KTS
CAPITAL
MANAGEMENT

KTS weekly update Nr. 26

The 1st of July 2022

Macro

- Market participants are trying to explain the strong equity market rebound with the **affirmations of St. Louis FED President, Mr. Bullard,** who downplayed recession risks and assured Americans that the economy is strong and resilient and that data points to an easing of consumers' inflation worries. In addition, analyzing the University of Michigan index, US consumer inflation expectations are potentially peaking.
- The weekly volatility swings based on FED commentaries, shows how investors are still unsure and nervous; in addition this is also the proof that the FED is trying to "calibre" its tone, depending on market's reaction. According to Morgan Stanley, the small rebound was due to the rebalancing of the equity positions from institutional clients for the end of the second quarter.
- As recently argued in our weekly reports, KTS believes that we are going to have positive news from the inflation's side, but most probably less positive from company' results or from the economy, and therefore we expect a sideway equity market up to US elections in November this year. See also the slide nr. 34, whereby the consolidation can have a duration of 3-4 months.
- KTS will try to trade the QQQ US etf more actively with strict stop losses and sell at any spike, like a few days ago, in the next months and keep the rest of the asset allocation unchanged, because KTS believes that a **substantial part of upcoming negative news is already discounted.** We also do not have to forget, that our strategy is based on a core asset allocation, based on long term theme and some "satellite" opportunistic investments.
- Also the CIO of bank Julius Bär argues, that the **investor sentiment rarely has so much pessimism been priced in and given this starting point, risks are clearly more to the upside than to the downside,** with current positioning allowing for further bear-market upswings and **trying to trade such extreme swings like a few days ago is rather counterproductively and an investor should rather stay invested and remain calm.** Again, KTS is only trading a 10% - 15% of the asset allocation.

US real estate

- **KTS is still missing the real capitulation day in order to feel comfortable with a sustainable and solid equity market rebound. The technical strategist of Canaccord, Mr. Tony Dwyer, is also still not convinced is the bottom and argues, the solid rebound going to happen, only when the FED going to change the tone and going to signal a change in its monetary policy.** This will not happen in the FED meeting of July and in addition July/August are lacklustre months.
- We are reading on the blog Zero hedge (we are always carefully on the news of Zero hedge, being quite a "forever negative" blog), that apparently 8.4 million Americans, or **15% of all the renters**, are now behind on rent and at risk of being evicted. According to the Census Bureau survey, 3.5 million households were somewhat likely to leave their rented spaces within the next 2 months because of eviction. **Market participants are also arguing, that increasing interest rates are also the cause of increasing rents** (+14% so far) **and having less people, which can effort a new house, tenants have to accept the increase of the rent.** Therefore, if the situation normalizes and interest rates would fall, it would means falling rents = lower inflation.
- On the US real estate, KTS would argue that the average sales price of new homes fell back from the highs, but it is a healthy correction, having experienced in the last 2 years an exponential development (**from 400k USD to high 560k** USD a few months ago). According to the chart of Stockcharts.com (via Syz group), the average **US real estate price came down at the fastest rate since 2008**! The **FED maneuvers are helping to reduce euphoria**. Of course also the increasing construction prices were the cause of such price correction, but as we will notice in the next slides, commodity prices have already collapsed.
- On slide 9 we can see the correlation of US consumer sentiment with the unemployment rate, which recently strongly decoupled and market participants are arguing that most probably the unemployment is going to increase, but as we have analyzed in the past, the labor market is strong and as long as US real estate prices do not collapse, US consumption should stay strong.

US real estate

- Bank Julius Bär pointed out, that there are still encouraging sign emerged from the US commercial bank's balance sheets, which showed, that private-sector credit growth has accelerated of late (confirmed also by Mr. Yardeni), now shooting above pre-pandemic trends. Most probably the current pace can not be sustainable, especially with real estate prices correcting. The bank further explains, that US households are confronted with a decline in real disposable income and continue to tap their credit cards as well as their savings to maintain their living standards. The FED knows the phenomenon and for this reason, we can not believe, is going to keep a hawkish tone.
- An additional chart, courtesy Mr. Costa of Crescat Capital, shows the strong correlation of consumer sentiment vs corporate margins, but indexes recently strongly decoupled. Having the US consumer sentiment at extreme depressed levels, investors expect company' profits to strongly fall. KTS would rather expect a substantial rebound of the consumer sentiment due to less panic in the short term, than company' profits to dramatically fall. Of course, in the next months, we are expecting weaker Q2 results, but we are not expecting dramatic negative results. The dilemma will be, company' outlooks is going to be weaker and we are still not sure, how investors are going to react.
- Meanwhile, according to the blog of Mr. Axelrod, the first time since 2008, **MBS (mortgage backed securities) got 0 bids**. Basically institutional investors at the moment are not interested in investing in MBS and therefore banks are not going to lend money for property purchases and finally liquidity dries up in the real estate market.

