

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

LEO SUCH

31 December 2020

Important Information

The information contained herein (the "Information") has been prepared by the Stanhope Group. The Stanhope Group comprises Stanhope Capital (Switzerland) SA and its subsidiaries, including Stanhope Capital LLP and Stanhope Capital SAS. Stanhope Capital (Switzerland) SA is a company incorporated in Switzerland and a member of the Swiss Association of Asset Managers (SAAM), a Self-Regulating Body approved by the Swiss Financial Market Supervisory Authority (FINMA). Stanhope Capital LLP is a limited liability partnership incorporated in England and Wales authorised and regulated by the Financial Conduct Authority (FCA). Stanhope Capital SAS is a "Société par Actions Simplifiées" incorporated in France and regulated by the Autorité de Marchés Financiers (AMF). Acceptance of delivery of any part of this Information constitutes acceptance to the conditions of this legal disclaimer.

The Information attached is being disclosed by the member of the Stanhope Group indicated in the Information and exclusively to the intended recipient (the "Recipient").

The Information does not constitute an offer to sell or a solicitation of an offer to buy any investment fund or other financial products. The Information does not constitute investment advice or advice with respect to the suitability of any investment.

Restrictions

The Information is private and confidential and provided for information purposes only. No part of the Information is to be distributed, copied or disseminated directly or indirectly to anyone other than the Recipient and its professional advisers (for the sole purposes of obtaining advice). The Information should not be relied upon for tax, auditing or other purposes. The Information is not intended for any person in any jurisdiction (by way of nationality, residence, domicile or otherwise) where the publication or availability of it would be in contravention of any applicable law or regulation.

Opinions, estimates and statements contained in the Information constitute judgments of the Stanhope Group at the time of their preparation and are subject to change without notice.

The value of investments can fall as well as rise; potential income or profits are accompanied by the possibility of loss. The Recipient may not receive back the original amount invested. Past performance is not a reliable indication of future results. Performance figures included in the Information are unaudited except where indicated. Please refer to the risk warning notes provided next to any performance figures included in the Information. In certain circumstances prices stated may be historic because of the delay in obtaining prices and/or valuations from third parties. Valuations are based on either market prices available at the time of the preparation of the Information or on the Stanhope Group's reasonable estimates thereof at the time made. Valuations based upon other models or assumptions or calculated as of another date or time may result in different values. The valuation or returns on investments in currencies other than the base currency of a client's account may increase or decrease as a result of currency fluctuations.

The Stanhope Group may recommend or make investments for its clients in illiquid or volatile instruments or funds which may carry a high degree of default risk or in funds which utilise leverage/gearing which can exaggerate performance and may lead to large falls in value.

Any description of any investment process or investment management process described in the Information may change from time to time at the discretion of the Stanhope Group or otherwise.

While reasonable skill, care and diligence have been taken to ensure that the Information was accurate as at the date of writing, the Stanhope Group has not verified and accepts no legal responsibility for any third-party Information. In addition, the Stanhope Group makes no representation, warranty, undertaking or guarantee, express or implied, as to the accuracy or completeness of the Information and opinions therein. No members of the Stanhope Group shall be responsible for or have any liability to any Recipient or third party for losses or damages (whether consequential, incidental or otherwise) arising (i) out of errors, omissions or changes in market factors, conditions or circumstances or (ii) from making any use of the Information.

The Information does not replace, supplement or amend the contractual documentation entered between the relevant member of the Stanhope Group and the Recipient, including but not limited to (i) the required qualifications of the Recipient in order for such Recipient to receive the Information and (ii) the disclaimers and limitation of liability contained in such contractual documentation. Further, the Information does not replace, supplement or amend the documentation applicable to any investment fund or other financial products referred to in the Information.

United Kingdom

To the extent that the Information is aimed at residents of the United Kingdom, the Information has been approved for issue in the United Kingdom by Stanhope Capital LLP. Stanhope Capital LLP's advice is categorised by the Financial Conduct Authority as "restricted" because it advises on investment funds, which are only one type of "retail investment product". Stanhope Capital LLP does not provide investment advice on other retail investment products, such as life insurance, stakeholder pensions or personal pension schemes.

France

Stanhope Capital SAS does not provide investment advice on retail investment products, such as life insurance, stakeholder pensions or personal pension schemes.

United States

The Information is not intended for residents of the United States or for any U.S. Person. The Information is not an offer to sell any securities to or for the benefit of United States persons or the solicitation of any offer to buy securities on the part of or for the benefit of any such United States persons. For the avoidance of doubt a U.S. Person does not include a U.S. Citizen resident outside the U.S.