

KTS
CAPITAL
MANAGEMENT



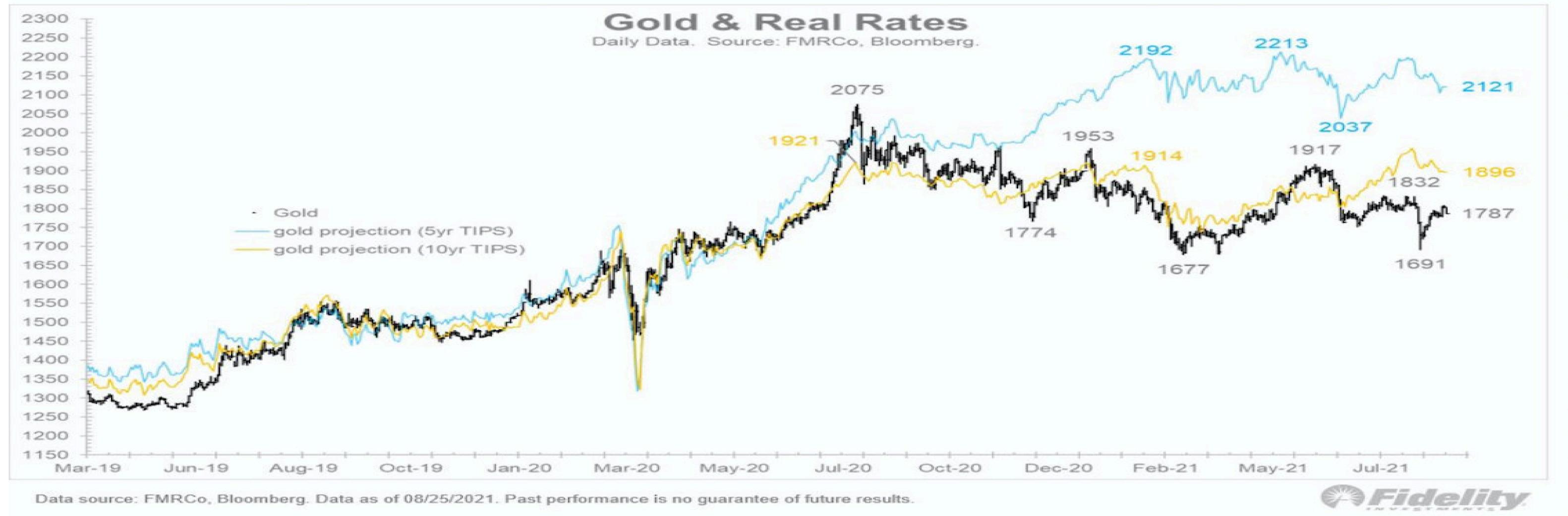
KTS weekly update Nr. 31

The 3rd of September 2021

- The Federal Reserve Chair Jerome Powell announced at the annual Jackson Hole, that the central bank could begin reducing its monthly bond purchases this year (tapering), but won't be in a hurry to begin raising interest rates.
- This is again a dovish tone of the FED and equity markets and also gold reacted positively. As recently argued, central banks are not in the position to implement drastic changes, having governments issuing huge stimulus packages.
- The FED is going to use this ambiguous tone in order to avoid any equity market bubble and keep the actual situation as long as possible. As explained, the only way to have a long term sustainable debt is a reduction via inflation, negative real rates and economic growth.
- Historically central banks aims at controlling inflation, full employment and financial stability / price stability. After covid19, global central banks assign themselves other missions, like fighting against climate change and inequalities, but especially the FED changed the framework and interpretation of full employment. In fact, FED is not only focused on the unemployment rate but also analyzing labor market indicators for different segments of the population, including black unemployment. Back in December 2015, when the FED increased rates for the first time after 2008 financial crisis, the overall rate of unemployment was 5%, but black unemployment was still at 8.5%. So the FED has now also the mission of reducing racial inequality and is also analyzing the number of people not looking for a job, which is honestly the biggest global dilemma: food stamps, basically people that have given up looking for a job.
- All these new missions are one more reason for the FED to keep as long as possible a dovish monetary policy and ECB will not be in a position to do differently, otherwise, if the ECB would start to increase interest rates too early, the EUR would strengthen and would hurt exports. In addition the economic rebound especially in France and Italy is still lagging.

Gold correlation to real (negative) rates

- Gold is underperforming its real rate roadmap. The price should be around 1900-2100 USD based on the correlation to real negative rates. The underperformance can not be explained by an increase of the USD.
- Having now the FED again a dovish tone and gold entering its bullish seasonal period, it may be that gold price could start to rally again. We feel comfortable with our exposure in our best in class Bakersteel precious metal and Electrum funds.



