

Stanhope Capital Fortnightly Bulletin

Period ending 31st March 2021

Tactical Positioning

March has been a complicated month for equity investors with significant sector rotation causing a big dispersion in returns. Cyclical sectors such as industrials and energy have been in favour whilst money has been taken out of last year's winners, notably technology stocks. The forthcoming first quarter results season in the US may see this rotation reverse as some of the biggest earnings upgrades have been in technology and related companies.

Market Moves

31-Mar-21	Equities (incl. Dividends)						
	World (\$)	US (\$)	Europe ¹ (€)	UK(£)	Japan (¥)	EM(\$)	Asia (\$)
Last 2 Weeks	-0.4%	0.1%	1.7%	-0.3%	-1.4%	-1.7%	-1.8%
March	2.7%	4.4%	6.4%	4.2%	1.4%	-1.5%	-2.1%
Year to Date	4.6%	6.2%	8.2%	5.0%	7.0%	2.3%	2.7%

	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Last 2 Weeks	-2.9%	-1.4%	-9.5%	-1.7%	-0.8%	-1.4%	13bps
March	-2.1%	-1.5%	-3.8%	-2.9%	-1.1%	-3.8%	34bps
Year to Date	6.9%	-10.0%	21.9%	-4.0%	0.8%	-6.7%	83bps

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

Just over a year ago, on March 23rd 2020, the S&P 500 reached a low of 2337.4, having fallen by over 30% in 22 trading days – the fastest ever fall of this scale for the index. Since then, the index has risen 75%, supported by a flurry of stimuli from the US Federal Reserve (“Fed”) and the US Government. Meanwhile overall company profits have been hit by lock-down measures, particularly in the early months of the pandemic, although we are likely to see a strong recovery this year. Under President Biden, fiscal policy has been loosened further. Stimulus cheques (\$1.8trn worth of them) landed in US citizen’s current accounts last week which is likely to keep consumer data propped up for a few months. The President has also unveiled plans for spending on infrastructure, to be paid for by capital gains and income tax increases on the wealthy. The aim of the package is to make the economy greener and repair existing infrastructure, such as roads and bridges, to the tune of \$2-4trn.

The Fed, as with most major central banks, has indicated that they will keep monetary policy stimulative with interest rates low for some time, in order to ensure that the economic recovery remains strong.

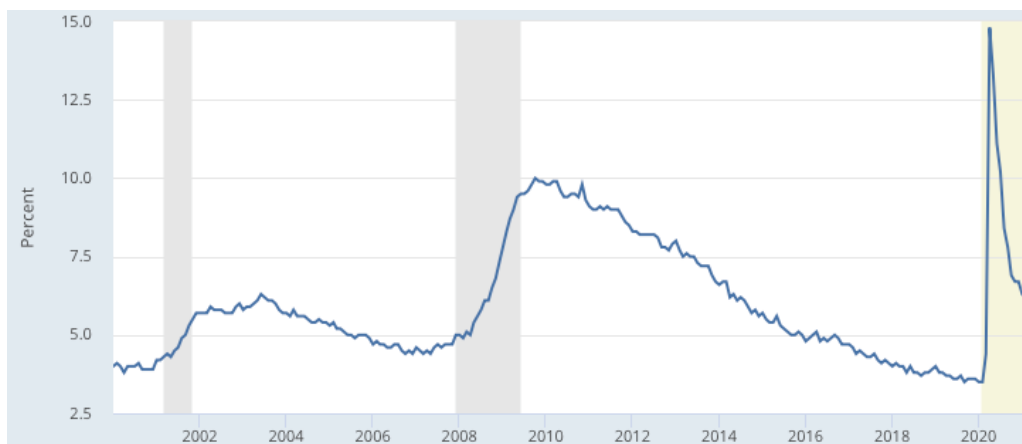
With stimulus comes the fear of inflation. Expected inflation, as reflected in the price of 10-year inflation breakeven instruments, continues steadily to tick upwards in the US, UK and Europe. Markets anticipate that higher inflation will lead to higher interest rates and the US 10-year Treasury yield has risen from 2020’s low of 0.50% to over 1.75%. Despite this, the Fed have indicated that they are prepared to wait until inflation materialises before tightening policy.

The economic rebound continues to take shape. Vaccine programmes are in place across the world. After Israel, the UK takes second prize for their vaccination roll out (44% of the population have had at least one jab versus 60% for Israel) with the US also doing relatively well (at 28%). Within the EU, the roll out has not been smooth, and has been exacerbated by vaccine shortages (leading to a spat over vaccine exports to the UK), poor uptake in some quarters, and the pausing of the roll out of AstraZeneca’s vaccine over safety concerns. The number of cases has been increasing and in response France has announced further lockdown restrictions.

You may be interested to read that beavers were reintroduced to a river in Wales this week amidst concerns that they may upset waterflow and damage the riverbanks. We are optimistic that the damage they cause will be less than that caused by the 'Ever Given' which became famous this week for creating the world's largest shipping traffic jam in the Suez Canal, blocking almost \$50bn of goods from making their usual transit and putting complaints about the actions of Welsh beavers into perspective. Markets were generally unphased by the Suez blockage, which was cleared after six days, as it is unlikely to have caused a material impact on world trade.

Economic Update

US unemployment fell further to 6.2% (as shown below). There was also a big positive surprise in jobless claims with the weekly level falling over 100,000 to 684,000 (the lowest since March 2020).



Source: U.S. Bureau of Labour Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UNRATE>, March 29, 2021.

On the downside, some major US February economic data came in below expectations. Existing home sales fell by around twice as much as expected, at -6.6%, whilst new home sales fell over 18%, almost three times as much as expected.

In the Eurozone, data was positive, with consumer confidence, German business climate, and Purchasing Managers Indices ("PMI") materially outperforming expectations and all pointing to an increase in demand. Activity in the manufacturing sector expanded the most in 23 years and the composite PMI rose to the highest level since late 2018. In the UK, data was mixed, with RPI inflation coming in under forecasts at 1.40%, but unemployment was back down to 5% and all PMIs materially outperformed expectations.

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31 March 2021

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