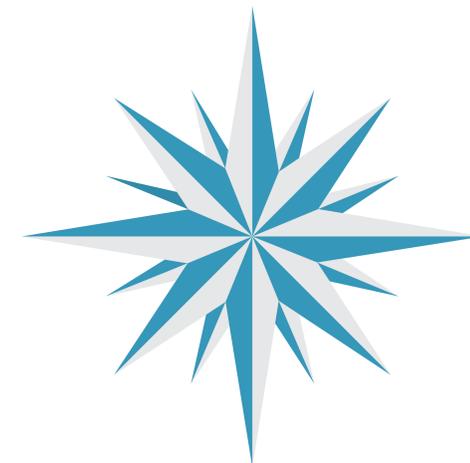


**KTS**  
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MANAGEMENT



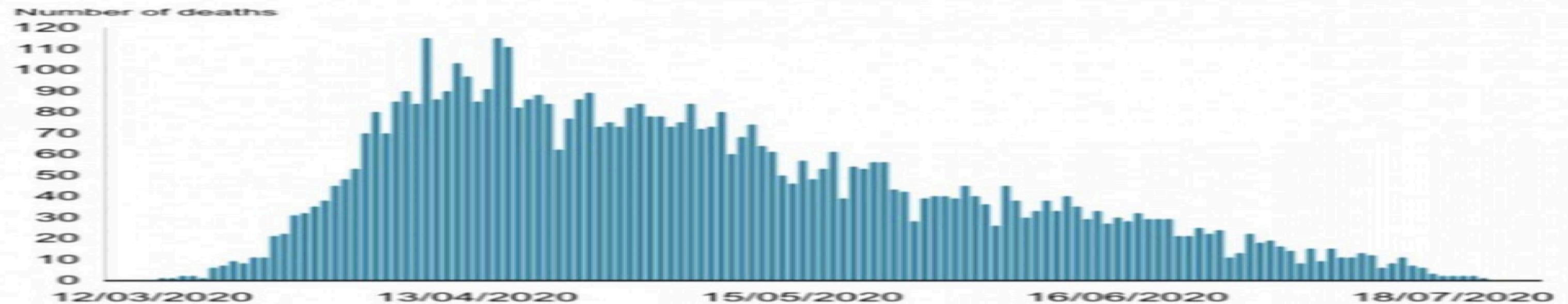
## **COVID-19 update Nr. 16**

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The 31<sup>st</sup> of July 2020

# Sweden

- In Sweden fatalities have dropped to no more than two deaths per day in the last week. (Source BBC, zerohedge.com)
- Sweden has been harshly criticized in the media for not imposing draconian lockdowns. Instead, Sweden implemented a policy that was both conventional and sensible. They also asked their elderly citizens to isolate themselves and to avoid interacting with other people as much as possible. Other than that, Swedes were encouraged to work, exercise and get on with their lives as they would normally do, even though the world was still in the throes of a global pandemic
- The secret of Sweden's success is that its experts settled on a strategy that was realistic, sustainable and science-based. The intention was never to "fight" the virus, but to protect the old and vulnerable people, while allowing the young, low-risk people to circulate, contract the virus, and develop the antibodies they'd need to fight similar pathogens in the future. Furthermore the country saved billions in debt and the economy kept running! Respect!



Source: Sweden's Public Health Agency



Number of people dying daily in Sweden with confirmed Covid-19

# Outlook of Alkeon Capital Management

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- Alkeon is one of our best performing Best-in-class funds
- In their Market Outlook of July 2020 the Management pointed out, that risks persist on the 30% lower spending, having still high unemployed people and 53% of Americans with not more than USD 400 savings. Some segment of the market look expensive and unattractive, such as the defensive sector, staples, utilities and real estate.
- But Central Banks printed a tremendous amount of cash, investors are still sitting at USD 5 trn liquidity, excess liquidity (calculated by the difference between M1 vs GDP growth, considering current GDP at 0%) and historical high positive correlation between excess liquidity and forward PE expansion. Interest rates will remain very low, which is stimulative for consumers and housing demand and during 2021 we will have normalized economic numbers.
- Fundamental arguments of Alkeon are quite in line with our other Best-in-class fund Flossbach and we totally agree with them.
- Contrarily to Flossbach, which is back to a 66% equity exposure, Alkeon reduced the gross exposure, by taking profit in some positions. We understand the fund manager: having a YTD performance of +31% it is better to stay on the safe side.
- Even though the Management reduced on the short term the equity exposure, they are very bullish for the mid and long term arguing, that we are at the beginning of secular growth trends, like Cloud and SaaS and **Tech companies are still trading in line with historical levels on a FCF yield basis.**
- Alkeon's Management is also arguing that **we are still early in a 10 year's cycle in many segments** like physical layer (5G, fiber) and on top of which there are layers of AI, Machine Learning that have advanced tremendously in recent years. Transportation, HC, Consumer, AR, VR and Automation are other application layers. Meena, Google's algorithm, can sustain a

# Outlook of Alkeon Capital Management

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level of sensibility which approaches the human level. It is a 2.6bn parameters model. You need hardware to be able to handle such complex models. Nvidia introduced one month ago a GPU that does elastic computing, a type of parallel processing.

