



## Independent Adviser's Report for Teesside Pension Fund Committee

William Bourne

12<sup>th</sup> September 2025

### Market Commentary

1. In my last report I commented on the resilience of equity markets against the fundamental background of low growth and higher inflation. I suggested it was largely due to easy monetary policy, but that we should brace for market volatility at some point.
2. If anything this background has intensified. Although monetary policy is already loose, low economic growth is leading to **political pressure to cut interest rates further**. Central banks have resisted on the basis that consumer inflation is above target at 2.7% in the U.S., 3.8% in the U.K. and 2.3% in Europe. But further rate cuts look inevitable at least in the U.S. as economic growth data deteriorates.
3. U.S. Bond yields have steepened (yields on longer dated bonds have risen, while short-dated ones have fallen). This can indicate accelerating economic growth, but at least in America it is more likely to be a function of the dire fundamentals at the longer end of the bond yield curve and rate cut expectations driven by worsening economic data at the short end.
4. There has been a lot of speculation about the identity of the next Federal Reserve Chair. Trump is evidently trying to pack the Fed. Board in his favour by trying to sack one Governor, Lisa Cook, and appointing his chief economic adviser, Stephen Miran, to another vacant slot. Though the dollar has weakened and bond yields have risen, markets have not yet reacted adversely to these moves.
5. The tariffs 'war' rumbles on. China and the U.S. have agreed to another 90-day pause, taking us to November. India and Switzerland have become Trump's latest targets, while other countries such as the E.U. and Japan have done deals. I repeat what I said last time, that **in aggregate tariffs will be bad for global prosperity**. They contravene the bedrock principle of economics that trade benefits both parties. Ultimately the private sector, whether consumers or producers, must pay for them. The U.S. may – I stress the word 'may' – be a winner in the short term, but there will be losers elsewhere.
6. The resilience of equities is perhaps less surprising today than two months ago, given the easy liquidity background. But U.S. valuations remain high, albeit concentrated in the mega tech stocks, relative

both to their own history and to the rest of the world, and global indices are even more concentrated.

7. **The exception to the big picture is China, which remains mired in deflation.** Producer price inflation (i.e., goods coming out of factories) at -3.6% has been negative for nearly 3 years. Consumer inflation over the last 12 months has been zero. Chinese economic growth at 5.2% remains higher than the West but it is slowing under the pressure of demographics and an overvalued currency. It may also have been affected by the front-loading of exports ahead of the imposition of further U.S. tariffs.
8. The fiscal stimulus earlier this year failed to have much beneficial effect on the Chinese economy, and the People's Bank of China's monetary stance is out of line with the world, probably because it fears easier policy would force it to devalue the Chinese currency. The collapse in trade is undoubtedly one of the reasons behind China's travails, but their problems feel more structural.
9. In the U.K the Government's fiscal problems have come to the fore, and spending cuts or (more likely) **tax rises are inevitable at the 26<sup>th</sup> November Budget.** Despite the Government's stated focus on growth, the 2025 forecast is 1%, half of what was expected a year ago. This puts further pressure on the Government's finances.
10. It is worth keeping an eye on Japan, where bond yields have risen even more steeply, and the Prime Minister has just resigned. There is a tussle within the LDP (the leading partner of the current coalition Government) which could lead to a sharp turn in economic and financial policy.
11. I commented above that market volatility had reduced. We should not conclude from this that all is well. Tariffs, low economic growth, fiscal incontinence, and higher bond yields are all negatives for corporate earnings growth. In the short term investors have chosen to ignore them and continue to be 'risk on' while monetary policy is loose. But **at some point the fundamentals will come back into play and valuations will fall back.** The question is when.
12. The most important determinants of both bond and equity markets in the short term will be i) how far the next Federal Reserve chair will accommodate Trump ii) what China does to extricate itself from its deflationary spiral. There are potential positives as well as negatives here, but the downside is greater because equity valuations, especially in the U.S., are so high compared to history.

## Portfolio Recommendations

13. We are back to an environment of quantitative easing. For the time being this is benign for assets, but there will be a reckoning sooner or later. I believe that (much) higher inflation is almost inevitable unless politicians grow a backbone, and we should look for ways to mitigate that risk. The Fund's equity weighting is lower than it has been historically, and I believe that is appropriate.