Kwarteng out; Hunt in

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Across the world, the interest rates that governments pay on their debt have surged this year. The problem of inflation, and what to do about it, has been a global problem and not just a UK one.

Since Kwasi Kwarteng was installed as Chancellor, UK 10-year bond yields have moved up by around 1%. Was this all his doing? Well, no. If we look at the US-equivalent, we see that those bond yields have risen by 0.5% in the same time. In investor terminology, we say 'global factors' account for about 0.5% of the UK's move, with another 0.5% coming from 'UK-specific factors'.

But, how much of that UK-specific factor is the 'Kwasi Kwarteng factor' is anyone's guess, but that's beside the point. Since the new Prime Minister and Chancellor came in, the speed and the volatility of the bond yield move, alongside the fall in sterling, tell us what the market is thinking. Even if inflation is a global factor, the UK government isn't going to play its part in bringing it down. And the market has little confidence that it has a plan to.

So, Kwarteng has been removed in favour of Jeremy Hunt. Restoring confidence in this government will require more than just a new chancellor and a tough balancing act between supporting the most vulnerable through the cost-of-living crisis while making the tough spending cuts/tax raises elsewhere to reassure global bond investors that the UK's inflation will come down.

The UK-related uncertainty looks set to be with us for a while. But as stated earlier this week, 7IM clients are largely insulated from the worst UK outcomes.

Our portfolios are structurally diversified away from UK exposure. As we've said time and time again, having all of our eggs in one basket has never been our approach:

- Currency: Holding foreign currency offers protection against specific local shocks – whether natural disasters or political uncertainty. In our Balanced portfolios, 40% of the portfolio is in non-Sterling currency. We can (and do) tactically increase or decrease this weight if needed – but it's certainly a reassuring starting point.
- Equity: Our equity holdings are also extremely diversified; only around 10% of the sales of the companies we hold comes from the UK – the economic health of the global economy is far more important to returns.
- Bonds: Similar to our equity positions, our bond holdings are also globally diversified. In a balanced portfolio, around 2% of the total portfolio is in UK-based fixed income securities, and even in the Cautious profile, the overall weight to UK bonds is less than 10%.

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