KTS
CAPITAL
MANAGEMENT

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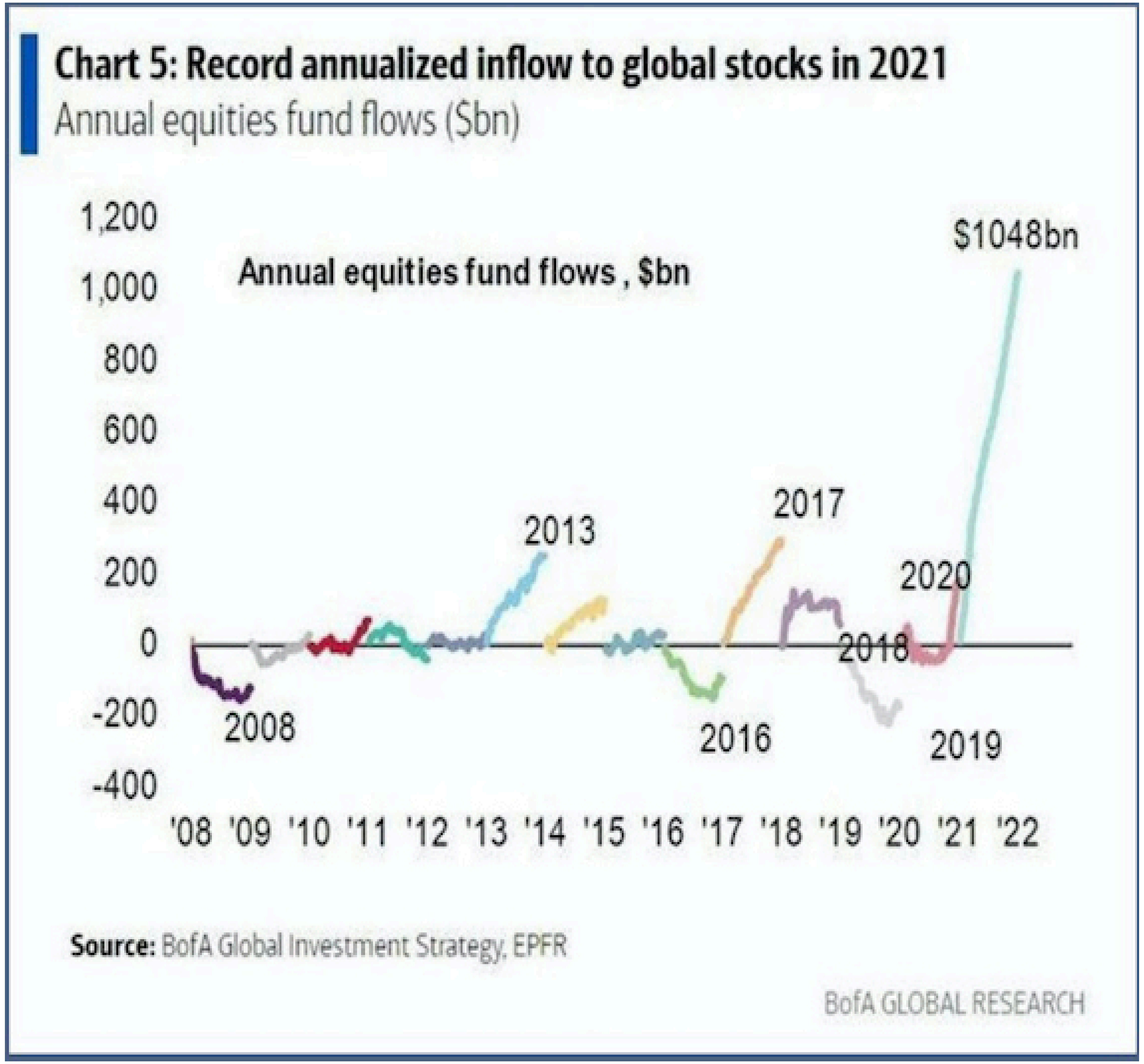
Inflow into global equities in 2021

