July 29, 2020

Person, Woman, Man, Camera, TV

For our devoted readers we realize the quarter ended a month ago. We accept that readers are not necessarily dying for our elongated letters, thus we assume that our delay is completely acceptable to the ambitious few who have read this far.

In summary, while we see lots of weird market data that, when glued together, created Q2 2020, none of it makes sense within any paradigm. We sadly lacked the creativity to have foreseen Q2. Nor are we able to dupe ourselves into thinking we can plausibly explain why markets appear fully resilient: the NASDAQ is at an all-time high. Q2 2020 was the S&P500's best quarter since 1998.

We got the memo: "don't fight the Fed." We just doubt this market euphoria is all Fed.

What we do know is that the world, and particularly, the US are weaker than they were December 31, 2019. Considerable fault lines have fractured further. At best, Washington's lack of leadership is unequivocal. At worst, the US, and a handful of other nations, appear to be sliding into disarray.

And yet from disarray, comes hope for change. We hope that the momentum behind the global quest for equality yields palpable, real results. We hope that healthcare receives the attention it deserves. We hope science trump's ideologies. We pray, and act, for equality.

As we write, there are over 10.5mm known cases of COVID-19. More than 500k people have died. The US currently accounts for roughly 25% of the known cases and deaths despite being only 4.3% of the world population. (Like its CO2 emissions and its waistlines, the US's COVID-19 footprint is disproportionately large.)

If you were looking to the stock market to reflect the US's sad state, you would be hard pressed to find any broad based index suggesting we are in anything but an economic resurgence. Which we sort of are (were?), albeit from a low March base. (Yet has this "resurgence" already evaporated as COVID-19 has advanced unabatedly?)

10 years in 10 weeks

If you don't follow Scott Galloway, you should. He is often quoted saying (with us haphazardly parroting), "Coronavirus is an accelerant, not a change agent. It is condensing ten years worth of trends in ten weeks." As we look back on the last ten weeks (sidebar: ten weeks feels like an eternity ago), Galloway's declaration rings true. 2030 came fast. Lane Bryant won't make it.

(The medical and financial impacts of COVID-19 continue to disproportionately impact those individuals *and businesses* with pre-existing conditions.)

What does this mean for portfolios? Companies? The greater global economy? Here are few, very few, examples:

1. College housing deals were the darlings of 2016-2019. Just two years ago developers flocked to "recession proof" college towns to ensure America's co-eds enjoyed a country club experience. These deals may work, but in a world of online acceleration, the country club students may just do their classes online. Many of the lower and middle tier universities may not survive COVID-19.

2. Labster. Over the past year we have grown to know the founder of a Danish online laboratory company called Labster. Labster provides virtual lab infrastructure for schools. Rewardingly, in April, Labster announced: "Labster partners with California Community Colleges to make virtual science labs available for 2.1 million students." In the Covid-19 world, Labster's ascension seems obvious.

From San Francisco, the winners seem clear. The losers sort of do too. In Galloway's framework, shopping malls were stumbling in 2019, COVID-19 accelerated that weakness.

Higher education had worked hard for decades to price itself out of existence, COVID-19 might be its comeuppance. Fancy education may migrate online, and thus, we hope, expand the footprint of great education.

As we transition to the potentially fun charts below, it is not without a few words of thank you. We are blessed and honored to have clients and friends. We are lucky to be healthy. Candidly, the markets' recoveries have disproportionately helped the global investor class. While US policy and governance has repeatedly disappointed us, there is hope. The broader, global discussion on race alone is invaluable; we just need to collectively maintain the pressure. Inaction on matters like race, global warming and injustice are complicity.

Digital Entertainment vs. Physical Entertainment

Readers, again, should remember we do not know anything but we are incredibly lucky that we like video games. We are on the right side of the shift to digital. Working back to the online entertainment thesis we noted in April, companies that derive a majority of their revenue from digital interactions have massively outperformed companies that derive their revenue from physical interactions as COVID-19 related lockdowns have forced consumers to stay home and plug in. In the digital space, we have focused on a basket of video game companies and in the physical space we have focused on a basket of companies that provide or facilitate physical entertainment (think ticketing, movies, theme parks, arcades). Our two baskets, The RPG Video

