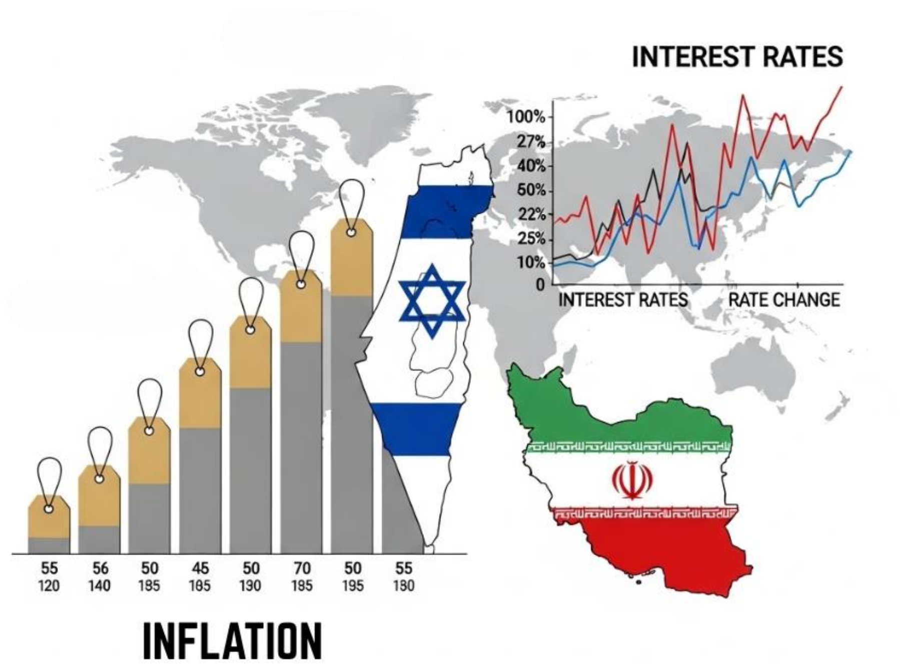
Dotting the I's: Inflation, Interest Rates, Israel & Iran

It has been something of a relief this week to refocus on the economic data and Central Bank rate decisions and what they mean going forwards. Of course, though, the geopolitics just keeps rolling on, of which there is more later.



Looking at the 2 key data points though we have seen UK and Eurozone inflation numbers published this week, with the UK headline year-on-year Consumer Prices Index coming in at +3.4%, still well above the target rate of 2%, but better than the last data point of +3.5%.

The monthly change was +0.2%, which is well down from the last reading of +1.2%, which suggests that the direction of travel is still downwards, notwithstanding the potential disruption from trade tariffs.

This weakening inflation scenario is very definitely evident in Eurozone where their headline figure came in at +1.9%, within the 2% target, and down from last months' reading of +2.2%. Their month-on-month number was neither inflationary nor deflationary, coming in at a big fat 0.00%, down from +0.6% last month.

With this in mind, there was half a hope that the Bank of England would cut its Base Rate on Thursday. It however decided, with a 6 v 3 voting pattern to keep rates on hold at 4.25%, though it signalled further cuts later this year after citing 'clearer evidence' of rising unemployment amid a slowing economy.

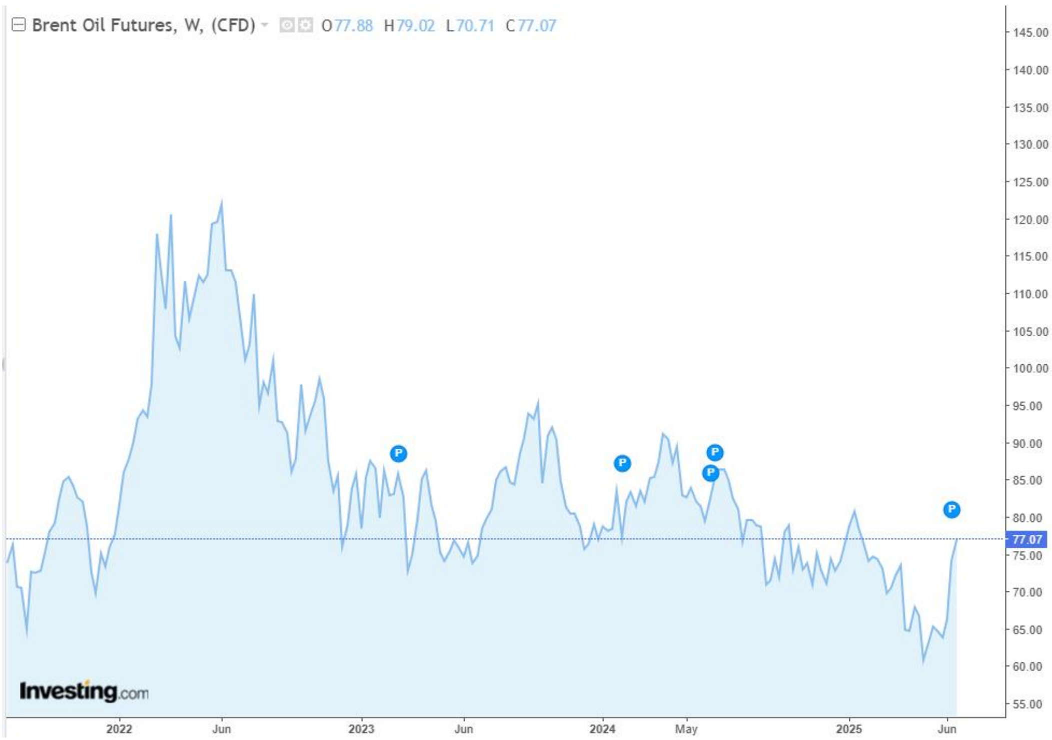
This decision followed the decision on Wednesday evening from the US Federal Reserve, which also decided to keep rates on hold at 4.5%. In his press release, Jerome Powell, the Chair, noted that whilst the economy remained "solid" and unemployment remained "low", US inflation remains "persistently elevated". This is a notable contrast to the inflation picture in the UK and Eurozone.

