

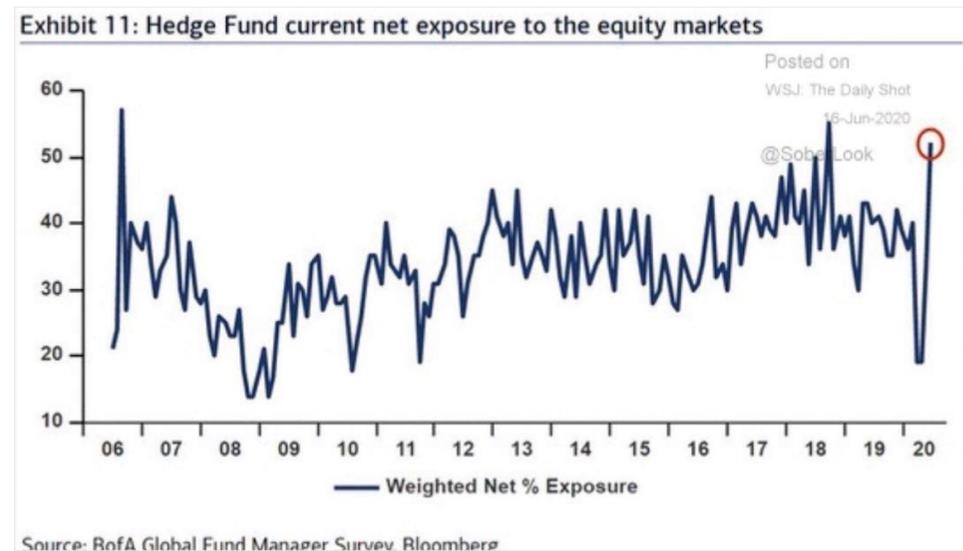


COVID-19 analysis–update nr 11

As per 23 June 2020

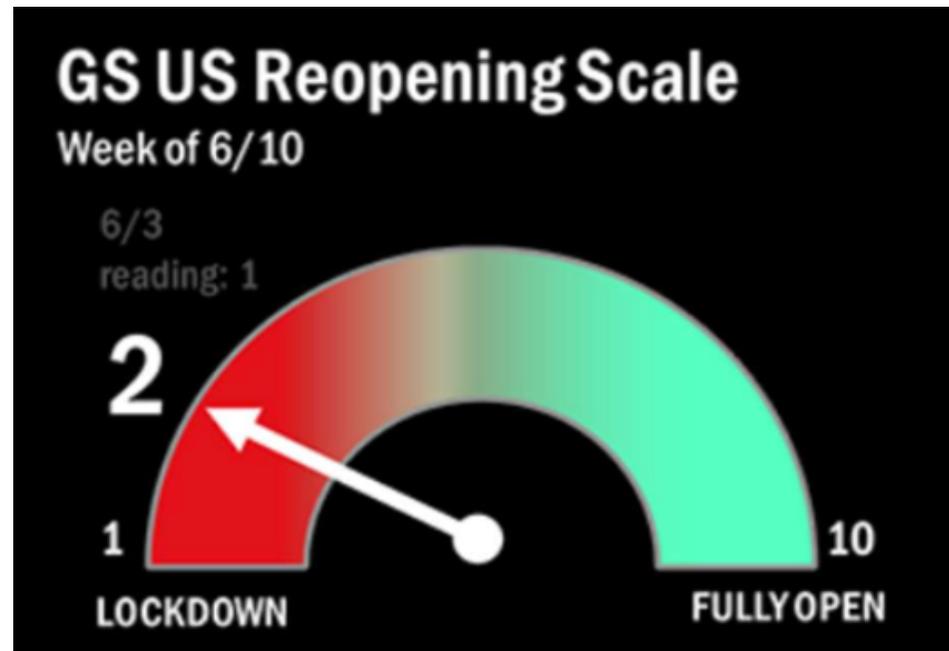
Highest inflow in equity

- Chart 1: US investors poured USD 24 Bn into stocks, one of the biggest spikes in data history (over 8 years); FOMO (Fear of missing out) effect.
- Our best in class Fund Flossbach increased recently the equity exposure from 30% to 58% ! A sign, which confirms, that also professional investors were forced to invest.
- In addition, the second chart shows the net exposure into equity markets of HFs : also HFs are throwing in the towel and joining FOMO. Also the latest Fund Manager survey of BofA shows the biggest drop in cash levels since August 2009 as institutions put cash to work.
- BofA Fund manager survey also indicates, that the most crowded trade (Long US tech & growth stocks) got even more crowded.
- Therefore we have to ask ourselves, what is the next trigger? If there are any on the short term?



