Less SNAP, a Little Crackle, but No Pop

The Bank of England voted to maintain interest rates this week with a marginal 5-4 majority. This lays the foundation for a cut at the next meeting which would stimulate the economy and benefit capital markets, yet inflation is still way above target at 3.8%.

While the bank believes inflation has likely peaked, energy costs are being held low by an OPEC+ which has extended its supply boost to the end of the year but are due to pause next year. Inflation remains stickier in the UK than in other developed markets and Chancellor Reeves is due to upset the apple cart once more in a few weeks' time with her Autumn Budget, which may include another round of taxes that feed into rising prices.

One way or another the new policies are expected to bring with them a slowdown in economic growth, which isn't a mandate for the Bank of England but seems to be the reason they intend to move sooner on interest rate cuts.

The Chancellor also failed to address fiscal concerns in her pre-budget speech this week and sterling depreciated in tandem.

Purchasing managers Indices, a leading indicator of economic strength, were strong across Europe and the UK this week. US manufacturing PMIs we more mixed which appears to reflect weakness in larger export focused manufactures but strength in more domestic small and mid-sized firms.

US GDP as measured by the Atlanta Fed's fast-moving GDP-Now tracker is running at 4%, which means the US may be providing as large a proportion of global economic growth as China.

This despite a US government shutdown which continues to rumble along relatively unnoticed. The big shift this week is that millions of Americans may not receive their full SNAP payments (Supplemental Nutrition Assistance Program previously known as food stamps). This is considered a step too far by some with the Republican administration's approval rating beginning to falter as a result.

This change of allegiance was also reflected by a swath of Democrat election victories this week, including Zohran Mamdani's success in the New York City Mayoral race at a tender age of 34.

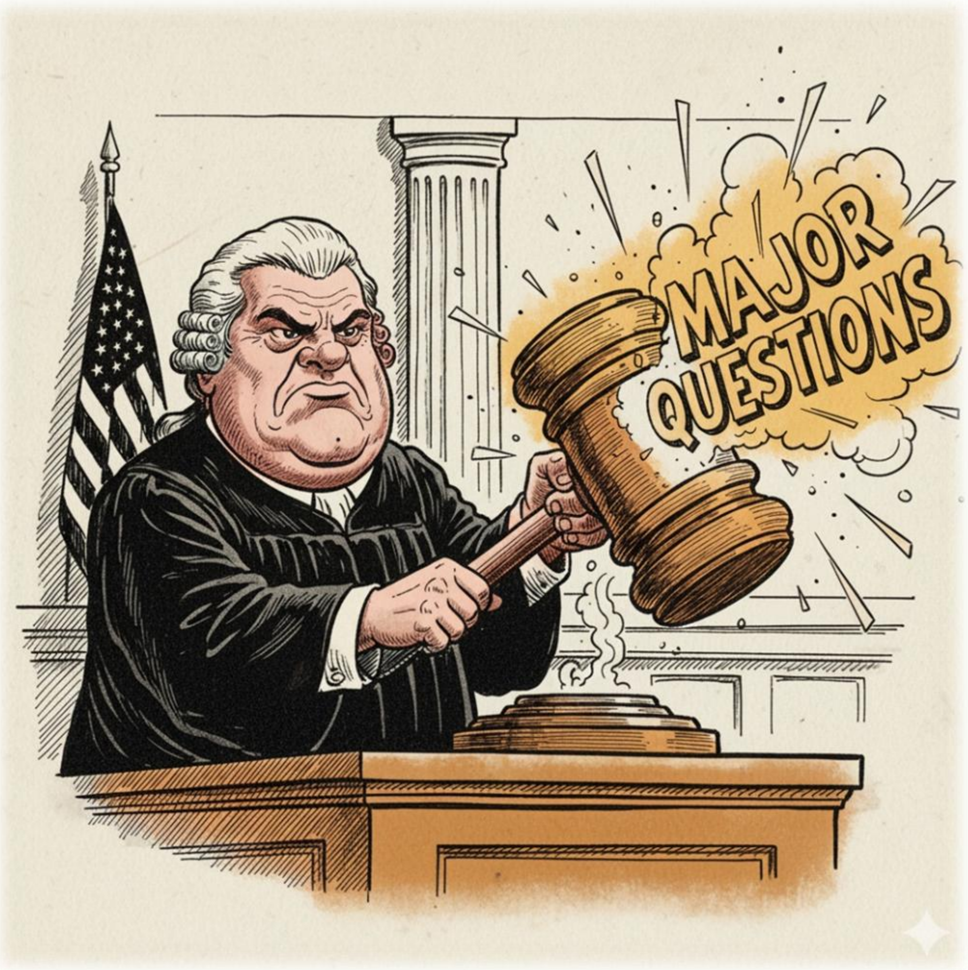
The shutdown is also putting upward pressure on money-market spreads which is a sign of emerging financial stress. If persistent this could begin to have consequences for credit markets, some of which are trading at very tight spreads, and have an overall negative impact on sentiment.

