Lots of Noise but Underlying Trends Remain Intact

Anyone would expect geopolitical tensions to be rising significantly as the media continue to whip up the World War III story. Trump responded “Yes, I do” when asked by a reporter whether NATO countries should shoot down Russian aircraft if they enter their airspace and in response, Russian Ambassador to France, Alexey Meshkov, stated that the downing of a Russian plane in allied airspace "would be war."

Yet when asked if the United States would back up NATO allies if they took such action, Trump was much more measured, "depends on the circumstance." I would take this week’s geopolitical developments with a pinch of salt, and it would appear that equity markets have done so too, despite tailing off from their highs as President Trump continued to stir the pot this week.

In his most recent push for tighter immigration controls, he increased the annual cost of the H-1B visa from $1,000 to $100,000 in a bid to increase the share of high skilled immigration. The H-1B visa is a temporary visa classification that permits US employers to hire foreign workers in specialty occupations.

Most of these positions are filled by Bachelor of Science postgraduates from India and China who are skilled in the fields of science, technology, engineering, and mathematics, with software engineering, computer science, medicine, and research common occupations. One criticism is that the move will unfairly punish small businesses and could lead to a brain drain, but reform in this space is considered long overdue.

President Trump continued to turn the trade war screw with a headline smashing 100% tariffs on branded or patented pharmaceuticals. However, the small print indicates an exemption for companies that are “building” a manufacturing plant in the US, so expect a flurry of investment to follow, but don’t expect any new factories to be completed any time soon.

He also announced a 25% tariff on heavy trucks and 30% on upholstered furniture, to protect local businesses from the effects of global overcapacity. The consumer will be footing the bill until domestic manufacturing catches up.

Congress has yet to agree on new funding package ahead of the 30th of September deadline for the current agreement. The Office of Management and Budget have directed agencies to draft plans for a "reduction in force", which would result in the permanent termination of employees and positions in programs which are not consistent with the President's priorities, where funding has lapsed.

What is not clear is whether this is a tactic to pressure democrats to agree to republican demands, or whether mass public sector firings are the ultimate goal.

The US government is reportedly vying for a 5-10% stake in Lithium Americas. This follows similar actions with chipmaker Intel and rare-earth producer MP Materials and aligns with the administration's broader strategy of taking direct ownership stakes in industries deemed critical to national security.

Ken Griffin, CEO of the world’s most successful hedge fund and leading market maker, Citadel, succinctly expresses the common conclusion in response to these actions, “everybody loses when the government picks the winners.” However, the stake is being sought as part of the restructuring of a previously announced $2.26 billion loan from the U.S. Department of Energy which was committed under the Biden administration.

So, yet again, Trump dominates the headlines, but the impact on the events of this week on financial markets will probably be limited.

