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KTS weekly update Nr. 45

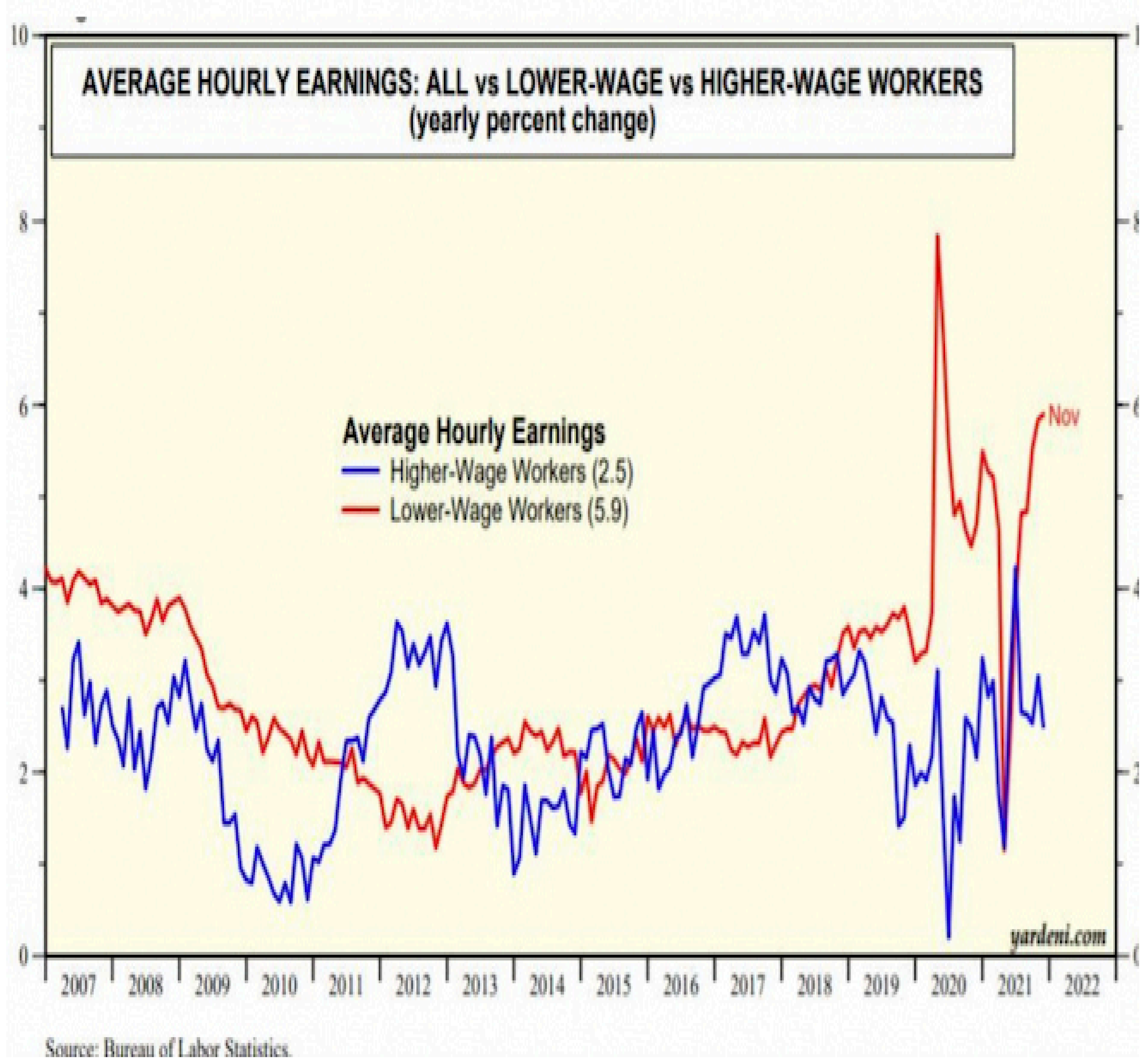
The 10th of December 2021

Omicron

- US health officials said that although the Omicron variant is rapidly spreading throughout the country, early indications suggest **it may be less dangerous than the delta variant.** Even Dr. Anthony Fauci provided some optimism about the severity of the new coronavirus strain.
- According to the magazine “The New York Times”, early reports suggest **Omicron may be less severe, though spreading faster.** A report from doctors at a major hospital complex in Pretoria said that coronavirus patients with the variant were less sick than those they had treated before. Most of their infected patients had been admitted for other reasons and had no Covid symptoms.
- Pfizer/BioNTech said preliminary studies suggest that third doses of the vaccine neutralize the Omicron variant. According to their data, the third dose increases the neutralization efficacy by 25-fold compared to the two doses against the Omicron variant.
- Therefore, we can already conclude that the news is encouraging and the worst case scenario (complete escape of the virus from the vaccine) seems to be unlikely. Markets came to the same conclusion. Analyzing the rebound in the last days and the probable end of the “tax selling” window, we might see a year’s end FOMO rally.

Lower wage vs higher wage workers

- According to the research of Mr. Yardeni, rising prices and labor shortages continue to push up wage inflation.
- The data confirms: there are severe shortages of truck drivers and restaurant workers.
- As we can observe on the chart to the right, lower wage rates are increasing more strongly than higher wages. This is actually positive. Lower wage workers can be “put to work” more quickly than higher wage, more educated, workers.
- For this reason the positive news is: higher inflation is going to be transitional not permanent. On one hand, people are going to come back to work sooner than later and on the other hand automatization, robotics and innovation are going to increase productivity, reducing inflationary pressure.
- As argued in the past, long-term demographics in the US are weak. The labor force is shrinking because baby boomers are retiring (more and faster than expected) and we do not have enough young people to replace them. Companies know it and have increased innovative efforts to increase productivity.



