Whitechurch
Securities Ltd
WEALTH MANAGERS

Quarterly Review

1st January 2020 - 31st March 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 started the year on a reasonably solid note. Survey data pointed to an improvement in business confidence following the Conservative Party's decisive victory in the general election in December. The UK formally left the EU on the 31st January and entered the one-year transition phase. However, equity prices started to weaken as concerns mounted over the outcome of the forthcoming EU trade negotiations as rhetoric on both sides suggested the possibility of a 'No Deal'. This issue was, however, soon overshadowed by the spread of the coronavirus epidemic beyond China's borders.

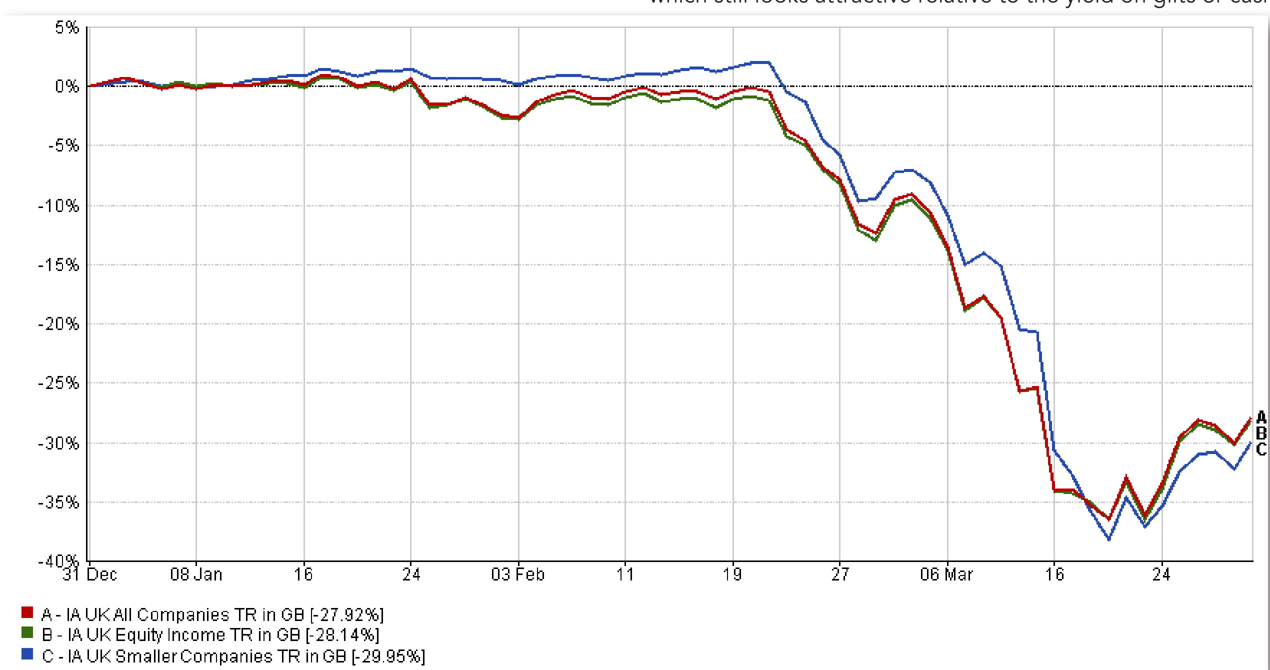
UK Equities	Three Month Total Return %
IA UK All Companies	-27.92%
IA UK Equity Income	-28.14%
IA UK Smaller Companies	-29.95%

News of the coronavirus outbreak first broke in mid-December. During January, most investors assumed that the disease, while likely to lead to hundreds of deaths in Hubei province in China, would be as limited as the SARS coronavirus epidemic of 2002-3, which resulted in 774 deaths globally. With this model in mind, investors anticipated that the economic impact from the epidemic would be limited to its direct impact on China together with some spill-over effects on international trade. However, by the middle of February, evidence mounted over the extremely virulent nature of the virus (how quickly it passed from person to person) and the number of reported cases outside China rapidly increased.

