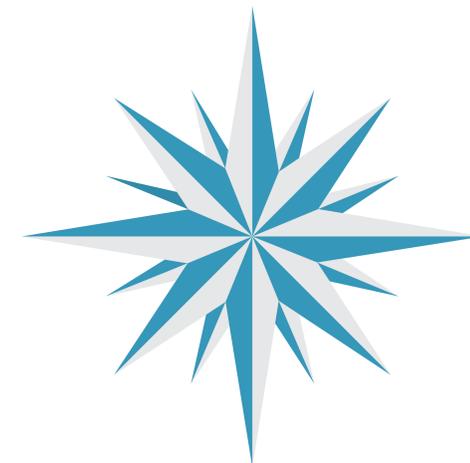


KTS
CAPITAL
MANAGEMENT



KTS weekly market update Nr. 27

The 26th of October 2020

Emerging markets

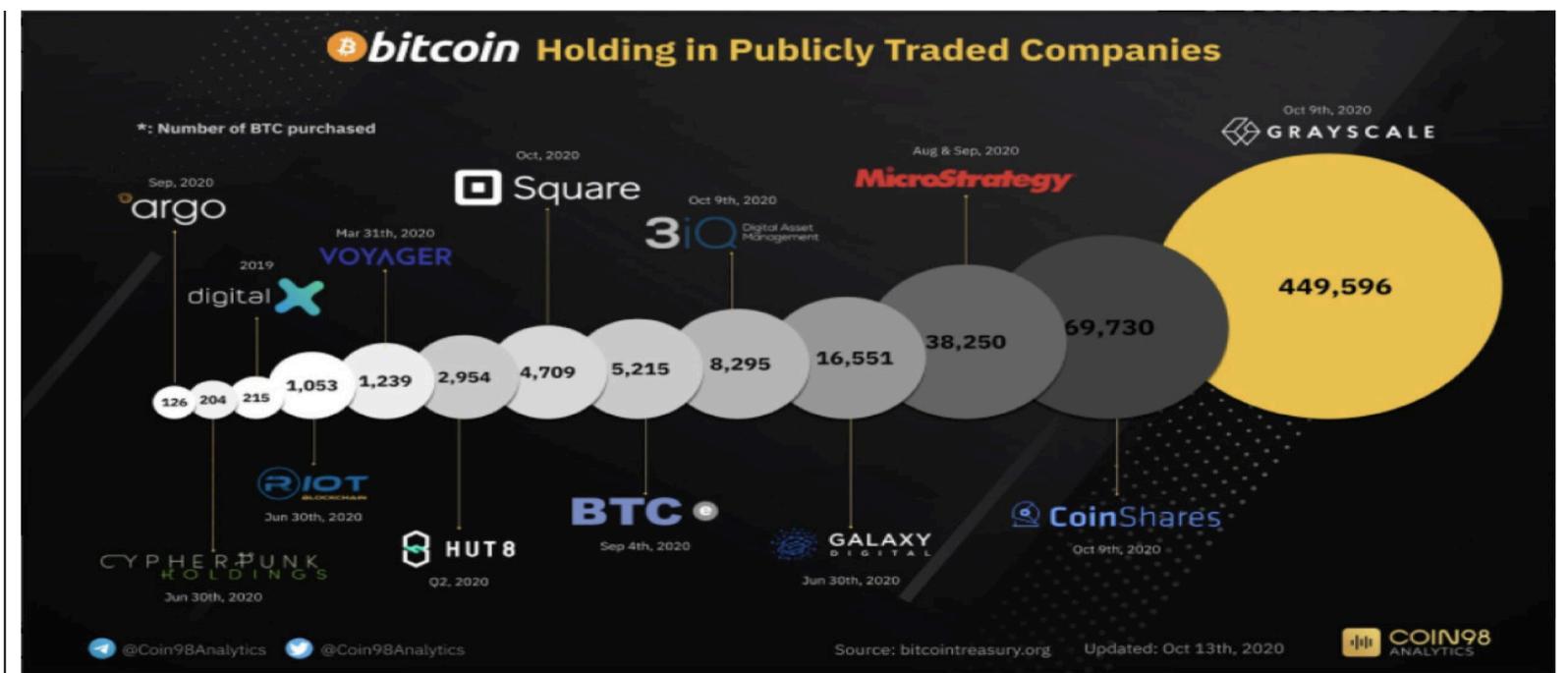
- Our best in class Fund Hermes Global Emerging Markets held a webinar. The following are the main remarks:
 - Emerging Market (EM) valuations have a 27% discount vs. Developed Markets (DM), one of the highest discount ever. The historical average is 20% but during years 2007 to 2011 the discount was almost inexistent.
 - Meanwhile over 60% of Emerging Market companies are still experiencing over 5% growth in 12m forward sales vs. only 30% in U.S. (Japan 15% , Europe 20%)
 - Despite similar ROE, EM valuations Price/book are at 34% discount vs. historical average of 18% , with much lower leverage and rising cash in EM companies.
 - EM companies are in the middle of the most interesting growth of middle class population (87% world population in EM vs 13% in Rest of the world), in addition to growth in digital economy and focus on infrastructure. EM market cap is only 25% of the total, 75% is still Rest of the world.
 - After Covid19 EM must catch up on healthcare capacity, capability and restructure enterprises' supply chain and inventory model. EM has also to accelerate technology automation, online shopping, cloud and cybersecurity. Also households are changing their buying behavior and transport preferences. Therefore the fund is focussing on 5G, data centers, digitalization and Industrial IoT, financial/insurances, healthcare companies and also logistic.
 - Also in EM everyone is trying to increase effort in Green House Gas (GHG) emissions and ESG.

