

KTS
CAPITAL
MANAGEMENT

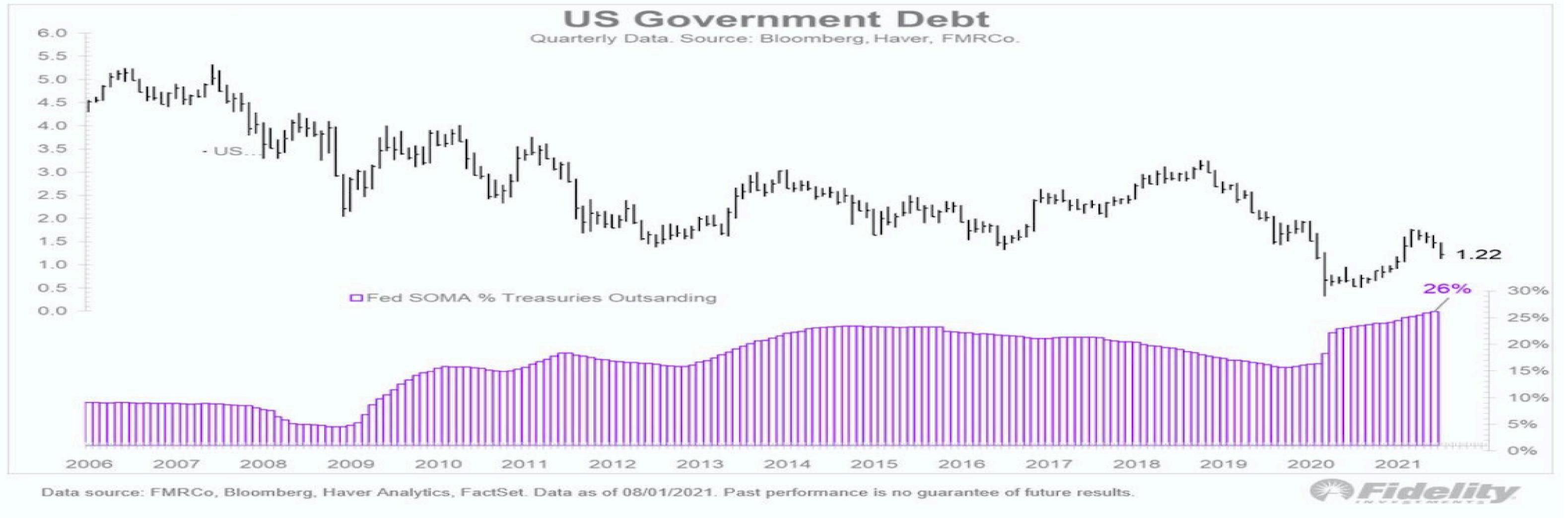


KTS weekly update Nr. 28

The 6th of August 2021

About FED tapering

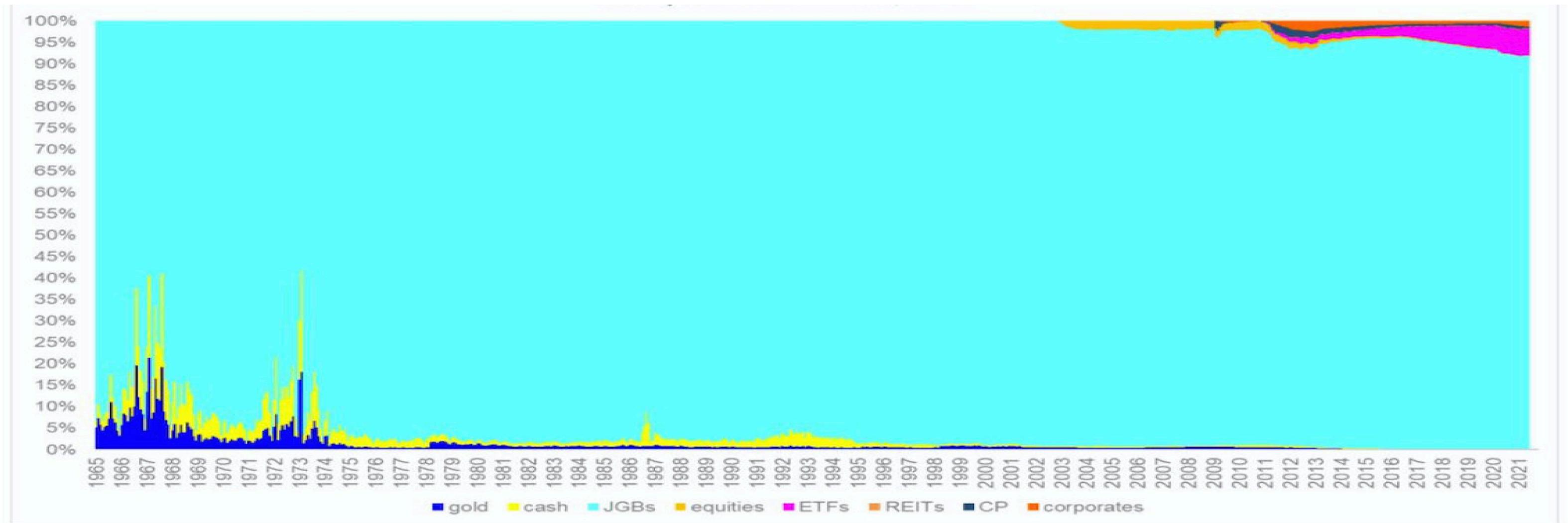
- The FED now owns 26% of US debt, whereas, just prior to the pandemic, owned 15%.
- This is a clear indication that the FED needs to step into the market to cover the gap. How far can it go? The best example is the Bank of Japan, which owns half of the debt. Therefore, the FED is not going to reduce drastically the purchase of debt, just because is not in the position to do so.



