Stanhope Capital Fortnightly Bulletin

Period ending 15th November 2020

Tactical Positioning

The dynamic driving equity markets started to change over the last two weeks with the vaccine news suddenly switching investor attention away from 'stay at home' winners to more economically sensitive stocks in un-loved sectors such as energy, leisure and financials. Whilst quality growth stocks in sectors such as technology and healthcare should continue to perform well, there is little doubt that the stock market recovery is now broadening out. We have reacted to this by adding index-tracking equity exposure which captures the full mix of industry sectors, as well as revisiting small and mid-cap companies that have suffered this year. At the same time, we are trimming some of our 2020 winners and cutting gold which has become increasingly volatile and has lost much of the momentum seen in the first half of the year. Overall, we expect this re-calibration of our portfolios to give us better access to the recovery. In aggregate, however, we are keeping our bias towards ‘quality growth’ companies.

Market Moves

	Equities (incl. Dividends)						
15-Nov-20	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Month to Date	9.6%	9.7%	12.4%	13.5%	8.4%	6.7%	6.6%
Year to Date	8.1%	12.2%	-2.1%	-13.8%	1.9%	11.2%	11.7%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Month to Date	2.6%	0.6%	12.1%	1.6%	1.9%	0.0%	2bps
Year to Date	-8.5%	24.5%	-34.3%	5.5%	-0.5%	3.8%	-102bps

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

Even by 2020’s standards, the first two weeks of November proved highly dramatic. Joe Biden’s lead in the polls prior to the election meant, to some, that his election as the 46th president of the United States was a foregone conclusion; commentators proclaimed that the odds of a Biden landslide stood at a lofty 80%. Better still for the Democrats, they were projected to take control of the Senate and retain the House of Representatives. The wave on the horizon was blue.

As votes came in, however, it appeared that Donald Trump’s appeal was greater than most had anticipated. He gave the Democrats a scare, as states like Florida and Ohio unexpectedly turned red. As it stands, 73 million American citizens voted for President Trump – the most for any sitting president in history. Yet, unless his legal case of voter fraud gains credible traction, Trump will become the first president since George H W Bush to leave the Oval Office after just one term. Meanwhile, the Republicans appear to have maintained control of the Senate (although the run-off elections in January could change this).

The potential for a political stalemate, whereby a Republican Senate can temper some of the new president’s policies has been perceived as good for equity markets and the Nasdaq index rallied 9.0% between 1st and 6th November.

Markets were initially buoyed by the idea of a Democratic president ushering in greater fiscal stimuli. Then, once it became clear that a Republican Senate was likely, the market rallied on the fact that Biden’s proposed tax hikes and clampdown on big tech names would be difficult to implement and that the Federal Reserve would need to maintain extraordinary monetary stimulus for an extended period (to make up for the lack of fiscal stimuli). A Republican Senate means that Biden's ambitious fiscal spending plans will be watered down.

On 9th November, just as the election result became clearer, Pfizer announced that trial results show that their COVID-19 vaccine candidate is more than 90% effective. At last, a light at the end of the COVID-19 tunnel. Markets rose rapidly, with the Dow Jones Industrial average leaping over 5%. The global rally added more than $1.8tn to the value of the MSCI All Country World Index, whilst gold, a traditional safe-haven asset, dropped almost 4% on the day.

The positive vaccine announcement triggered a style rotation within equity markets. Many of the high-flying growth stocks of 2020 that had benefitted most from the stay-at-home lockdown lifestyle during the pandemic underperformed, as investors focused on the companies that would benefit from a return to normal life. Shares in leisure, retailers and cyclical industrial companies rose. Small-cap stocks outperformed large-cap stocks, as is often the case when the world emerges from the depths of an economic crisis.

Time will tell whether these swings are temporary. COVID-19 cases, hospitalisations and deaths are still rising and much will depend on the speed and scale of vaccine distributions, as well as the size of the stimulus package that a Biden administration is able to squeeze past the Senate. The economic outlook in the near term remains uncertain and further lockdowns will dampen demand in the short term. Further out, the potential for widespread distribution of multiple vaccines should be supportive of a strong economic recovery.

Economic Updates

In the US, non-farm payrolls came in stronger than expected with 638k jobs added. The unemployment rate fell to 6.9% while the labour force participation rate picked up to 61.7% from 61.4% the previous month. This followed a strong October ISM manufacturing reading of 59.3 (versus expectations of 56). The October ISM Services indicator came in below expectations, but a reading of 56 remained firmly in expansionary territory.

Eurozone GDP rose 12.6% in the three months to the end of September reversing most of the 12.8% fall experienced in the second quarter. GDP for the bloc is around 4.4% lower than a year earlier. The UK economy grew by 15.5% in the third quarter. Economists polled had expected a 15.8% quarter-on-on quarter expansion following the unprecedented plunge of 19.8% in the previous quarter. This means that the UK's GDP is still at 2014 levels and is down 8.3% on its February level.

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15th November 2020

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