Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 15th December 2019

Tactical Positioning

We have not made any major tactical changes over the last two weeks as our exposure to equities continues to pay off. As we discuss below, risk assets continue to rise and there is a positive attitude from investors as we move into 2020. That said, we remain pragmatic and there may become a point at which we change our stance but, for the time being, positive momentum prevails.

Market Moves

	Equities (incl. Dividends)						
15-Dec-19	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	1.1%	1.0%	0.5%	0.1%	2.4%	3.6%	2.9%
Year to Date	24.3%	28.1%	25.4%	14.3%	19.7%	15.7%	17.4%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	3.0%	0.8%	8.9%	0.9%	3.1%	0.1%	5bps
Year to Date	5.6%	15.1%	32.3%	-3.0%	4.5%	0.3%	-86bps

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

While John Lennon and Yoko Ono cut straight to the point with "Happy Christmas (War Is Over), President Trump's Christmas message to China is proving a little less clear. Trump kicked off December by spooking the markets when he reinstated steel and aluminium tariffs on Brazil and Argentina, then "hit" Twitter to suggest it may be better to wait until after the 2020 US presidential election to strike a trade deal with China. As a result, the S&P 500 Index suffered its worst two-day loss in nearly two months. Fellow market pantomime villains included US Commerce Secretary, Wilbur Ross, who reiterated that the administration would raise tariffs on Chinese goods on 15 December if there was no progress in negotiations. Robert Lighthizer, US Trade Representative, amplified these scare tactics by threatening to slap tariffs of up to 100% on French goods in retaliation for a new digital service tax on US technology companies. On 13 December, however, Trump agreed to halving tariffs on $120 billion of Chinese goods and suspending a planned expansion of duties on $160 billion worth of other Chinese goods. Under the agreement, China would purchase $50 billion worth of US agricultural goods and other America products next year. Yet, with still no mention of rolling back earlier tariffs, it remains unclear whether the President is laying genuine groundwork for a meaningful truce. As a result, the markets remain choppy despite the S&P 500 Index moving to new highs on the back of this recent announcement.

This side of the pond, the focus was on the UK's third general election in less than five years. This was perhaps the most polarised election since the Thatcher-era and saw the electorate divided as much by leave and remain Brexit views as by historical party lines. Prime Minister Boris Johnson romped home to an 80-seat majority, on the back of a big swing from Labour to the Conservatives in leave voting parts of Britain. The exit poll, indicating a decisive Conservative victory, triggered a quickfire 'relief rally' of over 2% in sterling taking it to a peak slightly beyond $1.35, the highest level since May 2018. It remains to be seen what path Boris Johnson will take now he has backing from Conservative backbenchers to deliver his Brexit deal. Brussels is said to be relieved by the result, despite the EU's Brexit trade negotiator, Michel Barnier, being sceptical that an accord will be struck by the end of 2020. As for Labour leader Jeremy Corbyn's premiership aspiration...? IT'S BEHIND YOU!!

The US Federal Reserve ("Fed") has confirmed it's now in wait-and-see mode, following its mid-cycle policy adjustments between July and September, when interest rates fell by 25bps at three consecutive Fed meetings. This was the first unanimous decision by the Federal Open Market Committee ("FOMC") since May. The pressure to ease policy has been lifted off the Fed, in part due to a relatively buoyant job market, which saw the creation of 266,000 new jobs in November, versus expectations of 187,000. In addition, the Fed produced the so-called 'dot plots', which lay out the open market committee members' forecasts for the future path of rates. The median dot for next year indicates that policy will remain unchanged, with just four members wanting a 25bp increase, while the median dot for 2021 shows a 25bp hike. Notably, not a single FOMC member opted for a cut, signalling that the Fed has finished its period of monetary easing.

Closer to home, Christine Lagarde, the new head of the European Central Bank ("ECB"), announced no policy changes, following her predecessor Mario Draghi's September measures. The Governing Council left interest rates unchanged, in line with expectations, reasserting that they would not change tack until inflation edges closer to the 2% mark.

Elsewhere, the state-controlled Saudi Arabian Oil Company ("Aramco"), raised $25.6 billion in the world's largest initial public offering ("IPO"). The size of the IPO, which represented 1.5% of Aramco's shares, broke the record set by Chinese internet company, Alibaba, in 2014. The offering valued the company at $1.7 trillion – more than either Apple or Microsoft but lower than the $2 trillion it had initially targeted. As a result, Saudi Arabia moved to prop up the market for crude oil by sealing a new production deal with OPEC and its allies. Further curbs, on top of the 1.2 million barrels a day agreed last year, were put in place during the month. Output is to be reduced by another 500,000 barrels per day with Saudi Arabia pledging an additional 400,000 barrels of voluntary cuts. The total cuts since OPEC and Russia first got together in 2016 to manage the oil price now amounts to 2.1 million barrels per day, about 2% of daily global demand. In response, the cost of Brent rose by 8% to $65.26 a barrel over the fortnight. Also, strong demand from Saudi retail and corporate investors for Aramco shares has since seen the company's market value pushed above Crown Prince Mohammed bin Salman's $2 trillion goal.

Economic Updates

The theme of 2019 continued into December, with strength in consumer demand relative to corporate spending and strength on the services side relative to manufacturing. In the US, data was decidedly mixed as the Manufacturing Purchasing Managers' Index ("PMI") was revised up 0.4pts to 52.6, which matches the April level. However, to muddy the picture the November Institute of Supply Managers ("ISM") Manufacturing Survey missed its 49.2 expectation coming in at 48.1. The ISM New Orders Survey fell to 47.2, showing that US manufacturing order books are slowing down. Consumer confidence data, meanwhile, remains robust and the unemployment rate is down to 3.5%. The Non-Manufacturing ISM Index fell to 53.9 versus expectations of 54.5 which added to the negative tone from the ADP private payroll figures which saw the weakest employment gain in six months.

In the Eurozone, the composite Manufacturing PMI came in above market expectations, although this masked country differences, with Germany revised up and France revised down. Italy's Composite PMI fell into contractionary territory at 49.6, its lowest reading in seven months. Eurozone services PMI also trended up and beat expectations.

Best wishes and season's greetings!

JONATHAN BELL
IVO COULSON
HITEN KHETIA

17th December 2019

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