

KTS
CAPITAL
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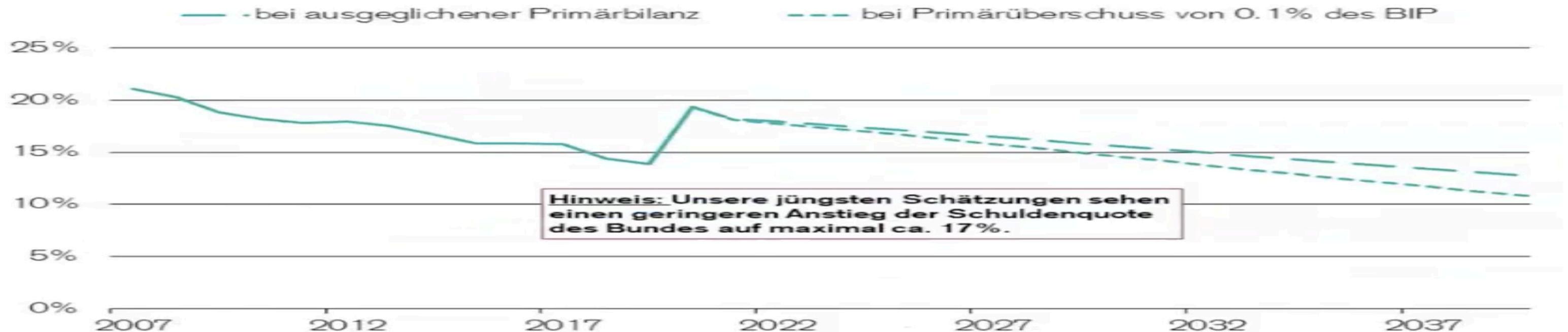


COVID - 19 update

The 11th of September 2020

Negative interest rates: Debt can even pay for itself

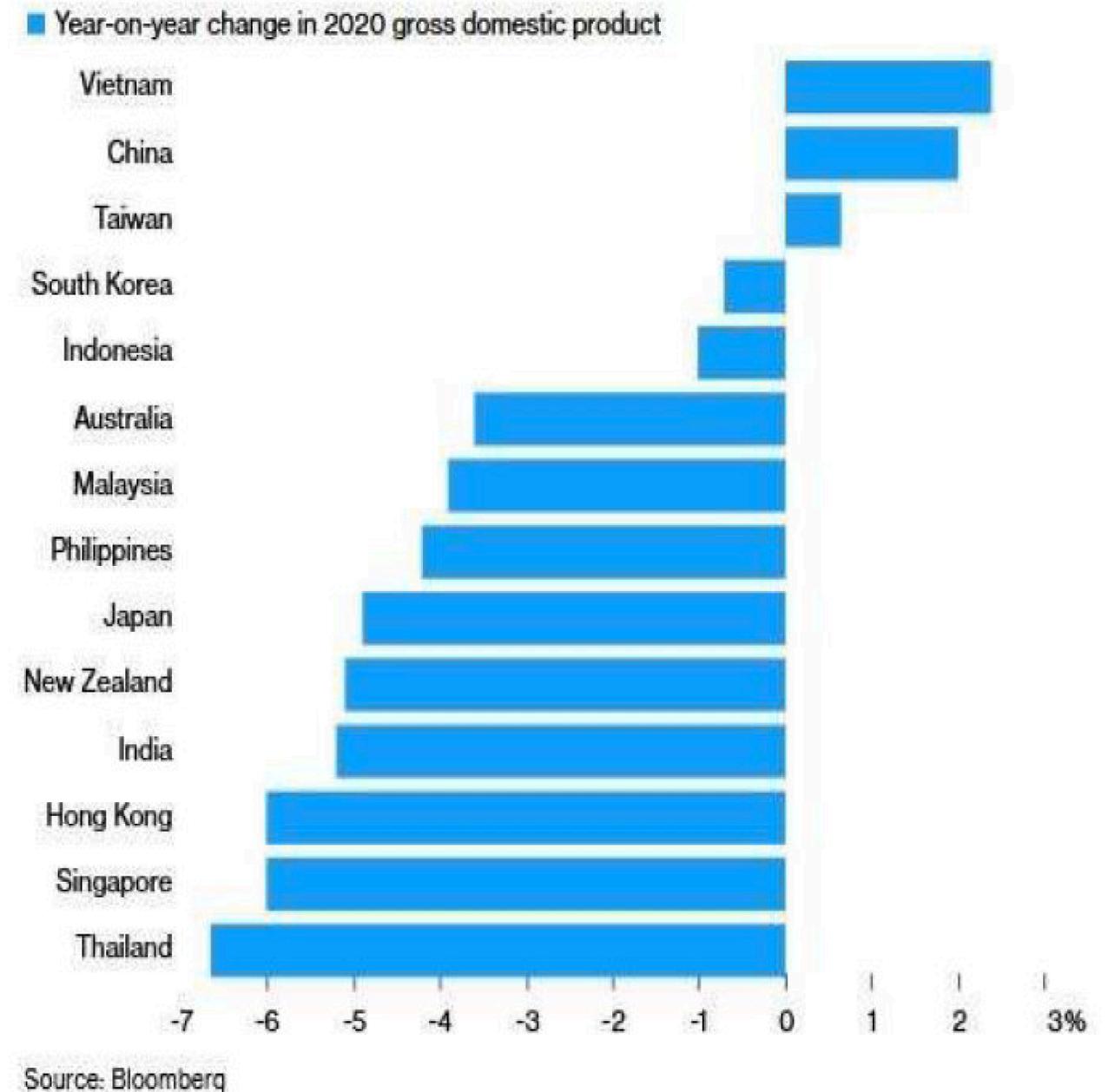
- Credit Suisse held an interesting telephone conference on inflation.
- In all the economic books we know, higher public debt means devaluation of the currency, which is going to cause **imported inflation** and as a consequence, higher interest rates (actual example Turkey, Venezuela, etc.).
- But this is not the case of Japan, Italy or even Switzerland (SNB ballooned the balance sheet from 120 Bio CHF to 990 Bio). This is because with **negative interest rates the higher the public debt, the lower the debt in % to GDP!**
- In addition Credit Suisse argues that equity risk premia went from -2% during years 2000 to a +4% nowadays, mainly because interest rates went from 6% to negative.
- Nasdaq used to have P/E 55 during 2000, nowadays we are still by 25-30 P/E.



