

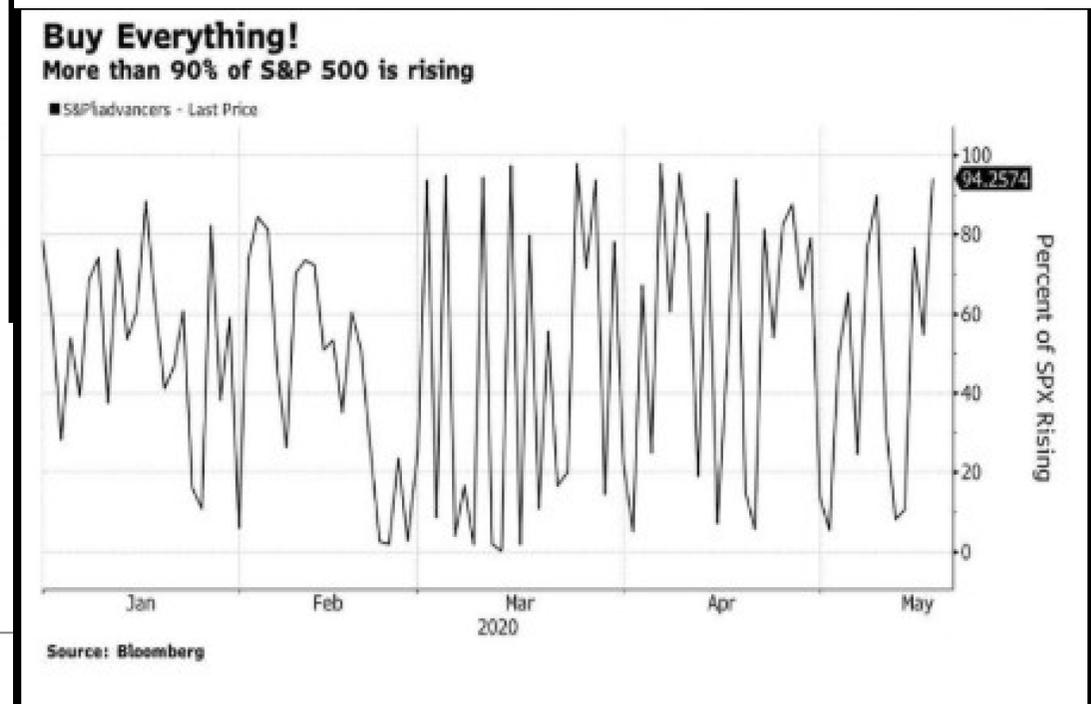
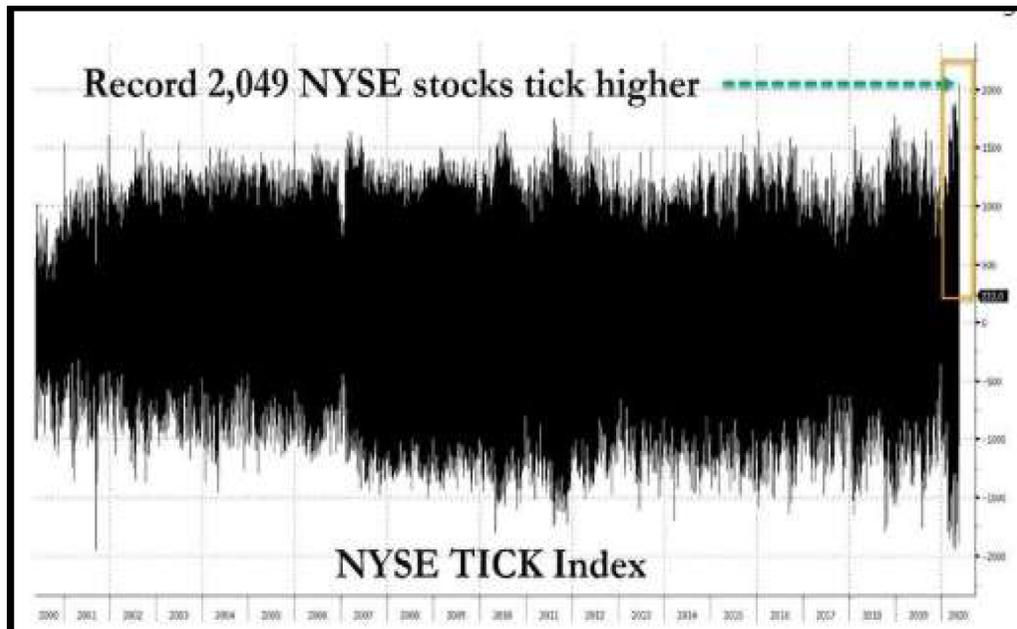


