Quadriga QSR Global December 2023 Commentary

Dear All,

What happened during the month?

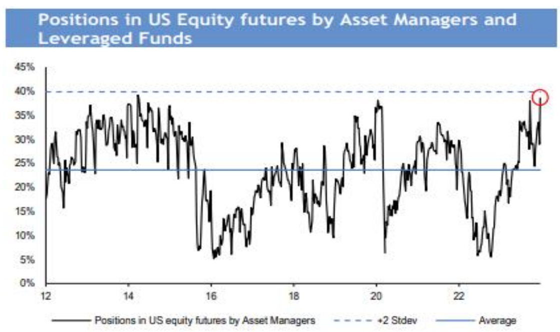
QSR Global was +4,4% in December (vs 3.2% for MSCI world), bringing performance to 7,7% for 2023 (MSCI world 20.5%). Since Christian taking over the fund at end of June '22, QSR global is up 18,5% vs +7.8% for the MSCI world.

What happened to the markets and our portfolio?

Biggest winners last year were an European bank sector position (+5,1% to fund performance) which we scaled out of in Q1, the contrarian value long in Vonovia (3,0% to fund) which we reduced in December, but is still the biggest position in the fund, as the discount to NAV is still almost 50% and our long in Cameco (2.4% to fund) along our energy theme, we reduced the position to only 1,5% for the fund and will wait for a bigger pullback to increase again.

Biggest detractors were our short in the S&P index (-3,2% to fund), short positions in several loss-making US tech firms rallying back strongly from 2022 and Tesla (-2,3% to fund) which doubled in price despite 2023 and 2024 earnings estimates dropping by 45% over the course of the year and increased regulatory scrutiny on their FSD failure. Also, I-80 a gold mining company with 100% on their assets in the US was a main detractor (-2,9% to fund). I-80 shares had done very well in 2022, but last year performed poorly despite very strong drilling results as the company is still mainly developing its assets and so has a high cash burn and concerns about capital increases drove down the stock. I-80 has a very valuable asset base in one of the best mining jurisdictions in the world. They will increase production and revenue strongly this year and have announced a JV with another mining company which should ease funding concerns once the details are finalized. I remain highly confident in the management and the mining assets; it is one of our top positions in the fund.

The strong rally from the October lows has turned sentiment from overly negative to quite bullish and we might see some setbacks for the markets in 1H as investors worry about the FED cutting too little or the economy being weaker than expected in the current soft-landing consensus.



source JP Morgan

For the 12-month outlook, I am still positive: From the low in October, the mid cap Russell 2000 outperformed the S&P by 10%, with over 80% of stocks making new 20-day highs in early December. A strong breadth trust from an oversold condition like this in has almost always resulted in positive performance over a 12-month period going forward.

Huge Monthly Gains For Small Caps (Like We Just Saw) Tend To Mean More Strength

10% Monthly Gains For The Russell 2000 And What Happened Next

		S&P 500 Index Returns			
Month	Return	1 Month	3 Months	6 Months	12 Months
July-80	11.0%	6.5%	14.4%	16.5%	26.0%
October-82	14.1%	8.8%	17.5%	37.5%	36.4%
August-84	11.5%	-2.2%	-5.7%	11.5%	13.1%
January-85	13.1%	3.2%	-1.8%	6.6%	14.8%
January-87	11.5%	8.3%	7.6%	13.1%	-16.1%
February-91	10.9%	6.4%	10.4%	11.5%	31.7%
May-97	11.0%	4.1%	10.8%	12.6%	18.3%
December-99	11.2%	-0.2%	6.8%	2.4%	-4.3%
February-00	16.4%	-6.0%	-17.5%	-9.0%	-18.0%
May-03	10.6%	1.7%	12.4%	23.7%	28.9%
April-09	15.3%	6.9%	14.4%	16.2%	47.0%
September-10	12.3%	4.0%	16.8%	24.8%	-2.0%
October-11	15.0%	-0.5%	9.3%	10.5%	9.7%
November-16	11.0%	2.6%	5.4%	6.3%	16.8%
January-19	11.2%	5.1%	5.6%	3.4%	7.6%
April-20	13.7%	7.2%	14.1%	17.7%	72.9%
November-20	18.3%	8.8%	21.3%	26.3%	20.8%
July-22	10.4%	-0.1%	-4.2%	0.0%	5.8%
October-22	10.9%	2.2%	6.2%	-5.8%	-9.6%
December-23	12.1%	?	?	?	?
Average		3.5%	7.6%	11.9%	15.8%
Median		4.0%	9.3%	11.5%	14.8%
% Higher		73.7%	78.9%	89.5%	73.7%

