

KTS
CAPITAL
MANAGEMENT



KTS weekly market update Nr. 28

The 2nd of November 2020

Market sentiment

- General lockdown restrictions caused market nervousness and imminent U.S. Elections increased tensions further. Market participants are not worrying so much about the election of Mr. Biden, but more about the possible reaction of President Trump to dispute the outcome; as well as the worst case scenario of Mr. Biden as President, but a Republican Senate.
- KTS is going to wait until after the U.S. Elections to increase investment exposure and close the hedge. On the technical analysis side, we foresee a possible correction for the S&P 500 index down to a range of 2'900 (50% Fibonacci retracement) or 3'054 points (38.7% Fibonacci), should the index break below 3'200. Lately, we have seen many comparisons to the 1987 crash, but do not believe that markets are going to experience such a move.
- There are multiple reasons to believe that, nowadays, we are in a better situation than in March 2020 and definitely better than in 1987.
 - First of all, it does not matter who is going to be president in the U.S. One month after the 20th of January (date of presidential inauguration), we will have an additional stimulus package of around USD 2trn. An additional stimulus does not only help to stabilize sectors in difficulties, but is going to create even more inflation and economic growth in the next 2-3 years and the stock exchange is foreseeing economic activities 6 months in advance.
 - Secondly, before the end of November 2020, we expect the approval of at least 1-2 vaccines - Biotenich and possibly Moderna. In our eyes Biotenich's vaccine is better... keep this in mind the day you have to choose a vaccine. Apparently, Pfizer could produce 100 mio doses before year's end.
 - Germany and Europe will be forced to increase their stimulus packages, in response to a weaker USD. In fact the decision on the additional US stimulus package is only a question of when, not if. Also Republicans changed attitudes towards stimulus.

Market sentiment

- As Mr. Yardeni has pointed out many times, US GDP had an impressive Q3 rebound and gasoline consumption stalled at only 9.5% below the year-ago level. These statistics show how the population has learned to live with and adapt to the new reality of covid19 . Even if we do experience weaker economy activity during Q4, due to new lockdown restrictions, we should not forget that the housing boom is continuing to support the economic cycle and should compensate the weakness in other sectors.
- US Airlines are slowly but surely at break-even after cutting jobs and reducing costs, as also other sectors; for example energy companies announced better Q3 results.

