

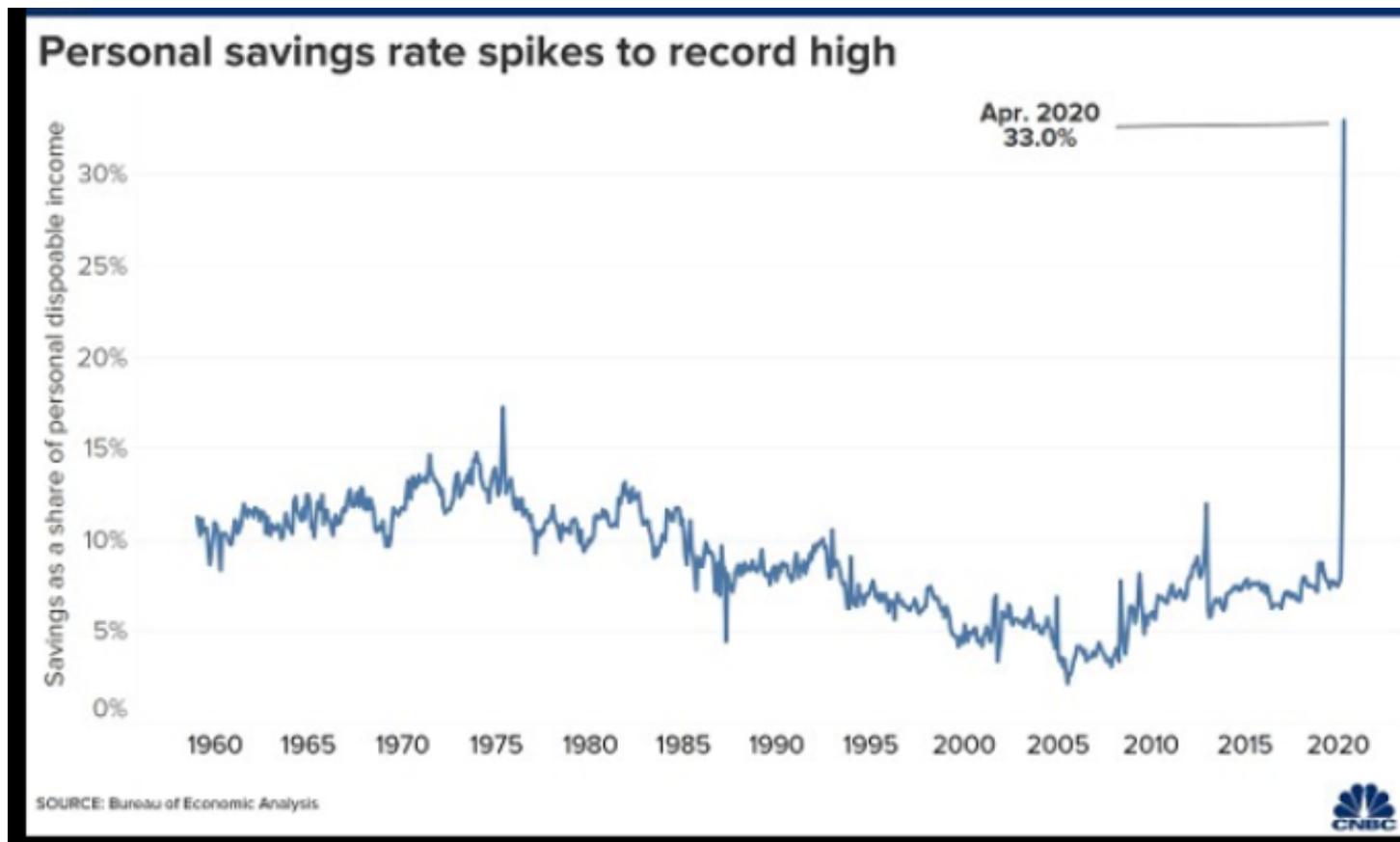


COVID-19 analysis–update nr 10

As per 10 June 2020

US savings-rate

- The US personal savings rate soared to 33% in April, which would mean 1'558 USD each US resident, the equivalent of 6 months of savings during normal times.
- Therefore the massive Government transfers have more than offset the decline in other income sources.
- By the reopening of the economy, this money going to be spent, at least partially

