

KTS
CAPITAL
MANAGEMENT



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The 26th of November 2021

Tax payers in Italy

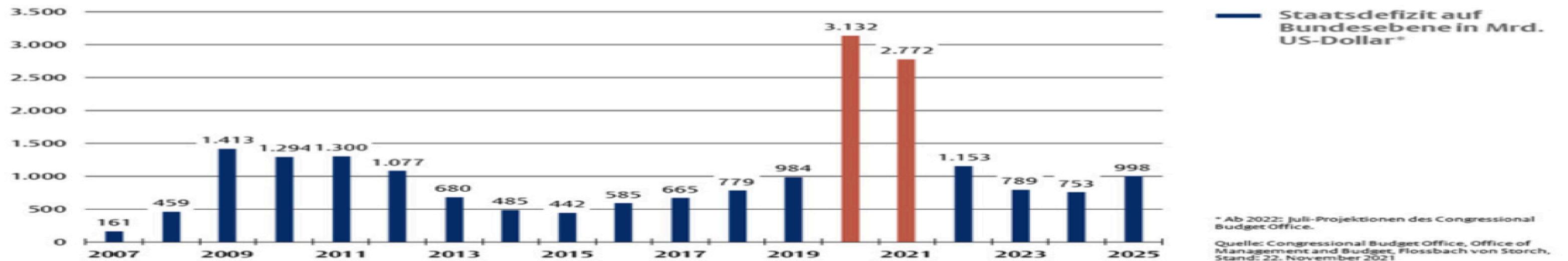
- We came across a very interesting article accredited to Mr. Alberto Brambilla (Courier / via the journalist Mr. Dario Donato) rightly arguing that officially 57% of Italian citizens declare less than 10k EUR gross income per year.
- In addition, 14.5 million fellow citizens manage to live on only 3'750 EUR a year. The journalist compares such cost of living standards as in line with the average income in Namibia or Libya, according to 2019 data from the World Bank.
- Another 8.1 million taxpayers declare income of between 7'500 and 15k EUR. 26 million Italians pay only 2.3% private income taxes (IRPEF), which equates to EUR 4 billion. However, the public health service alone costs EUR 50 billion.
- To summarize- 34 million (total 2020 population in Italy will be 59.55 million, therefore 57%) pay a total 8% private income taxes to IRPEF for a total of EUR 14.7 billion. Therefore, the journalist rightly asserts that the majority of Italians are living in poverty.
- **HOWEVER, Italy is top of the rankings for ownership of cars and mobile phones. They also gambled to the tune of 125 billion annually in 2019.**
- There are 5.5 million Italians who declare earnings above 35k EUR per year, and they alone pay 58% of all contributions, which go to pay for services and pensions for the community.
- Adding Income from 29k to 35k EUR, it turns out that 71.5% of all income tax is paid by the top 21% of taxpayers.
- Above EUR 100k gross (52k EUR net) represents only 1.2% of the entire population, these are paying 20% of all IRPEF.
- Conclusion- Italy by numbers is practically really poor, despite being a G7 power. The journalist rightly asks if Italy is facing mass tax evasion. The numbers are definitely highlighting that most of the GDP is still tax free, but only with a reduction of taxes can Italy hope to change the situation. We are confident Mr. Draghi is going to try to change the current situation.

Re-election of the FED chairman, Mr. Jerome Powell

- As expected, FED chairman Mr. Jerome Powell has been re-elected. The bond market, as a consequence of the move in bond yields and precious metals both reacted negatively. This was because, apparently, the alternative candidate Fed Governor Lael Brainard was supposed to be more dovish than Powell.
- We honestly do not understand the market's reaction. As explained, the Fed cannot diverge dramatically from its stated monetary policy. Therefore, we are convinced that interest rates are going to stay lower for longer.
- The manager of our best in class fund Flossbach argues that the tapering of the FED is going to be natural. Because in the future USA is going to need reduced issues of new T-Bills. Therefore, with projected lower deficits, the supply of T-Bills is going to stay constant. An anticipated stronger USD will also permit a high demand in US T-Bills, combined with a lower supply, the FED will not need to fill the gap and long term interest rates are going to automatically fall.

