Stanhope Capital Fortnightly Bulletin

Period ending 15th January 2021

Tactical Positioning

In our last bulletin, we pointed out that vast stimuli and high household savings were a clear positive for equity markets but that the rally into the year-end discounted a fair amount of good news. Although markets are generally higher, the first two weeks of 2021 have seen profit taking in several sectors such as technology and consumer staples with investors switching into more economically sensitive sectors, such as energy and industrial materials. We have also begun to add exposure in these areas, but our actions are more of an evolution than a revolution in case the cyclical recovery is not as strong as we are currently supposing.

Market Moves

	Equities *(incl. Dividends)*						
15-Jan-21	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	1.8%	0.4%	1.6%	4.3%	3.2%	5.5%	5.4%
Year to Date	1.8%	0.4%	1.6%	4.3%	3.2%	5.5%	5.4%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	3.1%	-3.7%	7.9%	-1.1%	-0.6%	-0.5%	17bps
Year to Date	3.1%	-3.7%	7.9%	-1.1%	-0.6%	-0.5%	17bps

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

In contrast to the muted New Year's Eve celebrations, markets again powered towards new highs in the first week of the year. By Friday 8th, the S&P 500 and the NASDAQ were up over 70% and 92% since their March lows but cooled off in their second week. Value style stocks continued to outperform growth companies, and the price of oil bounced after Saudi Arabia unexpectedly cut production by 1m barrels a day.

In bond markets, high yield credit rallied in line with equities but, more notably, US government yields, which have been kept low partly by the Federal Reserve purchasing $2.4trn of Treasuries during 2020, rose significantly with the US 10-Year Treasury now at 1.08% (up from 0.91% at year-end). The increase in yields is mainly due to expectations of future inflation ticking higher. These inflation expectations were mainly driven by news of a 'Blue Wave', after the Democratic Party won control of Congress, which will probably lead to more fiscal stimulus (and thus in theory, increases the likelihood of inflation rising). This came to fruition towards the end of the fortnight with president-elect Joe Biden announcing a $1.9trn package (equivalent to 9% of GDP) on top of the current $900bn. Given the Democrats' marginal majority in Congress, it is unlikely that increased taxes will be used to fund the package in the short term. We should therefore expect larger budget deficits in the future. Although Europe is likely to see a positive knock-on effect from the stimulus in the US, European government bond yields hardly moved as inflation data was weaker than expected.

With multiple approved vaccines, the race to vaccinate went into full swing as we entered 2021. With most of Europe in some sort of lockdown again, Prime Minister Boris Johnson has been keen to advertise that the vaccine rollout across the UK is, so far, more than the rest of Europe put together. A successful roll out of the vaccine is probably priced into most markets, leaving the risk of a fall in prices on any hiccups.

On the Brexit front, the UK's first independent fortnight appeared to pass with little controversy and the FTSE 100 rose 6% in the first week of trading. There were some unexpected consequences of the new relationship with

Europe, as demonstrated by news that UK lorry drivers had sandwiches confiscated at the Dutch border owing to the 'ban on personal imports of meat and dairy to the EU'. Vegan sandwiches only for lorry drivers in future!

On US politics, having urged supporters to "Fight like hell", President Donald Trump headed towards his last week in the White House with another impeachment. This time it was on charges of 'incitement of insurrection', which resulted in five deaths in the Capitol Building. This follows his first impeachment on charges of abuse of power and obstruction of Congress, for which he was acquitted on both counts by the Senate. If convicted (which is unlikely) he could be barred from running for the presidency again, but for now it is not really an issue with Biden on the cusp of moving into the White House. Twitter closed his account removing his megaphone to over 85 million followers, sparking a debate, especially amongst European leaders, about the wisdom of inhibiting his freedom of speech.

Economic Updates

Non-Farm Payrolls data showed the US economy lost 140k jobs in December against the 50k or more expected by economists, whilst unemployment held steady at 6.7%, putting a stop to its recent decline. The pandemic-driven restrictions have been taking a particular toll on US bars and restaurants, with the closures of indoor dining contributing to a loss of nearly 500,000 leisure and hospitality jobs in December alone. Restaurants and bars accounted for 372,000 layoffs and highlighted the need for the large stimulus packages that have been adopted. Nevertheless, US manufacturing activity peaked at 60.7 in December and the Institute of Supply Managers Services Sector Index rose to 57.2. Germany showed similar positivity with industrial production numbers beating expectations in November together with stronger factory orders data.

Deflation or reflation remains a key talking point, with a flash estimate of consumer prices in Europe suffering a fifth straight month of deflation. Although consumer prices are down 0.3% over the year, alcohol, tobacco, food and energy rose 0.2% in December. The World Bank's forecasts suggest that by the end of 2021, global GDP might be back to the same level as 2019, with a +4.1% recovery in 2021 against the -4.3% fall in 2020.

Most forecasters expect a strong economic recovery in the second half of this year. Fiscal policy and monetary policy will support the recovery and once coronavirus related restrictions are relaxed, we anticipate a strong recovery in consumer demand. Aside from unknown shocks, the major risks are that the virus mutates into a form that means that the current vaccines are ineffective, preventing a strong economic recovery, or conversely that the recovery is so strong that it leads to a sharp rise in inflation. We are aware of these risks and are looking to invest to reduce the risk on portfolios being hurt by either scenario. The most likely outcome, however, may be somewhere between the two and this should be positive for portfolios overall.

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15th January 2021

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