Simulation of Credit Suisse on Swiss Government debt in % to Swiss GDP: because of negative interests is going to fall

Vietnam

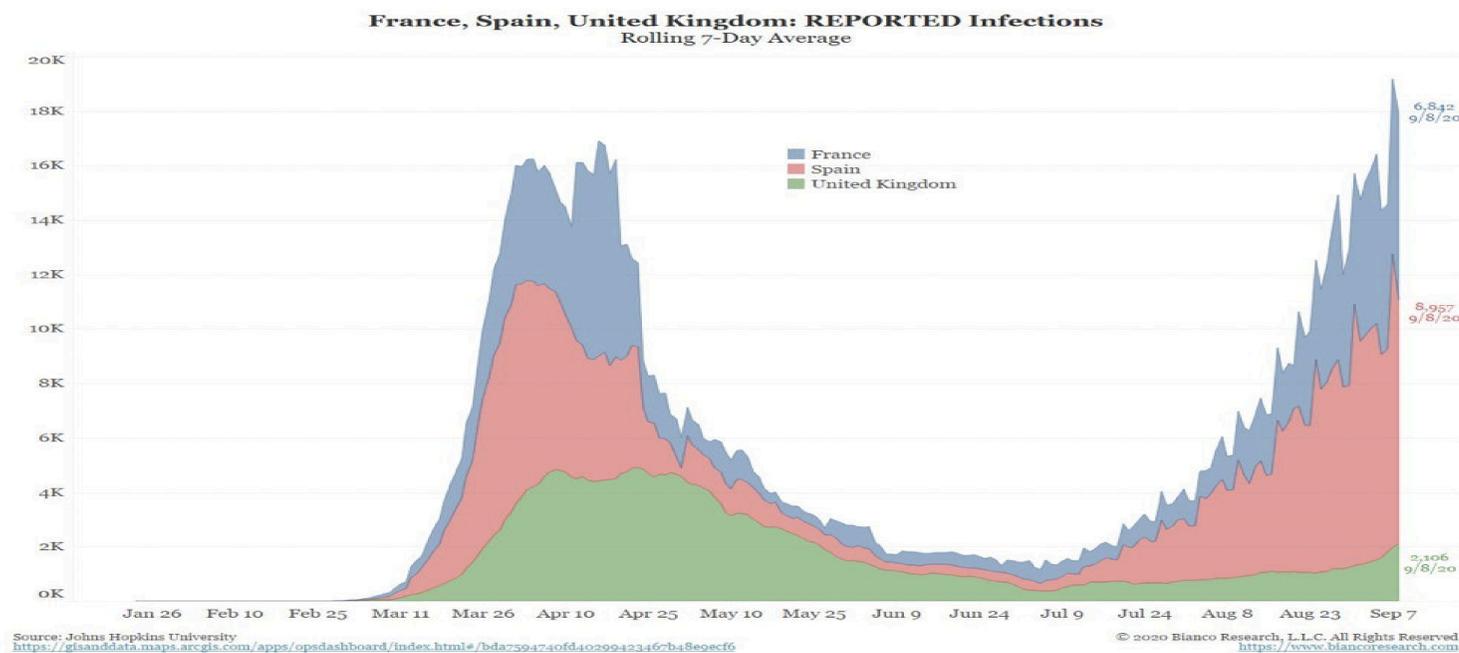
- Vietnam could experience the best worldwide increase of GDP during 2020.
- We are invested in the market via our Emerging Market Basket and we were always arguing that the market is one of the most attractive worldwide, having a young population, low debt and most attractive valuations.
- In addition Vietnam is still profiting from the Chinese labour outsourcing .



