JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary January to March 2023

For the second Quarter in a row Global Equities advanced. The January to March 2023 Quarter saw the MSCI World Index increase by almost 8% (in $ terms). As in the previous Quarter all major geographies saw positive returns.

January 2023 was a very positive month for markets with the MSCI World index increasing by 7% in the context of positive macroeconomic prospects exemplified by falling energy prices, lower headline inflation in the US (December 2022 headline CPI was 6.5% compared to 7.1% in November), and a broad based recovery/reopening in China arising from both government economic policies and loosened COVID restrictions. The US Federal Reserve slowed its rate of monetary tightening with the Federal Open Markets Committee (FOMC) only increasing its benchmark interest rate, the Federal Funds rate, by 0.25% at its policy meeting which ended on 1 February 2023 – following this announcement the S&P 500 Index rose to 4,180 on 2 February 2023 its highest point since August 2022.

February, however, proved to be a more difficult month for markets (except for Europe and the UK which both saw small gains) with the MSCI World Index falling over 2%. There were increased US China tensions beginning with the US stating it had discovered a Chinese spy balloon flying over the US and Secretary of State Antony Blinken announcing, on 3 February, the cancellation of his planned visit to China. Additionally, the release, on 3 February 2023, of the US Employment report for January 2023, showed that employment rose by 517,000 in January, way in excess of market forecasts of under 200,000. This, together with the announcement, on 14 February of higher than anticipated US CPI inflation in January 2023, suggested the US economy was stronger than had been anticipated and therefore that interest rates would be higher and/for longer. This weighed against US markets and in particular Asian and Emerging Markets with the S&P 500 falling over 2% during the month but both the MSCI AC Asia (ex-Japan) and MSCI Emerging Markets Indices falling by more than 6%.

Despite a potential Banking crisis in both the US and Europe in March – which was averted by the decisive actions of the US and Swiss authorities (and likely the tougher regulatory regimes introduced after the 2008 financial crisis) markets determined there was a lack of systemic risk. After coming under pressure in the first half of the month markets enjoyed a positive second half of March with the MSCI World Index advancing by over 3% during the month with most major markets increasing over the month.

Unemployment in the US continued to be very low with a rate of 3.5% in March 2023. Inflation remained clearly elevated over the Quarter. The Core PCE Index which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2%. Having registered no lower than 4.6% throughout 2022 it was 4.7% in both January and February 2023 and 4.6% in March 2023. The headline CPI inflation index remained higher than the Core CPE index throughout the Quarter.

The US Federal Reserve has the duel monetary policy objectives of seeking to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Therefore (as stated in the press release issued after, both, the meetings that ended on 1 February 2023 and on 22 March 2023) "*in support of these goals*" the Federal Open Markets Committee (FOMC) of the US Federal Reserve further increased interest rates. On each occasion, however, by only 0.25% which was in contrast to the four 0.75% increases and the two 0.5% increases seen between May and December 2022.

At its March meeting the FOMC determined a further 0.25% increase in the Federal Funds rate to the target range of 4 ¾ to 5% despite the recent turmoil in the US banking sector. However, the Press Release issued following the March meeting indicated that the long run of meeting after meeting increases in interest rates (which commenced in March 2022) may be nearing its end. The term *"The Committee anticipates that ongoing increases in the target range will be appropriate…"* which had been used in the March 2022 to February 2023 press releases was replaced by softer statement that *"The Committee anticipates that some additional policy firming may be appropriate…"*

March 2023 saw a potential US Banking crisis with the forced closure on 10 March, by the California State authorities, of Silicon Valley Bank (SVB) that had been the 16th largest bank by assets in the US. This was followed by the closure of Signature Bank, by the New York State authorities on 12 March. These represented the second and third largest bank failures in US history. A banking crisis was however averted (for the time being at least) by the immediate action of the US Government, in consultation with the Federal Reserve, with US Secretary of the Treasury Janet Yellen announcing that no depositors, at either bank, would lose any of their money. At his Press Conference on 22 March, following the Federal Reserve FOMC meeting, Chair Jay Powell referred to *"decisive actions"* by the Federal Reserve and US Treasury Department *"to protect the U.S. economy and to strengthen public confidence in our banking system."* Chair Powell went on to state *"Our banking system is sound and resilient, with strong capital and liquidity. We will continue to closely monitor conditions in the banking system and are prepared to use all of our tools as needed to keep it safe and sound."*

January saw a return of over 6% in the S&P 500 (the best for January since 2019). US stocks had a poor February but advanced in the later part of March. This was despite continuing turmoil in the US regional banking system which included the largest US Banks depositing $30 billion into the California based First Republic bank to bolster its finances. However, in a speech, to the American Bankers Association, on 21 March Secretary of the Treasury Janet Yellen reassured not only bankers but the wider market when she indicated government support *"…if smaller institutions* [banks] *suffer deposit runs that pose the risk of contagion."* As at the end of March the S&P 500 had returned 7.5% over the Quarter.

Eurozone stocks were the best performing of the major markets during the Quarter with the MSCI EMU Index returning over 12% (in Euro terms and over 14% in US$ terms). This was aided by the reopening of China given this is a major export market for the Eurozone, fiscal support packages by many governments in response to the energy crisis and high inflation, and moderating wholesale gas prices. The relative and clear "cheapness" of Eurozone stocks compared to US stocks may have been another factor.

