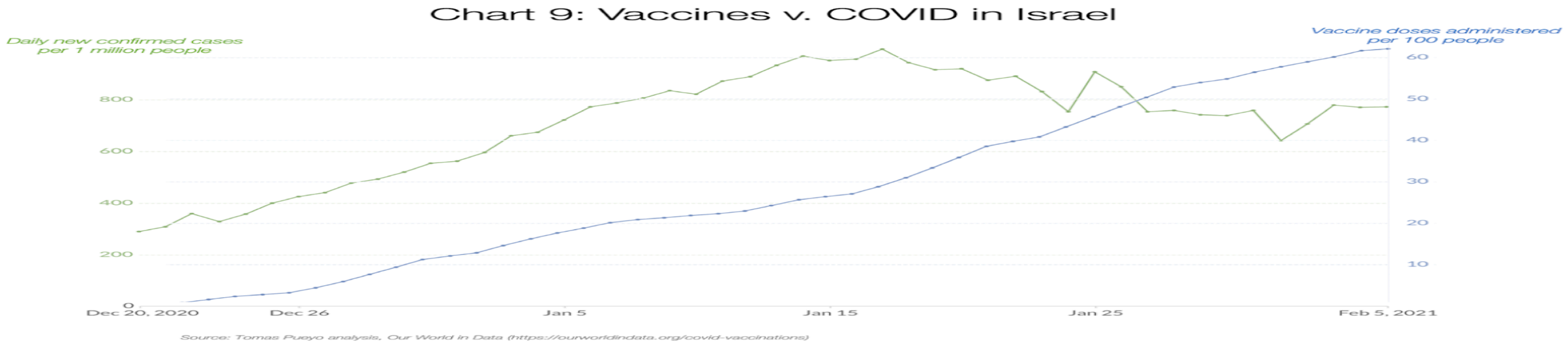
KTS
CAPITAL
MANAGEMENT

KTS weekly update Nr. 5

13th February 2021

COVID19 Vaccination

- We read how the mutated virus is spreading faster and strongly in the UK, with the risk of it spreading throughout Europe resulting in higher infections.
- On the other hand, there is also positive news: Biontech, Moderna and other Covid19 vaccine producers have announced that the vaccine is also effective against the mutated virus. Israel, the most efficient country in terms of vaccinations, is seeing the number of new cases falling!
- According to statistics in the USA, the number of new cases is falling dramatically, thus avoiding a third wave following on from Christmas. The distribution of vaccines is improving, therefore, market participants are confident that normality should return during the second half of this year. It is not necessary to immunize everyone, rather the focus should be on seniors, people with medical issues and essential workers (especially teachers and nurses, etc.)



Source: Tomas Pueyo analysis

US unemployment numbers

- According to the research of the economist Mr. Yardeni, it seems that there are lots of job openings in US, but fewer people willing to take them up. This would explain why wages have been rising at a faster pace in recent months.
- The economist Mr. Larry Summers wrote recently in the Washington Post that Biden's American Rescue Plan is too stimulative, and that the overly generous unemployment benefits are discouraging the unemployed from taking jobs.
- As noted last year about the first stimulus package, it looks like more than half of the US population is earning more money by being unemployed and receiving benefits from the CARES (Coronavirus Aid, Relief, and Economic Security) act, than working. Observing some equity inflow statistics, apparently the huge inflow into equities coincides with the payment of these CARES checks. So people are at home, have money in their hands and are having fun by trading equities rather than working. This is not good news for the market because, when we return to normal, people will go back to work and spend their money once more on entertainment. Therefore, less money is going to be disposable for investments in the stock market. We are all focused on the rebound of the economy, but perhaps it is also important to seriously evaluate how strong and influential the equity inflows from retail investors were in the past months!
- One important indicator is the inflow in SPACs and IPOs, see our comments later on!

