

Stanhope Capital Fortnightly Bulletin

Period ending 15th April 2019

Tactical Positioning

In terms of tactical moves over the last few weeks, we have been reflecting on Eurozone economic policy which we discuss below. Our sense is that it may be difficult for European equity markets to recover further against a background of stagnant growth regionally, even though valuations remain reasonable. As a result, we are trimming European exposure in a number of portfolios following a solid bounce of over 15% in Eurozone equity markets so far this year. Our plan is to redeploy the proceeds, mainly in the Asia Pacific ex-Japan region which not only has below average valuations, but a clear catalyst for potential outperformance should a reasonable trade deal be struck between China and the US in the coming weeks.

Market Moves

	Equities (incl. Dividends)						
15-Apr-19	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	2.6%	2.6%	3.1%	2.4%	2.4%	2.3%	2.3%
Year to Date	15.2%	16.4%	15.8%	12.1%	10.1%	12.3%	13.9%

	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Last 2 Weeks	1.6%	-0.3%	5.4%	0.8%	0.5%	-1.1%	+15 bps
Year to Date	8.1%	0.4%	39.6%	-1.4%	2.7%	-2.2%	-13 bps

¹Europe excluding UK

²Bloomberg Commodity Index

³US Treasury 10 Year Yield shows absolute, not percentage, change in yield

Source: Bloomberg

Equity markets had another good fortnight, with the MSCI All Countries World Index now up 15.2% for the year in US dollars, 12.0% in sterling and 16.6% in euros.

Following the recent European Central Bank (ECB) meeting, Draghi indicated that he is prepared to respond to the Eurozone's recent economic slowdown by saying that the bank was 'fully committed' to supporting growth to a level consistent with hitting its inflation target 'without undue delay'. He said that the bank has 'plenty of instruments' with which to react to economic difficulties in order to avoid a repeat of the 2011 economic setback. Other topics of discussion at the ECB meeting included an agreement to analyse the effect of negative interest rates on European banks and the nature of the TLTRO 3 (targeted long-term refinancing operation) which will be confirmed by June this year.

Brexit discussions have, as usual, dominated UK parliamentary discussions over the past two weeks. Theresa May and Jeremy Corbyn have been engaged in, what the latter called, 'constructive' talks, which exacerbated tensions between the Prime Minister and the eurosceptic European Research Group (ERG) within her party. Brussels granted an extension to Britain's planned departure from the EU which will now take place by 31st October at the latest. This delay means that the UK could participate in the EU elections in May, unless a deal

is sanctioned by parliament before then. EU elections would provide Nigel Farage's new Brexit Party with a platform to criticise the government's handling of negotiations and add further fuel to UK political flames.

Other key international negotiations seem to be having more success. American and Chinese officials have made 'good headway' in their trade negotiations, according to National Economic Council director, Larry Kudlow, and the two economic giants are getting 'closer and closer' to an agreement, with the Chinese acknowledging their problems with intellectual property theft and forced transfer of technology.

President Trump continued his war of words with the US Federal Reserve ("Fed") Chairman, Jay Powell, by saying that 'the Fed should drop rates' and instead of quantitative tightening, it should 'actually now be quantitative easing'. The attacks continued over the weekend with the President tweeting 'If the Fed had done its job properly, which it has not, the stock market would have been up 5,000 to 10,000 additional points'. At a Democratic Party retreat to address concerns about the Federal Reserve's independence, Jay Powell reiterated that the Fed 'doesn't consider political pressure in any way'.

Economic Updates

The quarter started on a positive note with the Chinese Manufacturing Purchasing Managers Index (PMI) rising to 50.5 from 49.2, the biggest increase since 2012 and beating all consensus estimates. A stronger-than-consensus US Manufacturing Institute of Sales (ISM) number (55.3 vs 54.5 expected) was also supportive of equity markets at the beginning of April. The UK PMI was surprisingly strong at 55.1 vs 51.2, however stockpiling was cited as a big reason for the jump.

European Services PMI was revised upwards for March to 53.3 which indicates that the performance of the Eurozone domestic economy is satisfactory. This is in stark contrast to the German Manufacturing PMI, which suffered its deepest downturn outside of the Global Financial Crisis. German GDP growth forecasts for 2019 have been revised down to 0.8% (from the 1.9% forecast in September 2018) and Italian growth from 1.0% for the year to just 0.1%. The IMF reduced its global growth forecast for the third time in six months, by 0.2% to 3.3%, which would be the weakest since 2009.

On a more positive note US payrolls data was strong, with 196,000 jobs added in March versus 177,000 expected. However, hourly earnings growth fell from 3.4% to 3.2% year-on-year.

The March Federal Open Markets Committee (FOMC) minutes, released on 10th April didn't have a significant impact on equity and bond markets, but they did highlight the Fed's openness to being pragmatic on future interest rate moves. Some members mentioned that an interest rate hike later in the year may be necessary, although future conditions would influence any decision. By contrast, several members voiced concerns about the impact of prolonged low interest rates on financial stability.

