

## **COVID-19 analysis - update**

---

*As per 31 March 2020*

# P/E valuations and first analyst downgrades

- First analyst downgrades show expected EPS decline for 2020: -36%
- At the moment such analysis are purely based on historical data, not on effective updated of companies outlooks. The total US GDP should be -5% for 2020.
- At the moment analysts expect a U shape rebound, not a V shape.

## Was bedeutet der Gewinneinbruch für den Aktienmarkt?

### Anatomie eines Bärenmarktes

MSCI World	Drawdowns	EPS Drop
1970s	-44.7%	-20.9%
1980s	-18.5%	-20.7%
1990s	-29.0%	-34.9%
2000s	-50.8%	-37.5%
GFC	-55.8%	-57.7%
Covid-19	-34.0%	-
<b>Average</b>	<b>-38.1%</b>	<b>-34.1%</b>

- In der Regel entspricht während eines Bärenmarktes der Kurs- dem Gewinneinbruch.
- Wir erachten dies als realistisch, da keine Gründe für Ausnahmen vorliegen (wie etwa 1970 und 2000).
- Der von uns erwartete Gewinneinbruch entspricht in etwa dem erlittenen Kursverlust.
- Trotz starker Verluste haben die Börsen somit nicht überreagiert.
- Auf Basis des geschätzten Gewinnes beträgt das KGV rund 23. Frühere Wendepunkte lagen bei 20.5 (2003) und 18.2 (2009).

## Einbruch der Gesamtwirtschaft und Unternehmensgewinne

### Auswirkungen

- Fiskalische und geldpolitische Massnahmen helfen Konsumenten und Unternehmen beim wirtschaftlichen Überleben, können aber einen Nachfrageeinbruch und den Unterbruch von Lieferketten nicht schmälern.
- Nicht alle Unternehmen können gerettet werden, doch grosse Dominoeffekte bleiben aus.
- Nach dem starken Einbruch im 2. Quartal, kann die Wirtschaft nur schrittweise hochgefahren werden. Die Wirtschaft verläuft U-förmig.

### Auswirkungen auf die Gesamtwirtschaft (BIP)

	Q1	Q2	Q3	Q4	2020
USA	-0.2%	-7.8%	0.1%	3.2%	-5.0%

### Auswirkungen auf die Unternehmensgewinne

	Q1	Q2	Q3	Q4	2020
EPS	1%	-120%	-30%	0%	-36%

# Translated in PE and valuations

- S&P 500 Index at 2'280 points discounts a 30% EPS decline with 20x multiple.
- With a PE of 18 times, we are discounting 22% decline on EPS.
- Markets are discounting a lot, but are not cheap, if we take into consideration a U shape rebound. Therefore we are going to still have volatility in the next 2 months, while companies are going to update their outlooks.

		trailing P/E ratio										
		20	19	18	17	16	15	14	13	12	11	10
		-8%	-13%	-17%	-22%	-27%	-31%	-36%	-40%	-45%	-50%	-54%
EPS	0% \$163	3260	3097	2934	2771	2608	2445	<b>2282</b>	2119	1956	1793	1630
	-1% \$161	3227	3066	2905	2743	2582	2421	2259	2098	1936	1775	1614
	-2% \$160	3195	3035	2875	2716	2556	2396	2236	2077	1917	1757	1597
	-3% \$158	3162	3004	2846	2688	2530	2372	2214	2055	1897	1739	1581
	-4% \$156	3130	2973	2817	2660	2504	2347	2191	2034	1878	1721	1565
	-5% \$155	3097	2942	2787	2632	2478	2323	2168	2013	1858	1703	1549
	-6% \$153	3064	2911	2758	2605	2452	<b>2298</b>	2145	1992	1839	1685	1532
	-7% \$152	3032	2880	2729	2577	2425	2274	2122	1971	1819	1667	1516
	-8% \$150	2999	2849	2699	2549	2399	2249	2099	1949	1800	1650	1500
	-9% \$148	2967	2818	2670	2522	2373	2225	2077	1928	1780	1632	1483
	-10% \$147	2934	2787	2641	2494	2347	2201	2054	1907	1760	1614	1467
	-11% \$145	2901	2756	2611	2466	2321	2176	2031	1886	1741	1596	1451
	-12% \$143	2869	2725	2582	2438	<b>2295</b>	2152	2008	1865	1721	1578	1434
	-13% \$142	2836	2694	2553	2411	2269	2127	1985	1844	1702	1560	1418
	-14% \$140	2804	2663	2523	2383	2243	2103	1963	1822	1682	1542	1402
	-15% \$139	2771	2632	2494	2355	2217	2078	1940	1801	1663	1524	1386
	-16% \$137	2738	2601	2465	2328	2191	2054	1917	1780	1643	1506	1369
	-17% \$135	2706	2571	2435	<b>2300</b>	2165	2029	1894	1759	1623	1488	1353
	-18% \$134	2673	2540	2406	2272	2139	2005	1871	1738	1604	1470	1337
	-19% \$132	2641	2509	2377	2245	2112	1980	1848	1716	1584	1452	1320
	-20% \$130	2608	2478	2347	2217	2086	1956	1826	1695	1565	1434	1304
	-21% \$129	2575	2447	2318	2189	2060	1932	1803	1674	1545	1416	1288
	-22% \$127	2543	2416	<b>2289</b>	2161	2034	1907	1780	1653	1526	1399	1271
	-23% \$126	2510	2385	2259	2134	2008	1883	1757	1632	1506	1381	1255
	-24% \$124	2478	2354	2230	2106	1982	1858	1734	1610	1487	1363	1239
	-25% \$122	2445	2323	2201	2078	1956	1834	1712	1589	1467	1345	1223
	-26% \$121	2412	<b>2292</b>	2171	2051	1930	1809	1689	1568	1447	1327	1206
	-27% \$119	2380	2261	2142	2023	1904	1785	1666	1547	1428	1309	1190
	-28% \$117	2347	2230	2112	1995	1878	1760	1643	1526	1408	1291	1174
	-29% \$116	2315	2199	2083	1967	1852	1736	1620	1504	1389	1273	1157
	-30% \$114	<b>2282</b>	2168	2054	1940	1826	1712	1597	1483	1369	1255	1141

