

Gilt yields spike on positive UK growth; Gilt manager expects 'major losses'

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Gilt yields have spiked strongly today after the UK recorded twice the expected growth in the third quarter.

The 0.8% third quarter growth, double the 0.4% economist consensus, has driven the yield on the benchmark 10-year gilt up 12 basis points to 3.04%, a price decline of £1.08.

Prices on all longer dated gilts are more than £1 lower, while the 2015 gilt has dropped 73p.

Charteris' Ian Williams, manager of the £100m City Financial Strategic Gilt fund, is warning investors of dramatic losses for the asset class.

"We are battering down the hatches. We have shortened duration right up and preparing for the roof to cave in," Williams says.

"Investors are not quite convinced yet on a UK recovery, so when the penny drops the gilt market is in for major losses, it will be carnage. The strange thing is, since explaining our view to clients, we have received our strongest inflows ever."

Williams expects the UK to continue muddling through for the next 12 to 18 months, before expanding rapidly.

"It is inevitable interest rates will return to long term averages at some stage. I am not sure when, but it will happen," Williams adds.

"When this happens investors will lose 15% on five-year gilts and 40% on 50-year bonds."

Read more: <http://www.investmentweek.co.uk/investment-week/news/1811129/gilt-yields-spike-positive-uk-growth-gilt-manager-expects-major-losses#ixzz13T0eFHSv>

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