KTS weekly update Nr. 35

The 1st of October 2021

Market weakness due to spike of yields

- The recent market weakness is due more to the spike in long duration yields, than other reasons.
- The FED announced last week it would start tapering quite soon; yields spiked, the USD rallied and gold/silver suffered.
- Equity price sensitivity is inversely correlated to yields and is supposed to be short term; statistical analysis shows that such inverse correlation disappears over the long run, which makes perfect sense, because central banks are going only to increase interest rates in case of stronger economy, which is going to be translated into higher earning expectations. Therefore, higher cash flows result, which ultimately means higher valuation for equity. This mechanism is also confirmed by our best in class funds Alkeon and Flossbach.
- **Interest rates are going to be lower for longer**, this is pure maths. Debt is going to be reduced by inflation and economic growth (as in the USA after WWII, the debt vs GDP in percentage felt from 120% to 60%, but of course increased at an absolute value). Many “old school” investors are still asking themselves today, how are governments going to repay debt. The answer is very simple: it is not going to be repaid, on the contrary, is going to increase in absolute value and in case we need more debt to avoid new recessions, interest rates are going to get deeper in negative territory, which already happened last year during Covid19.
- Therefore, in a **DFC model for calculating equity valuation,** we input a long term interest rate of 1.5% and not 3% as we used to do and apparently analysts are still doing. Additionally, we input a higher growth of 4% for the next 10 years, due to government stimulus packages. Finally we fix the risk premium at 4%, but it could easily be lower, if all market participants would feel comfortable with the fact that interest rates are not going to increase. This is not the case nowadays, because the investment community is split between a permanent state of transitional high inflation/hyperinflation. **KTS believes in transitional inflation because, structurally, the inflation is been falling for years, due to automation, innovation and robotics.**

Market weakness due to spike of yields

- If the risk premium was lower than 4%, the equity valuation would even be higher than our base scenario.
- **The expected WACC for discounting future cash flows would be 5.5% instead of actual 7% and the S&P 500 Index would have a fair value of around 6'049 points respectively a 30 P/E, which means an additional upside potential of 38%.**
- The manager of Flossbach adds that profits are nominal and not inflation adjusted, but market leaders are going to be able to pass the inflation to final consumers, which is translated in higher prices of their products. Therefore, the potential for such market leaders is even higher.
- **THE FINAL CONCLUSION** is, equity is the most attractive long term asset class and short term volatility does not matter.
- **Equity is as cheap as 20 years ago! The market does not need a crash to become attractive!** The reason is very simple, earnings also increased along with share prices.
- On the question of what is going to happen to the loss of purchasing power of pension plans, mainly invested in bonds with negative real yields, the manager answered that governments are going to fill the gap with additional debt. Again it is all about maths and the bad circle already started. Having global central banks going in the same direction, there is no point of return.
- **For KTS the manager of Flossbach is legendary,** being the first manager recognizing the path of negative interest rates in bank accounts. They were stating that already back in 2011 when most market participants not only disbelieved such an assessment, but found it ridiculous. Last Monday, Flossbach produced a new assessment, which is most probably going to be again legendary and we explain the reason:

Market weakness due to spike of yields

Many market participants question the traditional asset allocation “magic formula” of 60% equity and 40% bonds. As bonds offer negative real yields, it would be logical not to invest in them. But institutions and pension plans must by law, invest more than 60% of their assets in bonds (see also the research of our best in class fund Fasanara: the use of digital technology to build a resilient portfolio is going beyond 60/40 traditional asset allocation).

Having global central banks basically abusing of the system and being at the point of no return, investors are asking themselves, what is going to happen next.

- **Flossbach has the answer of next long term step: portfolios are going to be invested 150/50:** basically investors are going to buy equity with leverage. This assessment also helps to answer further our last week`s dilemma: whereby most of market participants foresee a market correction based on the fact that margin debt is at 2 standard deviations and at highs. We argued, with central bank’s liquidity injections 3 times higher than GFC 2008 (global financial crisis), such statistical data is basically worthless. Today, Flossbach gave, in our eyes, the best fundamental answer, on the contrary of all major banks still “sticking” with such historical statistics but not adjusting recently dramatic liquidity injection in the market, which move definitely the bar for such statistics to much higher levels.
- **Finally, Flossbach proposes a long term asset allocation of 15% in bonds (interest rates are going to go deeper in negative), 15% precious metals, mainly gold (because of the risk of a currency reform and also government digital currencies) and 70% in equity.**
- **In addition, capital preservation in the new paradigm of negative yields is possible only with investments in real assets. Therefore, also answered is the question if somebody should buy their own house today or wait for better opportunities.**