Source Jurrien Timmer of Fidelity

Highest covid infection age group

- According to a statistic of zdfheute, the highest infection rate is on the group age of 5-14 year old and 15-34. The age group 60+ has the lowest rate.
- This statistic makes perfectly sense, due to kids not vaccinated and younger people coming back from holidays and partying the whole summer. In addition it is a proof, that elderly people have more respect of the situation.

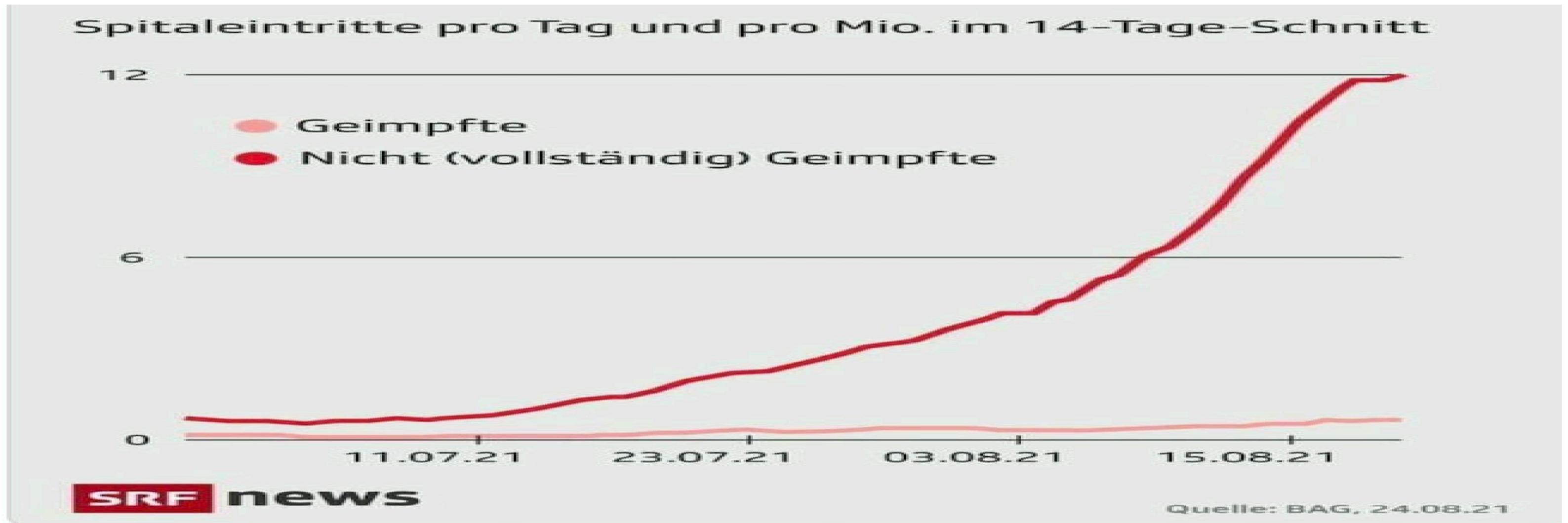
Altersgruppe	7-Tage-Inzidenz Neuinfektionen vor einer Woche	7-Tage-Inzidenz Neuinfektionen aktuell	Trend	Foto: ZDF/
0-4	38,5	56,9		
5-14	79,3	142		
15-34	93,5	115,4		
35-59	41,9	57,5		
60-79	10,8	14,4		
80+	10,7	13,6		