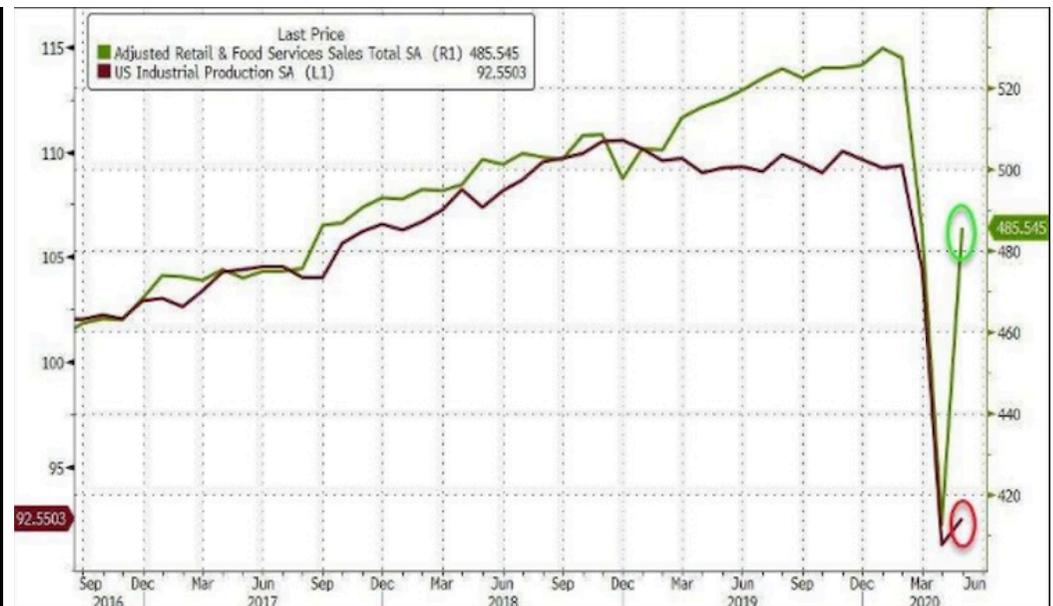
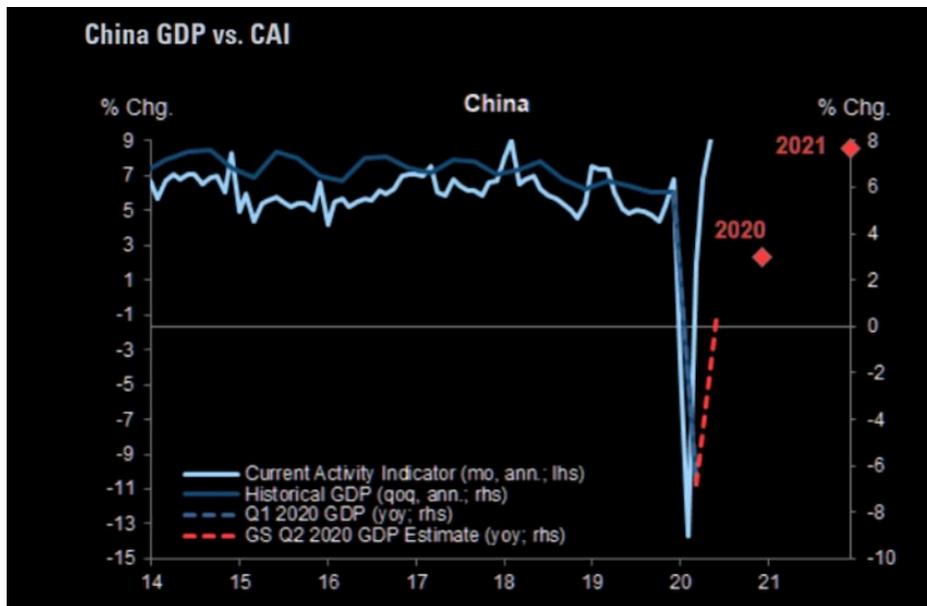
US reopening scale

- Apparently, source Goldman Sachs, the reopening scale in the US is only at 2, out of 10
- We actually would have expected more and market is discounting a faster reopening process



Buy China experienced a V shaped recovery

- _ Chart 1: China current activity indicator seems to indicate an aggressive V-shaped recovery
- _ Chart 2: In US, while Retail sales surged 17%, industrial production is not coming back yet (source: zero hedge). While requests for directions in apple maps is back to normal levels, U.S. restaurant bookings are still -70% from February 2020, meanwhile the U.S. Hotel occupancy rate is at 40%, U.S. Air travel at -80% . Contrarily, U.S. home purchases increased from -30% to +10% from April to today, due to low interest rates.
- _ Meanwhile the German truck traffic is almost back to last year's levels

