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ASSET MANAGEMENT (C.I.) LIMITED

INVESTMENT MEMORANDUM

In many ways, this has been a remarkable quarter which emphasises the resilience of markets in the face of bad news. No one can say that tariffs are good news for the world economy but markets appear to be dealing in relative, not absolute positions. So things are relatively better than they were after President Trump's 2nd April tariff announcements. Many equity markets have ended the quarter around their all time high points and have significantly outperformed fixed interest securities over the quarter.

The tables below detail relevant movements in markets :

International Equities 30.04.25 - 31.07.25

Total Return Performances (%)				
Country	**Local Currency**	**£**	**US$**	**€**
Australia	+7.7	+9.3	+8.3	+7.6
Finland	+5.4	+7.1	+6.2	+5.4
France	+4.2	+5.9	+4.9	+4.2
Germany	+6.1	+7.8	+6.8	+6.1
Hong Kong	+21.7	+21.4	+20.2	+19.4
Italy	+11.2	+13.0	+12.0	+11.2
Japan	+10.5	+5.7	+4.7	+4.0
Netherlands	+5.8	+7.6	+6.6	+5.8
Spain	+9.6	+11.4	+10.3	+9.6
Switzerland	-0.6	+1.6	+0.6	-0.1
UK	+8.1	+8.1	+7.1	+6.4
USA	+14.4	+15.5	+14.4	+13.6
All World Europe ex UK	+4.4	+6.0	+5.0	+4.3
All World Asia Pacific ex Japan	+13.0	+14.5	+13.4	+12.6
All World Asia Pacific	+12.1	+11.5	+10.4	+9.7
All World Latin America	+0.9	+3.6	+2.7	+2.0
All World Emerging Markets	+10.5	+11.9	+10.9	+10.1
All World	+12.2	+13.1	+12.0	+11.3

Source : FTSE All World Indices

FTSE UK Government Securities Index All Stocks (total return) : -0.1%

International Bonds - Benchmark Ten Year Government Bond Yields (%)

	30.04.25	31.07.25
Sterling	4.44	4.57
US Dollar	4.18	4.37
Yen	1.27	1.55
Germany (Euro)	2.44	2.69

Sterling's performance during the quarter ending 31.07.25 (%)

	Quarter Ending 31.07.25
US Dollar	-0.6
Canadian Dollar	-0.3
Yen	+3.9
Euro	-1.4
Swiss Franc	-2.0
Australian Dollar	-1.1

Other currency movements during the quarter ending 31.07.25 (%)

	Quarter Ending 31.07.25
US Dollar / Canadian Dollar	+0.3
US Dollar / Yen	+5.6
US Dollar / Euro	-0.6
Swiss Franc / Euro	+0.6
Euro / Yen	+6.2

Significant Commodities (US dollar terms) 30.04.25 - 31.07.25 (%)

	Quarter Ending 31.07.25
Oil	+15.4
Gold	N/C

MARKETS

- International equity markets recovered strongly during the quarter with a number at or around their all time highs. In local currency terms, the Hong Kong index was the best performer in our table but the greatest influence was the above average performance of the US market.

- In sterling terms, the pattern was much the same but, with sterling generally weaker, except against the Yen, most sterling returns were higher than local currency ones.

- Government bond markets, as measured by ten year benchmark bonds, were modestly weaker.

- In the commodity markets, heightened tension in the Middle East arising from the US bombing of Iranian nuclear sites, caused the oil price to spike upwards. Gold, after a very strong run, ended the quarter unchanged.

ECONOMICS

Many investors and commentators are still trying to make sense of what has been happening in the stock markets so far this year. A number of stock markets stand at around their all time highs as this is written, yet this seems at odds with the geopolitical and perceived economic background. What is going on?

From our perspective, we have long ago learned that it can be expensive in terms of opportunity cost to react precipitately to sudden or unexpected negative news. After all, the long term expectation remains that equities will continue to be the most profitable asset class out of the main ones and therefore the odds will tend to be against an investor if he or she takes an immediate decision to reduce equity exposure on the basis of what is perceived to be new bad news. This is why it is so important for investors to consider risk tolerance levels and especially their ability to ride out sudden market downturns. Assuming this is understood, then the point remains that hasty and ill considered action can be costly. President Trump's 2nd April tariff announcements were such a case, causing markets to fall sharply before recovering to their current elevated levels.