zdf heute  Quelle: RKI, Stand: 26.08.2021

Source zdfheute

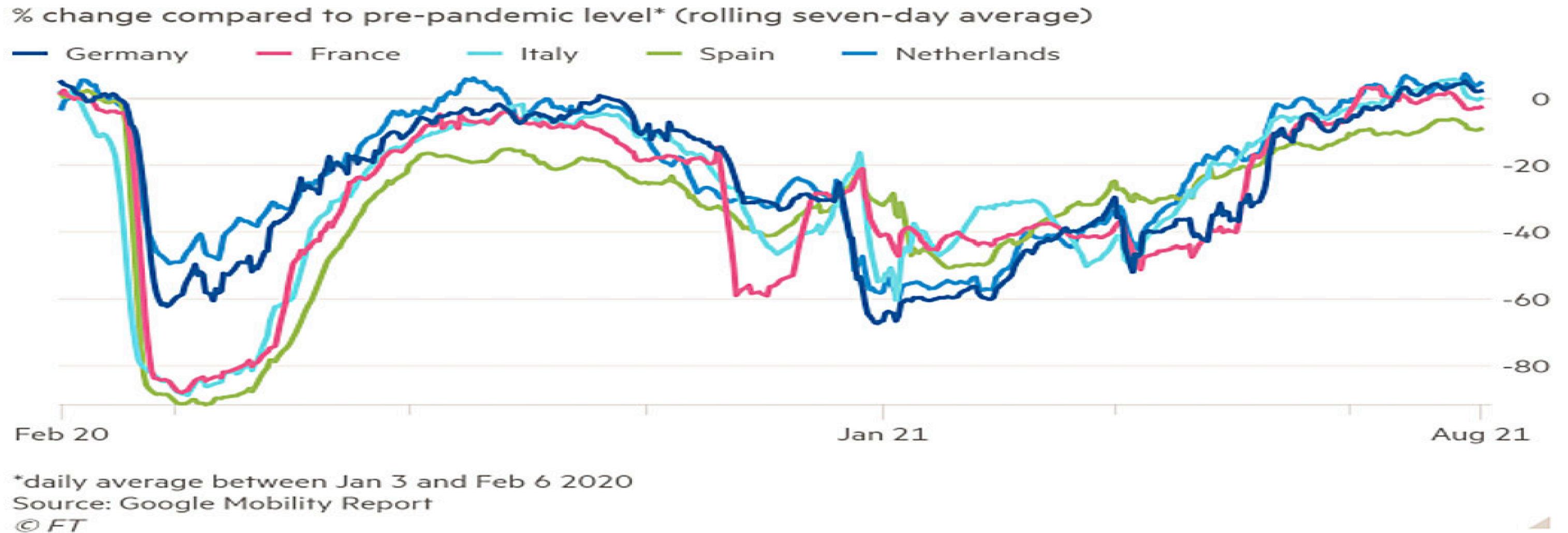
Hospitalization of vaccinated citizens

- A statistic of FOPH (Federal office of public health) shows the hospitalization number of vaccinated citizens vs not vaccinated. As we can notice, vaccinated citizen hospitalization is only lightly increasing and we would add, most probably elderly people are hospitalized.
- We think that there is no reason to panic. The situation is sadly different in emerging markets.



Visits to shops, restaurants and entertainment in Europe

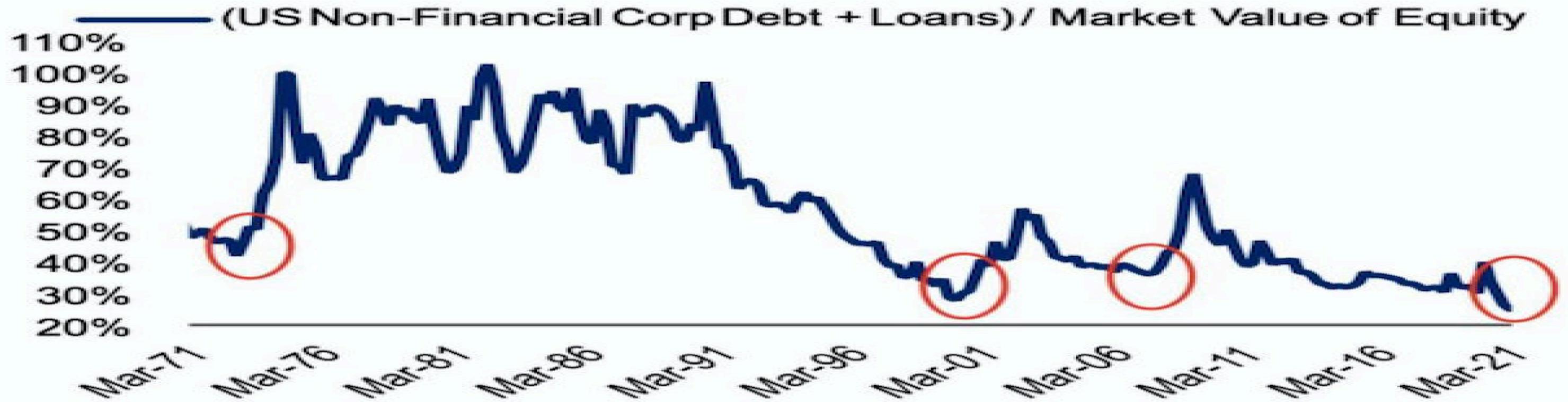
- Luckily European consumers are moving again and visiting leisure venues, traveling, going to restaurants, and high frequency indicators are again at their greatest levels.
- According to unofficial data (Google mobility report / Financial Times), the rise of coronavirus cases across the eurozone this summer had minimal influence on the bloc's economic recovery.



Source: Flowbank / Google mobility report / FT

US corporate debt

- Increasing equity markets and therefore higher market capitalization of companies, have also as a consequence a lower corporate debt to market value, which is positive, because companies could actually increase debt.
- In the chart below from BofA, we can observe how the corporate debt to Market value of Equity ratio is at the lowest level ever.
- But this is another sign of ballooning of the financial system and **point of no return for central banks**.



Note: Companies have significant additional liabilities including trade payables.

