

Living in a Covid World

Mid-July is usually the start of the summer slowdown on Wall Street. Not this year, as the tug of war between the headlines that seemingly get worse by the day, and the bid under the market is stretched tight. To start off the week, we got Oxford's vaccine study results, which showed positive immune response in early trials. If successful, it will be on a fast track to produce millions of doses through their commercial partner AstraZeneca. Bloomberg BusinessWeek ran a lengthy piece highlighting the race to find a cure, and who is leading the charge.

The Vaccine Field General

**Bloomberg
Businessweek**

July 20, 2020

Is the vaccine ready yet?

When? Now?

Soon?

2020?

Fall?

Fast?

Winter?

Q4?

Nearly there?

How about now?

Done?

Next week?

Right now?

Hello?

Today?

Yesterday?

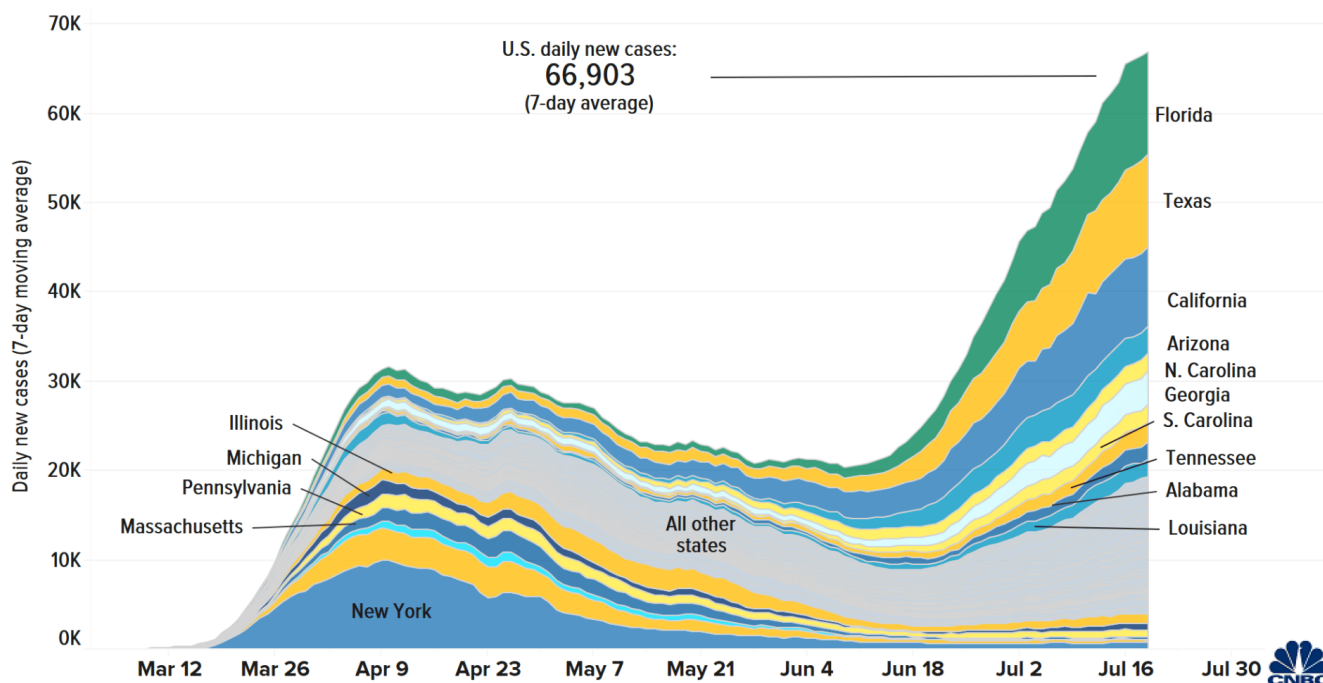
The world is watching Oxford professor Sarah Gilbert

Please?

While we are bullish on a cure, we think the market is overestimating the speed at which vaccines can be produced and brought into the markets where they are needed most. Stories like the ones in Baja Mexico where half the patients admitted to the hospital for Covid wind up dying are frightening to say the least. And if that isn't enough to raise a concern, the spike shown below should.

