JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary October to December 2022

In contrast to the previous three Quarters October to December 2022 was positive for World Equity markets. The October to December Quarter saw the MSCI World Index advance by almost 10% (in $ terms) with all major geographies seeing positive returns. However, these gains were far lower than the previous cumulative losses of 2022 which saw the MSCI World Index decline by over 25% between January and September.

October and November were both clearly positive months for Global Equities with markets generally buoyed by indications that inflation though still high was on a path to slowing and indications that the US Federal Reserve would mitigate its monetary policy tightening stance. Additionally there were generally strong corporate earnings announcements in both the US and Japan. In October the reversal by the UK Chancellor Rt Hon Jeremy Hunt MP of the vast majority of the fiscal (tax) reforms announced (in September) by his predecessor Rt Hon Kwasi Kwarteng MP buoyed not only UK but US and World stock markets. In November a positive meeting between President Joe Biden of the US and President Xi Jinping of China and expectations of the easing of COVID restrictions by China also boosted markets. Buyers purchasing equities at what they considered a discount after the significant falls earlier in 2022 could also have been a factor pushing markets upwards. The MSCI World Index advanced (in $ terms) by 7% in both October and November. December however was a negative month with the MSCI World Index falling by 4%. Statements by both US Federal Reserve and European Central Bank regarding further interest rate rises unsettled markets. This was despite the US Federal Reserve increasing interest rates by 0.5% at its December 2022 Federal Open Markets Committee meeting rather than 0.75% as at each of the four previous meetings including the 1-2 November 2022 meeting.

Since March 2022 the US Federal Reserve has applied ongoing and significant increases in interest rates in order to seek to reduce inflation. US inflation remained clearly elevated but fell during the October to December Quarter. Headline CPI which had been 8.2% in September fell to 7.7% in October, 7.1% in November and 6.5% in December. Despite declining from 5.2% in September to 5.1% in October, 4.8% in November and 4.6% in December 2022 the Core PCE Index which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2% inflation. One reason for the continuing strength of inflation in the US is the very low unemployment rate which was only 3.5% by December 2022.

The US S&P 500 index increased by over 7% during the October to December Quarter. Both October and November were positive but December was negative. In October, better than expected overall corporate earnings announcements, particularly from Banks (Bank of America and Goldman Sachs) and Apple boosted markets. A slowing of inflation (relating to October but reported in November) and statements from senior Federal Reserve Officials supportive of a slower pace of future rate rises also boosted stocks in November.

December however proved a difficult month. Despite the US Federal Reserve slowing the pace of interest rate rises at its December meeting markets were upset by statements from several senior Federal Reserve officials regarding the (greater than anticipated) extent of likely future rate rises. The US market was also adversely affected in December by some weak corporate earnings data, and also by negative announcements from Tesla.

Eurozone Equities experienced a clearly positive Quarter with the MSCI EMU index advancing almost 13% (in Euro terms). As with world markets in general October and November were positive while December proved to be negative. Over the Quarter mild weather and lower gas prices were helpful to both the economy and equity markets.

On 27 October 2022 the European Central Bank (ECB) raised interest rates by 0.75% stating in its press release that *"With this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation. The Governing Council took today's decision, and expects to raise interest rates further, to ensure the timely return of inflation to its 2% medium-term inflation target. The Governing Council will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach."* At the meeting that concluded on 15 December 2022 the Governing Council of the ECB raised interest rates by a further 0.5%. However this reduction in the pace of rate rises was accompanied by a clear message regarding likely significant future rate rises which undermined European Equity markets. In her press conference statement following the conclusion of the December Governing Council meeting ECB President Christine Lagarde stated *"…We decided to raise interest rates today, and expect to raise them significantly further, because inflation remains far too high and is projected to stay above our target for too long…"*

Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) remained way above the ECB medium-term inflation target of 2%. It had been 7.4% in March 2022 and by September reached 9.9%. In October it was 10.6% and in November 10.1% (which was the latest data available to the ECB at its December Monetary Policy meeting). In December 2022 it was 9.2%.

UK Equities also enjoyed a clearly positive Quarter with both the FTSE All Share and the FTSE 100 increasing by approaching 9% (in £ terms). The more domestically focussed FTSE 250 which had experienced a torrid previous 9 months increased by approaching 11%. The recovery in UK Equities and particularly in those whose primary market is the UK was doubtlessly aided by the the reversal in October of most of the changes to fiscal policy (including significant unfunded tax cuts) announced by the Government on 23 September 2022 and also by the replacement, on 25 October 2022, of Rt Hon Elizabeth Truss MP as Prime Minister by Rt Hon Rishi Sunak MP.

During the October to December Quarter CPI inflation remained far above the Bank of England policy target of 2%. CPI inflation which had been 7.0% in March 2022 reached 11.1% in October which was the highest rate for 41 years (since October 1981). November saw a rate of 10.7% and December 10.5%. Core CPI Inflation (which excludes volatile food, energy, alcohol, and tobacco prices) also remained high. It had been 6.5% in September and by December was still 6.3%. Ongoing high inflation remained a major issue for low income families who are particularly affected by high energy and high food costs. Unemployment remained very low with the Office for National Statistics reporting a rate of 3.7% for the October to December period.