COVID-19 analysis – update nr 9

As per 29 May 2020

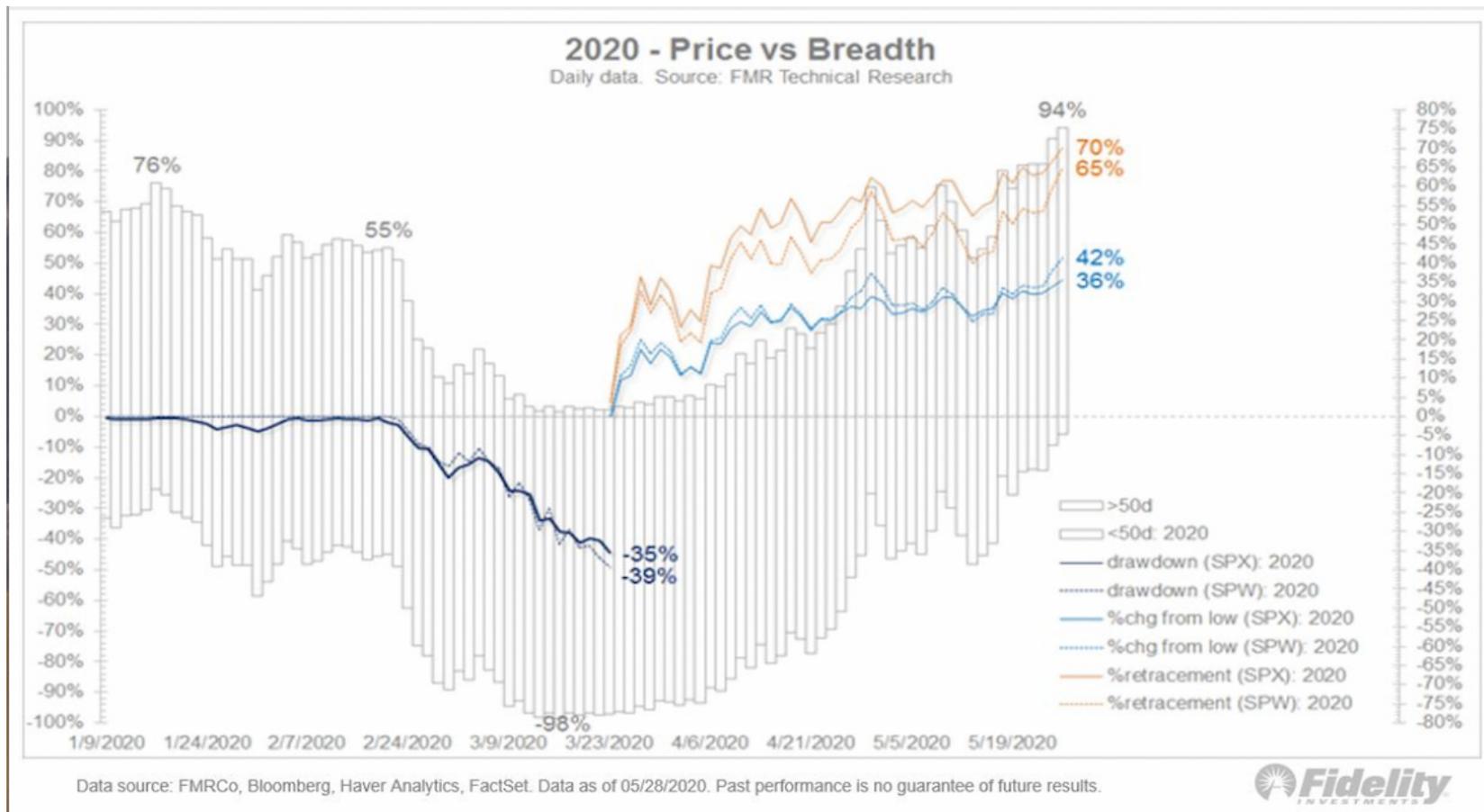
Market move on the 18 and 26 of May 2020

- The 18th of May was the biggest buying panic in history
- A record 2'049 stocks saw positive ticks moments after the open
- S&P 500 Index breadth: 90% of the S&P 500 was up: such day indicates the bottom of the market and the start of a new rally
- As we argued in the past, it is quite clear and generally accepted, that the world is going to have a forced vaccination, as a sole solution for normalization.



Early-cycle of bull market

- Jurrien Timmer arguing, that S&P 500 Index is above the 200-day moving average and the percentage of stocks above their 50-day average has reached an impressive 94% : those are signs of an early cycle bull market and is not the question anymore, if the recent market rally was just a bear market rally!
- In addition, S&P 500 Index at the 70% Fibonacci retracement from high to low, which is something that since the Great Depression has never not signified a new bull market.



Market sentiment

- Still no greed
- It is confirmed from more sources, retailers are still the buyer in the market (number of Robinhood user positions in S&P 500 stocks, Goldman Sachs tracking retail trading activity in different online platforms)
- The interest of retail is mainly in mega cap growth stocks

Fear & Greed Index

What emotion is driving the market now?



