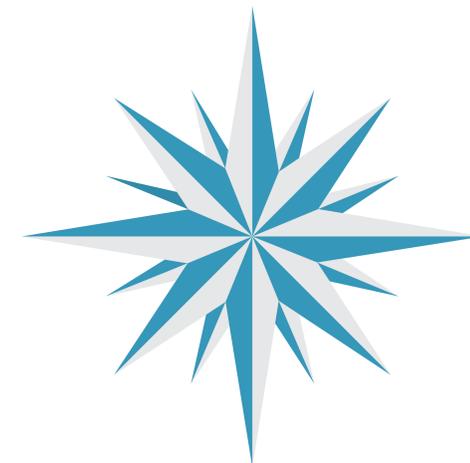


KTS
CAPITAL
MANAGEMENT



KTS weekly update Nr. 23

The 25th of June 2021

Goldman Financial Conditions Index

- Mr. Rich Excell rightly pointed out that the Goldman Financial Conditions Index is at its most accommodative level in the last 15 years.
- The index is a weighted average of risk free interest rates, the exchange rate, equity valuations and credit spreads.
- This means that, nowadays, financial conditions are even easier than before and after the great financial crisis. Therefore, the inflation rate will be able to increase a reasonable amount before the overall financial situation becomes too tight for the markets. This is additional confirmation that markets over reacted to the slightly hawkish tone of Mr. Powell, during the recent FOMC meeting.



GSUSFCI Index (source Bloomberg / Mr. Rich Excell)

5y forward of 5y inflation (PCE) expectations

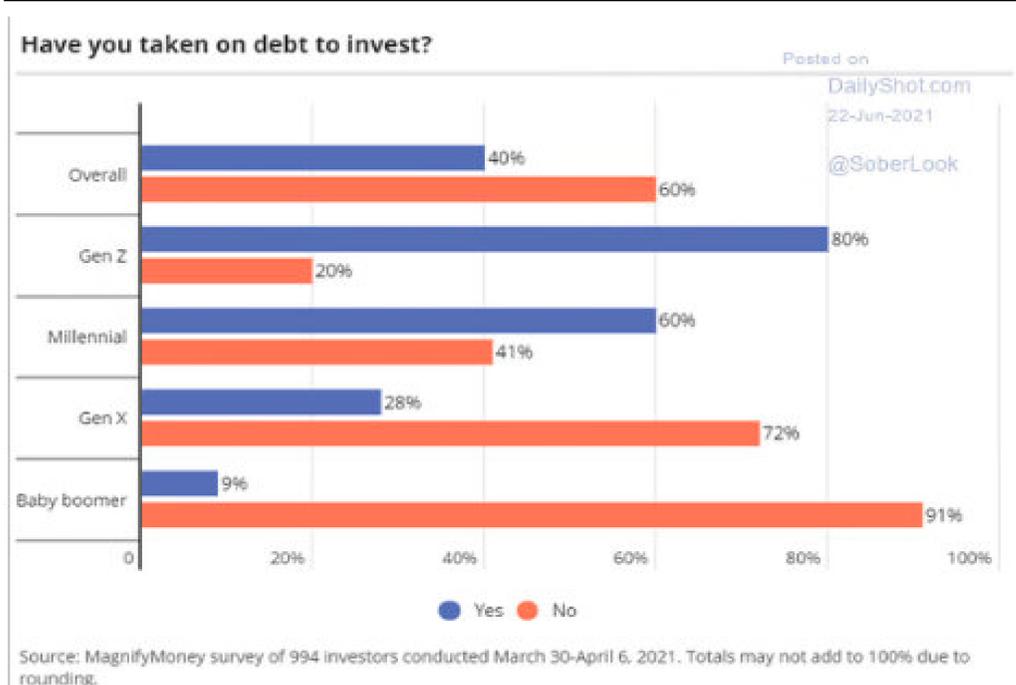
- The core PCE in the U.S. has averaged 1.6% for the last 7 years; well below the FED's target of 2%. Now the 5y forward of the 5y inflation expectations has just dropped below 2% . This is again a sign that market participants are expecting a temporary high in the inflation rate, followed by a normalization.