Curve Un-Flattened

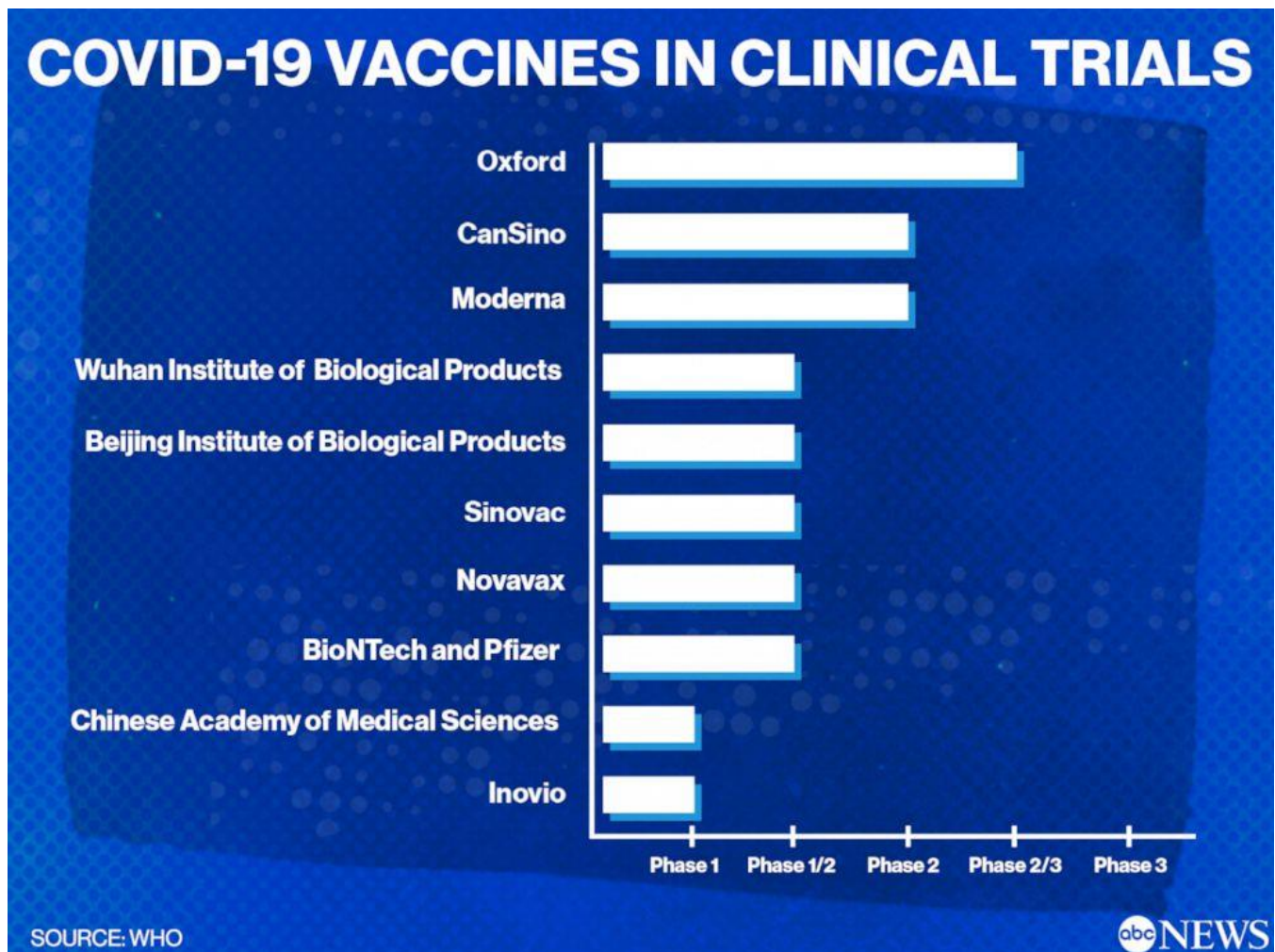
Coronavirus cases surge



SOURCE: Johns Hopkins University, daily new cases, 7-day moving average

Let's face reality, there will be an answer coming for Covid sooner rather than later. For the sake of the world population, and the global economy, let's hope for the former. The Oxford trial is furthest along, and others aren't far behind. To reiterate our point, once solved, the race to produce enough vaccines to cover the need could take years.

Race for the Cure

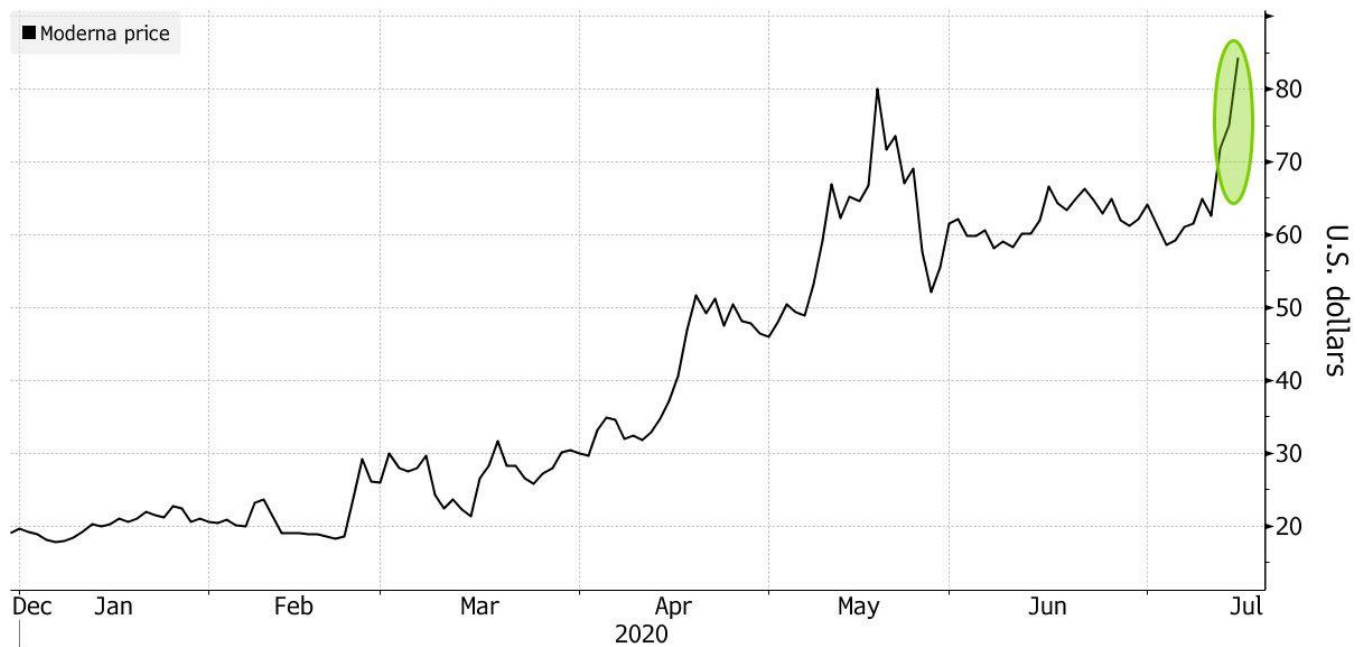


There is something very suspect going on when it comes to vaccine trial results, their release, and the impact on financial markets. While it would be a stretch to accuse us of being conspiracy theorists, we do firmly believe that the results of Moderna's second phase of testing made their way into the hands of traders before their public release last week. We agree with what the Washington Post wrote and question if the results should be 'market moving good?'. The watchdog group Accounable.US has already submitted a request for an investigation into stock manipulation by executives at the company.

