<u>The name's Bond, UK Bond – Shaken and Stirred!</u>

This week has been dominated by large shifts in some Government bond yields.

Government bond yields, i.e. the cost of servicing a country's debt pile, have risen rapidly in some key regions. The UK is feeling this the most as investors are becoming more and more doubtful at the Chancellor's restructuring plans. The 10-year UK gilt yield has risen throughout the week up to 4.82%, the highest level since the Global Financial Crisis in 2008.

There have been parallels drawn between the current Chancelor's plans and those of Kwasi Kwarteng's budget during the mercifully short Liz Truss Premiership. There are differences between them (the shock was considerably harsher in 2022 resulting in the Bank of England stepping in), but ultimately the essence is the same with the markets not believing the optimistic growth assumptions that are required to balance the books.

Rachel Reeves factored into her budget a £9.9bn cushion to make sure the day-to-day spending was in the black, however the increase in borrowing costs have all but wiped away that safety net and caused the Labour Government to consider either further tax rises or spending cuts to make the budget affordable again. Labour have already indicated that they do not want to raise taxes at this time and so cuts to public services seem all but inevitable. Although of course, they didn't want to raise taxes before the Autumn Budget!

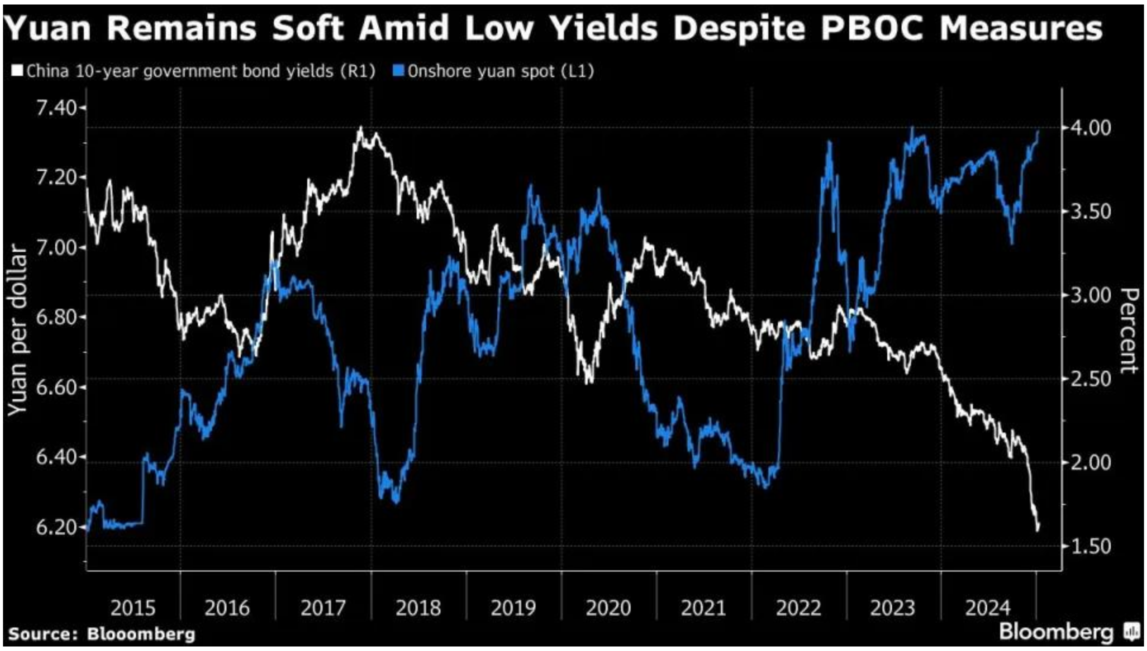
To compound the UK's fiscal woes, stubborn inflationary pressures forcing the Bank of England to limit reductions in the interest rate. Normally with a higher rate of interest this would prop up sterling, however with the markets doubting the long-term prospects of the UK the currency has also been under pressure, falling over 2% against the US dollar since Tuesday.

The US 10-year Treasury yield has also continued to rise, reaching 4.68% on Wednesday. The US markets were closed on Thursday for the funeral of ex-President Jimmy Carter, but on Friday the yields continued there upward trajectory.

The US position, though, is considerably different as the Federal Reserve's likelihood to keep rates around where they are through 2025 are down to Donald Trump's tax cutting and tariff hiking policies. The higher yields, therefore, are a reflection of the inflationary pressures of the stronger economy which are further reflected in the strengthening US dollar.

