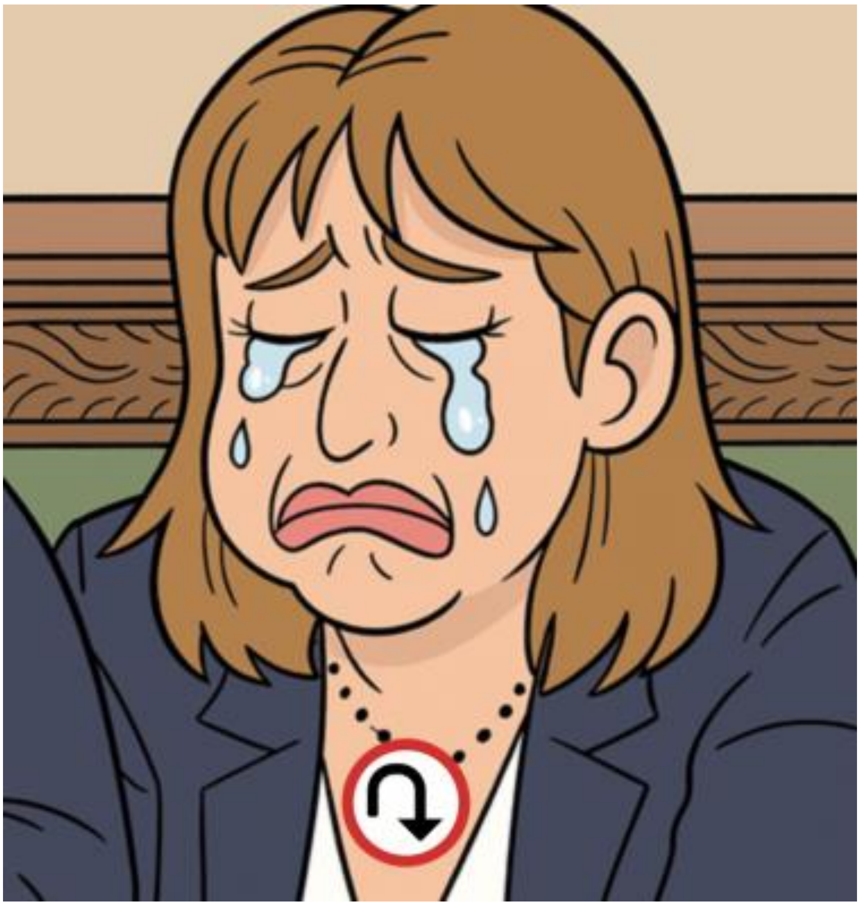
Don’t Cry for Me: Ar-gent-in-a..nother U-turn

UK Government Bonds had a choppy week, with yields at the longer end of the curve spiking after a further welfare reform U-turn, this time to the scale of £5bn. The policy reversal was forced by a notable back bench revolt of over 120 MPs and contributed to the caution towards Gilts.

Chancellor Rachel Reeves was reduced to tears during PM question time after a momentary failure by Prime Minister Keir Starmer to definitively confirm her position, but Kier Starmer was quick to reaffirm his full backing, and the matter was brushed away as a personal incident.



Brief concerns over political stability and speculation that a new Chancellor might pursue a less fiscally conservative approach had dissipated by Thursday, but the projected fiscal gap continues to expand as a result. It has now reached £30bn, while a weak OBR economic growth forecast also contributes by curtailing expected tax revenues. Expect more taxes in the Autumn Budget.

On the brighter side, UK business confidence, according to the Lloyds Business Barometer, hit its highest level since 2015.

Unfortunately, a Reuters poll found 85% of economists are worried about the reliability of UK economic statistics citing ONS survey issues, so maybe we should take it all with a pinch of salt. There will be a £10m reinvestment over two years as a result but restoring trust in UK data remains a long-term challenge.

US Treasury Secretary Scott Bessent

"The price of the dollar has nothing to do with a strong dollar policy, currencies move up and down on a variety of factors… The Strong Dollar Policy is: Are we doing the things over the long term to ensure that the USD remains reserve currency of the world? and we are. We are setting the stage for economic growth, we are constraining inflation, we are making the United States the best destination for global capital. Many times since WW2 the demise of the US dollar has been predicted, and I think once again the sceptics are going to be wrong. There is no change in policy."

With US assets making up a significant proportion of global portfolios, the direction of the dollar is one of the key dynamics that has been put under the spotlight in 2025.

The Republican party is generally recognised for promoting a weaker dollar with a view to improving the competitiveness of US exports, and President Trump has historically been an advocate too. It has become clear in 2025 that the immediate focus would be on trade policy as a tool for achieving goals of a reduce trade deficit and greater domestic manufacturing capabilities.

We now need the intended severity of US trade policy to be re-clarified into the upcoming 9th of July (for all but China) expiry of the tariff pause. If this was all just a negotiation tactic and the ultimate change in terms of trade is relatively light, the currency could instead be utilised to further pursue Trump's goals.

However, as outline above by Treasury Scott Bessent, the official position is that this is not the approach and instead the long-term strategy is to affirm the US as exceptional and the dollar as the primary financing global currency.

One key piece of legislation that could help tilt the scales back in the dollar's direction is the GENIUS act which making its way through the House of Representatives after passing through the senate with strong bipartisan backing. The legislation would establish a comprehensive regulatory framework for stablecoins, which are cryptocurrencies that are fully backed by highly liquid, short-dated, US government backed dollar assets.

These new digital currencies could diminish one key risk which emerged in the wake of Russia's invasion of the Ukraine - that foreign owned US dollar denominated assets held in traditional bank accounts or central bank reserves could be frozen or restricted by US authorities. The weaker-dollar narrative would lose one of its pillars.

A strong Nonfarm Payroll figure promoted US economic resilience yet again and the data lays to rest a possible interest rate cut in July, pushing it back at least into the autumn. This should also be dollar positive, but there is apparent resistance while the existing weaker-dollar narrative holds.

There was also some weakness underlying the data. ADP employment data earlier in the week was way below expectations, labour force participation fell, and job gains were concentrated primarily in government roles, notably state education and healthcare.

Regardless, equity markets continue their upward trend, and the momentum should continue with the One Big Beautiful Bill expected to be signed into law by the president today. There has been a rotation into small cap domestic stocks in anticipation but the reaction from Treasury markets will have be watched closely as the bill expected to add significantly to the federal deficit.

While US domestic stocks may be hot right now, technology stocks have been creeping back into favour with news that Microsoft will lay off a further 9,000 staff, Canada intending to rescind its Digital Service Tax Act to resume US trade talks, and as Meta (Facebook) reveals its new A.I. division, Superintelligence Labs, led by recently poached A.I. talent, including two CEOs and eight individuals from OpenAI.

In addition, there was the first substantive judicial validation of the industry's core defence that training large-language models on copyrighted text can qualify as "fair use" with developments in two cases. Meta's was thrown out with insufficient concrete economic damage expressed by the plaintiffs, while Anthropic's upheld fair use of the data for training but left the door open to potential liability over how the data was obtained.

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	+0.83%	+1.58%	+4.14%	+2.77%
Balanced	+1.41%	+2.20%	+7.27%	+2.64%
Adventurous	+1.72%	+2.52%	+8.91%	+2.59%

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

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