Companies are using AI productivity gains to justify layoffs and lower hiring but there are concerns that this story is just being used to shield weakening economic conditions. With official economic data on hold, weak private employment data has troubled markets this week.

The US Supreme Court heard arguments on the legality of President Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose tariffs. Any final decision will take months but there was clear scepticism from conservative justices with the key issue raised that the IEEPA, which exists to limit prior executive powers, doesn't include explicit reference to taxes or tariffs as an applicable action. It does however use the broader term to "regulate" and much of the debate revolves around the scope of this term.

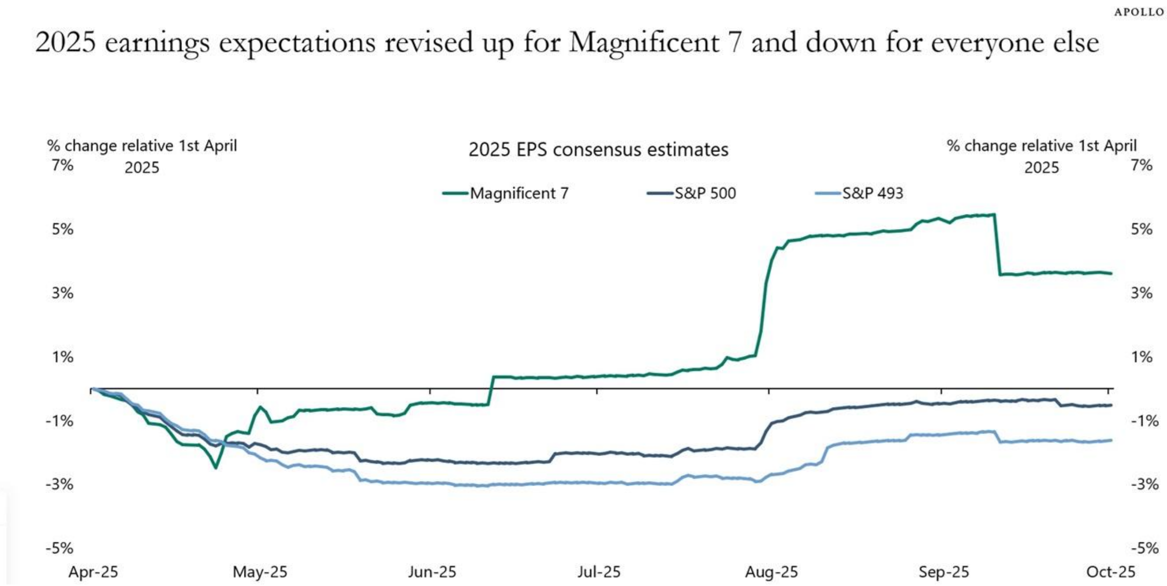
Chief Justice John Roberts suggested that the court may invoke the "Major Questions" doctrine which in practice would make it significantly more difficult to use old or broadly worded statutes to implement major, transformative new policies.

Given the scale of Trump's tariff policies, this will likely be the nail in the coffin with regard to this hearing, but that won't stop the administration entirely. They will respond by pushing tariffs through proper policymaking channels or utilise alternative acts such as section 232 and section 301.