Although President Trump's views on tariffs were well known before they were actually announced, the level of tariffs initially set came as a shock, hence the market's negative reaction. Tariffs fall into the bad economics bucket and generally cause significant economic damage. However, what many investors, investment managers and economists will have been aware of was that even a President at the peak of his powers cannot fight the bond market, the support of which the USA needs given its vast budget deficit heading towards 7% of GDP. When it began to become nervous with long bond yields spiking upwards, even a US President must take notice and he did as he started to retreat on his plans. As he did so, the bond and equity markets stabilised and then equities moved ahead so that, as this is written, the US and some other markets are at or around peak levels. We will come back to this but investors should remember that the bond market can be an investor's friend as it will baulk at any attempt to take liberties with it. Excessive government borrowing and attempts to pressurise a central bank are cases in point. So far, investors have been right to view the 2nd April measures rather like a game of chess. Think several moves ahead, in this case to the US Treasury bond market exerting some of the necessary constraints on the President and this it has so far done.

The 31st July announcement of the further reciprocal tariff rates did not produce any pleasant surprises with Switzerland, for example, hit with a 39% tariff. Markets initially dipped but quickly bounced back, something which has happened quite often. One cannot be sure of the economic consequences but, if economic activity is reduced, it could easily impact negatively on governments' finances. We will come back to this later in this review as we discuss countries' finances, suffice it to say that we think it will be one of the biggest considerations for governments and investors given a number of countries' parlous financial conditions.

The tariff issue is related to this. The comparative trade theory tells us that tariffs create inefficiencies which through different mechanisms slow down international trade and economic growth. Ideally, countries should manufacture and export goods for which they are the most efficient producers and import those where they are not. This should put consumers in the best position to maximise their own economic position. Where markets are distorted is where the theory is upended by protectionist tariffs. To take one example, US tariffs on imported steel raise costs for those US manufacturers which use it in their production process causing the price of their finished products to be higher than would otherwise have been the case. This reduces the spending power of US consumers which then affects other companies and so on and reduces economic growth below what it would otherwise have been. Besides the effect on inflation, lower economic activity may be expected to reduce the government's tax revenues compared to the previous tariff environment which allowed for a higher growth rate although President Trump will dispute this (for interest, monthly customs and certain excise taxes were US$28 billion, triple the monthly revenues seen in 2024). This is a very simple example showing that the consequences of tariffs are widespread but it makes the point. This includes those which relate to the bond markets as mentioned earlier. If countries are running large budget deficits, they need economic growth to benefit tax revenues through direct and indirect tax receipts. Lower economic growth will tend to reduce government revenue and raise spending compared to what might have been expected when growth rates were higher, making the budgetary position worse and the potential threats to the bond market greater.

However, it's early days as far as the tariff road is concerned and the US economy seems to be performing quite well and this is reflected in the performance of US shares which stand at around their all time high although, for overseas investors, gains have been, at least temporarily, offset by the weakness of the US dollar. S&P 500 company earnings, according to FactSet, are forecast to show a meaningful rise, estimated to be up by 9.3% this year, and 14.0% next year and unemployment remains low at 4.2%. The chances of a recession in the USA appear to be diminishing. Amongst developed countries, the USA is in a relatively good position. According to the IMF's latest projections, issued in July, the US economy is expected to grow by 1.9% this year and 2.0% next year, small increases on its April 2025 forecasts. All the other G7 countries are forecast to show lower growth than the USA this year and next. The forecasts are for this year (with next year in brackets) Canada 1.6% (1.9%), France 0.6% (1.0%), UK 1.2% (1.4%), Italy 0.5% (0.8%), Japan 0.7% (0.5%) and Germany 0.1% (0.9%). For the euro area as a whole, the figures are 1.0% (1.2%) Whilst these forecasts do not point to a recession, if they are accurate, they still represent below average growth.

Any forecasts made at this stage must have a higher degree of uncertainty than usual partly, although not wholly, because of the tariff background. We do not know how companies will react to the 31st July tariff levels announcement. President Trump does seem to have had success in securing a lot of inward investment in the USA in the pharmaceutical and technology sectors, for example, as well as securing large aerospace and defence contracts in the Middle East for US companies. The USA is the centre of the rapid growth of AI and its associated vast capital investments which, even for an economy the size of the USA, is meaningful so it has a lot going for it. President Trump's muscular diplomacy is already having some positive effects for the US economy in this respect. But from an economic point of view, the extent to which companies can manage their supply chains will be important. In an interconnected world the extent to which companies can mitigate the additional costs caused by tariffs will be important and the negative effects for the USA from reciprocal tariffs should not be underestimated. There will inevitably be retaliation which will almost certainly involve a loss of business for some US exporters and efforts to replicate their products by domestic replacements in the affected countries. There will be long term effects as well as short term effects.

