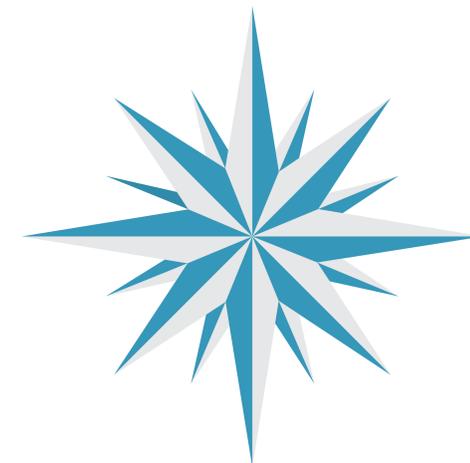


**KTS**  
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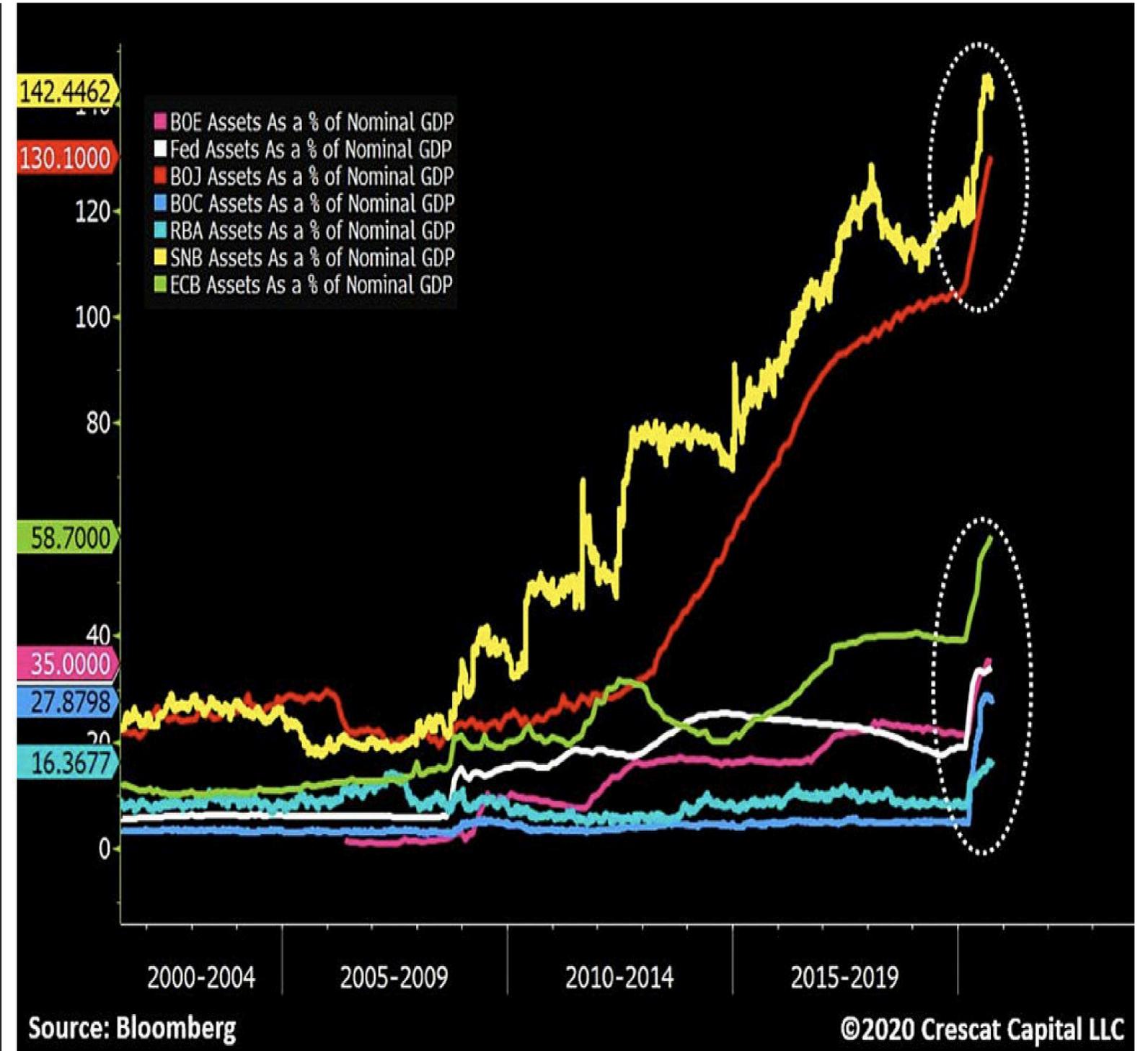
## **KTS weekly market update Nr. 25**

