**APPENDIX 4**

# JOHN RAISIN FINANCIAL SERVICES LIMITED

## Independent Advisors Report

## Market Background January to March 2019

January to March 2019 saw a significant bounce back in equity markets following the sharp decline of the last Quarter of 2018. The MSCI World Index which had lost 13% (in $ terms) in the final Quarter of 2018 gained 12% in the first Quarter of 2019. US, European and Emerging Market equities all rebounded significantly. Despite concerns about a global slowdown, a clear move away from further monetary "tightening" by both the European Central Bank and, particularly, the US Federal Reserve provided support for equity markets which were also aided by receding concerns over US trade policy.

Having fallen 14% during October to December 2018 the US S&P 500 Index rose from 2,507 at the end of December 2018 to 2,834 at the end of March 2019 an increase of 13% over the Quarter. Equity markets were buoyed by a decisive change of policy by the US Federal Reserve which had increased interest rates nine times between December 2015 and December 2018 including four increases in 2018 and which as late as its December 2018 meeting was signalling two further likely rate increases in 2019.

The Press Release following the January 2019 meeting of the US Federal Reserve's Federal Open Market Committee (FOMC) excluded the reference to *"some further gradual increases"* in interest rates which appeared in the December 2018 Press Release as the FOMC put further rate rises on hold. At a press conference following the January 2019 meeting the Federal Reserve Chairman Jay Powell while referring to the outlook for the US economy as *"solid"* also referred to *"crosscurrents and conflicting signals about the outlook. Growth has slowed in some major foreign economies, particularly in China and Europe……Financial conditions tightened considerably late in 2018 and remain less supportive of growth than they were earlier in 2018…"* Consequently, the FOMC determined that the cumulative effects of developments "*warrant a patient, wait-and-see approach regarding future policy changes."* Both US equities and Treasury Bonds rallied following this decision. Further support to markets was provided by the Minutes of the January 2019 FOMC which were released on 20 February and included a clear indication that the FOMC would further "loosen" monetary policy by ending its Balance Sheet reduction programme during 2019.

That the Federal Reserve had decisively changed its future monetary policy approach and moved away from further "tightening" was clearly confirmed by the decisions of the March 2019 meeting of the FOMC. Firstly, the projections issued after this meeting indicated that there would likely be no increases in interest rates in 2019. Secondly a statement on "Balance Sheet Normalization Principles and Plans" stated that the policy of Balance Sheet reduction (introduced in 2017) will be slowed from May 2019 and halted at the end of September 2019.

US core inflation fell from 2.2% in December 2018 to 2.0% by March 2019.US unemployment remained very low and was 3.8% in March 2019. The University of Michigan Surveys of Consumers continued to indicate positive views. The March 2019 survey showed consumer confidence at the same high levels as December 2018.

Despite mounting economic concerns Eurozone equities experienced a positive Quarter with support from the policy stances of the US Federal Reserve and the European Central Bank (ECB). The MSCI EMU Index (which tracks the largest companies in the Eurozone) was up almost 12% regaining much of the loss of the previous Quarter. The ECB stepped away from "tighter" monetary policy. While the January 2019 meeting of the Governing Council confirmed the previous policy that the key ECB (and presently very low) interest rates were expected *"to remain at their present levels at least through the summer of 2019"* the Press Release issued after the March 2019 meeting "loosened" policy expectations stating that the Governing Council *"now expects the key ECB interest rates to remain at their present levels at least through the end of 2019."*

Eurozone unemployment continued to fall – from 7.9% in December 2018 to 7.7% in March 2019 its lowest level since September 2008. Overall, however, there were further clear indications of a slowing economic momentum. The headline Inflation Rate which had been 2.1% in September 2018 fell back to 1.4% in March 2019 compared to the 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 at a two year low by March 2019 at 0.8% having remained close to 1% throughout 2018. The IHS Markit Purchasing Managers Index for the Eurozone which was above 56 in April 2018 fell progressively, over the 2018-19 financial year, to 47.5 in March 2019 and well below 50 which indicates the boundary between expected contraction and expansion. The Organisation for Economic Co-operation and Development (OECD) in their "Interim Economic Outlook" of March 2019 reported that *"GDP growth in the euro area slowed sharply through 2018 and is projected to remain soft at 1% in 2019."*

Despite ongoing uncertainty regarding the nature and timing of the UK's departure from the EU, reduced levels of business investment since the 2016 Referendum and reduced 2019 GDP growth forecasts by both the OECD and Bank of England (BoE) the FTSE All Share Index rose by 9% in the Quarter almost compensating for the fall during October to December 2018. Unemployment fell to 3.8% for the period January - March 2019 its lowest rate since 1974 according to the Office for National Statistics. Consumer Price Index (CPI) inflation fell very slightly below the BoE target of 2% from January 2019 and remained so, at 1.9%. at March 2019. At both the February and March 2019 meetings the Bank of England's Monetary Policy Committee (MPC) again voted unanimously to maintain Bank Rate at 0.75%.

The Nikkei 225 Index which fell by over 17% during October to December 2018 increased by 6% during the January to March 2019 Quarter, a clearly lower recovery

than other developed markets. Corporate earnings were disappointing and export orders weaker which is particularly unwelcome to Japan's export driven economy. The Government reported a significant fall in industrial production in March 2019.

At its January and March 2019 monetary policy meetings the Bank of Japan again 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. At March 2019 the core inflation rate was only 0.8%

China and Asian markets enjoyed a positive Quarter with the MSCI AC Asia ex Japan index gaining over 11% (in $ terms) during January to March 2019 which was in excess of the loss experienced in the previous Quarter. Both the more accommodative monetary policy stance of the US Federal Reserve and the lessening of US-China trade tensions were supportive. Chinese growth of around 6.5% for the first Quarter of 2019 continued, however, the lower growth trend experienced in 2018 compared to the first five years after the 2009 crisis. The OECD in its March 2019 "Interim Economic Outlook" estimated that Chinese GDP growth in 2019 would be 6.2%. Chinese stocks, however, received both a short term and likely long-term boost with the announcement by the major index provider MSCI, in February 2019, that it would more than quadruple the weighting of China listed shares in its "flagship" MSCI Emerging Markets Index from 0.7% to 3.3% by November 2019.

More accommodative monetary policy statements by the US Federal Reserve and ECB together with tepid inflation and softening economic data were supportive of the major Government Bonds – US, UK and Germany – which saw further price rises during the period January to March 2019.

In conclusion January to March 2019 while seeing faltering economic activity and weakening forward economic expectations was one of clear positivity for world equity markets. Interestingly the renewed vigour of equity markets, though doubtlessly aided by reduced trade tensions and a still essentially positive economic backdrop, coincided with clear messages from the major Central Banks (and in particular the US Federal Reserve) that they were, in the light of an expected weakening in the world economy prepared to move back towards "loosening" and away from tightening monetary policy. This potentially clearly provides further support to both the world economy and equity markets as 2019 proceeds.