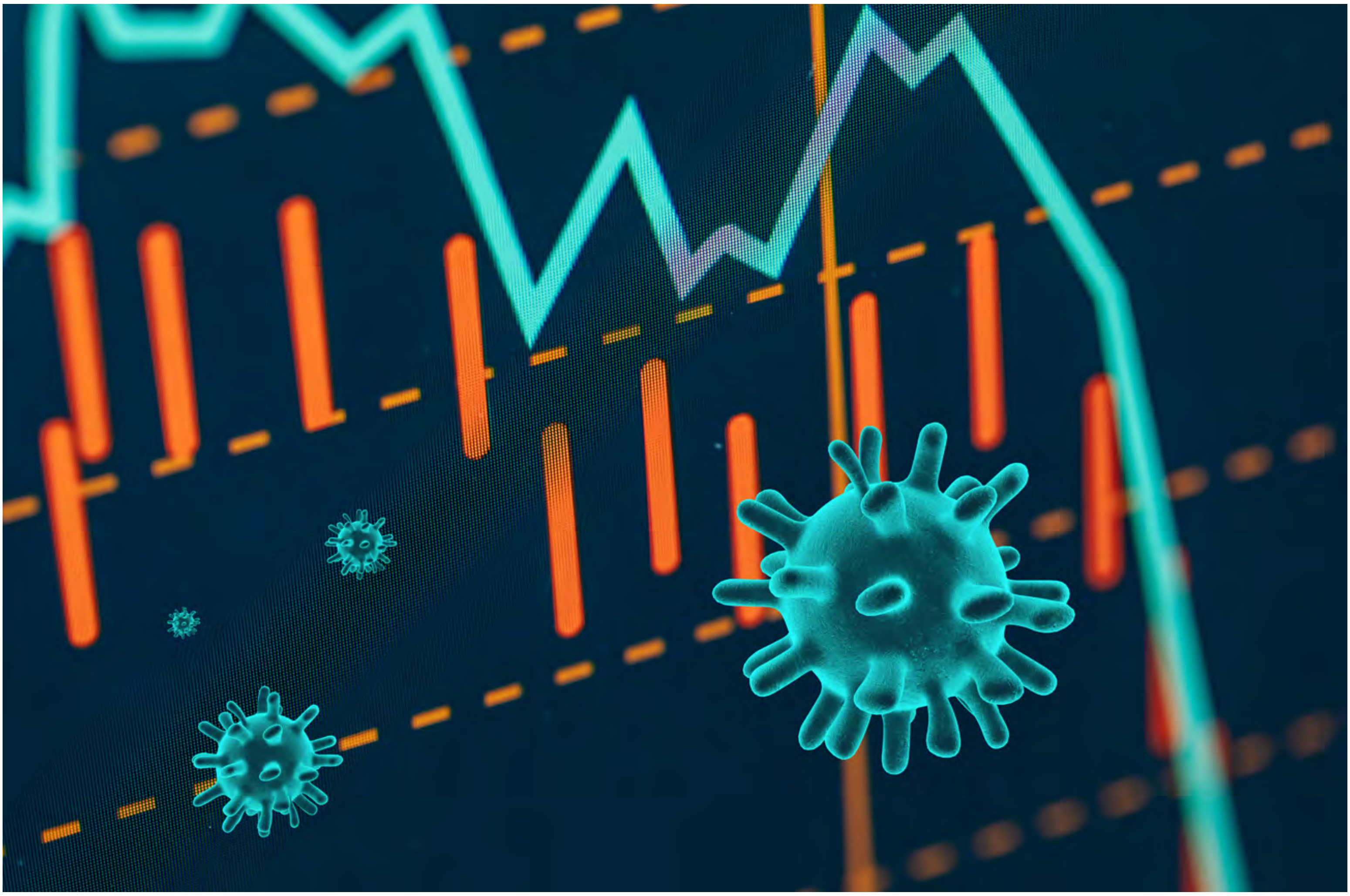


DARK TERRITORY
Navigating the Equities Market
IN A PANDEMIC

BY JOHN SO, PORTFOLIO MANAGER AND CO-FOUNDER AT VP CAPITAL

The first half of 2020 has been a tumultuous period for the world and no less for the economy and financial markets. For many investors and market participants, this period has been described as a 'once-in-a-generation' black swan event.

