Whitechurch
Securities Ltd
WEALTH MANAGERS

Quarterly Review

1st October 2019 - 31st December 2019

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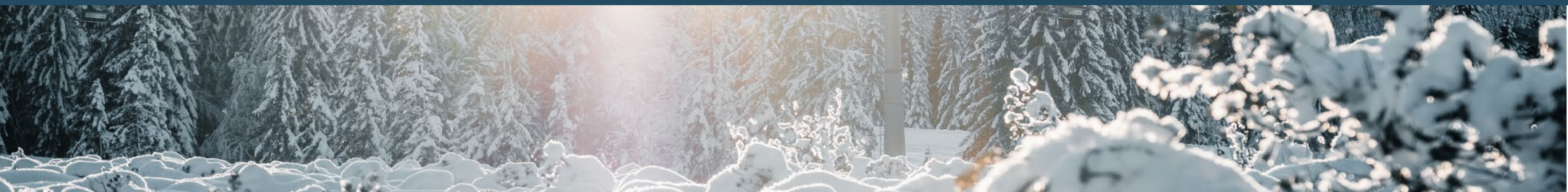


Welcome to the Whitechurch quarterly investment review. This review covers the key factors that have influenced investment markets over the past quarter and the Whitechurch Investment Team's current views and broad strategies being employed.

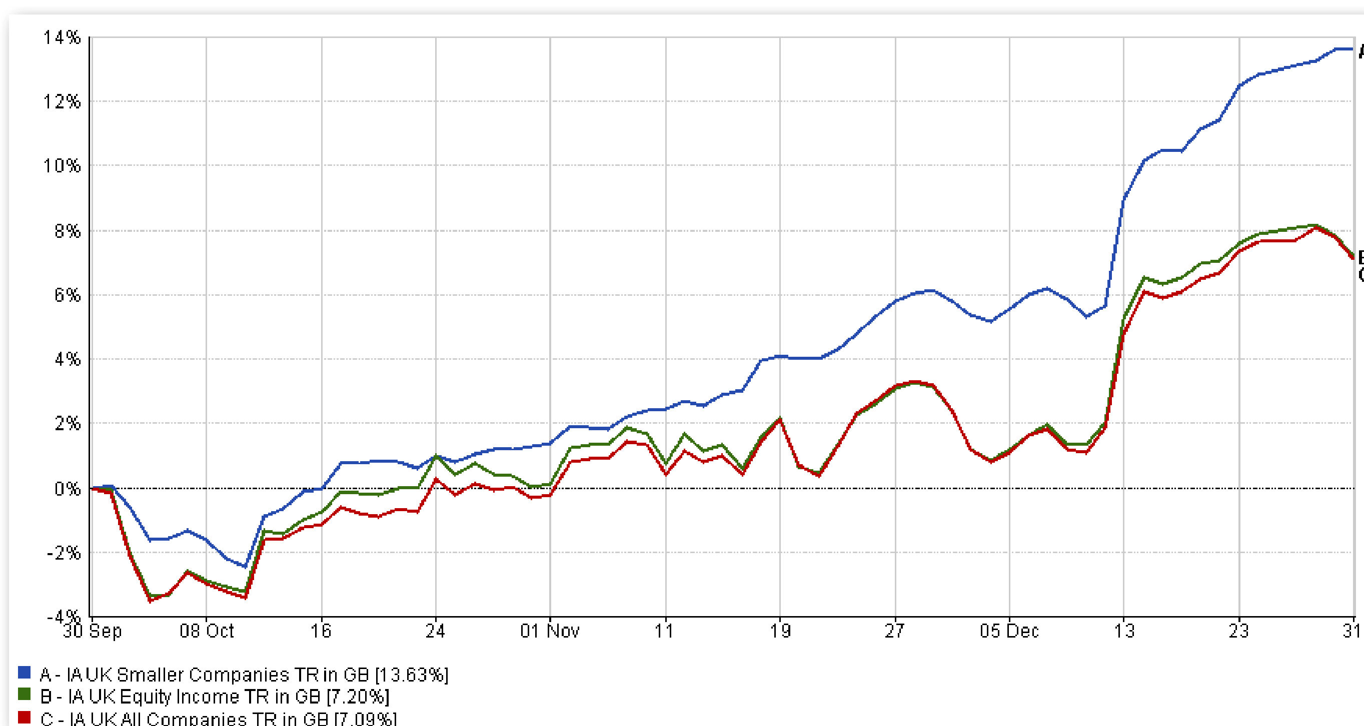
The UK market delivered a large positive return in the last quarter. The more domestically-focused mid and small-cap stocks outperformed large-cap stocks, politics was the main driving force behind this performance as two events appeared to greatly reduce the uncertainty faced by investors. To begin with, in October, the government succeeded in negotiating a revised Withdrawal Agreement with the EU. This was then followed, in December, by the decisive victory of the Conservatives in the General Election. With a majority of 80, the new government quickly moved to ensure that the EU (Withdrawal Agreement) Bill started its passage through Parliament, ahead of the intended withdrawal date of 31st January 2020.

