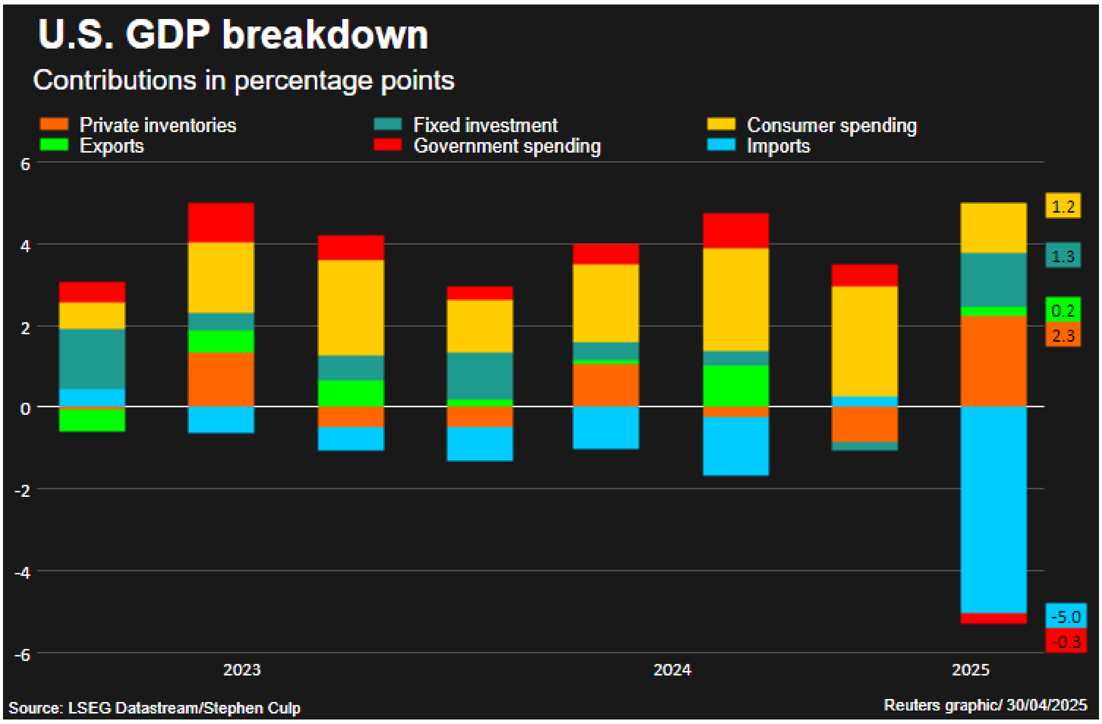
<u>"Liberation Day" losses erased, US GDP falls off a cliff and Reform set for a landslide win</u>

The US economy contracted at an annualised rate of 0.3% in the first quarter, largely as a result of companies stockpiling imports ahead of tariff uncertainty. The gross domestic product calculation includes a minus figure for imports. Economists anticipate a measure of rebound in the second quarter as imports fall and previously stockpiled foreign goods are bought by US consumers.

The big question is whether or not the impact of tariffs will have a detrimental effect on domestic demand, which could send the world's biggest economy into a technical recession. This week McDonald's, amongst others, posted a surprise decline in quarterly global sales, however it's very difficult for retailers to give solid guidance and not be conservative when they don't know what they're going to be able to get in terms of inventories, especially ones that come from China.



Other negative data came in the form of US jobless claims which increased significantly. The US Department of Labor reported that initial claims for unemployment benefit climbed by 18,000 to 241,000 well above forecasts of 224,000. Continuing claims also rose more than expected, up 83,000 to 1.91 million, marking their highest level since late 2021.

On the plus side the non-farm payrolls data released today shows that 177k jobs were created in April against an expected number of 138k, a number which helped the US unemployment rate remain steady at 4.2%.

Notwithstanding the uncertain economic data, the US S&P 500 Index rose sharply on Thursday as robust earnings reports from Microsoft and Meta Platforms, stoked from optimism on the artificial intelligence boom, fuelling strong gains across stocks.

Meta Platforms shares jumped more than 4% after quarterly results and guidance topped consensus. The parent company of Facebook and Instagram anticipated full-year 2025 capital expenditures in the range of $64-$72 billion, increased from their prior guidance of $60-65 billion.

Also, Microsoft shares increased more than 8% after the software giant's first-quarter revenue increased 13%. It also forecast cloud-computing revenue growth of 34% to 35% for the fiscal fourth quarter.