Source: Mr. Jurrien Timmer / Fidelity

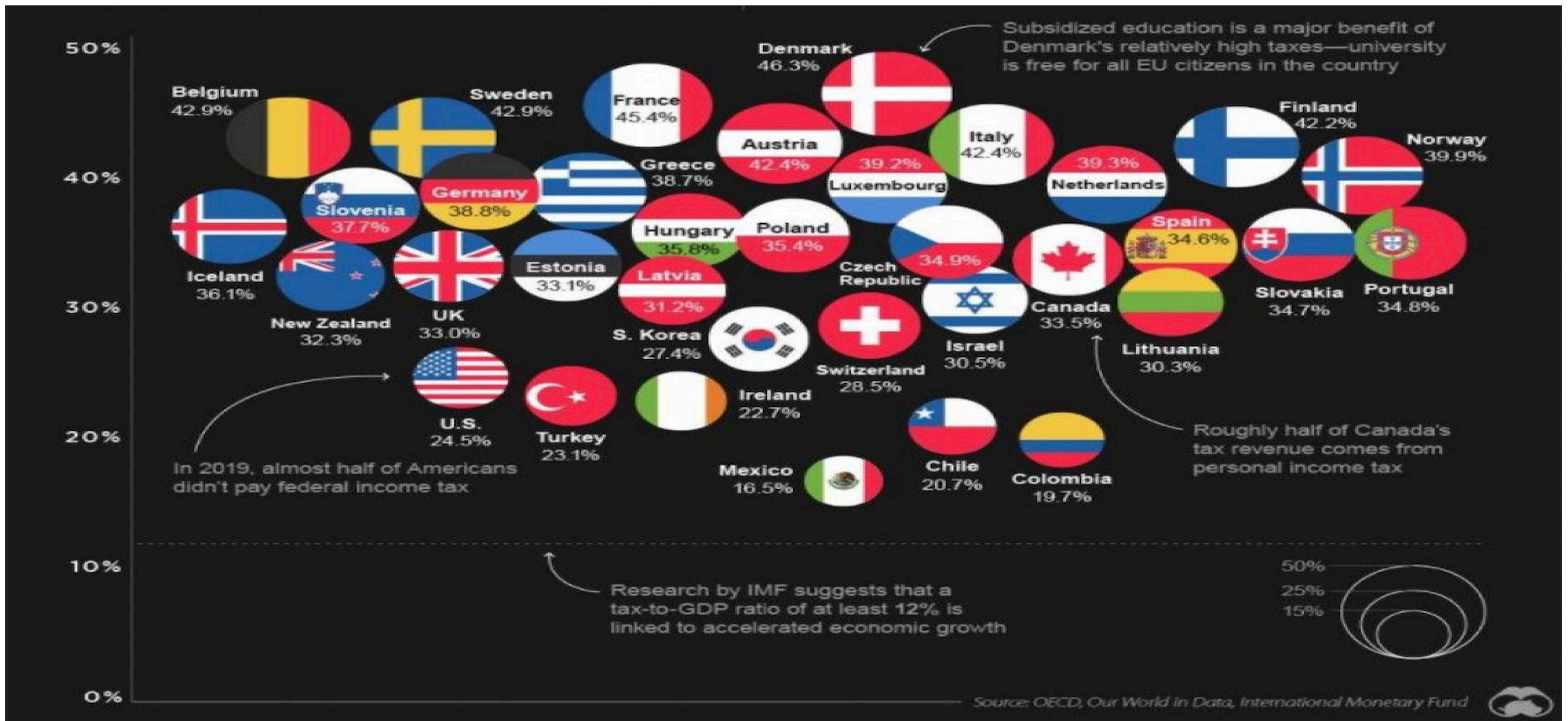
Distribution of Bank of Japan holdings

- According to Jurrien Timmer (Fidelity) the Bank of Japan owns 50% of the Japanese debt (JBG) and is still buying.
- The Bank of Japan also owns over JPY 28 trillion (USD 250 billion) in ETF, which is 4.7% of the total market capitalization of the Tokyo