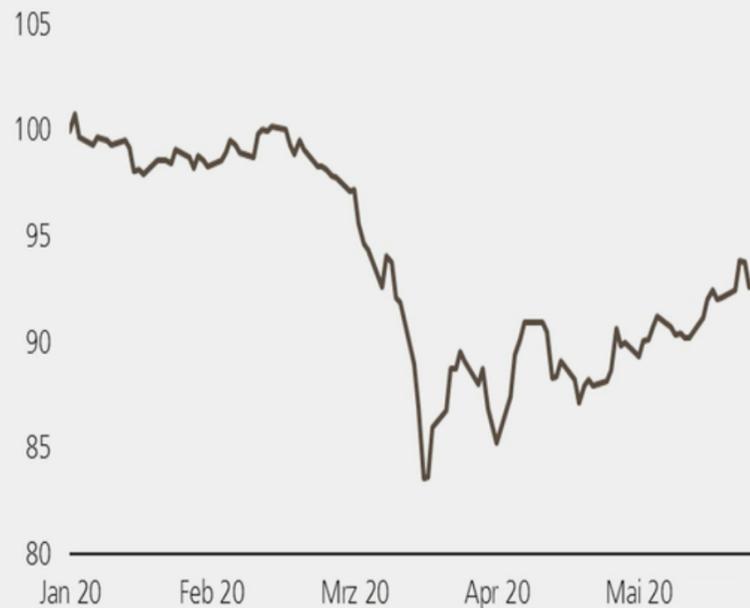


Sector rotation

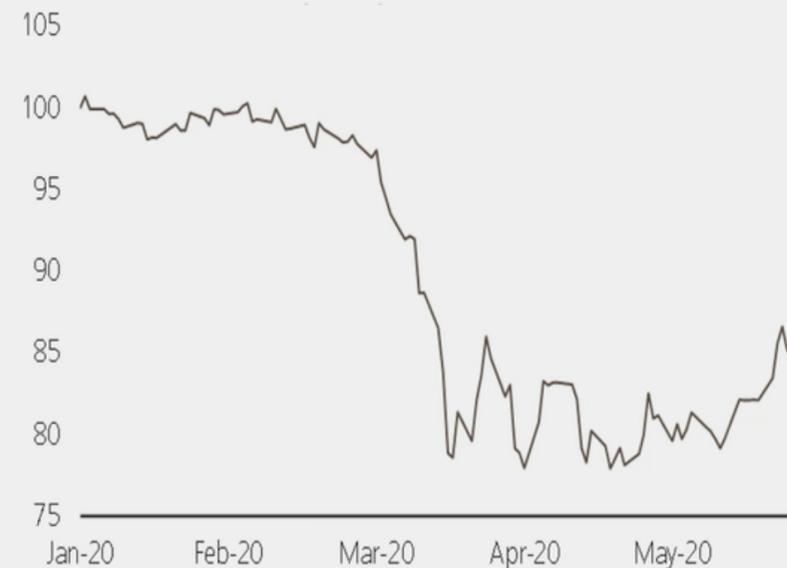
- _ Spending in Robotic, automation, internet of things going to increase again
- _ There are still plenty of long term opportunities in the cyclical segment

Select **cyclicals** - a market segment which underperformed

Cyclicals versus Defensives – there is still room to go



MSCI Europe Capital Goods relative to Defensives - ytd performance



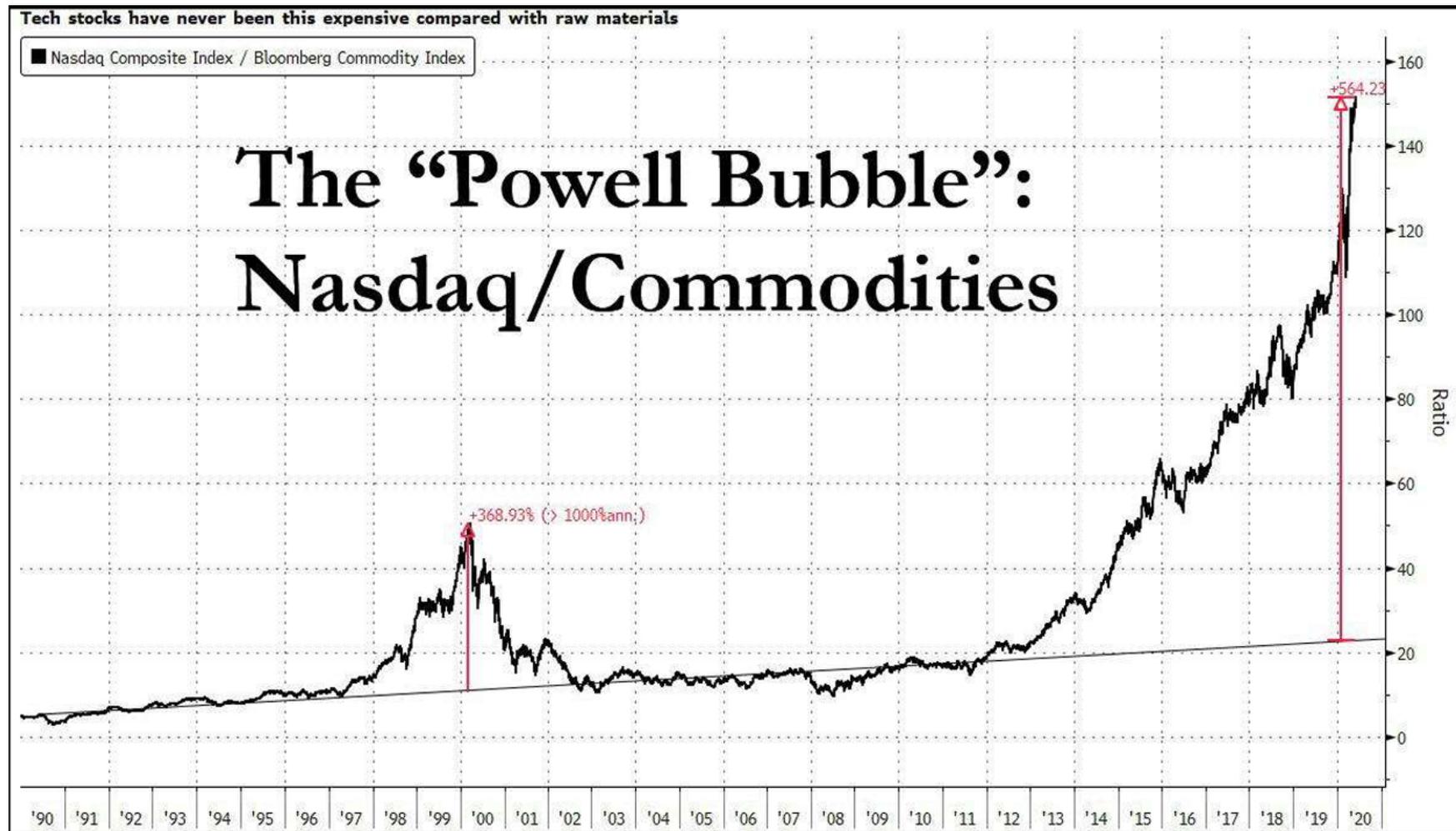
Charts and scenarios are for illustrative purposes only. Historical performance and forecasts are no guarantee for future performance. Please see important disclaimer at the end of the document.