By contrast Apple and Amazon announced their less positive results after the close of the US market on Thursday evening, with Apple noting that it expects an increase in costs of $900m in Q2 as a result of tariffs and Amazon providing negative guidance about the likely impact on sales because of tariffs. Nonetheless, the market has seemingly discounted these issues with, at the time of writing, the S&P 500 index up by 1.2%

Whilst there is still further to go before the markets recover their previous highs, they have now pretty much recovered all of the ground that they lost in the "Liberation Day" fall out:

What we really need to see now is an increase in confidence about what will happen on July 7th when the 90 days pause on tariffs expires.

Early indications suggest that any attempt to negotiate a trade deal with the US will be met with enthusiasm, further suggesting that giving President Trump an opportunity to claim "a deal" is likely to be a good strategy.

Hope also stems from the fact that China announced today that it is "evaluating an offer" from President Trump to discuss the trade war between the two, adding however that any attempt by the US to engage in "extortion or coercion" would scupper any such talks. The fact that Trump made the offer to discuss shows a shift from his position that China was begging to do a deal with him.

This hope of a shifting stance is further backed up by the signing of a resources and minerals deal between the US and Ukraine, the key points of which are that Ukraine does not need to pay back the 'debt' of US military assistance, Ukraine may still join the EU (although NATO not mentioned) and the profits of the reconstruction fund would for the first ten years be fully reinvested in Ukraine's economy. This is a significant row back on the originally demanded $350bn and unfettered access to the country's resources.

Further evidence of this Trump playbook could well be seen in the coming days as the newly elected Prime Minister of Canada, Mark Carney, gets to grips in dealing with its southern neighbour and the US President's continued calls for Canada to become the 51st State of the US.

Carney, whose former roles have included Governor of both the Bank of Canada and the Bank of England, won what was until recently an unlikely victory, with the opposition Conservative Party having been expected to gain a landslide victory. That was scuppered pretty much from when Trump began the 51st State rhetoric. All eyes are now on just how and when Carney handles his country's relationship with the US.

Looking elsewhere, a large chunk of the electorate in England went to the polls yesterday in local council elections where around 1,600 seats were up for grabs. In addition, there were a number of mayoral polls and a by election to elect a Member of Parliament.

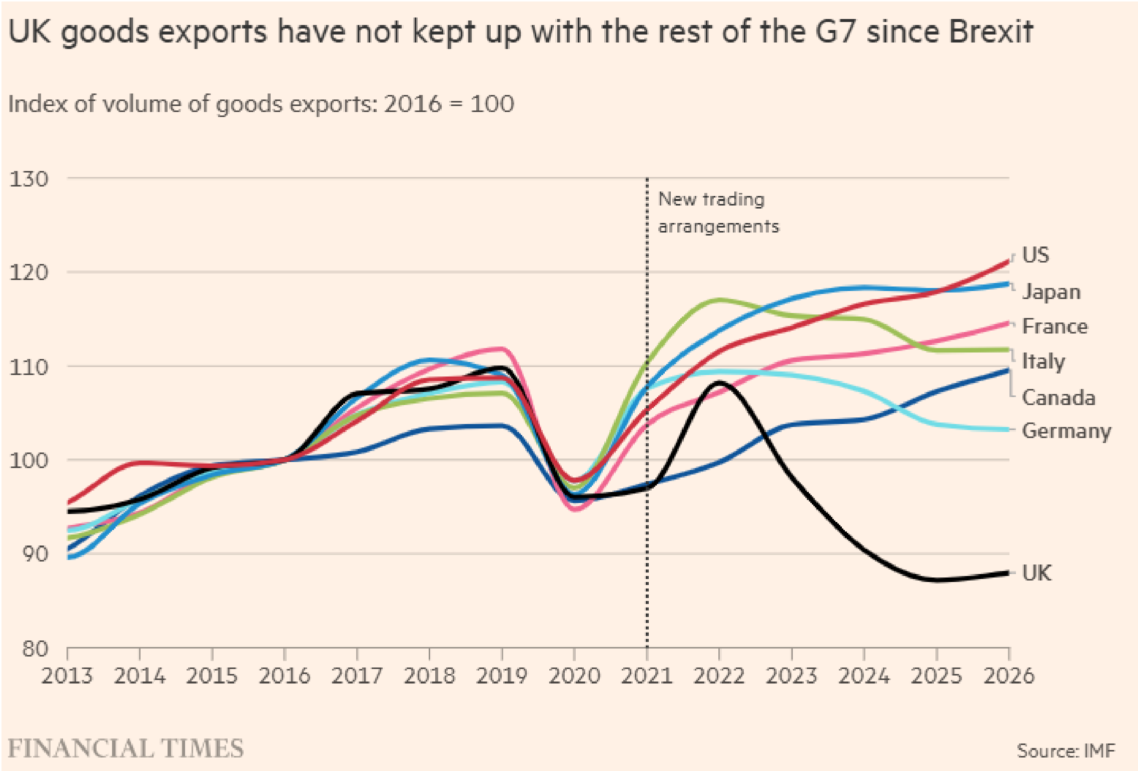
Whilst it is early in terms of the vote count, the results so far suggest a landslide for Nigel Farage's Reform Party in the local council elections at the expense of both the Tories and Labour, whilst Reform also managed to get its first elected Mayor and won the by-election, taking is total number of MPs to 6.