UK Equities	Three Month Total Return %
IA UK All Companies	7.09%
IA UK Equity Income	7.20%
IA UK Smaller Companies	13.63%

Statistics released, during the period, continued to paint a picture of a sluggish economy. In Q3, UK GDP grew by just 0.3% and the Office of National Statistics (ONS) commented that, "the underlying momentum in the UK economy shows some signs of slowing". Consumer spending appeared to be under pressure with retail sales dropping sharply in November, for the fourth month in a row. One area of continued strength for the UK economy was the labour market, with the employment rate reaching a new record high of 76.2% in the three months to October. Over the same time period average weekly earnings rose by 3.5% compared to the same period a year ago, although this was down on the 3.9% growth rate recorded in the summer.

The Bank of England chose to leave interest rates unchanged at 0.75% at its December meeting. The Central Bank said it expected gross domestic product to rise "only marginally" in Q4 but added that it predicted that growth would pick up in the spring assuming, "combined support from lower uncertainty, easier fiscal policy and somewhat stronger global growth". Survey evidence would appear to support expectations of a pick-up in economic activity, given that it shows consumers held off making large purchases (cars and household goods) while companies delayed approving significant new capital expenditure plans given the political uncertainly.

In summary, the reduction in investor uncertainty during the period provided a significant boost to UK equities. However, valuations remain below the levels prevalent in overseas equity markets. The UK market is also attractively valued compared to bonds, with a dividend yield of 4.1% compared to the 0.8% available from 10-year gilts. Naturally investor attention will now be focused on the forthcoming trade negotiations with the EU. If these can be successfully concluded, then further strong returns from UK equities are likely in 2020.