US real estate

- On average, **the primary residence accounts for 62% of home owners' total assets. Financial assets are 16% and other non-financial assets 10%. As argued in the past, real estate is the "mother ship" and the FED knows it.**
- Now market participants are arguing that this is essentially what kicked off the 2008 financial crisis and the FED had to jump into the market buying MBS to unlock liquidity.
- **But back in 2008, banks were in excess of leverage, which is not currently the case**. In addition, we do not have to forget, that back in 2008, people were buying the right to buy the apartment with the intention to sell the right further to the people at the end of the waiting list, and make a profit with an investment of 50k USD but not having the money to buy the whole real estate. Such bubble also happened in other part of the world, for example in Thailand with Russian citizens. When the RUB collapsed, such buyers disappeared and the real estate bubble in Thailand busted.
- From KTS's information sources, **we tend to assert, that nowadays there are no signs of such bubble or extreme speculations** in the US real estate market, rather, the Millennials have a good job, with good salary and can afford to buy a house.
- KTS is aware that the index on **US real estate affordability is at lowest levels nowadays** (ratio average new home price to per capita disposable income), but we would argue that the recent real estate price's correction is healthy, exactly because affordability was collapsing and we would add, that Millennials' salaries for attractive jobs in start ups are very high. We were reading about a **software engineer from Holland, moving to US for a new salary of USD 450k (by Netflix) vs EUR 80k in Europe.**

How much can the FED hike

- As the manager of our best-in-class fund Flossbach always argued, Central Banks are not in the position to increase massively interest rates, because of the high indebtedness of most of the Western governments and no one is in the position to repay the debt. As explained in our weekly report Nr. 23 on the 10th June 2022, the only way to repay is **via implicit default**. See also our outlook reports 2021 and 2022 on the subject.
- Mr. Nadeau explained in numbers the situation of the FED and the US government.
- The **US government is currently spending roughly 110% of tax receipts on 3 categories alone: social security, health & human services and Military, adding Treasury interests on the USD 30 trillion of debt.**
- As we all know, the **Democrat party does not like austerity** and the Republican party is unfortunately not in a better situation, having the **country on the brink of a revolution** due to the dramatic wealth imbalance, which could be avoided due to the Covid19 stimulus packages, but we all have understood, that most of US citizens "lost" the "stimulus check" either investing in "meme" stock or cryptos or at present with the highest inflation since decades. The latest news on new "inflation relief" stimulus package in California for 23 mio US citizens of USD 1'050 is the proof, the Biden's administration can narrow the wealth imbalance only with such interventions.
- Therefore, **long term interest rates are capped** and can not substantially increase from nowadays levels. As we have analyzed last week, the FED still have enough **"fire power" to add on buying US T-bills**. Some market participants are also arguing, that the last time the FED wanted to reduce the balance sheet by over USD 1 trillion per year, at the end of the day **could not even reduce it by USD 750 million over the course of 2 years** before capitulating again with the Covid19's QE.

