Whitechurch Securities Ltd
WEALTH MANAGERS

Quarterly Review

1st April 2021 - 30th June 2021

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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 steadily over the quarter. The UK market delivered a return of 5.6%. Large and mid-cap stocks saw returns of 5.7% and 4.7% respectively while small companies outperformed with a return of 9.0%. Sector performance was more balanced than in Q1 when cyclical areas were the clear leaders. This time around the biggest gainers included more defensive sectors such as Healthcare (+16.7%) and Utilities (+8.1%) as well as cyclical sectors such as Industrials (+8.3%) and Real Estate (+8.0%). The laggards included several cyclical sectors such as Energy (+5.2%) and Financials (+2.4%) as well as more defensively oriented areas such as Telecoms (+2.8%).

UK Equities	Three Month Total Return %
IA UK Smaller Companies	9.98%
IA UK All Companies	5.62%
IA UK Equity Income	5.02%

Investor sentiment continued to be boosted by the success of the UK's vaccination programme. By the quarter-end, around 44.9m people (67% of the population) had received at least one vaccine dose, up from 31.1m at the start of the quarter. Moreover some 33.0m (49% of the population) had received both doses compared to just 4.5m at the start of the quarter. However, the period also saw the emergence of yet another coronavirus strain, the so-called 'delta' variant. Scientists estimated the latter was around 60% more contagious than the 'alpha' (Kent) variant, which itself was more contagious than the original strain that emerged from Wuhan, China in late 2019. As a result, the government decided to postpone the final easing of lockdown restrictions (with a few exceptions such as foreign travel), due on 21st June, to 19th July. However, despite a rapid rise in new covid infections, Sajid Javid, who replaced Matt Hancock as Health Secretary, indicated his strong determination to stick to the 19th of July date. Javid noted that there was strong evidence the vaccination programme was working, since although case numbers had risen sharply, the same was not true of hospitalisations or deaths.

Economic data continued to point towards a robust economic recovery in the UK. For instance, the GfK's consumer confidence index jumped six points to its pre-lockdown figure of minus nine in May, making up all the ground lost to Covid-19. Rising consumer confidence was reflecting in retail sales which rose by 10% in May compared to May 2019 which is seen as a fairer comparison than May 2020, due to the lockdown last year. The Bank of England (BoE) increased its GDP growth forecast for 2021 to 7.25% from the 5.00% it predicted in February. There were also signs of inflationary pressure although opinion remains split between those who see the recent rise in inflation as transitory and those who are concerned over longer term pricing pressures (and hence are more worried about interest rate rises). At its June meeting, the BoE left monetary policy unchanged as it sought to calm fears over rising inflation. The Bank acknowledged that inflation would rise further from the 2.1% recorded in May and was, "likely to exceed 3 per cent for a temporary period". However, the Bank stressed that since it believed the surge in prices was "transitory" it should not affect monetary policy.

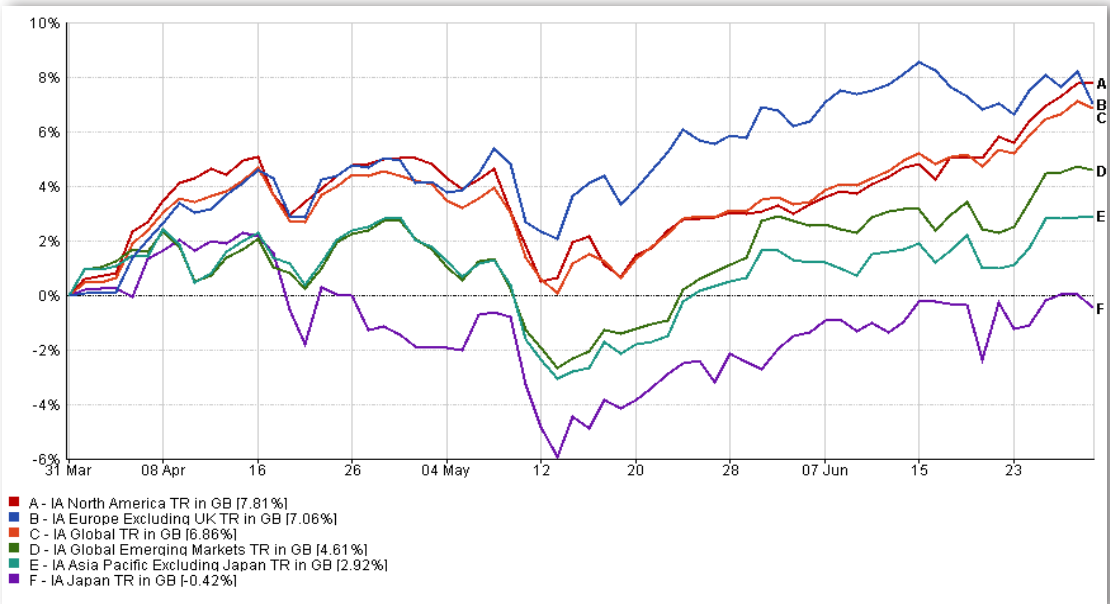
In overall terms, this was a strong quarter for UK equities. However, following a burst of outperformance in Q4 last year, so far in 2021 the UK market has reverted to its previous pattern, established after the Brexit vote, of underperforming the global market. We think this is unwarranted. In particular, the valuation of the UK market remains attractive, trading as it does on a sizeable discount to the global market on almost any measure. Moreover, there have been a plethora of bids for UK companies, most recently Wm Morrison Supermarkets, by foreign buyers (in many cases private equity) which indicates that international investors share our positive view on UK valuations and are prepared to act on it.