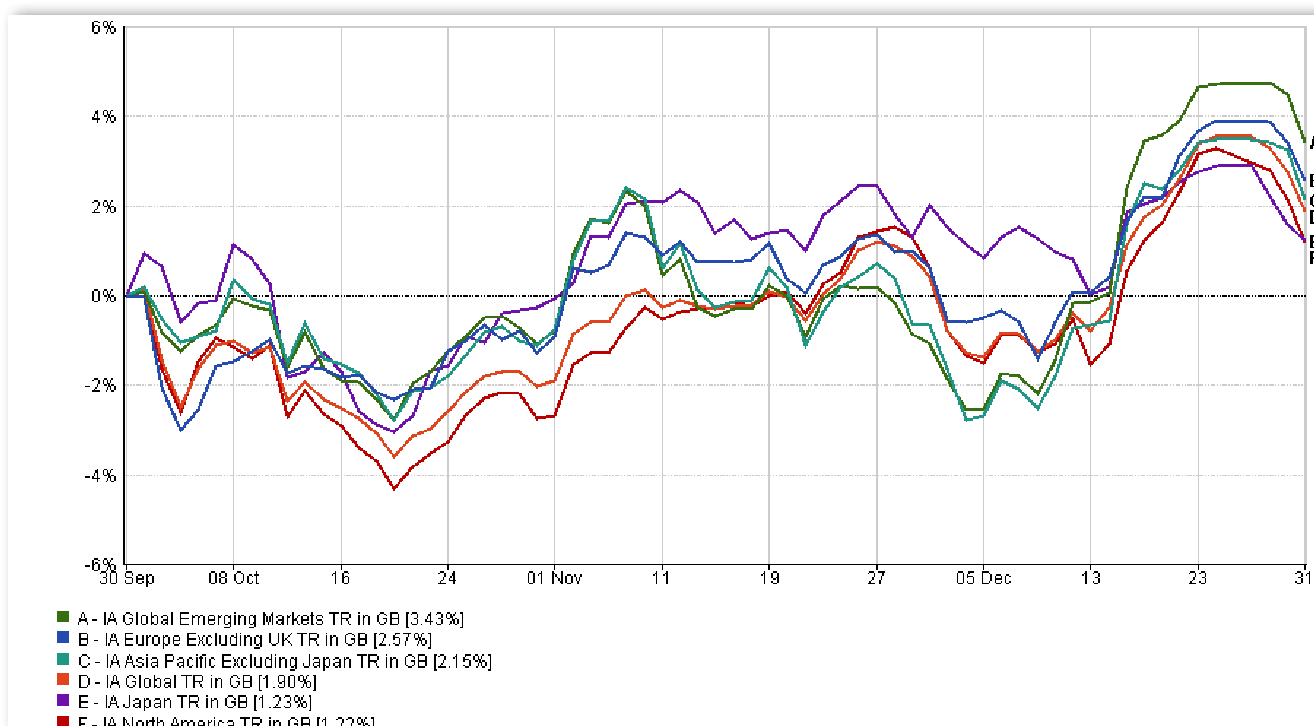


30/09/2019 - 31/12/2019 Data from FE 2019

QUARTERLY REVIEW

Q4 2019: 1st October to 31st December

Global Equities	Three Month Total Return %
IA Japan	1.23%
IA North America	1.22%
IA Global	1.90%
IA Europe, excluding UK	2.57%
IA Asia Pacific, excluding Japan	2.15%
IA Global Emerging Markets	3.43%



30/09/2019 - 31/12/2019 Data from FE 2019

US equities recorded another quarter of positive returns helped by signs of progress in the trade negotiations with China. In the middle of December, President Trump indicated that he had completed "a very good talk" with President Xi Jinping about the "phase one" trade deal between the two nations. Then, on 31st December, Trump tweeted that "phase one" would be signed on 15th January and that he would travel to Beijing at a later date to begin "phase two" talks.

In addition, there were signs of resilience in the US economy which helped allay investor concerns over the possibility of an imminent economic recession. Particularly noteworthy was the continued strength of the US labour market, as highlighted by the release of data showing that 266k jobs were created in November against expectations for a gain of 187k. In addition, there was an upwards revision to the initial estimate for Q3 GDP growth from an annualised rate of 1.9% to 2.1%. Jerome Powell, the Chairman of the Federal Reserve, in explaining the Federal Reserves decision to leave interest rates unchanged at its December meeting, commented that, "our economic outlook remains a favourable one, despite global developments and ongoing risks".

European equities also saw a positive return in the quarter. This was despite the release of mixed economic data. On the negative side, the manufacturing sector continued to weaken. For example, the IHS Markit Eurozone manufacturing purchasing managers' index (PMI) fell to 45.9 in December from 46.9 in the previous month – the 11th straight month of contraction. By contrast, the outlook for the service sector improved. The PMI index for services rose to 52.4 in December, from 51.9 in the previous month. In addition, investor sentiment in Germany, as measured by the Zew survey of financial market experts, rose to its highest level for two years.

Christine Lagarde, the new President of the European Central Bank, struck a more optimistic tone than her predecessor at her first rate-setting meeting in December. Lagarde rejected fears that the eurozone could slide into a prolonged period of low growth. She argued that, "downsides risks on the horizon are less pronounced" and pointed to growth in bank lending, to companies and households, of above 3% as proof that the central bank's expansionary monetary policy was working.

Japanese equities recorded another quarter of positive returns although they lagged most of the other major developed markets. Economic data continued to be relatively weak. Japan's industrial output fell by 0.9% in November following a downwardly revised 4.5% decline in the previous month, the largest month-on-month slump since the data series began in January 2013. Retail sales also remained under pressure with a larger-than-expected drop of 2.1% in November as consumer sentiment appeared to be negatively impacted by the consumption tax increase in October.

Source: Financial Express Analytics. Performance figures are calculated from 01/10/2019 to 31/12/2019 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.

At its December meeting, the Bank of Japan (BOJ) gave an upbeat assessment of the economy and maintained its short-term interest rate target at -0.1% by a 7-2 vote. At its previous rate review in October, the BOJ had outlined a more downbeat view of the economy.