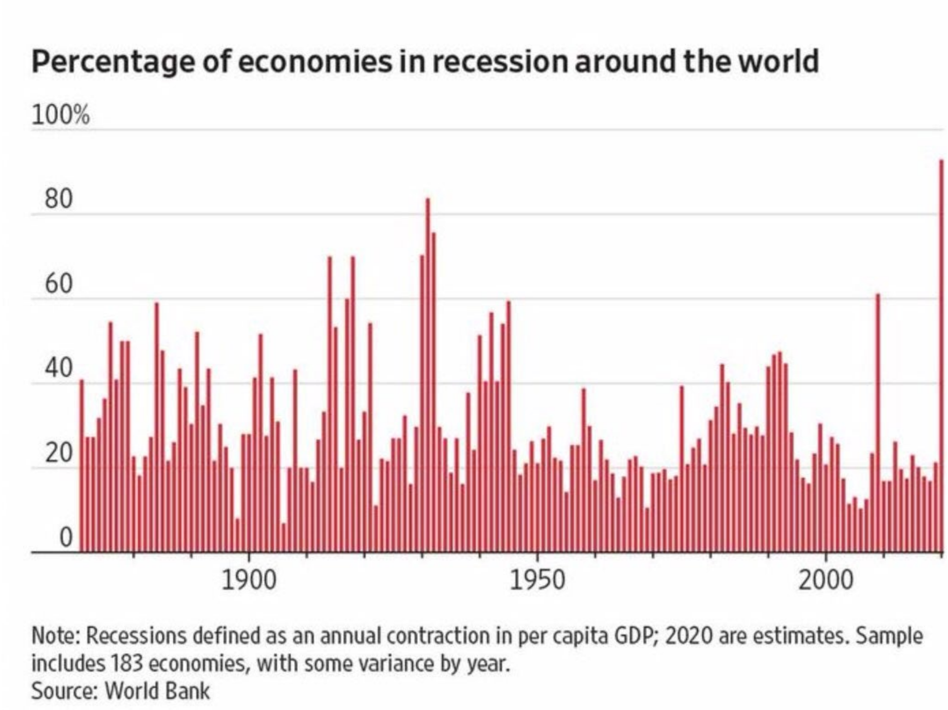
Game Index and the RPG Physical Entertainment Index are below. The YTD performance results speak for themselves.

RPG Video Game Index						
Ticker	Security	Weight	Q2 Performance	Q2 Attribution	YTD Performance	YTD Attribution
ATVI	Activision	8.33%	28.45%	2.37%	28.57%	2.38%
EA	Electronic Arts	8.33%	31.83%	2.65%	22.83%	1.90%
DOYU	DouYu	8.33%	80.03%	6.67%	36.25%	3.02%
HUYA	Huya	8.33%	10.15%	0.85%	4.01%	0.33%
NEXOF	Nexon	8.33%	61.59%	5.13%	73.42%	6.12%
NTES	NetEase	8.33%	34.15%	2.85%	40.85%	3.40%
NTDOY	Nintendo	8.33%	15.78%	1.32%	12.02%	1.00%
SE	Sea Ltd	8.33%	142.02%	11.84%	166.63%	13.89%
TTWO	Take-Two	8.33%	17.67%	1.47%	14.00%	1.17%
UBSFY	Ubisoft	8.33%	13.32%	1.11%	19.81%	1.65%
ZNGA	Zynga	8.33%	39.27%	3.27%	55.88%	4.66%
TCEHY	Tencent	8.33%	30.72%	2.56%	33.66%	2.81%
Total		100.00%		42.08%		42.33%

