

JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background July to September 2018

During the period July to September 2018 Equity markets, as measured by the MSCI World index, made further advances. Regionally however there were significant divergences. US Equities experienced a very positive quarter while European and Japanese Equities also advanced positively. In contrast Emerging Markets had a generally difficult Quarter and UK Equities were negative.

The US S&P index advanced from 2,718 at the end of June to 2,914 at the end of September an increase of 7% over the Quarter. On 20 September the S&P 500 recorded an all time closing high of 2,931 while on 22 August US stocks set a new record for the longest bull run – a period without a 20% fall – when it reached 3,453 days exceeding the 1990-2000 bull market.

US unemployment which had been 4% at June fell to 3.9% in July and then to 3.7% in September its lowest level since 1969. US Core Inflation (which excludes volatile energy and food prices) fell slightly over the Quarter to 2.2% in September. To quote the University of Michigan Surveys of Consumers for September 2018 *“Consumer sentiment remained at very favorable levels in September...Consumers anticipated continued growth in the economy and expected the unemployment rate to continue to slowly decline.....”*

At its September 2018 meeting the US Federal Reserve raised interest rates (the target range for the federal funds rate) by 0.25% from 1.75-2.0% to 2.0-2.25% the eighth increase in the current cycle. As the Federal Reserve continues to remove the extensive monetary stimulus it put in place following the 2008 Financial Crisis the Press Release issued at the end of the September meeting excluded the phrase included in earlier releases that *“the stance of monetary policy remains accommodative.”* Interest Rate forecasts issued after the meeting indicated a further rate rise in 2018, three in 2019 and another in 2020.

Eurozone Equities experienced another positive Quarter despite continuing tensions as a result of President Trump's approach to world trade and threats by the Italian Government to approve a budget strategy breaching European Union spending rules. The Eurozone seasonally adjusted unemployment rate was 8.1% in both August and September 2018 compared to 8.3% in June 2018 which was its lowest level since November 2008. Inflation as measured by the Harmonised Indices of Consumer Prices (HICP) which had been 1.3% in March 2018 and had reached 2% by June 2018 was 2.1% in September which was a continuing positive indicator for the European Central Bank (ECB) which has a policy objective of inflation below, but close to, 2% over the medium term. However, while the HICP has remained marginally over the ECB inflation target core

inflation which excludes the more volatile elements of energy, food, alcohol and tobacco and is seen as a better indicator of longer term inflationary pressure remains around 1%.

ECB monetary policy remained unchanged during the Quarter. At both its meetings held in July and September 2018 the bank reaffirmed the decisions taken at its June 2018 meeting to end its net asset purchase programme (APP) at the end of December 2018 but 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. The July and September meeting Press Releases also repeated the statement in the June Press release that *“the Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019.”*

Therefore, although the ECB has clearly indicated a “tightening” of monetary policy through ending the APP it remains “loose” in historic terms as indicated by the continuing policy decisions on the reinvestment of principal payments from maturing securities and the maintenance of extremely low interest rates.

The FTSE All Share Index fell slightly in the Quarter. Concerns over global growth and trade influenced by the increasing trade tensions and tariffs between the US and China adversely affected those UK listed stocks significantly exposed to Emerging Markets while continuing and serious Brexit concerns will not have aided the UK focused mid cap (FTSE 250) stocks.

UK unemployment which had declined to 4% in June 2018 remained at 4% in July and August 2018 its lowest rate since 1975. Inflation as measured by the Consumer Price Index (CPI) which had remained above the Bank of England’s target of 2% since February 2017 was 2.4% at September 2018. At its meeting ending on 1 August 2018 the Monetary Policy Committee (MPC) voted unanimously to raise Bank Rate to 0.75%. Given in the words of Governor Mark Carney *“Employment is at a record high.....real wages are picking up....”* together with the view of the MPC that a tight labour market would continue to push up wage growth, the focus of the monetary policy now appears to be turning to restraining inflation rather than supporting employment.

At the meeting of the MPC which ended on 13 September 2018 the Committee unanimously voted to keep rates at 0.75% but indicated it would implement a gentle ongoing tightening of monetary policy as long as there was a *“smooth adjustment”* to the United Kingdom leaving the European Union. Based on statements issued by the Bank it would appear unlikely that there will be any further rate rises in 2018 but one or two in 2019 unless events post Brexit require the MPC to significantly reconsider its forward approach to monetary policy.

The Nikkei 225 equity index rose by approximately 8% during the Quarter to reach its highest level since the early 1990's. The Quarter saw Japanese companies reporting clearly positive corporate earnings. Notwithstanding these positives the Bank of Japan's "Tankan" survey of large manufacturers sentiment retreated in both the Quarters ending June and September.

In contrast to the other major Central Banks the Bank of Japan at its, July and September, Monetary Policy meetings continued to maintain its commitment to what might be described as financial crisis-era stimulus policies. The Press Release issued after the meeting ending on 31 July 2018 stated "*The Bank intends to maintain the current extremely low levels of short and long-term interest rates for an extended period of time....*" At both its July and September meetings the bank re-committed to its asset purchase programme at an official pace of around 80 trillion Yen per year. This was in the context of Japanese inflation continuing to remain well below the Bank of Japan's target of 2% despite huge monetary policy stimulus since 2013. The Japan Statistics Bureau reported that the Consumer Price Index (all items) was up 1.2% as at September 2018.

China and Asian Emerging markets had another generally negative Quarter with the continuing US-China trade tensions and strong US Dollar again having an adverse effect. The US imposed further tariffs against China leading to retaliatory measures by the Chinese government. In September President Trump announced 10% duties on about \$200bn of imports from China. Two days later China responded by imposing tariffs of 5% to 10% on \$60bn of American goods.

Benchmark Government Bonds, while remaining at low levels in historical terms rose during the Quarter. The 10 Year US Treasury yield rose from 2.86% to 3.06% while the UK 10 Year Gilt rose from 1.28% to 1.57% and the 10 Year German Bund increased from 0.30% to 0.46%.

Notwithstanding the further advances in the US Equity market during the Quarter and the longest US Bull run in history there are a number of factors now weighing on both US Equities and the US economy. Tighter Monetary Policy in the form of increasing interest rates will increase pressure on financial markets and companies while the US Equity market has performed noticeably better than world markets to the end of September and therefore European and Asian markets look more attractive in valuation terms. However, there are questions regarding economic growth in both the Eurozone and Emerging Markets and the potential development and effects of US trade and tariff policy.

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