



White Brook Capital - Current Thoughts

Basil Alsikafi Mar 12, 2020 3

With the markets down significantly, I wanted to update clients on White Brook's current thoughts. If you have any questions, please feel free to reach out via email or directly to my mobile.

1. White Brook Capital has been very actively inactive. That may change, but the sell-off has had tremendous breadth and most asset classes are down significantly. We don't own travel or oil investments and are not directly exposed to the impact of the virus. All the same, our investments are down as selling while orderly, is consistent and not price discriminate.

2. The tumult in equity markets reflects disorder in the fixed income markets. This is not a financial crises like in 2008 and therefore can be rectified more quickly, but a combination of the coronavirus and Russia and Saudi Arabia's oil price war have created turmoil in bond markets. Oil exploration and production companies are significant components of the high yield market. Investors relieving themselves of that exposure have created significant liquidity issues and indiscriminate selling in fixed income markets. Stability in the fixed markets will help heal equity markets.

3. Monetary policy is likely to have little impact on the real economy. The Fed is expected to further cut short term rates at its next meeting. The purpose of the adjustment is to improve the functioning of the bond and foreign exchange markets. I am not in favor of a further rate cut as I believe those interplays are difficult to predict and manipulate, but I do believe the stock market will improve if those markets settle.

4. Russia and Saudi Arabia's oil price war have an uneven but significant impact on the economy. Lower oil prices provide some relief for domestic manufactures and the consumer but decimates oil shale mining and the jobs associated with it Texas, Oklahoma, and North Dakota have economies at least partially dependent on oil production and are negatively impacted. Cartels can stay broken or they can re-form quickly and the path of OPEC+ is dependent on the decision of a 35-year-old making a name for himself and Vladimir Putin.

This is an additional wrinkle in the economy that would have been digested both economically and in the markets without Coronavirus, but with it adds significant instability.

5. Travel and tourism investments are medium term impaired. Ultimately people need entertainment. With parents saddled with children earlier and for longer than planned and with the weather warming, consumers are likely to still seek entertainment, but in smaller groups. Cars and boats rather than planes and cruises.

6. The pandemic is a greater metropolitan problem currently. Social distancing happens naturally in much of the country where economic activity continues mostly unaffected.

7. That testing isn't widespread is an administrative failure - it's the one thing government is supposed to be good at. Its failure is adding significantly to the uncertainty.

8. Testing and effective hospital treatment change everything and could occur quickly. Take death off the table, and people will re-adopt their risk-taking behavior and the economy can normalize. In the face of HIV, as a society, we built better condoms and more bars – we didn't stay home.

Gilead's Remdesivir appears to have some early success in treating severely infected patients but is still in stage 3 trials. *The absence of news around its failures is encouraging, however.* Expanding compassionate use and accelerating its introduction seems likely if it is an effective treatment. If compassionate use isn't expanded in the next week or two, it's likely to not be as effective as hoped, while if it is, a quicker than expected recovery is possible.

9. The stock market will begin to ascend when the real economy is in the depths. Typically the stock market improves 4-6 months ahead of the economy. I expect it to begin to improve at the earlier of testing availability becoming widespread, positive Remdesivir news, or the bond market stabilizing.

My thoughts are always evolving. Again, if you have any questions, please feel free to reach out via email or directly to my mobile.

Basil





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