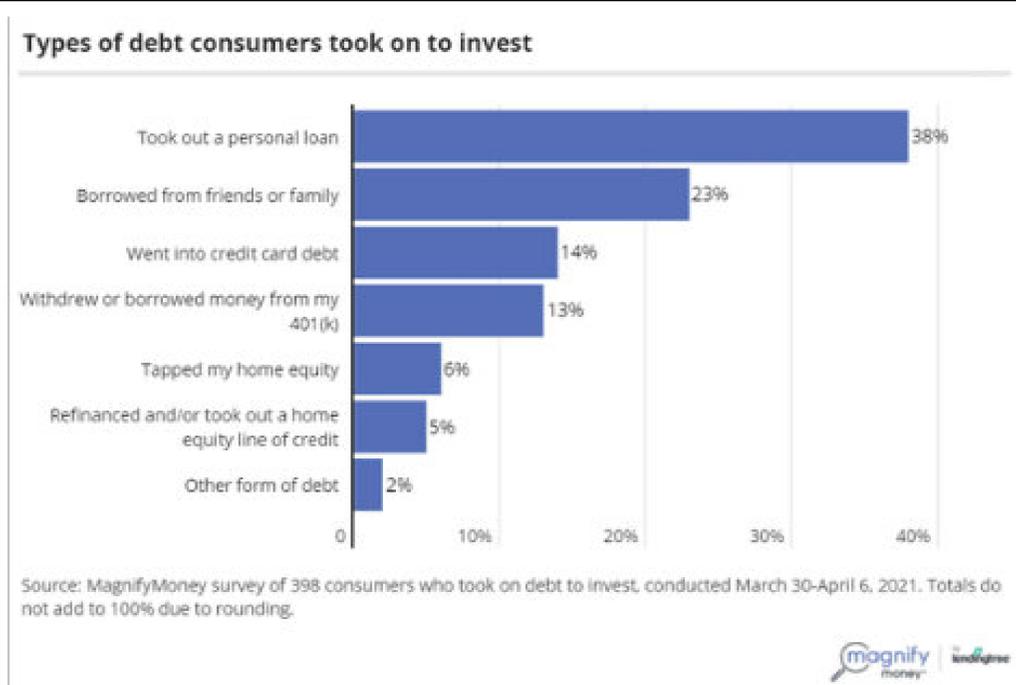
Source Mr. Alfonso Peccatiello / Bloomberg

Have you taken on debt to invest?

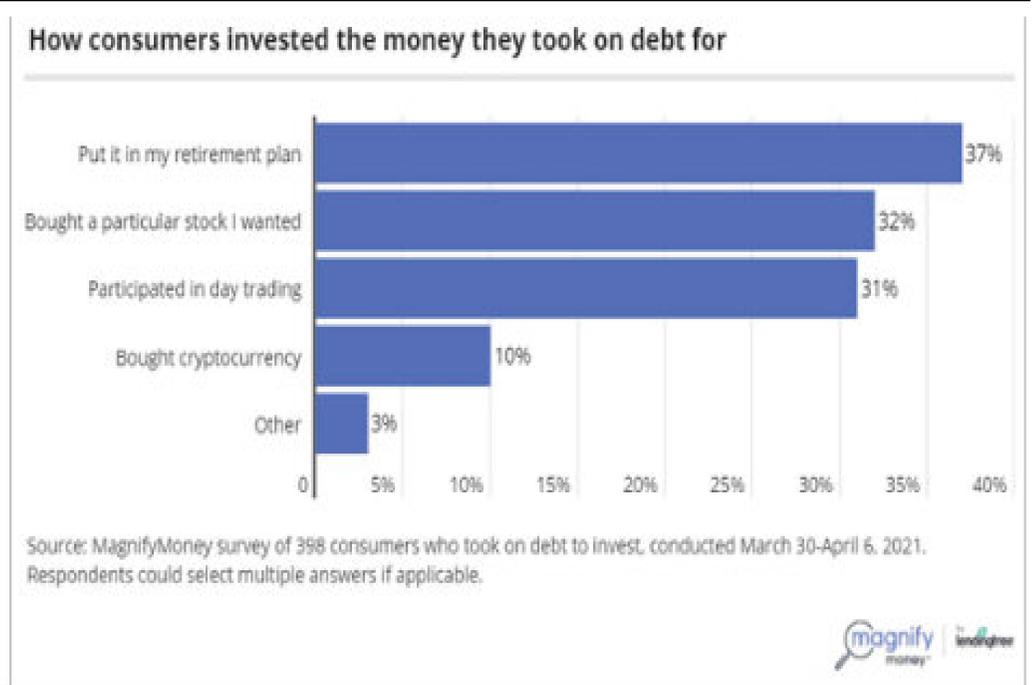
- Recently, we analyzed how market leverage is at the highest levels ever.
- From the survey below, though only made up of 994 investors, we can observe how 40% of the investor community took out a loan to invest.
- The situation is still not too dramatic, however. In fact, only the younger generations took out a loan for investing. Overall “only” 40% of the population did likewise. In addition, if money is borrowed from friends or family, in case of an emergency situation, repayment can usually be extended. We also expect most of the borrowers are parents of the baby boomer generation, who are not themselves leveraged.
- The main problem, as always, is “behavior of finance”. The younger generation lacks experience, so that it is easier to get into a panic. Especially, if you are leveraged and you see your wealth being wiped out by market corrections.



