# JOHN RAISIN FINANCIAL SERVICES LIMITED

## Independent Advisors Report

## Market Commentary April to June 2024

For the third Quarter in a row Global Equities advanced with the MSCI World Index advancing by approaching 3% (in US $ terms). This followed the gains of 11% and 9% achieved in the two previous Quarters. Having lagged in the last two Quarters both Asian (ex Japan) and Emerging Markets outperformed Developed markets as a whole in the April to June Quarter with the MSCI Asia (ex Japan) Index gaining over 7% (in US $ terms) and the MSCI Emerging Markets Index 5%. Once again, however, the US Equity market clearly advanced with the S&P 500 gaining over 4% following its increases of over 10% and over 11% in the previous two Quarters. Across world Equity markets there was continued positivity regarding Artificial Intelligence (AI) which again drove both the Information Technology sector and Equities overall clearly higher.

In terms of monetary policy markets continued to anticipate reductions in interest rates by the three major western central banks. Indeed, in June the European Central Bank reduced rates by 0.25% from 4.00% to 3.75% while the Bank of England and US Federal Reserve both indicated probable but not certain rate reductions later in the year. Despite inflation approaching/around the 2% target continuing concerns regarding inflation were a significant factor in the decision of both the Federal Reserve and Bank of England to hold rates during the April to June Quarter.

Based both on projections by the Federal Reserve and statements by senior Federal Reserve Officials including Chair Jay Powell markets have, since 2023, expected and continue to expect interest rate deductions at some point during 2024. At the meetings of the US Federal Reserve Federal Open Markets Committee (FOMC) held on 30 April-1 May and on 11-12 June 2024 the target range for the Federal Funds Rate (the benchmark interest rate) was held at 5.25-5.5%. Indeed, the Press Release issued after the meeting which concluded on 1 May included a new sentence – *“In recent months, there has been a lack of further progress toward the Committee’s 2 percent inflation objective”* - which appeared to indicate further caution regarding the timing of interest rate reductions. While this sentence was replaced in the press release issued after the June meeting by a less cautious one which stated *“In recent months, there has been modest further progress toward the Committee’s 2 percent inflation objective”* the projections issued at the end of the June meeting indicated that FOMC participants anticipated probably one or at best possibly two rate cuts in 2024 compared with three in the projections issued after the December 2023 and March 2024 meetings.

In the context of continuing expectations of interest rate cuts in 2024, inflation further (slowly) reducing, and ongoing market enthusiasm for Artificial Intelligence the S&P 500 advanced over 4% during the Quarter. Yet again, however, the upward move in US Equities was heavily influenced by the gains of the Information Technology and Communication Services sectors. On 28 June, the Federal Reserve announced that all 23 large banks tested had passed the annual *“stress test”* with the Vice Chair for Supervision Michael Barr stating, *"Today's results confirm that the banking system remains strong and resilient."*

After posting clearly positive gains (of around 8% and 10%) in the two previous Quarters European Equities as measured by the MSCI EMU Index retreated slightly losing approaching 2% (in Euro terms). This was despite a positive Quarter for Information Technology stocks, indications of (in April) and then (in June) a reduction in interest rates by the European Central Bank. June was a clearly negative month with the Index losing nearly 4% with market commentators suggesting that political developments – the success of the far right in the European Elections and President Macron's subsequent decision to call a surprise election in France - had caused uncertainty in markets. The French CAC 40 Index retreated by over 6% during June.

The meeting of the Governing Council of the European Central Bank (ECB) held on 11 April 2024 again as in October and December 2023, January, and March 2024 kept interest rates *"unchanged."* However the Monetary Policy Statement issued after the April meeting included a new sentence which stated *"If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction."* This sentence, which was also highlighted at the Press Conference following the 11 April meeting by the Governing Council President Christine Lagarde together with her comment that *"a few members"* had been supportive of a rate cut at this meeting clearly increased further expectations of an interest rate cut at the next meeting.

At the meeting of the Governing Council held on 6 June 2024 the ECB cut interest rates for the first time since September 2019 when it reduced its three major interest rates by 0.25%. This resulted in the headline *"deposit"* rate falling from 4% to 3.75%. The Monetary Policy Statement issued after the meeting stated *"The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. Based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to moderate the degree of monetary policy restriction after nine months of holding rates steady. Since our meeting in September 2023, inflation has fallen by more than 2.5 percentage points and the inflation outlook has improved markedly. Underlying inflation has also eased, reinforcing the signs that price pressures have weakened, and inflation expectations have declined at all horizons."* However the Monetary Policy Statement also appeared to caution against further quick rate reductions stating *"At the same time, despite the progress over recent quarters… inflation is likely to stay above target well into next year…"* and *"We are determined to ensure that inflation returns to our two per cent medium-term target in a timely manner. We will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim…"*

This reduction in rates by the ECB, even if not repeated quickly, clearly may potentially encourage business and consumer spending. Additionally, it may and also support the Eurozone housing market.

UK CPI inflation continued to positively trend downwards and hit the Bank of England target of 2%. Having been 8.7% in May 2023 it had fallen to 3.4% by February 2024. In March 2024 it reduced to 3.2% and in April to 2.3% (announced on 22 May). On 19 June 2024, the Office for National Statistics (ONS) announced that CPI for May had been 2.0%. This (target) level of 2% CPI was maintained in June.