Source: Federal Reserve, BofA Global Research

BoFA GLOBAL RESEARCH

Source: Flowbank / FED / Bank of America

Nasdaq Gold Dragon

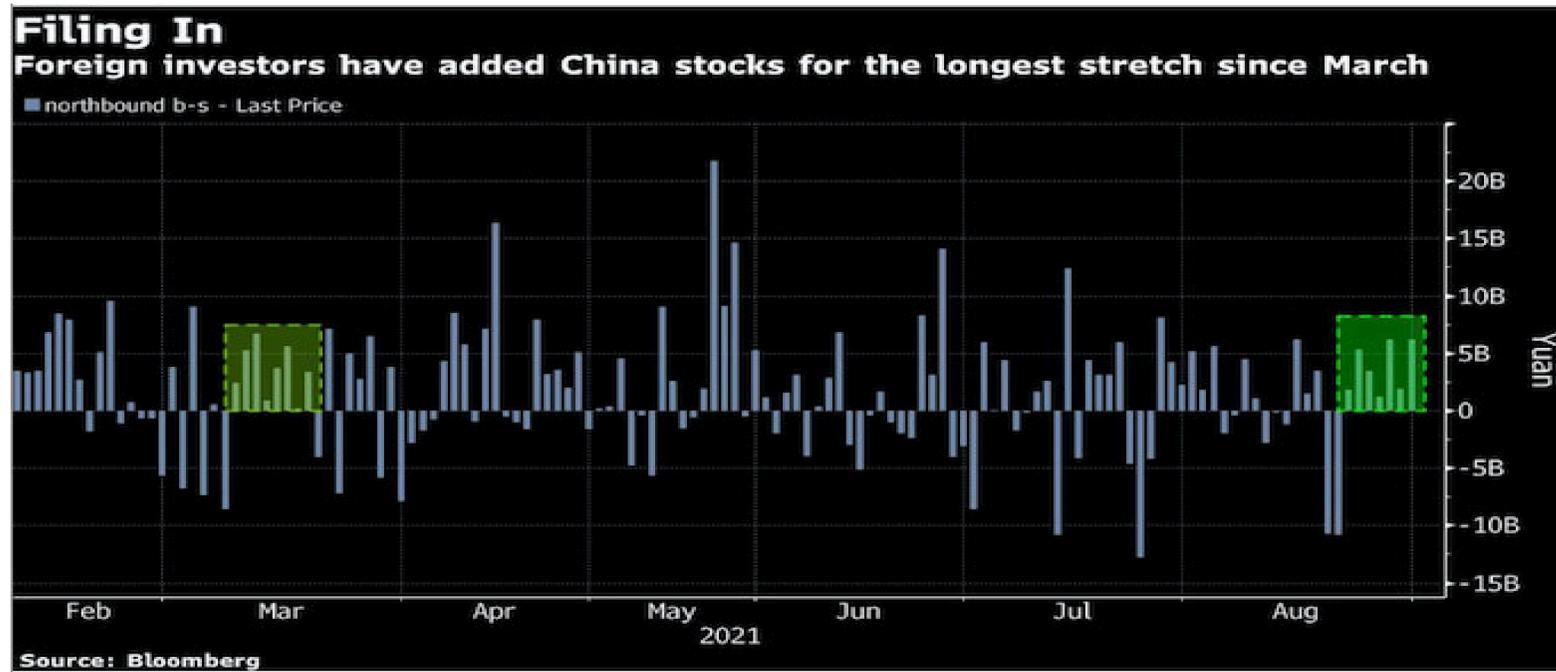
- The Chinese technology Index is at 2 standard deviations line and historically has been a long term strong support.
- As recently argued, we think that Chinese tech giants are discounting a good portion of negative sentiment and news.
- We believe this can be a good entry point for some Chinese blue chip via “short put strategies” or investing in the ETF EMQQ LN.



Source: Mr. Christophe Barraud / Bloomberg

Inflow Chinese equity market

- According to a statistic from Bloomberg, overseas funds are buying A shares from August, during the Chinese market's correction and each of the final 7 trading sessions in August 2021 saw a net inflows into Chinese stocks, the longest streak since March 2021 (8 day stretch with 28 bio yuan vs 26 bio in August).
- Market participants know, the latest selloff of the Chinese equity market was impressive, but Mr. Paolo Calcinari shows in a chart (below on the right side) the selloff historically (MSCI China vs MSCI US). We can observe the magnitude of the correction never being that strong.



