

Burnham wins by-election victory – what does this mean for investors?

19 June 2026

A Burnham-led government would move leftward, but markets are waiting for more details before reacting. We advise clients to stick to existing paths.

Andy Burnham has resoundingly won the Makerfield by-election, clearing what most observers regarded as his biggest hurdle to becoming prime minister before the year is out.

There seems little doubt that Mr Burnham will take the party's policies further to the left should he prevail. Most observers believe Keir Starmer will be forced out in the coming months, with Burnham, the overwhelming favourite, to replace him.

The big question is how prepared he'll be to challenge bond investors, by stretching the country's fiscal position. He's already been reined in, following comments that he would "not be in hock" to the bond market. We're confident he'll understand the need to remain fiscally prudent. Especially given the fate of Liz Truss and Kwasi Kwarteng, who were ousted as premier and Chancellor of the Exchequer after the bond market lost confidence in

Quick take:

- Andy Burnham has cleared his biggest hurdle to becoming prime minister, leading a government that would be less centrist.
- But he has already reined in his comments, mindful of the power of the UK government bond market.
- Markets were relaxed at the result – and possibly relieved at the strong victory over Reform, whose fiscal approach, were it to enter government, is still unclear.

their willingness to be so. Whoever wins will inherit a difficult situation with limited, if any, room for expansive policies. This was reinforced by today's public finance data, which showed a larger-than-projected deficit for May. Reports that Burnham has added former Bank of England Chief Economist Andy Haldane to his team of advisers will also help shore up his credibility.

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Market reaction to Burnham win

That said, the initial market impact of the result, as reflected in the UK government bond (gilt) and sterling markets, has been relatively muted. Why?

First of all, it didn't come as a great surprise. Local polls had put Burnham ahead, though they had not predicted the landslide: Burnham won 54.8% of the vote, compared with only 34.5% for the Reform candidate.

Second, investors may have been somewhat relieved by the extent of Burnham's victory over Reform. The 'devil you know' might be preferable for many to the untested and sometimes controversial right-wing alternative. Reform leader Nigel Farage has actually pledged to balance the government's budget, but economists are highly sceptical that he could achieve this. Meanwhile, the candidate for the Green Party, which is also eyed with suspicion by market participants, lost her deposit in Makerfield (as, to be fair, did the Conservative and Liberal Democrat candidates too).

Third, the Conservative victory in a by-election on the same day in Aberdeen South might also indicate some stopping of the rot for the party that, despite its past woes, remains Mr Market's preferred option. Admittedly, this was an election fought largely on the local issue of the future of the oil and gas industry, but it

was also the Tories' first by-election win north of the border since 1973.

The picture for gilts

Gilt yields have been rising this year, but so have yields in other countries. 10-year gilt yields have climbed from 4.47% at the beginning of the year to 4.80%. That shift largely reflects the inflationary effects of the war in Iran and a major reassessment of the outlook for the Bank of England's monetary policy. Gilt markets had priced in expectations of two quarter-point cuts at the turn of the year. But in an about-turn, at least one increase is now priced in. In a similar fashion, 10-year US treasury bond yields have risen from 4.16% to 4.45%. Gilt yields are higher today, in the wake of the Makerfield result, but generally in line with yields across Europe.

Sterling performance

The pound hasn't been greatly affected by the result. This week it has fallen quite sharply against the dollar, from \$1.3406 to \$1.3214, but it's actually up a little today. The fall is largely attributable to a stronger dollar. On a trade-weighted basis, the greenback has reached its highest level in more than a year, since the big fall it suffered after US President Donald Trump's April 2025 announcement of the 'liberation day' tariffs. That renewed strength has been driven by a combination of continuing demand for US technology shares (with Elon Musk's company, SpaceX, the latest money-

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magnet) and the hawkish tone adopted by the new Chair of the Federal Reserve, Kevin Warsh.

On the day of the by-elections, the Bank of England's Monetary Policy Committee announced it was leaving its base rate unchanged at 3.75%.

Reading between the lines, however, we can see some indications that the

committee is sensitive to underlying weakness in the economy. This might give those seeking a rate cut an upper hand in future, especially if the US deal with Iran holds, making it possible for energy prices to subside.

Sterling has been more resilient against the euro, falling from €1.1589 to €1.1537 this week, but rising slightly today. It remains at the upper end of its post-Brexit

UK markets are often resilient, during political change

But the Brexit vote and Truss premiership were notable exceptions

10-year gilts Dollars per pound



Source: Factset, Rathbones

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trade-weighted trading range and continues to show remarkably few signs of stress.

