**Whitechurch**
Securities Ltd
WEALTH MANAGERS

# Quarterly Review

## 1st October 2020 - 31st December 2020

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**Welcome to the Whitechurch quarterly investment review. This review covers the key factors that have influenced investment markets over the past quarter and the Whitechurch Investment Team's current views and broad strategies being employed.**

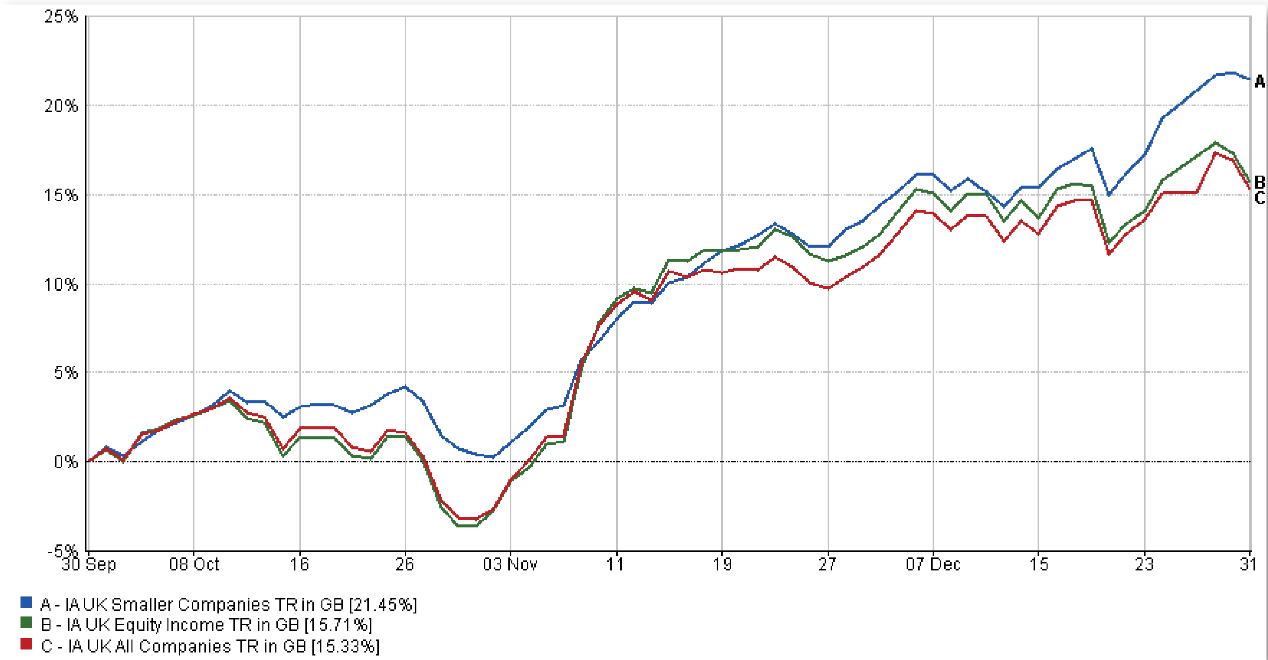
The UK market rose sharply over the quarter as positive news from vaccine trials, followed by the regulatory approval of two of these vaccines, raised hopes for a stronger economic recovery. Other constructive factors included the clear victory for Joe Biden in the US presidential election and the successful completion of the EU trade talks. Small and mid-cap stocks, which tend to be more domestically oriented, led the rally and outperformed large-cap companies. On a sectoral basis, the largest winners were economically sensitive industries including Banks, Oil and Mining as well as areas hit hardest by government restrictions such as Airlines and Leisure companies. Laggards included Food Retail, Consumer Staples and Utilities – all areas which have been relatively unaffected by the pandemic and where, consequently, there is less scope for recovery.

| UK Equities | Three Month Total Return % |
|---|---|
| IA UK Smaller Companies | 21.45% |
| IA UK Equity Income | 15.71% |
| IA UK All Companies | 15.33% |

Early in the quarter, the economy was hit by a new national lockdown that was implemented to alleviate the second wave of the pandemic. This led the Bank of England (BOE) to announce an extra £150bn of quantitative easing which will raise the total amount of bonds held by the Bank from £745bn to £895bn over the next year. The BOE expects the economy to contract by 11% this year with growth of over 7% in 2021. Investors were also concerned by the prospect of a tight or even inconclusive result in the US presidential election. These fears were alleviated by the decisive victory for Joe Biden. Investors also had to contend with the lengthy EU trade discussions which seemed to be bogged down on the totemic issue of 'fishing rights' as well as the more fundamental conflict between the EU's demands for 'regulatory alignment' and the UK's desire for full 'sovereignty'. Several deadlines came and went before a deal was announced on Christmas Eve. The Trade and Cooperation Agreement, which comes into force on the first day of 2021, guarantees tariff-free trade on most goods and a platform for future co-operation on issues such as crime-fighting, energy and data sharing. It does not cover financial services although both sides have agreed to negotiate a separate memorandum of understanding for this sector by March 2021.