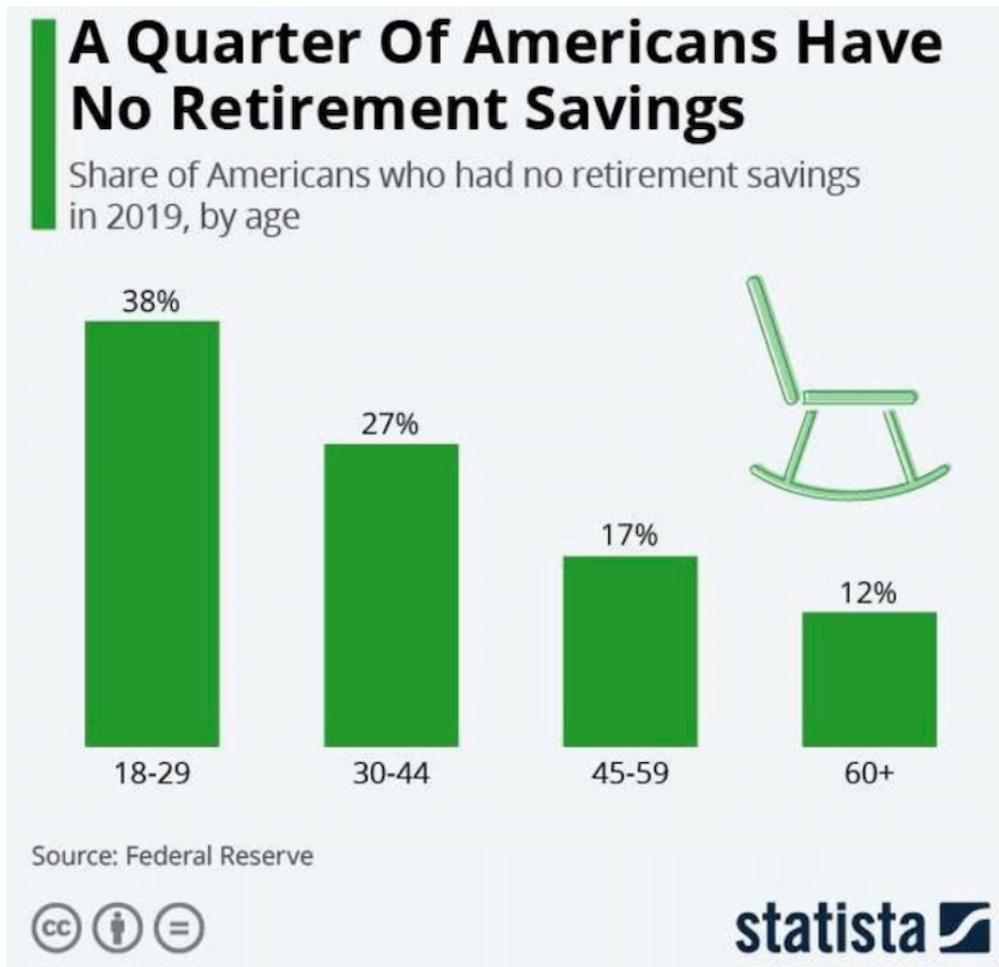


US unemployment

- Bears want to focus on the high unemployment claims (almost 46 mio Americans have now filed for unemployment claims since lockdowns began).
- BUT according to research from the American Action Forum and the University of Chicago, 63% of workers nationally are making more on unemployment with the federal subsidy than they would working. And even if the federal subsidy is reduced to 100 USD a week, 25% of the U.S. workforce could still make more on unemployment than returning work!
- This fact is coherent with the analysis of our best in class fund Flossbach.

US Retirement Savings

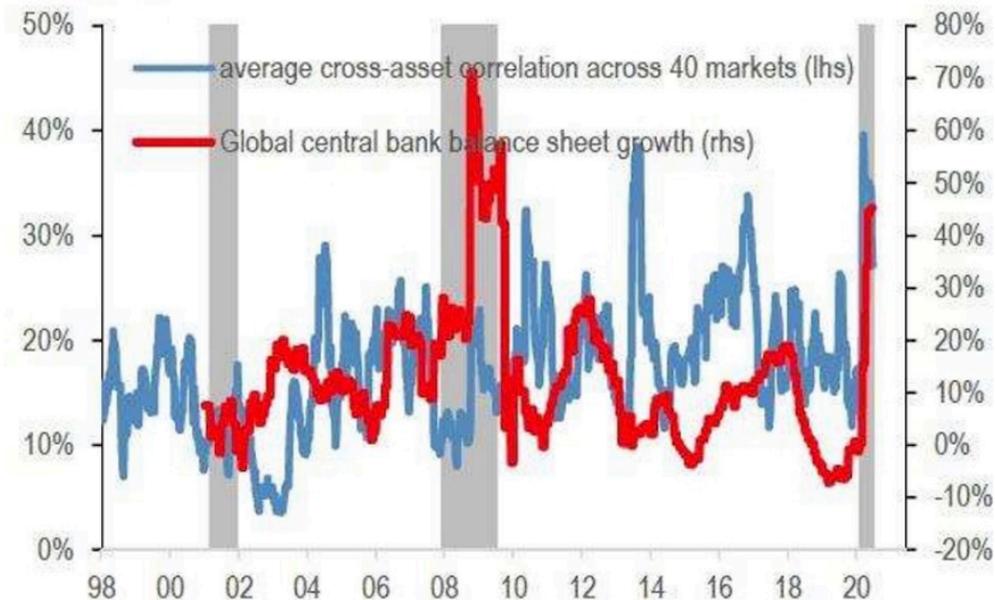
- Quite alarming fact: a quarter of Americans have no Retirement Savings!
- In addition, it looks like, 31% of investors at Fidelity between the ages of 65-69 sold all of their stocks between February and May (source: Fidelity Investments)



Asset classes correlation

- Bonds are not offering the usual hedge to equity. A traditional balanced portfolio equity/bonds is not offering the usual diversification.
- Diversification can be only reached with different strategies in the portfolio, exactly what KTS is trying to reach via our Optima Dynamic Fund

Chart 8: Cross-asset correlations have dipped from 20Y highs but remain extremely high, in part due to extraordinary central bank liquidity
Average 3M rolling correlation amongst 40 FICC & Equity markets from chart 1 versus year-on-year growth in central bank balance sheets. Grey bars indicate recessions.



Source: J.P. Morgan

Optima dynamic Fund

- In fact, our fund optima dynamic is trading at new highs, reaching a YTD performance of +2.8% and being at the top 2% percentile worldwide, with an impressive lower volatility vs peer (9% vs high 25%)



OPTIMA DYNAM AS ALLO FOF-USD Objective Dynamic Allocation

The investment objective is to achieve a long-term capital appreciation through investment in dynamic managed multi-asset funds. Depending on the market assessment, the underlying funds have the flexibility and may invest up to a maximum of 100% in defensive strategy such as cash on account or in interest-bearing securities or up to a maximum of 100% in equity investment. [FIGI BBG00MF25TS1]

Comparative Returns COMP »

