

Stanhope Capital Fortnightly Bulletin

Period ending 28th February 2021.

Market Moves

We mentioned in our mid-February Bulletin that a pause in equity markets seemed likely after a strong start to the month. The 3.8% pull-back in the MSCI World Index (USD) in the last two weeks was, therefore, not unexpected and provided us with an opportunity to add to Asian equity exposure as mentioned in the last Bulletin. Of our total equity 'budget' we now have typically around 20% exposure to Asia ex-Japan. Globally, Asian equity valuations are looking increasingly attractive and last year's fall in the dollar has been helpful to the region. The Chinese economy grew by around 2.3% last year whilst the US contracted by a similar amount and it is likely that the Chinese economy will be bigger than the US by 2028. Of our total Asia ex-Japan exposure, we aim to have 50% or more in China.

28-Feb-21	Equities (incl. Dividends)						
	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	-3.8%	-3.1%	-2.9%	-3.7%	-4.6%	-6.0%	-5.4%
February	2.4%	2.7%	2.6%	1.6%	3.3%	1.0%	1.4%
Year to Date	2.3%	1.6%	1.5%	0.8%	3.7%	4.9%	5.3%

	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Last 2 Weeks	1.4%	-4.7%	3.4%	-0.4%	0.2%	-1.1%	20bps
February	6.5%	-6.1%	17.8%	-0.5%	1.6%	-1.7%	34bps
Year to Date	9.3%	-8.7%	26.8%	-1.2%	1.9%	-3.0%	49bps

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

Last week marks a year since markets began their short but sharp sell-off as the coronavirus spread and despite this fall, equities have proved to be very resilient to the virus. Since 10th February 2020, when world equities peaked just prior to the pandemic sell-off, the Nasdaq is up 38% and up 93% from its trough on 20th March. The S&P 500 is up 16% and 68% over the same periods.

The fortnight was dominated by increased growth expectations which came on the back of central bank reassurance that stimulus will continue until a recovery is well underway and President Biden's \$1.9trn stimulus package which was passed by the House of Representatives. In response, the yield on the 10-year US Treasury rose 20bps over the period. Market pricing implies that the first full interest rate hike is now expected by the end of 2022, whereas the last forecast from the committee responsible for setting rates in the US (the Federal Open Market Committee) had a median expectation of rates remaining on hold until late 2023.

In equity markets, expectations of a strong economic recovery and the likelihood of higher interest rates supported cyclical stocks such as banks, autos, and energy. The latter was helped by adverse weather conditions in Texas, which recorded colder temperatures than parts of Alaska. The rotation into cyclical companies saw the NASDAQ fall 6.4% reflecting the sensitivity of the high growth index to future interest rate rises.

Federal Reserve Chairperson Jerome Powell reassured the Senate last week that monetary policy would remain accommodative for some time. He stated that it could take three years for the Fed to reach its 2% average inflation goal and that there was no rush to remove stimulus from the economy. He noted that there was 'a long way to go' before the US returned to maximum employment as there are currently 10m fewer jobs than before the pandemic hit.

Oil had a good fortnight helped by improved inflation expectations and the shut-down of Texan and Dakota refineries and fracking rigs, owing to the adverse weather conditions in those states. Iran's decision to rebuff an invitation for talks with the new US administration added further support. Copper, an industry bellwether, has

climbed to its highest level since 2011 currently trading at \$9,172.50/ton and nickel is trading at 18,607/ton, its highest since 2014.

Good news on the efficacy of the various COVID-19 vaccines continued, with a report that the AstraZeneca/Oxford vaccine reduced hospital admissions by 94% with a single dose although the number of deaths from the virus globally has now passed a grim 2.5 million.

Economic Update

Economic data in the US was generally positive. Personal incomes rose 10% in January aided by stimulus checks (cheques for our British readers). Weekly initial jobless claims for the week ending 20th February fell to 730k and were almost 100k lower than expected. January new home sales figures were also better than expected at an annualised rate of 923k. The flash Markit US Composite Purchasing Managers Index ("PMI") rose to 58.8 (the highest level since March 2015). Higher disposable incomes led to the personal savings rate rising to 20.5%, which was its highest level since May last year whilst January's producer price inflation rose to 1.3%.

Data in Europe was also generally positive during the fortnight. The European Commission's economic sentiment indicator for the Euro-area rose to 93.4 in February (92.1 expected), its highest level since last March whilst Germany's Ifo Institute of Economic Research business climate indicator also rose more than expected to 92.4. The Euro-area composite PMI rose 0.3pts to 48.1 with manufacturing remaining strong at 57.7, comfortably above estimates of 54.3.

The UK's fourth quarter GDP reading showed that in the last three months of 2020 the economy grew 0.5% more than expected at 1.0%, although it still shrunk by 7.8% for the full year. In the three months to December, the unemployment rate (excluding furloughed workers) increased to 5.1%. It will be interesting to see how the unemployment rate will be affected by the combination of the unlocking of economic restrictions and the eventual end of furlough schemes. UK CPI (Consumer Price Index) for January was slightly better than expected at +0.7% whilst annual house price growth in December was +8.5%, its highest in over six years.

Japan's manufacturing reading climbed above 50 to 50.6 (vs. 49.8 in January) despite the extension of COVID-19 measures in most areas although the services PMI fell slightly to 45.8.

JONATHAN BELL
IVO COULSON
ROBERT CHAMBERS
2 March 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, Stanhope Capital SAS and Stanhope Capital (Cayman) Limited. 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). Stanhope Capital (Cayman) Limited is incorporated in the Cayman Islands and is registered with the Cayman Islands Monetary Authority. 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.