Market weakness due to spike of yields

- **KTS would also add that part of the portfolio needs to be invested in fixed income, in order to give stability to the portfolio. But we prefer to invest in fixed income alternative strategies like factoring, direct lending and micro credit, having above average yields at low volatility. Most of our counter-parties are part of the EIB or UK central bank programs to support SME and the economy.**
- **In addition, the majority of investors totally forget that their bond exposure is much higher than they would think, because their pension plans are mainly invested in fixed income!** For this reason KTS as a family office can offer a value added vs competitors, helping families to manage the whole wealth and can meticulously analyze the right exposure in any asset class with our sophisticated portfolio management system and with our external partner for risk management modeling.
- We are going to explain more in detail Flossbach presentation in the next weekly report.

Gas crisis

- KTS is reading from multiple sources, that the gas shortfall could have bigger magnitude than the US 1970s oil shock. Catalyst for such commentaries is a research of Rabobank comparing the actual European gas crisis to the oil shock in 1970. The research sees a contagion to fertilizers and ethanol production and distress to supply chain disruptions. Market participants see higher gas prices entering the winter season and expect more power shortages in China, USA, Europe and finally UK/Ireland.
- Market participants are accusing Gazprom, the main supplier of natural gas for Europe, of withholding exports in order to reach higher prices. The European Parliament urged the European Commission to launch an investigation into Gazprom over alleged market manipulation. The Russian gas giant Gazprom dismisses such speculations and accusations arguing that gas deliveries to Europe have reached historic highs so far and exports to European countries rose by 23.2% between January and July 2021.
- In the UK, 400 petrol stations had to introduce a GBP 30 limit to cope with unprecedented demand, due to drivers' panic over the shortage situation, caused by truck driver shortage. We are not really in the position to have a clear opinion on the event, but to us, it sounds a bit like back in March 2020, when the European and US population was rushing to buy toilet paper. The UK government already have emergency solutions like offering up to 5k visas for truck drivers and the army delivering gasoline to stations.
- We are still analyzing the situation in more detail with our experts in the sector, but we would also argue that the shortage of energy is due to the planned reduction of traditional and fossil energy sources like nuclear and coal. In case of a realistic risk of an energy crisis, we are sure that such traditional energy production can be increased and governments could allow a momentarily increase. **Therefore, we cannot imagine, that the current energy crisis can possibly have the same magnitude as in the 1970.**

Gas crisis

- We can also observe that the production of nuclear power is being silently increased, with most of governments realizing that we cannot switch from fossil to electric with the existing energy supply structure at the pace we would like to. Most policy makers are not in the position to be the cause of an energy crisis with the same magnitude of 1970, especially because most of market participants and energy experts were already warning since long time the unsustainable pace of the transition and the high risk of power shortage. A major crisis would simple jeopardize the whole renewable agenda of most governments worldwide.
- The first example of adaption is again China. As emergency solution, after the crackdown on power consumption driven by rising demand for electricity, surging coal and gas prices, due to strict targets from Beijing to cut emissions; Chinese authorities ordered aluminum smelters, textiles producers and soybean processing plants to reduce production. Some factories are being ordered to curb activity or, in some instance, to shut down. Some market participants also argue that the Chinese energy crisis is also partially of its own making, having had President Xi Jinping trying to ensure blue skies at the Winter Olympics in Beijing next February in order to show the international community that he’s serious about de-carbonizing the economy.
- On the other hand, we are reading that coal miners may profit more amid higher prices for their commodity, which is a further proof that coal energy production is going to increase in the short term, showing again how the market can adjust himself quite fast, in order to avoid crisis.
- Increasing electricity prices put pressure on metal producers of zinc and aluminum. The producer Nyrstar NV has to cut output, because higher electricity costs are increasing to basically 80% of the commodity’s overall price. This situation is going to lead to increasing commodities prices. On this matter we are positioned with our best in class fund Bakersteel Electrum.