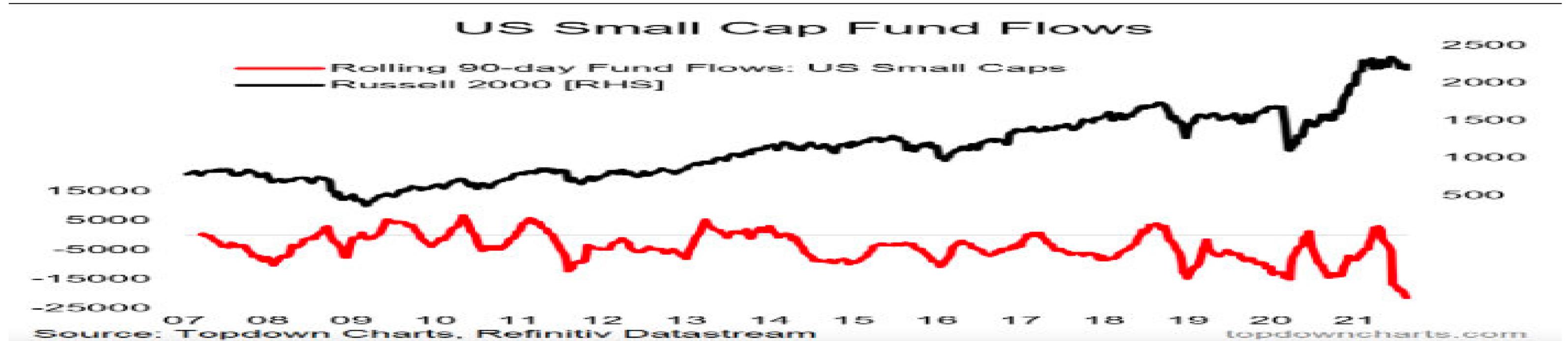
7 day net inflow. Source: Mr. James W / Bloomberg



China's equity sell-off: MSCI China / MSCI US (source: Paolo Calcinari)

US small cap

- According to topdowncharts.com US small cap equity fund flows is in a capitulation mood. In fact US small caps experienced record outflows and a surge in bearish speculative positioning. The Russell 2000 index is in a trading range since February 2021, meanwhile the S&P 500 Index is at new highs (most probably supported from heavy share buy back programs).
- Valuations are also attractive: the forward price-earnings ratio for the the S&P Smallcap 600 Index is at 23% discount to S&P500, the biggest discount since May 2001 (midst of the technology bubble crisis).
- US Banks are actually improving lending standards to consumer and corporate loans to small & mid caps in order to stimulate the economy. In addition, stimulus packages from governments are still not implemented in the real economy and are going to “kick in” soon. Therefore we are expecting a good upside potential in the space going forward and we are evaluating to invest into the ETF IWM US.



Source: www.topdowncharts.com

Market sentiment

- Mr. Dwyer, technical analyst at Canaccord, pointed out a very interesting statistic. Historically analyzing all the bull markets with 7 consecutive up months, he concludes, that in the next 6 months of such bull market, the average of maximum drawdown is around 3% but the upside is over 10%. This is basically because market participants are waiting for a correction, which is not arriving and are forced in a FOMO (fear of missing out) phase of the cycle.

Month End	SPX	Consecutive		Max Drawdown from 7th month-end over next 6-months				Max Gain from 7th Month-end Over Next 6-Months		
		Up Months	New High?	Date	SPX	% Chg	# of Days	Date	SPX	% Chg
9/30/1958	50.06	11	Yes	10/1/1958	49.98	-0.16%	1	3/13/1959	56.67	13.20%
5/31/1961	66.56	7	Yes	7/18/1961	64.41	-3.23%	33	11/27/1961	71.85	7.95%
6/30/1964	81.69	8	Yes	8/26/1964	81.32	-0.45%	40	11/20/1964	86.28	5.62%
10/31/1980	127.47	8	Yes	2/20/1981	126.58	-0.70%	75	11/28/1980	140.52	10.24%
2/28/1983	148.06	9	Yes		None			6/22/1983	170.99	15.49%
5/31/1991	389.83	7	Very close	6/25/1991	370.65	-4.92%	17	11/13/1991	397.41	1.94%
3/31/1993	451.67	7	Yes	4/26/1993	433.54	-4.01%	17	8/31/1993	463.56	2.63%
6/30/1995	544.75	8	Yes		None			12/13/1995	621.69	14.12%
5/31/1996	669.12	8	Yes	7/24/1996	626.65	-6.35%	37	11/25/1996	757.03	13.14%
12/29/2006	1418.30	8	52-wk high	3/5/2007	1374.12	-3.11%	42	6/4/2007	1539.18	8.52%
9/30/2009	1057.08	7	No	10/2/2009	1025.21	-3.01%	2	3/23/2010	1174.17	11.08%
5/31/2013	1630.74	7	Yes	6/24/2013	1573.09	-3.54%	16	11/27/2013	1807.23	10.82%
10/31/2017	2575.26	10	Yes	11/15/2017	2564.62	-0.41%	11	1/26/2018	2872.87	11.56%
8/31/2021	4522.68	?	Yes	?	?	?	?	?	?	?
				Avg.		-2.72%	26.5	Avg.		9.72%
				Median		-3.11%	17.0	Median		10.82%

