

**KTS**  
CAPITAL  
MANAGEMENT



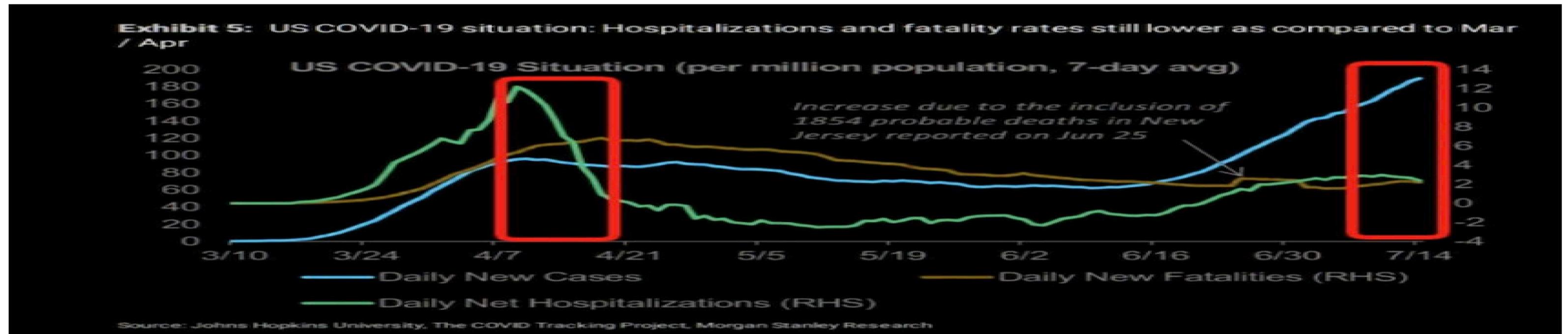
## **COVID-19 update Nr. 15**

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The 24<sup>th</sup> of July 2020

# New cases of COVID-19 continue to soar, BUT not deaths

- According to Morgan Stanley, but also other sources, new cases continue to soar (Florida 11'119 new cases a day, Texas 9'079, California 8'886 followed by Georgia 3'356, Louisiana 1'968, etc), but deaths and hospitalizations have stabilized! This is a great news and not many media and investors are focussing on. It means either the virus is weaker or, slowly but surely, we have a right or at least better therapy.
- UBS is arguing that countries won't lock down again and the virus is not as deadly as it appeared at the start of the outbreak, also not as infectious as it first appeared and a significant portion of the population has already contracted the virus (5% of individuals in France/Spain, 14% in NY State, 17% in London and 21% in NY City).
- Vaccine projections are for 2Q 2021 and up to 600 mn doses by late 2020 (now confirmed after the deal of US Gov with Pfizer /Biontech) or early 2021 and 4bn doses by end-2021.