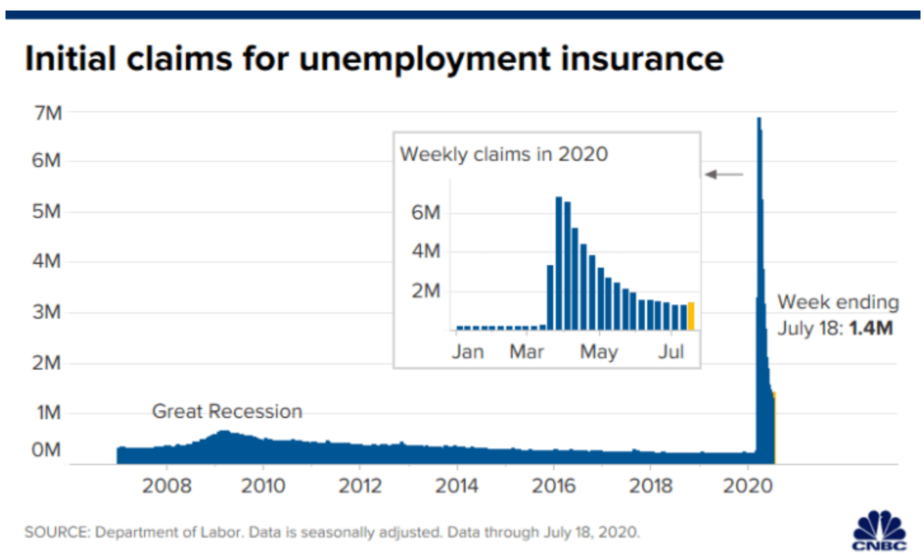
RPG Physical Entertainment Index						
Ticker	Security	Weight	Q2 Performance	Q2 Attribution	YTD Performance	YTD Attribution
LYV	Live Nation	10.00%	-2.49%	-0.25%	-37.97%	-3.80%
EB	Eventbrite	10.00%	17.40%	1.74%	-57.51%	-5.75%
AMC	AMC	10.00%	35.76%	3.58%	-40.38%	-4.04%
PLAY	Dave & Busters	10.00%	1.91%	0.19%	-66.69%	-6.67%
CCL	Carnival Corp	10.00%	24.68%	2.47%	-67.32%	-6.73%
IMAX	IMAX	10.00%	23.87%	2.39%	-45.13%	-4.51%
SEAS	SeaWorld	10.00%	34.39%	3.44%	-53.30%	-5.33%
SIX	Six Flags	10.00%	53.19%	5.32%	-56.99%	-5.70%
LVS	Las Vegas Sands	10.00%	7.23%	0.72%	-32.72%	-3.27%
PLNT	Planet Fitness	10.00%	24.37%	2.44%	-18.89%	-1.89%
Total		100.00%		22.03%		-47.69%

Q2 in Charts

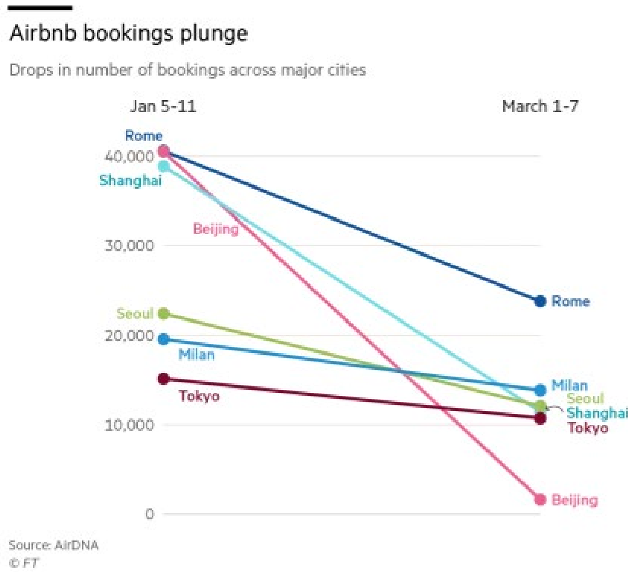
Tail risk was alive and well in the second quarter. Here are some charts that we found particularly intriguing:

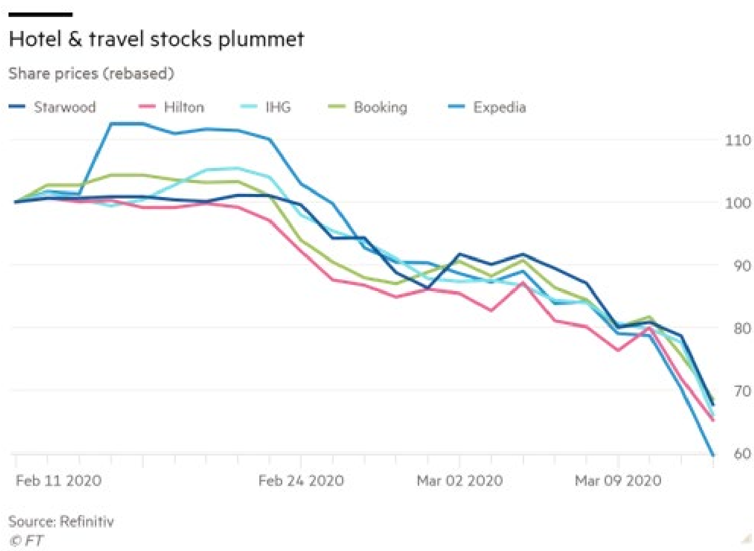


We're all in this together, right? COVID-19 is truly a global problem. As the virus spread across the world, so did economic shutdowns. This image compounds our surprise that many markets are up year to date.



