Unemployment Statisticians are No Longer Working

On Thursday, the Bank of England reduced its base rate by 0.25% to 4.00%, the lowest level in over two years. The decision was finely balanced, getting over the line only after a second round of voting by the Monetary Policy Committee, which split 5-4 in favour of easing, although one member of the Committee argued in favour of a bigger 0.5% cut.

The Bank's Governor, Andrew Bailey, emphasised the need for caution amidst persistent inflationary pressures, where services inflation in particular remains elevated, whilst weak labour market data and faltering growth reinforced the argument for a cut.

Sterling strengthened modestly on the announcement, as investors trimmed expectations for additional rate reductions before year-end due to the closeness of the vote.

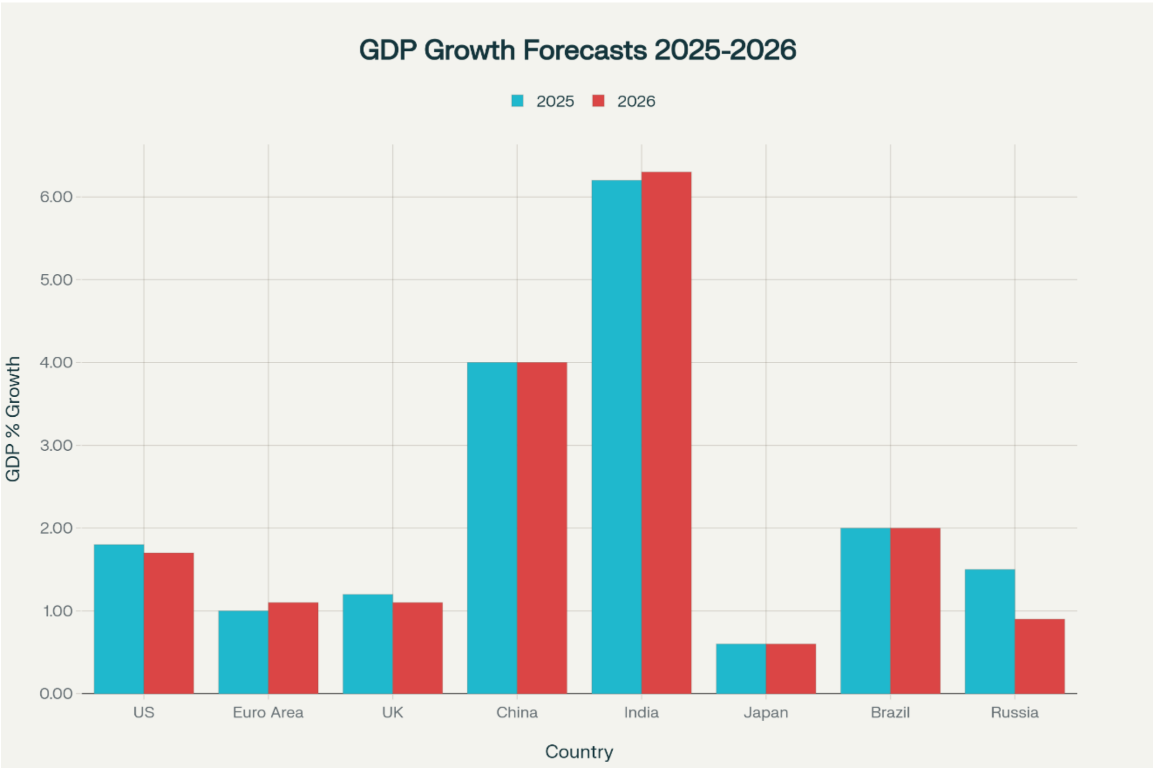
The "Trump Tariffs" came into force on Thursday, with huge potential implications for global trade. The United States is now levying tariffs ranging from 10% to 50% on imports from dozens of countries, including a headline 50% rate on Brazil and 10% on UK goods.

For the European Union, a bespoke framework ensures all goods are subject to a minimum 15% rate unless already tariffed at a higher rate. These moves follow weeks of uncertainty and negotiations, with trade partners actively seeking exemptions or mitigation.