- According to BofA the inflow into global equities during 2021 is more than in the past 10 years combined.
- Even if KTS is still bullish on equity markets and believes there are some natural hedges in the equity markets (shares buyback programs, 4% higher yields vs bonds, the top 1% of US citizens (but not only in the USA) owns 53.5% of total equity volume and negative real yield, to mention a few); these inflow numbers are quite impressive and for many market participants a reason for extreme cautiousness. However, US households, mutual and pension funds and foreign investors hold USD 19 trillion of US cash assets, accounting for 68% of total US cash assets and reflecting a USD 4 trillion rise vs their pre-pandemic holdings. This is fuel for a FOMO rally.
- Government stimulus packages around the world have still not “kicked in” to the global economy.
- As shown recently, the fair value of the S&P 500 Index is around 40% higher than current levels. Therefore, KTS believes that further upside is still a possibility.



Source: Bank Syz/BofA

US retail sales

- The CIO of Julius Baer argues that retail sales, which represent the sale of goods including food and beverages sold at restaurants, are experiencing extraordinary, most probably unsustainable, numbers.
- Such a tremendous rebound from the lows is certainly a testament to the pandemic-induced pent-up demand and spending of involuntary savings accumulated by households. Basically, all retail sectors have overshot their pre-pandemic trend. The most significant overshoots are in gasoline stations and general store sales; whilst automobile and online sales, actually the largest categories with 39% of total retail sales, are only slightly above their trend line.
- This tremendous spending is, in KTS's eyes, the main reason for the increase in inflation and supply bottlenecks around the globe. If, in the next months, the trend drops back to normal levels the pressure on inflation should ease. In a normalization process, spending on services, especially those hard-hit by the pandemic, should increase and more than compensate the drop in retail sales.

US retail sales and trend (source Julius Baer)

Per capita net greenhouse gas emission, 1990-2019: metric tons of CO2e/capita

China: 60% of the country's electricity generated by burning coal (source: Bank Syz: Rhodium Group)

China energy transition

- China's President Xi Jinping announced in late 2020, whilst at the UN summit on climate change, that the country would cut its CO_2 emissions per unit of GDP, or carbon intensity, by more than 65% from 2005 levels. This would be achieved by 2030.
- Xi also pledged sharp increases in renewable energy capacity.
- At the same time, the demand for electricity has been booming as manufacturers have scrambled to fill export orders, especially from the US; Chinese exports rose 20% y/y during September to a new record high.
- The actual energy crisis is the consequence of both factors and power prices started to increase from March 2021. As recently explained, provincial authorities, especially those with a high concentration of heavy industries, are trying to curb use in order to meet energy-use targets. Now those limitations are helping cause an economic slowdown.
- In September, the China Electricity Council, which represents power suppliers, said that coal-fired power companies were now "expanding their procurement channels at any cost" in order to guarantee winter heat and electricity supplies. Meanwhile, coal prices have risen 75% y/y. Market participants are expecting electricity shortages and rationing to continue into early next year
- In the recent weeks, Chinese authorities have moved to soften sweeping policies designed to make the economy less dependent on debt, monopolies and fossil fuels. Premier Li Keqiang expressed caution, saying China needed to rethink the pace of the country's energy transition as a power crisis threatened to keep factories in the dark and homes without heat during the winter.
- The situation in China clearly highlights the difficulty in cutting the global economy's dependency on fossil fuel, in addition to their dealing with their other issues like property controversies and lockdowns. We must not forget that about 40% of Chinese citizens are earning just 1k yuan (USD 155) per month on average.Therefore, stable economic growth is essential for China.