General news

- According to Barron's magazine, the number of people living with Alzheimer's, or some form of dementia, is expected to triple by 2050 to 152 mio. Of the top 10 causes of death globally, Alzheimer's is the only one that can not be cured. Barron`s also analyzed the potential of the Alzheimer's drug produced by Biogen. Biogen is a traded position in the KTS Biotech Basket.
- Oil had the best YTD performance in the last 30 years. We are enjoying a profitable ride with our investments made back in November 2020.
- According to Barron's magazine, cruise operators are unlikely to resume sailings from U.S. ports until the second half of 2021, under the best of circumstances, and possibly not until early 2022.
- According to Bloomberg, the hedge fund Renaissance has been hit with USD 5 Bln of redemptions since December 2021, after dropping 32% and 9.5% in January 2021. Market participants call it "syntax error" (error in the syntax of a sequence, in this case the algorithm model) and is not good for markets. KTS actually never liked funds based on a fully automated model. In our due diligence one important pillar, when analyzing the investment process, is that, even if the fund is based on an algorithm model, a human being must have the last word on the investment process, especially when special events occur.
- Double-line warns that events are in motion to remove the USD as a reserve currency, after the U.S. made aggressive use of sanctions and tariffs. We fully agreed and this is also one of the main reasons why we believe Bitcoin, crypto currencies and blockchain technology are going to survive. We believe the world wants to be independent from the global Swift payment system. The huge dilemma is going to be in which form central banks and governments will accept such technology? We cannot imagine that governments are going to ban crypto currencies, because there are huge global economic interests, given that Bitcoin payments are accepted by many prime institutions; however an over regulation of crypto currencies would also put into question

General news on crypto currencies

the main advantage of the technology, mainly decentralization.

- Ethereum futures are now trading on CME! The Chicago Mercantile Exchange (CME) has finally launched its much-anticipated futures contracts on ether, the native cryptocurrency of the Ethereum blockchain network. Following the introduction of Bitcoin's futures, the Bitcoin price experienced a nice rally. Will this also be the case regarding Ethereum? The launch of Ethereum futures was announced in mid-December 2020 and the price has already rallied substantially.
- On the other hand, we are reading news of Bill Miller's Flagship Fund which may now buy GBTC US in order to gain Bitcoin exposure of up to 15% . Miller's funds are "Value" funds!
- In addition, Bitcoin accounts yield 3% (on ethereum even more (up to 20%?) if you choose yield farming: basically the investor is ready to switch to ether 2) rates in a low interest world.
- The institutional adoption of Bitcoin, as a part of their asset allocation model, also "pushed" the valuation of Bitcoin to a fair-value estimate of USD 50'000, or even 100'000 USD (depending on how many jumping on the boat). The model is based on 4 terms to capture the essence of native cryptocurrency value: 1. Network, 2. Immutability, 3. Monetary policy, 4. Currency type. An example is also the acceptance of Bitcoin as payment of PayPal (in addition to credit cards Visa and Mastercard). PayPal counts 346 mio users and approximately 20% of them have used this new feature to trade Bitcoin (according to Coindesk). This would increase the Bitcoin network's size to around 70 mio new users from the current 17 mio.
- Bitcoin mining electricity usage is now on par with the total power consumption of countries such as Argentina and Norway according to Cambridge estimates. With the time, energy consumption of bitcoin could be also an hot discussion subject? Or perhaps not, because higher energy consumption would be favorable to renewable but also energy/oil companies?