Stock Exchange and maintains its current target of 6 trillion yen in new purchases a year!
- Therefore we can assert, that there is still a long way for the FED before tapering.



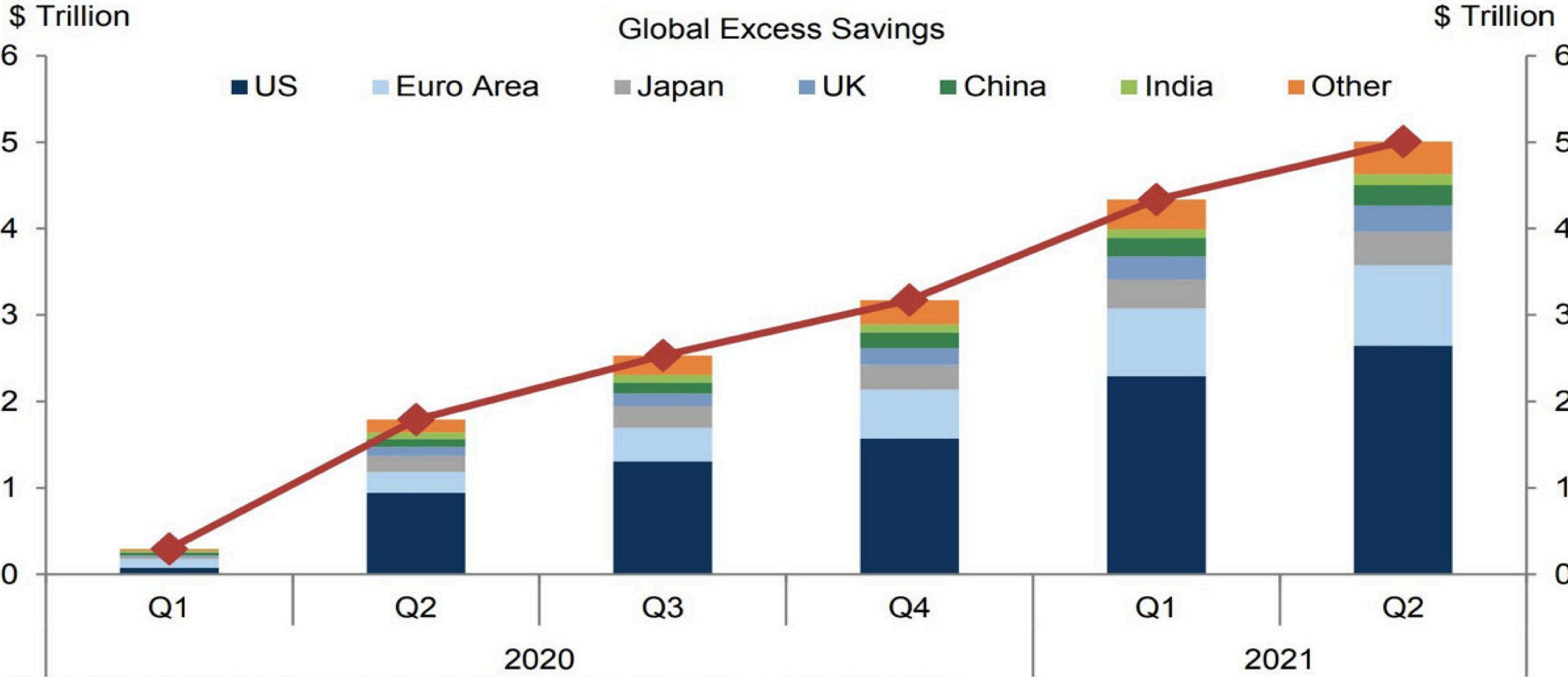
The Bank of Japan is basically constantly increasing the holding in JBG at the expense of gold holding and cash. BoJ also increased equity and ETF holdings