Stratton Oakmont Calling

Vaccine Hopes

Moderna set for record close after detailed vaccine data



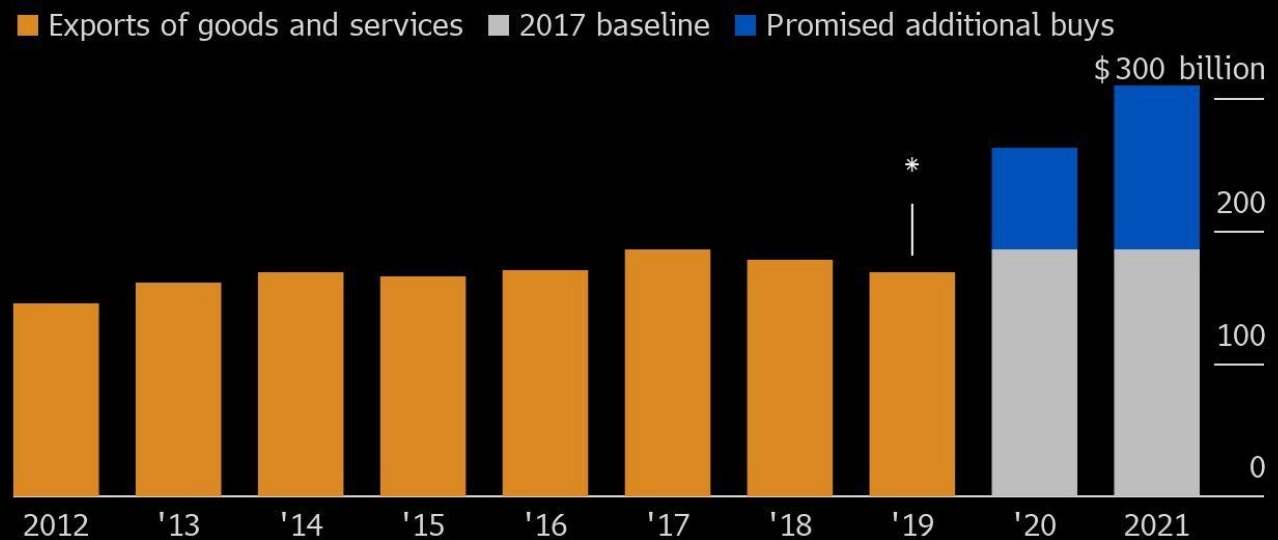
Source: Bloomberg

This situation with the markets is similar to when President Donald Trump would Tweet about the progress being made on a phase-one trade deal with China. Doesn't matter the validity, or the depth of economic impact, algorithms and program trading are set to react to signals and messages in the market and they start buying derivative programs faster than the human mind can react.

Deal or No Deal

Substantial Increase

To reach promised purchases, Chinese imports will need to jump



Source: U.S. Census Bureau, U.S. Trade Representative, Bloomberg estimate

* As export data for fourth quarter of 2019 isn't available, Bloomberg estimated this as the average of the first three quarters

Bloomberg

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Pre-Digital Newsstand



Markets

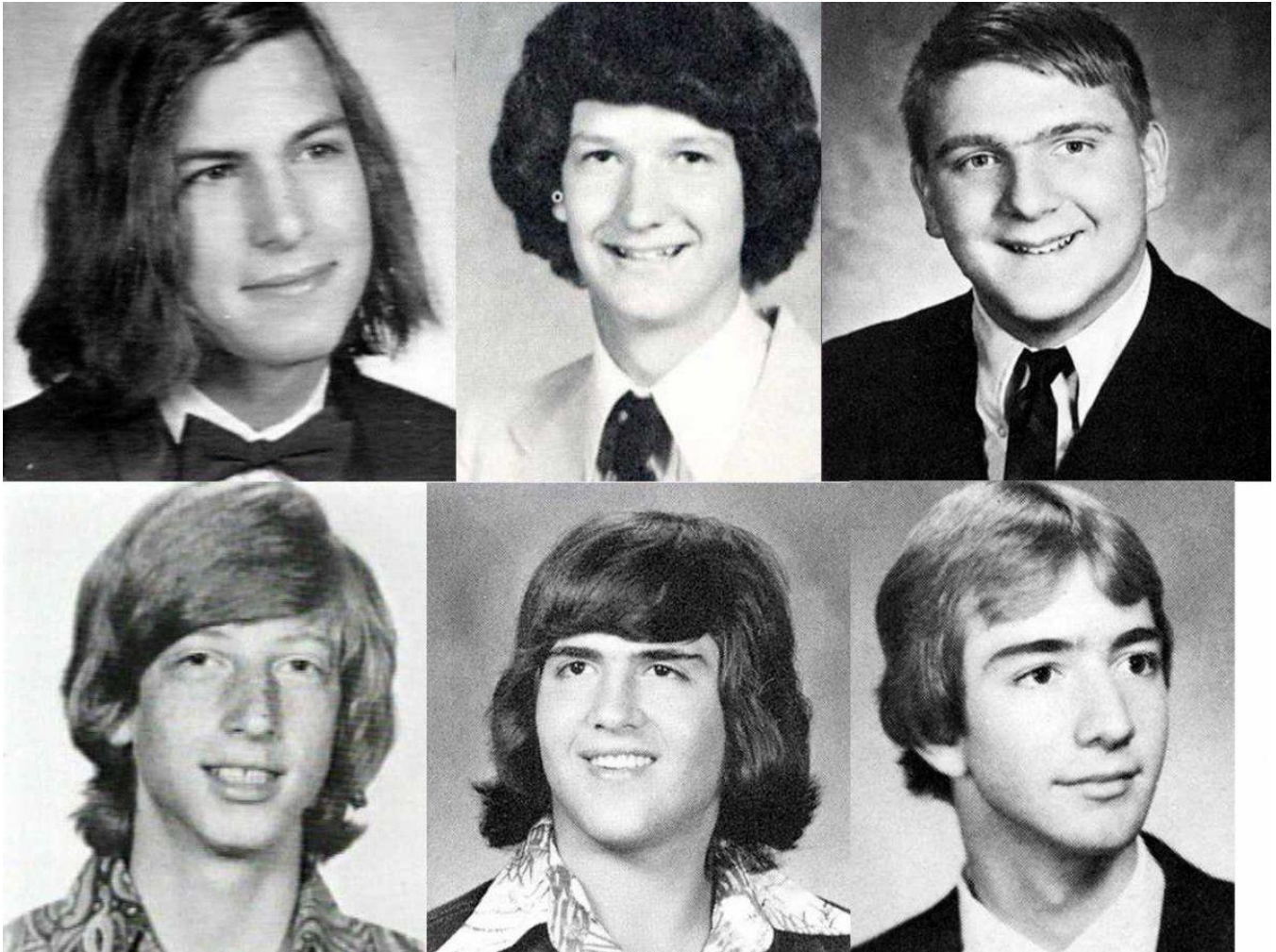
Ed Yardeni, who has had a very hot hand in calling short term moves in markets, has raised the yellow flag that the current melt-up in stocks has stretched equity valuations while the underlying fundamentals haven't kept up. On top of that, America's attempt to re-open the economy appears to be on the wrong path. While the biggest driver, Fed liquidity, is still in place, and will be for the foreseeable future, Yardeni sees a real risk of a 20% to 30% correction in the market when and if reality finally sets in.

