

KTS
CAPITAL
MANAGEMENT



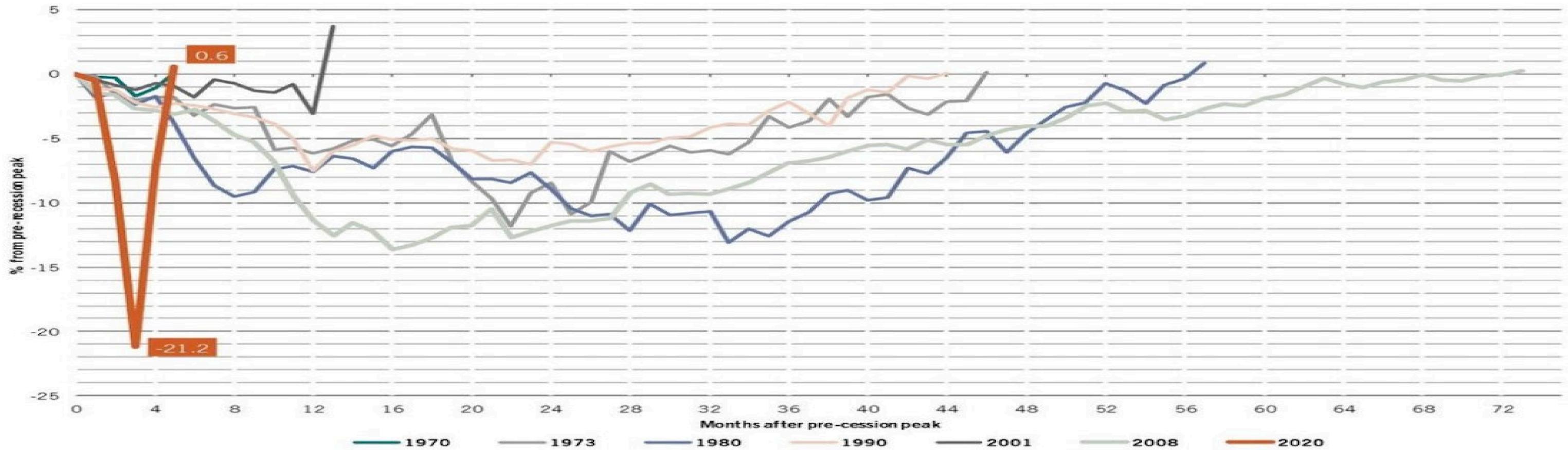
COVID-19 update Nr. 18

21st of August 2020

US Retail sales

- US retail sales are back to **ABOVE pre-COVID19** in July.
- Back in 2008 (GFC-global financial crisis) it took 6 years to reach higher pre-crisis levels and during 1990 recession, nearly 4 years.
- Covid19 crisis is different from the previous ones, not only in intensity but also in duration (source Pictet Asset Management)