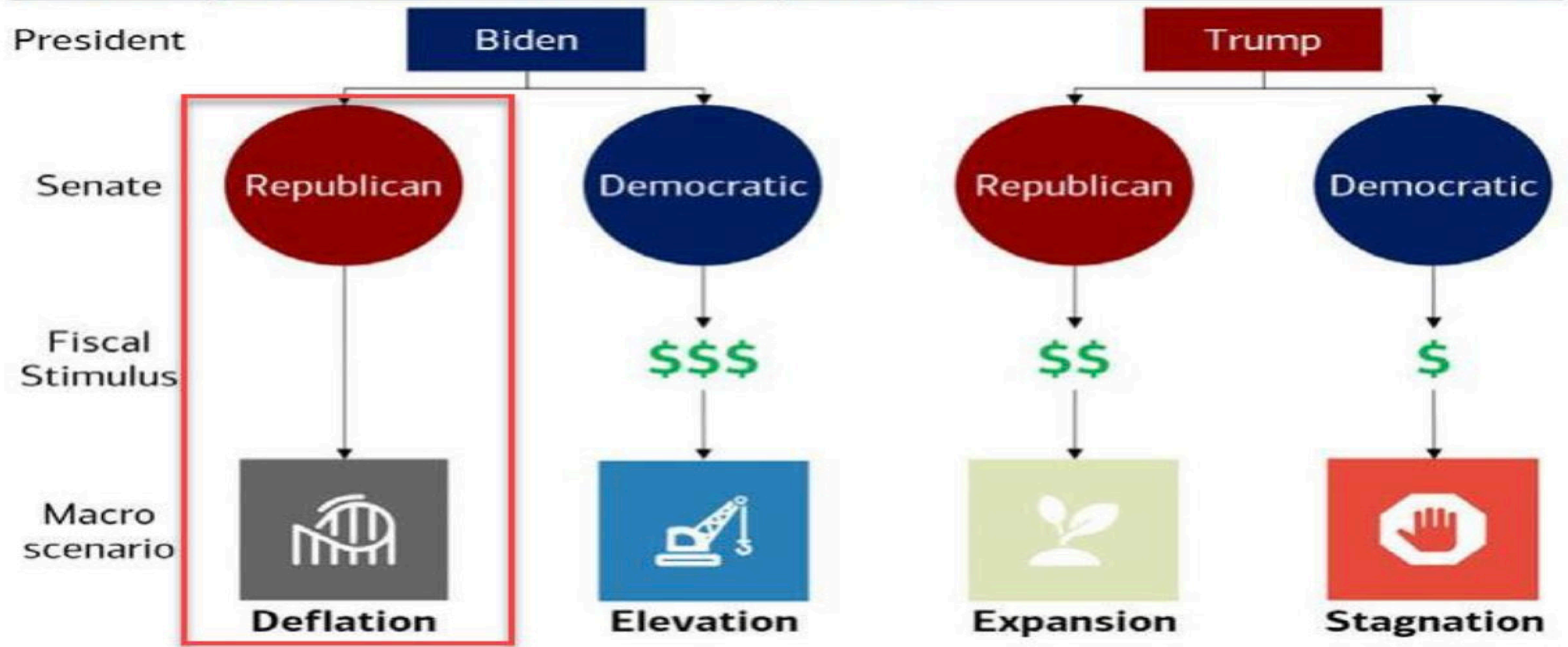
Technical analysis



Fibonacci retracement on S&P 500 Index: 50% is by 2'890 points

Chart on US election scenarios

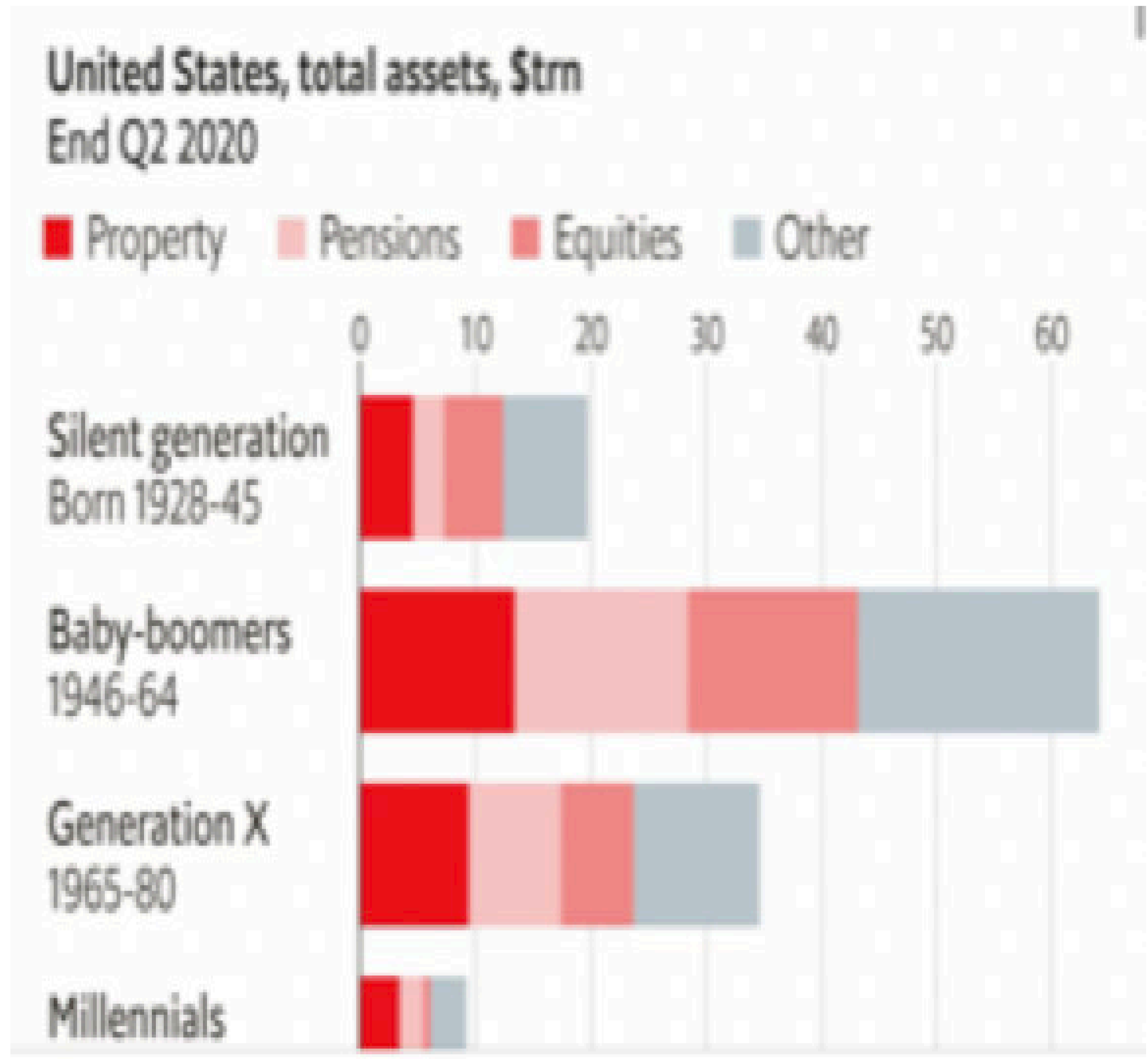
Chart 2: Likely US election scenarios and macro implications