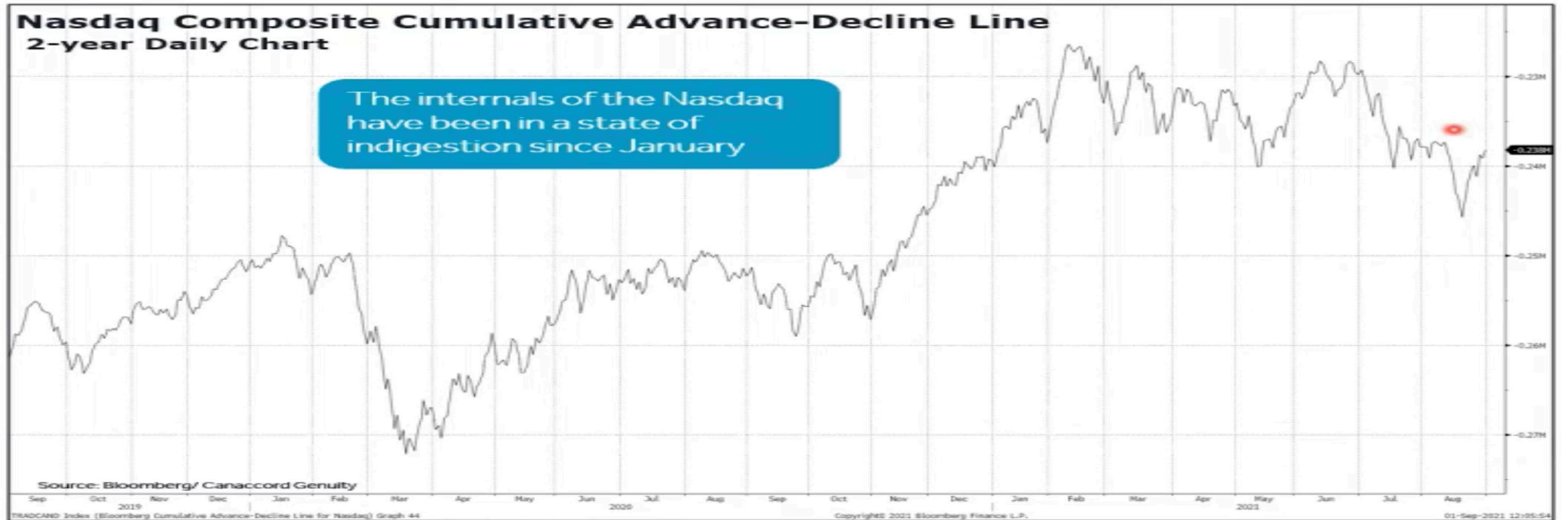
Source: Bloomberg / Canaccord Genuity

Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Mr. Dwyer / Canaccord

Market sentiment

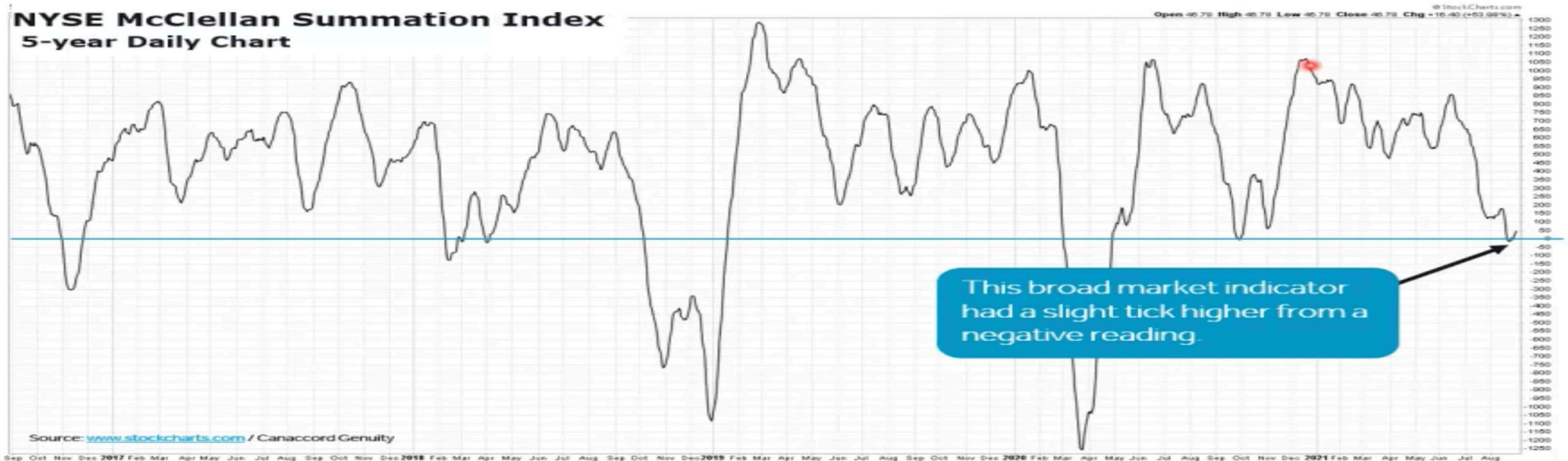
- Mr Dwyer is confirming our thesis, that markets are at their high, but 5 blue chips are making 50% of the performance of the S&P 500 index, meanwhile the broad market is in a strong consolidation phase.