Source: Carson Investment Research, FactSet 12/20/2023 (1979 - Current)
@ryandetrick

CARSON

Source Carson investment Research

Also, election years after a negative midterm year have always seen positive returns in 9 instances since 1950. Mostly with a weaker H1 though. Of course, this time could be different.

Election Years Have Never Been Lower After A Red Midterm Year

S&P 500 Performance After A Negative Midterm Year (1950-Current)

		S&P 500 Index Returns			
Election Year	President	First Year	Midterm Year	Pre-Election Year	Election Year
1960	JFK/LBJ (Dem)	23.1%	-11.8%	18.9%	13.0%
1964	Lyndon Johnson (Dem)	9.1%	-13.1%	20.1%	7.7%
1968	Richard Nixon (Rep)	-11.4%	-0.1%	10.8%	15.8%
1972	Richard Nixon/Gerald Ford (Rep)	-17.4%	-29.7%	31.5%	19.1%
1988	George H.W. Bush (Rep)	27.3%	-6.6%	26.3%	4.5%
1992	Bill Clinton (Dem)	7.1%	-1.5%	34.1%	20.3%
2000	George W. Bush (Rep)	-13.04%	-23.4%	26.4%	9.0%
2016	Donald Trump (Rep)	19.4%	-6.2%	28.9%	16.3%
2020	Joe Biden (Dem)	26.9%	-19.4%	24.2%	?
	Average	7.9%	-12.4%	24.6%	13.2%
	Median	9.1%	-11.8%	26.3%	14.4%
	% Higher	66.7%	0.0%	100.0%	100.0%

Source: Carson Investment Research, FactSet 01/07/2024
@ryandetrick

CARSON

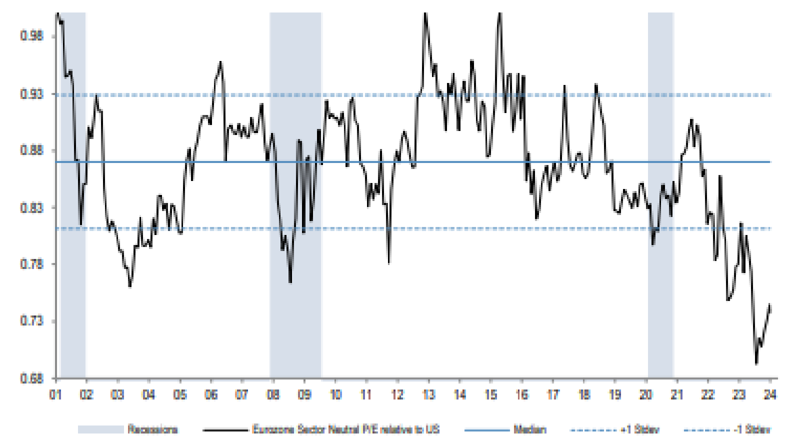
Source Carson investment Research

Last year, the asset class with the most inflows was cash (1,2 trillion), resulting in record cash levels for investors. Lower interest rates should be supporting a drive of some of these funds back into bonds/equities. With inflation still coming down, the Fed and the ECB can cut rates even with the economy holding in, as otherwise their policy would become even more restrictive.