Das Angebot schrumpft

US-Fiskalpolitik: Vorerst keine neuen Rekorddefizite zu erwarten



Source: Flossbach: US projecting lower deficit in the coming years

Expected earnings for the S&P 500 Index in 2022

- According to our best in class fund Flossbach, expected earnings for 2022 are 7.6% higher than for 2021
- Interestingly, in the presentation back in January 2020, expected earnings for 2021 were 196.41 USD, but the final result was 205.72 USD. That means, the top 500 US companies could reach 4.75% more profit, even with the unexpected Covid19 short recession!

Gewinnentwicklung des S&P 500 in US-Dollar je Index

Kalenderjahr	Q1	Q2	Q3	Q4	Gesamt
2006	20,73	22,31	22,60	22,44	88,18
2007	22,71	24,40	21,31	16,14	85,12
2008	18,96	19,78	17,49	5,62	65,47
2009	12,83	16,03	16,36	16,80	60,80
2010	19,71	21,48	21,75	22,55	85,28
2011	23,50	24,14	25,65	24,55	97,82
2012	25,60	25,84	26,00	26,32	103,80
2013	26,74	27,40	27,63	28,62	109,68
2014	28,18	30,07	30,04	30,54	118,78
2015	28,60	30,09	29,99	29,52	117,46
2016	26,96	29,61	31,21	31,30	118,10
2017	30,90	32,58	33,45	36,02	132,00
2018	38,07	41,00	42,66	41,18	161,93
2019	39,15	41,31	42,14	41,98	162,93
2020	33,13	27,98	38,69	42,58	139,72
2021*	49,13	52,55	49,11	51,08	205,72
2022*	51,58	54,55	55,96	57,83	221,35

Situation heute:

- Gewinnschätzung für 2021 liegt bei 205,72 USD



* Gewinnschätzungen für 2021/2022 per November 2021.

Die Gewinnerwartungen basieren auf spezifischen Annahmen. Die tatsächlichen Ergebnisse können hiervon erheblich abweichen.

Die historische Wertentwicklung ist kein verlässlicher Indikator für die künftige Wertentwicklung.

Quelle: IBE/S Daten von Refinitiv, Flossbach von Storch, Stand: 22. November 2021

Source Flossbach

Outperformance US equity markets vs European

- As KTS has explained in the past, given that the US has many more technology companies, Europe has an “older economy”. Thus, US equities were able to report higher earnings in the past and this is not going to change dramatically in the future. In addition, in our last weekly report we analyzed how US fiscal stimulus packages are more aggressive than those in Europe.
- The manager of Flossbach simulated potential economic growth for both US and Europe and, of course, included rising long term interest rates of about 1%. The result is shocking: the upside potential of the S&P 500 Index is 63% vs 11.5% for the Stoxx 600 Index.
- Therefore, Flossbach is arguing that it does not make sense to play for an outperformance of the European equity market

Was ist eingepreist?

Übertragung der Barwertberechnung auf Indexebene am Beispiel des Stoxx 600

	Risikofreier Zins	Wachstum Jahr 1 – 10	Wachstum ab Jahr 11	„Barwert“	Delta
Stoxx 600 ¹	3%	2%	2%	455	-7%
Stoxx 600	3%	3%	3%	543	+11,5%
S&P 500 ²	5%	7%	6%	7.680	+63%

Annahmen an die Szenarioberechnung:

Stoxx 600 aktuell bei 486 Indexpunkten und Gewinn von 29 Indexpunkten in 2020
 S&P 500 aktuell bei 4.685 Indexpunkten und Gewinn von 200 Indexpunkten in 2020

¹ Risikoprämie: 5,5%

² Risikoprämie: 4%

Flossbach von Storch-Szenariobetrachtung: Die tatsächliche Entwicklung wird von der gezeigten Entwicklung abweichen.

