

Stanhope Capital Fortnightly Bulletin

Period ending 15th April 2021

Tactical Positioning

It has been difficult to keep up with the market oscillations of the last two weeks with a sudden rush by equity investors to get back into growth stocks including the technology, communication services and consumer discretionary stocks that they dumped in March. We mentioned that this might happen in our 31st March Bulletin. To play it safe (possibly too safe!) we have kept one foot in quality growth stocks and one in more core/cyclical type companies. This may take a while to pay off, but it would seem ill-advised to focus on just one of these areas whilst global economies start to unlock and growth resumes.

Market Moves

	Equities (incl. Dividends)						
15-Apr-21	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Month to Date	4.3%	5.0%	2.2%	4.2%	1.6%	1.9%	2.2%
Year to Date	9.1%	11.5%	10.6%	9.4%	8.7%	4.3%	5.0%
	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Month to Date	3.7%	3.3%	7.3%	2.0%	0.0%	1.8%	-16bps
Year to Date	10.9%	-7.1%	30.8%	-2.0%	0.9%	-5.0%	66bps

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

It was a series of record-breaking highs for most major indices over the first two weeks of April, with the S&P 500, Dow Jones Industrial Average and STOXX 600 all reaching fresh peaks. In particular, the S&P 500 broke above 4,000 for the first time and has continued to move higher as rate-sensitive growth stocks were helped by a fall in US Treasury yields. The VIX Index, a popular measure of the stock market's expectation of volatility, fell to 17.2pts – the lowest level since the COVID-19 pandemic began. The price of WTI Crude Oil continued its stunning run (up 21.9% in the first quarter of 2021) by moving up a further 7.3% in the first two weeks of April. Energy equities are now up 16.9% this year. The price of gold, after returning a disappointing -10.0% for the first quarter of 2021, recovered some ground, rising 3.3% in the first two weeks of April.

In the US, the President's "Build Back Better" programme, which aims to commit \$2.25trn to infrastructure spending, helped drive the S&P 500 higher. The new funding comes only a month after the US government provided a \$1.9trn fiscal aid bill, which begs the question, "how is this all going to be paid for?" The plan includes proposals gradually to increase the tax on corporate profits from 21% to 28% which would be at least a partial solution to the seemingly endless US money tree. The US Secretary of the Treasury, Janet Yellen, called for a revolutionary global minimum tax of 21% on corporations which would see a "more level playing field" in the taxation of multinationals. With the US initially canvassing the idea, European Countries such as France, Germany and the Netherlands also voiced their support for the minimum tax, but it remains to be seen whether such proposals will be backed by Congress.

It was a bit of a 'lockdown lottery' over the fortnight with countries such as France, Italy and Canada all extending their national lockdowns and the likes of Brazil witnessing further soaring infections against a backdrop of a crippled economy. Elsewhere, the UK finally enjoyed an easing of restrictions on a new "glorious twelfth", with pubs, restaurants and hairdressers re-opening, and in New Zealand, Prime Minister Jacinda Arden announced that the country would be allowing a quarantine-free "travel bubble" between Australia and New Zealand from 19th April. The progress of the vaccine rollout was tainted slightly over reports that a small number of patients who

had received the Oxford/AstraZeneca vaccine were experiencing blood clots. Seven younger people who received the vaccine were reported to have died, resulting in many European countries advising young people to avoid it. Norway and Denmark took an even more robust approach, suspending the vaccine from its rollout programme entirely. Some view the suspension as an overreaction, given that a total of 30 recorded cases only equate to approximately 1 in 600,000 of vaccinated patients. Markets, however sold-off on the news with healthcare companies being hit especially hard. Concerns were compounded after reports of six cases of severe blood clotting following the use of Johnson & Johnson's vaccine.

The first ever listing of a cryptocurrency exchange took place when Coinbase IPO'd on the tech-focussed NASDAQ exchange in the US and was valued at \$76bn (and at one point reached a value of \$112bn). By comparison, added together, the London Stock Exchange and NASDAQ Inc are worth around \$85bn. Coinbase has over 56 million users and allows customers to buy, sell and hold cryptocurrencies, including Bitcoin, Ethereum and Ripple. Its first day of trading, in true crypto fashion, was extremely volatile, opening at \$381 a share, and then shooting up to \$429 in the first few minutes before falling to \$328 at the close (a 14% drop). Despite being a momentous occasion for the crypto market, the news will undoubtedly test regulators' tolerance, as well as challenge the scrutiny of many central banks. As American Economist Hyman Minsky once said: "Everyone can create money; the problem is to get it accepted".

In the UK, former Prime Minister David Cameron came under fire for his involvement in the Greensill scandal including his fruitless attempts to keep the struggling company afloat by privately lobbying for emergency grants from both Chancellor of the Exchequer Rishi Sunak as well as Crown Prince Mohammed bin Salman in Saudi Arabia. At one point, Cameron reportedly had options worth up to £60m in the failing finance company and the media explosion over his use of his political connections has resulted in six independent enquiries over his actions – leaving the former Prime Minister's popularity falling faster than Deliveroo's IPO.

Economic Updates

In the US, the greatly anticipated inflation readings saw CPI rise by 0.6% in March versus an expected reading of +0.5%. One cannot read too much into a month's data and many blamed one-off factors for the overshoot, but it is notable that this was the highest figure since 2018, showing no respite in the concerns over rising inflation.

The US Jobs Report saw growth in non-farm payrolls exceeding the market consensus of +660k to come in at +916k. On top of this positive number, the Institute of Supply Managers Services Index, a composite index which includes new orders, production, employment, supplier deliveries, and inventories, posted its highest reading since 1997 at 63.7, surprising to the upside against the predicted reading of 59.0.

The nervousness of the Q1 2021 earnings season settled slightly as three major US banks, JP Morgan, Goldman Sachs and Wells Fargo all reported higher than expected profits, helped by healthy capital markets, a spike in fees charged for investment banking services and the general recovery of the US economy. Goldman Sachs and Wells Fargo share prices rose 2.31% and 5.63% respectively, while JP Morgan fell 1.75% as investors noticed the slight dip in demand for their retail loans. FactSet are predicting a strong quarter of earnings with the S&P 500 poised for its strongest Q1 in more than 10 years.

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15th April 2021

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