How much can the FED hike

- It will not be much different this time, because as we have argued, after the Ukraine-Russia conflict, the world will buy less US-T bills and will further diversify out of the USD and the FED will be forced to jump in and close the gap.
- How long can the FED do it? Longer than we think and the **Bank of Japan is the perfect example, which just bought 4 times as much debt last week!** As recently explained in our weekly reports, hedge funds are provoking the BoJ shorting JGB (Japanese government bonds) and are trying to kneel the BoJ, as Mr. Soros could successfully do in the past with the BoE. But KTS feels, this time is different, because **all the Western Central Bank' interests are aligned** and if the BoJ would loses against HFs, this is going to be a major issue for all Western Central Banks. Therefore we would not be surprised, if any other Central Banks would start to buy JGB supporting the Japanese Central Bank and send a clear message to hedge funds? The substantial devaluation of the Yen can be a "trouble" for other exporters!
- Back to the numbers of Mr. Nadeau, with the average mortgage rate at 6%, real estate prices would have to drop about 25% to get back to the average monthly payment. As we have mentioned on page 3, US real estate prices already fell around 28%, therefore the market is able to adjust itself efficiently. As explained, we believe the FED wanted to reduce the euphoria, which is healthy for the market in general. On the first signs of panic, the FED, with Mr. Bullard, is already "calibrating" the tone in order to calm market participants.
- Apparently, the biggest dilemma is more the fact, that **20% of Russell 2000 companies do not have enough operating revenues to pay their debt expenses**, so-called zombie companies. We re-connect to our report of last week, where **US small caps are already trading at 11x P/E, which are the same depressed valuations back in 2008,** and therefore we would assert, that markets are efficient and are already discounting some of this risks, if not all.

How much can the FED hike

- As recently argued, it is now **time to focus with active managers**, which have the experience and the database to know exactly, which companies are solid and undervalued, rather than non profitable companies, which could “seriously go Chapter 11”, if the recession period would be longer than expected.
- For this reason, **KTS prefer to trade the QQQ US**, rather the the small & caps etf IWM US .
- We also believe to profit of any equity market’s rebound with our mid cap fund 2xidea or our value fund investment Classic global.
- In addition, the QQQ etf includes many undervalued mid caps.
- We recently analyzed some active manager funds vs the QQQ and we have to admit, that at the end of the day, almost no one is able to “beat” the Nasdaq benchmark over a longer period of time. The best examples are our best-in-class funds Alkeon or 2xidea, which unfortunately lost the tremendous outperformance on the market’s correction. KTS stays long, hoping in an outperformance in case equity markets have a strong rebound and because such active managers give us also support on our fundamental investment process having highly professional analyst team. KTS’ team cannot compete with a team of 50 analysts studying companies on a daily basis.
- As the manager of Alkeon pointed out, the technology sector has still solid earnings, but depressed valuations, due to the substantial increase of interest rates, not because of fundamentals of the companies, which are still strong and solid.
- Finally, Mr. Nadeau concludes, that a **further hawkish monetary policy would mean a significant drop in tax receipts**, which is not optimal for a government running a budget of 110% of tax receipts, which would mean to cut government spending and it is definitely not the case of the actual government. **Back in the ‘70s the debt/GDP was 30%, today we are closer at 125%**

The “big short” investor Michael Burry expects the FED to reverse rate hikes

- We would like to mention the article on several media, reporting that Mr. Michael Burry expects the FED to reverse rate hikes due to the **“bullwhip effect”.**
- As our clients remember, we mentioned in our report of 15th April 2022 (weekly Nr. 15), that supermarket chains ordered during the supply’s bottleneck in the years 2020 and 2021 more goods than needed, in order to receive the needed quantity.
- Recently, companies like Target, Walmart and Gap announced having excess in product inventory and will need to sell them at substantial discount. **Mr. Burry says “this supply glut at retail is the Bullwhip effect, google it” and further tweeted “worth understanding for your investing endeavors. Deflationary pulses from this, disinflation in CPI later this year, Fed reverses itself on rates and QT cycles”.**
- The newspapers Nypost.com explains that the bullwhip effect refers to a situation in which product demand forecasts do not aligh with actual sales, leading to massive volatility in inventory levels and other supply chain disruptions. Mr. Burry asserted, that retailers like Target will have to lower prices to get rid of their excess products, thereby lowering inflation that has surged to its nighest level in decades.
- **The reason we mention this article is not only the fact, that Mr. Burry is align to KTS’s opinion, but also because Mr. Burry was expecting a market correction since some time now and was also strongly shorting Apple. But apparently, according to the first quarter SEC 13F filings, Mr. Burry was adding positions in META, Alphabet, Booking.com and Warner Brothers Discovery.**

