

COVID19 Investment Strategy Response. General non Specific.

Even assuming one had lots of cash to invest, its not easy. Liquid markets like equities and bonds are volatile and sentiment driven. There may be a quick recovery or another leg to the crisis. A more tractable approach is to seek structural instabilities. We seek opportunities in the shadow banking system, especially those parts which may be over-levered. Private credit is one area of opportunity where more recent vintages were levered and vulnerable to unwinding. Weak structures can provide a supply of cheap assets and weak LPs a source of cheap secondaries. Structured credit (CLOs, MBS, BDCs and mREITs) is another area where lack of liquidity, over-optimistic pricing, and ratings driven investors conspire to cheapen these asset classes well beyond their fair value even under draconian economic assumptions. It is tempting to trade the more liquid and volatile equities markets for recovery but the speed and uncertainty of price discovery makes this very risky. A longer term investment strategy should look for a more sustainable supply of cheap assets which can be tapped for months and years and this would target the private markets.