Source: MSCI, UBS, as of June 1, 2020

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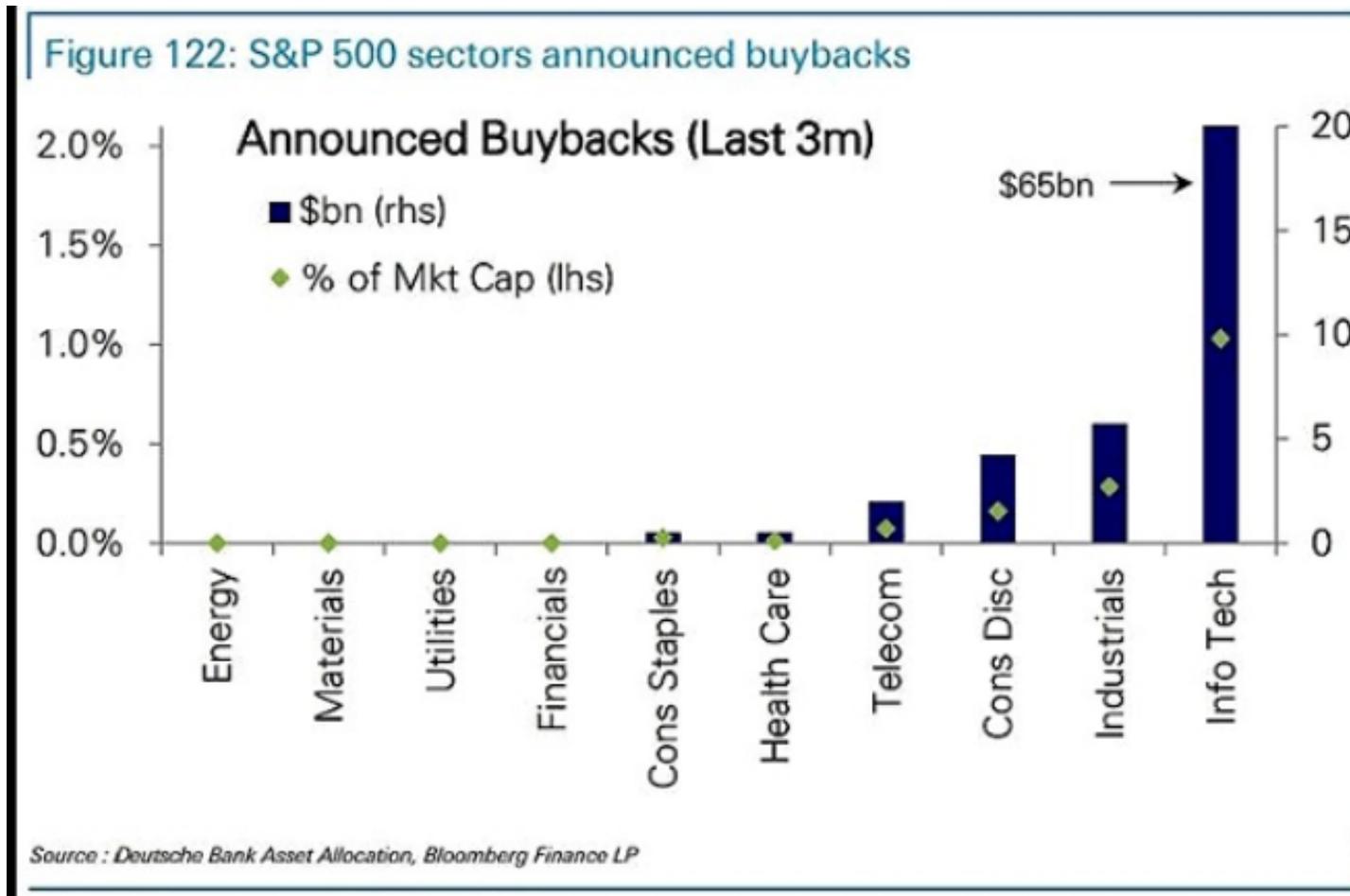
Sector rotation

- Interesting and quite dramatic chart with Nasdaq trading at a 152x multiple vs the Bloomberg Commodity Index, surpassing the highs seen during the Dot Com bubble.
- The average since the end of 2001 is nearer 37x
- It looks like, the world does not need any commodities anymore ?!



