KTS
CAPITAL
MANAGEMENT

KTS weekly update Nr. 16

The 22nd of April 2022

Market sentiment and equity market levels

- Analyzing several statistics, we are noticing that **global growth optimism is at all-time lows since 1994** (BofA statistic), Small cap sentiment is falling, consumer sentiment is depressed and the latest **AAII** (American Association of Individual Investors, www.aaii.com) surveys' data released on the Thursday, April 14, 2022 showed the **most negative bull-bear spread since April 2013,** confirming the extreme negative sentiment in the market, as negative as back in summer 2020 during the pandemic. In addition, Equity funds just experienced the largest weekly outflow (USD 7.5 bn). The research company McClellan is analyzing the disadvantages of the AAII's calculation for explaining the equity markets' high levels, despite the low level of the sentiment.
- **We find the explanation rather into the strength of share buyback programs and M&A activities,** as for example the latest case of Twitter, with Elon Mush offering to buy the whole company and now suddenly also the private equity firm Apollo Global is interested in Twitter! Such transactions are also helping to increase multiples' expansion on competitors.
- Mr. Yardeni is also trying to explain the fact that there is still about **USD 3 trillion in excesses M2 liquidity** and mentions again the **"CFO Put"** substituting the "FED put". We have the feeling that also Mr. Yardeni at the moment is quite negative on equity markets due to the weak fundamentals, but he is surprised of the strength.
- Another important reason of the US equity market's strength, which is underestimated, is the repatriation of investments into USA. Having the **US market already with a 61.35% weighting on the MSCI ACWI Index**, vs 5.44% of Japan, 3.72% UK, 3.32% China, 3.2% Canada and 23% others, an investor could wonder, how sustainable is such weighting?
- A weak general sentiment is of course bullish for equity markets from a contrarian perspective, but unfortunately also **KTS does not see many reasons on the short term to be overly bullish or optimistic, being now quite clear, that the situation in Ukraine is not going to be solved anytime soon.**

Market sentiment and equity market levels

- On the contrary, **we are worrying about the increase in sanctions against Russia, especially for the energy sector.** Market participants are speculating that such step is going to be taken, as soon as Mr. Macron is going to win French elections.
- With **Russia in a situation of "no return"**, because there is not going to be peace in the region any time soon, and even if Russia would find a solution with Ukraine, USA is not going to abolish sanctions; we can only expect the situation to escalate sooner than later. Apparently Mr. Putin was letting the Austrian chancellor, Mr. Nehammer, know, that **Russia is planning new offensive against Ukraine**. Some market participants, like Flossbach, are also arguing, that most probably the humanitarian catastrophic situation in Ukraine is part of Putin's plan to put more pressure on the West and the Ukrainian government. Meanwhile the West is giving new weapons to Ukraine, which is not going to help to de-escalate the situation, on the contrary. Russia is only waiting the wrong step of Nato as an excuse for more dramatic offensives, most probably costing unfortunately lives of innocent Ukrainian civilians. We can only keep Ukrainian in our prayers and help how we can.
- KTS was hoping in more common sense, but now we have to admit that **unfortunately we also expect an escalation**. With such expectations in mind, we are increasing our cash by selling certain positions, which were on our radar screen for sale since some time now and we keep our position of put options as hedge. For any dramatic events, consequently translated into a volatility's spike, we can count on positive performances of our volatility models of Z22 based in Zug and ABR, New York.
- We will stay on the sideline for the short term, keeping some liquidity for any market' corrections, but we are still counting on our investments into mega trends, because we think, that the world is moving on and unfortunately the situation in Ukraine is going to be the new normal. We expect different consequences in various sectors and we are going to explain our investments in the slide of KTS investment's review.

