Stanhope Capital Fortnightly Bulletin

Period ending 30th April 2021

Market Moves

As we noted in our Bulletin dated 15th April, in recent months we have split our equity exposure between funds focussing on quality growth companies and those exposed to cyclical companies. Investors continue to rotate between these groups of stocks and April has seen a strong showing from growth equities (after a tough month in March). First quarter 2021 company results are showing a very strong recovery with many companies beating analysts' forecasts. To some extent this has already been discounted in share prices and markets could consolidate at current levels, allowing investors to digest the speed of 'un-lock' that is gaining momentum in many regions.

	Equities *(incl. Dividends)*						
30-Apr-21	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	0.0%	0.3%	0.0%	-0.1%	-2.8%	0.5%	0.6%
April	4.4%	5.3%	2.2%	4.1%	-1.3%	2.5%	2.8%
Year to Date	9.1%	11.8%	10.6%	9.3%	5.7%	4.8%	5.6%
	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	4.4%	0.3%	0.2%	0.4%	0.3%	-0.5%	5bps
April	8.3%	3.6%	7.5%	2.5%	0.3%	1.3%	-11bps
Year to Date	15.8%	-6.8%	31.0%	-1.6%	1.1%	-5.5%	71bps

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

Equity markets moved little over the fortnight, with a sharp uptick in Covid-19 infection rates in certain regions of the world and the unveiling of significant tax hikes in the US, broadly offset by the steady flow of strong economic data and positive corporate earnings releases. Jerome Powell, Chair of the Federal Reserve ("Fed"), continued to provide a supportive monetary backdrop and the size of President Biden's American Families Plan hinted that US fiscal spending has no obvious ceiling. In Europe, the withdrawal of Russian troops from Ukraine's border helped allay fears that an imminent invasion is on the cards.

President Biden's inaugural speech to Congress revealed a new $1.8 trillion package designed to expand access to education and childcare. It follows the $2.3 trillion infrastructure package, labelled the American Jobs Plan, which was introduced in March. The latest instalment of the Build Back Better program, the American Families Plan, includes $1 trillion in new spending and $800 billion in tax credits. The ambitious package includes free pre-school for three and four year-olds, two years of free community college, more affordable childcare, additional tax credits and a federal paid-leave program. Yet, there remain plenty of obstacles which may dampen the stimulus. Republicans are opposed to the measures and Biden must convince the moderates within his own party to get the program through Congress. His decision to raise the top individual income tax rate to 39.6% and hit those earning over $1 million a year with a tax of 43.4% on capital gains are already in the firing line. The legacy of President Trump's administration has taught us that the scope for bipartisan support is wafer thin.

Another lesson parroted over the past few years has been "don't fight the Fed" (meaning that, given the Fed will support the economy and financial market prices, investors should not bet on prices falling). Jerome Powell obliged by signalling his intent to keep the era of ultra-dovish monetary policy on track, confirming that the current pace of asset purchases would continue and that key interest rates would stay unchanged. At the same time, Powell declared that "amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened". In a nod to the inflationary hawks, the Fed Chair argued that whilst inflation metrics may rise in coming months, he expects this to be a largely transitory phenomenon and that the economy is a "long way from our goals". His words served to comfort investors that a policy shift remains some way off.

An encouraging start to the corporate earnings season showed few signs of abating, with several Wall Street darlings delivering impressive results. Amazon, for example, saw its revenues rise 44% year-on-year to a mammoth $108.5 billion, whilst Apple's rose 54%, and Facebook's 47%. The question investors are asking themselves is how much of this good news is already priced into markets? Not all the news was positive. The global shortage of semi-conductors impacted technology and automobile companies alike, with car manufacturers such as Honda, BMW and Volvo admitting that they may need to temporarily pause production lines for a few days next month. Ford announced that the shortage could cut their earnings by as much as $2.5bn over 2021.

The electrification of the global vehicle fleet has added considerable demand for semi-conductors but has also acted as rocket fuel to the price of copper, which topped $10,000 for the first time in a decade. It should not be understated how important copper is to the green energy transition, especially for electric vehicles, electric grids, renewable energy infrastructure and storage. The bellwether metal has also benefited from the large-scale recent stimulus measures. Cobalt, a key ingredient for electric car batteries, has likewise seen a surge in demand and has now risen over 40% this year. Elsewhere, agricultural commodities have climbed by over 20% this year.

The picture is gloomier when it comes to the coronavirus pandemic, with India falling to a severe third wave and recording nearly 400,000 daily cases, a world record. Indeed, the distressing scenes coming out of the sub-continent highlight how different vaccination programmes are delivering markedly different results. We hope that a new, more potent variant will not surface. On a brighter note, efforts to redistribute vaccinations around the world are growing, as demonstrated by the US's promise to send India 20 million doses of the AstraZeneca vaccine. Furthermore, countries leading the field with their vaccination programme, such as the UK, are seeing infection rates fall sharply and can hopefully see a light at the end of the tunnel. Travel stocks were boosted when Ursula von der Leyen, President of the European Commission, talked up the chances of vaccinated US tourists being allowed to visit the continent this summer.

Economic Update

Economic data released over the fortnight broadly supported the notion that an economic recovery is on the horizon. The US economy grew at an annualised rate of 6.4% over the first quarter, less than 1% behind the peak at the end of 2019. On top of that, Bloomberg's index of US financial conditions eased to the most accommodative level since 2007 and the IHS Markit US Manufacturers Purchasing Managers Index ("PMI") rose to 62.2, the highest level since 2009.

In Europe, the eurozone slid into a double-dip recession. The currency bloc saw a 0.6% decline in quarter-on-quarter GDP, following a contraction of 0.7% in the fourth quarter of 2020. Some optimism should, however, be taken from Germany's composite PMIs and business climate indicators. The race to be crowned as the CDU/CSU's candidate in German's September federal elections reached a conclusion, with Armin Lashcet winning the backing of party members. He is thought to have a fight on his hands, with polls suggesting the Green party are early frontrunners. Fortunately, the withdrawal of England's big six clubs from the ill-fated football (aka "soccer") masterplan, failed to derail the Brexit trade deal, which was ratified by the European Parliament with a large majority.

In China, the government pushed forward with their anti-trust crackdown, imposing a wide range of restrictions on several companies, including Tencent and ByteDance. In contrast, President Xi is expected to be on the defensive when it comes to the findings of China's recent consensus, which are set to show the population having fallen below 1.4 billion, the first decline since 1960-61 during Mao Zedong's ruinous Great Leap Forward.

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IVO COULSON
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3 May 2021

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