Within one chip with 54bn gates, the GPU can do both training and inference, a super powerful feature.

- The **5G network will be rolled out in 2021-2025; IoT is expected to have a 15x growth over the next 10 years** (including sub-segments), with smart cities developed over the next 10 years. We will see more automated warehouses, with robots performing and replicating tasks.

- **Valuations in the Technology sector:**

Technology is trading at a slight premium to the market ! But in line with the last decade, and at the same level as in the beginning of 2020. If you look at absolute forward PE, S&P trades about 21x and Nasdaq about 24x . During the tech bubble (year 2000), the S&P Index was at 33x vs Nasdaq 45x, so we are not near bubble valuation levels. **We would need another 60-70% upside from here to reach those levels.**

- Alkeon is also mentioning the recent increase of E-commerce penetration (sales as % of total retail sales), which was previously growing 2% per year and was lifted more than 18% in a few months, because of COVID-19. E-Commerce in Brazil went from 7% to 10% of total sales, with online deliveries grow 3x in only a few months, impacting the companies' earnings trajectory.

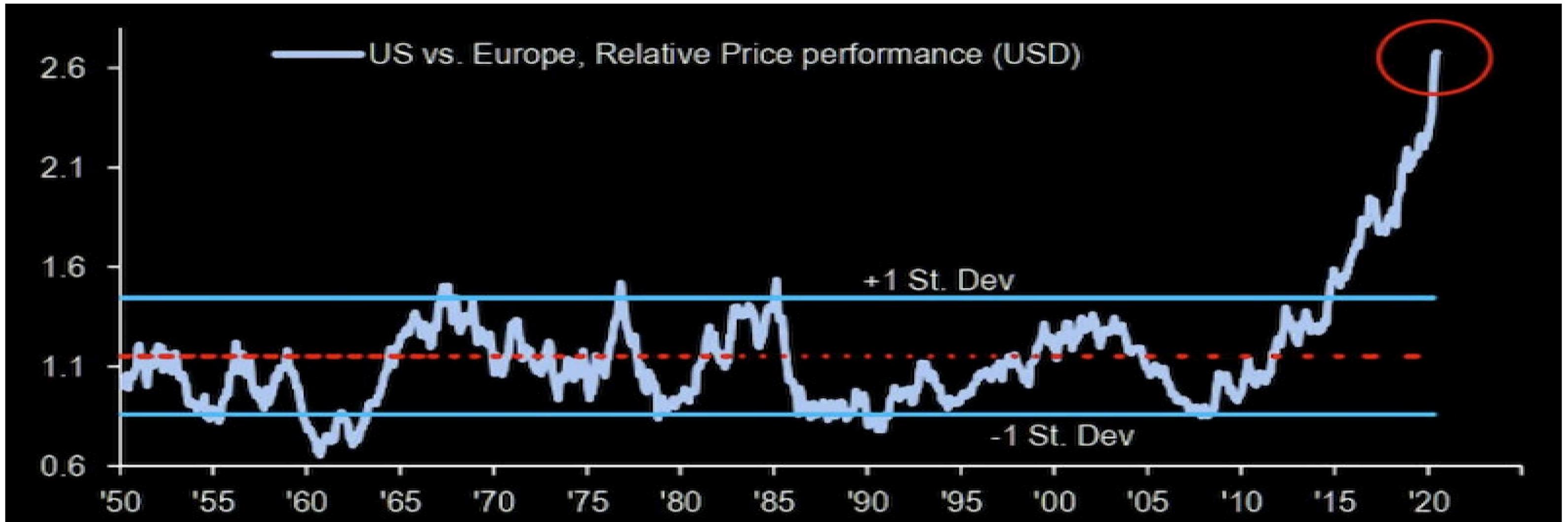
# Outlook of Alkeon Capital Management

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- Amazon: is at the high end of valuation in the group of the “mega cap growth”, but it is a FCF generative business with a strong reinvestment cycle and the huge reinvestment rate in the business is not understood by the market! In addition to that, cloud computing and B2B penetration is still low in sectors such as logistics, HC (Healthcare) and banking, all of which are key markets for Amazon’s growth.
  