# Possible economy recovery scenarios

---

- Most of analysts are expecting an U recovery as base scenario.
- President Trump is arguing to finish the lockdown period at the end of April. Europe could reopen slowly after the 19 of April.
- In USA 50% of the population has 400 USD saving for “raining days”.  
Therefore, the 1k USD from the fiscal package going to help for a maximal period of 1 month. This fact explain the pressure of Trump to reopen as soon as possible.  
Afterwards the risk of a moratorium cascade is enormous.  
The huge spike in US jobless to 32.1% of the labor force is already the confirmation.
- But analysing the “Road map to reopening” of AEI (US National Coronavirus Response), the Phase 3, which is the fully normalisation of economy, would be “once a vaccine has been developed, has been tested for safety and efficacy, and received FDA emergency use authorization, states can move to Phase 3” .  
<https://www.aei.org/research-products/report/national-coronavirus-response-a-road-map-to-reopening/>
- What that means translated to banned travelling? Tourism? Normalisation?

# Sweden taking a different path

---

- Sweden is not only worrying about the financial consequences of a lock down, but also arguing, recessions kill too (mainly increase of alcoholism and suicides)
- Efficient redistribution of resources (stewards of SAS helping health care sector)

<https://uk.news.yahoo.com/swedens-resistance-lockdown-raises-questions-155335578.html>

- Economist Edward Yardeni is also proposing to slowly move to normalisation, but elderly people should prolong isolation.

# Chinese PMI rebound

- Chinese PMI again over 50, at 52. Chinese economy again in expansion

## China says manufacturing activity expanded in March, defying expectations of a contraction

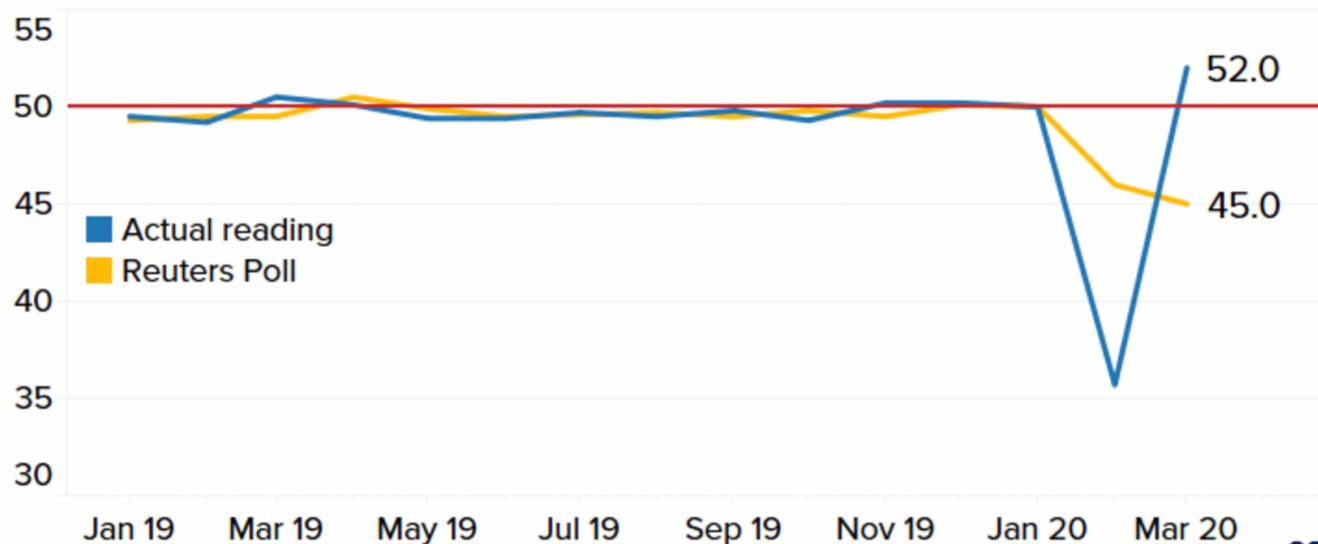


Published On - March 31, 2020

TIM ■ MACRO

### China official manufacturing PMI

A reading above 50 indicates expansion, while below 50 indicates contraction



SOURCE: National Bureau of Statistics of China, Refinitiv



# Diverse comparisons of mortality rates

---

- Deaths by Coronavirus are still far from the normal deaths of Seasonal Flu
- Annual traffic fatalities is by 313'903, suicides at 249'904 (Sweden is actually more worrying of such increase!)
- Mortality on statistics is too high, because statistics are wrong:  
<https://www.spectator.co.uk/article/The-evidence-on-Covid-19-is-not-as-clear-as-we-think>