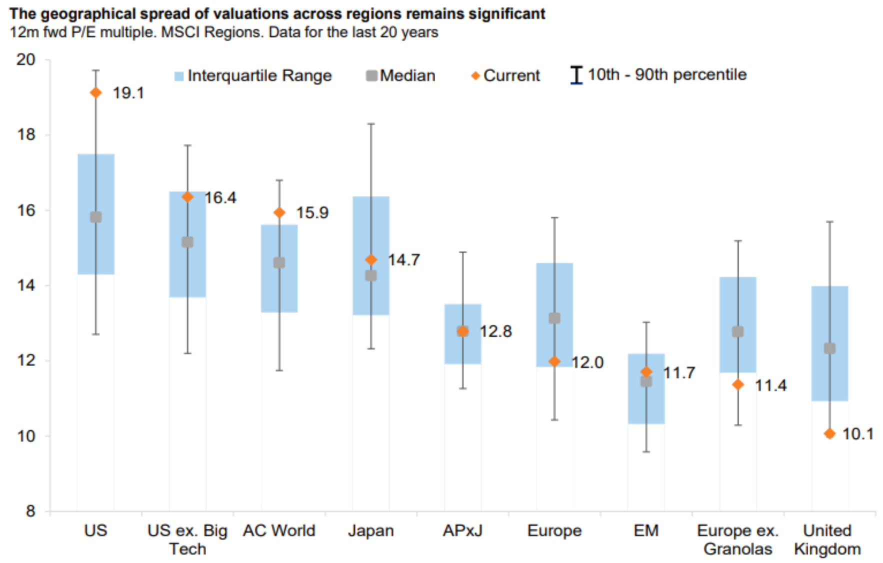
While US market is fully valued overall Small/mid-caps trade at a record discount to the mega caps, European equity markets have only a 12 PE (below its 20-year median) and value vs growth trades at multi-decade high discounts. This provides ample opportunity for stock picking.

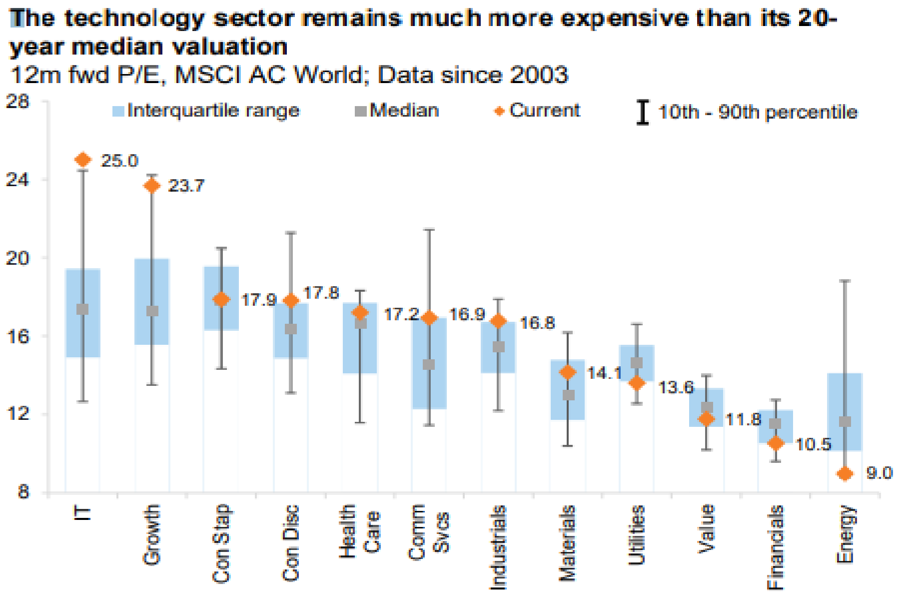
US small caps vs large caps P/E relative

MSCI Eurozone vs US sector neutral P/E relative



Source JP Morgan





Source Goldman Sachs

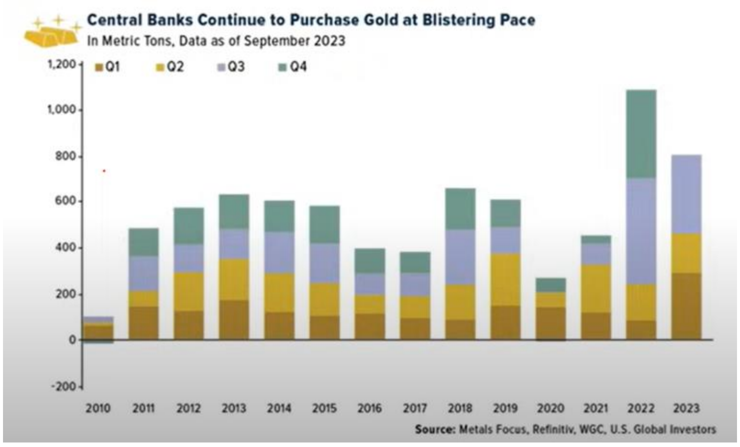
I expect inflation to continue to come down in H1, but the next 10-years in my opinion might resemble the 1970's in giving the world several more bouts of inflation and a highly volatile stock market with low overall (real) index returns, while inflation level being at a higher average level than from 2010-2020, due to demographics, near-shoring, need for increased defense spending and underinvestment in commodity production.

