JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2020-2021

The official press release issued after meetings of the monetary policy setting Federal Open Markets Committee (FOMC) of the US Federal reserve from April 2020 to March 2021 included the statement that COVID-19 (coronavirus) *"is causing tremendous human and economic hardship across the United States and around the world."* The year 1 April 2020 to 31 March 2021 however saw a huge disconnect between individuals, households, and large areas of the economy on the one hand, and financial markets.

While economies faced the threat of COVID-19 including lockdowns and ongoing restrictions on activity, temporary or permanent business closure and uncertainty over the future, equity markets saw huge gains which easily erased the losses of late February and March 2020 when they fell dramatically following the decision of the Italian government to quarantine 10 towns in response to COVID-19. Having (as measured by the MSCI World index in $ terms) fallen 21% in the final Quarter of 2019-20 (January to March 2020) world equity markets increased by 54% in the period April 2020 to March 2021. Both corporate investment grade, and particularly sub investment grade credit also saw significant gains. The primary explanation for this paradox between the economy and financial markets is unprecedented central bank monetary policy stimulus, led by the US Federal Reserve, supplemented by the extensive fiscal initiatives of major governments. These interventions, however, also provided significant support to both economies and individuals across the world.

The US economy dramatically suffered in the April to June Quarter because of COVID-19 although there was a recovery as 2020-2021 progressed. The pre COVID unemployment level of 3.5% rose to 14.7% in April 2020. Although it had fallen to 8.4% by August and 6.0% by March 2021 this was still clearly well above pre pandemic levels. The University of Michigan Index of Consumer Sentiment which had been at 101.0 in February 2020 fell to 71.8 in April 2020 and remained below 80 until September. By March 2021 it was 84.9. Inflation measured by the Personal Consumption Expenditures (PCE) index (the US Federal Reserve's preferred measure) fell further below the Federal Reserve's inflation target of 2%. PCE was 1.8% in January and February 2020 but fell to 0.5% in both April and May. It then experienced a modest recovery averaging 1.1% for the remaining seven months of 2020 before increasing to 1.4%, 1.6% and 2.4% in January, February, and March 2021, respectively. During the April to June 2020 Quarter US Gross Domestic Product (GDP) suffered its largest contraction since World War II. There was a dramatic rebound in GDP in the July to September Quarter and a further recovery to March 2021. At the end of the financial year 2020-21 US GDP was however only about 1.5% above its level at the beginning.

In contrast to the weakness of the economy during the April to June 2020 Quarter 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 to June 2020 saw a dramatic turnaround with the S&P 500 closing at 3,100 on 30 June. This was an increase of 20% over the 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 described in some detail in the Independent Advisors Market Background report for 2019-20.

During 2020-2021 the US Federal Reserve further supplemented its already unprecedented monetary stimulus. The unprecedented policy (announced in March 2020) of purchasing corporate bonds was implemented. Forecasts issued in September 2020 indicated policymakers expected no increase in interest rates until at least the end of 2023. At its December meeting the Federal Open Markets Committee (FOMC) issued reinforced guidance on its asset purchase programme announcing it would to continue to purchase at least $80 billion of Treasury securities and at least $40 billion of mortgage-backed securities per month *“until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.”* Central bank support undoubtedly supported and buoyed financial markets (and the economy in general) but so also did the significant fiscal stimulus provided by the Federal Government under both President Trump and President Biden.

Overall, the financial year 2020-21 was hugely positive for US equities. The S&P 500 index rose from 2,585 on 31 March 2020 to 3,369 on 3 November 2020 which was presidential election day. The defeat of President Trump by (former) Vice President Joe Biden did not perturb markets with the S&P 500 climbing steadily further to close at 3,973 on 31 March an increase of 54% over the year. Information Technology was the standout performer in the context of closedowns and physical distancing immediately following COVID although by early 2021 both Energy and Financials which both suffered badly in the same context had staged impressive comebacks as the US economy as a whole progressively reopened. All 11 sectors within the S&P 500 experienced a positive year.

