

Please see below for a summary of our latest views:

- One of the main events in global government bond markets over recent weeks was the downgrade of France's long-term issuer default rating by Fitch Ratings, announced last Friday evening.
- The reasoning was comprehensive: a high and rising debt ratio, political fragmentation hindering consolidation, weak fiscal record, high 2025 deficit, high tax burden, and structurally high government spending.
- One might be forgiven for thinking that Fitch was referring to the UK government (!), but it is worth putting these concerns in context:
 - The UK does have high and rising government debt, but at 101% of GDP, it is still materially lower than France's at 113% of GDP.
 - On a like-for-like basis, the countries' fiscal plans look similar: France plans to reduce its 2025 fiscal deficit by 3 percentage points, from 5.8% in 2025. The UK plans to reduce its fiscal deficit by a similar amount, from 5.7% in 2024/25. In both countries, political gridlock threatens the implementation of these measures.
 - Fundamentals suggest that the UK is in a better position to reduce the debt burden: the UK's trend growth rate is c. 1.25%-1.5%, with CPI inflation forecast to be between 2.5%-3% over the next 3 years. By contrast, France's trend growth rate is c. 0.8%-1%, with average CPI inflation of approx. 1.5% pa over the next three years.
 - One of the areas of genuine debate is the impact of France's being in the euro area on debt service and sustainability. On one hand, in the short term, this gives the benefit of a lower policy rate environment and the potential for the ECB as a backstop buyer.
 - However, while these features may aid debt service in the short term, over the longer term, monetary sovereignty – the ability print one's own currency – is more fundamental. A country that can print its own currency should always be able to pay its debt back. Of course, this kind of monetary financing will come with inflation as a by-product.
 - This dynamic underscores our preference for inflation-linked government bonds over conventionals across all the funds that we manage.
- Turning to the implications for our investments:
 - We have for some time excluded the French government from the investable universe of our funds. Several of the features mentioned by Fitch are relevant, but in our view the most conclusive feature is the lack of monetary sovereignty. We also exclude the Spanish and Italian governments on this basis.
 - By contrast, the UK remains a core sovereign issuer in our multi-asset and government bond portfolios. We have for some time highlighted the issues with the UK's fiscal outlook, and we continue to believe that the deteriorating fiscal position risks a gilt market sell-off absent a major attempt at reform from the government.
 - However, given our comfort with the UK's stronger economic credentials and institutional framework, our response to rising real yields has been to increase our weighting to index-linked gilts (in our multi-asset funds) and manage the risk of a sell-off by running significantly shorter duration than the index.
 - We have increased our multi-asset funds' allocation to index-linked gilts from 10% at the beginning of this year to 17% at present.
 - Our CG UK Index-Linked Bond Fund, invested entirely in index-linked gilts, is currently managed to a duration of 6.4 years against an index duration of 14.3 years.
- Overall positioning remains defensive, with 28% in risk assets (including gold), 36% in index-linked government bonds, and 36% in managed liquidity reserve (comprising cash, Treasury Bills and short-dated corporate credit).

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