JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background July to September 2019

The Quarter July to September 2019 saw a very small gain for Listed Equities on a global basis with the MSCI World Index gaining less than 1% overall. While July and September were positive August was negative with the US-China trade dispute a significant factor. Over the Quarter there was a clear contrast between the main developed markets (US, Europe, UK, Japan) and other markets. The major developed markets saw small but clear gains, while both the MSCI AC Asia (exc Japan) and the MSCI Emerging Market indices were down by approximately 4% (in US$ terms). As in the previous (April to June) Quarter the major Government benchmark bonds (UK, US, Germany) all clearly gained in value. The US-China trade dispute, continuing concerns regarding global growth and expectations/actual accommodative major central bank policy all influenced/affected equity and government bond markets.

The US S&P 500 advanced from 2,942 at the end of June to 2,977 at the end of September. Following testimony before Congress by Jay Powell Chairman of the US Federal Reserve who spoke of increasing risks facing the US economy and indicated that the Federal Reserve would intervene as necessary the S&P closed above 3,000 (at 3,014) for the first time ever, on 12 July 2019. Another new closing high of 3,026 was achieved on 26 July 2019. August was, however, a difficult month for equities.

On 31 July 2019, as expected, the Federal Open Market Committee (FOMC) lowered the target range for the federal funds rate (its main interest rate) by 0.25% to 2 to 2.25%. However, Chair Powell's statements at the press conference following the 31 July meeting worried markets which then responded negatively. In response to a question as to whether this was the beginning of a *"lengthy cutting cycle"* he responded *"That is not—that's not what we're seeing now. That's not our perspective now or outlook."* Equity market concerns were also increased in early August by announcements of further US tariffs on China and suggestions by President Trump of currency manipulation by China. On 5 August the S&P 500 closed at 2,845 a fall of over 5% in under a week. The S&P closed on Friday 30 August at 2,926 after a late month rally following a softening of language on trade by both the US and China.

At its September 2019 meeting the FOMC reduced the federal funds rate by a further 0.25%. At the following press conference Chair Powell stated *"The future course of monetary policy will depend on how the economy evolves……. We have often said that policy is not on a preset course, and that is certainly the case today."* This rate reduction and mitigated concerns over trade soothed markets with the S&P 500 closing at 2,977 on 30 September. The seemingly relentless rise in US equities has, however, resulted in valuations which are very high in both absolute terms and relative to non-US equities.

US inflation as measured by the Personal Consumption Expenditures (PCE) Index (which is the US Federal Reserve's preferred inflation measure) was 1.4% in July and August and 1.3% in September. Core PCE which excludes food and energy was 1.7% in July, 1.8% in August and 1.7% in September. Therefore, both PCE measures continue to be below the FOMC's 2% target. US unemployment reached another fifty year low in September 2019 with the rate falling to 3.5%. The University of Michigan Surveys of Consumers continue to indicate positive views, but consumer confidence had eroded somewhat by September compared to June 2019.

Eurozone equities were very slightly up in July, suffered a decline in August followed by a positive September. The MSCI EMU Index which tracks the largest companies in the Eurozone advanced by approaching 3% over the Quarter. Both the approach of the US and China to trade issues and European Central Bank (ECB) action were supportive of equities in September.

The 25 July meeting of the Governing Council of the ECB left rates unchanged but the press release following the meeting included a clear indication of future monetary easing stating *"the Governing Council also underlined the need for a highly accommodative stance of monetary policy for a prolonged period of time…..the Governing Council is determined to act…..It therefore stands ready to adjust all of its instruments…."* The Governing Council meeting on 12 September took a number of decisions to loosen monetary policy and increase stimulus including reducing the deposit interest rate by 0.1% to minus 0.5% and reintroducing quantitative easing with the press release stating *"net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of [Euros] 20 billion as from 1 November"* The press release indicated this enhanced stimulus would be longer rather than shorter term.