- Conclusion and Strategy Outlook of Alkeon: **Market currently discounting a 2022 scenario, an investor shall expect a pullback.**
- **The fund still remain short in some “defensive bubble” like Real Estate, both commercial and retail and REITS.**
- **The Fund expect volatility over the next 6-12 months, but is ready to add position on pullbacks with a 5-year investment horizon.**

# Europe underperformance vs USA

- According to Bank of America, the underperformance of Europe vs USA is at 70-year lows and at standard deviation 2.6x . Normally at standard deviation over 2.5x to 3x a reversal is the most probable outcome...

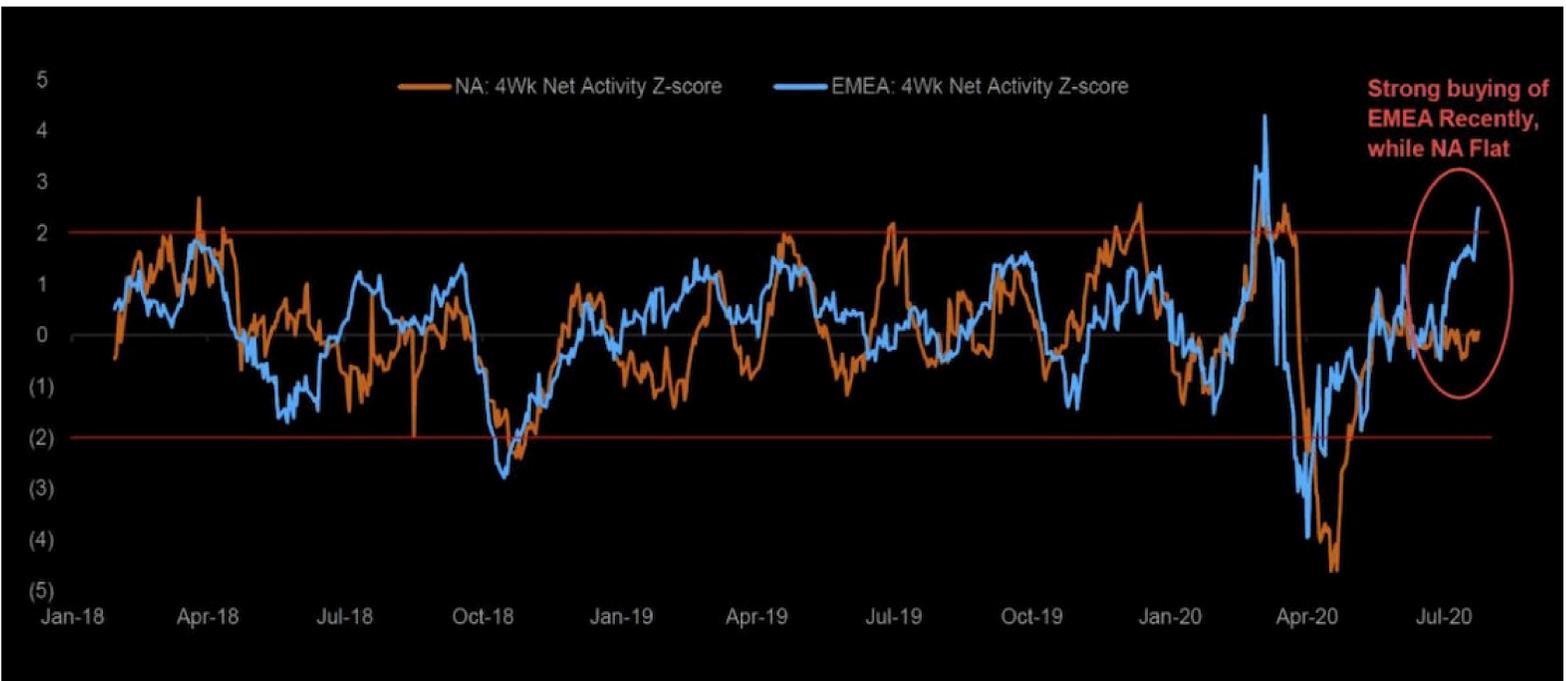


# Hedge Funds are actively buying Europe and EU Banks

- According to Paolo Calcinari Ansidei of Azimut, HF recently added position to Europe and European Banks