From its peak in late February to its trough in late March, the S&P / ASX 200 (a preferred measurement of the equity markets by many Australian investors) fell over 35%. At VP Capital, we had been expecting this for some time. Valuations had been stretched on many levels and financial metrics suggested many parts of the equity markets were trading at lofty highs not seen since the period leading up to the dotcom crash in 2001 and GFC in 2008. Combined with political uncertainty, particularly between the US and China, as well as the initial Covid-19 outbreak during the December 2019 and January 2020 periods, our analysis indicated the market was vulnerable to trade down on bad news. With this in mind, we entered February 2020 with a significant percentage of our holdings in cash which proved to be conservative, thereby protecting our fund. Despite the broader market returning one of the steepest declines in modern history, we were able to minimise the first quarter impact to single digits, protecting most of the +36% gain we achieved in 2019.

The S&P/ASX 200

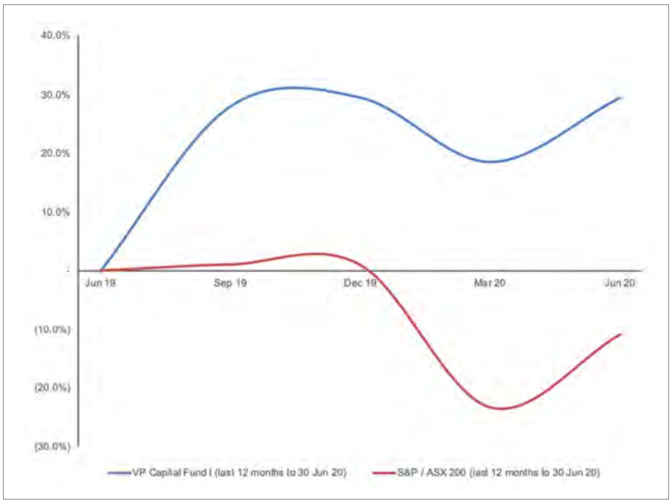
The recent correction due to Covid-19 was the steepest in recent history and the broader market has yet to recover.

John So, Portfolio Manager and Co-Founder at VP Capital

About VP Capital

VP Capital is an AFSL-licensed managed fund, with a predominant focus on the ASX. The fund returned over +30% net of fees in the last 12 months to 30 June 2020 vs the S&P/ASX 200 which was down -11%.

VP Capital管理基金拥有澳大利亚金融服务牌照(AFSL)，主要关注澳交所。截至2020年6月30日，该基金在过去12个月的净回报率超过30%，而标普/澳交所200指数则下跌了11%。



VP Capital Fund I achieved a 30%+ return after fees in the last 12 months during a turbulent period in the share market when the S&P/ ASX200 fell over 10%

Explaining the recent "recovery"

The share market downturn was not unexpected given the unprecedented disruption to businesses caused by Covid-19 and the economic shocks that reverberated throughout the economy, but what took many – including professional investors – by surprise was the subsequent 30%+ recovery from the index's bottom on 23 March 2020. During the next three months, investors had to make hard decisions about how to position their portfolios. On the one hand, a strong monetary policy response including yield curve targeting in countries like Australia to the promise of "unlimited QE" by the US Federal Reserve as well as fiscal stimulus (such as JobKeeper in Australia, for example) lured capital back

into the equities market, perhaps by the promise of ever-lower-interest rates and ample liquidity. On the other hand, there was no doubt that it would take months – if not years – for some sectors such as hotels, airlines, dine-in restaurants to return to 2019 trading conditions. Productivity – ultimately what each country is measured on when we talk about GDP – was (at least temporarily) significantly reduced, which would ultimately lead to falling earnings and falling asset prices.

