Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 31 December 2020

Tactical Positioning

As you will see from the table below, markets finished 2020 with a flourish. Looking into 2021, we see two key positive factors. The first is that the monetary and fiscal support supplied by central banks and governments, which helped stock markets in 2020, will continue. Second, household savings have grown over the last nine months and this could result in a release of pent-up consumer demand as vaccines unlock activity. To some extent, equity and bond markets are already discounting this relatively rosy scenario, however, low interest rates and a strong recovery in company earnings in 2021 and 2022 will continue to entice investors into riskier assets. Meanwhile, the increase in demand coupled with the increase in money supply could lead to inflation rising later in the year.

Market Moves

	Equities *(incl. Dividends)*						
31-Dec-20	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	1.7%	1.7%	1.7%	-0.7%	1.8%	3.2%	3.0%
December	3.8%	3.8%	2.0%	3.3%	3.1%	6.1%	5.3%
Year to Date	14.2%	17.8%	1.4%	-11.5%	8.8%	19.1%	18.8%
	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	3.1%	2.4%	1.9%	0.5%	1.6%	0.3%	1bps
December	5.0%	6.8%	7.0%	2.4%	2.6%	1.0%	7bps
Year to Date	-3.1%	25.1%	-20.5%	8.9%	3.1%	5.1%	-100bps

[1] *Europe excluding UK*

[2] *Bloomberg Commodity Index*

[3] *US Treasury 10 Year Yield shows absolute, not percentage, change in yield*

Source: Bloomberg

What a year! 2020 started with expectations for trend-like economic growth and continued conditions of benign inflation and low market volatility. Financial assets were highly valued with the market pricing in very little global impact from the epidemic emerging in China. Things changed in mid-February when the progression to a global pandemic and the resultant economic shutdowns and recessions led to astonishing falls in equities across the globe. The S&P 500 Index lost a third of its value in a month. However, what took many market participants even more by surprise was the speed of the subsequent market rebound, with the S&P 500 and many other markets finishing the year above their pre-pandemic levels. The rally was driven by large support packages from governments and central banks, made up of fiscal stimuli, interest rate cuts and fresh rounds of quantitative easing. In the second quarter of the year, some Americans received more income from unemployment relief payments than the wages they had been earning and the UK saw a vast take-up of the government's wage subsidy scheme, with almost 10 million jobs subsidised at some point in the year. When and how the money borrowed to pay for this will be repaid is a question for another year, but what is clear is that authorities acted decisively and effectively to prevent economic recession turning to depression.

December saw markets boosted by positive news regarding vaccines, as well as the passing of a $900 billion stimulus bill in the US, including new money for individuals, small business assistance, vaccines and testing programmes. In particular, previously poorly performing cyclical companies, such as banks and industrials rallied, along with commodity and energy groups. That said, these areas still finished the year well behind the mighty technology-enabled "disrupters" which, despite US anti-trust proceedings and threats of higher taxation, regulation, and corporate breakups, were clear beneficiaries of the stay-at-home message throughout 2020. The NASDAQ Index finished the year up a cool 45.1%.

Back in the reality of today's world (markets being forward-looking and pricing tomorrow's world), December also saw the announcement of the discovery of new strains of COVID-19 in the UK and South Africa which are believed to have spread to several other countries. Research on the new strains is ongoing, but the new strain in the UK is thought to be up to 70% more transmissible than previously known strains of the virus. At this stage, it is thought the recently approved vaccines will work against these new strains, but this is yet to be confirmed. Many countries imposed travel restrictions on the UK and South Africa in response to the announcements of the new strains and further lockdown measures have been introduced or extended across Europe.
Outside of equity markets, sovereign bonds fared better, with inflation yet to cause a major upset even though market indications of longer-term inflation expectations have ticked higher. US Treasuries finished the year up 10.1% and UK Gilts posted an 8.7% return. Eurozone sovereign bonds finished the year up 4.0%. In currencies, the US dollar continues to weaken with the Dollar Index down 6.7% over the year and the euro up 8.9% against the dollar. Sterling finished the year up 3.1% versus the dollar but continued to be highly volatile. Gold had a strong month in December, posting a 6.8% return, although it has been highly volatile and exhibited some correlation to risk assets. Nevertheless, it ended a vintage year up 25.1%.

Economic Updates

Three and a half years after the referendum, an agreement between the UK and EU was reached in the final days of 2020. Supporters of Brexit argue the deal allows the UK to regain control of its spending, borders and laws, whilst still trading freely with the EU – "having its cake and eating it". Detractors argue the deal increases the administrative burden on companies and does not cover services which represent the great majority of the UK economy. Additionally, they note that the UK is effectively locked into following EU rules over which it has no say. Markets were relieved that a no-deal exit was averted, even if there are some new barriers to EU-UK trade.

UK Consumer Price Inflation (CPI) fell 0.1%, which along with core CPI was below market expectations. The UK Purchasing Managers Index (PMI) also disappointed with the dominant services sector's PMI in contraction territory. Retail sales were above market expectations but still contracting. The third quarter GDP release also came in above consensus forecasts. In the Eurozone, the PMIs surprised to the upside, although the reverse was the case for core CPI, which was still negative. Consumer confidence was above market expectations but still relatively gloomy.

US core and headline retail sales disappointed along with the services PMI, core inflation and consumer confidence, though the manufacturing PMI was slightly above consensus expectations.

We wish you a happy and healthy New Year.

JONATHAN BELL
IVO COULSON
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31 December 2020

Important Information