

Please see below for a summary of our latest views:

- In a month replete with headlines, one of the more significant has been the downgrade of the US government's credit rating by Moody's Ratings.
 - While US Treasury Secretary Scott Bessent was quick to dismiss this as a 'backward-looking' indictment, this is only true in part.
 - Moody's referenced both the decade-long increase in government debt and interest payment ratios, it also referenced scepticism that the current fiscal proposals would reverse the trend of large deficits and increasing interest costs.
 - This could have wide-ranging consequences. One immediate consequence was that the long-term issuer ratings of the major US banks, including JP Morgan, Bank of America and Wells Fargo were also downgraded. This could increase bank funding costs, further tightening US financial conditions.
- The downgrade also had spillovers to the UK, where gilt rates – particularly at the long end of the curve – were pushed higher on the news.
 - The extent of the correlation between US and UK rates markets become prominent in both the UK monetary and fiscal policy debates.
 - The particular concern is that UK financial conditions are being tightened – and fiscal headroom is being narrowed – by factors which are not UK-specific.
- Last week's Bank of England Watchers' Conference debated whether the Bank should intervene in situations where the gilt curve (and, by extension, UK financial conditions) is being disproportionately impacted by non-UK factors.
 - Maurice Obstfeld (former IMF Chief Economist, of capital markets "policy trilemma" notoriety) provided the most convincing reply: in globalised capital markets, interest rates are the price of money in a global savings-investment equilibrium.
 - Of course, there no single global interest rate. Different countries have different interest rate premia related to currencies, liquidity and institutional frameworks.
 - But it is also true that these assets compete against each other in the global markets for 'safe' assets, and if yields on Treasuries – denominated in the reserve currency – rise, then it is logical that gilt yields move with them.
 - This is a feature of interconnected markets: domestic conditions in open economies are impacted by overseas markets. This will naturally limit the reach of domestic policy.
- Our outlook for the UK continues to be one of persistent inflation, reduced corporate profitability and slow growth.
 - The UK government continues to delay addressing the fiscal deficit. This week's U-turn on winter fuel payments, and the latest public sector net borrowing figure (c. 10% higher than forecast) only increase fiscal pressures.
- Like Moody's Ratings, we remain sceptical of the US fiscal position and broader economic outlook. We are now more than halfway through President Trump's 90-day negotiation period and are yet to see a signed trade deal. So, we expect to see continued pressure on the long end of the US yield curve.
- Against this backdrop, we continue to be defensively positioned, with our multi-asset funds 30% in risk assets; approx. 35% in index-linked bonds and the remainder in dry powder (cash, treasury bills and high-quality sterling corporate credit).
 - Although values are improving in US and UK index-linked markets, our appetite for the long end of both yield curves remains constrained.
 - We have reduced our target duration across all the CG funds' TIPS portfolios from 8.5 years to 8 years, favouring allocation to the belly as the means of achieving this.
 - The CG UK Index-Linked Bond Fund's duration remains at c. 6.5 years, significantly shorter than the c. 14.5-year duration index-linked gilt index.

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