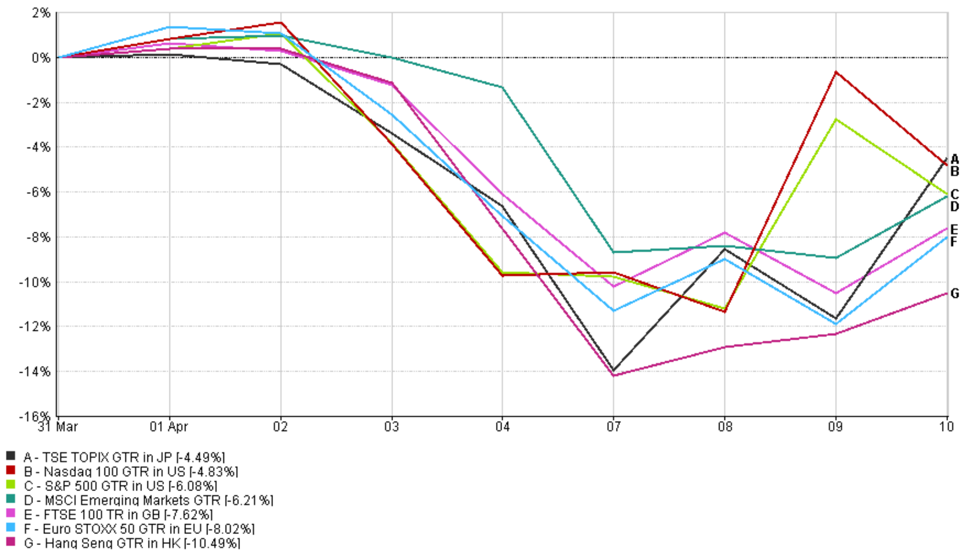
<u>Don't just do something, stand there!</u>

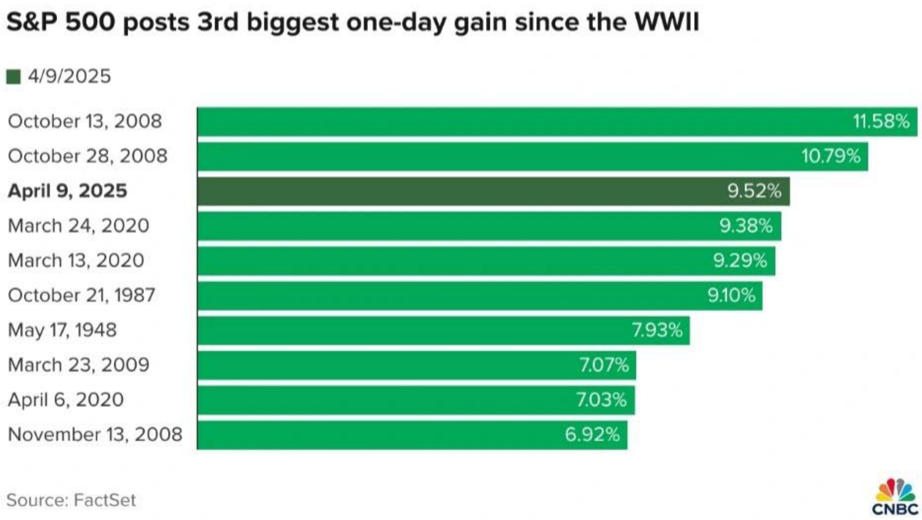
Unless you have been stuck up a mountain somewhere, or perhaps in the deepest Amazonian Jungle, with no connectivity, you cannot have failed to have seen and heard about the fall out from the so called "Liberation Day" circus that unfolded last week.

A short recap is that on 2nd April President Trump unveiled a series of tariffs to be applied to virtually every country around the globe to take effect on 9th April, with a "base line" minimum tariff of 10%. China retaliated with tariffs on US goods which became a tit-for-tat exchange, with tariffs now sitting at 125% on goods between the two.