Bloomberg Classification

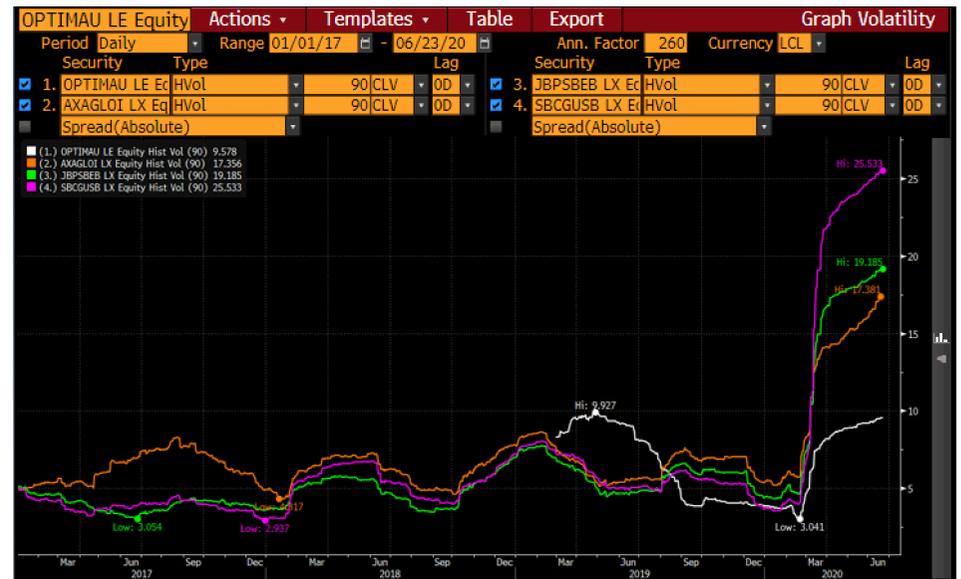
Fund Type	Fund of Funds
Asset Class	Mixed Allocation
Strategy	Dynamic Allocation
Geo. Focus Region	Global

NAV USD 114.450

Assets 06/19/20 EUR 14.26M

Performance	Return	Percentile
1 Month	1.98%	32
YTD	2.80%	97
1 Year	6.98%	98
3 Year	N.A.	N.A.
5 Year	N.A.	N.A.

Fund Info	Fees
Inception Date	11/05/2018
Share Class	Retail
Min Investment	N.A.
Min Subsequent	N.A.
Min IRA	N.A.
Expense Ratio	2.66%
Front Load	2.00%
Back Load	1.00%
Early Withdrawal	N.A.
Current Mgmt Fee	1.20%
Performance Fee	10.00%
12b1 Fee	N.A.

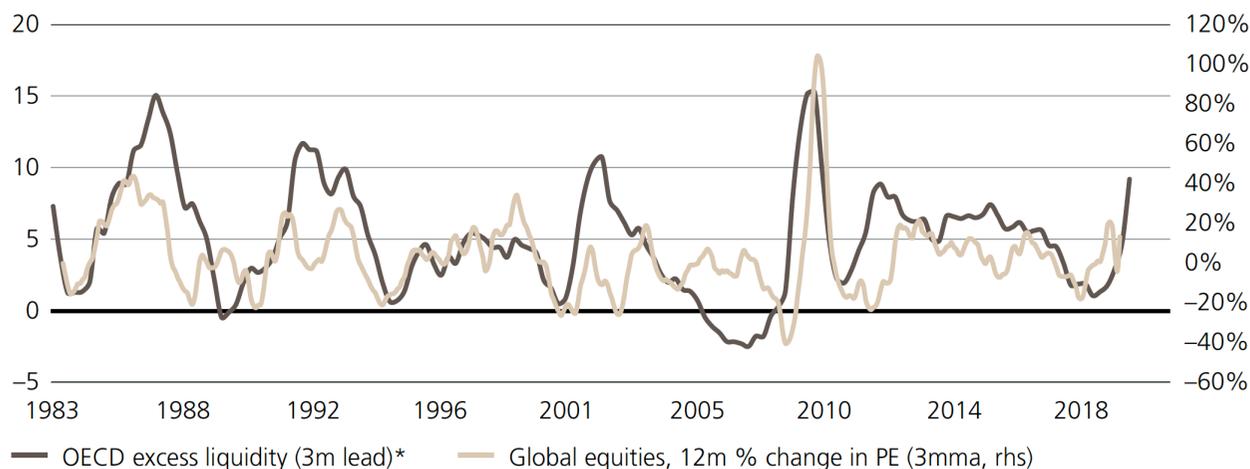


Excess liquidity supports expansion in equity multiples

- Interesting chart of UBS confirming that history shows, how stock valuation multiples and equity market performance are highly correlated with excess liquidity (defined as year-over-year growth in M1 money supply minus nominal GDP growth). In the US, M1 money supply has grown 34% year-over-year in just 3 months. If interest rates persist at current levels, global equity risk premiums could fall another 80-100bps over the next 6 months, supporting further upside for equity.
- This analysis of UBS is perfectly coherent with the analysis of our best in class Fund Flossbach, arguing with cash and bonds yielding negative yield, equity is the only alternative.