Early data and anecdotal evidence indicate that the new tariffs have driven overall US consumer prices up by nearly 2% and are likely to further test global supply chains.

The interplay between worries about waning growth, inflation and interest rates is a story that is evolving and taking shape in the UK, Europe and the US.

The following chart provides a consensus view from the International Monetary Fund, the OECD and the CBI of likely growth rates for the full year 2025 and for 2026:



As can be seen the rate of growth expected for the year overall in the US is around 1.8%, falling to 1.75% in 2026.

Add to this the sharp downturn in US Non-Farms Payroll data announced last week, which led to the firing of the Head of the Bureau of Labour Statistics ("BLS").

The BLS reported that US job growth for May and June 2025 was overstated by a combined 258,000 jobs — the largest downward revision outside the pandemic period in over a decade.

Instead of modest gains, the revised data showed only 19,000 jobs added in May (down from an initial estimate of 144,000) and a paltry 14,000 for June (down from 147,000). July's headline number came in at just 73,000, bringing the three-month average to only 35,000.

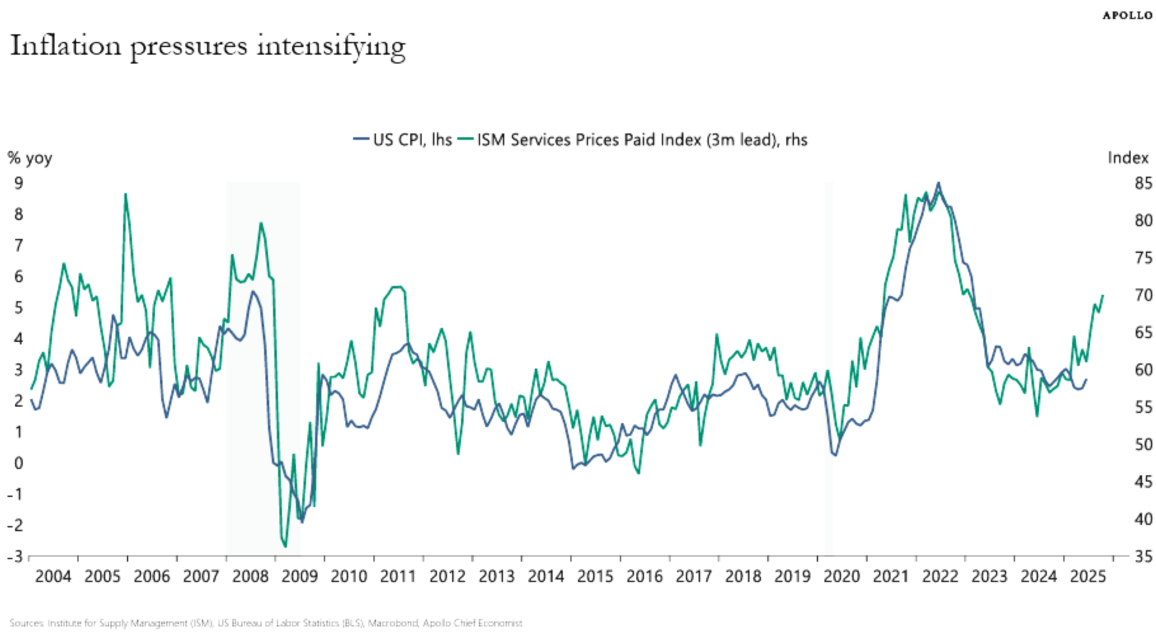
These revisions, while large, reflect the standard process of incorporating late-reporting firms and recalibrating seasonal adjustments. Such practices are globally accepted and crucial for long-run data accuracy. The scale and timing however, following an already sluggish month, amplified market volatility and threw cold water on the MAGA narrative.

In an immediate reaction to the jobs report, President Trump fired BLS Commissioner Erika McEntarfer, a Biden-era appointee, publicly accusing her — without providing evidence — of manipulating jobs data for political advantage and promising to install in her place "someone far more capable and qualified".

The firing has drawn sharp warnings from investors and economists alike, who fear the move will erode trust in official data. Equity markets responded by falling sharply (albeit have largely recovered over the course of the week) as did bond yields.

