JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary January to March 2024

World Equity markets experienced another very positive Quarter with the MSCI World Index gaining 9% (in US $ terms) over the January to March 2024 period. Clearly positive influences were continued expectations of interest rate cuts by Central Banks (particularly the US Federal Reserve and European Central Bank), data releases indicating strength in the US economy, positive corporate earnings in the United States (for example from the “mega stock” chipmaker Nvidia), and market positivity about artificial intelligence (as exemplified by Nvidia and Meta Platforms). United States Equities had a very successful Quarter with the S&P 500 advancing by over 10%. After 34 years the Japanese Nikkei 225 Index finally exceeded the record closing high of 38,916 set on 29 December 1989. Indeed, Japanese Equities experienced an exceptional Quarter with the Nikkei 225 advancing by over 20% during the January to March 2024 Quarter to close at 40,369 on 29 March.

In the United States the S&P 500 Index achieved 22 new record closing highs during the Quarter exceeding both the 5,100 and 5,200 level for the first time and closing at a record 5,254 on 28 March 2024. Over the Quarter the Index advanced by over 10%. While there were widespread gains across the S&P 500 Index with approaching three quarters of the stocks in the index gaining over the Quarter the influence of a handful of “mega stocks” was (again) clearly apparent. Four stocks (Nvidia, Microsoft, Meta Platforms and Amazon) which accounted for 18% of the market weight of the S&P 500 Index provided 47% of the Quarterly total return of the index.

US stocks were boosted by positive corporate earnings announcements as well as generally positive economic data – for example in terms of GDP releases from the US Bureau of Economic Analysis, employment/unemployment data, and positive consumer sentiment which according to the respected University of Michigan “surveys of consumers” surged in January 2024 and then held for the remainder of the Quarter at a level around 25% higher than at November 2023. Market positivity regarding artificial intelligence also drove stock markets in the US and beyond higher. For example, on 21 February Nvidia announced better than anticipated earnings and in a statement its Chief Executive Officer Jensen Huang said that *“Accelerated computing and generative AI have hit the tipping point. Demand is surging worldwide across companies industries and nations.”* This resulted in not only the US but also European and Japanese stock markets posting significant immediate gains. Market expectations regarding interest rate reductions also continued to drive financial market positivity with markets anticipating at least three cuts by the Federal Reserve during 2024.

The Core PCE (Personal Consumption Expenditures) Index which is closely observed by the US Federal Reserve when determining monetary policy continued to be clearly above the target of 2% but further reduced, very slightly, from 2.9% in December 2023 to 2.8% in February 2024 as announced by the US Bureau of Economic Analysis (BEA) on 29 March 2024.

At both the meetings of the US Federal Reserve Federal Open Markets Committee (FOMC) held on 30-31 January and 19-20 March the target range for the Federal Funds Rate (the benchmark interest rate) was held at 5.25-5.5%. Projections issued at the end of the March 2024 meeting indicated (as they had after the December 2023 meeting) that FOMC participants anticipated (three) rate cuts totalling 0.75% in 2024. However, it should be noted that neither the extent nor timing of rate cuts is in any way guaranteed. The US Federal Reserve explicitly stated in both the Press Release issued after the January 2024 and March 2024 FOMC meetings that "*In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."*

Eurozone shares also advanced strongly in the January to March 2024 Quarter with the MSCI EMU Index gaining over 10% (in Euro terms). As in the United States positive corporate earnings results and expectations of (some) future interest rate reductions (by the European Central Bank and US Federal Reserve) boosted stock markets. The information technology sector was particularly positive based on corporate earnings which also buoyed expectations of future growth.

At its meetings held on 25 January 2024 and 7 March 2024 the Governing Council of the European Central Bank again (as in October and December 2023) kept interest rates *"unchanged."* As with the US Federal Reserve the European Bank was clear that changes to interest rates will be driven by data. On 25 January 2024 at the Press Conference following the meeting of the Governing Council the President, Christine Lagarde, stated in response to a question that *"One other thing which was very much the consensus around the table was that we had to continue to be data-dependent. So rather than being fixated on any kind of particular calendar, which would be being date-dependent, we reaffirmed our data dependency."* However, markets continued to anticipate interest rate reductions in 2024. Despite carefully nuanced comments, by Christine Lagarde at her 7 March 2024 Press Conference, in response to a question regarding future interest rates her comments including that *"we are on this disinflationary process… and we are making good progress towards our inflation target. And we are more confident as a result. But we are not sufficiently confident, and we clearly need more evidence, more data. We know that this data will come in the next few months. We will know a little more in April, but we will know a lot more in June"* were taken by some market commentators as a signal of a June 2024 interest rate cut.

Reported UK inflation fell over the Quarter. While CPI inflation for December 2023 (reported in January 2024) rose by 4.0%, up from 3.9% in November, and remained at 4.0% for January 2024, the Office for National Statistics reported (on 20 March 2024) that CPI for February was 3.4%. The February CPI was the lowest since September 2021 and slightly lower than market expectations.