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The 9<sup>th</sup> of October 2020

# Central Bank Assets to GDP

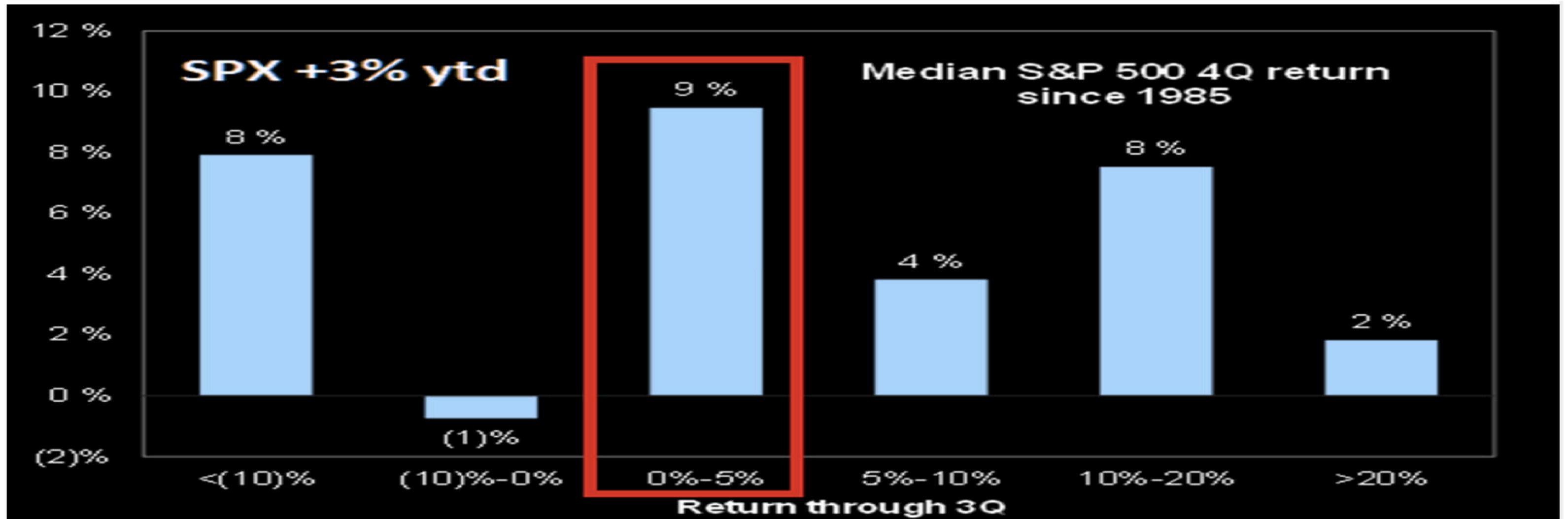
- An additional chart from Crescat Capital LLC for last week subject “is Government’s high indebtedness sustainable”?
- Main Central Banks worldwide still have “plenty of room” to “balloon” their Balance sheet compared to Japan and Switzerland (yes, Switzerland! Most of Swiss citizens are not aware of this reality!).
- **Therefore global central bankers are calling for renewed government spending to support families and businesses as the battle against coronavirus-triggered recession enters a newly critical phase.**



Central Bank Assets to GDP (Source Crescat Capital LLC)

## Q4 2020: strong performance?

- According to Goldman Sachs, historically, when the S&P500 Index has delivered 0-5% for the first 9 months - median Q4 performance is +9%
- We expect “windows dressing” from institutional investors and asset managers starting from the middle of November, whereby, worst performers and laggards are sold, and best performers are added to portfolios.



