

KTS
CAPITAL
MANAGEMENT



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Pictet on Emerging Markets

- The chief strategist of Pictet Asset Management, economist Mr. Luca Paolini, summarized the future potential for emerging markets as follows:
 - Asia is the fastest growing region in the world, representing **50% of global GDP by 2045**.
 - In 10 years time, **45% of the middle class will be found in Asia and will have the potential to spend** (= over proportional growth of consumers). Our best in class fund Aubrey always argued that in the Valeriepieris circle live more people than outside. Therefore, there exists tremendous potential for long term growth in personal consumption.
 - The **Asian tech story is going to outperform US**, because Asia has moved on from the time when it was just manufacturing goods for developed markets.
 - **Asia is also leading the global transition in clean energy.**
 - **The USD is going to depreciate over the longer term and a weaker USD supports emerging markets economies.** Equity valuations are still cheap and priced in attractive emerging market currencies, which are going to appreciate vs USD.
 - **Valuations in emerging markets are still more attractive than developed markets, but with higher growth.**

These points are in line with the consensus of other best in class funds Alkeon, Flossbach, Aubrey, etc.

Meanwhile, Pictet Asset Management has **reduced its global equity exposure to neutral** from overweight, seeing signs of a peak in economic and corporate earnings growth. Pictet is also trimming exposure to cyclical stocks and is underweight U.S.

Research “a time to be careful”

• We were reading an interesting research piece from economists Mr. Komal Sri-Kumar and Steve Holzman of Global Strategies. We agree with many points:

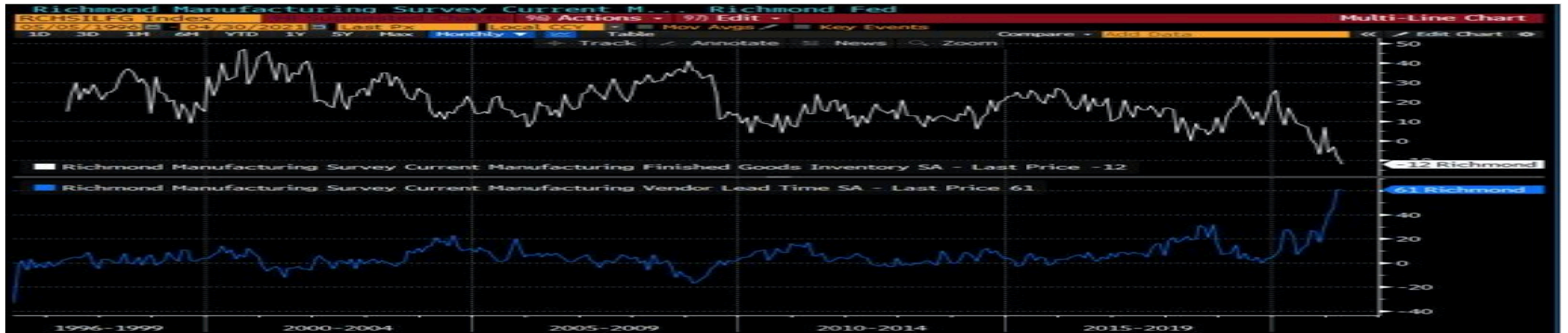
- **During Q1 2021 US-listed SPACs raised USD 83 billion.** This was more than the entire amount raised in 2020, when SPACs made up roughly half of all IPOs. Less than 1/3 of SPACs launched since 2015 have had positive returns. During that time the median SPAC lost 36.1%, whilst the median traditional IPO gained 37%.
- The research added, **Dogecoin was created as a joke to lampoon the rise of cryptocurrencies** but today has a market capitalization of USD 50 billion, representing a YTD gain of 9'200%. Even the coin's creator, Billy Markus, is on record that Dogecoin has no underlying fundamentals, intrinsic value, or supply cap, and was a project that he put together in roughly 3 hours one afternoon in 2013. The market cap of Dogecoin is the same as blue chips Kimberly-Clark, Parker-Hannifin and Walgreens. Therefore, Mr. Komal Sri-Kumar concludes that investing in Dogecoin is nothing less than pure speculation and a gamble on an asset that could very well be worthless.
- **Most alarming is that retail investors, armed with stimulus checks intended to provide for necessities, have instead, piled into “meme stocks” and options, further pushing up valuations.**
- The research also mentioned concern about aggressive accounting standards and ethics. The overwhelming majority of US companies lead their quarterly press releases with earnings numbers that are not in compliance with generally accepted accounting principles (GAAP). **Non-GAAP earning for the S&P 500 were approximately 15% higher than GAAP numbers in 2019 with the divergence surging to approximately 40% in 2020!** The largest component of the difference is non-cash compensation and **non-GAAP figures make corporate financial results appear rosier than reality!**