Gas crisis

- It is clear, that this situation is definitely going to influence negatively the GDP output and market participants have to expect lower economic datas for Q3 and Q4 2021. Having developed market at highs, **it is another reason, to avoid being fully invested.**
- As argued before, long term fundamentals are still intact and we are in a new paradigm of government stimulus. Having the whole world still under stress because of Covid19 / delta variant situation, the global economy has actually not felt any of such programs yet, but short term events like the energy crisis, lock down situations around the globe and US Congress still voting for debt ceiling are going to create short term volatility.
- Therefore, the only solution is to be invested with a barbell strategy: some liquidity on the account for market opportunities and “calibrate” the asset allocation investing in strategies also focused on limiting the downside risk.
- **We feel very comfortable being invested in our best in class managers like Z22, ABR, Alkeon, Fasanara, all managers, which are also focussed in limiting the downside risk.**
- Our put options matured in September, and we are analyzing a possible roll over.
- On the long term, it is clear to KTS, as Flossbach’s manager asserted, we have to be long equity. On the short term we realized, that major Banks like Goldman Sachs, Morgan Stanley, Deutsche Bank see a market correction up to 20% . The arguments of such institutions are in our eyes very weak and we all actually know that brokers always need volatility in order to generate volume and transactions, which are translated in higher fees. In addition, such institutions propose to investors complicated option strategies, which the more complicated they are, the less the investor understands, the more market participants love to do invest in. But, in our long experience, we have to admit, we almost never made any real profits with such strategies. Perhaps we are not intellectually sophisticated enough to invest in the right ones. Therefore, we try to “keep things simple” and are happy with that.

New government in Germany

- The Social Democratic Party has beaten Angela Merkel's Christian Democratic Union by a margin of 1.6%, for a total of 25.7% of the vote. Social Democrats must team up with other parties to form a government and it will take most probably months to form a new coalition. The SDP frontrunner Olaf Scholz declared that Germany is signaling the willingness to change. We have to admit that we found Mrs. Merkel one of the best ministers Germany has ever had and she was able to hold not only the country, but also Europe together during one of the most crucial and critical times. It will be very hard to do better. Ms Merkel, probably also being a woman, was able to have a very diplomatic relationship with almost any minister worldwide.
- The magazine "The Economist" argues that Merkel's government was negligent in the public sector and investments were not made wisely, falling behind its peers in building infrastructure. We would argue that, with the tremendous popularity of the Green Party in Germany, there was an additional reason to launch in Germany strong renewable and sustainable stimulus packages, which were already launched last year during Covid19. But, compared to Biden's administration, there is still a lot to "catch up". Germany is actually also in the financial position to do so.
- In addition, Germany's most severe domestic problem is a failure to reform its pension system. But, also in this case KTS would argue that neighbor countries like France and Italy also failed to introduce proper reforms and, as we know, at the end of the day, governments are going to fund the gap with additional debt. This is the easiest way for everyone and also professional investors like Flossbach believe it to be so.

New government in Germany

- The green party briefly led the polls but fell short of expectations, however, they recorded their best result ever. Most probably the recent spike in natural gas prices, which led to an energy crisis, did not help them during the final phase of the vote. Hundreds of thousands of protesters turned out in more than 400 German cities calling for the winner to put climate protection at the top of its agenda. But again, with the recent energy crisis, citizens also start to realize that the pace of the green transition is going to take more time.
- Reading different reports on Jamaica or Rainbow (also so called traffic-light) coalition in Germany, we are not feeling that Germany is going to dramatically change her political path. It looks like the Jamaica coalition is not going to happen anyway. Therefore, a Rainbow coalition would mean socialism, more green and higher debt. Higher taxes are planned, KTS is asking itself, how?
- A Rainbow coalition would keep to the actual path and we think the investor community is going to be happy with that. The first market reaction to the election result was a non event.
- We are going to keep analyzing the situation in German and most probably write in more detail in coming weekly reports.

Decentralized finance (DeFi) and metaverse

The magazine "The Economist" issued an interesting research on the subjects and we would like to highlight some interesting points, especially because we are marginally exposed with the best in class fund Fasanara and we would like to add position:

