Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 15th May 2021

Tactical Positioning

In our bulletin dated 30th April we reminded investors that strong Q1 company results were already partially 'baked' into share prices and markets could consolidate. As the numbers below show, market moves were mixed over the fortnight with European equities slightly higher, US flat, and Asia and Emerging Markets generally lower. This more cautious mood and an increase in intra-day equity market volatility reflects concerns that inflationary risks are rising. In recent months we have added exposure to US banks, commodities and industrial companies which are all beneficiaries of rising inflation. In the short term, we may make further adjustments in the same vein whilst taking the view that, on the whole, equity market momentum remains positive.

Market Moves

	Equities *(incl. Dividends)*						
15-May-21	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	-0.3%	-0.1%	1.4%	1.2%	-2.5%	-2.9%	-3.4%
Year to Date	8.8%	11.7%	12.2%	10.6%	3.0%	1.8%	2.1%
	Commodities			**Currencies (vs. USD)**			**Gov't**
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	1.8%	4.2%	2.8%	1.0%	2.0%	0.0%	0bps
Year to Date	17.9%	-2.9%	34.7%	-0.6%	3.1%	-5.5%	72bps

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

There were two surprising data points during the fortnight which have added fuel to the inflation debate. First, the US added just 266k new jobs in April compared to expectations of over 1m. It is probable that this reflects some short term COVID related structural issues, such as generous unemployment benefits, that will reduce as coronavirus related restrictions are eased, be they self-imposed or regulatory. This is supported by the NFIB (National Federation of Independent Businesses) "Jobs hard to fill" Index reaching record highs, McDonalds raising wages by 10%, and Amazon offering signing-on bonuses of $1,000 at certain warehouses. Markets rallied on the poor jobs numbers in the belief that the Federal Reserve ("Fed") may continue with its accommodative monetary policy for longer.

On the other side of the inflation debate, the US April Consumer Price Index ("CPI") came in above expectations at +0.8% for the month versus +0.2% expected. This led the year-on-year number to be up 4.2%, the highest since September 2008. Consequently, market participants questioned the Fed's firmly held view that the current inflation pick-up is transitory, with Richmond Fed President Barkin saying he didn't see persistent recurring inflation as likely and Fed Reserve Governor Waller saying he thought price rises were temporary. The rotation from high growth equities into more economically sensitive companies continued with the NASDAQ falling a further 5.0% from its all-time highs in late April. The Bloomberg Commodity Index is up over 60% in the last year with lumber futures rising over 50% in the past month supporting comments from Fed Chairman Powell that "it's going to be a tight housing market for some time now because demand is just very high".

The inflation data will support Republican and moderate Democrat wishes for a far smaller stimulus package than the $4tn hoped for by President Biden. In negotiations Republican leaders McConnell and McCarthy have drawn the line on the extent of corporate tax rises to 21%, which would undo the 2017 tax cuts.

We have seen global COVID-19 cases fall since the start of the month according to numbers from Johns Hopkins, however, the Indian variant has caused concern and new measures have been put in place in Japan and Taiwan whose markets fell on the back of the new restrictions. India saw daily new cases exceed 400,000 on successive days and although the number of new cases has fallen it is still high at over 200,000 and the EU has put a travel ban for non-essential travel from India for everyone other than EU citizens. In more positive news, Pfizer and BioNtech announced they can produce up to 3 billion doses of their vaccine this year and over 100m Americans are now fully vaccinated.

In the UK, the Tories performed generally well in local elections in England and sterling strengthened on the outcome and has gained 1% against the dollar so far in May, no doubt helped by the SNP (Scottish National Party) falling just short of a majority in the Scottish parliament, although with the pro-independence Greens, they would have a majority.

Economic Update

The US manufacturing ISM (Institute for Supply Management) index slowed to 60.7 from a 37 year high of 64.7 while US factory orders were up 1.1% vs 1.3% expected. The shortage of semiconductors was noted as having an important impact on lead times. Order books were the highest ever recorded at 68.2 and customer inventories were at their lowest reading ever at 28.4. US producer prices rose 6.2% year-on-year.

Wages in leisure and hospitality in the US rose more than 25% on an annualised basis in the last three months, with April seeing a record 2.7% month-on-month move.

Chinese exports in April were 32.3% higher than a year ago whilst imports were 43.1% higher and the Caixin April Services Purchasing Managers Index was ahead of expectations at 56.3 vs 54.2 (a number over 50 should indicate a growing economy). China’s April Producer Price Index came in at 6.8% year-on-year with their CPI slightly weaker than expected at +0.9% year-on-year.

The Bank of England revised their 2021 GDP growth forecast 2.25% higher to 7.25%. Euro area retail sales and German factory orders both exceeded with increases of 2.7% and 3% respectively. The German ZEW (Centre for economic research) survey was also ahead of expectations at 84.4 vs 72.0 predicted. The European Commission expect the euro area to grow 4.3% this year and 4.4% next year, revised upwards from 3.8% for both years in February.

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15th May 2021

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