JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary January to March 2025

The January to March 2025 Quarter saw a slight decline in Global Equities with the MSCI World Index declining by 1.8% (in US $ terms). This overall decline primarily resulted from a fall in United States Equity markets (which account for around 70% of the MSCI World Index) with the S&P 500 Index declining by 4.3% over the Quarter. Exuberance reflected in US Equity markets following Donald Trump's re-election in November 2024 was replaced with concerns over the potential effects of tariffs on the domestic economy and consumers. Questions over the future profitability of artificial intelligence also weighed against the United States Technology Sector which saw significant losses over the Quarter. In contrast Europe, the UK, and Asia/Emerging markets (as measured overall by the MSCI Emerging Markets and MSCI Asia ex Japan Indices) all gained.

US Equities enjoyed a positive start to 2025 with the S&P 500 gaining 2.8% in January and reaching an all time closing high of 6144 on 19 February 2025. However, overall February was a negative month for US Equites and March very clearly negative. The S&P 500 retreated by 5.6% in March and was down 4.3% over the January to March 2025 Quarter.

There was however wide dispersion of performance across US Equities. As concerns grew over the Quarter regarding the potential negative effects on both the US economy as a whole and also on individual consumers of President Trump's approach to tariffs those companies likely to be most affected by a slowdown in the US Economy – for example retail, restaurants, car sales, saw sharp sell offs with the S&P 500 Consumer Discretionary Sector losing 13.8% over the Quarter. The Information Technology Sector which had for so long led gains in US Equity markets had a very difficult Quarter. Concerns over the future profitability of the sector – (prompted initially by the claim in late January by DeepSeek a Chinese artificial intelligence company that it had achieved advances similar to US competitors but at a much lower cost) together with already very high valuations were reflected in a fall of 12.7% in the S&P 500 Information Technology sector over the Quarter. However more defensive stocks and those less exposed to economic uncertainties saw (some) gains with, for example, the S&P 500 Utilities Sector gaining almost 5% and Healthcare 6.5% over the Quarter. The overall performance of US Equities may also have been adversely impacted by falling and low consumer confidence – the (closely watched) University of Michigan Index of Consumer Sentiment Preliminary results for March 2025 released on 14 March showed a decline from 71.7 in January to 64.7 in February and (a preliminary) 57.9 for March. Additionally, the US Federal Reserve in its Projections issued at the conclusion of its March Federal Open Markets Committee (FOMC) meeting indicated, as it had in December 2024, that only two further cuts in interest rates, totalling 0.5% were anticipated for 2025.

The Core PCE (Personal Consumption Expenditures) inflation index which the US Federal Reserve observes closely in its conduct of Monetary Policy continued to remain clearly and stubbornly above the 2% inflation target and was 2.8% in February 2025 (reported in March).

After cutting the Federal Funds rate (interest rates) by 0.25% at both its November and December 2024 meetings the US Federal Reserve Federal Open Markets Committee (FOMC), as widely expected, maintained the Federal Funds rate at a *"target range"* of 4.25 to 4.5% at both its January and March 2025 meetings. Interestingly the "Summary of Economic Projections" issued at the end of the March meeting revised down the 2025 estimate of GDP (economic growth) expansion to 1.7% compared to 1.9% in the December 2024 projections while increasing the projection for Core PCE Inflation from 2.5% to 2.8%. This indicated that the FOMC has moved more towards an expectation of lower growth and higher inflation which makes rate setting decisions potentially more complex given the Federal Reserve has a dual policy mandate of *"maximum employment and inflation at the rate of 2 percent over the longer run."*

Although March was a difficult month with concerns/uncertainties regarding US tariffs Eurozone Equities enjoyed a very positive Quarter overall with the MSCI EMU Index advancing by 7.5% (in Euro terms). Various factors appear to have contributed to this including some rotation away from the (expensive and clearly volatile) US market to the (less expensive) European market, the possibility of a resolution to the Russia/Ukraine conflict, a promised boom in European defence spending (in reaction to the US foreign policy approach) and continued interest rate reductions by the European Central Bank. On a sector basis Financials had a particularly strong Quarter. German Equities in particular were assisted by a decision by the German Parliament to allow potentially unlimited borrowing for defence and a 500 billion Euro fund for German infrastructure development.

The meeting of the Governing Council of the European Central Bank (ECB) held on 30 January 2025 reduced interest rates by a further 0.25% resulting in the headline *"deposit"* rate reducing to 2.75%. In her press conference following the meeting Christine Lagarde the President of the Governing Council stated that *"…the economy is still facing headwinds…"* The meeting of the Governing Council held on 6 March 2025 saw the deposit rate reduced by a further 0.25% to 2.5% but both the Monetary Policy Statement issued following the meeting and the comments made by Christine Lagarde, in response to questions, in her press conference were more cautious regarding the future pace of interest rate cuts. This however was perhaps not surprising given this was the sixth interest rate cut by the ECB since June 2024.

