JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background April to June 2020

April to June 2020 was characterised by a clear disconnect between the economy and households on the one hand and financial markets. While many businesses faced temporary or permanent closure and millions of employees faced either unemployment or the threat of unemployment (with US unemployment at 11.1% in June 2020 compared to 3.5% in February and around 30% of UK employees on the Government's Furlough scheme) equity markets saw huge gains which erased much of the losses of late February and March 2020. There were however significant discrepancies in equity sector performance. Information technology was a generally very strong performer as would be expected in a lockdown/social distancing environment. In contrast banks struggled in an environment of ultra low interest rates and economies in distress.

The MSCI World Index which fell over 21% in the January to March Quarter recovered much of this loss in the April to June Quarter to close on 30 June 2020 less than 8% lower than at 31 December 2019. US stocks enjoyed a dramatic rebound. The S&P 500 index which fell 20% in the January to March Quarter ended the April to June Quarter only 4% lower than at the start of January. Unprecedented central bank monetary policy stimulus, led by the US Federal Reserve, backed up by the fiscal initiatives of various governments provided the support to facilitate this recovery.

As the press release issued on 10 June 2020 after the June meeting of the policy setting Federal Open Markets Committee (FOMC) of the US Federal Reserve correctly stated *"the Coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world…"* COVID-19 has heavily affected the US economy. The "advance" estimate from the US Bureau of Economic Analysis, of 30 July 2020, indicated that "*…gross domestic product (GDP) decreased at an annual rate of 32.9 percent in the second quarter of 2020…"* Compared with the previous three months the economy contracted 9.5%.This was the largest contraction since World War II.

In December 2019 unemployment had been at a 50 year low of 3.5%. By March 2020 it had risen to 4.4%. There was a huge increase in April to 14.7%. This is the highest level recorded in the present series of the US Bureau of Labor Unemployment Rate statistics which date back to 1948. By the end of June, the rate was still 11.1% and above any recorded between 1948 and 2019. Inflation as measured by the Personal Consumption Expenditures (PCE) Index (the US Federal Reserve's preferred inflation measure) has long run clearly below the Federal Reserve's 2% target. The Minutes of the June 2020 FOMC indicate that the Committee believes COVID-19 will result in lower inflation stating *"… the overall effect of the outbreak on prices was seen as disinflationary… Observing that inflation had been running somewhat below the Committee's 2 percent longer-run objective before the coronavirus outbreak, some participants noted a risk that long-term inflation expectations might deteriorate. Participants noted that a highly accommodative stance of monetary policy would likely be needed for some time to achieve the 2 percent inflation objective over the longer run."*

In contrast to the weakness of the economy US equities regained most of the losses suffered in the previous Quarter. Late February and March 2020 saw dramatic falls in equity markets before efforts led by the unprecedented actions of US Federal reserve led to a turnaround in late March. Despite this the S&P 500 closed at 2,585 on 31 March 2020 compared to 3,231 on 31 December 2019. April saw a dramatic turnaround with the S&P 500 closing at 2,912 on 30 April. By the end of May the index had risen to 3,044 and on 8 June it closed at 3,232 fractionally above its 31 December level! At the close on 30 June the index stood at 3,100. This was an increase of 20% over the April to June Quarter leaving the S&P 500 only 4% lower than at the close on 31 December 2019. The particular recovery in the US equity market was undoubtedly assisted by the unprecedented actions of the US Federal Reserve which are described in some detail in the Independent Advisors Market Background report for January to March 2020.

The FOMC of the US Federal Reserve which had introduced extraordinary measures to support the economy and financial markets in March 2020 continued this approach at its April and June meetings. The very low interest rate policy introduced in March was maintained at the April and June meetings when *"the Committee decided to maintain the target range for the federal funds rate at 0 to ¼ percent."* Forecasts issued after the June meeting indicated Federal Reserve policymakers expect interest rates to remain at this level until 2022. The Federal Reserve undertook asset purchases and implemented the unprecedented policy (announced in March) of purchasing corporate bonds. Central Bank support undoubtedly supported and buoyed equity markets but so must the fiscal stimulus provided by the Federal Government (which included a $1,200 payment to individuals with a yearly income under $75,000 and $1,200 billion support to businesses) and investor optimism with markets positively reacting, for example, to signs of laid off workers returning and some turnaround in the unemployment statistics.

Although not as positive as US equities Eurozone equities enjoyed a significant recovery in the April to June Quarter. The MSCI EMU Index increased by 17% (in Euro terms) to offset a sizable proportion of the 25% loss of the January to March 2020 Quarter – this left the index around 12% lower than at the beginning of January. The significant monetary policy interventions of the major central banks of March 2020 including the European Central Bank (ECB), supported equity markets in this Quarter as did additional monetary policy easing announced by the ECB at its April and June meetings. This included an expansion, in June, of the ECB's Pandemic Emergency Purchase Programme (PEPP) – covering government and corporate debt - from 750 billion to 1,350 billion Euros. Fiscal policy interventions to support businesses and employees by major governments including France, Germany, Italy and Spain and easing of lockdown restrictions during the April to June Quarter also supported the equity market recovery.

