Whitechurch
Securities Ltd
WEALTH MANAGERS

Quarterly Review

1st October 2024 - 31st December 2024

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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.

Macro & Markets

Macro

Q4 began with a continuation of the volatility witnessed in Q3, as uncertainty surrounding the trajectory of inflation and interest rate policy in the US ramped up. In the wake of September's 0.50% interest rate cut from the US Federal Reserve (the Fed), and despite year-to-date resilience from the domestic economy, concerns of an imminent shift in central bank policy and signs of a partial slowdown in economic growth weighed on returns during October. Investors also had to contend with a tick up in market volatility in the early part of the quarter as November's US presidential election drew near. As news of Donald Trump's re-election and his Republican Party's majority win in the Senate reverberated through markets, investors monitored closely any early indications of policy change. We covered this topic in November's monthly commentary, as well as in a recent podcast exploring some of the potential impacts on markets, which are both available on our website. Latest data shows that headline US inflation rose for a 2nd consecutive month to 2.7% in November 2024 (from 2.6% in October and 2.4% in September). Whilst the tick up was in line with expectations and partly influenced by low base effects from last year, it further fuelled the uncertainty over the speed of future interest rate cuts from the Fed. US core inflation, which excludes food and energy prices, finished the period at 3.3%, unchanged from the previous two months but slightly higher than August's reading of 3.2%.

Politics and inflation were also the prevalent themes throughout the rest of developed markets, with headline inflation in Japan, Europe and the UK all increasing during the quarter. In Japan's snap election on 27 October, the ruling Liberal Democratic Party (LDP) and New Komeito coalition lost the overwhelming majority it had held since the 2012 general election, sparking a period of rare political uncertainty. The latest headline Japanese inflation figure (2.9%) represented the first increase since August, with rising food prices partly to blame for the 0.6% monthly increase. Despite this, the Bank of Japan still opted to maintain its short-term policy rate at 0.25% at their last meeting of the year, in what was a widely expected move given the uncertainty surrounding US president-elect Trump's intentions for economic policy. In Europe, there was a slowdown in regional economic activity, as well as the heightened prospect of tariffs on European exports to the US. There were further headwinds including political unrest in France, with the government facing increasing criticism and eventual collapse in December, after parliament backed a motion of no-confidence in Prime Minister Michel Barnier. Despite the annual Eurozone inflation rate increasing for a second consecutive month in November, to 2.2%, this was slightly behind estimates and was not enough to deter a fourth rate cut from the European Central Bank in December. The final reading of the year of 2.4%, which was in line with expectations, represented the highest level since July. In the UK, whilst the delivery of the highly anticipated first Labour budget at month end brought mixed news for businesses and an increase in planned government borrowing, headline inflation ended the quarter at an eight-month high of 2.6%. Policymakers at the Bank of England opted to keep interest rates unchanged in December, following a 0.25% cut earlier in the period.

Markets

Despite a mixed inflation picture and uncertain interest rate narrative, 2024 was a strong year for risk assets generally. The quarter rounded off another stellar year for US equities, which saw the largest 500 listed companies gaining more than 23% on aggregate, marking two consecutive annual gains of over 20% for the first time since 1997/98. Despite heightened volatility and the recent tick up in inflation, the longer-term trend downwards and rate cuts from the Fed boosted investor optimism through parts of the year. Q4 specifically saw a rally for US equities following the election, with markets reacting favourably to the result – particularly US small-cap stocks. However, uncertainties remain, with the Fed signalling fewer cuts in 2025 than previously expected at their final meeting of the year, as well as long-standing concerns over stock market valuations and lack of breadth within market returns. In fact, of the 500 largest listed companies in the US, 50% of the annual returns, and a staggering 96% of the returns since the election result, have come from just seven names. In contrast to the US, returns from other regions were more muted, with Japan being the next best performing developed market, returning 8.7% for the year and 1.6% during Q4 (all returns in GBP), albeit much higher in local

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currency terms. After a positive first nine months of the year, both UK and European equities produced negative returns of -1.3% and -4.0% respectively over the period. Whilst both too battled with increases in inflation, there were further headwinds in the form of political unrest, weakening economic data and dampening business confidence. After September's rally, sentiment towards Asian and emerging markets waned during the quarter as the prospect of tariffs from a more aggressive US foreign policy came into play. However, despite returning marginal losses, performance of both asset classes was comfortably positive for the year.

Global bonds returned 1.6% on aggregate during Q4, and just 0.1% for 2024 – the latter representing a 12.5% underperformance to global equities. Returns within the asset class were decidedly mixed, with quarterly and full-year returns for both global government and global inflation-linked bonds fractionally in the red, whilst traditionally riskier constituents, such as global high yield bonds and emerging market debt were the standout winners over both timeframes. Regionally, the US was the notable outperformer, with Europe as the clear laggard. I wrote in October's monthly commentary that, after 28 months, the 10-year US Treasury note was once again back to its more traditional position of yielding more than its 2-year equivalent – and, with the exception of another fleeting inversion in the final week of November, this remained the case for the quarter, with the 10-year yield finishing the year at 4.57%, versus 4.25% for the 2-year, representing a 15% calendar year increase in the former. After a strong Q3, it was a disappointing period for rate sensitive alternatives such as infrastructure and listed property, which returned -2.6% and –6.0% respectively – enough to drag the latter into negative territory for the year. Commodities posted aggregate gains of 11.2%, buoyed by a significant increase in the prices of coffee, cocoa, and natural gas during November and December. Political escalation and ongoing conflict in the Middle East added to volatility in oil markets, with an eventual low single-digit increase seeing the price per barrel finishing the year just shy of $75. The gains were enough to offset a decline in the prices of industrial and precious metals, with the former suffering from the prospect of tempered manufacturing demand in 2025 and beyond. Finally, there were strong gains for both the US dollar and for several mainstream cryptocurrencies, particularly following the re-election of Donald Trump, who promised to prioritise digital transactions. Shortly after, the price of Bitcoin hit an all-time high of $108,000 in early December, before finishing the year at $95,000.