Unprecedented becomes the new precedent. Initial claims, a measure of the number of individuals who filed for unemployment insurance for the first time during the past week, reached record breaking new highs at the beginning of the second quarter and illustrated the abrupt impact of global economic shutdowns.



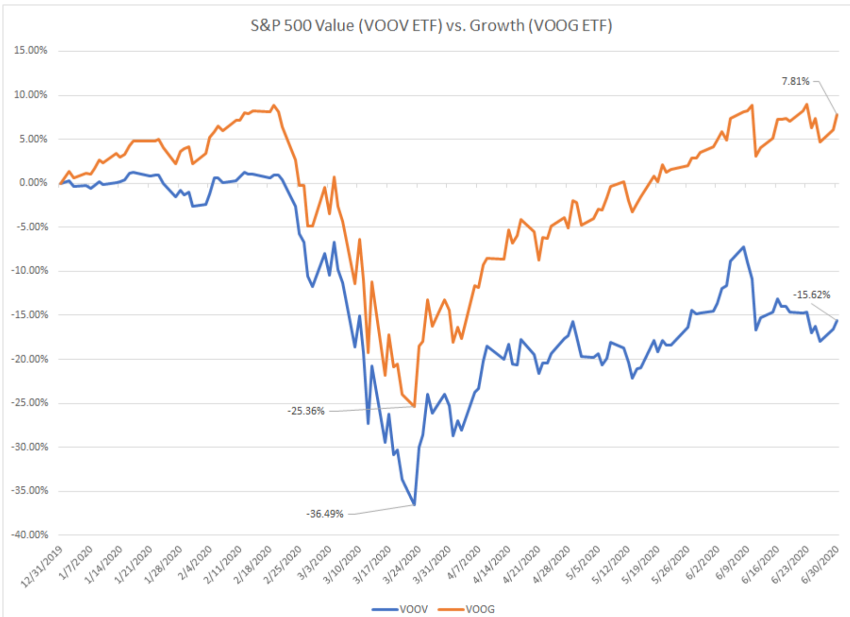


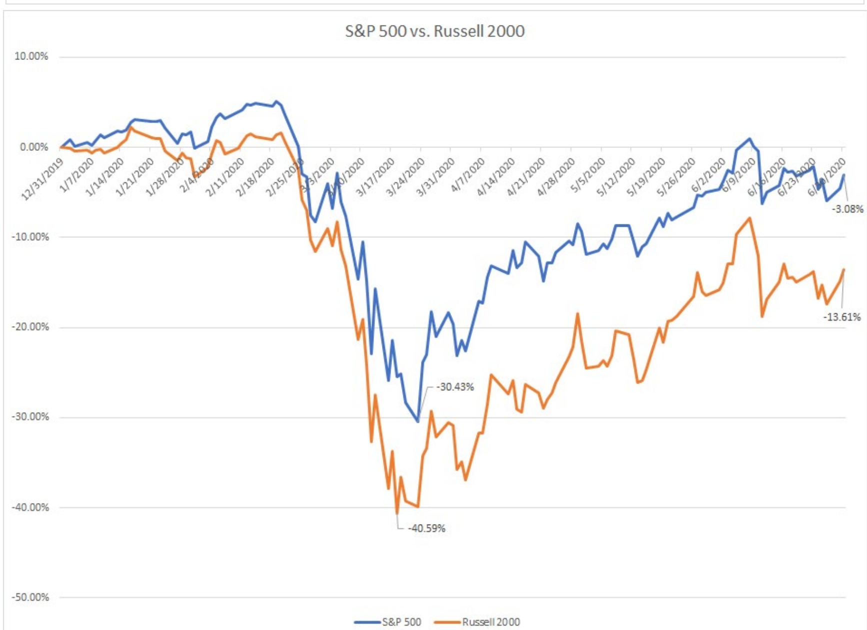
Stay Home! Airbnb and hotel data show the impact that COVID-19 had on demand for short term rentals and hotel rooms in major cities.

What we are seeing

Growth Vs Value

In a continuation of recent trends, growth companies have outperformed value companies in both the first and second quarters. In the case of 2020, the top growth companies (Microsoft, Apple, both share classes of Alphabet and Facebook) are better positioned for a lockdown economy than the top value companies (Berkshire Hathaway, UnitedHealth Group, Verizon, AT&T, and Johnson & Johnson).