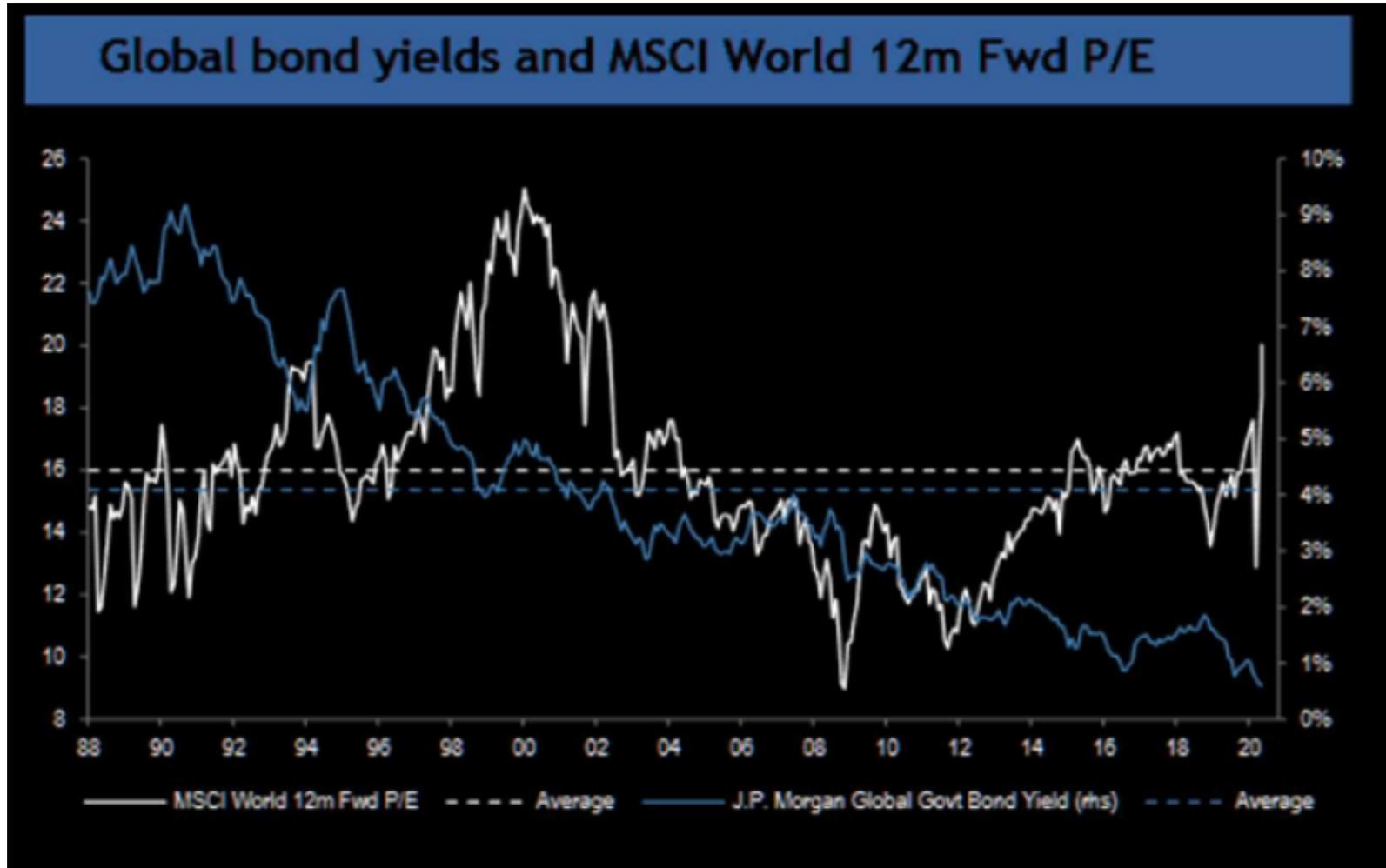
Share buyback programs

- Technology companies still have a strong buyback program



Equity valuations

- US Equities are trading at a 20x 12m forward P/E, but the yield gap between equities and bonds is much larger than usual. Therefore once again, as long yields going to stay low, equity are actually not expensive



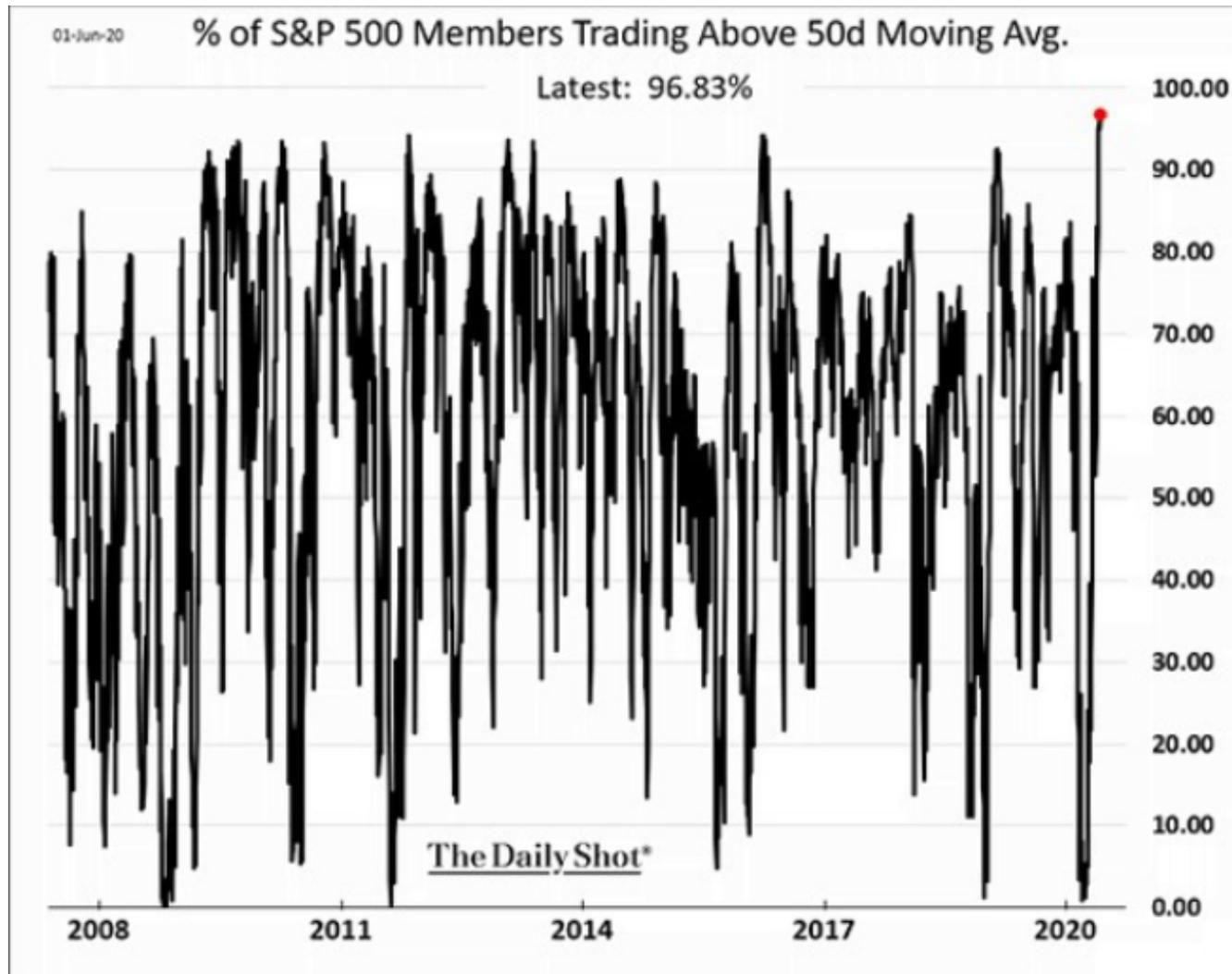
Equity valuations

- _ S&P 500 divided by M2 shows that equities are not expensive on the long term



Technicals

- More than 90% of S&P 500 stocks are above the 50-day moving average
- As Jurrien Timmer of Fidelity mentioned already last week, this is a strong bullish sign and normally is a solid base for a new bull market.



Technicals

- Markets experienced the best 50 trading days rally ever and it looks like also the most hated in history!
- The below statistic shows, a 50 days rally is the start of new long term bull markets and the future returns 6- and 12-months later are quite strong.

