JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background April to June 2019

April to June 2019 was a volatile, but ultimately positive, period for world equity markets. Trade tensions between the US and China precipitated an extremely negative May with the MSCI World Index losing almost 6% (in $ terms). In contrast April and particularly June were positive and for the Quarter as a whole the MSCI World Index gained 4%. The major Government benchmark Bonds (US, UK, Germany) all gained significantly in value, over the Quarter. Contributory factors included concerns over both trade (particularly in May) and global growth as well as indications from both the US Federal Reserve and European Central Bank of likely moves towards “looser” monetary policy.

The US S&P 500 index advanced from 2,834 at the end of March to 2,942 at the end of June 2019. The Index reached new record closing highs during the April. On 23 April the Index closed at 2,933 above the previous closing high of 2,931 of 20 September 2018. The Index achieved a new closing high of 2,946 on 30 April 2019. May saw a dramatic decline to 2,744 by 3 June before recovering to achieve yet another new record closing high of 2,954 on 20 June. At the Quarter end, on 28 June, the Index was at 2,942 an increase of 4% over the whole three month period. Very positive company earnings favoured US equities in April before trade tensions with China, including the imposition of new tariffs, first by the US and then by China, severely unnerved markets in May. June, however saw a dramatic recovery with markets bolstered by both hopes for and then progress in discussions between the US and China at the G20 summit in Osaka, as well as indications of future interest rate cuts by the US Federal Reserve.

The meeting of the Federal Open Markets Committee (FOMC) of the US Federal Reserve that concluded on 1 May 2019 maintained existing interest rate policy However, as the June meeting of the FOMC approached markets sensed the possibility of a move towards lower interest rates and therefore “looser” monetary policy in the medium term. In response to questions following a speech in New York on 30 May Vice Chair Richard Clarida was prepared to discuss the possibility of rate reductions while comments made by Chair Jay Powell in Chicago on 4 June were widely interpreted as an indication of potential rate cuts. Although the meeting of the FOMC which concluded on 19 June 2019 resulted in no adjustment to the main interest rate indicator (the target range for the federal funds rate) there were clear indications of a future move towards “looser” monetary policy. The official Statement issued after the meeting, when compared to that issued after the meeting that concluded on 1 May, clearly indicated a potential for future rate cuts. For example, while the May Statement referred to economic activity rising at a *“solid”* rate and a *“patient”* approach the June Statement referred to economic activity rising at a *“moderate”* rate and stated that the Committee would *“act as”* appropriate. Furthermore, in contrast to the unanimity of voting at the

May meeting the Statement issued after the June meeting recorded that one of the ten Members of the FOMC (James Bullard) *“preferred at this meeting to lower the target range for the federal funds rate by 25 basis points."* The day after the June meeting of the FOMC concluded the S&P 500 reached a new all time closing high of 2,954.

US inflation as measured by the Personal Consumption Expenditures (PCE) Index (which is the US Federal Reserve’s preferred inflation measure) was 1.5% in April and 1.4% in both May and June and therefore clearly below the FOMC’s 2% target throughout the Quarter. US unemployment remained very low falling to 3.6% in April its lowest level since 1969. The June unemployment rate was 3.7%. The University of Michigan Surveys of Consumers continued to indicate positive views. The June 2019 survey showed consumer confidence at similar levels to March 2019.

Eurozone equities, in common with equities across the globe, suffered a sharp fall in May but had a positive Quarter overall advancing 4% as measured by the MSCI EMU Index which tracks the largest companies in the Eurozone. April was a clearly positive month as was June. Equity markets reacted positively in June not only to a lessening in US-China trade tensions and the approach of the US Federal Reserve but also to a speech by Mario Draghi the European Central Bank (ECB) President on 18 June at the ECB Forum held in Sintra, Portugal which included the statement that *“in the absence of improvement, such that the sustained return of inflation to our aim is threatened, additional stimulus will be required.”* This comment followed a further slight “loosening” of ECB monetary policy at the Governing Council meeting held on 6 June 2019 when it was announced that the key ECB (and presently very low) interest rates were expected to *“remain at their present levels at least through the first half of 2020”* rather than “*at least through the end of 2019”* as announced following the March and April meetings.

