JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary October to December 2023

The October to December Quarter was clearly positive for both Equities and Bonds. After a negative October both November and December were strong months for Equities and Bonds. Losing 3% (in US $ terms) in October the MSCI World Index then experienced a strong two month rally resulting in the index gaining over 11% over the Quarter. Reducing and lower than anticipated levels of reported inflation in the US and Eurozone in November and December led to widespread financial market expectations that interest rates would not increase further and would clearly reduce in 2024. This, coupled with a more doveish stance by the US Federal Reserve (at its December meeting), clearly boosted Equity markets and Bond markets in November and December 2023. Those Equities, such as Information Technology, which are most sensitive to (anticipated) interest rate changes performed particularly well.

The Quarter started off negatively for Equities in the United States as elsewhere. The S&P 500 index declined by 2% during October with market expectations of high interest rates for longer (likely influenced by the statement by Chair Jay Powell at the conclusion of the Federal Open Markets Committee meeting on 20 September when he clearly did not rule out possible *“additional policy firming”* together with headline CPI for September (reported in October) remaining static at 3.7%), and also the conflict in the Middle East which broke out on 7 October 2023.

In contrast to October both November and December 2023 were positive for US Equities. In November and December US Equity markets were boosted by renewed expectations that interest rates had not only peaked but would fall in 2024. The reduction in headline CPI from 3.7% in September to 3.2% in October (which was reported on 14 November) led markets to anticipate that rates would likely fall. This view was supported by the further reduction in CPI to 3.1% in November (reported 12 December) and by the outcome of the meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) which concluded on 13 December. Not only did the FOMC hold interest rates for the third consecutive meeting, but projections issued at the end of the meeting indicated that FOMC participants anticipated rate cuts totalling 0.75% during 2024. The S&P index gained 9% in November and over 4% in December. After allowing for the decline in October the S&P 500 index gained over 11% during the final Quarter of 2023.

At the meetings of the US Federal Reserve Federal Open Markets Committee held on 31October/1 November and 12-13 December the Federal Funds Rate (the benchmark interest rate) was held at 5.25-5.5%. However, further evidence of cooling US inflation was provided by the Core PCE (Personal Consumption Expenditures Index) which is closely observed by the US Federal Reserve when determining monetary policy. Although the Index remained above the target of 2% it reduced from 3.6% in September, to 3.4% in October, to 3.2% in November and 2.9% in December 2023. The 3.2% November figure reported on 22 December was taken by market participants/commentators as a further indication of likely interest rate cuts in 2024.

While October was negative Eurozone Equities also experienced a clearly positive November and December 2023 with the MSCI EMU index gaining almost 8% (in Euro terms) over the Quarter. Inflation figures from the Eurozone (as well as the US) were lower than had been anticipated and were supportive of Equities and Bonds. The Harmonised Index of Consumer Prices (HICP) for October (which influenced markets in November) was 2.9% compared to 4.3% for the previous month. The November HICP inflation reading fell further to 2.4%. In contrast to the decisions at its previous ten meetings (to increase rates) the Governing Council of the European Central Bank kept interest rates *"unchanged"* at its meeting held on 26 October 2023. At its meeting on 14 December the Governing Council again kept interest rates "*unchanged"*.

The October and December decisions of the ECB along with the statements issued/made to accompany these decisions reassured markets that the ECB has ended its long sequence of interest rate rises (which began in July 2022). Both the Press Releases and Press Conferences (led by ECB President Christine Lagarde) following the October and December meetings, however also, clearly indicated that the ECB will be cautious in respect of decisions to actually reduce interest rates. The Press Releases issued after the October and December meetings included the statement *"The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. The Governing Council's future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary."*

United Kingdom CPI inflation which had been 6.7% in August remained at 6.7% in September (as reported by the Office for National Statistics (ONS) on 18 October 2023). However, the October data (released on 15 November) showed a significant decline to 4.6% which was lower than market/economists' expectations. The November CPI data (released 20 December) recorded a further notable decline to 3.9% which again exceeded expectations. The Bank of England at its Monetary Policy Committee (MPC) meetings on both 2 November and 14 December retained Bank Rate at 5.25%. These represented the second and third successive meetings at which interest rates had been held rather than increased. However, like the European Central Bank, the Bank of England also indicated clear caution regarding actual interest rate cuts. The Monetary Policy Summary issued at the end of the December meeting included the statement *"Monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. As illustrated by the November Monetary Policy Report projections, the Committee continues to judge that monetary policy is likely to need to be restrictive for an extended period of time."*

The apparent ending of monetary policy tightening (interest rate rises) by the Bank of England together with clearly lower than anticipated inflation and a weak/weakening economy (as indicated by GDP data released by the ONS on 10 November and 13 December) were all indicators suggesting to markets/economists (notwithstanding cautionary statements by the Bank of England) that could indicate/result in forthcoming cuts to Base Rate. In this environment UK Equities also rose over the Quarter but, as a whole, by less than US or Eurozone stocks. The FTSE All Share advanced 4.5% over the Quarter.

Japanese Equities, although underperforming world markets as a whole, also experienced a positive Quarter with the Nikkei 225 advancing by 5% (in Yen terms). Japanese inflation which was 3.0% in September rose to 3.3% in October before falling back to 2.8% in November and 2.6% in December. Overall, however, this indicated continuing evidence that Japan has genuinely exited its prolonged period of extremely low inflation with price increases exceeding the Bank of Japan's 2% target since April 2022. Indeed, the Bank of Japan expects inflation to continue to exceed 2% throughout 2024 with the "Statement on Monetary Policy" issued following the 18-19 December monetary policy meeting including the statement that *"The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be above 2 percent through fiscal 2024."*

The Bank of Japan continued to be the only major Central Bank to retain negative interest rates. At both its meeting held on 30-31 October and 18-19 December short term interest rates were maintained at -0.1%. However, at the October meeting there was (as at the July meeting) a further small softening of the monetary policy approach in that the Bank's 10 Year Japanese Government Bond Yield target limit of 1% was changed from a solid limit to *"a reference."* Therefore, the Bank changed its policy to allow yields on 10 Year Japanese Government Bonds to rise above 1%. Notably, however, at the press conference following the December policy meeting Kazuo Ueda the Governor of the Bank of Japan was clear that the Bank of Japan was not yet ready to determine its exit from its ultra loose monetary policy approach and that if it did interest rates would (only) rise slowly.

Asian Markets (excluding Japan) and Emerging Markets also clearly advanced during the Quarter. The MSCI Emerging Market Index gained 8% (in US $ terms) while the MSCI Asia (excluding Japan) Index gained over 6%. While both Asian and Emerging Market Equities had, overall, a negative October (as did world Equities as a whole) they gained particularly in November and also advanced in December. Increased expectations of US interest rates positively affected markets. Chinese Equities however again performed negatively over the Quarter in the light of continuing concerns regarding the Chinese economy including in respect of the property market and the (lack of) extent of government measures to stimulate the economy.

In contrast to the previous two Quarters the October to December Quarter was, overall, very positive for the benchmark Government Bonds with yields clearly falling and prices therefore clearly rising. This is demonstrated by the notable reduction in the yields of all of the US, UK and German 2,10 and 30 year Bond Yields. For example, the yield on the 10 Year US Treasury fell from 4.57% to 3.88% while that on the 10 Year Gilt fell from 4.44% to 3.54%. Corporate Bonds also had a very successful Quarter. Market expectations of interest rate reductions sooner rather than later (influenced heavily by falling and indeed lower than expected inflation) were doubtlessly a major factor in this.

21 February 2024