

## Stanhope Capital Fortnightly Bulletin

Period ending 30<sup>th</sup> June 2022

### Tactical Positioning

The second half of 2022 can hardly be a repeat of the first six months which delivered a unique and uncomfortable 'nexus' of issues that has spooked investors across the board. Although we will see some earnings downgrades in certain industries, as the recent buoyant US durable goods orders data shows (mentioned below), it is by no means certain that a serious recession is at hand. Currently, markets seem positioned for a relatively hard landing and that perception could persist into the Summer as investors and central bankers quit their desks for the holiday season. The reality could be different if interest rate expectations reduce. For that to happen, perceptions on inflation need to moderate and this looks increasingly possible given that commodity prices may have peaked, with oil down 8.2% in June, agricultural commodities down 9.2% and metals down 18.6%. In the short term, we are avoiding big changes in portfolio positioning as we enter the Q2 US Corporate results season. We will be looking to see how share prices react to both good and bad results as this may give an indication as to whether markets sentiment has passed its lowest point.

### Market Moves

30-Jun-22	Equities (incl. Dividends)						
	World (\$)	US (\$)	Europe <sup>1</sup> (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	-0.7%	-0.1%	-1.5%	-1.3%	0.3%	-2.0%	-0.5%
June	-8.1%	-8.3%	-8.1%	-5.6%	-3.1%	-5.6%	-5.9%
Year to Date	-20.0%	-20.0%	-15.2%	-0.8%	-7.5%	-17.1%	-15.5%

30-Jun-22	Commodities			Currencies (vs. USD)			Gov't
	COM <sup>2</sup> (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y <sup>3</sup>
Last 2 Weeks	-9.5%	-0.7%	-8.3%	0.4%	0.0%	-1.4%	-27bps
June	-10.2%	-1.8%	-7.8%	-2.3%	-3.4%	-5.2%	17bps
Year to Date	17.7%	-0.7%	37.4%	-7.8%	-10.0%	-15.2%	150bps

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

### US Recessionary fears heighten

The prospect of both Europe and the US sliding into a recession continued to dominate markets over the fortnight. The perceived threat of higher inflation, weak economic data and concerns that central banks may be tightening monetary policy too quickly, combined with poor consumer sentiment, has been difficult for markets to navigate. The rhetoric coming from the Federal Reserve ("FED") Chair Jerome Powell was that the likelihood of a recession was "certainly a possibility" in the US, something President Biden will be keen to quash ahead of the midterm elections in November. Moody's Analytics Chief Economist, Mark Zandi, remarked that the risks of a US recession were "uncomfortably high", contrary to St. Louis Fed President Jim Bullard's belief that a US recession was "unlikely". This uncertainty contributed to US equities marking the worst first half-year performance since 1970, falling 20%, back to levels of February 2021.