Historical S&P 500 Index performance, in case a +0-5% during first 9 months (GS/Flowbank)

# Best in class Gold Fund : Bakersteel precious metals

- During the telephone conference of our best in class Gold fund, the manager affirms again, how the sector never looked so healthy, miners cut costs and fixed balance sheets, margins are expanding and dividends are increasing. Valuations are still very attractive, but foremost, ESG has become a core focus also for miners.
- On the chart below we can observe, how the active management could add performance vs BM and peers.

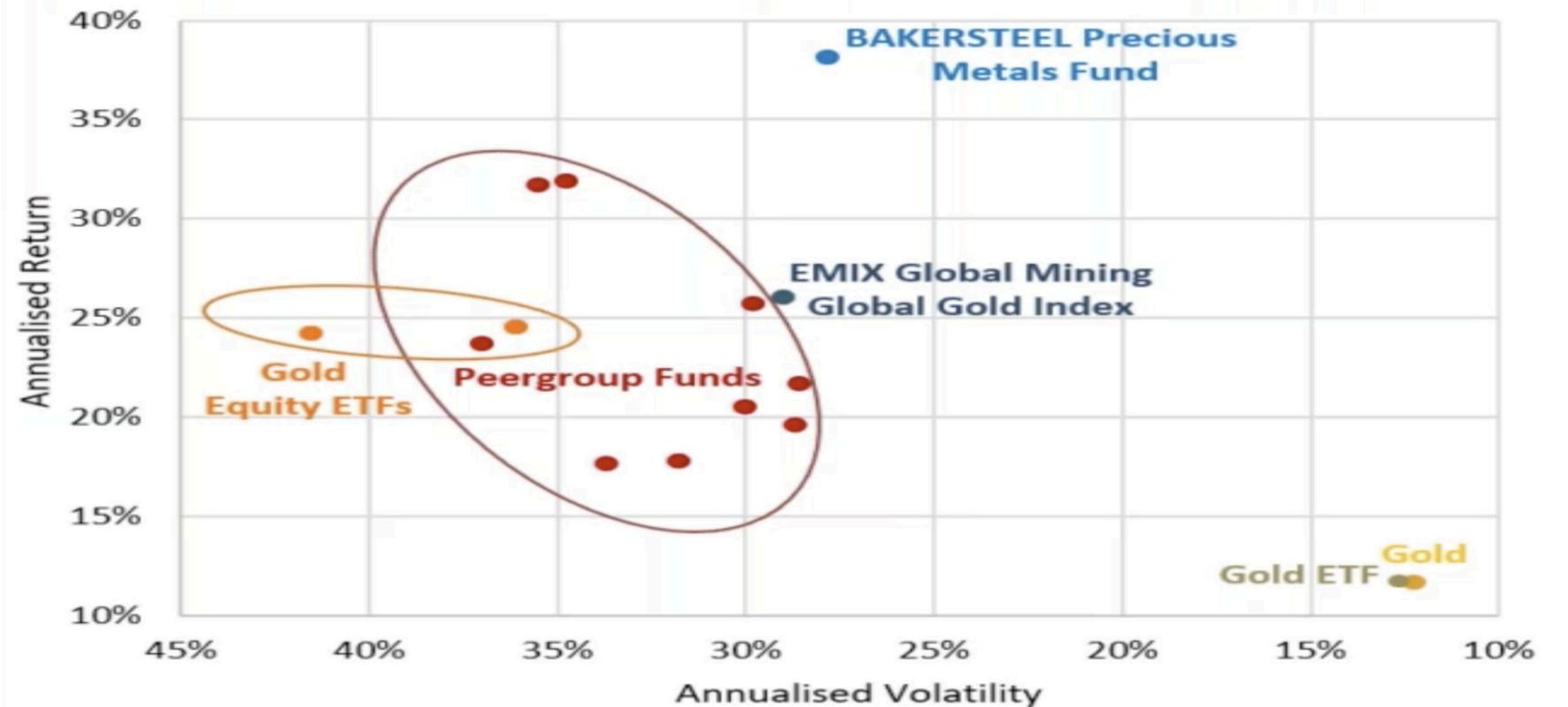
- The Fund's objective is to generate superior returns relative to the sector, under all market conditions, without taking on more risk than the benchmark index.
- Specifically we aim to construct our portfolio to offer 30-50% fundamental value upside without a rise in the gold price.