Breakout of Bitcoin

- Bitcoin is breaking out the 12'500 USD highs of August 2020. Next resistance are the highs of June 2019 around 14'000 USD.
- Honestly speaking the most important breakout was back in July 2020, where the Bitcoin price “went out” of the long term downtrend channel, starting a new bull cycle. Therefore the next important resistance is actually the highs of 2017 at 20'000 USD.
- New public traded ETFs allow also institutional investors to participate to Bitcoin’s bull market. We believe that the combination of inflows in such investment vehicles in addition to the same strong fundamentals like Gold (accommodative and expansive monetary policy of Central Banks) and the news of Paypal, Visa and Mastercard, offering the possibility to pay, store and buy/sell Bitcoin, are increasing the strength of the rally.
- Basically only the inflows in the biggest public traded company Grayscale is covering 77% of all the new bitcoin issues. Grayscale alone has 449'596 Btc (more than USD 5 Bio AuM).



Breakout Bitcoin



Bitcoin holdings at public companies (coin98/FlowBank)

Millennials retirement accounts (including 401ks)

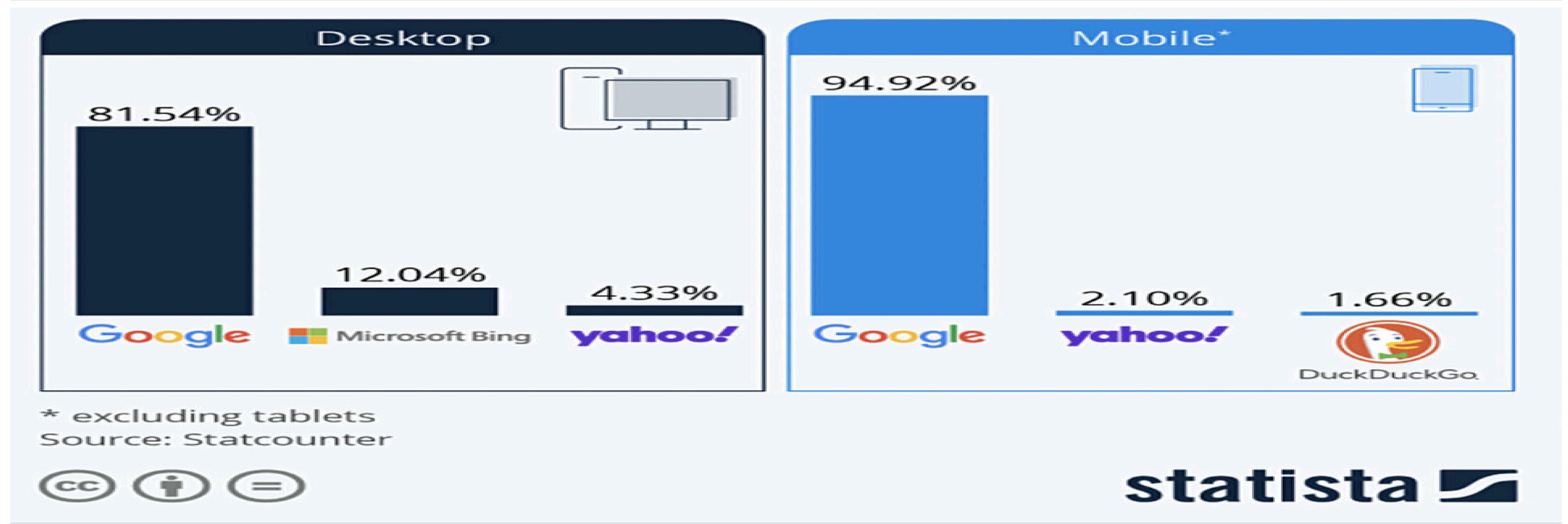
- Charles Schwab showed that the Grayscale Bitcoin Trust is the 5th largest holding in Millennials retirement accounts.
- As explained multiple times, we think that Bitcoin is the gold for the younger generation. This statement of Charles Schwab is finally the proof.