Markets reacted badly to the implications for global economy, especially with regards to growth and inflation, and saw a very heavy sell off across the board:

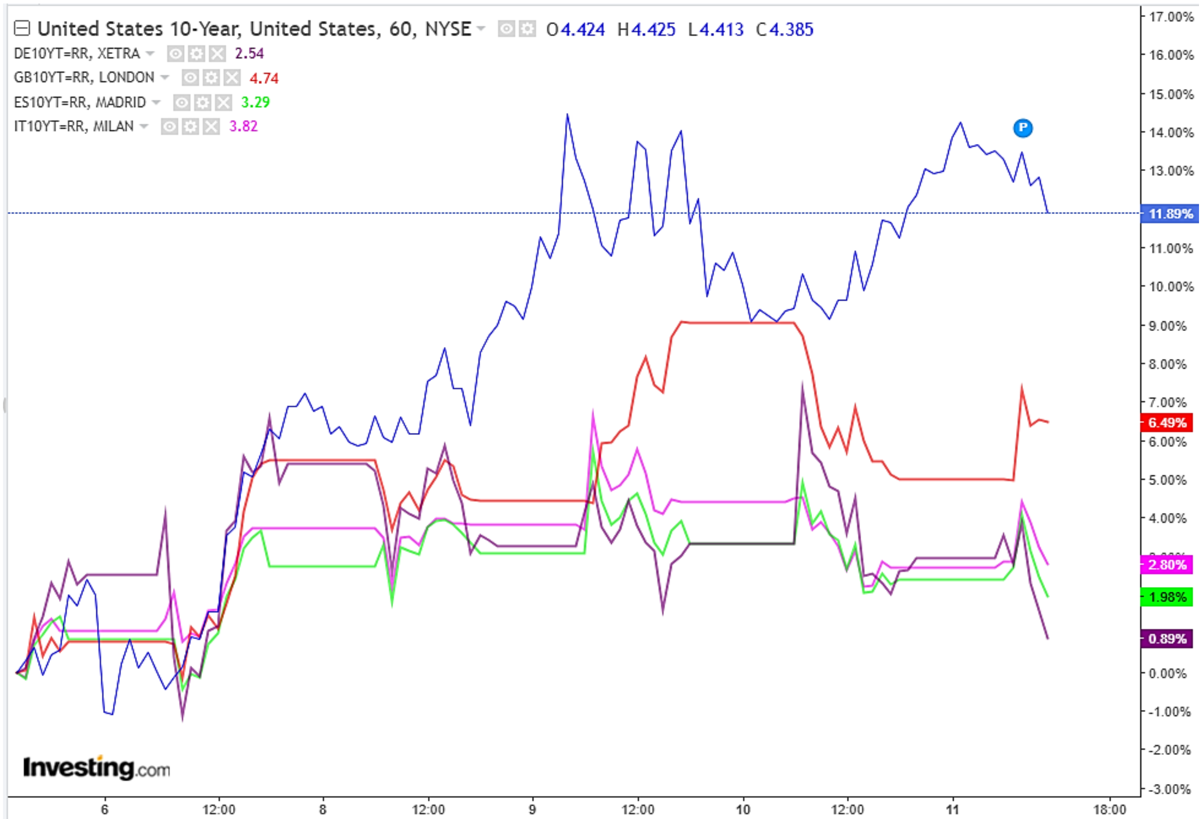


The relief rally that came when “Mr Tangerine Man” announced a 90 day pause to all tariffs above the baseline 10%, except for those applicable to China, was palpable and indeed the US markets recorded their largest 1 day increase since 2008 and the third highest since World War 2:



That relief however began to fade a little in the past day or so, as investors started getting to grips with the fact that the 10% tariff baseline remains and that the trade war with China continued to escalate – the Chinese response was that if the US wants a trade war, they would “fight to the end”.