## Worldwide Deaths from January 1<sup>st</sup> - March 25<sup>th</sup>, 2020

21,297 - Deaths by Coronavirus  
113,034 - Deaths by Seasonal Flu  
228,095 - Deaths by Malaria  
249,904 - Deaths by Suicides  
313,903 - Deaths by Traffic Fatalities  
390,908 - Deaths by HIV/AIDS  
581,599 - Deaths by Alcohol  
1,162,481 - Deaths by Smoking  
1,909,804 - Deaths by Cancer  
2,382,324 - Deaths by Hunger  
9,913,702 - Deaths by Abortion

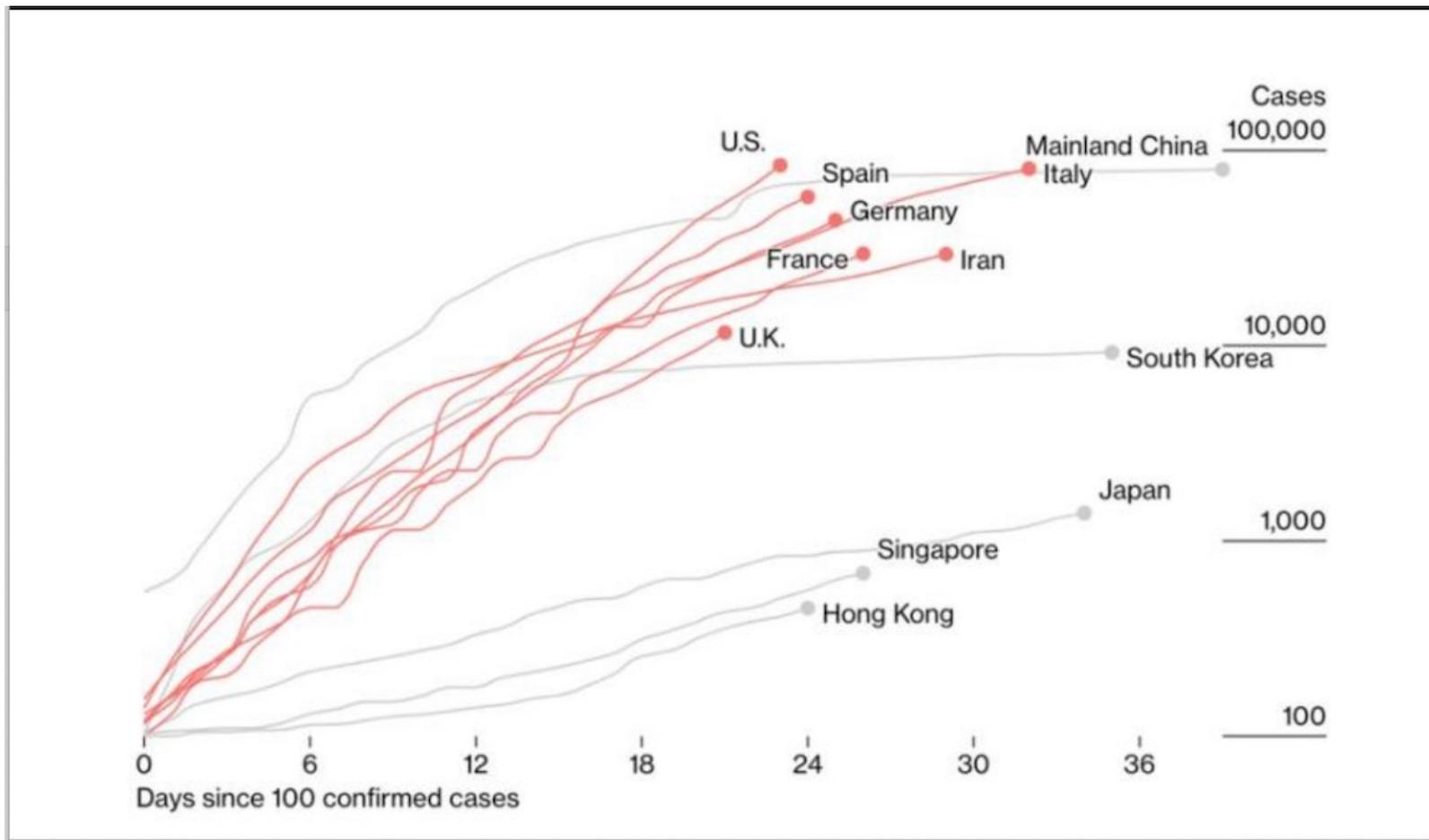
# Medicaments

---

- **Abbott Lab has received emergency use authorization from the US FDA for the fastest available molecular point of care test for the detection of novel Coronavirus: 5 minutes**
- **Gilead product Remdesivir looks like the most realistic solution. The company is evaluating 2 studies in China.**
- **JNJ has selected vaccine candidates, but emergency use authorization from FDA should be in early 2021.**
- **Regeneron and partner Sanofi announced that the first patient has been dosed in its Phase 2/3 global trial evaluating Kevzara. The US-based trial is expected to enroll up to 400 patients.**

# Development new cases

- In Europe, ex UK, number of new cases are generally falling compared to the average of the last 3 days  
<https://www.worldometers.info/coronavirus/coronavirus-cases/#daily-cases>
- US and UK are still around 10 days from the peak (suppose to be 30-35 days)