US (real) retail sales during 7 recessions since 1970

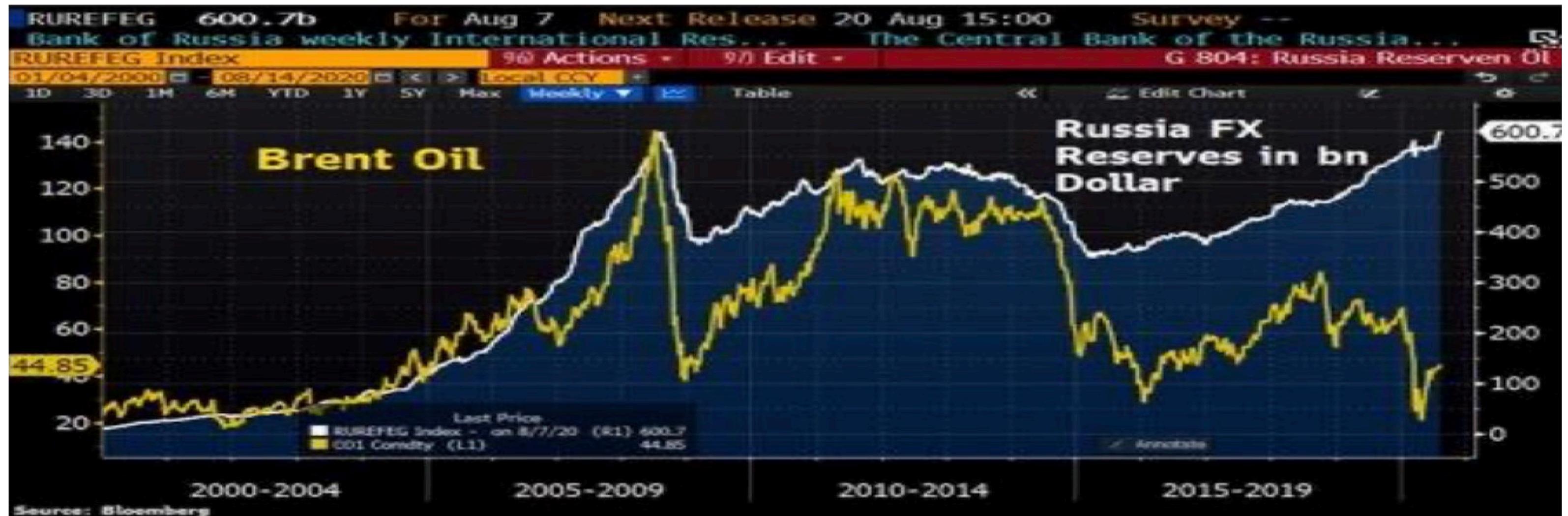


Source: Pictet Asset Management, CEIC, Datastream

US retail sales rebound during recessions

FX reserves of Russia

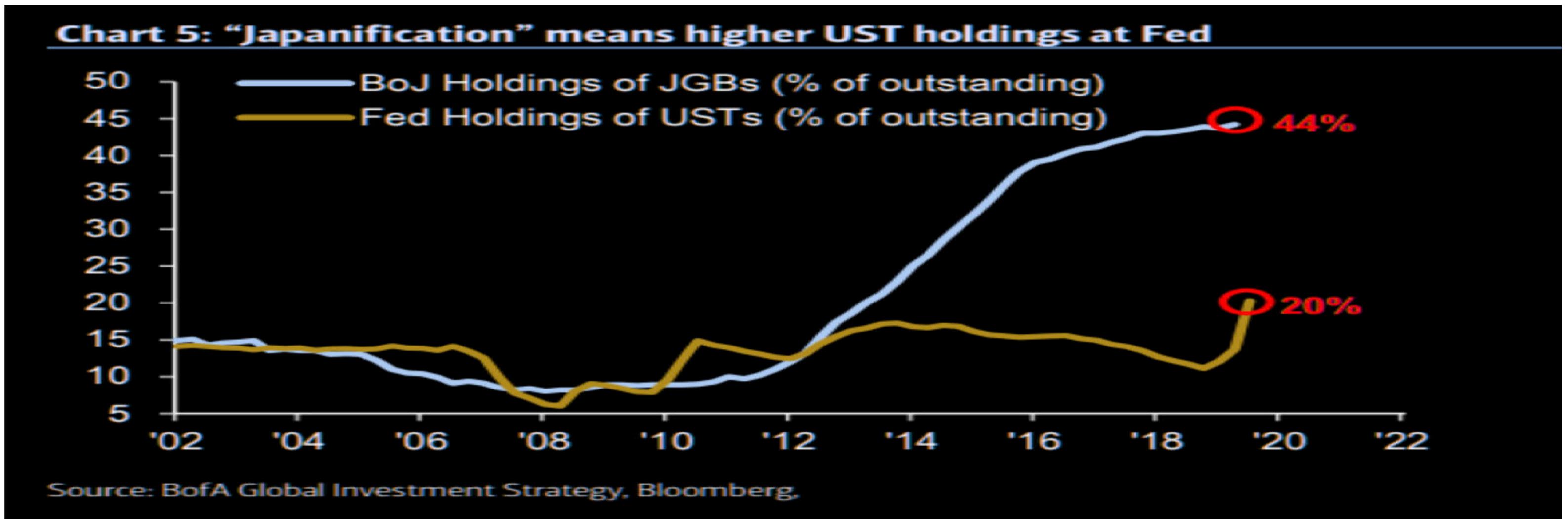
- Very interesting point of Mr Ritesh Jain. Russia started converting major part of his USD reserve in Gold and today **Russia has almost 30% of their FX reserves in Gold**. Despite the collapse of the oil price, Russia FX reserves thanks to Gold are at an all time high. In 2014 Russia also started to exports his oil into EUR from USD to further diversify from USD.