The GFC playbook in the past taught us that one should never bet against what became known as the "Fed put" (ie where the US Federal Reserve underwrites liquidity and asset prices through monetary policy stimulus), but there was also no doubt that the Covid-19 pandemic is in many ways very different to the GFC. The 2008 crisis was concerned about liquidity, especially at an institutional level, but the 2020 pandemic is one that directly affected consumer facing businesses and disrupted jobs (and that's not to downplay the even more important health consequences of the virus). The 2020 pandemic was also more disruptive for the individual. For a start, there were border closures, inhibiting travel around the world, effectively shutting down the tourism and overseas education sectors so critical for a country like Australia. Eventually many countries and cities progressively went into some form of government-mandated lockdown, effectively inhibiting business operations altogether. Long-term contractual obligations such as supplier relationships or rental agreements, as a result, were either renegotiated or in some cases blatantly dishonoured. While all these factors were playing out, health authorities were trying to supress the spread of the virus to avoid a second wave, something that some countries and cities are now starting to contend with.

So how do we explain the rise and rise of the share market since late March 2020 against all this negative news? And what should we expect from here? While some of this article's earlier discussion would offer clues on what may motivate market participants (eg monetary policy easing, fiscal stimulus, or perhaps things just looked 'cheap'), there probably isn't one single deciding factor about why share prices have skyrocketed since the lockdowns started. Since the recovery started gaining momentum, there has been substantial retail interest in buying shares. A simple search on Google Trends showed that people around the world searching for the words 'buy shares' was the highest ever in over 10 years. Popular market platforms such as CommSec, not to mention the low/no-fees likes of Robinhood, also reported significant spikes in new account openings and previously inactive accounts trading. Observing that there has been no immediate-disastrous economic result, we think the recovery has been driven by a false sense of security, and a flawed assumption that the current benign economic environment will continue. We think the equity market took this narrative and morphed it into a broad-based momentum trade. And of course, the quant funds working on algorithms to detect the start of such momentum trades would not have been far behind. Typically, as the momentum gains traction, the market goes up even more and even faster. This was what we saw not just in Australia, but around the globe's leading financial markets such as the Nasdaq, China ADRs and other major exchanges in London and Tokyo. Fast-moving momentum trades that draw large retail crowds though, like cryptocurrencies in the past, tend to reverse just as quickly as they went up. But for now, it would seem investors are happy to go along for the ride and hope they're not the last ones stuck holding overpriced shares in a reversal of the trend.

Winners and Losers

More importantly, going forward we would expect the market and ultimately the economy to start moving towards a two-tiered, two-speed market – an idea reminiscent of the 'two-speed economy' terminology

黑暗领域
在疫情期间引领股票市场

作者:JOHN SO,
PORTFOLIO MANAGER AND CO-FOUNDER AT VP CAPITAL

2020年上半年全世界都处于动荡不安之中,经济和金融市场也不例外。对于许多投资者和市场参与者来说,这一时期被称为"一代人只有一次"的黑天鹅事件。

从2月下旬的高峰到3月下旬的低谷,标普/澳交所200指数(许多澳大利亚投资者首选的股票市场衡量标准)下跌超过35%。在VP Capital,我们在一定程度上对预测这种情况的发生已经持续了一段时间。在许多层面上,估值高企,金融指标表明,许多股票市场的交易量达到了自2001年网络泡沫破没和2008年全球金融危机以来从未见过的高位。再加上政治不确定性,特别是中美之间的不确定性,以及2019年12月和2020年1月期间的新冠疫情初期爆发情况,我们的分析表明,市场很容易因坏消息而走低。考虑到这一点,我们在2020年2月持有相当比例的现金,事实证明,这一保守举措保护了我们的基金。尽管大盘出现了现代历史上最大跌幅之一,但我们还是将第一季度的损失降至个位数,保住了在2019年取得的+36%的大部分收益。

