

**KTS**  
CAPITAL  
MANAGEMENT



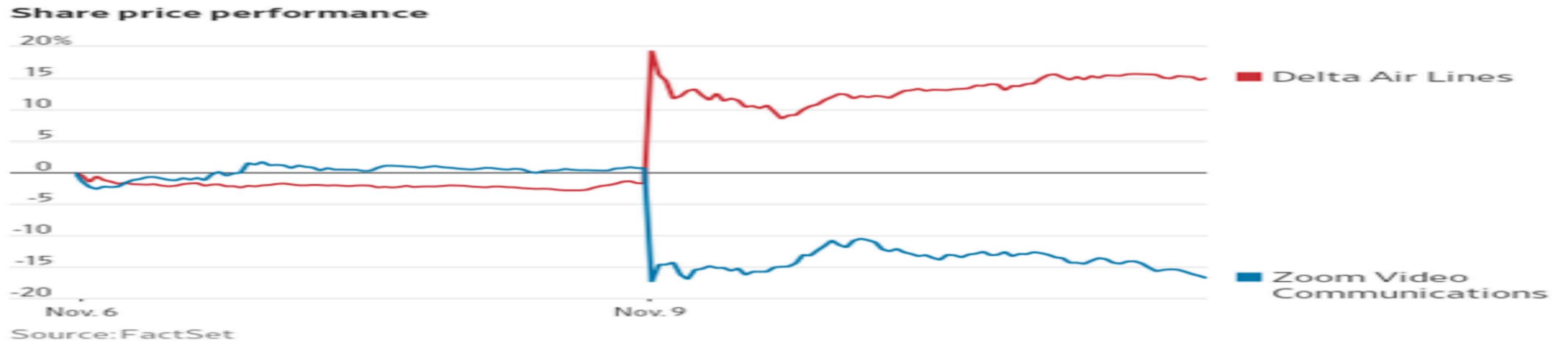
## **KTS weekly update Nr. 30**

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The 4<sup>th</sup> of December 2020

# Sector rotation? It just started, more to come during 2021

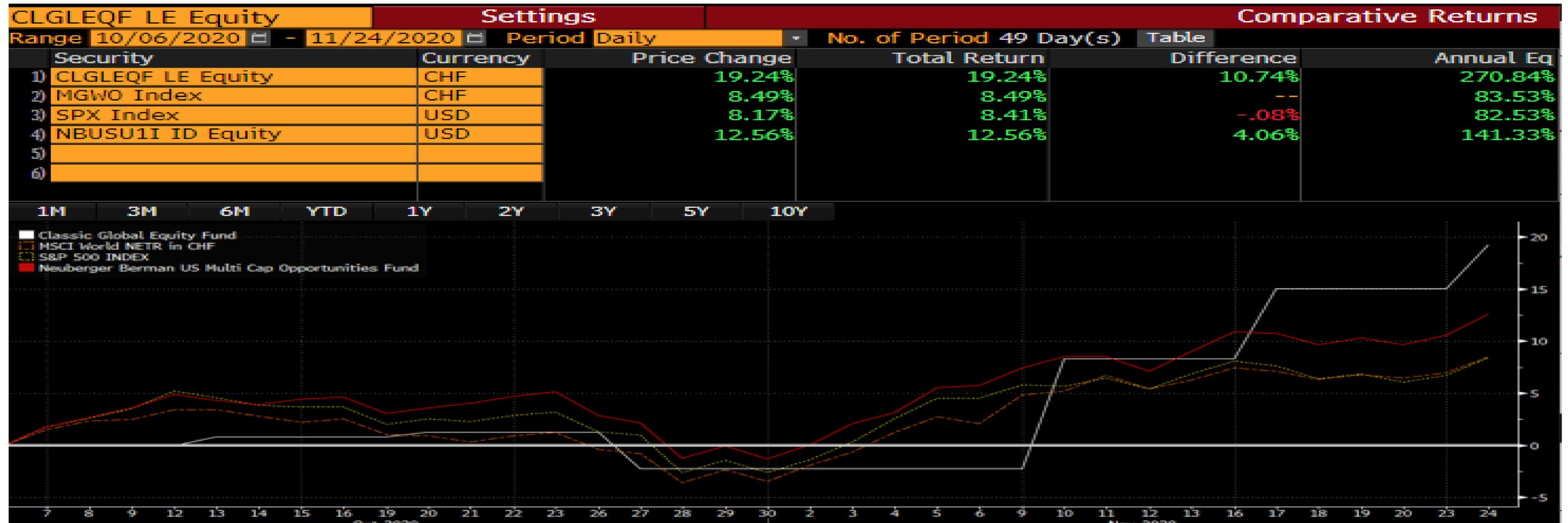
- On the 9<sup>th</sup> of November, when the German company Biontech (in JV with Pfizer) announced the successful trials of their covid19 vaccine, markets reacted with both a short covering squeeze on the “traveling” sector and a sell-off in the “stay at home” trade. Gold also suffered but, in our opinion, this was an over reaction, because gold`s fundamentals are totally different!
- We always argued that such a move would likely be triggered by the arrival of successful covid vaccines. Yet the magnitude of the move was amazing- as can be seen on the charts below: Delta Air Lines (+20%) vs ZOOM Video (-15%).
- The opportunity will exist to invest in laggards during the window dressing period starting mid November 2020 for U.S. Institutions to mid December (retail). It appears that the pressure from shorts has abated and buying momentum is going to slowly build up during early 2021. We are waiting to add investment opportunities in favoured sectors. We already started with Classic Global Value, Green L/S (Long oil companies, which also profits from the renewable energy sector) and sector technical certificates.



