JOHN RAISIN FINANCIAL SERVICES LIMITED

<u>Independent Advisors Report</u>

<u>Market Commentary April to June 2025</u>

Despite the immediate and significant sell off and volatility in Equity markets following President Trump's announcement of the imposition of sweeping tariffs on 2 April 2025 World Equity markets, as measured by the MSCI World Index, actually gained 1% (in US $ terms) in April and over the Quarter to June advanced by over 11%.

As US markets closed on 2 April President Trump announced sweeping tariffs on imports into the United States consisting of a baseline tariff of 10% on all countries and individualised higher tariffs on countries the US said it had the largest trade deficits with. For example, China was to face a 34% tariff, the EU 20%, Vietnam 46%, Japan 24%. This resulted in an immediate sell off in Equity markets across the world. By 8 April, the MSCI World Index had fallen by 11%, the S&P 500 Index by 12%, the MSCI EMU (Eurozone) Index by 10%, the FTSE All Share by 8%, the Nikkei 225 by 8% and the MSCI Emerging Markets Index by 10%. Then President Trump announced a 90 day pause in the additional tariffs on a range of countries that had indicated a willingness to negotiate with the United States, although he singled out China for significant additional tariffs. World Equities immediately rebounded with the MSCI World Index gaining over 6% and the S&P 500 gaining 9% on 9 April. Apart from increasing tariffs on China the US Government "moderated" its approach to tariffs over April. By 30 April, the MSCI World Index was up 1% (in US $ terms) with US markets as measured by the S&P 500 down by approaching 1%. Japanese, Asian, and Emerging markets as a whole ended the month slightly up. May saw an easing of US-China trade tensions with an agreement, on 12 May, to massively reduce the tariffs each had imposed on the other for at least 90 days. The US agreed to reduce duties on Chinese imports from 145% to 30% while China agreed to reduce its retaliatory tariffs from 125% to 10%. Further positive trade discussions between the United States and China were held in London concluding on 10 June. The MSCI World Index, aided also by positive economic data advanced, 6% in May and a further 4% in June.

Having fallen by approaching 1% in April the S&P 500 advanced by over 6% in May and 5% in June to end the Quarter 10% up. US equities were buoyed by significant progress in deescalating US-China trade tensions, generally positive US company earnings reports, and overall positive economic data. As US Federal Reserve Chair Jay Powell stated to the to the US House of Representatives Committee on Financial Services on 24 June *"Incoming data suggests that the economy remains strong."* Reported corporate earnings for Q1 2025 were generally positive. There were widespread gains across US equity markets with 8 of the 11 Sectors in the S&P 500 gaining over the Quarter. Information Technology (buoyed by robust corporate earnings) and Communication sector stocks, however, surged ahead in the Quarter gaining over 23% and 18%, respectively.

Notwithstanding repeated calls by President Trump to reduce interest rates, the meetings of the US Federal Reserve Federal Open Markets Committee (FOMC) which concluded on 7 May and 18 June maintained interest rates at 4.25 to 4.5%. This was not particularly surprising given indictors of economic activity, unemployment, and inflation levels, coupled with the Projections issued after the December 2024 and March 2025 meetings that FOMC participants anticipated only a 0.5% cut in interest rates throughout 2025. The Press Release issued after both the May and June 2025 meetings included that "*recent indicators suggest that economic activity has continued to expand at a solid pace,"* that the unemployment rate was *"low,"* that *"labor market conditions remain solid"* and *"Inflation remains somewhat elevated."*

In contrast to the US Federal Reserve the European Central Bank (ECB) continued on its interest rate cutting path. Following on from six rate cuts from June 2024 to March 2025 the ECB reduced rates by further 0.25% at both its meetings on 17 April and 5 June. The decision to make these further interest rate reductions was, based on the "Monetary policy statement" issued after both meetings, resultant from a view that inflation was on a downward trend. Revised headline Eurozone inflation projections announced in conjunction with the June meeting were *"to average 2.0 percent in 2025, 1.6% in 2026 and 2.0 per cent in 2027."* The June interest rate cut reduced the headline *"deposit"* rate to 2%. This further increased, to 2.25%, the difference in US and Eurozone interest rates.