2,600 Redux?



Mark Cuban, a man who benefited mightily from the original dot.com bubble, is warning that the situation looks 'so similar' today that investors need to be careful of waiting for the top-tick and being too greedy. Part of why Cuban is cautious is based on the speculation he is seeing from a whole new crop of day traders. The current owner of the Dallas Mavericks made his fortune by selling Broadcast.com to Yahoo! in 1999 for \$6 billion. He started his business so he could listen to the Indiana Hoosier basketball team at a time when audio streaming was in its infancy. Not bad for a guy who landed himself in Texas with \$60 in his pocket, and 'nothing to lose'. Cuban is bottom center of the first ballot tech all-stars. Can you name the rest?

Young Technology Luminaries



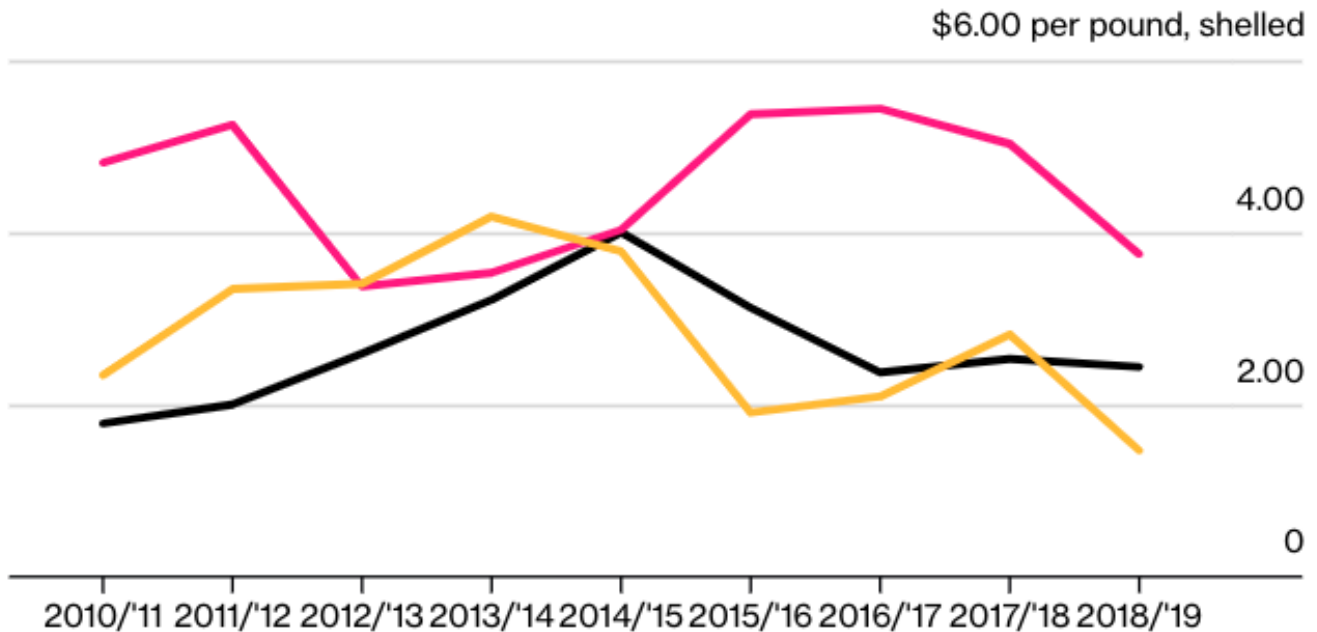
A bearish trend is emerging in the once booming nut market. Starting about a decade ago, when almonds, pistachios, pecans, and walnuts were anointed superfood status, farmers began planting trees in abundance. So much so, that production acreage doubled over a decade, and now nut prices are heading lower.