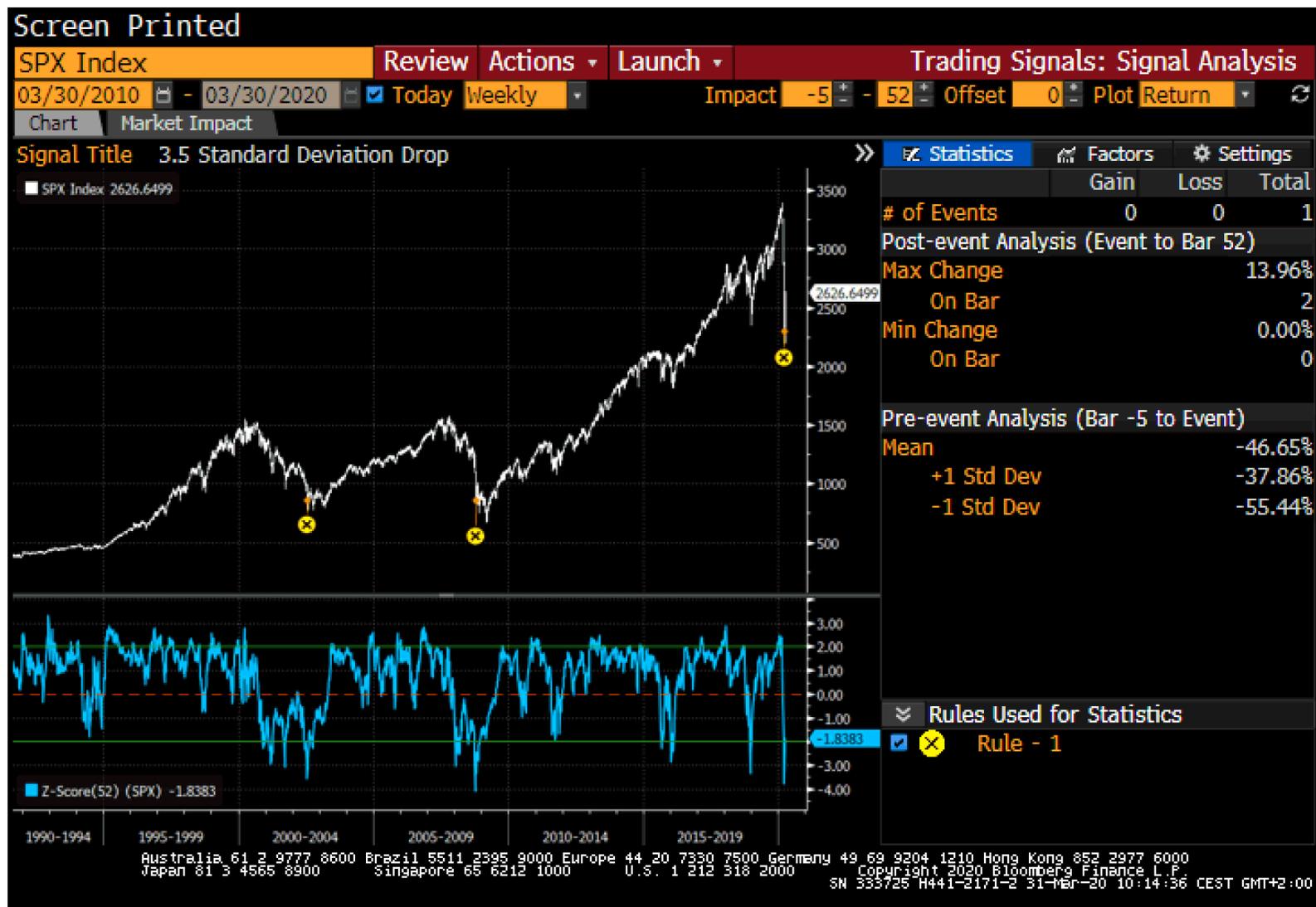
# Technical analysis

---

- There are a few strong technical signals, showing a clear market bottom, but with some volatility over next months:
  - S&P dropped 3.5 standard deviations from its 52 week average
  - Market Breadth really oversold
  - DAX at price/book
  - Comparison with 1987
  - Record low for precious metals juniors relative to gold
  - IG spreads of 298 basis points are at their cheapest level since the global financial crisis. Since 1990, when spreads have been greater than 250bps, 12-month subsequent returns have been positive in 14 out of 17 cases, with a median return of 15%

