Whitechurch Securities Ltd
WEALTH MANAGERS

Quarterly Review

1st January 2021 - 31st March 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.

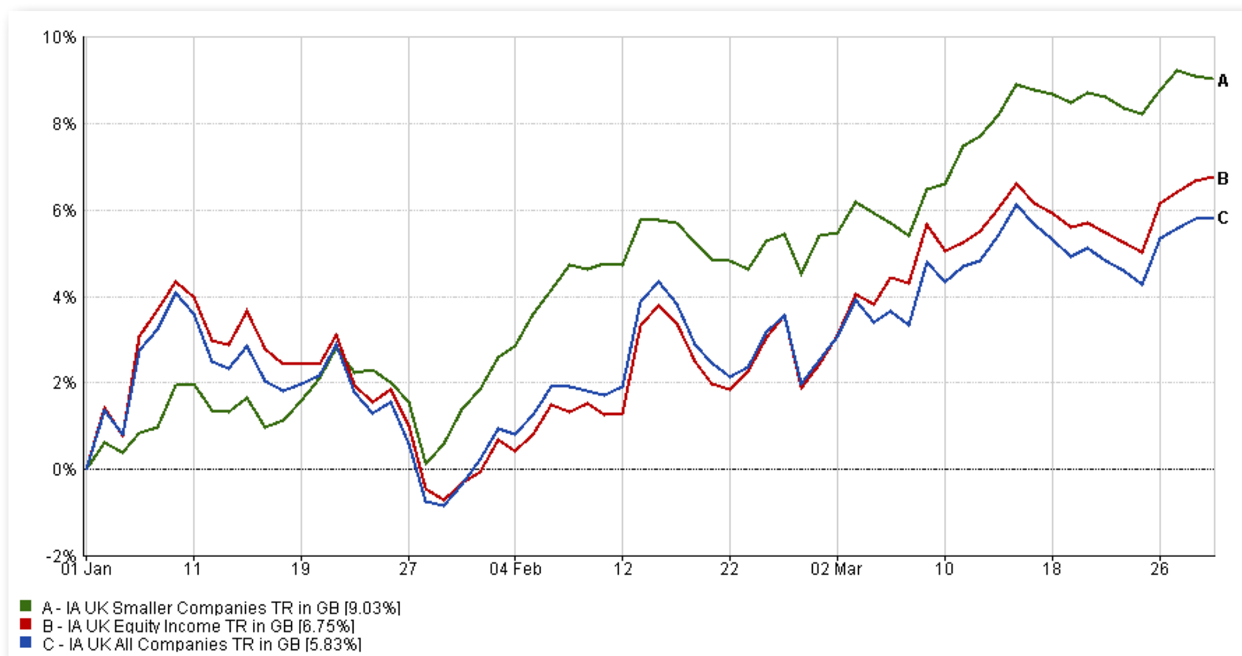
The UK market rose steadily over the quarter as the nationwide vaccination effort gathered pace. The resultant decline in overall infection case numbers and the continuation of last quarter's rally in value-orientated stocks acted as key contributing factors for the strong returns. Another major driver during the period were the further announcements to expand government stimulus in the US, both in January after the Democrat's victory in Georgia and again in March. As with last quarter, it was again small and mid-cap stocks, which tend to be more domestically focused, that outperformed their large-cap counterparts. On a sectoral basis, the most economically sensitive areas of the market were the main contributors, with strong returns from the materials, energy and financial sectors. Notably within the latter, banks were a beneficiary of the improved global economic outlook, steepening yield curve and better-than-anticipated corporate results. Sterling strengthened versus most major currencies during the quarter, after December's trade deal with the EU.

UK Equities	Three Month Total Return %
IA UK Smaller Companies	9.03%
IA UK Equity Income	6.75%
IA UK All Companies	5.83%

After the sharp rally witnessed towards the end of 2020, the year began on a more subdued note, with January proving to be a relatively flat month for UK equities. The hopes raised by November's decisive US presidential election result and EU trade deal announcement were somewhat sidelined as the UK entered its third national lockdown on 6 January. Domestic economic sentiment suffered as a result, as indicated by the decline of the UK Composite Purchasing Managers' Index (PMI), which fell sharply from 50.4 to 40.6, the lowest level since June 2020. However, there was some comfort provided towards the end of the month as figures published by the government highlighted the progress of the vaccination rollout. By the end of January, the UK had administered a first dose to 13.7% of the population, second in the world only to Israel.