Market sentiment and equity market levels

- We are also expecting China to change the 0 Covid policy, even if President Xi Jinping has made clear there will be no change to the Covid Zero policies the country has followed since locking down Wuhan in 2020, which means that a cycle of shutdowns and reopening is likely in cities across the nation for the rest of this year?. At the moment, **Chinese authorities are supporting the economy with easing measures, and are confident, to neutralize damages of the lockdown. But in KTS's opinion, it is really an utopia, to believe to totally neutralize the virus via lockdown forever.** The blog zerohedge is arguing that such drastic measures are not making sense, or only if Chinese authorities know something more than the rest of the world. The blog zerohedge is well known for being quite pessimistic, therefore we are not weighting too seriously the question, but of course, it is natural to have doubts on the real reasons for such measures. We stick on the belief that Chinese authorities are still too cautious and need to accept the fact, to live with the virus. Anyway, because we are more guessing than basing our theory on facts and having equity markets still at high levels, we started reducing some positions, in order to reduce our risk in the portfolio. **Honestly speaking, we have unfortunately the same feeling like back in February 2020, when we were reading the first news on the COVID virus, but equity markets were not really caring.**
- We agree with some market participants arguing that the Chinese President, Mr. Xi Jinping, could enjoy the support of the Chinese population, despite building an authoritarian system, as long the economy is growing and satisfies economically the **Chinese population, which is now increasing massively criticism on the draconian lockdowns.**

Market sentiment and equity market levels

- We are comparing the situation back to Europe in January this year, when media were publishing on a daily basis the number of new Covid cases spreading unnecessary panic, meanwhile it was already clear that the Omicron variant was far less lethal than the previous ones and 98% of the cases had light symptoms (80% no symptoms, 18% light). When finally media and governments decided to stop publishing such numbers, the population started to live more relaxed and today KTS senses that people are living quite normally. Only the German health Minister, Mr. Karl Leuterbach, is still spreading unnecessary panic on a new massive omicron wave. We agree, that we still have a strong Omicron wave, even amongst KTS's team, but symptoms are comparable to a light fewer and therefore **it is time to live and accept this virus, as long it will disappear by itself.** In addition, immunity from the Covid virus for people who recovered on a natural way, last longer than 8 months, therefore more than the vaccination.
- We would like to remind our clients, that at the beginning of the pandemic, most of virologists were explaining that in a normal cycle the virus going to mutate itself, but every time is getting weaker and finally is going to disappear. The weaker Omicron variant is the confirmation, that also this time, we are in a normal cycle of a pandemic. **We expect China to soon realize the 0 Covid policy needs to be changed, before the population is going into a revolution.** Meanwhile major technology companies are warning, that lockdowns are triggering massive losses for the tech industry, putting the country's economy as well as the global supply chain at greater risk! Data on shipping's traffic outside Shanghai are clearly confirming, that the global economy is going to experience again a supply bottleneck and semiconductor company like ASML are also already warning for supply disruption.

Review KTS' investments Q1 2022 and outlook

- **Investment into energy and energy transition**: if the West is going to sanction Russia on the energy sector, the real "looser"" is going to be Europe. JPM is predicting an oil price at 185 USD! China and India, which are 1/3 of the worldwide population, are going to buy oil and gas at discount from Russia and as long as Russia is in a weak position, India and China are going to enjoy the privilege of a discount. Europe on the contrary, but especially Germany, are in a vulnerable situation, having moved ahead with the plan to shut off its nuclear power plants and also reduce energy from coal. Pre-Ukraine conflict, **Germany energy's dependency was 61% from oil and gas, of which 55% on Russian natural gas and 42% of oil from Russia**. As we have recently analyzed, market participants are confident, that Europe has enough storage to go through this summer without particular energy bottleneck. KTS would argue, that also European governments believe such reality, if energy sanctions are applied; otherwise European governments would not take such step. **But, according to a chart, courtesy Mr. Steno Larsen, Germany natural gas stock levels (UGS Rehden) are empty. Rehden is the biggest natural gas storage site in Northern Europe!** Is Europe really going go to risk an energy crisis? As explained recently, it is clear to the investor community, that **any country must increase efforts for reaching energy's independence** and KTS believes to be well exposed with multiple investments like the Croatian private company Rimac, and also Gevo, Nevada copper, EV dynamic, Battery Future Acquisition Corp, Bakersteel Electrum and our energy expert Renaud via the oil&gas and renewable energy baskets. Those investment also allow KTS to be exposed to all special commodities needed for the "green transition". **Nowadays commodity producers are generating 3 times more annual FCF (free - cash - flow) than its prior peak back in 2004-2005 and after negative FCF during 2012-2018.**