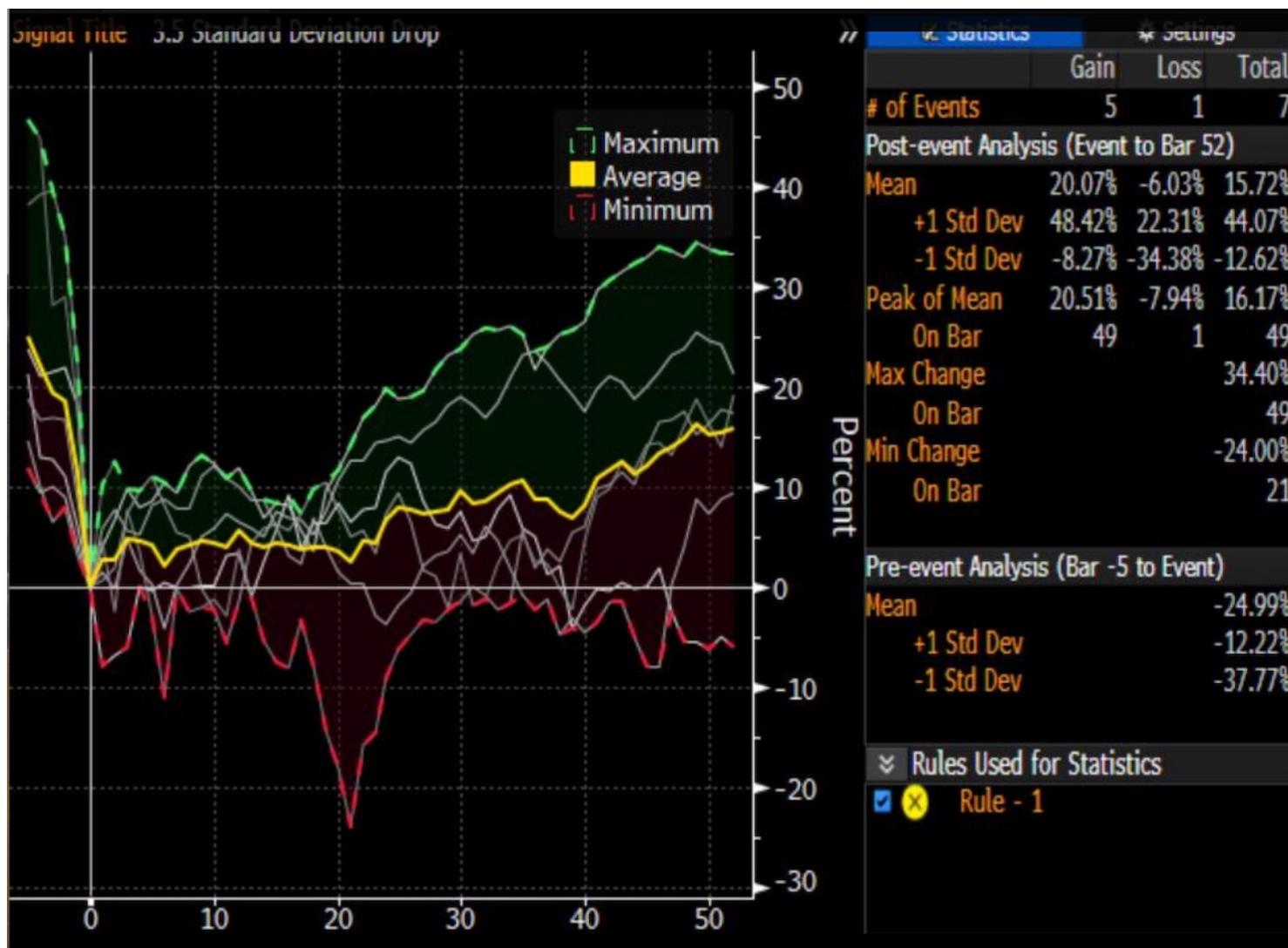
# Technical analysis (TSIG functionality in Bloomberg)

- S&P Index has dropped 3.5 standard deviation from its 52 weeks average
- From 1990 it happened only 3 times