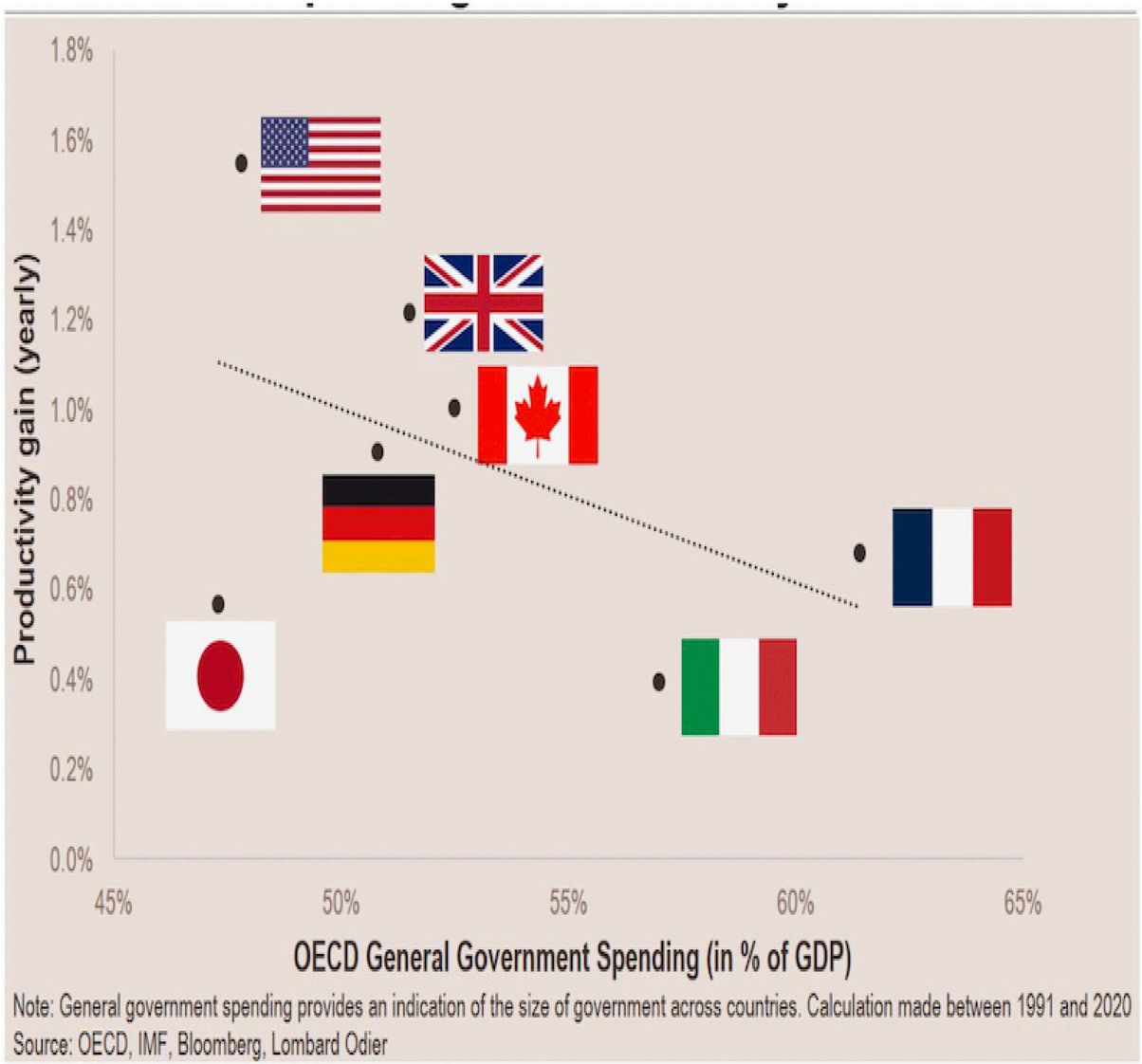
ECB

- The headline in Bloomberg is, **ECB to activate first line of defense in bond market** and further, the ECB will activate the bond-purchasing firepower it's earmarked as a first line of defense against a possible debt-market crisis.
- Also the ECB does not have much room for maneuvers. Recently we have seen, that the ECB needs to use capital in order to support peripheral countries with the highest debt in the EU, which are:
- **Greece with still 193% gross government debt as share of GDP per 2021, Italy with 151%, Portugal 127%** (but improved from the past)**, Spain 118% , France 113% , Belgium 108% , Cyprus 104% . Austria is the next on the list, but with 83% and Germany has 70.87%**
- Market participants argue, that Ms. Lagarde announced back on the 12 March 2020, that the ECB is not here to close spreads, but at the end of the day, capitulated today and the **ECB basically is going to sell Bunds and buy BTP** (Italian Buoni del Tesoro)**.** The dilemma is the German constitutional court, which could challenge such transactions, but we have seen in the past, any attempt was unsuccessful.
- The point is, **if the ECB is not stepping into the market, we have recently seen, how spreads of such countries are substantially rising,** leaving ECB with no options.
- Finally we would like to mention the blog of Mr. Bangemann, rightly pointing out 2 commentaries of Central Banks:
  - Lagarde: It's not a science what we are doing. There's an element of art
  - Powell: We understand better how little we understand inflation

