JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background January to March 2022

World Equity and Bond markets both declined during the January to March 2022 Quarter. World Equity markets, as measured by the MSCI World Index, declined by over 5% (in $ terms). Although markets were adversely affected by the threat of and then the appalling invasion of Ukraine by Russia this was not the primary reason for market declines, although it was likely a prime factor contributing to market volatility. Rather the primarily reasons for decline were ongoing concerns regarding high inflation together with the likely/actual tightening of monetary policy by the major central banks. In China and Asia generally, economic activity and equity prices were also clearly adversely affected by levels of Covid-19 cases and in China, in particular government-imposed lockdowns. Bond markets also weakened during the Quarter in the context of inflation/ongoing inflation concerns and central bank statements and announcements.

World Equity markets suffered a poor January with the MSCI World Index falling by over 5% (in $ terms). This was in the context of increasing worldwide market concerns regarding likely interest rate rises and less than positive news from some major US corporates. World markets fell another 2.5% in February in the context of the increasing Ukraine crisis and actual Russian invasion on 24 February adversely affecting markets and in particular Europe. March saw something of a bounce back with the MSCI World index increasing by 2.8% in March thus recovering its February loss.

January was a poor month for US markets with the S&P index closing down over 5% at 4,516 on 31 January 2022 compared to 4,766 on 31 December 2021. This was in the context of market concerns regarding inflation and likely interest rate rises (which were heightened by the contents of the Minutes of the December 2021 Federal Open Markets Committee released on 5 January 2022 and comments by Federal Reserve Chair Jay Powell to the Senate Committee on Banking, Housing and Urban Affairs on 11 January 2022), and increasing questions over the prospects for US growth stocks as exemplified by statements from Netflix and Peloton. February saw a further fall in the S&P 500 to 4,374 on 28 February before a rally in the second half of March saw the index close at 4,530 on 31 March 2022 a fall of 5% over the Quarter. Information Technology and other growth orientated stocks had a poor Quarter as higher interest rate expectations compressed valuations.

The January 2022 meeting of the US Federal Reserve's Federal Open Markets Committee (FOMC) did not raise interest rates but clearly signalled a forthcoming increase with the Press Release issued after the meeting including the statement *"With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate."* On 16 March 2022, the FOMC increased its benchmark interest rate, the Federal Funds Rate by 0.25%, the first increase since 2018. The accompanying press release stated *"…the Committee decided to raise the target range for the federal funds rate to ¼ to ½ percent and anticipates that ongoing increases in the target range will be appropriate…"*

The Summary of Economic Projections issued after the March 2022 FOMC meeting indicated a dramatic increase in expectations regarding further interest rate rises. The projections issued after the December 2021 meeting indicated that Federal Reserve Officials expected three interest rate rises in 2022. The projections released after the March 2022 meeting indicated expectations of six increases in 2022 in addition to the one agreed at the meeting. Inflation expectations were significantly increased with the median projection for Core CPE inflation (the Federal Reserves preferred inflation measure) in 2022 at 4.1% compared to 2.7% in the December projection.

Actual US inflation remained significantly above the Federal Reserve policy target of 2%. The Core CPE index (the Federal Reserves' favoured index) was 5.2% in March 2022 compared to 4.9% in December 2021. US unemployment fell further to 3.8% in February 2022 and 3.6% in March 2022 compared to 3.9% in December 2021 thereby returning to the levels of the year before the worldwide outbreak of COVID-19 in March 2022.

The US economy contracted in the first Quarter of 2022. The US Bureau of Economic Analysis *"Advance Estimate"* issued on 28 April 2022 stated that GDP *"decreased at an annual rate of 1.4 percent in the first quarter of 2022, following an increase of 6.9 percent in the fourth quarter of 2021."* This equates to a decline of approximately 0.3% during the January to March 2022 Quarter. The poor GDP figures were however primarily the result of a growing trade deficit and indeed US business investment increased significantly during the Quarter. The University of Michigan survey of consumers saw consumer sentiment fall to the lowest levels in a decade with the March 2022 survey stating *"Inflation has been the primary cause of rising pessimism…"*

Eurozone Equities had a poor quarter in both real and absolute terms. The MSCI EMU index declined by 11.1% (in $ terms) compared to the decline of 5.2% (in $ terms) of the MSCI World index. The MSCI EMU index declined by 9.2% in Euro terms. In addition to the adverse effects of concerns regarding inflation and interest rates European markets were unsurprisingly particularly affected by the increasing hostility of Russia to Ukraine and ultimately the Russian invasion. The Press Release issued after the March 2022 meeting of the European Central Bank Governing Council included the statement "*The Russian invasion of Ukraine is a watershed for Europe."* In February European markets sold off significantly more than World markets and recovered less in March. The only sector of the equity market to record positive performance was Energy.

The February 2022 policy meeting of the ECB left monetary policy unchanged from the December meeting. However, comments (in the context of increasing inflation) by Christine Lagarde the ECB President at her press conference following the meeting increased market expectations that the ECB would more quickly end its asset purchases and indeed increase interest rates during 2022. The March meeting of the ECB Governing Council while again leaving interest rates unchanged resulted in an acceleration of the pace of withdrawal of its asset purchase programme. Interestingly and specifically in the context of the uncertain environment following the "*Russian invasion of Ukraine"* the ECB the press release issued after the March 2022 meeting included the statement that *"The Governing Council will take whatever action is needed to fulfil the ECB's mandate to pursue price stability and to safeguard financial stability."*

Eurozone inflation remained clearly above the ECB target of 2% and rose significantly further above target during the Quarter. The Harmonised Index of Consumer Prices (HICP) as reported by Eurostat which had been 3.4% in September 2021 and 5.0% in December 2021 was 5.9% in February 2022 and 7.4% in March 2022. Perhaps, unsurprisingly, the largest contributor to the rate of inflation in March 2022 was increasing energy costs. In contrast HICP inflation had been only 1.3% in March 2021.