Emerging Markets, as a whole, had a strong quarter. Russian equities enjoyed a particularly good performance helped by rising oil prices and interest rate reductions. More generally, sentiment in many emerging markets was boosted by hopes of a resolution to the US-China trade dispute. In addition, markets were supported by the ongoing impact from US interest rate cuts, and the associated weakening in the US dollar, which supported capital flows into emerging markets.

Chinese equities delivered a strong quarter of returns helped by the factors identified above. China's economy continued to expand, albeit at a lower rate than earlier in the year. Industrial production rose by 4.7% in November compared to growth of around 7% at the start of 2018. Retail sales growth of 7.2% was below the 8.5% rate seen in the first half of the year. However, investors were comforted by the release of stronger than expected PMIs in early December which appeared to indicate that growth may be stabilising. This news came as Tewoo Group, a commodities trader wholly owned by the city government of Tianjin, forced holders of a US-dollar bond to take losses on their investment. As Standard & Poor's noted this was "tantamount to a default", which would make it the first by a state-backed Chinese company since 1998. The People's Bank of China (PBOC) is aware of these financial strains and continued to take steps to inject liquidity into the financial system.

The Indian equity market delivered a solid local currency total return in the quarter. However, for sterling-based investors, the benefit of this was more than offset by the weakening of the rupee on the foreign exchange market. This partly reflected the aggressive interest rate cuts that have been implemented by the Reserve Bank of India (RBI) which have brought the repo rate down to 5.15%, the lowest level since March 2010. This came as the release of GDP data showed that growth declined to a six-year low of 4.5% in Q3. In its annual Financial Stability Report, the RBI suggested that there were signs that commercial banks, the main source of credit growth in the economy, were now on the path to recovery with a decline in non-performing loans due to the "extensive reforms carried out by the government".

Fixed Interest	Three Month Total Return %
IA UK Gilts	-4.42%
IA Sterling Corporate Bond	-0.10%
IA Global Bonds	-3.46%
IA Sterling High Yield	1.70%
IA Emerging Market Bonds	-2.31%

Signs of progress in the US-China trade negotiations as well as the release of more positive economic data, particularly in the US, led investors to move away from safe-haven bonds into riskier assets such as equities over the quarter. In this environment, sovereign bond prices suffered the most. For example, the IA UK Gilts sector returned - 4.4% over the quarter. In general, Corporate Bonds outperformed sovereign bonds. The IA Sterling Corporate Bond sector returned -0.1% in the quarter. One of the best performing areas of the bond market was the IA Sterling High Yield Bond sector which delivered a return of 1.7%. Non-sterling denominated bonds faced a significant headwind (for sterling-based investors) this quarter as sterling strengthened on the foreign exchange market.

Central bank monetary policy easing has been a key feature in bond market returns this year. However, in this quarter, the major central banks (US, UK, Eurozone and Japan) signalled a willingness to wait and see if the policy actions already taken would produce the desired results in the form of higher economic growth. For instance, in the US Jerome Powell indicated that after three interest rate cuts this year, the Federal Reserve believes that, "the current stance of monetary policy is likely to remain appropriate". The market now expects only one more interest rate cut from the Federal Reserve in 2020. Similarly, both the BOJ and ECB gave moderately upbeat assessments of their respective economies while they too pressed the pause button on monetary policy initiatives.