The most significant news in the quarter came on 9th November with the announcement that the Pfizer/BioNtech COVID vaccine had achieved an efficacy rate of "above 90%" (later revised to 95%), without significant side effects, in its Phase 3 study. This development was soon followed by positive results from the trials of both the Moderna and AstraZeneca/Oxford University vaccine candidates. On 2nd December, the UK's Medicines and Healthcare products Regulatory Agency (MHRA) became the first national regulator to approve the Pfizer vaccine. The UK has ordered 40m doses – enough to inoculate 20m people – although the bulk of this will be delivered in 2021. By 31st December, around 945,000 doses had been administered. The AstraZeneca vaccine was also approved, just before the year-end, by the MHRA. This vaccine is easier to manufacture and can be stored in the fridge, rather than at the -70 Celsius temperature required by the Pfizer vaccine. There is now a hope that by the second half of 2021 enough people will have been inoculated in the UK to achieve 'herd immunity'.

However, the quarter ended on a sour note following the emergence, in South East England, of a new variant of the coronavirus. This appeared to be the main cause behind a surge in national coronavirus cases from around 20,000 per day in the middle of December to over 50,000 per day by the end of the month. The border crossing to France was closed for 48 hours, following President Macron's intervention, until new testing protocols were announced for lorry drivers. At the quarter-end, the UK government was considering further restrictions including a third national lockdown. In the light of these developments, a speedy roll-out of the vaccination programme will be even more important in determining economic and market developments in the UK in 2021.

