# JOHN RAISIN FINANCIAL SERVICES LIMITED

## Independent Advisors Report

## Market Commentary July to September 2024

For the fourth Quarter in a row Global Equities advanced with the MSCI World Index advancing by over 6% (in US $ terms). Expectations of, and actual, interest rate cuts by Central Banks (particularly the US Federal Reserve and European Central Bank), together with a continuing benign trend in inflation levels and an expectation of a "soft landing" for the US economy all supported Equity markets. World Equities as a whole enjoyed a positive year (October 2023 to September 2024) with the MSCI World Index advancing by over 32%.

In the United States headline inflation continued to mitigate. CPI Inflation, which appears to influence markets/market commentators fell from 3.3% in May to 3.0% in June (reported in July), to 2.9% in July and 2.5% in August. The PCE (Personal Consumption Expenditures) Index which the Federal Reserve tends to refer to more than the CPI Index registered 2.4% in June (reported in July), 2.5% in July and 2.3% in August.

At the meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) which concluded on 31 July 2024 the target range for the Federal Funds Rate (the benchmark interest rate) was again held at the *"target range"* of 5.25-5.5%. In the Press Conference following this meeting Federal Reserve Chair Jay Powell commented, however, that *"The broad sense of the Committee is that the economy is moving closer to the point at which it will be appropriate to reduce our policy rate."* Then in his speech to world central bankers at the Jackson Hole (Wyoming) symposium on 23 August 2024 Chair Jay Powell stated *"…Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate."* Chair Powell then went on to indicate to the symposium a clear potential reduction in interest rates at the FOMC meeting in September stating *"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."*

Having not cut the Federal Funds rate since 2020 and having held it at 5.25-5.5% since July 2023 the meeting of the FOMC which concluded on 18 September 2024 reduced the Federal Funds Rate by 0.5% to a *"target range"* of 4.75 to 5%. This reduction of 0.5% was greater than the more common reduction in the Federal Funds Rate which is 0.25%. However in the Press Conference following the September FOMC meeting Chair Powell clearly explained this reduction stating *"In light of the progress on inflation and the balance of risks, at today's meeting, the Committee decided to lower the target range for the federal funds rate by ½ percentage point to 4¾ percent to 5 percent. This recalibration of our policy stance will help maintain the strength of the economy and the labor market and will continue to enable further progress on inflation."* Projections issued at the end of the September meeting also indicated that FOMC participants anticipated clearly lower interest rates at the end of both 2024 and 2025 as compared with their projections issued after the June 2024 meeting.

Despite a (temporary) but notable sell off in early August prompted by (excessive) market reaction to a poorer than expected US employment data release and also following lower than hoped for earnings reports from the technology sector US Equities enjoyed a clearly positive Quarter. The S&P 500 Index advanced by 6% over the July to September period. This was in the overall context of ongoing indications of interest rate cuts facilitated by benign inflation, high (but cooling) employment and an overall/general view that the US economy would remain positive. Over the year (October 2023-September 2024) the S&P 500 returned over 36% (in US $ terms).

Following a negative April to June Quarter (impacted adversely by political events) the July to September Quarter saw a recommencement of the previously positive trend in the Eurozone Equity market with the MSCI EMU Index gaining a modest 3% (in Euro terms). Eurozone inflation moved downwards over the Quarter from 2.5% for June, then 2.6% for July, to 2.2% for August and 1.7% for September.

The meeting of the Governing Council of the European Central Bank (ECB) held on 18 July 2024 kept interest rates *“unchanged”* following the cut of 0.25% at the June meeting. In the Press Conference after the July meeting the President of the Governing Council, Christine Lagarde was stated that in its approach to interest rates the Governing Council *“were determined to be data dependent to decide meeting by meeting and not to have any predetermined rate path.”* Therefore *“the question of September and what we do in September is wide open and will be determined on the basis of all the data that we will be receiving.”* At the meeting held on 12 September the Governing Council reduced interest rates by 0.25%. This resulted in the headline *“deposit”* rate reducing from 3.75% to 3.5%. Based on the “Monetary Policy Statement” issued after the meeting the decision clearly appears to have been based on both moderating Eurozone inflation and concerns as to the robustness of the economy with the Statement including the comment that *“economic activity is still subdued, reflecting weak private consumption and investment.”*