Good for Your Health

Tough Year to Crack

Bumper crops knock nut prices down from decade highs

Almonds Pecans Walnuts

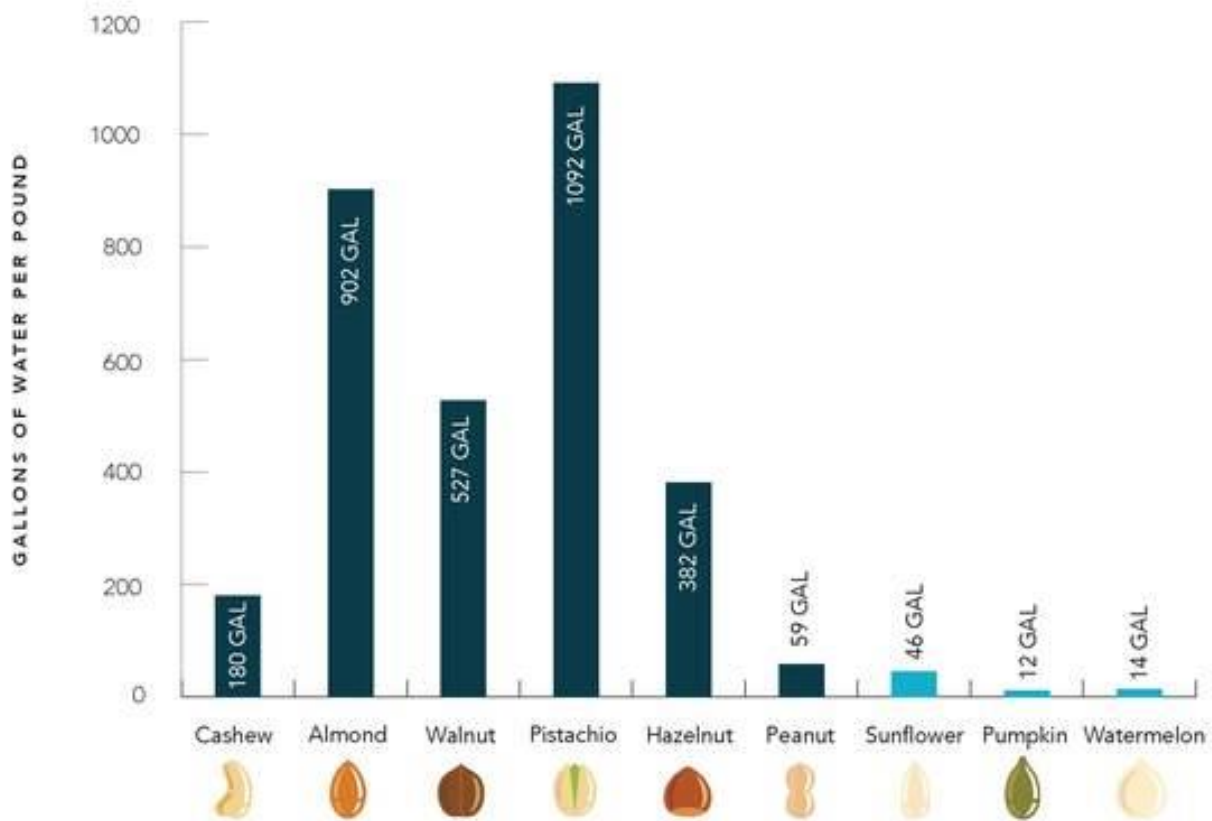


Source: USDA

With the impact of the Coronavirus settling in, prices for most nuts have fallen 25% on average recently. This is great for consumers, but has branches breaking off trees in the Central Valley of California due to over planting. This brings into question another aspect of production, and that is the water consumption needed to produce seeds and nuts. In a true ESG investing world the pair trade would be long a sunflower and pumpkin basket, while short almonds and pistachios.

Thirsty Nuts

WATER USAGE NUTS VS. SEEDS

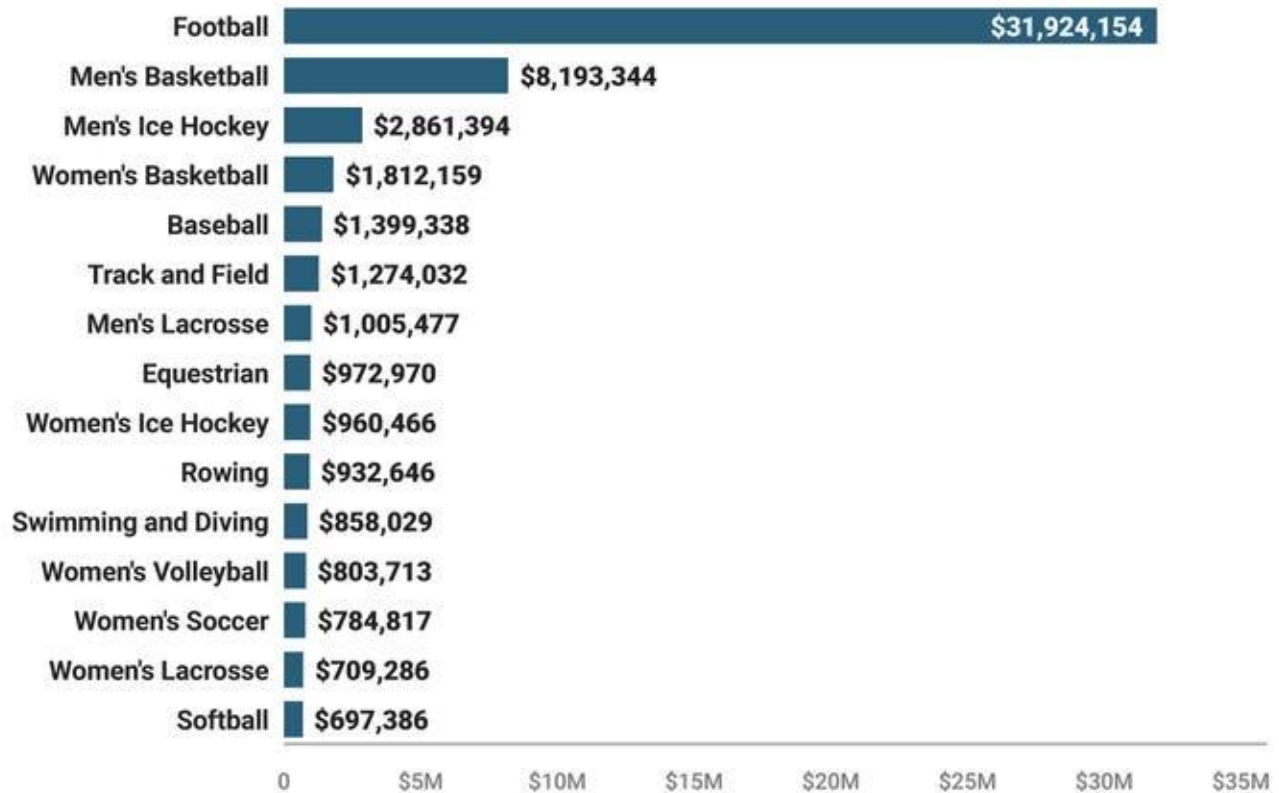


College Athletics

Athletic departments across the country are reeling from the collapse of the house of cards that was built on over the decades, with football and basketball at the foundation. Over the past two weeks, most conferences have cancelled non-conference football games, further impacting mid-major programs that relied on these few big paydays in September to stay in business. ESPN estimates the impact to college football alone at \$4 billion.