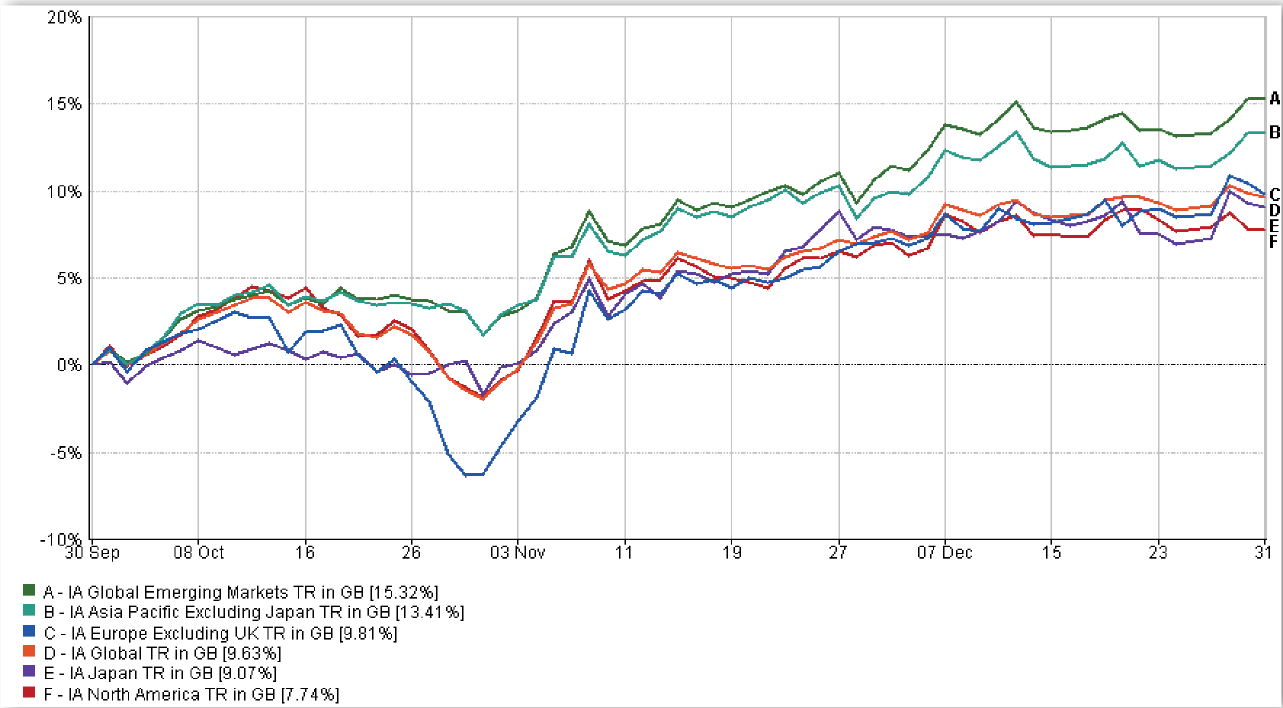



*01/10/2020 - 31/12/2020 Data from FE 2020*

# QUARTERLY REVIEW

## Q4 2020: 1st October to 31st December

| Global Equities | Three Month Total Return % |
|---|---|
| IA Global Emerging Markets | 15.32% |
| IA Asia Pacific, excluding Japan | 13.41% |
| IA Europe, excluding UK | 9.81% |
| IA Global | 9.63% |
| IA Japan | 9.07% |
| IA North America | 7.74% |




*01/10/2020 - 31/12/2020 Data from FE 2020*

Global equity markets rose significantly during the quarter. As in the UK, the main catalyst was the positive vaccine news and the positive implication this had for economic recovery. This 'risk-on' trade was also reflected in the depreciation of the dollar, traditionally seen as a 'safe-haven' currency, on the foreign exchange market. On a trade-weighted basis, the dollar lost about 2.5% in value. By the quarter-end, most major countries had initiated national vaccination programmes although the pace of progress varied enormously. Israel set the pace with the total number of doses administered before the year-end of 794,000, equivalent to 11.5 doses per 100 people. This compared to about 2.8m in the US, equivalent to 1.3 doses per 100 people. However, both countries were well ahead of Germany on 238,000 doses and France on just 350 doses.

The US market performed strongly during the quarter, although it lagged some other equity markets in a reversal from earlier in the year. A key focus for investors was the presidential election which was won decisively by Joe Biden not withstanding Trump's unsubstantiated claims of election fraud. The Republican party did better than expected in the Congressional elections and were initially considered favourites to win at least one of the run-off elections in Georgia on 5th January which would allow them to retain control of the Senate. However, during December, local polling showed both Democratic candidates edging ahead of their Republican opponents leaving the outcome too close to call at the end of the year. A clean sweep for the Democrats would give them control of both Houses of Congress, opening the door to a more expansionary fiscal policy than would otherwise be possible. In late December, Congress reached agreement on an interim stimulus package worth c.$900bn including aid for vaccine distribution and a $600 cheque for each adult (with adjusted gross income up to $75,000). Initially President Trump refused to support the deal, arguing in favour of a $2,000 payment per adult, before relenting and signing the agreement into law. The Federal Reserve made no significant changes to monetary policy and raised its GDP forecast for 2020 from a contraction of 3.7% to a more modest decline of 2.4%. It expects growth of 4.2% in 2021. Lastly, the Federal Trade Commission (FTC) launched the most significant anti-trust lawsuit in a generation when it accused Facebook of unfair competition and asked a federal court to break up the company. Some investors drew parallels to the Supreme Court's landmark ruling of 1911 which ordered the breakup of Standard Oil.

European equities also saw significant gains as investors focused on the positive vaccine news rather than the surge in coronavirus cases. In policy terms, there were three market-friendly developments in the quarter. Firstly, the EU reached an agreement with Poland and Hungary to finally unblock the €750bn coronavirus recovery package which is designed to help stimulate growth in those countries worst impacted by the pandemic. Secondly, as already noted, the EU concluded a free-trade agreement with the UK. Thirdly, the ECB decided to increase its Pandemic Emerging Purchase Programme (PEPP) from €1.35tn to €1.85tn and pushed back the end date from June 2021 until at least March 2022, while reinvesting any proceeds until at least the end of 2023. The central bank also extended its offer to finance banks, at interest rates as low as -1%, until June 2022, provided they maintain the flow of lending in the economy.

Source: Financial Express Analytics. Performance figures are calculated from 01/10/2020 to 31/12/2020 net of fees in sterling. Unit Trust prices are calculated on a bid-to-bid basis OEICs, Investment Trust and Share prices are calculated on a mid to mid basis, with net income reinvested. The value of investments and any income will fluctuate and investors may not get back the full amount invested. Currency exchange rates may affect the value of investments.

