

KTS
CAPITAL
MANAGEMENT



KTS weekly update Nr. 2

26th of January 2021

S&P 500 Index target for 2021

- According to the economist Mr Ed Yardeni, the S&P 500 forward P/E rose to a record 25.7 times during the week of July 16, 1999. Today it is 22.9x. The S&P 500 technology sector peaked at an all-time record high of 48.3 times, during March 2000. Today the tech sector is valued at “only” 27.7x.
- Therefore, assuming the current reasonable P/E continues for 2021, **Mr. Yardeni has set the S&P 500 target at 4'300** (+11.65% from today's level) and for **2022 at 4'800** points.
- During a telephone conference with our best in class Flossbach, the manager argued that there is at least a **50% more upside potential from today's market valuation**. This is because today's risk free interest rate is set at 0%. Therefore, all future cash flows have more value today than used to be the case in the past, when higher risk free rates prevailed.
- Credit Suisse is arguing that analysts are still using a discounted rate of 7.4% in DCF models and that, nowadays, the rate should fall to under 5%. Having a reduced equity risk premium (ERP) should result in an increased valuation for equities. Giving a potential target for the S&P 500 Index of 4'400 points for 2021.
- Bob Brinker is also positive, but set a target for the S&P 500 Index at 4'000 points, based on a price/earnings ratio of 21 times forward earnings (USD 170 for 2021 and USD 190 for 2022).
- We remind ourselves of the best in class Alkeon's outlook; the manager is arguing that today's situation is comparable to 1951 (ratio of dividends in the S&P500 vs 10y Treasury) and during that period, equities outperformed bonds by X 19 times.

Are cannabis stocks poised to light up?

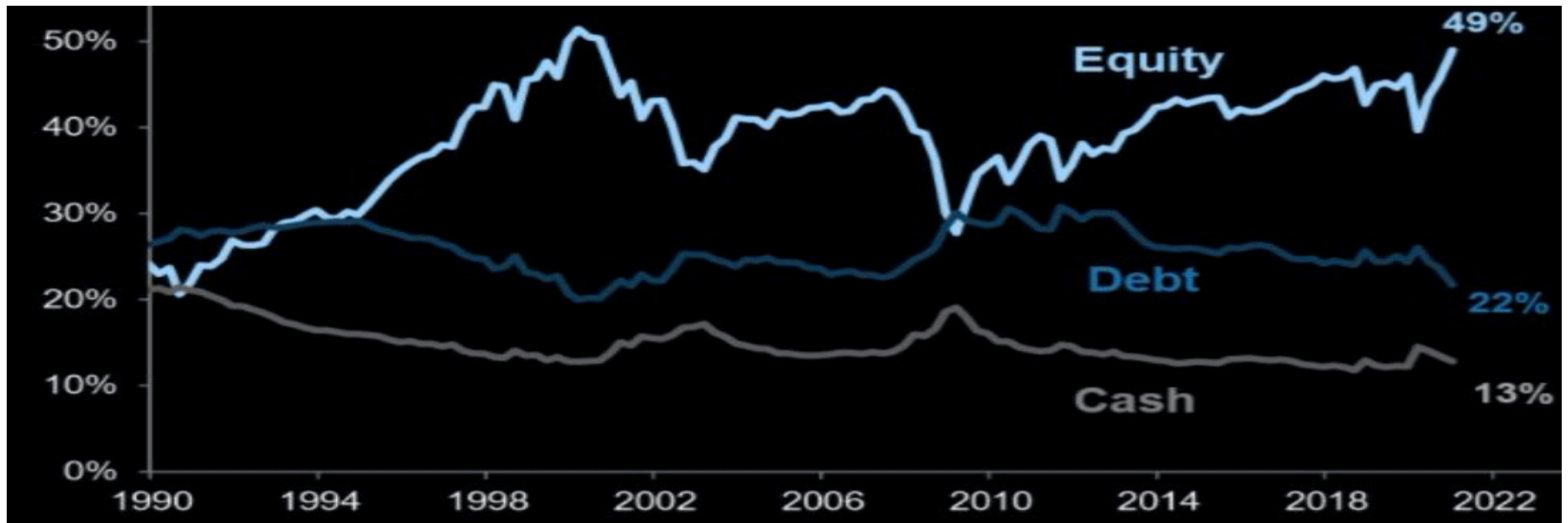
- Marijuana stocks rallied after the Democrats took control of the Senate, opening up the possibility of a laxer stance to fully decriminalize pot laws at a federal level.
- Our technical expert is very bullish on the stock CRON US (Cronos Group Inc), of which Altria group holds 44.01%. Apparently, there remains a 16.92% short open position. Possible target for 2021: 25 USD



Breakout of the 2 year base. Consolidation at 10 USD for further upside potential during 2021