ADL line of Nasdaq in a consolidation phase since the beginning of the year

Market sentiment

- The confirmation of the broad market is in a consolidation is also from the historical longest market Indicator (NYSE McClellan summation Index): the market is consolidating since the beginning of the year and is ready for a rebound, which would fix perfectly with the seasonal strength of market and the statistic of a 7 consecutive up months.

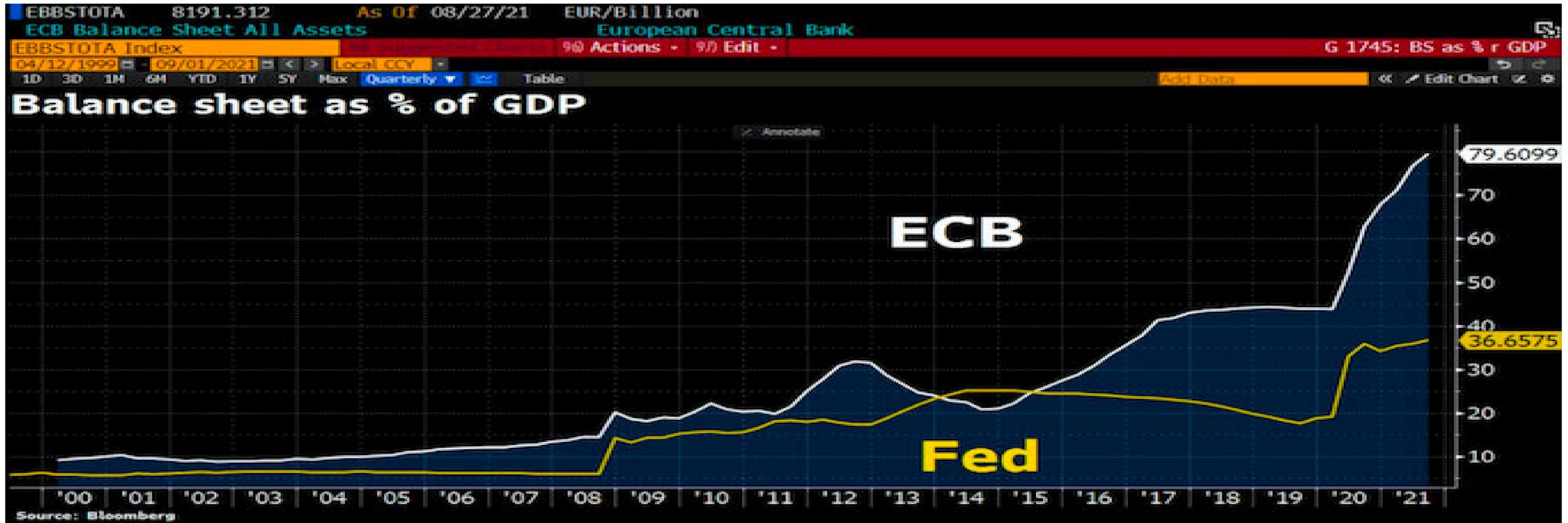


Developed by Sherman and Marian McClellan in 1969, the oscillator is computed using the exponential moving average (EMA) of the daily ordinal difference of advancing issues (stocks which gained in value) from declining issues (stocks which fell in value) over 39 trading day and 19 trading day periods. The McClellan Summation Index adds up all the values of the daily McClellan Oscillator.

Longest sentiment indicator is in a consolidation phase since beginning of the year.

