Stanhope Capital Fortnightly Bulletin

Period ending 15 January 2020

Tactical Positioning

2020 started on a positive note, supported by the eventual signing of a 'phase 1' trade deal between the US and China. This may be little more than a line in the sand, but it does create a temporary 'truce' on an issue which has dogged risk assets for over 18 months. We do not plan any tactical moves in the short-term, but we are monitoring the current US company results season. Equity markets are expecting a rebound in earnings in 2020 and forward guidance from company CEOs may (or may not) confirm that the outlook is improving.

Market Moves

	Equities *(incl. Dividends)*						
15-Jan-20	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	1.9%	1.9%	1.0%	1.3%	0.9%	2.3%	3.0%
Year to Date	1.9%	1.9%	1.0%	1.3%	0.9%	2.3%	3.0%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	-1.0%	2.1%	-5.3%	-0.6%	-1.7%	-1.2%	-13bps
Year to Date	-1.0%	2.1%	-5.3%	-0.6%	-1.7%	-1.2%	-13bps

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

The geopolitical news dominating the headlines over the fortnight, appears to have had little effect on investor sentiment, with equity markets across all major indices rising in the first half of the month and the S&P 500 Index making yet another new high this week, supported by a solid start to fourth quarter earnings results and progress on a trade deal between China and the US. Although the S&P 500 fell 0.7% on the day following the assassination of General Qassem Soleimani, Iran's subsequent strikes on US military bases in Iraq, is being viewed as 'restrained' and the lack of harm to any US personnel resulting from Iran's counterattack offered Trump a window to reduce tensions. Despite insisting that the US is still contemplating further counter-responses to the attacks in Iraq, his statement that he acted "to stop a war, not start one" combined with the Iranian foreign minister's tweet that Iran 'took and concluded' proportionate action, implies for the time being, a de-escalation of tensions. Perhaps most tellingly, the conflict was not enough to provide a sustained boost to the oil price. Crude prices initially jumped 2.4% following the airstrike, but these gains were quickly reversed and, following a peak-to-trough swing of almost 9%, oil ended the fortnight down 5.3%.

Risk sentiment was also supported by the signing of a Phase One trade deal between the US and China, with China committing to crack down on intellectual property theft and committing to buy $200 billion of American goods by 2021. Many contentious issues remain unresolved, however, such as exactly how the Chinese government will prevent commercial cyber theft and its use of state-owned enterprises to build dominant positions in key industries such as steel. That said, Asia and the US were the best performing markets over the period, rising 3.0% and 1.9% respectively.

Gold rose by 2.1% over the fortnight. This follows an 18% rise in 2019, suggesting that, despite the continuing bull market, investors are also looking for defensive assets. The dollar rose against all major currencies and the US 10-year Treasury yield declined in the face of softer economic data in the US.

Economic Update

Weaker than expected inflation in the US provided a boost to government bonds. The US Core Consumer Price Index rose by 0.1% in December versus expectations of 0.2%, held back by declines in the cost of used vehicles, airline tickets and household goods which offset price increases in areas such as healthcare, apparel and new vehicles. Nonetheless, for the full year, the index gained 2.3% in 2019 after increasing by 2.2% in 2018.

Manufacturing data in the US are showing early signs of recovery. The Federal Reserve Bank of New York's Empire State Manufacturing Survey, which measures general business conditions in New York State, rose to 4.8 from 3.5 showing expansion in new orders, shipments and employment. In addition, the Federal Reserve Bank of Philadelphia's Business Index jumped to 17, marking its highest level in eight months. These positive state-level results should bode well for growth in the wider US manufacturing sector following a poor 2019, in which the Purchasing Manager Index fell to its lowest level since the height of the recession in 2009.

Inflation data in Europe is also muted. In the UK, the Consumer Price Index rose 1.4% year-on-year in December from 1.3% the previous month. This is well below the Bank of England's annual target rate of 2% and supports continued Central Bank dovishness. A cut in rates is already being supported by a majority of Monetary Policy Committee members including Michael Saunders who stated, in response to the softer data, that 'it will be appropriate to maintain an expansionary monetary stance and possibly cut rates further'. Elsewhere in Europe, German GDP growth for 2019 slowed to 0.6% versus 1.5% in 2018, marking its lowest level since 2013. In China, the Purchasing Manufacturing Index fell to 51.5, slightly below the reading from November.

Economic growth declined across most major economies in 2019, reflecting poor business sentiment following the trade war dispute, however recent data from the US suggests that we could see an improvement in 2020.

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17 January 2020

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