  Mr. Bangemann rightly question the credibility of Central Banks.

Government spending vs productivity in G7 countries

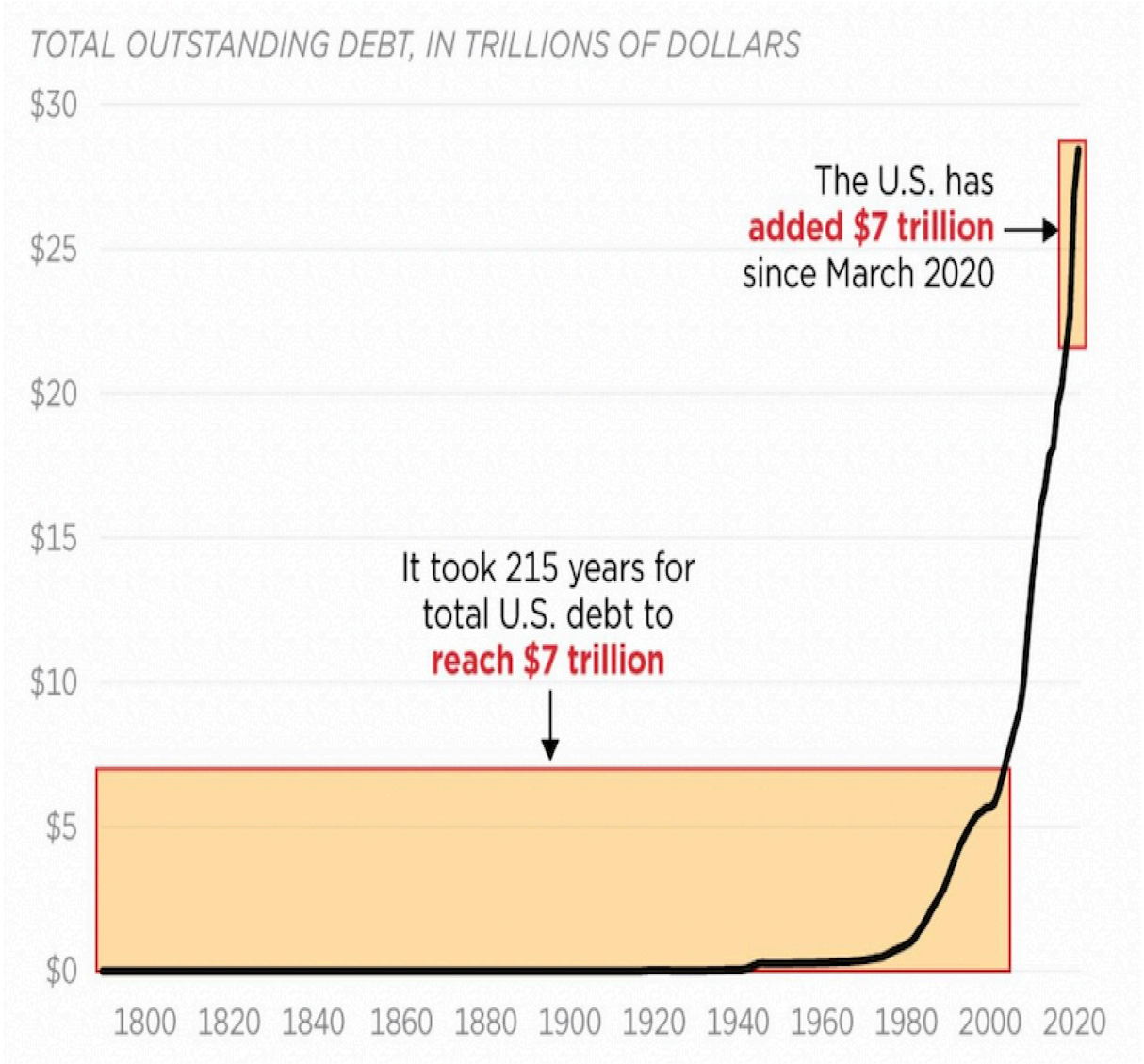
- As conclusion of the topic central banks and high indebtedness of Western countries, we include the right-hand side chart, courtesy Mr. Monier, which clearly shows how **countries with the lowest government expenditures as % of GDP have the highest productivity.**
- This is actually nothing new in the economic books, but it shows once again, there is not point of return and austerity is not going to solve the dilemma.
- The only **solution is the increase of effectiveness in the government expenditures and a dramatic reduction in corruption.** The EU was aiming to reach such goals with the reform on peripheral countries, but we have seen that unfortunately also Macron and Draghi have difficulties to push forward internal reforms. We must admit, that compared to the past, much has being reached, but if we analyze the chart, the path is still very long.
- This reality has to be kept in mind in our investment process!