Quelle: Flossbach von Storch, Stand: 22. November 2021

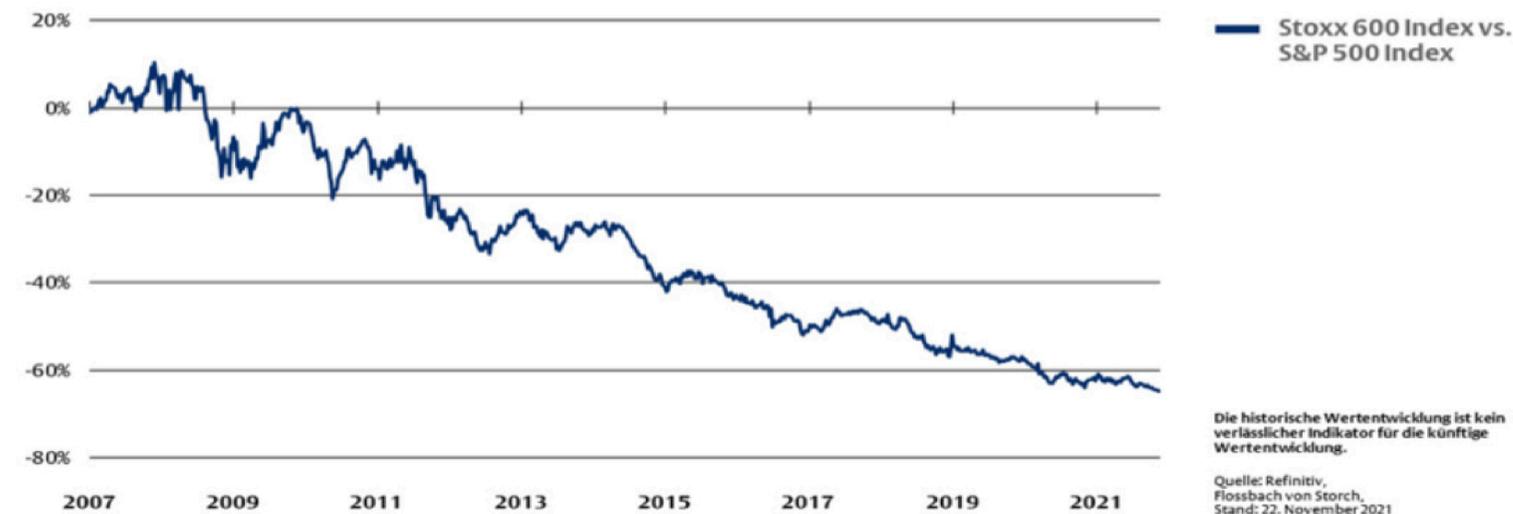
Source Flossbach

Historical outperformance of the European equity market vs US

- The manager of Flossbach went a step further and analyzed the historical outperformance of the European equity market vs US. This supposed long term outperformance has, in fact, been negative since 2007.
- But, most importantly, even if an investor had “caught” the right timing for a period of outperformance of the European equity market, positive returns would never have been higher than 10% and were of a very short duration.
- Conclusion: stay overweight US equity markets. As explained, fundamentally, European earnings experience lower growth and in the future this is not going to change.