Global asset allocation

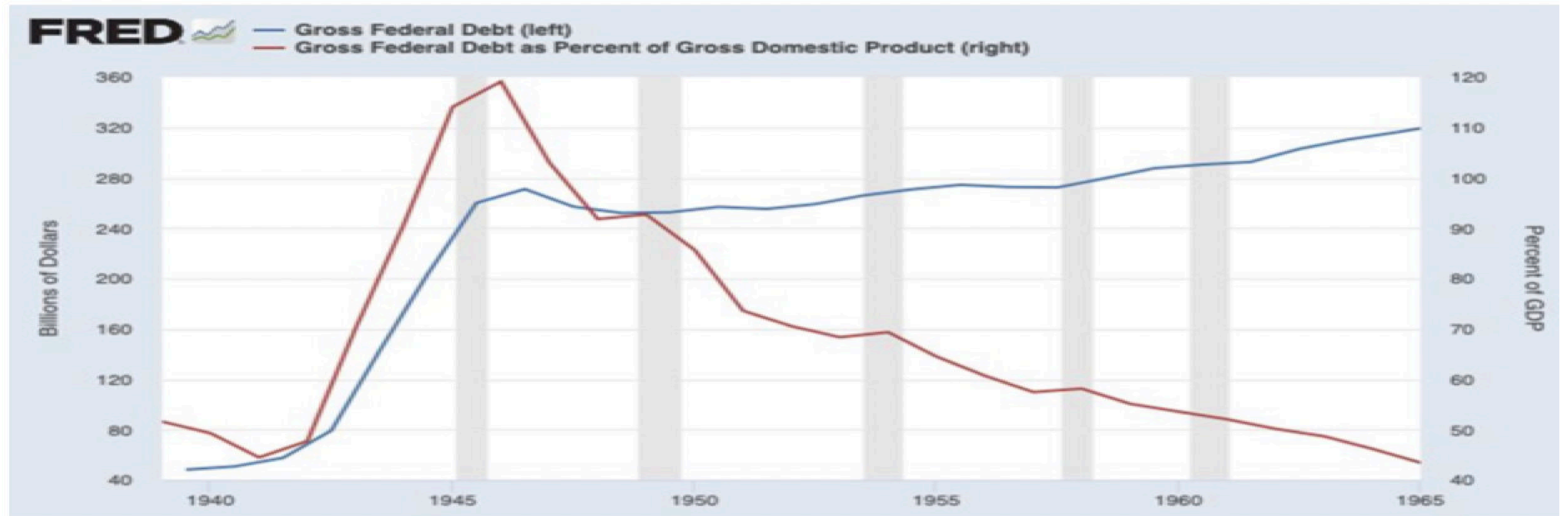
- Interesting chart from Ms. Valérie Noël of FlowBank showing the aggregate financial asset allocation among households, mutual funds, pension and foreign investors in USA.
- The equity allocation amongst investors is the highest since the tech bubble in 2000. Today, equity accounts for 49% of assets, debt is 22% and cash 13%.



Source Goldman Sachs

How Government is going to reduce the high indebtedness

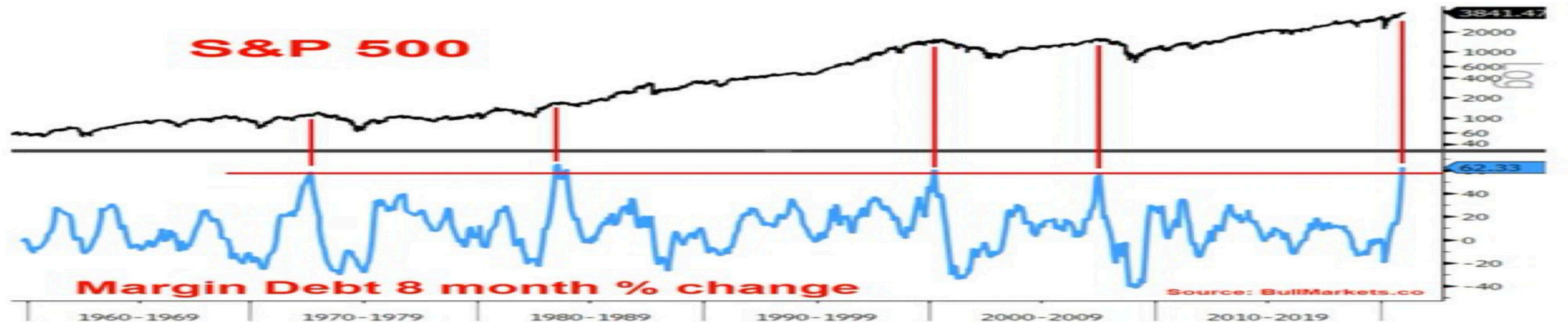
- Following the FED's speech in August 2020, it is clear to all market participants that indebtedness is going to be reduced via higher inflation and economic growth, as was the the case in the USA following WWII.
- Mr. Ritesh Jain reported the best chart of Gross Federal debt levels after WWII: the Gross Federal debt as Percent of Gross Domestic Product felt from high 120% to basically 40%, but in absolute value, Gross Federal Debt increased.