The Japanese market rose strongly during the quarter. Again, these gains came despite a surge in coronavirus cases as investors focused on vaccine development although no vaccines were submitted for regulatory approval during the quarter. The new prime minister Yoshihide Suga announced Japan's third fiscal stimulus of the year with a ¥30.6trn ($294bn) package aimed at boosting the economic recovery. During the quarter, the Bank of Japan (BOJ) left interest rates at -0.1% although it extended its special coronavirus loan programme by another six months to September 2021. The BOJ also announced a review of its monetary policy to consider the potential for "further effective and sustainable monetary easing." The decision to launch the review reflected concerns over the apparent slide back towards deflation – for instance, the headline consumer price index was down 0.9% in the year to November. The report is expected to be completed in March 2021.

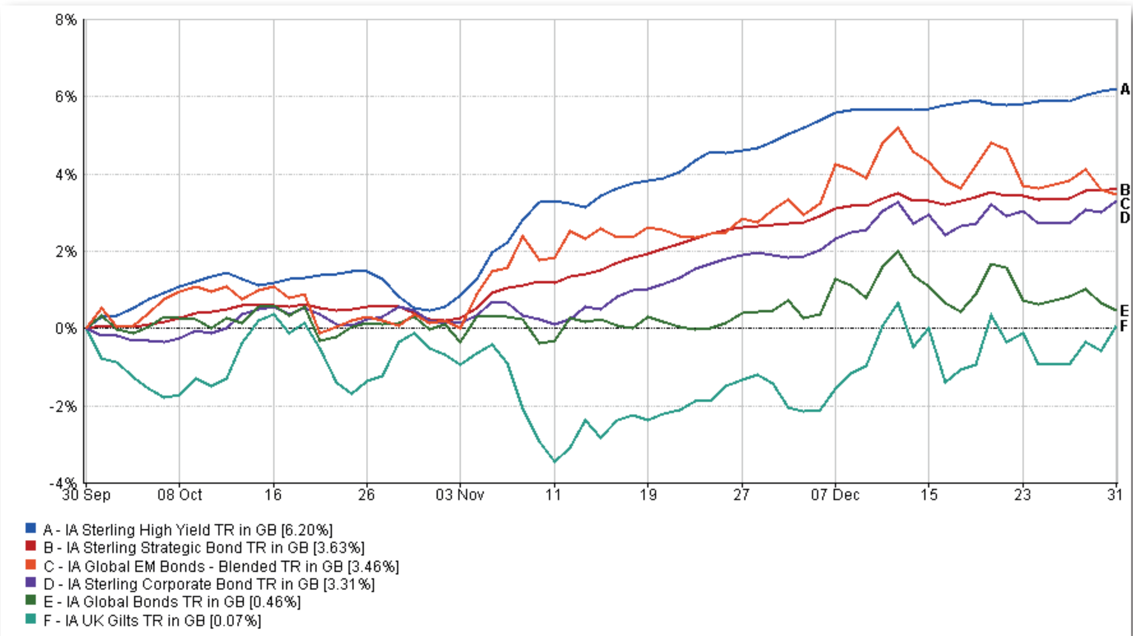
Emerging Markets enjoyed a particularly strong quarter although there was a high dispersion of returns. In a reversal from earlier in the year, the strongest performing areas included both Brazil and Russia. These markets are heavily skewed to natural resource sectors, especially Oil and Mining, which stand to benefit significantly from the higher commodity prices that should accompany a global economic recovery. South Korea also enjoyed a bumper quarter helped by a strong performance from its technology sector and by further momentum in exports. By contrast, the returns from China were more muted this quarter, although over the year as a whole the Chinese market has been one of the strongest performers as the government's response to the pandemic, including stringent regulations and intrusive tracking technologies, enabled the economy to recover relatively quickly. As a result, the People's Bank of China (PBOC) largely maintained its existing monetary policy stance despite several high-profile bond defaults by state firms. In December, China's regulator approved the domestically developed Sinopharm coronavirus vaccine. In a development which seemed to mirror the FTC's move against Facebook, China's market regulator announced an antitrust investigation into Alibaba, the country's largest technology company, a month after the authorities halted sister company Ant Group's $37bn initial public offering. In addition, the PBOC accused Ant of regulatory failings. Alibaba's share price fell by 20% in the quarter. The Indian market rebounded strongly in the quarter, as the vaccine news was well received in a country that has been hard hit by the second wave of the pandemic. The IMF expects the economy to contract by 10% in 2020 compared with growth of around 2% in China. In South Africa, a new variant of the coronavirus swept the country amid concerns that its greater level of mutation, compared to the UK variant, might make existing vaccines less effective against it.