Source: BofA Research Investment Committee

Distribution of USD 9.1trn wealth in America

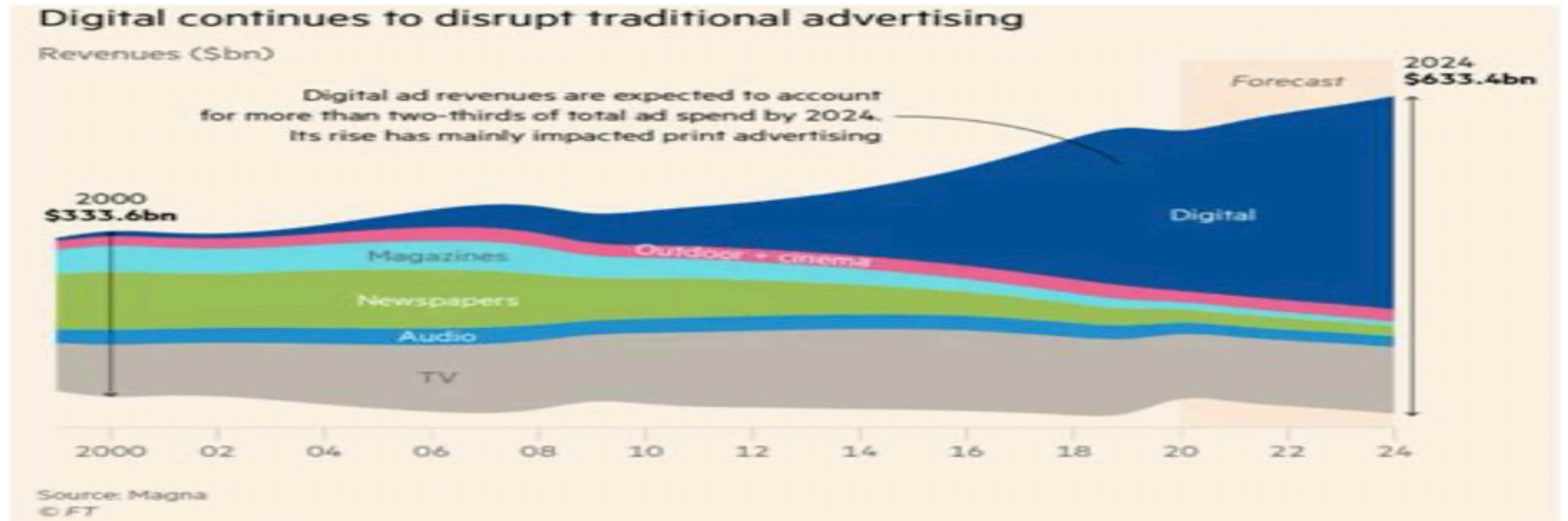
- According to “The Economist” Baby-boomers own more than 60% of the total wealth in U.S.
- Millennials hold a tiny share of total wealth (7%).