Previous Close	50
Neutral	

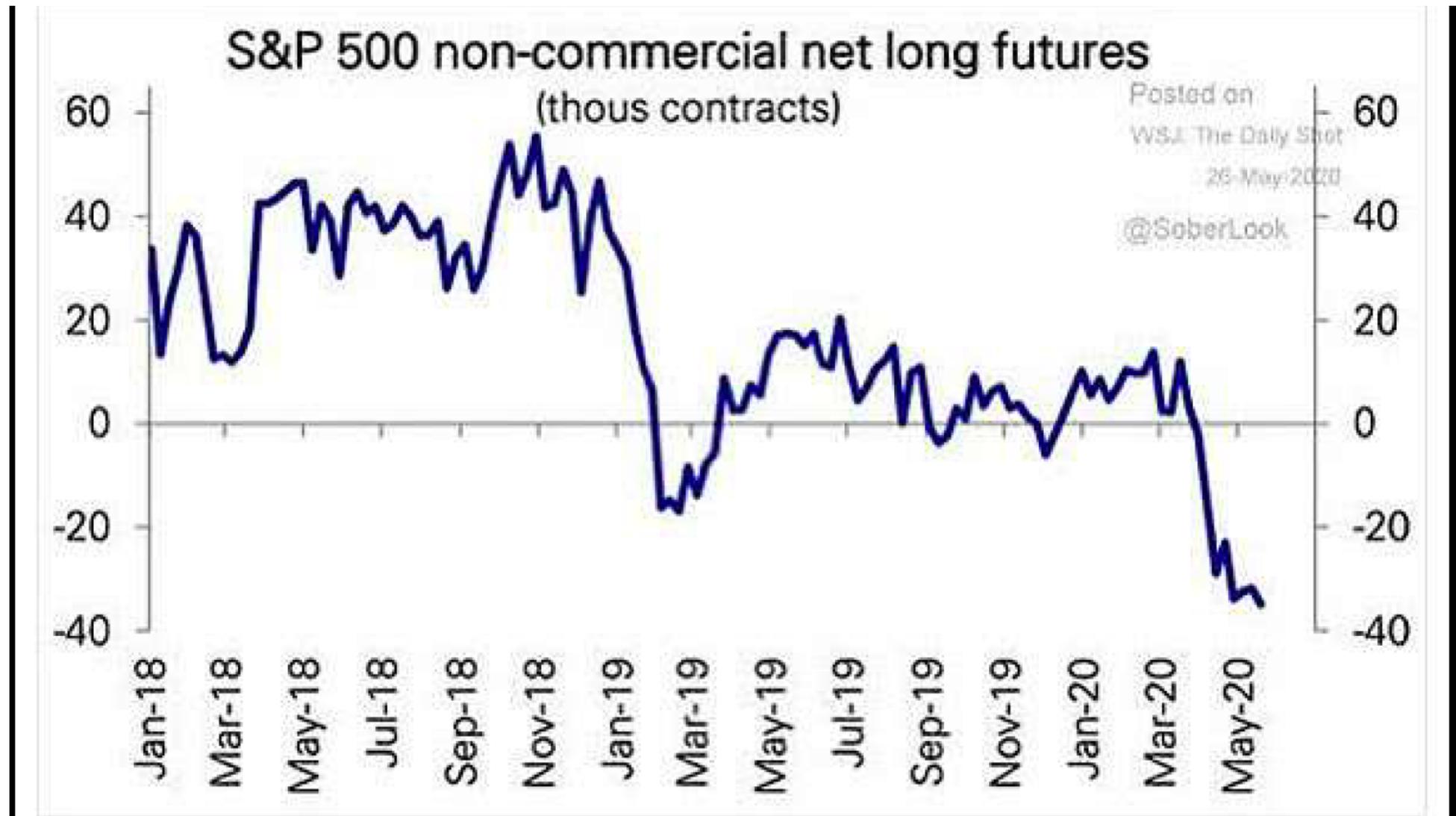
1 Week Ago	48
Neutral	

1 Month Ago	38
Fear	

1 Year Ago	27
Fear	

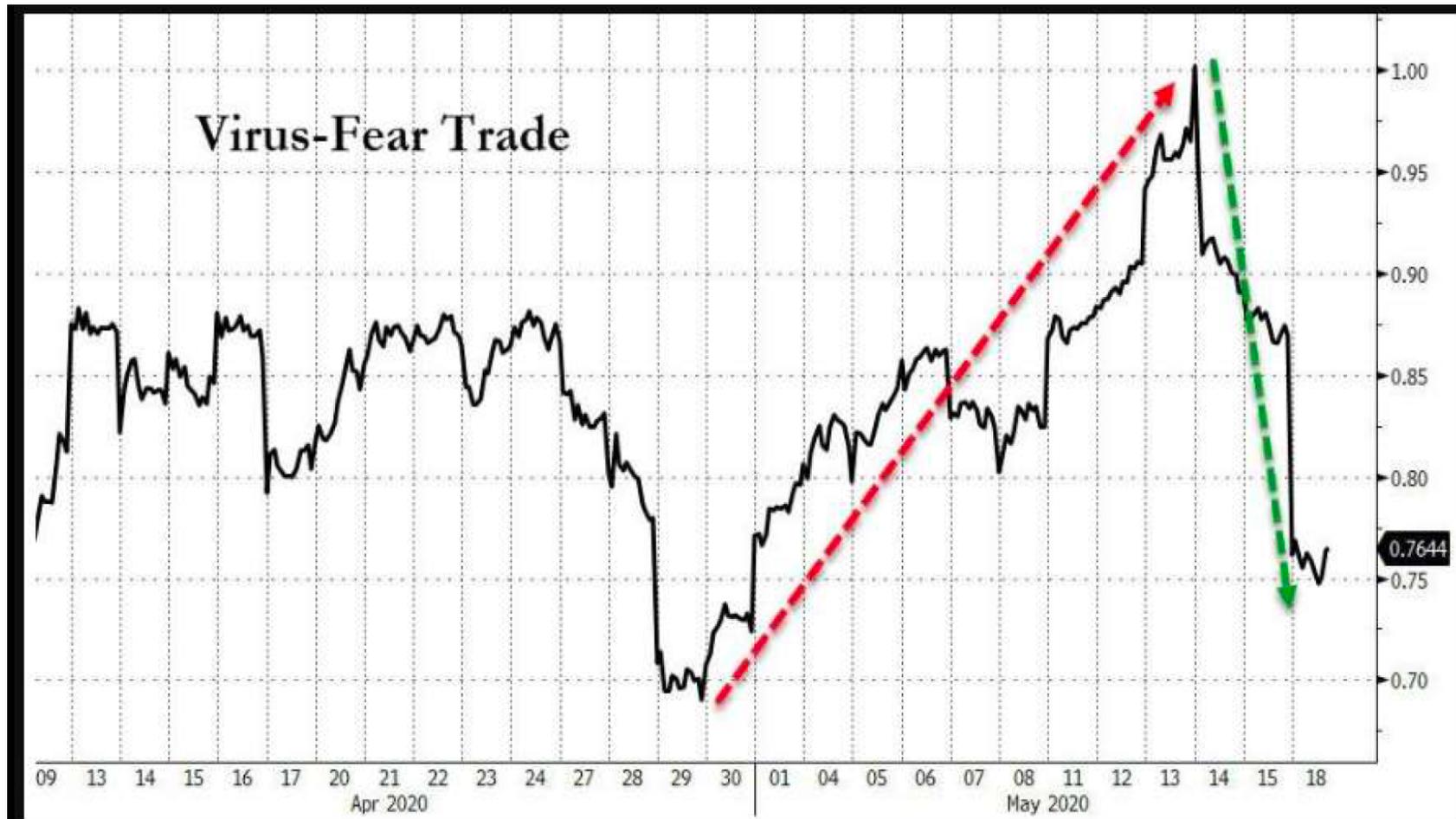
Market sentiment

- S&P 500 non-commercial Net long Futures speculative futures in S&P 500 show that speculators are net short. (source: Deutsche Bank)