General news on crypto currencies

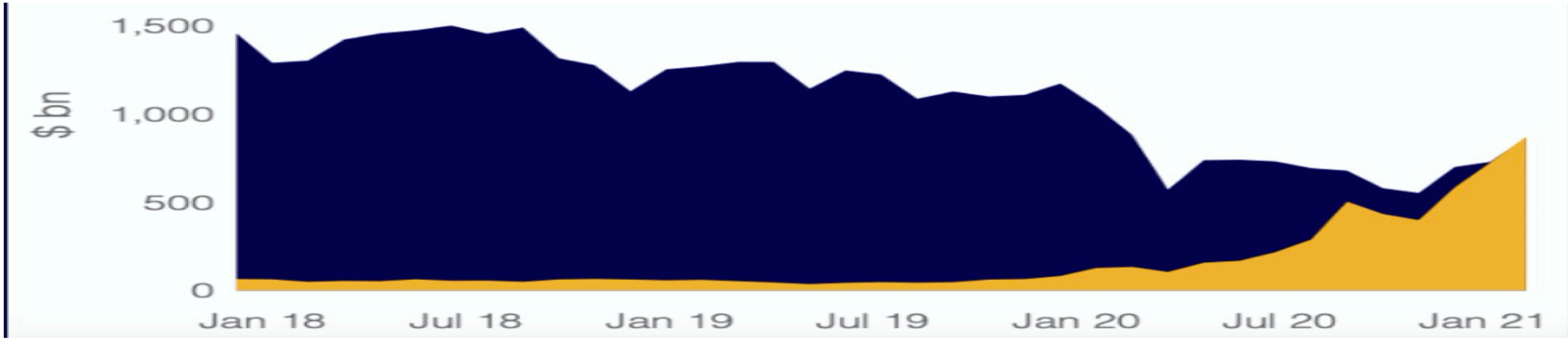
- In the article “what I really think of Bitcoin” Mr. Ray Dalio ended the analysis by affirming that, to him, “Bitcoin looks like a long-duration option on a highly unknown future that I could put an amount of money in that I wouldn’t mind losing about 80% of”. And we totally agree with that. For this reason, we are of the opinion that gold is more solid and, therefore, the investor needs to own both investments in the portfolio.
- Bitcoin breaks out to new highs after Elon Musk confirmed that Tesla bought USD 1.5 bln in Bitcoin. Elon Musk is known to be a big supporter of Bitcoin. This news is not only incredible, because it reveals corporates starting to invest their treasury accounts into crypto currencies, but that Tesla announced it was ready to accept bitcoin as a form of payment for purchasing Tesla’ products.
- RBC’s analysts argue that Apple should launch its own crypto exchange and develop an open system that uses a bitcoin wallet; having already payment wallets for million of consumers. Apple’s install base is 1.5 bln, and even if we assume only 200 mio users would transact, this is 6.66x larger than the firm Square (SQ US, which generates about USD 1.6 bln per quarter in bitcoin-related revenue), therefore the potential revenue opportunity would be in excess of USD 40 bln a year (15% incremental top-line opportunity).
- BNY Mellon, America’s oldest Bank adopts cryptocurrencies and will treat bitcoin “as any other asset”. The oldest bank in America will now be storing bitcoin on behalf of its asset management clients, according to the Wall Street Journal. “Digital assets are becoming part of the mainstream”, said, chief executive of BNY Mellon’s asset-servicing and digital businesses. Such news, in addition to Tesla and also many other corporates should help reducing the risk of possible ban of crypto currencies from governments!

Further upside potential for bitcoin?

Trading legend Peter Brandt: any correction to 30k USD, still do not damage the actual bullish trend

Tesla's market cap is now equal to that of the entire S&P 500 oil sector

- If Tesla is still not too expensive, then the energy sector is just too cheap.
- Market participants know, that during the actual renewable energy transition, the world will still depend on oil/traditional energy sources for a longer period of time and most probably, longer than what we all believe.
- Back in 2003, Microsoft's market cap was equal to that of the entire Russian market. As we all know, both increased in value, but the Russian Index experienced a tremendous rally.
- JPMorgan predicts, that the biggest short squeeze going to begin next month in commodities and energy. We are invested in the oil and energy sector (Renewable and oil/energy certificates, as also in the commodity space (Bakersteel Electrum fund), but we are seriously evaluating the possibility to increase our exposure.



Flowbank / Bloomberg: Tesla's market cap vs S&P 500 oil sector

The mother of all the bubble

- From multiple sources we observe from strong indicators that the market is in a bubble.
- Most of the indicators are comparing todays levels with historical data. In our opinion, the tricky point of such comparisons is the fact that today's liquidity in the markets is substantially higher than in the past. And that bond yields were never at such negative levels for so long (USD 18 trio bond have negative yield), except of course Japan. In addition, investors do not expect higher interest rates in the foreseeable future. Central banks liquidity injections and fiscal stimulus post Covid19 are at least 3 times higher than back in 2008. Therefore, inflows into the equity markets can be expected to be of the same magnitude as in the past.