## 5 Year Risk Metrics

	CAGR	Sharpe Ratio
Precious Metals Fund	+38.2%	1.05
BlackRock World Gold Fund	+20.5%	0.66
GDXJ	+24.2%	0.70

Source: Bloomberg. Based on I2 EUR class. All data in USD terms. Data at 31 August 2020.

## Superior returns at lower volatility

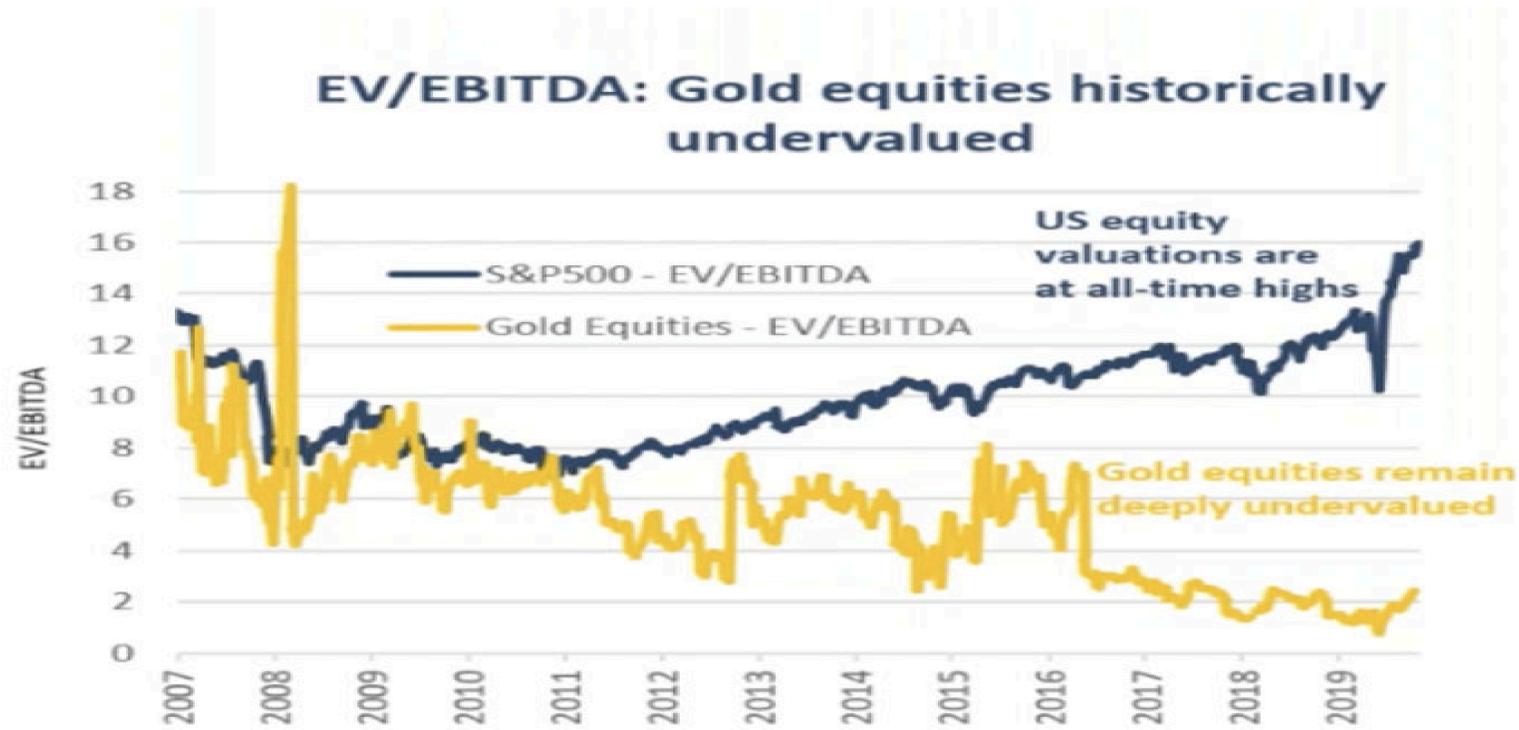


