

KTS
CAPITAL
MANAGEMENT



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Update on Omicron variant

- KTS is trying to analyze the facts and any repercussions of Omicron on the global economy. We need to understand if there are reasons to have further lock downs; which will have dramatic consequences for the global economy and, of course, on equity markets. Or, whether policy makers, along with the media, are overreacting, since the facts are telling us a different story.
- We hold the opinion that the headlines are only focussing on the numbers of new cases, without any fundamental and serious analysis of the distribution of such new cases. As analyzed in the past, virologists have reliable data confirming that the Omicron variant is highly contagious, but has mild symptoms and vaccinated people do not have to fear hospitalization, as with early Covid.
- Therefore, the KTS team ask themselves, yet again- why is it that so many journalists are still not analyzing the real situation? Why government experts` are not prepared to differentiate between the vaccinated (Israel introduced a fourth booster?!) and the unvaccinated, of which the majority is, in any case, children and youngsters? Why are we still talking about a general lock down, which no country can afford financially?
- The US Senator Dr. Rand Paul announced that in an Israeli study of over 2.5 million patients they found that the vaccinated group was 7 times more likely to get Covid than those who were healed naturally from covid! Therefore, we are ignoring natural immunity because policy makers prefer submission to the risk of overwhelming hospitals. Dozens of studies now show naturally acquired immunity is robust. We have the example of India, whereby 2/3 are naturally immune. In US 100 million Americans have had Covid, yet the government still requires them to be vaccinated. The key issue is not natural immunity or vaccinated (most of the elderly already received the booster in developed countries). We all know that the dilemma is unvaccinated vulnerable citizens.