Source: Mr. Edward Yardeni: lower wage average hourly earnings vs higher

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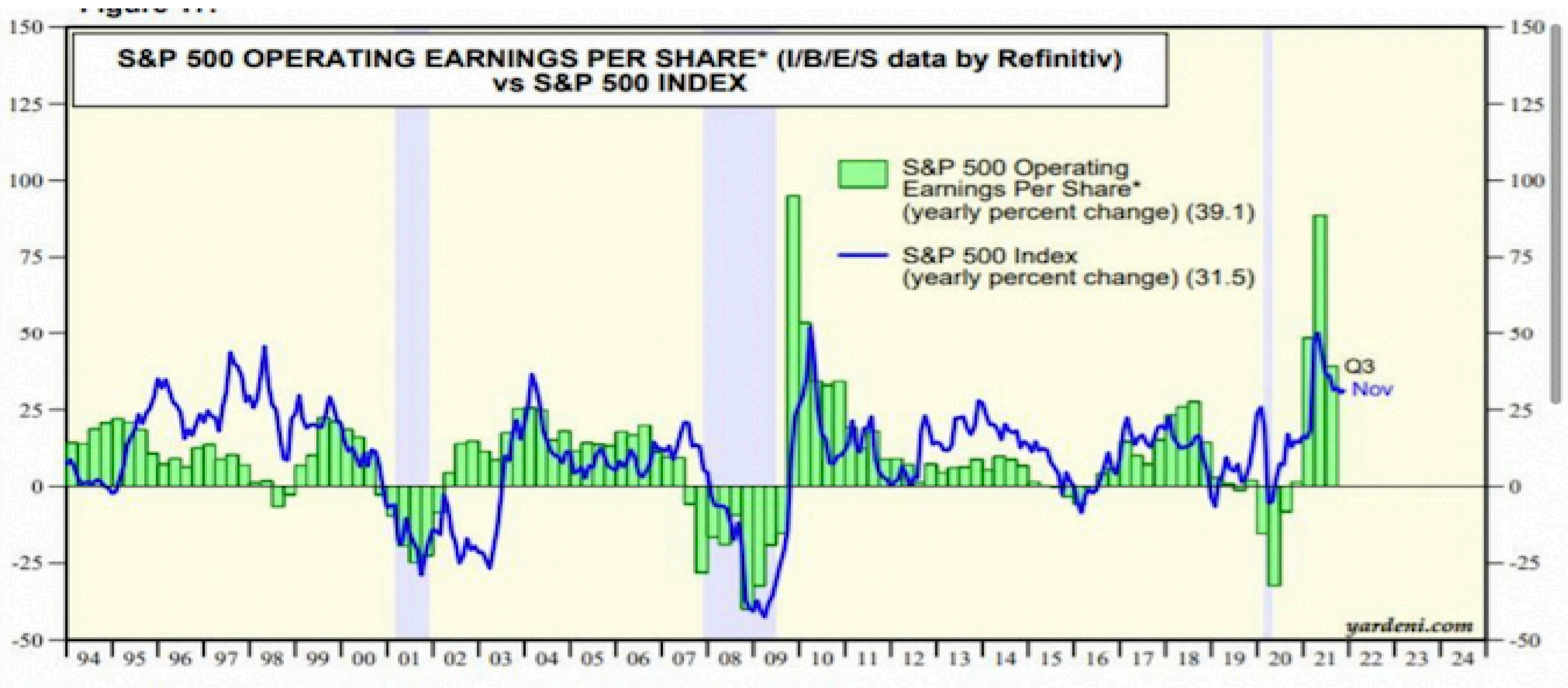
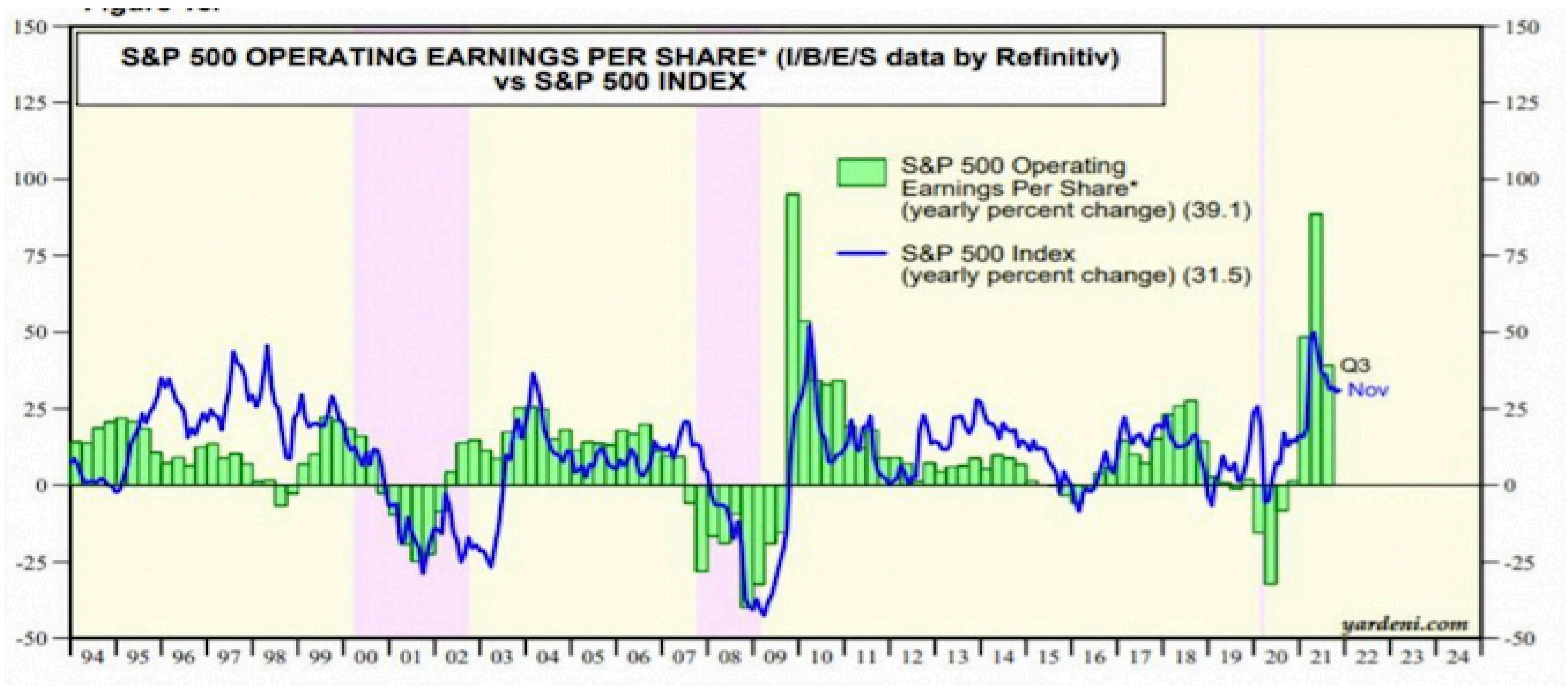
Bear markets are caused by recessions

