Stanhope Capital Fortnightly Bulletin

Period ending 31st May 2021

Market Moves

The second half of May did not bear out the 'Sell in May and go away' tradition maintained by market traders. Although we saw equity markets dip mid-month, low bond yields, zero deposit yields and excess liquidity in the global financial system continue to provide oxygen to risk assets. From a tactical perspective, equity markets are starting to see another round of rotation with investors moving into the more cheaply rated Asian and European equity markets. We increased our exposure to Chinese equities within our Asia Pacific allocation for many clients in March and added to European and more cyclical equities in the second half of May. Whilst markets may experience some further pullbacks in the coming weeks as virus and inflation news continue to dominate, the speed of the global economic recovery remains impressive.

	Equities *(incl. Dividends)*						
31-May-21	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Last 2 Weeks	1.8%	0.8%	1.1%	-0.1%	2.8%	5.4%	5.0%
May	1.6%	0.7%	2.6%	1.1%	0.2%	2.3%	1.5%
Year to Date	10.8%	12.6%	13.5%	10.5%	5.9%	7.3%	7.2%
	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Last 2 Weeks	0.9%	3.4%	1.5%	0.7%	0.8%	-0.2%	-3bps
May	2.7%	7.8%	4.3%	1.7%	2.8%	-0.2%	-3bps
Year to Date	18.9%	0.4%	36.7%	0.1%	4.0%	-5.7%	68bps

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 climbed higher over the fortnight, supported by falling global COVID-19 cases and more relaxed investor attitudes towards inflationary pressures. Aggregate US economic data struck a balanced tone, not strong enough to raise fears about imminent interest rate hikes and/or tapering, nor weak enough to threaten well baked-in expectations about a sharp post pandemic economic recovery. On one hand, the core US Personal Consumption Expenditure price index, rose by 3.1% year-on-year, its largest jump since the 1990s, the composite Purchasing Manufacturing Index ("PMI") reached 68.1, its highest level since 2009, and weekly initial jobless claims fell to a post pandemic low. On the other hand, the US Conference Board Consumer Confidence Index failed to meet expectations, experiencing its first decline this year, and new home sales fell well short of consensus estimates. Coordinated statements from members of the Federal Reserve stressing the transitory nature of the current rise in inflation appeared to resonate well with investors, sending government bond yields lower and helping growth stocks outperform their value peers.

Consequently, the rise in the price of gold over the past two weeks probably comes from a weakening US dollar, lower real yields, and Bitcoin outflows, rather than outright concerns about rising inflation. Commodity markets were also buoyed by rising oil prices, which in turn were spurred on by OPEC forecasts that indicated a tightening market, amidst falling inventories. Bitcoin experienced a reversal of fortunes, collapsing by more than 30% in a single day. It came under fire from the People's Bank of China who reiterated that digital currencies are not allowed as a form of payment and from Biden's administration who proposed that cryptocurrency transfers over $10,000 should be reported to US tax authorities. Never one to rest on his laurels, Elon Musk's tweets continued to dominate cryptocurrency markets, reminding investors how immature the asset class is. Special Purpose Acquisition Companies ("SPACs"), the flavour of the month in 2020 and earlier this year, have also seen waning enthusiasm from institutional and retail investors.

Slowing COVID-19 cases helped underpin positive investor sentiment. According to John Hopkins University, we have just experienced the fourth consecutive weekly decline in global cases, down more than one third compared to the end of April. In particular, the picture in India is steadily improving, with daily cases having fallen from a peak of 392,000 to below 200,000. Although vaccines seem to be working well against the mutation coming from India, there are other pressing concerns, including another potentially aggressive variant discovered in Vietnam and problems associated with the global distribution of vaccines. In Malawi, for example, over 20,000 doses of the Oxford/AstraZeneca vaccine were deliberately destroyed in May, owing to delays in transporting the jabs and their short shelf life.

President Biden's opening call for US intelligence agencies to investigate whether COVID-19 originally came from a laboratory in Wuhan, China, threatened to reopen an old chapter of US/Chinese tensions. Dr Anthony Fauci, the President's chief medical advisor, put his head above the parapet, declaring that that he is "not convinced" the virus emerged naturally. What was once regarded as Trumpian conspiracy theory is now looking more mainstream. Chinese equity markets ignored the darkening macro backdrop and ended the fortnight as the best performing major equity market. Belarus's forced landing of a Ryanair plane passing through its airspace and subsequent arrest of an opposition journalist also served to heighten geopolitical tensions. The European Union responded by banning Belarus's state airline from EU airports and promising fresh sanctions, whilst the US imposed sanctions on nine state run companies. President Putin, standing by his old ally, provided an emergency $500 million loan and pledged to increase the number of flights from Russia to Belarus. In contrast, tensions in the Middle East eased, as a conclusive ceasefire was brokered between Israel and Hamas, bringing an end to eleven days of intense bombing.

Economic Update

Although economic data coming out of the US was mixed, it was generally positive elsewhere. On the continent, the IHS Markit Eurozone Composite PMI reached a three-year high, coming in at 56.9 against 55.1 expected, whilst the Ifo Business Climate index for Germany rose to 99.2 compared to expectations of 98.0, the highest level in over two years. Across the channel, employment data was strong, with UK unemployment falling to 4.8%, and average house prices rising by 10.2% year-on-year, the fastest pace since 2007. Signs of a pick-up in inflation were evident, with UK CPI rising 1.5%, up from just 0.7% in the previous month. Rising commodity prices appear to be spilling over to global dairy markets, with a surge of demand, especially from China, driving prices higher. New Zealand, the Saudi Arabia of milk, is set to become a key beneficiary, with dairy accounting for nearly a third of its exports. A continental breakfast may soon become noticeably more expensive, as other raw materials, including coffee, sugar, wheat, and orange juice, have jumped in price since the onset of the pandemic.

In China, the renminbi has continued to strengthen against the US dollar, hitting a three-year high. Its upward move poses a direct challenge for policy makers, especially given the disadvantages a strong currency brings to exporters. The People's Bank of China has been assertive when it comes to leverage within the financial sector, setting a new 7% minimum reserve ratio for foreign exchange holdings, a 2% increase on the previous requirement. A slowing birth rate has also forced the government into action, with all couples now allowed three children rather than just two.

JONATHAN BELL,
IVO COULSON
HARRY COOKE
2 June 2021

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