PERIOD ENDING 31st January 2025

STANHOPE CAPITAL FORTNIGHTLY BULLETIN

TACTICAL POSITIONING

Investors started the week with a mini panic about technology company valuations and the colossal amounts being invested in AI development. This could be a recurrent worry but, once again, buyers of the dip appeared almost immediately and markets settled across the remainder of the week.

Looking at the state of the US consumer, personal savings continue to languish close to historically low levels of 4.4% versus a long-term average of 8.4% implying little scope for consumers to increase spending at the expense of saving. Although the Federal Reserve (“Fed”) remains data dependent in terms of inflation indicators, income growth has generally been slower than inflation, leading to tighter household budgets. Around 70% of US GDP comes from domestic consumer spending and household debt reached $17 trillion in late 2024 with credit card debt surging 10% in the last 12 months. Consequently we feel that the Fed will make further rate cuts this year in order to support consumer spending. In turn this is likely to support both US Treasuries and equity prices.

MARKET MOVES

	Equities *(incl. Dividends)*						
31-Jan-25	**World ($)**	**US ($)**	**Europe[1] (€)**	**UK (£)**	**Japan (¥)**	**EM ($)**	**Asia ($)**
Last 2 Weeks	2.2%	1.5%	4.9%	4.6%	3.0%	1.9%	3.3%
January	3.1%	2.7%	6.9%	6.3%	-1.0%	1.5%	2.0%
Year to Date	3.1%	2.7%	6.9%	6.3%	-1.0%	1.5%	2.0%

	Commodities			Currencies (vs. USD)			Gov't
	COM[2] ($)	**Gold ($)**	**WTI Oil ($)**	**EUR**	**GBP**	**JPY**	**UST 10Y[3]**
Last 2 Weeks	-1.6%	4.7%	-9.4%	0.7%	1.2%	0.8%	-11bps
January	4.0%	7.6%	1.1%	0.1%	-1.0%	1.3%	-3bps
Year to Date	4.0%	7.6%	1.1%	0.1%	-1.0%	1.3%	-3bps

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

There was some turbulence and rotation in markets towards the end of the month. However, US technology stocks ended the month on a positive note. United States treasury yields fell slightly over the fortnight but crept a little higher after remarks from Chairman of the Federal Reserve Jerome Powell that he was ‘not in a hurry’ to make cuts. The European Central Bank (“ECB”), by contrast, cut interest rates to 2.75%. European equities outperformed other regions in January partly supported by the fall in rates.

DeepSeek shocks

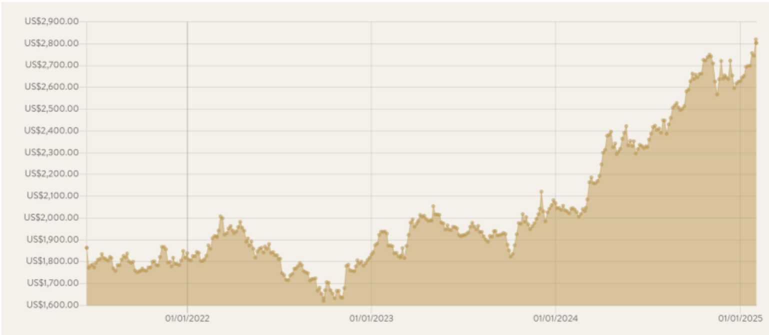
Last week, Nvidia’s stock took a steep dive, briefly wiping out nearly $600 billion in market value amid a broader tech sell-off. The sharp decline was fuelled by concerns over rising competition from DeepSeek, a Chinese AI company that unveiled a powerful open-sourced large language model. Investors feared that China's accelerating AI development could reduce its reliance on Nvidia’s GPUs (graphic procesing units), which have been a critical driver of the company’s massive valuation surge. Moreover, the former hedge funders at DeepSeek were able to do it on a comparatively shoestring budget, raising more questions about how profligate some US tech spending has been. According to JPMorgan Chase & Co. strategist Dubravko Lakos-Bujas, the emergence of more affordable artificial intelligence models is a "net positive" for global equity markets, as they are expected to boost incremental growth, accelerate efficiency gains, and help drive inflation lower.