The market rotation in favour of value and small caps (away from growth) continued into February, with the UK being a major beneficiary. The majority of the performance came from small and mid-cap stocks, with the FTSE Small-Cap Index and FTSE 250 returning 4% and 3.4% during the month respectively, compared to 1.2% from the FTSE 100. Broadly speaking, further progress of the vaccination programme and dwindling new infection numbers provided enough of a boost to sentiment to overcome fears from any associated supply and logistical issues or detections of new virus variants. February also featured two significant announcements from Prime Minister Boris Johnson – a proposed 'road map' to a full reopening of the economy, as well as a full inoculation target for the adult population by July. Notably, the former, which included a four-stage timeline spanning from March to June, outlined the reopening of non-essential retail and outdoor hospitality in England from 12 April.

Towards the end of the quarter, improving consumer confidence and substantial pent-up demand for consumer spending led to a major improvement of the UK Composite PMI, with March's reading at 56.6. The movement, aided by a strong recovery in the UK's service sector, signified the quickest month-to-month rate of economic expansion since August 2020. Corporate activity, such as mergers and acquisitions, and the restoration of dividend payments also bolstered the case for UK equities during the quarter, with rising interest rate expectations also lending further support to the 'value' recovery. In a period that saw UK Equities significantly outperform all other major indices in GBP terms, a forecast published by the International Monetary Fund (IMF) indicated that UK economic growth is in line for a 4.5% and 5.0% increase in 2021 and 2022 respectively – more than the 4.3% and 3.1% average projected for advanced economies. The vaccine effort continued to gather pace too. As at the end of the quarter, 45% of the UK population had received at least one dose of approved vaccine – the highest of any developed nation by some margin.