Source FlowBank / FactSet

# Trend reversal

- Our best in class fund Classic Global Value Equity outperformed the market following the market reversal in October/November 2020 by more than 10% .
- The new positions in Classic Global Value, L/S Oil Certificate and sector rotation baskets helped our FoF Optima Dynamic make new highs.



Bloomberg

# Bitcoin at new highs: still just the beginning of a new bullish trend

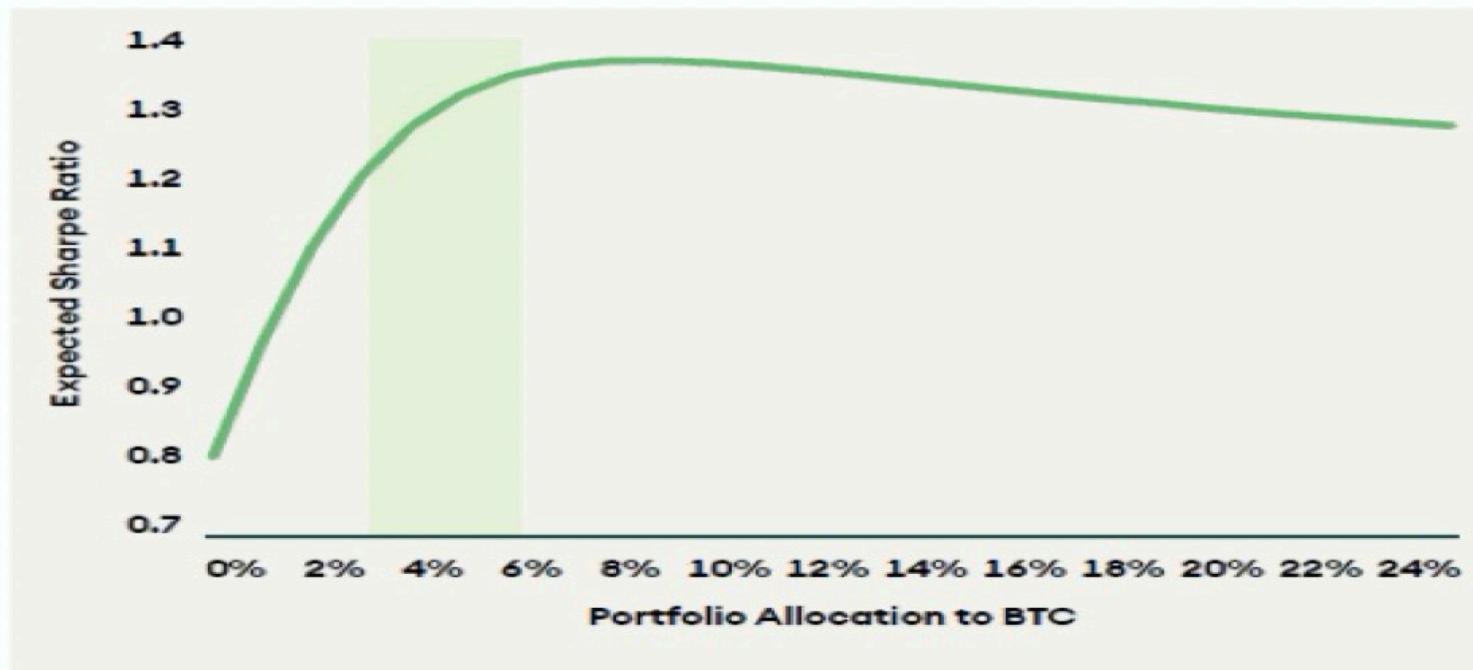
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- Bitcoin is at new highs. We would like to highlight, once again, that recent rallies are much more solid when compared to 2017, when retail investors were only “playing” around with crypto currencies. Conversely, the latest rally was mainly powered by institutional investors. They have been forced to participate, because cryptos now play an important role in institutional asset allocation.
- Crypto currencies are now a diversification strategy and, as is common knowledge, the institutional investor community prefers to apply a buy&hold strategy. Therefore, their holdings are unlikely to be traded out short term.
- This reality is also confirmed from Google trend search: back in 2017 we experienced a tremendous spike in google search for bitcoin, which is not the case today. But, taking into account that the media is now starting to talk again about bitcoin trading at \$20,000, we believe that retail participation will “kick back in” again and support a clear breakout of the main crypto currencies.
- Tudor Investment Corp officially holds a 2% position in Bitcoin. The assets under management held by hedge funds is \$34 bln. SkyBridge Capital, Renaissance Technology and also Guggenheim are already invested, or are planning to invest in the crypto space.
- However, more than 50% of institutional investors are still NOT invested in crypto currencies. Two thirds of participating institutional investors are planning to increase holdings. Retail investors, on the contrary, burned their fingers badly back in 2018 and, as we saw from the Google trend search data, they have not yet returned en masse to invest in the space.
- Grayscale Bitcoin Trust (GBTC US) has a 15% premium on the Bitcoin, but Grayscale Ethereum Trust has even a 87% premium! Such a premium is proof of the high and solid demand of crypto currencies.