- The ecosystem of financial services, known as decentralized finance, or DeFi, deserves sober consideration, because it has the potential to rewire how the financial system works. We agree with this assessment and this is also confirmed by the fact, that all major financial institutions worldwide are massively investing in the segment and in blockchain innovation. Start ups in the sector are dramatically changing the payment system and bank system. KTS always argued, that worldwide market players did not like the US abuse of the global SWIFT payment system for sanctions. DeFi is the new platform to diversify from such an aged system.
- The magazine asserts, that most DeFi applications are built based on the Ethereum blockchain network; we also tend to agree.
- Conventional banking requires a huge infrastructure to maintain trust between strangers, from clearing houses and compliance to capital rules and courts. By contrast, transactions on the blockchain are trustworthy, cheap, transparent and quick, at least in theory. In KTS' eyes, it is clear that the path is still long, but the major confirmation that such blockchain's trend has legs is that all major banks are investing millions in blockchain innovation. A recent example is the Australian Bank Macquaire, which has just started mining Bitcoin with Blockstream, powered by green energy. But as most investors probably know, major credit card providers are also accepting crypto currencies as payment and major US and European banks are investing in crypto innovation. To mention it again, last week FINMA approved the project of a Swiss regulated exchange with the Swiss company SIX AG. Market players call the new crypto era as a reset of big banks and credit card companies. Cryptos, mainly Ethereum, are for example capable of processing nearly 70 times more transaction per second than Visa at much lower costs. Market players argue that companies like Harmony could bring credit card companies to their knees.

Decentralized finance (DeFi) and metaverse

Harmony is working to lure decentralized applications (Dapps), which makes it simple for developers to move or copy their Ethereum-based Dapps to its platform.

- Crypto platform like Kava can offer lending services powered by blockchains, which could replace banks and also corrupt lenders. Other Fintechs can redefine online banking. The most known are Revolute, N26 Bank or Digibyte offering DigiAssets, also known as NFTS (non-fungible token).
- If we also compare the efficiency in general trading of traditional major banks to e-Banking platforms such Swissquote, Interactive Brokers or even Robinhood, traditional banks have still an aged trading system and a lot is still manually executed, causing delay in information of execution prices, etc. The trading itself is executed by algorithm models, but the booking system is still quite aged compared to e-Banking platforms. Traditional banks recognized the need to further automatize internal systems, but the path of course is still long.
- Robo-advisory is actually nothing else than an automatization of the portfolio management system of traditional major banks. The investment decision is still taken by human via an investment committee, but the implementation is fully automatized, and also advices to clients. On the one hand we clearly understand the economic advantage and the tremendous saving of costs with such robo-advisory system, but on the other hand KTS is still of the opinion that the human contact and trust is the base for investment and, therefore, we do not believe in clients will prefer to “chat with a machine”. But, perhaps we are already “old school” boys, to hold faith in such an “illusion”. Time will prove if we are wrong.

Metaverse

- DeFi is also spreading to more ambitious terrain. MetaMask, a DeFi wallet with more than 10million users acts as a digital identity to enter a decentralized “metaverse”.
- Metaverse is basically a digital world or a virtual reality platform, built on the Ethereum blockchain, where users can run virtual shops selling digital collectables and tokens. Facebook recently debuted a new virtual reality app, Horizon Workrooms, that lets users sit in a virtual conference room having virtual meetings and doing virtual work. Mark Zuckerberg explained, that is a part of his realization of a interconnected digital metaverse, something he wants Facebook to work toward. Being Facebook owner of Oculus, it was forced to move in this direction, having Fortnite, Roblox and other games offering such virtual reality world. As explained in our recent reports, after the dispute of Apple and Google stores with Fortnite, all the tech giants need to invest in such innovation, in order to “catch” fees in the online shopping world.
- It is said that the ultimate goal is to replace intermediaries like global banks.
- Major players in the financial sector argue that there is still a long way to go, before DeFi is as reliable as PayPal or major banks. The answer to such criticism is that Ethereum is a self-improvement machine. For example, when there is high demand, the fees it charges for verification can climb, encouraging developers to work on minimizing the intensity which they use it. There will be new versions of Ethereum and most probably new better blockchains could one day replace it.**The fact is, the future will be built on blockchains.**