Most countries responded to the health emergency by restricting the movement and activities of their citizens. The first industries to be hit included travel, leisure and retail. In the UK, the government initially tried to limit policy interventions in the hope that the population would slowly gain 'herd immunity'. However, as the number of deaths rapidly mounted, amid fears that the NHS would be overwhelmed, the government introduced a full-scale lockdown, with all but 'essential' workers restricted to their homes. The result was that large swathes of the economy effectively ground to a halt. Outside of a few safe-haven sectors such as food retail, healthcare and consumer staples, where demand remained robust, many companies were forced to withdraw forward trading guidance and cancel dividend payments. In the case of banks, the cancellation of dividend payments was effectively mandated by the Prudential Regulatory Authority (PRA) of the Bank of England. In March, in a further negative twist, the oil price collapsed as OPEC, led by Saudi Arabia, failed to reach agreement with Russia on cuts in production, which were needed to offset falling demand for oil from China in particular. The UK market was struck particularly hard, by the fall in oil price, as the oil & gas sector accounted for 9% of the UK market compared to just 3% in Europe and in the US.

In response to the deteriorating economic environment, with the pound slumping to a 35-year low against the dollar, policy makers announced a series of measures in an attempt to offset the liquidity crisis in the corporate sector. The Bank of England reduced interest rates in two steps from 0.75% to 0.1%. It also announced it would restart its QE programme by buying another £200bn of bonds (to take the total held to £645bn). In addition, the Bank launched a new Funding Scheme to encourage lending by high street banks to small and mid-sized companies. These moves were complemented by a number of fiscal initiatives. At his first budget on 11th March, Rishi Sunak, the new Chancellor, announced additional spending of £30bn of which £12bn was allocated for the mitigation of the economic impact of the coronavirus pandemic. Later in the month, as the crisis deepened, the Chancellor announced £330bn of government-backed loans for businesses, a one-year moratorium on business rates and a commitment to pay 80% of staff unable to work, up to a maximum of £2,500 per month, if their employer retained them on their payroll.

In summary, the UK market was hit extremely hard by the coronavirus crisis. It is now expected that company dividends will be cut by more than 30% in 2020 before seeing some recovery in 2021, assuming the epidemic is under control by then. Even after these cuts, and following sharp share price falls, the UK market should be yielding around 4% which still looks attractive relative to the yield on gilts or cash.

