

Gleneagle Asset Management Gleneagle Investment Fund (GT Momentum Portfolio)

May 2020 Review

The GT Momentum Portfolio gained 14.5% in the month of May (before performance fees) as we continued to focus on the primary beneficiaries of the huge Federal Reserve stimulus and those companies that will begin to benefit from the global economy re-opening.

The main contributor to the gains this month was from our investments in US technology companies. The Nasdaq-100 gained 6.1% over the month, representing the overall improvement seen in this specific area of the market.

As we expressed in our March and April investor note, technology is the sector that we see benefiting the most from the Covid-19 pandemic as:

- 1) An economic shutdown has forced individuals, workers and companies to adopt new technology in ways they haven't in the past. Many of these changes will be permanent.
- 2) Many of the world's most cashed-up, financially secure companies are global technology businesses. The cash balances of Microsoft, Apple etc. run into the hundreds of billions, giving them a form of security that almost no other businesses can provide. Moreover, their services still remain in demand even in the event of a "global economic shutdown".
- 3) As investors look to "reset" their portfolios in a post-Covid world, the above two factors are why much of the Federal Reserve liquidity will end up invested in these businesses. If I was to ask anyone to choose a company, they would be most comfortable with as an investment in any financial conditions, the answer invariably would be a technology mega-cap.

As a result, this has all the ingredients to create the next bubble. It certainly has the capacity to be one larger than we have ever witnessed before in our lifetimes. Just like the 1998 Russian debt crisis created the huge financial market volatility (Federal Reserve Chairman Alan Greenspan had to conduct an emergency rate cut) which spawned the dot com bubble, the Covid-19 and Jerome Powell's \$4.5 trillion stimulus will, in our view, do the same again.....only much bigger.

Such a bubble presents an enormous opportunity for investors to be able to profit from the lift in valuations of this sector that could easily run for 12-18 months or even years. At this stage, it is impossible to tell how long and how far it will run. However, being only 9 weeks into the recovery from the March lows, I don't believe we are anywhere close to the end.

Naturally, whenever terms like bubble are used, it conjures up fears of market crashes. Yes, there will be a day of reckoning with a credit crunch likely to be the next trigger point for a market correction. Of this I also have no doubts. But the distance between the start of bubble and the start of the next credit crisis, as I said, can be years. Focusing on the wrong one at the wrong time can lead to not only missed opportunity but also losses. We are focused on maximizing this opportunity with the lowest risk possible and with the lowest volatility in returns as well. Actively rotating positions within the portfolio, hedging and the strict adoption of stop losses, are some of the strategies we are adopting.

Factors that would signal that potentially a credit crisis is brewing would be a sharp spike in short-term interest rates, junk bond debt beginning to experience a rapid depletion in value and several large globally prominent companies heading into bankruptcy.

We continue to monitor these markets closely for any warning signs.

Until next month,

A handwritten signature in blue ink, appearing to read 'G. Tolpigin', with a long horizontal line extending to the right.

Gregory
Tolpigin
Portfolio
Manager
Gleneagle Securities (Aus) Pty Ltd