Top Heavy

NCAA AVERAGE REVENUE BY SPORT



SOURCE: Department of Education based on average revenue from 127 FBS schools

BUSINESS INSIDER

Stanford, having won the Directors Cup for best athletic program the past two decades is a standard bearer, broke out their ax two weeks ago and cut eleven non-revenue generating programs, the biggest of which was men's volleyball. While there are no sacred cows, this was about as close as it gets. Needless to say, the rest of the conferences, and our beloved UCLA Bruins, will be facing some program altering decisions in the coming weeks, and things we held true before are going to be challenged. Forbes ran an insightful piece detailing what got us to this point, and how the inevitable culling of the herd is going to take place.

Carrying the Flag, Literally



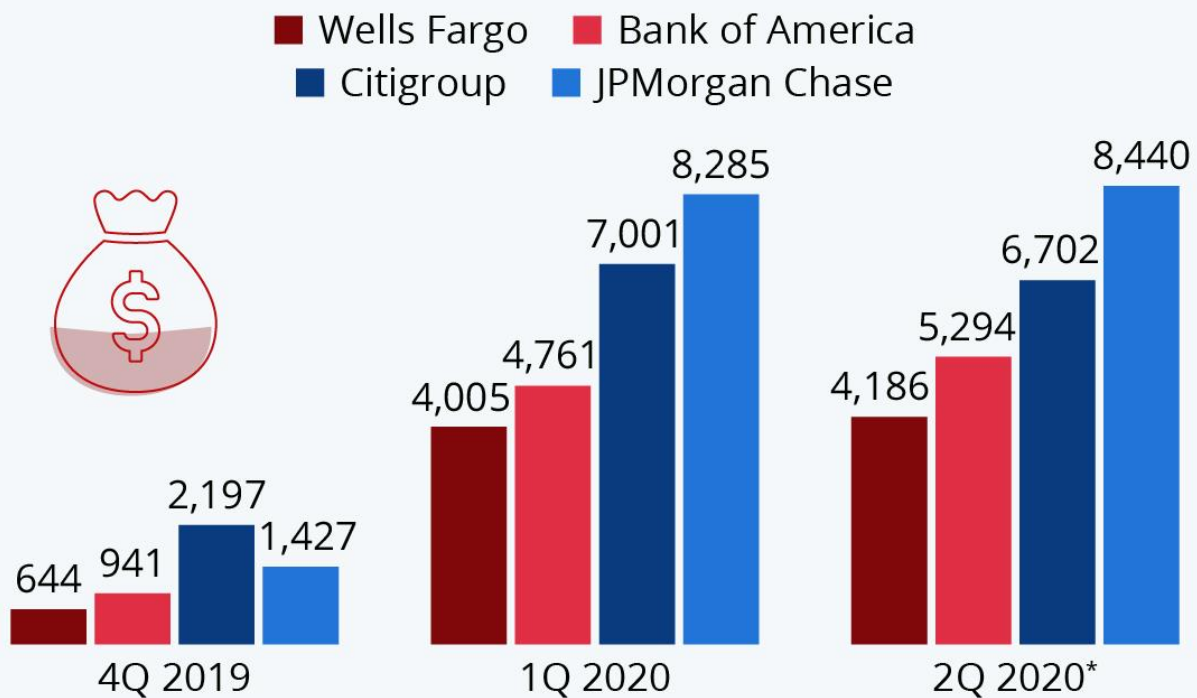
Banks

Loan loss provisions have gone through the roof, as major banks try to get a handle on what kind of write-offs they can expect as the economy washes out business that didn't have the wherewithal to sustain the crushing impact of the Coronavirus recession. To give you an idea of the magnitude of the problem, the combination of Citi, Bank of America, Wells Fargo, and J.P. Morgan had set aside \$5 billion in loan loss provisions in the fourth quarter of 2019. That number has skyrocketed to \$25 billion today. And you wonder why we are skeptical of an S&P 500 near an all-time high? It's safe to assume that something has to give. Maybe the Federal Reserve comes in and backstops these losses too, which means the markets are right.

Big Losses Loom

Banks Prepping for Major Losses on Loans

Loan-loss provisions among major banks over the last three quarters (in million U.S. dollars)