The UK General Election held on 4 July 2024 resulted in a resounding victory for the Labour Party who won 411 seats out of 650. The outgoing Conservative Party were reduced to 121. Initial market reaction was positive from both markets and spokespersons for major asset managers who referred to greater political stability going forward. However, by September business leaders were expressing concerns about higher business taxes and economic prospects following statements by the new Government regarding a massive gap in the public finances they claimed had been left by the outgoing Government. Over the Quarter the FTSE All Share advanced by 2%. A gain of over 3% in July (following the General Election) was offset by later losses which were, market commentators suggested, in part a result of concerns about the UK Budget due to be delivered by the Chancellor of the Exchequer in late October.

At the Monetary Policy Committee (MPC) meeting of the Bank of England on 31 July 2024 the MPC voted 5-4 to reduce Bank Rate by 0.25% from 5.25% to 5%. This was the first reduction since 2020. However not only was the decision was very finely balanced in terms of the vote but the Minutes of the meeting (paragraph 22), in referring to the 5 Members who voted for the rate reduction, indicates clear caution stating that *“It was appropriate to reduce slightly the degree of policy restrictiveness…”* but that even for some of those who voted for a reduction *“the decision was finely balanced. Inflationary persistence had not yet conclusively dissipated, and there remained some upside risks to the outlook.”* The MPC meeting which concluded on 19 September 2024 maintained Bank Rate at 5%.

Japanese Equities experienced a roller coaster Quarter. The Nikkei 225 Index which ended June at 39,583 reached a record closing high of 42,224 on 11 July. It then fell to close at 31,458 on 5 August (during the world wide Equity downturn following market reaction to US employment data and after the Bank of Japan's decision to increase interest rates and reduce Government Bond purchases on 30 July) and then recovered to close at 37,920 on 30 September. Over the Quarter the Nikkei 225 fell 4%.

Japanese inflation which had been close to but exceeded 2% (the Bank of Japan's *"price stability target"*) since April 2022 continued to do so during this Quarter. At the Monetary Policy Meeting (MPM) of the Policy Board of the Bank of Japan which concluded on 31 July 2024 the short term interest rate was increased to 0.25% (from 0.1%) and the Bank determined to cut its monthly purchases of Japanese Government Bonds to *"about 3 trillion yen in January-March 2026"* reducing by *"about 400 billion yen each calendar quarter in principle"* over the period to early 2026. Following on from the historic and symbolic changes announced in March 2024 (the ending of negative interest rates and yield curve control) and its announcement in June 2024 of an intention to reduce its purchases of Government Bonds going forward, the 31 July 2024 announcement represented a clear tightening of Monetary Policy by the Bank of Japan which places it at odds with the monetary loosening approach now been pursued by the US Federal Reserve, European Central Bank and Bank of England. This announcement by the Bank of Japan which surprised markets strengthened the yen and led to market speculation as to possible further tightening of monetary policy by the Bank of Japan. Coupled with a global Equity sell off this led to sharp falls (which were later in the Quarter somewhat reversed) in Japanese Equities with the shares of export driven companies who benefit from yen weakness amongst those particularly negatively impacted. At the Monetary Policy Meeting which concluded on 20 September 2024 the Bank of Japan held short term rates at 0.25%.

Asian (excluding Japan) and Emerging Markets enjoyed a successful Quarter with the MSCI AC Asia (ex-Japan) and the MSCI Emerging Markets Index gaining over 10% and approaching 9% respectively (in US $ terms). Monetary loosening by the US Federal Reserve (both expectations of and actual interest rate reductions) are considered (on the basis of historical precedent) generally beneficial to Asian and Emerging Market equities. Chinese shares rose significantly in late September in the context of a stimulus package which included interest rate cuts, increasing liquidity in the banking system and funds to assist companies to undertake share buybacks.

Benchmark Government Bonds (US, UK, and Germany) had a clearly positive Quarter in the context of expectations of and generally benign inflation and expectations of (and actual) interest rate cuts by the major Central Banks. Over the Quarter across all of 2 year, 10 year and 30 year US Treasury, UK Gilt and German Bunds Yields fell and therefore prices rose. US, Euro, and UK Corporate Bonds all also enjoyed a positive Quarter.

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