Sector rotation

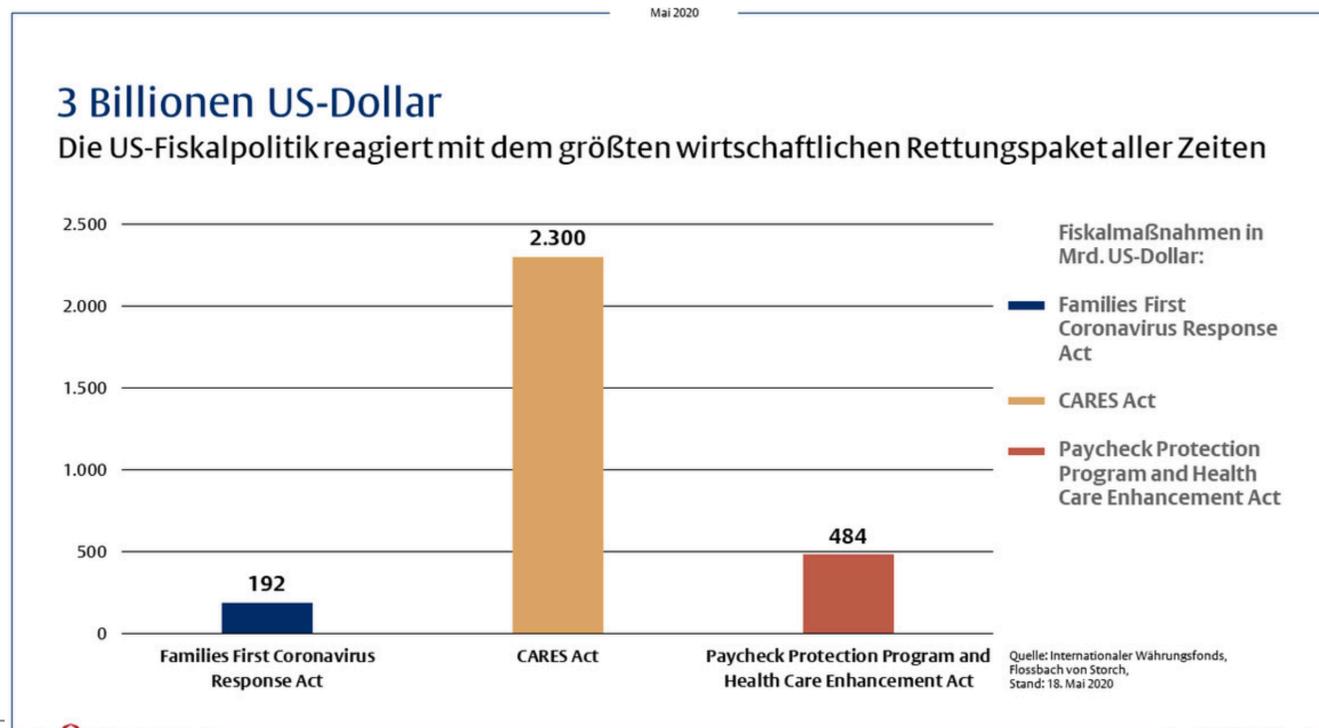
- On May 18 as also on the 26, the Virus Fear Trade (Long Food – Short Leisure) plunged
- We believe the insurance sector, as also Banks, oil refineries and others still have to “catch up” potential
- We still have no opinion on Airlines, Hotels, Event organizers



Inputs from our best in class Fund Flossbach

- With the US stimulus package, US families are receiving almost 3k USD
- The biggest risk is, people do not feel like to go work.....
- MMT (Modern Monetary Theory) or helicopter money: is reality now
- The economist is also touching the same subject:
"Many laid-off Americans may get more money than they did in work" :

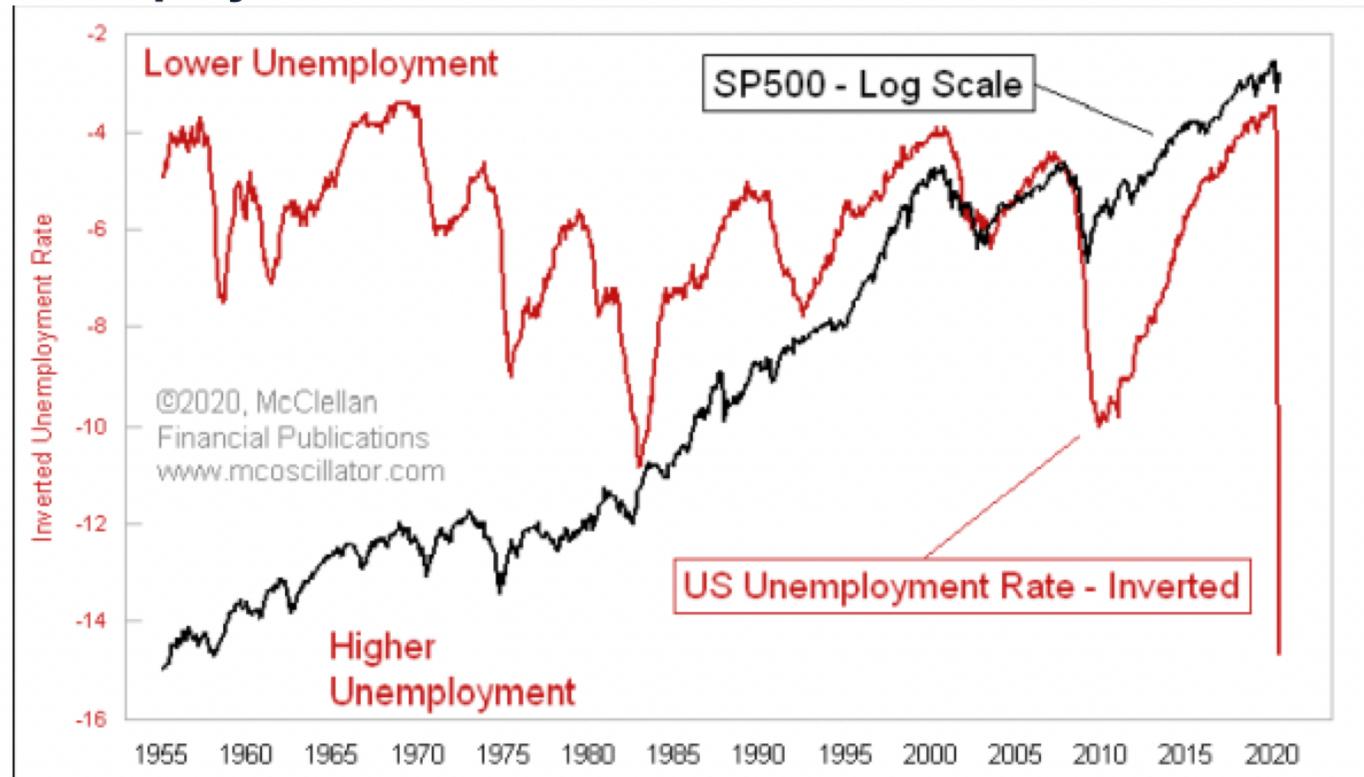
https://www.economist.com/graphic-detail/2020/05/20/many-laid-off-americans-may-get-more-money-than-they-did-in-work?utm_campaign=the-economist-today&utm_medium=newsletter&utm_source=salesforce-marketing-cloud&utm_term=2020-05-21&utm_content=article-link-4



Unemployment is not good, but it is bullish

- We all know, U.S. unemployment is at 14.7%, the highest since the Great Depression
- High unemployment is bad in so many ways, but it is very bullish for stock prices
- The week's chart compares the inverted plot of the U.S. unemployment rate vs S&P 500. The S&P 500 Index typically bottoms about 4 to 12 months ahead of the worst point for the unemployment rate.
- This does not make sense in conventional economic terms, because higher unemployment means weaker GDP and lower company earnings.
- BUT higher unemployment also tends to bring a much more accommodative FED.
- Source Tom McClellan

Unemployment Is Not “Good”, But It Is Bullish



Equity valuations

- Since 2013, Flossbach always argued, interest rates going to stay lower for longer
- New reality after Covid19: long term interest rates going to stay by 1%
- New valuation reality: P/E 33x . We are trading at 17.3x per 2021, therefore with the new interest rate reality, equity are not expensive, in the contrary are very attractive.