In Europe, the massive Swiss bank Credit Suisse, which had suffered rapid and huge outflows was acquired, on 19 March 2023, by its arch rival UBS following negotiations, which were not merely brokered but forced, by the Swiss regulators in order to protect the Swiss banking system and to avert a potential crisis across global financial markets. However, there was no crisis or other actual or potential failures in the wider European banking system. The robust regulation of the Eurozone banking sector and its *"strong capital and liquidity"* (referred to in a European Central Bank statement of 19 March 2022) doubtlessly does much to explain this. Indeed, overall, Eurozone financial stocks increased in value over the Quarter!

Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) declined over the Quarter but remained way above the European Central Bank (ECB) target of 2%. It had been 9.2% in December 2022 but fell to 8.6% in January, 8.5% in February and 6.9% in March 2023. However, Core Inflation (which excludes energy and food) increased from 5.2% in December 2022 to reach 5.7% in March 2023. In response to this heightened inflation the ECB raised interest rates by 0.5% at both its 2 February and 16 March 2023 monetary policy meetings. After the March 2023 meeting the benchmark ECB interest rate (known as *"the deposit facility")* stood at 3%.

The March increase took place against the background of the turmoil in the US banking market and rapidly increasing concerns regarding the future of Credit Suisse. These circumstances did not however prevent the ECB from implementing a further clear tightening of monetary policy. However, whereas the Press Statement issued after the February policy meeting began with the statement "*The Governing Council will stay the course in raising interest rates significantly at a steady pace…"* this was omitted completely from the March Press Statement which was notable particularly as this began with the statement *"Inflation is projected to remain too high for too long."* The March Press Statement placed emphasis on a *"data-dependent approach" to* future interest rate decisions.

UK Equities gained 3% over the Quarter (as measured by the FTSE All-Share Index). Although this was positive the return on UK equities was below that of World markets overall and other major developed markets. The mining sector, an important constituent of the FTSE indices, saw significant losses during the Quarter with both Anglo American and Glencore stocks losing over 15% and Rio Tinto over 5%. In the context of concerns about the global banking sector (in reality primarily because of issues relating to only a limited portion of the US banks and Credit Suisse) the UK listed banks having advanced in the first part of the Quarter experienced a clearly negative March.

During the January to March 2023 Quarter CPI inflation remained, as in the previous Quarter, far above the Bank of England policy target of 2% and indeed continued to be in excess of 10%. 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 2022 saw a rate of 10.7% and December 10.5%. In January, February and March 2023 CPI was 10.1%, 10.4% and 10.1% respectively.

In the context of this inflationary environment the Bank of England continued to further tighten its monetary policy stance. The February meeting of the Bank of England Monetary Policy Committee (MPC) increased Bank Rate (interest rates) by a further 0.5% to 4%. At its March 2023 meeting the MPC increased Bank Rate by a further 0.25% to 4.25%.

Japanese stocks enjoyed a successful Quarter with the Nikkei 225 Index advancing over 7% during the Quarter. For the fourth Quarter in a row Japanese inflation was above the Bank of Japan's 2% target with CPI Inflation exceeding 3% in each of January, February, and March 2023.

The Bank of Japan continued to be the only major Central bank to retain negative interest rates with both the January and March 2023 Monetary Policy meetings determining to maintain short term interest rates at -0.1%. The + or minus 0.5% target range for the 10 Year Japanese Government Bond Yield was also maintained. With the Federal Reserve, ECB and Bank of England all having raised their benchmark interest rates to between 3% and 5% and all indicating further potential increases the monetary policy stance of the Bank of Japan has become ever more differentiated from that of the other major Central Banks. It must however be remembered that both in the short and longer term Japan has experienced clearly lower inflationary pressures than the US, Eurozone and United Kingdom which surely is the fundamental explanation of the continuing monetary policy approach of the Bank of Japan.

Both Asian (excluding Japan) and Emerging Market equities clearly advanced over the Quarter but less so than World equities as a whole. The MSCI Asia (ex-Japan) index and the MSCI Emerging Markets index both returned approximately 4% (in US$ terms). The ongoing reopening of China provided an early boost as 2023 began as did a weakening US dollar (US$). However, February was a particularly negative month in the context of US China tensions and a strengthening of the US dollar. March was however generally positive for Asian and Emerging Market Equities.

US, UK, and German Government bonds all enjoyed a positive Quarter with Yields falling and consequently prices rising across the benchmark 2, 10 and also the 30 Year instruments. The Yield on the 2 Year Treasury fell from 4.43% to 4.03% and the 10 Year Treasury Yield fell from 3.87% to 3.47%. The 2 Year (UK) Gilt Yield fell from 3.58% to 3.44% and the 10 Year Gilt Yield from 3.67% to 3.49%. The German 2 Year Bund Yield fell from 2.76% to 2.68% and the 10 Year Yield fell from 2.57% to 2.29%.

The Quarter was however volatile for the major Government bond markets. Yields fell in January (with some initial market optimism regarding inflation falling and hopes that the major Central Banks might slow/soon end their monetary policy tightening) but then rose significantly in February in the context of renewed market concerns regarding inflation and the likely future course of the monetary policy approach of both the US Federal Reserve and ECB. The turmoil in the US banking sector during March was surely a factor in the significant fall in Yields experienced during March as this (naturally) led to questions over whether this might mitigate the approach of the major Central Banks to further interest rate rises.

16 May 2023