

The economic shocks of Covid are not over yet

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The [FT has noted](#) this morning that:

Holders of UK government bonds are suffering the worst quarter in at least two decades as Britain's economic prospects brighten, setting a contrast with the eurozone where a more sputtering recovery from the coronavirus crisis is helping haven assets hold their value.

This needs a bit of unpacking.

What the FT is saying is that in the UK bond prices are falling because there is now an expectation that, at the very least, interest rates have reached their low point and may even begin to increase when previously it was thought that they might become negative. In contrast, there is much less optimism in the EU. As a result EU bond prices are not falling at the same rate.

And to explain the relationship between bond prices and rates, most bonds are issued with a fixed interest rate over their whole life. As a consequence bond prices go up if interest rates fall, and vice versa. This then, broadly speaking, creates a current interest rate on the current price of the bond when the actual interest payment does not alter.

The FT message is, in that case, that markets are significantly more optimistic that the UK is over Covid than they are that the EU is. I would, of course, describe that as misplaced optimism. I am not alone. As the FT also notes in the same article, this is sentiment and not fact, and sentiment might be misplaced, or as one analyst put it:

I would say we are priced for something close to a best-case scenario over the coming months.

I think that right.

What was that old saying about pride coming before a fall? Or rather, in this case, pride coming before a bond price increase?

The economic shocks of this are not over yet.