01/04/2021 - 30/06/2021 Data from FE fundinfo 2021

QUARTERLY REVIEW

Q2 2021: 1st April to 30th June

Global Equities	Three Month Total Return %
IA North America	7.81%
IA Europe, excluding UK	7.06%
IA Global	6.86%
IA Global Emerging Markets	4.61%
IA Asia Pacific, excluding Japan	2.92%
IA Japan	-0.42%



01/04/2021 - 30/06/2021 Data from FE fundinfo 2021

Global equity markets delivered a strong return during the quarter. As in the UK, one of the main driving forces was the growing success achieved by national vaccination programmes, in developed countries at least, and the positive implications this had for removing lockdown restrictions and, hence, for economic recovery. At the same time, in general, both fiscal and monetary policy remained highly stimulative despite the improvement in key economic indicators such as consumer spending and investment activity. As a result, forecasts for GDP growth continued to rise rapidly. In particular, the OECD raised its forecast for global GDP growth in 2021 to 5.8% from the 4.2% it projected in December. Expectations for inflation also picked up although, by the quarter-end, central banks had started to push back against the inflation narrative by arguing that price rises were 'transitory' and, as a result, a tightening in monetary policy was not required for some time.

The US market performed strongly. Technology shares bounced back strongly, following their weak performance in Q1, helped by continued strong earnings growth. In addition, the risk from regulatory action appeared to decline as a US court dismissed the government's anti-trust lawsuit against Facebook. More generally, equity prices were boosted by rising optimism that the worst was over from the pandemic as the vaccination programme made further progress. By the end of the quarter, some 54% of the US population had received one dose while 47% had received both doses. During the period, the Federal Reserve raised its expectation for US GDP growth to 7.0% for 2021, up from the 6.5% it predicted in March, with 2022's target unchanged at 3.3%, while GDP growth in 2023 is now tipped at 2.4%, up from 2.2% in March. The Fed left monetary policy unchanged although, by the end of the quarter, a majority of Fed officials predicted at least two interest rate hikes in 2023 whereas previously the majority expected no changes until at least 2024. Fed Chair Jerome Powell continued to sound a dovish note, saying that the Fed would not move pre-emptively in tightening policy because of perceived slack in the labour market. Fiscal policy has also remained highly stimulative although political discussions over proposed increases to infrastructure spending (American Jobs Plan) and social projects (American Families Plan) were still ongoing at the quarter-end.

European equities also delivered a robust performance. As elsewhere, monetary policy remained highly supportive during the period while, on the fiscal side, the EU's €750bn recovery fund was finally ratified after months of delay. The EU had a slow start to its vaccination programme following a flawed procurement programme (and public spat with AstraZeneca). However, by June, the daily vaccination rate among the 'Big Four' (Germany, France, Spain and Italy) had risen above the level in US. As a result, overall vaccination levels began to converge towards the US level. For instance, by 30th June, around 54% of the German population had received one vaccine dose and 36% had received two doses. This turnaround supported a rise in investor sentiment. However, as in the UK and the US, the sectors that performed strongest (such as Healthcare, Technology and Consumer Staples) were not necessarily the most economically sensitive. Rather they tended to be the areas that lagged in Q1. Thus, there was a strong element of rotation or 'catch-up' to sector performance this quarter.