US employment data have been released this week with lower unemployment claims, increased job openings and higher than expected payrolls data. This data resulted in an unemployment rate gradually lowering to 4.1%.

The Chinese have the opposite problem as yields have continued to fall with the government continuing to underwhelm the markets with a lack of effective stimulus policies. The People's Bank of China stepped up its support for the currency but without strong monetary and fiscal support the country looks to be heading into a deflationary spiral. China is likely keeping its stimulus powder dry for now as the await the start of Trump's second term which starts on the 20th January.



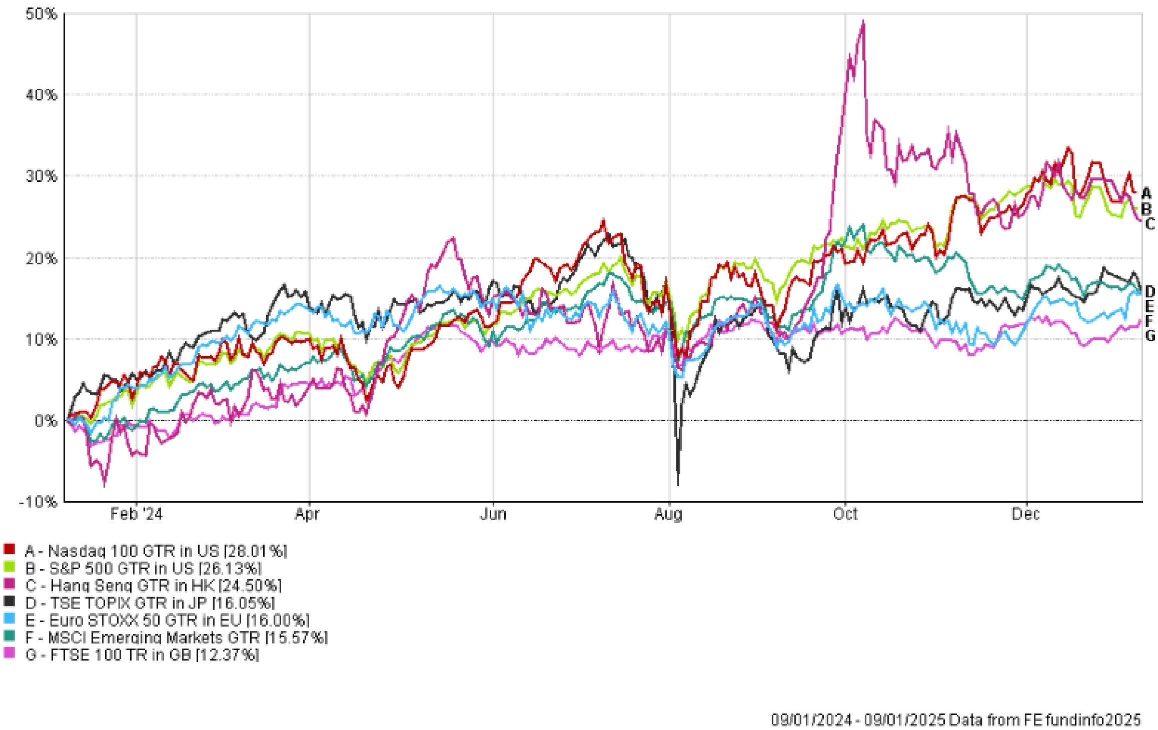
In the face of these issues, the MSCI China Index has fallen 20% since early October last year, officially entering a bear market. All the while, the property slump is far from over with major developers staring at liquidations, falling share prices and significant debt levels.

Even though he is not yet in office, the second Trump show is well under way with some outlandish threats to Panama, renaming the Gulf of Mexico, a desire to annex Canada (which accelerated the end of Justin Trudeau's time in office) and threat to acquire Greenland. Additionally, by not ruling out military force in Greenland, he is bizarrely close to declaring war on Europe.

The world will once again have to contend with a toddler sitting on the chair in the Oval Office.

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:



Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	+0.20%	-0.88%	+1.50%	+7.86%
Balanced	+0.50%	-0.71%	+2.51%	+11.15%
Adventurous	+0.62%	-0.65%	+3.10%	+12.03%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.