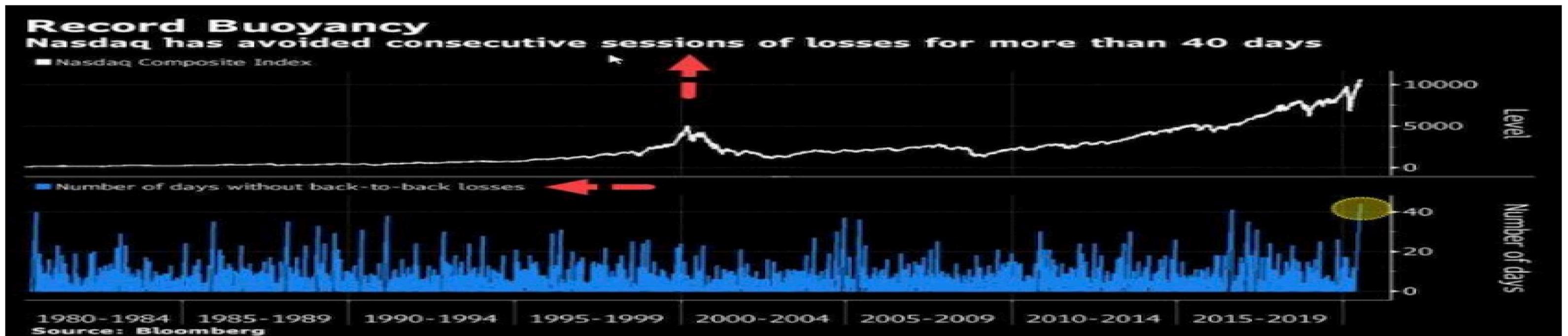


**Bloomberg: US Covid-19 new cases vs hospitalizations and fatality rates**

- Last week the company has become the first Biotech company to achieve the FDA fast track status. On the 22<sup>nd</sup> of July 2020 Pfizer in JV with Biontech, announced an agreement with the US Government for the purchase of up to 600mn doses of their mRNA vaccine candidate for COVID-19 at 19.50 USD per dose. The US Government will firstly purchase 100mn doses for 1.95 bn USD. This impressive news has in our opinion two main implications:
  - Biontech clearly seems to be the leader in the fight against COVID-19 and we would be careful to still be invested in other companies like Moderna, Inovo, etc. The US Government bought basically their full capacity for the entire US population. Probably Oxford University (in JV with AstraZeneca) could also get an approval in the UK? Biontech is a German company, so we would expect Europe to also react quite fast. In addition Biontech is also in collaboration with the Chinese company Fosun.
  - In our eyes this news also confirm, that a mass vaccination is not anymore an “if” question, but a “when”, and clearly the US Government is speeding up the process. This is positive for market in general, where investors can hope in a fast normalization process. The big question is going to be: how about side effects? But it clearly looks like, the strategy seems to be, we first vaccinate and then look...
  - We can also start to calculate the financial impact on the company. The market cap of Biontech is 23 Bn USD and the main drivers of the company are actually oncology products. The COVID-19 vaccine is actually an additional source of revenues. The US Government is paying 9.5 USD/doses more as analysts expected (10USD) . Taking in consideration a 50/50 revenues sharing with Pfizer and 50% production costs, BNTX would have net 500 mn USD for 100mio doses.

# Netflix and Microsoft results

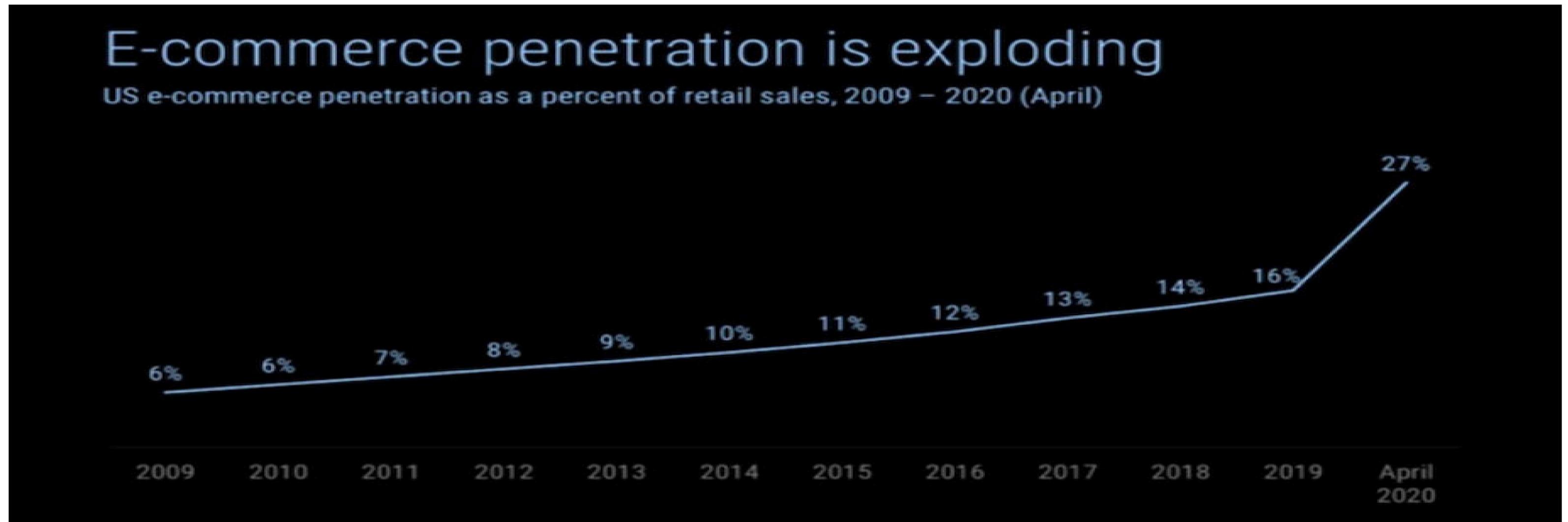
- Netflix, despite strong Q2 numbers, is -12% : the bar of expectations is high for Mega Cap Tech stocks! As argued multiple times in the past, growth stocks need a pause on the short term. But long term the bull market is intact. Banks and insurances had better results than expected and stocks are reacting well.
- As per Microsoft, even if the company has beaten expectations, the market does not like the deceleration in the cloud business.
- Short term pressure on the big 5 Tech could also derivate from ongoing anti-trust investigations in the USA and Europe.



