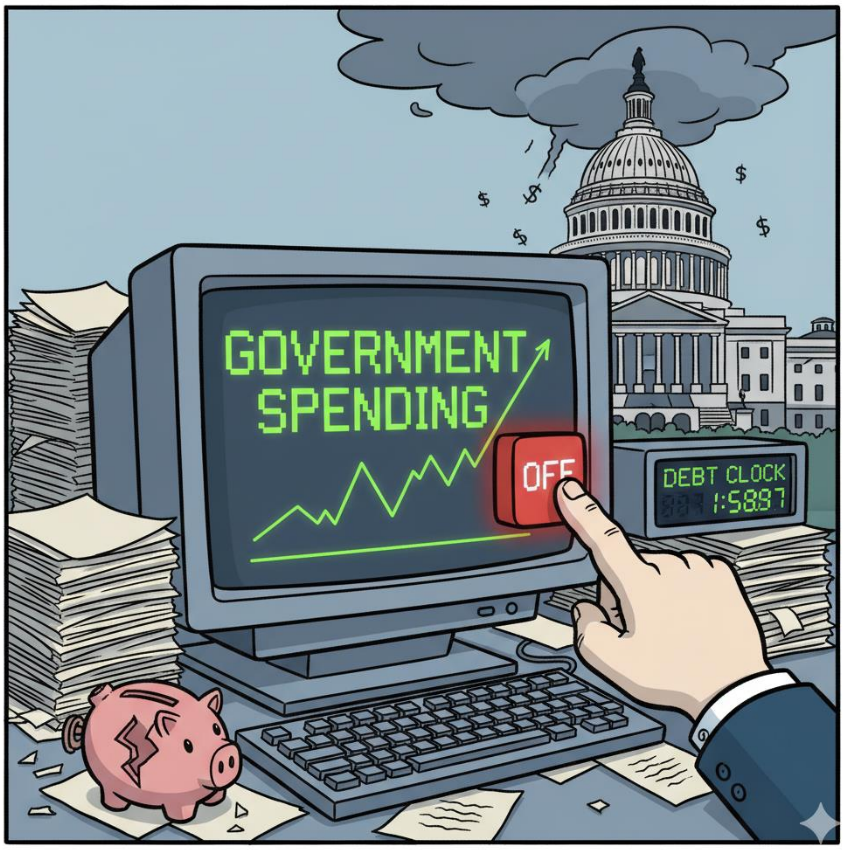
Try Turning it Off and On Again

Headlines this week have been dominated by the shutdown of the US government. With Elon Musk failing to make any real impact during his time at the Department of Government Efficiency, maybe to reinforce the "Day-zero" approach it was asked, did you try turning it off and on again?

(Day-zero thinking mandates the complete re-evaluation and re-design of an established organization, including stripping back unnecessary costs and rebuilding solutions, as though it were a brand new entity seeking peak operational efficiency.)

Congress failed to pass the necessary appropriations bills to fund federal agencies for the new fiscal year resulting in the furloughing of hundreds of thousands of non-essential federal workers without pay.



