Stanhope Capital Fortnightly Bulletin

Period ending 15th September 2020

Tactical Positioning

As we discussed in our Bulletin at the end of August, the recent pullback in equity markets is no great surprise. Moreover, 'buying the dip', which we also mentioned, continues to make these mini-corrections relatively short lived. That said, equity markets may be on the point of moving into a more skittish phase as investors try to second guess the outcome of the US election as well as the impact of a possible COVID-19 vaccine. The extent to which governments and central banks continue with their financial support for economies over the Autumn will also have a bearing on market sentiment. For the time being, the hope of a strong economic rebound in 2021 accompanied by generous liquidity conditions make it too early, in our view, to give up on risk assets.

Market Moves

	Equities *(incl. Dividends)*						
15-Sep-20	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	-1.3%	-2.8%	2.0%	2.5%	1.0%	0.6%	0.0%
Year to Date	2.7%	6.3%	-5.4%	-17.0%	-3.0%	5.0%	4.9%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	-2.1%	-0.7%	-10.2%	-0.7%	-3.6%	0.4%	-3bps
Year to Date	-10.9%	28.8%	-37.3%	5.7%	-2.8%	3.0%	-124bps

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

Following their stellar August performance, US equities fell over the fortnight, led by declines in large technology stocks. The NASDAQ fell sharply owing to heavy profit taking in many large technology-enabled companies, disappointing Purchasing Managers' Index figures and the unwinding of derivative positions, leaving it down almost 10% by 11 September from its peak nine days earlier. The S&P 500 also declined for the second week in a row and was left down 6.7% from the highs earlier in the month. The sell-off spread to global markets amid a momentary rotation out of secular growth, momentum and quality areas, although it is too early to assess whether this change in sentiment marks a ceiling for growth valuations and the beginning of a longer-lasting rotation into 'value' stocks. Ultimately, the rout did not accelerate and recent headlines on a flurry of merger and acquisition activity in the US have led to the indices recovering part of the recent fall.

Only partially affected by the turmoil across the Atlantic, stocks in Europe rose despite disappointment that the European Central Bank (ECB) did not announce additional monetary stimulus, as well as renewed fears of a hard Brexit (more on which below). European stocks, being more cyclically oriented, are still down this year and are playing catch-up with their US peers. The UK's FTSE 100 Index, however, managed to gain 2% over the fortnight, benefitting from yet another fall in sterling: Large UK stocks tend to profit when the pound falls as many corporations in the index are multinationals that generate substantial overseas revenues.

Energy stocks suffered as US onshore oil prices sank below $40 per barrel for the first time since July this year, fuelled by Saudi Arabia cutting prices of shipments to several Asian countries. Gold remained mostly flat over the fortnight, having seemingly stabilised around its current price level of around $1970.

Brexit made a fierce comeback to the headlines with the government introducing its new Internal Market Bill, which seeks to prevent trade disruption amongst the four nations of the UK under a no-deal scenario with the EU. On 14 September, the bill won its initial vote in Parliament, however not without its fair share of controversy. Senior government officials from both the UK and the EU have concluded that the bill in its current shape (if passed into law) would overrule parts of the signed Withdrawal Agreement, and therefore violate international law. The prospect of the UK reneging on its previous commitments in such fashion sent shockwaves across diplomatic circles and now threatens to disrupt final negotiations due to resume this week. Prime Minister Boris Johnson has said that the government is simply seeking to protect the integrity of the UK, while at the same time making it clear that both sides should start preparing for a no-deal scenario should a trade deal not be agreed upon by 15 October.

In the wake of Japanese Prime Minister Shinzo Abe's resignation, the government has appointed Yoshihide Suga, government chief spokesman for the past seven years and son of a strawberry farmer, to lead the ruling party going forward and this virtually assures him the position of Prime Minister. The consensus view is that monetary and fiscal policies will be little changed under Suga as his views are closely aligned with those of his predecessor Abe. His key policies are likely to include a swathe of strategic reforms to revitalise Japan through continuing deregulation, public sector digitalisation and boosts to administrative efficiency.

Looking ahead towards the last quarter of this year, investor attention will switch its focus to the upcoming US election in November. Opinion polls still point to a likely victory for Democratic candidate, Joe Biden, but the betting odds have narrowed to almost evens and no one can rule out another win for the current President. This year's election will be unique in the sense that on-going disruption from COVID-19 is forcing many Americans to vote via post for the first time. Trump loudly voiced his criticism of the system by publicly asking all Americans to vote this way, then subsequently turn up at their local polling station on election day in order to test that safeguards to avoid double-voting are in place and functioning. It is possible that we will face a long and chaotic period, perhaps lasting weeks, during which the results are counted and both candidates may try to claim victory.

Economic Updates

The US unemployment rate dropped to 8.4% in August (down from 10.2% in July) and although initial unemployment claims remain elevated, it is estimated that about 48% of the jobs lost during March and April have been recovered in the past four months.

Retail sales in the Eurozone rose by an annualised 0.6% in July, less than June's 1.5%. Inflation expectations have been dampened with an early estimate of consumer prices showing inflation of minus 0.2% in August – the first decline since May 2016, pressuring the European Central Bank to increase stimulus further. Additionally, the euro's strength is worrying policymakers, who warned that continuing appreciation would weigh on exports and slow down the economic recovery. The euro briefly rallied in the fortnight to more than US $1.20 for the first time since 2018.

Today sees the last US Federal Reserve interest rate decision before the pending US election. Expectations are that forward guidance on interest rates will not change and that the current asset purchase program will remain in place to provide monetary accommodation. The Bank of England and Bank of Japan monetary decisions are to follow on Thursday.

JONATHAN BELL
IVO COULSON
STEFAN KUTZNER

15 September 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 and Stanhope Capital SAS. 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). 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.