Aus unserem Jahresbericht 2013

Kurs-Gewinn-Verhältnis: Bewertungsanstieg bei fallenden Zinsen abhängig von der Risikoprämie

Zinssatz	Risikoprämie					
	2%	3%	4%	5%	6%	7%
5%	14,29	12,50	11,11	10,00	9,09	8,33
4%	16,67	14,29	12,50	11,11	10,00	9,09
3%	20,00	16,67	14,29	12,50	11,11	10,00
2%	25,00	20,00	16,67	14,29	12,50	11,11
1%	33,33	25,00	20,00	16,67	14,29	12,50
Bewertungsanstieg (Zins von 4 auf 2%)	50%	40%	33%	29%	25%	22%

Quelle: Flossbach von Storch, Stand: 10. Januar 2014

Equity valuations

- According to GS, S&P 500 Index is trading at PE 17.3x for 2021

#valuations #s&p500

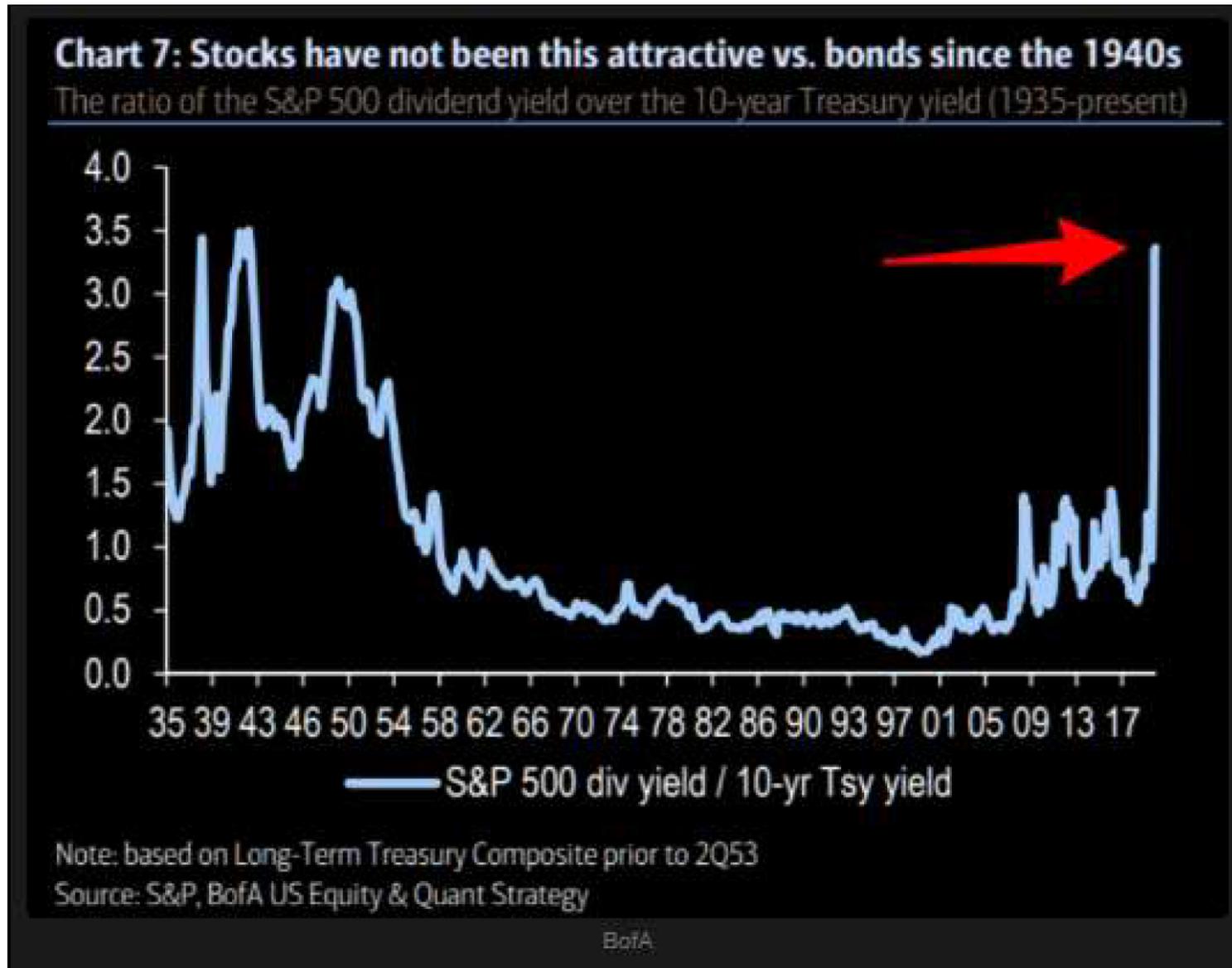
- S&P 500 is trading at 17.3x 2021 EPS estimates – *source: Goldman Sachs*

S&P 500 earnings and valuation				
	Goldman Sachs Portfolio Strategy		Consensus Bottom-Up	
	2020E	2021E	2020E	2021E
EPS	\$110	\$170	\$127	\$165
Growth	(33)%	55 %	(23)%	30 %
	NTM	2021E	NTM	2021E
P/E	22.1x	17.3x	22.6x	17.9x