- Mr. Yardeni shows two interesting charts arguing against any bear market expectations for 2022.
- As recently argued from our best in class fund Flossbach, but also by others, including Mr. Yardeni, market participants are expecting further earnings' growth for the S&P 500 Index.
- As shown in the charts below, bear markets are caused by recessions, which according to Mr. Yardeni, have had a tendency to be caused by credit crunches and/or soaring oil prices. **Not expecting a contraction in earnings for 2022 and not expecting a recession, there is no reason for a major correction or a bear market**, because the FED is likely to tighten monetary policy at a faster pace in 2022 but, nota bene, it is still accommodating!
- We still expect a strong "kick in" from existing stimulus packages to impact the real economy next year. Omicron should not derail economic growth.



Recession shades: negative growth, but is not the case nowadays



Bear market shades: bear market are caused by recession: not the case today

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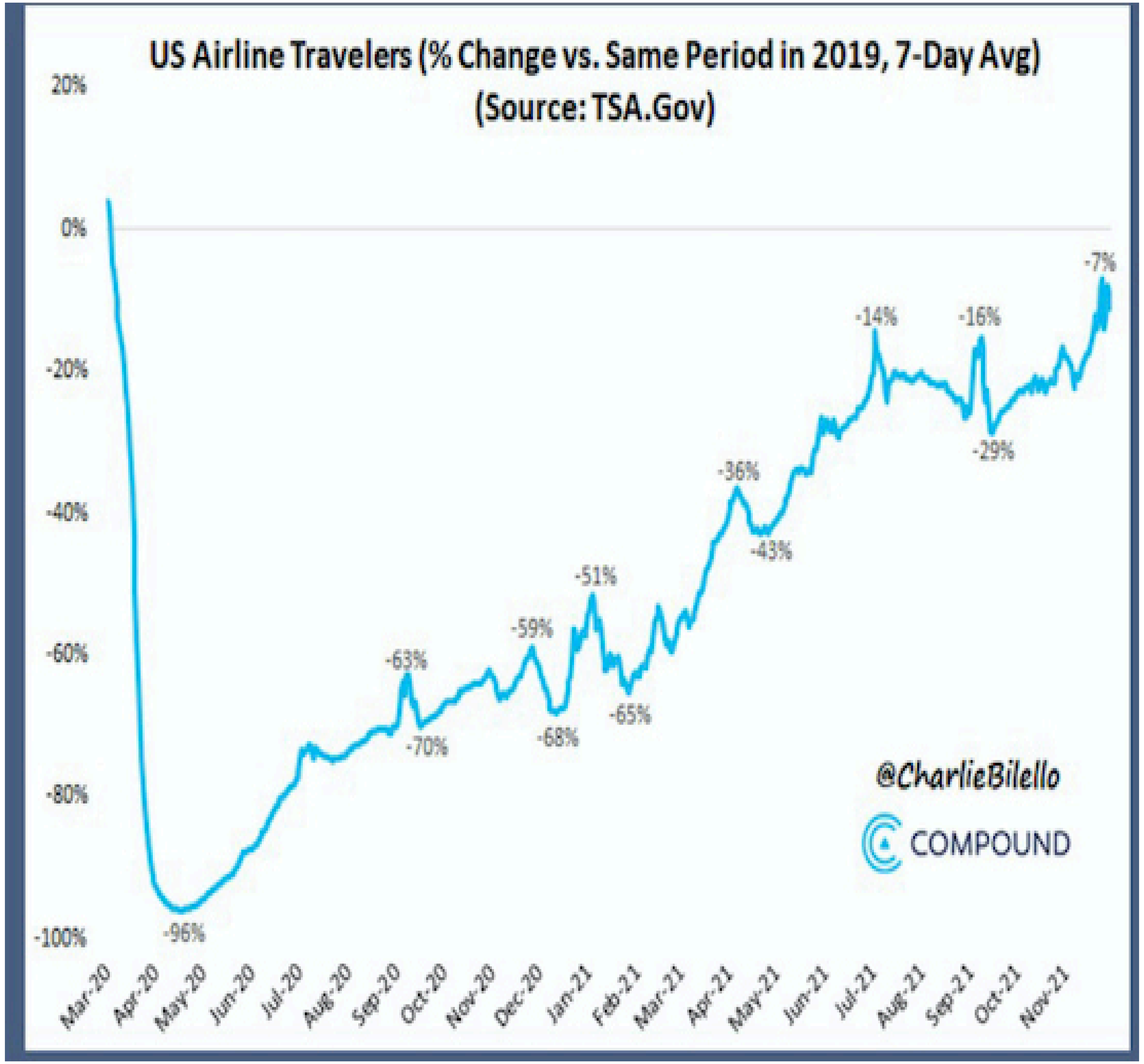
Airline travel in the USA during Thanksgiving