Tax to GDP ratio



Denmark has the highest ratio, but at least the population enjoy lot of benefits and life quality is ranked second worldwide, after Switzerland.

Global households excess savings over USD 5 trillion

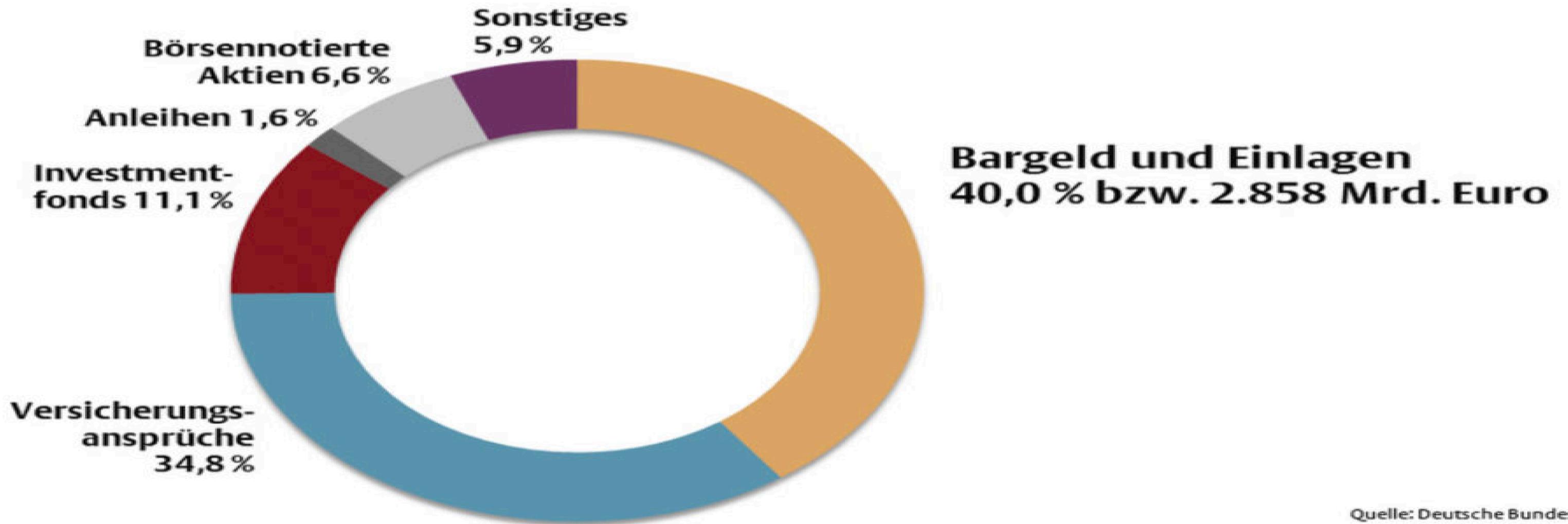


Note: Other includes Canada, Australia, Sweden, Norway, and South Africa.