S&P 500 Sectors
All S&P 500 sectors ended the second quarter positive. Most sectors posted double digit increases after a brutal first quarter.

Sector	Ticker	Q2	YTD
Information Technology	XLK	30.37%	14.90%
Consumer Discretionary	XLY	30.51%	2.56%
Communication	XLC	22.40%	1.25%
Healthcare	XLV	13.45%	-0.86%
Consumer Staples	XLP	8.49%	-5.63%
Telecommunications	IYZ	11.54%	-6.35%
Materials	XLB	25.80%	-7.13%
Real Estate	XLRE	13.16%	-8.61%
Utilities	XLU	2.69%	-11.06%
Industrial	XLI	16.94%	-14.64%
Financials	XLF	11.85%	-23.70%
Energy	XLE	31.92%	-34.72%

Source: Koyfin

Energy led all sectors in the second quarter, up 31.92%, but still lags all sectors year-to-date at -34.72%. Technology had a strong second quarter, up 30.37% and continues to add to its outperformance year-to-date at 14.90%.

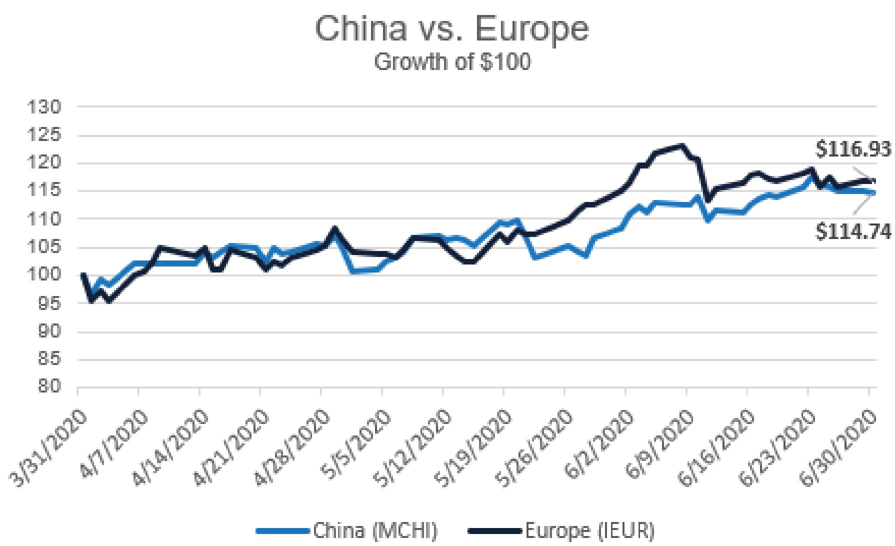
US vs. the World
US markets continue to outperform non-US markets. Even as the US leads the world in COVID-19 cases, the S&P 500 has, for the most part, recovered from its March 23rd lows through the end of the second quarter.

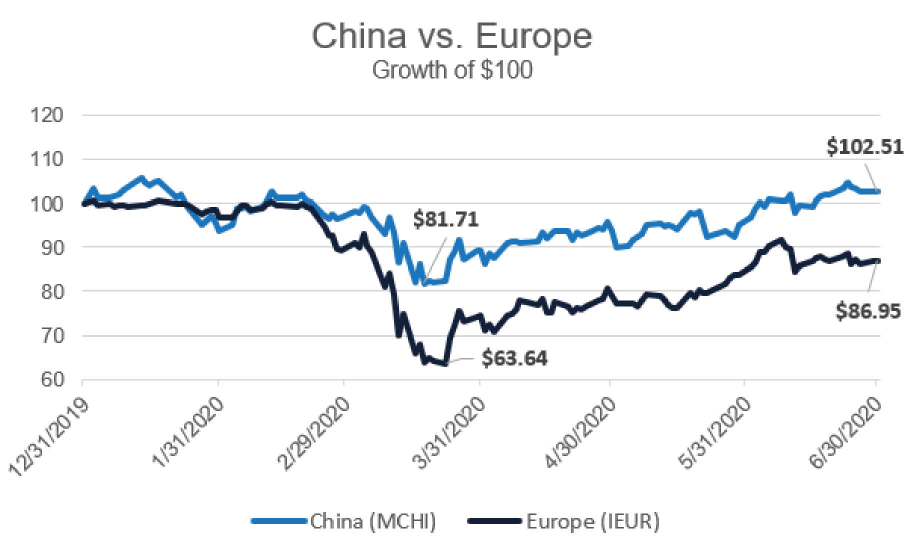
Index	Q2	YTD	1 YR	3 YR*	5 YR*	10 YR*
S&P 500 (Total Return)	20.54%	-3.08%	7.48%	10.72%	10.72%	13.98%
MSCI ACWI ex-US (Net Return)	16.12%	-11.00%	-4.79%	1.13%	2.26%	4.97%
S&P 500 (Total Return) +/-	*4.42%*	*7.92%*	*12.27%*	*9.59%*	*8.46%*	*9.01%*

