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asset management

Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

August 2020 Review

The GT Momentum Portfolio gained 16.43% (before performance fees) for the month of August as we continued to benefit from several investments continuing to be revalued higher. While the month saw a rise of 2.2% for the ASX 200, the S&P 500 outperformed significantly with a 7% jump as technology companies continued to attract the most investor attention. It was our holdings in technology that were the primary drivers of the gains seen this month as we continued to ride that thematic.

However, we noted in our report last month that one of the most uncertain aspects to the market direction is who will be the next US President. Following our points last month, we conducted research into prior election years and found that post US Labour Day (September 7th) is when market sensitivity to poll numbers increases. Considering the extreme differences between the policies of both candidates, it would stand to reason that market sensitivity would be even greater in 2020. As a result of our findings, we used the market robustness into the end of August (and early September) to sell all non-core holdings as we look to lock in the gains enjoyed over recent months and begin to prepare for increased volatility. At the time of writing, the portfolio sits on approximately 40% cash.

Our focus in March and April was on technology stocks as these were poised to be the primary beneficiaries of Fed stimulus and the companies best positioned to weather an economic shutdown. That has paid off substantially, but the focus is now switching to two new key thematics. The first being infrastructure spending (we discussed this last month) as Governments attempt to stimulate economic activity by upgrading roads, bridges, schools etc. Stocks such as Boral fit this thematic perfectly with exposure both in Australia and the USA. Around this core holding we look to other niche players in the industry as well as holdings in base metals such as copper where stockpiles have dropped to levels not seen since 2005 when copper prices surged. Copper prices have been strong (reaching their highest levels in two years) and we believe this trajectory will persist well into 2021.

The second key thematic surfacing is the tourism stocks that stand to benefit from any positive vaccine news. Covid-19 phase 3 trials are due to be completed at the end of October. The FDA has already signalled that it may approve a vaccine before then and already optimism has filtered through to airlines, cruise liners and hotel companies. The rush into these stocks on any positive vaccine news will be enormous. In June, airline stocks jumped approximately 30% in three days just on general market optimism and excitement. The potential for 50%+ gains on any positive vaccine news is arguably conservative and presents a potential unique opportunity if timed well and structured properly.

We have begun to use options strategies that create the best risk-reward ratio by limiting the amount lost in the event nothing positive emerges but maximizes the return such that either a vaccine is released or the market's excitement simply builds and begins to bid these stocks higher in anticipation. These positions have an expiry date in December and will most certainly capture any good news moving forward.

September and October are seasonally volatile months and already we have seen some of this come to fruition with sharp declines in the first week. On a positive note to investors, we had already exited out of entire US-listed holdings before the volatility surfaced and had entered short positions in the Nasadaq-100 to benefit from any reversal as the market had reached dangerous heights and in keeping with our findings of higher market sensitivity to poll numbers post-Labour Day. It is worth highlighting that even though the US indices experienced sharp declines last week, the airlines, cruise liners and infrastructure stocks were all higher. It gives us confidence we are on the right path with our strategies and portfolio positioning.

Until next month,

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