The action in markets however was not confined just to equities. Whilst bonds and the dollar were early beneficiaries of the risk off sentiment, these also came under intense pressure. The following chart shows the relative changes of the US 10-year yield (blue), UK 10-year yield (red), Italian 10-year yield (pink), Spanish 10-year yield (green) and German 10-year yield (purple):



The position was exacerbated by the unwinding of the so called "basis points trade" by the hedge fund industry. Basis points trade involves leveraging small price differences between similar assets, such as Treasury bonds. Hedge funds use borrowed money to amplify their returns from these trades. The market volatility however, led to a rapid unwinding of these leveraged positions and as the bonds were sold, they caused (or increased) a spike in bond yields and strained the balance sheets of broker-dealers, who had to absorb the flood of bonds.

The US 10-year yield rose significantly ahead of "tariff day" and continued rising (a sure sign of panic) as the 9th April began to unfold. This shift put enormous pressure on the US financial system and called into question its long held status as the world's safe haven.

Following the "90 Day Pause" announcement, the yield sank quickly, again reflecting the relief felt in the equity markets. And, just like the equity markets, that relief has begun to fade again as the focus turns to the question of what happens next.

There are a few things that are astonishing about the above graph:

1. The significantly higher volatility of the "safe haven" US 10-year bond versus the others – this is normally the opposite.
2. The higher absolute changes in the US 10-year bond.
3. The fact that the yield on the US 10-year bond, at 4.385% (at time of writing) is higher than all the others in the chart (apart from the UK), and notably higher than even the Italian and Spanish 10-year yields.

The US 10-year yield is starting to resemble an emerging market 10-year yield….

As all of this has unfolded, a question that we have faced is what should we as investment managers do?

The first thing that we need to do is identify the problem. The problem with the problem however is that it is not an "ordinary" type of problem.

It is not a market problem per se. Neither is it an economic problem per se. Conceivably it is a geopolitical problem but that requires a bit of stretch.

If it were any of these problems, then the answer would be to look at the likely consequences of the problem and buy assets that benefit from the problem (or at least protect the impacts) and sell assets that don't. There is a playbook for these scenarios.

Unfortunately, the problem that we face is that it is an illogical, ill conceived and volatile problem, caused by an illogical and volatile character whose actions are illogical, contradictory and subject to 180° changes, often without notice. There is no playbook for this scenario, and it is impossible to create a plan to deal with that kind of problem.

What we can do is try to understand the motivation behind the problem. In my view there are only 2 things that matter to the individual concerned and those are ego and personal wealth.

The ego part is very plain to see and has been for many years from the gaudy, prominent and eponymous buildings, to the reality TV appearances, to the social media application and the eponymous crypto meme coin. These are all about ego and having a long line of world leaders begging for a trade deal strokes the ego enormously.

The meme coin also speaks to the personal wealth part. The cynical launch of this 2 days before his inauguration tells you that he is in this for the money. The announcing on his Truth Social app of the impending rise in markets 10 minutes before he officially announced the 90 day pause, tells you again that this whole episode is about making money.

The upshot is that if we believe (and we do) that our portfolios were properly constructed and positioned before all of this came to pass, then they will come through this just fine. The short term market volatility unfortunately has to be endured but, fundamentally, it is important to ignore "the noise".

Had we listened to the noise we may well have sold assets on Tuesday as the markets tanked and then missed the extraordinary rally that began on Wednesday evening after "the pause". Second guessing an irrational and volatile character is a sure way to lose a lot of money.

As many of you will know we are very active managers of portfolios, especially over the past 5 years, and so the impulse to *do something* is strong. After a lot of thought and deliberation however, our conclusion at this point is that actually the best thing to do, is to stand still.

This will ensure that we don't get whipsawed by the volatility and that we will have the chance to understand the "lay of the land" as this calms down.

Of course, we remain very wary that this could turn from "noise" to something more fundamental and should that be the case then we will of course act – we have already talked about a variety of possible scenarios and are busy looking at what we should do should they arise.

Meanwhile, back in the grown-up world there have been 2 very important data releases this week.

