JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background October to December 2018

In contrast to the two previous quarters the period October to December 2018 saw a sharp decline in equity markets. Concerns regarding a global slowdown in economic growth, US trade policy, the rate of future interest rate rises by the US Federal Reserve, Brexit, the budget standoff between Italy and the European Union all weighed against equity markets. The MSCI World Index fell by 13% over the period. US, European and Japanese equities all experienced significant declines. As in the previous Quarter UK and emerging market equities continued to experience difficulties. The price of 2, 10 and 30 year major Government Bonds – US, UK, Germany - all rose during the quarter indicating risk aversion and uncertainty.

The US S&P 500 Index fell from 2,914 at the end of September to 2,507 at the end of December a fall of 14% over the quarter. Both October and December were torrid months for US equities. Factors weighing on US markets included fears over slower earnings growth (which is not surprising as the effects of the late 2017 tax cuts fade), continuing US China trade conflicts, concerns about the rate of interest rate rises and continued political tensions in Washington. Technology stocks which had previously been very positive endured a difficult quarter with expectations of a slowdown in expansion.

US unemployment which had been 3.7% in September had risen to 3.9% by December but this was largely due to more people coming into the labour market. The share of the adult population either employed or looking for work increased to 63.1%, its highest level for almost five years. US core inflation which had been 2.2% in September was still 2.2% in December. The University of Michigan Surveys of Consumers continued to indicate positive views. The December survey report indicated that consumer confidence remained at *"record favourable levels"* and referred to *"consumers very favourable evaluations of their personal financial situation."*

There are however some possible early warning signs appearing in both the US consumer and corporate economy. House prices have increased by more than 50% since 2012 but the level of house sales at December 2018 was 10.3% lower than a year ago. Also, some commentators, including former Federal Reserve Chair Janet Yellen, raised concerns in late 2018 about the level of leveraged loans – loans to highly indebted companies – which are also "covenant light" meaning creditors have little protection. This market has massively expanded and in a downturn, investors may seek to rush out of the asset class creating a liquidity crunch. Whether either of these issues are indicators of, or possible contributors to a future downturn only time will tell.
Notwithstanding demands from President Donald Trump for unchanged rates the US Federal Reserve confirmed its independence at its December meeting by voting

unanimously to increase its benchmark interest rate by 0.25% from 2.0-2.25% to 2.25-2.50% the nineth increase in the current cycle.

Eurozone equities adversely affected by European and wider issues experienced a poor quarter with the MSCI EMU Index down over 12%. Although Eurozone seasonally adjusted unemployment was 7.9% in November and December 2018, its lowest rate since October 2008 inflation appears as a continuing negative indicator. As measured by the Harmonised Indices of Consumer Prices (HICP), inflation, which had been 1.3% in March 2018 and had reached 2.1% in September fell back to 1.5% in December compared to the European Central Bank (ECB) policy objective of inflation below, but close to, 2% over the medium term. Additionally, core inflation which excludes the more volatile elements of energy, food, alcohol and tobacco and is seen as a better indicator of longer term inflationary pressure was 0.9% at the end of December having remained close to 1% throughout 2018.

Evidence of a slowdown in the Eurozone became clearer. Growth was at a four year low of 0.2% during the quarter. There was also fall in German industrial activity during the quarter. This is noteworthy as the heavily manufacturing reliant German economy accounts for about a third of Eurozone output.

At its December meeting the European Central Bank, as expected, ended its asset purchase programme (APP) of monthly purchases of new government and corporate bonds after nearly four years. The ECB will however continue to reinvest the principal payments from maturing securities purchased under the APP and maintain extremely low interest rates.

The FTSE All Share Index fell by over 10% during the quarter. Concerns over global growth and trade adversely affected those UK listed stocks significantly exposed to world markets while continuing and increasingly serious Brexit concerns will not have aided the UK focused mid cap (FTSE 250) stocks.

UK unemployment remained at 4% during the quarter - its lowest rate since 1975. Consumer Price Index (CPI) inflation which had remained above the Bank of England’s target of 2% since February 2017 was only 2.1% at December 2018. At its December 2018 meeting the Monetary Policy Committee (MPC), as expected, voted unanimously to maintain Bank Rate at 0.75%.

The Nikkei 225 Index, adversely affected by the strength of the yen as well as wider global issues fell by over 17% during the quarter. Japan’s export driven economy is particularly vulnerable to economic slowdown and the adverse effects of trade disputes. At its October and December monetary policy meetings the Bank of Japan continued to maintain its commitment to what might be described as financial crisis-era stimulus policies. This was in the context of Japanese inflation continuing to remain well below the Bank of Japan’s target of 2% despite huge monetary policy stimulus since 2013.

China and Asian emerging markets had another generally negative but overall less negative quarter than developed markets despite continuing US-China trade tensions and concerns about a slowing global economy. Further evidence emerged of slowing

Chinese economic activity with the Chinese government announcing that growth in the July to September quarter had slowed to 6.5% the lowest since the 2009 crisis. There were also indications of weakening consumer confidence and of a weakening housing market across the country with the Financial Times (online) reporting (27 December 2018) that *"housing developers across all city tiers reported that sales fell for a sixth month, while those in second-tier and smaller cities reported fresh price falls."*

In conclusion, the fourth quarter of 2018 highlighted that the continuation of the positive economic backdrop, which had been facilitated by unprecedented monetary support by the world's major Central Banks is now in doubt. Equity markets are now also subject to a number of significant potentially negative factors and this raises clear questions regarding how long the trend of generally upward equity prices witnessed for several years can continue.