Phasen mit Outperformance europäischer Aktien waren kurz

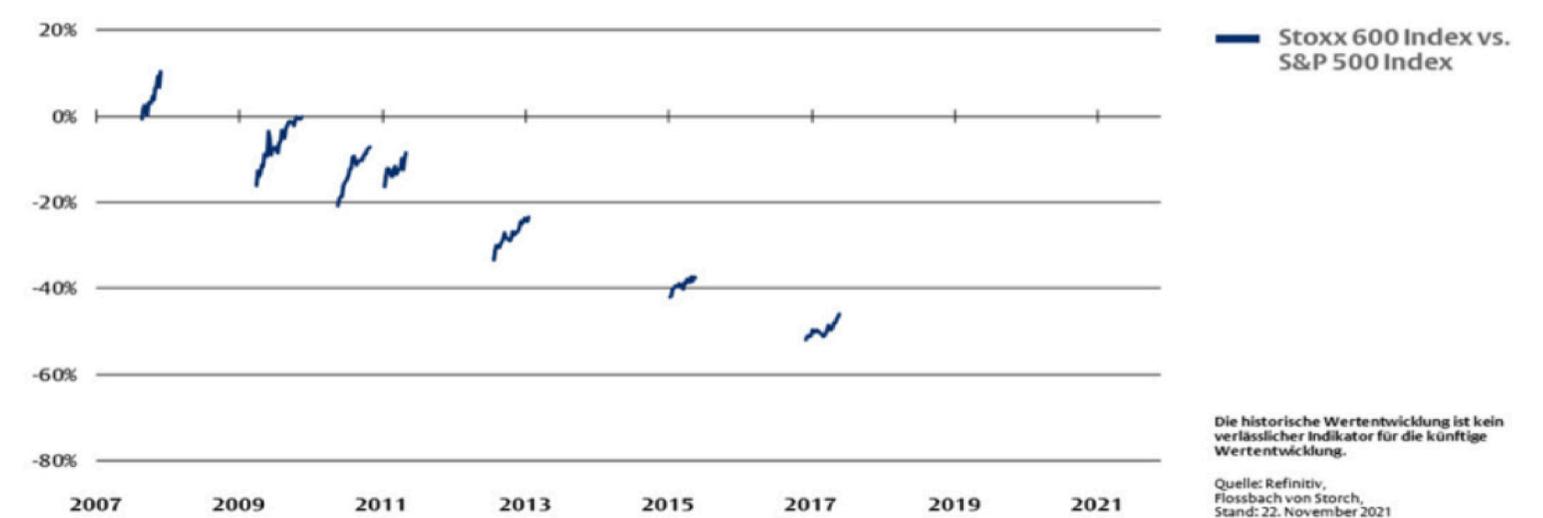
Relative Indexentwicklung in Euro (seit dem 01.01.2007)



Source: Flossbach: over longer term, EU equities clearly underperformed

Viel Glück beim Timing!

Die Phasen europäischer Outperformance waren im Grunde kaum abzuspassen



Very short period of outperformances and not higher than 10%

General news

- Mr. Oliver Bäte, Board of Management of Allianz, is warning of overvaluations and irrationality in equity markets, especially for technology and car producers (we are sure, he means EV, not the traditional ones). We agree that in many special cases, like the recent IPO of Rivian, valued at USD 140 billions, investors should be asking some questions. But, it is not the case for the whole market. As we pointed out previously in our weekly reports and show using the valuation simulation of our best in class fund Flossbach. In addition, hyped “green” and renewable stocks corrected massively from their highs in February 2021: Fuel Cell, Plug Power, the ETF PBW US to mention few names.
- The magazine “The New York Times” informs us that 15 of the 19 cobalt-producing mines in Congo are owned, or financed, by state-backed Chinese companies, some of which are accused of withholding payments and ignoring promises to their Congolese partners. Congo produces 95k metric tons a year (2020) and, therefore, 72.5% of total cobalt’s production. Russia is the second producer with 6.3k metric tons (4.8%) followed by Australia with 5.7k (4.3%) and Philippines (3.6%). The transition to electric cars could be in danger?!

Crypto currencies space

- We attended the presentation of the crypto bank SEBA in Zurich.
- The crypto bank is structuring new yield opportunities in the crypto space via yield farming and staking yield.
- Yields could reach up to 5.2% pa (diluted) with Cardano, 5% with Tezos and 10% with Polkadot.
- Polkadot is apparently the best protocol in the market.
- As we know, mining capacity depends on computational power. Hackers would also need to have computational power, which has to be more than 51% of the network to add malicious blocks.
- The manager of the bank also added that, in a bilateral conversation, most Swiss institutions (Swiss pension plan, as well as banks and regional banks) were studying how and how much they would like to invest into crypto currencies during 2021. They are finally going to implement such decisions during 2022. Most institutionals are going to invest in an audited Swiss based fund structure, which is going to invest in an asset allocation of the major crypto currencies and “play” a barbell strategy in case of corrections, in order to reduce volatility. Mostly, these institutions want to avoid a 60% correction and high volatility. Therefore, the manager of the fund structure is allowed to increase liquidity in the case of market corrections- as happened during May, when the bank increased cash up to 25% and reduced the drawdown by half.
- In addition, the manager of the bank confirmed that to fund this new investment many institutions are thinking of reducing their allocation in gold to 5%. Many institutions are most probably starting to invest with only 0.5% allocation, but a major private bank in Zurich is thinking of reducing their gold allocation by 2.5% in favor of crypto currencies.

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