JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background April to June 2022

For the second Quarter in a row World Equity and Bond markets declined. World Equity markets as measured by the MSCI World Index fell by 16% (in $ terms) in the April to June 2022 Quarter. This compared with a fall of around 5% in World Equity markets in the January to March 2022 Quarter. The April to June Quarter saw not only significant overall falls in Listed Equity markets but also significant volatility as market participants reacted to anticipated or actual monetary policy and economic developments.

As in the previous Quarter concerns regarding interest rate rises (actual and anticipated tightening of monetary policy by the major central banks) and concerns about heightened inflation were major factors adversely affecting markets. The continuing Russian invasion of Ukraine was another negative factor affecting markets worldwide. In this context Jay Powell Chair of the US Federal Reserve stated (on 4 May 2022) that *"In addition to the effects on inflation, the invasion and related events are likely to restrain economic activity abroad and further disrupt supply chains…"* Concerns regarding economic slowdown or even recession increased. In this climate of rising/anticipated rising interest rates and significant inflationary concerns it was no surprise that both Government and Corporate Bonds also weakened during the April to June Quarter.

The United States continued to experience clearly elevated levels of inflation. The headline CPI index which had reached 8.5% in March 2022 reached 9.1% in June 2022 the largest 12 month increase since November 1981. Far more importantly, from a policy perspective, the Core PCE Index, which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2% inflation. Core CPE inflation which had been clearly above 2% throughout the period April 2021 to March 2022 continued to remain well above target at 4.9% in April, 4.7% in May and 4.8% in June. Unemployment remained low throughout the Quarter at 3.6%.

During the Quarter, in the context of inflation continuing clearly above target and low unemployment the US Federal Reserve acted decisively to seek to curb inflation with Chair Jay Powell stating, for example, at his 15 June 2022 Press Conference *"From the standpoint of our congressional mandate to promote maximum employment and price stability… The labor market is extremely tight, and inflation is much too high."* At its March 2022 meeting the Federal Open Markets Committee (FOMC) had raised its benchmark interest rate, the Federal Funds rate by 0.25%, the first increase since 2018. At its May meeting the FOMC raised the Federal Funds rate by a further 0.5%. At the June meeting the FOMC increased interest rates by a further 0.75%, the first such increase since 1994. As a result of the June policy decision the target range for the Federal Funds rate was 1.5% to 1.75%. Further increases in interest rates were clearly indicated. The press release issued after the June meeting stated that the FOMC *"anticipates that ongoing increases in the target range will be appropriate."* The Summary of Economic Projections issued after the June 2022 FOMC meeting indicated that Federal Reserve Officials anticipate the Federal Funds rate to rise to 3.4% by the end of 2022 compared to their 1.9% estimate of March 2022.

In the context of the ending of ultra loose monetary policy which had both supported financial markets and the economy in general and the rapid tightening of monetary policy through two successive rises in the Federal Funds rate of 0.5% and 0.75% with more clearly to follow it was little surprise that US equities suffered a very poor quarter. Having fallen 5% in the previous Quarter the S&P 500 index fell by over 16% during the April to June Quarter which added to its fall in the January to March 2022 Quarter resulted in the worst first half (calendar) year return since 1970. Sentiment was adversely affected not merely by the likely effects of high inflation and rising interest rates on company earnings in general but concerns about the effects of the Federal Reserve's (new) approach to interest rate policy on the wider economy with some market commentators fearing a resultant clear economic slowdown or even recession.

Eurozone Equities had another poor quarter. Having declined by over 9% (in Euro terms) in the January to March 2022 Quarter the MSCI EMU index declined by over 10% in the April to June Quarter. High inflation continued with the Harmonised Index of Consumer Prices (HICP) which was 7.4% in March and April rising to 8.1% in May and 8.6% in June. The Russian invasion of Ukraine was a further clear Eurozone market detractor with the release issued after the April monetary policy meeting of the European Central Bank including the statement *"The conflict and the associated uncertainty are weighing heavily on the confidence of businesses and consumers. Trade disruptions are leading to new shortages of materials and inputs. Surging energy and commodity prices are reducing demand and holding back production."*

The ECB, again, did not increase interest rates during the Quarter. This was in clear contrast to both the Bank of England and in particular the US Federal Reserve. However, while the "Combined monetary policy decisions and statement" issued after the April ECB policy meeting reiterated previous decisions to conclude its asset purchase programme, the statement issued after the June meeting signalled a clear intention to further significantly tighten monetary policy and to adopt an approach closer to that of the Bank of England and US Federal Reserve. At her press conference on 9 June Christine Lagarde President of the ECB announced, based on the latest ECB assessment, an intended 0.25% increase in interest rates at the July policy meeting, a possible 0.5% increase at the September meeting and further increases at later policy meetings. Christine Lagarde's press conference statement included the following *"High inflation is a major challenge for all of us. The Governing Council will make sure that inflation returns to its 2% target over the medium term. In May inflation again rose significantly…inflation pressures have broadened and intensified…Eurosystem staff have revised their baseline inflation projections up significantly. These projections indicate that inflation will remain undesirably elevated for some time…we undertook a careful review of the conditions which, according to our forward guidance, should be satisfied before we start raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied. Accordingly… we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting. Looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting. Third, beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate…*

However, within a week of its June policy setting meeting the ECB Governing Council felt the need to hold an emergency meeting. This was called in the context of a potential sovereign debt crisis after bond yields of weaker Eurozone countries, including Italy and Spain, increased significantly after the ECB's decision on 9 June not merely confirming the end of its asset purchase programme but to start raising interest rates from July 2022. The decision to call this emergency meeting indicated that the ECB had quickly become concerned that their objective of tackling Eurozone inflation could result in significant increases in bond yields and a debt crisis in the Eurozone. The "Statement after the ad hoc meeting of the ECB Governing Council" on 15 June indicated that it *would "…accelerate the completion of the design of a new anti-fragmentation instrument…"* an instrument to support the bonds of the weaker eurozone economies. The form of this instrument, subsequently named the transmission protection instrument or TPI was announced on 21 July 2022.

