. Also, coming into this Iranian conflict, the front end was where the positioning was and that was where all the pain was. So I'd say that the positioning of the hedge funds is clear and is in our top five things to monitor, and it's one of the clear drivers of how our positioning is.

There have been many times over the last 12 months where we've been in a position that everything says should work, but we get out of that position because we feel that it's been over-positioned, particularly from the hedge fund community. That's a key thing we take into account.

On the investor base, what the last 12 months have shown us, whenever yields pop up we have more conversations with international investors than we have ever done before. So that's a backstop to the Gilt markets, but we get plenty of questions when Gilts underperform, for obvious reasons. That's when we get questions from a more European or further afield client base.

GlobalCapital: What changes would boost the Gilt market's appeal?

Athey, Marlborough: I'm going to have to answer with my tongue firmly in my cheek, I'm afraid, because a lot of the things that we want to see are not necessarily within the control of the people in the room. But some fiscal responsibility would be lovely to see from a Gilt investor perspective.

There is something that maybe Ian and Carina are in a much better place to comment on, but ICE [Intercontinental Exchange] is trying to relaunch some of the non-10-year Gilt futures and boost the support for those. I wonder if anybody around the table thinks that will help with market function and market liquidity. The UK has been a bit of an outlier in major bond markets and still just really has that one 10-year, liquid bond future. But ICE seems to be pushing quite hard for those to be used. More significantly, I wonder if that will help.

But as I said earlier, I think *chapeau* to Jessica and the DMO. The issues that I worry most about as a Gilt investor is more macro related — the interaction between politics, [economic] forecasts, fiscal rules, Gilt yields, the Bank of England QT, the Bank of England monetary easing — or not. Those are the biggest and present dangers to Gilt market performance.

Amis, Aberdeen: I echo James' comments. The DMO has been on the front foot over the last 12 to 18 months in terms of the evolution of the Gilt market, whether it be P-tenders, the T-Bill consultation, the change in maturity profile — all the things that would make the Gilt market more attractive to different client bases. When we look at that retail demand, obviously the low coupon Gilts were a thing of the Covid era. What happens to that retail demand now comes down to tax efficiency and that's potentially something the Treasury could look at. But the DMO has done a good job over the last 18 months.

Shannon, TwentyFour: Clearly the way the DMO goes about gathering intelligence has worked very well and that's why it has been able to be so successful, despite the external conditions over the last couple of years. The programmatic Gilt tenders are only going to increase those more regular interactions, but I wonder if it's almost like a formalisation of what we're doing here. It makes a lot of sense to do these things, looking at the way that the Fed does it with the Treasury Borrowing Advisory Committee, where there are quarterly meetings that involve investors from a variety of different hedge funds, asset managers, insurance companies, their equivalent of GEMMs and broker dealers. Then there's the formal process and it's formally published in its complete transparency, and there's almost an obligation that has to be taken into account. The transparency of showing that might be an interesting thing from an intelligence point of view.

Lindberg, Nomura: There are things that can be done but are not necessarily within the power or control of the DMO, like increasing the retail demand. Retail demand makes up a smaller portion in the UK than perhaps it does in other countries. What could be done from a tax efficiency standpoint for bonds, other than low coupons, that could be a way to bring in retail demand that is more spread out on the curve? One could also think about how we talk about clear market concerns around the domination of hedge funds in day-to-day liquidity and changing bank regulations that have partly been the driver of that. So changing bank regulations to bring the responsibility for providing day-to-day liquidity to banks, rather than it being the hedge funds' responsibility, then that means you don't necessarily

"The shifts made by the DMO have been positive in giving the Gilt market that space going into the back-end of the fiscal year, and that should be applauded"

Matthew Amis, Aberdeen Group plc

have the same herd mentality, and you have a market participant of last resort — which is the primary dealers in the GEMMs. You could also have a regulatory change in terms of bank capital and what that would mean for holding Gilts from a liquidity standpoint — something that people have talked about before. I wouldn't necessarily know how it worked practically, but you have MTS in European government bond markets that allows for certain market makers to provide liquidity at all times. If that can help improve liquidity from the banks' perspective in the Gilt market, it could then make it more attractive to investors who are more long-term and require consistent liquidity.