Nasdaq

# E-Commerce

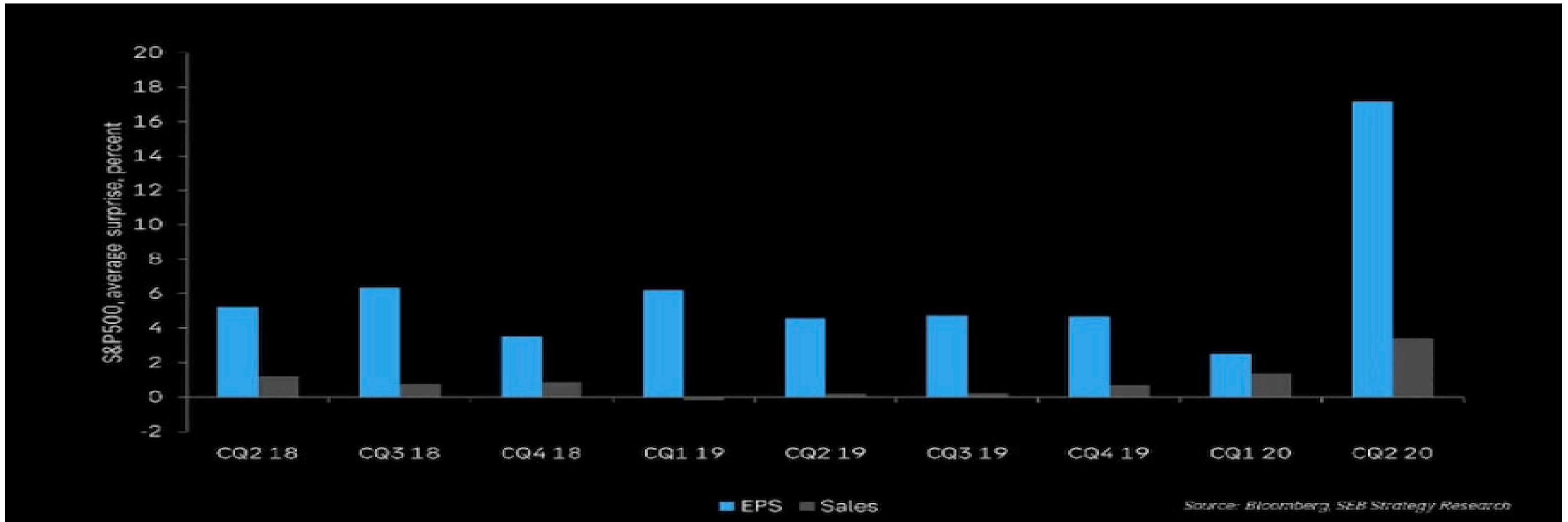
- E-Commerce penetration is exploding, from 16% to 27% for April 2020. We believe in the long term millennium trend, but we have to be aware, in case of normalization, this growth will have a correction on the short term.



## E-commerce penetration

# US Earnings

- So far it looks like US companies could positively surprise with Q2 earnings since losses are less than expected (source Bloomberg).
- According to J.P. Morgan, analysts are mostly bullish on US according to the one-month change in the 3 months Earnings Revision by geographical region, followed by Asia/Pacific ex Japan, Pan Europe and Japan is the least bullish region.



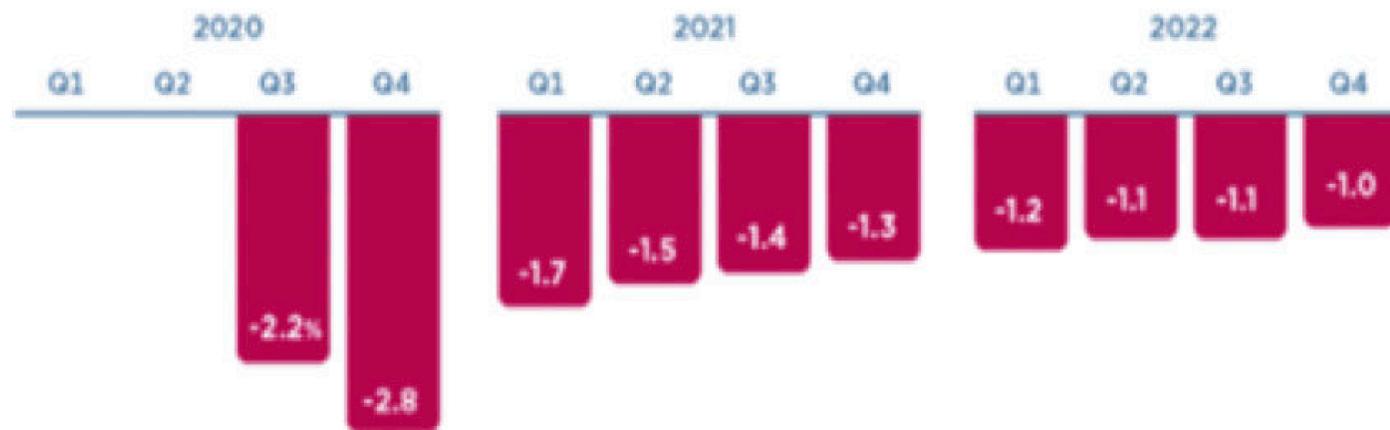
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# Eliminating expanded unemployment compensation per 31 of July 2020