Decentralized finance (DeFi) and metaverse

- Of course there are still a lot of open questions, as for example contract enforcement outside the virtual world (a blockchain contract may say you own a house, but only the police can enforce an eviction), governance and accountability in DeFi-land are rudimentary, sequence of large irrevocable transactions that humans cannot override (coding errors?), money-laundering has thrived in the ungoverned grey zone of services and finally, despite the claims of decentralization, some programmers and app owners hold disproportionate sway over the DeFi system; a malign actor could even gain control over a majority of the computers that run a blockchain. This reality is, also in KTS' eyes, the weakness of the technology and absolutely need to be improved.
- Having major financial players as a part of the game, we also agree, that the blockchain technology is going to undergo a process of integration into the legal financial system and authorities are going to increase regulations in the space, as for example Mr. Gary Gensler (president of the SEC) predicting. We also have to admit, that the substantial part of KYC (know you client) for new clients is nowadays still done by banks. In fact, most of Fintechs accept only payments into their account from a bank account with the same beneficial owner, therefore **such Fintech trend can evolve only aligned with major financial players!**
- An additional proof of the blockchain technology development is the the People's Bank of China (PboC)'s launch of the e-yuan, as digital yuan, which aims to replace the cash in circulation and increase massively the control of the State, which is also translated in major efficiency in controlling tax payments. Market participants also argue that the digital yuan could increase competition in China's mobile payments market, momentarily dominated by Ant Group's Alipay and Tencent's Wechat Pay. Already 50 million of Chinese citizens are using it, tendency increasing.
- **ECB anticipates the launch of a digital EUR from 2026 to 2024,** which is in KTS' eyes a part of the process to speed up reforms process, in controlling the flow of money and automatically increase the efficiency of government spending.

Decentralized finance (DeFi) and metaverse

- The Ethereum blockchain underpins much of DeFi activity and settled USD 2.5 trillion worth of transactions in the second quarter of 2021, including payments and transactions to facilitate trading and lending. In addition, about USD 90 billion of collateral is being used for various DeFi functions, compared with less than USD 1 billion in early 2018. Nowadays more than half is held in the 5 most popular DeFi applications, but developers are working on more than a 100 others, dozens of which are rapidly amassing assets. Innovations, such as automated market markers, arbitrage systems and self-stabilizing currency regimes, are already pushing the boundaries of financial technology. Being an attractive and fast growing segments with infinite interesting opportunities, but very fragmented and specialized, **KTS is marginally invested with the expert Fasanara (www.fasanara.com)** based in London. Fasanara could increase EUR 250 million in a VC fintech fund, which is anchored by the **EIF to support** SMEs across the EU. Fasanara is also **backed from the EIF for direct lending** programs to European SMEs.
- According to the magazine, DeFi opportunity comes about because centralization brings problems; central banks monopoly and expansive monetary policy, credit card operators huge profit margins (60-80%), tech giants use market power anti-competitively. Market participants believe, decentralization offers transparency, efficiency, inter - operability, etc.
- In KTS opinion, the technology is based on a very weak functionality and needs absolutely to be improved: if **the key of the token is lost,** the digital fortune will be out of reach forever. Therefore, a sudden death or illness of a user could cause serious problems of passing on the private key to heirs. In addition, the digital world is also very vulnerable to hackers. Nowadays, it is very difficult for hackers to extract wealth out of a bank account or credit card balance, and if it would be the case, the client is substantially covered from insurances or the bank itself. But it is still easier for hackers to attack crypto platforms and extract wealth. In this case, users do not have a backup from insurances or the crypto platforms.

Decentralized finance (DeFi) and metaverse

- On the other hand, decentralized exchanges help better than centralized exchanges for example with smart contracts for indivisible transactions, instead of an costly escrow account service from intermediaries. Nowadays, banks do not like anymore to offer such service to everyone, in fact they are mostly offered only to high end clients. Uniswaps is for example one of the largest decentralized exchanges and trades tokens worth around USD 1 billion every day.
- The Economist magazine also explained the function of Stablecoin, which are tokens pegged to the USD or other currencies. Stablecoins supposed to facilitate transactions between other tokens and provide the basis for financial contracts. The most known examples are Tether and Coin. There is a huge controversy on such stablecoins, with many market participants asserting that they are the biggest fraud and Ponzi system in the history, because it is too difficult to prove that they are fully collateralized (via cash or short term corporate debt held in a bank or brokerage accounts).
- The New York's attorney-general found in March 2021, that Tether was not fully collateralized for periods in 2017 and 2018 and fined it USD 18.5 million with Tether denying wrongdoing, therefore, most market participants feel relaxed on the NY' attorney investigation and the final result.
- But a good research in the blog by "Doomberg" - Tether goes full Ponzi, the blogger explains how on July 26 of 1920 the US newspaper "the Post" found out that to cover the investments made by Mr. Ponzi with his Securities Exchange Company (vehicle of Mr. Ponzi used for his fraud), 160 million postal reply coupons would have to be in circulation. However, only about 27k actually were in circulation. Mr. Ponzi could still hide behind excuses, but not for long. The blogger finished the report asserting, that Tether and Bitfinex went to court claiming the true nature of the allegedly safe investments backing USD 66 billion worth of tether stablecoins, but the nature of their counterparties were proprietary secrets too valuable to be revealed.

