

JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Commentary July to September 2025

World Equities having enjoyed a very strong April to June 2025 Quarter advanced very positively, again in the July to September Quarter. In the context of easing trade tensions, positive corporate earnings, US Federal reserve anticipated and actual monetary easing, and continued optimism regarding Technology and in particular Artificial Intelligence, the MSCI World Index gained over 7% (in US\$ terms).

However, by the end of the Quarter Equity Market valuations, particularly in the US, were clearly elevated. While no one can predict the future, significant concerns regarding Equity valuations, particularly relating to the United States and in particular Artificial Intelligence related stocks were expressed by both the International Monetary Fund and Bank of England in reports issued in the first half of October. In an interview in early October with the BBC Jamie Dimon, Chairman and CEO of JPMorgan Chase the largest private bank in the world, indicated that Equity valuations were high, and that he was concerned, but that the timing of any correction was almost impossible to determine.

Despite ongoing and very significant pressure from President Trump to significantly reduce interest rates the meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) which concluded on 30 July, again, held interest rates at 4.25% to 4.5%. However, the vote was not unanimous with two members of the Committee voting for a 0.25% reduction which was the first time since 1993 that two members had dissented on a rate setting vote. In his speech on 22 August 2025 to the annual Jackson Hole Economic Policy Symposium Federal Reserve Chair Jay Powell while stating that *“Monetary policy is not on a preset course...”* gave a signal of a possible interest rate cut in September when he stated *“with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance.”*

At the meeting which concluded on 17 September 2025 the FOMC reduced the Federal Funds rate by 0.25% to a *“target range”* of 4.0% to 4.25%. This decision was made with clear regard to the situation relating to employment. The FOMC has the dual mandate to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Notwithstanding that inflation (to quote Chair Jay Powell at his Press Conference following the September 2025 FOMC meeting) *“remains somewhat elevated relative to our 2 percent longer-run goal”* the situation with employment had, in the view of the FOMC deteriorated. Chair Powell stated *“While the unemployment rate remains low, it has edged up, job gains have slowed, and downside risks to employment have risen... labor demand has softened, and the recent pace of job creation appears to be running below the “breakeven” rate needed to hold the unemployment rate constant...the downside risks to employment appear to have risen... In the near term, risks to inflation are tilted to the upside and risks to employment to the downside—a challenging situation. When our goals are in tension like this, our framework calls for us to balance both sides of our dual mandate. With downside risks to employment having increased, the balance of risks has shifted. Accordingly, we judged it appropriate at this meeting to take another step toward a more neutral policy stance.”*

In addition to anticipation of interest rate cuts together with an actual interest rate cut United States markets were further boosted by a reduction in concerns regarding trade tariffs/tensions, positive economic growth, robust corporate earnings, robust consumer spending (notably by the more wealthy who have/are particularly benefitting from stock market advances rather than the less well-off who are not benefitting from this and are facing a deteriorating jobs market), and enthusiasm for Artificial Intelligence technology investment. Although the Information Technology and Communication services sectors of the S&P 500 advanced most during the Quarter (by 13% and 12% respectively) ten of the eleven Sectors in the Index gained with the Index as a whole advancing by 8%. Perhaps clearly influenced by expectations of interest rate cuts by the US Federal Reserve (as well as other relevant factors) United States mid cap and small cap stocks also clearly advanced over the Quarter. The S&P MidCap 400 gaining 6% and the SmallCap 600 advancing 9%.

European Equities advanced with the MSCI EMU Index gaining 4% (in Euro and US \$ terms) over the Quarter. While reaching new highs over the Quarter this was however a clearly less positive gain than for World Equities as a whole. As in the previous Quarter the Financial sector enjoyed a clearly positive Quarter with Bank shares benefitting from strong corporate earnings but overall other sectors were clearly weaker. For example, in contrast to the United States, Eurozone Technology stocks saw only low single digit gains.

One contributing factor to this lower relative performance by Eurozone stocks was likely the outline EU-US trade deal agreed in late July. This was based around a 15% tariff rate but with the EU also agreeing to purchase hundreds of billions of Euros of US energy and weapons. German Chancellor Friedrich Merz stated, on 28 July, that the deal would cause “*considerable damage*” to Germany and Europe and that he was not satisfied with the outcome but that it was the best possible in the circumstances. French Prime Minister Francois Bayrou commented that the agreement represented a “*dark day*.”

Having reduced interest rates on eight occasions between June 2024 and June 2025 the European Central Bank (ECB) held the headline “*deposit rate*” at 2% at both the July and September 2025 Governing Council meetings. This was in the context of ECB projections of inflation averaging around 2% in 2025, 2026 and 2027. The ECB has a target of “*2% inflation over the medium term*.”

