Simply the Bessent Relief Rally

US equities exhibited another bout of weak performance on Easter Monday following President Trump's statement last Thursday that Jerome Powell's termination as Chairman of the Federal Reserve, "couldn't come soon enough". After clearing that up by subsequently stating he had no intention of firing him and in doing so reversing course once more, global equities have staged a relief rally with the S&P 500 up over 7% from the week's low.

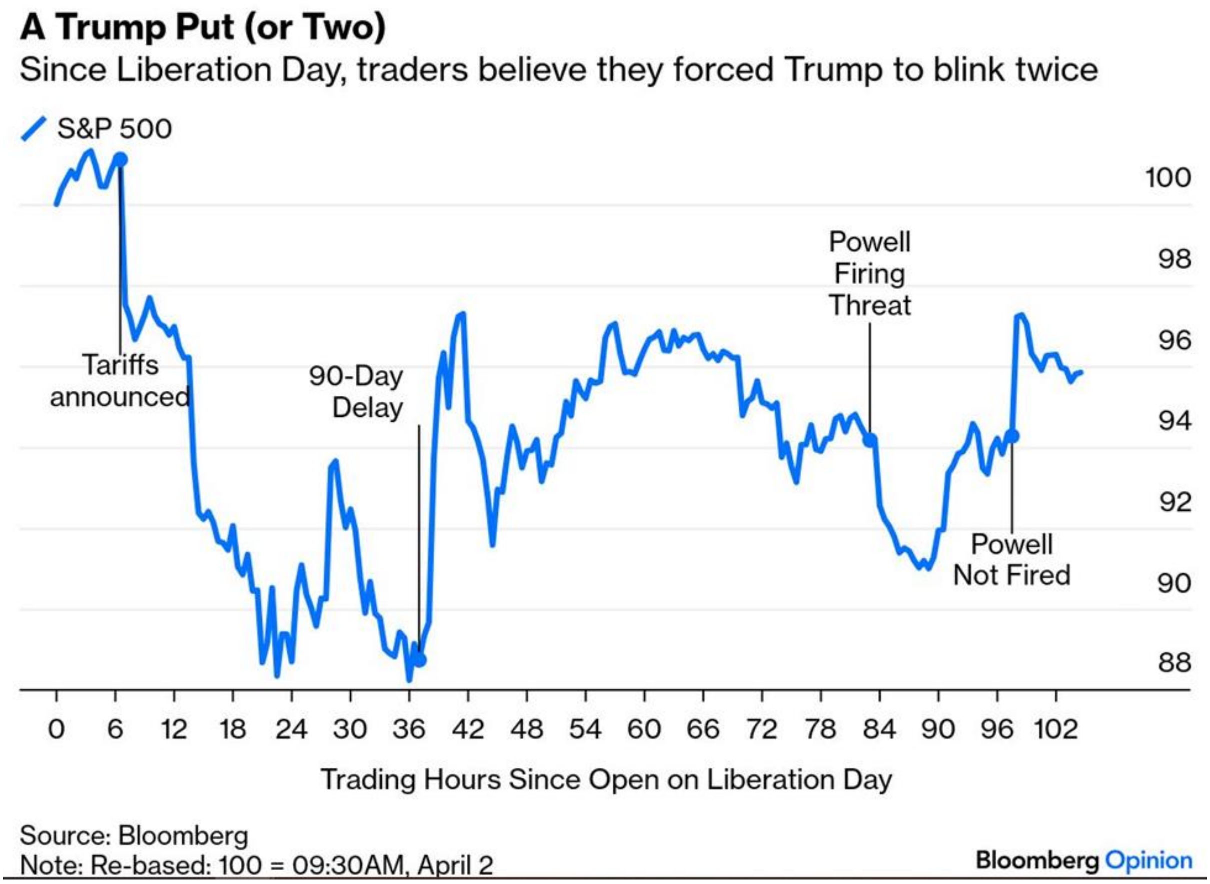
As a result, sentiment towards equities returns to a somewhat sanguine state and no longer reflect concerns of a severe recession. We anticipate that markets will continue to be buoyed by optimism that policy will be tempered relative to the initial, brash announcements akin to what would be expected by Trump's Art of the Deal negotiation playbook.

A User's Guide to Restructuring the Global Trading System, a strategy concocted by Stephen Miran who now serves as Chairman of the Council of Economic Advisers under Trump is the other playbook worth referring to, and some of the ideas presented within appear to be coming to pass exactly as anticipated, including the rearmament of Europe and the risk of higher yields.