Technology stocks sold off this week after an exponential run since the beginning of April. This will have been in part owing to some profit taking in response to some of the macroeconomic noise as the government shutdown extends but was also spurred by the CEOs of Morgan Stanley and Goldman Sachs warning of a potential 10-15% correction. Jensen Huang, CEO of Nvidia, the world's most important company right now, also warned that China would win the AI race due to cynicism, overregulation and higher energy costs in the west.

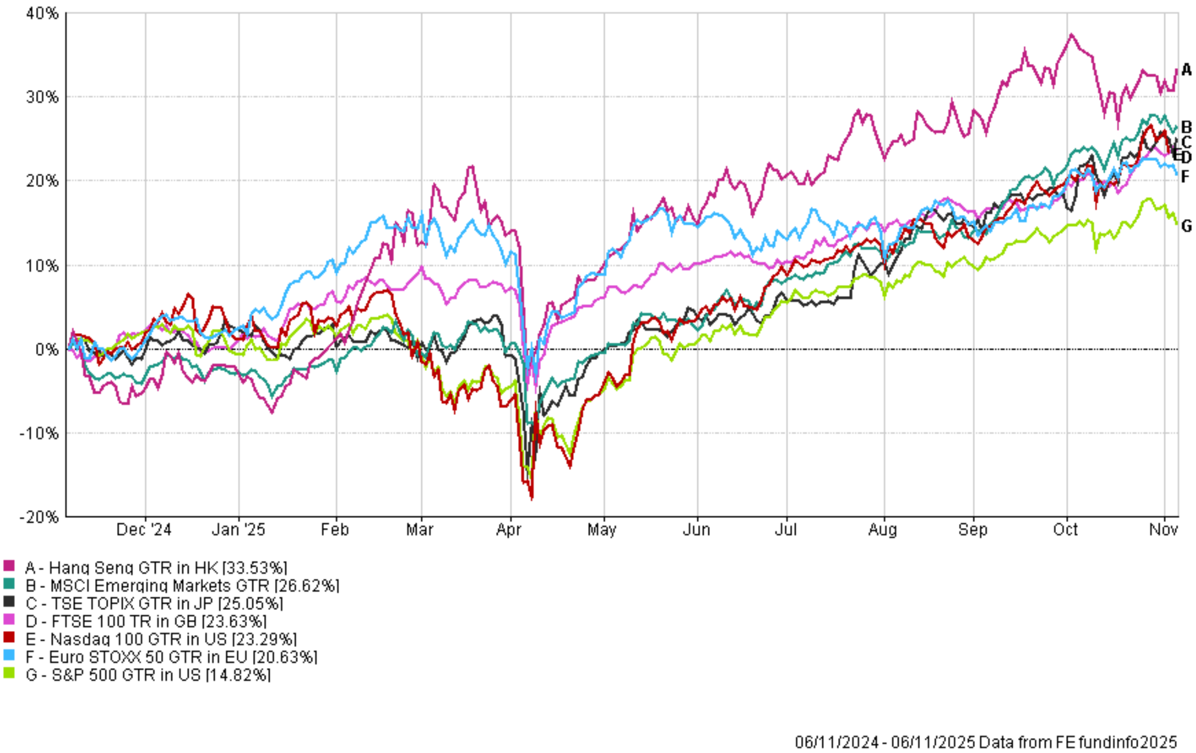
A correction has been discussed widely in business media of late but with the view that such an event would merely provide an entry point for capital sitting on the sidelines. It is true that there are a number of yet-to-be profitable companies associated with the emerging AI sector, and indeed some of these valuations are lofty, but sensible investors like us who focus on more profitable companies should be less concerned. Magnificent 7 earnings expectations for example are now higher than they were pre–Liberation Day in April, unlike the rest of the companies in the S&P 500:



Mega-cap tech companies are beginning to tap the bond market again with issuances from Google this week and recently from Meta and Oracle. If bond markets are to be used as a guide, there was ample demand and very little spread required to reward investors. We expect this trend will continue into 2026 to continue to fund the AI infrastructure build out. For now, there's plenty of scope for a debt-fuelled expansion.

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	-0.56%	+1.63%	+5.57%	+8.54%
Balanced	-0.76%	+1.93%	+7.39%	+10.73%
Adventurous	-0.86%	+2.04%	+8.35%	+11.52%

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