Whitechurch Securities Ltd
WEALTH MANAGERS

Quarterly Review

1st January 2022 - 31st March 2022

Telephone: 0117 452 1207 | www.whitechurch.co.uk

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.

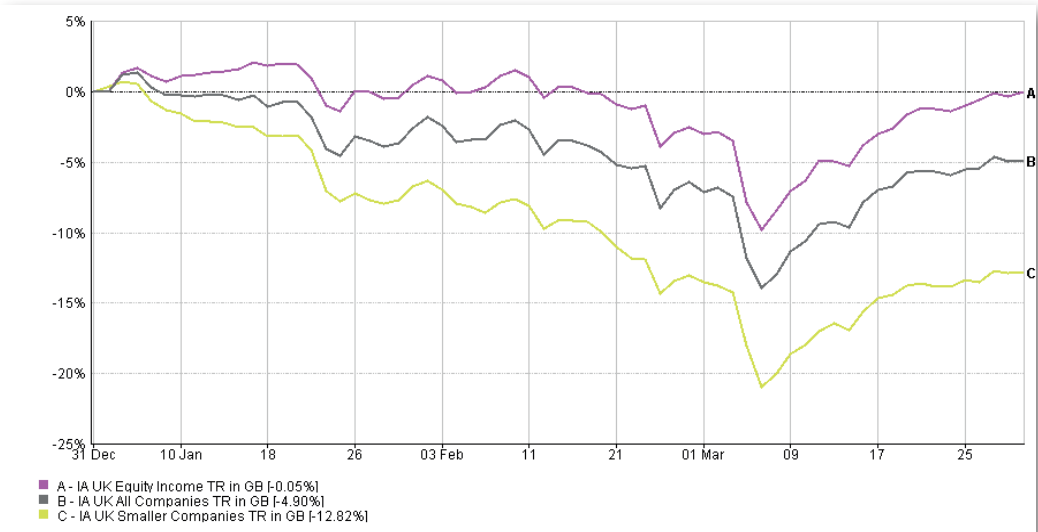
The UK market delivered a return of 0.5%. In what was a mixed quarter, share prices broadly weakened during January and February, before showing signs of recovery in the last few weeks of the period. Large cap stocks outperformed, returning 2.9%, while the more domestically oriented mid and small cap stocks underperformed with returns of -9.5% and -6.2% respectively. Several factors weighed heavily on global markets throughout the period, namely the looming prospect of imminent interest rate rises and the geopolitical tension and subsequent invasion of Ukraine. By sector, notable positive contribution came from energy (+25.4%), healthcare (+10.2%), utilities (+8.4%) and telecommunications (+7.4%). The laggards were industrial materials (-17.9%), technology (-16.1%), industrials (-12.9%), consumer discretionary (-11.6%), travel and leisure (-9.7%), real estate (-4.4%), consumer staples (-3.8%) and financials (-1.6%). Even with these sector losses, the UK finished the quarter as the best performer of the major regions.

UK Equities	Three Month
IA UK Equity Income	-0.05%
IA UK All Companies	-4.90%
IA UK Smaller Companies	-12.82%

Despite being a tough month for equities more widely, January saw the UK benefit from a continued interest in so called 'value' stocks i.e. those in the more cyclical and lowly valued areas of the market perceived to be underappreciated. There were several contributing factors towards what turned out to be the largest monthly outperformance over their more growth-oriented counterparts in more than 20 years. Firstly, following progress made in the ongoing battle versus coronavirus, namely through confirmation that the now dominant omicron strain was less severe than originally feared and the delivery of a largely successful vaccination programme, investors were inclined to adopt more of a 'risk on' approach, thus favouring those stocks perceived to have more upside potential. Another major tailwind for UK value stocks was the significant selloff that occurred in the US technology sector. Not only is this a major growth-oriented area, but the UK market also possesses a far smaller allocation to technology (just 1.4%) than most other major regions and was therefore less detrimental on wider performance.