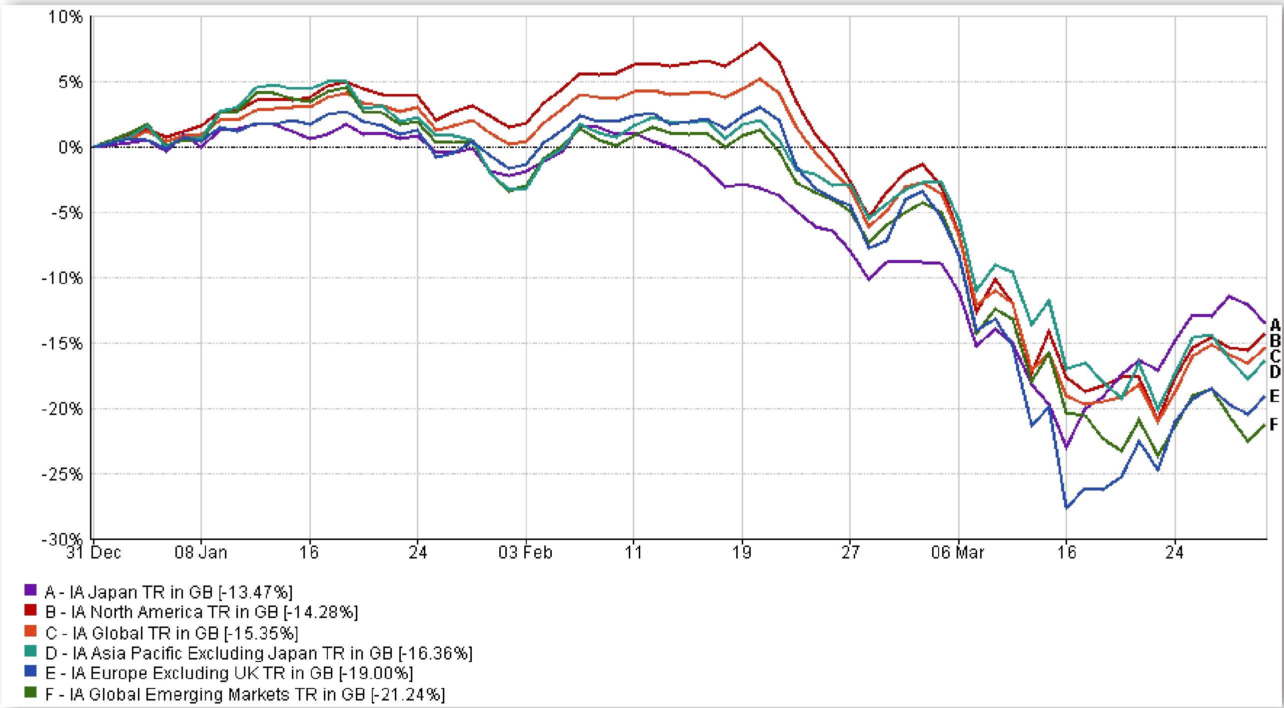


31/12/2019 - 31/03/2020 Data from FE 2020

QUARTERLY REVIEW

Q1 2020: 1st January to 31st March

Global Equities	Three Month Total Return %
IA Japan	-13.47%
IA North America	-14.28%
IA Global	-15.35%
IA Europe, excluding UK	-19.00%
IA Asia Pacific, excluding Japan	-16.36%
IA Global Emerging Markets	-21.24%



31/12/2019 - 31/03/2020 Data from FE 2020

Other equity markets followed a broadly similar pattern to the UK although the returns, in sterling terms, were not as weak partly due to the smaller exposure to the oil & gas sector (as already noted) as well as the impact from sterling weakness on the foreign exchange market. US equities had started the quarter on a positive note buoyed by the signing of 'phase one' of the new trade deal with China as well as generally encouraging news on the economy. The US equity market remained in positive territory until quite late in February when concerns over the spread of the coronavirus finally hit home. Initially President Trump had appeared to dismiss the epidemic as a non-US problem. However, following the spread of the virus in the US he was forced to backtrack and follow the advice of his medical experts in introducing restrictive measures, designed to save lives but at the cost of sharply curtailing economic activity.

In response the Federal Reserve moved quickly to cut interest rates, in two steps, to a target range of 0% to 0.25% and announced it would restart its QE programme by purchasing bonds. In addition, the Fed continued to take steps to boost liquidity in areas that were showing signs of distress such as repos, mortgage-backed securities, global swap lines, etc. These measures were also aimed at reducing the 'dollar shortage' internationally which had already pushed up borrowing costs in the world's de facto global currency. Near the end of the month, the US Senate passed a $2.2trn emergency relief package aimed at alleviating the effects of the escalating economic crisis. The package included direct cash payments to many Americans, expanded unemployment assistance, aid to states, healthcare facilities and other public services, support for the hardest-hit industries, and loans to small and medium-sized businesses that can be forgiven if they avoid layoffs.

European equities fell in the quarter. The coronavirus epidemic was initially focused on Lombardy which is the industrial heartland of Italy. However, the number of cases and deaths soon increased in other countries such as France and Spain. In Germany, the outbreak appeared to be more contained, possibly due to the large-scale testing programme that was rapidly organised by the government. However, the economic impact from the widespread lockdown measures was spread across the entire region. With signs of distress in financial markets, the ECB announced it would restart its QE programme by buying an extra €870bn of both government and corporate debt. There was also an attempt, through the EU, to co-ordinate fiscal action with the Italian government calling for the issuing of Eurobonds which would in effect share the financial burden, of alleviating the economic costs of the virus, across the whole of the EU. However, the German government resisted such steps and no agreement was reached, leaving countries to respond individually as best they could.

The Japanese market also fell during the quarter. At the start of the year the economy appeared to be showing tentative signs of recovery, from the impact of the earlier sales tax rise, with several PMI reports suggesting a move into expansion in January. A new agricultural trade deal with the US also came into force which, together with completion of 'phase one' of the US-China trade negotiations, suggested an improved outlook for international trade. However, the economy was soon hit by the spread of the coronavirus. Confidence in the government's ability to meet the challenge was undermined by the poor handling of the virus-hit Diamond Princess cruise ship, which docked in Yokohama in early February. Thus far the government's policy response

Source: Financial Express Analytics. Performance figures are calculated from 01/01/2020 to 31/03/2020 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.

to the epidemic has been limited and public criticism has increased. The monetary authorities were more active with the Bank of Japan announcing a further expansion in its QE programme as well as steps to help companies borrow from banks. Somewhat inevitably the Tokyo Olympics were postponed until 2021.

