Stanhope Capital Fortnightly Bulletin

Period ending 31st October 2020

Tactical Positioning

As you will see from the amount of red numbers in the table below, equity markets have encountered a nervous patch. This seems natural given recent news on COVID-19 related lockdowns and how far markets have recovered since the Spring. For the long-term investor, we believe that the current pull-back presents a minor buying opportunity as we expect another large stimulus package in early 2021, regardless of a Biden or Trump victory. In the meantime, increasing cases of COVID-19 in the US and Europe are ensuring that many of the 'stay at home' winners (e.g. Amazon) continue to attract investors.

Market Moves

	Equities *(incl. Dividends)*						
31-Oct-20	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	-5.3%	-6.1%	-6.0%	-4.3%	-3.1%	-1.5%	-1.5%
October	-2.5%	-2.7%	-5.4%	-4.7%	-2.5%	1.5%	2.1%
Year to Date	-1.3%	2.3%	-12.9%	-24.0%	-6.0%	4.2%	4.8%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	-2.2%	-1.6%	-12.6%	-0.5%	0.3%	0.7%	14bps
October	1.4%	-0.4%	-11.0%	-0.6%	0.2%	0.8%	19bps
Year to Date	-10.8%	23.8%	-41.4%	3.9%	-2.3%	3.8%	-104bps

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

Markets started the second half of October in wait-and-see mode, pending an agreement on the new US stimulus package, the outcome of the American presidential election and the result of negotiations on Brexit. Following a political back-and-forth, no compromise could be found for the US stimulus package which will now have to be agreed after the election, something US lawmakers have loudly criticised ("The American People need help now!"). The same applies to Brexit negotiations which have been extended past Boris Johnson's original deadline of 15 October, although we understand that an agreement on fishing rights is in sight and the elusive trade deal (albeit limited) with the EU might be saved after all.

During the last week of October, sentiment turned drastically, and the above considerations were overshadowed by the latest COVID-19 developments. Infection rates have dramatically increased across Europe and are still on the rise in the US. As a result, France, Germany and England announced national "light" lockdowns and various other countries introduced mobility restrictions in order to curb the spread of the virus. Following their steady recovery over recent months, this change in outlook saw US and European equity markets post their worst week since March.

In the US, the S&P 500 fell 5.6% and the NASDAQ, 5.5%. In Europe, Germany's DAX index dropped 8.6%, France's CAC 40, 6.4% and Italy's FTSE MIB, 7.0%. The UK's FTSE 100 Index fell 4.8%. Volatility has increased, the VIX (the volatility index for the S&P 500) has now risen back to around 37 points. By comparison it was around 12 at the start of the year and during the first lockdown rose to over 80 before falling back to 22 in August. While the current reading of 37 is still considerably lower than during the worst of the sell-off in March, the last time the equity volatility index stood at this level, outside of the pandemic, was in 2015.

Renewed fears of a potential demand shock owing to the shutdowns and a rising US dollar saw oil prices fall sharply with the benchmark WTI (West Texas Intermediate) down 10.2%. US dollar strength also pushed down the price of gold when viewed in US$. Unusually in a 'risk off' period, US government bond yields actually rose slightly over the fortnight as investors moved to price in a potential Biden victory with higher spending on the way. Government bond yields fell in Europe on weaker investor sentiment around new lockdowns.

Whilst worries mount over the global macroeconomic outlook and uncertainty, the third quarter US corporate earnings season has been slightly better than anticipated. Last Thursday saw four giants release their results and investors' reactions were mixed: Apple's stock fell over 4% even though its quarterly results beat estimates (partly because Apple also revealed that iPhone revenues were 21% lower in China for the quarter). Amazon was down nearly 2% after its Chief Financial Officer indicated that COVID-19 related expenses will cost the company up to $4 billion; Facebook shares fell over 2% in the after-market, despite revenues and user growth both beating estimates. Google's parent company, Alphabet, emerged as the only winner, gaining over 6% based on the company's strong bounce-back in digital advertising profits.

The fortnight also saw the second and final US presidential debate, which was far more orderly than the first, helped by microphones being muted when the rival candidate spoke. The debate focused on the pandemic, the economy, race relations and climate change. Both candidates held their own, but the importance of the debate was arguably diminished by the unprecedented quantity of early voting that has taken place this year. It is unlikely that we will know a clear winner tonight given the high number of mail-in ballots this year and the various state procedures around counting them.

Economic Updates

Friday saw the release of third quarter GDP readings from Europe's largest economies, with the euro area coming in above expectations with 12.7% growth versus expectations of 9.6%. A lot of this growth is simply a recovery from the initial shutdowns earlier this year and economic activity is expected to remain well below its pre-COVID peak for some time.

In response to headline euro area CPI falling 0.3% year-on-year in October, European Central Bank (ECB) President Lagarde said consumer prices could keep falling into 2021 but she did not believe that the economy was seeing signs of deflation. CPI inflation in the UK at 0.5% for the 12 months to September remains well below the Bank of England's target of 2% and came alongside the announcement from Deputy Governor, Dave Ramsden, that there was "considerable headroom" for more quantitative easing. The ECB left its monetary policy unchanged, keeping its deposit rate at -0.5% and its emergency bond-buying program at €1.35 trillion, with a promise to "recalibrate its instruments, as appropriate, to respond to the unfolding situation" in December.

US initial jobless claims came in at a lower-than-expected 787k in the week through October 17, being the lowest level since the start of the pandemic. Continuing (unemployment) claims continued to fall sharply, from 8.5 million the previous week to 7.8 million. Observers noted that the expiration of unemployment benefits for some workers might be partly responsible for the sharp decline. Both measures are still above their historic peak levels following the global financial crisis in 2008/2009.

JONATHAN BELL
IVO COULSON
STEFAN KUTZNER
31 October 2020

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