- Eliminating expanded unemployment compensation would harm the US economy. (Source PIICharts)
- It is not by accident that on the 21<sup>st</sup> of July 2020 the GOP announced to consider extending unemployment benefit at reduced level of USD 400 through December 2020. We agree, markets need more subventions and we are convinced, more stimulus are coming, which is positive for equity markets, also in combination with the news of the deal US Gov/Pfizer & Biontech and still bullish for Gold. Contrarily we see further weakness in the USD.

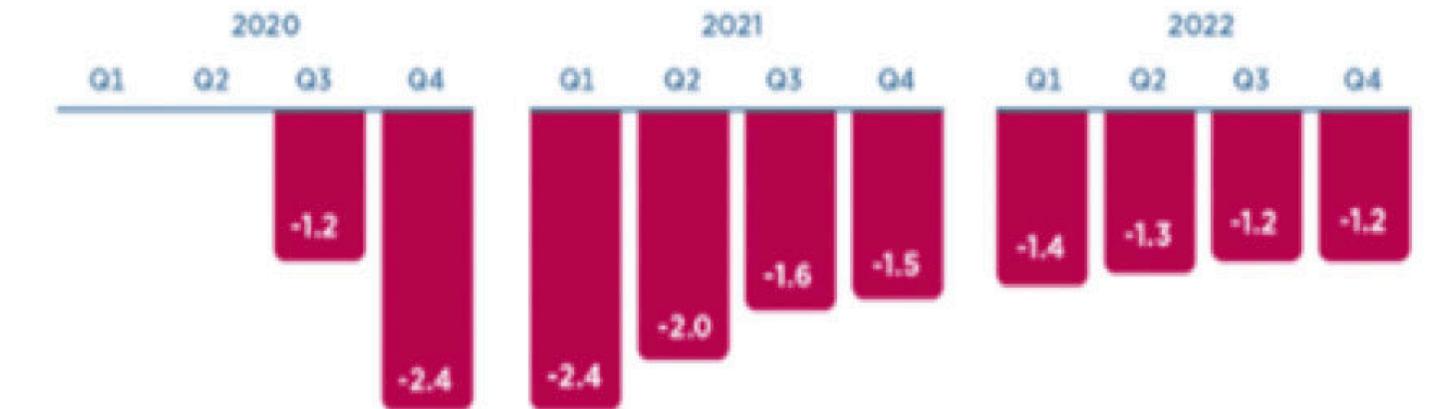
Quarterly effects of eliminating \$600 per week additional federal unemployment compensation

a. Decline in GDP, percent



If elimination 600 USD per week = possible decline in GDP

b. Decline in employment, millions of jobs



#PIIECharts

Learn more at [plie.com/research/plie-charts](https://plie.com/research/plie-charts)

Possible decline in employment

## General news

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- A good article in Barron Magazine is pointing out that **gold could take over Treasuries as the ideal hedge against stocks and other risky assets**. In fact, real interest rates are one of the strongest drivers of gold performance. In addition, supply of Treasuries is soaring, but overseas investors have turned sellers on US Treasuries this year. The FED has stepped in to fill the gap and now owns more treasuries than all foreign central banks. Meanwhile supply of gold remains relatively fixed. Most importantly, inflation breakevens or the difference between nominal yields on treasuries and TIPS have turned sharply higher since March 2020. This is not like in 2011, when the breakevens were steady or declining. According to BMO Bank, inflation expectations now will likely be fueled by de-globalization, shifting demographics, debt monetization and the absence of consumer deleveraging. All this is bullish for gold. Bottom line: **Gold is a better store of value than Treasuries**. In our eyes, we fully agree with BMO, the number of financial newspapers turning bullish on Gold might actually be a contrarian sign. The biggest question on the short term is, who is actually still not riding the momentum in the sector? Those stories in the media are positive and we can only agree, but perhaps are also marking a short term top in the sector? But on the long term we fully agree with Barron. We analyse more in details the momentum in the sector on slide 14.
- Even if we are on holiday time, the **Air travelers** crossing TSA Checkpoints are still -73% from January traffic numbers. Aircraft deliveries are also still incredible depressed.
- **OpenTable**: Germans are back on restaurants (only 10% under pre-pandemic baseline), Australia -20% from pre-pandemic, but USA, Global World, Canada, are still at -60% and UK at -90%

