JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary July to September 2022

For the third Quarter in a row World Equity and Bond markets declined. World Equity markets as measured by the MSCI World Index fell by another 6% (in $ terms) in the July to September 2022 Quarter following a fall of 16% in the April to June Quarter and around 5% in the January to March Quarter.

In very clear contrast to the overall downward trend earlier in 2022 July was a positive month for World Equity markets. However, this resurgence was short lived with both August and particularly September seeing clear losses. As in the two previous Quarters actual and anticipated interest rate rises by the major central banks, ongoing heightened inflation, the Russian invasion of Ukraine, concerns regarding economic slowdown and even recession were significant factors which weighed against Listed Equities. A notable negative event for Equities was the speech on 26 August 2022 by Jay Powell Chair of the US Federal Reserve at the annual Jackson Hole Economic Symposium. In his speech Chair Powell was absolutely clear that the world's most important Central Bank would resolutely raise interest rates to return inflation to its 2% policy target. In this context Jay Powell stated *"The Federal Open Market Committee (FOMC) overarching focus right now is to bring inflation back down to our 2 percent goal…Restoring price stability will take some time and requires using our tools forcefully…Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy…Our responsibility to deliver price stability is unconditional…"*

In the context of inflation concerns and increases in interest rates by Central Banks, both Government and the Corporate sector, experienced a clearly negative Quarter made worse by the actions of the UK government which negatively impacted not only UK Gilts but triggered significant volatility in global bond markets. The announcement, on 23 September 2022 of a £45bn debt financed tax cutting package resulted not only in a loss of market confidence in UK gilts (as evidenced by the significant fall in the value of the 10yr UK Gilt that day) but dysfunction in the Gilt market in the following days which resulted in surging yields and in the Bank of England intervening from 28 September 2022 to support the Gilt market. So serious was the situation that in the words of Bank of England Deputy Governor Sir John Cunliffe (in a letter to the Chair of the House of Commons Treasury Committee of 5 October 2022) that *"The Bank acted to restore core market functioning and reduce the material risks to financial stability and contagion to credit conditions for UK households and businesses…"*

In the United States unemployment fell from 3.6% in June 2022 to 3.5% in July and was 3.5% in September. Inflation continued to be clearly elevated. Headline CPI was 8.5% in July, 8.3% in August and 8.2% in September. 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 June 2022 continued to remain well above target at 4.7% in July, 4.9% in August and 5.1% in September 2022.

In a situation of high inflation and very low unemployment the US Federal Reserve acted decisively in the July to September Quarter, as in the previous Quarter, to seek to bring (Core CPE) inflation back closer to its policy target. The Federal Open Markets Committee (FOMC) raised its benchmark interest rate, the Federal Funds rate, by 0.75% at both its July and September 2022 meetings. Statements by Federal Reserve officials including Chair Jay Powell (at Jackson Hole on 26 August 2022) and Vice Chair Lael Brainard (on 7 September 2022 at the Clearing House and Bank Policy Institute 2022 Annual Conference in New York City) emphasised and reinforced the determination to restore inflation to the 2% target. In her speech entitled "Bringing Inflation Down" Lael Brainard concluded that *"We are in this for as long as it takes to get inflation down…Monetary policy will need to be restrictive for some time to provide confidence that inflation is moving down to target…Our resolve is firm, our goals are clear…"*

The S&P 500 index fell by 5% during the July to September 2022 Quarter which resulted in the index experiencing three successive Quarterly falls. Therefore, US equities have experienced their longest period of Quarterly losses since the financial crisis of 2008 Continuing market concerns regarding inflation, together with actual and further anticipated rises in interest rates by the US Federal Reserve, associated concerns regarding an economic slowdown or even recession were all factors which surely weighed against US equity markets.

Eurozone Equities also experienced a third successive Quarterly decline with the MSCI EMU index declining by approximately 4.5% (in Euro terms). Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) which had been 7.4% in March 2022 was 8.9% in July, 9.1% in August and 9.9% in September which is the highest rate recorded in the Euro's 23 year history. At its meeting on 21 July 2022 the Governing Council of the European Central Bank (ECB) raised interest rates for the first time since 2011. The increase in interest rates of 0.5% was twice the increase that Christine Lagarde the ECB President had indicated at her press conference following the June 2022 ECB meeting. At the press conference following the 21 July meeting Christine Lagarde stated *"We decided to raise the three key ECB interest rates by 50 basis points…The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting. This decision is based on our updated assessment of inflation risks…At our upcoming meetings, further normalisation of interest rates will be appropriate…Our future policy rate path will continue to be data-dependent and will help us deliver on our two per cent inflation target over the medium term…"* Despite projections of stagnation in the Eurozone economy later in 2022 and early 2023 inflationary concerns resulted in the Governing Council of the ECB raising the three key ECB interest rates by 0.75% at its meeting on 8 September 2022 with ECB President Christine Lagarde stating (at the press conference) that *"We took today's decision, and expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period."*

As in the two previous Quarters UK listed equities again outperformed Global Equities. The FTSE All Share lost 3.5% in £ terms. This relative outperformance again resulted from the performance of the FTSE 100 index of largest companies which earn revenues in US dollars and other currencies that have gained in comparison to the £. The FTSE 100 also has a significant weighting to energy and other "value" stocks which are expected to perform generally better than high growth stocks (such as technology) during periods of high inflation and higher interest rates.

