JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background October to December 2021

October to December 2021 was positive for world equity markets, as a whole, with the MSCI World Index advancing 8% (in $ terms). There were however significant differences in performance across geographies. As in the previous (July to September) Quarter the developed US, European and UK markets performed positively while Asia and Emerging Markets fell slightly with the MSCI Emerging Markets and MSCI Asia (excluding Japan) indices both falling by around 1%.October was a positive month for most markets but concerns over the Omicron COVID variant clearly adversely affected markets in November although initial concerns were somewhat alleviated by December which was also broadly positive. Generally strong corporate earnings in the US and Europe clearly helped support Listed Equities in these regions.

Continuing a theme which emerged earlier in 2021 inflation was a major issue of consideration with widespread clear evidence of further increases. The OECD (Organisation for Economic Co-operation and Development) reported (on 3 February 2022) that inflation in the OECD area (which comprises over thirty advanced economies, plus some leading emerging nations) had reached 5.6%. in December 2021 (excluding Turkey). As of September 2021, the OECD had reported inflation as 4.6% and in December 2020 as only 1.2%.

Leading monetary policy makers indicated a shift in their thinking on inflation. While still considering that long term inflation would be around their 2% target there was a shift regarding the shorter term by the US, European and UK central banks. At the US Senate Banking Committee on 30 November 2021 US Federal Reserve Chair Jay Powell stated that *"I think it's probably a good time to retire"* the term *"transitory*" in reference to inflation although he still believed inflation would reduce *"significantly"* over the next year. The US Federal Reserve ceased referring to present inflationary trends as *"transitory"* in its documentation from December 2021. At her press conference on 16 December 2021 Christine Lagarde, President of the European Central Bank (ECB) while stating that she expected inflation *"to decline in the course of next year"* also stated "*Our new staff projections foresee annual inflation at 2.6 per cent in 2021, 3.2 per cent in 2022, 1.8 per cent in 2023, and 1.8 per cent in 2024 – significantly higher than in the previous projections in September."* On 15 December, the Bank of England Monetary Policy Committee increased Bank Rate for the first time in over three years as part of its approach "*to return CPI inflation sustainably to the 2% target."*

US equities had a very strong Quarter buoyed by strong earnings results. There were also suggestions that equities may have gained at the expense of bonds in an environment of inflation, indications/action from the US Federal reserve in terms of monetary tightening, and increasing market expectations of US interest rate increases. The S&P 500 which had closed at 4,308 on 30 September 2021 had risen to 4,766 by 31 December 2021 an increase of 11%.

The Quarter saw the US Federal Reserve very carefully but clearly and significantly modifying both its views and approach to monetary policy. While the press releases issued after the September Federal Open Market Committee (FOMC) referred to elevated inflation *“largely reflecting transitory factors”* this changed to *“largely reflecting factors that are expected to be transitory”* in November. Then at the December FOMC meeting the word *“transitory”* was omitted from the press release. Resulting from an assessment of *“substantial further progress”* towards the FOMC goals of *“maximum employment and inflation at the rate of 2 percent over the longer term”* the November meeting agreed a decision to scale back the $120 billion per month asset purchase programme by $15 billion a month. At the December meeting *“In light of inflation developments and further improvements in the labor market”* the FOMC determined to further reduce these purchases by $30 billion a month from January 2022 indicating an end of the asset purchase programme by March 2022. While at both the November and December meetings the FOMC voted, yet again, to maintain its main interest rate at the range 0-0.25% the Summary of Economic Projections issued after the December meeting indicated that Federal Reserve Officials expected three interest rate rises in 2022. In September, the consensus had been one or potentially no rate rises in 2022.

In November 2021 President Biden, despite concerns expressed by some Democrats, nominated Jay Powell for a second term as Chair of the US Federal Reserve. Chair Powell who won wide praise for his leadership of the Federal Reserve during the severe crisis which hit markets in 2020 following the worldwide outbreak of COVID 19 represents experience and continuity in the face of the present context of high inflation and uncertain economic circumstances.

US inflation continued to rise further and significantly above the policy target of 2% with the Core PCE index (the Federal Reserves’ favoured index) registering 4.2%, 4.7% and 4.9% in October, November, and December, respectively. As the US Bureau of Economic Analysis states in the commentary accompanying the Core PCE figures this *“index makes it easier to see the underlying inflation trend by excluding two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices…”* US Unemployment fell further during the Quarter to 3.9% in December 2021 which was close to the pre pandemic January and February 2020 level of 3.5%.

US economic growth clearly accelerated during the Quarter. On 24 February 2022, the *“second”* (updated) estimate issued by the US Bureau of Economic Analysis estimated US GDP at an annual rate of 7% in the period October to December 2021 compared to 2.3% in the previous Quarter. This equates to growth of slightly under 1.8% during the October to December Quarter.