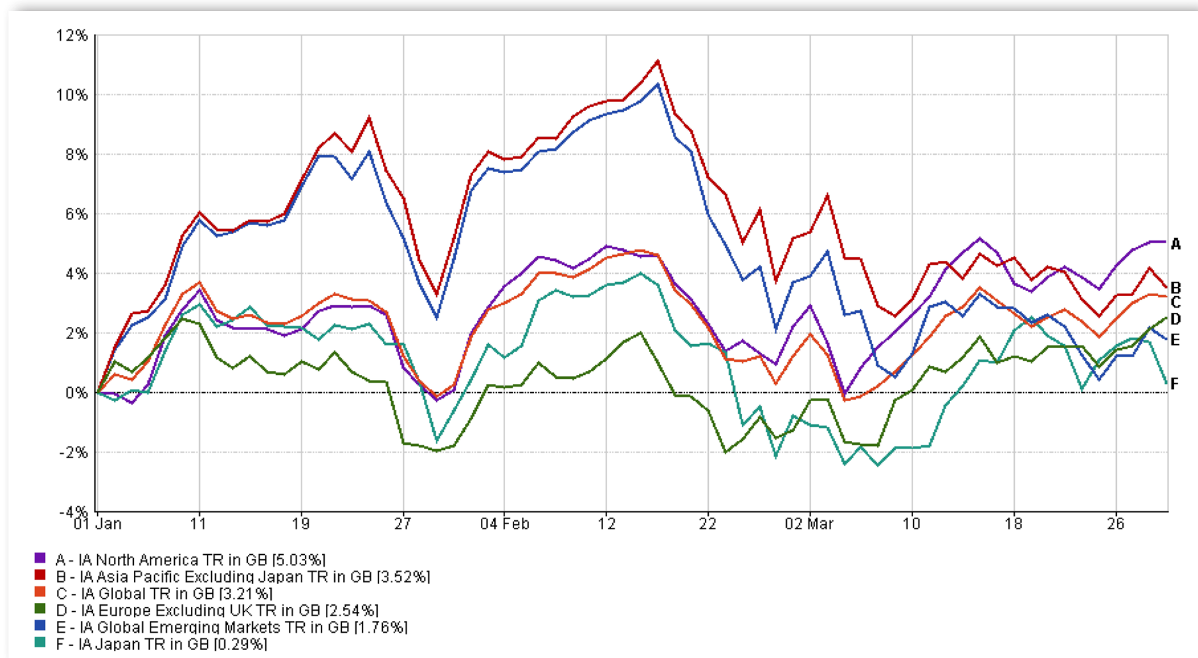


01/01/2021 - 31/03/2021 Data from FE fundinfo 2021

QUARTERLY REVIEW

Q1 2021: 1st January to 31st March

Global Equities	Three Month Total Return %
IA North America	5.03%
IA Asia Pacific, excluding Japan	3.52%
IA Global	3.21%
IA Europe, excluding UK	2.54%
IA Global Emerging Markets	1.76%
IA Japan	0.29%



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Global equity markets also rose during the quarter. As in the UK, progress with vaccine development, further US fiscal stimulus and the general reopening and associated economic recovery acted as the main drivers throughout the period. There were also similar themes, with both lowly-valued parts of the market and smaller companies typically faring better than their larger or more growth-orientated counterparts. In a period that marked the one-year anniversary of the global pandemic, some major global indices shrugged off residual adversity to reach new record highs. Broadly speaking, the rate of recovery in equity markets has been quite remarkable. For example, in America, the S&P 500 registered an increase of 54% between the 31st March 2020 and the 31st March 2021. However, fears of overstretched valuations, particularly of the technology stocks that performed so well during 2020, and the continued rotation into value-orientated companies curtailed gains.

After a turbulent period at the beginning of the quarter, US equity markets stabilised to return single-digit gains by the end of March. In January, retail share trading platform Robinhood facilitated both a meteoric rise and fall of the US video game store GameStop, among several other technology stocks. The activity, which is believed to have emanated from the chat forum website Reddit, was eventually halted, but not before government intervention and costing several large hedge fund managers billions of dollars in the process. Elsewhere in the US, fears of eventual monetary tightening triggered a sharp sell-off in government bonds, with US Treasury yields experiencing their greatest quarterly increase since Donald Trump's 2016 election victory. The period was bookended by President Biden's aforementioned fiscal stimulus announcements, with c.$1.9 trillion promised in January and an additional pledge of c.$2 trillion of infrastructure spend in March, although the latter is still to be approved by Congress. However, given the sheer scale of the stimulus, investors welcomed the news with a cautionary note. The fear is that when combined with the likely additional spending from pent-up private savings, it could trigger an excessive increase in demand leading to inflation, which, in turn could damage prospects for equity markets by forcing the Federal Reserve to tighten monetary policy. As with the UK, those domestically focused and small-cap stocks fared best during the period. On a sectoral basis, energy, financials and industrials were the main contributors, with technology stocks and consumer staples the notable laggards. Despite the logistical challenges presented by the scale of the country, some 29% of the US population had received at least one dose of vaccine by the quarter-end – a number far higher than any continental European country. The IMF believe that the US economy will grow by 5.1% during 2021 and 2.5% during 2022.

European equities also rose during the quarter, despite being restricted by comparatively pedestrian vaccination progress and supply issues. This was helped by a strong rebound in the demand for global goods, as well as a substantial improvement in manufacturing output. March's European manufacturing PMI peaked at an all-time high of 62.5, in contrast to its services industry counterpart, which remained below 50. Incumbent national lockdowns and curfew restrictions in much of central and western Europe have hampered plans to fully reopen economies and have cast doubt over the feasibility of welcoming visitors from abroad this summer. The common theme of previously out-of-favour areas of the market such as energy and financials being among the biggest contributors was also true in Europe. Consumer discretionary stocks also performed well. Less cyclical areas of the market, such as property and utilities were among the worst performers. Key political

Source: Financial Express Analytics. Performance figures are calculated from 01/01/2021 to 31/03/2021 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.

