Trump Spins Deals while UK Spins a Yarn

Having returned to pre-Liberation-Day levels last week, US equity markets powered on again and are now positive for the year after the US and China made substantial progress during negotiations in Geneva and agreed to a 90-day pause from the sky-high tariff rates that are effectively a trade embargo. During this period, US tariffs on Chinese imports will be lowered from 145% to 30%, while Chinese tariffs on US imports will be reduced to 10% from 125%. What a difference a day makes.

The consequential positivity was mostly baked into markets on Monday in the immediate aftermath of the news, but equities have since remained buoyant and the consensus narrative is beginning to consider that the worst is behind us.

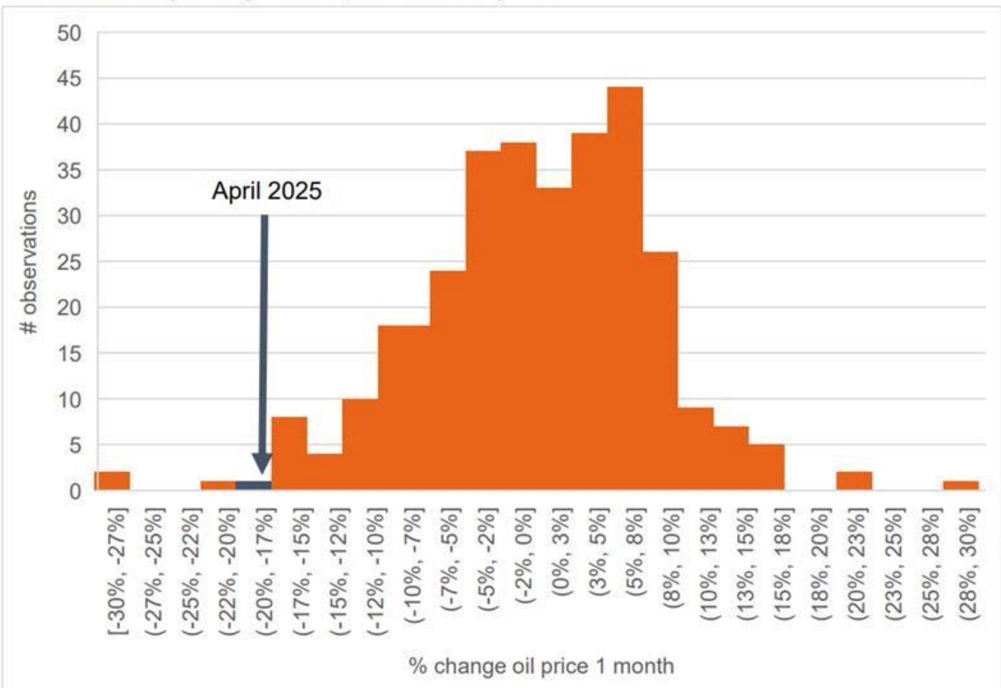
Indeed, a manager of one of our equity funds, who coincidently runs a hedge fund and therefore takes a view on market direction, believes the events of April represented the fourth "fake" bear market in the past 30 years.

The other three were the 1998 Russian Financial Crisis, Trump's tariffs 1.0 alongside Federal Reserve Interest rate hikes in 2018, and the invasion of Ukraine paired with global central bank interest rate hikes in 2022. One could argue that the 2015-2016 crude oil supply glut and deceleration of China's economy was also similar in nature.

What is common amongst these events is that policy easing helped to improve confidence and ultimately avert an extended bear market. While Chinese and European central banks are more accommodative, both investors and of course President Trump would benefit from a similar stance Stateside.

So, it was a good sign therefore that US inflation both fell and came in below expectations for the third month in a row. With the upward price impact of tariffs yet to materialise, falling fuel prices, which are a consequence of global trade grinding to a halt, are helping to drive inflation lower.

Chart 5. Monthly changes in oil prices last 25 years



Source: Bloomberg 30.04.25

But while this data should be taken with a healthy pinch of salt for now, there is still room for a positive takeaway; the “Supercore” measure of services excluding shelter prices which is emphasized by Fed Chair Jerome Powell, is at its lowest since 2021.

This promotes the scope for more supportive monetary policy, but as recession fears are also easing, so does the urgency.

Thursday saw the publication of updated GDP figures for the UK, showing that the economy grew at a rate of +0.2% for the month of March, taking the quarterly growth for Q1 to the dizzying heights of +0.7%.

This growth rate predictably brought political comment from the likes of the Chancellor of the Exchequer, Rachel Reeves, that this was evidence that the Labour policies for growth are starting to work, with this stretching of the truth endorsed by mainstream media journalists who seemingly couldn’t be bothered to read the Office for National Statistics Bulletin.

Had they done so, they would have noted that in fact there has been an increase in exports to the US of £2.4bn in Q1 and that this accounted for the lion’s share of the 0.7% increase.

In reality this is just the mirror image of the statistics we quoted last week, that noted the decline in US GDP as a result of the high value of imports into the US from other countries (including the UK). The root cause is the same – front running ahead of the imposition of tariffs on exports to the US.

