Stanhope Capital Fortnightly Bulletin

Period ending 30th April 2020

Tactical Positioning

In our last Bulletin we mentioned that quality growth, technology and healthcare seem to be themes with staying power for the coming months. With this in mind, we have added to healthcare equities in many portfolios and moved the focus in Asia towards the domestic consumer with a thematic fund which aims to capture growth, particularly in China and India. If 'globalisation' has slipped off the world agenda owing to tariffs and COVID-19 related worries, cultivating demand from the domestic consumer will be increasingly important for the governments of these populous countries.

As we discuss below, the rebound in equity markets and risk assets in April was significant. In the short term, we believe that markets need to consolidate at these levels before any further progress can be made. The oxygen provided by the enormous liquidity programmes is intended to bridge the huge demand gap created by the global lockdown. However, whilst economic data and company results remain dire, markets seem unlikely to rise significantly from here in the short term.

Market Moves

	Equities *(incl. Dividends)*						
30-Apr-20	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Last 2 Weeks	4.4%	4.7%	5.1%	5.6%	1.5%	3.8%	3.1%
April	10.3%	12.8%	6.1%	3.9%	4.4%	8.8%	8.3%
Year to Date	-11.7%	-9.5%	-16.2%	-20.9%	-13.7%	-11.9%	-10.7%
	Commodities			**Currencies (vs. USD)**			**Gov't**
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Last 2 Weeks	-1.7%	-1.8%	-5.2%	0.4%	0.6%	0.2%	1bps
April	-1.5%	6.9%	-8.0%	-0.7%	1.4%	0.3%	-3bps
Year to Date	-24.5%	11.2%	-69.1%	-2.3%	-5.0%	1.3%	-128bps

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 oil price fell during the fortnight reflecting the rapid decrease in economic activity across the world over the past six weeks and inadequate measures to cut production. For a short time, the price of oil futures even turned negative; on Monday 20th April, WTI ("West Texas Intermediate") futures ended the day at minus $37.63/barrel. This world first, whereby holders of oil futures paid *not* to take delivery, reflected the drastic shortage of oil storage capacity.

In contrast to the woes of the oil sector, April ended as the best month for the S&P 500 Index since January 1987, despite the world economy simultaneously collapsing. The severity of the impact on economic fundamentals is highlighted by the US reporting over 30 million jobless claims in the last six weeks, some 20% of the entire labour force. Nevertheless, investors can see a light at the end of the lockdown tunnel. Lockdown restrictions are being eased in many countries in Europe and asset prices are benefitting from the unprecedented monetary stimulus injected into global markets. Central bank balance sheets have grown $2.7 trillion since early March, compared with a total of $2.5 trillion during the GFC ("Global Financial Crisis").

Around the world, governments are beginning to focus on life after lockdown. In the UK, Matt Hancock, Secretary of State for Health, is targeting the second half of May as a possible moment to begin easing restrictions, partly on the grounds that the government will have recruited 18,000 'contact tracers' by then to help slow the spread of the virus. French President Emmanuel Macron announced that shops and schools will open from 11th May, although new safety standards will be required. In Japan, the news was less positive, as the governor of Tokyo asked the central government to extend their lockdown beyond 6th May. Elsewhere, it was rumoured that North Korean leader Kim Jong-Un was gravely ill, although he subsequently appeared in public to open a fertiliser factory.

Economic Update

Economic data has been resoundingly negative. In the US, first quarter GDP fell 1.2% and the Chicago PMI ("Purchasing Managers Index") fell 12.4 points in April to 35.4, its lowest since March 2009. US consumer confidence fell to 86.9, its lowest since June 2014 and down significantly from 118.8 in March. The Federal Reserve kept the IOER ("Interest Rate on Excess Reserves") on hold at 0.1% and forward guidance unchanged, 'until the economy is on track' citing concerns that the economy may be scarred by the crisis.

Eurozone Q1 GDP contracted by 3.8%, its largest fall since the formation of the euro in 1999. Euro area PMI fell to a record low of 13.5 vs. 25 expected and French consumer spending saw a decline of -17.9% compared with -5.8% expected.

Christine Lagarde, President of the European Central Bank, indicated that Q2 could, in the worst-case scenario, see a 15% contraction of the Eurozone economies. She also stated that that the €750 billion Pandemic Emergency Purchase Programme would not be increased for now and that it would remain her main policy tool, downplaying the use Outright Monetary Transactions.

WTI oil now stands at $18.84/barrel and Brent at $25.27/barrel. In the US Treasury Secretary Steven Mnuchin is discussing various support strategies with the domestic oil industry but has so far ruled out a bailout. Saudi Arabia's central bank net foreign assets dropped by $27bn in March to $464bn. Saudi Arabia could be forced to drawdown up to $32bn from its reserves to finance a government deficit caused by lower oil prices this year.

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4 May 2020

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