Heightened market volatility continued throughout February and March. Whilst the former saw the official lifting of all remaining social distancing measures, inflation and geopolitical tension continued to weigh on investor sentiment. On 24th February, Russian troops that had been amassing on the Ukrainian border for months defied previous rhetoric and began their invasion – a move that was met with international condemnation and a raft of sanctions targeting wealthy individuals and Russian financial infrastructure. Whilst the UK is less exposed to direct energy imports from Russia than its continental neighbours, the wider impact on commodity prices added significantly to the existing supply issues and resultant higher cost of energy. In measures announced at the 23rd March Spring Statement, Chancellor of the Exchequer, Rishi Sunak, unveiled a circa £6 billion fiscal package to help combat the rising cost of living. However, given that the removal of the energy bill cap on 31st March has the potential to increase household energy bills by up to 54%, the announcement was generally labelled as inadequate. Despite the backdrop, macroeconomic data remained relatively upbeat throughout the quarter, with both the Services and Manufacturing Purchasing Managers' Indices (PMI) signalling healthy levels of economic growth, although the latter did register a sharp decline in March. The UK labour market remained strong too, with an increase in both job numbers and wage levels and unemployment continuing to fall.

01/01/2022 - 31/03/2022 Data from FE fundinfo 2022



QUARTERLY REVIEW

Q1 2022: 1st January to 31st March

Global Equities	Three Month Total Return %
IA North America	-2.77%
IA Asia Pacific, excluding Japan	-3.18%
IA Global	-4.83%
IA Japan	-5.67%
IA Global Emerging Markets	-6.50%
IA Europe, excluding UK	-7.66%

Unable to back up the strong performance of last year, global equities experienced a difficult quarter. The aforementioned headwinds, such as the prospect of central banks raising interest rates to moderate the pace of the cost of living and geopolitical events, curtailed post-pandemic economic recovery. Perhaps most notably of all was the market reaction to news that Russia had put the country's nuclear forces on 'high alert'. Another factor, which we reported on throughout last year, was supply chain disruption, which, despite appearing to ease from its recent peak, remained fragile. Last quarter we wrote how the OECD had maintained their forecast for global economic growth of 4.5% for 2022. In their interim report published on 22nd March, they label recent events in Ukraine as a major humanitarian and economic shock. The report highlighted that despite Russia and Ukraine only representing circa 2% of global GDP, associated market uncertainly and the direct impact of the conflict on already precarious commodity prices could reduce this year's global GDP growth by more than 1% if sustained. Whilst progress for peace talks between the two nations appeared to emerge towards the end of the quarter, contributing to a short rally, the period still represented the poorest quarter for global equity markets since the outbreak of the pandemic in early 2020.

After months of speculation and pressure to intervene in the rising cost of living, the US Federal Reserve (Fed) increased interest rates for the first time in over three years on 16th March. Despite the announcement and signalling potential for a further six increases over the next 12-18 months, inflation showed no sign of slowing throughout the period. Figures released towards the end of the quarter indicated inflation running at a rate of 7.9% – the highest level since January 1982. The labour market also remained tight, with non-farm payrolls figures coming in ahead of expectations in both January and February, with leisure and hospitality claiming the bulk of the new jobs added. In the markets, unsurprisingly it was the indices dominated by technology and internet retail names which bore the brunt of the losses, down -8.5%. As with the UK, notable positive contribution came from the energy sector, whilst communication services, consumer discretionary and information technology were the biggest detractors. Factors dampening investors' desire to hold onto growth-oriented sector stocks were the continued pressure on relatively high valuation multiples and the increased prospect of higher interest rates earlier in the quarter. The latter, in theory, poses more of a threat to some of the key metrics used when determining future prospects for growth stocks, such as longer-term cash flows and sales growth. In contrast, value stocks, such as energy and financials are more likely to be judged on their present cash flow generation credentials. As the wider economy continued with its post-pandemic reopening, another consideration for investors was whether the so-called "stay at home" technology names that had grown rapidly during the periods following the outbreak of the pandemic would be able to continue to do so in such vein. The renewed prospect of fresh peace talks in Ukraine and the generally robust corporate earnings announcements towards quarter end meant that, despite the selloff in the technology sector, the US equity market was still the best performing major region after the UK.

