Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 15th June 2020

Tactical Positioning

As we discuss below, wild swings in equity markets continue. Three factors dominate investor sentiment: COVID-19 daily new infection and death rates, macro-economic data, and the actions by central banks and governments to protect their economies in lockdown. The third of these factors may be having the most significant impact on financial markets with government spending plans coupled with colossal monetary liquidity programmes supporting financial asset prices. Some improved economic data and the huge increase in money supply seem to have been the main catalysts for the stock market recovery in recent weeks and whilst these persist, investors may continue to 'buy the dips'. At this point, we are happy to maintain our exposure to risk assets.

Market Moves

	Equities (incl. Dividends)						
15-Jun-20	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	1.0%	0.8%	1.2%	-0.1%	-1.8%	3.2%	3.0%
Year to Date	-7.0%	-4.5%	-11.7%	-18.3%	-9.6%	-8.5%	-8.1%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	0.2%	-0.3%	4.6%	2.0%	2.1%	0.5%	7bps
Year to Date	-21.1%	13.7%	-39.2%	1.0%	-4.9%	1.2%	-120bps

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

Let's pretend you invested in the S&P 500 index of US stocks at the start of 2020 and then fell asleep until the first weekend of June. When you woke up you were told about the pandemic, the global lockdowns, the record job-losses, the collapse in GDP and company profits, the mass protests against police brutality and racism, looming uncertainty ahead of the presidential election and the frosty relations between the US and China. By how much would you have expected the market to have moved?... Unbelievably, as of 8th June it was *up* 0.05%. A rather powerful reminder that the stock market is not always reflective of the current state of the economy. In this case, it has more to do with monetary loosening by the US Federal Reserve (the "Fed") and the promised $1 trillion increase in infrastructure spending.

Initially, June continued where May's rally left off, with stock markets recording their best weekly gain in two months, as investors celebrated signs that the economic recovery could be underway faster than previously thought. By 8th June, the S&P 500 had risen 47% from its mid-March trough, with the period from 23rd March to 3rd June representing the biggest 50-day rally in the history of the index.

The chief driver of this optimism was the US jobs report for May. In what was perhaps the greatest economic forecasting blunder of all time, expectations of unemployment rising from 14.7% to 19.7% with another seven to eight million jobs lost proved wildly inaccurate. In the event, 2.5 million additional (non-farm payroll) jobs were reported and the unemployment rate came in at 13.3% - still very high, but significantly lower than feared.

The second week of June saw risk assets succumb to a reality check as panic selling and profit taking led to stocks posting their worst weekly declines since March. The period included the heaviest daily drop since 16th March, with the S&P 500 falling 5.9%, as well as suffering its first three-day losing streak since February. Investor sentiment retreated for two key reasons: first, the Fed issued a cautious economic outlook and indicated that interest rates are likely to remain near zero until 2022. Second, (and more worryingly) reports emerged of a spike in coronavirus infections across various American states, including Florida, California, Texas and Arizona. Subsequent reports of rising cases in Beijing and Tokyo have heightened fears of a "second wave", overshadowing more positive news that Europe continues to make big strides in reopening for business.

Is the asset price recovery likely to reverse for longer or is it merely taking a much-needed breather before moving higher? It's hard to tell, but a lot will hinge on the tug of war between fears of a resurgence in infection rates and the ability of central banks to continue providing unprecedented liquidity injections when required.

At company level, the mix of equity market volatility and on the ground difficulties faced by many businesses was perfectly illustrated by Hertz, which filed for bankruptcy on 23rd May owing to the collapse in demand for rental cars. Subsequently, over three trading days from 4th to 8th June shares in Hertz surged 577% driven primarily by retail investor' purchases. In the next session, the struggling company fell 39% in the first 15 minutes of trading, only to erase those losses and trade positive at one point in the day. Incredibly, on 12th June, Hertz got approval from a bankruptcy judge to sell up to $1 billion of new shares - the stock jumped 37% the same day. The stock subsequently fell by 34% on 15th June.

Economic Updates

The April UK GDP figure showed the economy contracted by 20.4% month-on-month, worse than predictions of 18.7% and the largest monthly contraction on record. This followed the Institute of Directors survey, which showed company directors' confidence improved in May after the April low, although it is at the second lowest level on record. Meanwhile, investment and hiring intentions remain at all-time lows.

The World Bank's latest global economic prospects report forecasts that global growth will contract 5.2% in 2020. It anticipates that advanced economies will contract by 7%, while emerging markets and developing economies ("EMDEs") will contract by 2.5%. By contrast, their 2021 forecast sees the global economy recovering by 4.2%, reflecting a 3.9% rebound in advanced economies and a recovery of 4.6% in EMDEs. The World Bank states that this road to recovery is contingent on restrictions starting to lift by the end of this month…

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15th June 2020

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