Other technology firms like Apple and Intel beat earnings forecasts reassuring overall tech sentiment in markets. Nvidia CEO Jensen Huang was due to meet with President Trump to discuss the country’s strategic positioning in the future AI economy. This could lead to further export restrictions on China or even intermediary countries such as Singapore. The outgoing Biden administration had already released a ranking system for countries and their permitted access to US chipmakers.

Gold, *Digital Gold* and Black Gold

Gold prices reached a record high above $2,800 on the back of fears regarding President Trump's potentially inflationary tariff policies, particularly regarding Canada and Mexico. The Bank of England has been struggling to meet the demand for physical delivery of gold. Shortages have been exacerbated by deposits being moved out of the UK and in most cases to the United States. President Trump did not include precious metals in his tariff plans, but the mere risk was enough to drive increased gold deliveries to New York.

Gold price in $



Source: the Royal Mint

European Central Bank President Christine Lagarde reaffirmed that Bitcoin would not be considered for a strategic reserve as it does not meet several criteria including security, stability and liquidity. This was prompted by news that the Czech National Bank might approve a 5% allocation ($7.3bn) to Bitcoin as part of its reserve diversification strategy. The price has returned to above $100,000. In the US the Fed's Jerome Powell commented that "Banks are perfectly able to serve crypto customers as long as they can understand and service the risks".

Oil prices fluctuated as US President Donald Trump moved closer to imposing tariffs on Canada and Mexico, while traders remained uncertain about whether crude would be exempt from the levies. West Texas Intermediate crude hovered just below $73 per barrel, swinging between gains and losses. On Thursday January 30th, Trump reaffirmed plans to impose 25% tariffs on goods from the US's two largest trade partners. He subsequently stated that energy imports from Canada would be subject to a 10% tariff. Canada exports approximately 4 million barrels per day to the US and the two nations have highly integrated energy markets. Midwest refiners, which rely heavily on Canadian oil, would likely be the most impacted by any supply interruptions.

Good news from Europe

Investors made one of the biggest shifts from US to European stocks in nearly a decade in January, according to Bank of America. This rotation saw some investors reducing exposure to US tech stocks and into European defensive and growth sectors like banks, pharmaceuticals, and luxury goods. European shares are currently trading at their widest valuation discount to US stocks in many years. Low valuations across the continent and UK have been a driver of interest. There has been a surprising increase in interest in UK equities, likely owing to relatively high growth expectations compared with the rest of Europe. The market is also considered inexpensive. This strong performance of European stocks occurs even as Europe continues to recover from the sharp rise in energy and food prices resulting from the war in Ukraine.

ECONOMIC UPDATES

In the US inflation-adjusted gross domestic product increased by an annualised 2.3% in the fourth quarter after rising 3.1% in the prior three-month period, according to the government's initial estimate published on Thursday. The Fed's preferred inflation measure, core Personal Consumption Expenditures ("PCE") price index, which excludes food and energy, increased 0.2% in December from the previous month and 2.8% year-over-year. The figures were in line with expectations and followed a 0.1% rise in November and a 0.2% increase in October. A spike in energy prices contributed to the December uptick in the headline PCE index. The combined cost of gasoline, electricity, and other energy goods and services climbed 2.7% for the month but remained 1.1% lower compared with the previous year. This coming Thursday (February 6th) sees the Bank of England deciding on whether to cut rates. Forecasters anticipate a 25bps cut bringing the rate to 4.5%. Thursday and Friday will also see the release of US labour market data. Initial jobless claims (207k previously), Nonfarm payrolls (256k previously) and the unemployment rate (4.1% previously) will all give an indication as to the Fed's next moves.

JONATHAN BELL, IVO COULSON, SEBASTIAN FLICK

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