Stanhope Capital Fortnightly Bulletin

Period ending 15 March 2019

Tactical Positioning

As we discuss below, equity markets have continued to retain their composure. Central Banks have been swift to counter last year's 'chatter' about recession with positive noises about future stimulus and this has provided a boost to investor sentiment. We maintained our exposure to equities throughout the testing months at the end of 2018 and so far in 2019 this has been rewarded.

Market Moves

	Equities *(Local Currency, incl. Dividends)*						
15-Mar-19	**World**	**US**	**Europe**[1]	**UK**	**Japan**	**GEM**	**Asia**
Last 2 Weeks	1.3%	1.4%	2.2%	2.4%	-0.1%	1.0%	0.7%
Year to Date	12.0%	13.0%	13.2%	8.6%	7.5%	9.4%	10.5%

	Commodities			Currencies *(vs. USD)*			Gov't
	BCOM	**Gold**	**WTI Oil**	**EUR**	**GBP**	**JPY**	**UST 10Y**[2]
Last 2 Weeks	0.3%	-0.8%	2.3%	-0.4%	0.2%	-0.1%	-13 bps
Year to Date	6.9%	1.6%	28.9%	-1.2%	4.2%	-1.7%	-10 bps

[1] *Europe excluding UK*

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

Source: Bloomberg

The positive equity market momentum observed in January and February wavered in the first week of March before making a strong recovery in the second week to end the fortnight higher. US equities in particular performed poorly initially with the S&P 500 Index slipping below its psychologically important 200-day moving average, before recovering to end higher over the period.

Although the first week was dominated by continuing concerns over a global slowdown, certain key events helped markets to find their footing once more: on 7th March, the European Central Bank ("ECB") announced additional monetary measures to inject more liquidity into the Eurozone's banking system, lifting European capital markets to levels last seen at the beginning of October 2018 (before the brutal fourth-quarter sell-off); the US-China trade deal narrative paused for breath as Bloomberg reported that the two countries' leaders are unlikely to meet again until April; and strength in Apple and NVIDIA shares, with enthusiasm for a newly announced video streaming service for the former and better than expected earnings and forecasts for the latter, enabled the NASDAQ to erase the previous week's losses.

In the US, we observed a "bear capitulation"; after 13 weeks of near constant selling by institutional and retail investors, $27.26bn of US equity funds and ETFs were purchased in the seven days ending March 13th, according to Bank of America. This constitutes the second largest weekly inflow on record. A similar observation was seen in fixed income, where buying of US based mutual funds and ETFs investing in government and investment grade bonds rose for a 10th consecutive week, to $7.01bn, with demand driven by China worries, mixed US economic signals and a softer-than-expected US inflation reading. Consequently, US Treasury yields hit their lowest levels since the start of the year on 8th March.

Looking at the UK, equities made gains despite the political drama. In what has been a key week for UK politics, parliament voted against Theresa May's deal for a second time, as well as against a "No Deal" scenario, effectively

moving negotiations back to square one. Although, the elimination of the risky "No Deal" scenario is seen as positive for sterling.

Asia saw a more muted rise in markets as the Chinese Government indicated that the on-going domestic stock market rally is advancing too rapidly and might result in the creation of a bubble. In a rather unprecedented move, the Chinese Government authorised a sell rating on *People's Insurance Company of China Ltd.* by one of the nation's largest brokerages. The highly unusual downgrade, especially of a state-owned enterprise, triggered a selling avalanche across Chinese equities, resulting in an intraday 4.4% drop in the Shanghai Composite Index.

The picture was mixed for currencies over the period. Some early weakness in the euro was later balanced out by a dip in the dollar on the back of poor economic data releases. Sterling was tossed around by Brexit news whilst the Bank of Japan's decision to keep rates unchanged in the hopes of encouraging inflation to climb toward the evasive 2% level had little impact. Gold initially fell sharply – despite the risk-off sentiment by markets – but recovered slightly as the US dollar slipped. Oil rose as investors focused on global production cuts and supply disruptions in Venezuela.

Economic Update

There was significant noise around the February payrolls release in the US with only 20,000 jobs added – the smallest number since September 2017. This confirmed the view held by some that the US economy is slowing. However, an exceptionally mild January, followed by a cold and wet February caused a large swing in weather-sensitive employment areas e.g. construction and leisure. Consequently, investors should perhaps focus on the three-month employment trend instead, which, whilst suggesting moderating job growth, is hardly a harbinger of doom.

The above-mentioned ECB announcement of additional monetary measures came alongside a cut in the growth forecast for the eurozone in 2019, from 1.7% to 1.1%. Furthermore, ECB president, Mario Draghi, confirmed that interest rates would remain unchanged at least through 2019, now taking an openly dovish stance, similar to his American and Japanese counterparts. He cited continued economic weakness, worries over global trade and the Brexit saga as culprits. Doubts remain however as to whether the policy response is adequate in the face of reduced growth and inflation numbers.

Finally, despite the stock market rally, China has acknowledged slowing economic growth. February's trade data was so dismal that Beijing lowered its full-year growth target from 6.5% to 6.0%. As a reminder, last year China's economy grew 6.6% (or so they say), its slowest pace since 1990. The US trade conflict, high domestic debt levels and softening domestic and global demand are all factors putting the brakes on growth. The National People's Congress ("NPC") has promised to support economic activity with stimuli, however, only in the form of reserve requirements and management of interest rates. It is highly unlikely that we will see Chinese quantitative easing in the future as the NPC is wary of future consequences. A silver lining for investors comes from the head of China's Central Bank, Yi Gang, who pledged that China would not seek to devalue its currency in order to boost exports or use it as a weapon in trade disputes.

JONATHAN BELL
IVO COULSON
STEFAN KUTZNER

15 March 2019

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