Stanhope Capital Fortnightly Bulletin

Period ending 15th August 2020

Market Moves

We have not made any tactical changes to our positioning over the last two weeks. As we discuss below, equity markets continue to benefit from the 'sugar rush' caused by high levels of liquidity support provided by central banks and governments. The positive momentum in equity markets may seem surprising to many investors, but with cash and bond yields close to zero, equities look attractive by comparison.

	Equities *(incl. Dividends)*						
15-Aug-20	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	3.3%	3.2%	3.4%	3.8%	8.3%	1.6%	2.1%
Year to Date	1.6%	5.3%	-7.0%	-17.4%	-3.7%	3.8%	3.8%
	Commodities			**Currencies (vs. USD)**			**Gov't**
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	3.1%	-1.6%	4.3%	0.5%	0.0%	-0.7%	18bps
Year to Date	-12.2%	28.2%	-31.2%	5.6%	-1.3%	1.9%	-121bps

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 hit the ground running in August, with the S&P 500 Index posting seven consecutive daily gains, taking Wall Street to within touching distance of its record high reached on 19th February. Cyclical sectors, such as industrials, energy and financials led the way, whilst defensive sectors, including utilities and consumer staples, were the laggards. News on the vaccine front was broadly supportive of markets and efforts in the US to control the second wave of COVID-19 cases seem to be working. This improving backdrop contrasts with the state of play in Europe and Asia, where reported cases are generally on the rise although the total numbers are still low compared to the US. Markets sidestepped several other potential stumbling blocks, including the impasse in Washington DC on the next round of fiscal stimulus measures, as well as ongoing sabre-rattling between the US and China. Notwithstanding Joe Biden's selection of Kamala Harris, the Californian Senator, as his running mate, manoeuvrings in advance of the US presidential election in November were not particularly newsworthy.

The race to develop a COVID-19 vaccine once again acted as a strong tailwind for markets. Novavax, based in the US, caused a ripple of excitement when it announced that its vaccine candidate has successfully generated antibodies four times higher than those made by people who recover naturally from the virus. Elsewhere, President Trump pledged to buy 100 million doses of Moderna's vaccine in a $1.5 billion deal. Curevac, the German vaccine company backed by Bill Gates, raised $245 million at its Initial Public Offering ("IPO") on the Nasdaq, and, CanSino Biologics, the Chinese vaccine company, whetted appetites at its Shanghai debut, raising $789 million in a secondary offering. Not to be outshone, Russia granted regulatory approval for the Sputnik V vaccine, beating every other country to this milestone. Named after the satellite launched by the Soviet Union in 1957, the announcement prompted warnings from the international scientific community, owing to widespread concerns about its safety, with its release permitted after less than two months of human testing. This was despite Russia's president, Vladimir Putin, using his daughter as one of the test patients.

In the US, a stalemate between Republicans and Democrats over a new coronavirus support package failed to inspire confidence. Nancy Pelosi, Speaker of the House of Representatives, declared that both sides were "miles apart" and admitted that even getting them both around the same table was proving difficult. Markets have been surprisingly unperturbed by the lack of progress, even though millions of newly jobless Americans stopped receiving the $600 weekly unemployment handout at the end of July. President Trump, however, provided a well-timed boost to risk assets, when he hinted that a capital gains tax cut is on the cards. In theory, the President would need approval from Congress to reduce the 20% tax rate, but there remains the possibility that he could sign an executive order to get around this. Recent polls showing him trailing Joe Biden by ten points in the US presidential election, may force the President to offer the electorate something substantial.

There continues to be no love lost between the world's two superpowers, with sanctions once again on the agenda. The White House fired the opening salvo, sanctioning Carrie Lam, the Chief Executive of Hong Kong, who has been a prominent target over recent years for pro-democracy campaigners. President Trump also had TikTok and WeChat squarely in his crosshairs, banning all US residents from doing business with them. He argued that the Treasury should receive a "very large percentage" of the purchase price if Microsoft acquires TikTok's US business. A symbolic visit to Taiwan by the US Secretary of Health angered Beijing and raised the likelihood of a historic trade deal being struck. In response, China declared sanctions on a number of US officials, including Republican Senators, Marco Rubio, Ted Cruz and Tom Cotton, all of whom have helped drive antipathy towards the Chinese Communist Party ("CCP"). Concerns about the CCP's true intentions in Hong Kong reared their head, following the arrest of Jimmy Lai, the media tycoon and democracy activist. Even as relations soured, it is striking that investors broadly kept their composure. Larry Kudlow, the White House Economic Advisor, was potentially the saving grace, dismissing rumours that the phase one trade deal agreed last year is dead.

Gold climbed to record highs at the start of the month, before slumping nearly 6% in one day, the largest daily decline in seven years, and then recovering some ground towards the end of the fortnight. The metal is attracting capital amidst concerns about a weakening global economy, potential currency debasement, geopolitical tensions and fears of rising inflation. A record $40 billion flowed into gold ETFs over the first half of the year and a further $7.4 billion in July. After months of not getting much attention, government bond yields rose sharply (albeit off an extremely low base) partly a reflection of rising risk sentiment. This did not stop a record size 10-year US Treasury auction being sold with relative ease and August is set to be the biggest month ever in terms of investment grade bond issuance. Alphabet, a double A-plus rated company, raised $10 billion in its first sale of bonds since 2016, offering some of the lowest coupons ever for a US corporate.

Economic Update

All eyes were on employment data in the US, which turned out better than expected. Initial jobless claims were stronger than expected, coming in at 963,000 against 1.1 million forecast and the overall unemployment rate fell to 10.2% compared to forecasts of 10.6%. Although an impressive 228,000 decrease from the previous week, the initial jobless claims count still compares unfavourably to the worst week in the aftermath of the global financial crisis, where "only" 665,000 claims were recorded. The camp of investors betting on inflation rising, were happy to see core US CPI jump 0.6% month-on-month, the largest positive monthly move in almost three decades, although one should not read too much into one month's data.

The picture was less pretty in the UK, where second quarter GDP fell 20.4%, worse than the US and its European peers. Luckily there are some signs that the economy is now on the up, as demonstrated by the latest Construction Purchasing Manufacturers Index ("PMI"), which rose to 58.1 against expectations of 57.0, the highest reading since October 2015. Across the Channel economic data was quite varied, including Euro area industrial production rising 9.1% month-on-month but failing to meet expectations of 10.1%. German factory orders spiked 27.9% month-on-month against 10.1% expected. Mixed signals also came out of China, with the Manufacturing PMI surprising to the upside, at 52.8 against 51.1 expected, but the Services PMI let the side down, posting 54.3 against 58.0 expected.

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17 August 2020

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