Eurozone equities also enjoyed a successful April 2020 to March 2021 with the MSCI EMU index gaining 44% (in Euro terms). As in the US both extensive central bank and government intervention massively supported financial markets as well as mitigating the effects of COVID-19 on the wider economy. The significant monetary policy interventions of the major central banks of March 2020 including the European Central Bank (ECB) continued to support markets and the economy throughout April 2020 to March 2021 as did additional monetary policy easing announced by the ECB in April 2020, June 2020, December 2020 and March 2021. These included expansion of the ECB’S

Pandemic Emergency Purchase Programme – covering government and corporate debt from 750 billion to 1,350 billion in June 2020, and then to 1,850 billion in December 2020 and at the same time extending it from June 2021 to *“at least the end of March 2022”* as well as the extension of financing to banks to encourage further lending. Fiscal policy interventions to support businesses and employees by major governments including France, Germany, Italy, and Spain as well as the European Union (EU) also supported financial market recovery while supporting both business and individuals. In July 2020, the EU announced a large fiscal stimulus package in the form of a 750 billion Euro Recovery Fund.

While, due to widespread national furlough schemes, Eurozone unemployment increased relatively little in the context of COVID-19 (it was 7.4% pre COVID, reached 8.6% in August 2020 before falling back to 8.1% by March 2021) other indicators suggest the Eurozone economy was more severely and materially impacted. In 2019 headline Eurozone inflation was well below the ECB policy objective of below, but close to 2% over the medium term. In December 2019 Eurozone headline inflation was 1.3%. By June 2020 it was however only 0.4% and in August the Eurozone fell into deflation where it remained until January 2021 when inflation again became positive at +0.9% rising to +1.3% in March, but still well short of the ECB target. In terms of GDP the Eurozone fared worse than the United States. The Eurozone saw three negative Quarters during the year and GDP was almost 2% lower at the end of 2020-21 than at the beginning.

Supported by both increased central bank stimulus and significant UK government fiscal interventions UK equities gained approximately 23% (as measured by the FTSE All Share index). This was however well behind world markets generally as measured, for example, by the MSCI index. UK equities therefore continued, in relative terms, to be unloved by investors. Factors which may account for this include a lack of progress on Brexit negotiations until December 2020 and a relative overexposure to oil.

The Bank of England extended its asset purchase programme from £645 billion to £745 billion in June 2020 and to £895 billion at its November 2020 Monetary Policy Committee (MPC) meeting. This further easing of monetary policy was in the context of clear concerns by the MPC regarding the UK economy and economic activity. The MPC maintained Base Rate at its all time low of 0.1% throughout the financial year. The UK government introduced and maintained extensive fiscal policy initiatives including a furlough scheme which at 30 June 2020 was supporting 9.4m employees.

Despite unprecedented support from both the central bank and the government the UK economy clearly suffered. Consumer Price Inflation (CPI) which had been 1.5% in March 2020 fell way below the Bank of England target of 2%. CPI averaged only +0.6% over the April 2020-March 2021 period. UK GDP was very disappointing ending down around 6% over the 2020-2021 financial year.

Japanese Equities had an outstanding year with the Nikkei 225 advancing by approximately 55%. Extension of the already huge monetary policy initiatives of the Bank of Japan, fiscal support for business and employees and for long term investment, together with the replacement of President Trump by President Biden were all supportive of Japanese equities. The replacement in September of Shinzo Abe as Prime Minister by Yoshihide Suga did not unnerve markets as Mr Suga quickly indicated continuity and indeed subsequently enhanced fiscal stimulus. Japanese Core CPI which despite huge monetary stimulus since 2013 had remained well below the 2% target turned, worryingly into deflation in August 2020. This continued throughout the remainder of 2020-2021 with Core CPI going as low as -1.0% in December before “recovering” to -0.1% in March 2021.

Overall Asian and Emerging Market Equities enjoyed a highly successful 2020-2021. The MSCI AC Asia (excluding Japan) and the MSCI Emerging Markets indices both returned over 55% (in US $ terms). Central bank stimulus by Asian/Emerging Market as well as the major central banks, strong (Asian) technology sectors and recovering/rising commodity prices also benefitted Emerging/Asian Markets. China was the first major economy to report growth in the context of the COVID-19 emergency. This surely reflects that as the source of COVID-19 China had longer to seek to tackle the virus, the command nature of the Chinese state and government support of the economy.

Although inflation was very low across the major economies during 2020-2021 it picked up in the last Quarter and some market participants began suggesting that after a long absence, inflation might return as a significant feature over the longer (rather than shorter) term. Possible demand/supply imbalances, more active fiscal policy by the US government (under President Biden), levels of government debt and a more favourable environment for employees post COVID-19 were all advanced as possible facilitators of future inflation – but only time will tell!

In conclusion 2020-2021 was a hugely successful year for financial markets – both equities and corporate bonds. The unprecedented interventions of the central banks and the huge fiscal interventions of developed world governments, however, not only buoyed financial markets but provided support to both economies and individuals in the face of the global human tragedy of COVID-19.