The Quarter was clearly positive for Eurozone Equities with the MSCI EMU index advancing 3.7% in $ terms and 5.6% in Euro terms. Corporate earnings results announced during the Quarter were, overall, clearly positive. Reducing concerns over the Omicron variant were a likely contributor to a particularly positive December. Eurozone unemployment continued downward. Unemployment which had been 8.1% in March 2021 was reported by Eurostat at 6.6% in October, 6.5% in November and 6.4% in December.

Eurozone GDP which had grown by 2.3% in the previous Quarter was estimated by Eurostat (*"flash"* estimate of 15 February 2022) to have increased by only 0.3% in the October to December Quarter. The effects of the Omicron variant including tightened restrictions, most notably in Germany (the largest Eurozone economy) were a clear contributory factor in this marked slowdown. Euro area inflation continued, however, to increase. The Harmonised Index of Consumer Prices (HICP) as reported by Eurostat which had been 3.4% in September increased to 4.1% in October, 4.9% in November and reached 5% in December.

After leaving monetary policy essentially unchanged at its October policy meeting the mid December meeting saw the ECB announce a reduction in its overall asset purchase programme. The ECB press release of 16 December 2021 stated *"The Governing Council judges that the progress on economic recovery and towards its medium-term inflation target permits a step-by-step reduction in the pace of its asset purchases over the coming quarters…"* On the basis of this statement however ECB asset purchases will continue for almost another year at least. The press release however also confirmed the existing policy on interest rates remaining at or below 0% and in effect indicated this level throughout 2022 thereby signalling a more cautious approach to tightening monetary policy than both the US Federal Reserve and Bank of England.

As in the previous Quarter, October to December 2021 saw UK equities advance positively. Despite a negative November – significantly influenced by the new COVID Omicron variant the FTSE All Share and the FTSE 100 both advanced by approximately 4% while the FTSE 250 (domestically focussed mid cap index) increased by around 2%.

UK GDP increased by 1% over the Quarter the same rate as for the previous Quarter. Therefore, UK GDP was still 0.4% below its pre pandemic level. This contrasts with the US, Eurozone and China which have all achieved GDP above the levels of the final Quarter of 2019. The UK unemployment rate, however, continued to fall and was reported by the Office for National Statistics (on 15 February 2022) at 4.1% for the October to December Quarter only 0.1% above the pre COVID pandemic level. UK CPI inflation increased dramatically during the Quarter reaching its highest level in 30 years by December 2021 with commentators referring to a "cost of living crisis." CPI inflation which had been 3.1% in September increased to 4.2% in October, 5.1% in November, and 5.4% in December. Despite low unemployment prices outpaced pay increases for the Quarter, according to Office for National Statistics data.

The Bank of England Monetary Policy Committee (MPC) surprised markets by not raising rates at its November meeting. It was however clearly stated in the Monetary Policy Summary issued after the November meeting that there would likely be increases in Base Rate *"over coming months"* At its meeting ending on 15 December 2021 the MPC increased Base Rate from 0.1% to 0.25% – the first increase since August 2018. The Monetary Policy Summary issued after the December MPC meeting stated *"At its November meeting, the Committee judged that, provided the incoming data, particularly on the labour market, were broadly in line with the central projections in the November Monetary Policy Report, it would be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2% target. Recent economic developments suggest that these conditions have been met. The labour market is tight and has continued to tighten, and there are some signs of greater persistence in domestic cost and price pressures…The Committee judges that an increase in Bank Rate of 0.15 percentage points is warranted at this meeting."*

As in the previous Quarter Asia and Emerging markets, overall, performed less well than developed western markets. The MSCI AC Asia (excluding Japan) index and the MSCI Emerging Markets index both fell by over 1% (in $ terms) on a total returns net basis. China performed poorly amid investor concerns regarding mixed economic indicators, lockdown restrictions and implications relating to the COVID Omicron variant which also adversely affected other Asian and Emerging Markets. Investor sentiment regarding Asia and Emerging markets was also adversely affected by concerns regarding slowing global growth, inflation and possible future interest rate rises in the US and other advanced economies.

Japanese equities had a negative Quarter with the Nikkei 225 declining by approximately 2%. The period October to December saw inflation, rather than deflation in Japan but at levels still far below the Bank of Japan's 2% target. CPI inflation reached 0.8% in December. While at its December policy meeting the Bank of Japan announced a reduction of its corporate debt purchases to pre pandemic levels there was no change to its core approach to monetary policy. The Statement on Monetary Policy issued after the meeting included that the Bank *"expects short- and long-term policy interest rates to remain at their present or lower levels."* Furthermore, possible new stimulus measures were explicitly referred to by the inclusion of the words *"For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary."*

The benchmark 10 year yields of US and UK Government bonds were little changed over the Quarter. However, the more policy sensitive 2 year yields increased significantly (meaning the price of the bonds fell) in the context of inflationary concerns, indications of future interest rate rises from the US Federal Reserve and Bank of England, and an actual rate rise by the Bank of England in December 2021. The 2 Year US Treasury yield increased (weakened) from 0.28% to 0.73% and the 2 Year UK Gilt yield increased (weakened) from 0.41% to 0.69%.

25 February 2022