Source: Bloomberg, Baker Steel internal. Chart data over 5 years to 31 August 2020. All data in USD terms.

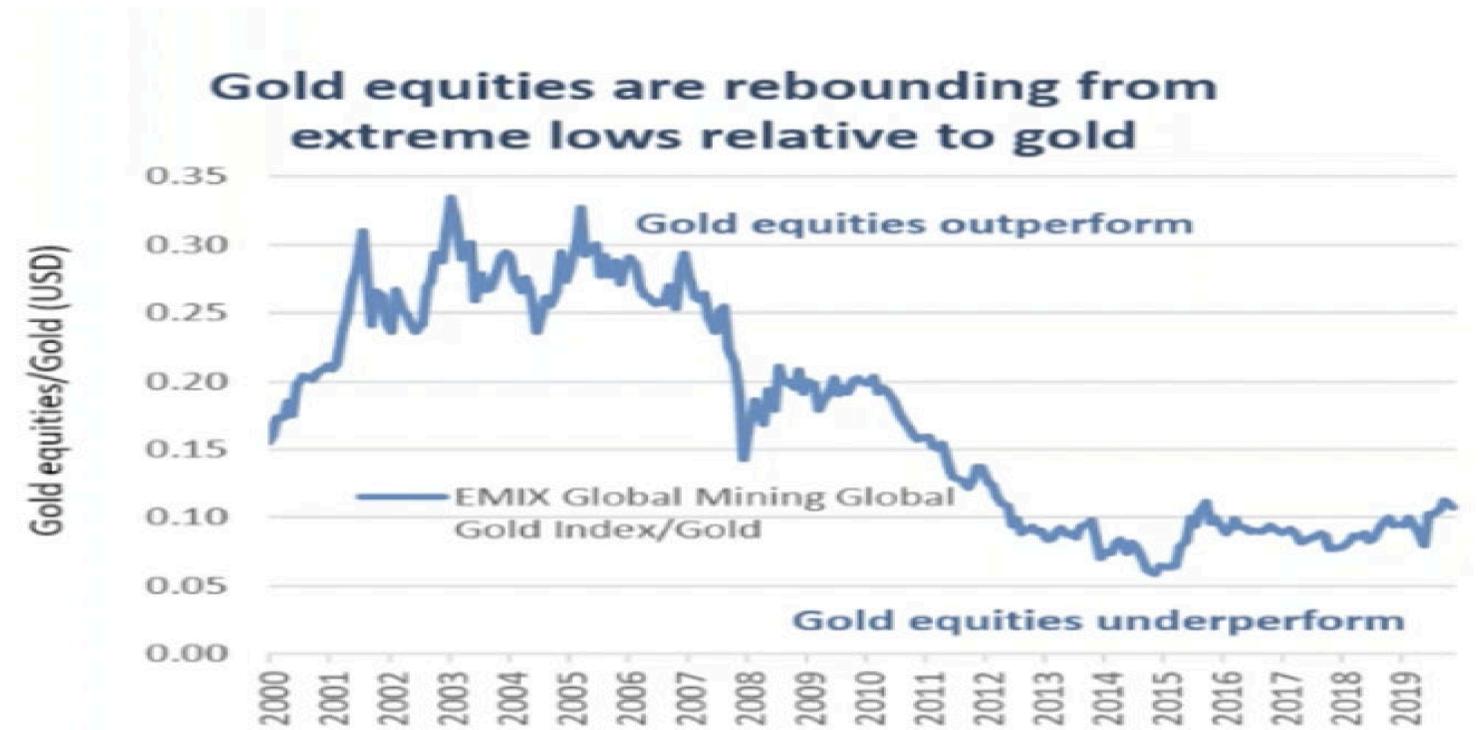
**Bakersteel: better performance than peers with almost the same volatility: sharpe ratio 1.05 vs 0.66 and 0.70**