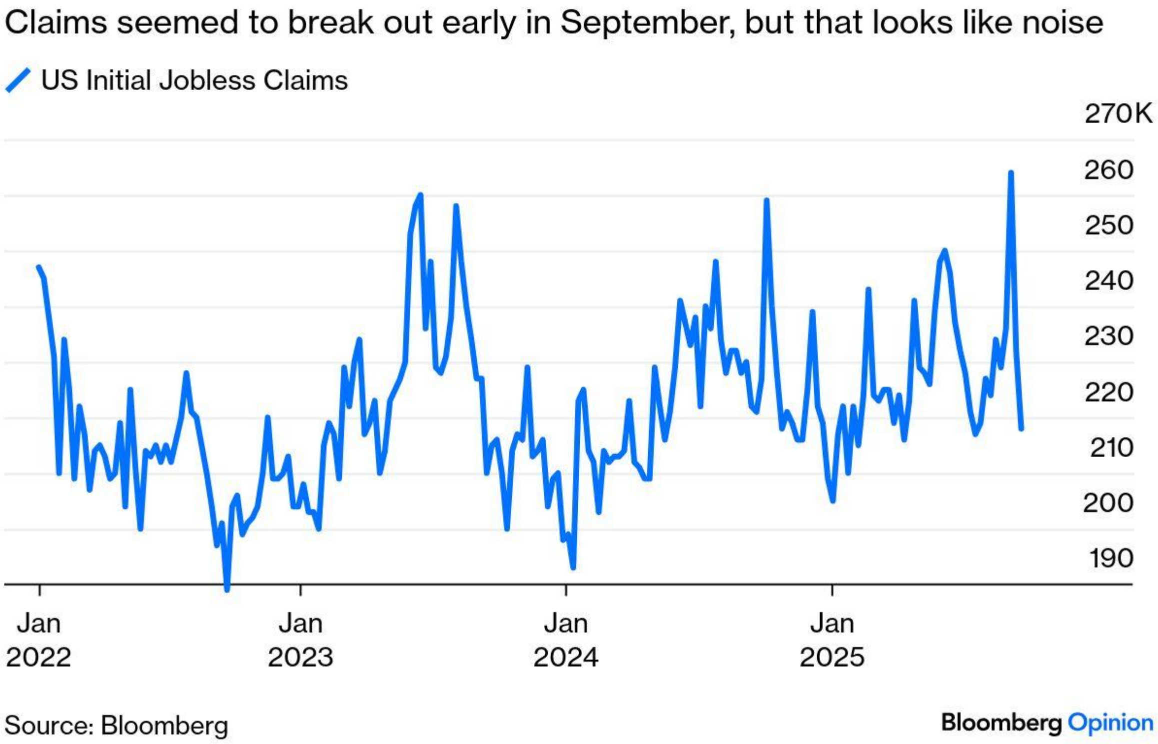
The core of the impasse centres on expiring healthcare subsidies under the Affordable Care Act (ACA), which Democrats are demanding be extended as part of any funding deal. The Trump administration intend to be more fiscally disciplined and are using the situation to their advantage by cutting Democrat led government programs – we noted last week that the Office of Management & Budget have directed agencies to draft plans for permanent terminations.

For the Republicans it appears to be a win-win, either the Democrats buckle and agree to ACA cuts or the shutdown can be used to justify government cuts elsewhere.

This is not the first US government shutdown, with similar events unfolding in 2013, 2018, 2019, and 2023 and while the cause of an increase in volatility, equity markets typically end up higher once concluded. From an economic standpoint, despite a potential 0.5% hit to GDP growth, if the shutdown becomes extended, such loss is often reversed in subsequent periods.

It’s maybe no surprise to see an apathetic market as a result, with asset prices having had an excellent week to cap off an excellent month.

With limited employment data this week owing to the shutdown, determining the path of interest rates becomes more of a shot in the dark. The ADP National Employment Report estimated a fall in private payrolls of 32,000, its first decline in years, which continues to support the view that the labour market is weakening but the data is somewhat noisy:

