HYMANS ROBERTSON
INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

Autumn Budget

November 2025

The Chancellor will deliver her Budget on 26th November. With the government constrained by its fiscal rules, spending cuts, tax rises, or both are highly likely. In this article, we explain why this fiscal hole has appeared, what the government's options are, and what this could mean for asset classes and portfolios.

Summary of the key points raised in this article

- The Chancellor has two fiscal rules that she aims to meet at each Budget. Her position against these rules has hugely deteriorated since the Spring thanks to a combination of policy changes and worsening economic conditions.
- It is generally accepted that it will require tax increases and/or spending cuts to meet the fiscal rules. The main routes to restoring the headroom include either a combination of several smaller taxes or a manifesto-breaking increase in income tax rates. The potential impact on asset classes, because of the Budget, are described below.
- We have no plans to change the portfolios because of the Budget. We believe our diversification, both between and within asset classes, most notably in terms of our global currency and bond exposure can help portfolios navigate any potential volatility that may arise due to the Budget.

Table 1: Gilts and the pound are the asset classes most likely to be affected on Budget Day

Asset class	What to watch for	Possible impact
Gilts	Borrowing, fiscal headroom	Fears over higher borrowing, could equal higher yields (i.e. lower prices)
Sterling (pound)	Gilt market, investor sentiment	Fears over the gilt market has the potential to result in a weaker pound
UK equities	Pound movements, sector specific announcements	A weaker pound has the potential to strengthen the returns of the UK equity market, as UK companies' overseas earnings become more valuable in sterling terms
Global equities	Currency impact	Likely to be limited, except via currency. A weaker pound would generate a positive return on overseas currency exposures

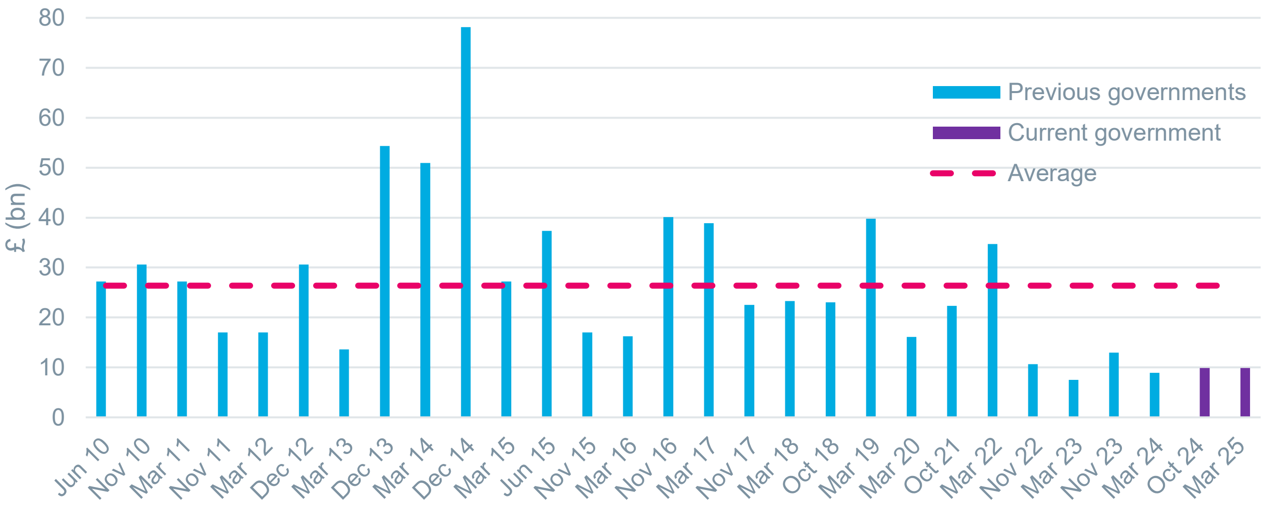
What are the Chancellor's fiscal rules?

Last year, the Chancellor set out her two 'ironclad' fiscal rules. These are:

1) **Spending rule:** The government must balance its day-to-day budget (excluding investment spending) by 2030. In other words, tax revenues should cover all day-to-day spending.
2) **Debt rule:** Government debt, specifically a measure called Public Sector Net Financial Liabilities (PSNFL), must be falling as a share of the economy by the same date.

At last year's Budget, the Office for Budget Responsibility (OBR) estimated the Chancellor's headroom (the buffer the Chancellor has before breaking her rules) was £9.9bn, a historically slim margin. By the Spring Statement in March, this headroom had been wiped out, leaving a £4.4bn shortfall. The Chancellor restored the £9.9bn headroom by announcing some welfare spending cuts and other measures.

