JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary April to June 2023

For the third Quarter in a row Global Equities advanced. The April to June 2023 Quarter saw the MSCI World Index increase by almost 7% (in $ terms). For Global Equities as a whole April was mildly positive, May negative and June clearly positive. Over the Quarter as a whole Developed market Equities, and in particular those listed in the United States and Japan, were clearly positive.

A number of factors, in general, favoured Global Equity markets during June. Firstly concerns, which had hung over markets in May, over whether the United States Congress would raise the Debt Ceiling and therefore avoid a default on government debt (on 5 June), which would likely have been disastrous for both the United States and globally, was avoided when on 1 June the Senate approved a bill to suspend the debt ceiling (which is the limit on the total the government can borrow) until 1 January 2025. Also, in June the latest available headline inflation figures (for May) moderated in both the United States and Europe and the US Federal Reserve did not raise its benchmark interest rate at the meeting of the policy setting Federal Open Markets Committee after having done so at each of its previous ten meetings from March 2022.

Headline inflation in the United States clearly declined over the Quarter. CPI (Consumer Price Index) inflation which had been 5.0% in March 2023 fell to 4.0% in May and 3.0% in June. However, the Core PCE (Personal Consumption Expenditures) Index which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2% inflation although this measure also showed indications of mitigating. Core CPE was 4.6 in March 2023 and maintained this level in both April and May 2023. June saw a fall to 4.1%, but this was not (of course) known until July 2023. Unemployment remained very low registering 3.6% as at June 2023

At the monetary policy setting Federal Open Markets Committee (FOMC) meeting which concluded on 3 May 2023 the US Federal Reserve again increased interest rates by setting its benchmark interest rate, the Federal Funds Rate, at a target range of 5 to 5 ¼%. This was the tenth successive meeting at which the FOMC had increased the Federal Funds Rate. However, the increase was only 0.25% the same as at the February and March 2023 meetings and in clear contrast to the four 0.75% increases and the two 0.5% increases imposed between May and December 2022. Furthermore, while the Press Release issued after the March 2023 FOMC meeting had included the statement *"The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time"* this was not included in the Press Release issued after the May meeting. Rather a softer, more dovish, statement was made that *"In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."*

At his press conference following the May 2023 FOMC meeting Chair Jay Powell confirmed that the softened wording regarding future interest rate rises made in the May press release represented a clear change in approach stating that *"… we're no longer saying that we anticipate. And so we'll be driven by incoming data meeting by meeting. And, you know, we'll approach that question at the June meeting…"* [quote extracted from official Transcript of Chair Powell's Press Conference May 3, 2023].

At the FOMC meeting that concluded on 14 June the committee determined not to increase the Federal Funds Rate. This represented the first pause in monetary tightening since March 2022. At his 14 June press conference Chair Jay Powell stated *"…In light of how far we've come in tightening policy, the uncertain lags with which monetary policy affects the economy, and potential headwinds from credit tightening, today we decided to leave our policy interest rate unchanged…"* However, Chair Powell was also clear that some further monetary tightening was likely stating *"Looking ahead, nearly all Committee participants view it as likely that some further rate increases will be appropriate this year to bring inflation down to 2 percent over time."* [quotes extracted from official Transcript of Chair Powell's Press Conference June 14, 2023].

US Equities clearly had a positive quarter with the S&P 500 index posting gains approaching 9%. While most markets posted a loss in May the S&P 500 posted a small advance. This was despite serious market concerns over the government debt ceiling situation which remained unresolved in the US Congress and the failure of another significant US regional bank. At the beginning of May the Californian regulators in liaison with the Federal Deposit Insurance Corporation closed the Californian Bank First Republic and sold most of its assets to JP Morgan. This was the third failure of a significant US regional bank in 2023 and the second largest bank failure in US history but again, as in March 2023, the actions of the US authorities avoided a full scale banking crisis. June saw an increase of well over 6% in the S&P 500 Index. Over the Quarter US company earnings results, the lifting by Congress of the US government debt ceiling, a softer approach to monetary policy tightening by the US Federal Reserve, less negative news regarding inflation, and positive sentiment regarding the development of Artificial Intelligence were all positives for US Equity markets.

Eurozone Equities also experienced a positive Quarter with the MSCI EMU Index advancing by over 3%. The Eurozone experienced positive company earnings results and falling inflation which were both positives for markets. However, in June both past and forecast economic data indicated concerns regarding the Eurozone economy. Data released by Eurostat on 8 June 2023 showed that the Eurozone GDP had declined by 0.1% in both the last Quarter of 2022 and the first Quarter of 2023 and that therefore the Eurozone had technically experienced a recession. On 23 June it was reported that the PMI (Purchasing Managers Index), an indicator of manufacturing and services activity had fallen to a five month low. Eurozone equity markets reacted negatively to this news.

Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) continued to fall but remained clearly above the European Central Bank (ECB) target of 2%. HICP had been 9.2% in December 2022 falling to 6.9% by March 2023. By May it had fallen to 6.1% and at June was 5.5%. Core inflation which had been 5.7% in March 2023 fell marginally over the Quarter to 5.5% in June. Despite ongoing monetary tightening (interest rate rises) by the ECB and not so positive economic news revised figures issued by Eurostat on 31 July indicated that Eurozone unemployment in each of April, May and June 2023 was 6.4% an all time low in the history of the Eurozone.