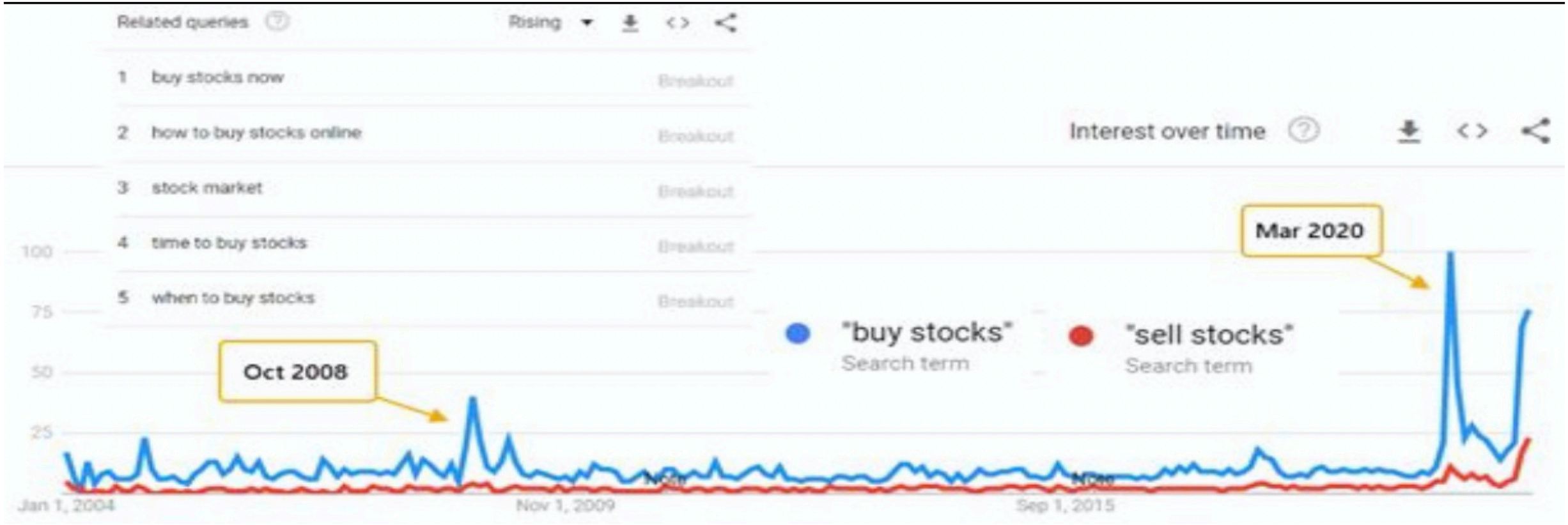
- We agree that in the short term markets are overbought and, therefore, we are keeping around 15% liquidity and also long put options as a hedge strategy. But, in the longer term, especially after Q2 2021, when people over 65 years should have been vaccinated, at least in developed countries, and lockdown eased, consumers are going to strongly increase spending. Companies are consequently going to increase capex, especially because government stimulus packages are going to "kick" into the global economy.

SPAC and IPOs

- The German company Rocket Internet is planning to be quoted again via a SPAC (special purpose acquisition company) with a possible valuation at USD 200 to 300 mio. The company surprisingly went private in October 2020, after losing more than 56% from its IPO price. This current SPAC mania sounds like the IPO hype during 1999 and 2000, when investors were buying stocks of basically “shell” companies or companies with only concepts/visions. Perhaps appropriate to watch again the movie “Boiler Room” (actors Ben Affleck and Vin Diesel, year 2000)- quite some coincidence!
- We can observe from different indicators, that since November 2020, volume in penny stocks and options spiked tremendously, but volume in the SPY US (S&P 500 etf) and plain vanilla etfs collapsed, because apparently not attractive enough for retail traders.
- In addition, main street sentiment (so called “smart money”) has collapsed, meanwhile markets are at record highs. Those indicators are signs of overwhelming sentiment amongst retail investors and is not going to be powerful forever.
- Basically we can summarize the actual market’s situation as follow: while the “smart money” is selling, retail investors are chasing the money-losing, massive gamble in SPACs and IPOs.

Google search words “BUY STOCKS”