On 22 May 2024 Prime Minister Rishi Sunak announced that a General Election would be held on Thursday 4 July 2024. The Minutes of the Bank of England Monetary Policy Committee of 19 June 2024, however, clearly stated *"The Committee noted that the timing of the general election on 4 July was not relevant to its decision at this meeting…"*

At the meetings of the Bank of England Monetary Policy Committee (MPC) which ended on 8 May 2024 and 19 June 2024 Bank Rate was maintained at 5.25%. The Monetary Policy Summary and Minutes issued after the May and June meetings referred to "*considerable uncertainty around statistics derived from the ONS Labour Force Survey"* which made it more difficult for the MPC to judge inflationary pressures as a whole. At both meetings, the Committee voted 7-2 to maintain Bank Rate with two votes for a 0.25% reduction. Overall, the MPC (as stated in the May and June Minutes) recognised the ongoing reduction in CPI, and that Monetary Policy was restrictive and *"bearing down on inflationary pressures."* However, there still appear to have been clear concerns regarding the persistence of diminishing inflation/achieving the 2% CPI target as reflected in the MPC Minutes and statements made by Governor Andrew Bailey following both meetings. The Minutes of the June meeting indicate the decision not to reduce rates in June to have been closer than in May as (paragraph 50) of the Minutes states that for some of the seven members who voted not to reduce rates *"the policy decision at this meeting was finely balanced."*

The FTSE All Share and the FTSE 100 both advanced by approaching 4% over the Quarter with continuing clear (downward) improvements in the rate of UK inflation surely a positive contributory factor. Another factor is likely the clear "cheapness" of the FTSE 100 Index of mega cap companies, and also the fact that some asset managers, including for example BlackRock and UBS, have clearly upgraded their assessment of the UK Equity market.

Following on from the previous Quarter when Japanese Equities (as measured by the Nikkei 225 Index) gained over 20% the April to June Quarter was muted (despite clearly positive returns from the Financial Services sector) with the Nikkei 225 declining slightly by approaching 2%. Japanese Inflation which had exceeded 2% since April 2022 had been 2.7% in March 2024. In April 2024 it fell to 2.5% before rising to 2.8% in May, at which level it remained in June.

The Monetary Policy Meeting (MPM) of the Policy Board of the Bank of Japan which concluded on 26 April 2024 maintained the short term interest rate (*"at around 0 to 0.1 percent"*) and bond purchase policy "*in accordance with the decisions made at the March 2024 MPM."* However the Statement on Monetary Policy issued after the MPM which concluded on 14 June 2024 announced that while maintaining the existing bond purchase policy for the moment a review to reduce Government bond purchases would be undertaken stating that *"Regarding purchases of Japanese government bonds (JGBs)… for the intermeeting period, the Bank will conduct the purchases in accordance with the decisions made at the March 2024 MPM. The Bank decided, by an 8-1 majority vote, that it would reduce its purchase amount of JGBs thereafter to ensure that long-term interest rates would be formed more freely in financial markets. It will collect views from market participants and, at the next MPM, will decide on a detailed plan for the reduction of its purchase amount during the next one to two years or so."* This announcement is a clear statement of intent by the Bank of Japan to further scale back its ultra loose approach to monetary policy following the historic and symbolic changes (the ending of negative interest rates and yield curve control) announced at the March 2024 Monetary Policy Meeting.

Asian (excluding Japan) and Emerging Markets enjoyed a successful Quarter with the MSCI AC Asia (ex Japan) and the MSCI Emerging Markets Index gaining 7% and 5% respectively (in US $ terms). Continued enthusiasm for Information Technology and in particular Artificial Intelligence clearly aided markets with the (technology heavy) Taiwanese market the best performing Asian market over the Quarter. Indian Equities and South African Equities both advanced following the formation of coalition Government's in both India and South Africa following General Election results announced in June 2024.

Questions remained during the Quarter over the Chinese economy. Although exports clearly rose (as demonstrated by data released by the Chinese National Bureau of Statistics) weak consumer (internal) demand and issues in the property sector continued. Official Consumer price inflation was anaemic at 0.3% in April and May, and 0.2% in June. The Chinese economy grew 4.7% in the April to June Quarter (as officially announced on 15 July) compared with 5.3% in the first three months of 2024.

Overall, the benchmark Government Bonds (US, UK, and Germany) had a negative Quarter due to adverse movements in April which were mitigated but not reversed by (smaller) gains in both May and June. For example, the yield on the 10 year US Treasury rose from 4.20% to 4.40%, that on the 10 year Gilt from 3.93% to 4.17%, and that on the 10 year Bund from 2.30% to 2.50%. Market commentators suggested that the poor performance in April was clearly influenced by heightened market perception that the US Federal reserve would reduce interest rates in 2024 less than previously anticipated. The US CPI and Core CPI figures announced on 10 April were commented on adversely by President Biden and also former US Treasury Secretary Larry Summers and caused traders to half their predictions of a July rate cut. However, market sentiment was improved later in the Quarter by more positive market interpretations regarding US inflation (for example following the US CPI announcements on 16 May and 12 June) and UK inflation, and the decisions of the ECB and the Bank of Canada to reduce rates.

Over the Quarter US Investment Grade Bonds performed positively. High Yield outperformed both Government and Investment Grade credit.

**30 July 2024**