Excess liquidity supports expansion in equity multiples

OECD excess liquidity (3m lead)*, global equities, 12m % change in PE (rhs)

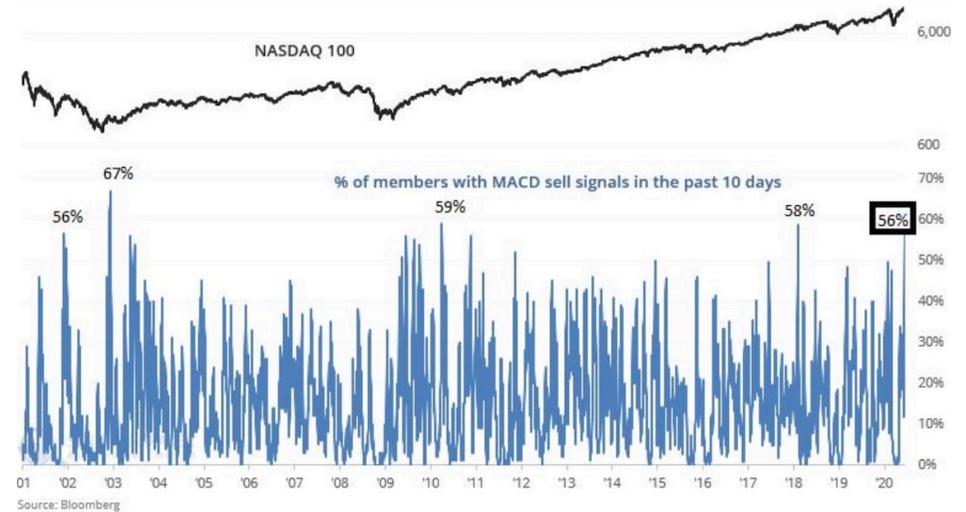
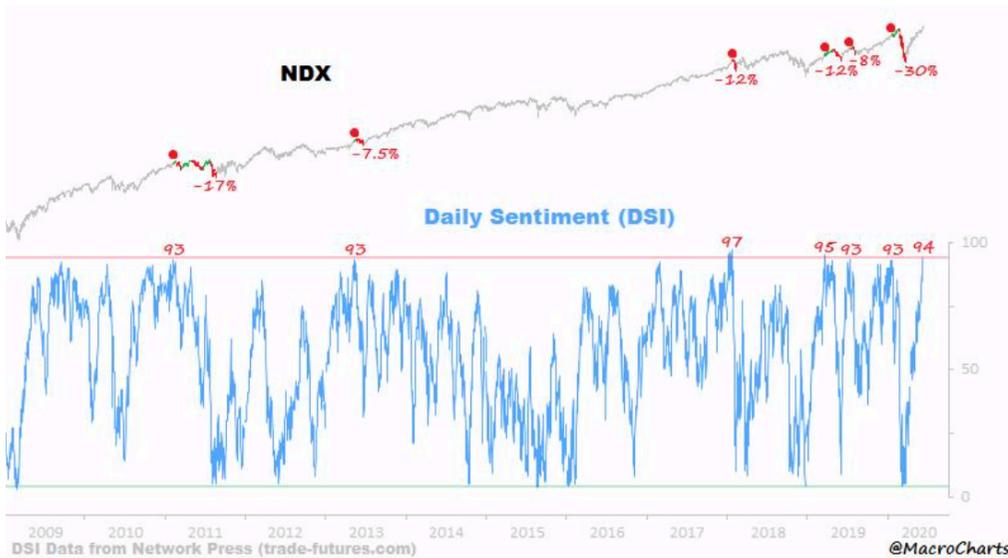


Note: Excess liquidity defined as OECD growth in M1 minus nominal GDP growth.

Source: Datastream, UBS, as of June 11, (*) excess liquidity estimates are included and may change when data is released.

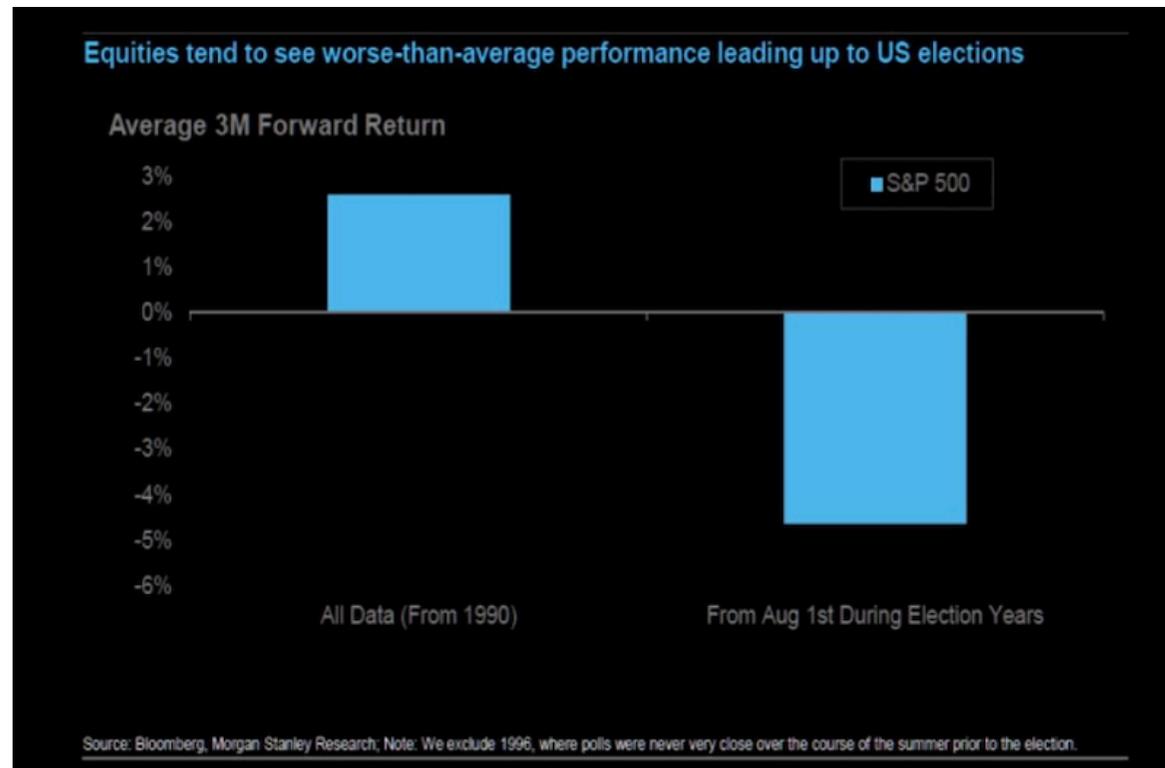
Technicals

- Interesting Chart of Azimut: the DSI (Daily Sentiment) of Nasdaq 100 is 94, among the 8 most extreme days since 2009. Three months ago, it was at 4. Every time the indicator reached such level, the market had a correction.
- In addition, 56% of Nasdaq 100 stocks triggered MACD sell signals. One of the biggest spikes of all time (only 8 historical days got this extreme). This happened before many pullbacks/corrections. The last time this happened was at the start of 2018. (source Azimut)