According to Goldman Sachs/flowbank, globally households have accumulated USD 5 trillion in excess savings, which is yearly losing purchasing power

German financial assets

- According to our best in class fund Flossbach, German total financial assets are EUR 7 trillion, of which 40% are liquidity! 35% are in insurance claims, which are mostly comparable with cash or conservative investments. Therefore 75% of German financial assets are basically at 0% yield. Only 6.6% are invested in equity.
- **From 2012 to now, the real increase in value of the German Bund was 0%, but in the next 10 years is going to be -15%!**



German financial assets: only 6.6% in equity (Source Flossbach / German central bank)

Simulation of further upside potential for the S&P 500 Index

- During the recent telephone conference of our best in class fund Flossbach, the manager showed the calculation of further upside potential. Basically if the investor expects higher interest rates, higher economic growth and earnings should be foreseen. With a risk free rate of 1.5% (in USD short term interest rates are going to increase in 2023) and a risk premium of 4%, combined with an expected growth of 4%, **the FAIR VALUE of the S&P 500 index would be over 6k points: 36% higher from current levels.**

	Zins	Wachstum Jahr 1 – 10	Wachstum ab Jahr 11	„Barwert“*	Gewinn-Multiplikator*
S&P 500	3%	4%	3%	5.393	~ 27
S&P 500	3%	5%	3%	5.871	~ 29,5
S&P 500	3%	4%	1,5%	4.295	~ 21,5
S&P 500	1,5%	4%	1,5%	6.049	~ 30

Annahmen an die Szenarioberechnung:

Indexgewinn:

200 USD je S&P 500

* Risikofreier Zins:	1,5%
+ Risikoprämie:	4%
Sollrendite	5,5%

Flossbach von Storch-Szenariobetrachtung: Die tatsächliche Wertentwicklung kann von den hier getroffenen Annahmen abweichen.

Quelle: Flossbach von Storch, Stand: 2. August 2021

If the risk free rate would be at 3%, the fair value would be 5'393 points (today at 4'420). Future growth is supported from the new paradigm of stimulus.

News on China

- According to media, Chinese authorities ordered to top 25 Chinese Tech giants to carry out internal inspections as part of a campaign to root out illegal online activity. Companies, including Alibaba and Tencent, are going to rectify issues ranging from data security to consumer rights protections. Such meetings are part of a 6 months campaign to crackdown on illegal online activity.
- This is a clear sign of the effort from both sides, authorities and companies, to find a fast solution on the disagreement and trying to calm down investors. It is clear, on the short term the risk premium demanded by investors has built up, but for longer term investors with patience, it is probably the right time to build up slowly positions, especially via short puts, cashing in the higher volatility (around 50% by Alibaba, Tencent and JD.com). In the case of Alibaba, there is always the trigger of a possible IPO of Ant, once the company could reach an agreement with regulators.
- Meanwhile the SEC has stopped processing IPO registrations for Chinese firms for the time being, giving time to Chinese companies to craft new guidelines for investors to help them understand the risk of a regulatory crackdown by the Chinese regulators.
- Adidas had to announce that revenues picked up everywhere except China, where the boycott continues!
- Many investors are heavily investing in Chinese bonds to “pick up” a 3% yield, having the whole developed world at 0% interest rates. But according to the magazine “The economist” China is experiencing more defaults and Chinese finance regulators are facing a huge dilemma. Apparently Evergrande and Huarong situations are only the tip of the iceberg!? Many market participants predicted since long time troubles in the Chinese bond market, but the Chinese authorities always could find “elegant” solutions. We do not believe in a “cascade of defaults”, especially because China government has still a comfortable indebtedness situation compared to most of developed countries, but having such not transparent situation, we think, the risk for a 3% yield is not worth.