UK Equities advanced positively during the Quarter with the FTSE All Share and the FTSE 100 both gaining approximately 7%. The FTSE 100 (large cap) Index which began the Quarter at 8,761 points exceeded 9,000 points for the first time on 15 July 2025 and ended the Quarter at 9,359 points. One reason for this according to market commentators was strong interest from global investors seeking diversification and low valuations relative to United States listed stocks in particular. A weaker pound also aided internationally focussed companies. In contrast the more domestically focussed FTSE 250 advanced by less than 3% over the Quarter. Concerns around the UK economy (inflation, borrowing costs, corporate taxation, weakening employment, economic growth) are likely to have far more adversely affected the FTSE 250 than the (much) more internationally focussed FTSE 100.

At the August meeting of the Bank of England Monetary Policy Committee (MPC) Bank Rate was cut by 0.25% from 4.25% to 4% but only by a 5 to 4 majority with the minority voting to maintain rates at 4.25%. At the press conference following the August meeting Andrew Bailey Governor of the Bank of England indicated further interest rate reductions but with a very measured approach stating *“...a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate...”* At the September MPC meeting Bank Rate was held at 4%.

Japanese Equities enjoyed a very positive Quarter with the Nikkei 225 Index advancing by 11%. Relative value (cheapness) compared to US stocks, robust earnings, governance reforms, increased share buybacks, and dividends were all positive factors for Japanese stocks. Increased purchasing (and consequently pricing) has occurred by both overseas investors and Japanese citizens. The Japanese – United States trade deal announced in July was another likely positive for Japanese equities. Following the Bank of Japan’s Monetary Policy meeting which concluded on 31 July Bank of Japan Governor Kazuo Ueda commented that the trade deal was a *“big step forward”* although he acknowledged that there was uncertainty around the impact of the agreement. Although by the end of September uncertainty around the operation of the deal still remained market commentators appear to have concluded that overall, the deal was not (in the circumstances of President Trumps approach to trade) unfavourable to Japan.

At the Monetary Policy meeting of the Bank of Japan which concluded on 31 July 2025 short term rates were again held at 0.5%. While the meeting which concluded on 19 September 2025 also determined to hold short term rates at 0.5% this was by a 7-2 majority with the two dissenters proposing an increase in the short term rate to 0.75%. A split vote is rare, and it indicates some clear support within the Policy Board to further increase rates. However, in his Press Conference following the meeting Governor Kazuo Ueda suggested caution regarding potential future rate rises stating *“...we also need to be mindful of downside economic and price risks...”* At the September meeting it was also determined that the Bank of Japan would begin to sell its holdings of Exchange Traded Funds (ETFs) and Japan Real Estate Investment Trusts (J-REITs). According to market commentators this sale announcement came much before it was expected but was likely influenced by the recent significant increase in Japanese equity markets. However, as Governor Kazuo Ueda stated at his September Press Conference *“...the period required for disposal at the pace decided this time would exceed 100 years for both EFTs and JREITs”*

Both Asian (excluding Japan) and Emerging Markets enjoyed a second successive very positive Quarter with the MSCI Asia (excluding Japan) and the MSCI Emerging Market Indices both advancing by approaching 11% (in US \$ terms). Continuing (given the circumstances) positivity, rather than negativity, in US China trade relations (as demonstrated by President Trump’s decision, on 11 August, to extend the trade tariff truce with China for another 90 days and China’s reciprocal decision) was clearly beneficial not only to China but other markets. Clear indications of, and an actual interest rate cut by the US Federal Reserve were also beneficial to Asian/Emerging markets. The clear enthusiasm for technology and in particular Artificial Intelligence buoyed not only China but also the highly important Taiwan and South Korean markets. In South Korea corporate governance reforms were also met positively. Indonesian Equities were boosted by the trade agreement with the United States agreed on 22 July which included the United States setting a reciprocal tariff rate on Indonesian goods at 19% rather than 32% as originally proposed.

While US Treasury Bonds enjoyed a positive Quarter with the Yields falling, and therefore prices rising both UK Gilts and the German Bond Yields rose, and therefore their prices fell. After seeing rising Yields in July US Treasury Yields fell in August and September in the context of Federal Reserve Chair Jay Powell's indication of likely interest rate cuts in his speech to the Jackson Hole Economic Policy Symposium (see above in paragraph 3 of this Review) and weak United States employment data issued by the US Bureau of Labor Statistics (which made interest rate cuts more likely). Gilt Yields rose (and therefore prices fell) over the Quarter in the context of continuing concerns regarding the United Kingdom public finances (fiscal position/policies) and CPI inflation which is both approaching double the Bank of England target of 2% and higher than in other G7 countries. The Quarter was positive for both Investment Grade and High Yield Corporate Credit across the United States, United Kingdom, and Eurozone. Spreads (the difference in additional Yield paid for a Corporate Bond over a Government Bond) further narrowed. Positive corporate fundamentals such as robust/good earnings, very low default rates, and (some) economic optimism have been general drivers of the positive performance of Investment Grade and indeed High Yield Credit.

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