* 2Q 2020 projections based on current estimates

Source: Bloomberg



statista

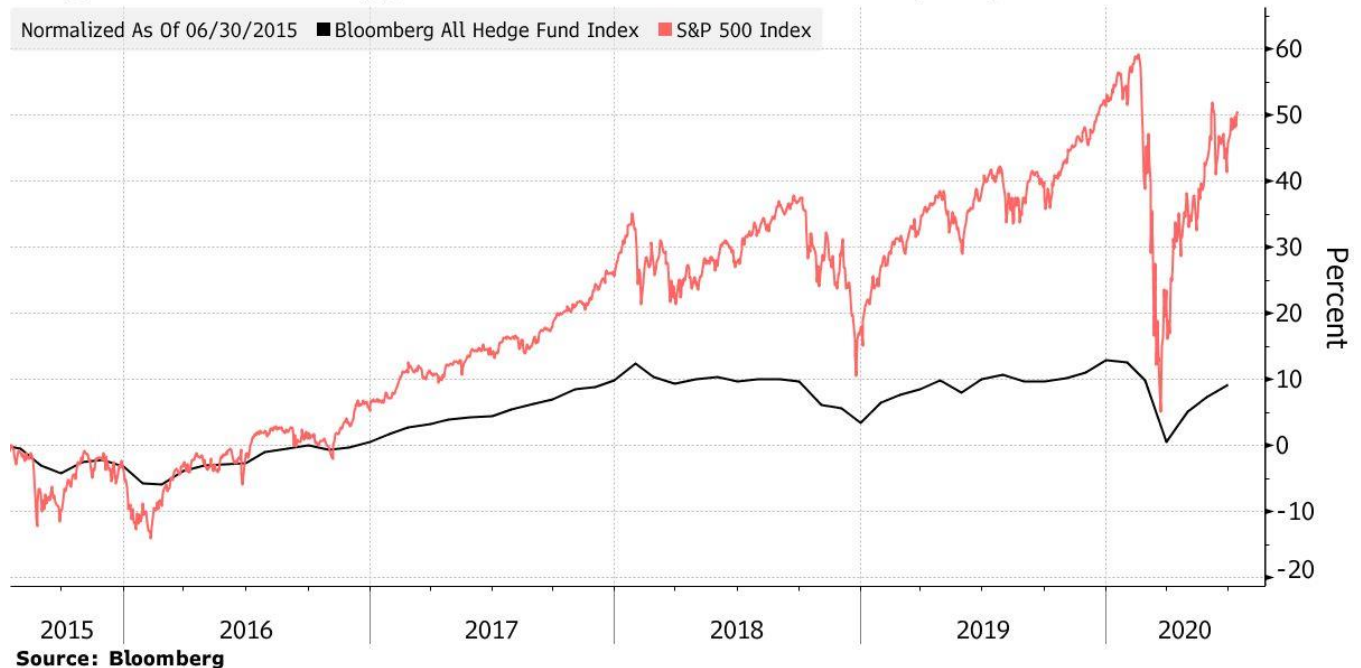
Hedge Funds

News flash, most hedge fund strategies are struggling to navigate the Fed's ocean sized pool of liquidity, this according to a study by the United States Securities and Exchange Commission. This only adds to the existential crisis the industry is going through right now, as downside protection isn't providing nearly enough cushion to make up for a lack of upside capture.

The Struggle is Real (Bad)

Easy Money, Hard Returns

Hedge funds have struggled in the era of unconventional policy

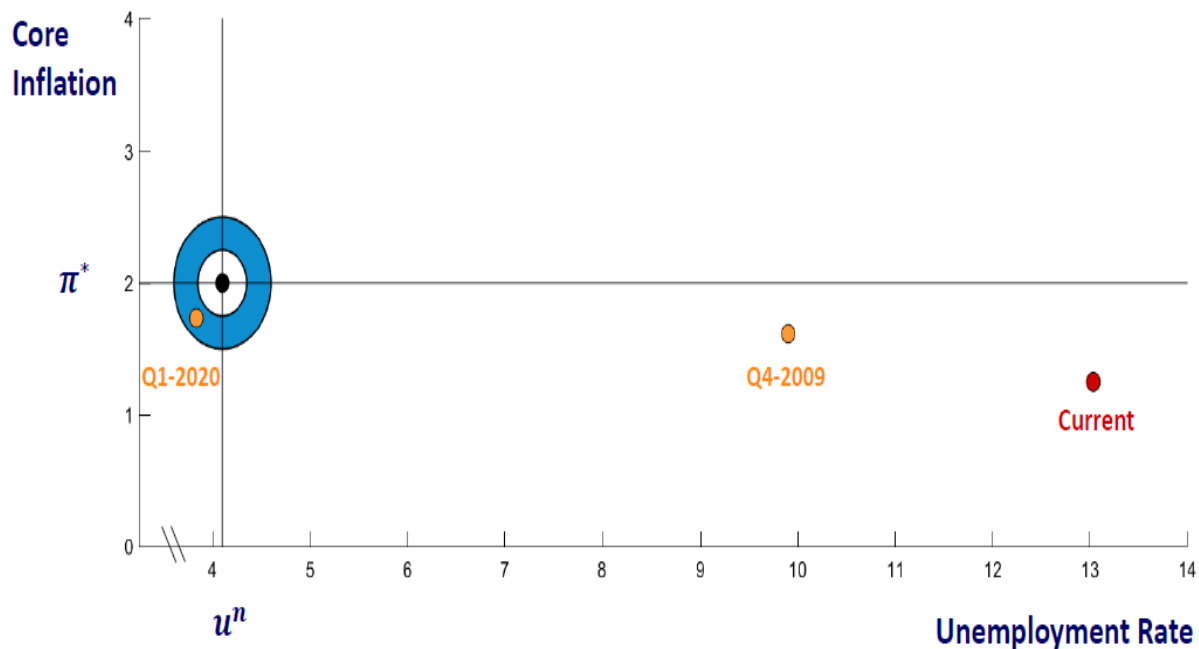


As practitioners of the seemingly old school art of long/short equity investing, we can confirm that this is not a time for the weary or the faint of heart. Twice in the last three years, we had it right on the fundamentals, making nice money on shorts and hedges, only to have the market rip higher and leave us behind when the Fed comes in and starts handing out binkies to soothe those who need it. The reason for our angst regarding this pattern is that markets become conditioned to embrace the idea that being long only is a no-lose proposition. When that happens, bubbles emerge like we think they are now. As the Fed has said in the past bubble judgment, they are not there to pass judgment, but instead be in a place to pick up the pieces when it all comes apart. Which is of course well outside its original dual mandate.

Well Off Target

The Dual Mandate Bullseye

(percent)



Bottom line to all of this, it's simply a really challenging time to be in the actively managed equity business. This goes for hedge funds and traditional long only managers. As has been the trend for a good long time now, cheap market exposure (Beta) has been the place you wanted to be, as returns above a benchmark (Alpha) have been tough to come by. We of course advocate a bar-belled approach, where both are relevant but realize this is increasingly the view of a bygone era.

