Term Premia Watch

– Insights on yield curve drivers –

25 January 2026

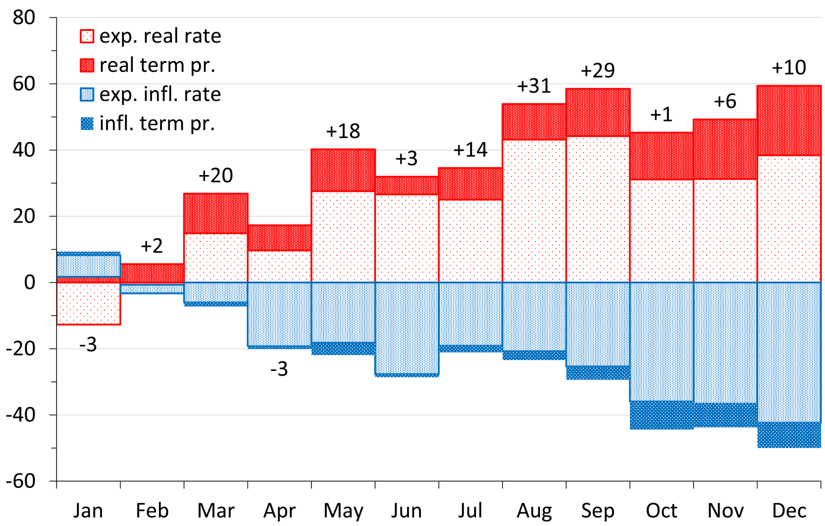
TAKEAWAY

Shifts in the composition of expectations drove UK yield dynamics in 2025

KEY DRIVERS OF UK YIELDS

- In 2025, UK government bond yields were volatile but ended the year close to their starting levels, with the 10-year benchmark up around 10 bps: –4 bps from expected short rates and +14 bps from term premia
- Decomposing nominal yields into real and inflation components shows that most of the adjustment stemmed from higher expected real rates partially offset by lower inflation expectations, while changes in term premia were largely driven by the real component
- For the 10-year benchmark, Argedion estimates cumulative changes (December 2025 vs. December 2024) of +38 bps in expected real rates, –42 bps in expected inflation, +21 bps in the real term premium, and –7 bps in the inflation term premium

Changes in Real and Inflation Components of the 10-Year UK Yield in 2025
(cumulative changes relative to end-December 2024)



Source: Argedion estimates

OBSERVATIONS

- Despite small net yield changes, offsetting large moves in real and inflation components suggest markets remained focused on policy expectations rather than risk premia
- Real term premia rose while inflation term premia fell, highlighting markets' selective pricing of real versus inflation risks