Source: CIO of Lonbard Odier, Mr. Monier

2 centuries of debt in 27 months

- A picture is worth a thousand words.
- This chart is showing, how central banks are at a point of no return and therefore, we will expect the FED to change the hawkish tone sooner than later.
- For this reason we are not worrying of “the end of the world” soon and we expect a rebound of equity and also bond markets still this year.
- We have to respect the opinion of everyone, but when we read Mr. Roubini explaining the upcoming “meltdown” for equity markets, asserting that stocks are poised for 50% wipeout and of course claiming again that the bubble is bursting, when we on the contrary, have read enough on depressed valuations and still strong fundamentals, we feel even more confident, that equity markets are going to rebound.
- We would like to remind to our clients, that people like Mr. Roubini are always interviewed from media, to explain why market are falling. Mr. Roubini is not interviewed by journalists by bull markets.



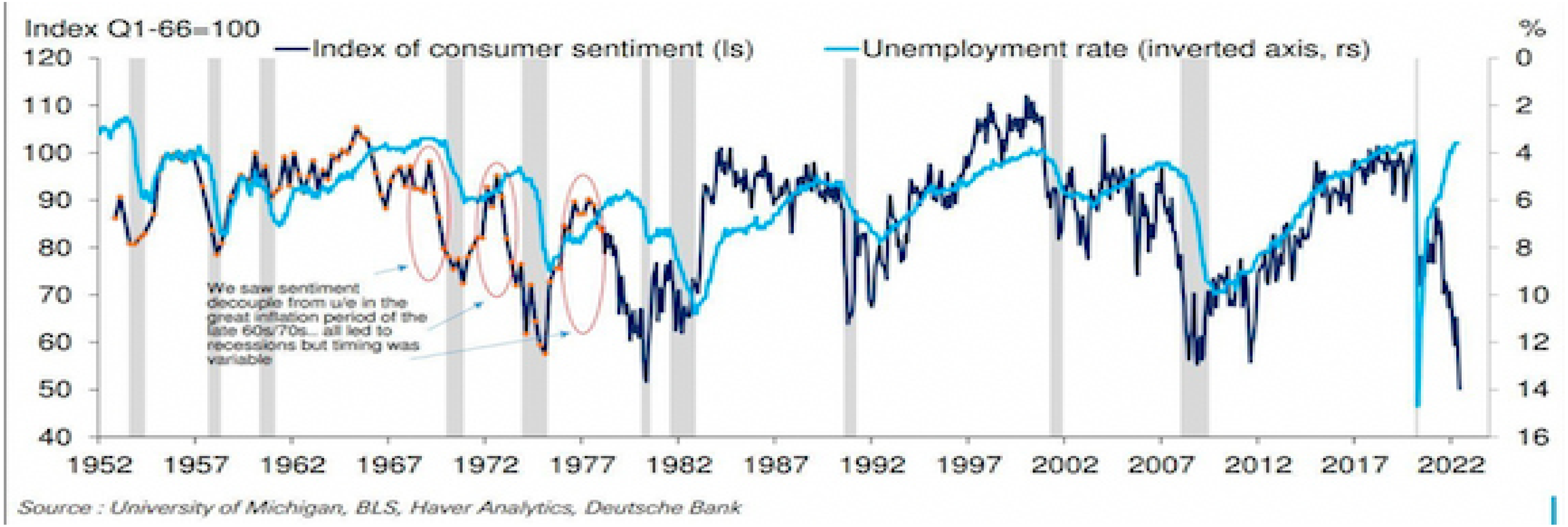
Source: Mr. Monchau

German consumer

- The **German consumer mood is at all-time low,** mainly because of the high inflation. The **GfK forward-looking** barometer fell to -27.4 points in July, which is the **lowest level since the series started in 1991**.
- Consumers see also the risk, that German economy would fall into recession and **income expectations fell to a 20- year low**. **Those are actually signs of panic,** because the **labor market is still strong also in Germany,** not only in USA, and there are still a lot of open jobs.
- Therefore, as **soon as the inflation is falling and Central Banks get dovish**, the **consumer sentiment should experience the same tremendous shift on the upside!** Dramatic shifts are due to emotional state and therefore swings are also significant on both sides. In fact, we have seen now from multiple professional sources, that the **investor and consumer sentiment is even more depressed that the GFC in year 2008 and the pandemic** and many market participants are surprised and almost shocked, as KTS, that **nowadays people are more scared than when the world basically stop overnight.** The situation is definitelity not comparable to 2008 and the pandemic and therefore **KTS also expects an extreme shift on the upside, as soon the FED changes the tone**. KTS is analyzing on a daily basis, which extreme depressed single stock can be added in our investment satellites in order to stay invested and be ready for any extreme shift. We will try to slowly add positions on the way down during summer.
- KTS believes, we should not be far, from a possible reverse of the distressed situation. **Media are of course the main cause of unnecessary panic.** We sense, citizens are psychologically stressed by media headlines, and we would tend to compare the situation like back at the beginning of the pandemic, but the reality is much better than year 2020.