If the UK can sustain this growth rate in Q2 then we will be impressed. Until then this figure is just a distorted measure that has little to “hang your hat on” in respect of the UK’s economic health.

It was otherwise all deals, deals, deals this week.

President Trump verbally paraded an historic $96 billion deal from Qatar Airways for up to 210 Boeing aircraft in a business roundtable in Qatar during his tour of the Middle East. This agreement is the largest of its kind in Boeing's history and part of a series of economic and defence deals between the US and Qatar, totalling over $243 billion.

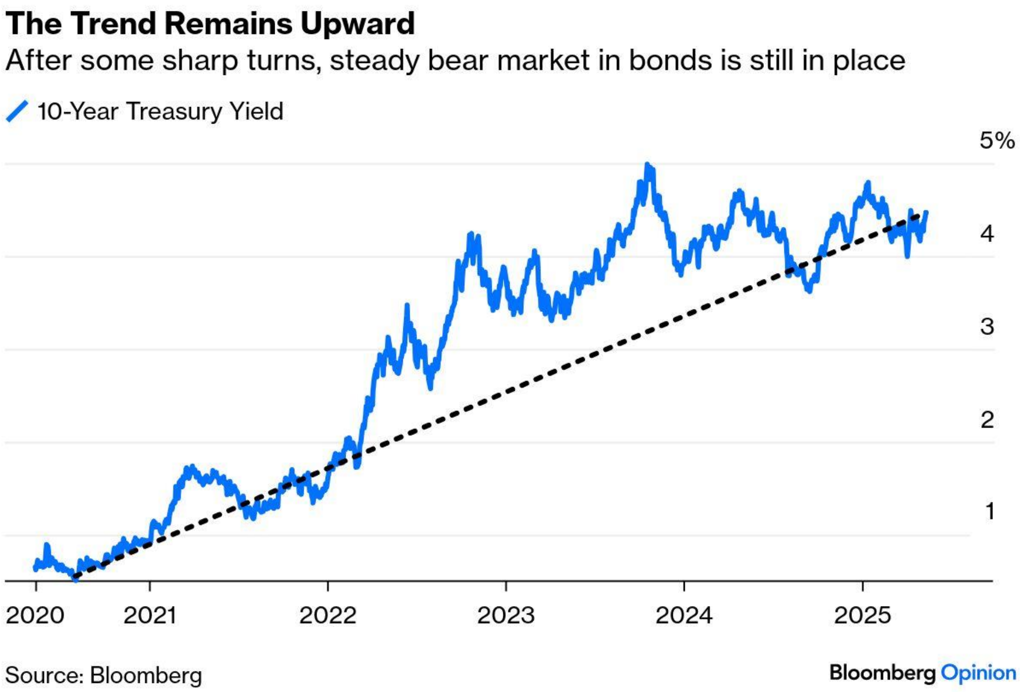
He also announced that the US and Iran were close to a new nuclear agreement with Iran willing to limit uranium enrichment and allow international inspections in exchange for the lifting of economic sanctions. The potential return of Iranian crude oil supply will put further downward pressure on oil prices and could help further ease inflation.

Unfortunately for bond markets, this may be insignificant in scale by comparison to the “One Big, Beautiful Bill” which arrived in congress this week. This is the other side of the Republican administration’s policy focus, an overhaul of US tax, spending, and social policies.

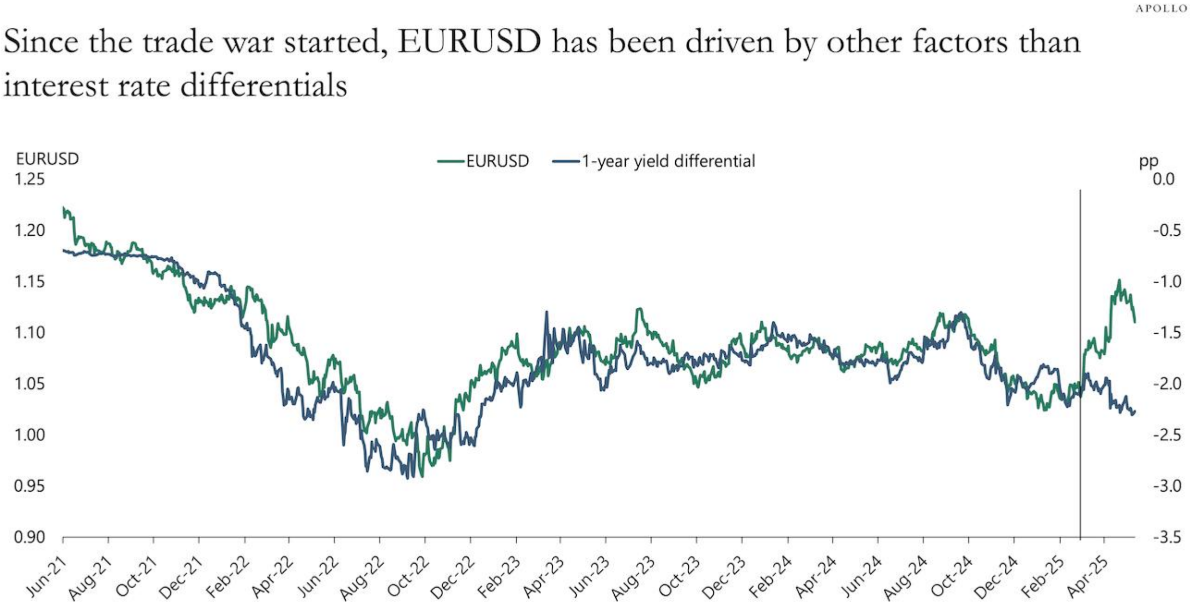
The bill in its current form is bound to change but includes over $5tn in tax cuts, including the removal of tax on tips and overtime, and targets major budget cuts in Medicaid, Education & Workforce and Energy & Commerce, the latter with a significant dismantling of clean energy tax credits established under the 2022 Inflation Reduction Act.