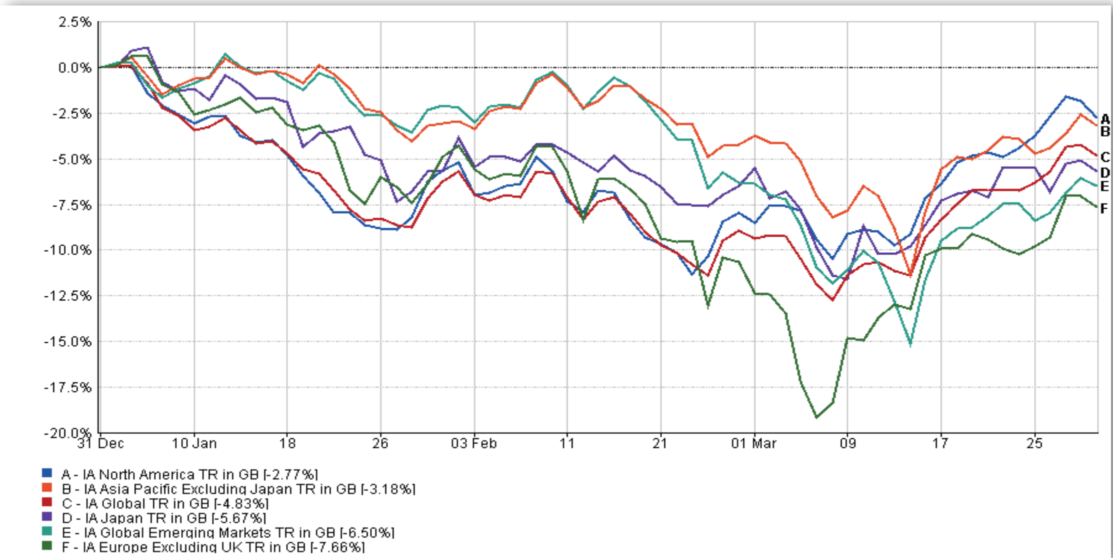
European equities were the worst performer during the period. The region is heavily reliant on both oil and natural gas imports from Russia, accounting for more than a third of its total fossil fuel energy supply. The conflict has had a significant impact on what were already volatile energy prices, adding further to the rising cost of living. Whereas the European Central Bank (ECB) have thus far resisted pressure to raise interest rates, the European Commission did announce largescale plans to drastically reduce Russian gas imports by 65% by year-end. Part of this is likely to mean a greater emphasis on more domestic and renewable energy sources, such as wind and solar. Despite facing the biggest conflict and refugee crisis since the Second World War, wider economic data remained relatively positive. While overall coronavirus infection rates remain high, the reopening of the broader economy has continued and labour markets remained robust throughout. Notably, unemployment in the region has recovered to surpass pre-pandemic levels. Both Services and Manufacturing PMI readings remained positive throughout the quarter too. In the markets, the worst performing indices were those in Austria, Ireland, Sweden, Finland and Hungary, which all registered double digit contraction over the quarter, whilst the more influential French and German markets recorded losses of -6.99% and -9.45% respectively. Germany is particularly dependent on Russian energy and reacted to February's political events with two significant announcements. Firstly, German Chancellor Olaf Scholz announced that they will be pulling out of the Nord Stream 2 pipeline – a joint venture with Russian state-backed gas firm Gazprom, and secondly that they will be committing more than €100 billion towards improving the country's dated defence system.