# Gold equities still undervalued

- As we know, the gold industry has never looked so healthy and miners also focus on ESG. Goldmines fixed balance sheets, cut costs and now with higher gold prices and margin expansion, are also going to increase dividends.
- The chart below shows how Gold equities are still undervalued historically, even if nowadays are in much healthier financial conditions. Therefore there is still upside potential, even with the gold price staying at the same level.



Source: Bloomberg. Data as at 31 August 2020.



Source: Bloomberg. Data at 30 September 2020.

**Gold equities are undervalued compared to historic valuations and relative to gold**

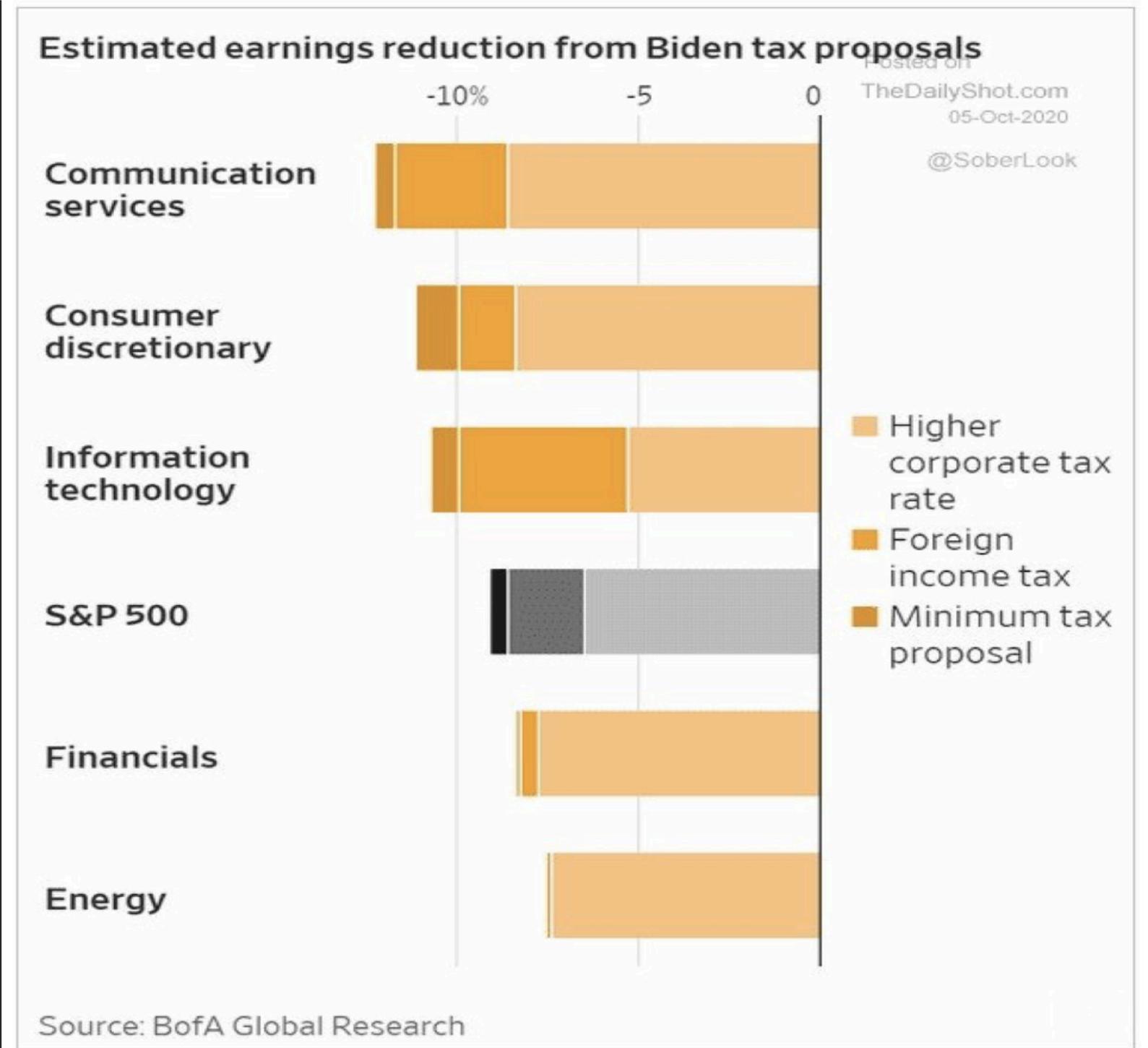
OCTOBER 2020



Gold equities are historically undervalued on a EV/EBITDA level and also relative to gold (source: Bakersteel)

# Estimated earnings reduction from Biden tax proposals

- Bank of America analysts tried to quantify the impact of Biden's tax proposals on different sectors. As you can observe from the chart, the sectors which are going to have the major impact, are not only Financials and Energy, but also Communication services, Consumer discretionary and IT.
- **Biden will be able to increase taxes, only with a Democrat majority in Senate and even with the support of the Senate, the introduction is going to happen only after 2023.**



Estimated earnings reduction from Biden Tax proposals (BoFA/FlowBank)

# Sector selection for 2021

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- After more than a year of investigations, a report from a Democrat-controlled panel comes to the conclusion that some of the biggest technology and internet companies are abusing their market dominance and **recommend new antitrust laws, which could lead to a break-up.**
- In addition to Netflix documentary “the dilemma of social media”, we think that there are a few clouds and risks in the FAANGMT space going forward.
- **A Democrat sweep would increase further the risk in the IT space** and honestly, every analyst is focussed on the tax increase, therefore are expecting weakness in the financial and energy sector and favor the IT and “clean energy” space. But it looks like, the risk is much higher in the IT space, after all!
