



Baked in Alaska

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August is typically a holiday month in the UK and Europe, a period during which financial markets tend to be quieter as investors take a well-earned break after a busy start to the year. Yet there has been nothing typical about 2025, a year already chock-full with market moving news flow.

August has proved no exception in this regard; big developments on the economic front, ongoing uncertainty surrounding US trade policy and its ramifications and to cap it all an embryonic, but potentially hugely significant geopolitical breakthrough in relation to the Ukraine conflict. Not that anybody is taking anything for granted, not least the financial markets where the acknowledgement that there is still much work to be done is pervasive.

President Trump's historic mid-month face-to-face meeting with Russia's President Putin in Anchorage, Alaska was followed swiftly by a meeting with Ukraine's President Zelensky, flanked by seven senior European officials including the UK's Sir Keir Starmer at the White House. Clearly, the two sides remain far apart, but US-brokered efforts to intensify

the pace of discussions aimed at bringing the long running conflict to a conclusion signal cautious, but hugely important, progress. Arriving at a solution acceptable to all parties will not be straightforward, but discussions relating to the practicalities regarding possible territorial swaps and security guarantees for Ukraine do represent a major step forward.

*“Diplomacy is more than saying or doing the right things
at the right time, it is avoiding saying or doing
the wrong things at any time”*

Bo Bennett | *Entrepreneur and Author*

Markets have acknowledged the progress achieved so far, but remain cautious regarding an ultimate outcome which may still be months away. President Trump has threatened additional economic and financial sanctions against Russia were the latter to drag its heels while, conversely, achieving a peace deal could result in the US easing its sanctions even if Europe remains cautious. Such a development would likely be welcomed by India after additional 25% tariff rate (to 50%) was confirmed, reflecting its ongoing commitment to break US / Western sanctions and continue direct purchases of Russian oil. It seems unlikely, though, that Brussels or Berlin would be quick to resume large-scale imports of Russian energy, particularly so now that promises have been made to the US administration as part of the region's swiftly concocted trade agreement. Neither would it appear likely that European governments might revise plans to increase defence spending (indeed the rearmament programme might be viewed as even more necessary as part of a lasting regional deterrent).

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Tempting as it might be to ascribe the ongoing euphoria across the world's stock markets to hopes that the Ukraine conflict might now be entering its closing months, the reality is that far more traditional forces have been at work. After swooning in early April stock markets around the world have staged a powerful revival. The Japanese Nikkei 225 has, after four decades, achieved a new all-time high and the Chinese stock market has hit levels last seen a

decade ago. Meanwhile in Europe the index of the UK's leading one hundred companies hit its own all-time high just before the Bank Holiday, joined in so doing by stock markets in Italy and Spain, while in the US technology-related exceptionalism has contributed to a series of high-water marks. In a world in which the hitherto atypical has become the norm stock markets are experiencing a cognitive dissonance in which expectations for future economic growth (augmented by a generally successful corporate reporting season) are working in tandem with expectations for even more interest rate cuts, an odd pairing which historically do not go hand in hand.

But while stock market highs have taken all the headlines, performance across the government bond markets has been more muted and far more nuanced. While short-term borrowing costs have fallen in both the UK and the United States, equivalents with a longer date to maturity have risen sharply. In the United States this divergence gathered pace over the month as doubts have increased over the health of the economy in the context of a pronounced weakening in employment conditions, a weakening that caused the under-fire Chairman of the Federal Reserve Mr Jerome Powell to signal a possible policy adjustment and rate cut at next month's decision meeting. Furthermore, the White House has kept up its attacks on senior rate-setting officials, demanding that Governor Ms Lisa Cook step down owing to allegations of mortgage fraud, allegations she denies and has promised to fight.

Unlike its US counterpart, the Bank of England has cut interest rates for a fifth time in a year, by a further 0.25%-points to 4.00%. Although the domestic economy has proved stronger than previously anticipated over 2025 to date it remains doubtful whether the resilience can be maintained. Another austere Budget seems highly likely in the autumn and whilst the Bank might like to do its part to offset the impact of higher taxes, its hands are tied both by a steady rise in inflationary pressures and the risk that by supporting growth prices might be driven higher still. Furthermore, falling interest rates have not been accompanied by falling gilt-edged yields

(which typically influence the interest rates paid by households and businesses on mortgages and other loans). Indeed, two and five-year gilt-edged yields are higher now than they were when the Bank first started its rate cutting programme in August last year.

Uncomfortable as the UK's predicament may be, it is not as severe as that of France where Prime Minister M. Francois Bayrou has called a confidence vote in his minority administration (8th September), prompting Economy Minister M. Eric Lombard to warn that without austerity measures IMF (or perhaps EU) intervention might have to be countenanced, a shuddering reminder of the UK's 1976 fiscal crisis and national humiliation.

Warning or threat, French long-dated borrowing costs have risen to levels not seen since the snap legislative elections of July last year as markets fear the weak government may collapse.

Events over August have served as another reminder that the best way for investors to survive the icy blast of persistent uncertainty is to build and hold a carefully crafted and broadly diversified investment portfolio, maintained under the ever-watchful gaze of highly experienced wealth managers. Financial market investments held for the longer term can ride out periods of short-term volatility, whilst providing a handy dividend yield into the bargain.

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