

How they spend it

May 2020

“When the facts change I change my mind, what do you do?”

John Maynard Keynes

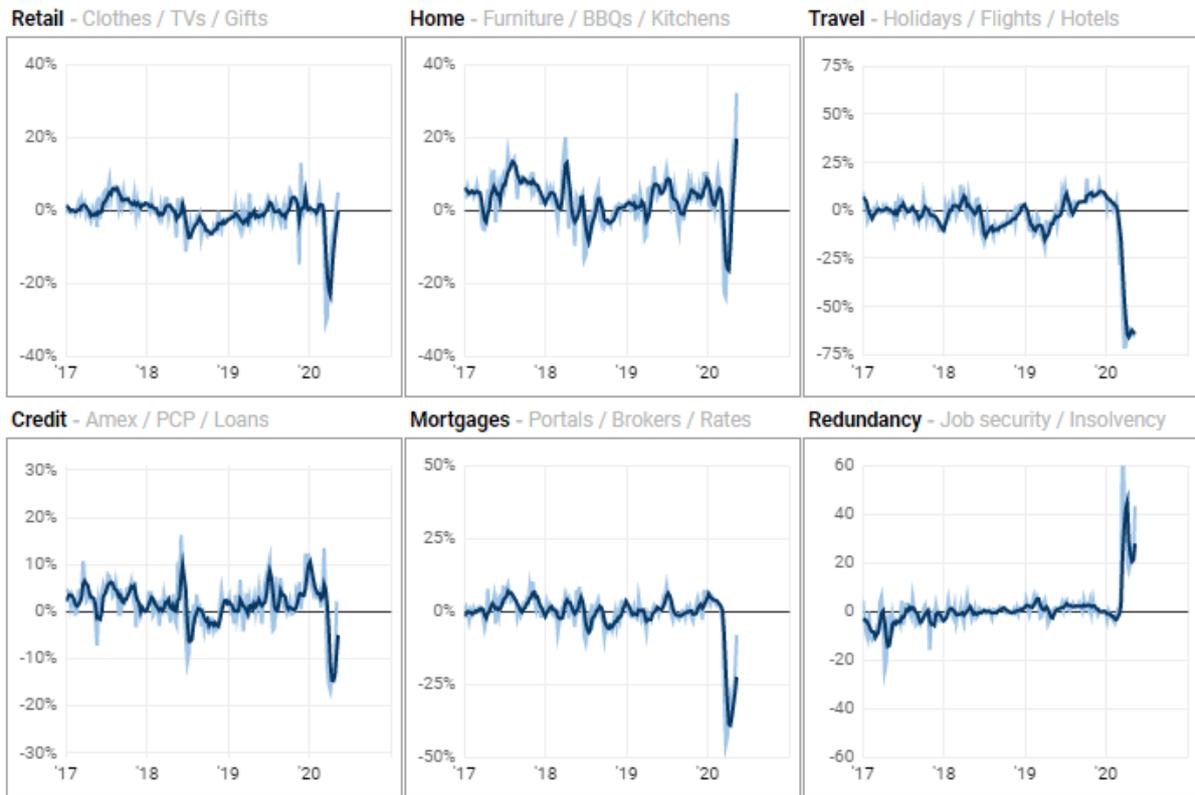
We have had our assumptions tried, tested and even completely overturned many times in the last few months. One small blessing is that often the changes have been so huge that detecting them – getting a ‘signal’ from the ‘noise’ – is easier. The corresponding stock price moves as collective beliefs shifted have been equally big. Take Halfords PLC as an extreme small cap example – a business nearly entirely exposed to high street footfall with a lot of debt, in a crisis that strips people from the streets and dries up the credit markets. Clearly an obvious share to avoid – its share price fell 70% as the crisis unfolded. But as time went on it became clear that outdoor exercise, particularly cycling in which Halfords is the market leader, was in fact one of the best sub-markets. Interest in bicycles is roughly 50% higher now than it was before Coronavirus. Halfords has since tripled. And this is a trend that was detectable, week by week, if you looked in the right places.

At Tellworth we’ve made surveying and surveilling the consumer a key part of the weekly routine, as an important sense-check on our naturally held views and biases. In our last mid-month article – titled **Stocks and Shapes** – we discussed how we were setting up for a bit of a ‘U’ shape in the UK Select Fund, resulting from a likely sticky unemployment rate. Stay long shutdown losers, stay short recovery winners. What we see from our Consumer Heartbeat panel (see below) – a part of our wider ThermoStat set of tools that ‘near-cast’ the UK economy – is that this blanket view should be finessed. Whilst **Travel** remains lifeless, other core areas of internet search interest are rebounding (or perhaps e-bounding). **Retail** is generally back, although skewed electronics and gifts, demand for **Credit** and **Mortgages** is reviving and **Home** – think furniture, BBQs and kitchens as well as the well flagged DIY craze – is booming.

We remember that these charts are flattered by the ‘shift to online’ – the share of online vs. brick and mortar transactions is running around 20% higher at the moment – and the absolute levels mean relatively little. But the shapes are still encouraging and are backed up by our other sources not shown here, web traffic and consumer surveys. We find a UK consumer with decent pent up demand for ‘products,’ in lieu of the ability to buy ‘experiences’ like dinner out, a holiday or a pint. The home is increasingly seen as a place of work, a place to relax, as well as a place to sleep. This should inform our attitudes towards sectors, particularly if the relative valuations are not vastly different.

Of course the potential for a ‘U’ or ‘W’ shape – largely semantics – is still there. Take our important **Redundancy** series below – we see that an initial fall in queries related to job security and benefit claims has since resurged. We currently model the levels to be broadly consistent with the GFC – something which is scary but manageable. Our intuition is that it will probably continue to worsen – see the logic in the last piece – but the most important thing about using data as part of the investment process is that you must allow assumptions to change with the facts.

“Six Heartbeats of the Consumer” – Tellworth UK Search Interest Panel



Source: Tellworth Investments, Consumer Heartbeat Panel

Seb Jory co-manages our TM Tellworth UK Select fund, a >£500m market cap UK absolute return UCITS strategy that has delivered +6.76% YTD (vs the FTSE All Share -19.99%) and +7.91% since Tellworth took on the management of this fund from Sanditon AM on 12/12/2019 (returns quoted are net of fees on the F share class as of 19/04/2020. Source: FE Analytics, Bloomberg).

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