On 6 September 2022 Rt Hon Elizabeth Truss succeeded Rt Hon Boris Johnson MP as the UK Prime Minister. The UK continued to experience inflation way over the Bank of England policy target of 2%. CPI inflation had been 7.0% in March 2022 and had reached 9.4% in June, was 10.1% in July, 9.9% in August and 10.1% in September. At both its meeting on 4 August 2022 and its meeting on 22 September 2022 the Bank of England Monetary Policy Committee (MPC) voted to increase base rate by 0.5%. Following the 22 September meeting Base Rate was 2.25%.

UK Gilts experienced a torrid Quarter. Even before the new Government's announcement of the unfunded £45bn of tax cuts on 23 September markets had clearly moved against the UK Government bond market in the context of high inflation and policy uncertainty. The 2 year Gilt yield increased (and therefore prices fell) by 1.3% in August its largest rise (price fall) since 1991 with UK inflation reported at a 40 year high on 17 August when the July 2022 CPI was announced at +10.1%. The 10 year Gilt yield increased by approaching 1% during August. By the end of August 2 year yields were 3.02%, 10 year yields 2.80% and 30 year yields 3.08%.

The new UK Government's launch on 23 September of ***"The Growth Plan 2022"*** (to give it its official title) resulted in a rapid sell off in Gilts as markets questioned the future fiscal stability of the UK with the 10 year Gilt yield increasing by 0.3% in a day. The Gilt market seriously weakened (with the situation severely exasperated by Gilt selling to support the LDI (Liability Driven Investment) market into which many private sector (closed) Defined Benefit Pensions Schemes have invested) resulting in the Bank of England launching an emergency Gilt buying programme on 28 September 2022 to stabilise the market. Prior to the Bank of England intervention, the Yield on the 30 year gilt had risen to above 5%. From the end of June to the end of September UK 2 Year Gilt yields rose (and therefore prices fell) from 1.84% to 4.23%, 10 Year Gilt yields increased from 2.23% to 4.09% and the 30 year yield from 2.36% to 3.83%.

As in the previous two Quarters Japanese Equities although declining in absolute terms (the Nikkei 225 declined by 1.7% over the July to September Quarter) performed better than Global Equities. Corporate profits were again ahead of expectations and at its policy meetings in both July and September the Bank of Japan maintained its ultra loose monetary policy in contrast to that of all the other major Central Banks. Indeed, following the decision in September of the Swiss National Bank to increase interest rates above zero the Bank of Japan is the only notable Central Bank to retain negative interest rates. The approach of the Bank of Japan which is increasingly in stark contrast to other Central Banks and notably the most powerful Central Bank – the US Federal Reserve – resulted in the ongoing and significant weakening of the Yen during 2022. Japanese inflation which had finally reached the Bank of Japan's 2% target in the previous Quarter remained above 2% during the July to September 2022 Quarter - the Bank of Japan's continuing ultra loose monetary policy and associated weakness of the Yen are undoubtedly factors that have clearly contributed to this increase in inflation.

After having performed better (although still negatively) than Global markets as a whole in the previous Quarter both Asian (excluding Japan) and Emerging Market Equities clearly underperformed Global Equities in the July to September Quarter. The MSCI Asia (ex-Japan) index declined (in US$) terms by almost 14% and the MSCI Emerging Markets index by over 11%. Clearly, as with all equity markets high inflation, higher interest rates and concerns regarding economic growth/slowdown adversely affected markets.

There are clear issues affecting China the largest Asian and Emerging Market nation – including its continuing very strict approach to COVID and a crisis in its property market. A clear slowdown in the Chinese economy adversely affects not only China but other Asian/Emerging Markets that are clearly intertwined with China. The robust approach of the US Federal Reserve to interest rates also generally weighs against Asian/Emerging Markets (particularly middle sized/smaller countries) in terms of rising borrowing costs.

While UK Gilts had a particularly poor Quarter Credit in general performed weakly. US Treasuries also experienced a negative Quarter with the yield on the on the 2 Year Treasury increasing from 2.95% to 4.28% and the 10 year yield increasing from 3.01% to 3.83%. German 2 year Bund yields increased from 0.65% to 1.76% and the 10 year Bund from 1.34% to 2.11%. Corporate bonds also performed poorly in an environment of inflation and higher actual and anticipated interest rates.

1 November 2022