Current Positioning
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The past month summed up

Big and beautiful? Maybe not, but amid the chaos there are positive aspects to President Trump's policies.

The rationale

Our central view is that the Trump administration has injected increased uncertainty into financial markets that undermine an otherwise positive trajectory and has slowed the pace of interest rate cuts. However, there are positive aspects to his policies and the One Big Beautiful Bill may help bring more investment within the US and accelerate capital spending by companies there. Furthermore, the broad sweep of economic data is relatively benign with little evidence of increased inflation – yet.

Overall, it looks like the market has now digested the Trump approach – controversial, bold announcements that superficially shift policy on a whim – meaning investors are now less reactive than they were in the early couple of months of his presidency. Leaving aside any partisan language on "tacos" (Trump always chickens out) it appears that the President has used rhetoric to get things moving in terms of trade rather than setting in stone strong policy objectives in relation to higher tariffs.

Thus, the fears that emanated from markets after the so-called Liberation Day, when the President announced a swathe of tariffs based on what looked like an equation cribbed from a high-schooler's maths jotter, have subsided markedly. Stock markets have bounced back. Investors are becoming more bullish with cash levels – elevated ones signal a reach for safety – falling from 4.8% in April to 4.2% in June according to Bank of America. Asset allocation shifts from bonds to equities again indicate that investors are more positive.

Market shrug

An impediment of course in writing such a piece as this are those sudden swings in policy – President Trump announced increased tariffs on Japan and South Korea in recent days and has been talking up the chances of higher trade charges for Canada and the EU. Markets so far however seem to have taken this with a bit of a shrug – on the day after the Japan and South Korea announcement the MSCI World Index was essentially flat.

What then of the effect of Trump's signature policy initiative — the One Big Beautiful Bill — that contains a raft of fiscal and spending measures? Here, amid the usual noise that the administration creates, it's all too easy perhaps to miss out on elements that are very positive for corporations. Tax breaks on capital expenditure and net interest payments will encourage money to come into the US and for companies to ramp up activity – all positive for the economy and for businesses (feeding into our ongoing theme of developed country infrastructure and capital upgrades). These policies may even perhaps overcome some reticence on the part of investors to increase activity in the US due to the eternally shifting sands on tariff policy.

Time healing all wounds?

One thing that the Trump administration has done by shaking things up so much is that it has created almost a "year zero" perspective, such that it can seem that all that matters is the here and now without any context of what has taken place before 2025. The recent sanguine nature of markets means that it's now more visible how resilient the US private sector has proven, having overcome a serious bout of inflation and elevated interest rates without major damage or an oft predicted recession. Inflation for the moment seems becalmed – above target but well within manageable rates. Everything is looking a bit more sunny from a corporate perspective as well, with Bank of America's US earnings revision ratio at a 10-month high, having climbed from 0.88 in May to 1.15. A snapshot of job filings at the start of July showed those looking for unemployment benefits fell to a seven-week low.

Which means we are back in the balance, hoping for growth but not so much that it would spook the Federal Reserve and lessen the chance of interest rates cuts later in the year. Fed Chairman Jerome Powell seems to be in a wait-and-see mood, having stated that he likely would have cut interest rates by now were it not for the uncertainty caused by the introduction of higher tariffs. However, the Fed is leaning towards cutting at the end of the summer.

Flip flops

Which brings us back to the same risk that we have identified before with the Trump administration. The flip-flopping on tariffs and general uncertainty must put some damper on economic activity even as markets seem to shrug off any suggestion of heightened trade tensions. Tariffs, essentially a domestic tax on imported goods, increase the chance of higher inflation, at least temporarily. But so far there is little evidence of this filtering through into the wider economy. Goldman Sachs has told investors it is on the lookout for early signs of tariff-induced inflation in upcoming company reports, where the impact may be to narrow margins as companies absorb higher costs, or in lowering demand should customers recoil from higher prices.

So, while it may seem reassuring that markets are more relaxed about the administration's policies at the moment, that relaxation is itself is a risk factor – should sentiment shift sharply again that could apply downward pressure on equities once more – in other words it's still right to remain balanced overall.

The bad bits

Not everyone loves the One Big Beautiful Bill and prominent amongst this group are fiscal hawks, believing that the plans do nothing to rein in government spending and instead add significantly to borrowings. The independent Congressional Budget Office reckons that the bill will leave the US deficit $2.4 trillion wider than would have been the case without it which is unsurprisingly sending bond yields higher, climbing from 4.2% in late June to 4.4% – in essence investors are charging the US government more to lend it their money.

We are remaining cautious on US Treasuries and sticking at the shorter end of what government bonds we do own, where the impacts of swelling deficits and debt levels are less of a factor.

Local heroes

The changing trends in markets beyond the coming months continue to provide opportunities. In particular, the retreat of globalisation and evolving alliances are shifting capital and investment along more strategic nationalistic lines. Having an eye to the potential for regional leaders rather than global leaders is an area of focus.

There's clearly an opportunity for the defence industry as Nato members, egged on by Trump and increasingly fearful of Russia, ramp up their investment, although money may not be spent in the same areas as before. American giants such as Northrop Gruman and Lockheed may miss out on investment from European nations more focussed on ensuring a domestic supplier is not at risk of being used by a rival or ally as a tool of foreign or economic policy.

The shifting world order is providing plenty to consider in terms of risks and opportunities, particularly as governments start re-arming, re-energising industry, and renewing tired infrastructure.

Conclusion

There is no doubt that markets are calmer than they've been for several months, and it's clear that investors recognise the positives in the economy and in elements of the Trump administration's policies. However, we are also susceptible to continued rule by overnight social media messages where policies may appear to shift rapidly from day-to-day. At the same time investors await eagerly for any signs that the tariffs already in place may eventually spark inflation and lessen the chance of interest rate cuts in coming months.

We remain neutral in our allocation, balanced between equities and bonds. This does not mean that we are not busy within asset classes, looking for fresh areas to find growth in companies well-placed to deal with any geopolitical risk and broadening our spread of investments across regions, industries and currencies. With tensions still raised, we are continuing to hold a core exposure to defensive assets such as gold and some hedge funds.