Review KTS' investments Q1 2022 and outlook

- **M&A strategy:** the strategy could hold well vs the market's correction. As explained, we believe M&A activities are picking up, having many small&caps at attractive valuations, creating a perfect environment for major companies with plenty of cash to buy attractive assets. Nevertheless, we reduced our exposure and increased liquidity at the end of the year 2021 and are awaiting for better entry points.
- **Selling volatility**: during the first quarter 2022, due to higher volatility and being fully invested, we experienced a setback, which could consolidate at around -6% . We recently had multiple repayments (over 1/3 of the certificate) at pair + coupons over 10% and now we keep the liquidity for better market' opportunities.
- **Gold**: during Q1 2022 we could enjoy the rebound of precious metals, Silver & gold miners and our best-in-class funds Bakersteel precious metals, Electrum and AMG Gold - Mines & Metals; after a disappointing 2021. As explained in our recent update, with the Ukraine-Russia conflict and sanctions to Russia, the world had to realize, that being invested into USD is not safe anymore. In addition, India, China, Saudi Arabia are going to shift oil transactions into direct currency settlement, without USD. We believe the world started a de-globalization process and a shift out of the USD. For this reason, we are strongly convinced, that gold is going to be the most important currency reserve worldwide for governments. As explained in the next slide, Gold is in a breakout constellation and we expect new highs. We also believe, **Blockchain technologies** are also going to help such shift and simplify direct payments internationally, also between governments, substituting the antiquated Swift payment system.

Review KTS' investments Q1 2022 and outlook

- **Biotech**: the sector experienced a substantial correction during Q1 2022, after an already very disappointing 2021. Valuations have never experienced such level of attractiveness and therefore we stay invested. We are not adding positions at the moment and we would rebalance our portfolio only in case we would reduce our gold position at any gold price's spike. Investments into biotech have multiple triggers: companies with attractive product pipelines are potential acquisition targets and offer upside potential due to successful product' trials.
- **Strong USD.** Investments in Biotech, Gold, Emerging markets and M&A strategies are mainly in USD. Therefore KTS has a high exposure into the USD. We are closely monitoring the situation and we have a stop loss, in case the shift out of the USD would accentuate. At the moment, we are not hedging the currency and YTD our discretionary mandates could enjoy the strong performance of the USD, mainly due to the rate differential vs other currencies and the repatriation of capitals. The EUR is also suffering the proximity of the Ukraine-Russia's conflict, which is translated in lower economic growth and higher vulnerability of energy dependency from Russia. Long term KTS is negative on the USD.
- **L/S strategy Alkeon and Prima capital :** the Long/short strategy was disappointing performing during the year 2021 and also YTD. We are selling the position Prima capital and we keep Alkeon up to the end of the year.
- **Volatility models/machine learning**: The selection of quant models, machine learning and artificial intelligence of Fasanara was negative YTD, after a disappointing 2021. Because of the minor negative performance, we decided to sell the position and keep the liquidity for better market' opportunities. Even if the volatility models Z22 and ABR were performing negatively YTD, because we could not experience a volatility's spike, we stay invested, because the funds performed extremely well during 2020 and 2021 and are protecting our portfolio in case of a "black swan" event, which is going to be translated into a volatility's spike.