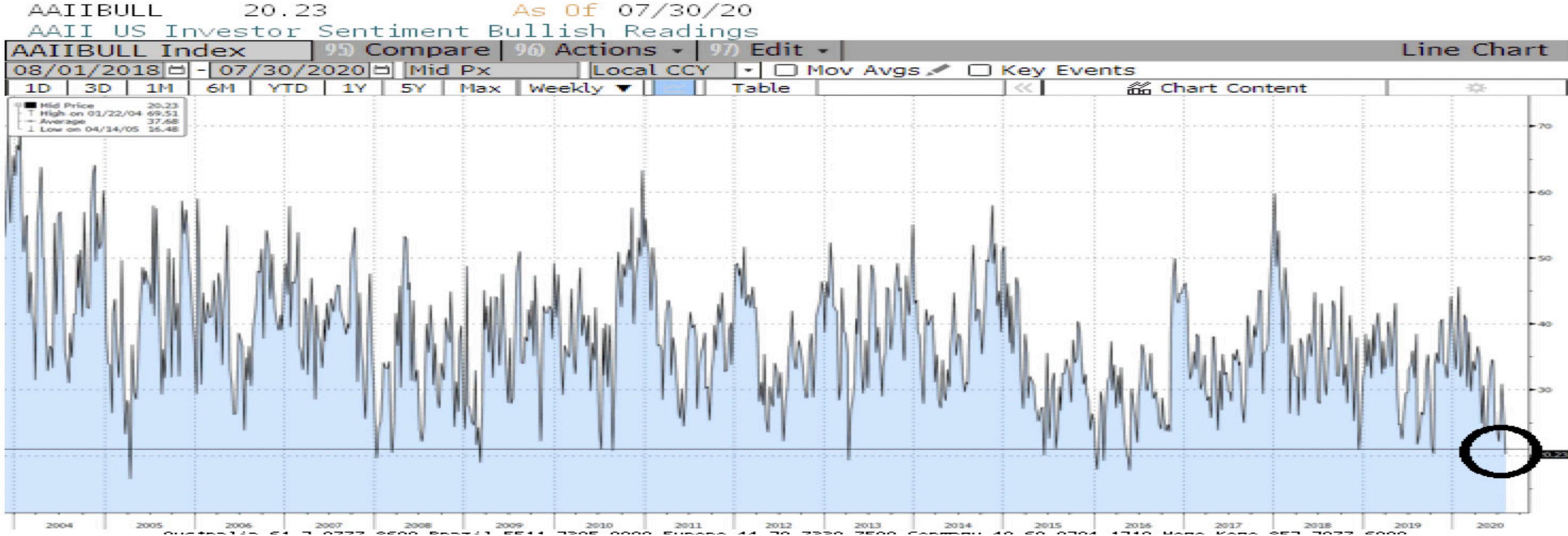
Net L/S exposure in European Bank Index



Net exposure in Europe

# AAII Bullish sentiment

- At a lowest levels, probably the market is waiting news from the Congress' new agreement for next coronavirus stimulus.
- We believe that, a new stimulus must be agreed, and this is going to give new positive impulses to the market, of course negative for USD and positive also for Gold.



Picture Title

# General news

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- The new book of Ray Dalio (founder of Bridgewater) is basically explaining the end of America as a worldwide leader and the USD as a worldwide store of value.
- According to CNN, Russia is going to have its own vaccine by middle of August 2020. The vaccine has been tested on Russian soldiers.
- Apparently Moderna is fixing the price for its vaccine at a range of 50 to 60 USD, meanwhile Biontech agreed with the US Government for 19.50 USD and AstraZeneca with some EU countries at 4 USD.
- Chinese Banks urged to switch from SWIFT and drop USD in anticipation of US sanctions (source: Zerohedge). We think that at the moment there are still not real alternatives to the Swift global payment system, so for this reason crypto currencies are gaining traction. Not only China is in that situation, also Russia, Venezuela, Iran, etc. And every day the list is getting longer, therefore an alternative to Swift is needed.
- Amazing results of FAANGS: Facebook jumped up to 9% after market (beats analyst expectations: EPS with 1.8 USD, exp 1.39 USD), Apple soared +4.7% after market, announced a 4 for 1 stock split and beats with EPS 2.58 USD vs 2.07 USD estimates. Google parent-company Alphabet beats expectations with EPS USD 10.13 vs 8.21 and the company's board also authorized the company to repurchase up to 28 billion USD of its Class C shares. Finally Amazon soared up to +5.2% after the close beating with EPS 10.30 USD vs 1.51 USD (!) and guidances were sharply higher.

