JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background July to September 2020

The Quarter was positive for both Listed Equity and Bond markets. The MSCI World Index was up 8% (in $ terms). Equity markets however saw clear diversification of performance across both geographies and sectors. The United States, Asia (excluding Japan) and Emerging Markets all saw returns around 9%-11% (in $ terms). In contrast European Equities were flat (in Euro terms) and UK equities fell 3% (in £ terms). Growth stocks continued their long trend of outperforming Value stocks. The MSCI World Growth index returned 12% (in $ terms) while the MSCI World Value Index returned 4%. While technology and distribution generally did well (assisted by the COVID-19 restrictions) it was not so positive for financial stocks (held back by potential loan defaults and long term low interest rate expectations) and in particular energy (hampered by lower fuel demand). High Government Bond prices continued while both Investment Grade and High Yield Corporate Credit had a clearly positive Quarter.

US Equities enjoyed another positive Quarter with the S&P 500 Index increasing by 9% over period June to September. The S&P 500 which had closed at 3,100 on 30 June closed at 3,363 on 30 September an increase of approaching 9%. The actions of the US Federal Reserve (continuing both ultra low interest rates and huge bond buying and announcing a more flexible approach to inflation targeting), some recovery in the US economy and the nature of the US stock market (with around a 25% weighting to just 5 huge technology orientated companies) all contributed to this continued rally.

The Federal Open Markets Committee (FOMC) of the US Federal Reserve which introduced extraordinary measures to support the economy and financial markets in March 2020 continued and indeed expanded this approach. The ultra low interest rate policy introduced in March was maintained at the July and September meetings when the FOMC maintained "*the target range for the federal funds rate at 0 to ¼ percent."* On 27 August 2020 the FOMC announced an update to its strategic approach to monetary policy. Significantly the update included both changes that mean the Committee will be more tolerant going forward of inflation above 2% in order to compensate for previous long running low inflation and also that a low unemployment level will no longer be sufficient on its own to result in interest rate rises. These changes clearly indicated that the US interest rates could remain ultra low for a very long time.

The Press Statement issued after the September FOMC meeting clearly indicated that interest rates will be held at their current ultra low levels for a lengthy period. After referring to inflation *"running persistently"* below the 2% inflation target it was stated the Committee *"expects"* to maintain the present target range for the federal funds rate of 0 to ¼% *"until labor market conditions have reached levels consistent with the Committee's assessment of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."* Forecasts issued after the September FOMC meeting indicated Federal Reserve policymakers expect no interest rate rises until at least the end of 2023.

While the July to September Quarter was clearly positive for US Equities volatility was also present. Having risen from 3,100 on 30 June to record closing high of 3,581 on 2 September the market then fell back to 3,237 on 23 September before recovering to 3,363 on 30 September. A particular feature of the performance, and potentially the heightened risks, of US markets is importance of just five stocks. – Apple, Alphabet, Amazon, Facebook and Microsoft. These companies have benefitted significantly in the COVID-19 environment. These companies, which numerically account for 1% of the companies in the Index have grown to account for around a quarter of the total S&P 500 Index by market capitalisation However, as in early September, when they falter, even briefly, their sheer size potentially endangers the US equity market in general.

While US economic activity and employment were both still well below their levels at the beginning of 2020, they continued to recover somewhat during the July to September Quarter. The "advance" estimate from the US Bureau of Economic Analysis of 29 October 2020, indicated that *"Real gross domestic product (GDP) increased at an annual rate of 33.1 percent in the third quarter of 2020… In the second quarter, real GDP decreased 31.4 percent."* However, output remained below pre COVID levels.

Unemployment which had been 3.5% in December 2019 reached 14.7% in April 2020. It had fallen to 10.2% by July and to 7.9% in September. This is however still the highest US unemployment rate since January 2013. Also, these headline unemployment statistics may be categorised as overoptimistic the reason being that some of those who initially lost their jobs in the US have now fallen out of the headline measure due to the Bureau of Labour Statistics labelling them either re-employed in part-time jobs or ineligible for work. Inflation as measured by the Personal Consumption Expenditures (PCE) index (the US Federal Reserve's favoured measure) continued to run clearly below the Federal Reserve's 2% target. The respected University of Michigan Survey of Consumers indicated, for September, the highest level of consumer confidence for 6 months. Notably however the September survey results commentary included the following narrative *"the recent gains* [in sentiment] *are encouraging even though they were largely due to upper income households. Indeed, the data indicate that lower income households face continued income and job losses compared with the modest gains expected by upper income households. Also, lower income households more frequently anticipated real income declines. Without a renewed federal stimulus and enhanced unemployment payments, the income gap will widen."*

Despite a recovery in output in the July to September Quarter Eurozone GDP remained clearly below pre COVID levels. Eurozone equities were flat with, for example, the MSCI EMU Index rising by only 0.2% (in Euro terms). There were signs of clearly rising COVID rates in September. The European Central Bank made no changes to interest rate or bond buying policy at its July and September monetary policy meetings.