MILLENNIALS		GEN X		BABY BOOMERS	
AMAZON.COM INC	7.87%	APPLE INC	10.52%	APPLE INC	9.19%
APPLE INC	6.18%	AMAZON.COM INC	7.16%	AMAZON.COM INC	5.32%
TESLA INC	3.22%	BERKSHIRE HATHAWAY	2.37%	BERKSHIRE HATHAWAY	2.75%
FACEBOOK INC	3.03%	FACEBOOK INC	2.26%	MICROSOFT CORP	2.69%
GRAYSCALE BITCOIN TRUST	1.84%	MICROSOFT CORP	2.16%	FACEBOOK INC	1.43%
BERKSHIRE HATHAWAY	1.73%	TESLA	1.45%	VISA INC	1.25%
WALT DISNEY CO	1.68%	ALPHABET INC.	1.30%	ALPHABET INC.	1.23%
NETFLIX INC	1.58%	NETFLIX	1.29%	AT&T INC	1.17%
MICROSOFT CORP	1.53%	ALIBABA GROUP HOLDING	1.23%	BOEING	1.08%
ALIBABA GROUP HOLDING	1.39%	VISA INC	1.23%	ALIBABA GROUP HOLDING	0.98%

Holding retirement accounts per generation (Charles Schwab / FlowBank)

Google search dominance

- As everyone knows, the U.S. Justice Department filed an Antitrust claim against Alphabet Inc.
- There is the additional risk, such claim could trigger an onslaught of private antitrust lawsuits.
- The last of such claims on monopolization was filed 20 years ago against Microsoft!
- It looks like the market is relaxed and the stock price is not reacting. For how long? And are other big Techs going to follow?



Google's search dominance, Market share of the 3 most popular search engines in the U.S. In September 2020 (Statista / FlowBank)

Market balance

- Recently we experienced new restrictions in Europe against covid19. Italy introduced the strongest virus restrictions since the end of the national lockdown in May, while Spain and France are going to impose national curfew. Ireland has a 6 weeks (full?) lock down and other countries are reacting, especially tightening mobility restrictions. France announced, that a state of emergency could extend until February 2021.
- We think that no country can afford another shutdown, surely not without an additional support to its economy via a new stimulus plans. The US stimulus package is still in negotiation but we see a high probability of a positive outcome. In Europe for the moment, no additional Government supports are planned.
- China's top leaders meet to plan next 5 years as coronavirus rebuilding begins and we should expect positive news.
- Finally, the Biotech company Biontech is expected to have the first covid19 vaccine approval during November 2020?
- Conclusion: the market is actually quite stable, despite new restrictions and lockdowns. We are quite surprised that we are seeing strong technical fundamentals (small caps experience new highs, cyclical sector re-acceleration and bullish technical patterns developing), but we think that we should keep 15% liquidity and a short position of 1/3 of the equity exposure (in the Optima Dynamic FoF with a strict Stop loss) for the moment, to balance the short term risks. We are closely monitoring, when would be the right moment for an "all in".

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