# Bitcoin

- Visa and Mastercard reveal plans to offer Bitcoin, Ethereum and Ripple payments
- Bitcoin is breaking out the resistance of 10'507 USD, next target is 13'800 USD
- Ethereum and Ripple are also gaining traction



Chart Bitcoin

# Value of Gold and Bitcoin vs total financial assets

- This chart from Bloomberg gives a better idea about proportion:
- Total financial assets are worth 300 trillion USD
- Liquidity around is 40 trillion USD: 13.33% , Total value of Gold around the globe: 10 trillion = 2.5% and Bitcoin 186 billion USD = 0.062% (source: Bloomberg and zerohedge.com)

**Table 2. Global assets outstanding**

	<i>USD bn</i>
1. Global financial assets (stocks and credit)	266,917
2. Cash (proxy for global M1)	39,806
3. Total value of above ground gold	9,918
4. Total market capitalization of Bitcoin	186

*Sources: Haver, Bloomberg, GoldMoney Foundation, and World Gold Council*

## Global assets outstanding

## Negative yields

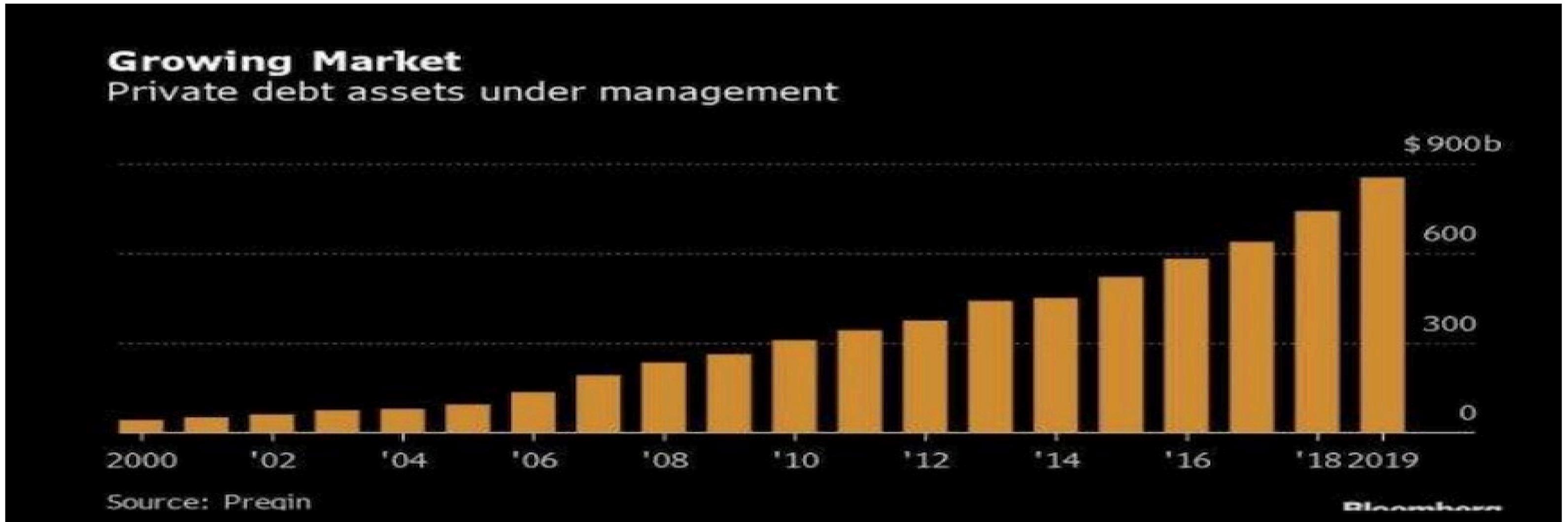
- Another very important support for Gold and Bitcoin, are the global negative yields. 15 trio USD bonds have negative interest rates.
- This chart of The Market Ear gives a better idea of the global situation.

*Bitcoin/Gold: 0.00%*  
*Italy: -0.06%*  
*Czech Republic: -0.10%*  
*UK: -0.10%*  
*Japan: -0.13%*  
*Sweden: -0.32%*  
*Spain: -0.39%*  
*Portugal: -0.45%*  
*Denmark: -0.54%*  
*Finland: -0.59%*  
*France: -0.64%*  
*Austria: -0.66%*  
*Belgium: -0.67%*  
*Netherlands: -0.67%*  
*Germany: -0.69%*  
*Switzerland: -0.83%*

Picture Title

# Negative yields

- Private debt asset under management have been growing massively in a 0% to negative interest rates world.
- On one side this is a positive development for alternative to traditional bonds, but on the other side, the risk of fraud is higher, therefore due diligence of structure is even more important than in the past!



Picture Title

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