

Investment report for Teesside Pension Fund

June 2025

Political and economic outlook

I said in my last report that hopefully things would become clearer and Trump would become more predictable. Unfortunately this is not turned out to be the case and the man gets wilder and, unbelievably, more unpredictable day by day. It is hard to calculate the damage Trump is causing internationally. After Ukraine's masterful attack on Putin's strategic bomber fleet and the Kerch Bridge significant retaliation by the Russians was to be expected. What was not expected was that Trump would, at the same time, divert 20,000 anti-drone missiles destined for Ukraine to other parts of the world.

His love affair with Putin puts Europe at significant risk of conflict with Russia sometime in the future. Clearly the current US administration doesn't care one way or the other which is a little bit unsettling, and not particularly good for financial markets, the world economy and international stability.

Domestically Trump seems to be on a bit of a roll with riots in Los Angeles and the calling in of the National Guard giving him an opportunity to cement his image as a hard man and increase his popularity with many US voters. Unfortunately for Donald his behaviour betrays him as just the opposite of a hard man. Rather as a man a little deranged and not on top of his brief in any regard at all. Despite all this, members of his government and the Republican party have remained fiercely loyal and the Democratic party seems to have raised no meaningful issues about his behaviour or performance.

If Trump is aiming to get more investment into the United States by the use of tariffs his spat with Harvard and perversely Musk will have the opposite effect. By restricting immigration from 12 countries and in his approach to students the president is not appearing very genuine in welcoming a more participative approach from the international community.

Trump's behaviour has been a wake-up call for Europe which has responded by taking its defence seriously. This does not mean that Europe can effectively replicate the umbrella provided by the United States in defence but it does hopefully mean that it could close the gap to an acceptable level. Furthermore it could pave the way for closer ties between Europe and the UK which would provide a much needed boost to economic growth in the UK.

The Labour government is feeling its way after a number of missteps at the beginning of its administration. Its economic stance has been timid despite the majority it has in Parliament and the mandate it was given at the general election. If the Chancellor is to achieve sustained and higher economic growth she cannot afford to continue with policies that mirror the previous Conservative government. The spending review on the 11th of June will be key in showing whether that cautious stance has changed. How it is presented is likely to be key in the fortunes of this government and whether it gets a second term.

Markets

My view on markets remains again much as it did last time.

Despite vagaries of International politics the major stock markets have remained surprisingly resilient, showing no weakness. It is even more surprising that this has occurred in an environment of rising long-term interest rates and higher government borrowing. A cautious approach to

both fixed interest and equity markets is required as the outlook is unlikely to improve materially over the medium term despite low and stable inflation. Index Linked markets are also likely to remain subdued.

Given the low economic growth environment in the UK the property market will remain quiet.

Private equity and unquoted markets remain difficult due to a lack of liquidity and finance, this is a position which is unlikely to change anytime soon.

Portfolio recommendation

The good news is that the fund has a very satisfactory funding level which gives it a significant financial cushion and therefore options.

It would seem that we are entering a period of lower investment returns partially as a result of political uncertainty and higher government borrowing and expenditure.

Our experience of returns in the unquoted and private sector is likely to disappoint and there's little we can do to ameliorate this.

There is nothing to promote any significant change in the portfolio as uncertainty reigns and therefore my recommendation is to leave the portfolio weightings as they are.

Peter Moon

9 June 2025

