

Stanhope Capital Fortnightly Bulletin

Period ending 15th September 2021

Tactical Positioning

Following a strong month in August, the last two weeks have seen a gentle drift in markets. The main point of focus in the coming days will be the US Federal Reserve's ("Fed") interest rate setting meeting on 21 September. Signals from a number of countries reflect a slight slowdown in economic growth globally as the Delta COVID variant progresses, but consumer activity remains strong and inflation numbers have not, so far, spooked the market. The Fed is likely to reiterate its 'firm hand on the tiller' stance and may indicate a delay in its plans to reduce its bond buying programme. This could bring an element of cheer to investors. Seasonally, September and October can be tricky months for public markets but if the Fed delivers a calm message and the corporate results season, which kicks off in the second week of October, is as robust as expected the markets may regain their composure relatively quickly.

Market Moves

	Equities (incl. Dividends)						
15-Sep-21	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Month to Date	-0.5%	-0.9%	-1.4%	-1.2%	8.6%	-1.4%	-1.5%
Year to Date	15.3%	20.5%	18.4%	11.9%	12.2%	1.4%	0.5%

	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Month to Date	3.7%	-1.1%	6.0%	0.1%	0.6%	0.6%	-1bps
Year to Date	27.6%	-5.5%	49.6%	-3.3%	1.2%	-5.5%	39bps

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

The MSCI World Index (\$) reached new highs over the first week of the fortnight (3,169.64 on 6th September), whilst the S&P 500 and European Stoxx 600 indices both hovered around their all-time highs. Further records were broken in the commodity market, where the Bloomberg Commodity Spot Index, which tracks prices of futures contracts in commodities, made a fresh high for the decade. The energy sector is up 23.2% year to date whilst the West Texas Intermediary ("WTI") Cushing Crude Oil Spot Price (\$) is up an eye-watering 49.6% in 2021. Risk assets lost ground in the second week of September, mainly over fears of asset purchases being tapered and owing to the perceived risk of inflation. Sovereign bond markets fell, with the yield on the benchmark 10-year Treasury reaching its highest point (1.35%) in two months.

If Emma Raducanu's US Open victory was unexpected, so too were the official UK CPI figures which came in at 3.2% in August, the highest level since March 2012 and significantly over the 2.9% expected. This shows that inflation is still a very real concern to both markets and investors. The result also exceeded the Bank of England's Staff Estimates of 3.0% quoted in their August note and with investors pricing in potential future interest rate hikes, short-term bond yields rose to their highest levels in just over a year. On the other side of the Atlantic, US CPI came in slightly below expectations (for the first time since November 2020) with the month-on-month reading at 0.3% against a widely expected 0.4%. US bonds, in particular Treasuries, rallied on the news, while bank shares sold off.

Whilst the outlook for the COVID-19 pandemic seems to be gradually improving on a global level, with cases and deaths steadily declining, there have been renewed pressures on governmental bodies to provide plans for the winter months. The UK, along with nine other nations, is scheduling a roll-out of winter 'booster' vaccinations (due in November) for an eligible group of 25-30m people, with health and social care workers being prioritised before the over-50s. The UK Prime Minister also announced that COVID-19 may just have to be "something we are to live with" and depending on the strain on the NHS, Johnson has said that the UK could see a return of mandatory face coverings, vaccine passports and a return to working from home through the winter.

Staying in the UK, Prime Minister Boris Johnson managed to convince Tory rebels to vote in favour of a 1.25% increase to National Insurance contributions as well as dividend income, winning by a comfortable majority of 317 votes to 256. Despite renegeing on one of his key manifesto pledges to keep taxes unchanged, the hike is the largest since 1950 and will raise nearly £12bn a year which will predominantly be allocated to social care and the ever-under-funded NHS. We expect tax rates to rise elsewhere too. In the US, the influential Democratic Congressman Richard Neal published his proposal to increase the top rate of federal tax on individual's income to 39.6% from 37%, whilst President Biden would like to increase the capital gains tax rate from 20% to 39.6%

Remarkably, it was announced over the fortnight that El Salvador in Central America has officially recognised Bitcoin as legal tender. Salvadorans can now download the "Chivo" (colloquially translated as 'cool') digital wallet, which despite being inundated with malfunctions and bugs, allows crypto payments to be made in shops, bars and restaurants. It's even possible to pay a tax bill in Bitcoin. Residents were initially given a \$50 welcome bonus (equivalent to c.0.00065 Bitcoin) but the decision has not been unanimously accepted. Thousands of demonstrators took to the streets in protest of President Nayib Bukele's decision and activist Dora Rivera was reported to say, "Enough already! What the government is doing is arrogant, and authoritarianism." The protests were largely harmless apart from a Bitcoin ATM being set on fire.

Economic Updates

If the US and UK CPI releases were the main show, the US jobs report for August was certainly the warm-up act. Nonfarm Payroll growth in August came in at a disappointing 235k when economists had been predicting 720k new hires. This is significant as it has a bearing on whether the US government decides further fiscal stimulus might be required.

There were fewer people in the US filing for unemployment benefits as the US weekly initial jobless claims came in 25,000 lower than expected at 310,000 for the week to 4 September. These figures were slightly distorted by delays in applications owing to hurricane Ida, but it is encouraging to see the lowest reading since the pandemic began. The jobs market is gradually getting back on its feet, supported further by news that the National Federation of Independent Businesses' Small Business Optimism Index came in at 100.1, slightly above the expected reading of 99.0 – this index measures the proportion of business owners who plan to increase employment, inventories, and capital outlays.

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15 September 2021

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