

**Gleneagle Asset Management Limited  
Gleneagle Investment Trust (Equity Fund)**

March 2022 Review

The Equity Fund eased 1.99% in March in what was a frustrating end to a month which only registered a decline in the final days of the period. A weak end to the month in a few of our longer-held mid and small-cap positions took the shine off the returns made by our short-term trading strategies that have been concentrating on lithium, rare earths and energy as discussed in recent months.

Last month's note was written shortly after Russia's invasion of Ukraine and in the month, the potential for a quick resolution looks to be rapidly fading. Despite this, stock markets have been able to take the conflict largely in their stride as well as the increasing potential for the Federal Reserve to begin combatting inflationary pressures with 50 basis point rate hikes rather than the traditional 25 basis points.

Our strategy and outlook has remained unchanged. We continue to be focused on trading actively given the high levels of uncertainty and that news headlines have the ability to change the market's trajectory in an instant. We remain very cautious towards indices but positive on a range of commodities. Most recently oil, copper, lithium, nickel and rare earths had dominated our attention and lithium producers quickly returned to our portfolio despite last month's noting that we had dropped our interest in lithium for gold. Within a week of writing that note, we reversed our attention back to lithium when gold failed to maintain its positive momentum. This does reflect how quickly we are shifting and rotating through the markets, being very flexible with our investments but still within the same broader framework of concentrating on those areas where there is sustainability in the underlying fundamentals. Supply deficits in those commodities supplying the decarbonisation thematic over the next decade is still the clearest in our view.

Our biggest concern still remains on the economy and the very high risk of it being "killed" by overly aggressive central banks trying to control supply side inflationary pressures using demand side tools – namely by rising interest rates. The chart below shows the speed at which a yield curve (the difference between long-term interest rates and short-term rates) has inverted following the first official rate increase. An inverted yield curve occurs when short-term interest rates are higher than longer-term rates, and develops because buyers of long-term bonds become concerned that rate hikes will create a recession and thus begin to pre-empt that outcome. As shown, this is the shortest amount of time taken for a yield curve to invert which only confirms our fears that the global economy (now more indebted than ever) is substantially more sensitive to interest rate movements. Add to this the contractionary effect of inflation on household spending and an overly aggressive Federal Reserve could very quickly kill the global economy – well, at the very least, parts of it.

## Upside Down

2022 marks quickest yield curve inversion since Fed hiking cycle starts

■ Days since first Fed hike until 2-year, 10-year curve inverts



Source: Bloomberg

**Bloomberg**

In company specific news, after an eternal wait, Helios Energy has finally begun drilling once more at their Presidio oil project to test the lower formations. The previously fracked well into the shallower formations encountered oil and has continued to be in production, so this is exciting to see the extent to which the lower formations can add to the current value. The area of the project has now extended to 300,000 acres which, if reflects it anything similar to what the seismic surveys suggest, would be a very favourable outcome.

Our other holding in Elsie, developer of the Halo high security communication device being used by Drone Up to rollout a series of delivery drones with Walmart, is also close to securing FAA approval. We continue to have strong interest in those areas where technological advancement is disrupting traditional industries and drones are at the forefront of not only disrupting the typical delivery methods for small packages but also the way first responders can react to emergencies and deliver supplies into time sensitives and dangerous situations.

While the macro and geopolitical landscape remains uncertain and highly volatile, there still remain areas of the market where tailwinds remain strong and consistent. This primarily remains within the commodity sectors and while different commodities will come in and out of investor attention, their underlying trends seem to continue to improve with time as significant supply/demand deficits will persist for years to come.

Until next month,

Gregory Tolpigin Portfolio Manager  
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