The Eurozone economy suffered a large contraction in the April to June Quarter with GDP down by 12.1% compared to the previous Quarter according to preliminary flash estimates issued on 31 July 2020. Eurostat stated "*these were by far the sharpest declines observed since the time series started in 1995."* Eurozone unemployment which had been 7.4% in December 2019 was 7.8% in June 2020. This small increase reflects the fact that there are furlough schemes covering millions of workers in France, Germany, Italy and Spain and many of these jobs could be at risk when they end. In 2019 headline Eurozone inflation was well below the ECB policy objective of below, but close to 2% over the medium term. By December 2019 Eurozone headline inflation had climbed to 1.3%. The onset of COVID-19 has however also clearly negatively impacted the inflation policy objective with Eurozone inflation at 0.3% in June 2020.

COVID-19 had a huge negative effect on the United Kingdom economy during the April to June 2020 Quarter causing (to quote the Bank of England Monetary Policy Summary issued 18 June 2020) *"severe economic and financial disruption*." To take just one example - by 30 June there were, according to statistics released by HM Revenue and Customs, 9.4m employees on the Government's furlough scheme. This represents around 30% of UK employees. Consumer Price Inflation (CPI), which had been 1.5% in March 2020 fell way below the Bank of England target of 2%. CPI was 0.8% in April, 0.5% in May and 0.6% in June.

Although UK equities gained 10% (as measured by the FTSE All Share) over the April to June Quarter they clearly lagged world markets generally which increased by approximately 19% (as measured by the MSCI World Index) and continued their long period as unloved by investors. Given the COVID-19 dominated environment a 10% gain over the Quarter must, however, still be viewed as somewhat positive. The Quarter saw a recovery by the FTSE All Share Index doubtlessly facilitated by the huge fiscal stimulus of government, the continuing monetary policy stimulus of the Bank of England (which expanded its asset purchase programme from £645 billion to £745 billion at its June Monetary Policy Committee meeting and maintained Base Rate at its all time low of 0.1% throughout the Quarter) and indications of consumer spending and output increases as COVID-19 restrictions were eased during the Quarter.

Japanese Equities (as measured by the Nikkei 225 Index) had lost 20% in the January to March Quarter. The April to June Quarter was, however, clearly very positive with the Nikkei 225 gaining approximately 18%. This resulted in the Nikkei 225 ending June about 6% lower than at the end of December 2019. One reason for the bounce back by Japanese equities may be the policy decision taken by the Bank of Japan at its 16 March 2020 meeting to increase its purchase activity relating to Japanese Exchange Traded Funds (ETF's) and its subsequent implementation of this. The Bank of Japan also announced further measures, including increasing its ability to purchase government and corporate bonds to support the economy and markets during the April to June Quarter. The Japanese Government announced major support packages in April and May primarily directed at business and employment support.

Asian (excluding Japan) and Emerging Market equities both enjoyed a positive Quarter. The MSCI AC Asia (excluding Japan) returned 17% (in $ terms) compared to a loss of 18% in the previous Quarter. The MSCI Emerging Markets index returned a positive return of 18% (in $ terms) following a torrid January to March Quarter when the Index lost approaching 24% (in $ terms). The reopening of markets during the April to June Quarter and central bank stimulus by Asian/Emerging Market as well as the major central banks facilitated a recovery in equity prices despite the ongoing COVID-19 emergency and economic weakness.

As reported by the National Bureau of Statistics of China the Chinese economy grew by 3.2% in the April to June Quarter compared with the same period in 2019. This followed a fall of 6.8% in the January to March Quarter. China is the first major economy to report growth in the context of the COVID-19 emergency. This surely reflects both the fact that as the source of COVID-19 China has had longer to seek to tackle the virus, and also government support for the economy.

The leading Government Bonds - US, UK and Germany – had had a very positive January to March Quarter with prices rising significantly (and yields consequently falling) as investors favoured their perceived safety as equity markets fell and a severe global recession seemed likely. During the April to June Quarter investors maintained their appreciation of these assets. The US and German 10 year bond yields which opened the Quarter at the low yields of 0.67 and -0.47 were little changed by the end of June closing at 0.66 and -0.45. The 10 year UK Gilt increased further in value as the yield fell from 0.36 to 0.17 – the increase in Gilt prices perhaps reflected concerns regarding the future of the UK after its current agreement with the European Union ends in December 2020 and also a reaction to comments in May by Andrew Bailey the Governor of the Bank of England that negative interest rates were a possibility.

Corporate credit and in particular high yield had weakened in the January to March Quarter in the context of both economic and financial market weakness and indeed turmoil. In contrast the April to June Quarter saw corporate bonds perform strongly doubtlessly strengthened by supportive announcements from March onwards by the major central banks in relation to corporate bond purchases. A return of investor risk appetite was also a contributory factor as high yield as well as investment grade corporate credit enjoyed a clearly positive April to June 2020 Quarter.

In conclusion the April to July Quarter was extremely positive for equity markets despite a very poor economic environment including lockdowns/social distancing, GDP contraction, the potential for big increases in unemployment and extremely low inflation in developed economies. Additionally, as Jay Powell the Chair of the US Federal Reserve stated in his press conference of 10 June 2020 *"The extent of the downturn and the pace of recovery remain extraordinarily uncertain…"* All this clearly raises the vital question as to how much equity prices are now driven by optimism in markets based on central bank support, suggestions of a possibly viable vaccine, and any sign of economic momentum rather than by macroeconomic fundamentals and likely long term company earnings? Is fear of missing out another possible driver of the equity recovery? Volatility in equity markets going forward would clearly not be a surprise!