

## Stanhope Capital Fortnightly Bulletin

Period ending 31<sup>st</sup> October 2019

### Tactical Positioning

In recent Bulletins we mentioned our interest in infrastructure as an investment theme, particularly in the US. We have already seen increased spending in a number of States and President Trump is likely to push for increased infrastructure spending in his re-election campaign. We expect that civil engineering/construction, utilities and transport companies could benefit and in order to gain exposure to these areas we will be adding tracker funds that specialise in infrastructure stocks.

### Market Moves

	Equities (incl. Dividends)						
31-Oct-19	World (\$)	US (\$)	Europe <sup>1</sup> (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	1.4%	1.4%	0.7%	0.6%	2.8%	1.6%	1.5%
October	2.0%	2.1%	1.3%	-1.9%	4.9%	3.0%	2.9%
Year to Date	19.5%	22.6%	21.7%	12.1%	14.8%	11.0%	13.0%

  

	Commodities			Currencies (vs. USD)			Gov't
	COM <sup>2</sup> (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y <sup>3</sup>
Last 2 Weeks	1.1%	2.2%	2.6%	1.1%	1.2%	0.8%	-8bps
October	2.0%	2.8%	0.2%	2.3%	5.3%	0.0%	3bps
Year to Date	5.2%	18.0%	19.3%	-2.7%	1.5%	1.5%	-99bps

Note: <sup>1</sup>Europe excluding UK; <sup>2</sup>Bloomberg Commodity Index; <sup>3</sup>US Treasury 10 Year Yield shows absolute, not percentage, change in yield; Source: Bloomberg

October ended with the Federal Reserve ("Fed") announcing another quarter point cut, taking US interest rates to a range of 1.5% to 1.75%. Mention of further easing from here was not forthcoming, but there was also little suggestion of raising rates again which reassured markets. Currently markets are pricing in a 30% chance of a further rate cut in December, but deteriorating economic data could see that number rise.

The S&P 500 reached a new record high last week on the back of the Fed announcing a resumption of securities purchases, positive Brexit developments and perhaps most importantly, progress in the first phase of the US - China trade talks. An agreement was due to be signed in Chile, at the APEC summit, but owing to growing civil unrest in the country sparked by a 3% increase in subway fares, it will now take place elsewhere. The White House economic advisor, Larry Kudlow, was quoted saying that negotiations were 'moving ahead very nicely' but that tariff reversals would ultimately be 'the President's decision'. Markets were unfazed by the Democrat-controlled House voting by 232 to 196 to begin open hearings into the Trump impeachment inquiry.

In the UK, with a 'no deal' Brexit being effectively taken off the table by the EU's agreement to a Brexit 'Flextension', Parliament approved a December 12<sup>th</sup> General Election. Sterling has hovered around the \$1.29 level since progress in Brexit negotiations was triggered by Prime Minister Johnson's meeting with Irish leader Varadkar in early October. Johnson is hoping for a clear win that will enable him to get approval for his deal, but the risk of another hung Parliament may lead to horse trading between the political parties before as well as after the vote in an attempt to ensure a majority in Parliament ahead of the year end.

Mario Draghi's last act as ECB chairman was to leave policy unchanged at the 24<sup>th</sup> October meeting whilst commenting that the risks to growth 'remain on the downside', leaving incoming Christine Lagarde with plenty to contend with. Indications are that she will keep senior figures in place at the ECB, providing support for policy continuity. Draghi's last speech in front of the heads of government from Germany, France, and Italy called for 'a euro-area fiscal capacity of adequate size and design: large enough to stabilize the monetary union' adding that 'uncoordinated policies are not enough'. Lagarde has also called for fiscal policy from EU leaders to support the diminishing impact of monetary policy.

### Economic Updates

The IMF made their fifth straight cut to 2019 global growth forecasts. They now expect growth to fall to 3%, the lowest since the financial crisis. In the US the October Chicago PMI (Purchasing Managers' Index) dropped to 43.2 vs 48.0 expected, which was the lowest reading since 2015. The Dallas Fed Manufacturing Survey echoed this weakness coming in at -5.1 vs +1.0 expected. The American Petroleum Institute reported a rise in inventories of 10.5m barrels, putting downward pressure on oil prices. This was off-set by OPEC sources suggesting that deeper production cuts will be considered at their December meeting.

China's Q3 year-on-year GDP growth of 6% was 0.1% below expectations and marked the slowest growth since the early 1990's. The contribution from investment fell from 25.9% to 19.8% whilst the contribution from consumption grew from 55.3% to 60.5%. A National Bureau of Statistics spokesman added that there was 'ample space for monetary policy' and that 'there is room and potential for China to boost auto sales'. September year-on-year Industrial Production beat expectations with 5.8% growth and retail sales were in line at 7.8%. The jobless rate remained at 5.2%.

The Eurozone picture remains stagnant with the PMI just in expansionary territory at 50.2 (vs 50.3 expected) and October's Confidence Indicators weaker than expected. The latest Eurostat survey reveals both manufacturing and consumer uncertainty have reached their highest levels since 2009.

JONATHAN BELL  
IVO COULSON  
ROB CHAMBERS

**4 November 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 SAS and Stanhope Capital (Cayman) Limited. 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 LLP is a limited liability partnership incorporated in England and Wales authorised and regulated by the Financial Conduct Authority (FCA). Stanhope Capital SAS is a "Société par Actions Simplifiées" incorporated in France and regulated by the Autorité de Marchés Financiers (AMF). 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.

### France

Stanhope Capital SAS 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 U.S. 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 U.S. Person does not include a U.S. Citizen resident outside the U.S.