- On the chart we can see that during Thanksgiving in the US airline travelers were almost at the pre-pandemic level.
- This is a good news and shows the path to normalization.
- Of course, during Thanksgiving we were only just aware of the Omicron spread. Therefore, we will have to further monitor whether people will be able to live with the virus or not. If so, will travel activities be sharply reduced? We are confident that activities are going to stay high.



Source: Bank Syz / Charlibliello

Sentiment too bearish

- According to Mr. Yardeni, the CBOE Equity Put/call ratio jumped to 0.74 the highest reading since April 2, 2020, when much of the economy was still in lockdown. We are reading similar statistics from Mr. Jurrien Timmer of Fidelity.
- Mr. Yardeni is rightly pointing out that it's very unlikely that the government will try a lockdown again as a way to deal with the pandemic. As recently argued, no government is in the financial situation to do so. **From a contrarian perspective, this is a bullish sign.**

Source Yardeni Research

Gevo

- Gevo has just announced another amazing contract with Kolmar USA (Swiss company with headquarter in Zug).
- Gevo entered into a financeable fuel supply agreement for 45 million gallons per year of renewable, energy-dense liquid hydrocarbons that are expected to be produced from Gevo's second net-zero production facility, Net-Zero 2. The project is expected to generate revenues of approximately USD 350 million per year, over 8 years for a total gross revenue up to USD 2.8 billion.
- This contract with Kolmar is even more substantial than the one with Trafigura (total counter value of USD 1.5 billion over 10 years) and Gevo also recently announced the letter of intent with Chevron and ADM, all major players, proving that nobody has such innovative technology and everyone is searching for green alternatives in order to improve the ESG score and avoid paying CO2 certificates.
- Contrarily to crypto currencies, many overvalued SPACs with no real business plan or many high equity flyers with insane valuations but no earnings, Gevo holds USD 560 mio cash. In addition to 3 planned projects (RNG, Zero net 1 and 2) and promising additional projects financed by Chevron and AMD, with forecasted annual cash flow of USD 15 mio (RNG) from 2022 and Zero net 1 should generate USD 150-200 annual revenues and now finally Zero net 2 with USD 350 mio annual revenues with margins at least of 15-20%? A company that has proven over 11 years with 11k km of flying, that their SAF is working? With the founder Nobel prize of chemistry (Ms. Frances Arnold). **This all for USD 1 bio market cap, USD 450 mio patent value and over 600mio spend in R&D over 11 years?** The investment really looks like a "no brainer", but, of course, most probably KTS is not able to see the skeptical side, which the market is seeing at the moment, having the stock anchored at 5-6 USD?
- We must not fall in love with any stock and, like others, we have not only had good experiences, but also hidden pearls, which turned out to be real nightmares. However, we are definitely staying invested in the company and patiently wait for a huge upside potential.

Ukraine

- According to the online newspaper The New York Times, the 2 hours video conference between President Biden and President Vladimir Putin was tense and Mr. Biden warned Russia that an invasion of Ukraine would result in heavy economic penalties for Russia and lead NATO to reposition its troops in Europe. It could also end Russia's hopes of completing the Nord Stream II gas pipeline to Europe, which would also be very negative for the European economy, not only for Russia, especially taking into account the surge in energy prices.
- According to the magazine "The Economist", the official Russian demand is for a guarantee that Ukraine will never join NATO, and that it will not become a base for western weapons that can threaten Russia. At the Bucharest summit in 2008, NATO declared that Ukraine and Georgia would become members of NATO, even though they were not included in the formal "membership action plan". On the one hand, a country is supposed to be free to choose with whom they choose to associate with. The magazine concludes by saying that, given the fragility of Ukraine's government, the widespread corruption in the country and its unresolved conflict, membership of NATO seems a distant, if not impossible goal, which would be the perfect situation for Putin. But we do not have to forget, as mentioned in our last report, that US has given Ukraine USD 2.5 billion - worth of military equipment. Therefore, it appears the US is not playing a "clean" game, and this is also mentioned in the magazine The Economist, whereby the biggest worry for Russia is the growing role in arming and training Ukraine's forces from the side of Western countries.
- Biden is also using the most extreme leverage of threatening to cut off Russia from the Swift payment system, in addition to international financial systems and blocking access to global capital markets and with financial penalties aimed at the Russian elite, should Mr. Putin order the invasion of Ukraine. **As explained in the past, the US is using the Swift payment system to pressure other countries. But the more US does this, the more crypto currencies are gaining traction.**