Coming back to the latest IMF growth forecasts, amongst Emerging Markets and Developing Economies it forecast growth in India at 6.4% (6.4%) and China 4.8% (4.2%). The aggressive stand off earlier on tariffs saw the additional US tariffs on Chinese imports rise to 145% (now temporarily reduced to 30%) and the additional Chinese tariffs on US imports rise to 125% (now temporarily reduced to 10%). A stand off between the world's two largest economies has significant implications for the world economy so the cooling down of the rhetoric is welcome. For China, which needs to maintain its growth rate following threats to it from various sources including the fall in property prices which has damaged consumer and business confidence, punitive US tariffs would have knock on effects elsewhere. For example, China would seek to redirect exports to other markets such as the EU which could cause a loss of business for some European companies. It has also seen some of its manufacturing activity move to other Asian countries as companies felt they would be less exposed to a US/China trade war if they sourced imports from other Asian countries. The dynamics of the US/China trade relationship are such that any deviation from previous relationships because of tariffs would be felt in many countries. It resonates for President Trump in many ways politically because a lot of low cost goods, such as toys, are made in China and price rises will be noticed by customers, hence his pressure on US retailers to absorb tariff increases. At present, we are awaiting the final outcome of trade talks between the USA and China.

President Trump will be hoping against hope that his tariffs, even the baseline 10% ones, do not kick off inflation which will be of interest to the Federal Reserve as it deliberates on interest rates. The Chairman of the Federal Reserve, Jerome Powell, is in President Trump's line of fire as he demands a sharp reduction in interest rates. This threat is self defeating. For a start, he would find it very difficult to fire the Chairman. Secondly, the message it sends out to investors is terrible. Political meddling with the central bank will never end well. Its independence is a guarantee for investors in the currency or government debt that there is a strong measure of protection for their investment both in terms of the value of their securities and also the currency. With the OECD forecasting US inflation at 3.2% this year, to drop interest rates to 1% from the current 4.25% to 4.5% would be the height of folly. It could risk stoking inflation as it stimulated the US economy unnecessarily, it could cause real problems in the bond market, especially as we saw at the long end after the 2nd April tariff announcements. It could also send the US dollar significantly lower as trust in the currency would erode. Whilst we carefully avoid political judgements we feel that we can safely say that firing the Chairman of the Federal Reserve (which he is very unlikely to do and probably not able to do) and cutting interest rates to a significantly negative real rate would be an act of supreme economic self harm. But note that all roads lead to the bond market directly or indirectly

Here we want to broaden out our thoughts on the importance of the bond markets at a time when many governments are running dangerously large budget deficits in relation to GDP and here we may discuss not only the position of the USA with a budget deficit of 6.2% and rising but France (5.4%), Japan (5.5%) and the UK (4.8%) to give approximate figures.

Take the USA first. For as far ahead as one can see, the USA will be running outsize budget deficits, perhaps rising to 7% of GDP. The non partisan Congressional Budget Office's forecasts are ominous in this respect. There is no way that superior economic growth can stabilise the country's outstanding public debt in relation to GDP, currently about 124% as long as the budget deficit is as large as it is. The interest cost burden of debt at this level will weigh heavily on growth prospects which is no doubt why President Trump is so keen to cut interest rates. The USA has one critical advantage over other countries in that the US dollar is the world's largest reserve currency so there is always a demand for US dollars. Nevertheless, with the supply of US government debt so plentiful, it is more important than ever that nothing further is done to dent confidence as we have just discussed above in relation to the President's attack on the Chairman of the Federal Reserve. With a very large and increasing supply of new government debt and some contraction (although at a reduced rate) of quantitative tightening (QT), maximum US$5 billion a month, it is difficult to see much attraction in US bonds, especially at the longer end, and plenty of risks. However, the USA has a better chance than some countries of delaying the consequences of outsized budget deficits and very high levels of outstanding public debt as a percentage of GDP. Not only is this because the US dollar is the world's largest reserve currency but it is also because the actual and potential growth rate is superior to the UK, France and Japan to name but three countries with budget deficit/outstanding debt problems which we will discuss next. The best way of attacking budget deficits and debt problems is through economic growth which boosts tax revenue and limits some government expenditure, say on unemployment benefits, but the US budget deficit is so large that superior growth will be likely just to reduce the rate of growth of outstanding public debt in relation to GDP. Productivity growth in the USA is far superior than in the countries mentioned above which leads to the expectation that its economic growth will outpace that of these three countries. This leads on to the position of those three of the G7 countries which have significant debt problems. Outside of those three countries, there is always a concern about the level of Italy's debt but investors see the position there as more stable for the moment.