Review KTS' investments Q1 2022 and outlook

- **Crypto arbitrage:** The strategy could reach a tremendous result during the year 2021 (over 60% performance) but is slightly negative YTD. The strategy need high volatility in the crypto market and retail investors being active. Apparently retail investors are not trading at the moment and therefore the arbitrage strategy is not able to reach the same positive performance like last year. We believe, the crypto space is one of the most volatile space around in addition to the fact, that the younger generation is investing more in crypto and NFTs than equity markets. Therefore, we stay invested. We are also noticing, that NFTs are still having a strong momentum and apparently there are good profits to be reached.
- **Fixed income fund Optima constant**: the fixed income part of KTS's portfolio managed to reach a positive yield meanwhile the bond market had the worst drawdown in history and also substantial outflows. KTS believes to be invested, since long time now, in solid managers and solid strategies, therefore we stay invested and there is no need to change the investment strategy.
- **Balanced fund Optima dynamic**: The fund reached a negative YTD performance but will soon experience the re-valuation of the private equity company Rimac and therefore in the next 2 months, we are going to experience a +10% performance. In addition we have still hidden positive performances from our investment into the venture capital fund, especially Fasanara VC, due to the recent capital rounds of Scalapay, Grover and Twig. Unfortunately the volatility models Z22 and ABR could not help during the equity market's correction, not having experienced a volatility's spike. On the other hand, we had the investment into Gold, energy, renewable and special materials, which reached positive performances and could compensate some losses in other positions. As mentioned previously, we increased our liquidity position to over 10% and we keep our put option position with maturity July 2022. The value fund Classic global is slightly negative YTD, therefore proving, that the strategy is solid in an environment of high inflation and increasing interest rates, as the manager was simulating at the end of the year 2021.

Review KTS' investments Q1 2022 and outlook

- **Emerging market debt, equity and the overweighting into Vietnam:** emerging market debts, as also equities, corrected YTD, due to geopolitical tensions, the Ukraine-Russia conflict and China 0 Covid policy. Fortunately, our investment into the Vietnamese equity market reached a positive performance, proving the stock picking's solidity of our manager, Mr. Marco Martinelli. We feel comfortable with the strong fundamentals of Vietnam and we hold on our investment. We also stay invested into Emerging market debt, which is one of the most attractive asset classes and we keep our investments into the best-in-class funds Aubrey emerging market and Stonehorn Asia, in order to keep the exposure via local experts in markets with the best fundamentals worldwide, though weaker than KTS expected. Even of we further expect weak fundamentals, we also noticed, **that Asian and Chinese companies started strong share buyback programs** supporting equity markets. Analyzing historical datas, Chinese companies increased share buyback programs with the same magnitude as nowadays, back in 2016 and 2019, when markets were in sell off, helping to bottom. **MSCI China valuation is at 8 year low, gearing at 7 year low (even if many market participants believe the contrary), Net EBITDA at 1.7x vs 5 year average of 2.1x and highest cash level ever. Even the China Securities Regulatory Commission (CSRC) explicitly encouraged listed companies to conduct share buyback.**
- **Venture capital**: our VC investments via Swisscom, Fasanara and E-mobility cover mega trends in Fintech, 5G, telecom infrastructure, health digitalization and green/electric mobility. As explained, we have hidden positive performance, which is going to be materialized in the medium term, independently from the development of global equity markets. Those mega trends are the pillars for innovation and are going to stay with us for the next decade. **Entry barriers in attractive VC investment opportunities are very high and difficult, but KTS has the capability to invest in extremely interesting companies, due to long term connections to high professional managers and contacts.**