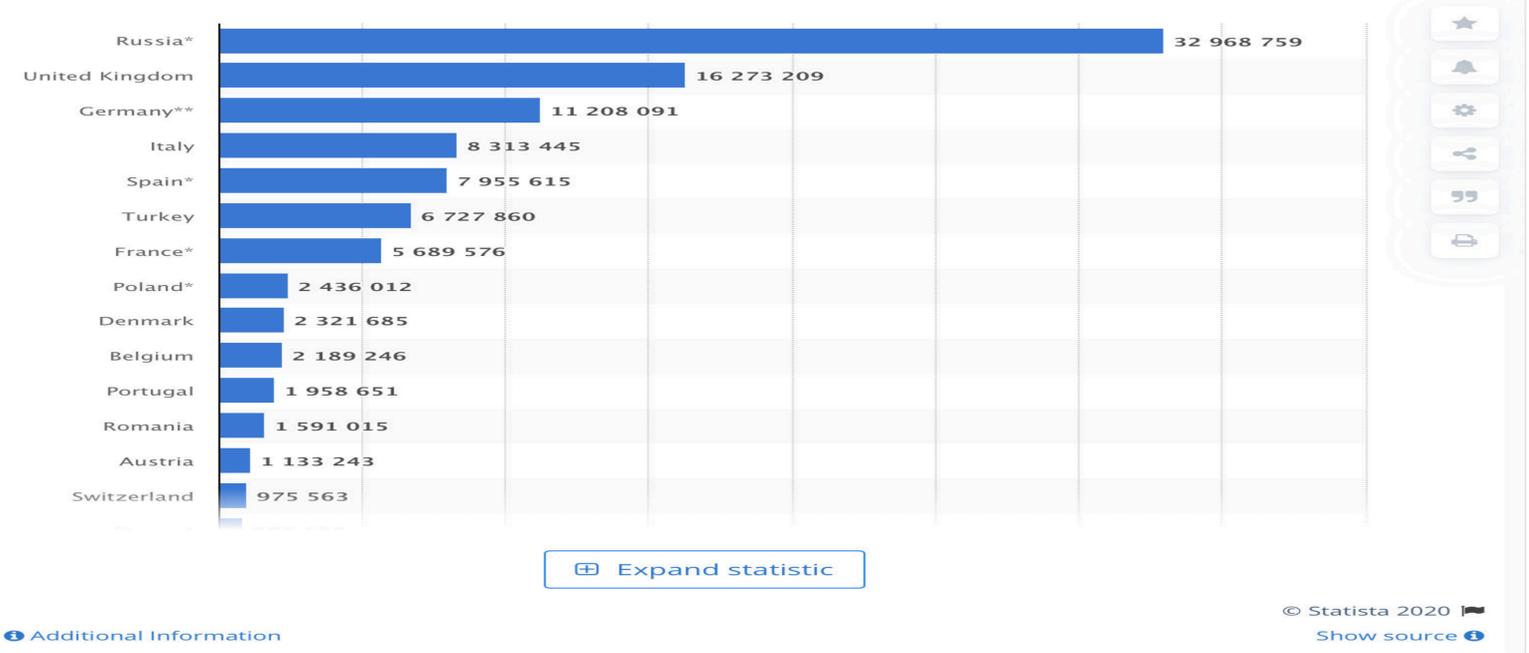
GDP change in 2020 (Source Bloomberg)

Europe is experiencing a second covid wave

- The number of new infections in France and Spain are higher than March 2020, but it looks like, the curve of death cases is flat and very low. We can therefore assert, young people are getting infected but are recovering.
- Most of the countries are not in lockdown and are not planning to do so. In addition, countries are testing COVID-19 at a high speed: Russia tested almost 33mio citizens, followed by UK with 16mio, Germany 11mio, etc.
- According to World Economic Forum, Iceland, Luxembourg and Estonia have tested more of their populations for coronavirus than any other countries.