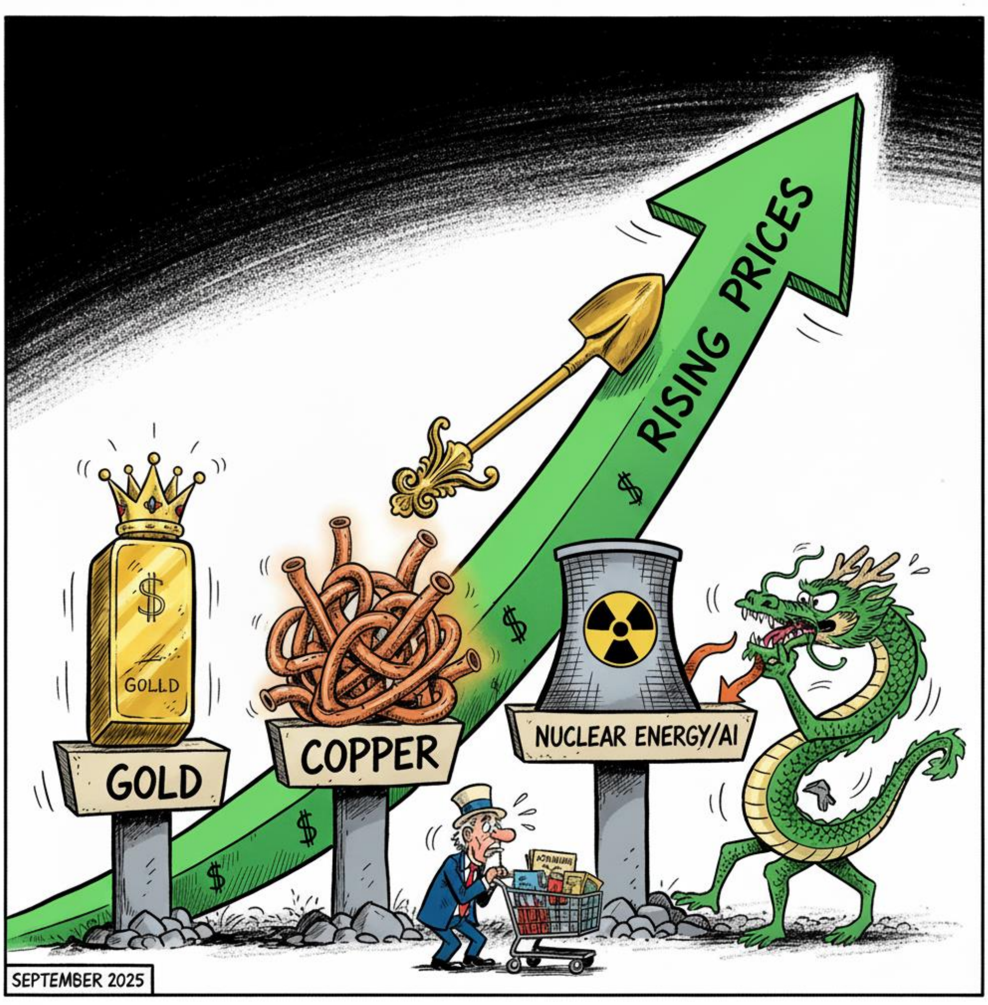
Generally, the economic data out of the US has been improving with strong GDP growth, robust durable goods orders and lower than expected jobless claims. The result is the outperformance of US small caps and rising bond yields, as expectations for the next Federal Reserve interest rate cut are pushed further down the road.

Even purchasing manager indices, a forecasting measure of economic activity, which were much weaker than expected still remain well within expansionary levels. This was also the case for Europe and the UK – excluding European manufacturing which is marginally contractionary but due a fiscal impulse over the coming years.

Where intervention has moved markets is in Argentina, which experienced a selloff earlier in the month after a significant defeat for President Javier Milei's party in the Buenos Aires provincial elections unnerved investors.

With the currency under attack and low foreign reserves there is increasing concern that the country is heading for another financial crisis. To help settle markets President Trump this week offered a full endorsement of Milei ahead of Treasury Secretary Scott Bessent confirming that the US was in negotiations for a $20 billion currency swap line with the Central Bank of Argentina and that the US Treasury stands ready to purchase Argentina’s US Dollar denominated bonds.

It is highly unusual for the United States to back another country’s currency and bonds in this fashion, especially when rating agencies classify those bonds as junk but, as with some industries, the golden ticket is to be labelled as “systemically important” by the Republican administration. Argentinian assets have steadied for now.



The other news that really moved asset prices was the official force majeure declaration and updated guidance from copper miner Freeport-McMoRan. A catastrophic mud flow hit one of the world's largest copper and gold mines (the Grasberg Block Cave mine) earlier this month. The disruption is expected to be prolonged and reduce 2026 copper production for the mine by 35% with full recovery not expected until 2027. This is a loss of around 1% of global copper production and has served to push up prices.

Equities exposed to nuclear power generation also had a strong week after Centrus Energy, the only US-owned company licensed to produce High-Assay Low-Enriched Uranium, announced plans for a multi-billion-dollar expansion of its uranium enrichment facility in Ohio. This historic investment aims to restore America's ability to enrich uranium at scale, directly addressing US energy security concerns and the demand for fuel for next-generation reactors which will help fulfil the energy requirements of artificial intelligence infrastructure.

And on AI, we consistently see a glass half full approach to corporate results as AI appears to be a disruptor to business models, but we are yet again we are seeing companies instead utilising it to their benefit, with Accenture the example this week, boasting strong earnings driven by generative AI.

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	+0.28%	+2.50%	+4.91%	+6.02%
Balanced	+0.27%	+3.03%	+7.08%	+8.15%
Adventurous	+0.20%	+3.22%	+8.15%	+9.44%

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