# General news

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- The recent acquisition of Chevron (bought Noble Energy) may set off a new wave of mergers and start a new consolidation phase in the Oil and Gas sector?
- Japan could overcome COVID-19 without any lockdowns and with a lower fatal rates than Europe and USA. Was it possible, because **culturally Japanese people** are not using shoes in the house, have no hand contact by greeting and are generally very hygienic? In addition people were very disciplined on the 3 C rules: avoid closed, crowded places and close-contact settings.
- So many frustrated traders have showed up at Robinhood's Silicon Valley headquarters that the stock-trading app installed bulletproof glass (The NY Time reported this week).
- EU commission opens investigation into possible **anti-competitive** conduct of Amazon. Italy want to do also against Apple and Amazon. Next Monday Apple with Amazon, FB and Google are in a hearing before the House Judiciary Committee as part of an antitrust investigation into big technology companies.
- GAP is suing Brookfield arguing that its leases should be modified or terminated because of coronavirus-related restrictions made the core purpose of those leases "illegal, impossible and impracticable"!
- More Restaurants forced to close as virus fears keep diners away. Who is going to pay for rents?

## General news

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- The **venture capital market** experienced during Q2 2020 a record number of mega-rounds (69 vs high 67 during Q2 2019).  
Source CB Insights
- According to The Economist, based on the Big Mac Index, the **Swiss Franc is 21% overvalued against the dollar**. We acknowledge, that on the long term currencies tend to narrow to the **PPP** (purchasing power parity), but in the other hand, we think that the USD weakness is just at the beginning and after the massive increase of debt of most Governments, Switzerland has even a stronger position than before COVID-19.
- From the 22<sup>nd</sup> of July, **US Banks are also allowed to hold Crypto currencies**. The OCC (Office of the controller of the Currency) is granting permission to federally chartered banks to custody cryptocurrency, recognizing that, financial markets are becoming increasingly technological. This is a very positive news for the crypto environment. **Bitcoin is trying to breakout**.
- At the end of the day, the market was right again: **Tesla has 4 consecutive quarters of positive GAAP earnings**, beating analysts expectations again with 0.5 USD EPS for Q2 vs 0.11 expected loss. Revenues were up to 6.04 Bn USD vs 5.4 Bn USD expected, but most importantly, FCF is now 418 mm USD per quarter vs expected cash burn of 617.9 mm USD! In addition **Tesla is now eligible to a S&P 500 Index inclusion**. Probably by the inclusion in the index and experiencing forced buyers from the side of ETF asset managers and shorties, Tesla is going to experience a short term new high?