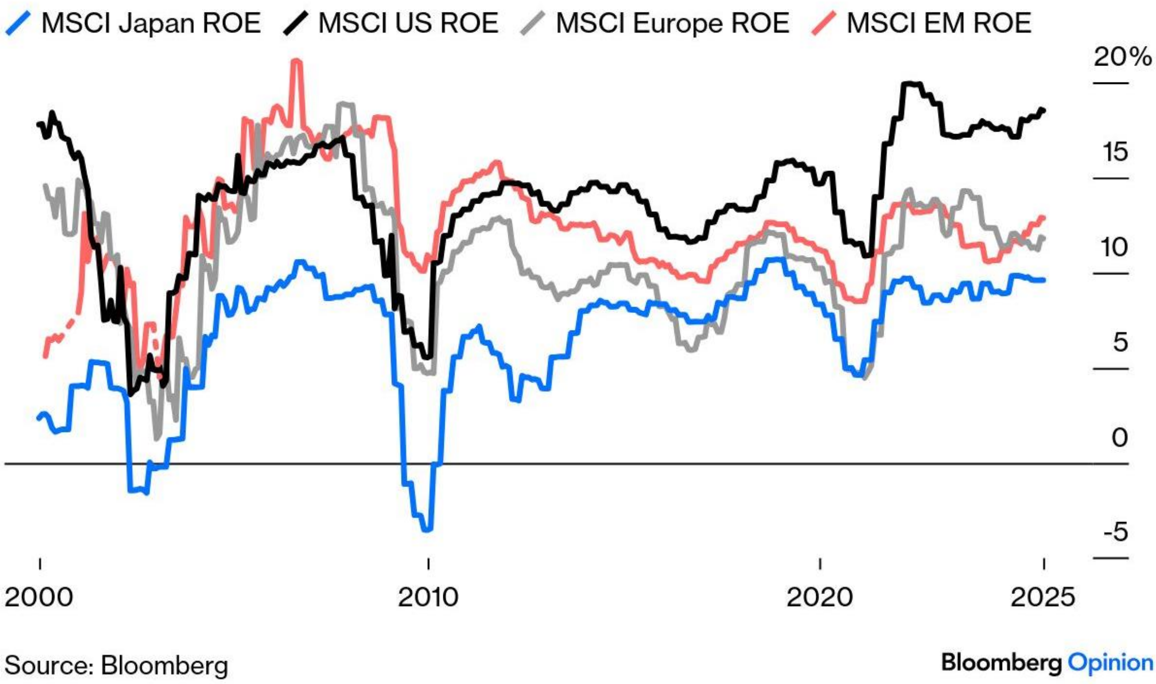


Assets, however, appear to have priced-in the expectation that President Trump will erode the independence of the Federal Reserve and force interest rates lower while an economic slowdown in response to Republican trade policy has spurred stagflation resistant asset prices higher, take gold for example. This trend may now gently ease off in October.

The general economic conditions for the US are instead of resilient economic growth, an economy that is likely to be run hot, an AI secular tailwind, higher than target inflation, and the risk of decentralised finance to the US dollar. This is an environment that will command buoyant equity valuations, and a short-term news driven sentiment blip is unlikely to deter many investors.

And despite concerns over valuations, if using the 5-year CAPE, things are maybe not as frothy as some may claim:

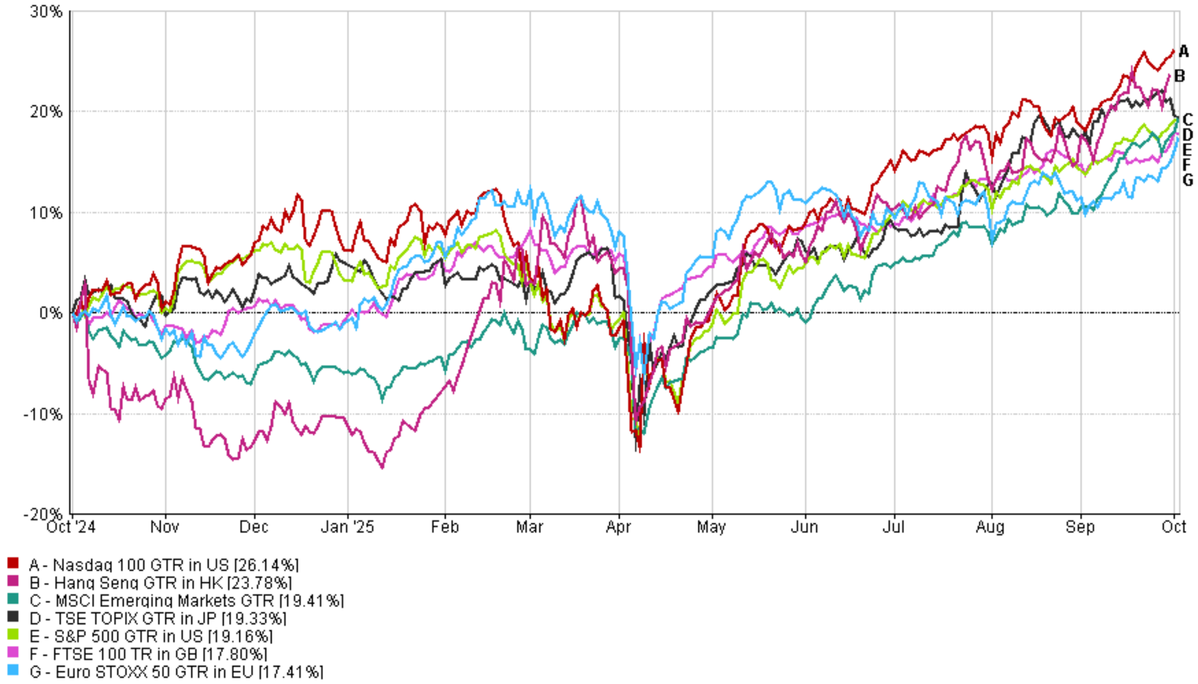
…and if you are concerned by US relative valuations, here is a reminder on the attractive return on equity provided by the region:



Emerging markets may be moving in the right direction on this measure too. China's shift toward supporting its tech giants as AI becomes a national priority could serve as a secular growth driver for emerging markets.

Where are markets up to?

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



02/10/2024 - 02/10/2025 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	+0.89%	+3.35%	+5.37%	+6.54%
Balanced	+1.05%	+4.09%	+7.34%	+8.71%
Adventurous	+1.15%	+4.40%	+8.27%	+9.64%

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