US re-accelerating, China awakening and a Trade War between the two looming

The big news story for the coming week is the inauguration of Donald Trump as the President of the United States of America. Love him or hate him, it's impossible to ignore him, and what is for sure is that we are going to see a radical shift in US policies, trade relations and longstanding coalitions.

Whilst the appointment of Scott Bessent as the US Treasury Secretary is seen as a positive appointment (due to his ability to speak without hyperbole, and with calm authority) the inauguration will mark the start of a period that should favour both US equities and the US Dollar with expectations high that tax cuts and the imposition of tariffs on China will be amongst the early policy changes to be implemented.

A trade war with China looks a racing certainty and the lack of concerted policy moves by China in recent weeks and months suggests that they are "keeping their powder dry" to see just how this plays out. It is however noticeable that quietly and steadily the data from China is taking a turn for the better – see comments later.

What is certain though is that ultimately a prolonged trade war benefits no-one and the lessons from history show that all that they achieve is a weaker global economy.

There has been a raft of data this week which, by and large, brought some cheer to the markets, although, as we will see below some of that cheer is more in hope than expectation.

Looking at the UK first off, the slight contraction in headline CPI Inflation, coupled with a slight increase in GDP growth (both of which could be down to rounding errors) were enough to contain and even reduce the gilt yields that we noted in last week's update.

The year-on-year CPI figure came in at 2.5%, down from its last reading of 2.6%, but still well above the Bank of England's 2% target. Core CPI, which strips out energy and housing costs, also fell (from 3.5% to 3.2%) and this larger reduction in the more stubborn inflation elements that make up the headline number is welcome.

Unfortunately, we are likely to see this stubborn inflation persist as the impact of the increased public sector pay settlements and the base effects of the way the numbers are calculated are stripped out in the next 2 months.

Whilst GDP growth was something to be cheered by the beleaguered Chancellor, a very limp 0.1% growth in November is hardly a ringing endorsement of her policies, especially on the back of the 2 previous months' data each recording a contraction of -0.1%. The figure also came in below the expected level of +0.2%.

The Retail Sales Data from this morning, showing a sharp decline of -0.3% month-on-month (and well below the consensus forecast of +0.4%) simply serves to underscore the fact that UK economic outlook remains subdued.

Nonetheless Gilt Yields retreated from their recent highs with the current 10-year yield sitting at 4.7% (at time of writing) comfortably below the yield of almost 5% this time last week. The currency market however appears to be less convinced with the GBP / USD rate sitting at 1.21 (at time of writing), although this does in part reflect US Dollar strength, which is currently at a 22-year high when measured by the USD Index.

The reduction in Core CPI Inflation was mirrored in the US with Core CPI falling to from 3.3% to 3.2%, although the headline CPI number rose in line with expectations to 2.9%.

On top of this, all of the US indicators on growth and the health of the economy are robust with everything from retail sales data to jobs data to corporate earnings pointing to the fact the US economy is actually starting to reaccelerate, rather than slow down.

As noted earlier, the Chinese economy grew more than expected in the fourth quarter of 2024, with its annualised GDP data showing the growth of 5%, which, surprise, surprise, was in line with the Government's 5% growth target.

There are a number of suspicions over the accuracy of the data but, on the face of it, this is a creditable outcome, and was sufficient to raise the Chinse markets into Friday.

This was not the only positive data from the country, with industrial production growing more than expected in December as recent stimulus measures continued to support business activity.

December retail sales were also stronger than expected and accelerated sharply from the rise seen in the prior month.

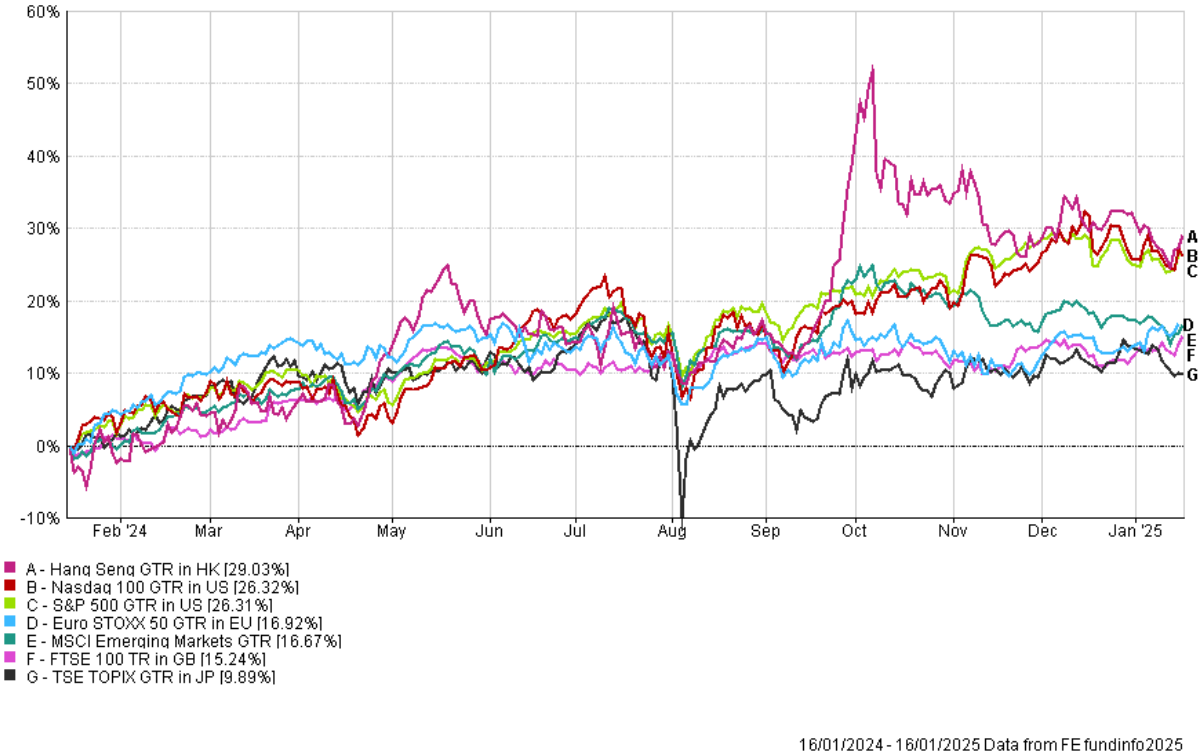
In other, non-Trumpian geopolitics, we have the potential end of the war in Gaza, with the terms of a ceasefire, exchange of prisoners and the allowance of emergency relief having been agreed in negotiations in Qatar.

Whilst this is being hailed as a "done deal" by the outgoing President Biden and most news agencies, there is considerable resistance in the Knesset, Israel's parliament, with right wing and religious parties threatening to collapse the coalition government if the deal is approved.

Bizarrely the price of oil reached a short term high on the back of the news, with the price breaking through $80 per barrel – that's probably more of a coincidence and related to specific supply and demand dynamics than a comment on the negotiations.

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	+0.82%	+0.64%	+1.99%	+8.68%
Balanced	+0.80%	+0.65%	+2.79%	+11.57%
Adventurous	+0.75%	+0.59%	+3.17%	+12.40%

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

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