Stanhope Capital Fortnightly Bulletin

Period ending 15 April 2018

Tactical Positioning

We have not made any tactical changes since our last bulletin dated the 31st March. Markets have managed to recover a little despite the ongoing flow of unpredictable actions from President Trump. The current 'outbreak' of increased market volatility may benefit hedge funds and we are currently revisiting our selection of managers. Hedge Funds, generally, have struggled over the last few years as markets have ground upwards but the current environment is an opportunity to reassess the contribution that some strategies can deliver.

Market Moves

	Equities *(Local Currency, incl. Dividends)*						
15-Apr-18	**World**	**US**	**Europe[1]**	**UK**	**Japan**	**GEM**	**Asia**
Last 2 Weeks	1.0%	0.6%	1.9%	3.1%	0.8%	0.6%	1.0%
Year to Date	-0.9%	-0.3%	-1.4%	-4.3%	-4.0%	1.3%	0.6%

	Commodities			Currencies *(vs. USD)*			Gov't
	BCOM	**Gold**	**WTI Oil**	**EUR**	**GBP**	**JPY**	**UST 10Y[2]**
Last 2 Weeks	2.1%	1.5%	3.8%	0.1%	1.6%	-1.0%	+9 bps
Year to Date	1.7%	3.3%	11.5%	2.7%	5.4%	5.0%	+42 bps

[1]Europe excluding UK

[2]US Treasury 10 Year Yield shows absolute, not percentage, change in yield

Source: Bloomberg

It was a rocky start to April, as trade war tensions escalated with a series of tit-for-tat retaliations between the US and China. On 3rd April, the US released a list of 1,300 product categories covered by the proposed 25% China tariffs, impacting some $50bn of Chinese inputs. The Chinese Ministry of Commerce swiftly said that they were ready to counter the US with the same intensity and scale. The US then found another $100bn of goods to consider for tariffs with the Chinese promising reciprocal action. Although communications still contained lingering threats, risk assets began to recover with softer rhetoric from each side that significantly increased the probability of a negotiated settlement. President Trump downplayed the prospect of a trade war and called President Xi a "friend" while his top economic advisor, Larry Kudlow, said talks were already going on behind the scenes and that he thought both sides would come to an agreement. At the Boao Forum, President Xi announced that China would strive to be more open and lower import tariffs for vehicles, while noting cold war mentalities are "out dated".

However, as market fears began to calm over the possibility of a trade war, the prospect of further US involvement in the Syrian war increased. President Trump tweeted that the Russians and Iranians were going to have "a big price to pay" for backing the "animal" Assad of Syria. Tensions increased sharply as the US, France, and the UK weighed up military options, while Russia threatened to shoot down any missiles launched against its ally and also threatened to strike the launch sites themselves. Missile strikes took place on

Saturday but have had little impact on financial markets as the coalition governments noted that no further attacks were likely (as they believe the damage to Syrian chemical weapons facilities has set them back years).

President Trump’s confrontational negotiation style has seemingly paid off recently – during the period it was reported that North Korea and the US had been holding secret talks to prepare for a meeting between their respective leaders and the North Koreans are apparently ready to discuss denuclearisation; in addition, the NAFTA trade deal has been reported as approaching completion. Nevertheless, this apparent success hasn’t stopped White House staffers resigning: both the Homeland Security Adviser and National Security Spokesman quit during the period.

Equity markets were volatile over the fortnight although risk assets rose overall despite continued geopolitical tensions and indications of slowing global growth. The VIX index, which shows the market’s expectation of 30-day volatility, started April at 20.0 and increased to 24.5 during the height of trade war tensions but ended the period at 17.4. Major equity markets rose, with European indices posting the strongest returns thanks to continued inflows and more accommodative monetary policies. A number of developed country indices are still negative for the year however, although Emerging Markets and Asia remain positive. Energy led all other sectors as oil has continued to perform, with WTI (West Texas Intermediate) up 3.8% over the period, bringing the year to date increase to 11.5%. High US supply weighed on the price initially, but as trade war tensions eased and Middle East tensions increased, oil moved above $70 a barrel. Saudi Arabia also indicated a $80 aspirational target for oil before Aramco’s IPO (expected in 2019). The first quarter earnings season has started, and as geopolitical tensions ease the market should be focusing on equity fundamentals for the next few weeks.

In bonds, the risk-on environment saw the yield on the 10-year US Treasury increase 9 basis points over the fortnight to 2.83% whilst high yield indices were up, pushing yields in the US and Europe down 29 and 15 basis points respectively. In the foreign exchange markets, sterling rose against other G10 currencies given the apparently higher possibility that the UK will stay in a customs union with the EU, while the US dollar, which is considered a safe haven asset, was lower against both the euro and the pound.

Economic Updates

Citigroup’s economic surprise indices, which monitor whether actual economic data releases are better or worse than expectations, continued to drift lower in most major economies, meaning that economic data was coming out below market expectations. The Purchasing Manager Index (PMI) for March showed continued deceleration in the speed of global economic expansion with Markit’s composite of global PMIs falling for the first time in six months, down from 54.8 in February to a 16-month low of 53.3. US March jobs data was below forecasts at 103k vs 185k expected but did follow a strong February month of 326k. As noted in previous Bulletins, we are not overly concerned by this moderation in economic data. Globally, nearly all PMIs are still above 50, which indicates expansion and many of the countries cited bad weather as one of the main reasons for curbing business activity in March. Euro area unemployment came in at 8.5% which marked a 10-year low. In addition, comments from Central Bank representatives and the official Fed and ECB minutes from March generally remained upbeat.

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15 April 2018

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