Stanhope Capital

Stanhope Capital Fortnightly Bulletin

Period ending 15 August 2021

Tactical Positioning

The last two weeks has seen further confirmation of a well-worn mantra to 'sit tight and stay invested'. In our last bulletin, we discussed the regulatory crackdown on certain sectors in China and its short-term impact on equity markets. Since the end of July, Asian markets have recovered but it is clearly an area that we need to watch, as Chinese growth moderates and market intervention by the authorities re-surfaces, albeit periodically.

Elsewhere, bond yields have moved downwards again, and liquidity conditions remain highly stimulative as we move into the second half of August.

Market Moves

	Equities *(incl. Dividends)*						
15-Aug-21	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Month to Date	1.7%	1.7%	3.2%	3.1%	2.5%	0.3%	0.6%
Year to Date	15.0%	20.0%	21.2%	14.5%	2.8%	0.5%	0.4%
	Commodities			**Currencies (vs. USD)**			**Gov't**
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Month to Date	-1.1%	-1.9%	-7.5%	-0.6%	-0.3%	0.1%	5bps
Year to Date	22.0%	-6.2%	41.1%	-3.4%	1.4%	-5.7%	36bps

[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 continued their seemingly relentless march higher. This time they are being led by cyclical stocks with the cyclically dominated STOXX Europe 600 Index up every day during the fortnight whilst bonds ended the fortnight little changed, with the benchmark US 10-year Treasury yield just 0.05% higher at 1.28%, a level which feels at odds with the exuberance of equities and the US inflation release (see Economic Updates below). The fortnight also saw the 'VIX' index, which measures the implied volatility of S&P 500 options, fall to 15.5, close to a post-COVID low. All this points to buoyant financial markets, despite escalating geopolitical tensions. The fortnight ended with the Taliban taking de facto control of Afghanistan, two decades after they were forced out by Western forces.

In Washington, Commander-in-Chief Joe Biden defended his decision to escalate his troops' withdrawal from Afghanistan, stating that he "was the fourth President to preside over an American troop presence in Afghanistan" and that he "would not, and will not, pass this war onto a fifth." In other US news, nine moderate Democrats said they would not support a $3.5tn budget resolution, unless the infrastructure bill is first passed and signed into law. This is the opposite of what left-wing Democrats have said and highlights the challenges faced by the Administration given their tenuous grip on Congress. The US debt ceiling threatens to create further strife in Washington.

COVID restrictions moved in opposing directions depending on the country, with England easing restrictions and nations such as Australia, Hong Kong, and Singapore tightening them. There appear to be two blocs in the developed world, namely those countries looking to 'live with COVID' and those seeking to eliminate the virus.

Monetary policy announcements were limited over the fortnight owing to central bankers being on summer holiday, meanwhile the market anticipates the annual Jackson Hole monetary policy symposium at the end of this month. Speculation is rife that US Federal Reserve Chair, Jerome Powell, will use the event to announce at least a readiness to start scaling back monetary stimulus. The leaders of the European Central Bank and the Bank of England (BoE) will not attend in person owing to COVID. During the fortnight, the BoE itself forecast there could be some tightening of monetary policy. It now expects interest rates to rise from 0.1% to 0.2% in 2022 and to 0.5% in August 2024. Clearly this is highly dependent on the path of economic growth and inflation.

Economic Updates

Macroeconomic data announcements were mixed overall with the positive effects of the post-COVID economic rebound on the one hand and the downside effects of the Delta variant on the other.

US data releases were generally on the bullish side with the Consumer Price Index ("CPI") for July coming in close to market expectations at 5.4% year-on-year although core CPI inflation for July was slightly softer than expected. The market remains split between those who see inflation as transitory and 'inflationists' who believe it is here to stay. The US unemployment rate fell more than expected to 5.4%, although this does not include those who have stopped seeking work and the number of Job openings for June came in higher than expected at 10.07m. The Institute of Supply Management Purchasing Managers indices ("PMI") were mixed with the Non-Manufacturing print surprising to the upside but the Manufacturing PMI slightly below market.

Eurozone data releases were mixed with the Eurozone Services PMI, industrial production and consumer confidence disappointing but the Eurozone Manufacturing PMI, German retail sales and German imports/exports surprising to the upside.

UK macro data were also mixed with GDP growth and industrial production producing positive surprises but industrial production, construction output and balance of trade disappointing.

Chinese economic data for July came in below market consensus. Retail sales, industrial production growth, fixed asset investment, and the unemployment rate were all weaker than expected.

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Important Information