# Digital Assets: a genuinely alternative Asset Class

- According to a presentation from SEBA Bank, one of the first Swiss Crypto Currency Banks with a FINMA license, digital assets are uncorrelated to traditional asset classes.
- Therefore, an attractive asset class to be considered for inclusion in the new investment universe.

## Small allocation significantly improves portfolio



Change in maximum expected sharpe ratio by adding Bitcoin to a traditional portfolio consisting of equities (MSCI All Country World Net Total Return Index USD), bonds (Barclays Global-Aggregate Total Return Index Value Unhedged USD) and commodities (Bloomberg Commodity Index Total Return). The portfolio is denominated in USD.

## Uncorrelated to traditional asset classes



Average 12m rolling correlations, start date: 01.01.2015 end date: 10.08.2020; Source: SEBA

SEBA Bank, Bloomberg

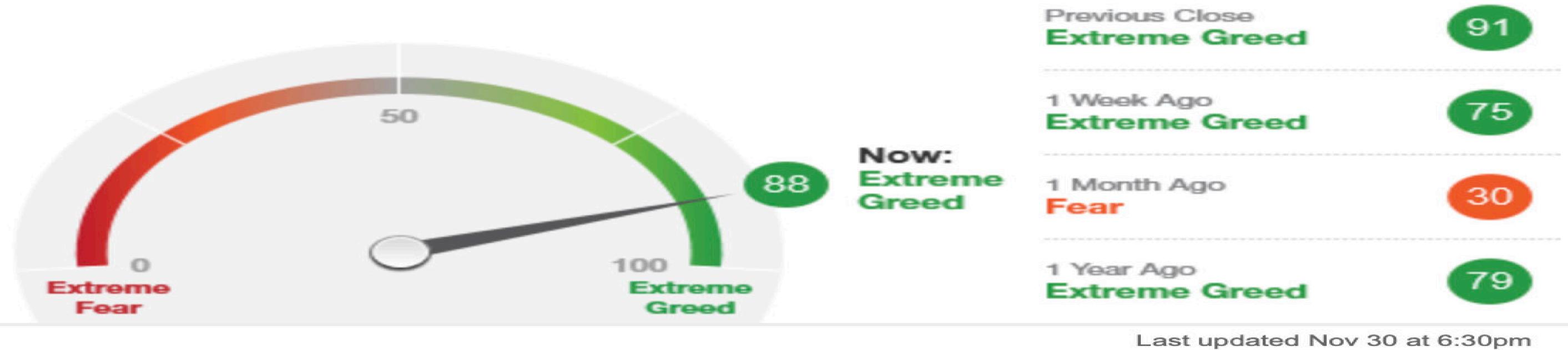
## General news

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- It is now official: General Motors will no longer take an equity stake in the electric-truck maker Nikola (NKLA US).
- The stake planned was a \$2bln investment. We already argued in the past that, according to a report from Hindenburg Research, the fundamentals of the company were too weak to support any reason to invest - we also warned that Nikola could be a fraud.

# Market sentiment

- Not surprisingly, the Fear & Greed Index is now at new highs for the year. As a contrarian, it should now be a time for caution.
- However, we believe markets are going to close 2020 at the years highs. During January and probably the first half of February the market is going to continue to follow the positive trend; with institutional investors under pressure to invest new inflows at the beginning of the year.
- Thereafter, we will have to carefully review the outlook for the remainder of the year.
- We think that it is very important to differentiate between sectorial performances. Markets are going to concentrate on the timing of the rebound of the economy and travel sector, rather than focus on the negative economic activities during Q4 2020 due to general lockdowns. As explained previously, it will be very important to increase the positioning into the cyclical sector, which started a sectoral trend reversal on the 9th of November 2020.



Source: [money.cnn.com](https://money.cnn.com)

# Currencies and Gold

- We recently saw continued weakness in the USD and the Index DXY is making new lows.
- It looks like that the EUR is breaking out vs. the USD. As previously announced, KTS hedged USD exposure in our discretionary mandates in line with the fundamental view that the USD is going to weaken further.
- Gold `should` benefit from USD weakness. Gold is holding the very important support at the 200 day moving average.
- Any close over 1'820 USD should be technically bullish for gold.