Russian FX reserves vs Oil price

US Treasury weak demand

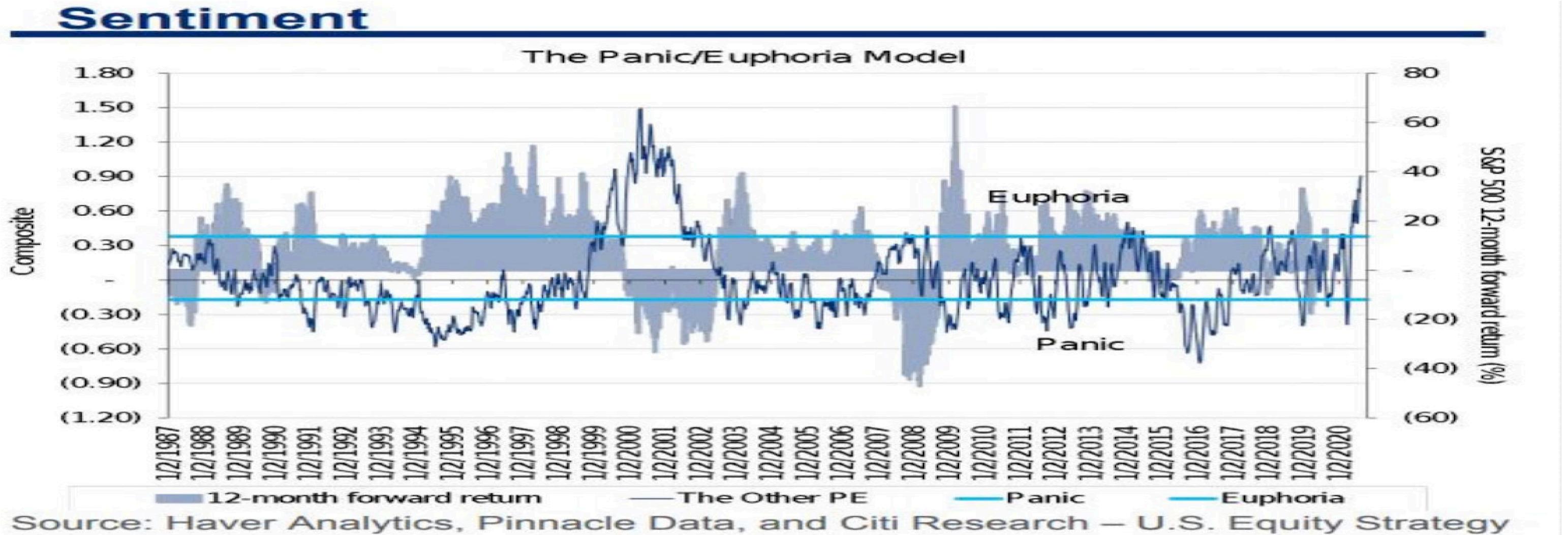
- On the 13. August 2020 the US Government faced a lacklustre demand for its latest record auction of long dated Treasury bonds
- Investors submitted bids for 2.14 times the amount on offer, the lowest bid-to-cover ratio for 30-year bonds since July 2019.
- But is it still not time to panic, in fact, FED can step in and buy bonds to cap the yield curve. In order to do that, the **FED still has plenty of room**, if compared to “Japanification”. In this scenario, USD should weaken and Gold should shine. (Source Crescat)



FED and BoJ holding in Treasuries

Market sentiment

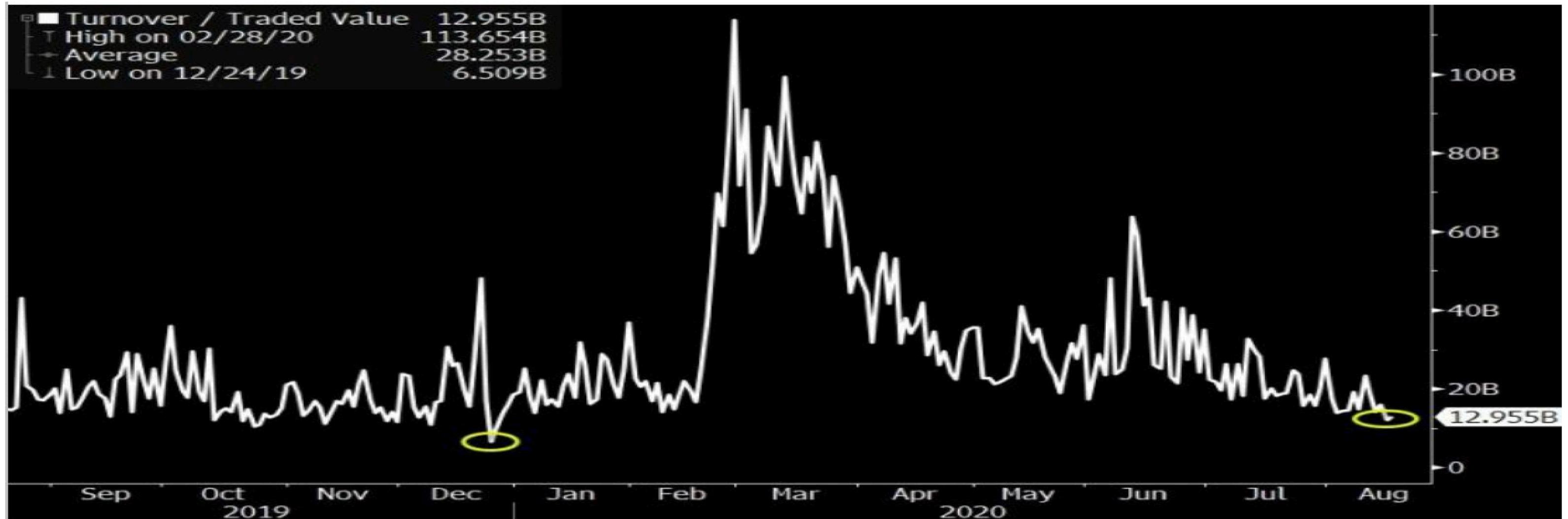
- The Panic/Euphoria Model of Citigroup reached the level of 0.91. Such level was reached only in 2001, therefore according Citigroup, there is now a probability of 95% of a correction in the next 12 months.