2018	2019	2020	2021	2022	2023	2024	Q4
N. America -1.4%	N. America +24.4%	Asia ex-Japan +20.0%	N. America +25.5%	Asia ex-Japan -6.9%	N. America +16.7%	N. America +22.0%	N. America +8.5%
Asia ex-Japan -9.8%	UK +22.2%	N. America +16.2%	UK +17.3%	Japan -8.1%	Europe ex-UK +14.0%	Asia ex-Japan +10.0%	Japan +1.6%
UK -11.2%	Europe ex-UK +20.3%	Japan +13.8%	Europe ex-UK +15.8%	Europe ex-UK -9.0%	Japan +11.6%	Japan +8.7%	Emerging Mkts -0.9%
Japan -11.4%	Japan +17.2%	Emerging Mkts +13.7%	Japan +1.8%	UK -9.1%	UK +7.4%	Emerging Mkts +8.2%	Asia ex-Japan -1.1%
Emerging Mkts -11.8%	Emerging Mkts +16.0%	Europe ex-UK +10.3%	Asia ex-Japan +1.5%	N. America -9.7%	Emerging Mkts +4.3%	UK +7.9%	UK -1.3%
Europe ex-UK -12.2%	Asia ex-Japan +15.8%	UK -6.0%	Emerging Mkts -0.5%	Emerging Mkts -12.2%	Asia ex-Japan -1.0%	Europe ex-UK +1.7%	Europe ex-UK -4.0%

Major market total returns in Sterling. Data correct as of 02/01/25. Sectors used: Asia ex-Japan – IA Asia Pacific ex-Japan TR (GBP), Emerging Mkts – IA Global Emerging Markets TR (GBP), Europe ex-UK – IA Europe excluding UK TR (GBP), Japan – IA Japan TR (GBP), N. America – IA North America TR (GBP), UK – IA UK All Companies TR (GBP).

Asset Allocation & Portfolio Activity

Note that the following discussion is not an exhaustive list of changes made and due to the individual model mandates, changes discussed may not apply to every Whitechurch portfolio – for full details on activity within a specific strategy, investors should revert to the fact sheet.

Following a relatively busy H1, activity was, as per Q3, minimal this quarter. As we reported last time, we feel the portfolios are well diversified and well positioned to benefit as rate cutting cycles across developed markets take hold. In summary, we made several small changes to regional allocation in favour of the US, and at an asset class level, we increased our exposure to government bonds, largely funded by the sale of an alternative income infrastructure fund in some of our strategies. We wrote last time that despite the rate cutting backdrop and argument to increase the duration (sensitivity to changes in interest rates) of the fixed income component of our portfolios, we remain comfortable with our current stance of being slightly underweight relative to major indices. This remains the case, in the knowledge that we have a substantial allocation to active and flexible bond funds that will be repositioning their respective funds accordingly. We also remain mindful of just how much rate cutting expectations can, and have, changed over the last year.

Quarterly Outlook

Whilst November's US election result and subsequent rally has generally favoured risk assets, particularly small-cap markets, we are still mindful of the inflationary risks facing central banks. Headline inflation in developed markets may be back near long-term target levels but pricing pressures remain. Any meaningful or prolonged uptick will likely further feed the higher for longer interest rate narrative and revise expectations for cuts in the short and medium term. Regionally, despite concerns over valuations and the narrowness of markets, US exceptionalism continues to dominate and saw the economy avoid any worst-case scenarios during 2024. A new pro-business administration, of course, comes with a degree of optimism, but we also remain mindful of the precarious geopolitical backdrop and significance that 2025 may have. We have also seen somewhat of a reversal in fortunes for some of H1s winners, with headwinds and volatility for European, Japanese and UK equities. We are mindful of the political uncertainty in the former and the impact of Q4s budget for the latter – specifically, the requirement for increased government borrowing and the risk to corporate profitability for 2025 and beyond.

Latest forecasts for economic growth from both the OECD and IMF would also support US dominance and European underperformance in 2025. That said, and without taking any significant overweight regional positions, we remain cautiously optimistic for equities more broadly as major economies slowly embark on their respective interest rate cutting cycles. To this end, we have seen the inverted US yield curve revert to its more customary trajectory, and away from equities, we have seen a marginal improvement in the overall performance from H1 for bonds, albeit with a wide divergence of returns within the asset class. Despite the recovery of listed real estate and infrastructure assets stalling during Q4, wide discounts to net asset value and the prospect of future rate cuts are still appealing, and we maintain exposure going into the new year. In summary, we expect market volatility to continue in the near-term, including challenges from currency movements and a seemingly deteriorating geopolitical backdrop, but remain cautiously optimistic and relatively defensively positioned for medium-term growth.

Whitechurch Investment Team,
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