Eurozone economic growth was only 0.3% during the first Quarter of 2022 according to the *"flash estimates"* issued by Eurostat on 17 May 2022. The first Quarter of 2021 had seen Eura area GDP grow by 2.2%.

In contrast to other major equity markets the UK as defined by the FTSE All Share index ended the Quarter almost exactly where it began. This was driven by the FTSE 100 index of the largest companies listed in the UK. These have a global focus and a significant weighting to energy, utilities, mining, and large banks which prospered (to a greater or lesser extent) in the context of rising inflation, interest rate expectations, pressures in the energy market, and the Ukraine conflict. The FTSE 100 advanced by around 2% during the Quarter. In contrast the FTSE 250 index whose constituent companies are more focussed on the UK domestic economy declined by over 9%.

At its February 2022 meeting the Monetary Policy Committee (MPC) of the Bank of England increased Base Rate from 0.25% to 0.5% in the context of concerns regarding inflation (which the Committee noted was 5.4% in December and which it expected to increase further) and low unemployment. The Monetary Policy Summary issued after the meeting included the statement "*Given the current tightness of the labour market and continuing signs of greater persistence in domestic cost and price pressures, the Committee judges that an increase in Bank Rate of 0.25 percentage points is warranted at this meeting."* In a further move to increase borrowing costs the MPC also announced that it would *"cease to reinvest any future maturities falling due from its stock of UK government bond purchases."* This refers to not reinvesting any of the government bonds it had previously purchased under its quantitative easing programme when these mature. This decision was in accordance with the MPC decision of August 2021 *"to reduce the stock of purchased assets when Bank Rate has reached 0.5%, if appropriate given the economic circumstances"* (Minutes of the MPC, August 2021). The March 2022 meting of the MPC saw a further 0.25% increase in Bank Rate from 0.5% to 0.75%. The Summary issued after the meeting included the statement *"Developments since the February Report are likely to accentuate both the peak in inflation and the adverse impact on activity by intensifying the squeeze on household incomes."*

The UK unemployment rate continued to fall, as reported by the Office for National Statistics (ONS), from 4.1 % in the October to December Quarter to 3.7% in the January to March 2022 Quarter. Inflation, however, rose further above the Bank of England policy target of 2%. CPI inflation which had been 5.4% in December 2021 was 7.0% in March 2022 and expected to rise further with the Bank of England Monetary Policy summary of March 2022 including the statement *"Inflation is expected to increase further in coming months."* GDP (as reported by the ONS on 12 May 2022) *"grew by 0.8% in the three months to March 2022."* However, this was as a result of January activity with February seeing no growth and March a fall of 0.1%. This combination of high inflation and low growth if continued would represent the re-emergence of "stagflation" (stagnant or low economic growth alongside high levels of inflation).

Japanese equities (as measured by the Nikkei 225 index) declined by approximately 3.5% over the Quarter. As in the final Quarter of 2021 Japan saw low inflation rather than deflation. CPI inflation which was 0.9% in February 2022 and 1.2% in March remained, however, clearly below the Bank of Japan's 2% target. Therefore, it is no surprise that both the January and March 2022 Monetary Policy meetings of the Bank of Japan resulted in a continued commitment to its asset purchase (quantitative easing) programme as well as a continuation of its negative interest rate policy. This is in clear contrast to the approaches now been (understandably) followed by the Federal Reserve and Bank of England.

As in the three previous Quarters Asia and Emerging Markets, overall performed less well than developed western markets. The MSCI AC Asia (excluding Japan) index fell by 8% (in $ terms) and the MSCI Emerging Markets index by 7% (in $ terms) on a total returns net basis. Asian and EM markets in general were adversely affected by expectations of significant tightening of US monetary policy. Rising US interest rates tends to both lead to increased costs of financing in Asian/Emerging markets and investors removing money from these markets. The Russian Ukrainian conflict affected Asian/Emerging markets in particular. The majority (Asia, European developing, Africa) were adversely affected by resulting higher commodity prices and consequent concerns for inflation and economic growth. In contrast, however Latin American (Emerging Market) equities had a bumper Quarter given the role of South America (for example Brazil, Chile, and Peru) as a major commodity exporting region. Chinese equities again performed poorly with the imposition of COVID-19 lockdowns in several cities acting as a detractor.

Benchmark Government bonds, unsurprisingly, experienced a poor Quarter with yields rising sharply (and prices therefore falling). This was in the context of increasing market concerns regarding inflation and additional anticipated increases in interest rates by Central Banks. The appeal of benchmark government bonds as a "safe haven" was doubtlessly heightened by the Russia/Ukraine situation but this was (far) more than offset by concerns regarding inflation and the direction of major Central Bank policy. The 10 Year Treasury yield increased from 1.51% to 2.34%. The 10 Year Gilt yield rose from 0.97% to 1.61% while the 10 Year German Bund which had been -0.18% at the end of December turned positive, on 19 January 2022, for the first time since 2019 and ended the Quarter at 0.55%. The more policy sensitive 2 year yields also saw significant increases particularly in the case of the 2 Year Treasury which increased from 0.73% to 2.33% over the Quarter. Corporate bonds also suffered and, indeed, overall underperformed benchmark Government bonds.

18 May 2022