The Panic/Euphoria Model Citi Research

Market volume

- New All-Time-High with falling and low volume is not an healthy market situation.
- Last time volume on the S&P 500 Index were that low, it was December 2019.
- At the moment investors are following a buy and hold strategy. As we know, investors are concentrated on FAANG stocks, which are also at the top of the ESG list. Charts of Apple or Tesla are “parabolic” and in our eyes, no tree grows to the sky!



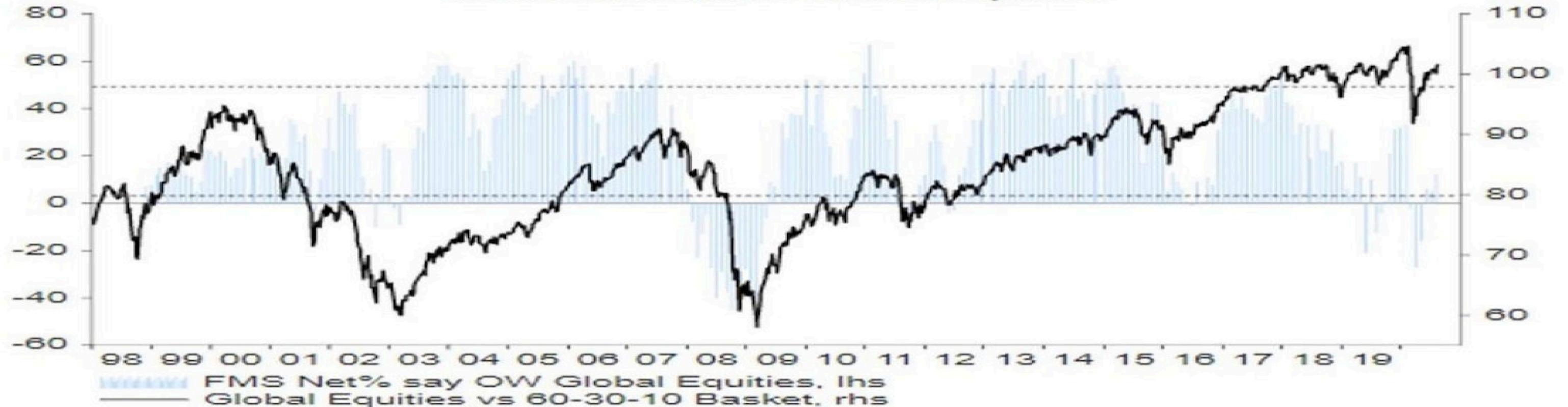
S&P 500 Index volume

Asset manager sentiment

- On the other hand, BoFA Merrill Lynch chart on Asset Manager sentiment shows how asset managers in general are still not overweighted equity, therefore **there are still a lot of very sceptic managers in the market**. This is actually positive for markets, there is still a huge potential of new buyers, as soon managers feel more confident on the economic rebound.

