# Stanhope Capital Fortnightly Bulletin

Period ending 15th December 2020

## Market Moves

Since our last Bulletin equity markets have continued to move higher. Stimulus packages in the US and Europe are on the cusp of becoming a reality and the transition from Trump to Biden seems set on a smoother track. Perhaps a Brexit trade deal will be a year-end headline 'grabber' in the UK, with the odds in favour of a deal rising sharply in the last few days. All in all, it has been a most extraordinary year in which not panicking with regards to our equities in the spring was one key to investment success. The start of 2021 should bring signs of a robust economic recovery during the year as the COVID-19 vaccines are distributed. This could give investors further impetus to hunt for returns at a time when deposits and bonds continue to yield next to nothing.

| | Equities *(incl. Dividends)* | | | | | | |
|---|---|---|---|---|---|---|---|
| **15-Dec-20** | **World ($)** | **US ($)** | **Europe[1] (€)** | **UK (£)** | **Japan (¥)** | **EM ($)** | **Asia ($)** |
| **Month to Date** | 2.1% | 2.1% | 0.3% | 4.0% | 1.3% | 2.7% | 2.2% |
| **Year to Date** | 12.3% | 15.8% | -0.2% | -10.9% | 6.8% | 15.4% | 15.3% |
| | **Commodities** | | | **Currencies (vs. USD)** | | | **Gov't** |
| | **COM[2] ($)** | **Gold ($)** | **WTI Oil ($)** | **EUR** | **GBP** | **JPY** | **UST 10Y[3]** |
| **Month to Date** | 1.8% | 4.3% | 5.0% | 1.9% | 1.0% | 0.6% | 7bps |
| **Year to Date** | -6.0% | 22.2% | -22.0% | 8.4% | 1.5% | 4.8% | -101bps |

*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 and bond markets had another good fortnight as investors focused on the rollout of vaccines, stimulus programmes and the increase in the number of COVID-19 cases around the world. Federal Reserve Chairman, Jerome Powell, testified that the US economy remains in a damaged and uncertain state, though he did acknowledge that the news of a vaccine was 'very positive in the medium term'.

This year Christmas will not be as merry as usual, and we will enter the New Year with more of a 'phut' than a bang. New York's mayor announced that people should prepare for another lockdown. In Europe, London enters a new lockdown today (Wednesday), the Prime Minister of the Netherlands announced a five-week lockdown on Monday and France is implementing an 8pm curfew with the exception of Christmas Eve. Despite this, the start of the roll-out of the Pfizer/BioNTech vaccine in the UK and US has taken the edge off investor nerves and supported the rise in the market despite the recent increase in COVID-19 cases and deaths.

The imminent US stimulus programme, estimated at $908bn, will support households while the vaccine roll-out begins in earnest. The US Food and Drug Administration's panel of independent medical professionals in the US voted 17-4 in favour of Pfizer's vaccine with one abstention. Pfizer's CEO and other executives from the company have politely offered to wait for the public to have their shots before they receive theirs, whilst many celebrities are lining up to take the vaccine to help assuage any concerns of negative side effects.

In Europe, the ECB's bond buying programme was increased by €500bn to €1.85tn and other stimulus programmes were extended until 2022, although ECB President, Christine Lagarde, cooled the market mood by stating that the additional bond buying 'need not be used in full'.

Joe Biden took a step closer to the White House when the Electoral College formally voted him in as President with a vote of 306 to 232. President Trump has shown little intention of stepping aside even after the Supreme Court rejected a case from Texas which questioned whether the elections carried out in four of the swing states were constitutional.

We may or may not be on the verge of a post Brexit trade deal between the UK and EU and sterling has been the key barometer of whether market participants consider a deal is likely. As fears of no deal increased, the pound fell by almost 2% against the dollar over the course of the week to 11th December, its worst week since early September. It has since risen on more optimism that a deal can be reached. The joint statement by Boris Johnson and Ursula Von Der Leyen did not mention a new deadline and the British PM has asked British business to prepare for a no deal scenario, whilst also preparing parliament to be able to pass any agreed deal over the holiday period.

UK government bond yields rose slightly thanks to renewed optimism that a post Brexit trade agreement will be reached with the EU. Within the eurozone, spreads between German bond yields and Italian bond yields continue to narrow as investors expect the European Central Bank to continue supporting bonds of countries such as Italy, Spain and Greece. 10-year Italian bond yields fell to another all-time record low of 0.54%.

Commodity prices rose over the two weeks with gold retracing the fall of the previous fortnight, primarily in response to dollar weakness. Oil and energy stocks have performed poorly this year given the fall in demand for oil but rose during the fortnight after OPEC members agreed to delay production hikes in the first quarter of 2012. Both Brent ($50.6) and WTI Oil ($47.4) have reached their highest levels since the pandemic started.

## Economic Update

The impact of the increased number of cases of coronavirus in the US and tighter lock down restrictions was apparent in jobs data from last month which showed a significant loss of momentum. 245k jobs were added vs 460k expected.

The Euro Area's industrial production for October rose by 2.1% month-on-month, although compared to a year ago production is 3.8% lower. There were increases in the November construction PMIs (purchasing managers index) from Germany and the UK which were at 45.6 (45.2 previous) and 54.7 (53.1 previous) respectively.

China's November data was in line with expectations; industrial output was up 7% year on year, fixed asset investment +2.6% and the surveyed jobless rate came in at 5.2% (vs. 5.3% last month).

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**17 December 2020**

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