Update on Omicron variant

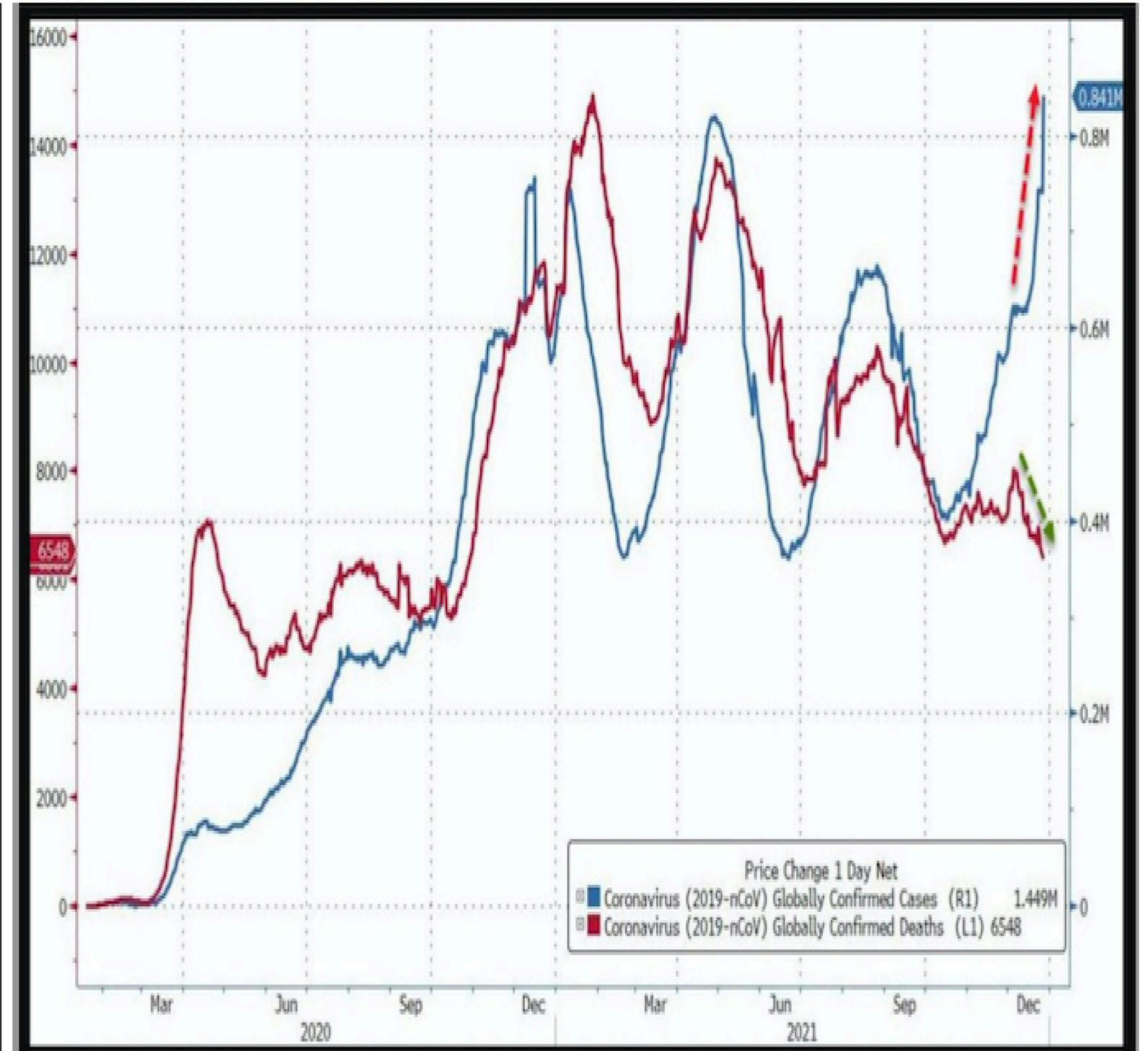
- Statistics show that the majority of the unvaccinated are children and the young, but they are not the problem. The real question is, how many citizens over 50 or “at risk” are still unvaccinated? Apparently, 85% of people “landing” in hospital are all unvaccinated.
- The latest podcast of the magazine The Economist is entitled: “Omicron the beginning of the endemic”, basically arguing in the same way KTS did recently.
- Mr. Leopoldo Gasbarro, director of the Wall Street Italy, is also rightly pointing out that not only journalists, but particularly experts responsible for government actions in connection with Covid19, are not asking the right questions. They then spread unnecessary panic amongst citizens instead to providing accurate and balanced communication; or at least try to search for the right answers.
- Mr. Yardeni is re-enforcing in his latest blog that US economic growth is closing 2021 with a boom, which might continue into next year, should the Omicron variant of Covid spread rapidly now. If so, then the fourth wave of the pandemic should peak sooner rather than later, assuming it results in widespread herd immunity. Mr. Yardeni is also adding that economic activity is actually still growing and not contracting, even with Omicron spreading and, therefore, remains bullish for equity markets in 2022. KTS guess Mr. Yardeni arguments and the expectation of a shorter herd immunity are based on the fact that nowadays we have much more immune citizens worldwide, elderly and “at risk” people are mostly vaccinated and the majority of unvaccinated are children or young, which do not need to be hospitalized in case of contagious.

Update on Omicron variant

- China is still applying radical measures in order to reduce the contagion of the virus. The 13 million city Xi'an decided to impose one of the biggest lockdowns anywhere in the country since the virus was detected back in 2019 in Wuhan.
- We are also reading positive news coming out of the US, but also from Switzerland. Where, even with higher new Omicron cases, the isolation period has been halved to 5 days from 10, in order to minimize disruptions to the economy.
- We also know an example of a dear friend of ours, who was cured with the medicine Dexamethason. Which, apparently, is the best way to fight the virus. We are incredibly surprised that no one is yet talking about this medicine!?
- Doctors and medical experts are also warning us to check our levels of Vitamins D, C, B12, Zinc and other vital minerals crucial for our immune system. For a rich country like Switzerland, Swiss citizens might expect its government to pay for a complete blood test for all, in order to help the population increase naturally immunity by themselves. This might perhaps also help the country to finally address such health issues. Which, unfortunately, are neither considered nor fully appreciated by the majority of the population as of vital importance to prevent sickness and stay healthy. From such a highly intellectual and rich country like Switzerland, we would expect the implementation of all these measures *before* imposing a lock down on the whole country. Often with fatal financial consequences for many private businesses.