Chart 1: The Chancellor's headroom against fiscal rules was the 3rd smallest in the history of the OBR



Source: OBR

Why is there a fiscal hole and how big is it?

Unfortunately, it's very likely that the headroom has eroded again. Pantheon Macroeconomics estimates the shortfall to be £15-20bn, meaning the Chancellor may need to find around £25-30bn through spending cuts and/or tax rises to restore the £9.9bn headroom. Other forecasters put the shortfall even higher.

The widening fiscal hole has several causes, partly due to policy changes and partly due to deteriorating economic conditions.

Policy changes: These include reversing the winter fuel payment cuts, watering down benefit reforms, and the anticipated removal of the two-child benefit cap. While this final policy has not yet been announced it has been strongly hinted at and is largely expected to happen. These alone are thought to have cost the Chancellor an estimated £8.5bn.

Economic factors: Higher gilt yields (the government's cost of borrowing) and inflation will have increased interest expenses for the government. At the same time, tax receipts have been lower than expected. The OBR is also expected to cut its productivity growth forecast for the UK. Changes to this assumption can be significant as it affects anticipated tax receipts and spending needs across the economy. A 0.1% p.a. cut to productivity could cost the Chancellor £6.9bn, but there is a risk the cut could be even greater.

What are the government's options?

The government is keen to stick to their fiscal rules to maintain investor confidence, which means there is little capacity for additional borrowing. This leaves a combination of spending cuts and tax rises to plug the hole.

The government may look to raise money by freezing tax thresholds further (fiscal drag, meaning more people pay higher rates as incomes rise) and raising taxes in a more targeted way, such as specific business sectors or certain sections of the population. Alternatively, it is rumoured the government is preparing to break their manifesto pledge and increase income taxes. There is a huge amount of speculation over which specific policies the Chancellor may opt for, and the revenue they may generate, a selection of which are listed in Table 2.

Table 2: Select policies and estimates for tax raised

Policy	Estimated amount of tax this would raise
Freeze all income tax bands for another two years	£9.2bn
Add 1% to all income tax rates	£10.8bn
Reduce pension lump sum to £100k	£2bn
Limit tax relief on pension contributions to 30%	£3bn
Additional gambling taxes	£3bn

Source: IFS, JPM, IPPR

Spending cuts are also likely, but the government has already found this to be politically challenging, as demonstrated by the U-turns on welfare reform and winter fuel payments.

Impact on asset classes

Gilts: We are very likely to see heightened scrutiny in the gilt market leading up to and on the day of the Budget. Simply put, if the government needs to borrow more, gilt prices may fall as yields (the interest paid to investors) rise. The gilt market has reacted positively in recent days to rumours that the Chancellor is trying to build up a larger fiscal headroom than previously seen. Our global bond exposure should help reduce the impact of any volatility associated with the UK gilt market.

Sterling: The pound may also be impacted if investors are left disappointed by the government's fiscal credibility. Given the UK government's reliance on demand from overseas investors, any gilt selloff would most likely be accompanied by a weaker pound. Again, global diversification should help manage the impact of any sterling based volatility.

Equities: The global equity market is unlikely to be significantly impacted by the Budget, as it is not an important event in the global context. However, currency fluctuations will have a direct impact on the pound value of overseas assets.

The UK equity market is very global in nature (around 70-75% of the UK market's revenues are generated overseas). This means the UK equity market may be indirectly impacted by any fluctuations in sterling (due to many UK-listed companies earning a significant proportion of their profits overseas, a weaker pound boosts the value of these earnings, and may actually support the UK equity market). Some sectors could be directly impacted to the extent that they are targeted with taxes, for example, gambling companies, although some of this is already expected and is 'in the price'.

In summary

Investors should consider how any changes to tax rules might impact their personal finances (this is something for them to discuss with their Financial Adviser). However, from an investment perspective, the global nature of our portfolios means that the direct impact of the Budget is likely to be limited. Instead, investors should stay focused on the long-term risk and return characteristics of their investments and on the broader macro themes driving markets such as inflation, economic growth, interest rates, and emerging trends like the development of artificial intelligence. We do not anticipate making any changes to portfolios over the Budget but will continue to monitor portfolios and markets.

Jack Richards
Investment Manager
jack.richards@hymans.co.uk

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.

Hymans Robertson Investment Services LLP is authorised and regulated by the Financial Conduct Authority. One London Wall, London, EC2Y 5EA, telephone number 020 7082 6000. You can find it on the FCA register at https://register.fca.org.uk/s/ under firm reference number 927111.

Hymans Robertson uses FSC approved paper.