This brought the inevitable tirade from President Trump, calling Powell "*a real dummy*" and saying "*Too Late Powell*" is costing the United States "*hundreds of billions of dollars*" by not cutting rates.

It is however clear to see that the tariffs are the main cause of the hesitation for the Fed, whose so called "dot plot" chart still indicates an expectation of 2 rate cuts this year. Once clarity over tariffs is achieved, we expect that the Fed will have a more defined stance on whether or not inflation remains a worry.

The price of oil made some notable short term moves this week, as a result of the heightened Middle eastern tensions, with Brent Crude hitting over $79 per barrel yesterday before falling back below $78 today.

Some of the alarmist commentators and sensationalist journalists have reported the change in the oil price as "a surge" or claims that the price "has rocketed". Yes, the price has, inevitably, gone up but looking at medium term we can see that it is far from elevated:



The conflict between Israel and Iran seems to have quickly escalated from Israel taking pre-emptive strikes over concerns about Iran's increasing nuclear capability to discussions about forcing regime change in Iran, with the US seemingly unsure as to how far it wishes to engage in that discussion.

It appears on the one hand that Israel has been given licence by the US to attack Iran but on the other hand Trump is reluctant to commit publicly to that.

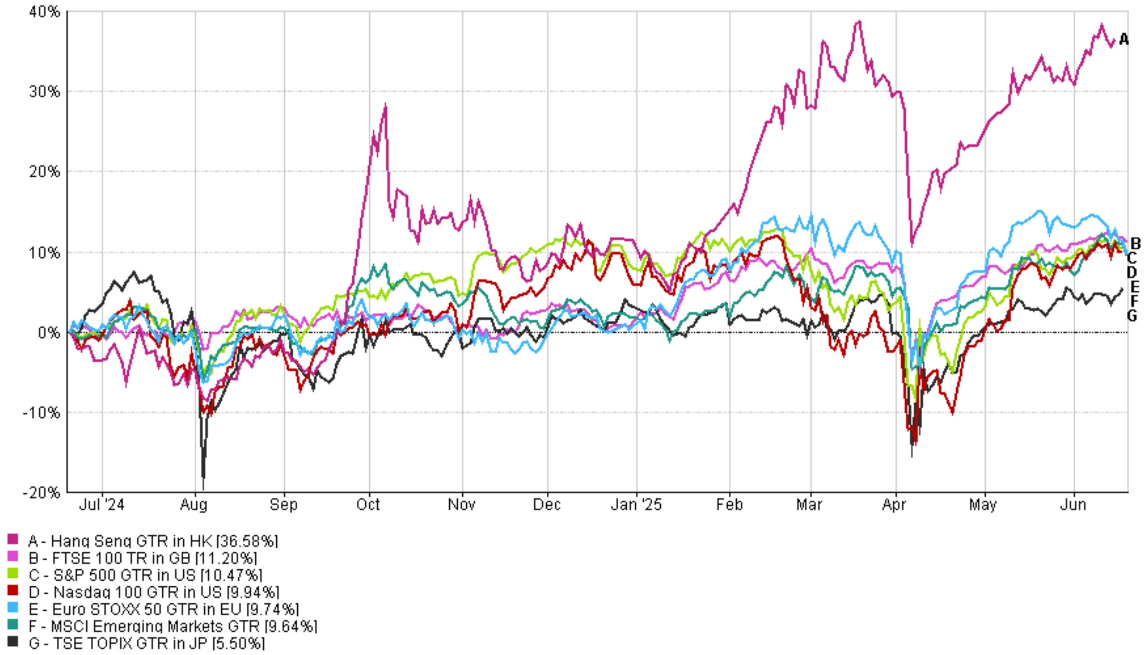
This no doubt is because of the intense pressure from his supporters to uphold one of his key election pledges not to get involved in foreign wars.

Amongst the ambiguity of Trump's comments, we have ended up with a situation where we are now awaiting his decision which he has promised to give in the next 2 weeks.

This takes us to 3rd July, with the 90 day pause on tariffs coming to an end on 9th July. Our hope is that whilst that week is shaping up to be a significant one, it in fact turns out to be a damp squib.

Where are markets up to?

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



19/06/2024 - 19/06/2025 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	+0.21%	+0.95%	+1.39%	+1.59%
Balanced	+0.17%	+0.83%	+2.02%	+0.89%
Adventurous	+0.08%	+0.79%	+2.33%	+0.39%

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