

**GILT MARKETS MOVED BY CHANCELLOR'S DISTRESS BUT UNPHASED BY POTENTIAL FOR LARGER US DEFICIT**


This week Rachel Reeves' employment prospects delivered a reminder of just how unsettled financial markets are. The chancellor appeared visibly upset by the lukewarm support offered by the prime minister after the government was forced into an embarrassing U-turn on welfare reform. The fact that a tearful few minutes in Parliament were enough to cause sterling and gilts to fall show investors remain sensitive to any suggestion the UK government could go on an unfunded spending spree.

There appear to be fewer concerns about the US government's rapid increase in its deficit as Donald Trump's "Big Beautiful Bill" was signed off by Congress. Official estimates show that the bill's tax cuts and additional spending will increase borrowing by \$3.4tn over the next 10 years, but the dollar and treasury yields were unmoved. However, the latest data showed the labour market remains strong. With the latest purchasing managers' indices showing the American economy continuing to expand, there are more reasons for the Federal Reserve to keep rates elevated.

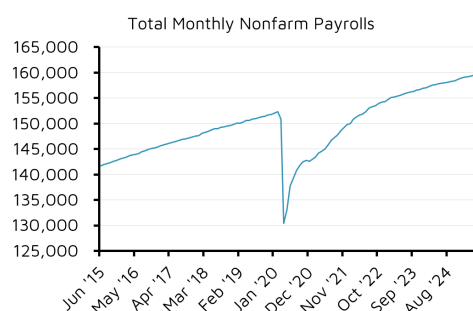
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.11%	+1.33%	-1.28%	-0.65%	-1.64%	+0.08%	+0.03%	+0.10%	+2.42%	-0.88%	-0.61%

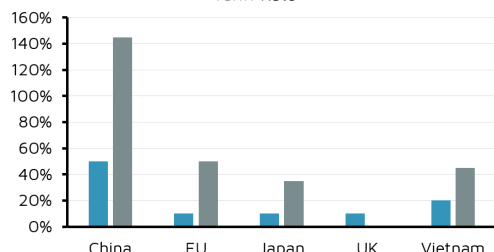
US: STRONG JOBS MARKET ADDS TO FED CASE TO LEAVE RATES UNCHANGED

 The US jobs market proved surprisingly strong in June as the economy added 147,000 new jobs. This was a slight increase from May but was far more than the forecast of 100,000 new hires. The US unemployment rate edged down from 4.2% last month to 4.1%. Earlier in the week the number of vacant positions in the Jolts jobs report also came in higher than expectations. This helped the US dollar reverse a little of its recent slide as it makes an interest rate cut by the Federal Reserve less likely at its next meeting, while the Bank of England is talking up the potential for a rate cut in September.

Meanwhile, President Trump's flagship tax and spending plans edged closer to becoming law after the "big, beautiful bill" was narrowly voted through the Senate. It requires approval by the House of Representatives but this is far from a formality as the Republicans hold only a small majority. Several Republican representatives have raised opposition to the additional borrowing as forecasts say the bill will add \$3.4tn to the US deficit over the next 10 years.

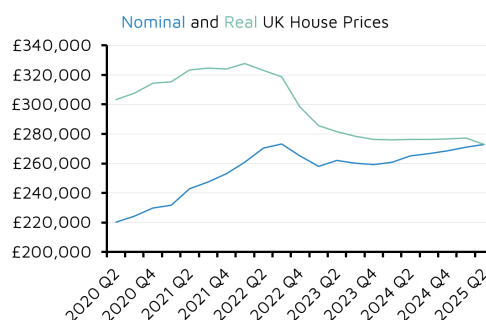



Current Reciprocal Tariffs and Last Threatened Tariff Rate

**TRADE: TARIFFS DISTORT GLOBAL TRADE WITH NO RELIEF IN SIGHT**

US Tariffs continue to wreak havoc on global trade. Ships are having to wait days at major European ports, especially Rotterdam, Antwerp and Hamburg, in the worst port congestion since Covid. Delays are expected to last for several months. Tariffs are also distorting US trade. After a mad dash to move goods in and out of the US to get ahead of tariffs in the first quarter, US exports suffered their sharpest monthly drop since 2020 in May, widening the US trade deficit.

The pause on Trump's 'liberation day' tariffs is set to expire on 9 July. The US has been gunning to secure deals with 18 of its major trade partners before then. But apart from agreements with the UK and with Vietnam, with Vietnam swallowing 20% US levy, there is little else. Japan has dug in its heels, and Trump threatened it with 35% tariffs, seeing as a deal was unlikely. The EU, South Korea and China see no deal in sight but will continue talks. But the EU has prepared counter-tariffs should Trump make a move next week.

**UK: SURPRISE DROP IN HOUSE PRICES BUT BUILDERS APPEAR POSITIVE**

 UK house prices fell unexpectedly in June with their biggest monthly decline in over two years. The cost of the average property fell 0.8% between May and June as the annual growth rate slowed from 3.5% to 2.1%. Prices fell in April as buyers rushed to beat the rise in stamp duty on 2 April but prices were expected to return to the usual pattern at this time of year. Prices are expected to start rising again as demand picks up as Bank of England figures show new mortgage applications increased in May.

The regulator is reviewing mortgage lending rules to help more people buy homes. It wants to ease affordability checks for enable more self-employed or employees with variable income and make it easier for people to extend mortgage terms into retirement to help older first time buyers. Squeezed affordability and lower consumer confidence in the last few years have weighed on UK listed builders, but potential changes to planning rules have helped the construction and materials sector outperform the wider market in recent months.

Data sourced from Federal Reserve Bank of St. Louis, Nationwide and US Customs and Border Protection

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