Stanhope Capital Fortnightly Bulletin

Period ending 30th April 2018

Tactical Positioning

Following an active first quarter we have not made any major changes over the fortnight. We are planning to deploy part of the cash in portfolios into strategies that have less volatility than the equity indices as we are concerned that downside risks, that could be damaging to portfolios, still exist. We will report back with more details in our next Bulletin.

Market Moves

	Equities *(Local Currency, incl. Dividends)*						
30-Apr-18	World	US	Europe[1]	UK	Japan	GEM	Asia
Last 2 Weeks	0.9%	-0.3%	2.3%	3.6%	2.7%	0.6%	0.7%
Year to Date	0.0%	-0.6%	0.9%	-0.9%	-1.4%	1.9%	1.3%

	Commodities			Currencies *(vs. USD)*			Gov't
	BCOM	Gold	WTI Oil	EUR	GBP	JPY	UST 10Y[2]
Last 2 Weeks	0.4%	-2.2%	1.8%	-2.1%	-3.3%	-1.8%	+13 bps
Year to Date	2.2%	0.9%	13.5%	0.6%	1.9%	3.1%	+55 bps

[1] *Europe excluding UK*

[2] *US Treasury 10 Year Yield shows absolute, not percentage, change in yield*

Source: Bloomberg

Equity markets continued to grind up in the latter half of April, with the exception of the US which fell slightly as the dollar strengthened by 2.0% versus a basket of other developed market currencies. The euro was generally weaker in the second half of the month, partly owing to softening economic fundamentals and partly due to dovish comments from Mario Draghi. Sterling weakened, boosting UK equities, following disappointing first quarter GDP growth.

Commodities made modest gains over the fortnight in the context of sanctions imposed by the US on Russia's Rusal company, the world's second largest aluminium supplier, which resulted in a significant reduction in the supply of the metal. Oil continued to strengthen over the fortnight rising by 1.8%, hitting $75 per barrel for the first time in four years. OPEC reported that oversupply, which has weighed on the market for years, has all but corrected with inventories now at a five-year average. This tightening of the supply chain will mean that the oil price is likely to be more sensitive to geopolitical risks and specifically, the very real possibility of Trump choosing to withdraw from the Iran nuclear deal and re-imposing sanctions on its oil exports.

By contrast, gold, which is traditionally negatively correlated with the dollar and benign inflationary environments, fell 2.2%. Government bonds continued to sell-off and US Treasuries yields rose 13 basis points over the fortnight and were briefly over 3% owing to robust economic data from the US. Bonds overall underperformed for the month as yields across the board steadily climbed, led by Treasuries. The sell-off, however, was relatively modest with Treasuries down 1% in real terms. Emerging Market bonds fell 2.7%, whilst EU Sovereigns fell -0.3%. UK gilts fell by 1% despite rallying in the latter half of the month in light of poor economic data.

Economic Update

US GDP, in the first quarter, rose 2.3% versus expectations of 2.0%. Notable highlights from the report included inventories which grew 0.4%, the employment cost index which grew 0.8% quarter-on-quarter, wages and salaries which grew 0.9% and personal consumption which grew at 2.5%, the fastest acceleration since 2011. Also, the US Purchasing Manager Index (PMI) rose slightly to 58.2 for April versus 54.8 in March, largely driven by an upside surprise in the manufacturing sector; the reading rose sharply to 56.5 in April marking a nine-percentage point increase from March. Services were slightly above forecasts at 54.4 versus expectations of 54.1. It would appear that evidence of the inflationary impact of protectionist policies is beginning to appear in fundamental data. Commentary in the PMI report stated that input cost inflation had risen at the fastest pace since 2011 and this is “partly linked to the introduction of tariffs”. Elsewhere, the Philadelphia Fed index of business activity rose 0.9 points to 23.2 in April, above market expectations of 21.0, while the March Conference Board Leading Index grew in line at 0.3% month-on-month. Finally, the Personal Consumption Expenditures Index (PCE) showed the annual rate of growth in the US is now running at 1.9%, just shy of the Federal Reserve’s target rate of 2%.

As mentioned above, UK GDP disappointed in the first quarter revealing quarter-on-quarter growth of a mere 0.1%, bringing the year-on-year rate to 1.2% versus expectations of 1.4%. This marked the lowest reading since 2012. Subdued growth was attributed to the harsher weather and the report revealed a 3.3% decline in construction for the quarter. Similarly, the April PMI missed forecasts and hit a 17-month low. On a more positive note, the Nationwide house price index rose 2.6% year-on-year in March. In light of this disappointing data, Bank of England Governor, Mark Carney, has remained vague in terms of the timing of further rate rises, saying that a rate hike this year was “likely”, whilst he was reluctant to imply that that any action would be taken in May, saying that there would be “other meetings”.

Elsewhere in Europe, Germany’s March retail sales fell for the fourth consecutive month, whilst France and Spain’s April Consumer Price Index readings came in softer than expected at 1.8% and 1.1% on an annualised basis. However, these lower readings were partly offset by the Euro Area Economic Confidence reading which was 112.7, above expectations of 112.0. The ongoing tariff negotiations between the US and Europe continue to pose risks to the growth of the European economy, as the standoff between Donald Trump and Angela Merkel continues, with the latter determined to maintain a current account surplus at all costs.

JONATHAN BELL
IVO COULSON
IMOGEN HERVEY-BATHURST
30th April 2018

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