Largest 50-Day S&P 500 Index Gains Ever (Greater Than 20%)

This Was The Greatest 50-Day Rally Ever; Past Big Rallies Have Led To Continued Strength

Date	50 Day % Change	S&P 500 Index Return			
		1 Month	3 Month	6 Month	12 Month
3/6/1975	26.9%	-4.0%	10.8%	3.0%	18.2%
10/22/1982	35.6%	-3.3%	3.6%	15.6%	20.3%
3/26/1991	20.8%	0.8%	-1.5%	3.0%	8.7%
6/24/1997	20.5%	4.9%	6.2%	6.4%	26.4%
12/18/1998	23.8%	4.0%	6.2%	12.4%	19.4%
5/19/2009	34.2%	1.1%	9.0%	22.2%	22.8%
9/16/2009	21.3%	2.6%	3.7%	9.1%	5.2%
6/3/2020	39.6%	?	?	?	?
	Average	0.9%	5.4%	10.2%	17.3%
	Median	1.1%	6.2%	9.1%	19.4%
	% Positive	71.4%	85.7%	100.0%	100.0%

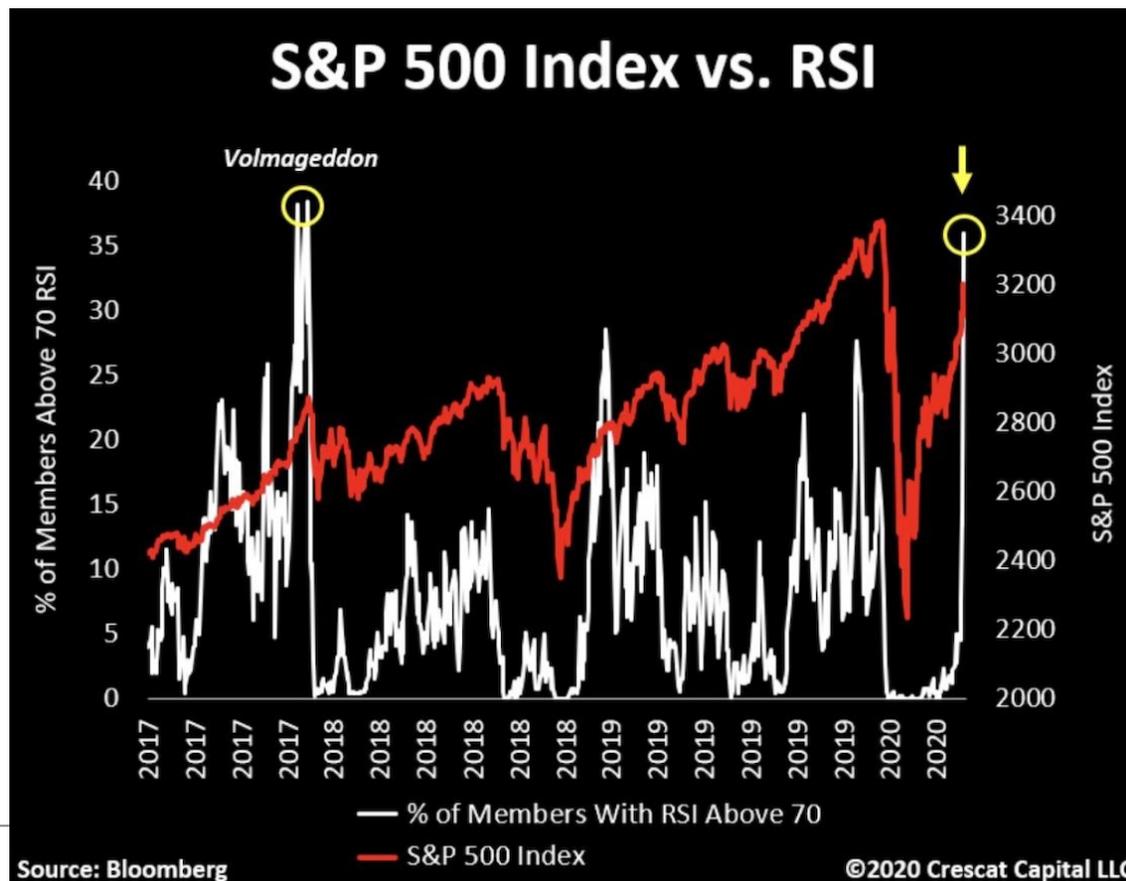
Source: LPL Research, FactSet 06/03/2020 (1957 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957.

Technicals

- But on the short term, it looks like markets are overbought
- Today we are experiencing the highest % of members above 70 RSI, such level was not reached since the end of 2017 (source: Crescat Capital)
- We are also of the opinion, that the strong rally in the airline sector, as also cruises and other depressed sectors, is more a short squeeze, originated from better than expected bookings in airline or cruises, but fundamentally such companies in such sectors are still experiencing heavy losses. Therefore, such rally even if at first looks meaningful, at the end of the day is meaningless from the highs in February (still -50%).



