

Stanhope Capital Fortnightly Bulletin

Period ending 15th June 2022

Tactical Positioning

The economic and market outlook is expected to follow one of three paths. Some forecasters expect stagflation, as higher interest rates push economies towards recession but fail to prevent engrained inflation from falling rapidly. Others see inflation, which has been caused by increases in commodity prices fuelled by pandemic restrictions and the war in Ukraine, as being temporary. They expect that lower demand, caused by higher prices and higher interest rates, will lead to recessions in the West and falling inflation. The last scenario foresees the fall in inflation and demand from these forces as likely, but that, the continuing recovery from COVID restrictions, strong employment numbers and elevated consumer savings, will enable the US, in particular, to avoid recession. We see the third of these scenarios as the most likely, but given the risks of the first two, we have focussed this year's tactical moves on protecting against these, by reducing exposure to growth focussed equities and adding to diversifiers such as hedge funds and tactical managers.

Market Moves

15-Jun-22	Equities (incl. Dividends)						
	World (\$)	US (\$)	Europe ¹ (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Month to Date	-7.5%	-8.3%	-6.7%	-4.4%	-3.5%	-3.7%	-5.5%
Year to Date	-19.4%	-19.9%	-13.9%	0.5%	-7.8%	-15.4%	-15.1%

15-Jun-22	Commodities			Currencies (vs. USD)			Gov't
	COM ² (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y ³
Month to Date	-0.9%	-1.1%	0.6%	-2.7%	-3.3%	-3.8%	44bps
Year to Date	30.0%	0.0%	49.8%	-8.1%	-10.0%	-14.0%	177bps

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

Groundhog Day

Each fortnight inflation continues to dominate headlines, often closely followed by news on interest rate hikes and stock market volatility. The US Consumer Price Index ("CPI") hit 8.6% year-on-year for May, above consensus expectations, with Core CPI (excluding food and energy) coming in at 6.0%. The continued increases in inflation have quietened economists touting its transitory nature and reduced the Federal Reserve's ("Fed") credibility. However, central bankers will be focusing on the Core CPI number which saw a modest decline from April's figure of 6.2%. CPI and Core CPI are currently experiencing their widest gap in 10 years as the more volatile food and energy components, not included within Core CPI, continued to rise. The Fed made its latest move to dampen demand on 15th June, raising interest rates by an additional 75 basis points. This is the largest hike since 1994. Fed Chairman Jerome Powell also indicated that "a 50 or 75 basis point increase seems most likely at our next meeting" in July.

Chinese re-opening woes

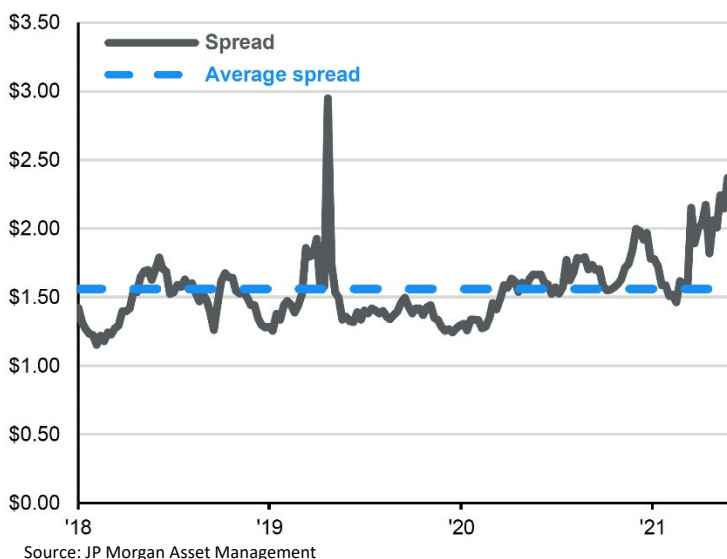
COVID restrictions in some Chinese cities are being re-imposed already, with citizens having only witnessed an easing within the last month. China is the only major country to have avoided a significant COVID wave, with peaks of only 30,000 new cases per day, compared with the peak in the US of almost 1 million new cases per day. The major issue facing Chinese officials is the slow vaccine rollout with estimates of around 50% of the general population having received two doses, and only 20% having had the third 'booster' jab. Whilst the re-opening is expected to aid global growth, any setbacks continue to be damaging.

Energy sector

The energy sector, which has been the only positively performing sector in the US market year-to-date, has come under pressure from politicians worldwide on account of the gains made from higher oil and gas prices. Some governments are considering “windfall taxes” on the sector, with the proceeds to be used to ease consumer pain. Given the thematic trend on clean energy there has been significant underinvestment in oil extraction and production which has likely exacerbated current supply issues, whilst on the demand side, consumer desire to travel has increased dramatically post-lockdowns. The chart below demonstrates one of the tailwinds energy companies are enjoying, with retail fuel (manufactured by “cracking” or refining crude oil) prices increasing by more than the underlying crude oil price, boosting refineries’ operating margins.

“Crack spread” continues to rise

Spread between U.S. retail gasoline and crude oil prices per gallon, last 3 years



Source: JP Morgan Asset Management

Crypto crash

Although we have not invested in cryptocurrencies, we have been monitoring their progress. Over the past fortnight Bitcoin has fallen over 25% to below \$22,000 reaching levels last seen at the end of 2020 and 50% lower than the start of the year. Some cryptocurrency lenders and exchanges have halted customer withdrawals putting further downward pressure on crypto tokens and listed cryptocurrency firms’ prices. Cryptocurrencies seem to be positively correlated with risk assets and recent movements are likely to draw further scrutiny from regulators.

Economic Updates

US job creation remains robust, with nonfarm payrolls for May coming in at 390,000, above the forecasted 325,000. The Manufacturing Purchasing Managers Index (“PMI”) for May fell short of expectations by 0.5 points, at 57.0, but still comfortably in expansion territory.

UK GDP fell 0.3% month-on-month, lower than consensus forecasts of growth of 0.1%. The UK services PMI exceeded expectations for May, hitting 53.4 against estimates of 51.8. On the continent, Euro-area GDP rose by 5.4% year-on-year for the first quarter of 2022, above expectations of 5.1%. French and German manufacturing PMIs marginally beat consensus estimates at 54.6 and 54.8 respectively but Italian figures disappointed missing expectations by 1.6 at 51.9.

In China, the Caixin Manufacturing PMI for May was 48.1, marginally beating forecasts of 48.0. Japanese GDP fell by less than expected year-on-year, with the reading coming in at -0.5% rather than the predicted -1%.

JONATHAN BELL, IVO COULSON, HARRY TYLER

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.