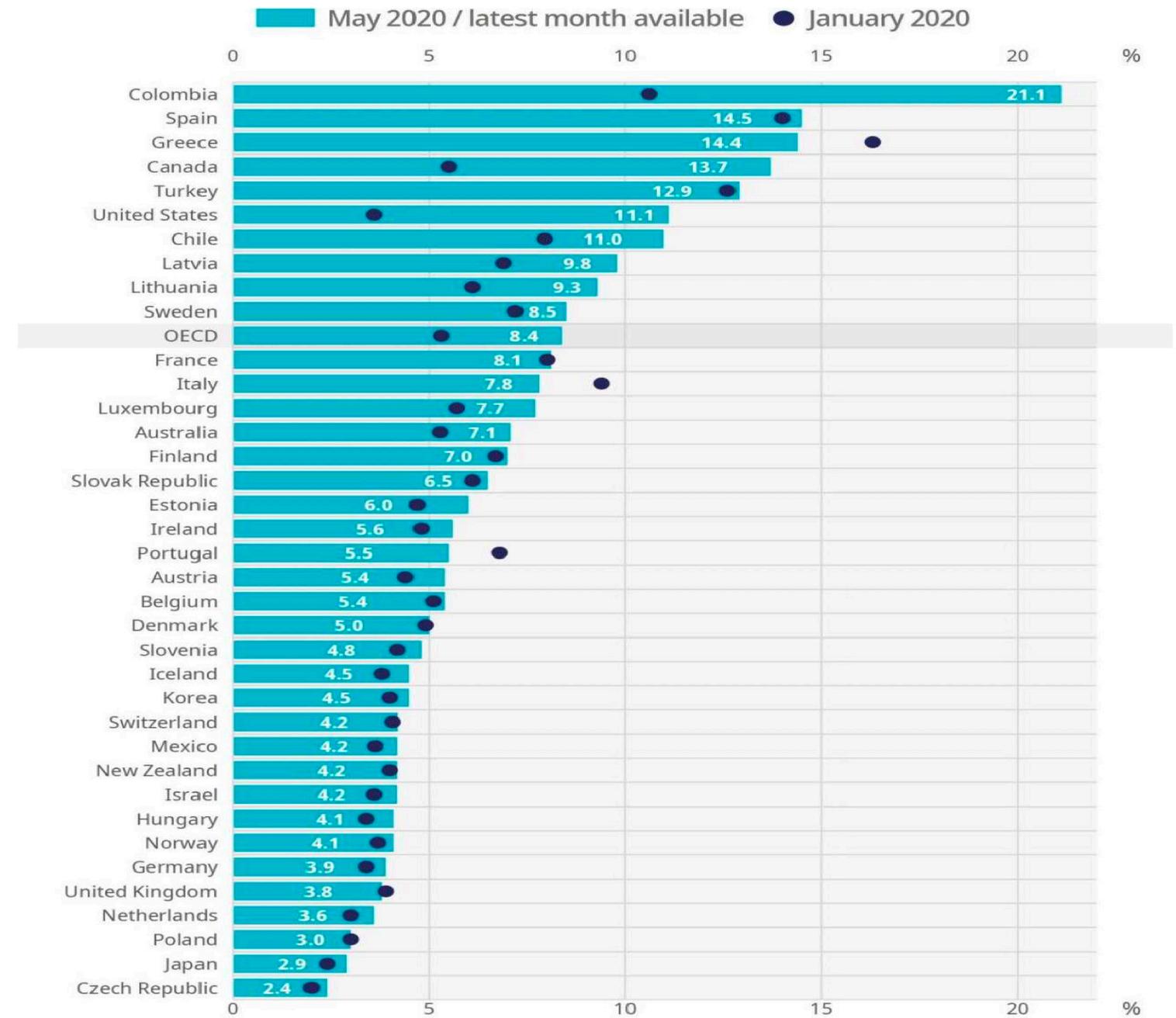
## General news

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- According to the asset manager Man Group, China's **Central Bank has better Stimulus options than the FED**, arguing that this year the non-bank financing contributed 16% of overall growth in TSF (Total social financing). This acceleration should lift the credit impulse and, in turn, economic activity. Basically the PboC (Chinese Central Bank) has better options to direct stimulate the real economy.

# Global unemployment rates

- Colombia with 21.1%
- Followed by Spain with 14.5% and Greece 14.4% (tourism sector is still suffering)
- Surprisingly Canada is also on the top of the list with 13.7%, followed by Turkey 12.9% and USA 11.1%
- Italy: 7.8% ?!
- **But a survey of Varian Perception in USA, is showing that consumers are very hopeful, they will be re-employed within 6 months and the Conference Board consumer Net expectations of getting a Job is he highest since inception of the survey (1990).**



Note: January 2020 and the latest date available refer to Q4 2019 and Q1 2020 for New Zealand and Switzerland; March for Greece, Turkey and the United Kingdom; April 2020 for Chile, Estonia, Hungary and Norway, and June 2020 for the United States.

Source: OECD Employment Outlook, url: [www.oecd.org/employment/outlook](http://www.oecd.org/employment/outlook)