Eurozone unemployment continued to fall – from 7.7% in March 2019 to 7.5% in June its lowest level since July 2008. Overall, however, there were continued further clear indications for concern regarding the Eurozone economy. The headline inflation rate was 1.3% in June 2019 compared to the ECB policy objective of inflation below, but close to, 2% over the medium term. The IHS Purchasing Managers Manufacturing Index for the Eurozone remained below 50, which indicates the boundary between expected contraction and expansion, throughout the Quarter and was 47.6 in June 2019. At the ECB June Press Conference Mario Draghi stated that the ECB *“foresee annual real GDP increasing by 1.2% in 2019, 1.4% in 2020 and 1.4% in 2021.”* These are clearly not high economic growth expectations.

Notwithstanding the continued uncertainty regarding the UK’s future relationship with the EU the Quarter saw UK equities advance by approximately 3%. Unemployment remained very low at 3.9% for the period April - June. Consumer Price Index (CPI) inflation was 2.1% in April and exactly at the Bank of England (BoE) target of 2% in May and June 2019. At both it’s May and June 2019 meetings the BoE Monetary Policy Committee (MPC) again voted unanimously to maintain Bank Rate at 0.75%.

The Bank of England takes the view that there is a very clear link between the future of the UK economy and the UK’s exit from the EU but is not yet, at all, clear as to how it might respond. The Summary issued after the June meeting of the MPC included the statement that the economic outlook will *"depend significantly on the nature and timing of EU withdrawal……..The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The Committee will always act to achieve the 2% inflation target."* Consequently, UK monetary policy could be either "loosened" or "tightened" after Brexit. In contrast the monetary policy stance of both the US Federal Reserve and European Central Bank is now towards "loosening."

As in the previous Quarter Japanese equities again underperformed other developed markets with the Nikkei 225 equity index gaining less than 1% during the April to June Quarter. Japan's export driven economy is particularly vulnerable to economic slowdown and the adverse effects of trade disputes while a slowdown in Japanese corporate growth earnings was another negative. Despite the Bank of Japan's continuation of its huge monetary policy stimulus, the inflation rate remained well below the target of 2%.

Asian markets (excluding Japan) had a negative Quarter with the MSCI AC ex Japan index losing 1% (in $ terms) although there were significant differences in performance. Chinese stocks were particularly adversely affected by the US-China trade tensions while Thai, Singapore and Indian stocks all advanced over the Quarter. The lessening of trade tensions and the indications of the US Federal Reserve potentially reducing interest rates going forward aided Asian markets in June. Chinese growth was an annualised 6.2% in the April to June 2019 Quarter (as reported by the China National Bureau of Statistics on July 15). This was the lowest reported level since 1992.

The major Government Bonds – US, UK and Germany all had a very positive Quarter. The prices of the major Bonds were particularly driven up (and their yields down) by the trade tensions of May 2019 and associated concerns regarding economic growth. The indications from the US Federal Reserve and ECB of lower interest rates/additional stimulus boosted Government Bonds in June with, for example the German 10 year yield falling 7 basis points following Mario Draghi's speech in Portugal on 18 June 2019. The US 10 year Treasury Bond yield fell from 2.41 at the end of March to 2.01 at the end of June. The German 10 year Bund yield fell from minus 0.07 to minus 0.33.

In conclusion April to June 2019 was a volatile Quarter for equity markets. Despite the trade "truce" between the US and China, agreed at Osaka in June, the prospect of escalating trade tariffs remains which clearly poses a threat to both economic activity and equity markets. On the other hand, both the US Federal Reserve and the European Central Bank clearly signalled, in June, a willingness to genuinely "loosen" monetary policy in the context of weakening economic activity and tepid inflation, in order to support markets going forward.