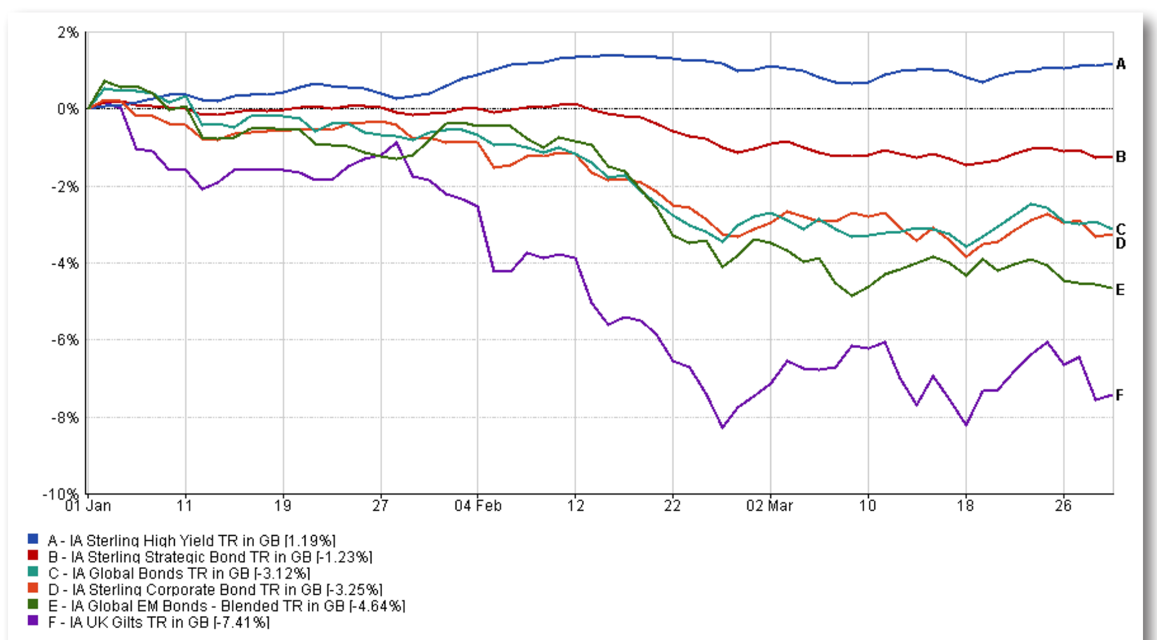
events during the quarter saw the resignation of Italian Prime Minister, Giuseppe Conte, and the announcement of the European Recovery and Resiliency Facility. The latter still needs to be approved by member states before it can proceed. In the words of the European Commission, the aim of the Facility is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The facility will make €672.5 billion in loans and grants available to support reforms and investments undertaken by member states, who will each need to submit their plans independently.

Japanese equities were another beneficiary of the recovery in demand for global goods, with financial stocks benefiting from steeper yield curves in fixed income markets. Despite performing broadly in line with global peers over the quarter, the significant devaluation of the yen versus sterling has affected returns for UK-based investors. Better than anticipated corporate earnings and the recovery of cyclical areas of the market, particularly those with a value and quality bias, both acted as tailwinds during the quarter. The additional economic measures in the US also helped aid the recovery of major Japanese indices, in a period which saw the Nikkei 225 reach its highest level in 30 years. That said, a rise in demand for technology solutions and an increase in online purchases have led to supply shortages in some sectors. The period also featured a disappointing announcement from the Japanese government, confirming that international spectators will not be allowed to attend this summer's Olympic Games, should they go ahead. Still, they have been relatively successful in dealing with the pandemic, despite the sluggish rollout of the vaccination so far. March saw the state of emergency in the Tokyo region removed, as new case numbers continued to fall. Investors will be watching the slow reopening of the economy with interest as restrictions continue to ease over the coming months.

After a strong January, performance of Emerging Market equities slowed during February and March to return 1.76% overall during the quarter (in sterling terms). Broadly speaking, vaccine rollout programmes lagged equivalents in developed markets, as new infection numbers in Brazil and India increased. Another headwind came in the shape of the aforementioned increase in US Treasury bond yields, which ramped up the pressure on traditional growth areas of equity markets and also saw several emerging market currencies weaken against the dollar. The best performing region during the period was Chile, buoyed by the strength of its copper industry. In a reversal of fortunes, China was among the detractors for the period, along with Brazil and Turkey. The recent increase in real US Treasury yields has put pressure on the more 'risk-on' cyclical areas of the market and has also increased the strength of the dollar – traditionally a negative for sentiment towards emerging Asian stocks. As a result, Chinese equities experienced a sell-off towards the end of the quarter, with growth, technology, and momentum stocks being the most affected. Despite this, and prospect of tighter domestic policy, foreign direct investment into China during January and February was c.31% higher than in the same period last year.