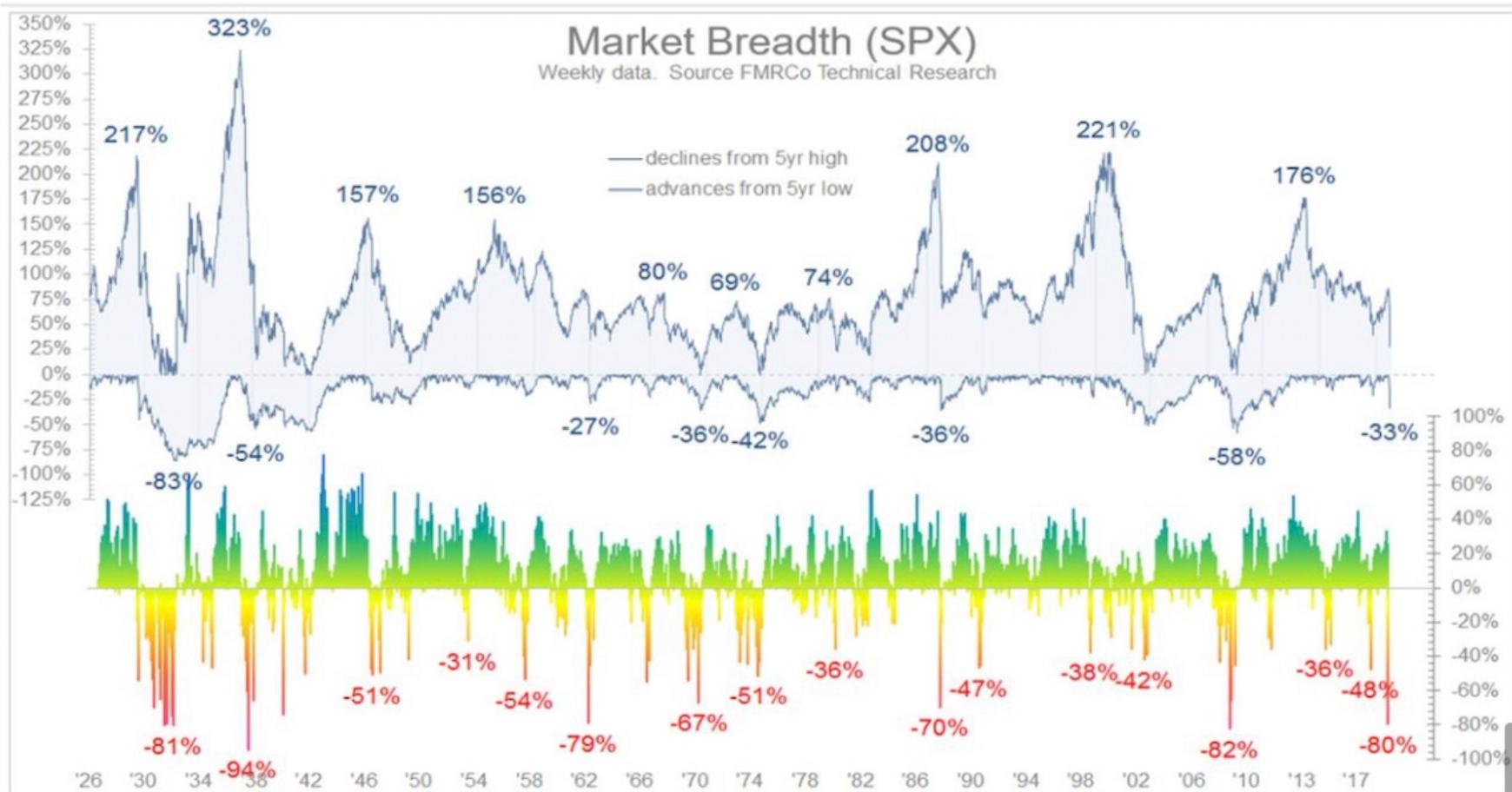
# Technical analysis

- But volatility will persist during the next 52 weeks.
- Apart 1929, we can affirm, the rebound is on average +15% over 52 weeks



# Technical analysis

- Market Breadth SPX: drawdowns & rallies (top)
- New 52 week highs minus new 52 week lows: in March 2020 was -80%
- It was the 3rd lowest in history after 2008 and 1930s.
- Also Bull/Baer Ratio was incredible depressed



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 03/23/2020. Past performance is no guarantee of future results.



# Technical analysis

## German DAX Index is trading at Book Value



# Technical analysis

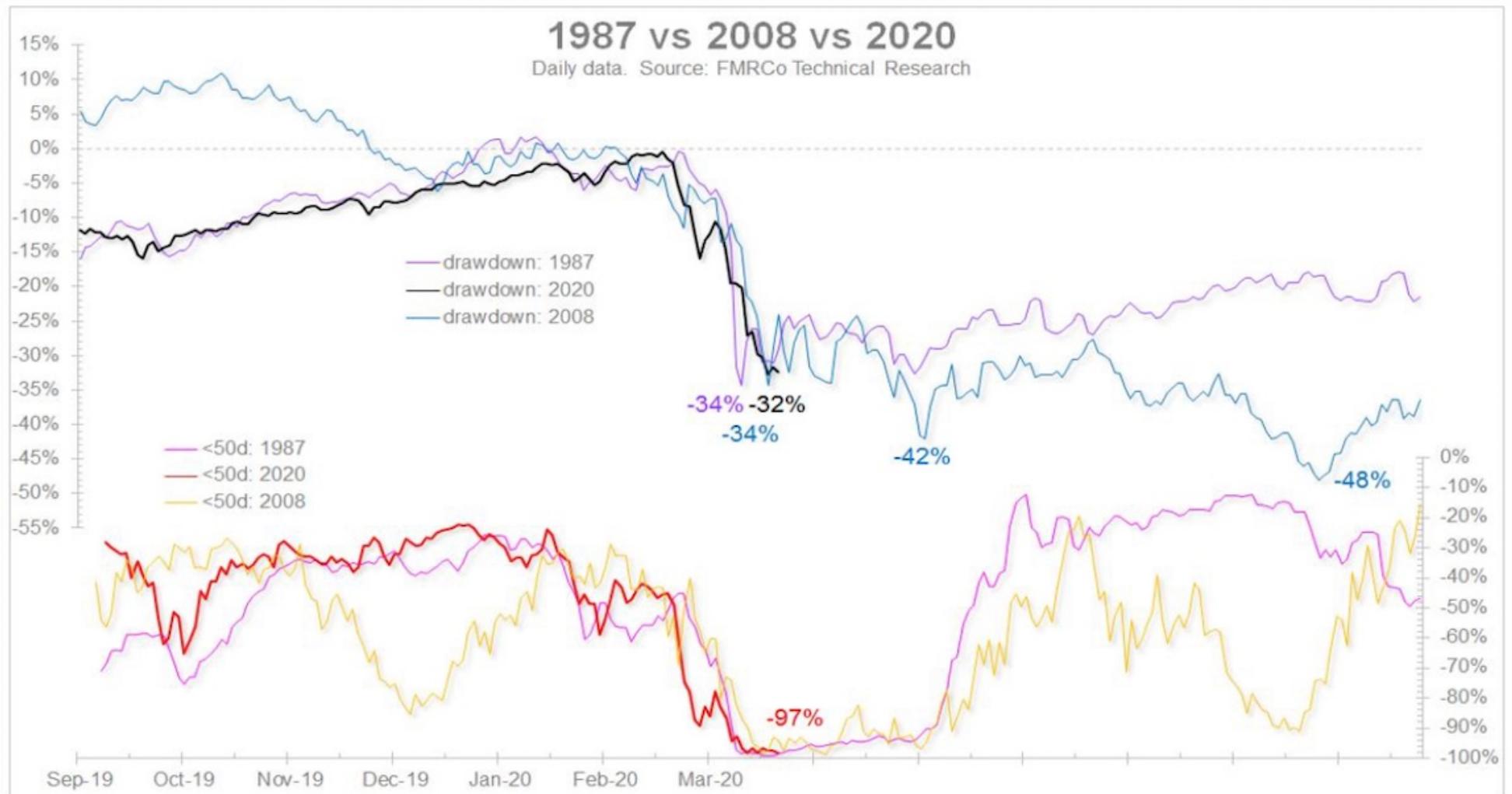
- Best comparison is the correction during 1987
- Today, we could retest the lows in 2 months time, which make perfectly sense, if we take into consideration the coming Earning season.
- The technical rebound was due to general rebalancing before the end of Q1 and the start of Central Banks QEs.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 03/17/2020. Past performance is no guarantee of future results.