Italy

- According to the CIO of JB, Mr. Yves Bonzon, the country under the leadership of Mr. Mario Draghi is experiencing a substantial economic rebound and crucial reforms could be pushed forward.
- The Premier Minister Mr. Draghi could reform the judicial and tax systems and push for bureaucratic simplification. These policies would help address Italy’s long-standing inefficiencies.
- Also, increases in government spending, which could significantly boost investments and modernize the economy, should be finalized.
- According to Mr. Yves Bonzon, Draghi’s 5-year deficit projections go beyond the limits of the “ EU Stability and Growth Pact”, sending a strong signal for the future of EU fiscal rules. In doing so, Italy could establish itself as a European pioneer in the era of state-sponsored capitalism. Most likely taking a leading role when it comes to the Maastricht criteria reforms, which should already resume this year.
- KTS was confident in the capability of Mr. Mario Draghi to intervene directly to the “heart of Italian inefficiency” with strong support for the private sector, which would further encourage an economic rebound.
- Our best in class fund Classic Global is invested in a few Italian undervalued companies like Unipol, whose market cap is even lower than the value of its participation into Unipolsai Assicurazioni SPA, or Buzzi, to mention few names.
- KTS is not investing directly in the Italian market, but the massive improvement in the outlook for Italy, mostly because of Mr. Draghi, is strong support to investor sentiment towards the European Union and, therefore, European equity markets.

General news

- New statistics confirm that more than 2/3 of mutual funds have underperformed their respective benchmarks over the last 3 years. In US the percentage is 67%, Canada even 91%, followed by Europe 70% and Japan 66%. The average for developed markets is around 74% and for emerging markets around 73% of funds underperforming. This is a confirmation that fund selection, combined with real investor experience, is the key for outperformance and stability of the portfolio.
- Facebook plans to hire 10k people in the EU to build its vision for a “metaverse”. This is the proof- metaverse, Fintech, blockchains are the future and the major tech giants are “pushing” the process. Facebook also has an advantaged position vs, for example, Google or Apple, being the owner of the brand “Oculus”. We recently issued a detailed report on metaverse and Fintechs.
- The Nord Stream 2 pipeline from Russia to Germany has now finally been completed on the 10th of September and should supply up to 26 million households. The tests for the first pipeline have also been concluded. Gazprom is still testing the second pipeline, but the final approval has yet to be given by the German authorities. Market participants hope that the start of gas delivery from the Nord Stream pipeline is going to reduce the price of natural gas and finally ease the actual energy crisis.

General news on crypto currencies

- The SEC approved the bitcoin futures ETF opening the crypto space to a wider investor base. Proshares started the trading of its bitcoin futures ETF already this week with the symbol BITO US, and ValkyrieFunds with the symbol BTF US. Some market participants are warning that futures-based ETFs can be quite costly and inefficient, especially when the curve is trading in steep contango. An example is the ETF: USO US or VXX US, where the monthly roll over is costly. The bitcoin futures curve has been in contango most of the time. So, investors are probably better off with a direct purchase of bitcoin rather than bitcoin future etf.
- In light of this event, the bitcoin price could breakout from the highs and ready to rally to next levels. KTS cannot predict market moves, because we saw in the past that the traditional technical analysis is not helpful for trading bitcoin.
- Market participants noticed that nearly 50% of the computing power (called hash rate) of the bitcoin blockchain had pulled the plug in China and relocated to other countries in a few months. Therefore, we can assert that the system is much more resilient than most people would expect. In addition, US holds now 35.4% of hash rate, followed by Canada with 9.55%. Half of the hash rate is now located in North America. Basically, China has handed over an incredible opportunity to the US and Canada to now dominate the digital currencies. Most probably, Chinese authorities prefer to reallocate the huge amount of electricity used by crypto mines into other more important parts of the Chinese economy!? Having still 60% of the country's electricity generated by burning coal, but aiming to reach its challenging Co2 reduction targets, Chinese authorities were forced to make dramatic decisions and take dramatic action!?
- The SEC noticed a great opportunity for the US and, seeing this, the US authorities became more crypto "friendly" . The approval of the bitcoin future ETF is, in KTS' eyes, not a coincidence. In fact, embracing bitcoin indirectly brings the US closer to new young voters, creates jobs and last, but not least, raises new tax revenues.

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