Crypto currencies' news

- According to experts, Ether's update on the 5th of August 2021 should strongly support a further rally of the crypto currency. The update EIP-1559 (or London hard fork) is comparable to the so-called halving for Bitcoin, where basically, miners are going to experience a reduction in block rewards, which is translated into a reduction of ETH supply, which should support higher ETH prices. The update was also needed in order to solve the long standing problem with scaling and its highly unpredictable and sometimes exorbitant transaction fees.
- Experts in the space are arguing, that USD 68.4 trillion in wealth is currently owned by baby boomers, which will be handed down to millennials and gen X over the course of the next 25 years. Therefore argue that a trillion-dollar tsunami is about to hit bitcoin and crypto currencies, due to the difference in millennials's spending and investment patterns, which are shockingly different from their parents.
- According to statista.com there are over 6'000 crypto currencies worldwide and the total is worth more than USD 2.48 trillion vs a total combined value of all the world's narrow money of USD 35 trillion, therefore an equivalent of 7% over the total. As we always argued, the day in which the combined value of the crypto space is getting too important, regulators would step in, as it happened. SEC chair Gary Gensler issued a video on Twitter explaining how the SEC wants to increase regulations, because there is a significant gap for investor protection.

General news

- Goldman Sachs is increasing the starting wage for first year analysts to USD 110k a year from USD 85k. Apparently first-year analyst stated that they worked an average of 95 hours per week and that the job's stress had negatively affected their physical and emotional health.
- The global international arrivals of tourists are still 85% lower in the first 5 months of this year than they were in the year before the pandemic (used to be 540 million arrivals). The Asia-Pacific region was particularly struck hard, with a 95% drop in arrivals compared to 2019!
- The recent acquisition of Square by the Australian fintech company Afterpay for USD 29 bio all-stock deal is the proof, fintechs are the future and the innovation for the financial sector. Afterpay is a BNPL platform (buy now, pay later) and basically is giving loan to younger consumers. Afterpay counts over 16 million customers and lets them pay in 4 interest-free installments and pay a fee if they miss an automated payment.
- In a recent study of the German DPA (Depeschenagentur), a new phenomenon is explained: German, Italian and British citizens are moving the residency to Switzerland along their wealth to Swiss banks, for better protection of privacy even if the bank secrecy technically does not exist anymore. Such phenomenon started after covid pandemic, where the huge increase of indebtedness of European countries to support the economy, increased worries amongst top wealthy citizens, that taxes are going to rise in the future.
- Apparently, 94% of English adults have covid antibodies.

Retail trader

- As market are rallying with no major corrections, many private investors feel that they can be trader and generate excess returns.
- Mr. Alfonso Peccatiello wrote an interesting article in his blog and we would like to highlights following observations:
 - Even if trading commissions are lower compared to the past, are still an important component to be included in the calculation of net profit, especially for high frequency traders. Capital gain is of course the most important component (in Switzerland private investors are exempt). Most of private traders are also forgetting stamp duties (for example in UK, Italy and France).
 - Historical statistic shows, that professionals investors beating the S&P 500 Index are 37% the first year, but falling to 19% after 3 years, 16% on 5 year horizon to finally only 8% over 15 years.
 - Investors will not be right 100% of the times, therefore it is very important to keep the right discipline and build-in a skewed risk/reward strategy, to be able to cut losses and let profit run. It is much easier to say, than to win the emotional behavior during market corrections and even if it has always been the “golden rule” of any trader, we had the clear demonstration during recent market corrections like Q4 2018 or covid correction Q1 2020, that most of investors are still not able to keep calm on the right moment. We must also admit, that 20 years ago technical analysis was a good base for trading, but we realized that in the new “central bank paradigm” and “algorithmic” trading, the success result of trades purely based on technical analysis are poorer and poorer. For this reason we fully agree with our best in class fund Flossbach, that investors need to keep the long term focus, vision and have to be patient at the right moment. Of course there is still a list of higher volatility stocks, with strong fundamentals, which can be sold in any price strength and bought back in deeps and the technical analysis can optimize the P&L balance.
- Do not fall in love with a stock and keep increasing the position in deeps, resulting in a disproportional position vs total wealth. In addition, the size of the position has to be measured against the volatility of the stock!