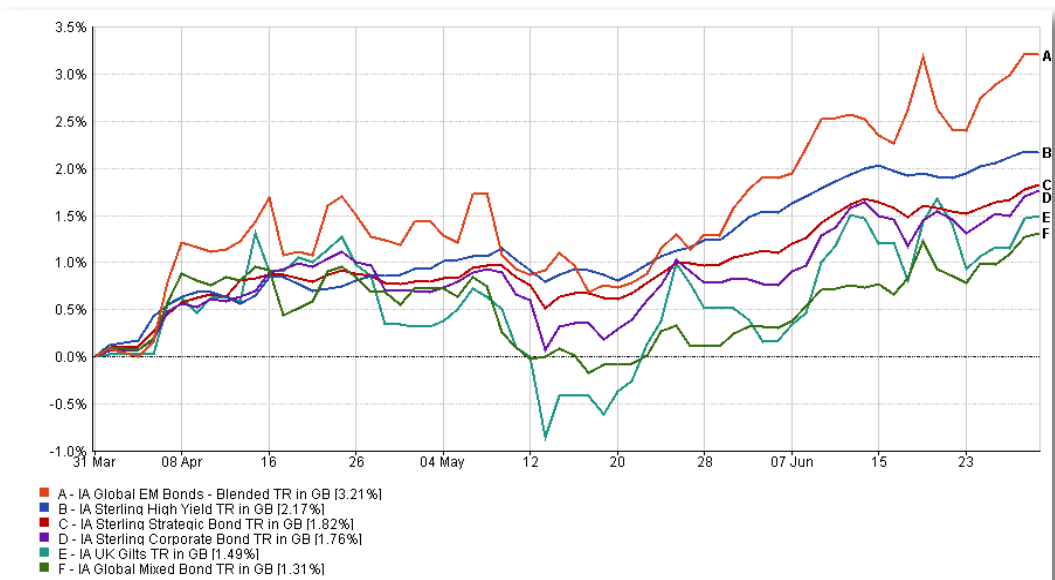
Source: Financial Express Analytics. Performance figures are calculated from 01/04/2021 to 30/06/2021 net of fees in sterling. Unit Trust prices are calculated on a bid-to-bid basis OEICs, Investment Trust and Share prices are calculated on a mid to mid basis, with net income reinvested. The value of 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 declined during the quarter. Covid cases remained relatively low compared to most other countries, despite a pickup during May. However, concerns have been expressed over Japan's slow vaccination programme. At the end of the quarter, only 23% of inhabitants had received one dose and just 12% had received both doses. Although the economy proved more resilient in 2020 than many other advanced economies, data released during the period showed that GDP growth in Q1 was worse than expected at -1.3%. In addition, despite the continued macroeconomic policy stimulus, the core consumer price index inched down by 0.1% in April, marking the ninth consecutive month of decline. On a more positive note, just before the quarter-end, the key Bank of Japan Tankan business survey showed that confidence among manufacturers had hit its highest level since 2018. June also saw the release of a revised corporate governance code. This marked a further step by the Japanese government to improve the effectiveness of corporate boards. However only time will tell whether this measure produces tangible benefits for shareholders.

Emerging markets, in general, lagged developed markets during the quarter. Several countries including Brazil suffered from a severe third wave of covid infections. In addition, vaccination programmes, except for China which recently ramped up its domestic Sinovac vaccination effort, generally lagged developed markets as countries struggled to procure western-developed vaccines. However individual market returns did not appear to be particularly impacted by levels of covid infections. Brazil was the best performing market as the economy benefitted from the boom in global demand for industrial metals, such as iron ore and copper, as well as for agricultural commodities. Russia was another beneficiary of this trend despite continued political frictions with western countries. The Indian market was also relatively strong. The main laggard in performance terms was China. The Chinese government has had a 'good' pandemic in terms of how quickly it was able to suppress the virus and return the economy to growth. However, there are now signs that the pace of economic expansion is excessive as factory gate inflation rose to its highest level in over a decade in May. Chinese officials appear to have already responded to these concerns by using direct policy channels (rather than interest rates) including direct instructions to bank officials, to dampen down on loan growth. Total social financing which measures the aggregate amount of lending across the domestic financial system, rose by 11 per cent year-on-year in May, its slowest rate of expansion in over a year.

