# JOHN RAISIN FINANCIAL SERVICES LIMITED

## Independent Advisors Report

## Market Commentary October to December 2024

After advancing for four Quarters Global Equities were, overall, flat with the MSCI World Index falling 0.2% (in US $ terms). Had it not been for the US market Equities would have experienced a clearly negative Quarter. Across the world most markets fell but the US, again, advanced with the S&P 500 gaining 2.4% (in US $ terms). The US Equity market overall was clearly boosted by the election of Donald Trump as US President on 5 November on the basis of expected generally looser regulation and tax cuts during his second term. In contrast Asian (ex Japan), Emerging Markets and Eurozone Equities were all adversely affected by Donald Trump's election victory in the context of his repeated threats during the campaign to impose a 10% or 20% tariff on all imports to the US. The major Government Bonds (US, UK, and Germany) all had a negative Quarter. Inflationary concerns, partly due to the potential impact of economic policies suggested by Donald Trump, and also indications by the US federal Reserve of less interest rate cuts in 2025 than previously anticipated, adversely affected US Treasuries.

In the US Equity markets fell slightly in October with the S&P 500 down 1% over the month as a result of a decline of almost 2% on 31 October resulting from uncertainty over the US election and a poor earnings report from Microsoft which led to a clear sell off in technology related stocks. However, November was a hugely successful month for US Equities with the S&P 500 gaining 6%. Donald Trump's victory in the US Presidential election on 5 November was greeted positively by Equity markets on expectations of tax cuts, deregulation, and tariffs on overseas goods. Both the US Federal Reserve and economists generally remained modestly positive regarding future US economic growth. Equity markets were further supported by another 0.25% reduction in the Federal Funds Rate (interest rates) at the meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) which concluded on 7 November 2024. Technology related stocks (including notably Tesla) and also Financials (Banks) dominated the gains.

US Equities continued to move upwards in December until 18 December when the US Federal Reserve while cutting the Federal Funds rate by a further 0.25% to a *"target range"* of 4.25 to 4.5% signalled a significant shift in its expectations of further interest rate cuts. The Projections issued at the end of the December meeting indicated that the Federal Open Market Committee (FOMC) participants anticipated only a further 0.5% cut in interest rates in 2025 compared with the 1% they anticipated in the projections issued after the September 2024 meeting. Expectation of further interest rate reductions were a clear driver of US Equity markets in 2024 and therefore this clearly (negative) change in likely future policy by the US Federal Reserve adversely affected markets with the S&P 500 down by over 2% in December. However, over the Quarter as a whole the S&P 500 gained 2.4%. Again, however it was the technology related stocks (together with Financials) that dominated the gains in the S&P 500 Index.

US inflation having mitigated during the period April to September 2024 moved upwards over the October to December Quarter. CPI inflation which appears to influence markets/market commentators rose from 2.4% in September (reported in October) to 2.6% in October (reported in November) to 2.7% in November and 2.9% in December.

The PCE (Personal Consumption Expenditures) inflation Index rose from 2.1% in September (reported in October), to 2.3% in October, 2.4% in November and 2.6% in December. The Core PCE Index which the US Federal Reserve observes closely in its conduct of Monetary Policy remained stubbornly above the 2% (long run) inflation target rising from 2.7% in September (reported October), to 2.8% in October, 2.8% in November and 2.8% in December. More significantly the US Federal Reserve FOMC in their December 2024 Projections increased their predictions of future PCE and Core PCE inflation for 2024, 2025 and 2026 from the levels they had predicted in September 2024. In his press conference following the December meeting of the FOMC Chair Jay Powell commented that the Committee's reduced projections of future interest rate reductions were *"consistent with the firmer inflation projection."*

Eurozone Equity markets had a negative Quarter with the MSCI declining 2% in Euro terms. Despite the European Central Bank reducing interest rates by 0.25% in both October and December 2024 and positive indications of further monetary policy easing other factors clearly weighed against Eurozone Equities. There was much political instability in France following inconclusive Parliamentary elections which led to the appointment of Michael Barnier as Prime Minister of a minority Government on 5 September. However, Monsieur Barnier was unable to secure support for a Budget and his Government fell in December making this the shortest term of a French Prime Minister since the foundation of the Fifth Republic in 1958. Francois Bayrou then became the fourth person to hold the post of French Prime Minister during 2024. From November Europe was hit with concerns regarding significant potential US trade tariffs following the election of Donald Trump. Additionally, there were ongoing and increasing concerns by both the European Central Bank and economists in general regarding declining actual and expected economic growth.