The first from the US was the updated inflation data which showed a significant decline in all forms of the measure:

	Actual	Expected	Previous
CPI (YoY)	2.40%	2.50%	2.80%
Core CPI (YoY)	2.80%	3.00%	3.10%
CPI (MoM)	-0.10%	0.10%	0.20%
Core CPI (MoM)	0.10%	0.30%	0.20%

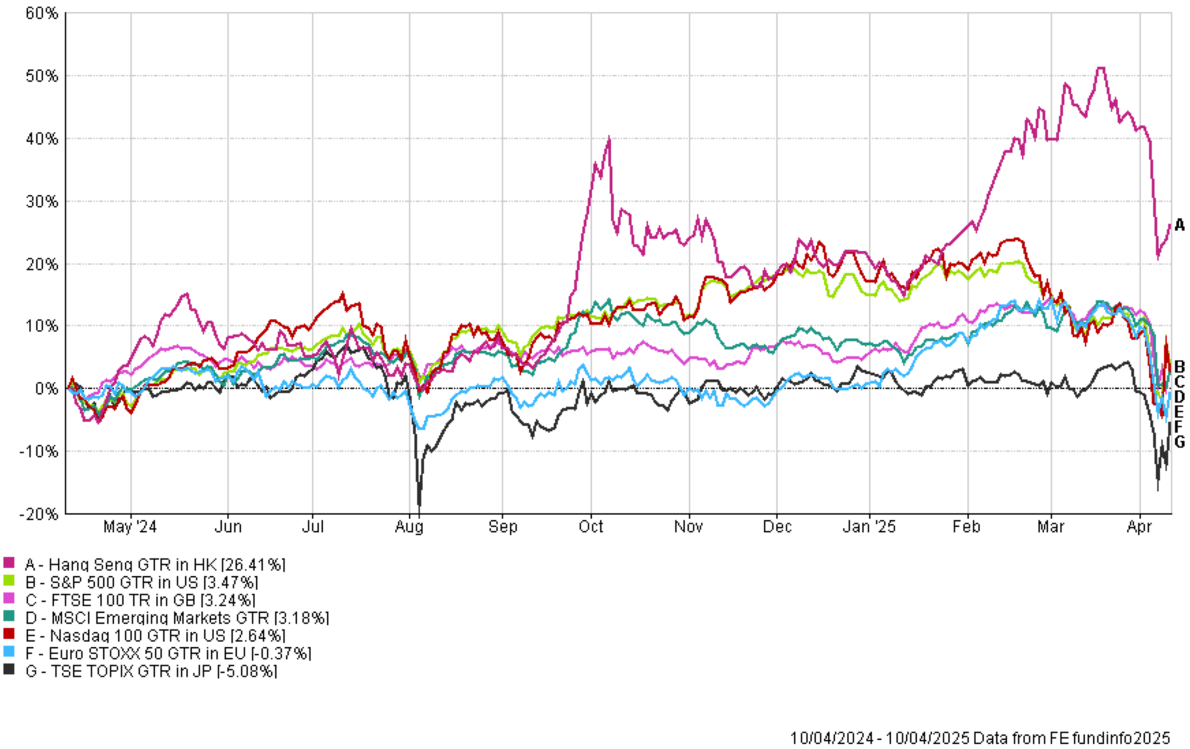
Just 2 weeks ago this would have been a cause for joyous celebration and outpouring but today seems almost irrelevant. As the excellent John Authers at Bloomberg quipped in the title of his morning newsletter, *"Victory over inflation now seems so yesterday*".

The second measure was a surprising yet welcome update on UK GDP growth for February which came in at +0.5% versus an expected figure of +0.1% and a previous figure of 0%, helping the year-on-year growth to the heady heights of +1.4%. These are preliminary numbers and subject to change but nonetheless they are encouraging.

The other piece of UK news of note is the rapidly emerging plan for nationalisation of British Steel, with Parliament being recalled to sit tomorrow to approve the Bill to do so. This is undoubtedly a reaction to the disruption of global trade and the need to secure the UK's capability in what is viewed as a strategically important industry.

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	-1.45%	-2.65%	-4.81%	-1.10%
Balanced	-1.60%	-3.94%	-8.26%	-4.39%
Adventurous	-1.83%	-4.56%	-10.22%	-6.29%

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