Eurozone unemployment which had fallen to 7.5% in June 2019 (its lowest level since July 2008) remained stable with a level of 7.5% as at September 2019. However, the overall performance and outlook for the Eurozone appeared worrying. The headline inflation rate for September was only 0.8% (compared to 1.3% in June) and therefore continued well (and indeed further) below the ECB policy objective of inflation below, but close to, 2% over the medium term. The German economy, the largest in the Eurozone and a major centre of manufacturing demonstrated clear signs of faltering. At the ECB September press conference Mario Draghi gave a more pessimistic view of future Eurozone GDP growth than he had in June stating *"September 2019 ECB staff macroeconomic projections for the euro area…… foresee annual real GDP increasing by 1.1% in 2019, 1.2% in 2020 and 1.4% in 2021. Compared with the June 2019 staff macroeconomic projections, the outlook for real GDP growth has been revised down for 2019 and 2020."* President Draghi was also clear that he believed the Eurozone economy requires governments to implement fiscal stimulus to enhance the economic outlook and indicated that central bank monetary policy alone is not sufficient.

The FTSE All Share index advanced by just over 1% during the Quarter. The FTSE 100 (which is more internationally orientated) had a far more negative August (down 4%) compared to the more domestically focussed FTSE 250 (down 1%). For the Quarter the FTSE 100 advanced by 1% compared to over 3% for the FTSE 250. Unemployment remained very low at 3.9% for the period June to August (the same as for the period April - June). Consumer Price Index (CPI) inflation which had been exactly at the Bank of England (BoE) target of 2% in June 2019 rose to 2.1% in July before falling back to 1.7% in both August and September (its lowest level since December 2016).The Bank of England however does not view this as the beginning of a sustained downward trend as its August 2019 Inflation Report (see page 28 onwards) predicts below 2% CPI for the latter part of 2019 followed by a recovery to slightly above 2% by 2021.

The Minutes of the September Monetary Policy Committee (MPC) of the Bank of England included the statement *"Brexit-related developments are making UK economic data more volatile, with GDP falling by 0.2% in 2019 Q2 and now expected to rise by 0.2% in Q3……Brexit uncertainties have continued to weigh on business investment."* Official data releases showed that the UK economy underperformed the Eurozone, US and Japan in Q2 2019. At both the 31 July and 18 September meetings the MPC yet again voted unanimously to maintain Bank Rate at 0.75%.

Unlike the two previous Quarter's Japanese equities did not underperform other developed markets with the Nikkei 225 equity index gaining clearly over 2% during the July to September Quarter. The Nikkei perhaps reflected the influence of trade/export sentiment on Japanese equities with the index falling by approaching 4% in August before increasing by 5% in September. At its September 2019 meeting the Bank of Japan reaffirmed its policy of huge monetary policy stimulus which commenced in 2013. Despite this huge stimulus Japanese Core CPI inflation has remained well below the 2% target and fell to a mere 0.3% in September 2019.

In contrast to the major developed markets Asia (excluding Japan) and emerging equity markets experienced a clearly negative Quarter. Both the significant US China trade tensions and global growth concerns will likely have weighed against not only China but other trade/export dependant economies/equity markets. Chinese growth was an annualised 6% in the July to September 2019 Quarter (as reported by the China National Bureau of Statistics) as compared to 6.2% annualised in the previous Quarter. This was the lowest level reported since the early 1990's.

Trade tensions, concerns over growth and the policy approaches of the major central banks were all, in general, favourable to the major government bonds. The escalation of the US-China trade dispute in August was accompanied by a significant reduction in the 10 year US Treasury yield which was only partially given up in September as tensions mitigated. Brexit concerns were also doubtlessly a factor in the reduction in the 10 Year Gilt yield experienced over the Quarter. The US 10 year Treasury Bond yield fell from 2.01 at the end of June to 1.66 at the end of September. The 10 year Gilt fell from 0.83 at the end of June to 0.49 at the end of September. The German 10 year Bund yield fell from minus 0.33 to minus 0.57.

In conclusion the July to September 2019 Quarter evidenced the clear threat to equity markets from the US-China trade dispute. Both the US Federal Reserve and European Central Bank clearly acted to loosen monetary policy in response to weakening economic activity and tepid inflation. Given however the extensive use of loose monetary policy over a number of years the question must arise as to how effective it may be going forward and whether, as Mario Draghi has clearly stated, governments need to deploy fiscal policy to support their economies.