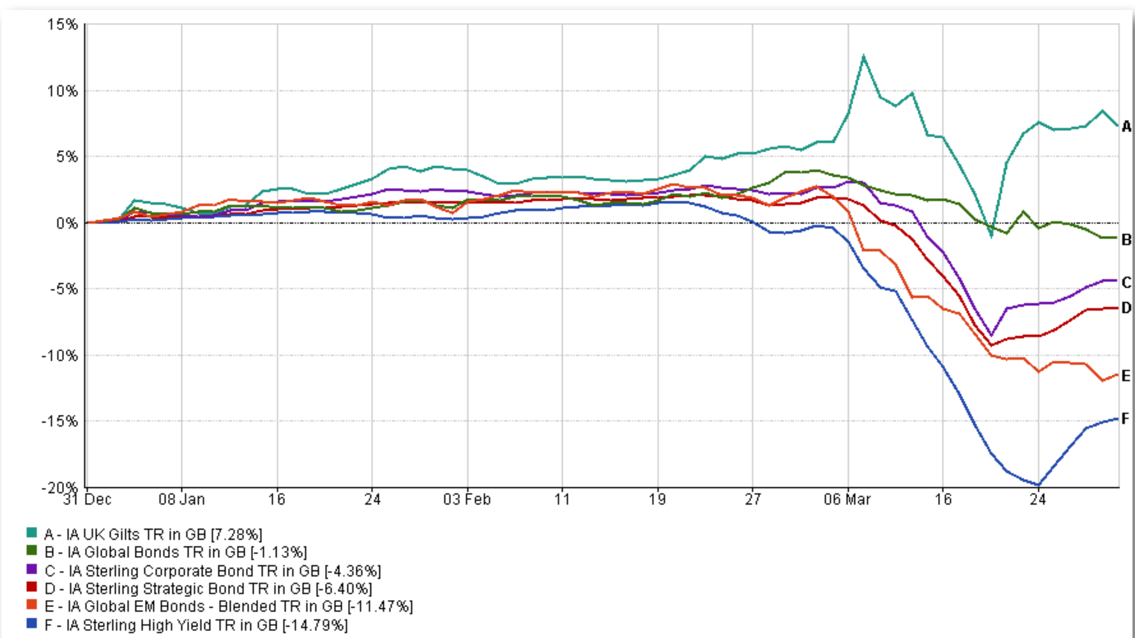
Emerging markets fell during the quarter. There was, however, a significant dispersion between the performance of different national markets. Somewhat ironically, Chinese equities held up relatively well in the quarter. This resulted from the government's early draconian steps to combat the epidemic which included a large-scale quarantine centred on Wuhan, in the Hubei province, where the disease appears to have originated. This had an immediate economic impact as factories and shops closed. The People's Bank of China took steps to inject liquidity into the financial system by cutting interest rates and by telling banks to lend more and not to call in loans to companies in affected areas. At the same time, the government implemented new monitoring methods to break the chain of infection. These steps included mobile phone operators tracking people's movements, digital health codes to enter apartment buildings and facial recognition technology that can detect elevated temperatures in a crowd or flag citizens not wearing face masks. By the end of the quarter, these measures appeared to have borne fruit with the number of reported new cases declining dramatically, although some foreign analysts have questioned whether the reported figures are entirely accurate.

Three of the hardest hit emerging markets were Russia, Brazil and India. In the case of the Russia, the market had initially been boosted by a spike in the oil price, in January, due to mounting tensions between the US and Iran. However, as the coronavirus epidemic spread, it became apparent that China was dramatically reducing its oil imports as industrial production and transportation needs both fell sharply. Other countries soon followed suit leading to an oversupply of oil on the world market. The problem came to a head when Russia refused to curtail oil production as requested by OPEC. Saudi Arabia responded by expanding production and the oil price collapsed, falling over 30% in one day, and by 66% over the quarter. Brazil, another significant primary product producer, was also hit hard by falling commodity prices. In addition, Brazil appears to be particularly at risk from the epidemic due to its highly populated cities, poor sanitation and weak healthcare system. The picture is similar in India which lacks the strong central government structure, as exists in China, that may be needed to tackle the coronavirus epidemic in such a large country. The Indian government announced a £19bn stimulus package for the economy but critics derided this as 'not nearly enough.' In India, like Brazil, the healthcare system is rudimentary and may be overwhelmed should the number of cases expand along the lines experienced by other countries.