近期"复苏"原因

考虑到新冠肺炎对企业造成前所未有的影响,以及经济冲击对整体经济的影响,股价下跌并不意外,但让许多人——包括专业投资者——感到意外的是,随后在2020年3月23日指数底部回升了30%以上。在接下来的三个月里,投资者不得不对如何定位自己的投资组合做出艰难的决定。一方面,强有力的货币政策反应,包括澳大利亚等国家的收益率曲线目标化,美国联邦储备局"无限量化宽松"的承诺,以及财政刺激措施(例如澳大利亚的JobKeeper),吸引资本重返股市,或许是通过承诺更低的利率和充足的流动性。另一方面,毫无疑问,酒店、航空公司、堂食餐厅等一些行业需要几个月——甚至几年——才能恢复到2019年的交易状态。生产力——当我们谈论GDP时,每个国家最终的衡量标准——被关闭(至少是暂时的),这将最终导致盈利下降和资产价格下跌。

全球金融危机的经验教训告诉我们,永远不要押注于所谓的"美联储卖权"(即美国联储通过货币政策刺激支持流动性和资产价格),但显而易见的是,新冠疫情在很多方面也与全球金融危机截然不同。2008年的金融危机关注的是流动性,尤其是机构层面的流动性,但2020年的新冠疫情则直接影响到面对消费者的企业并干扰就业(这并不是淡化病毒对健康的更严重影响)。2020年的新冠疫情对个人的影响也更大。首先,国家边境关闭,跨国旅游受阻,对澳大利亚这样的国家而言,至关重要的旅游业和海外教育行业实际已经停摆。最终,许多国家和城市逐渐进入了某种形式的政府强制封锁状态,完全抑制了商业运作。因此,长期合同义务,如供应商关系或租赁协议,要么重新谈判,要么在某些情况下公然违约。在所有这些因素发生作用的同时,卫生当局正试图抑制病毒的传播,以避免出现第二波疫情,一些国家和城市现在正开始应对这一问题。

那么,面对所有这些利空消息,我们该如何解释2020年3月下旬以来股价的上跌呢?我们又能从中期待什么呢?虽然本文之前的一些讨论能够提供一些线索,说明什么可能会激励市场参与者(例如货币政策放松、财政刺激,或者也许事情只是看起来"便宜"),但可能没有一个单一的决定性因素来解释为什么自封锁隔离开始以来股价飙升。自从经济复苏开始获得动力以来,散户对购买股票的兴趣很大。在谷歌趋势上进行简单搜索,结果显示世界各地的人们搜索"购买股票"关键词达到10年以来最高记录值。流行的市场平台(如CommSec),更不用说像Robinhood这样的低收费/无收费平台,也报告了新开账户和以往不活跃账户交易的显著增长。观察到并没有出现即时的灾难性经济结果,我们认为经济复苏的动力来自于一种虚假的安全感,以及一种错误的假设,即当前良性的经济环境将持续下去。我们认为,股票市场把这种说法变成了一种宽泛的动量交易。当然,研究算法以检测这种动量交易开始的量子基金也不会甘于人后。通常情况下,随着动量的增加,市场上涨的幅度更大,速度更快。这不仅是我们在澳大利亚看到的,也是在全球主要金融市场,如纳斯达克、中国ADR以及伦敦和东京的其他主要交易所看到的情况。快速移动的动量交易虽然吸引了大量的散户人群,就像过去的加密货币一样,往往会迅速上涨,也会迅速逆转。但目前看来,投资者似乎乐于随波逐流,寄希望于自己不是最后一个被困在趋势逆转中持有高价股的人。