Exhibit 33: Net % AA Say they are overweight Equities

Asset Allocation: Global Equities

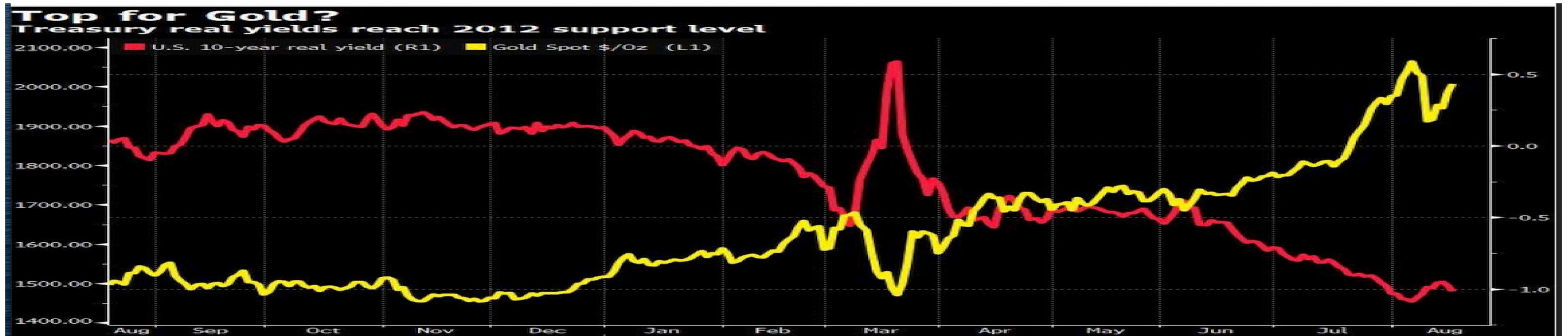


Source: BofA Global Fund Manager Survey

Asset Manager saying to be overweighted equity

Negative rates

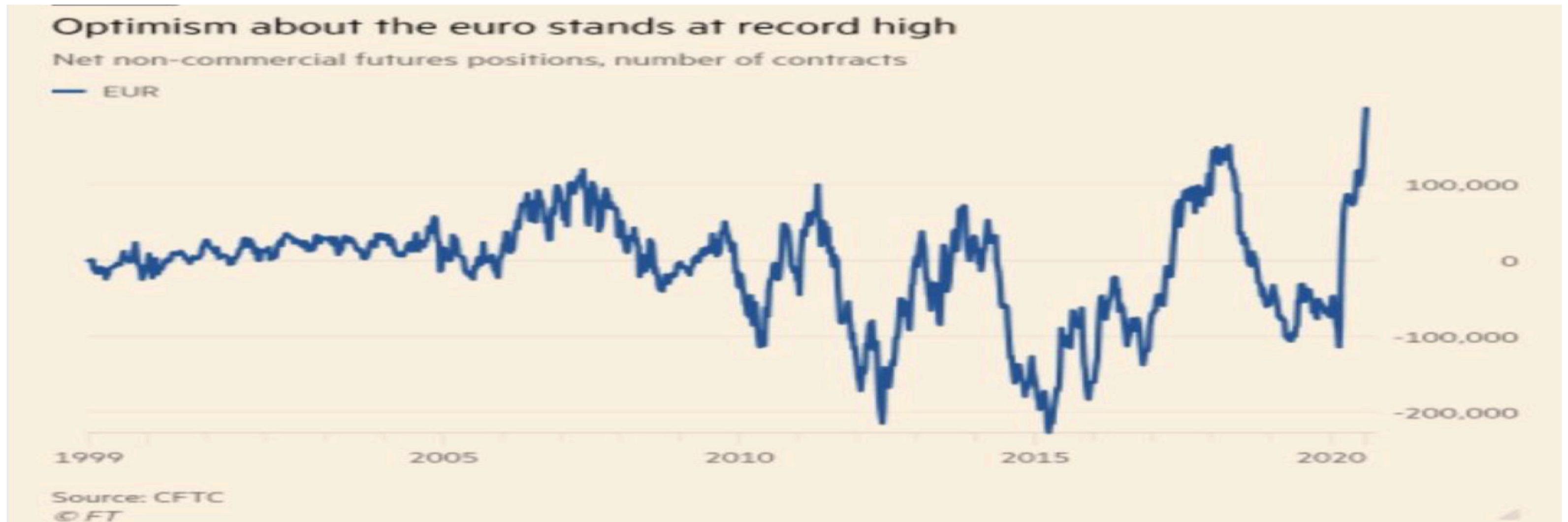
- Interesting point of Mr Charles Freeman (AdapFirst Advisor): FED confirmed to be willing to let inflation run hot, as they are more concerned with employment than stable prices. Therefore the average 2% target is not the focus anymore. In addition, FED is not going to increase rates any time soon. That means, real yields will continue to go down, as inflation creeps up and that is a tailwind for gold and equity markets. At the moment the 10y real yield are at -1% ! Actually very hard to believe, negative rates could fall further!
- A sign of inflation in USA is the fact people need to pay at least USD 5k over asking and to beat the 6 other offers to buy a house!
- KTS would add also the fact, the longer real yield are negative, the bigger the dilemma of purchasing power of pension plans in 20 year time!



Real yield vs Gold price: strong correlation

Trade short USD

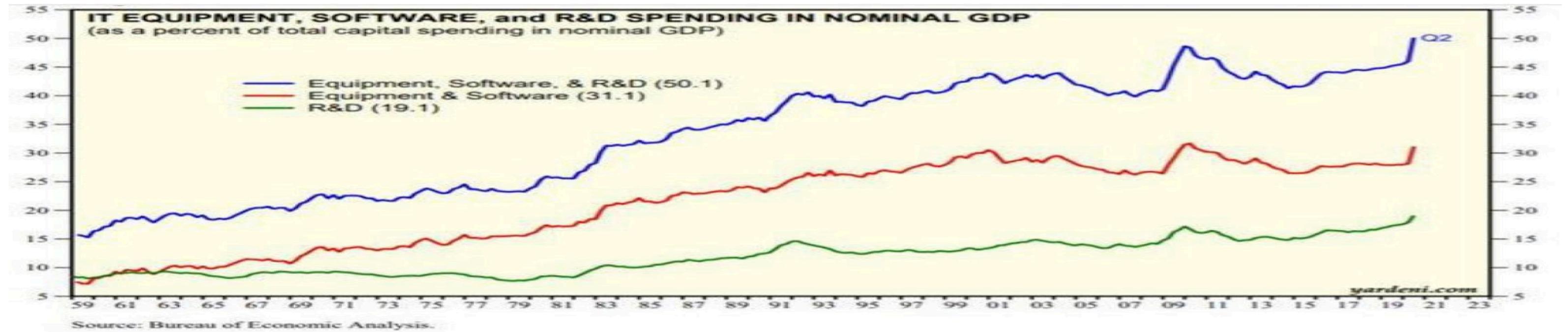
- According to Financial Time, **investors accumulated the largest net long position in EURO futures** since records began in 1999.
- It looks like, the trade short USD is overcrowded on the short term, but we believe on mid to long term, USD going to weaken further. We closed for the moment the hedge on USD and we are going to monitor closely the EURUSD movements.