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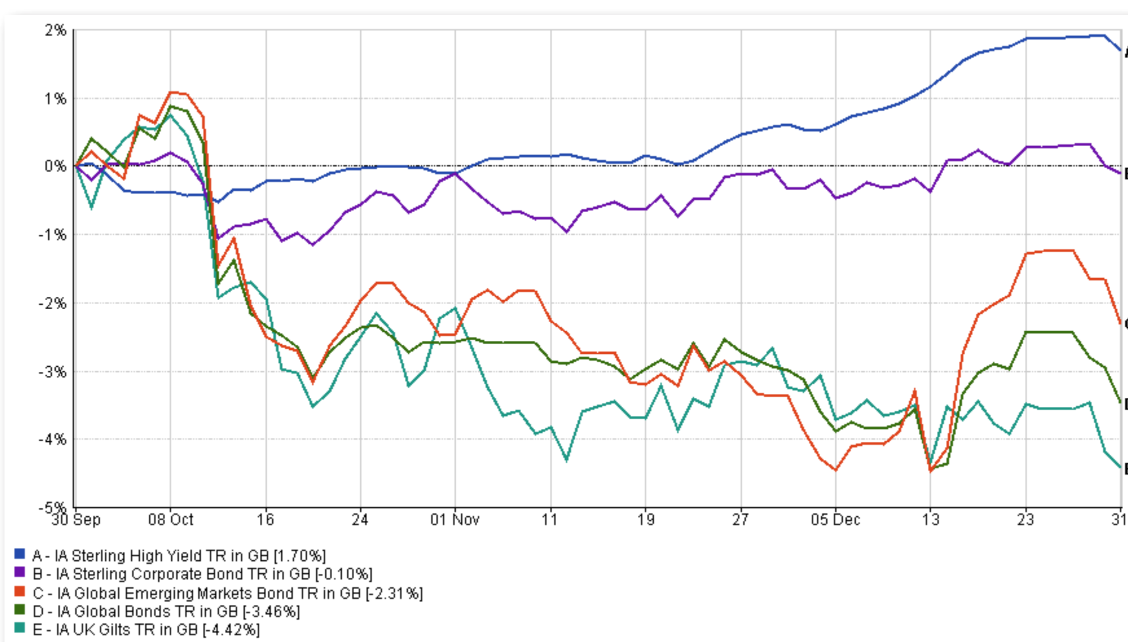

Commercial Property

IA UK Property	-0.40%

IA UK Direct Commercial property funds generated a small negative return this quarter. In general, the sector remained under pressure from a soft economy and the ongoing weakness in the retail space. These pressures, as well as some fund-specific factors (very high exposure to retail, high average lot size and low liquidity), forced M&G to suspend redemptions on one of its property funds. We do not own the M&G Property Fund and our property exposure is held through three smaller funds which are less likely to encounter the same issue because they have much lower exposure to retail (and higher exposure to industrial and regional offices), fewer legacy holdings, smaller lot sizes and higher liquidity levels.

Following the general election result, the political uncertainty that has negatively impacted the commercial property market has been partly alleviated. The new government has moved quickly to start moving the EU (Withdrawal Agreement) Bill through Parliament, ahead of the intended withdrawal date of 31st January 2020. Attention will then shift to the trade negotiations with the EU. Any sign that these will be successfully concluded could provide a boost to the property market.

Commodities

This was a weaker quarter for precious metals. In dollar terms, the gold price fell by 5% while the silver price declined by 2%. As in the case of the bond markets, this partly reflected reduced uncertainty over the US-China trade negotiations, signs that the US economy was not in danger of an imminent recession and signals from central banks that they would now pause policy initiatives rather than implementing further monetary policy stimuli.

Platinum Group Metals (PGMs) saw slightly better performance with the platinum price declining by just 0.3% while the palladium price gained 1.2%. These metals share some similarities with gold and silver, in terms of their use as potential store of value and in jewellery, but they also have important industrial uses especially in catalytic converters for vehicles.

Oil prices increased during the quarter as optimism rose over a potential US-China trade deal. Prices were squeezed higher in December following the announcement that the OPEC+ group of oil producers would implement larger-than-anticipated production cuts, in an effort to underpin the oil market and tighten supplies. As a result, the price of Brent Crude and West Texas Intermediate both ended the quarter up by circa 13%. Elsewhere, in the industrial metals space, the iron ore price fell by just over 1% while the copper price gained 8%. The latter is often seen as a bellwether for the global economy given its wide range of usage across many industries.

Cash

With bond yields remaining close to all-time lows, the opportunity cost of holding cash relative to bonds is still modest. However, in the UK, with inflation still running at just under 2%, cash deposits continue to offer investors negative real returns and remain unattractive for long-term investors, particularly given the higher level of dividend yields offered by equities. 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 2019

(Issued January 2020)

Changes to Stockbroking Fees

As a result of new CSDR regulations, our stockbrokers at Redmayne Bentley have introduced a Settlement and Compliance charge of £10.00 for each trade placed with them.

Any equity, investment trust and ETP deals attract stockbroking charges administered by the Broker.

Dealing charge	0.25%	Equities	£16.50 minimum*
	0.25%	Investment Trusts and ETPs	£20.00 minimum*
Settlement & Compliance charge		Equities, Investment Trusts, ETPs	£10.00*

Broker charges will vary depending on the size of the deal with charges being split between the number of clients dealing. The minimum charge for each individual transaction is stated above, although where possible transactions will be aggregated to reduce cost significantly.

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