# Technical analysis

## Comparison with 2008: new lows possible by July/August 2020

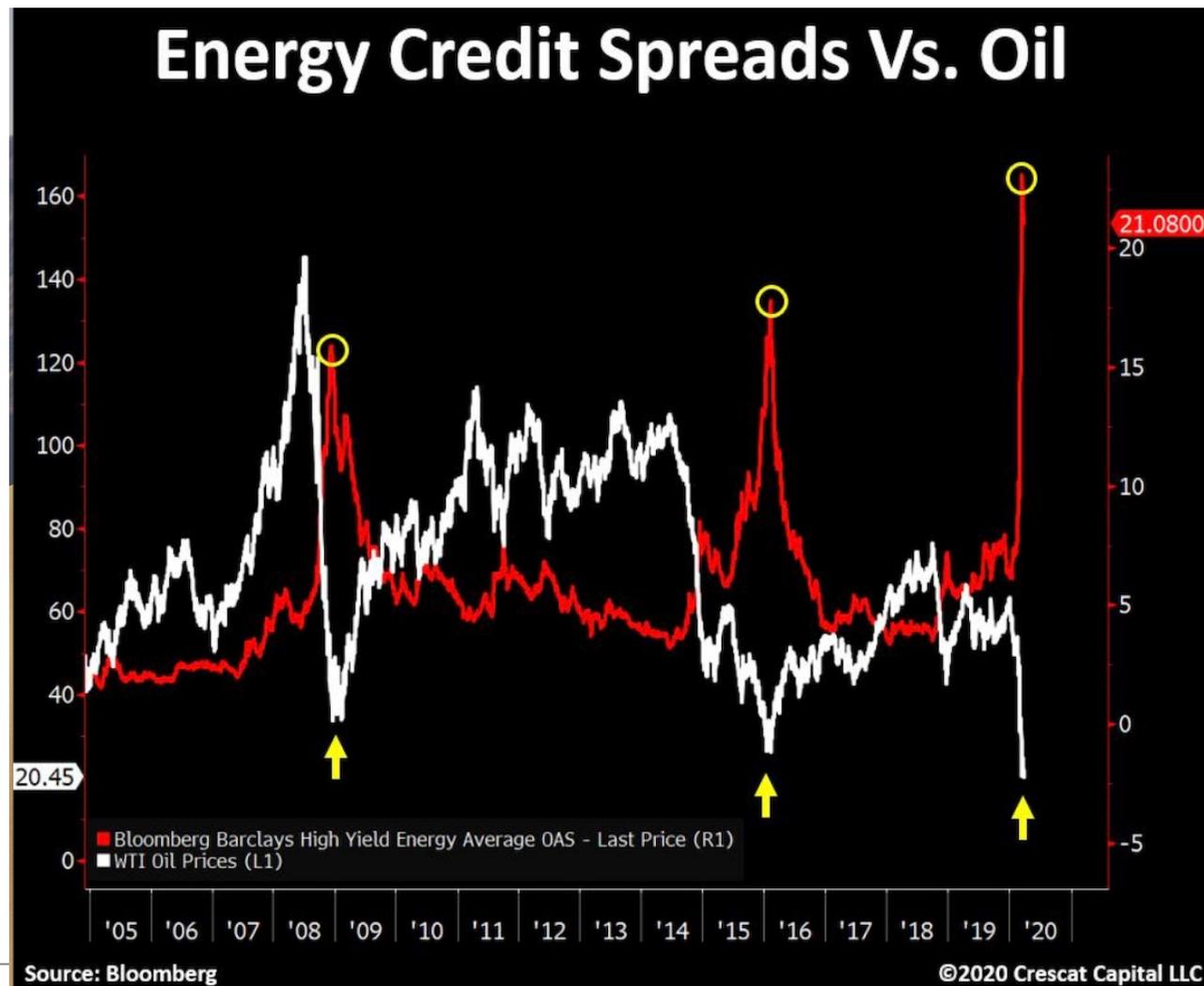


Data source: FMRCo Technical Research. Data as of 03/23/2020. Past performance is no guarantee of future results.  
Top Panel: SPX. Bottom Panel: Top 3000 Stocks



