Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

April 2020 Review

The GT Momentum Portfolio gained 14.6% in the month of April as global equity markets rebounded from the sharp declines of the prior month.

I am pleased to report that the outlook discussed last month unfolded as I had expected and the changes in strategy to take advantage of the rebound were successfully implemented. The two key points from last month's report were;

1) The need to bring the investing/trading horizon into much shorter time frames. Volatility has a benefit of accelerating gains and losses, so what took months previously to eventuate can take just days in this environment. Equally those gains can evaporate just a quickly so there is a need to be very active during this period.

2) The second major change comes from understanding how markets recover from bear markets and market corrections no matter how small or severe. Large corrections have a way of resetting investors. Almost all stocks collapse from which their recovery needs to start all over again. The first stocks to recover are always the ones with solid businesses, strong balance sheets and clear visibility over earnings... In this cycle think Microsoft, Amazon and data centres. In each case, we have used recent declines to add these to the fund, as well as other key tech names that we continue to look favourably upon.

(Laggards, unfortunately, are those that require ongoing funding, are economically sensitive and which often is dominated by mid and small-cap companies.)

As a result, the fund was very active in the month and, while it seems easy to sit back, buy and sit on an array of roaring investments, the reality is that, with the degree of uncertainty and immense volatility, it was largely impossible to do so.

The huge Federal Reserve (and other central bank) stimulus will, in my view, create another bubble. Over $4 trillion is being spent to smooth the impact of a global economic shutdown and to ensure that financial markets continue to operate in a normal manner. This money will need to find a home somewhere and, to put into perspective, this is more than all the stimulus provided post the Global Financial Crisis. However, unlike the past decade where this stimulus lifted almost all sectors and companies, this time it will be centred around the so called "safe stocks" that we noted above.

Investors, having now lived through an entire economic shutdown, will be much more discerning with where they invest their money. It is no surprise to us that Amazon surged to new record highs gaining 23%, Microsoft jumped 14% in the month and that the country with the highest amount of central bank stimulus witnessed its equity markets gain the most.

The local ASX 200 rose a meagre 8.7% over the month and has experienced one of the most lacklustre rebounds from the March lows of any index globally, despite Australia being one of the least infected by Covid-19 Put simply, the size of the RBA stimulus is the key difference.

The gains seen this month were all the result of our shorter-term active strategies that now represent 50% of the fund. Our small-cap holdings in Adveritas and Helios were unchanged on the month. Helios, which has discovered oil at its Presidio project in South West Texas, has an estimated cost of extraction of approximately US$15/bbl (on our estimates) due to it being a very shallow discovery and cheaper to drill and pump. A lack of news flow over the month has not created any catalysts for any revival but we are anticipating that once the current well ceases to flow naturally, a new drilling program will be announced in the coming months that should bring the merits and size of this discovery back into focus.

We continue to see an array of opportunities (predominately in the US) where the current volatility has brought about some exceptional opportunities. As the global economy continues to defrost, central bank stimulus, plus the $5.7 trillion dollars now parked in mutual funds , has a real potential to consistently and persistently push valuations higher as it is returns back to the markets.

Until next month,

Gregory
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Portfolio
Manager
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