- In addition to higher valuations vs market, during the year 2021 with the planned introduction of a mass covid19 vaccination and consequently the further rebound of the economy, especially in tourism, travel and entertainment sectors, we have to seriously analyze and understand, where the real upside potential for the year 2021 is!
- It is clear to everyone, that “clean energy” and sustainable stocks are going to profit independently from the outcome of the U.S. Election. Our problem in the selection of the best in class “green” Manager or single stock high convictions is the fact, that most of companies are traded at very expensive multiples. Most of active managers underperformed the passive ETF PBW US (clean Energy) or TAN US (solar etf) because focussed on valuations, meanwhile inflows are mainly in passive etfs and stock in the basket are just bought based on flows and not on any analysis. We are monitoring multiple funds, etfs and active managed certificate (long/short), because we also would like to increase our exposure in the “green” space, but we are still awaiting for the right selection or timing. At the moment we are exposed with some single stocks, where we still see upside potential.

## Global news

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- Goldman says it would upgrade its economic forecasts if there's a blue wave: so GS starts to be bullish also if candidate Biden would be elected as President, with a S&P 500 Index target of 3'800 points for year 2021.
- Trump held the negotiation for further stimulus in U.S. but Ms. Lagarde is prepared to add stimulus, cut rates to support European Recovery. Also global central bankers are calling for renewed government spending to support families and businesses as the battle against the coronavirus-triggered recession enters a newly critical phase.
- Costco starts selling Gold and Silver bars in its supermarkets!
- Passive ETFs now accounts for 46% of all U.S. Domiciled funds!
- Emerging Markets as a % of Global Assets under management are close to all time lows.
- EMA (European Medicines Agency) will start a rolling review of the companies' coronavirus vaccine candidate, to approve a fast track.
- Interesting and smart move of Alibaba, which has just agreed with the Swiss travel retailer Dufry to form a JV in China. Alibaba is also planning an equity investment of 10% in Dufry via a capital increase.

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