While Eurozone unemployment, aided by furlough schemes, worsened little during the Quarter (it was 7.8% in June and 8.3% in September) the inflation trend became even more worrying with the Eurozone experiencing deflation in both August and September 2020. 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%. By June 2020 it was however only 0.4% and in August the Eurozone slipped into deflation with headline inflation at minus 0.2%. In September it fell to minus 0.3%. Declines in energy prices and a stronger Euro were amongst the causes.

In July the European Union agreed to establish a 750 billion Euro Recovery Fund consisting of £390 billion Euros of grants and 360 billion Euros of loans to be allocated amongst European Union states. This amounts to a large fiscal stimulus package. The agreement is also a step towards further European Union integration. The funds will be borrowed by the European Commission and guaranteed by all European Union member states. Italy and Spain are both likely recipients of significant grant aid under this arrangement.

The UK equity market declined during the Quarter and again clearly lagged world markets in general. The FTSE All Share index was down around 3%. A lack of progress on post Brexit arrangements and increasing COVID cases in September were negative influences on performance. The oil and financial sectors, which account for about 30% of the Index, performed poorly. For example, BP and Shell which comprise about 5% of the entire Index lost approximately 25% of their value during the July to September Quarter.

While data released by the Office for National Statistics indicated increased GDP over the Quarter monthly GDP was very clearly lower than in February 2020, prior to the full impact of COVID-19. Consumer Price Inflation (CPI), which had been 1.5% in March 2020 remained well below the Bank of England target of 2%. CPI was 1.0% in July, 0.2% in August and 0.5% in September. The Bank of England made no changes to interest rates or its bond buying policy at either its August or September Monetary Policy Committee meetings.

Japanese Equities (as measured by the Nikkei 225 Index) gained 4% over the Quarter. Japanese Core CPI inflation which despite huge monetary stimulus since 2013 has remained well below the 2% target has, since, the onset of the COVID-19 crisis turned, worryingly, into deflation. Japanese Core CPI which was 0.8% in January 2020 was 0% in July, minus 0.4% in August and minus 0.3% in September. The Bank of Japan maintained its previous ultra accommodative monetary policy stance at its meetings in both July and September 2020.

In late August Japan’s longest serving Prime Minister Shinzo Abe announced his resignation due to ill health. This raised concerns regarding the future of Japanese economic policy given his creation of “Abenomics” which sought to revive the Japanese economy through the “three arrows” of ultra loose monetary policy, fiscal policy and structural/industrial reforms. However, his successor Yoshihide Suga quickly announced continuity which allayed investors concerns particularly given it is anticipated that there may be a greater emphasis on structural reform under Mr Suga.

Despite continuing US – China trade tensions Asia (excluding Japan) and Emerging Market equities enjoyed a clearly positive Quarter during July to September as they had in the previous (April to June) Quarter. Relative US dollar weakness was a positive for Asian/Emerging Markets. China, Singapore, South Korea and China all have strong technology sectors which have benefitted from the COVID-19 environment. The MSCI AC Asia (excluding Japan) returned 11% (in $ terms). The MSCI Emerging Markets Index returned 10% (in $ terms).

The National Bureau of Statistics of China reported that the Chinese economy grew by 4.9% (year on year) in the third Quarter of 2020. This compared with growth of 3.2% reported for the previous Quarter and a fall of 6.8% for the January to March 2020 Quarter. Alone of the world's major economies China's economy was larger (by about 1%) than a year ago. A number of factors account for this not least relative success in controlling COVID-19 (aided by the commanding/controlling nature of the regime as well as experience), state support for industry and expanding exports including of technology, medical and protective equipment.

In an environment of Central Bank support and the ongoing COVID-19 crisis the low yields previously associated with the leading Government Bonds – US, UK and Germany continued in this Quarter although both the US and UK 10 Year yields rose slightly (and therefore prices fell slightly). The US 10 Year yield rose from 0.66 to 0.68 while the UK 10 Year Yield rose from 0.17 to 0.23. Corporate credit enjoyed another positive Quarter.

In conclusion the July to September Quarter was broadly positive for financial markets. Further economic recovery together with huge fiscal and in particular monetary stimulus all provided support to the markets. While continuing market buoyancy is favourable to investors including Pension Funds it should be remembered that the COVID-19 pandemic continued throughout the Quarter. Also, the financial wellbeing of many individuals, particularly the economically less well off, have been significantly adversely affected in the context of the COVID-19 pandemic.