Decentralized finance (DeFi) and metaverse

- The blogger Doomberg is basically asserting, that investors are invested in a “black box” and you just have to accept such matter of fact. We learnt in our 25 years investment experience to invest in vehicles you can understand or, at least, believe you understand, otherwise, better not to “touch” them.
- The magazine explains more in detail about the collateralization of a stablecoin but, at the end of the day, market participants are not able to have an accurate analysis whether Tether is, in fact, fully collateralized.
- Finally, the report explains the innovation of lending protocols, where users in DeFi can remain unknown. In order to borrow from a lender they must first deposit tokens, like dai (also a stablecoin), as a collateral. We know investors participating in such a market, but KTS still has not found a serious counter-party, with which could feel comfortable to invest.
- Developers also have a new way for lending via “flash loans”, which avoid such depots with dai. Yields are exceptionally attractive but, again, investors really need to understand the full mechanism and feel comfortable with all the possible counter-party risks. Apparently, if the borrower fails to repay, the entire transaction is cancelled, so that no funds were ever borrowed and the lender takes no risk at all. Most of such loans are mainly used for arbitrage opportunities between token-trading platforms. Flash loans are offered by platforms like Aave and Compound, which lent out some USD 16 billion and USD 11 billion in tokens, respectively.

Decentralized finance (DeFi) and metaverse

- Market participants assert that such services increase efficiency in the market, but unfortunately they are mainly used to speculate and, therefore, if DeFi is to go beyond speculation, the DeFi market needs to expand into conventional finance, but developers need to couple the virtual and the real worlds to reach, for example, everyday finance activities like mortgage lending. The magazine mentions the possible expansion of the actual NFTS technology, which instead of collecting only digital claims, could represent the ownership on homes and the mortgage would be wrapped into a single, but efficient bundle.
- The magazine mentions that, being the blockchain technology, it is cheaper than current financial systems. Thus, it would be the efficient solution to reduce costs and, basically, anything can be substituted: from deposit accounts with banks to stock-settlement systems. But, of course, the biggest dilemma is the supervision of regulators to fight money laundering. The recent step of FINMA with SIX AG for the launch of a regulated exchange is the first step on the right direction.

General news

- Chinese authorities, in order to control outflows from the country, introduced face recognition software installed in Macau's ATMs, in addition to limiting cash withdrawals and finally declared all crypto currencies illegal. As we all know, Chinese authorities are also laying down a new groundwork for Casino licenses in Macau, in order to have more control. When governments are in desperate situations, desperate measures are applied and we can all understand where the direction is going globally!
- The Turkish Lira hits a new low and is losing 87% of its value against the USD since January 2008, but those Turkish citizens, who could invest part of their wealth in gold, could store value. This is a clear indication of how gold is a long term value store, especially for emerging market countries. Of course, market players are arguing that cryptos are the new gold, but we would argue that the two investment vehicles are not comparable and crypto currencies can not guarantee the same stability of gold.
- According to a research of Credit Suisse, "The Visual Capitalist", it looks like individuals worth over USD 1 million constitute just 1.1% (!!) of world's population, but they hold 45.8% of global wealth. Meanwhile, in the USA, the top 1% now owns a record 32.1% share of total US net worth, USD 45.6 trillion, up USD 10 trillion since the start of the pandemic. The dilemma of wealth inequality is rising globally and it is obvious that such a trend is unsustainable and could lead to general rebellion from lower classes, which basically owns nothing (the bottom 50% own 2% of all net worth).

