Stanhope Capital Fortnightly Bulletin

Period ending 15th October 2021

Tactical Positioning

September was an uncomfortable month for equity markets but, once more, it has paid-off to sit tight as buyers have stepped in and reversed the dip. From a tactical perspective, we have been looking at our exposure to Asian equity markets over the last two weeks. Certainly, the rhetoric from Chinese leaders about clamping down on perceived monopolistic, speculative or harmful practices in the Chinese economy might sound harsh but the follow through actions have been relatively mild overall. Consequently, Asia Pacific equity markets, ex Japan, have risen over the last two weeks and China has led the way. On a forward Price-to-Earnings ratio of around 15.5 times, we regard the region as good value and whilst we remain very selective in the way that we invest in China, we feel it is appropriate to maintain exposure in what will shortly be the world's largest economy.

Market Moves

	Equities *(incl. Dividends)*						
15-Oct-21	World ($)	US ($)	Europe[1] (€)	UK (£)	Japan (¥)	EM ($)	Asia ($)
Month to Date	3.3%	3.9%	3.3%	2.1%	-1.3%	2.5%	2.1%
Year to Date	14.8%	20.4%	19.9%	15.5%	7.5%	1.2%	0.0%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	Gold ($)	WTI Oil ($)	EUR	GBP	JPY	UST 10Y[3]
Month to Date	3.9%	0.6%	9.7%	0.2%	2.1%	-2.6%	8bps
Year to Date	34.2%	-6.9%	69.6%	-5.0%	0.6%	-9.6%	66bps

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

Inflation pressures continue to occupy the minds of policy makers, market participants, and investors. The Federal Reserve ("Fed") chairman, Jerome Powell, says that he expects inflation to ease in the first half of 2022, whilst Atlanta Fed President, Raphael Bostic, noted "it is becoming increasingly clear that the feature of this episode that has animated price pressures — mainly the intense and widespread supply-chain disruptions — will not be brief." Bond market pricing reflects the increased likelihood of inflation. At the beginning of President Biden's term, markets were not expecting any rate rises, by the end of 2023 they are now expecting four. Over in Europe, the European Central Bank is looking ahead to how it may avoid triggering a sudden fall in bond prices when the Pandemic Emergency Purchase Programme ends in March 2022. In the UK, Bank of England Governor, Andrew Bailey, gave the clearest indication yet that if inflation persisted, action would be taken by the Monetary Policy Committee (i.e. to raise rates).

In the US, immediate concerns over the national debt ceiling were allayed when Democratic and Republican Senators agreed to push any decision over how to manage the perennial issue of US national debt limits to the beginning of December. In Germany, the centre-left SPD, Green Party, and Liberal FDP are meeting to discuss the formation of a 'traffic light' coalition, while in Japan, Prime Minister Kishida announced an election will take place on 31st October.

The first two weeks of October have seen some wild moves in commodity prices, particularly Chinese coal futures, and European natural gas futures. Coal futures rose around 40% last week, principally as a result of the shutdown of 60 coal mines in China's Shanxi province, owing to flooding. Following a more than five-fold increase in wholesale prices since the start of the year, European natural gas prices fell 45% last week after President Putin helped European consumers by announcing measures to increase supply to the market. Other commodities seeing strong rises over the fortnight include aluminium which reached its highest levels since 2008, and oil, with Brent and WTI (West Texas Intermediary) ending the week above $80 and $83 respectively. This was partly in response to OPEC+ group's decision only to continue with the planned increase of +400k barrels per day in November and not release more. Having risen to a 3 month high, lumber is close to 25% higher than a year ago, although it is still less than half the peak level it achieved in May.

Economic data

The IMF marginally lowered its global growth forecast for this year to 5.9%, reflecting supply disruptions and worsening pandemic dynamics in some developing economies. The forecast for 2022 was left unchanged at 4.9%.

US employment numbers announced during the fortnight were mixed. Nonfarm payrolls increased by 194,000 in September, considerably below consensus expectations of a 500,000 gain, whilst the unemployment rate has fallen to a post-pandemic low of 4.8%, in part owing to a declining labour force participation rate. The US composite Purchasing Managers Index ("PMI") of 55.0 was its lowest level in a year, but still above the expansionary 50 level. The September ISM (Institute of Supply Management) manufacturing survey rose to 61.1 from 59.9 in August in the face of supply chain bottlenecks, partly caused by significant delays at container ports around the US. Inflationary pressures were reflected in consumer prices which were up 0.4% in September, the 5th time in the last 7 months that the figure has come in above estimates.

The Chinese economy grew 4.9% year-on year in the third quarter, whilst the jobless rate fell to 4.9%, below forecasts of 5.1%. Industrial production was slightly weaker than expected, rising by 3.1%, whilst the Services PMI was 53.4, 4 points higher than expected. Retail sales also beat expectations, rising by 4.4% year-on-year.

In Europe, the manufacturing PMI readings were largely in-line with the preliminary readings with the Euro Area at 58.6 and the Euro Area composite PMI was revised up a tenth to 56.2. The EU-harmonised measure of CPI inflation rose to 4.1% marking the highest rate since the formation of the Euro Zone.

JONATHAN BELL
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15th October 2021

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