Germany is back, Ford takes no flack and is Putin about to crack?

One of the bigger stories of the week is Germany taking another step closer to remove their strict debt rules imposed in 2008. With the support of the Greens (who negotiated €100bn for climate and economic transformation), they now have the two-thirds majority necessary to pass constitutional amendments, with a vote scheduled for Tuesday. German Chancellor elect, Merz, had justified the need to push the package through the outgoing parliament after recent shifts in US policy under President Donald Trump, warning that a hostile Russia and an unreliable US could leave Europe exposed.

'Germany is back' he said, as shares across Europe and across the globe bounced with hopes that the borrowing plan with boost all of Europe.

We have written previously on the unusual circumstance of falling US equity prices coupled with the falling US dollar.

Broken political alliances and economic wars with major trade partners are having many effects with one those being increased investor concern that America could lose a some of its so-called "exorbitant privilege".

This term, first coined in the 1960s by then French finance minister Valéry Giscard d'Estaing, essentially refers to the benefits America gains from the outsize demand the world has for US assets as a safe haven, such as the US dollar. The privilege hinges on the extensive use of the dollar internationally, the US rule of law as well as the projection of its soft power, amongst other factors.

The sheer size, depth and transparency of US markets, in combination with the reliability and openness of its governance, have for decades given the US a disproportionate slice of world capital and the cheaper financing that goes with it.

President Trump does not seem to appreciate this and his tit for tat tariffs are causing the US to lose some credibility as a safe haven. This puts particular onus on the Federal Reserve to restore some of this lost credibility. Their meeting scheduled for next week, however, is likely to show that an interest rate on hold is the only viable decision for the committee.

So where to go if safe havens do not feel so safe? Despite being priced in the falling US dollar, this week gold breached the $3,000 per ounce mark for the first time.

On the plus side, US inflation came in under expectations, offering some relief to markets which this week have only seen the downside.

Another factor in the melting pot is the US funding gap (also known as the debt ceiling). Lawmakers in the Senate are set to vote this afternoon on a Republican-led stopgap federal funding bill, ahead of the midnight deadline. The measure is largely expected to pass after Senate Minority Leader Democrat Chuck Schumer signalled his support to avoid a government shutdown, concerned by the damage that Trump and his henchman Elon Musk could do during such a period.

We wrote last week of the growing, uncentralised, international movement to boycott US goods with Canada at the forefront of Trump's trade wars. Out of this a mostly unknown hero emerged as the premier of Ontaria, Doug Ford, punched back. Trump was threatening to increase aluminium and steel tariffs up to 50% and Ford responded with a counter-threat of a 25% surcharge on US-bound electricity, with the added threat that he would cut off power completely if matters escalated. It was a bold and perhaps controversial stance, but Trump backed down. This strong approach is only really viable if you have a strong bargaining chip and the will to use it, and I don't think anybody doubted that Ford would go through with his threat.

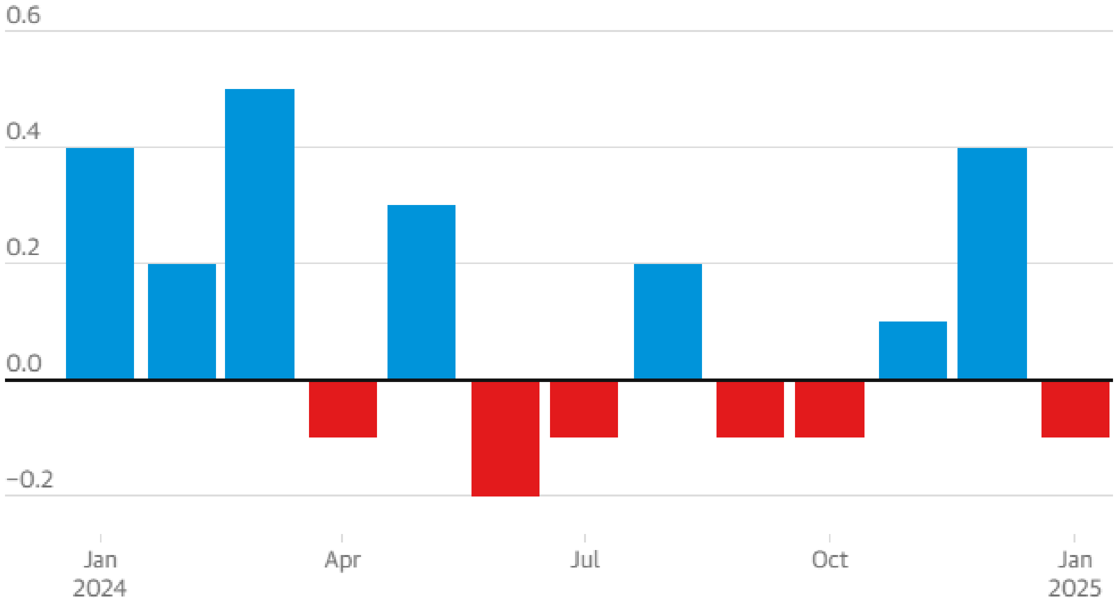
Another Canadian talking tough was Canada's next Prime Minister, ex-Bank of England Governor Mark Carney. He comfortably won the ruling party leadership contest with 85.9% of the vote and may well decide to call a snap general election to secure a mandate from the people. The governing Liberal party has had a boost in popularity as Canadians have been galvanised by the trade war and Mark Carney is vowing to be strong against their southern neighbours.

Speaking of Mark Carney and his old job, the equivalent committee at the Bank of Canada cut rates this week by 0.25% to 2.75% despite concerns of potentially inflationary pressures coming down the pike.

This week Ukraine agreed to a 30-day cease-fire following negotiations in Saudi Arabia. US Secretary of State Marco Rubio said he would present the offer to Russia, who so far are attempting to impose their own conditions to the agreement. There is pressure on Russia to accept a cease-fire, who are under threat of looking reluctant to stop the fighting.

Over in the UK, the economy unexpectedly shrank by 0.1% in estimated January Gross Domestic Product figures, below estimates of a rise of 0.1%. The Office of National Statistics also estimated growth of 0.2% in the 3 months to January generally painting a picture of sluggish growth which could easily turn flat on future revisions. Most business surveys have indicated that companies are putting a freeze on hiring workers and delaying investments to conserve funds.

Monthly GDP growth, percentage points



Guardian graphic. Source: ONS

The Bank of England meet next week, however economists are predicting the Monetary Policy Committee to vote to hold interest rates where they are amid domestic and global uncertainty. Later in the month the Office of Budget Responsibility will publish its forecast on the UK economy, which will be announced by the Chancellor alongside her Spring Statement.

Where are markets up to?

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

13/03/2024 - 13/03/2025 Data from FE fundinfo2025

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	-1.64%	-4.96%	-3.70%	+1.03%
Balanced	-2.67%	-7.47%	-6.17%	-0.53%
Adventurous	-3.13%	-8.89%	-7.76%	-1.56%

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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