

## Stanhope Capital Fortnightly Bulletin

Period ending 15<sup>th</sup> March 2020

### Tactical Positioning

As of today, most equity markets are down over 30% from their peaks on the back of the economic impact of COVID-19, with some areas performing even worse. For example, European equities have fallen by more than 35% and energy equities by around 50%.

Although it is painful to see last year's gains wiped out by the market fall, the portfolios we manage have nevertheless generally fallen by less than benchmarks. The bias in portfolios to large, quality, growth style companies has been beneficial at a time when value style companies, banks, energy and smaller companies have been particularly hit. In addition, we have more exposure to US equities than to equities of other countries and US equities have outperformed other markets during the setback.

2020 will be a bad year for economies and corporate profits. By contrast, we expect a sharp recovery in 2021, as the impact of the virus dissipates, and the monetary and fiscal stimuli support an economic recovery. As a result, although market volatility is likely to remain high in the short term, we will continue to take advantage of setbacks to add to equity exposure.

### Market Moves

	Equities (incl. Dividends)						
15-Mar-20	World (\$)	US (\$)	Europe <sup>1</sup> (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Month to Date	-11.6%	-8.2%	-20.0%	-18.2%	-16.3%	-10.1%	-9.2%
Year to Date	-18.9%	-15.8%	-26.8%	-28.1%	-25.5%	-16.4%	-14.1%

  

	Commodities			Currencies (vs. USD)			Gov't
	COM <sup>2</sup> (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y <sup>3</sup>
Month to Date	-8.0%	-3.5%	-29.1%	0.7%	-4.3%	0.2%	-19bps
Year to Date	-19.0%	0.8%	-48.0%	-0.9%	-7.4%	0.7%	-96bps

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

Equities suffered a week of historic losses, as worries deepened about the impact of the coronavirus outbreak and Saudi Arabia surprisingly triggered an oil price war. The collapse of talks with production rival Russia, which refused to support an OPEC-proposed cut in global output, led to Saudi Arabia threatening to increase production, sending prices lower. Although the trigger was related to Russian production, the immediate effects will be felt by the North American shale industry. High levels of leverage combined with a sharp downward price shock are likely to lead to bankruptcies rippling through this sector during the months ahead.

The on-going spread of COVID-19 has dominated news headlines and led to extraordinary volatility across asset classes, as markets succumb to the impact of supply chain disruptions and the fall in demand on economic growth. The fall in equity prices is one of the sharpest and quickest corrections we have seen since 1987. In response, monetary authorities have lowered interest rates and injected massive quantities of additional liquidity into the financial system, whilst governments have launched substantial fiscal stimulus programs. Even Germany, secretly admired by some of its peers for the country's 'Black zero' fiscal policy, has committed to provide much-needed relief to mitigate the effects of the health crisis.

A positive note for investors is the latest news coming out of China and South Korea, where the drastic containment and support measures have seemingly quashed the trajectory of the outbreak, with only a very low number of new daily infections currently being recorded. Europe has now become the epicentre of the virus, with fears that the US could see a large, uncontained outbreak next. Several draconian measures have already been implemented by President Trump, most notably a disruptive travel ban between the US and Europe.

Other asset classes besides equities and oil have been highly affected. Government bond yields have continued to fall (i.e. prices are rising) with the Federal Reserve implementing an emergency 100bps rate cut, the first since 2008, taking rates to almost zero. US Treasuries were especially volatile, with the yield on the 10-year decreasing to below 0.35%, before rising as investors started to sell Treasuries towards the end of the week, even as equities and other risk asset classes kept plummeting. By Friday, the US 10-year yield was up to 0.99%.

### Economic Updates

This morning, Chinese retail sales data was much worse than forecast, with retail sales down 20.5% so far this year. This is the first time that the year-to-date number has ever shown a decrease since this index started in 1989. As factories and shops continue to re-open, we should see a sharp recovery in sales. However, in Europe and the US, we expect bad economic data over the coming weeks, as the impact of measures to reduce the spread of the disease hit demand. Data should then improve by mid to late Summer.

In the UK, the newly appointed Chancellor of the Exchequer, Rishi Sunak, presented the government's 2020 budget. Aside from providing additional measures to reduce the economic impact of the virus, the Chancellor announced that he will reduce the extent of entrepreneur's relief, introduce a 2% stamp duty land tax for non-UK residents buying property and introduce additional measures aimed at combatting tax avoidance, evasion and non-compliance.

JONATHAN BELL  
IVO COULSON  
STEFAN KUTZNER

**16 March 2020**

## 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.