EUR net long positions

US High-tech spending on IT equipment, software and R&D

- Very interesting argument of Yardeni Research. The **US High-tech spending rose to a record 1.32 Trillion USD during Q2-2020 and jumped to a record 50.1% of total capital spending in nominal GDP**. Equipment and software spending accounted for 31.1% meanwhile R&D 19.1% .
- This is a very reassuring news. Innovation is mostly in biotechnology, robotics, automation, artificial intelligence, nanotechnology and also in 3-D manufacturing, as also electric vehicles, battery storage, blockchain and quantum computing.
- KTS is trying to “catch up” the upside potential in such segments and innovations via or best in class fund Alkeon.



Picture Title

General news

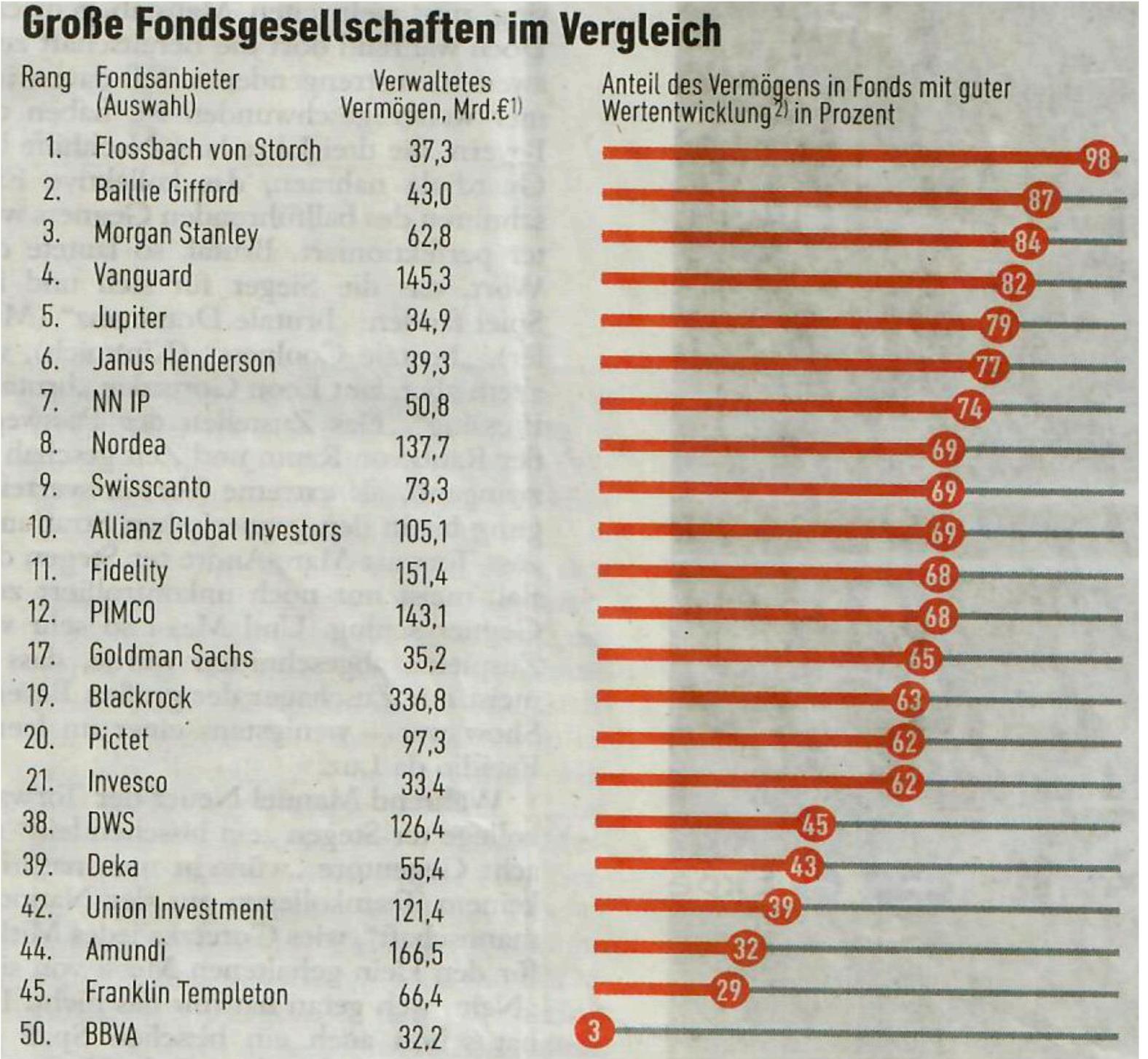
- Back in 2013 Warren Buffett argued, that an investment in Goldmines would be basically speculation. But during the second quarter 2020, **Berkshire Hathaway sold almost all bank positions and bought 1.2% into Barrick Gold.**
- In Turkey locals are selling their cars and houses to buy gold!
- Goldman Sachs sees global **GDP growth swing from -3.3% in 2020 to +6.5% in 2021** and **no rate hikes until 2025**. Markets profited from negative real rates (10y real rates are at -1%) and going forward markets going to profit from re-opening trade and global growth re-accelaration. **GS is expecting a vaccine approval before the end of 2020 and that large shares of the US and European populations will be vaccinated by the end of 2021-Q2 and 2021-Q3 respectively.**
- Goldman Sachs also argues, the population is learning to live with the virus as a key part of their optimism that economic activity can continue to normalise. In addition, smart re-openings with leverage of technology will alter behaviour and reduce the risk of viral transmission. An example is **Singapore with overnight robotic sanitation processes and the automation of administrative processes** such using biometric face recognition and automatic ticketing by visiting gardens and museums. **Therefore GS is bullish on equity markets and is upgrading cyclical exposure (US Small caps, Europe, industrials, infrastructure spending).** Just 2 months ago, GS was seeing a market correction during summer time and a rebound. It looks like, they had to correct themselves, in fact, the new S&P 500 Index target for the end of 2020 is 3'600 points.
- GS also argues, Biden's VP pick Kamala Harris is a well-known moderate, therefore a safe choice for Biden and for markets, even if everyone agree, a **Biden lead + Democrats will hurt equities**, because of the unwind of the Trump tax cuts and probably also having higher nominal and real rates.