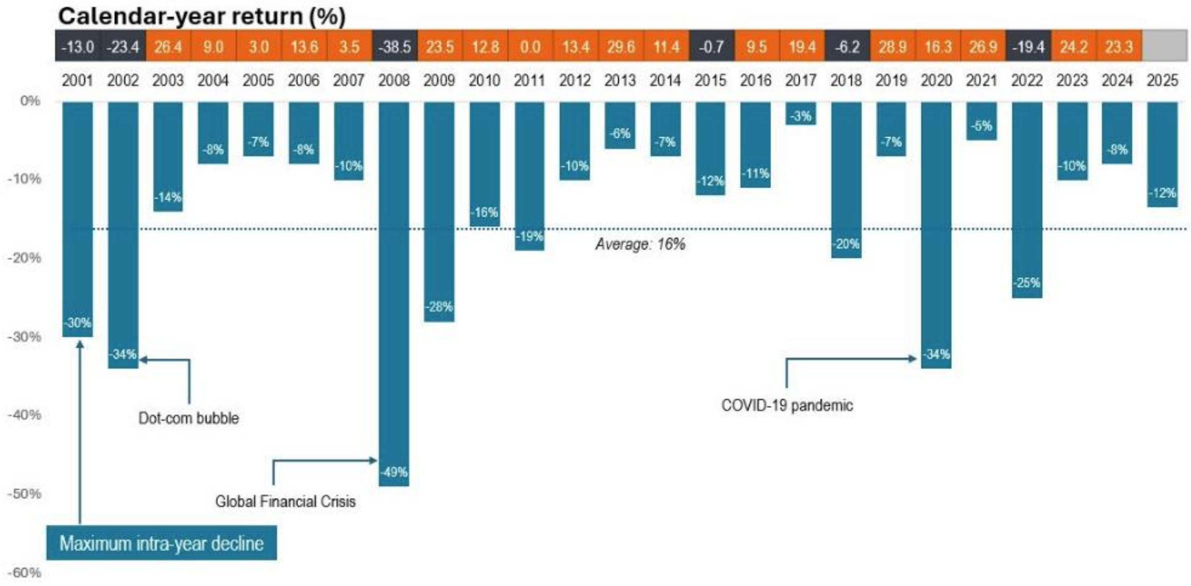
There remain many questionable components to the plan, however, but thus far, capital markets have sent sufficient warning that outcomes may not play out exactly the way the US expects, and this appears to have been sufficient to temper Trump's rhetoric. One assumes that his advisers are attempting to proceed with a little more caution. Treasury Secretary, Scott Bessent, has referred to the current tariff situation as unsustainable and expects a de-escalation in the near term.

One of the key differences between the Trump's execution and Miran's strategy is the proposal to proceed gradually with a suggested 2% increase in tariffs per month until a trade deal can be reached. Asset market sentiment is converging its expectations back towards this approach.

The equity market reaction since liberation day is neatly illustrated by the following graph:



When faced with a correction it is important to reflect on the nature of markets and recognise that volatility is a regular occurrence. The chart below illustrates the largest decline in US equities within each year with the final full calendar year returns at the top, which when highlighted orange were positive.



Source: FactSet, S&P U.S. Data from 31 December 2000 to 8 April 2025.

The ultimate efficacy of tariffs is questionable. Apple has announced this week that it will assemble its iPhone in India but its assembly accounts for only c. 1-2% of the production cost. If the location of the iPhone's assembly is a key determinant as to its tariff rate, could the rerouting of trade continue to make this whole scenario somewhat of a charade.

And while the US collected record-high customs duties in the first 16 business days of April, if this increased revenue continues at the same pace, $140bn more may be collected in 2025, a mere 0.5% of GDP, insufficient to offset the fiscal cost of the planned Tax Cuts and Jobs Act extension.

The Republican budget plan made it through the House this week allowing tax cuts and budget changes to pass with a simple majority in the Senate (with only 51 votes instead of 60). This paves the way for a focus on tax cuts in the coming months before we reach the end of the 90-day tariff pause.

There were other reasons for optimism this week. Google's results were better than expected, albeit for a period that excludes April. Its mainstay advertising revenue saw 8.5% growth, above analyst's expectations of 7.7% and there were signs that big tech's AI may bear fruit with AI Overviews, the summaries that appear above traditional hyperlinks to relevant webpages, now having 1.5 billion users per month.

US Manufacturing PMIs, which are more forward looking, have surprisingly remained in expansionary territory against expectations of a fall into contraction and US durable goods came in at a whopping 10.4%, beating the expected 2%, albeit driven almost entirely by commercial aircraft orders which could be subject to some frontloading.

The US dollar remains weaker in 2025, but that momentum has at least appeared to stall this week. Despite the storm clouds gathering over the world's reserve currency, there is no clear successor to America's financial throne. The $29 trillion Treasury market remains the world's deepest and most liquid, the dollar features in roughly 90% of global FX transactions, and it still comprises nearly 60% of central bank reserves.

