Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 31st 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[1] (€)**	**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[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
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: [1]Europe excluding UK; [2]Bloomberg Commodity Index; [3]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 12th 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 24th 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.

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4 November 2019

Important Information