Gold breakout

- As recently explained, Gold is profiting from multiple fundamental factors, as for example the worldwide currency's diversification, after the world had to realize, being invested in USD is not safe anymore, if a country is subject of sanctions.
- In addition, the **Russian Central Bank tried to put a floor for RUB vs. Gold** during last 2 weeks (which is not to be misunderstood with pegging RUB with Gold), giving now even more importance to the yellow metal. It is also important to notice that the Russian ruble has almost completely recovered from the drop suffered from sanctions imposed globally.
- **As long as real negative yields are going to stay at such high levels (around -8%), real assets like gold, real estate, but also equities, are going to profit**. Meanwhile bonds are going to depreciate.
- **The price of gold is in a "breakout constellation" and from a technical standpoint, we would expect in the next weeks a retest of the highs, followed by a squeeze?!**

Gold: consolidation at the retest level of 1'915 USD, now in breakout

Sustainable aviation fuel

- **The Biden administration announced new actions to support sustainable aviation fuel (SAF) as a part of the plan to reduce energy independency.** The Administration announced a series of initiatives that will create economic opportunities for agricultural communities by spurring the SAF market. Basically the Biden administration wants to increase production of SAF to at least 3 billion gallons per year by 2030, new and ongoing funding opportunities for SAF projects totaling up to USD 4.3 billion, and increase in research and development activities to achieve at least a 30% improvement in aircraft fuel efficiency.
- KTS, being invested with the company **GEVO,** believes to be exposed in a very interesting sector, which is gaining strong momentum, especially after the conflict Russia-Ukraine and the world increasing effort for energy's independency.
- On the page 29 of the attached Chevron's presentation (dated 1st of March 2022), we can read that the company is accelerating actions on renewable fuels targets, actually forced by new regulations, and confirms to be still in talk with GEVO to potentially invest in the production of SAF, with execution of the co-investment and fuel supply agreements expected in the second quarter.
- **https://chevroncorp.gcs-web.com/static-files/5a798840-e083-4339-a83b-f0f565227655**
- In addition, even if we are not able to double check, certain investors are arguing that Gevo would need **11 Net Zero plants** in order to satisfy the existing signed "take or pay" contracts. Those kind of contracts able the company to get the financing from banks, having the clients forced to buy the product in any cases. Gevo has "only" USD 470 mio liquidity and need at least USD 300 mio equity per every further net zero project, therefore the company need to finalize JVs with major companies like Chevron or ADM in order to be able to finance all the plants to satisfy the signed contracts.
- It is possible that the Biden Administration is also going to support financially a company like Gevo. We let us surprise, but KTS is **expecting more positive news on Gevo going forward,** supported from the strong momentum in the sector.

French elections and future risks

- **Mr. Macron has being voted by the "boomers"**, especially people over 70 years. Meanwhile Ms. Le Pen from all age groups younger than 59.
- Most probably Mr. Macron is going to win this election, but we should start to take into consideration, by the next election in 5 years, a far-right candidate could be a real danger for the European community, having younger French generations being discontent on immigration.
- **Those unpredictable dangers for equity markets are the main reason why KTS is putting substantial effort into the search of solutions and strategies aiming to limit the drawdown in case of a "black swan".**

General news on crypto currencies

- Meta wants to launch a new digital currency and substitute the project Libra. For KTS is an additional proof, the blockchain technology is going to be the pillar for the future of payment systems.
- In addition, we are reading, that **Lightning Network,** a blockchain overlay, is supposed to allows off-blockchain transactions and is expected to enable bitcoin to become a common form of payment. This kind of overlay makes the Bitcoin blockchain and its validation process much lighter, greatly increasing the speed of transactions and also substantially reducing the cost and energy's consumption. KTS does not want to get too deep into technical details, but the most important message for us is the fact, that the **blockchain's technology is in constant development and more innovation is needed. Better innovation is also a change for new market players and KTS believes to be comfortably exposed into such technological mega trends, being invested in Fintechs, 5G and telecom's infrastructure venture capital.**
- Investors also do not have to forget, if blockchains will become a common form of payment, this is going to be an issue for credit card companies like Visa, Mastercard and American Express as also payment provider like Paypal, having substantially lower transaction costs compared to the actual 3% commissions to existing payment providers.

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