JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background April to June 2018

During the period April to June 2018, in the context of continuing positive corporate earnings and economic indicators, Equity markets made further advances. This was despite the imposition of trade Tariffs by the United States.

The US S&P index advanced from 2,641 at the end of March to 2,718 by the end of June 2018 an increase of 3% over the Quarter. The United States continued to experience positive economic activity/data including further clearly positive corporate earnings. US growth, as reported by the US Commerce Department, reached a four year high of 4.1% (per annum) in the Quarter (compared to 2.2% (annualized) in the first Quarter of 2018). This was however clearly aided by one off factors including the stimulus from the tax cuts of late 2017 and a rise in exports as foreign purchasers sought to avoid forthcoming tariffs.

US Unemployment was 4% as at June compared with 4.1% at March 2018. US Core inflation (which excludes volatile energy and food prices) was 2.3% in June. Consumer sentiment (as measured by the authoritative University of Michigan Surveys of Consumers) remained very high, but at slightly lower levels than in the first Quarter of 2018 with concerns about the potential impact of tariffs on the domestic economy having a negative impact.

At its meeting of 12-13 June 2018 the United States Federal Reserve raised interest rates (the target range for the federal funds rate) by 0.25% thus continuing the process of gradual "tightening" monetary policy. Interest Rate forecasts issued after the meeting indicated two further likely increases during 2018. The Press Release issued after the meeting included the positive statement on the US economy that *"the Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective over the medium term."*

Eurozone Equities experienced a positive Quarter with good corporate earnings providing support together with a backdrop of continuing economic recovery (although GDP growth does appear to be slowing compared to 2017). The Eurozone seasonally adjusted unemployment rate fell further to 8.3% in June compared to 8.5% in March 2018 its lowest level since December 2008. Inflation as measured by the Harmonised Indices of Consumer Prices (HICP) which was 1.3% in March 2018 reached 2% by June 2018 which was a welcome indicator for the European Central Bank (ECB) which has a policy objective of inflation of below, but close to, 2% over the medium term. However, energy prices were the

main factor behind this 2% inflation figure and core inflation which excludes the more volatile elements of energy, food, alcohol and tobacco remains around 1%. This suggests a sustained inflation rate of just under 2% is still an objective rather than a reality.

At its meeting on 14 June 2018 the European Central Bank (ECB) made a significant move to both signal and enact a "tightening" of monetary policy when it determined to end its net asset purchases programme (APP) at the end of December 2018. This is a further clear sign that the (present) era of Quantitative Easing by the major Central Banks is drawing nearer to its end.

ECB monetary policy will however continue to be "loose" in historic terms as it was also determined to maintain the *"policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases."* Furthermore, the ECB Press Release also *stated "the Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019."*

The FTSE All Share index rose by approximately 8% over the Quarter with further weakening of the £ against the US Dollar over the Quarter providing a boost to UK companies with significant overseas earnings. The oil sector was clearly positive aided by higher crude oil prices.

At both its May and June meetings the Monetary Policy Committee of the Bank of England voted to keep Base Rate at 0.5%. The Committee moved from 7-2 against increasing rates in May to 6-3 in June indicating a building momentum for a rate rise (which occurred at the meeting ending on 1 August 2018).

Great uncertainty remained as to the future relationship of the UK to the European Union and indeed the world as a result of a lack of any clarity as to the likely situation from March 2019 when the UK is due to leave the European Union.

Despite rising world trade tensions Japanese Equities, as measured by the Nikkei 225 Index, advanced by approximately 4%. In contrast to the other major Central Banks the Bank of Japan continued to maintain, at both its April and June meetings, an ultra "loose" approach to monetary policy including a policy of keeping 10 year bond yields capped at around zero percent and an asset purchase programme maintained at an official pace of around 80 trillion Yen per year. This was in the context of Japanese inflation remaining well below the Bank of Japan's target of 2% despite huge monetary policy stimulus since 2013.

China and Emerging market Equities had a generally negative Quarter with global trade tensions, increasing US interest rates and the strength of the US Dollar weighing against these markets.

Benchmark Government Bonds remained at historically low levels during the Quarter. The 10 year US Treasury yield rose marginally from 2.74% to 2.86% while the UK 10 year Gilt yield fell slightly to 1.28% and the 10 year German Bund fell back to 0.3%. While April saw an increase in yields in the context of rising commodity prices and rising inflation expectations, with the US 10 year Treasury briefly rising above 3% in late April and again in mid May, increased political/trade uncertainty later led to a Benchmark Government Bond rally.

In conclusion notwithstanding the decision of the Bank of Japan to continue with its Quantitative Easing programme the June 2018, decisions and statements of both the United States Federal Reserve and the European Central Bank show that despite continuing "loose" monetary policy the world is now clearly in a "Quantitative Tightening" rather than a "Quantitative Easing" phase. Given that Quantitative Easing both lifted markets and lowered volatility then "Quantitative Tightening" will likely exert an opposite impact. However even though the monetary policy of the major Central Banks has a potentially major impact on financial markets it is far from the sole determinant of market direction and volatility. For example, one issue that has now emerged as a potential significant factor affecting markets is the trade conflict/tariffs arising as a result of President Trump's "America First" approach.

John Raisin
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