Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 15 March 2021

Tactical Positioning

Over the last two weeks we have been adding exposure to US banks across our portfolios mainly funded by realising some profits in our quality growth funds. The major US banks offer a good hedge against gradually rising interest rates at a time when their balance sheets are in robust shape, bolstered by the ample stimuli during the pandemic. Excess bank capital, calculated to be at around 18%, should lead to large share re-purchase programmes and dividend increases which combined with relatively cheap valuations creates an attractive opportunity.

Market Moves

	Equities *(incl. Dividends)*						
15-Mar-21	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Month to Date	3.6%	4.2%	4.6%	4.5%	4.9%	0.5%	0.0%
Year to Date	5.9%	5.9%	6.1%	5.3%	8.8%	5.3%	5.4%
	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Month to Date	0.8%	-0.1%	6.3%	-1.2%	-0.2%	-2.4%	20bps
Year to Date	10.1%	-8.8%	34.8%	-2.3%	1.7%	-5.3%	69bps

[1] *Europe excluding UK*

[2] *Bloomberg Commodity Index*

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

Source: Bloomberg

The fortnight saw an extension of this year's major themes in financial markets with a continued rotation out of growth stocks that have dominated the past decade, into more cyclically-oriented value stocks. US government bond yields continued to rise with the benchmark 10-year yield finishing the fortnight at 1.6%, the highest level since January 2020. The move has been driven by expectations of higher growth and inflation, and also higher real yields, which have helped stop the fall in the US dollar, at least for now. We expect US bond yields to rise further given the economically supportive backdrop of COVID vaccinations, a newly passed $1.9 trillion stimulus package and stimulative monetary policy,

Markets have been in a febrile mood with frequent trend reversals and correlations breaking down. The first week of March saw bonds and equities selling off in tandem as investors feared higher US bond yields reducing the relative attractiveness of equities and other rate-sensitive risk assets. US Federal Reserve ("Fed") officials publicly communicated their relaxed stance towards higher bond yields, seeing them as a sign of a recovering economy. This was damaging to market sectors that have benefitted from low bond yields such as US technology stocks. The second week of March saw government bonds regain some composure with yields coming back down slightly before a further sell-off ensued last Friday – crucially equities did not fall alongside bonds this time. These gyrations reflect the current uncertainties relating to the impact of the strong economic recovery expected this year. Will it lead to inflation that will cause the Fed to tighten monetary policy or is there enough slack in the economy that a strong recovery can occur without inflation and higher interest rates? We do not know the answer but are endeavouring to position portfolios to benefit from the economic recovery whilst maintaining exposure to longer term growth themes and assets that offer protection against the threat of inflation.

In terms of monetary policy, all eyes are now on the Fed meeting this week as we get an update on their policy stance and thinking regarding higher bond yields. Last week, the European Central Bank meeting proved to be a dovish surprise as they announced more aggressive bond buying to counter the rise in yields, which they see as an unwelcome tightening of financial conditions. The Bank of Japan has also intervened in the market to keep yields down.

In the US, President Biden's $1.9 trillion stimulus package has become law. This includes the supplemental $300 weekly unemployment benefit (extended until September), $1,400 stimulus payments to households, child tax credit, aid for local authorities, COVID response funding, housing assistance, school support and even a bailout for failing pension schemes. President Biden has promised that every adult in the US will be vaccinated by the end of May. The focus now turns to the administration's even larger infrastructure package, with proposals ranging from $2-4 trillion.

While the UK continues to lead major developed countries in deploying vaccines, with the majority of those in their 50s now being vaccinated and 36% of the population having received at least a first shot, various countries in Continental Europe have temporarily suspended the use of the AstraZeneca vaccine owing to reports of blood clots occurring. This move appears overly cautious considering the number of blood clots in vaccinated people does not appear to be higher than would be expected normally, according to the European Medicines Agency. The twin impact is likely to be another delay in the rollout and a further weakening of public confidence in the vaccine, as this comes after a campaign of misinformation led by President Macron who had said the vaccine was "quasi-ineffective" in over-65s (this was subsequently retracted but the reputational damage remained).

Economic Updates

Broadly speaking, macroeconomic data reflected positive sentiment making its way into the real economy thanks to the vaccine rollouts and the economic rebound.

In the US, the Services and Manufacturing Purchasing Managers' Index ("PMI"), non-farm payrolls, unemployment, and job openings all outperformed market expectations. The New York Fed's Empire State Manufacturing survey hit 17.4 in March (vs. 15.0 expected), the strongest measurement since November 2018. In contrast US core inflation was a little lower than expected.

In Europe, the German and Eurozone manufacturing PMIs, German CPI, the Eurozone Services PMI, producer price inflation, Eurozone retail sales, Eurozone unemployment, German factory orders, investor confidence and Eurozone industrial production all came in above consensus forecasts, with only German retail sales and the German Services PMI disappointing. In the UK data was mixed. The Manufacturing and Construction PMIs and mortgage approvals were above market expectations whilst the Services PMI and industrial production were below.

Over in China, industrial production, retail sales, exports and imports were all well above market forecasts.

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15 March 2021

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