General news

- Neue helvetische Bank in Zürich was the first company and probably the only one we know, investing half of the equity capital into Gold. On 13. August 2020 the US company Microstrategy (MSTR US - 1.3bio market cap US listed business intelligence software company) **announced that they own Bitcoin as a “Primary Treasury Reserve Asset”** . According to the interview with the CEO, Mr. Michael Saylor, the rationale behind this move is the conviction that after the recent unprecedented stimulus measures may well have a significant depreciating effect on the long-term real value of fiat currencies and many other conventional asset types, including many of the assets traditionally held as part of corporate treasury operations. This investment reflects our belief that **Bitcoin, as the world’s most widely-adopted cryptocurrency, is a dependable store of value** and an attractive investment asset with more long-term appreciation potential than holding cash.
- Interesting point of Mr Luigi Mario Daniele of PwC Italy: in Italy there are 3’500 clubs/disco with an annual average profit of 4’600 EUR for a total of 16 mio EUR (3’500 clubs a 4’600 EUR p.a.). Owners of Italian clubs are claiming COVID19 damages for 4Bio EUR. **From an official 16mio EUR net profit to an apparently 4 Bio EUR damage?** This can give an idea of the “shadow economy” in Italy. As it was always suspected, the Italian GDP could be twice of the size or even more.....
- Interesting thesis of google on future re-balancing of labor supply/demand. Google is less dramatic than others on job losses because of automation.
 - <https://voxeu.org/article/automation-versus-procreation-aka-bots-versus-tots>