UK Equities as measured by the FTSE All Share Index gained 4.5% over the Quarter. There was however a large disparity in performance between the large internationally focussed FTSE 100 Index which gained 6.1% and the medium cap FTSE 250 which lost 5% and the FTSE Small Cap (ex Investment Trusts) which declined by 6.5%. As was the case with larger European stocks, the FTSE 100 may have benefited from a rotation away from US markets to more reasonably priced large UK listed companies. Also, the FTSE 100 gained in the period following the Bank of England interest rate cut on 5 February until the end of that month.

In contrast more domestically focused medium and smaller UK companies were buffeted by continuing concerns over the state of the UK economy (as indicated by the Bank of England at its February Monetary Policy Committee meeting) and UK public finances, and also potential future Government tax policy. Subdued consumer confidence – as indicated throughout the Quarter by the GfK Consumer Confidence Index - was another factor weighing against the domestic UK market.

On 5 February 2025, the Bank of England Monetary Policy Committee (MPC) reduced Bank Rate by 0.25% to 4.5%. The February 2025 Monetary Policy Report raised concerns regarding sluggish growth and heightened inflation which could potentially be interpreted as an indication of potential stagflation in the domestic UK economy. The Monetary Policy Summary issued at the end of the February MPC meeting included the statement *"…a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate."* This statement was repeated in the Monetary Policy Summary issued at the conclusion of the March MPC meeting. At the meeting of the MPC which concluded on 19 March 2025 the Committee held Bank Rate at 4.5%.

Again, in the January to March 2025 Quarter, as it has since April 2022, Japanese inflation exceeded the Bank of Japan's *"price stability target"* of 2%. At the Monetary Policy Meeting which concluded on 24 January 2025 the Policy Board of the Bank of Japan raised short term rates to 0.5%. This was in the context of the view (in the statement issued after the meeting that *"…the year-on-year rate of increase in the CPI (all items less fresh food) is likely to be in the range of 2.5-3.0 percent for fiscal 2024 and then be at around 2.5 percent for fiscal 2025..."* The note also stated that *"the Bank judged it appropriate to adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent. Real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity."* At the Policy Board meeting which concluded on 19 March 2025 short term rates were held at 0.5%.

Japanese Equities experienced a negative Quarter. The more internationally focussed large cap companies had a particularly difficult Quarter with the Nikkei 225 Index declining by 10.5%. The more domestically focused TOPIX Index declined by 3.5% (in Yen terms). Uncertainty around US tariffs were clearly negative and adversely affected companies with significant export markets, such as cars/autos while technology stocks (Japanese chip/semiconductor makers) were also adversely affected by the (Chinese) DeepSeek announcement.

Overall Emerging Markets and Asia ex Japan advanced modestly during the Quarter. The MSCI Emerging Markets Index gained 2.9% (in US $ terms) while the MSCI Asia ex Japan Index gained 1.8% (in US $ terms). Chinese equities had a notably positive Quarter, and this does much to account for the overall gains. Sentiment regarding the Chinese artificial intelligence/information technology sector was boosted following the DeepSeek announcement of January 2025. Chinese Equities were also supported by signals from the Chinese Government regarding stimulus aimed at the domestic economy. Also, as at the start of 2025 China was one of the world's cheapest major Equity markets. Indeed, one of the factors accounting for the losses during the Quarter in the Indonesian and Thai Equity markets was rotation by fund managers away from these markets and towards China. Eastern European Emerging Market Equities enjoyed a clearly positive Quarter with hopes of a resolution to the Russia/Ukraine conflict an enhancing factor.

In response to somewhat disappointing US economic data, concerns over US growth (including) in the context of tariffs, and also their “safe haven” reputation US Treasuries gained (with yields falling) over the Quarter. The 2, 10 and 30 year Treasury yields all fell with the 10 year yield falling from 4.57 to 4.21 over the Quarter.

In contrast UK Gilts overall experienced a (mildly) negative Quarter in the context of concerns over a stagnant economy and Government finances including borrowing needs. The 10 year Gilt yield rose (and therefore prices fell) from 4.57 to 4.68. German Bunds experienced a clearly negative Quarter with a sell off in March. This occurred in the context of the agreement of the Christian Democrats (CDU) and Social Democrats (SPD) together with the Greens to support the principle of a huge expansion of defence and infrastructure spending including to exempt defence spending above 1% of GDP from the German Constitutional strict borrowing limit. Following the announcement of the initial agreement between the CDU and SPD the yield on the 10 year Bund saw a move (on 5 March) upwards (and prices therefore downwards) of 0.31% the largest one day move since 1997. Over the Quarter the yield on the 10 year Bund increased from 2.37 to 2.74.

29 April 2025