Goldman

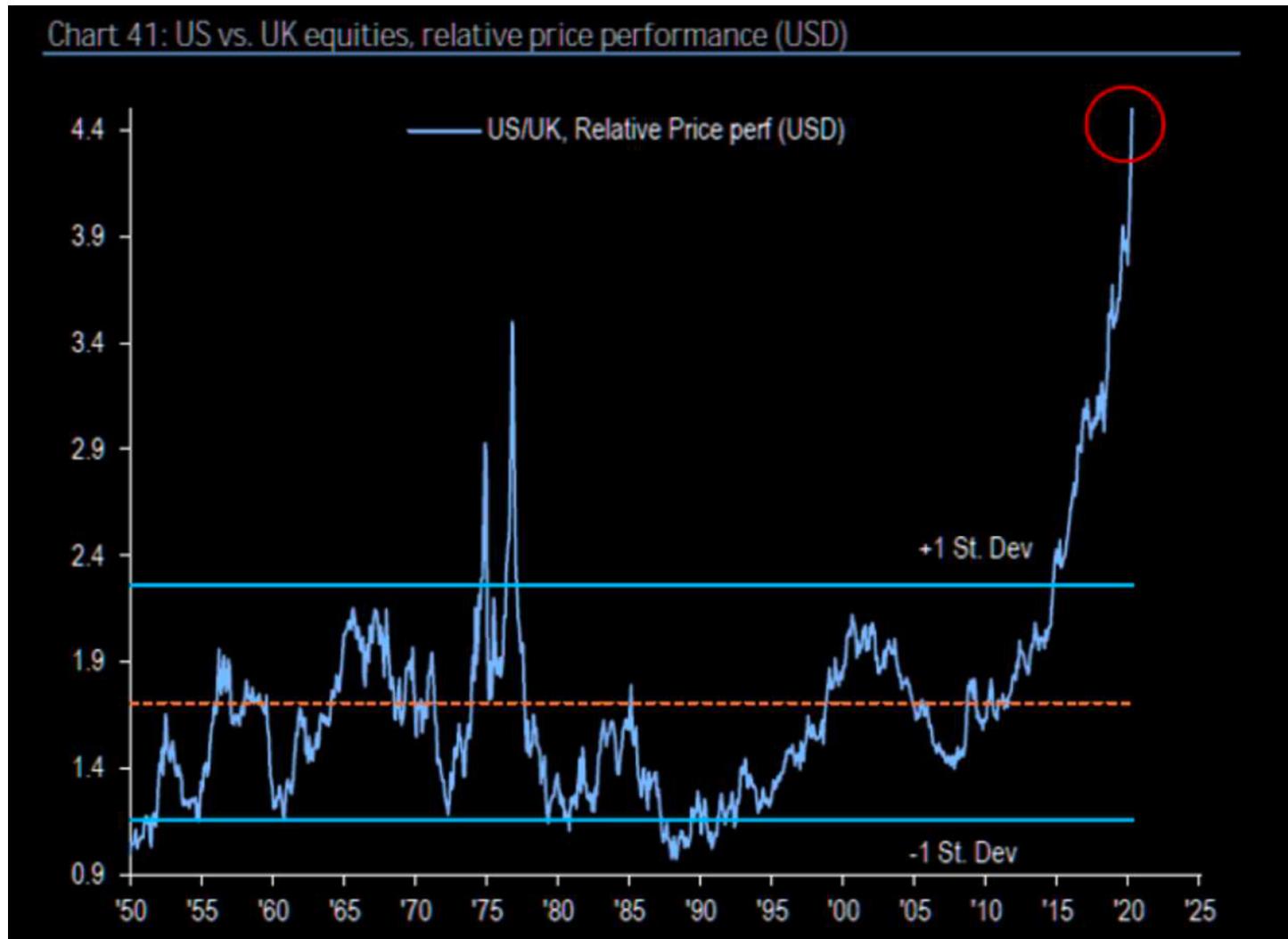
Equity valuations

- Stocks have not been this attractive versus bond since 1940



Equity valuations

- The outperformance of US equities vs UK equities is staggering: 4.4 standard deviation from long term average