Fixed Interest	Three Month Total Return %
IA Sterling High Yield	1.19%
IA Sterling Strategic Bonds	-1.23%
IA Global Bonds	-3.12%
IA Sterling Corporate Bonds	-3.25%
IA Global Emerging Market Bonds	-4.64%
IA UK Gilts	-7.41%

Continued vaccination programme success and largescale economic stimuli have led investors to raise their expectations for inflation and subsequent interest rate rises. This shift came despite messaging from the Federal Reserve that it would prefer to see the economic recovery entrenched, and unemployment significantly lower, before tightening monetary policy. In effect investors believe that higher inflation will force the Fed to shift policy earlier than it currently envisages. The steepening of the yield curve was reflective of the increasing expectation of a stronger global outlook. The period, the second worst quarter since 1980 for the performance of US Treasuries, saw the yield of the US 10-year Treasury rise from 0.91% to 1.74%. Closer to home, the yield of the UK 10-year equivalent increased by 65 basis points to 0.88%. In continental Europe, where the rollout of vaccination programmes has been slower, there were also, albeit more modest, increases. In Italy, the 10-year yield increased from 0.52% to 0.63%, in Spain from 0.06% to 0.34% and in Germany from -0.57% to -0.33%. Of the major nations, Japanese Government Bonds provided the best returns during the period.



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Corporate bonds generally outperformed government bonds, with High Yield being the biggest contributor. Their relatively higher risk profile leant itself well to investors' appetite amid growing recovery expectations. The highest quality corporate bonds (Investment Grade) were the most impacted by the rise in yields and finished the quarter with negative returns. The quarter proved to be a volatile period for both corporate and municipal bonds, leading to several market dislocations. For example, the hunger to raise cash saw some investors selling their most liquid positions in order to reallocate towards short-term treasuries. Despite the significant relative outperformance by equity markets during the period, convertible bonds (that is those with the embedded option to convert from debt to equity) did not participate as investors may have expected. This is largely because convertible bond markets have a sizable presence of Information Technology and growth companies – both laggards in the recent rally.

Commercial Property

IA UK Property	0.31%

In last quarter's write up we discussed the positive shift in sentiment towards the property market as a result of vaccine news. This was highlighted by the increase in several REIT share prices and the re-opening of several open-ended property funds which had previously been closed due to market conditions. As at 23rd February, 74% of all UK commercial rent obligations due in Q1 2021 had been met, reflecting a -10% year-on-year decline compared with the same point in 2020's rent cycle. On a sectoral basis, the most prompt rent collections have occurred in industrial property, closely followed by office space. Unsurprisingly, the slowest rate came from retail tenants. Broadly speaking, prime yields remained stable during the period, although there is an expectation that pressure on sectors popular with investors throughout the pandemic, such as logistics and food-store warehousing, will tighten over the course of the year. Given it is not reliant on the success of the high street per se, the retail warehousing sector has seen an increase in activity during the quarter. As with equity markets, the success of the reopening of the global economy will be fundamental to dictating the property market over the coming periods.

Commodities

Viewing the asset class as a whole, the S&P GSCI rose 13.5% during the quarter, with the majority of the returns occurring in January and February. As per last quarter, industrial metals performed strongly, as the positive vaccine news raised expectations for a global recovery. Specifically, there were strong returns from both aluminium and copper – the latter being a particular beneficiary of the ongoing push towards a lower carbon world, given its versatility of usage. Energy was the biggest contributor to the index overall, driven by a strong period for both Brent Crude Oil and unleaded gasoline. The former experienced a gain of 25%, to $64 per barrel. In the agricultural sector, the price of corn finished the quarter at its highest level since 2013. Precious metals proved to have another mixed quarter, as investors sold off some of their more liquid assets. The price of gold fell 10.6% to finish the quarter at $1691/oz, with silver also finishing 8.2% lower. The price of platinum rose by 10% while the price of palladium rose by 4.5%.

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, Q1 2021

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