

Stanhope Capital Fortnightly Bulletin

Period ending 30th June 2021

Tactical Positioning

Earlier this year we reported that the share prices of companies that will benefit from the end of COVID restrictions were performing well at the expense of quality growth companies that had performed well over the past few years. The share prices of these cyclical companies, many of which were priced on low valuation multiples, were benefitting from renewed interest from investors. This interest was encouraged by the strong economic recovery resulting from the easing of restrictions and concerns that high inflation, with consequently higher bond yields, may hit the valuations of long-term growth companies. We also highlighted that although we had increased our clients' exposure to these companies, we had kept our quality growth bias in portfolios. Over the last month, market sentiment has changed. Even though reported inflation has increased, the reaction by central banks has led investors to believe that interest rates will only increase gradually, that we are near the peak in inflation and that longer term interest rates will not need to rise significantly, or at all, from here. This has led to a strong recovery in the share prices of many growth companies, an outperformance of long-term growth equities over lower priced value or cyclical companies and has driven the S&P 500 and NASDAQ to new all-time highs. Although we are pleased to see these moves, we are not convinced that inflation will be as easy to control as the market is currently anticipating and are keeping our feet in both camps with the current mix of growth, cyclical and value equities that we have in portfolios.

Market Moves

	Equities (incl. Dividends)						
30-Jun-21	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	0.0%	1.2%	-1.2%	-1.8%	-2.1%	-0.1%	-0.3%
June	1.3%	2.3%	1.5%	0.4%	-0.1%	0.2%	-0.3%
Year to Date	12.3%	15.3%	15.2%	10.9%	5.8%	7.4%	6.8%

	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Last 2 Weeks	1.1%	-4.8%	1.9%	-2.2%	-1.8%	-0.9%	-2bps
June	1.9%	-7.2%	10.8%	-3.0%	-2.7%	-1.4%	-13bps
Year to Date	21.1%	-6.8%	51.4%	-2.9%	1.2%	-7.0%	55bps

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

In our last Bulletin, we pointed out the investment risks of rising inflation. However, a confusing combination of comments, some hawkish pointing to the need for tighter monetary policy and others dovish, from US and UK central banks, along with some underwhelming rate decisions, helped some risk assets to tiptoe higher over the final two weeks of the first half of 2021. This enabled the record books to be re-written once again, with the technology-focused NASDAQ hitting a fresh high on 28th June (14,500 points) and the S&P 500 also reaching yet another record high on 29th June (4,291 points). Oil also reached fresh 2-year highs and is now up 50% so far this year, marking an incredible rally for the commodity.

The Federal Reserve ("Fed"), having historically hinted that rates in the US were unlikely to move until 2023, signalled that rates would indeed rise in 2023, upgrading their forecasts slightly to two rate hikes (of 25bps each) instead of the zero hikes quoted in the last Federal Open Market Committee ("FOMC") meeting. US bond yields initially rose on the news that interest rates are set to rise and the yield on the ten-year treasury rose +8.3bps and at one-point, +11bps shortly after the FOMC's announcement. However, shortly afterwards yields fell again as

investors seem to be convinced (as are the Fed) that the jump in inflation will be transitory and are not unnerved by the short-term increase, despite headline consumer price inflation having reached 5%. It's been a challenging year trying to predict the direction of inflation and when asked about the outlook for inflation, St. Louis President Bullard, a non-voting dovish Fed Speaker normally keen to keep policy loose to support the economy, said, "No one really knows how this is all going to unfold. We have to be ready for the idea that there is upside risk to inflation and for it to go higher".

High hopes of a lockdown-free summer were tarnished by cases of the Delta variant of the coronavirus (originally identified in India) continuing to grow and forcing some countries to increase social and travel restrictions. Lockdown limits came back into play for the likes of New Zealand, Australia and Taiwan, whilst in the UK, the number of daily cases was recorded at 20,000, marking a 73% increase on the previous week's figures. The silver lining is that over 80% of adults in the UK have now received their first vaccine dose and according to John Hopkins University & Medicine Coronavirus Resource Centre, just under 80m vaccines have now been administered. The increase in travel restrictions led to oil prices falling from their recent two year high, after a run of five successive weekly gains.

Bitcoin fell to its lowest level (\$32,582) since the beginning of 2021, with its less well-known peers following in the same direction. Much like the UK's recently departed Health Secretary, Bitcoin could well be the fallen angel of 2021. Binance, one of the world's largest cryptocurrency exchanges, domiciled in the Cayman Islands, hit headlines after the UK's regulator, the Financial Conduct Authority banned all regulated activities within its UK entity, restricting the company from operating its payments system, meaning some customers were temporarily unable to make incoming and outgoing payments. The rationale behind the UK watchdog's enforcement is largely due to concerns over illegitimate activities such as money laundering and fraud.

Economic Updates

In terms of data, the weekly initial jobless claims in the US came in higher than expected at 412k vs. 360k expected. Initial jobless claims are filed at the point at which an individual separates from their employer and becomes unemployed. This figure broke the run of six successive weekly declines in the statistic. However, the unemployment rate fell to 4.7%, which was in line with expectations.

In the Euro area unemployment also fell slightly more than expected from 8.1% to 7.9% and the strength of optimism was reflected in the European Commission's economic sentiment indicator that was above expectations, hitting a 21-year high of 117.9. Inflation as measured by the Consumer Price Index fell 0.1% to 1.9%.

The Bank of England's decision to leave the base rate at 0.1% was as expected and concluded by an overwhelmingly decisive vote from the Monetary Policy Committee of 8 – 1. Looking more closely at the minutes, the Committee are confident that "UK inflation expectations remain well anchored". Sterling fell slightly on the news.

JONATHAN BELL
IVO COULSON
RORY TOWNSEND-ROSE

30th June 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 and Stanhope Capital SAS. 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). 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.