Stanhope Capital Group

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PERIOD ENDING 15th May 2024

STANHOPE CAPITAL FORTNIGHTLY BULLETIN

TACTICAL POSITIONING

We discuss below that the US economy is showing some signs of a slowdown. Entwined with this is a significant depletion in US personal savings which have slumped in the last 12 months and are close to a 10-year low. It would be easy to think that this might prompt a more cautious stance from investors, yet equities seem to remain in a healthy upward trend. Behind this relative strength is an unspoken sense that central banks may provide an insurance policy for investors, in that if they get worried about a slowdown they will simply speed up the rate at which they cut interest rates, lowering borrowing costs and providing a stimulus for the economy. For the time being, this is providing much needed 'oxygen' to equity investors who see cheaper money as a major component for bull markets.

MARKET MOVES

	Equities *(incl. Dividends)*						
15-May-24	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Month to Date	5.6%	5.6%	4.4%	4.0%	0.0%	5.6%	6.0%
Year to Date	10.2%	11.8%	11.4%	10.7%	15.7%	7.8%	8.4%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Month to Date	2.7%	3.7%	-4.0%	2.0%	1.5%	1.9%	-34bps
Year to Date	7.3%	15.2%	9.7%	-1.4%	-0.4%	-8.9%	46bps

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

A good combination …Growing profits and slowing inflation

Following a poor April, equity markets, particularly those in the US, performed well over the first two weeks of May taking the total return so far this year to over 10% in most developed markets. US inflationary pressures eased slightly increasing hopes that interest rates will start falling in the second half of this year and first quarter corporate earnings have generally been better than expected. Most sectors saw earnings above estimates and the positive results have provided additional confidence that corporate profits are on track to grow by around 10% this year.

Evidence is mounting that the pace of the US economy is slowing. Employment increased by only 175,000 jobs in April, the slowest increase in six months and around 63,000 fewer than expected and the unemployment rate, although still low, rose slightly from 3.8% to 3.9%. Retail sales in April also disappointed by remaining flat instead of the anticipated 0.4% growth, suggesting that higher interest rates are dampening demand.

US Inflation as measured by the Consumer Price Index ("CPI") increased by 3.4% over the 12 months leading up to April, aligning with forecasts and slightly lower than the 3.5% from the previous month. Meanwhile, Core CPI, which excludes food and energy prices, stood at 3.6% for the 12 months ending in April, marking the lowest rate seen in over two years. Across all items, rising shelter and gasoline costs accounted for over 70% of the increase in April. The latest data isn't likely to bolster the Federal Reserve's confidence in cutting rates in the immediate term but it should ease concerns about inflation. When coupled with weakening economic data, it paints a growing picture that the economy is softening.

Recovery in China?

China's stock market is starting to stage a comeback, with nearly a 10% increase over the fortnight and a significant 28% rise from its low point in February. The economy has recently grappled with some major economic challenges with troubles in its real estate sector and a lack of consumer demand resulting in a deflationary spell. Contributing to improved market sentiment is the announcement of government stimulus packages and some positive economic data. The Citi Economic Surprise index for China, which represents the sum of the difference between official economic results and forecasts, has been moving up steadily since the start of the year and the government has recently announced a 1 trillion-yuan bond issuance to provide support to the economy.

Also, imports rose by 8.4% in April, surpassing analysts' expectations of under 5% and reversing a 1.9% decline in March whilst exports grew by 1.5% following a 7.5% decline in March. The introduction of new measures by US President Joe Biden, affecting $18 billion worth of imported Chinese goods, including steel, aluminium, semiconductors, and electric vehicles, may however pose challenges for the country's export market.

Time to play FTSE?

Another market in the spotlight in recent weeks is the UK with investors seeming somewhat relaxed with the upcoming political showdown. The Bank of England struck a more positive tone following the most recent Monetary Policy Committee ("MPC") meeting, indicating that things are moving in the right direction for the Bank of England to start cutting interest rates later in the year. An additional committee member opted for a rate cut during the May meeting with the committee voting 7-2 to maintain rates compared to 8-1 the previous month. GDP data from the first quarter of this year indicates the swiftest expansion in nearly three years with growth of 0.6% and a rebound from the mild recession it entered in the previous year.

Meme Renaissance

There has been a resurgence of interest in meme stocks, with shares in GameStop rising 74% during one trading session, marking the most significant single-day gain since early 2021 (the shares have subsequently halved). Fuelling the recent volatility is the resurfacing of Keith Gill, who ignited the frenzy in 2021 through a series of Reddit posts, attracting substantial retail investment into companies like GameStop and AMC theatres. Back then, hedge funds that had wagered against these stocks based on their fundamental research suffered substantial losses as the price rose. On this occasion hedge funds seem to be better protected from the behaviour of meme stock speculators prepared to pay any price to buy the shares even if it would appear to others that the company looks overvalued.

Economic data

German Industrial production fell 0.4% in March, albeit less severe than the 0.6% fall anticipated, as the construction sector performed better than expected.

Business activity in the Eurozone expanded at its swiftest pace in nearly a year last month. This growth was primarily driven by a resurgence in the services industry, which compensated for a deeper downturn in manufacturing. The Composite Purchasing Managers' Index for the bloc remained in expansionary territory, rising to 51.7 in April from March's 50.3, surpassing the preliminary estimate of 51.4 and the preliminary reading of Euro Zone Q1 GDP indicates the fastest growth since Q3 2022.

In the UK, the unemployment rate climbed for the third consecutive month to 4.3%, indicating a cooling jobs market which could be viewed favourably by the Bank of England's MPC. Despite the rise in unemployment, average earnings growth (excluding bonuses) remained strong at 6% in the first three months of the year.

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