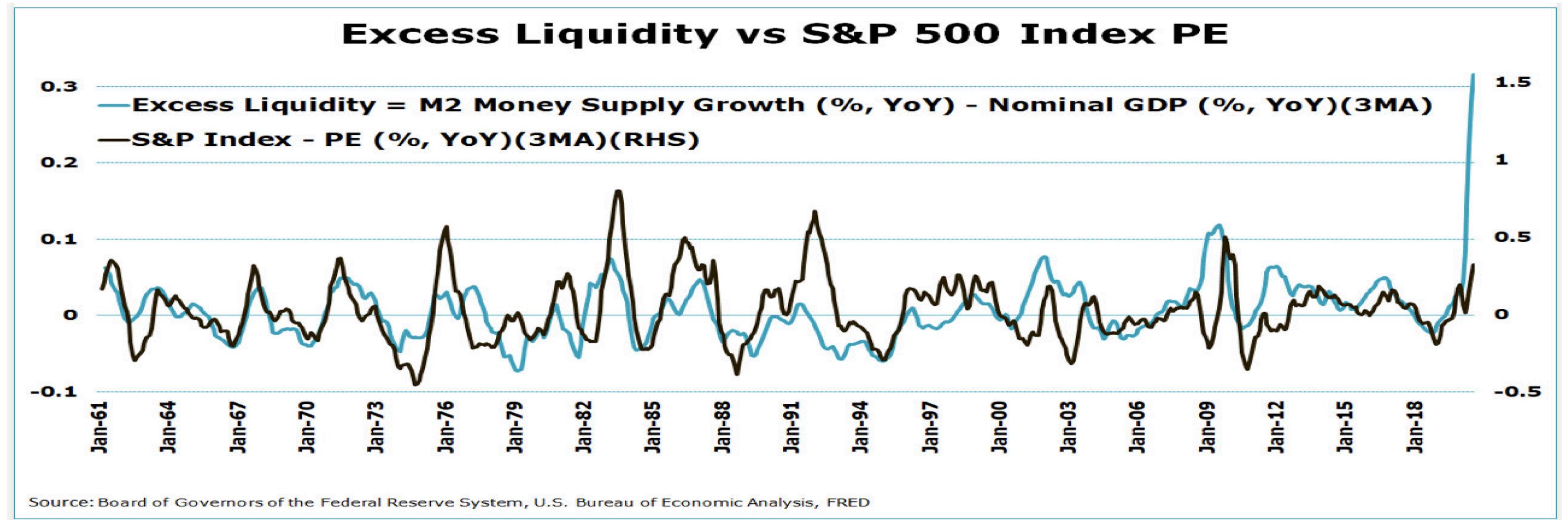
Reported infections (source flowbank)



Number of coronavirus tests carried out as per 27.8.2020 (source Statista)