In the context of inflation clearly above the ECB target of 2% the ECB raised interest rates by 0.25% at both its May and June monetary policy meetings. The June increase was the eighth successive interest rate increase imposed by the ECB as it sought, in the words of its Monetary Policy Decisions statement issued after the June meeting, *"to ensure that inflation returns to its 2% medium-term target in a timely manner."* Following the June 2023 policy meeting the benchmark ECB interest rate (*"the deposit facility")* stood at 3.5% and ECB interest rates reached their highest since 2001. These two rate rises of 0.25% represented, however, a slowing of the pace of monetary policy tightening by the ECB as between July 2022 and March 2023 interest rates were increased by 0.75% on two occasions and by 0.5% on four occasions.

Although there was a clear decline in United Kingdom CPI inflation during the April to June Quarter it still remained well in excess of the Bank of England policy target of 2%. CPI which had been just over 10% throughout the January to March 2023 Quarter fell to 8.7% in both April and May and to 7.9% in June (although this was only reported after the end of the Quarter, on 19 July). Core inflation, however, increased from 6.2% in February and March to 6.8% in April and 7.1% in May, which was its highest level for 31 years, before falling marginally to 6.9% in June 2023.

In the context of this continuing inflationary environment the Bank of England Monetary Policy Committee (MPC) increased Bank Rate (interest rates) by a further 0.25% at its May meeting and then, in contrast to the June monetary policy decisions of both the US Federal Reserve and European Central Bank, by a further 0.5% at its June 2023 meeting. In relation to this 0.5% increase the Monetary Policy Summary issued after the June MPC meeting referred to *"…recent data that indicates more persistence in the inflation process, against the background of a tight labour market and continued resilience in demand."* Following this meeting Base Rate stood at 5%.

In contrast to other major developed markets UK equities declined in value during the April to June 2023 Quarter with both the FTSE All Share and FTSE 100 (mega cap index) losing value. Possible contributors to this relative poor performance include higher inflation/ more persistent inflation that other major developed markets, and the strength of sterling (GB £) which undermined the performance of large UK listed companies which account/report earnings in United States Dollars (US $). Compared to other developed markets (particularly the United States) the FTSE has a light allocation to Technology which performed well during the Quarter and a heavy allocation to Mining and Energy which performed less well in the April to June 2023 period.

The year 2022-2023 (April 2022 to March 2023) finally saw Japanese CPI inflation exceeding the Bank of Japan's 2% target throughout the whole year averaging 3.2%. During the whole April to June 2023 Quarter Japanese CPI inflation again exceeded the 2% target recording 3.5% in April, 3.2% in May and 3.3% in June.

Japanese Equities enjoyed a hugely successful Quarter with the Nikkei 225 Index increasing by over 18% (in Yen terms) during the April to June 2023 period. In May the Nikkei 225 exceeded 31,000 for the first time in over 30 years and the Index was 33,189 on 30 June. The seeming end of low inflation/deflation and the return of moderate inflation, the call by the Tokyo Stock Exchange for Japanese companies to review their financial/reporting approaches, the fact that Japanese equities look attractively valued (which resulted in significant foreign investment in Japanese shares during the Quarter) and the continuation of the Bank of Japan's ultra loose approach to monetary policy were all surely clear positives for Japanese Equities.

April 2023 saw the retirement as Governor of the Bank of Japan of Haruhiko Kuroda who had served as Governor since 2013 and had resolutely maintained the Bank's ultra loose approach to monetary policy until the end of his term of office. Kazuo Ueda, an academic economist, became the 32nd Governor of the Bank of Japan on 9 April 2023.

At the policy meetings which concluded on 28 April 2023 and 16 June 2023 the Bank of Japan maintained short term interest rates at -0.1% and the 10 Year Japanese Government Bond Yield target of 0% with a plus or minus 0.5% tolerance. Therefore, the Bank of Japan continued to maintain its ultra loose monetary policy approach and to be the only major Central Bank to retain negative interest rates.

There were however some indications in the "Statement on Monetary Policy" issued by the Bank of Japan following its April 2023 policy meeting that there could be changes to monetary policy going forward. Firstly, the comment that had appeared in the March "Statement on Monetary Policy" (the last while Haruhiko Kuroda was Governor) that the Bank *"expects short-and long-term policy interest rates to remain at their present or lower levels"* was omitted from the April Statement which suggested less ongoing commitment to the present ultra loose monetary policy approach. Additionally, the April Statement announced a longer term comprehensive review of monetary policy stating *"…the Bank has decided to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years."*

Asian Markets (excluding Japan) and Emerging Markets again underperformed Developed Markets. The MSCI Emerging Markets Index advanced by only 1% over the Quarter while the MSCI Asia (excluding Japan) Index lost over 1%. There were however wide disparities in returns between different countries.

Chinese Equities had a difficult Quarter in the context of a weakening Chinese economy and weak export demand and tensions with the United States regarding Taiwan. Weak export demand also adversely affected Asian (excluding Japan) Equities more generally, but Taiwan benefitted from the gains seen by technology stocks including positive sentiment in the context of Artificial intelligence. The performance of emerging markets overall was positively supported by Latin American (and in particular Brazilian) Equities which enjoyed a clearly successful Quarter.

The benchmark Government Bonds (US, UK, and Germany) all experienced a negative Quarter with yields rising and prices therefore falling. UK Gilts in particular suffered a negative Quarter with the United Kingdom's higher/more sticky inflation compared to the United States and other G7 countries surely a material factor. Over the Quarter the 10 Year Gilt yield increased from 3.49% to 4.39%. US and European Corporate Bonds, and in particular High Yield, outperformed the benchmark Government Bonds over the April to June 2023 Quarter.

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