Japanese equities also suffered, although as per last quarter, weakness was again exaggerated in sterling terms by exchange rate movements. We reported last time that the

Source: Financial Express Analytics. Performance figures are calculated from 01/01/2022 to 31/03/2022 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.

economy had appeared to stabilise following prolonged spates of widespread lockdowns and that industrial output had improved as a result. This was partly down to, albeit later than most other developed nations, largescale efforts to vaccinate their ageing population. Whilst the situation broadly remained under control throughout the period, new case numbers and related deaths did reach a new peak in February, which has muted further recovery. Long-term supply constraints also continued to hamper growth in important areas of the market, such as the automotive production industry. Like other major economies, Japan also felt the effects of the geopolitical events unfolding in Eastern Europe. Whilst not relying as heavily on Russian energy supply as Europe, Japan's energy self-sufficiency rate is low and both the Japanese government and some of the largest Japanese corporates are long-term investors in various joint energy projects with Russia. Inflation levels remained higher than normal but low relative to other regions, partly thanks to government support in the form of subsidies aimed at supporting households cope with higher energy prices. Companies have also thus far opted to absorb a large proportion of the rising cost of materials themselves, rather than passing them on to consumers. There is a fear that this can only be sustained for so long however, and investor sentiment towards this traditionally economically sensitive region waivered as the quarter progressed.

Q1 proved to be a tough period for China. Given that, according to the government-affiliated think tank, the China Academy of Information and Communications Technology, circa 40% of Chinese GDP is derived from the digital economy, January's sell off from some of the largest technology names in the US had a detrimental effect on both markets in Shanghai and Hong Kong. In our recent Investment Team Podcast, The Market Matters, we also reported that the recent Chinese regulatory crackdown had further damaged sentiment towards the sector. Last quarter we mentioned that property developer Evergrande had defaulted on its debt payments. Whilst the group remained troubled throughout the quarter, the news was somewhat overshadowed by both geopolitical events and the re-emergence of coronavirus in several parts of the country. Concerns surrounding new outbreaks of omicron also saw the government enforce their 'zero-Covid policy' in several major cities, which led to the shutdown of multiple manufacturing factories, further fuelling global supply chain disruption. Sentiment appeared to improve towards the end of the period, following confirmation of a 5.5% GDP growth target from the National People's Congress as well as the renewed optimism for peace talks in Ukraine. That said, volatility remained high throughout, with tension surrounding new regulatory disclosure demands for all US-listed Chinese stocks dominating headlines in the final days of the quarter.



01/01/2022 - 31/03/2022 Data from FE fundinfo 2022

China aside, January was relatively uneventful for Emerging Market equities. Sentiment soon turned sour as a result of Russia's invasion of Ukraine and despite the vast divergence between individual emerging economies, investors opted to shun the asset class more broadly with mass outflows evident during late February and March. Tough economic sanctions inflicted on Russia, including the removal of major Russian banks from the international payment system, SWIFT, led the Central Bank of Russia (CBR) to increase interest rates to as high as 20% in an attempt to stem cash withdrawals among the public. Widespread store closures and a commitment to stop trade in Russia from some of the biggest companies in the world also contributed towards a two-week long market closure. The government also stepped in to rescue the rouble, which had nigh on collapsed during February. In response, the CBR announced at the end of the quarter that all European payments for energy must be paid in the local currency, rather than in euros or dollars.

Elsewhere, the Indian market delivered marginal growth of 0.7%, whilst notable positive contribution within the asset class typically came from those with net commodity exports. This included South Africa and Middle Eastern nations, as well as Latin American nations such as Brazil and Venezuela – the latter also continued reporting some of the highest inflation rates of any nation in the world.