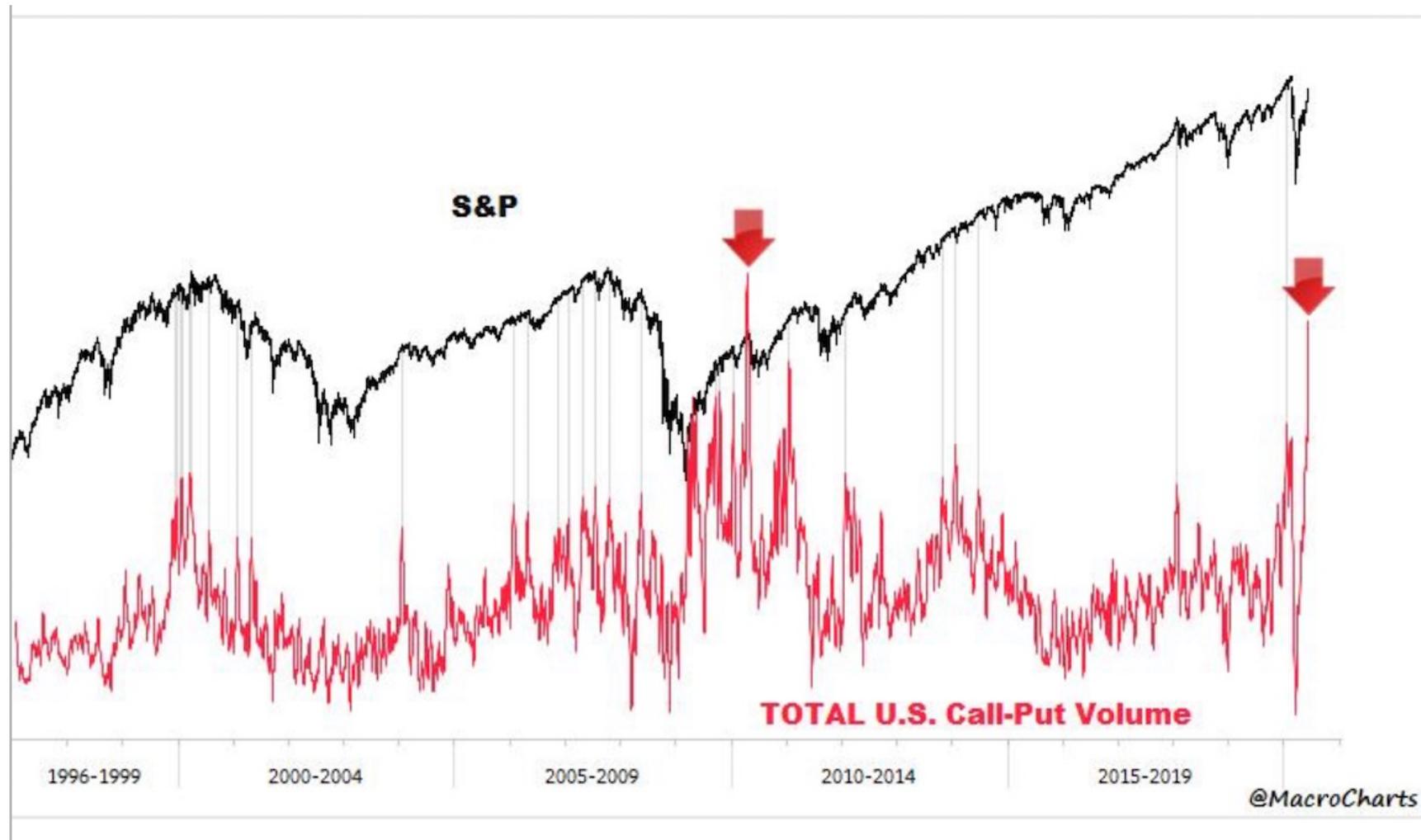
Technical

- This has been the strongest equity recovery in the last 40 years (source: Goldman Sachs)
- Also Jurrien Timmer of Fidelity Investments is confirming: if it turns out, markets front-loaded a lot of recovery news, perhaps markets need to sit and do nothing for a while.



Technicals

- Total U.S. Call minus Put Volume: this is the 2nd largest call-buying binge of all time (source: Azimut)
- Markets need a short term consolidation
- Calls are bought, even with a volatility level over 25% . Mostly retails are the buyers.



Technicals

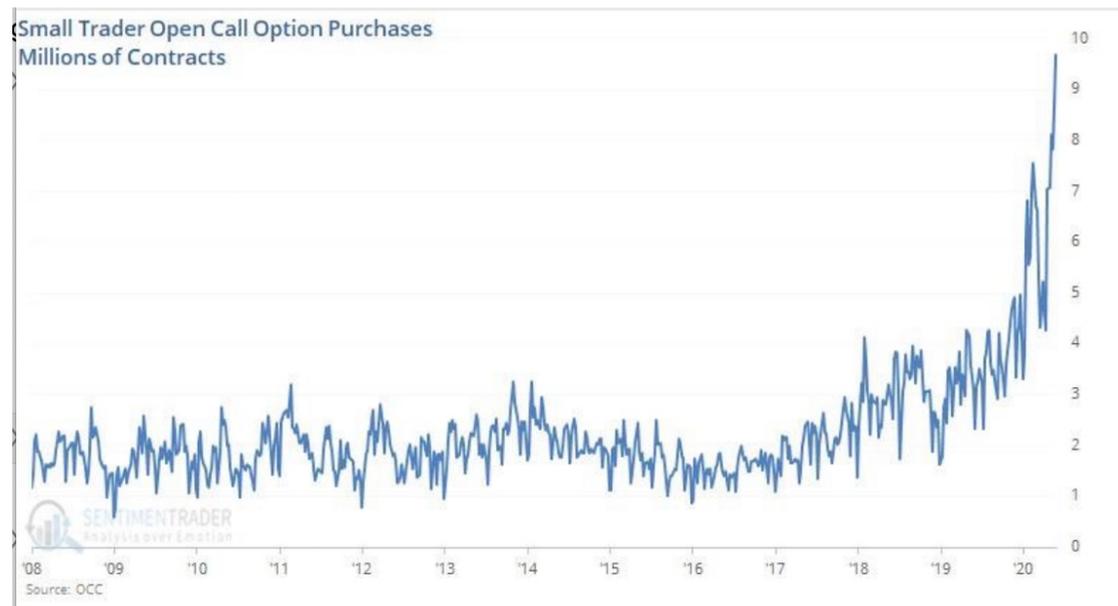
- Still 16% liquidity
- The higher markets can soar, the higher a FOMO (Fear of missing OUT) pressure for investors (more for institutional?).
- It looks like, such rally is only retail driven: retail traders buying like there is no tomorrow, or better said, retails still have a lot of time home for trading.....