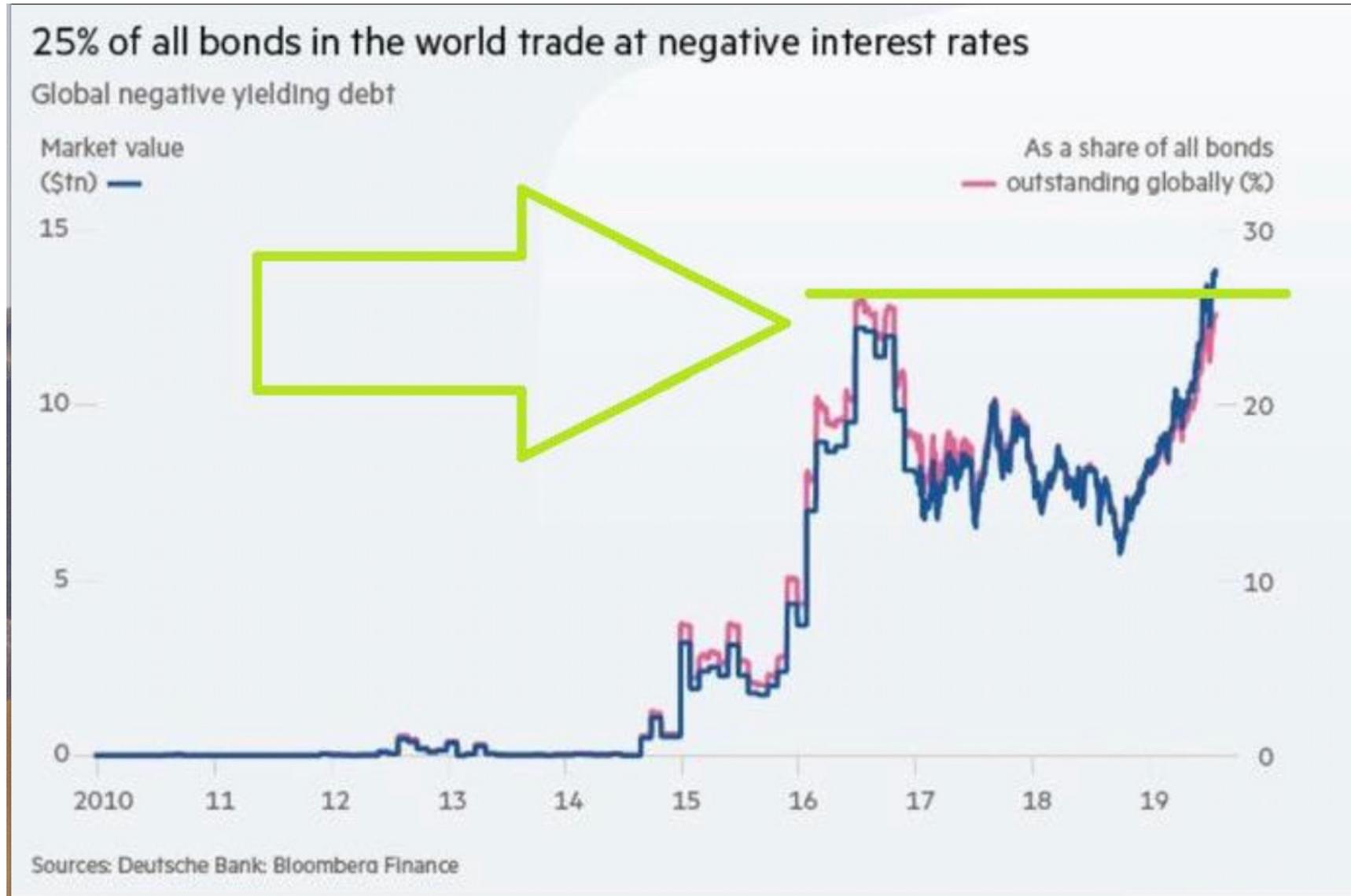
Equity valuations

- Or US equity market vs Developed Market equities (ex-US) is at 2.3 standard deviation



Bonds: Equity the only alternative?

- 25% of all bonds in the world trade at negative interest rates



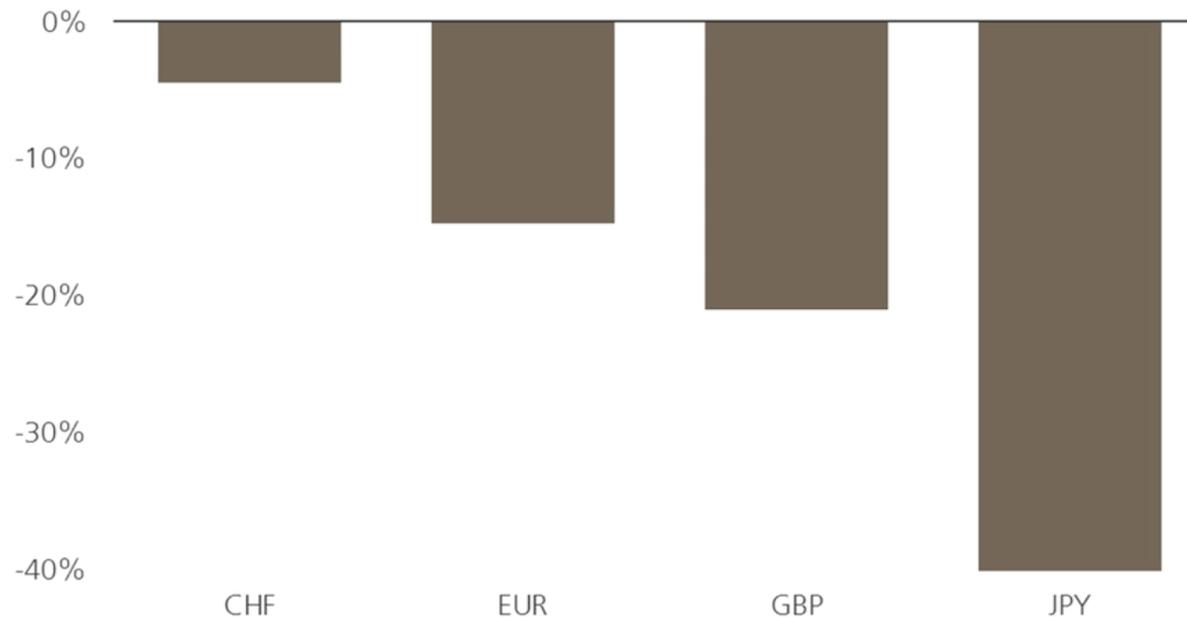
According to PPP, USD is too expensive

- USD is even overvalued vs CHF!
- UBS arguing, JPY is too cheap.
- This is again the confirmation, USD is just too strong, fundamentals are not confirming this strength

USD: Expensive against major currencies

www.slido.com
Event code DV19

Deviation from Purchasing Power Parity (PPP), in percentage



Source: Bloomberg, UBS as of May 2020

Charts and scenarios are for illustrative purposes only. Historical performance and forecasts are no guarantee for future performance. Please see important disclaimer at the end of the document.

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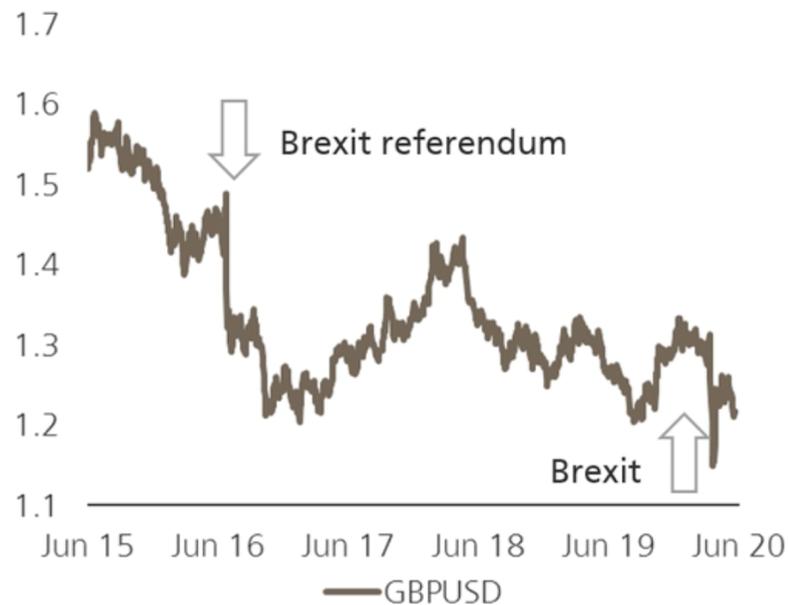
GBP and even CHF are attractive alternatives to USD!