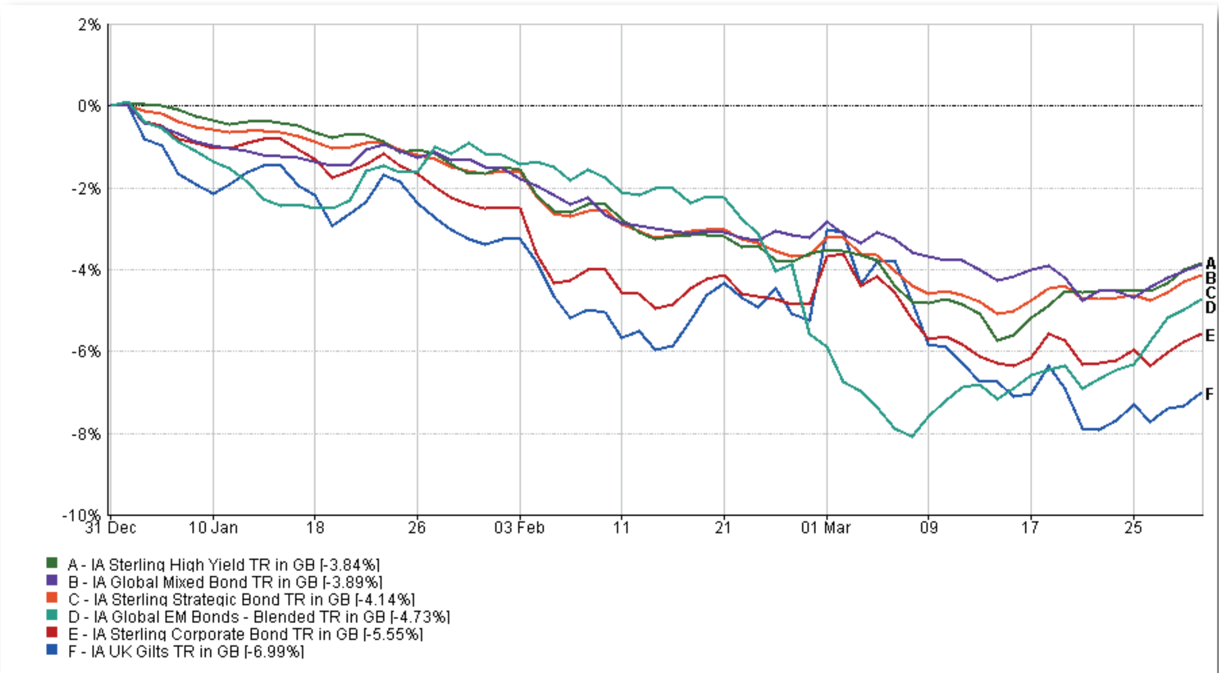
QUARTERLY REVIEW

Q1 2022: 1st January to 31st March

Fixed Interest	Three Month Total Return %
IA Sterling High Yield	-3.84%
IA Global Bonds	-3.89%
IA Sterling Strategic Bonds	-4.14%
IA Global Emerging Market Bonds	-4.73%
IA Sterling Corporate Bonds	-5.55%
IA UK Gilts	-6.99%

It also proved to be a volatile quarter for bond markets. Fixed Income as an asset class generally suffered during January as the renewed prospect of economic recovery saw investors opt for riskier equity markets. Government bonds sold off as central banks began to change their tone on the prospects of monetary policy tightening for the year ahead, with the US particularly impacted. Despite the wider bond market briefly benefiting from a shift towards traditional 'safe haven' asset classes in the wake of February's events in Ukraine, rising inflation continued to weigh on investor sentiment as the dominant theme throughout the period. The shift to a more hawkish stance from the Fed eventually came to fruition during March, when interest rates were hiked by 25 basis points, with indications of a further six raises over the coming 12-18 months. The yield of the US 10-year Treasury finished the period at 2.35%, with its two-year counterpart at 2.33%. The two briefly inverted for the first time since 2019 in late March, which is typically reflective of investors' expectations for a decline in longer-term interest rates – something associated with a recessionary environment.