| Fixed Interest | Three Month Total Return % |
|---|---|
| IA Sterling High Yield | 6.20% |
| IA Sterling Strategic Bond | 3.63% |
| IA Emerging Market Bonds | 3.46% |
| IA Sterling Corporate Bonds | 3.31% |
| IA Global Bonds | 0.46% |
| IA UK Gilts | 0.07% |

It was a relatively quiet quarter for government bonds. In the US, the benchmark 10-year bond yield rose by 23bps to 0.91% reflecting growing confidence in the prospects for economic recovery in 2021. This also reflected the relative inactivity of the Federal Reserve, especially as compared to earlier in the year when it undertook large scale bond purchases to stabilise the financial system. By contrast, 10-year bond yields fell in several European countries including in Portugal, Italy, Greece and Spain. This reflected continued weak inflation data which has so concerned the ECB and the latter's response in the form of additional bond purchases, as already noted above.

In general, corporate bonds outperformed government bonds as investors judged the improved prospects for economic recovery reduced the risk of defaults. As a result, spreads, relative to government bonds, declined for both investment grade and high yield bonds. In many cases, spreads are now back to pre-COVID levels. Several companies took advantage of the increased appetite for risk. For example, cruise-line operator Carnival was able to sell $1.6bn of unsecured high yield bonds. This is the first time Carnival has issued bonds that were not secured against specific collateral (normally ships). The main exception to these positive trends was in China where the corporate bond market suffered from several high-profile defaults by state firms including the Yongcheng Coal & Electricity Group and Huachen Auto Group Holdings. However, most of these bonds are owned by domestic and not international investors.

Looking forward, with vaccination programmes now underway and little sign that the monetary and fiscal authorities are looking to tighten




01/10/2020 - 30/12/2020 Data from FE 2020 policy, inflationary risks appear to have increased. Central banks are now talking up the virtues of inflation. Earlier in the year, the Federal Reserve introduced average inflation targeting and implied that it would let the economy run 'hot' if it could. The ECB has indicated it will consider following suit. Concurrently, governments worldwide are grappling with increased debt burdens and record fiscal deficits. To politicians, inflation might well seem like the least bad option to erode the real value of debt, given the public's appetite for 'austerity' appears to be extremely slim. In this environment, index-linked bonds should outperform conventional government bonds provided their break-even inflation rate is not excessive.

## Commercial Property

| | |
|---|---|
| IA UK Property | -0.1% |

Returns from UK direct property were flat this quarter. However, this masked a positive shift in sentiment towards the property market as a result of the vaccine news. This was most clearly reflected in REIT share prices and the re-opening of several open-ended property funds which had previously been closed due to market conditions. At the quarter-end, the announcement of an EU trade deal also removed an important risk that had been overhanging the market. If the improvement in sentiment is also reflected in an economic recovery and specifically increased activity (both transactions and new leases) then direct property valuations should also start to see an improvement. However, it is important to note that differences in sectoral performances are unlikely to completely reverse as some issues, such as those impacting the Retail sector, are partly structural in nature. In late December, optimism around the UK property market was tempered by the surge in coronavirus cases and the potential for fresh government restrictions. This may prove to be only a temporary issue although much now depends on the speed of the vaccination rollout.

## Commodities

Industrial metals performed strongly in the quarter as the positive vaccine news raised expectations for a global economic recovery. The iron ore price rose by 32% to $158/t while the copper price gained 16% to $3.50/lb. The former is heavily influenced by demand from Chinese steel mills while the latter is often seen as a bellwether for the global economy given its wide range of usage across many industries. It was a similar picture in the hydrocarbon market, with the Brent Crude oil price rising from $41 to $50, a gain of 26%. The improved market environment led the OPEC+ group of countries to indicate that, from January 2021, they would raise production by 500,000 barrels a day, although this would still leave production well below the pre-COVID level. Precious metals endured a more mixed performance. The gold price fell during the first two months, before rallying to end the quarter at around the same price as it had started it ($1895/oz). By contrast the silver price rose by 12%. In Platinum Group Metals (PGMs), the price of platinum rose by 12% while the price of palladium dipped by 3%.

## Cash

With many bond yields still close to all-time lows, the opportunity cost of holding cash relative to bonds remained modest. In the short-term, cash deposits insulate investors from the price volatility seen in other asset markets. However, in the long-term, the real value of cash deposits is likely to continue to be eroded by inflation. We currently only hold cash for short-term tactical reasons or within lower risk strategies, where the risk profile dictates a need for a larger cash allocation.

## Whitechurch Investment Team, Quarterly Review, Q4 2020

### (Issued January 2021)



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