Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 30th November 2020

Market Moves

In our Bulletin dated the 15th November, we outlined how we have been adding to more economically sensitive equities and reducing our exposure to gold. In the coming days we may go further, increasing areas such as industrials and commodities. We believe that as COVID-19 fears subside, the pent-up demand in the global economy may release a mini demand frenzy as society starts to unlock and consumers (with increased savings) start to circulate and spend. Governments seem poised to inject yet further liquidity into the system and this could give a further boost.

	Equities *(incl. Dividends)*						
30-Nov-20	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	1.7%	1.1%	1.6%	-0.7%	3.5%	1.0%	1.0%
November	11.4%	10.9%	14.2%	12.7%	12.2%	7.8%	7.7%
Year to Date	10.0%	13.4%	-0.6%	-14.4%	5.5%	12.3%	12.8%
	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	0.9%	-5.9%	13.0%	0.8%	1.0%	0.3%	-6bps
November	3.5%	-5.4%	26.7%	2.4%	2.9%	0.3%	-3bps
Year to Date	-7.7%	17.1%	-25.7%	6.4%	0.5%	4.1%	-108bps

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 climbed higher over the second half of November, fuelled by more positive news on the vaccine front and growing signs that Joe Biden's path to the White House is clearing. Rising COVID-19 cases in the US and falling cases in Europe took a back seat. Stateside, the S&P 500 and Dow Jones Industrial Average posted record highs, with cyclical areas, such as energy, banks and leisure, beating "work-from-home" beneficiaries, such as technology and communication services. This pattern rang particularly true in Europe, where cyclical sectors have been largely shunned by investors since the outbreak of the pandemic in March. Smaller companies in Europe and the US outperformed larger companies by a wide margin, with the STOXX Europe 600 and Russell 2000 delivering their strongest ever monthly returns (in price terms).

The standout performer over the past two weeks, however, was Tesla, following confirmation of its S&P 500 debut next month. Tesla's share price soared by 39% over the fortnight and now stands up 578% year-to-date. It is expected that the company will comfortably sit within the top ten constituents of the S&P 500, given that its market capitalisation is currently north of $500 billion. The price of oil also rose sharply over the period, reaching its highest level since March amidst optimism that successful vaccines may help economies open up sooner than expected. Copper, an industrial bellwether, benefited from similar tailwinds and powered to a six-year high. Sentiment turned against safe haven assets and, in particular, gold. The yellow metal declined nearly 6% over the fortnight, despite a softening US dollar which would normally provide support for its value.

Moderna and AstraZeneca followed Pfizer/BioNTech's breakthrough earlier in the month, declaring impressive efficacy results for their vaccine candidate. These two announcements added impetus to the narrative that medicine is finally gaining the upper hand against COVID-19 and, unsurprisingly, received a warm reception from investors. Moderna's efficacy rate came in at an excellent 94.1%, on par with Pfizer/BioNTech's and far superior to the flu vaccine. Notably, it can be stored at -20 degrees Celsius, compared to -70 degrees Celsius for Pfizer/BioNTech. The US government is hoping to target mid-December for a mass rollout of Pfizer/BioNTech and Moderna, whilst the European Union ("EU") have indicated that both vaccines could receive approval later in December. Although there are some questions regarding AstraZeneca's efficacy numbers which range from 70% to 90% (depending on how many doses are given), its vaccine has the advantage of being storable at fridge temperature, making it attractive for emerging markets where the costs and infrastructure required to cool drugs at extreme temperatures can be prohibitive. Vaccine candidates in Russia and China have also been making headlines but not always for the right reasons. The developers of Sputnik V, for example, claim an efficacy rate higher than 95%, but have received criticism for not being peer reviewed and for their sample size being much smaller than competitors.

Markets reacted positively to President Trump's first steps in handing over the keys to the White House. Backed into a corner by senior Republicans calling for him to drop his legal challenges, Trump signalled that he would stand down should the Electoral College vote in favour of Joe Biden next month. He has not, however, formerly conceded defeat or agreed to attend Biden's inauguration. Meanwhile, the General Services Administration acknowledged Biden as the winner of November's US Presidential Election, setting the ball rolling for the transition process to begin. Importantly, these moves reduce the likelihood of a destabilising and protracted squabble over the outcome of the election, and provide a degree of clarity to investors.

Biden's proposed appointment of former Federal Reserve ("Fed") Chair, Janet Yellen, as his Secretary of the Treasury, similarly played well with Wall Street. Yellen has a track record of being market friendly and should be able to coordinate well with the Fed going forward. Steven Mnuchin, current Secretary of the Treasury, has already complicated the task ahead by moving $455 billion of unspent stimulus money into an account that his successor can only access with Congressional approval. The President-elect's other proposed appointments are heavily influenced by his time as President Obama's right-hand man. These include Antony Blinken, previously deputy Secretary of State under Obama, as Secretary of State, John Kerry, Secretary of State under Obama, as "Climate Czar", and Avril Hayne, White House Deputy National Security Advisor under Obama, as Director of National Intelligence.

Tempers flared in the Middle East following the assassination of Iran's top nuclear scientist, Mohsen Fakhrizadeh, and all eyes are on whether the region can avoid a major escalation in tensions. Further afield, the unsettling conflict consuming Ethiopia marks the first time in modern history that wars and insecurity cover an uninterrupted line from Mauretania's Atlantic coast in the West to the Red Sea in the East.

Economic Update

There are some concerns that rising COVID-19 cases in the US are stalling the economy's well-documented recovery. Initial jobless claims, for example, rose by more than expected for the second week running, up 778,000 against 720,000 expected. Personal income fell by 0.7% compared to a consensus fall of 0.1%, and retail sales rose by just 0.1% against 0.5% expected, the slowest increase since the pandemic shook markets. In the context of the ebb and flow of lockdowns and social distancing measures, however, it is a remarkable achievement that retail sales remain up 5.7% year-on-year. The residential property market in the US appears immune to rising COVID-19 cases, with the National Association of Home Builders Index reaching its highest level in history.

On this side of the Atlantic, UK mortgage approvals in October jumped to 97,500, the highest level since September 2007 and well ahead of the numbers seen in the months prior to the pandemic. Buyers have cast aside fears about an economic downturn and instead focused on the Chancellor's stamp duty holiday which ends in March 2021. The Office of Budget Responsibility, in contrast, presented a sobering outlook, forecasting the budget deficit to rise to a peacetime record of 19% of GDP and public sector net debt to hit 105% of GDP. The economic picture looks equally downbeat on the continent, with flash Purchasing Managers' Indices falling for most countries. A breakdown in the EU's latest budget talks over the rule of law commitments dampened spirits further, facing Hungary and Poland off against the other 25 member states. Brexit negotiations laboured on, with neither the EU nor the UK government appearing to offer any meaningful compromises.

JONATHAN BELL
IVO COULSON
HARRY COOKE
2 December 2020

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