Amidst the emotional response prevalent in the media response to Liberation Day trade policy, we have spent much time trying to be objective and consider the logic on both sides. While it is difficult to make definitive conclusions while the rhetoric shifts with such ferocity, we have come to one – Trump will want to have made sufficient progress such that markets will be back to a stronger footing and have settled in the run up to the midterm elections in 2026.

With the US is facing macroeconomic and market fall-out, Beijing may feel it now has the upper hand in the trade war and with no election concerns, it may have higher economic pain tolerance. China has announced it will take targeted measures to protect businesses and has called on the US to completely cancel all unilateral tariff measures if it wants trade talks.

The Chinese Foreign Ministry has also announced that China and the US are not having any consultations or negotiations on tariffs, despite suggestions otherwise from President Trump.

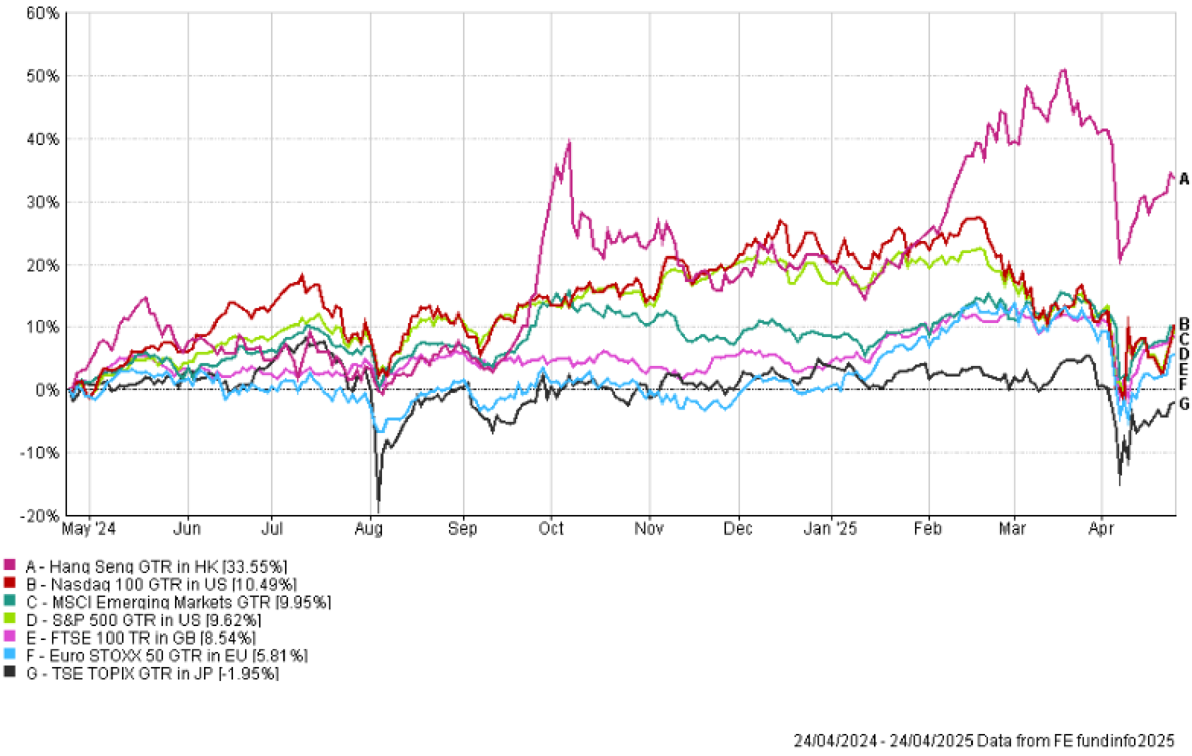
Yet there do appear to be some cracks appearing. Bloomberg reported on Friday that China is mulling suspending its 125% tariff on some US imports including medical equipment, ethane and plane leasing.

The National Development and Reform Commission of the People's Republic of China has also trimmed the number of items on its negative list from 117 to 106. The list identifies areas and industries in which foreign investment is restricted or forbidden. It's an important part of China's effort to manage and gradually liberalise its foreign investment policy.

The EU is exploring the possibility of recognising weaker US methane standards as equivalent to its own, without diluting the overall law. This approach would help maintain the flow of US LNG to Europe and support broader transatlantic trade relations. The US continues to push for reduced UK auto tariffs and relaxed rules on agricultural goods.

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	+1.12%	-2.89%	-5.31%	+0.72%
Balanced	+1.77%	-4.42%	-8.72%	-1.89%
Adventurous	+2.26%	-5.22%	-10.44%	-3.41%

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