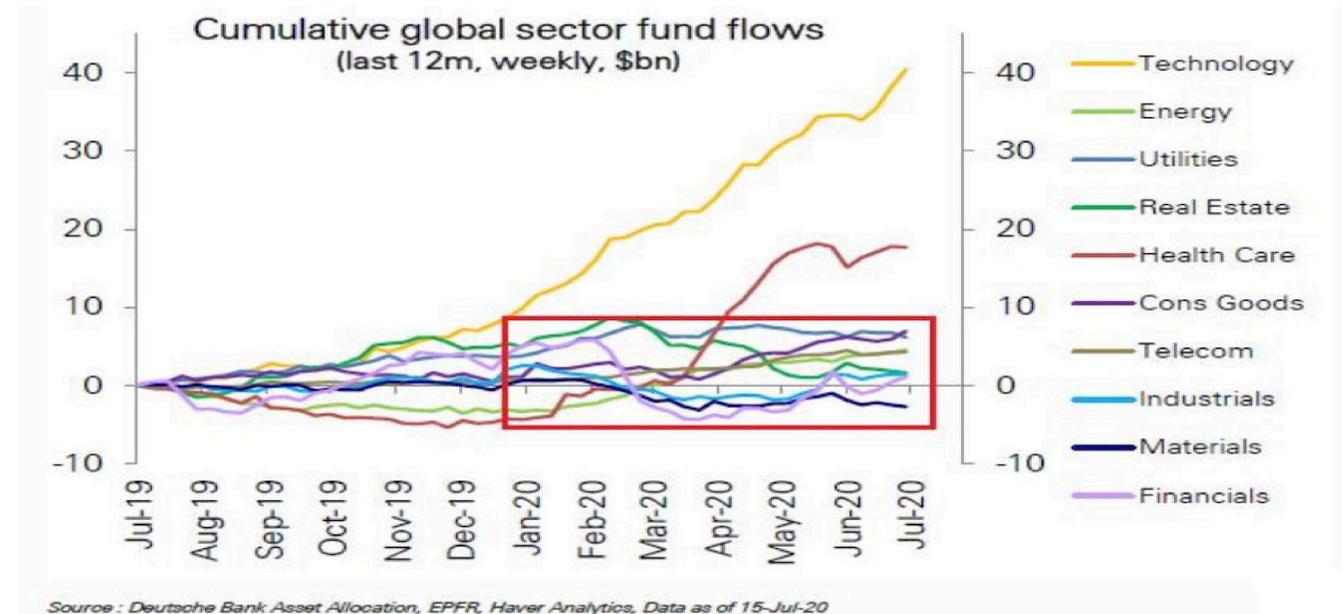
## Unemployment rates

# Sectors

- Chart 1: last week, the gap between FAANG (best performer) and the rest has narrowed. Re-open sectors are trying to rebound (source Jurrien Timmer of Fidelity).
- Chart 2: on the equity flows, Tech keeps getting non-stop record flows. Incredible how there's still nearly 0 net buying in 8 key sectors. The winner take all market driven by extreme investor preferences. (Source Azimut).
- How long can it last?