Perhaps the country with the greatest difficulty and risk is France and, as the second largest economy in the eurozone, this has implications for the rest of the monetary union. At around 5.8% of GDP, France's budget deficit is well above the level permitted by the EU but, even if it were not constrained by that limit, it would be a dangerously large deficit implying a significant structural deficit. France has not balanced its budget since the 1970s and, as a result, outstanding government debt as a percentage of GDP has continued to rise, now standing at about 113%. It used to be considered that any level of over 90% would impact on a country's future growth prospects because of the burden of debt servicing costs and, if that belief is correct, France's growth prospects would be impacted. This would limit the expansionary nature of any government's budget proposals. France has some particular issues, namely the ratio of government expenditure to GDP, which is about 57%. Attempts by previous governments to tackle the level of present and future expenditure have been met by strong opposition, some of it played out on the streets of France. The cost of pensions has been one of the major areas of contention. The particular problem at the moment is the political vacuum in France following the inconclusive parliamentary elections last year. With populist parties on the left and right opposing the austerity measures needed to control the outsize budget deficit, the government has resorted to taxing large companies and wealthy individuals more to try to raise money to address the immediate issues arising from the size of the budget deficit. These are considered easy targets but the messaging is bad as far as the investment attraction of France is concerned. They show an anti business and anti wealth attitude which is probably not what the centrist Prime Minister, M. Bayrou, will want but he is constrained by the particular make up of the French parliament where there are few centrist deputies. The Prime Minister's latest suggestion that France should get rid of two of its public holidays has been met with the usual push back. The Prime Minister said the measure could generate "several billion euros". His words were of an apocalyptic nature. He said "we must never forget the story of Greece". He added "every second, France's debt increases by €5,000" and he criticised a mindset in which "people expect the state to pay for everything. We have become addicted to public spending". The Prime Minister's goal is to reduce the budget deficit to 2.9% of GDP by 2029 which is, he says, "the threshold at which, in a country like ours, the debt no longer grows". He said that "the state must not spend a single euro more in 2026 than it does in 2025" with the exception of debt repayments and military funding. The government will eliminate 3,000 public sector jobs, shut down "unproductive agencies", freeze pensions and cap all social benefits at 2025 levels. A contribution from the wealthy is also planned, though the details will be determined by parliament. Predictably, most of these measures have been broadly opposed by the left, right and trade unions and the weak position of the government, which might be the subject of a no confidence vote, casts doubt on whether the measures announced will be enacted. How will this end? M. Bayrou's warnings are completely realistic given the state of France's public finances. The difficulty is the large size of the public sector and an unwillingness by the electorate to take the problem seriously. If the trajectory of the budget deficit does not improve, potential bond investors might want to be paid more or absent themselves from the market. It is instructive to note that France pays about the same rate of interest on its ten year government bonds as Greece which has made a remarkable recovery from its debt crisis of the 2010s. M. Bayrou is not crying wolf. France's debt situation is serious and the French public seems to have little appetite to accept that it is. Given the politics of France, it is difficult to see how public spending can be brought under control and the budgetary situation improved given the importance of the French state in the economy. Of course, any problems in France cannot be isolated within the eurozone. At the start of 2025, French debt was €3,346 billion. Furthermore, a vulnerability is that around 50% of France's overall government debt is owned by foreign investors.

