Gleneagle Asset Management
Gleneagle Investment Fund (GT Momentum Portfolio)

October 2020 Review

The GT Momentum Portfolio declined 2.21% last month, registering the first negative return since March in what was a difficult month across the board for all asset classes and stock market indices as the US Presidential election loomed and COVID-19 numbers spiked. The NASADAQ-100 declined 3.2% while the S&P 500 eased 2.8%. The ASX 200 seemed to be one of the very few indices that managed to eke out a gain of 1.9%.

European indices fared worst as some countries entered a second round of lockdowns to combat another wave of COVID-19 cases. The German DAX dropped 9.5% and the UK FTSE settled 5% lower.

The portfolio's decline was largely attributable to some hedging costs and weakness in our core holdings which eased slightly month on month, with Helios declining 1c to finish at 16c (after rising 16% the month before).The failure of Queensland to open the border to Sydney residents a few days before the end of the month saw our significant profit in Qantas erode.

A quick note on Qantas and how that trade is shaping. We had noted that we structured the Qantas trade to benefit from the Australian economy re-opening and any positive vaccine news. The best risk/reward structure was via an advanced options strategy that limited our downside to 1% of the funds value but left the fund completely exposed to any upside (no cap on the profit potential). Ahead of the QLD border update, we closed a portion of the strategy, thereby locking in a profit and thus removing the 1% downside potential which now sits with zero risk on the trade. Qantas has since rebounded in November and the trade has rapidly swung back to an attractive profit again. As progress continues to a border re-opening, our positive outlook for Qantas remains unchanged.

Naturally, most of the month was fixated on who would be the next US President and, more importantly, whether we would we see a Democratic sweep and, with that, a substantial shift in economic policies. As I write this, the Republicans have remained in control of the Senate and while it remains a closely contested race for the White House – this outcome is largely a Goldilocks scenario for financial markets.

Firstly, the major market negative economic policies of the far left will not pass through the Senate. That risk can now be struck from the list of headwinds. Secondly, the huge fiscal spending (and in parts potentially wasteful) by the Democrats will be contained, thereby placing more emphasis on the Federal Reserve to be more accommodative and for longer. Put simply, of the two tailwinds – fiscal or monetary stimulus – financial markets will almost always prefer the monetary route. Finally, with the (probable) removal of Trump from the Presidency, so too will be the endless market moving random tweets that had become the norm over the past four years. This doesn't build investor confidence.

So, the result could very well be a return back to the comments I made early in March and April, that the result of Covid-19 would create one of the biggest financial and technology bubbles the world has ever seen. In 1999 we witnessed market pauses for several months before a resumption of the mania. There was a pause for the US election but, with that behind us, (in arguably the most market friendly way,) there could easily be a return of the mania that gripped markets the past seven months.

Central banks are continuing to fuel this with the RBA committing $100 billion its bond buying program and keeping rates unchanged for the next three years. The UK central bank committed another 150 billion pounds as the country enters a second lockdown and the European Central Bank is adding another 500 billion euros to its stimulus. Unheard of numbers that eventually lead to higher asset prices in all its forms from property to stocks to gold. It will also help lift raw commodity prices as well (wheat, soybeans, coffee etc) so there is promise that maybe finally, central banks will be able to successfully lift inflation levels. Pricing power returning – at least in its early stages – is a wonderful thing for stocks.

Until next month,

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