Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 15th July 2020

Market Moves

We have not made any major tactical changes in the last two weeks but continue to enjoy the ride upwards coming from our 'quality growth' equity exposure. As we discuss below, a sense of FOMO (fear of missing out) is slowly building amongst investors as markets get buoyed up by easy monetary policy. The gap between bond and equity yields is also compelling for investors seeking an income return that is at least above inflation. At some stage investor enthusiasm may start to recede, but as things currently stand equity markets are supported by continued investor buying.

	Equities *(incl. Dividends)*						
15-Jul-20	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	4.3%	4.1%	4.4%	2.2%	2.3%	7.0%	6.7%
Year to Date	-1.2%	0.6%	-5.5%	-15.1%	-5.7%	1.1%	1.5%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	2.6%	1.6%	4.9%	1.6%	1.5%	0.9%	-3bps
Year to Date	-17.3%	19.3%	-32.5%	1.8%	-5.1%	1.6%	-129bps

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

Equity markets rallied over the fortnight, with investors warming to signs that a vaccine against COVID-19 may be within sight and encouraged by the release of mostly positive economic data, showing tentative steps towards a recovery. Sentiment was also bolstered by the announcement of substantial fiscal spending packages, as well as dovish policy messages from central bankers. Stateside, the Nasdaq Composite index reached new highs, led by Tesla rising by a remarkable 43% in US dollar terms over the fortnight and 270% since the start of the year to become the world's most valuable car manufacturer. Not to be forgotten, Amazon broke $3,000 per share for the first time, up almost 63% year-to-date. Elsewhere, Chinese equities jumped sharply, drawing unwanted comparisons with the euphoria of 2015, when shares more than doubled in a year before collapsing. This time around, domestic retail investors lost their inhibitions, as the state media cavalierly talked up the prospect of a "healthy" bull market and surmised that "the signs of a bull market are more and more clear". In an effort to put a ceiling on the rally, two state-backed funds publicly outlined plans to trim their stake in the People's Insurance Company of China, the latest stock market darling.

It is striking that markets have essentially brushed aside mounting Sino-American tensions over the fortnight. Months of aggressive rhetoric have given way to a series of tit-for-tat sanctions, with the spotlight focused on alleged human rights abuses in Xinjiang province and the new security law in Hong Kong. Mike Pompeo, the US Secretary of State, set the tone by denouncing the "horrific and systematic abuses" and imposed sanctions on three senior officials of the Communist Party of China, including a member of the Politburo Standing Committee. Keeping up the pressure, the US declared China's South China Sea claims "unlawful" (reversing a long standing policy of not taking sides in the disputed area), stripped Hong Kong of its special trading status with the US and passed the Hong Kong Autonomy Act, which imposes sanctions both on Chinese officials involved in undermining Hong Kong's autonomy and financial institutions engaging with those individuals. China hit back by announcing sanctions on four US citizens, including Marco Rubio and Ted Cruz, both Republican senators and former candidates for the Republican presidential nomination in the 2016 election. Rubio and Cruz are likely, however, to have seen this as a badge of honour, as US public opinion hardens against China. Lockheed Martin, the defence company, was also sanctioned, following the US State Department's approval of the sale of missile parts to Taiwan.

Markets largely sidestepped reports of a new wave of COVID-19 cases in countries around the world and paid more attention to developments in the search for a vaccine. The US biotech company, Moderna, created a ripple of excitement, when its COVID-19 vaccine produced antibodies in early stage testing for all 45 participants. The success of this potential vaccine, however, was tempered by evidence that more than half of participants experienced side effects, some severe. Hopes for a breakthrough were further boosted after positive news from phase-one trials for the University of Oxford's vaccine. A third potential vaccine developed by BioNTech, the German biotechnology company in partnership with the US pharma giant, Pfizer, revealed that its vaccine has been fast tracked by regulators for quicker testing. All of this was set against the backdrop of rising COVID-19 cases, especially within the US, Brazil and India. Across the US, daily new cases passed 80,000 for the first time, with Florida, Arizona and California taking the brunt of the pain, and only six states are now believed to have an R number below 1.0. Whilst this is an alarming picture, US fatality rates are considerably lower than those in the first wave, possibly indicating that authorities are becoming better at treating the virus and/or protecting the vulnerable.

Economic Update

Economic data released over the fortnight was mixed, with the US and China comparing favourably to Europe. In the US, the highlight was the June payrolls print which smashed expectations at 4.8 million compared to the consensus forecasts of 3.2 million. To put it in context, this was the largest monthly increase in the history of the data series, stretching back to before World War II. Leisure and hospitality were the standout sectors, accounting for more than 40% of the net overall job growth. Unemployment has now fallen to 11.2%, down from highs of 14.7% in April and 13.3% in May. Although employment data seems to be moving quickly in the right direction, there remains a long way to travel, as just 7.5 million out of 22 million jobs lost in March and April have been filled. Other indicators also came out ahead of expectations, with the ISM Non-Manufacturing Purchasing Managers' Index ("PMI") climbing to 57.1 against 50.2 expected, a figure above all Bloomberg estimates, and the ISM Manufacturing PMI hitting 52.6 against 49.8 expected, above the decisive 50 mark that separates expansion from contraction. Federal Reserve Bank of Atlanta President, Raphael Bostic, argued that accelerating COVID-19 cases may warrant further policy action by central bankers or Congress, boosting hopes that further substantive monetary and fiscal measures might be passed to prevent economic conditions deteriorating. Acting in harmony, Senate Majority Leader, Mitch McConnell, reiterated his plans to release another major fiscal stimulus package next week.

This side of the Atlantic, the Chancellor of the Exchequer, Rishi Sunak, stepped in again to support an embattled economy and revealed a fresh fiscal stimulus package worth up to £30 billion. The headline policy was the Job Retention Bonus, which will see a £1,000 bonus paid to companies for each employee brought back from furlough and retained until the end of January 2021. Sunak also announced a temporary VAT cut from 20% to 5%, covering hospitality, accommodation and attractions, as well as a temporary increase in the Stamp Duty threshold, from £125,000 to £500,000. The Chancellor called for people to "Eat Out to Help Out", offering a 50% discount of up to £10 per head when eating out on Monday to Wednesday throughout August. Given the disappointing GDP reading of 1.8% month-on-month against expectations of 5.5%, the Chancellor will be hoping waistlines are bulging by the end of summer. Fortunately, some pockets of the economy are already recovering, with the UK Construction PMI bouncing back to 55.3 compared to 28.9 in May, the strongest reading since July 2018.

On the continent, the focus is already on the upcoming European Council summit, where details of the recovery fund are expected to be thrashed out. German Chancellor Angela Merkel and Italian Prime Minister Giuseppe Conte, have warned leaders of the so-called "frugal four" - Austria, the Netherlands, Denmark and Sweden - not to attempt to alter the proposed €750 billion financial package, arguing that it must be "massive" to secure the bloc's recovery. In terms of economic data, on the one hand, French and Italian industrial production readings for May came in well ahead of forecasts, but on the other, German industrial production fell well short of expectations, rising 7.8% against 11.1% expected. Turning to Asia, the recovery looks to have legs in China, demonstrated by dollar-denominated exports and imports rising year-on-year, whilst the Caixin China Services PMI came in at 58.4 against a consensus estimate of 53.2, the highest reading since April 2010.

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17 July 2020

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