Whilst France may have problems with its finances, the UK may not be far behind and there are worrying similarities with what is happening in France although manifested in a different way. The budget deficit at 4.8% of GDP, whilst way too high, is below that of France. Outstanding debt as a percentage of GDP is also lower than the French figure at 96.9% but heading in the wrong direction. The UK also has to pay more for its money. The ten year UK government bond yield is currently 4.57% (31st July) well above France's 3.35% (31st July). Unlike France, the UK government has a large parliamentary majority which one would normally expect to support its own government's policies. In the UK, government spending as a percentage of GDP has been rising and now stands a 44.4%, much lower than in France but moving in its direction. Controlling public spending in the UK is proving to be very difficult for the government. Amongst the particular problems facing the UK is the size of the welfare bill and the amount of government debt in the form of index linked securities. The welfare bill is growing dramatically but modest attempts to restrain it were opposed by the government's own MPs and had to be abandoned. Given that the contingency allowed for in last March's budget (£9.9 billion) has almost certainly been more than eliminated, the inability to implement public spending cuts (effectively a lower rate of increase in spending) means that the Chancellor is likely to have two choices this autumn, either relax her spending rules and borrow more or raise taxes, neither of which she would have wished. The 30 year government bond markets in the UK and USA have proved very sensitive to unsettling events and any abandonment of her fiscal rules, which she emphasised at the outset of her term in office, would be likely to be badly received by investors and push UK borrowing rates higher which could necessitate emergency action. The risks of this choice would seem to be too great. The size of the index linked UK government debt is now proving to be a problem. When inflation was very low, it did not seem a big issue but now it is becoming problematical. Index linked gilts account for about a quarter of the total issuance of gilts and now perhaps it doesn't look to have been such a good idea to issue so many. The fiscal outlook for the UK is poor and, assuming the Chancellor does not relax her fiscal rules and, given the government's inability to get cuts to the UK's welfare bill past its backbenchers, tax increases seem inevitable. Given the government's pre-election pledge not to increase taxes on working people, there is perhaps quite a narrow scope and, as in France, it may be the corporate sector or wealthy who bear the brunt of the tax increases. If this is the case, the messaging would not be good. Companies have faced big increases in National Insurance employers' contributions, minimum wage, business rates together with further cost increases and regulation arising from the forthcoming employment rights legislation. Whether or not one believes these were the correct measures for the government to take when it gained office, the economic consequences and messages for businesses and investors are negative. Similarly, the exodus of non doms from the UK looks to have been costly and sends a negative message to wealth creators. So, for France and the UK, both facing serious budgetary and debt problems and unable to control public spending because of political (and social in France) opposition, it looks as if tax increases are the lesser of two very bad options. The worst option would be to allow the fiscal rules to be loosened because that could frighten bond investors and send the bond markets sharply lower leading to a crisis of confidence. Tax increases would introduce a slow burning doom loop as they would weaken economic activity with negative implications for growth and government finances, in other words a vicious economic circle. Against such a background, the messaging for direct and indirect investors in these two countries is negative. The contrast with the USA is striking.

Japan is the most indebted of all the major countries although it's not a feature which figures as prominently as the debt position in the USA, France and UK. Japan's government debt to GDP ratio is an eye watering 237% and its budget deficit is 5.5% of GDP. What gives the Japanese government bond market some protection from pressure which may be felt elsewhere is that 52% of outstanding Japanese government debt is held by the Bank of Japan as a result of past Quantitative Easing (QE) and just under 12% by foreign holders. So, although the debt level is extraordinarily high, the monetary policy followed by the Bank of Japan has avoided the sort of blow out one might have found elsewhere. But things are stirring in Japan. Inflation, of lack of, has been the problem in the past since deflation can be as big a problem as inflation in certain cases but now inflation has become an issue. The latest consumer price index is 3.4% higher than a year ago and the bond market is starting to recognise this. So far this year, the 10 year JGB's yield has risen by around 48 basis points to stand currently at 1.55% (31st July) and the 30 year JGB's yield has risen by 85 basis points to 3.11% (31st July). If the low level of foreign ownership gives some protection against a crisis in the bond market, increased servicing costs for debt will weigh on the budget deficit. At the moment, after the LDP suffered at the polls in the election for the Upper House, there is a political hiatus. Japan does not seem to be such an immediate issue as may be the case, say for France and the UK, but the bond vigilantes are likely to be hovering as they have been seen to do in the USA and almost certainly influenced President Trump's retreat on tariffs after 2nd April. The 15% tariff rate agreed with Japan has temporarily at least boosted confidence in the Japanese market.