Battery efficiency by EV producers

EVs Ranked by Battery Efficiency (miles / kWh)

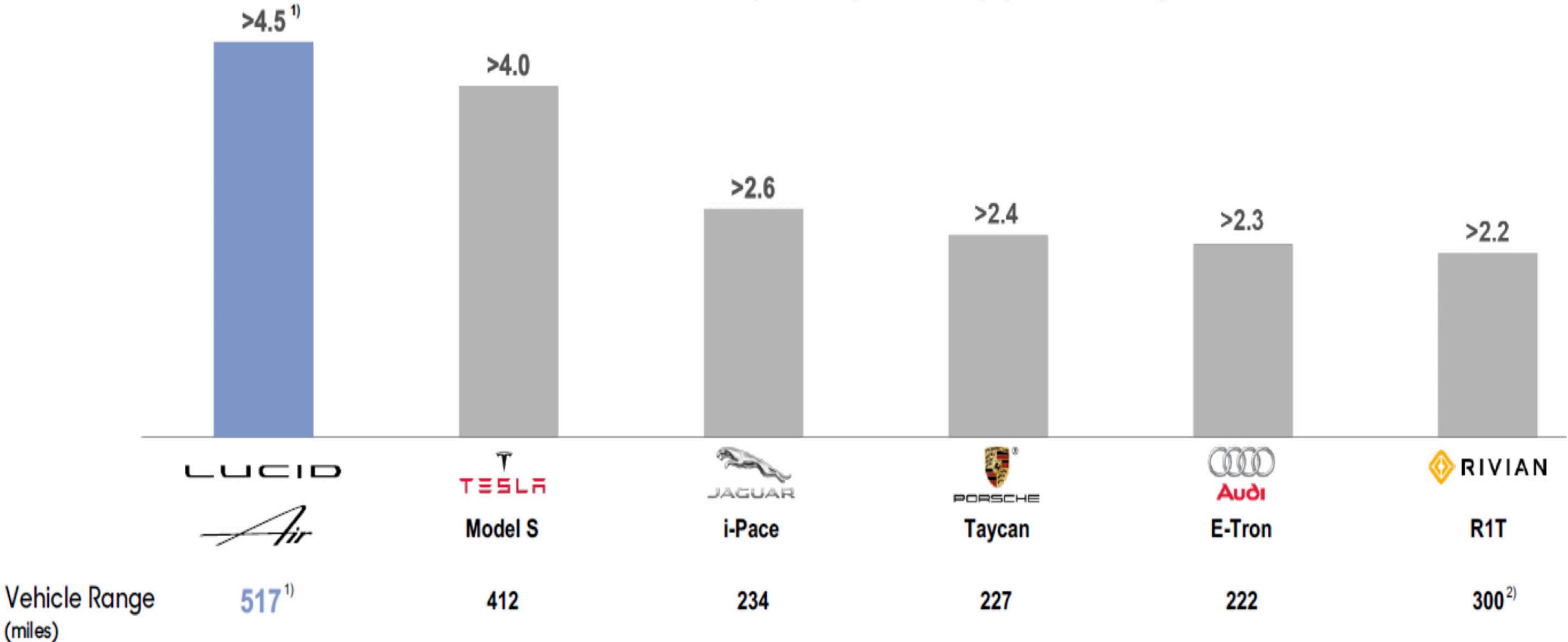


Chart of Bocconi students investment club (BSIC): Lucid motor has the best battery efficiency (miles/kWh) and Porsche needs Rimac to beat competitors

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