Source: FRED (Federal Reserve Bank of St.Louis)

Short term market sentiment

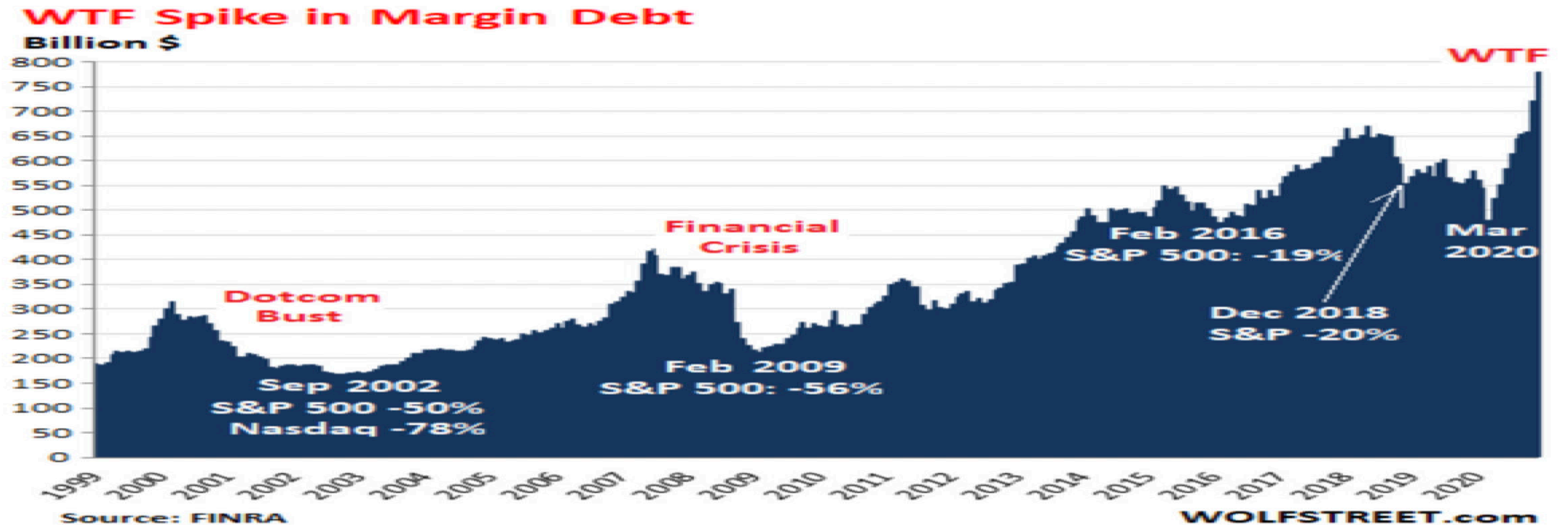
- According to Goldman Sachs, margin debt soared 62% in the past 9 months; such a high level of investor euphoria has happened only 4 times in the past:
 - August 1973: stocks rallied a little more, followed by a -50% bear market
 - July 1983: -14% correction began
 - March 2000: bear market began
 - June 2007: bear market began soon



Source Goldman Sachs

Spike in Margin Debt

- Same message as the previous slide, but easier to recognize the peaks of margin debt vs subsequent market corrections.
- As communicated in our last reports, KTS is cautious on market's volatility in the short term. Therefore, we hedged a part of our equity exposure via put options (maturity March 2021) and increased liquidity in our investment vehicles to around 15/20% .



Source: Finra / wolfstreet.com

Additional indicators of short term market sentiment

- The short squeeze from 4th November 2020 was the biggest in the markets history
- The Index of the 50 most shorted stocks in the Russell 3000 experienced the biggest short covering rally ever (twice the rally from 2009 to 2015 or 2016 to 2019).
- Small traders call option buys, as % of NYSE volume, is the highest ever (maximum exposure used to be around 3% vs 9% now)
- Share buyback programs are increasing, which is positive for markets, *but insider selling is the highest ever.*
- S&P 500 Index daily sentiment 50dma is near the top 5% most overbought days in 34 years history.
- The basket of unprofitable U.S. technology companies increased dramatically and parabolic during 2020.
- SPAC: according to Goldman Sachs team, there is an unsustainable excess in the SPAC space. During year 2020 around USD 80 bio raised via SPAC vehicles (from around USD 8 Bio in 2019 and a couple of Bio in 2018).

Exposure to Emerging Markets

- General exposure to MSCI Emerging Markets Index is reaching short term extreme overbought levels, a complete reversal from the 2020 lows.

"Wall Street never changes. The pockets change, the suckers change, the stocks change, but Wall Street never changes, because human nature never changes." – Jesse Livermore



Source Macrocharts

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