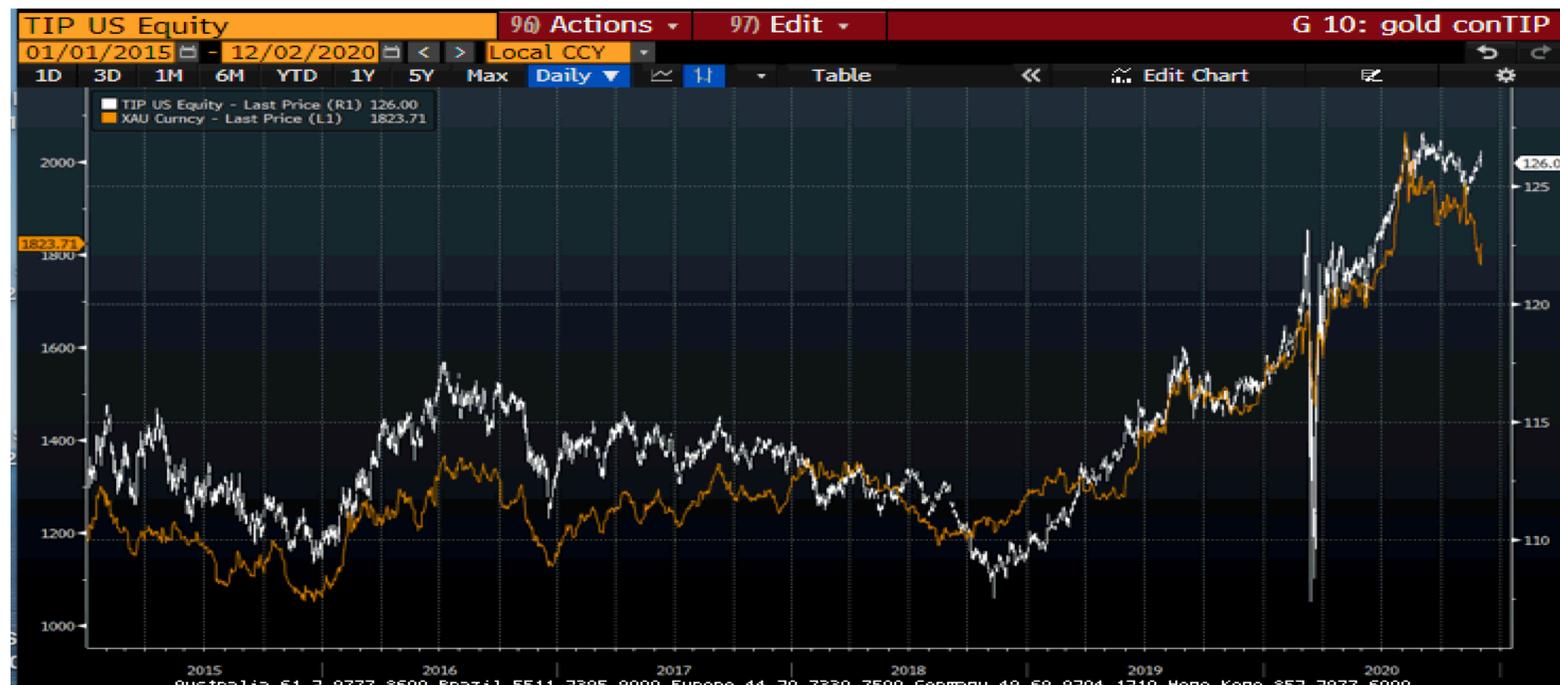
EUR breaking out vs USD



Gold holding at support

# Market is selling Gold for Bitcoin?

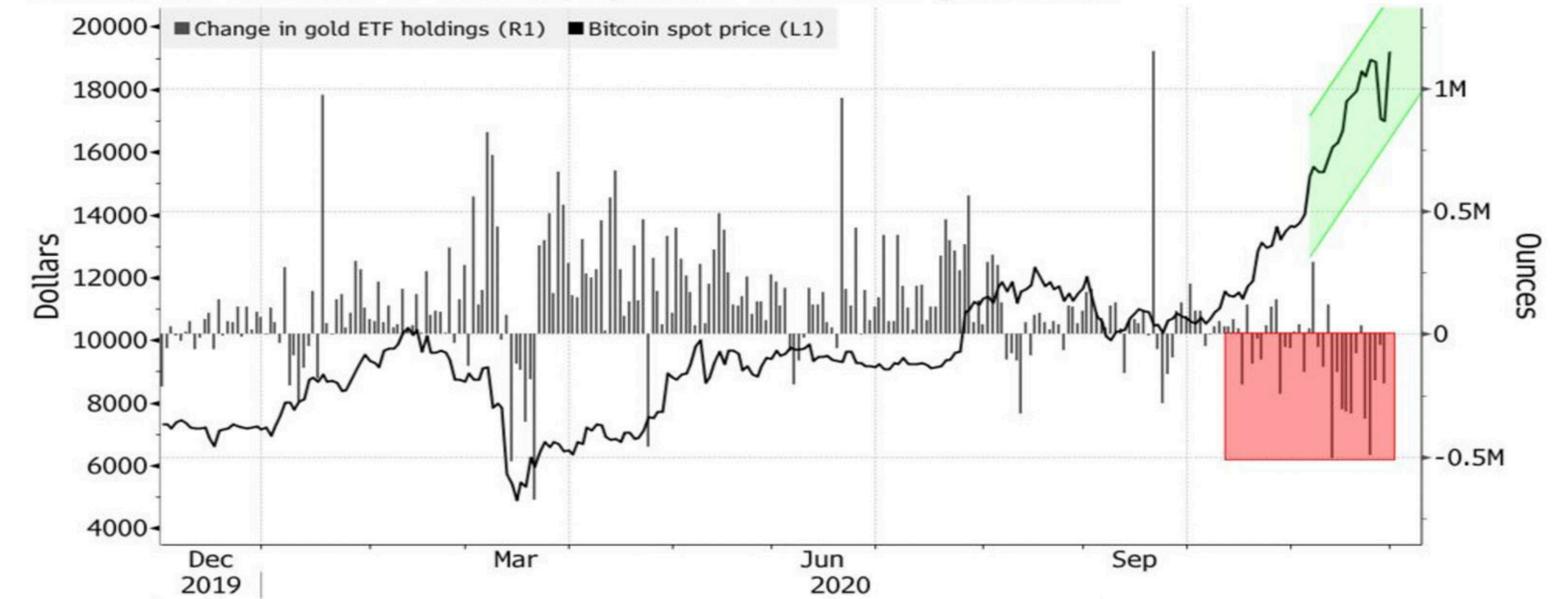
- We observed, following the announcement of the Biontech vaccine on the 9<sup>th</sup> of November, that the gold price is no longer correlated to the TIP.
- Neither is gold currently correlated to the weakness of the USD.
- JPMorgan has produced evidence that institutional investors are divesting away from gold ETF into Bitcoin and other cryptocurrency investments.
- As mentioned previously, we agree that institutional investors will invest in Bitcoin as a new asset class uncorrelated to traditional investments. But, we are of the opinion that this new investment strategy will mean a reduction in cash or bond holdings with negative yields not gold. Gold is still the only real currency and the solidity of Gold is incomparable to Bitcoin!