U.S. Total assets in Trillion USD

Digital advertising

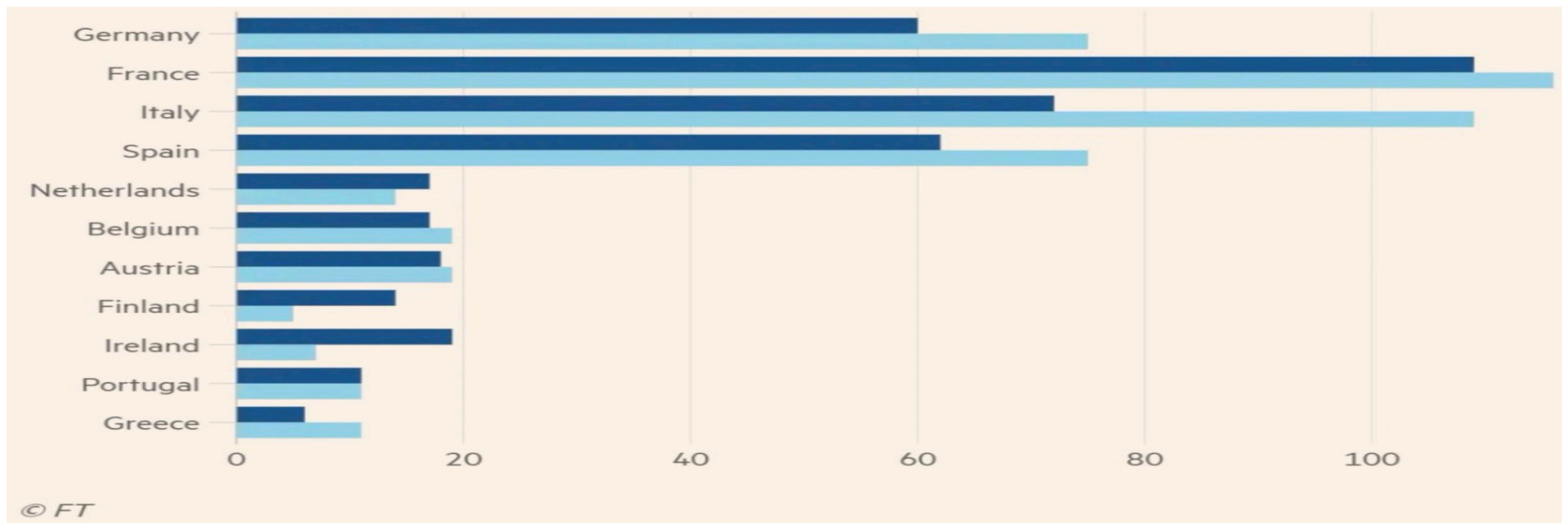
- Interesting chart in the Financial Times, whereby investors can clearly see how digital advertising is disrupting traditional advertising.



Revenues in advertising

Is Government's high indebtedness sustainable?

- In our market update Nr. 26 (2nd October 2020) we argued how central banks can fill the gap between unattractive new Government bond issues at negative real yield.
- According to the below chart from the Financial Times, the ECB is expected to buy up all the new Government issues of next year.



New Government issues for year 2021: light blue ECB program, dark blue expected issue volume

General news

- The weakness in the gold price was perceived as a reaction to the stronger USD. But, analyzing gold transactions from Central Banks, it appears Uzbekistan and Turkey had been net sellers, and even Russia posted its first quarterly sale in 13 years. For the first time since 2010, the markets experienced central banks as net sellers of gold. In our opinion, such news is long term positive for the gold price, because it shows once again that Central Banks have only gold as a real asset to sell during a crisis!

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