It also appears that where the incumbent councillors managed to hold onto their seats, Reform is the party that came second in each of those contests.

This is a huge backlash against Labour and shows the Tories are still going backwards, with all of the momentum with Reform. The questions that need to be answered now are whether this was just a protest vote against the two big parties or is this the start of a movement that will sweep Reform into controlling the country in the next General Election?

Ironically, there is a heated discussion underway currently between the UK and EU regarding UK making exports of food and drink to the EU in exchange for access to UK fishing grounds. The fact that this discussion is taking place at all looks like an admittance that a pre-Brexit style of trade is actually more beneficial than a post Brexit one.

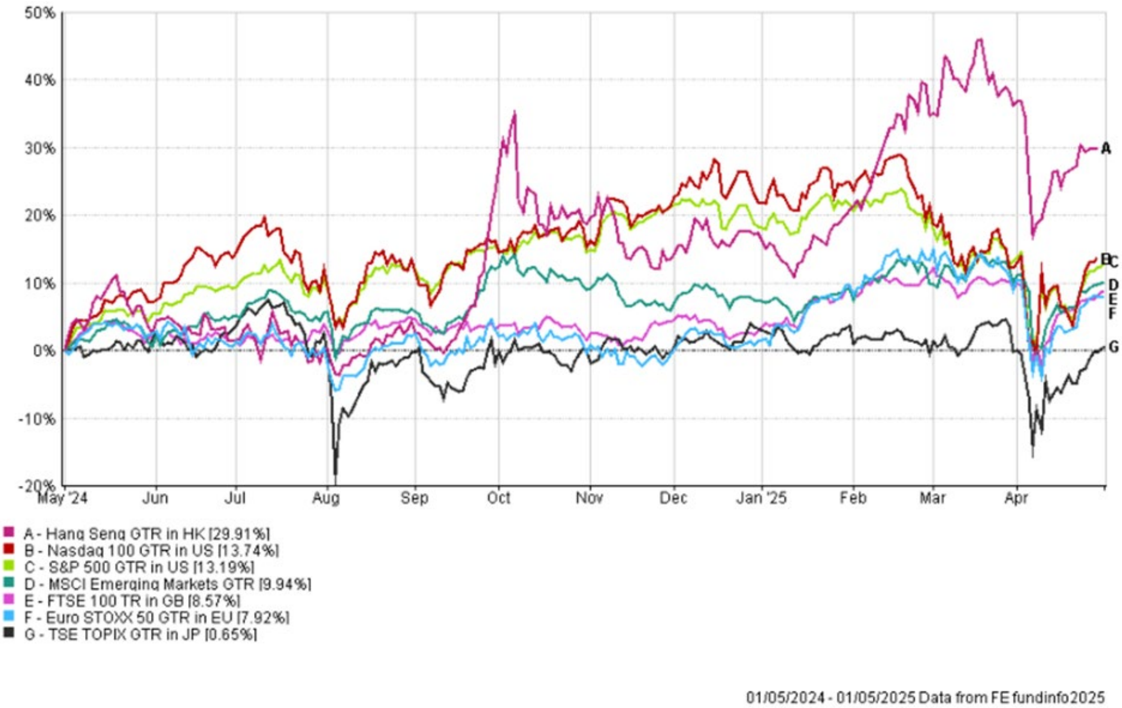
Further data from the FT and International Monetary Fund this week also points strongly to the fact that the UK has suffered in terms of the amount of trade, relative to the other G7 group of nations since Brexit:



Assuming that Reform is riding a wave of rising support, squaring its anti-EU stance with the stark economic reality of being outside the EU will be a significant hurdle they will need to overcome.

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	+1.05%	-1.00%	-4.85%	+1.94%
Balanced	+1.65%	-1.08%	-7.73%	-0.03%
Adventurous	+1.89%	-1.15%	-9.17%	-1.48%

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