

KTS
CAPITAL
MANAGEMENT



UPDATE COVID-19 n° 12

The 2nd of July 2020

New COVID-19 cases increasing, but still acceptable

- According to UBS, new cases are increasing, but that is explained by more mobility during the normalization process.
- CS is reducing the equity exposure (on a balanced portfolio from 50% to 45% equity), with basically the same short term view we have, but they are still bullish long term.
- Almost everyone is tracking Google Mobility (public transport), Opentable (seated diners at restaurants), Apple Maps Mobility (direction requests) and TSA (traveler throughput at checkpoints). The first 3 reliable indicators are showing a continued re-acceleration of activities, but the last one is still at -80% from February 2020, which is also understandable, due to new COVID19 cases accelerating in LATAM and USA. Therefore people are still not flying, especially because in most countries, there are still entry restrictions, isolation and quarantine.

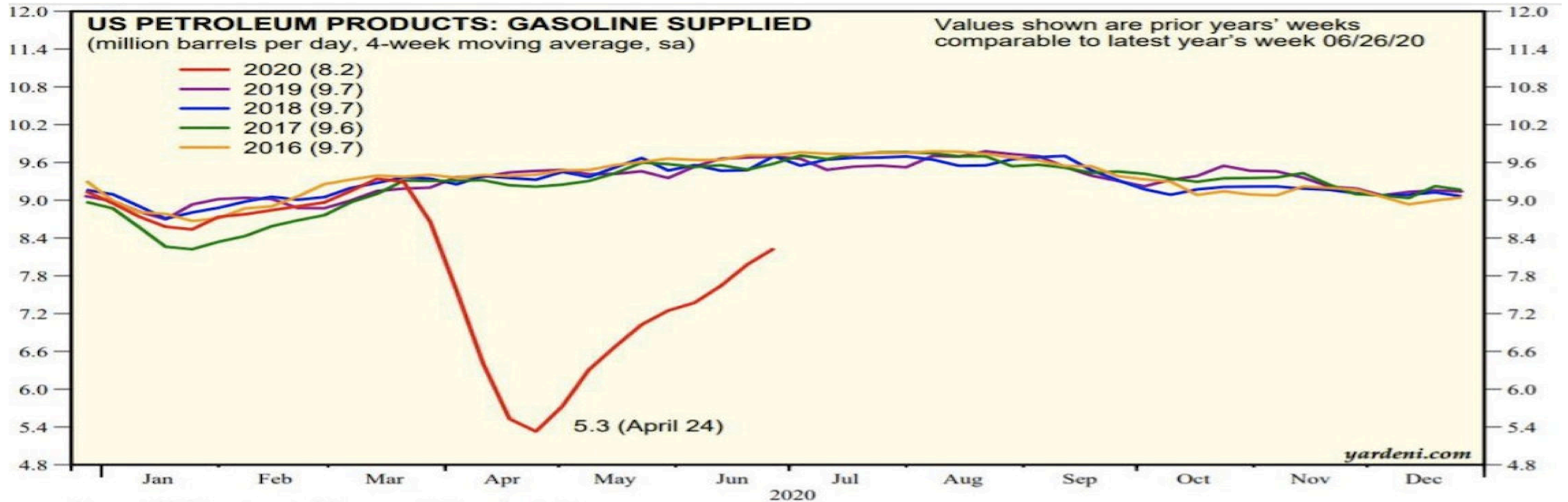
Reproduction numbers against Google Mobility (average of retail & transit)



Tracking mobility rebound vs. reproduction numbers (source UBS)

US gasoline consumption and US ADP report

- We also like as economic indicators the four-week average of gasoline consumption in the US (followed by Yardeni Research). The indicator is only 15% far away from normality. Of course more people are on the road instead of public transportation and probably others are on holiday (which would be positive, taking into account that until a month ago nobody was thinking about holiday!).



Source: US Department of Energy and Haver Analytics.

US Petroleum Products: Gasoline Supplied

Joe Biden election would be negative for markets

- According to UBS and other major banks, the election of Joe Biden is not going to be positive for equity markets. We tend to agree.
- Therefore, we see more volatility going forward. The combination of nervousness because of new COVID19 cases, US candidate projections and Q2 results with lower volumes, in addition to having most of market participants on holiday, is going to cause higher market volatility.