Chart 1 Cash Levels Remain High



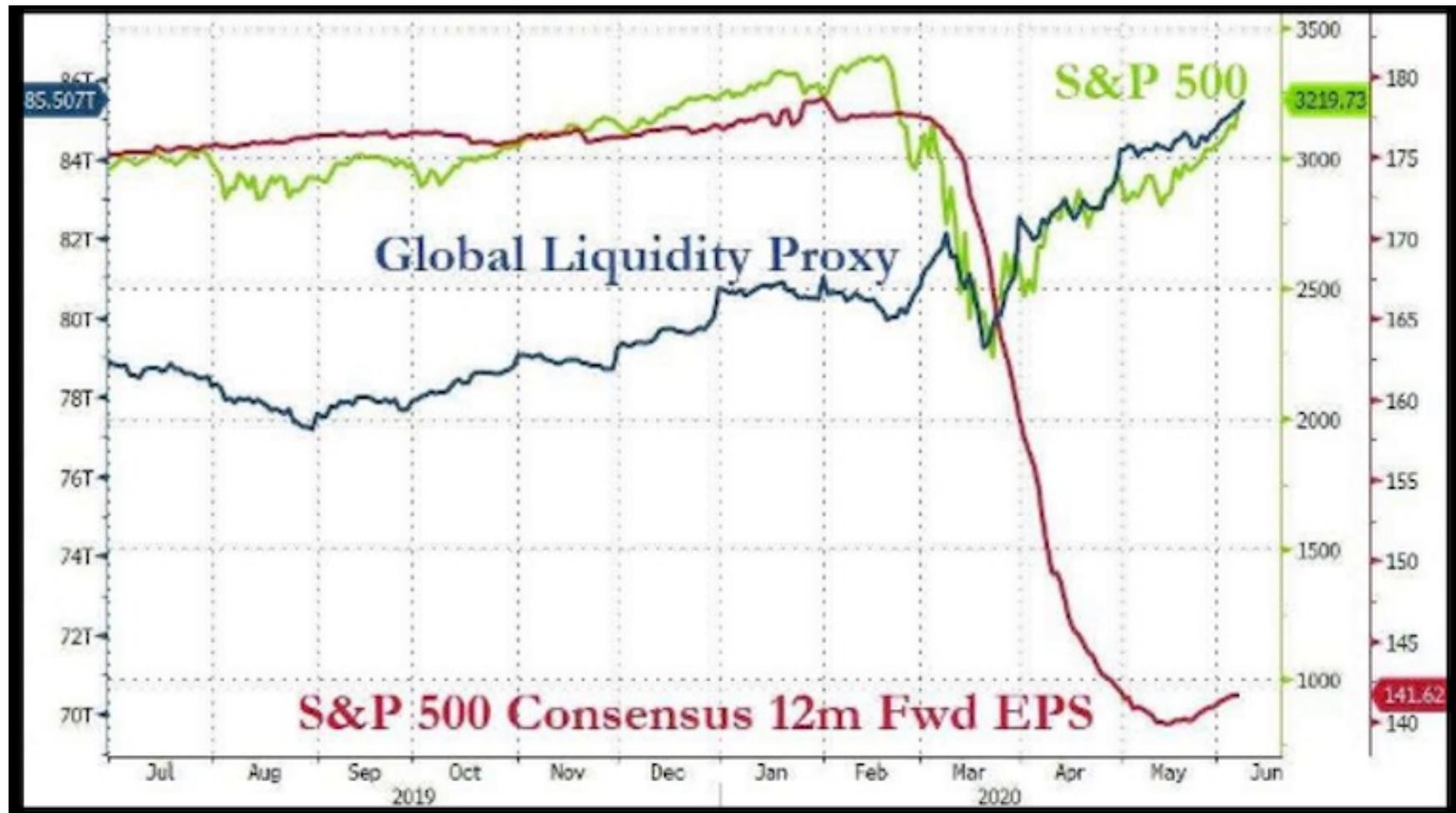
*Institutional and retail money funds

**MSCI U.S. IMI index



Technicals

- The Nasdaq 100 is breaking out for new highs
- The strength of the market is liquidity driven, not fundamental