Excess liquidity vs P/E

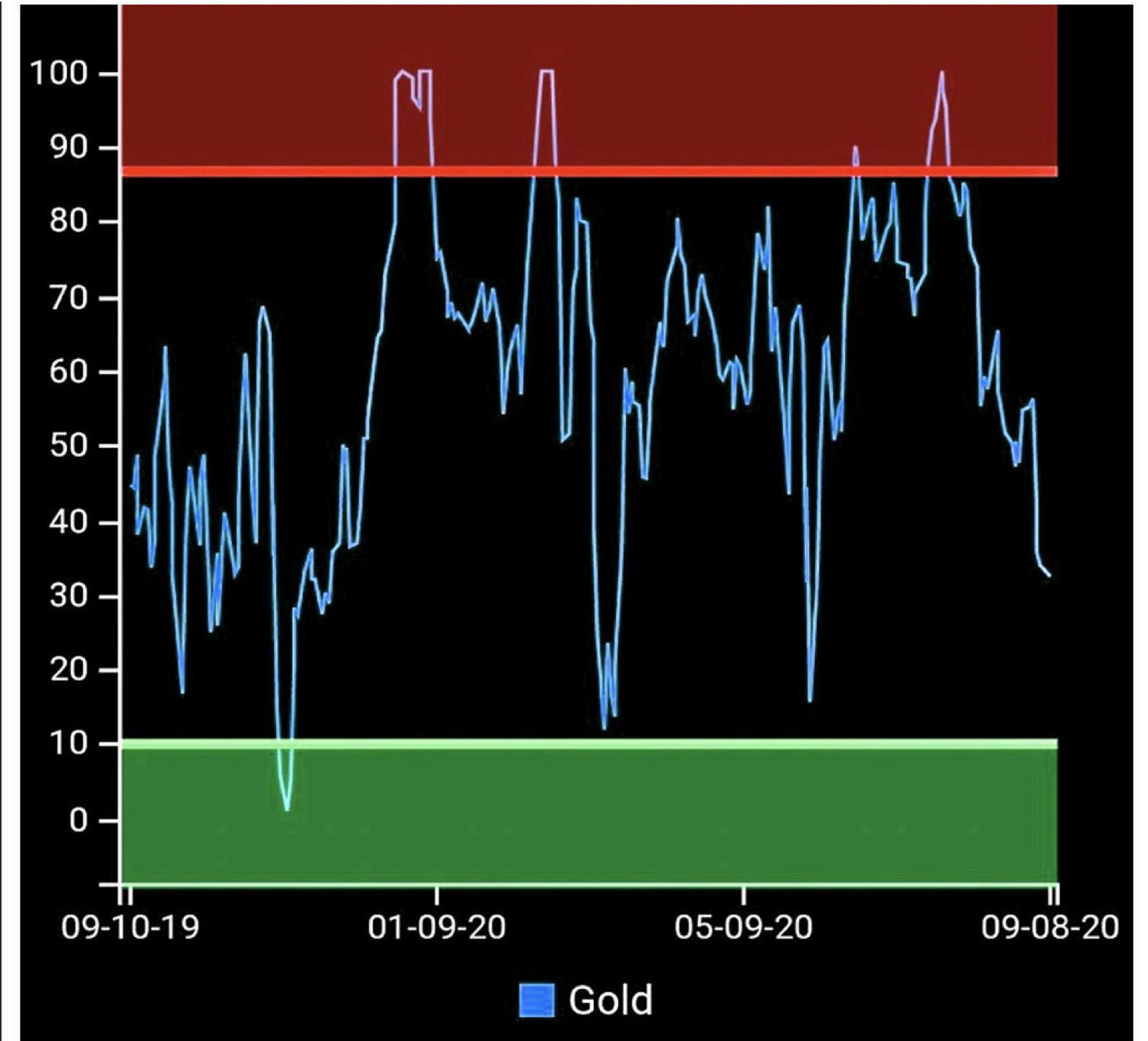
- Based on excess liquidity, the P/E of the S&P 500 Index could actually double from the current level.
- This chart is quite in line with other data, we analyzed in the past.



Excess liquidity vs S&P 500 Index (Source: FED / Flowbank)

Gold sentiment

- Gold sentiment is falling back to more reasonable levels, bullish from a contrarian perspective



Gold sentiment (source WallStJesus / Flowbank)

Nikola

- General Motors announced it's taking an 11% stake (USD 2 Bio stake) in the electric truck maker Nikola (NKLA US). We think that this news would be actually a breakthrough for the company.
- But a day later Hindenburg Research revealed a report claiming Nikola is a fraud! (How to Parlay an Ocean of Lies into a Partnership with the largest Auto OEM in America). Who did the right due diligence???? Hindenburg Research thinks to have gathered extensive evidences, including recorded phone calls, text messages, private e-mails, detailing dozens of false statements by Nikola Founder Trevor Milton.
- It is quite impressive to notice how Hindenburg Research is taking the risk of such report, straight after the GM announcement. They have to be quite confident with their analysis and the evidences in their possession.
- On September 11, Financial Time reported on an article, that apparently (confirmed from a person familiar with the video) Nikola back in 2018 faked a product video, by rolling its Nikola One truck along a downhill stretch of highway, to disguise the fact that the vehicle had no working engine. The video has being edited to make the terrain look flat. In addition Nikola had bought electrical inverters from a supplier while claiming it had made them in-house, covering the branded label with tape during a demonstration video.
- After Wirecard, Luckin coffee and many other scandals, KTS is really amazed, how still nowadays in a time where technology allows everyone to have easy and fast communication and in an fully regulated and apparently transparent world, such fraud can still have place. Such frequency of scandals, remind us back of year 2000 (the movie "boiler room" of VinDiesel is the best and easiest example, how it used to be at the time) or even "The Wolf of Wall Street" and we naively thought new regulations in addition to sophisticated controls, would protect us from such scandals.

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