Prime Minister Resigns

Markets were largely unmoved by the news last week, underscoring the broad expectation that had already been priced in over recent months.

Nominations for a new party leader will start on 9 July. Any MP wishing to run will require the support of 81 MPs to qualify for the ballot. Incoming Makerfield MP Andy Burnham has confirmed his intention to stand in any contest, and qualification is unlikely to be a challenge.

But the key question is whether any other MPs choose to run and qualify for the ballot. Former Health Secretary Wes Streeting has endorsed Burnham and will not stand, and so far, no other MPs have put themselves forward. There is a clear preference among some in the cabinet to avoid a contest altogether.

Regardless, Andy Burnham is now all but certain to be prime minister by early September, though the absence of a contest could see the next government formed by mid-July. We see this as the more likely path from here.

Thoughts are likely to turn quickly to the key players in a Burnham government, and crucially his Chancellor pick. Given his recent efforts to assuage market concerns over the path of fiscal policy, a centrist choice is more likely.

Burnham's inheritance is a difficult one and retaining his commitment to the fiscal rules while forming a materially different policy platform is likely to be challenging. We expect this will be addressed in autumn budget.

Key Insight: Starmer's resignation has long been our base case expectation, but his replacement will not alter the UK's challenging fiscal outlook. We expect budget speculation will begin quickly after vacant political offices have been filled