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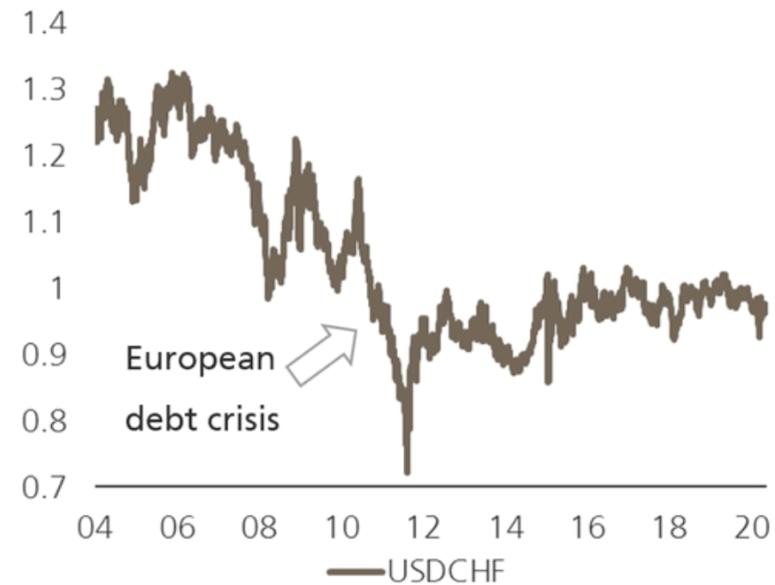
Event code DV19

GBP and CHF: Attractive alternatives

USDGBP



CHFUSD



Source: Bloomberg, UBS as of May 2020
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China has a new 1.4 USD Trillion Plan to overtake the U.S. in Tech

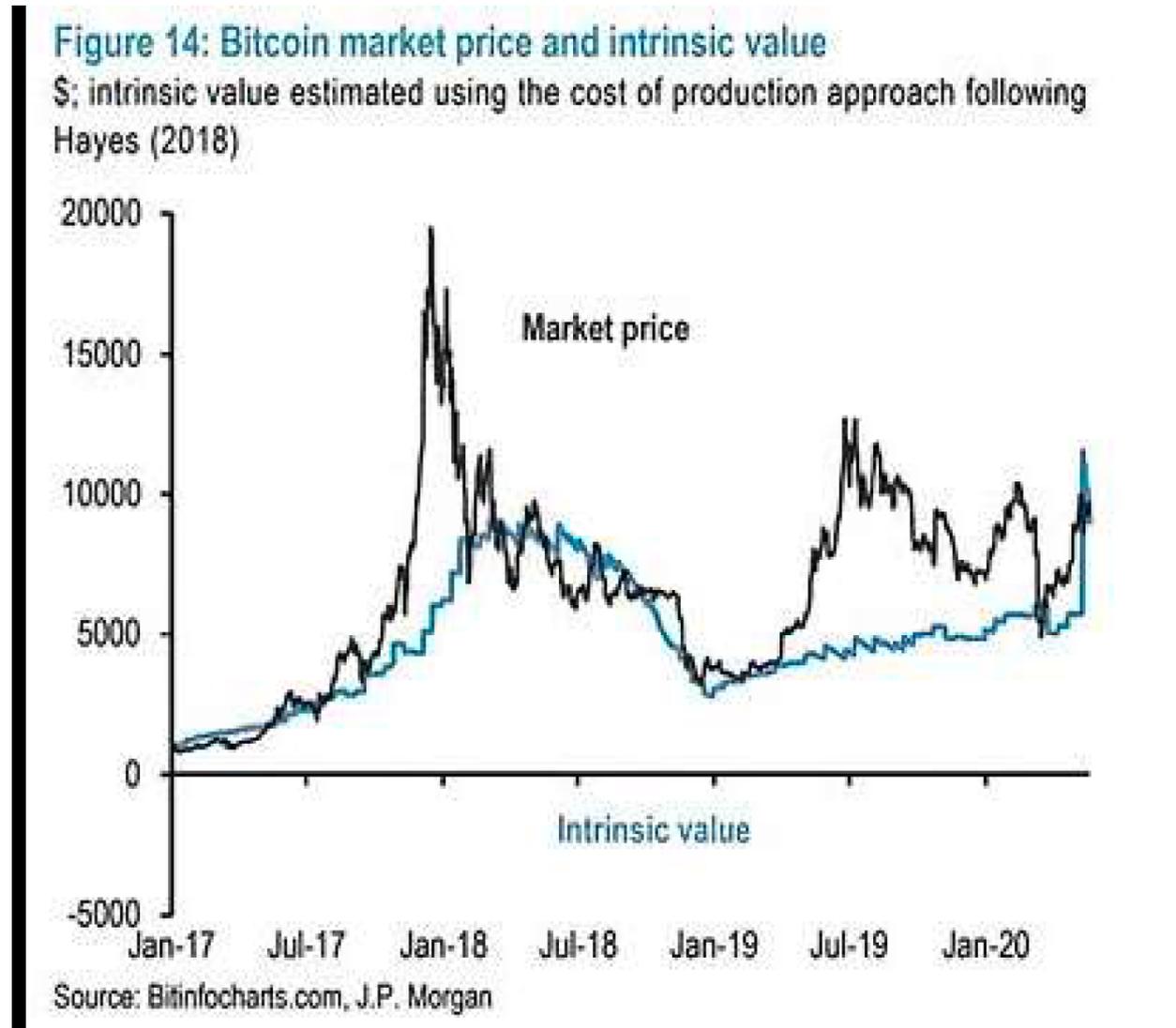
- China will invest an estimated 1.4 trillion USD over 6 years to 2025, calling on urban Governments and private tech giants like Huawei Technologies Co. to lay fifth generation wireless networks, install cameras and sensors, and develop AI software that will underpin autonomous driving to automated factories and mass surveillance.
- The new infrastructure initiative is expected to drive mainly local giants from Alibaba and Huawei to SenseTime Group Ltd at the expense of U.S. companies. As tech nationalism mounts, the investment drive will reduce China's dependence on foreign technology, echoing objectives set forth previously in the Made in China 2025 program.
- Tech leaders including Pony Ma and Jack Ma are espousing the program.

Global Infrastructure – Building the future

- **U.S. President Trump tweeted in end-March that a USD 2 trillion infrastructure bill would be a good way to create jobs.**
- **Blackrock CE' Larry Fink has also said that he told U.S. President Trump that the U.S. needs to spend on infrastructure to generate jobs, and that “an infrastructure build is really important” as the country navigates the next steps to rescue its coronavirus-addled economy.**

Bitcoin: trading at intrinsic value

- Bitcoin trading at the intrinsic value using the cost of production approach following Hayes (source: JP Morgan)



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