Central bank's balance sheet

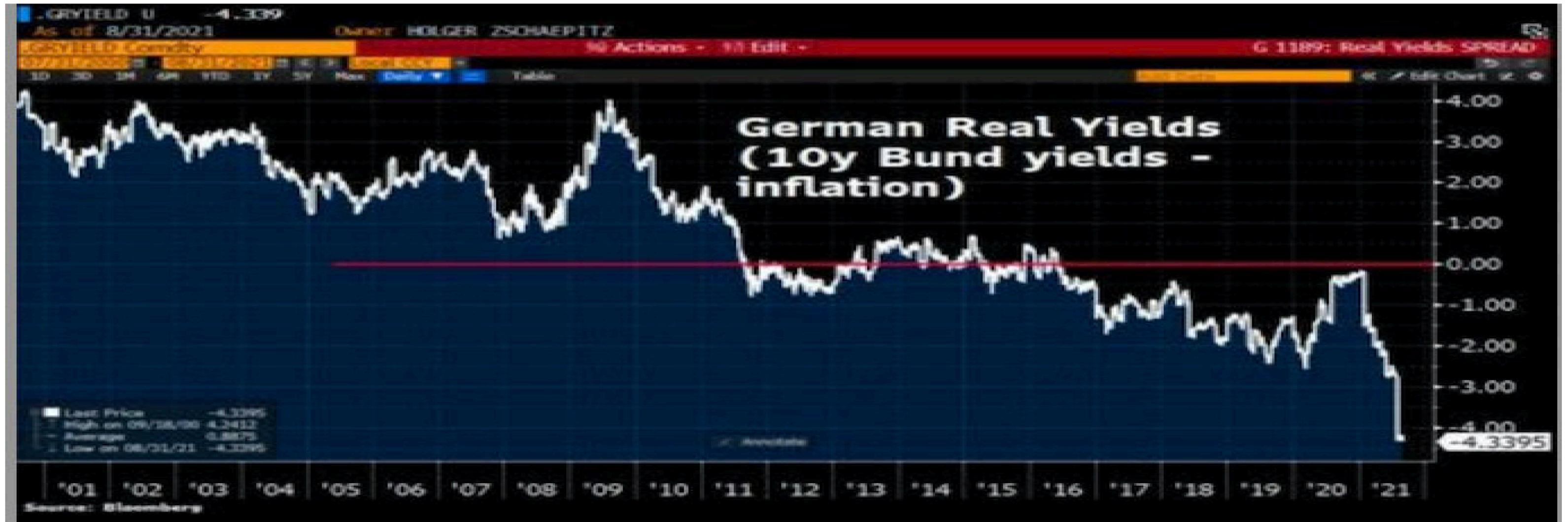
- ECB balance sheet is at a fresh all time high at EUR 8.2 trio. The total assets equal to almost 80% of Eurozone's GDP
- FED balance sheet is still at 37% of total GDP, meanwhile the one of BoJ at 133%



Source: Flowbank / Bloomberg

German real yields

- Meanwhile real interest rates in Germany fell to new lows at -4%, due to higher inflation.
- The situation is not going to improve, therefore the money deposited on an account is losing 4% of purchasing power on a yearly basis.



Source: Bloomberg

General news

- After US troops withdrawal from Afghanistan, Biden's approval rating collapsed from around 52% to 47% . Such rating is still not influencing equity markets or causing big changes, but obviously, going forward, the margin of error for Biden and its administration is getting narrower.
- China limits children to 3 hours of online gaming a week. According to the National press and publication administration, gaming platforms from Tencent Holdings Ltd to NetEase Inc. can now only sell online gaming to minors from 8 pm to 9 pm on Fridays, weekends, and public holiday. Market participants are worrying about the continuous restrictions from the side of Chinese regulators and the risk of slower growth for Chinese giant tech companies, but we would argue, the step taken from the Chinese authorities in this particular subject is not as bad as it seems. In fact, less online gaming is supposed to be translated into other, most probably, healthier activities, like sport, but also music, art, design, culture, or simply more study. We would not be surprised, if other countries would take example from the Chinese limitation on online gaming. We do not have to forget, that China limited to 2 hours game time per day under the age of 16 already back in 2019 and Japan followed in March 2020 with a law limit for 1 hour of play time per day.

General news

- Mr. Gary Gensler, Chair of the SEC, suggested the order flow activity could see some revisions and he is even talking to ban payment for order flow! Robinhood relies more heavily on payments for order flow than other brokerages; nearly 80% of the company's total net revenues came from payments received for routing investors' orders for stocks, options and cryptocurrencies.
- Chinese non-manufacturing PMI in August fell from the expectation of 52 points to 47.5. Partial lockdowns and chip shortages are contracting the economy rebound. Also the Asian room is experiencing softer PMI index.
- But the US manufacturing is expanding at a faster rate. Also the order backlogs is at highest levels, this is particularly due to the global supply chain issues and bottleneck. Such economic data are supporting the US equity market and is showing that the covid19 Delta variant is not negatively affecting the economy and is compensating the momentarily weakness in Asia.
- The Chinese government announced the launch of a new innovation focused stock exchange in Beijing in order to reduce the outflows of talented technology firms going to American public markets like the Nasdaq and NYSE. The Chinese president Mr. Xi is also signaling money is available to entrepreneurs.

General news on crypto currencies

- The Bank for International Settlements (BIS) and 4 central banks (Australia, Singapore, Malaysia and South Africa) will test the use of digital currencies for cross-border-transactions, as global regulators seek to improve the speed of movement of money in a cheaper and more transparent manner. This is definitely the proof, that the blockchain is going to be our future and market participants want to diversify out of the SWIFT global payment system. This project of the 4 central banks gives credibility to the blockchain technology and Ethereum is going to profit most, because the technology can be applied to different fields.

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