赢家和输家

更重要的是,未来我们预计市场乃至最终的经济将开始走向双层双速市场——这个观点让人想起了矿业落后时期常用的"双速经济"术语,而澳大利亚东海岸的当地经济似乎逐年达到新的高度。而这一次,双层双速市场可能会一直存在。新冠疫情加速了某些发展趋势,比如在线零售业的兴起(如Kogan、Temple & Webster),对合并后的物流中心的依赖性增强(如Qube Holdings、Goodman Group),现金使用的减少(因此大批现买后付行业的兴起(Afterpay、Sezzle),支付业务(Pushpay、EML),甚至EFTPOS终端业务(Smartpay)接近恢复正常的交易状况。在全球范围内,我们看到世界各地也发生了同样的情况,越来越多的企业或个人采用Shopify和Zoom等技术进行电子商务或商务会议,或者消费者依赖网络服务提供商,如中国的美团和大众点评。我们相信这类业务仍然具有很大价值,这些商业模式很有可能在这次疫情之后变得更加强大,因为在这一时期人们基本上是被迫学习和使用这些技术。一旦熟悉之后,企业或消费者很难改变自己的习惯。

另一方面,在这次股市复苏中,一些企业为何会涨到这样的程度,这也是一个疑问。2020年无迹可寻,我们预计在2021年的大部分时间里,旅游相关行业(如机场、航空公司、邮轮运营商、酒店运营商)、房地产投资信托基金(其中许多已公开宣布因违约和租金重新谈判而贬值)、海外教育相关行业等将回到新冠疫情之前的交易状况。全球各地的封锁隔离看起来越来越有可能持续更长时间,而很多已经

that was commonly used during the laggard days in the mining industry, while east coast Australian domestic economies seemed to reach new heights year-on-year. And this time, the two-tiered, two-speed market is probably here to stay. The Covid-19 pandemic has accelerated certain trends such as the rise of online retail (the likes of Kogan, Temple & Webster), a greater reliance on amalgamated logistics hubs (the likes of Qube Holdings, Goodman Group), a move away from cash and hence the rise of the prolific buy-now-pay-later sector (Afterpay, Sezzle), payments businesses (Pushpay, EML), and even the near-return to normal trading conditions for EFTPOS terminal businesses (Smartpay). At a global level we see the same happening around the world, as more businesses or individuals adopt technologies such as Shopify and Zoom for e-commerce or business meetings or consumers rely on web-based service providers such as Meituan Dianping in China. We believe there is still a lot of value in such businesses and these business models will most likely come out stronger after this pandemic, as people are essentially forced to learn and adopt these technologies during this period. Once familiarity with such technologies is established, it is hard to see businesses or consumers reversing their habits.

On the other hand, it is questionable why some businesses have risen to the extent they have in this equity markets recovery. There is no discernible pathway in 2020 and we would expect for most of 2021 for tourism-exposed industries (such as airports, airlines, cruise ships operators, hotel operators), REITs (many of which have publicly announced devaluations driven by defaults and rental renegotiations), overseas education exposed sectors and so forth to return to the trading conditions of pre-Covid-19. With lockdowns around the world looking increasingly likely to stay longer and potential second waves of outbreaks occurring in many countries or cities that have started relaxing the rules, we would expect such businesses to face substantial cash drains in the foreseeable future. Similarly, the Australian Government has forecasted immigration to decrease materially in the next 18 months, which will potentially drive a near-term imbalance between housing supply and demand. This affects not just developers and the like, but also construction companies, materials suppliers, to name a few. Ultimately, this all leads to jobs losses and these are starting to emerge, as we saw with Qantas' decision to make redundant 6,000 employees at the end of June.

