

Stanhope Capital Fortnightly Bulletin

Period ending 30th September 2020

Tactical Positioning

In our last Bulletin we suggested that markets were entering a more skittish phase as investors try to second guess, amongst other things, the US election, the speed of economic recovery and the effect of ongoing stimulus from central banks and governments. After a more challenging month for equity investors, the last few days have seen buyers reappear in the wings. Yet again, investors are focussing their attention on just a few sectors (Technology, Telecoms and Consumer Discretionary) which contain the big names (Apple/Amazon/Microsoft/Facebook etc). This suggests to us that 'quality growth' stocks, many of which are 'stay at home' winners, may have further to go. In the short term, the announcement this morning that President Trump has tested positive for the coronavirus has created new uncertainty ahead of the US election and this is likely to be reflected in an increase in market volatility until more is known.

Market Moves

30-Sep-20	Equities (incl. Dividends)						
	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	-1.5%	-1.1%	-2.7%	-3.9%	-0.5%	-2.2%	-2.2%
September	-2.7%	-3.8%	-0.8%	-1.5%	0.5%	-1.6%	-2.1%
Year to Date	1.2%	5.1%	-7.9%	-20.2%	-3.6%	2.7%	2.6%

30-Sep-20	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Last 2 Weeks	-1.3%	-3.5%	5.1%	-1.1%	0.2%	0.0%	1bps
September	-3.4%	-4.2%	-5.6%	-1.8%	-3.4%	0.4%	-2bps
Year to Date	-12.1%	24.3%	-34.1%	4.5%	-2.5%	3.0%	-123bps

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

Equity markets generally fell over the last two weeks of the month, particularly in Europe where many countries saw coronavirus infection rates increase. In the UK, renewed lockdown measures and no breakthrough in Brexit negotiations pulled the equity market down almost 4%. In the US, the S&P 500 dropped for a fourth straight week on Friday on concerns about rising infection numbers and the potential of a contested November 3rd election result. The Federal Reserve tried to calm nerves by signalling that interest rates would remain near zero until at least the end of 2023, while maintaining quantitative easing through the purchase of Treasury and mortgage-backed securities.

The first of three scheduled Presidential debates got underway on Tuesday evening attracting 73m viewers. A snap poll afterwards by CNN indicated that Joe Biden won the TV debate with 47% of viewers polled supporting him compared to Donald Trump's 40%. However, it is worth noting that polls after the 2016 debates also suggested that Trump had lost comprehensively. The uncertainty surrounding the outcome of the November vote is certainly adding to the defensive note seen across markets. Elsewhere, the nomination by President Trump of Amy Coney Barrett to the Supreme Court could have a bearing on the election outcome if it becomes contested. The Supreme Court, with a potential 6-3 conservative majority, would decide the eventual outcome of the election if the losing candidate challenges the result.

In contrast to most equity markets, the technology heavy NASDAQ composite index rose 1.1% last week, its first weekly gain since August. This mainly reflects the perceived resilience of the constituent companies to the damage the virus is causing to the US economy. Vaccine trials continue in earnest with Trump estimating that the US will have one ready within three to four weeks. The company behind one of the planned vaccines, Moderna, thinks widespread inoculations will not begin until Spring next year. In the meantime, cross party talks continue between

Democrats and Republicans on the possibility of further fiscal stimulus, in the form of a \$2.2tn pandemic relief bill which would support airlines, small businesses and hand out another round of \$1,200 direct relief payments to individuals. This may be agreed in the next few weeks and could cause a rally in risk assets.

In Japan, Chief Cabinet Secretary Yoshihide Suga was elected Prime Minister by Japan's parliament with more than 70% of the vote. Market participants expect little change in direction from Suga who has signalled his intention of keeping the main policies of the previous administration by keeping Finance Minister Taro Aso in his post.

Economic Updates

US weekly jobless data published last week was 30k above expectations at 870k with the previous week revised up by 6k. This number is higher than the pre-covid record peak of 695k in 1982 and exceeds the worst week of the financial crisis.

Better news came from the ADP private payrolls report for September which rose 749k, 100k more than expected whilst the August figure was revised up by 53k. The Chicago Purchasing Managers Index (PMI) rose to 62.4 against 52.0 expected, the highest level since December 2018.

In Germany, the Ifo Institute for Economic Research Business Climate Index rose to 93.4 against 93.8 expected. The euro area Services PMI fell into contraction territory (47.6 against 50.6 expected) but the Manufacturing PMI was in expansion territory at 53.7.

China's September Manufacturing and Non-Manufacturing PMI numbers slightly beat expectations at 51.5 and 55.9 respectively, helped by strong exports.

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30 September 2020

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