To James's point, at times of difficulty, this liquidity may be an element of concern in the Gilt market, meaning that in crises the market does become more illiquid. So by improving that depth, it makes it more of an attractive bond market for a wider range of global asset managers.

Hale, RBC: People have talked about doing different maturity futures ever since I've been in the Gilt market, which is over 20 years. Initially, people talked about bringing in 30-year Gilt futures and every couple of years that would come up as a topic. But futures market makers and participants were a little bit unnerved by the presence of LDI buyers and the long end and didn't really know how to model that. So liquidity provision in those futures was a little bit difficult to get people to bring them up to a sufficient size that was self-sustaining. Now we're faced with a situation where there's less issuance [in the long end] because those buyers have gone away, and now people are a bit unnerved about the fact there isn't the issuance behind it, which is slightly ironic. But it has always been difficult to get enough buy-in from people willing to make prices to really get [30-year futures] up and running.

Where I can see some potential is in the five-year area of the curve, where issuance has grown in recent years. There's a large bank treasury demand that's being issued into and having that as a more liquid point on the curve where people trade short sterling and futures, although they trade more with OTC risk rather than cash risk. But I can see how that could aid some liquidity in the current environment.

The only other point, which is hard to claim as an innovation or a tweak myself because the DMO is already talking about doing it, is the switch auctions. That may help facilitate liquidity in some of the lower coupon Gilts and it can be a big benefit for market functioning. That also goes to the point about trying to get retail investors more involved, that those bonds trade — for some technical reasons but also for liquidity reasons — at a premium. With a bit more liquidity, you can get more of a retail interest in those bonds, and that might be helpful.

Pulay, UK DMO: Just to sum up, from the DMO's point of view I cannot overstate the importance of market engagement and we have reinforced our investor engagement activities over the past year to facilitate that. We really look forward to all attendees participating in our quarterly consultation meetings. The minutes of those are published transparently the following day on our website.

We also hold analyst briefings, typically after fiscal events, and those are open to our primary dealers — our GEMMs — as well as to investors. The intelligence that we glean through bilateral investor engagement is also very important, so we look forward to working both with the investor community, as well as with our GEMMs, to build on the successes of 2025/26 to deliver the 2026/27 financing remit efficiently in the year ahead.

GlobalCapital: Is the GEMM system working well and is there any scope to improve it in any way?

Hale, RBC: The DMO is very good at communicating with the GEMMs as a group. We have bilateral meetings, annual reviews and various contact points day-to-day as well. That works well and it's an efficient way of getting feedback. Additionally, we have regular dialogue with investors that we feedback to the DMO.

Parkinson, Santander: We've touched a few times on how, over the last five years, we've seen the biggest gross and net remits delivered really smoothly and efficiently. That speaks to the fact that the GEMM community is really intermediating effectively between the DMO and the end investors.

GlobalCapital: Do the investors here have anything to say about how the system is working?

Athey, Marlborough: No, I totally agree that this system has had a pretty robust test over the last five years, and there's not been a flood of banks looking to jettison their GEMM status. The market has ultimately managed to find its feet and match buyers and sellers through the price mechanism. It's a system which is tried and tested through the heat of battle. I'm not qualified to comment on the day-to-day nitty gritty, but in terms of generally how it's performed, a big thumbs-up.

Amis, Aberdeen: The one thing from our perspective is that the DMO takes the opportunity to raise as much cash as possible, but maybe the communication and the amount of data we as an investor have to give into the syndication process may limit our ability to go into syndications as large as we want. In days gone by if the pricing of the syndication came cheaper than we expected then we would take advantage and upsize our order. Now we feel that if we upsize at the last minute it might impact our allocations. So at times we have decided not to increase our order.

"I cannot overstate the importance of market engagement and we have reinforced our investor engagement activities over the past year to facilitate that"

Jessica Pulay, UK Debt Management Office

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