General news

- According to the "Washington post" jobs in the Marijuana sector are becoming a refuge for workers which have been laid off in gastronomy or supermarket segments. Innovation and new trends are also offering changes and in our eyes more than the majority of the investment community is expecting. This is particularly positive news, especially because investors are seriously worrying about the loss of job opportunities due to robotic and automatization.
- Chinese tech companies are buying back their stocks. Tencent for example recently bought the 4th highest on record, since the company started to buy back shares on June 2004. Tencent massively bought back its stocks in any market correction, supporting the stock price. Also for Chinese giant techs, as for the US tech companies, share buy back programs are a natural hedge.
- Ms Meng Wanzhou return to China. Huawei CFO could finally return to China after a prolonged extradition fight with the United States. We welcome such an event and we would hope for an improvement of the tense relationship between USA and China. But reading the AUKUS agreement between America and Britain to supply Australia with at least 8 nuclear-powered submarines, we understand that the "arm wrestling" between the two most powerful economies in the world is not going to cease very soon.
- We are reading from multiple sources, that companies are finding ingenious ways of solving the actual chip bottleneck. The German car industry for example is implementing older chips, if no current chips are available. And using them in certain insignificant parts of the car' s system in new models, with the promise to replace them in future services or updates. Meanwhile, Samsung Electronic is close to finalizing the construction of a USD 17 billion semiconductor factory in Williamson County in the U.S. State of Texas. At the end of the day, the tensions caused by the Trump administration reached its goal to move the production of strategic technology into U.S.

General news

- We were shocked to read about the trading scandal of two Federal Reserve chiefs, Mr. Eric Rosengren and Robert Kaplan, presidents of the Fed branches in Boston and Dallas. In their 2020 financial disclosures, released recently, it showed they held and traded financial assets while the Fed was actively supporting markets through the pandemic crisis. Both chiefs resigned.

China and crypto currency

- The People’s Bank of China announced all cryptocurrency transactions to be illegal.
- The crypto market reacted negatively , but also not as dramatically as many would expect, because the majority of investors were anticipating such final call, after recent developments and news from the country.
- The strategy of Chinese authorities is absolutely coherent with recent market interventions. We understand the main goal of the government is to drastically stop outflows from wealthy Chinese. Meanwhile, the greed and irresponsibility of Chinese entrepreneurs weakened the internal financial system due to leverage. Evergrande is just an example.
- In addition, the step is also coherent with the launch of the e-yuan. As previously explained, the government aims to reduce the traffic of cash and compete with online payment platforms.
- Such geographical limitations are slowly, but surely, adjusting the huge gap between crypto’s supply (which is known and limited) and demand, which is now falling, having more and more countries introducing limitations on crypto currencies. Analysts can now start to implement limitations on the demand side in models for the valuation’s calculation and soon we will understand that the upside is not unlimited anymore, as most of us believed in the past.

China and crypto currency

- As KTS always argued, especially after the hype during February of this year, that when governments feel something is getting too big and out of control, history shows interventions are the logical consequence. We are experiencing just this and the process will be long and most probably full of unforeseeable surprises.
- As argued in the past, KTS is not longer invested in cryptocurrencies, but instead is invested in the crypto arbitrage fund of Fasanara, profiting from the ongoing high volatility and market's inefficiency. As long as retail clients are trading with high frequency on multiple platforms, professional investors with sophisticated infrastructure can profit of spreads inefficiency around the globe. Today`s situation in the crypto market is comparable to the forex market 20 or more years ago, where traders of major banks, with the right infrastructure, could profit from the market's inefficiency of "smaller players". It is clear also to KTS, that the market is going to adjust its self over time and this situation is going to be sustainable perhaps for another 2-3 years.
- We would like to end with asserting that China launched a digital currency, but it is based on blockchain. Therefore, the blockchain technology is not illegal and is the base for innovation and future even in China. It is not helping us to solve the final equation of the crypto's valuation, but also contradicts many "market gurus" (mostly "old school" and forever bearish) calling the final "death" of the crypto world. In addition, our client could read in our DeFi and metaverse research, that there is a sense of high conviction that the blockchain technology is going to be the base for further innovation and automatization in the financial and payment sector.

Why do people invest?

- A new survey by Swiss banking technology provider Avaloq, which polled 1’430 investors across 10 countries in Europe and Asia, found that:
  - 8% of Swiss respondents are investing via robo-advisory platforms
  - 6% via crowdfunding platforms
  - Investors in Switzerland, UK and Japan are investing to have enough money for retirement
  - As their primary reason for investment, 69% of Swiss investors do so for retirement income, 33% of Swiss market participants invest in real estate, 32% for future personal health care costs and 25% funding their own entrepreneurial activities.
  - On cryptocurrencies, sentiment differs greatly from a market to another.
  - Indians and Germans are the most open to the emerging asset classes with 49% and 45% of respondents investing in cryptocurrencies. In Switzerland only 25% of respondents is investing in cryptocurrencies.

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