JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2017-18

The financial year 1 April 2017 to 31 March 2018 saw yet further gains in Listed Equity Markets across the world with the "equity bull market" (an upward trending market) completing over nine years of overall positive return. This is exemplified by the major United States Index the S&P 500 which closed (for Easter) at 2,641 on Thursday 29 March 2017 compared to a low of 666 touched on Friday 6 March 2009 the lowest level the US stock market hit following the crisis that centred on the 2008 fall of Lehman Brothers.

April to December 2017 was very positive for Listed Equity markets worldwide supported by good corporate earnings, healthy economic indicators and loose monetary policy by the major Central Banks. While January 2017 was again positive February and March were difficult with markets negatively affected first by concerns about rising inflation in the United States (related specifically to possible faster than expected wage growth) and then tensions over trade as the US imposed tariffs on China. Overall 2017-18 was clearly positive for Listed Equities worldwide, with, for example the S&P 500 up 12% over the whole period. 2017-18 was also notable for signs that the major Central Banks, and particularly the United States Federal Reserve, are gradually moving away from the ultra loose monetary policies of recent years. Overall however monetary policy remains extremely loose by historical standards.

The United States experienced another year of generally positive economic activity including clearly positive corporate results/earnings. Unemployment fell from 4.5% in March 2017 to 4.1% by March 2018 its lowest level since January 2001. Consumer sentiment (as measured by the authoritative University of Michigan Surveys of Consumers) was by March 2018 at its highest level since 2004. In December 2017, the Tax Cuts and Jobs Act 2017, the most radical overall of the US Tax Code since 1986 was signed into law. This Act included large corporate tax cuts. The extent to which these will result in additional capital investment rather than increased share buy backs will, however, only become clear with the passage of time.

The United States Federal Reserve, the world's most important Central Bank initiated a significant change of direction in monetary policy at its September 2017 meeting by voting to no longer reinvest all principal payments from its bond and debt holdings. This was a fundamental decision as in contrast to approaching ten years of huge expansion the Balance Sheet of the Federal Reserve will now in the words of its then Chair Janet Yellon (at a press conference on 20 September 2017) *"decline gradually and predictably"*

In addition, *“In view of realized and expected labor market conditions and inflation”* the Federal Open markets Committee, raised interest rates by 0.25% at its June and December 2017 and March 2018 meetings compared to twice in 2016-17. Notwithstanding this clear “tightening” of monetary policy by the US Federal Reserve its monetary stance remains “loose” in historic terms.

Supported by positive corporate earnings and generally positive economic data as well as accommodative monetary policy from the European Central Bank (ECB) 2017-18 was, overall, a moderately positive year for Eurozone Listed Equities. The Eurozone continued its economic recovery. At a press conference on 8 March 2018 Mario Draghi the President of the ECB stated *“incoming information……confirms the strong and broad-based growth momentum in the euro area economy….*” The Eurozone seasonally-adjusted unemployment which had been 9.4% in March 2017 fell to 8.5% in March 2018 its lowest level since December 2008. However, headline inflation at 1.3% in March 2018 (compared to 1.5% a year earlier) was clearly below the ECB target which aims at inflation rates of below, but close to, 2% over the medium term. This combination of positive economic indicators but weak inflation helps explain the ECBs very tentative approach to tightening monetary policy.

The ECB Governing Council slightly tightened Monetary Policy. Interest rates remained unchanged throughout 2017-18 with the Press Release issued after the March 2018 meeting stating *“the Governing Council expects the key ECB interest rates to remain at their present levels for an extended period of time…..”* Net asset purchases continued but at the October 2017 meeting it was determined to reduce these to 30 billion Euros a month from January 2018 *“until the end of September 2018, or beyond, if necessary”* however principal payments will continue to be reinvested *“for an extended period of time after the end of its net asset purchases.”*

In contrast to the significant gains in 2016-17 (facilitated by a weaker £ following the EU Referendum of June 2016 and subsequent loosening of Monetary Policy by the Bank of England) both the FTSE 100 and FTSE All Share indices declined slightly over 2017-18. Uncertainty over the economic outlook together with the limited progress of the “Brexit” negotiations exacerbated by divisions within the UK Government (which also lost its overall majority at the June 2017 General Election) were not supportive of UK Listed Equities during 2017-18.

The Bank of England’s Monetary Policy Summary of March 2018 stated *“Developments regarding the United Kingdom’s withdrawal from the European Union – and in particular the reaction of households, businesses and asset prices to them – remain the most significant influence on, and source of uncertainty about, the economic outlook.”* Notwithstanding such uncertainty unemployment during 2017-18 fell from 4.6% to 4.1% its lowest in over 40 years while inflation (as measured by the CPI index) remained clearly above the Bank of England’s target of 2% throughout the year. Inflation which had been 2.3% in March 2017 was 3.0% by September 2017. Consequently, at its meeting ending on 1 November 2017 the Bank of England Monetary Policy Committee (MPC) voted 7 to 2 to increase Bank Rate by 0.25% to 0.5% stating in their minutes *"a majority of members judged that a small reduction in stimulus was therefore warranted at this meeting to return inflation sustainably to the target. Monetary policy would continue to provide significant support to jobs and activity in the current exceptional circumstances."* By March 2018 inflation was 2.5%.

Clearly positive corporate earnings supported Japanese Equity markets during 2017-18. The Bank of Japan's "Tankan" survey of large manufacturers sentiment was very positive throughout the period. Equity markets also responded positively to the decisive election victory of Prime Minister Shinzo Abe in October 2017. The Nikkei 225 index increased by 13% over the year following its 15% increase the previous year.

Despite positive economic activity, very low unemployment – 2.5% at March 2018 and huge monetary stimulus in the form of asset purchases from the Bank of Japan, inflation in March 2018 was only 0.9% compared with the Bank of Japan's target of 2%. The reappointment of Haruhiko Kuroda for a second term as Governor of the Bank of Japan should, however, ensure a continuation of supportive monetary policy to seek to achieve target inflation.

Chinese, Asian (excluding Japan) and Emerging Market Listed Equities overall enjoyed a positive 2017-18 assisted by generally supportive corporate/ economic data.

Benchmark Government Bonds remained at historically low yields. The major Central Banks maintained an overall loose monetary policy approach but indications of a gradual "tightening" of policy by the US, UK and European Central Banks exerted an upward pressure on yields. The 10 year German Bund yield rose from 0.33% to 0.43%, the UK 10 year Gilt yield from 1.14% to 1.39%, and the 10 year US Treasury yield from 2.39% to 2.75% during the financial year.

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