Joe Biden policy proposals. Plausible assuming a "Blue Wave", but would be unlikely with a GOP Senate.

Corporate taxes		Personal taxes	
↑	Top rate from 21% to 35%	↑	Top rate from 37% to 39.6%
↑	Minimum tax on US companies foreign subsidiaries from 10.5% to 21%	☆	Cap Gains and Dividends taxes at 39.6% if taxable income > USD 1 million
☆	New 15% Minimum tax on book income	↑	12.4% Payroll tax applies to income over USD 400,000
		☆	Unrealized capital gains taxed at death



Sources: UBS 10

Corporate and personal taxes

CIO Scenario Analysis

	GDP Growth	Equity overall	Equity sector headwinds	Equity sector tailwinds
Blue Wave	Slightly Positive	Neutral (fiscal expansion offsets higher taxes)	Regulation & taxes: Financials, Energy, IT	Industrials, Materials
Biden + GOP Senate	Neutral / Slightly Negative	Neutral / Slightly Negative (increased regulation)	Regulation: Energy	Consumer disc., Cons. staples, Industrials, Materials
Status Quo	Neutral	Neutral (but trade war is a risk)	Trade war risk: Industrials, Materials	N/A
Red Wave	Slightly Positive	Positive / Neutral (additional stimulus, but also trade war risk)	Trade war risk: Industrials, Materials	Financials, Energy

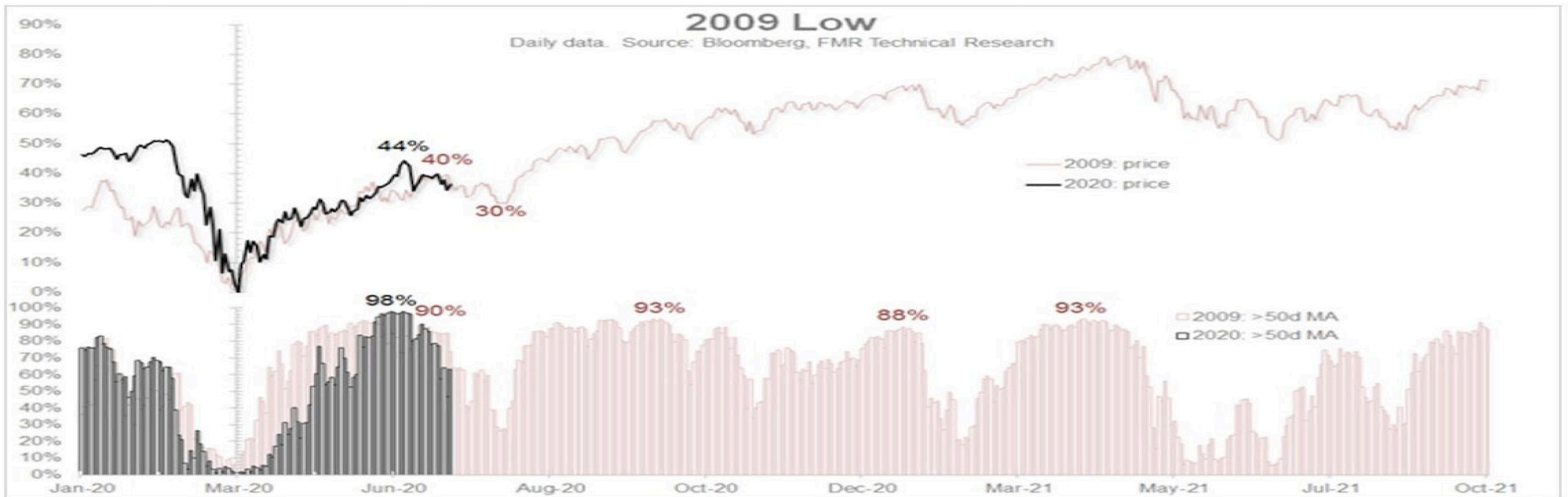


Sources: UBS 12

Impact on markets

Technical: 2020 same path as 2009?

- Few technical analysts are comparing the correction of 2020 with 2009 and 1929. We think that the current situation is not comparable with 1929, but the market dynamic could be compared with 2009. We like the comment of Mr Jurrien Timmer of Fidelity, which thinks that the strong market breadth during the recent rebound is a set up of a new bull market, as it was in 2009. Observing the chart, we can notice, that the markets are first going to slightly correct up to the month of August.