JONATHAN BELL
IVO COULSON
ROBERT CHAMBERS

15 April 2019

Important Information

The information contained herein (the "Information") has been prepared by the Stanhope Group. The Stanhope Group comprises Stanhope Capital (Switzerland) SA and its subsidiaries, including Stanhope Capital LLP, Stanhope Capital (Cayman) Limited, Stanhope Capital (Jersey) Limited and Stanhope Capital Limited. Stanhope Capital LLP is a limited liability partnership incorporated in England and Wales authorised and regulated by the Financial Conduct Authority (FCA). Stanhope Capital (Switzerland) SA is a company incorporated in Switzerland and a member of the Swiss Association of Asset Managers (SAAM), a Self-Regulating Body approved by the Swiss Financial Market Supervisory Authority (FINMA). Stanhope Capital (Jersey) Limited is a limited liability company incorporated in Jersey and regulated by the Jersey Financial Services Commission (JFSC). Stanhope Capital (Cayman) Limited is incorporated in the Cayman Islands and is registered with the Cayman Islands Monetary Authority. Acceptance of delivery of any part of this Information constitutes acceptance to the conditions of this legal disclaimer.

The Information attached is being disclosed by the member of the Stanhope Group indicated in the Information and exclusively to the intended recipient (the "Recipient").

The Information does not constitute an offer to sell or a solicitation of an offer to buy any investment fund or other financial products. The Information does not constitute investment advice or advice with respect to the suitability of any investment.

Restrictions

The Information is private and confidential and provided for information purposes only. No part of the Information is to be distributed, copied or disseminated directly or indirectly to anyone other than the Recipient and its professional advisers (for the sole purposes of obtaining advice). The Information should not be relied upon for tax, auditing or other purposes. The Information is not intended for any person in any jurisdiction (by way of nationality, residence, domicile or otherwise) where the publication or availability of it would be in contravention of any applicable law or regulation.

Opinions, estimates and statements contained in the Information constitute judgments of the Stanhope Group at the time of their preparation and are subject to change without notice.

The value of investments can fall as well as rise; potential income or profits are accompanied by the possibility of loss. The Recipient may not receive back the original amount invested. Past performance is not a reliable indication of future results. Performance figures included in the Information are unaudited except where indicated. Please refer to the risk warning notes provided next to any performance figures included in the Information. In certain circumstances prices stated may be historic because of the delay in obtaining prices and/or valuations from third parties. Valuations are based on either market prices available at the time of the preparation of the Information or on the Stanhope Group's reasonable estimates thereof at the time made. Valuations based upon other models or assumptions or calculated as of another date or time may result in different values. The valuation or returns on investments in currencies other than the base currency of a client's account may increase or decrease as a result of currency fluctuations.

The Stanhope Group may recommend or make investments for its clients in illiquid or volatile instruments or funds which may carry a high degree of default risk or in funds which utilise leverage/gearing which can exaggerate performance and may lead to large falls in value.

Any description of any investment process or investment management process described in the Information may change from time to time at the discretion of the Stanhope Group or otherwise.

While reasonable skill, care and diligence have been taken to ensure that the Information was accurate as at the date of writing, the Stanhope Group has not verified and accepts no legal responsibility for any third-party Information. In addition, the Stanhope Group makes no representation, warranty, undertaking or guarantee, express or implied, as to the accuracy or completeness of the Information and opinions therein. No members of the Stanhope Group shall be responsible for or have any liability to any Recipient or third party for losses or damages (whether consequential, incidental or otherwise) arising (i) out of errors, omissions or changes in market factors, conditions or circumstances or (ii) from making any use of the Information.

The Information does not replace, supplement or amend the contractual documentation entered between the relevant member of the Stanhope Group and the Recipient, including but not limited to (i) the required qualifications of the Recipient in order for such Recipient to receive the Information and (ii) the disclaimers and limitation of liability contained in such contractual documentation. Further, the Information does not replace, supplement or amend the documentation applicable to any investment fund or other financial products referred to in the Information.

United Kingdom

To the extent that the Information is aimed at residents of the United Kingdom, the Information has been approved for issue in the United Kingdom by Stanhope Capital LLP. Stanhope Capital LLP's advice is categorised by the Financial Conduct Authority as "restricted" because it advises on investment funds, which are only one type of "retail investment product". Stanhope Capital LLP does not provide investment advice on other retail investment products, such as life insurance, stakeholder pensions or personal pension schemes.

Jersey

The advice Stanhope Capital (Jersey) Limited offers under our advisory service is restricted as we advise on investment funds, which is only one type of investment product. Stanhope Capital (Jersey) Limited does not provide investment advice on retail investment products, such as life insurance, stakeholder pensions or personal pension schemes.

United States

The Information is not intended for residents of the United States or for any US Person. The Information is not an offer to sell any securities to or for the benefit of United States persons or the solicitation of any offer to buy securities on the part of or for the benefit of any such United States persons. For the avoidance of doubt a US Person does not include a US Citizen resident outside the US