At the meeting of the Governing Council of the European Central Bank (ECB) held on 17 October 2024 the Governing Council reduced interest rates by 0.25%. In her press conference after this meeting the President of the Governing Council, Christine Lagarde referred to *"recent downside surprises in indicators of economic activity"* and stated that *"The risks to economic growth remain tilted to the downside…"* The meeting of the Governing Council held on 12 December 2024 saw a further 0.25% reduction in interest rates. This resulted in the headline *"deposit"* rate reducing from 3.25% to 3%. The comments made by Christine Lagarde at the press conference following the December meeting included *"Staff now expect a slower economic recovery than in the September projections. Although growth picked up in the third quarter of this year, survey indicators suggest it has slowed in the current quarter. Staff see the economy growing by 0.7 per cent in 2024, 1.1 per cent in 2025, 1.4 per cent in 2026 and 1.3 per cent in 2027."*

The meeting of the Monetary Policy Committee (MPC) of the Bank of England held on 6 November 2024 reduced Bank Rate by 0.25% from 5% to 4.75%. However, a cautious approach to further interest rate reductions was indicated by the "Monetary Policy Summary" issued after the meeting with concluded with the statement *"Based on the evolving evidence, a gradual approach to removing policy restraint remains appropriate. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting."*

At the 18 December MPC meeting Bank Rate was held at 4.75%. The accompanying "Monetary Policy Summary" included the observation that *"Most indicators of UK near-term activity had weakened, but CPI inflation, wage growth and some indicators of inflation expectations had risen, adding to the risk of inflation persistence. The macroeconomic implications of the higher costs of employment facing companies remained particularly uncertain."* Consequently, for the majority of MPC members *"recent developments added to the argument for a gradual approach to the withdrawal of policy restrictiveness…"*

UK Equities declined slightly over the Quarter with the FTSE All Share declining by 0.4% (in £ terms) while the more domestically focussed FTSE 250 declined by 1.4%. Domestically focussed stocks will have been more particularly affected by evidence and concerns related to both the actual and forecast UK economic growth and economic outlook. The increases to Employers National Insurance announced in the Budget on 30 October will clearly add to employers' costs.

Japanese Equities enjoyed a positive Quarter with the Nikkei 225 Index advancing over 5% from 37,920 at the close of business on 30 September to 39,895 at the close of business on 30 December 2024. Export focussed companies were aided by the weakness of the Yen, reported corporate profits were generally positive and Financials (Banks) continued to benefit from expectations of further increases in interest rates by the Bank of Japan. In November, the Japanese Government announced a stimulus package to include support for the AI and semiconductor industries together with support for lower income households with the aim of increasing their spending.

Since April 2022 Japanese inflation has exceeded the Bank of Japan's *"price stability target"* of 2% and continued to do so in this Quarter. At the Monetary Policy Meetings (MPM) which concluded on 31 October 2024 and 19 December 2024 the Policy Board of the Bank of Japan held short term rates at 0.25%. In his press conferences following both meetings the Governor of the Bank of Japan Kazuo Ueda indicated potential future rate increases but indicated further evidence relating to the path of the economy and prices were required before making such a decision.

Asian (excluding Japan) and Emerging Markets had a difficult Quarter with the MSCI AC Asia (ex Japan) and the MSCI Emerging Markets Index both declining by approximately 8% (in US $ terms). The victory of Donald Trump in the US Presidential Election was a clear negative for Asian (ex Japan) and Emerging Markets given his proposed trade policies including a threat of tariffs on all imports to the US and to review subsidies for foreign companies that invest in the US. In the case of China Donald Trump suggested tariffs of up to 60%. Additionally, there were concerns that Donald Trump's policies could specifically damage competition in the technology industry, as stated by the central bank of Taiwan in a (November 2024) report to the Taiwan Legislature. Political turmoil in South Korea also adversely affected one of Asia's more important Equity markets.

Benchmark Government Bonds (US, UK, and Germany) all experienced a negative Quarter with Yields rising and prices therefore falling. US Treasuries had a very poor Quarter with the Yield on the 2 Year rising from 3.46% to 4.24%, the 10 Year rising from 3.78% to 4.57% and the 30 Year from 4.12% to 4.78%. Strength in the US economy combined with concerns regarding sticky/increasing inflation (partly due to the potential impact of economic policies suggested during the US Election campaign by Donald Trump) weighed against US Treasuries. The indications from the US Federal Reserve in

December of only a 0.5% reduction in interest rates during 2025 compared to the previous (September) projection of a 1% reduction weighed against Treasuries as the year 2024 ended.

UK Gilts suffered during October not only in the context of a global sell off of Government Bonds but also specifically over concerns regarding additional borrowing to be potentially announced in the Chancellor's Budget. On the 30 October not only did the Chancellor announce significant additional borrowing (£28 billion per year over this Parliament) but the markets were sceptical of growth estimates and questioned whether the Chancellor would have to come back in April 2025 with proposals for more borrowing. On the day after the budget (31 October) the Yield on the 10 Year Gilt reached its then highest Yield (lowest price) of the year reaching 4.50% before closing at 4.44%. After a recovery in November Gilt Yields increased further (and prices fell) in December with investor concerns over the UK economy and inflation which for November (reported on 18 December) rose to 2.6%. At the end of December 2024, the Yield on the 10 Year Gilt was 4.57%.

In respect of Corporate Credit, Investment Grade which is more sensitive to expectations surrounding interest rates tended to fall in price over the Quarter (particularly in the United States). In contrast, overall, High Yield (which in 2024 experienced clearly low and lower than expected default rates) saw gains.

**31 January 2025**