Looking Through Lockdown

Just like everyone else, the team at Hyperion have been trying to come to terms with the new realities presented by the Covid-19 crisis. As we look to the future of a 'new normal', here we offer you a brief summary of what we think has happened, what will happen and what we have done and will do on the investment side as a consequence. PS, apologies, but some of the wording is 'borrowed' from prominent publications like The Economist, FT, Bloomberg, etc…

The World At Large – Planet Earth in Shutdown?

In the struggle to get a grip on Covid-19, one country after another is demanding that its citizens shun society. As economies are sent reeling, desperate governments are trying to tide over companies and consumers by handing out trillions of dollars in aid and loan guarantees. Nobody can be sure how well these rescue packages will work.

Increased government spending comes at a cost, yet the fiscal stimulus of about 1% of GDP so far across Europe is clearly too low. America's plan to spend 5% is closer to the mark given the risk of a double-digit GDP drop.

As fiscal deficits balloon, governments will have to up their issuance of bonds. The US treasury has already warned of its intention to issue up to USD 3 trillion debt this quarter alone.

Central banks should step in to buy those bonds in order to keep yields low and markets orderly. Inflation is a second-order concern with little danger of it taking off.

This is not without substantial drawbacks, as soaring public and corporate debt will see handouts be given to the rich and loans extended to firms that are badly run. However, despite this fearful list of side-effects, the advantages are overwhelming.

The current market consensus is that cash will be distributed fast, allowing the most vulnerable people to survive. Households will be confident enough to spend when conditions improve. Firms will retain their workforce with their operational facilities remaining intact and be ready to return to action when these dark times have passed.

As a result of all this uncertainty early March saw markets nosedive at an unprecedented rate, only to strongly subsequently recover (also at an unprecedented speed). Our belief is that this is a direct consequence of lessons learned from the previous Financial Crisis of 2008/2009. One of these key lessons was not to fight central banks.

Fortunately for us and our clients, we at Hyperion were proactive and by the end of 2019, we had already adopted a more cautious view. While our portfolios took a hit, the impact was not as violent as the that being displayed in the market.

At Hyperion we were 'early adopters' of the 'don't fight the Fed' philosophy.

We decided to selectively re-enter the market as soon as central banks voiced their full support and with the realisation that every crisis makes new winners and losers. Going forward we have already seen new rules, trends, habits, and behaviours emerge.

And with all of that in mind, here a few sectors/topics/trends that we have identified and positioned ourselves in:

- New importance to safe assets: **Gold, Bitcoin**
- New Touchless Economy: **Cloud Computing, FANG, Software**
- Go with the flow (Central Bank buying): **Bonds**, and even **HY**. The more the merrier (although there will come a time to be patient again)
- Look for 'mis-allocations': **Oil** being a primary example, selectively chase mis-priced assets

The Hyperion Position by Asset Class

Treasuries

The volume of sovereign debt will skyrocket and prices will be entirely supported by central bank purchases. The debate is open, with investors looking for higher yields and central banks trying to keep rates low.

We remain out of this market.

Credits

Yields offered to investors have risen mainly between lowest ratings and in some chosen sectors such as financial subordinated and property dealers.

Looking for opportunities to buy cheaply.

Equities

A flurry of economic support guarantees the main indices will not crash again, but we don't discard further volatility. Some sectors will benefit, such as cloud computing, pharma, gold miners and soft commodities.

While keeping an underweight stance, we want to overweigh these sectors.

Currencies

Beyond the initial rush to (USD) safety, it is unknown which one will strengthen next. It depends on interest levels and inflation rate after the dust has settled.

Gold and the Bitcoin will work well as safe havens in this field.

Here is a summary recent trades we conducted:

Bonds

Date	Action	Asset	Price	Yield	Market	P&L
24/03/2020	Buy	Teva Pharma 2.95% 2022	83.7%	10.1%	96.3%	15.0%
15/04/2020	Buy	LeasePlan 7.375% 2023	88.0%	12.2%	79.0%	(10.2%)
06/04/2020	Buy	China Oil & Gas 5.63% 2022	90.0%	11.4%	95.3%	5.8%
06/04/2020	Buy	Oman 4.875% 2025	79.6%	10.6%	83.0%	4.3%
17/04/2020	Buy	DB 6% 2022	77.6%	7.7%	80.0%	3.1%
06/04/2020	Buy	Fosun 5.25% 2022	95.3%	8.0%	97.0%	1.8%
27/04/2020	Buy	Bankinter 8.625% 2021	102.7%	5.8%	101.3%	(1.4%)
06/04/2020	Buy	Yuzhou 7.7% 2023	85.7%	14.1%	86.0%	0.6%
08/04/2020	Buy	Michael Kors 4% 2024	80.9%	9.3%	80.5%	(0.5%)
29/04/2020	Buy	Lukoil 3.88% 2030	100.2%	3.8%	100.0%	0.0%

Equities & Commodities

Date	Action	Asset	Price	Market	P&L	Status
03/04/2020	Buy	SPDR Oil & Gas	33.8	45.0	32.9%	Sold
24/03/2020	Buy	First Trust Cloud Computing	52.3	59.8	14.3%	Sold
24/03/2020	Buy	JB Physical Gold Fund	1,046.0	1,088.0	3.9%	
24/04/2020	Buy	Invesco Agriculture ETF	13.5	13.7	1.5%	
30/04/2020	Buy	Vaneck Gold Miners	34.0	34.0	0.0%	