General news

- **Natural gas prices sold off heavily over the past days and are down around 40% from their October highs.** The weather card strikes and oversupply fears pressured markets, with forecasts pointing to an unusually mild winter weather for the holiday season. All of a sudden, no more energy crisis? Again, we were right to do not get too emotional two months ago and, as always, it was good not to listen to the" forever bearish" economists. Now, the media is no longer giving interviews to Mr. Roubini, Mr Taleb and whoever else was seeing the end of the world. The energy crisis of 1970, all of a sudden, has been forgotten. But, next time, when there is again a reason to see the end of the world, the media will run to these economists to try to explain why markets are falling. Always the same games and in future we should not be taken in by it.
- KTS is always trying to read as much as possible on financial markets but, of course, cannot reach all the possible angles, or not at the speed we wish. We came across a very interesting documentary on the "flash crash" and we recommend watching at least the documentary. There is also a very good book "Flash Crash" . You can find the documentary in youtube under "The Wild USD50 m ride of the flash crash trader" . On the subject of high frequency trading there is also an interesting and as always funny book of the writer Micheal Lewis: Flash Boys.
- Congratulations to the UAE, which wants to improve people's work-life balance and is going to introduce from the 1st of January 2022 the 4.5 days working week.

General news on China

- With the company Evergrande most probably filing for bankruptcy, the Chinese authorities are forced to be pro active and are expanding support for property market. Also, The People's Bank of China said it will reduce most banks' reserve requirement ratio by 0.5%, releasing 1.2 trillion yuan (USD 188 bilion) of liquidity. **Most probably, the debt restructuring of the company Evergrande going to be mostly done on the off shore debt market(in USD) rather than on shore?**
- China will focus on stabilizing macroeconomic conditions, ensuring that the economy grows at a reasonable rate and that society remains orderly ahead of the party's key 20th congress meeting later next year.
- The Bank Julius Baer is of the opinion that the **worst of the regulatory pressure is now behind us, and monetary policy has shifted to marginal easing.** At the moment the "glass is half empty, half full" with earnings still going through a downward cycle, but, overall, we are closer to stabilization and the possibility of a rebound. The next trigger is a shift from marginal to strong easing.

Crypto news

- According to Asenna, during the weekend crypto currency's crashed, **372k crypto accounts were liquidated in 24 hours totaling USD 2.3 billion with the largest liquidation being USD 27mio.** Once again, like last February, the wealth of retail clients invested in crypto currencies with leverage has being wiped out in a few hours. Some market participants are starting a conspiracy theory, whereby strong long-term hands are deliberately causing such flash crashes to wipe out aggressive players with leverage and clear the market from weak hands.
- The crash during the weekend is the proof again that movements in the space are unpredictable and not logical. A clear sign that the space is still concentrated on a few big players, who can easily manipulate prices. The beauty of the game is that everything is "legal".
- For this reason, we prefer to be invested in the crypto arbitrage fund as we know our manger Fasanara The algorithm could profit from the huge volatility spike because, during such price movements, spreads are wide and this is the perfect environment for arbitrage "sharks".
- We can only advise investors not to speculate on the short term, because technical analysis is not really working and an investor needs to have a bullish long term view on crypto currencies, applying a buy and hold strategy. In our opinion it is certainly better do not trade with a short term view.
- Apparently, there are some successful algorithm trading strategies, but we are not yet close enough to the manager to be confident enough to make initial investments.

Crypto news

- According to a survey of Grayscale, more than 50% of bitcoin investors started investing during 2021!
- The number of Americans who own Bitcoin has increased to 26% in 2021 from 23% in 2020.

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