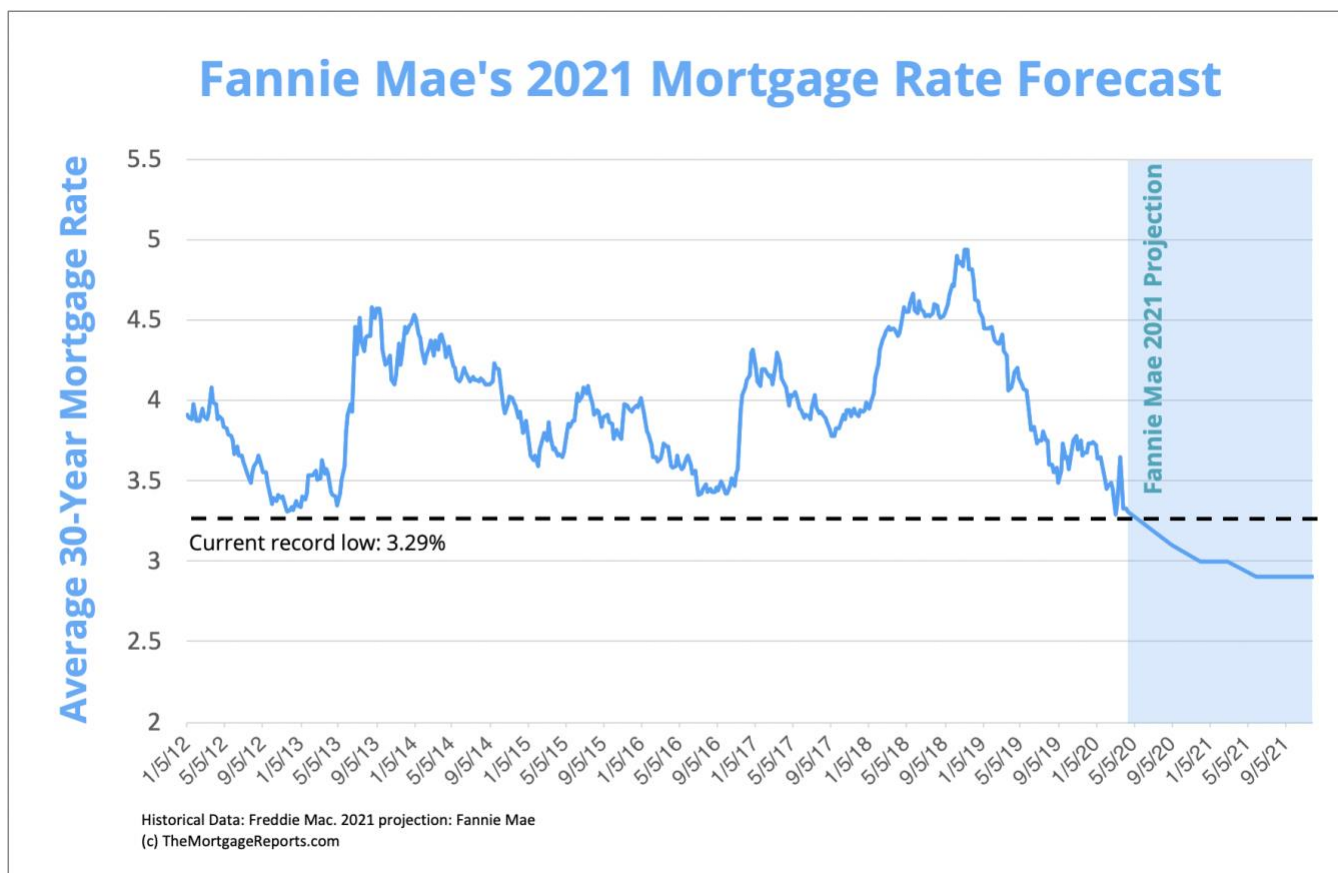
Alpha Beta Circa 1976



Real Estate Reality

There is no doubt a tectonic Corona inspired shift taking place in real estate, where the burbs are the place to be as the big city gets left behind. We are seeing this across California, where there has been no slump whatsoever in places like Marin, Lake Tahoe, Santa Barbara, and La Jolla. In fact, not only is there not a slump, these markets are white hot as a less stressful, and more distanced lifestyle has become the new mantra. Bottom line, with interest rates at record lows, equity markets stable, and the bourgeoisie not feeling the pain of the proletariat, the housing market outside metropolitan cores like Manhattan are doing just fine.

Lower Forever



One beneficiary of the new world order of disconnected real estate is taking your living quarters with you. Outdoorsy, the online site that matches RV owners with those looking to sub-lease or rent them, has seen a 1,000% increase in bookings from May to April of this year as lockdown flight takes over. We can confirm that in Montana there has been a huge surge in out of state traffic, but it's not interested in spending like it once did at resorts, hotels, and dining out. On a personal note, I used the service once and it turned out to be very similar to Airbnb or Vrbo. Take whatever the list price you see, and by the time you are out the door expect to double it.

Road Tripping



The Fly Fishing Guide

If you have made it this far, you know this is where we include diversions from the day job and the markets to keep you sane and looking forward to the more genteel aspects of life. And if you made it this far last week, you know that the author was headed to Montana for some time off the grid. On Saturday, this sojourn took me to the Yellowstone River east of Livingston, Montana, where the Trout Gods shined a holy light on me. After a proper hook set, and robust fight, this nearly two feet of Brown Trout was successfully landed. A celebration would ensue later that evening that involved toasting the fish with distilled cactus.

Gone Hoggin!



Inspired by the day on the water, this week Stillwater gives you a bucket list of places to go before one heads off to the big fly fishing lodge in the sky. Keep in mind, in a new Covid inspired YOLO world, these recommendations are of the lifetime bucket list kind, and should not be considered casual suggestions.

The Taimen of Mongolia



If you are going to sign on and go big, might as well start with the biggest. And that title goes to the Taimen of Mongolia, though it also can be found in Siberia. Any number of outfitters can guide you into how you want to setup this trip. We recommend the The Fly Shop as not only are they good, it's run by an old friend of mine. The uber swank Orvis Company can also set you up for success with their partners at Mongolian River Outfitters.

South Island, New Zealand



Fly Fisherman magazine describes the South Island as the Mount Everest of destinations for those of our kind, as it requires an extremely good technical touch to land big trout. Not only are they incredibly smart and weary of things like micro-drag, they are also big. Like really big. The fish I showed you above from the Yellowstone River went about seven pounds. In New Zealand, you can get yourself into something twice that size on a regular basis.

Tierra del Fuego, Argentina



There are bucket list destinations, and then there is *the* bucket list destination. Tierra del Fuego is such the place. Located at the tip of Argentina in the Patagonia region, the Rio Negro is home to the legendary sea run brown trout. There are a host of estancias where you can stay, and they run the gamut from pedestrian to Four Seasons grandeur.

Estancia Maria Behety Lodge



That's what we have for you this week, but we leave you with this. As the world seems to get stranger and more stressed by the day, remember that there is your very own special corner of the world that is waiting for you to call. I met up with one of mine again on Saturday. Just know that yours too isn't going anywhere, even if it might look or feel a little different than the last time you visited.

Namaste



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