Turning to the inflation position, the US Core PCE inflation forecast was recently revised up to 3.0% for 2025, while Euro Area inflation is expected to average 2.0% in 2025 and drop to 1.6% in 2026.

The following chart from Apollo Asset Management shows the strong correlation between the ISM Services Prices Paid Index and US CPI:



As you can see at the right-hand side of the chart the ISM Index has increased significantly and, given the strong correlation between the index and CPI, it is a reasonable assumption that US inflation is headed in an upwards direction.

The US Federal Reserve and European Central Bank have been adjusting interest rates, but at different speeds. The Fed has made 4 cuts of 0.25%, a total of 1.00% since September 2024, whilst the ECB has made 8 cuts of 0.25%, a total of 2%, in the same period. The Bank of England has now made 5 cuts of 0.25%, 1.25% in total, since 2024.

This apparent differential in the speed of cuts has only stoked the on-going spat between Trump and the Chair of the Federal Reserve, Jerome Powell.

Trump has repeatedly publicly criticised Powell for refusing to pursue more aggressive rate cuts, calling him “stubborn”, “knucklehead”, “Mr Too Slow”, amongst other things. He has also demanded that the Fed’s Board of Governors strip Powell of his regulatory powers if he fails to deliver substantial rate cuts.

Whilst the US Supreme Court has limited Trump’s ability to dismiss Powell arbitrarily (and the Fed’s independence therefore currently remains legally intact), Trump has seized the opportunity to appoint Steve Miran, chair of the White House Council of Economic Advisers, to the Fed’s Committee in place of a member who resigned.

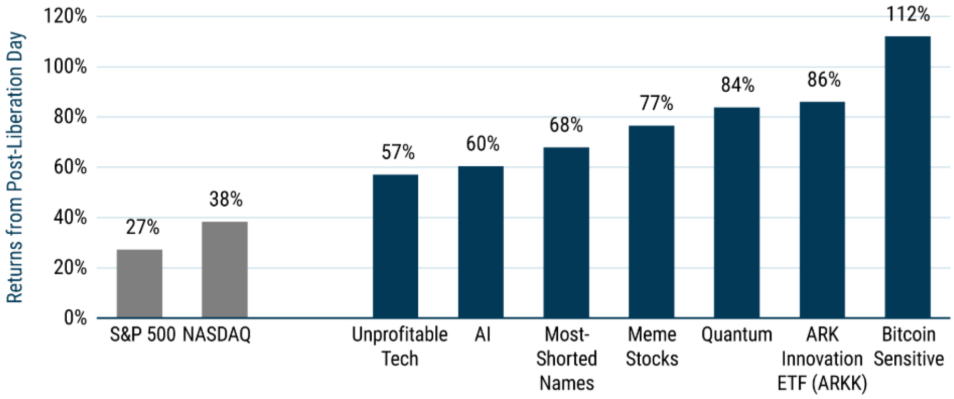
Presumably Miran will be loyal to Trump, rather than the independence of the Fed, and with Powell coming to the end of his term in May 2026, it is a racing certainty that another Trump approved member will be appointed in his place.

At that stage the reality will be that whilst the Fed retains its legal independence, it will have in practice have lost its independence, and decisions on interest rates, quantitative easing / tightening and the money supply generally will be under the control of Trump.

Notwithstanding the apparent assault on the apparatus of the US State, the markets have been buoyant with the more speculative parts of the US market performing incredibly since the Liberation Day debacle:

U.S. EQUITIES TURNED SPECULATIVE IN 2Q 2025

High momentum and lower quality groups rallied most following the Liberation Day market lows



Returns for period from 4/8/25 – 7/31/25 | Source: Goldman Sachs[1]

This apparently shows a disregard for the macroeconomic backdrop described earlier and is playing into the Trump agenda and only time will tell the true story.

Where are markets up to?

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

07/08/2024 - 07/08/2025 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	+0.19%	+1.06%	+4.56%	+5.12%
Balanced	+0.48%	+1.64%	+6.98%	+7.17%
Adventurous	+0.54%	+1.72%	+8.11%	+8.09%

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