After a difficult April Eurozone Equities gained 5% (in Euro terms) over the Quarter aided by reseeding world trade tensions. Financials reported strong earnings and enjoyed a positive Quarter. German Equities performed notably in the context of low relative valuations, the global nature of the largest German companies, and the huge 500 billion Euro infrastructure Fund agreed by the German Government in March. The primary German Index the DAX 40 gained 8% over the Quarter.

The Bank of England Monetary Policy Committee (MPC) reduced Bank Rate by 0.25% to 4.25% on 7 May 2025. However, the Committee indicated a careful approach to further rate cuts with the "Monetary Policy Summary" issued after the meeting stating *"Based on the Committee's evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate…"*

Consumer Price Inflation for April (reported in May after the MPC meeting) was 3.5% and for May (reported in June) was 3.4%. This was very clearly above the MPC target of 2%. Interest rates were held at 4.25% at the 18 June MPC meeting.

The FTSE All Share Index advanced by 4% over the Quarter. The UK achieved positive trade arrangements with India, the United States and European Union. On 6 May the United Kingdom and India signed an agreement to promote mutual trade. On 8 May the UK and United States announced a deal to reduce tariffs, and on 19 May an agreement between the United Kingdom and the European Union to ease imports and export barriers was announced. Consumer confidence increased over the Quarter as indicated by the GfK Consumer Confidence index.

Japanese Equities as measured by the Nikkei 225 gained over 13% during the Quarter. Japanese equities were supported by a weak Yen which supported export orientated companies. Corporate Governance reforms within Japanese companies are facilitating rising shareholder returns through buy backs and dividends which were also supportive of Japanese equity markets.

Notably the "Outlook Report" issued at the end of Bank of Japan's Monetary Policy meeting which concluded on 1 May reduced inflation and GDP projections compared with those issued at the end of the January 2025 meeting. The estimate for CPI inflation for 2025 and the 2026 estimate were reduced with that for 2026 from *"around 2 percent"* to *"in the range of 1.5-2.0 percent"* which is below the Bank of Japan's 2% target. GDP Growth estimates were also downgraded. Whereas the January 2025 "Outlook Report" had stated *"…risks to economic activity are generally balanced. Risks to prices are skewed to the upside for fiscal 2024 and 2025"* the latest "Outlook Report" stated *"…risks to economic activity are skewed to the downside for fiscal 2025 and 2026. Risks to prices are also skewed to the downside for fiscal 2025 and 2026.* In this context short term rates were held at 0.5%. Then at the Monetary Policy meeting which concluded on 17 June short term rates were again held at 0.5%, but the Bank announced a slowdown in its policy of reducing the extent of its buying of Japanese Government Bonds. This was in the context of concerns over the stability, volatility, and increasing Yields of Japanese Government Bonds.

Both Asian (excluding Japan) and Emerging Markets enjoyed a positive Quarter with both the MSCI Asia (excluding Japan) and the MSCI Emerging Market Indices advancing by approximately 12% (in US $ terms). While President Trump's sweeping tariff announcements of 2 April led to widespread market sell offs these were reversed following the announcement, a week later, by the United States of a 90 day pause for additional tariffs with the exception of China. Consequently, Chinese equities suffered a negative April. Asian and Emerging Markets including China enjoyed a positive May and June with China and the United States making positive progress on tariffs at talks in both May and June. US Doller weakness also aided Asian and Emerging market performance over the Quarter. Chinese Equities advanced but by less than Asian/Emerging Market Equities as a whole. Korean Equities had a particularly positive Quarter in the context of positive Korean-United States trade discussions, the appointment of a new Government, and the Bank of Korea cutting rates in May to their lowest since 2022. Over the Quarter the Korean Composite Index advanced 24%.

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