**Annualized. Source: Addepar*

China vs. Europe

China was the first to bear the economic burdens of COVID-19 but after a quick and aggressive response, broad based Chinese indices are positive on the year. European equities suffered more than Chinese equities at the height of the COVID-19 market panic. Even though European equities kept pace with Chinese equities in the second quarter, they are still down double digits year-to-date.





Developed vs. Emerging
2020 is no exception to the trend of developed markets outperforming emerging markets. Emerging markets were particularly hard hit in Q2. They staged a moderate comeback in the second quarter, however, they still lag developed markets by over 400 basis points year-to-date.

Index	Q2	YTD	1 YR	3 YR*	5 YR*	10 YR*
MSCI World (Total Return)	19.54%	-5.48%	3.39%	7.28%	7.49%	10.56%
MSCI Emerging Markets (Total Return)	18.18%	-9.67%	-3.04%	2.27%	3.23%	3.63%
MSCI World (Total Return) +/-	*1.36%*	*4.19%*	*6.43%*	*5.01%*	*4.26%*	*6.93%*

**Annualized. Source: Addepar*

Markets Since Inauguration
Despite impacts from COVID-19, US markets are still up by YUGE numbers since Trump took office. Many people say, the best people, that US markets have been tremendous, others say they are “perfect markets.” Non US markets, they’ve been very low energy, and are predictably meh.[1]

Index	Value as of 1/20/2017	Value as of 6/30/2020	Absolute %	Annualized
S&P 500	2271.31	3100.29	36.50%	10.60%
NASDAQ	5555.33	10058.77	81.07%	23.54%
DOW	19827.25	25812.88	30.19%	8.77%
Russell 2000	1351.85	1441.37	6.62%	1.92%
MSCI Europe	1341.52	1533.79	14.33%	4.16%
MSCI ACWI	442.35	524.91	18.66%	5.42%
Gold	1204.30	1780.96	47.88%	13.90%
Crude Oil	52.42	39.46	-24.72%	-7.18%
Bitcoin	895.03	9137.99	920.97%	267.43%
VIX	11.54	30.43	163.69%	47.53%
Nikkei 225	19137.91	22288.14	16.46%	4.78%
SSE Composite	3159.17	2984.67	-5.52%	-1.60%
US 10-year Yield	2.47%	0.66%	-73.25%	
US 30-year Yield	3.05%	1.41%	-53.71%	

Negative Oil, Hertz, Tesla vs. every other car company
All of us at RPG learn new things everyday, but our favorite thing we learned this quarter is that oil futures contracts can, in fact, go negative! We suspect the CNBC team was equally confused (note the +/- confusion).

[1] https://www.haaretz.com/.premium-meh-added-to-oxford-english-dictionary-1.5374180

Among the constant negative news this quarter, there were some otherwise comedic stories: Hertz tried to sell $500mm of worthless stock before the SEC told them to knock it off, Tesla is now the most valuable auto manufacturer in the world, and the German payment processor, Wirecard, announced that $2B had “gone missing” from its balance sheet. And while local news is the opposite of comedic (unless you are talking about its future as a viable business), with many newspeople at home, the blooper reels make it an exciting affair.

RPG Corporate Update

We are excited to announce that we can generally remember five words. Additionally, in April we added Andrew Osher to the team. We met Andrew in 2018 when he joined our former employer. Prior to that job, Andrew worked at Morgan Stanley in their wealth management department. Andrew graduated cum laude from the University of Southern California with a degree in economics and a minor in finance. Andrew enjoys anything and everything outside. He spends his free time riding downhill mountain bikes, playing golf, fly fishing, and learning to surf. We are looking forward to getting back into the office with the whole team...whenever that may be.

Please stay safe & always test your memory.

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