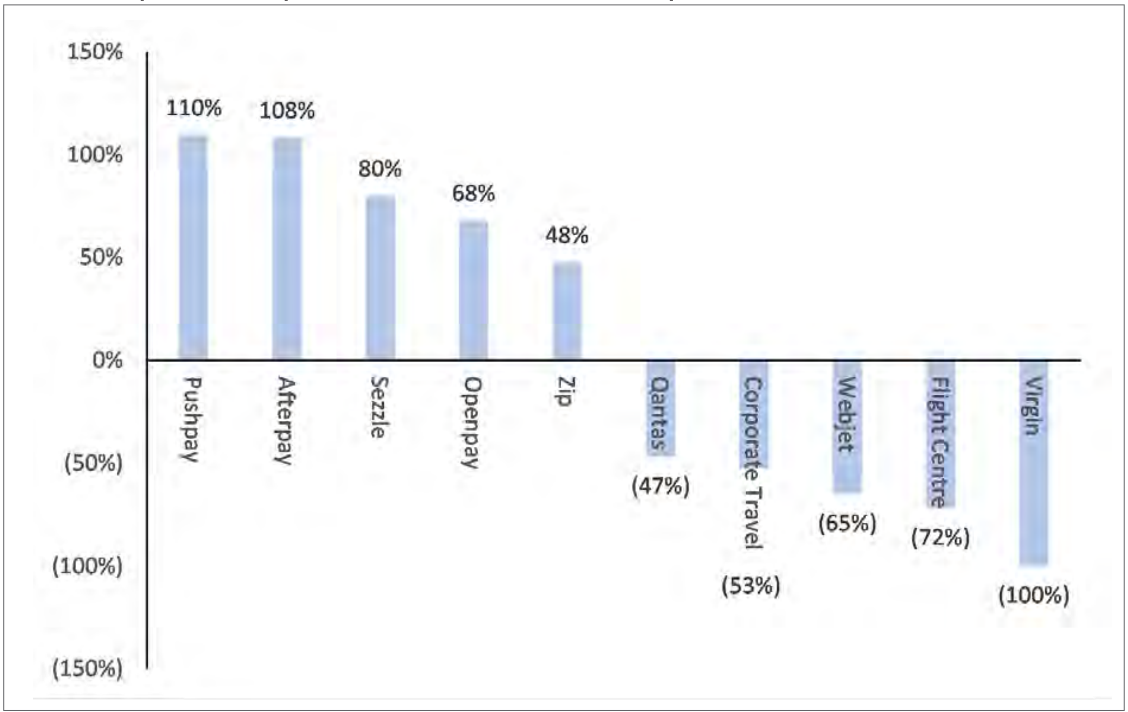
For now, there are many companies relying on fiscal stimulus (such as JobKeeper payments) and renegotiating terms with creditors such as landlords and suppliers. But the end result is that the pie gets smaller, especially when the government initiatives finish and someone (whether it's the government and ultimately taxpayers, or a landlord or a supplier) has to cover the bill. In fact, everyone will have to share in the cost of the bill. Governments cannot indefinitely borrow against the future nor can they indefinitely print money without either creating a significant tax burden in the future or potentially debasing their currencies.

Presently, economic conditions are not as dire as what was initially expected. Investors always expected, for example, electronic sales companies such as the likes of JB Hi-Fi and Harvey Norman to do well (and indeed they posted like-for-like sales growth during the lockdown period). And probably rightly so. But even some sectors such as household furniture (eg Nick Scali and Adairs), car repairs (eg Super Cheap Retail Auto) all posted some growth during the Covid-19 period. Now that we are some months into the pandemic, it is starting to become clearer who or which sectors will do well and which sectors may face greater financial constraints moving forward. We think there will be an opportunity to take long term positions in the sectors and companies that survive on a second retreat in the market, especially as some countries and cities flirt with the idea of re-entering a lockdown and unemployment figures potentially become more concerning as government subsidies are wound back.