Technicals

- US equities tend to see worse-than-average performance 3-months ahead of US elections (source Morgan Stanley).
- Taking in consideration, that Biden is leading polls 48% to 35% , this could in fact affect negatively the period of September – November 2020.



Gold

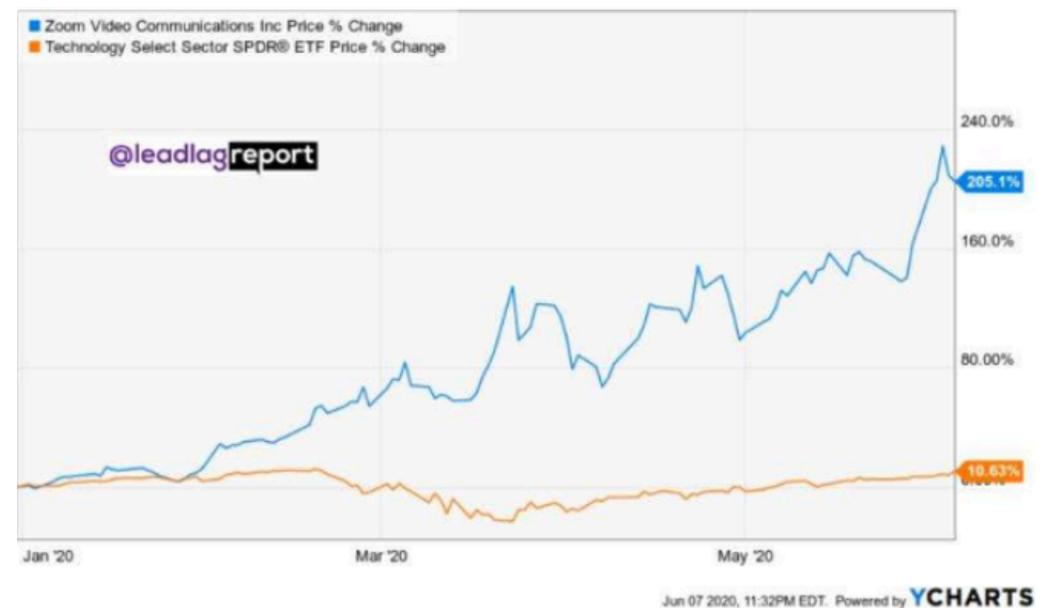
- Gold is strongly correlated to the 10y TIPS yields (also replicated via the etf TIP US)
- The TIPS yield has recently fallen from high 1.17% to -0.6% !
- It seems the yield tends to fall, when the economy is getting weaker and to rise when the economy is getting stronger. As the economy reopened and is recovering, this could help the gold price to rally further.



