Stanhope Capital Fortnightly Bulletin

Period ending 17th February 2021

Market Moves

As predicted in our last bulletin, so far this month, investors have used the small fall in prices in January as a buying opportunity and equities have subsequently rebounded. Central bankers are forecasting a significant economic recovery in the second half of the year and risk assets continue to benefit from a sugar-rush of liquidity. Short term, we are planning to increase our exposure to a wider basket of commodities which offer both inflation protection and exposure to the anticipated recovery in manufacturing. We also see Asia and China as looking increasingly attractive and intend to add to our existing exposure in this area. Whilst another pause in markets seems likely after the rise of the last two weeks, overall we expect momentum to remain positive.

	Equities *(incl. Dividends)*						
15-Feb-21	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	6.4%	6.0%	5.7%	5.4%	8.3%	7.5%	7.2%
Year to Date	6.3%	4.9%	4.5%	4.6%	8.7%	11.6%	11.4%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	5.0%	-1.6%	13.9%	-0.1%	1.4%	-0.6%	14bps
Year to Date	7.7%	-4.2%	22.6%	-0.7%	1.7%	-2.0%	30bps

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

Equities rallied over the fortnight, ignoring fears which dogged markets during January such as asset class bubbles, central bank tapering and Covid-19 mutations. Instead, investors focused on the prospect of a substantial US fiscal stimulus package, dovish monetary policy and positive vaccination data. Global markets rose for eleven straight sessions, with the MSCI World experiencing its longest winning streak since January 2018. In Japan, the Nikkei climbed above 30,000 points for the first time since 1990, helped by fourth quarter GDP coming in at +12.7%, well ahead of expectations. Not to be outshone, the S&P 500 rose to record highs and posted positive returns for six days in a row. The strength of Wall Street was underpinned by most companies beating earnings forecasts. Energy and financials led the way, fuelled by a spike in oil prices and rising bond yields, whilst semiconductors bounced sharply as demand outstripped supply, leaving the world's largest carmakers facing a serious shortage of microchips. US smaller companies, closely linked to the domestic economy, significantly outperformed their larger peers over the period, with the Russell 2000 Index up +16% already this year compared with +5% for the S&P 500. Equity market volatility, as measured by the VIX Index, fell to 20.0, the lowest level since mid-February 2020, when the pandemic had yet to grip markets.

Government bond prices moved in the opposite direction over the fortnight. The yield on the US 10 Year Treasury, for example, rose to 1.20%, the highest level since late February 2020, and the difference between 10-year yields and 2-year yields rose to 1.12%, the highest since April 2017 (the greater the difference, the more interest rates are expected to increase over the next 8 years). UK, French and German government bond yields also rose in the face of an increasingly risk-on environment. In southern Europe, Italian 10-Year bond yields fell to a low of 0.45% as investors welcomed Mario Draghi, the former President of the European Central Bank, being sworn in as Prime Minister. He is clearly remembered fondly for his pledge to do "whatever it takes" to save the euro during the Sovereign Debt Crisis.

Elsewhere, the price of WTI Oil jumped by a remarkable 13.9%, driven by faster vaccine rollouts and declining Covid-19 cases, as well as OPEC calling for stockpiles to be drawn down before production is increased again and freezing conditions in Texas causing many shale producers to slow or temporarily halt operations.

In Washington, Democrats split their time between fighting for the impeachment of President Trump and pushing President Biden's fiscal stimulus package through Congress. Unsurprisingly, President Trump survived his second impeachment trial and can now freely stand for re-election in four years' time. Nancy Pelosi, the Speaker of the House of Representatives, voiced hopes that Biden's economic measures might be passed by the end of the month; however, she must first contend with the moderate wing of her party who seek to water down the proposed $1.9 trillion package. The House Committee on Ways and Means has already made moves to scale back the number of people eligible for stimulus cheques, lowering the cost of the bill by around $60 billion.

Jerome Powell, Chairman of the Federal Reserve ("Fed"), refused to be drawn into discussions about the size of fiscal support but stressed in a speech at the Economic Club of New York that "achieving and sustaining maximum employment will require more than supportive monetary policy". He argued that monetary policy should remain "patiently accommodative" for the foreseeable future, until the impact of the pandemic on the labour market might be healed. According to Powell, the official unemployment rate, which recently declined from 6.7% to 6.3%, fails to account for "hidden slack", and that a broader measure of unemployment stands at approximately 10%. These dovish messages resonated well with liquidity hungry investors and allayed fears about the prospect of the Fed tapering its asset purchases over the next few months. In the UK, the Bank of England struck a more hawkish tone, dispelling rumours that negative rates are likely any time soon. Sterling strengthened on the back of this update, rising 1.4% against the US dollar over the fortnight.

Improving vaccination programmes and declining Covid-19 cases provided another powerful tailwind for markets. Dr Anthony Fauci, chief medical advisor to the White House, anticipated that an increase in the supply of vaccines over the next two months should make it possible for a "mass vaccination approach" in the US by April. President Biden similarly painted an optimistic picture, predicting that 300 million Americans will be inoculated by the end of the summer. These statements came amidst declining cases and relaxing social distancing restrictions across many US states.

In the UK, the tide also appeared to be turning in the battle against Covid-19; over 15 million people have already received their first Covid-19 vaccine, and daily cases have fallen dramatically (to below 10,000 for the first time since October).

Economic Update

Stateside, the University of Michigan Consumer Sentiment Index declined from 79.0 to 76.2, a sign that confidence may be subsiding. Core inflation came in flat against +0.2% expected, weighing on concerns about an impending spike in inflation and the prospect of an interest rate hike by the Fed. There has, however, been a significant rise in shipping rates, with the Shanghai Containerized Freight Index three times higher than its level in May 2020. Rising shipping costs are likely to add to inflationary pressures later in the year.

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17 February 2021

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