April 2022

Galloway Capital Partners

Monthly Investor Newsletter

Dear Investors:

In April 2022 the Portfolio generated a return of -16.49%, -14.39% YTD and +334.19% since January 2018.

April was a tough month across the board. Every sector was down sharply, with the exception of utilities and consumer discretionary. Oil and energy stocks in general, sold off about 20% after reaching highs in March. Oil briefly touched $123/bbl and natural gas $9/mcf, but each pulled back 15%-20%, respectively, which created about a 20% decline in energy stocks. Our leading energy stocks, Whiting Petroleum (WLL), Varco (NOV), Transocean (RIG), and Summit Midstream Partners (SMLP) all sold off sharply, contributing to our -16% return for the month. We are still very positive about the energy sector. There has been a dearth of exploration and production activity in the last 4 years with essentially 2020 and 2021 shut down.

The Ukraine war created a sharp uptrend in commodity prices and natural resource prices. Even without that, we believe the normalized level of natural gas and oil should be about $5/mcf and $80-$90/bbl, respectively. This is way above the 2018 levels and about equal to the 2014 levels when energy stocks were 50% higher than where they closed in the month of April. This implies a 100% increase in stock prices in the energy sector from where we are here. Wall Street is still extremely underweighted in energy stocks at about 4% in the S&P vs. 19% in 2007.

We also had drawdowns in the prices of many of our special situations, which experienced a dearth of buyers along with everything else in the month of April. We are still favoring the home builders. As interest rates rise we believe that there will still be significant demand for single-family homes.

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Our favorites are Beazer Homes (BZH), trading at 2x earnings, and Hovnanian (HOV), which is trading at about 1.5x earnings. We still own Cleveland Cliffs (CLF) and US Steel (X), which are currently trading at about 4x and 1.5x earnings, respectively. We believe the market is getting too oversold as that momentum and derivatives are driving stocks to inefficient levels on the downside. The market is shifting from concerns about inflation to now, recession. We believe a recession is highly unlikely, with unemployment at 3.2%.

We continue to have a well-balanced and diversified portfolio with approximately 47 positions across many industries and market capitalizations which should significantly outperform the major indices. We believe that we are well positioned to take advantage of this upside in the market when we get through this period of uncertainty and volatility. We believe our value/catalyst approach is the optimal way to generate significant investment returns with an emphasis on natural resources and preferred and dividend stocks which should reduce the downside volatility.

Bruce Galloway

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Chief Investment Officer

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