Globally confirmed new Covid cases vs globally confirmed deaths

- On the right hand chart, courtesy Bank Syz (via zero hedge), we notice how the number of new cases is increasing exponentially, whilst the number of deaths is falling. Which is, of course, very good news and shows just how much the situation has improved when compared to the last 3 waves. Of course, we are not in the position to be able to vouch for the reliability of the source, but we believe the data is factual as it reflects what we believe is the reality.
- On the other hand, we are reading in The New York Times, that more than 300k new Covid cases were recorded in Britain during the weekend, but hospitalizations remained far below last winter's peaks, basically confirming the right hand chart.



Blue line: confirmed cases vs red line: confirmed deaths

Weak market breadth

- As recently mentioned, market breadth is very weak.
- We notice on the chart to the right that in the past, when 50% of S&P 500 Index' stocks were below their 52 weeks high, the S&P 500 Index was always more than 15% lower than its own 52 weeks high. Therefore, market participants are expecting a market's correction.
- KTS would rather argue that the S&P 500 Index is at its highs because of the strength of the top 5 and of the substantial share buyback programs of the top 20 companies.
- But the rest of the market is on average -20% and many stocks and sectors are even in a capitulation phase due to heavily US tax selling during November and December months.
- KTS would expect a rotation out of the top 5 into oversold stocks for 2022. The top 5 will still be supported by heavy share buyback programs, passive investments (especially in January and probably also February) and strong earnings. KTS is invested in some special situations and, therefore, hope to profit from the sector and stocks rotation.