Closer to home, the yield of the UK 10-year equivalent increased by 64 basis points to 1.61%. In response to soaring inflation, the Bank of England (BoE) raised interest rates for a third time since December, to 0.75%. After months of adopting a more dovish approach, the rhetoric from ECB President Christine Lagarde changed, as she no longer refused to rule out rate rises during 2022. Corporate bonds also recorded significant losses. The income element from High Yield bonds coupled with the fact that their relatively higher risk profile leant itself well to investors' appetite amid growing recovery expectations early in the quarter saw them generally outperform their higher quality counterparts (Investment Grade). Emerging Market debt instruments generally mimicked their equity equivalents, with the best performers coming from Latin America. Investors remained wary of convertible bonds (that is those with the embedded option to convert from debt to equity) given the heightened volatility and equity returns profile.



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Commercial Property

IA UK Direct Property	2.91%

The UK commercial property market continued its recovery from last year throughout the quarter. Whilst the growth rate slowed compared with Q4 2021, overall investor sentiment towards the sector remained broadly positive – the exception being Real Estate Investment Trusts, which as listed equities, were negatively impacted by stockmarket volatility. As a major beneficiary of the easing of lockdown restrictions and social distancing measures in January, there were signs that the property market recovery was broadening out into sectors such as office and retail. The government's 'living with Covid' rhetoric did lead to a rise in footfall both in shopping centres and in offices, although consumer spending remained below pre-pandemic levels. Housing construction and commercial activity both increased during February, aided by a slight easing of supply constraints – a welcome tonic amid a backdrop of rising material costs. The resilience of prime rents in the office sector reflects the demand for high quality premises, whereas rents in the traditional retail sector remained under pressure. Demand for industrial and logistics premises remained strong throughout the quarter, with the former accounting for 30% of all commercial property transactions in 2021 – significantly higher than the 19% five-year average. Transactions in the retail-warehousing sector also grew at a similar pace.

Commodities

Viewing the asset class as a whole, the S&P GSCI rose a staggering 30.3%, with returns spread evenly throughout the quarter. Even before the situation in Ukraine escalated in February, factors such as supply chain disruption and high inflation meant that energy prices were already buoyant. It is estimated that Russia and Ukraine were due to contribute between 25%-30% of the world's exported wheat supply and circa 20% of the world's corn supply in 2021-2022, as well as contributing significantly to the supply of other agricultural commodities. Wheat prices have risen by circa 30% since the outbreak of the conflict. Russia is the world's second largest exporter of crude oil to global markets. With supply already tight post-pandemic, it means that the ability for other OPEC members to increase supply is difficult. As a result, the price of Brent Crude Oil increased by circa 35% to finish the quarter at the $105 per barrel level. Russia also currently holds roughly a quarter of the world's reserves of natural gas, which also experienced a sharp price rise of circa 50%. Our Investment Director, Amanda Tovey, recently wrote a commentary for our website, which explored the wider impact of the subsequent invasion on energy and agriculture.

Industrial metals also moved higher during the quarter, with supply chain disruption and volatility both remaining high – the latter leading to more than one temporary suspension in nickel trading. Precious metals such as gold, silver and platinum, recorded positive single-digit gains during the quarter, helped by an increased desire to own so-called 'safe haven' assets – particularly those renowned for offering an element of inflation protection. The exception was palladium, which experienced a volatile but positive quarter, returning circa 15%. Along with South Africa, Russia are the joint largest producers of palladium in the world by some margin.

Cash

Given the economic backdrop and the resultant upward move in fixed income yields, the case for holding cash relative to bonds strengthened during the quarter. 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, Q1 2022

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Registered Address: C/o Saffery Champness, St Catherine's Court, Berkeley Place, Bristol, BS8 1BQ
Correspondence Address: The Old Chapel, 14 Fairview Drive, Redland, Bristol BS6 6PH Tel: 0117 452 1207
Web: www.whitechurch.co.uk