At its meeting ending on 2 November 2022 the Bank of England Monetary Policy Committee (MPC) raised Bank Rate (interest rates) by 0.75% the largest increase at a single meeting for 30 years. The increase took Base Rate to 3% its highest level since 2008. In justification of the 0.75% increase the Minutes of the MPC (paragraph 49) stated *"…Overall, a larger increase in Bank Rate at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later."* At the MPC meeting ending on 14 December meeting Bank Rate was increased by a further 0.5% to 3.5%. The Minutes of the meeting (paragraph 48) included the statement *"…The labour market remained tight and there had been evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence and thus justified a further forceful monetary policy response… A 0.5 percentage point increase in Bank Rate at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later."*

For the third Quarter in a row Japanese inflation was above the Bank of Japan's 2% target. In December 2022 core inflation reached 4% a 41 year high. Japanese Equities (as measured by the Nikkei 225 Index) clearly underperformed other major markets advancing by less than 1% over the Quarter (in Yen terms). In October the Nikkei advanced by over 6% in part as a result of positive corporate earnings results. November saw a further advance of over 1% before a fall of 7% during December. The announcement by the Bank of Japan of a widening of its Yield Control policy on 20 December 2022 was followed by a clear weakening in Japanese equities with the Nikkei 225 losing over 4% between the close of trading on 19 December and the year end.

At its October and December 2022 Monetary Policy meetings the Bank of Japan maintained its position as the only notable Central Bank to retain negative/zero interest rates announcing a continuation of short term interest rates at -0.1% and the long term rate at around 0% (linked to the 10 Year Japanese Government Bond yield). At its December Monetary Policy meeting, however, the Bank surprised (or perhaps shocked) markets when it also announced a major and unanticipated shift in the conduct of its Yield Control policy that *"…the Bank will expand the range of 10-year JGB yield fluctuations from the target level: from between around plus and minus 0.25 percentage points to between around plus and minus 0.5 percentage points"* (Bank of Japan Statement on Monetary Policy, 20 December 2022). Yield Control is whereby a Central Bank targets a longer term interest rate and then buys/sells bonds to maintain that target rate. The Governor of the Bank of Japan Haruhiko Kuroda denied that this clear change to Yield Control policy amounted to a tightening of monetary policy but rather stated it was to address increased market volatility and to improve the sustainability of monetary easing. While this change in the conduct of Yield Control policy resulted in an immediate strengthening of the Yen v the US $ it does not fundamentally address the differences in Japanese Monetary Policy (ultra-loose) compared to that of the other major Central Banks which have significantly tightened monetary policy and have indicated further likely tightening. In such a situation the Yen remained/remains vulnerable to sell-offs.

Overall Asian (excluding Japan) and Emerging Market Equities enjoyed a clearly positive Quarter. The MSCI Asia (ex-Japan) Index advanced by over 11% (in US$ terms) and the MSCI Emerging Markets Index advanced by approaching 10%.

In contrast to western Developed markets Asian (ex-Japan) and Emerging markets experienced a generally negative October. Chinese COVID restrictions and concerns over the future political direction of China following the 20th Communist Party Congress were clear negatives. November 2022 was, however, an outstandingly positive month for Asian/Emerging markets. Chinese and Asian/Emerging Markets were boosted from November by expectations of the loosening of COVID restrictions in China resulting from both signals from the Chinese authorities and significant public protests against lockdowns. The favourable meeting in Indonesia on 14 November 2022 between US President Joe Biden and Chinese President Xi Jinping also buoyed markets. December was a (moderately) negative month for Asian and Emerging markets which as with Global markets generally reacted adversely to concerns that the US Federal Reserve might raise interest rates higher and for longer than had been expected.

US and German Government bonds experienced yet another negative Quarter with yields rising (and prices therefore falling). The yield on the 2 Year Treasury increased from 4.28% to 4.43% and the 10 Year Treasury yield increased (marginally) from 3.83% to 3.87%. The German 2 year Bund yield increased from 1.76% to 2.76% while the yield on the 10 year Bund increased from 2.11% to 2.57%. Overall, adverse announcements regarding inflation and expectations regarding future interest rate rises by both the US Federal Reserve and European Central Bank weighed against these benchmark Government bonds.

In contrast to the previous torrid Quarter and despite further interest rate rises by the Bank of England at both its November and December 2022 Monetary Policy Committee meetings UK Gilts enjoyed a positive Quarter in the context of the Government reversing most of the unfunded tax cuts announced on 23 September 2023 (which had resulted in a crisis in Gilt markets) and the replacement of Rt Hon Elizabeth Truss MP as Prime Minister by Rt Hon Rishi Sunak MP. The yield on the 2 Year Treasury fell from 4.23% to 3.58% and the 10 Year yield from 4.09% to 3.67%.

27 February 2023