With that background we stick to our investment themes being long Energy, commodities, precious metals stocks, some selective small caps and beaten down value opportunities, while being short some hyped, mostly loss making "glamour" stocks.

Overall, the fund is still quite long as net-net we are in a bull market (200 day moving average has been trending higher for 10 months, MSCI world up 34% from October '22 lows, Dax made a new all-time-high in December). For the first 10 months in 2023 the market was very narrow, but with the mentioned breath trust it has broadened out. Looking at valuations, interest rates and investor positioning this should continue.

Our Themes:

Precious metal stocks: Gold made a new monthly and yearly all time high at the end of December. This despite high real interest rates which is traditionally a poor environment for gold. With CB signaling to cut this year real interest rates have room to fall again. The gold price has been supported by record emerging market Central Bank buying over the last 2 years, to diversify currency reserves away from US treasuries. Retail and institutional buyers have been absent. When interest rates come down, and Gold breaks out significantly this should change. Precious metals have the tendency to do nothing material for long periods and then make big moves. I think this could finally happen this year. The Gold mining sector ETF is still 50% below its all-time high by comparison. Gold mining stocks never been this cheap relative to the metal. The overall market cap of the gold mining sector is only around 300 bn $bn, around the mcap of Costco.



Gold vs the gold mining equity sector

Source Bloomberg

Energy: We hang on to our energy longs. The oil price in 2H was weaker than I thought on the back of increased supply despite rising demand. Still stocks like Shell had a 17% return last year. Even at 70$ oil price they have solid double-digit FCF yields, 0.6x Net debt/Ebitda and are buying back shares at a brisk pace, giving in total over 10% cash return to shareholders. European oil majors continue to trade at a big discount to their US peers.

With the continued focus on ESG and demand of high cash returns by investors the investment in capacity should continue to be subdued underpinning the oil price structurally around cyclical factors. Apart from Shell, we are long Saturn Oil+Gas, a Canadian small-cap producer trading at over 40% FCF yield and an exploration company and have a small position (1,8%) in Pantheon Resources, which is developing a big field in Alaska and has big upside (and high risk of course).

QSR is also long Scorpio Tankers, product tanker rates are underpinned through increasing ton mileage demand (longer routes due to Russian sanctions) while tanker supply is limited with very few new deliveries coming to market the next 18 months. At the same time the existing fleet is aging and scrapping which has been subdued for numerous reasons (higher prices and demand for the black fleet shipping sanctioned oil) will finally catch-up. Despite this positive outlook Scorpio still trades at a 6 PE, 24% FCF yield and a discount to the fleet value. They have reduced debt a lot and this year will come to a net debt level (equal to scrapping value of their fleet) where returns to shareholders will go up massively.

Uranium was a part of our energy thesis which has played out so far with the Uranium price rising 60% last year and Cameco being up 90% (see above). The consensus has come around that nuclear is the best baseload to supplement renewables due to its zero CO2 emissions. New power plants are planned everywhere in emerging markets and in Europe:

https://www.barrons.com/news/france-to-build-beyond-planned-six-new-nuclear-plants-50e18170

Only Germany decided to close its nuclear plants and replace nuclear with CO2 emitting coal/gas, while spending billions to reduce CO2 emissions in much more complicated ventures, and then reimport nuclear power from its neighbors, which seems just mad.

The trend to nuclear power should continue for a long time but nothing goes in a straight line and higher prices will attract new supply so after a big move, I think it's prudent to reduce the position and look to add should significant pullbacks occur.

Underappreciated value stocks: We also have some beaten down cyclicals/turnaround stocks like Kloeckner (trades at 1/3 of BV, underlying profitability improving), Hello Fresh (down 60% from summer highs and at 12 PE, 7% FCF yield), Ceconomy (6% mcap/sales with recent insider buying), Biontech (60% of mcap in cash, stock down 31% in 2023) and Paypal (9% FCF yield and 15 GAAP PE).

I wish you all a great 2024!

Kind Regards,

Christian Thum