### Inflation escalation

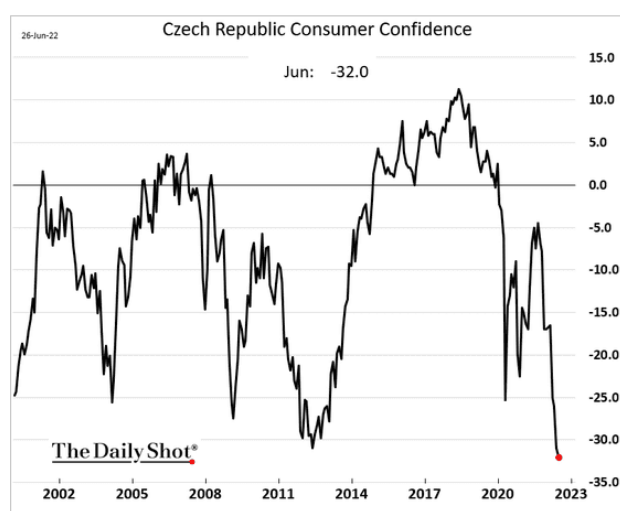
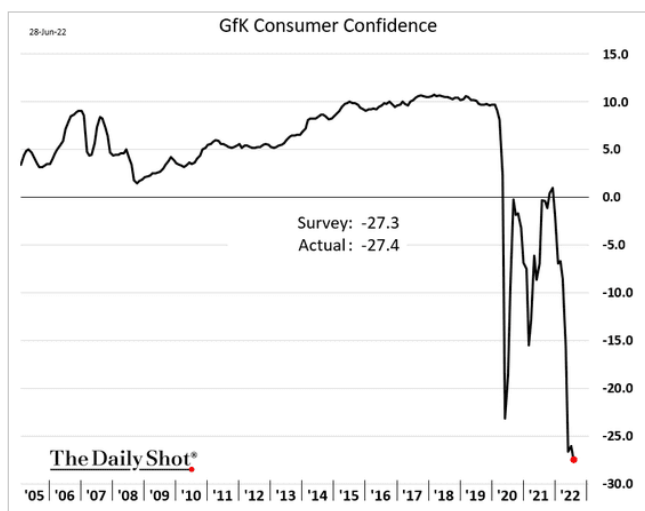
The UK CPI print came in at a year-on-year reading of 9.1% for May, in line with market expectations. This was the highest figure since 1982 and an unwelcome announcement for UK citizens already battling a cost-of-living crisis. Catherine Mann, one of the Monetary Policy Committee's ("MPC") more hawkish members, indicated that inflation could rise even further if "more robust" interest rate hikes were not implemented. UK equities have been one of the most resilient markets in 2022 falling 'only' 0.8%, largely helped by exposure to commodities and the energy sector. Most notably the price of oil, has continued its stellar performance of 2021, with WTI (West Texas Intermediate) up 37.4% in 2022. Accounting firm PWC gave half of their employees a pay rise of at least 9% to offset the effects of inflation, the largest increase in a decade.

**Chinese Covid restrictions ease**

As noted in our previous bulletin, lockdown measures were re-introduced in some states of China which heavily impacted the country’s demand and production of goods and services. Fortunately, China’s attitude towards a zero Covid policy (which it has been deeply committed to) witnessed some light relief as it was announced over the fortnight that the isolation period for international travellers entering the country was to be reduced from a fortnight to a week. More broadly, the Chinese market has rallied 7.3% over the month to the end of June, predominantly aided by additional monetary support that has been provided by the People’s Bank of China (“PBOC”) to help with the cost of the covid outbreak. Moreover, China’s industrial profits contracted at a slightly slower pace in May, falling 6.5% year on year, an improvement on the fall of 8.5% in April, as company workers returned to manufacturing hubs amid the easing of Covid restrictions. Companies and investors alike will be hoping that China’s strict quarantine requirements will not be re-instated.

**A bundle of nerves**

There was a raft of lacklustre consumer confidence releases over the fortnight with many European countries producing data which overwhelmingly disappointed. Consumer Confidence Indicators show how optimistic households are about their personal financial situation based on questions around the general economic situation. Both Germany and the Czech Republic posted record low readings, as shown below, whilst the consumer confidence reading measured by the French National Institute of Statistics and Economic Studies (INSEE) index, fell to levels not seen since 2013.



German and Czech consumer confidence numbers source, The Daily Shot

**Economic Updates**

New orders for US-made durable goods, a reading which measures the number of orders placed with US factories, climbed 0.7% in the month of May, well above the projection of 0.1%, showing some resilience in the manufacturing sector.

Both Japanese and French inflation readings came in as expected, at +2.1% and +6.5% year-on-year respectively, whilst the University of Michigan downgraded their forecasts of long-term US inflation to +3.1%, from +3.3%. Germany saw their EU Harmonised measure come in at +8.2%, which was below the predicted reading of +8.8%.

JONATHAN BELL, IVO COULSON, RORY TOWNSEND-ROSE

## 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 LLP is regulated by the US SEC under firm number 162512. 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.