

Stanhope Capital Fortnightly Bulletin

Period ending 31st January 2021

Tactical Positioning

As we discuss below, January has closed with equity markets slightly lower as a stampede of retail investors caused a degree of trading chaos, albeit in a localised way. Nevertheless, investor sentiment remains generally positive, liquidity plentiful and the fourth quarter corporate earnings numbers are, in general, ahead of market expectations. Consequently, investors are likely to use any setback in prices to add to their holdings, as they have done on numerous occasions over the last year. The gap between dividend yields and bond yields remains a strong support for equities in a world where interest rates remain firmly anchored to the floor.

Market Moves

| 31-Jan-21 | Equities (incl. Dividends) | | | | | | |
|--------------|----------------------------|---------|-------------------------|--------|-----------|---------|-----------|
| | World (\$) | US (\$) | Europe ¹ (€) | UK (£) | Japan (¥) | EM (\$) | Asia (\$) |
| Last 2 Weeks | -1.9% | -1.4% | -2.6% | -4.9% | -2.7% | -1.6% | -1.4% |
| January | -0.2% | -1.0% | -1.1% | -0.8% | 0.4% | 3.8% | 3.9% |
| Year to Date | -0.2% | -1.0% | -1.1% | -0.8% | 0.4% | 3.8% | 3.9% |

| | Commodities | | | Currencies (vs. USD) | | | Gov't |
|--------------|-----------------------|-----------|--------------|----------------------|------|-------|----------------------|
| | COM ² (\$) | Gold (\$) | WTI Oil (\$) | EUR | GBP | JPY | UST 10Y ³ |
| Last 2 Weeks | -0.4% | 1.1% | -0.3% | 0.4% | 0.9% | -0.8% | -2bps |
| January | 2.6% | -2.7% | 7.6% | -0.7% | 0.3% | -1.3% | 15bps |
| Year to Date | 2.6% | -2.7% | 7.6% | -0.7% | 0.3% | -1.3% | 15bps |

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

A strong start to the year in equity markets was greeted by a spike in volatility over the last two weeks of January, with major market indices in the US posting fresh highs before selling off. The Q4 2020 corporate earnings season kicked off with Apple, Tesla and Facebook disappointing investors and all seeing their share prices decline, which in turn weighed on the S&P 500. Apple shares fell 3.2%, despite setting a new quarterly revenue record, whilst Facebook and Tesla fell 1.9% and 5.1% respectively. Elsewhere, the gold price rose slightly, but is still down 2.7% for the year and the oil price was flat following the strong rise in the first two weeks of January.

The inauguration of the 46th President of the United States took centre stage on Wednesday 20th January. The new President, supported by a Democrat-led congress, is poised to overturn many of the previous incumbent's key policies. Increasing the federal minimum wage, re-signing the Paris Agreement, a pledge to reverse Donald Trump's ban on transgender military service and addressing asylum issues at the US-Mexico border were just a few of the early policy announcements from the new administration. Expectations of a \$1.9trn fiscal stimulus package helped US equities climb to new all-time highs on the day of the inauguration, with the S&P 500 touching 3,853. President Biden was cautious on the immediate speed of the recovery from the coronavirus, warning that "it's going to take months before we can get the majority of Americans vaccinated". That being said, Biden confirmed that Johnson and Johnson would have 100 million vaccines available for Americans by the Summer.

Following successful trials in both the UK and South Africa it was reported that Novavax's vaccination reached an efficacy rate of over 89%, including against new variants. The company's shares subsequently rose 20% in after-market trading. The UK has so far led the way with its impressive rollout of the vaccine with 9m people (including 598k in one day) now having had their first vaccine, most of whom are over the age of 80. Moderna fell out of favour after the news that over 300,000 doses of its vaccine would have to be placed on hold following reports that a number of recipients experienced severe allergic reactions. Tensions continued between the EU and AstraZeneca, with EU officials requesting that the vaccine should be made available to the EU at the same time as the UK and that

doses of the vaccine must come from UK factories to make up the shortfall to its member states, a move that could impact post-Brexit liaisons. Article 16 of the Northern Ireland Protocol, the agreement that governs the area's trading arrangements with the European Union and the rest of the UK post-Brexit, was momentarily enacted by the EU before being withdrawn. The protocol represents an act of last resort and should only be invoked in case of "economic, societal or environmental difficulties".