Source: @albertedwards99

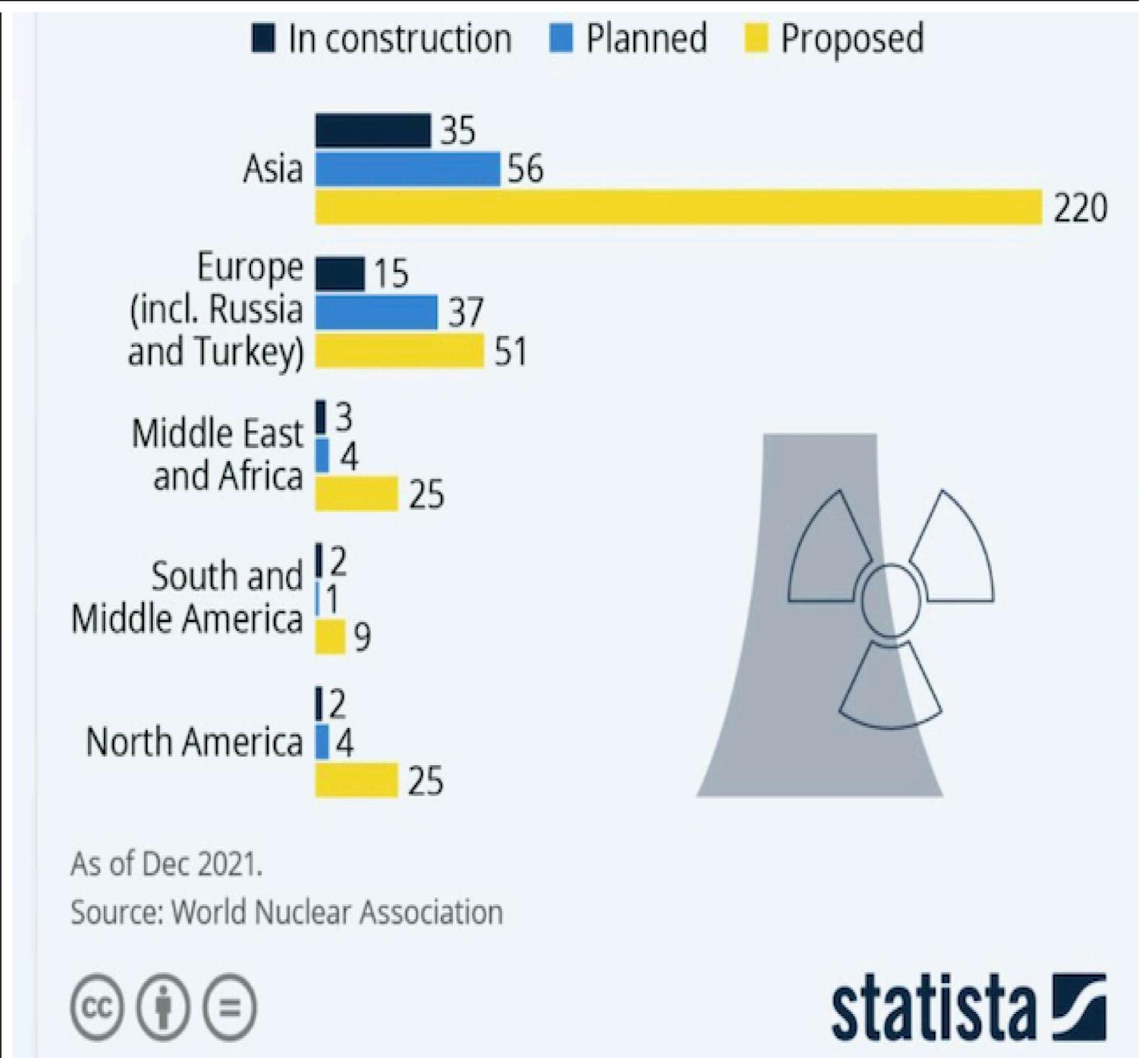
Main geopolitical risks going forward

- Mister Rich Excell is rightly pointing out that Omicron or a failure of a US bill are the “known known” risks.
- The geopolitical risks going forward are the “known unknowns”, which could to be:
 - China: with the US stepping back from global international conflicts, market participants are wondering if China is going to strengthen their position in Taiwan? Most probably, up to the Olympic games nothing is going to happen, but afterwards?
 - Russia: the situation in Ukraine combined with the natural gas power price clash with Europe?
 - Iran: market participants are of the opinion that Iran does not need to sign a nuclear deal with US&EU, because it can circumvent all sanctions by selling its oil to China, which is already buying a substantial quantity. Apparently, China is also buying oil from Venezuela, via an African route.
 - Venezuela, Yemen, Syria, Turkey, Afghanistan and throughout Africa are all suffering economic recessions, high inflation and hunger crisis. Unfortunately, in many cases this is nothing new and the outlook is not going to improve any time soon.
 - North Korea is an eternal provocateur also with a hunger crisis in the country. But, in this case as well, nothing really new.

KTS is of course monitoring such risks. But, we all know that if something happens we are all going to experience it simultaneously and, therefore, unable to react to the news. For this reason, we are keeping the focus on those asset managers who are limiting any possible drawdown, even if it “costs” performance in positive market developments. In addition, we try to protect our equity exposure with the purchase of put options at highs of equity markets (at the moment we are not invested in any put options).

Asia's going nuclear

- As mentioned last week, according to our renewable energy expert the only solution for China to be able to diversify out of coal is nuclear, seeing as China is already the biggest solar power producer worldwide.
- China has proposed the construction of 168 new reactors in addition to 18 currently being built and 37 in the planning process
- Japan still has 33 reactors in commission, while proposals, planning or construction have started on an additional 11 according to data produced by the World Nuclear Association.
- India plans to triple its number of nuclear power plants to 72 in total.
- Overall, 35 reactors around Asia are already in construction, with Europe coming in second with 15 plants.
- Source: Statista



Number of nuclear reactors currently in construction or in preliminary stages

General news

- According to the magazine The Economist, Denmark, Sweden and Norway were the best performing economies during the pandemic, with a growth of 2.1% to 3.5% , followed by US with 1.4% . It is amazing how Sweden, with no lock downs, could master the pandemic with, basically, the highest economic growth and without the need to increase its indebtedness.

The future of NFTs

- By exploring the webpage www.origyn.ch we can analyze the different modalities of the application of NTFs in the future.
- One interesting application is the high-resolution authentication of watches or other luxury items.
- Also, the luxury company Hermes is interested in such NTFs authentication, because the company is going to earn additional royalty fees on any secondary transactions, which is not the case nowadays. We believe that this is going to be the case for many luxury brands in the future and it is the right business model for further improvement of margins. The process of authentication is going to reduce dramatically the risk of fraud, whilst improving revenues from additional transactional fees.

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