Stanhope Capital Fortnightly Bulletin

Period ending 31st January 2020

Tactical Positioning

Whilst we think the market impact of the coronavirus outbreak will ripple on for a little longer, the setback in share prices is likely to provide a good opportunity for many investors still holding cash. Although comparison with the SARS outbreak in 2003 may not be entirely relevant, the setback caused by SARS was significantly less than the subsequent rebound of almost 70% for the MSCI Asia Index between April 2003 and April 2004. We are not suggesting a repeat of this stellar performance, only that the current pullback may prove to be a good buying opportunity. We favour Asian equities from a valuation perspective and have been recommending a full market weighting for some time, partly based on the belief that the US-China trade 'spat' would reach some form of truce.

Market Moves

	Equities (incl. Dividends)						
31-Jan-20	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	-2.4%	-1.9%	-2.0%	-4.6%	-2.5%	-5.5%	-5.3%
January	-0.6%	-0.1%	-1.0%	-3.4%	-1.6%	-3.3%	-2.5%
Year to Date	-0.6%	-0.1%	-1.0%	-3.4%	-1.6%	-3.3%	-2.5%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	-6.4%	1.9%	-10.8%	-0.5%	1.3%	1.4%	-28bps
January	-7.4%	4.0%	-15.6%	-1.1%	-0.4%	0.2%	-41bps
Year to Date	-7.4%	4.0%	-15.6%	-1.1%	-0.4%	0.2%	-41bps

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

With the ink not quite dry on 'Phase 1' of the US-China trade deal investors are now getting their heads around the impact of the coronavirus on global trade. On Thursday, the World Health Organisation announced a Public Health Emergency of International Concern with the number of confirmed cases already topping that recorded during the SARS epidemic in 2003. Asian markets have, unsurprisingly, taken the brunt of the move downwards over the past two weeks, falling 5.3% in US dollar terms (without taking into account any move in the Chinese equity market, as it was closed until 3rd February). Several Chinese provinces and regions are extending their New Year holiday period to February 10th and Chinese schools are postponing the beginning of the spring term until further notice in an effort to curtail the spread of the virus.

The day before the United Kingdom left the European Union on Friday, the Bank of England announced that interest rates will stay on hold at 0.75%. The decision was made in part due to the UK IHS Markit Purchasing Managers' Index (''PMI'') coming out better than expected at 52.4 vs 50.7. A statement from Mark Carney, governor of the bank, sounded a note of optimism on the global and domestic outlook. Sterling recovered to 1.30 vs the dollar after five days of decline. Boris Johnson's government indicated its commitment to global trade by permitting Huawei partial access to build the UK's 5G network, but stopped short of full access by banning the communications giant from core areas and sensitive sites and capping its market share at 35%. It was also reported by The Times that Johnson will call for a basic trade deal based on Canada's agreement with the EU.

In Davos, President Trump's speech took a swipe at Greta Thunberg and other climate change activists labelling them "prophets of doom (with) their predictions of the apocalypse". In contrast, Germany announced draft plans to phase out coal-fired power stations. After reiterating his achievements since coming to office, Trump went on to say that 'Phase 2' of the China trade talks would start "very shortly" and ahead of meeting EU Commission President Ursula Von der Leyen he said that they would "talk about a big trade deal". Meanwhile Bernie Sanders edged into the lead in the Democratic nominations race with a current estimated probability of winning the Democratic Party Presidential nomination between 35-40%, ahead of Joe Biden with a 31-37% probability.

Economic Update

The IMF trimmed its global growth forecast to 3.3% for 2020 and to 3.4% for 2021, although both represent an improvement on the 2.9% achieved in 2019.

Chinese Q4 GDP was in line with consensus at +6.0% year-on-year and industrial production was up 6.9% vs 5.9% expected. Retail sales were 8.0% higher, just ahead of the 7.9 % expected. There was surprisingly strong Chinese data with services PMI at 54.1 vs 53.0 expected and manufacturing in line with the consensus of 50.0. However, this data was compiled prior to the outbreak of the coronavirus and we are likely to see a significant fall when the next set of numbers are released.

US Q4 GDP grew at an annualised 2.1% vs 2.0% expected meaning that full year growth in 2019 was +2.3%. The Federal Reserve kept rates on hold at 1.75% and chairman Jerome Powell said that it would scale back its $60bn a month Treasury Bill purchases between April and June. Powell stated his intent to evade the downward spiral of inflation that's bedevilled other countries, declaring that "we're determined to avoid it here in the US". The US National Association for Business Economics Q4 business survey found that for the first time in a decade there are as many decreases as increases in employment at the firms they cover.

JONATHAN BELL
IVO COULSON
ROBERT CHAMBERS

3 February 2020

Important Information