TIP tending higher, gold correction: broken correlation?

## A New Shiny Plaything

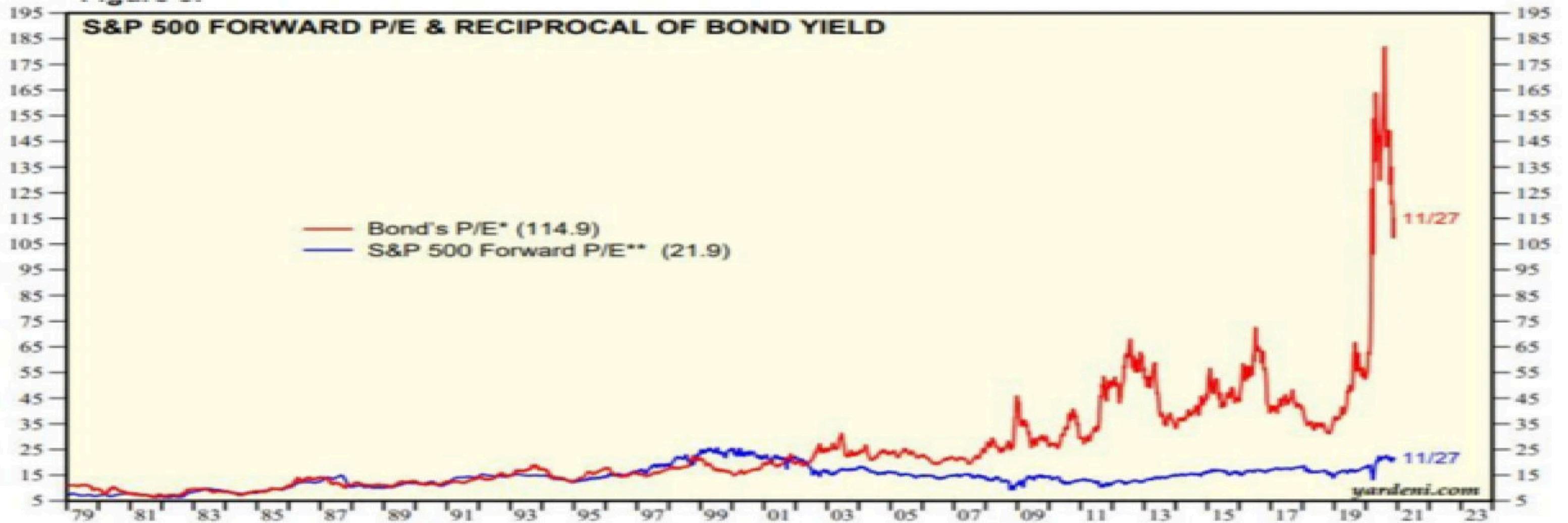
Bitcoin hit a record as investors yanked cash from gold funds



Divesting from gold Etf into Bitcoin?

# Equity valuation

- The majority of the investor community continues to compare P/E valuations historically. In our opinion, such a comparison is wrong because the new 0% yields and negative real yield environment are not taken into consideration.
- The following chart of Mr. Alfonso Peccatiello, head of ING Fixed Income PM Germany, perfectly shows today`s reality, where bond P/E`s are almost 6x more expensive than S&P 500 forward P/E. We also know that the 12m forward bond valuations is flat!



Mr Alfonso Peccatiello, ING Germany

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