The Bank of England Monetary Policy Committee (MPC) maintained Bank Rate (interest rates) at 5.25% at both the meeting ending on 31 January 2024 and the meeting ending on 20 March 2024. There was however no clear direction from the Bank regarding the pace of any future interest rate cuts. UK stocks advanced during the January to March 2024 Quarter, but as in the previous Quarter by less than US and Eurozone stocks. The FTSE All Share Index returned 3.6% over the January to March 2024 period.

Japanese equities had an outstanding Quarter with the Nikkei 225 Index gaining over 20% during the Quarter. Furthermore, the Nikkei 225 finally exceeded its record closing high of 38,916 set over 34 years earlier on 29 December 1989, and then ended the Quarter on 29 March 2024 at 40,369. A number of factors contributed to the success of Japanese equities over the Quarter. Japanese corporate earnings were positive with a weak Yen also contributing to the profits of export orientated companies. The optimism over artificial intelligence boosted companies involved in the semiconductor sector. Additionally, both Japanese and overseas investors have been increasing their exposure to Japanese shares with the former encouraged by a new government subsidised savings scheme and the latter by an improved approach to corporate governance and Japanese economic prospects compared to China.

Japanese inflation which had been 2.6% in December 2023 was 2.2% in January 2024, 2.8% in February and 2.7% in March. This provided further evidence that Japan has genuinely exited its prolonged period of deflation/extremely low inflation with price increases exceeding the Bank of Japan's 2% target since April 2022.

From April 2023 following the appointment of Kazuo Ueda as Governor of the Bank of Japan there had been some, but limited, softening of the Bank of Japan's longstanding and ultra loose monetary policy approach. However, at the meeting of the Policy Board of the Bank of Japan which concluded on 19 March 2024 there was a historic change whereby the policy of negative interest rates (to control the short term rate) and yield curve control (to control longer term rates) were both abandoned. The statement issued after the meeting began with an explanation and justification of this hugely symbolic policy change *"… the Policy Board of the Bank of Japan assessed the virtuous cycle between wages and prices, and judged it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner… The Bank considers that the policy framework…with Yield Curve Control and the negative interest rate policy to date have fulfilled their roles. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool… Given the current outlook for economic activity and prices, the Bank anticipates that accommodative financial conditions will be maintained for the time being."* The short term interest rate was increased from minus 0.1% to *"at around 0 to 0.1 percent."* The Bank had applied short term negative interest rates and yield curve control since 2016 and had not raised (short term) interest rates since 2007.

In monetary policy terms the Bank of Japan's decisions were both historic and hugely symbolic. In particular the Bank finally came to the view that Japan's longstanding battle with deflation and ultra low inflation was ended (for now) and that the target of 2% inflation would be achieved in a sustainable and stable manner. Additionally, the Bank abandoned unconventional instruments (negative short term interest rates and Bond yield control) in favour of short term interest rate policy *"as a primary policy tool."*

However, the announcement certainly did not signal a significant tightening of Japanese monetary policy as the Bank clearly signalled that rapid interest rate rises should not be anticipated stating that *"the Bank anticipates that accommodative financial conditions will be maintained for the time being."* After the meeting Governor Kazuo Ueda also clearly indicated that interest rates would not rise rapidly given the need to further consolidate Japanese inflation at the 2% target. Furthermore, although Yield curve control was abandoned the Bank of Japan will continue with its policy of purchasing Japanese Government Bonds with the aim (as stated in "The Summary of Opinions" issued on 28 March 2024) "*of avoiding rapid fluctuations in long-term interest rates."*

Additionally, this change in approach to monetary policy by the Bank of Japan cannot address the structural issues in Japan including an ageing and declining population, low consumer demand, high public debt, and low economic growth all of which remain and act as a counter to inflation at the Bank of Japan's target of 2%. Therefore, a serious question must surely remain as to the long term sustainability of inflation at the 2% target and consequently a policy of long term moderate interest rate rises and the future long term avoidance of "unconventional" monetary policy instruments.

Asian Markets (excluding Japan) and Emerging Markets advanced but clearly underperformed Developed markets. The MSCI AC Asia (excluding Japan) and the MSCI Emerging Markets indices both gained but by less than 3% (in US$ terms) over the Quarter. Chinese stocks gained but by less than the major regional indices in the context of ongoing concerns regarding the Chinese economy (despite some stimulus measures by the Chinese authorities), and continuing strains in US-Chinese relations. Taiwan, a huge semiconductor manufacturer, however, performed exceptionally well returning over 13% supported by expectations in relation to artificial intelligence and technology companies.

The Quarter was negative for benchmark Government Bonds (US, UK, and Germany) with yields rising (and therefore prices falling) across all of the 2, 10 and 30 year yields. For example, the yield on the 10 year US Treasury rose from 3.88% to 4.20%, that on the 10 year Gilt from 3.54% to 3.93%, and that on the 10 year Bund from 2.02% to 2.30%. Concerns over the future extent/speed of downward inflation, together with the generally cautionary approaches to interest rate reductions expressed by the US Federal Reserve and European Central Bank surely weighed against the Benchmark Government Bonds. Overall Corporate Bonds in the US, UK and Eurozone also experienced a negative Quarter but less so than Government Bonds.

26 April 2024