Flossbach von Storch best German Asset Manager

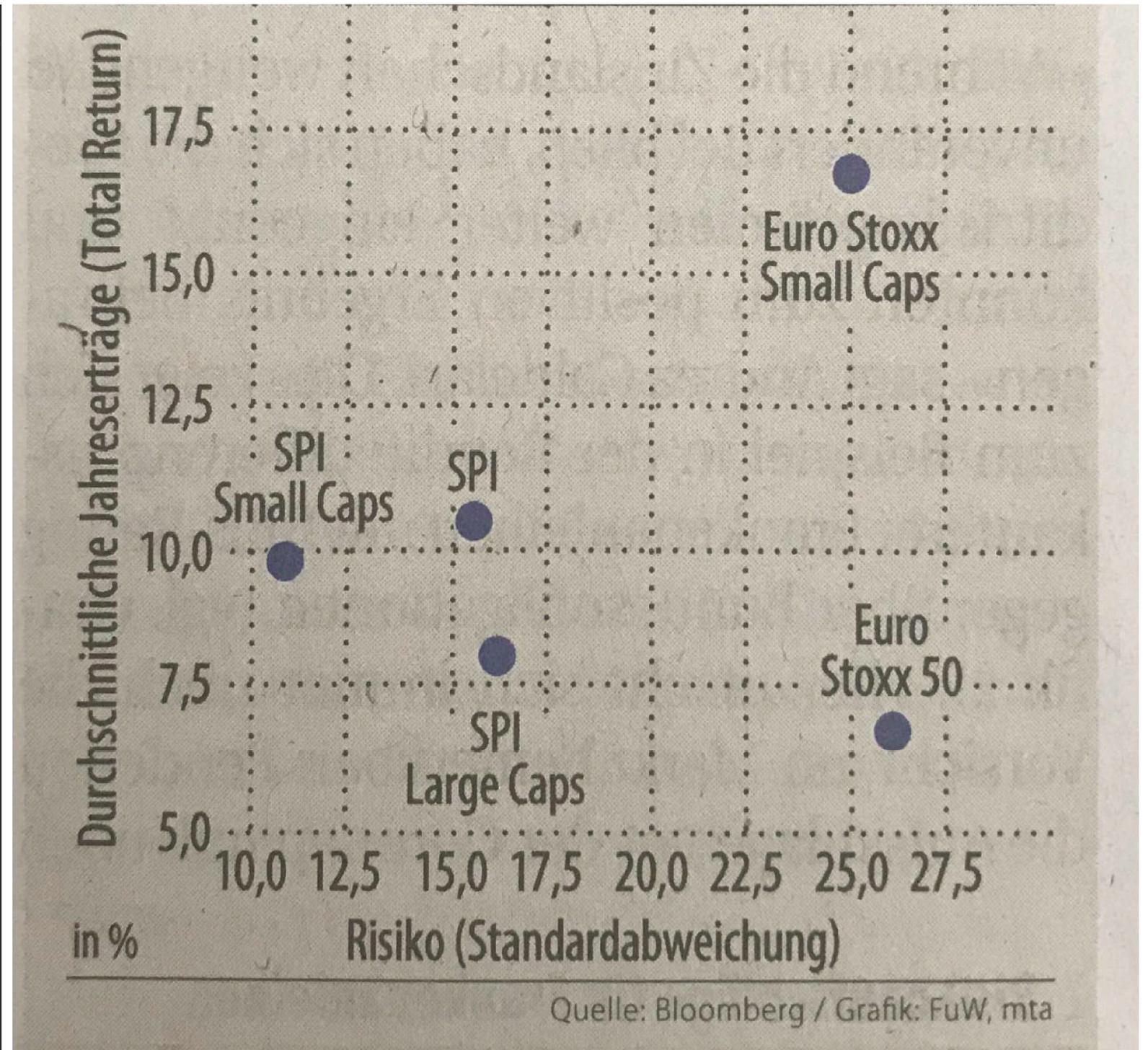
- Interesting article on German medias (Journalist Dennis Kremer), claiming most of the German asset managers like DWS, Deka and Union Investment reached very disappointing performances, meanwhile 98% of the Flossbach funds reached positive performances.
- This is not a surprise to us, being invested with Flossbach over the last 9 years and knowing the manager and the company very well.



Comparison German asset managers

Efficient frontier

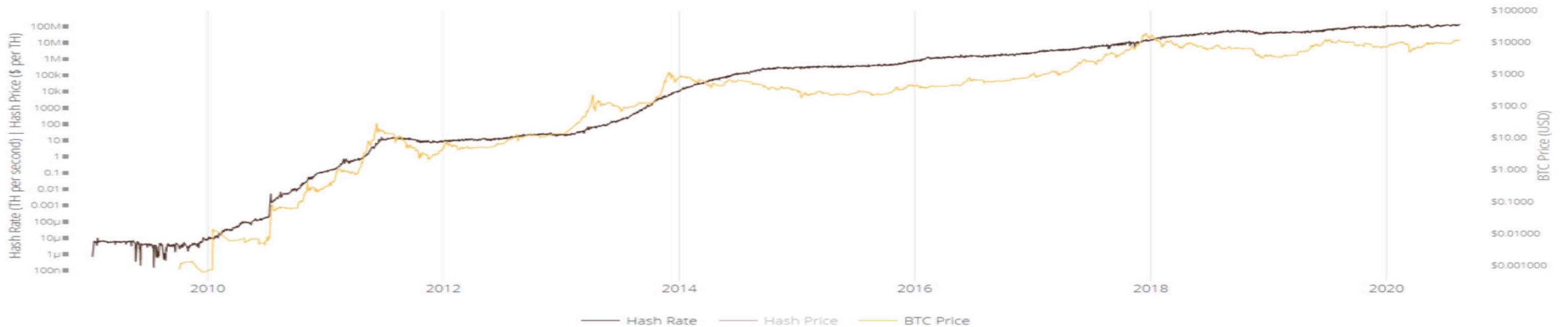
- Interesting chart, showing **Swiss Small caps have the best risk/reward profile.**
- This fact shows how resilient our Swiss mall cap “pearls” are. Swiss small caps could manage the COVID19 distress situation very well!



Average yield vs volatility

Bitcoin price is strongly correlated to Hash rates

- Most of investors still believe, bitcoin price still follows a random path and is manipulated. The correlation between the bitcoin price and Hash rates confirms, there is a strong rational behind fluctuations.
- Hash rates can be defined as the measuring unit of the processing power of the Bitcoin network. The Bitcoin network must make intensive mathematical operations for security purposes. When the **network reached a hash rate of 100 Th/s, it meant it could make 100 trillion calculations per second!**
- Stronger network means also increasing investments in security systems and more transactions means higher costs for miners, but after the halving of May 2020, miners are getting less new Bitcoins to cover costs. Therefore Bitcoin price must increase to cover such infrastructure investments. Mining giant Bitmain just launched the world's largest mining farm in Rockdale, Texas.



Bitcoin price vs Hash price (source charts: woodbull.com and Mr Charles-Henry Monchau of Flowbank.com)

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