One cannot help but notice how President Trump is able to make good and bad things happen in the USA and compare these actions in the USA with painfully slow developments in other countries. This is not a political point, merely a fact. Again, to make the point we have made in a number of previous reviews, investors must judge President Trump on what he does rather than what people's view of him personally is. The contrast with the UK, Europe and Japan, for example, is instructive in the context of actions being taken, even though they might not be the right ones. He is able to make things happen because he controls most of the levers of power. So his One Big Beautiful Bill Act is passed, keeping taxes low. That may not be great news for the government's finances, something we have discussed at length in this review but it has happened and lower taxes are generally better for markets. His deregulation push is underway and, whilst some of it might be controversial, deregulation is more likely to be positive for economic growth at little cost. President Trump is a transactional President with his business career showing that he likes to do deals. He is bringing this style into his bargaining on tariffs and seemingly having some success and if, for example, the present inward investment in the areas of pharmaceuticals and technology occurs that will be positive for the US economy. Certainly, countries seem to be keen to do deals with the USA so this can be counted as a success in some ways even though tariffs, in principle, are bad. The USA is generally considered to have come off better from its tariff negotiations than the countries facing them. At this point, it does not look as if the USA is going into recession and company earnings are expected to rise usefully this year and next as outlined earlier. The tentative conclusion at this stage of the year is that the US economy is performing better than may have been expected, although the jobs revision announced at the beginning of August were a shock, the chances of a tariff induced recession are falling, the USA is having some success in its tariff negotiations through agreements with other countries which are keen to avoid the negative effects of tariffs on their exports by investing in the USA. In relative terms, it is hard to say that the position of the UK, EU and Japan has improved against the USA, in fact they look to have become worse and we do not see any reason to reduce our exposure to the USA.

Of course, these are very early days in the chapter of turning the clock back on free trade. So far, after the initial shock occasioned by the size of tariffs announced on 2nd April which resulted in the sharp market falls, the market has recovered strongly as President Trump rowed back on the magnitude of the tariffs in the face of the adverse reaction seen in the long dated US Treasury bond market. Volatility has died down and investors are taking a sanguine view of how the world will adapt to the new economic era. We do not know precisely how the final tariff outcomes will affect the world economy, but the chances of a global recession seem quite low at the moment. Whether investors have called this right remains to be seen. On balance, we think that they have. However, there are obviously going to be longer term consequences which we can only guess at although some we can be more certain about, one of which is supply chain management. The world of freer trade has become increasingly interdependent and interconnected and the dislocation to supply chains caused by President Trump's tariffs will cause companies to rethink how they operate. Their decisions will be dictated by the need to reduce risks and the USA may be seen to be an unreliable partner in the supply chain. On the other hand, as we have seen with the big investments announced by some foreign companies in the USA, they may not want to risk losing access to an enormous market so increasing their manufacturing capacity in the USA may be seen as the pragmatic way to avoid the risk of suffering tariffs on their exports to the USA. The consequences of President Trump's tariff policy will be seen over many years in ways which we cannot presently foresee.

We talk about geopolitical and economic influences on markets and so far we have concentrated exclusively on the economic consequences. The geopolitical issues remain very serious, notably Ukraine and the Middle East, but markets, and this is not meant in a callous way, seem to be inured to events such as these and tend not to react, other than perhaps in the very short term. It's difficult to know how these will play out. Any sort of peace in the Middle East would be bound to be welcomed because it has been a source of instability for so long and one of its influences, of course, being the oil price. No one knows how the Ukraine war will end but we can see that it is having political and economic consequences in Europe as defence spending is being ramped up. The huge increase in defence spending in Germany is a seismic event by its political standards and, although it's never a nice thing to say about a war, the extra defence spending in Germany will have positive economic consequences.

However, at the moment, assuming the situation in the Ukraine and Middle East doesn't deteriorate even further, our investment view is informed by economic events and, in particular, our concern about the risks in the bond markets occasioned by weak public finances in some countries which, if not handled carefully, could cause problems in the bond markets which, as we have seen, are very sensitive to bad news. We highlighted the state of public finances in France and the UK and the dire warnings of the French Prime Minister which could also be applied to the UK. Political weakness, manifested in different ways, in both countries means that tax increases are likely to be employed as a way of bringing down the budget deficits but that risks a doom loop in the economies. The situation is very similar in the USA but its advantage of having the world's largest reserve currency gives it some protection, but not for ever. Bonds still, for us, hold a high degree of price risk and, so, we remain with equities as our preferred asset.