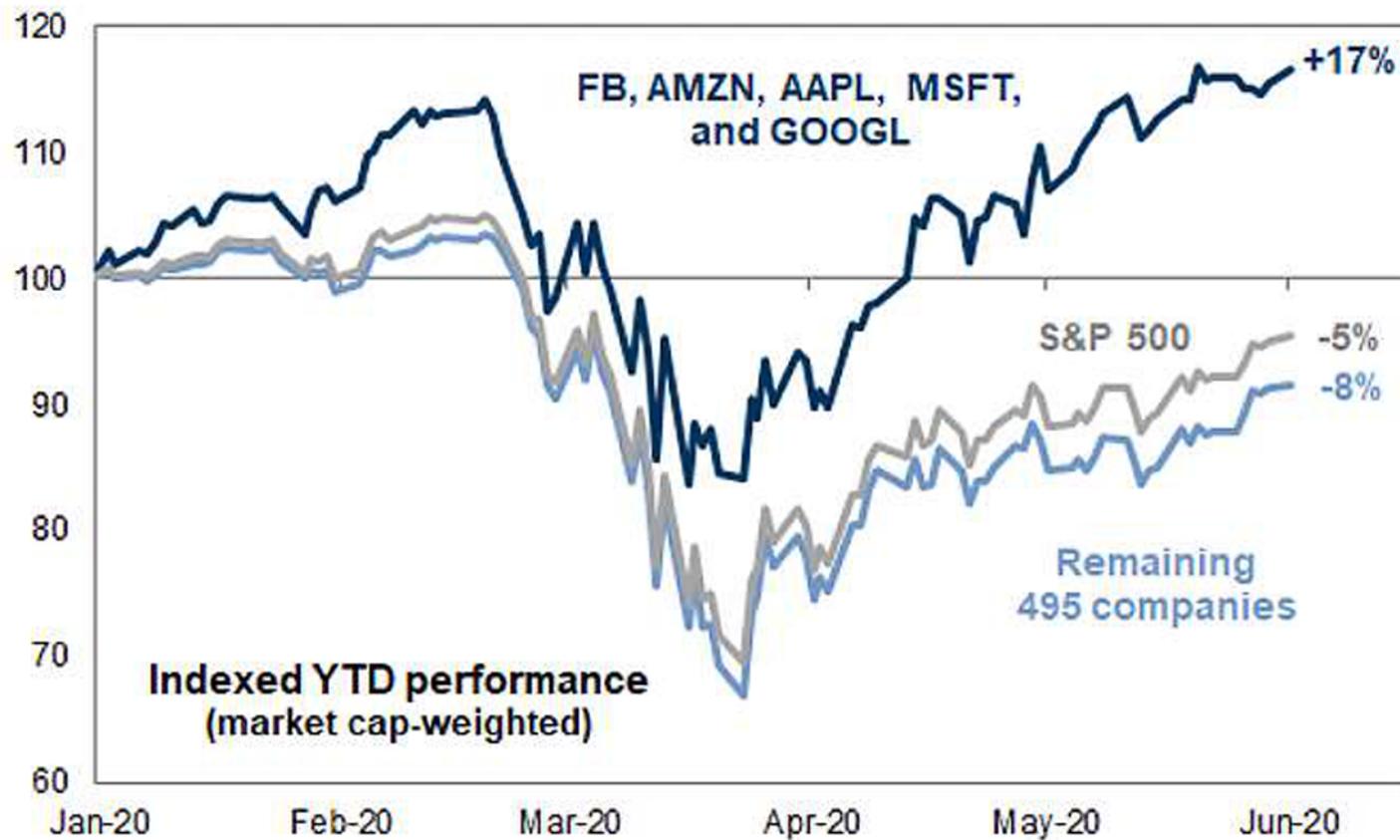
Volatility

- Many systematic strategies fail to deliver good performances, mostly because markets are manipulated from Central Banks and politics.
- The only strategy, which is still working very well, is pure trade on Volatility.
- Volatility is a mathematical equation, therefore is going back sooner than later to the rational value of the equation, neutralising the emotion factor.
- This phenomenon happened again during COVID19. The VIX index has declined over 62% in the past 10 weeks, the largest 10-week decline ever.
- Our position ABR Long and short Volatility Fund (75 long/ 25 short) is up 29% YTD !
- Also our position based on the machine learning model of Z22 with the volatility “booster” is +28% YTD!



The five largest stocks in US

- The 5 largest stocks in US have returned +17% YTD, while the remaining 495 stocks have returned -8%. (source GS)
- This is the result of passive investment via ETFs
- How long it is sustainable?

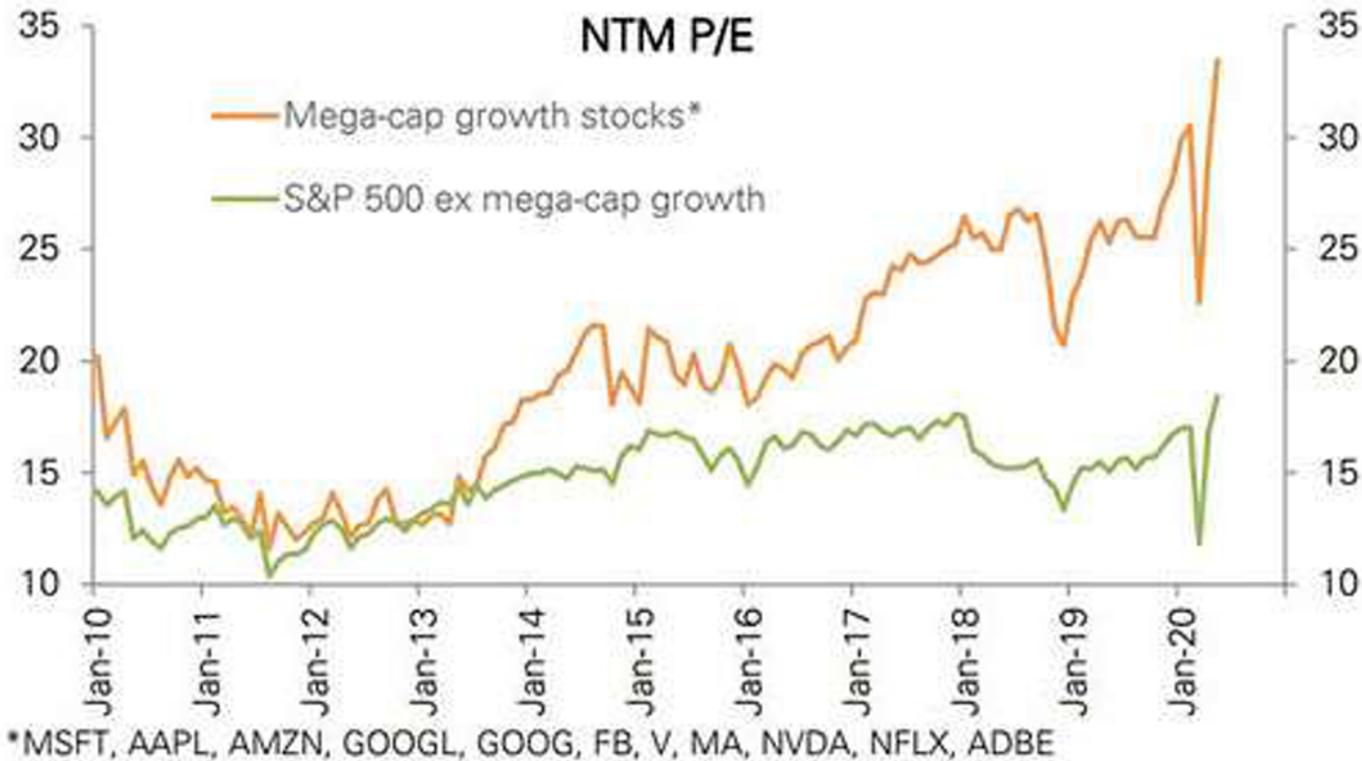


Source: FactSet, Goldman Sachs Global Investment Research

The five largest stocks in US

- Forward multiples showing, that such outperformance is not sustainable

Figure 20: The picture is very similar with forward multiples



Source : IBES, Datastream, Deutsche Bank Asset Allocation

Diverse

- **Elon Musk calls for Amazon breakup in latest spat with Jeff Bezos !!!!**
- **Nikola Motor Company, NKLA US is now 26 Bio USD market cap with no revenues.**

Conclusion

- **We are impressed of the strength and the velocity of the market' rebound. We would not be surprised, if on the short term, markets going to experience a consolidation phase.**
- **But on the long run, after COVID 19, 10 Trio USD of “fresh money” has being injected in the global financial system, therefore inflation going to be inevitable.**

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