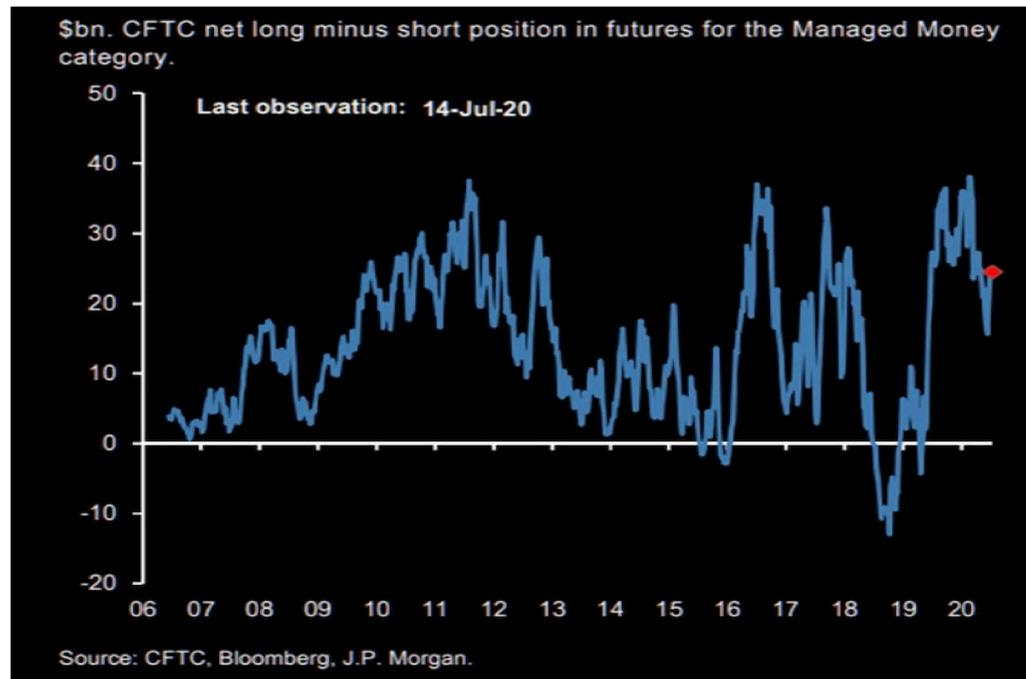
Gap between best and worst sector



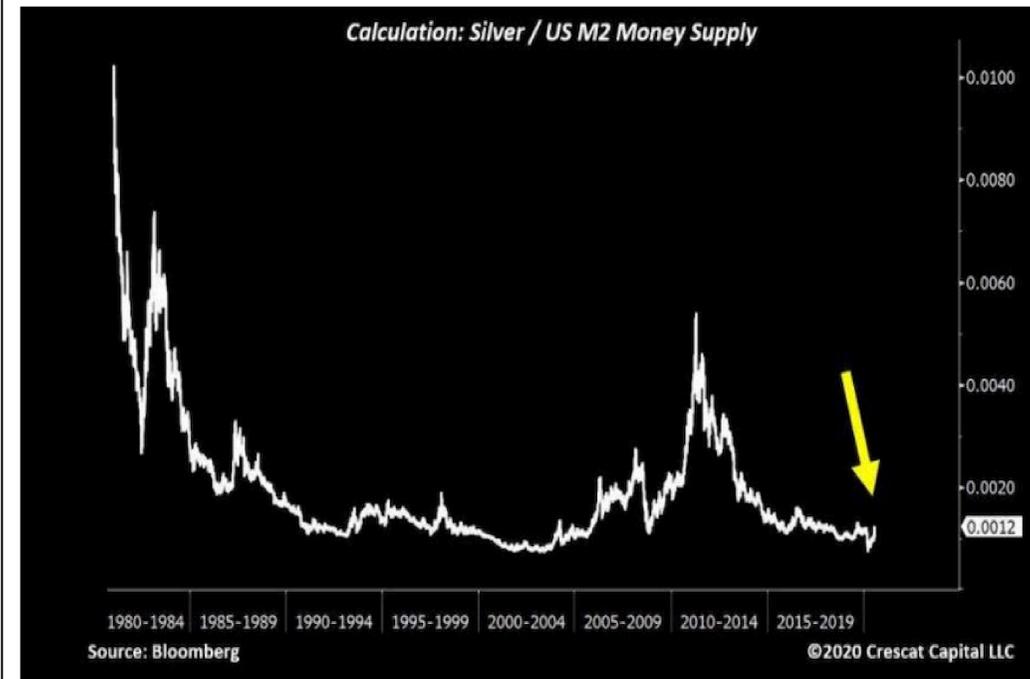
Cumulative inflows per sector last 12 months

# Gold and Silver

- Gold, and especially Silver, are experiencing a clear breakout. The most important question on the short term is, how overbought is the sector?
- According to Chart 1, source CFTC of JP Morgan, there is still room for speculators to buy more gold, because we are far from extreme speculation long levels and momentum in gold continue.
- Chart 2, source Crescat Capital: analysing Silver to Money Supply Ratio (M2) silver is still near at historic lows, therefore there is still a long way to go...
- Chart 3: according to Strategas, by historical measures, Silver is not extremely stretched yet.



CFTC



Silver to money supply ratio

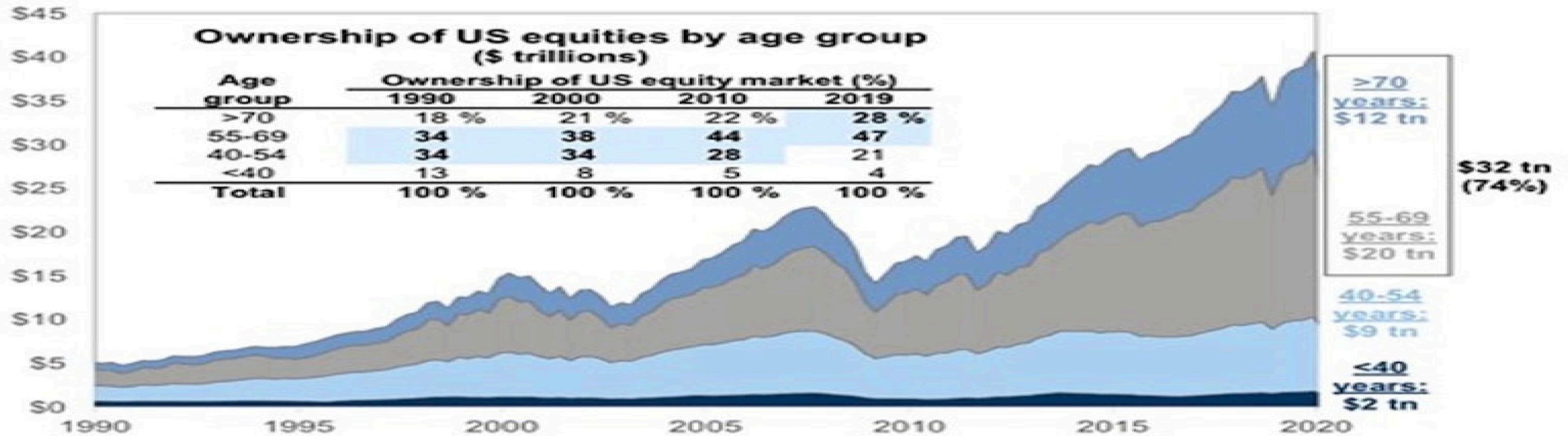


Silver price

# Ownership of US Equities by age group

- We all learnt the golden rule of investing at the university: young people should hold equities having a longer investment horizon. In reality it seems the opposite: 55 year old and older own 75% of US equities (20 tn + 12 tn USD) vs 2 tn USD of age under 40.
- Source Goldman Sachs

**Exhibit 62: Individuals that are 55 and older own 75% of US equities as of 1Q 2020**



Source: Federal Reserve, Goldman Sachs Global Investment Research

## Ownership of US equities by age group

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