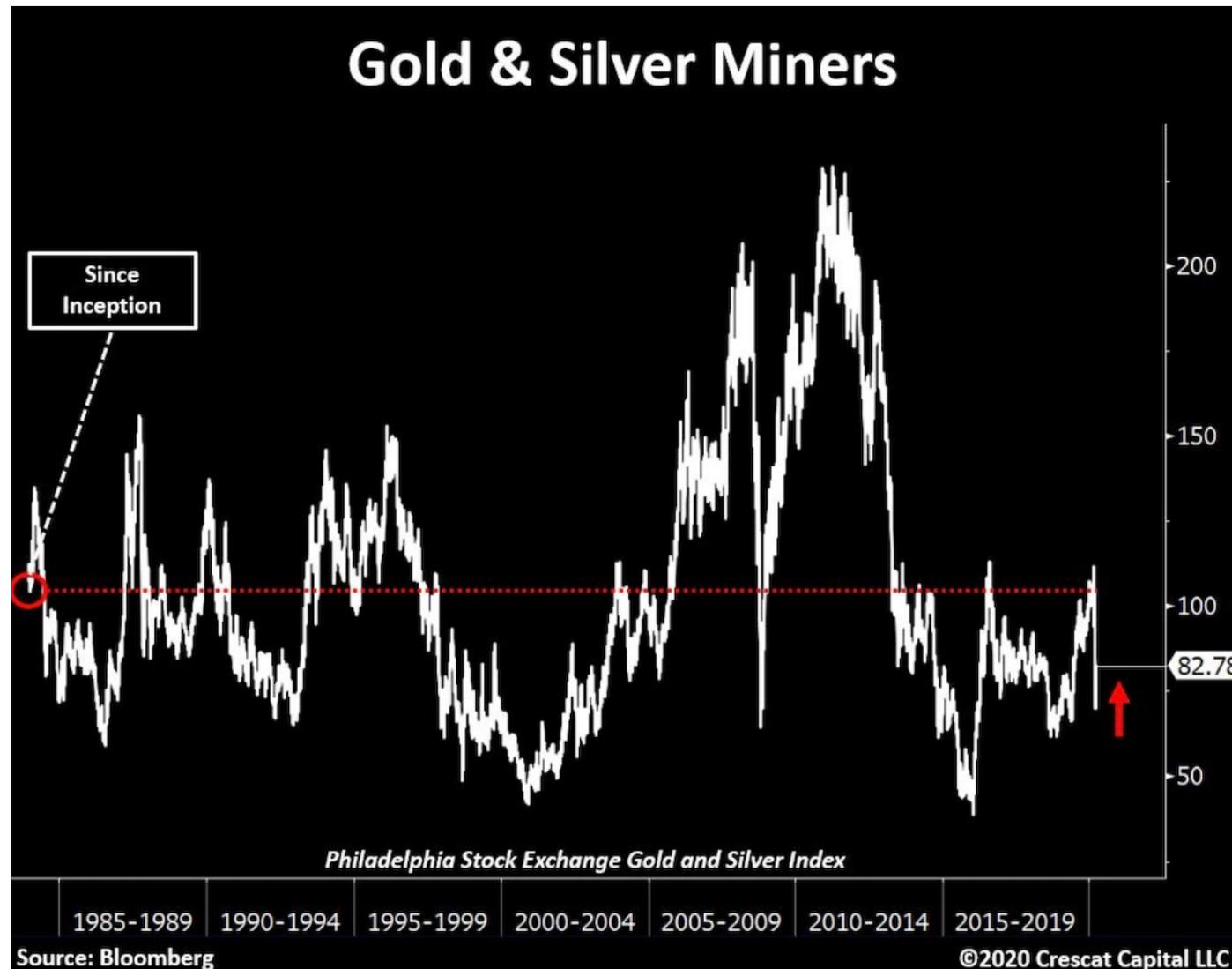
# Technical analysis

- Energy high-yield credit spreads just reached record levels, while WTI prices are at 18 year lows.
- Previous divergences marked major turns in oil.
- Oil in the process of bottoming? Or this time is different?



# Technical analysis

- Valuation of Goldmines never being that attractive, especially in an environment of QEs, bullish for Gold.



# Some encouraging news from the investor community

---

- **Blackrock chairman's Fink: the world will get through this crisis. The economy will recover. And for those investors who keep their eyes not on the shaky ground at our feet, but on the horizon.....ahead, there are tremendous opportunities had in today's markets.**
- **Warren Buffet: Buy when there's blood in the streets**
- **German Billionaires are buying depressed shares like Lufthansa.**
- **Ackman's Pershing Square takes off coronavirus hedges and invest, adding to long portfolio**
- **Our best in classes funds started to reduce hedges**
- **General rebalancing at the end of Q1 2020**
- **BoJ (Japanese Central Bank) was buying stocks**
- **China central bank interventions and was buying stocks**

# Disclaimer

---

This report has been prepared by KTS Capital Management AG (“KTS”) / VICTRIX AG (“VICTRIX”) and is intended for information purposes only and does not constitute an offer or an invitation by, or on behalf of, KTS/VICTRIX to make any investments. Opinions and comments reflect the current view of The Investment Team of KTS/VICTRIX and not that one of a third party. We assume no obligation to ensure that other such publications are brought to the attention of any recipient of this publication. Investments in the asset classes mentioned in this publication may not be suitable for all recipients. This publication has been prepared without taking into account of the objectives, financial situation or needs of any particular investor. Before entering into a transaction, the investor should consider the suitability of the transaction to his individual circumstances and objectives. This publication does not constitute investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. We recommend that investors assess the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences with a professional advisor. The information and data herein are obtained from sources believed to be reliable but no guarantee can be made that the information is accurate or complete.