Fixed Interest	Three Month Total Return %
IA UK Gilts	7.28%
IA Sterling Corporate Bond	- 4.36%
IA Global Bonds	-1.13%
IA Sterling High Yield	-14.79%
IA Emerging Market Bonds	-11.47%%

During the quarter, government bond prices surged as investors sought out safe-haven assets in preference to falling equity markets. Concerns mounted over the economic impact from the spread of the coronavirus and central banks responded by cutting interest rates. These forces combined to push yields down. For example, the yield on the 10-year gilt fell from 0.8% to 0.3% over the period. Governments around the world have committed to extra spending to fight recessionary pressures and, in general, are financing these moves by issuing more bonds. However, any potential impact on prices from the increased supply of bonds has been more than offset by the expansion of central banks' bond purchasing programmes (QE), thus helping keep bond prices high and yields low.

By contrast, most corporate bond prices fell in the period. The coronavirus crisis has exerted severe pressure on corporate cash flows. The pressures are spread across most of the global economy, but some areas have been hit harder than others. Bond price falls were highest in areas hit by quarantining (travel, leisure and retail), areas most tied to economic growth (chemicals and automobiles), areas hit by falling commodity prices (oil and gas) and higher beta areas of the market (insurance and banks). The sell-off has been relatively linear by credit rating – High Yield (HY) has been hit harder than Investment Grade (IG). The so-called spreads (yield premiums relative to government bonds) on corporate bonds have spiked upwards to levels not seen since 2012, implying increased expectations of bond defaults. As already noted, governments and central banks have taken policy measures to try to protect companies from the economic downturn, but it is too early to say how successful these steps will be.



31/12/2019 - 31/03/2020 Data from FE 2020

Commercial Property

IA UK Property	-1.19%

UK property investors had entered 2020 in a relatively upbeat mood – some of the political uncertainties that had dogged the sector over the previous two years had been ended by the Conservative Party's decisive victory in the general election, although trade negotiations with the EU remained. However, these green shoots were soon obliterated by the coronavirus crisis and the government-imposed lockdown. Under the latter policy, wide-ranging restrictions were introduced on freedom of movement. Most non-essential activities including public gatherings were prohibited while many categories of retail and leisure businesses were closed.

Against this extraordinary economic background, independent valuers chose to declare 'material uncertainty' over asset valuations across the entire UK commercial property market. They cited significant concern over the ability for transactions to continue given that purchases cannot undertake the inspections necessary to complete their due diligence. With limited transaction evidence, valuers cannot accurately value property assets. This led most UK open-ended property funds to suspend dealings. As a result, the very small negative return from the IA sector is misleading and should not be relied upon as an indication of the sector's underlying performance in the quarter. By the quarter-end, one valuer, the CBRE had applied a blanket 25bps yield reduction, along with a 3-month rent reduction, on all property assets to reflect the expected inability of some tenants to pay their rent whilst their businesses are closed. Other valuers are expected to follow suit.

Once the coronavirus crisis passes, the valuation of property assets in the UK will, once again, be determined by underlying market forces. These valuation levels are likely to be negatively impacted by the scale of the economic downturn offset by any extraordinary measures that the government takes to protect the most impacted areas of the economy.

Commodities

The coronavirus crisis and its associated negative economic impact was the dominant theme for commodity prices during the quarter. In dollar terms, the gold price rose by 6% while the silver price fell by 22%. Gold benefited from its traditional status as a safe-haven asset. In Platinum Group Metals (PGMs), there was a mixed performance with the platinum price falling by 23% while the palladium price rose by 29%. The latter continued to benefit from stockpiling, ahead of the introduction of new emissions regulations in a number of countries, including China, in 2020. Some 80% of palladium production ends up in catalytic converters for petrol cars.

The oil market collapsed with the price of both Brent Crude and West Texas Intermediate falling by 66% over the quarter. The price fall, already underway due to falling demand from a sharply slowing global economy, sharply accelerated in March. This resulted when the OPEC + group of countries, which includes Russia, failed to agree to production cuts. A price war began soon after, with Saudi Arabia threatening to pump at a record-breaking pace to seize back market share. Elsewhere, in the industrial metals space, the iron ore price fell by around 4% while the copper price declined by 22%. 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 at all-time lows, the opportunity cost of holding cash relative to bonds remained modest. In the short-term, cash deposits would have insulated investors from the price falls seen in equity markets. However, in the long-term, the real value of cash deposits is likely to continue to be eroded by inflation which continues to run ahead of interest rates. 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 2020

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