Tesla and Zoom market cap

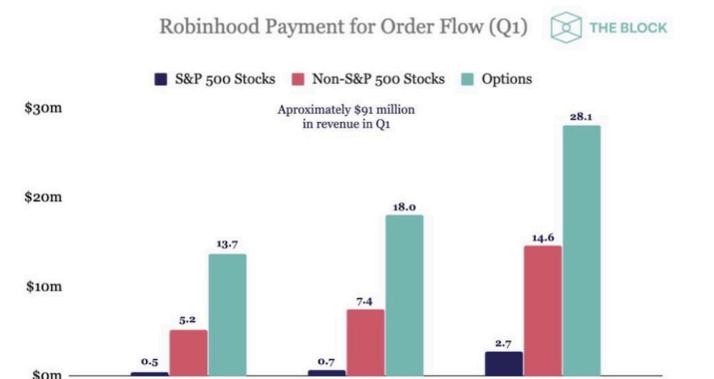
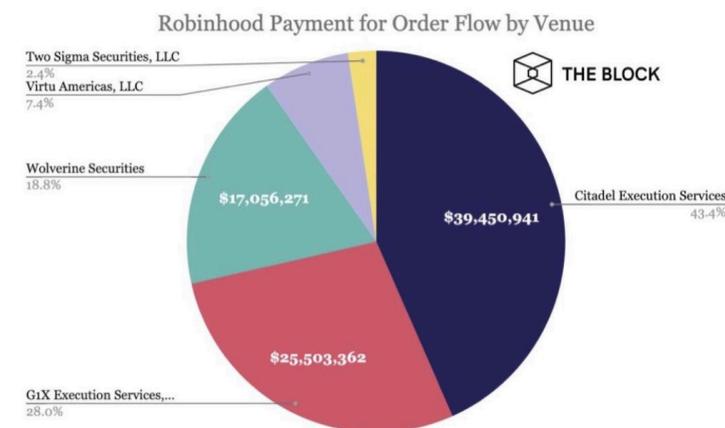
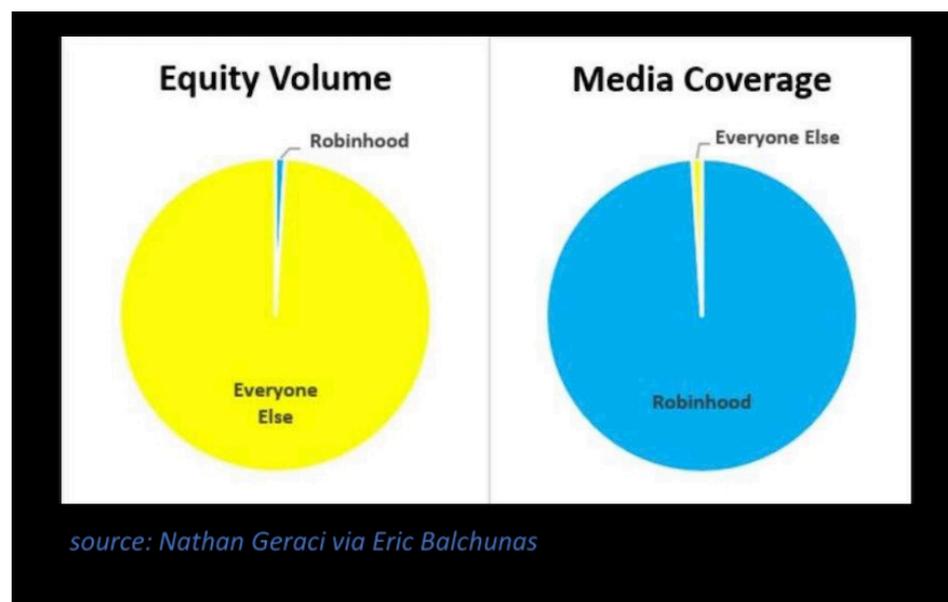
- Quite impressive and unsustainable numbers to be honest
- Morgan Stanley is downgrading Tesla to underweight with PT 650 USD
- But we also have to be honest to ourselves, the sales of new car plug-in electric vehicles are in most countries at 2% to 5% of the total market. Only in Norway is 55.93% (!!), followed by Iceland (17.79%), Netherlands (15.01%) and Sweden (11.35%). As always, Nordic countries are a step ahead! In addition Tesla is moving forward with semi truck.

Rank	Company	Mkt Cap (USD \$B)	Change (USD \$B)
1	 Tesla	183.67	9.20
2	 Toyota	178.78	-0.08
3	 Volkswagen	86.34	-0.11
4	 Honda	47.72	0.34
5	 Daimler	47.51	0.12
6	 BMW	43.74	0.08
7	 Ferrari	43.25	0.20
8	 General Motors	42.27	-0.46
9	 SAIC*	29.97	0.14
10	 Ford	28.87	0.08



Gratis trading platform Robinhood

- The first chart shows the influence on the total equity volume of the platform Robinhood: basically no influence. But there are a lot of noises in the media.
- The second chart show a more worrisome reality: the platform is offering trading for free, but is earning more than 100 mio USD (40% from Citadel, 28% G1X, 18.8% Wolverine Sec, etc.) by delivery trading data externally. Basically companies like Citadel use such data, reaching high profits, in high frequency trading!