Staying in the UK, Prime Minister Boris Johnson travelled to Scotland last week in an attempt to repair fragile relations with Nicola Sturgeon and disrupt the First Minister's plans to break up Scotland's 313-year-old union with England. Whilst Unionists will argue that too many questions remain un-answered, the UK's departure from the EU has given the SNP fresh enthusiasm to pursue "Indyref2". Well, if at first you don't succeed...

The major rollercoaster of the fortnight came via an army of small investors taking on some of the largest global hedge funds by purchasing struggling and heavily shorted stocks such as GameStop, Blackberry and AMC Entertainment. Online stock chat rooms such as 'Reddit' garnered collective support to drive up the share prices of these companies, forcing some hedge funds that were 'short' these shares into buying them at much higher prices and crystallise substantial losses. From the end of October to 26th January 2021, GameStop was up 633%, Blackberry +301% and AMC Entertainment +110%. This "short squeeze", rattled markets and one of the highest profile victims, Melvin Capital, had to raise \$2.8bn from investors before closing out its GameStop position at a vast loss. According to one report, an investor, who goes by the name of 'Roaring Kitty' turned \$53,000 into \$48m. The S&P 500 subsequently suffered its worst daily fall since October (-2.57% on 27th January). Robinhood, the leading commission-free online US broker, had to temporarily halt trading for a number of companies as it was reaching the limit of its regulatory capital. This was not well-received by investors who considered it a constraint on individual investor freedoms. Subsequently the company raised additional capital which enabled it to allow limited purchases of certain stocks on Friday. It will be interesting to see the longer-term impact of the use of internet chat rooms to encourage hundreds of thousands of private investors to undertake semi-coordinated buying of stocks to push prices up to what many would consider to be ridiculous valuations. In the short term it increases the risks for hedge funds that undertake short selling of individual securities. Longer term, as many private investors will also lose money from such behaviour, it is likely to worry regulators.

Economic Updates

Weekly jobless claims in the US came in around 25K lower than expected at 847k whilst in the UK unemployment rose to 5.0% from 4.9%. Although this was slightly less than expected it is the highest level in nearly 4 years, proving that lockdowns are continuing to wreak havoc in the jobs market despite furlough schemes reducing the impact. The Services Purchasing Managers' Index ("PMI") a measure of the prevailing direction of economic trends in the services sector, slightly beat expectations at 57.5 in the US and the manufacturing PMI also beat expectations at 59.1 versus forecasts of 56.5. In the UK, the Services PMI came in at 38.8 against 45.0 expected, the lowest reading since May.

US GDP fell 3.5% in 2020, marking the worst annual performance since 1946. Astonishingly, China's economy grew in 2020 (+2.3%), making it the only major economy in the world that did not contract over the year. Treasury Secretary Janet Yellen said that the second largest economy "is clearly our most important strategic competitor".

Revised global growth forecasts for 2021 from the International Monetary Fund ("IMF") came in at +5.5% (versus 5.2% back in October).

80% of US companies that have so far reported their fourth quarter 2020 earnings have beaten their earnings forecasts. For 2020 overall, company earnings in the US fell by around 12%, however, according to Factset analysts are projecting earnings growth of 23% in 2021 on the back of revenues growing by almost 9%. Consequently, by the end of this year US company earnings are expected to be about 8% higher than in 2019.

JONATHAN BELL
IVO COULSON
RORY TOWNSEND-ROSE

31st January 2021

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.