

# STANHOPE CAPITAL FORTNIGHTLY BULLETIN

## TACTICAL POSITIONING

In our last Bulletin, we reiterated that we remained keen on equity markets and shorter dated bonds. As we show in the table below, markets have continued to make solid progress in the last two weeks. From a tactical point of view, a pause may now be due as we edge towards the first quarter corporate results season. Most technical indicators are flashing 'overbought' in the short term and the recent surge in the oil price will cause some concern. The leadership of the US equity market has started to change a little with the dominance of last year's largest companies starting to dissipate. For the remainder of 2024 'growth style' equities will continue to have their appeal, but investors will be scanning the broader market for reasonable valuations in stocks that have lagged the Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla) over the last 18 months.

## MARKET MOVES

	Equities (incl. Dividends)						
31-Mar-24	World (\$)	US (\$)	Europe <sup>1</sup> (€)	UK (£)	Japan (¥)	EM (\$)	Asia (\$)
Last 2 Weeks	2.1%	2.8%	1.9%	3.1%	5.2%	0.9%	0.8%
March	3.3%	3.3%	4.2%	4.9%	3.9%	2.5%	3.0%
Year to Date	8.2%	10.4%	7.7%	3.8%	22.0%	2.0%	2.2%

  

	Commodities			Currencies (vs. USD)			Gov't
	COM <sup>2</sup> (\$)	Gold (\$)	WTI Oil (\$)	EUR	GBP	JPY	UST 10Y <sup>3</sup>
Last 2 Weeks	0.4%	2.7%	2.6%	-0.9%	-0.9%	-1.5%	-11bps
March	3.8%	8.6%	6.3%	-0.1%	0.0%	-0.9%	-5bps
Year to Date	1.9%	7.4%	16.1%	-2.3%	-0.8%	-6.8%	32bps

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

## Sayonara negative interest rates in Japan

The Bank of Japan increased interest rates for the first time in seventeen years, ending negative rates and its long-standing control of government bond yields. Intervention by the authorities will continue though with Japanese Finance Minister Shunichi Suzuki claiming that they could act against excessive moves in the yen. The currency weakened to the lowest level in 34 years against the dollar on March 27th.

Japanese equities have been back in investors' spotlight over the last few months with a weak yen and improved corporate governance, enhancing the market's appeal. Yet, the country's ageing population poses significant socio-economic challenges. An illustration of this is Oji Napa, a Japanese nappy maker, which announced the end of its babies' diaper production to focus instead on adult diapers. To address the demographic dilemma, the Japanese government has implemented a strategy of attracting immigration through "work visas", resulting in 5% of the workforce now being "work visa" holders.

## The Magnificent 7 is last year's story

Last year's popular reference to the 'Magnificent 7' applied to the seven leading US companies in terms of size and stock market performance, needs changing to reflect recent movements. This year, the star performer from the 7 has been software company Nvidia, whose shares are up around 80% in three months on the back of the popularity of its processors for artificial intelligence. By comparison, Apple and Tesla are both down this year. During the fortnight, Apple was sued by the US Justice Department and more than a dozen states for violating federal antitrust law by illegally monopolising the smartphone market. Apple is accused of stopping competitors from accessing hardware and software features on its products. Apple also faces a European investigation as part of the Digital Markets Act. The market reacted negatively to this news, taking year-to-date losses to 11%.

Tesla's stock price has slumped by 28% so far this year. The company has been hit by slow electric vehicles sales worldwide. In China, its local competitor BYD has launched a new model that successfully competes at a lower price, while in Germany, there was a temporary shutdown of its factory outside Berlin owing to a possible arson-related power cut. The company's growth has slowed despite a year of successive price cuts. Tesla is the worst performer of the Magnificent 7 this year but remains by far the most expensive stock of the list based on its forward price to earnings ratio.

## Bad news for chocoholics - Easter egg prices rose by 50% in 2024\*

The price of cocoa hit a record high last week, with prices reaching \$10,000 a ton. Poor weather and disease have strongly hit cocoa production in Ivory Coast and Ghana, which together produce more than two-thirds of the world's cocoa beans. Supply was already stretched after poor harvests in the two previous seasons. Hedge funds have been betting extensively on rising cocoa prices, which probably increased the extent of the price movement since 2022.



Source: FactSet

The cocoa trade has been in the middle of many controversies, including the lack of economic recognition towards farmers. There are around one million farmers in the Ivory Coast supplying cocoa to companies like Nestlé, Mondelez and Mars. Farmers typically receive about 5% of the retail price of a chocolate bar and earn just \$1.20 per day.

In addition to cocoa, gold and Bitcoin also hit their all-time highs during the fortnight as did the US equity market.

## Democracy in action...

Vladimir Putin's presidential election win was far from a surprise. He secured a fifth term, apparently receiving 87% of the vote – the highest margin in post-Soviet Russia. Meanwhile in Senegal Bassirou Diomaye Faye, an anti-establishment candidate, has emerged as a surprise winner. Just weeks prior, Faye was a little-known opposition leader in jail, detained without trial. His win – 54% first round – established a new era in Senegal, removing an unpopular government and revitalising popular confidence in democracy.

## ECONOMIC UPDATES

The preliminary estimate for French year-on-year inflation for March 2024 came out on Friday morning at 2.3%. This was the lowest since September 2021, and was also considerably under analyst expectations of 2.6%, as well as February's rate of 3%.

The Swiss National Bank surprised markets by cutting interest rates, making it the first central bank in the G10 going down this path. Less surprisingly, the Bank of England and Federal Reserve left their policy rates unchanged which the market continued to view positively.

\*According to consumer website Which prices rose by over 50% compared with Easter 2023

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