Ms Yellen

- An announcement from Ms Yellen, Treasury Secretary (also candidate as FED Chairwoman for 2022 by president Joe Biden), initially caused market turmoil on the 4th of May 2021 and she had to quickly correct herself.
- In her initial statement, she said that an overheating economy could require a very modest increase in interest rates to cool it down. But, these stimulus packages are what our economy needs to be competitive and productive in the future. I think that our economy will grow faster because of them and she is predicting full employment in U.S. by the end of 2022.
- So, markets collapsed and, a few hours later, Ms. Yellen tried to modify her statement by announcing that she was not predicting higher interest rates. Of course, it is clear, that she had to correct her statement under pressure from Biden's administration, which is launching a huge infrastructure stimulus package and does not want collapsing stock markets.
- For us, it is also the clear intention and the strategy of Biden's administration to keep, for as long as possible, a dovish monetary policy. But when, at the end of 2022, the economy is running on "full cylinders", do market participants then need to fear Ms Yellen, if nominated FED chairwoman. Or, perhaps the Biden administration should seriously think whether to assign a second term to Mr. Powell in 2022, when the usual four-year term terminates?
- This possibility is, for the time being a "non event" for markets. But, leaves us quite perplexed about the Fed's future strategy. The day Ms. Yellen is appointed Chairwoman, it is clear to us that this introduces a **new serious risk to take into consideration going forward.**
- The market's reaction on the 4th of May shows, once again, how the stability of markets can be precarious, especially when a lot of positives are already discounted. We also realized that, whilst strong economic fundamentals play a big part for the market upside, markets will always depends on the central banks liquidity!

Economic data

- According to the blogger Ritesh Jain, we are experiencing a 25 year low in Richmond Manufacturing finished goods inventory. Also the US ISM Manufacturing shows the highest reading on record for order backlogs and the lowest for customer inventories.
- Such a manufactured goods shortage would actually be very positive for the economy, as we are experiencing a massive undersupply and production needs to increase.



Source Bloomberg / Mr. Ritesh Jain

General news

- According to the gold space expert, Mr. Otavio Costa of Crescat capital, today **73% of the top 50 gold&silver miners are profitable on a Free cash flow (FCF) basis**. This is the highest level ever seen and, meanwhile, miners continue to improve their margins, reduce their overheads and generate more profits than at any other time in their history. This compares to billions and billions invested in cash burning SPACs, VCs or questionable IPOs. KTS remains invested in the space, because valuations are very attractive and, even if gold & silver prices stay at current levels, miners are increasing profits and dividend payments.
- Market participants are focused on the rise of inflation. But producers are “tricking” consumers with their “**shrinkflation**”, by offering the same product at the same price, but with less quantity. Thereby, masking higher prices with creative ways. This is also a way to “misrepresent” inflation statistics.
- Apparently, the ambitious energy projects **ITER, and also TAE Technologies** could already begin the process of approval of their technologies in year 2024. ITER is based in South of France and is financed by the EU (EUR 16 billions invested). Switzerland is also involved with EPFL (école polytechnique fédérale de Lausanne) and is financed by the Swiss Confederation (CHF 700 mio). TAE Technologies, on the contrary, is financed by private investors. As we can be seen on their webpage, the energy source is supposed to be clean (environmentally friendly, safe and capable of sustaining the planet for thousands of years) and is comparable to fusion, which powers the sun and stars. Even if we are probably years away from mass application, it is a ray of hope for a real solution to our unsolved sustainable clean energy dilemma.
- The running shoes producer **On Running**, of which, Roger Federer holds a substantial participation, is planning an IPO at Nasdaq with a valuation of USD 5 bio. It is quite an impressive journey for the founders Mr. Olivier Bernhard (former professional athlete), Mr. David Allemann and Mr. Caspar Coppetti. After 11 years, ON can count on seven million runners in over 50 countries.

Covid19 vaccine producers

- We are reading that the U.S. and Europe back the WTO proposal to waiver intellectual property protection for covid-19 vaccines, in order to speed up global vaccine production.
- Of course, all the vaccine producers reacted negatively to the news. We would also add that, as always feared, when governments are in an emergency situation, emergency solutions are taken and democracy, basically, no longer exists.
- We are also thinking out loud, for example, about the crypto space.

Bitcoin news

- Tesla sold 10% of its bitcoin's position, essentially in order to prove the liquidity of bitcoin as an alternative to holding cash on balance sheet.
- In a interview with Forbes Ms. Hester Peirce, SEC commissioner, explained the delay (to June 2021) of the Bitcoin ETF's approval. SEC is confident that they are able to identify fraud quite easily in the crypto space. But, there is still disagreement in whatever in some cases are a capital raise or not. The SEC is also under pressure to approve the ETF, because it is aware that retail investors have other ways to invest in bitcoin (for example ETFs in Canada).
- We are somewhat surprised to read that Grayscale generates close to USD 1 billion in revenues from its 2 Trusts- Bitcoin and Ether. Meanwhile, an established fund management company like Vanguard takes in comparable revenues from all 82 of its ETFs. Grayscale holds USD 47 bio in AuM and Vanguard USD 1.7 trillion in ETF assets.

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