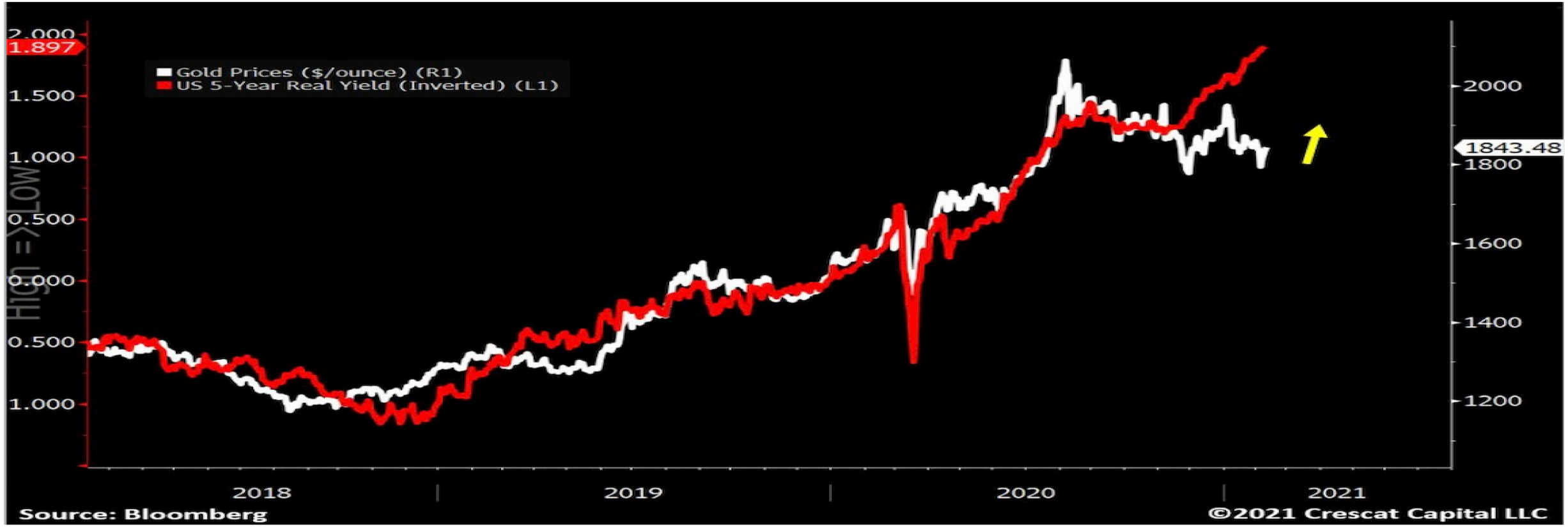
- An incredible spike in the google search words “buy stocks” was twice the move back in October 2008!
- Again, taking this as a short term indicator, market participants can argue that we have seen the top of market. But, in the long run, we should not forget that there is at least twice, but most probably three times the amount of money in the economy than 2008. And this time directly in the hands of the people, via MMT and fiscal stimulus!



Florian Parvulesco-QUANTEX

Gold vs negative yields

- Negative yields are experiencing new highs and normally these and the gold price action are highly correlated, as can be seen on the chart. Therefore, investors should expect new highs in the gold price sooner, rather than later.



Source: Crescat capital/Otavio Costa

85% of silver in London already held by ETFs

- During the GFC in 2008 the bankruptcy of the broker Lehman Brothers caused huge damage. Impacting on many precious metals ETFs that were invested in gold and silver futures and did not hold the physical precious metal stored in a vault. At the time, only the Swiss Bank ZKB in Zurich was storing precious metals in the vault. Now more ETF issuers are backing the ETF with physical metal, but not all of them. If the market is going to experience more inflows into silver, it could be that some of the 14 silver-backed ETFs could have a problem with the available silver stored at LBMA vaults (7 vault operators, with 3 bullion banks JP Morgan, HSBC, ICBC Standard Bank and 4 security firms Brinks, Malca-Amit, Loomis and G4S). The available silver is already at an historic low (3’000 tonnes). If we do experience again such inflows, like those on the 29 of January or 2 February, it would be a major emergency for all ETF providers.

ETFs and ETCs storing silver in the LBMA London Vaults

ETF Provider	ETF Name	Silver Ozs	Silver Tonnes	Vaults
iShares	SLV	654,726,423.0	20,364.7	JP Morgan, Brinks, Malca, Loomis
WisdomTree	PHAG and PHPP	99,460,478.5	3,093.6	HSBC, Malca
Invesco	SSLV	7,820,611.8	243.3	JP Morgan
ETF Securities (Aus)	PMAG and PMPM	8,634,676.1	268.6	JP Morgan
Abredeen Standard	SIVR	36,657,877.7	1,140.2	Brinks, Loomis, Malca
Abredeen Standard	GLTR	9,306,054.1	289.5	JPM, Malca
iShares	SSLN	24,679,579.5	767.6	JP Morgan, Malca
XTrackers	Phys Silver	2,334,322.7	72.6	JP Morgan
XTrackers	Phys Silver (EUR)	43,963,590.6	1,367.5	JP Morgan
XTrackers	Phys Silver EUR Hedged	9,091,742.5	282.8	JP Morgan
XTrackers	IE Phys Silver	3,363,569.6	104.6	JP Morgan
XTrackers	IE Phys Silver EUR Hedged	385,151.3	12.0	JP Morgan
Bullion Vault	Client silver	15,383,322	478.5	Loomis
Gold Money	Client silver	6,840,570	212.8	Loomis
	TOTAL	922,647,969.3	28,698.2	

ETFs / ETCs / Transparent holdings store 28,698 tonnes of Silver in LBMA London vaults, over 85% of all the silver in LBMA London. Sources – Provider websites

Flowbank/Valerie Noel

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