Positioning for the future

At VP Capital, we have these discussions almost on a daily basis and have positioned our portfolio to reflect such a view. There is no point making strong returns on the way up, if it means we are taking undue risks and only to give up those gains when market volatility heightens or when the market turns the opposite direction. An investor's philosophy is hopefully – and we strive for this – all about constructing an investment portfolio that generates stronger-than-market returns during good times, while preserving capital during harder times. This has helped us capture the upside in 2019 when the market was strong, but weather the market volatility in February and March 2020. We achieve this by constructing what we believe is a relatively balanced and diversified portfolio. By the end of June 2020, we are holding around 20% of our funds under management in cash. This is backed up by 40% of our funds in about 15 to 20 companies that we believe will either come out of this pandemic even stronger or achieve greater heights irrespective of near-term market fluctuations. We hedge this position not only with our unusually high cash position, but also through a combination of strategic shorting and positions in gold stocks. The market is a fascinating place to be at the moment. There will be numerous opportunities to secure long-term positions in the near-future. The key is to avoid the pitfalls and not blindly follow the momentum.

Select examples of share price movements in 2020 calendar year



The market recovery has not been evenly distributed among sectors. Travel and leisure remain down from their peaks, while in-vogue buy now pay later companies, for example, have eclipsed the market

开始放松的国家或城市可能会出现第二波爆发，我们预计在可预见的未来，这类企业将面临大量的现金流失。同样，澳大利亚政府预测未来18个月内移民将大幅减少，可能导致短期内住房供需失衡。这不仅影响到开发商等，还影响到建筑公司、材料供应商等等。最终，这将会导致工作岗位的流失，而这些问题已经开始浮现，就像我们看到澳航在6月底决定裁减6000名员工一样。

目前，有很多公司依靠财政刺激措施（如JobKeeper付款），与房东和供应商等债权人重新谈判条款。但最终的结果是，馅饼会越来越小，尤其是当政府举措结束后，有人（无论是政府和最终的纳税人，还是房东或供应商）必须买单。事实上，每个人都要分担账单的成本。政府不可能无限期地向未来借贷，也不可能无限制地印钱，否则要么会在未来造成巨大的税收负担，要么可能会使货币贬值。

目前，经济状况并不像最初预期的那样严峻。例如，投资者总是期望像JB Hi-Fi和Harvey Norman这样的电子销售公司会有很好的表现（事实上，他们在封锁隔离期间的销售额也有同样的增长）。这可能是正确的。但即使是一些行业，如家用家具（如Nick Scali和Adairs）和汽车维修（如Super Cheap Retail Auto）都在疫情期间出现了一些增长。现在，疫情已经过去了几个月，谁或哪些行业会有好的表现，哪些行业可能会面临更大的财务限制，已经开始变得越来越清晰。我们认为，在市场第二次回落时，将有机会长期持有那些幸存下来的行业和公司的头寸，特别是在一些国家和城市调侃说要重新进入封锁状态，以及随着政府补贴的减少，失业数字可能变得更加令人担忧的时候。

未来的定位

在VP Capital，我们几乎每天都会进行这样的讨论，并将我们的观点反映在投资组合定位中。如果这意味着我们承担了不必要的风险，并且在市场波动加剧或市场转向相反的方向时才放弃这些收益，那么在上涨的过程中获得强劲的回报是没有意义的。我们希望投资者的理念是——我们也努力做到这一点——构建一个投资组合，在好的时候产生强于市场的回报，而在困难的时候保本。这帮助我们在2019年市场强劲时捕捉到了上行机会，并在2020年2月和3月经受住了市场的波动。我们通过构建相对保守的投资组合来实现这一目标。截至2020年6月底，我们管理的资金有大约20%为现金。我们有40%的资金用于投资大约15到20家公司，我们相信这些公司要么会在这次疫情中更加强大，要么会达到更高水平，而不管近期市场如何波动。我们不仅用我们异常高的现金头寸来对冲这个头寸，而且还通过战略做空和黄金股头寸的组合来对冲。目前的股市是一个令人着迷的地方。近期将有机会确保长期仓位。关键是要避免陷阱，不要盲目跟风。