We have previously suggested that market attention has been wholly on tariffs and will likely swing back to this side of the equation while those tariffs are paused, and that’s certainly beginning to be the case. While that may be good for equities, US bond markets are once again signalling their concerns over fiscal prudence with the outcome of this bill expected to add in the region of $2.5 trillion to the deficit over the next decade, and possibly more if certain tax cuts are renewed at the next election.

This is akin to the response of bond markets to Liz Truss's mini budget and is a key pushback for policymakers. Treasury Secretary, Scott Bessent has already tried to calm bond markets in the immediate aftermath of Liberation Day, but questions over US exceptionalism and dollar hegemony continue to drive concerns about America's ability to finance its deficits.

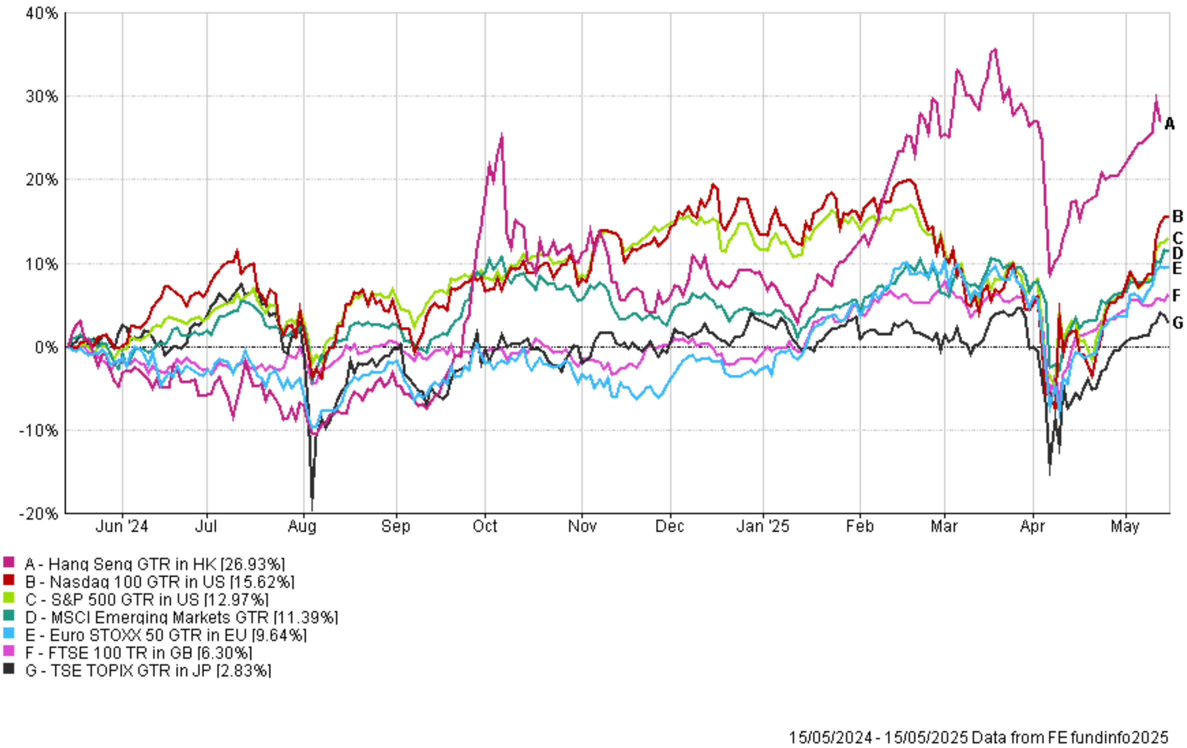


While yields move higher, one would expect so should the dollar, but despite a spike of dollar strength on Monday, the currency has since given up all its gains. The dislocation we alluded to two weeks ago continues:



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	+1.10%	+3.76%	-3.46%	+1.25%
Balanced	+2.06%	+6.05%	-4.80%	+0.34%
Adventurous	+2.61%	+7.28%	-5.54%	-0.63%

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