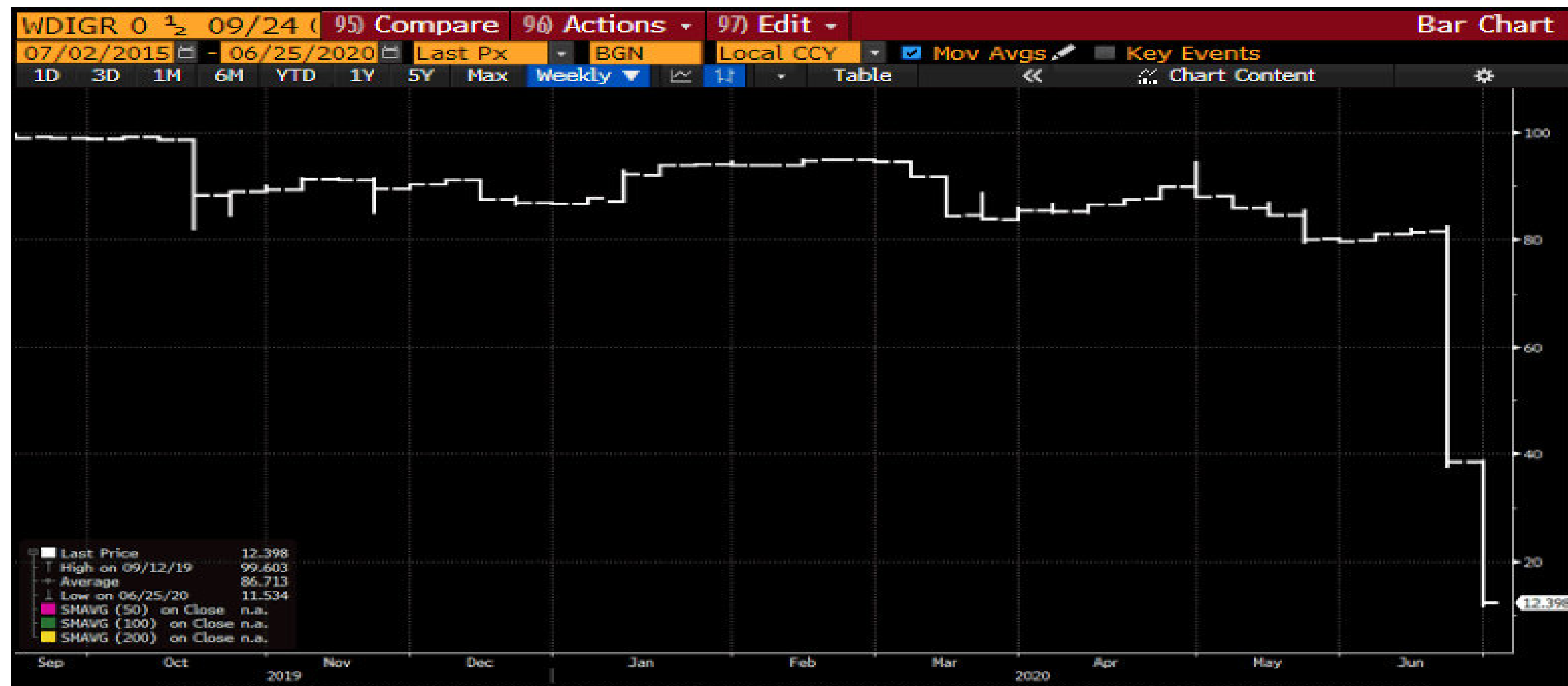
Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 06/30/2020. Past performance is no guarantee of future results.



Market trend in 2009

German high-flyer Wirecard turn out to be a fraud

- A proof that active managers still have a value added. KTS' decision to avoid being invested in the company was also supported from some of our Best in class Funds, which were even shorting the stock since 2019.
- Investors which were invested in the company experienced a total lost.
- Most of Swiss Private Banks invested massively in reverse convertibles with Wirecard as underlying. Those products were considered conservative investments, substitute of bonds. They still have not learnt from history!



Bond price: -90%



Equity price: -90%

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