

Please see below for a summary of our latest views:

- One of the main headwinds currently facing the US economy is uncertainty.
- In particular, tariffs remain a major area where policy arrangements have not been finalised.
 - The Trump administration's on-again, off-again approach to tariff implementation has started to show signs of impacting confidence in US financial markets and the wider US economy.
 - In financial markets, the S&P500 has now given back its gains made since the US election. The US Dollar Index is now in a similar situation.
 - This market sentiment is beginning to show up in consumer data, with various consumer and business measures (e.g. ISM PMIs, UMich, Conference Board) showing reduced confidence and increased inflation expectations.
 - It's worth noting the extent of US household wealth that is held in the US stock market, particularly in the top 10% of households, which rivals that held in real estate.
 - This is important because, as recently reported by Moody's Analytics, the top 10% of US households represent 50% of domestic consumption, so any equity market correction has the potential to amplify a US slowdown.
 - Meanwhile, DOGE continues its work to reduce US central government headcount. Based on media reports, so far approx. 220,000 government job cuts have been announced – approximately a 0.1% increase to unemployment if these workers did not find new jobs – with more cuts expected as federal agencies implement budget reductions.
 - All of this suggests increasing likelihood of a slowdown in the US. Consistent with this, this week the FOMC published their updated Summary of Economic Projections (Dot Plot), which showed material downward revisions to their forecast of real GDP growth this year and the following two years.
- In the UK, there is also uncertainty building ahead of the Chancellor's Spring Statement next week. Although the current government has committed to only one major fiscal event per year, the government's budgetary situation has deteriorated significantly since its October Budget last year.
 - The fiscal picture has deteriorated from several angles. Realised productivity and real GDP growth have been weaker than the OBR's assumptions, and gilt rates higher.
 - In a similar vein, recent publications from the OBR and ONS that UK borrowing has turned out to be higher than originally forecast at the time of the October Budget.
 - According to Bloomberg Economics estimates released this week, the likely revenue shortfall will be between £9bn and £15bn, depending on the assumptions that the OBR uses for UK growth.
 - This is a sizeable gap and will need to be bridged by tax increases or spending cuts. Given that the Chancellor has ruled out further tax cuts, it appears more likely that the adjustment will be made through cuts to spending. Recently announced cuts to welfare spending and the abolition of NHS England ("the world's largest quango") appear to be a step in that direction.
- Against this backdrop of increased uncertainty around the US economic outlook and the UK fiscal outlook, we have made the following changes to our asset allocation:
 - Reduced our allocation to risk assets from 31% to 29%;
 - Lengthened our TIPS duration from 7.5 years to 8.5 years;
 - Increased and lengthened our allocation to index-linked gilts.

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