Fixed Interest	Three Month Total Return %
IA Emerging Market Bonds	3.21%
IA Sterling High Yield	2.17%
IA Sterling Corporate Bonds	1.82%
IA Sterling Strategic Bond	1.76%
IA UK Gilts	1.49%
IA Global Bonds	1.31%

It was a mixed quarter for government bonds. In several European countries, government bond markets sold off and yields rose as vaccination programmes accelerated which boosted expectations for economic growth and inflation. However, in other key markets, most notably the US, the bond market strengthened. Thus, the yield on the 10-year US government bond declined by 24bps to 1.47%. This move came despite growing optimism over the pace of the economic recovery as reflected in rising forecasts for US GDP growth. The turn in the US market seemed to partly reflect investor positioning given that the reflation trade had become hugely consensual earlier in the year. In addition, some investors seemed to accept the narrative, disseminated by the Fed Chair Jerome Powell, that the recent rise in inflation was transitory and, therefore, the Fed would not respond by tightening monetary policy for some time to come. Other investors are less sanguine about inflationary pressures and highlight the unprecedented scale of macroeconomic policy support at a time when the economic recovery is already gathering pace. Our own view is that, while we accept that base effects are distorting the headline inflation figures, there are longer term underlying pricing pressures emanating from both demand and supply side issues and that this supports our positioning in index-linked bonds.



01/04/2021 - 30/06/2021 Data from FE fundinfo 2021

In general, corporate bonds outperformed government bonds as investors judged the improved prospects for economic recovery reduced the risk of defaults. For instance, Fitch cut its expected rate of junk bond defaults this year to 2% from the previously forecast 3.5%. The pace of defaults has eased markedly from a projected 5.2% a year ago and is nowhere near the peak of 14% seen in 2009. As a result, spreads, relative to government bonds, continued to decline for both investment grade and high yield bonds. In many cases, spreads are now back to pre-COVID levels. As a result, a number of our managers have decided to increase their positions in the highest quality triple-A rated corporate bonds because they perceive that the incremental yield, to compensate for the higher risk, is insufficient for many lower quality issues. We do not expect any short-term reversal in the corporate bond market, given the current trajectory of the economic recovery, as well as continued central bank bond purchasing, but we support this prudent stance as the best way to manage risk and return in the long term.

Commercial Property

IA UK Property	1.71%

UK direct property delivered a positive return this quarter. The success of the UK's vaccination programme and the concomitant re-opening of the economy boosted prospects for a property market recovery. There was a small wobble in sentiment with the emergence of the delta variant and the postponement of the final stage in the easing of restrictions until 19th July. However, these worries were soon alleviated as evidence accumulated that the current vaccines give a high degree of immunity from the delta variant and as hospitalisations remained low despite the surge in cases. In addition, the NHS began preparations for a vaccine booster programme, for millions of older and more vulnerable Britons, which could be initiated from September onwards.

To date the bulk of the improvement in the property market has been concentrated in the industrial/logistics sector, as well as some alternative asset classes such as data centres and age care facilities, while demand remains subdued across the office and retail sectors. The latter has continued to see an increase in vacancies and is likely to face continued structural headwinds from the trend towards online spending, even as consumers shift some spending back to physical retail stores which reopened this quarter. Within the office segment, there is likely to be a bifurcation in demand with less covid-friendly buildings losing out to more pandemic-friendly buildings with improved air flow and spacing.

Commodities

Industrial metals continued to perform strongly as global economic growth accelerated. The iron ore price rose 30% to $215/t while the copper price gained 7% to $4.30/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 hydrocarbon market, where the Brent Crude oil price rose from $63 to $75, a gain of 19%. The OPEC+ group of countries, led by Saudi Arabia and Russia agreed in April 2020 to cut output by nearly 10m b/d, or roughly 10 per cent of global demand, as widespread lockdowns and travel bans slashed oil consumption. Since then, the group has started to phase out the curbs (current restrictions are at just under 6m b/d) but at a slower pace than the recovery in demand, resulting in a price squeeze.

The price of many agricultural commodities also rose during the period due to stronger demand from China, stockpiling by governments, higher shipping costs and dry weather in several exporting countries such as Brazil. Within precious metals, gold and silver saw prices rise by 4% and 7% respectively. In Platinum Group Metals (PGMs), the price of platinum fell by 10% while the price of palladium gained 4%.

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, Q2 2021

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