Not playing FTSE

The UK's FTSE 100 stock market index has underperformed other global indices this week, but that's largely down to its composition. We normally expect it to do better when the pound falls versus the dollar because so much of the profits of FTSE 100 companies are made in dollars. But this week it has been held back by two things. One is its lack of exposure to the technology industry. The other is the downward pressure on the oil majors Shell and BP in the light of the US-Iran deal, which has lowered oil prices.

With so many other fish to fry, it may well be that global investors will only express their opinions more firmly when a Labour leadership contest is announced. At that point we'll get a much clearer picture of the proposed policies of the various candidates – and, also of great importance, of potential chancellors under Burnham. We've included some of their musings and actions in the boxes below.

This behaviour isn't surprising. Global issues could easily overwhelm domestic politics in the interim. Moreover, many financial bets will be taken through options markets – and options are

instruments that have a finite life. That makes it difficult to position now for an event with an unknown date. Considering all this, we expect more market action once a contest is announced.

Stick to the path

In the meantime, we advise clients to stick to existing paths, for their savings and investments. There will no doubt be more speculation ahead about a potential increase in the rate of capital gains tax, as well as the usual uncertainty about rules affecting pensions. But we would prefer to see more evidence of policy change first – clients have made costly mistakes by taking unnecessary pre-emptive action in the past.

A new prime minister will face the same fiscal and macroeconomic challenges posed by an ageing population. For more on this, please see [‘The world is growing older’](#).

To see our prescription for growing the economy faster, providing a long-term boost to the Treasury's tax revenue, please see [‘Building prosperity’](#).

For more on contenders for premier, Chancellor, and other senior roles, please see overleaf.

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Andy Burnham

Newly elected MP for Makerfield

- Has complained that Britain is “in hock to the bond markets”, suggesting that he doesn’t want gilt investors to limit the government’s freedom to borrow and spend. This calls to mind the language of Labour left-wingers in the lead-up to the Labour government’s 1976 sterling crisis, prompted largely by the high fiscal deficit.
- Wants the government to take social housing and public transport back into public ownership, with more control over energy and water as well. This would increase government spending.
- But Burnham has said he doesn’t want to upset bond investors with these plans, and has advocated “business-friendly socialism”.
- Is looking at equalising capital gains tax with income tax but hasn’t openly backed it. Has said he would abolish inheritance tax.

Wes Streeting

Health Secretary (until May)

- A good communicator who sits on the right wing – in Labour-speak, the ‘centrist’ faction – of the party, but has recently courted the left with his policy suggestions. Odds on Streeting becoming prime minister have lengthened considerably, though he could win the consolation prize of a senior role in Burnham’s cabinet.
- Has said the UK should eventually rejoin the EU. This would be good for economic growth in some ways by making trade easier. But critics argue that this would put paid to the idea of turning the UK into a light-regulation, high-growth ‘Singapore-on-Thames’.
- Has pledged to equalise capital gains tax rates with income tax and talked of introducing a wealth tax.

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Ed Miliband

Secretary for Energy Security and Net Zero

- Seen as the leading contender to be Burnham's Chancellor of the Exchequer. Economically highly literate, with a Master's in the subject.
- A net zero evangelist, who wants to accelerate the rise in renewables capacity and run down North Sea oil production. This could hit economic growth in the short term, largely by increasing energy costs. But it could make the UK's energy supply less vulnerable to geopolitical shocks, such as future Middle Eastern wars. It would also boost the UK's renewables industry.
- Has argued that extra government borrowing to increase defence spending should be excluded from the government's fiscal rules. This would displease investors in gilts. For more on the pressures to increase defence spending – and the implications for the sector – see [‘In defence of growing returns’](#).

Pat McFadden

Work and Pensions Secretary

- Unlikely to be a leadership contender, but a potential Chancellor. The softly spoken centrist minister attracted controversy but burnished his credentials as a tough customer on government spending after the publication of a June message in which he complained, about Labour backbenchers: “Every meeting I have is ‘who can we tax in order to pay benefits to others?’”.
- Despite the failure of his predecessor to push through reforms to limit the Treasury's bill for incapacity and health-related benefits, he is considering what he calls “radical” options to get more people on benefits back to work.
- Has pleased free market economists and employers with his plans for a gradualist approach to Labour's manifesto pledge to raise the youth minimum wage to the adult rate.

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Greenbank

0117 930 3000

enquiries@greenbankinvestments.com

[greenbankinvestments.com](https://www.greenbankinvestments.com)

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