As in the January to March 2022 Quarter UK Listed Equities performed clearly above Global Equities. While in absolute terms the FTSE All Share index performed negatively over the April to June Quarter it lost (only) 5% in £ terms. This relative "success" was, as in the previous Quarter driven by the FTSE 100 index of the largest companies. While the FTSE 100 declined by under 4% the FTSE 250 index declined by 11%.

The Minutes of the June meeting of the Bank of England Monetary Policy Committee included the statement that *"Labour demand indicators had remained strong, alongside evidence of persistently elevated recruitment difficulties..."* The UK Unemployment rate remained low but rose slightly, as reported by the Office for National Statistics, from 3.7% in the January to March 2022 Quarter to 3.8% in the April to June 2022 Quarter. UK CPI which had been 7.0% in March 2022 rose to 9.0% in April 2022, 9.1% in May and 9.4% in June. By June 2022, the Monetary Policy Committee (MPC) of the Bank of England had increased Bank Rate (interest rates) to 1.25% as a result of 0.25% increases at both its May and June 2022 meetings. This approach which resulted in an increase in interest rates of 0.5% during the Quarter was clearly significantly more cautious than that of the US Federal Reserve which increased interest rates by 1.25% during the Quarter and which also clearly indicated significant further future rate increases. The Monetary Policy Summary issued after the May 2022 MPC meeting included the statement *"…given the current tightness of the labour market, continuing signs of robust domestic cost and price pressures, and the risk that those pressures will persist, the Committee voted to increase Bank Rate by 0.25 percentage points at this meeting..."*

The Monetary Policy Summary issued after the June 2022 MPC meeting included the statement *"In view of continuing signs of robust cost and price pressures, including the current tightness of the labour market, and the risk that those pressures become more persistent, the Committee voted to increase Bank Rate by 0.25 percentage points, to 1.25%, at this meeting."* Six Members of the MPC voted for this 0.25% increase while a minority of three Members considered that circumstances were such to justify a 0.5% increase. The Minutes of the June MPC meeting state *"These* [three] *members put a higher weight on the prospect of more resilience in demand or shortfalls in supply or both, such that cost and capacity pressures would remain relatively strong over the forecast period... Faster policy tightening now would help to bring inflation back to the target sustainably in the medium term, and reduce the risks of a more extended and costly tightening cycle later."*

Japanese Equities although posting a negative in absolute terms performed more positively than Global Equities, as in the previous Quarter. The Nikkei 225 Index declined by approximately 5% (in Yen terms) over the April to June Quarter. Japanese inflation finally reached the Bank of Japan's inflation target rising to slightly over 2%.

The Bank of Japan in stark contrast to other major central banks maintained, however, its ultra loose monetary policy at both its April and June policy meetings. It maintained commitment to its negative (overnight) interest rate of -0.1% and pledged to continue to intervene in markets (through bond purchases) to maintain the yield on 10 year Japanese Government Bonds at around 0%. The Bank of Japan expressed concerns regarding economic weakness and that inflationary increases may be transitory and therefore considered it needed to continue its ultra loose monetary policy approach. This clearly divergent approach to monetary policy compared to the United States resulted in significant volatility and weakness in the Yen compared to the US dollar.

Although both Asian and Emerging Market equities as a whole declined during the April to June 2022 Quarter, they performed clearly better than world markets as a whole which was in clear contrast to the previous 12 months. Asian (excluding Japan) and Emerging Markets clearly lagged developed western markets during the year April 2021 to March 2022. During this period, the MSCI World index advanced by 10% (in $ terms) while the MSCI AC Asia (excluding Japan) fell over 14% (in $ terms) and the MSCI Emerging Markets index fell over 11% (in $ terms). During the April to June 2022 Quarter while World Markets fell by 16% (in $ terms) the MSCI Asia (excluding Japan) index fell by 9% and the MSCI Emerging Markets index by 11.5%. This relative outperformance by Asia and Emerging Markets may partly reflect the past relative performance of these markets against western developed markets. One positive factor, however, for Asia and Developing Markets was the performance in the later part of the Quarter of China in the context of the positive economic effect of the relaxation of COVID lockdown measures and reductions in quarantine requirements and market expectations of further economic stimulus by the Chinese government.

As in the previous Quarter, benchmark Government bonds, experienced a poor Quarter with yields again rising sharply (and prices therefore falling). The 10 Year Treasury yield increased from 2.34% to 3.01%. The 10 Year Gilt yield rose from 1.61% to 2.23% and the 10 Year German Bund from 0.55% to 1.34%. There were also significant increases in the yields (and therefore price falls) in the major 2 Year Government Bonds. High inflation data, central bank policy tightening and consequent interest rate rises/expectations of further rises were, again, negative factors for both government and Corporate Bonds. Overall Corporate Bonds underperformed the major Government Bonds with concerns regarding the future economic outlook perhaps another negative factor for Corporate Bonds in addition to significant inflation and interest rate concerns.

18 August 2022