40% of investors are on leverage



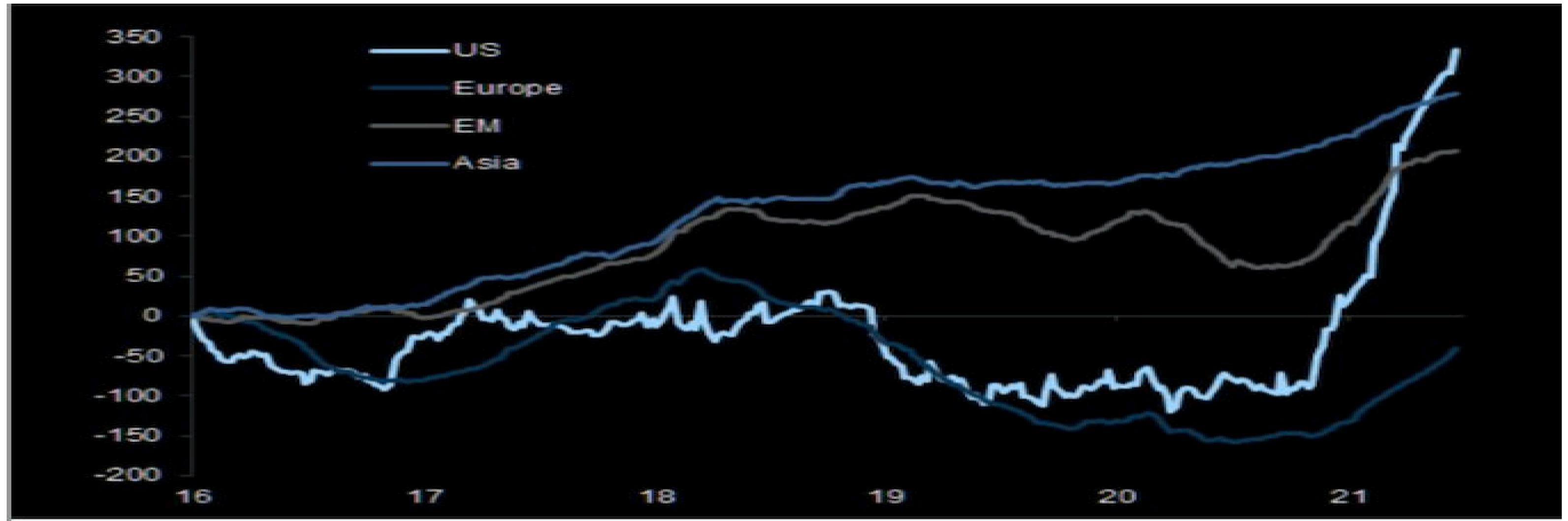
Via personal loan or borrowed from family/friends



Long term, but also day trading, single stocks

Market breadth and volume

- The inflow into US equities has recently been exceptionally strong and, therefore, not sustainable.
- In addition, the Nasdaq Index is again at new highs, but the breadth of the market is weaker. In fact, only 62% of the companies, included in the index, are over their 50 day moving average (compared to 90% a month ago).
- We feel comfortable with our cash position and, as a consequence, we are not fully invested.



Cumulative flows into equity by regions. Source: Paolo Calcinari Ansidei (Azimut)

General news

- The Chinese government agency released reserves of key metals, including copper and aluminum, in an attempt to dampen speculation in the market. Futures prices for palladium and platinum fell by more than 11% and 7%, respectively. This kind of action will have a short term impact, but in the long term is likely to create even more imbalance in commodity supply. Reserves are only supposed to be released in cases of emergency and not in order to manipulate prices.
- Ms. Lina Khan has being nominated head of the FTC (U.S. Federal Trade Commissioner). Ms. Khan is known as a big tech critic and is a supporter of further antitrust actions against the major tech companies. It is possible, therefore, that companies like Alphabet and Facebook are going to be forced to spin off Youtube and Instagram. On the one hand, we will have to expect more volatility in the FAANGs going forward. But, on the other hand, such spin offs could create even more value for big tech companies, depending on how high the investment community is prepared to value such IPO transactions.

Bitcoin news

- The price of Bitcoin is trying to stabilize at the very important support level of 30k USD. If the price should fall below this, the next real support is at 18'300 USD. The Bitcoin price fell after news that the Chinese government had ordered a shut down of Bitcoin miners. In addition, the People's Bank of China urged Alipay and some of the other major banks to crack down on crypto trading.
- Market participants are of the opinion that shutting down Chinese Bitcoin mining (an estimated 65% of global Bitcoin mining takes place in China) is long term positive, because new miners outside China are going to increase their use of renewable energy.

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