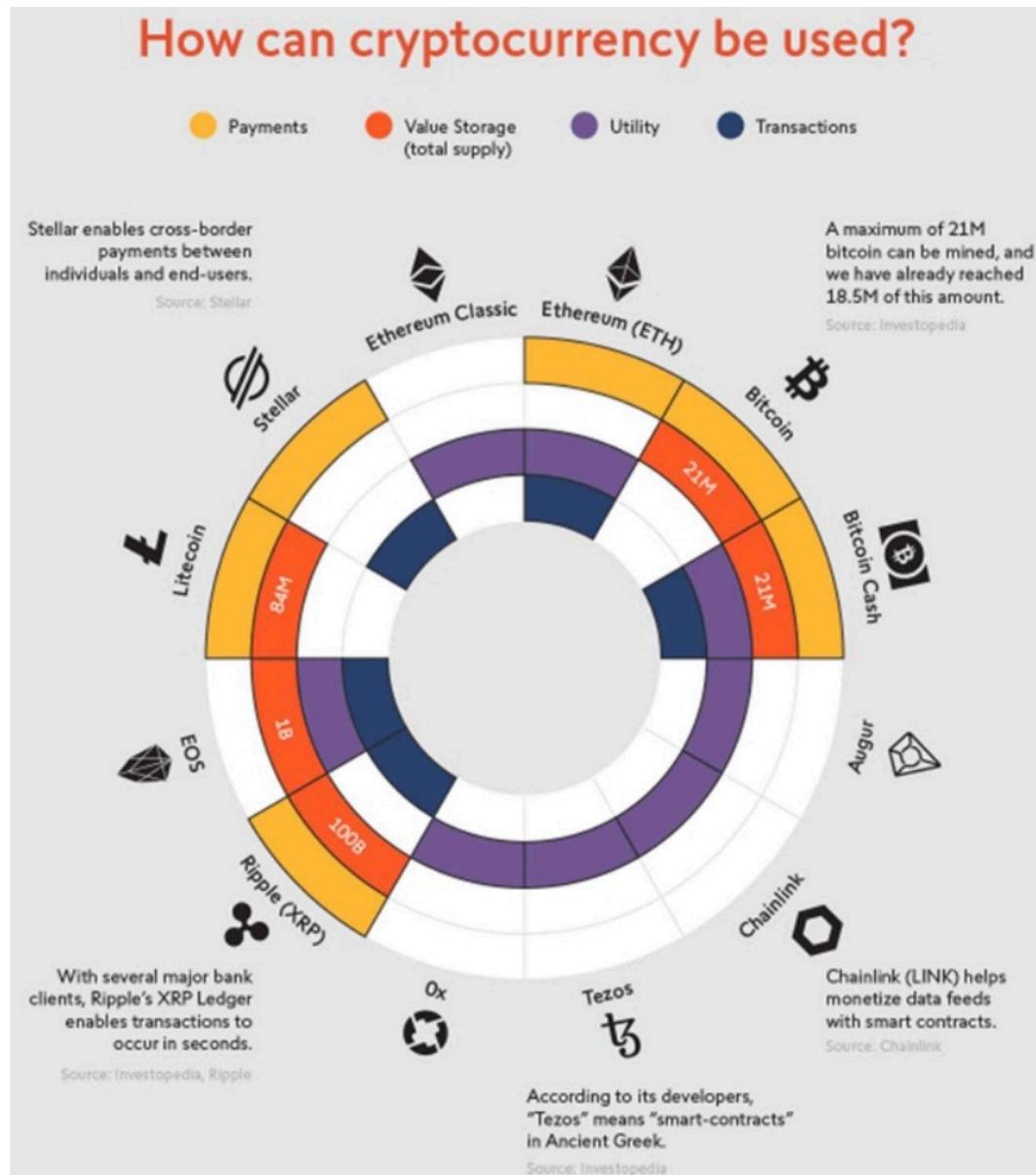
Diverse

- Glenmark Pharma rallied more than 30% after the company said it has launched antiviral drug Favipiravir for the treatment of patients with mild to moderate Covid-19 in India.
- In UK a 5 GBP steroid could save thousands of lives after trial finds it reduces risk of dying by up to 35% in ventilated patients.
- Interesting article of Prof. Matteo Bassetti, who claims that COVID-19 is weakening and could die out without vaccine.
- <https://m-jpost-com.cdn.ampproject.org/c/s/m.jpost.com/health-science/covid-19-is-weakening-could-die-out-without-vaccine-specialist-claims-632324/amp>
- UBS: The Federal Reserve has never been more explicit with its intentions. It is not focused on the theoretical, long-term political or economic consequences of its drive to loosen financial conditions. It intends to use its powers to help ordinary workers, fully expecting that it will also benefit owners of capital. Indeed, Fed Chair Jerome Powell may even think that efforts to loosen financial conditions will increase inequality, provided the rising tide lifts all boats. FED is not holding back because it thinks asset prices are too high. FED is supposed to be pursuing maximum employment and stable prices.
- The FED story has never been stated this clearly: At the June FOMC press conference, Chair Powell said: We're not thinking about raising rates. We're not even thinking about thinking about raising rates. What we're thinking about is providing support for this economy.
- The FED has responded to the event COVID-19 with unprecedented scale and speed. It has expanded its balance sheet by nearly 75%, from USD 4 trillion to USD 7 trillion, in just 3 months.

Diverse

- In order to boost its economy, China is about to unleash a historic credit injection: central bank said that new loans are likely to hit nearly 20 trillion yuan (USD 2.8 trillion) this year, up from a record 16.8 trillion yuan in 2019 and total social financing could increase by more than 30 trillion yuan (Usd 4.2 trillion), **or about 30% of GDP**
- BP wants to increase further the exposure in renewables energy like solar and wind. This turns positive for copper and silver demand, as the accelerating buildout in solar and wind capacity is supportive of demand for those commodities. Silver also profits from the production increase in Electric vehicle.
- After Luckin Coffee scandal, it turned out, that also Wirecard allegations of accounting Fraud are true: it sounds like the Parmalat scandal, and we wonder, how nowadays such frauds are still possible!
- While the cost of capital is plunging globally near zero, the cost of capital for the lower to middle class income families is soaring: credit card interest rate at highest levels in decades: 17% !! Meanwhile yield on the retirement plan are falling to 0% !
- Hydrogen: the next boom-bust story? Ballard power Systems was an highflyer back in the Dotcom boom and stock exploded again lately in line with the hype Nikola corporation. Ballard power never managed to reach a profit. The combination of stimulus, investor hype and limited investment opportunities culminates in and we believe is going to be a short-lived hype around hydrogen.

How can cryptocurrency be used?



Conclusion

- We believe the markets are going to trade sideways up to U.S. election in November 2020. As we pointed out several times, markets are already discounting EPS growth for 2021 and even 2022. Unfortunately the covid-19 pandemic is far from over, as daily case toll hits new high and market participants are still expecting a second wave. In addition we are still experiencing political tensions between China and India, North Korea with South Korea, US with China, etc.
- The recent strength of markets is due to FOMO from professional investors, therefore we can not see further triggers for equity markets on the short term. Of course the huge liquidity injection from Central Banks is bullish for equity on the long term, supported from multiple expansion, having investors being forced to invest in real assets like Equity, Gold, real estates, because of global negative interests.
- Volatility is unfortunately still too high to invest in attractive hedges (Put still costs around 7%, from high 16%!), therefore investors either have to accept the short term volatility and think long term, or need to build up again liquidity for better market opportunities.
- KTS sold partially US technology and growth stocks (exposure only via Best in class Funds but not as single position via QQQ), being too expensive and overcrowded. We have also reduced investments in Biotechnology, holding as a single stock only Biontech, as only "bet" on covid-19 vaccine. In addition we increased our liquidity to around 15% . We still think Emerging Market High yields and European high yield are attractive, having Central Banks being active in the space. We are still invested in Gold and Goldmines. We still believe, that sector like Financial, insurance, energy and banking are offering more trading opportunities than overcrowded sectors like defensive and technology on the short term.

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