US consumer sentiment vs US unemployment rate

- On the chart below, Courtesy Mr. Monchau and Deutsche Bank, we can notice, how the US consumer sentiment is basically at very distressed levels, meanwhile the unemployment rate is at healthy levels, being the labor market still very strong.
- This is a substantial decoupling and **KTS does not expect the labor market to get too weak**, therefore the US consumer sentiment should improve massively, as soon the FED is going to change the hawkish tone based on better inflation numbers.



Source: Syz group via Deutsche Bank

Inflation

- As argued multiple times, **many commodity prices were spiking due to trader's speculation and not because of supply - demand imbalance**, causing short term price' spikes and causing short term high inflation.
- On the below left-side chart, we can analyze, how the cotton price is crashing. Apparently it was held high by substantial call positions and market participants were explaining the move on last-minute panic purchases from industries. Now with macro fundamentals weakening, also soft commodities get hit, which are great news for lower future inflation numbers.
- On the right-hand side chart, we can notice, how most of commodity' prices are also collapsing from 2022 highs.
- As you know, we have not sold any position in the energy sector, which corrected quite strongly from the highs (over 20%), but our expert argues, it is now again a **great buying opportunity (Warren Buffett added USD 600mio into OXY US** during June's weakness). We are not adding positions and KTS prefers trading mainly the etf QQQ US (Nasdaq 100).

Cotton price crashing

Commodities	Fall From 2022 High
Nickel	-50.2
Aluminium	-36.4
Natural Gas	-33.3
Wheat	-26.4
Zinc	-22.4
Copper	-21.5
Iron Ore	-21.3
Corn	-14.5
Brent Oil	-14.1
Sugar	-9.4

Source: TME, Twitter

Commodity prices collapsing

Inflation

- **Also shipping costs (benchmark the WCI index - World Container Index) are collapsing and fell 30% from highs in June 2021**. The slowly re-opening in China is helping to go back to normality and should definitely help to have lower inflation numbers going forward.
- Mr. Yardeni illustrates in his research, that in June FED surveys strongly suggest that supply-chain disruptions have eased significantly in recent months. **Mr. Yardeni concludes the research by arguing, that he expects lower inflation numbers in the second half of the year, due to a combination of slowing demand for goods and better supply-chain.**
- Apparently the UAE Energy Minister, Mr. Suhail al-Mazrouei, said that Saudi Arabia and UAE have minimal spare pumping capacity and the country is producing near maximum capacity, most probably Saudi Arabia could only increase production by 150k bpd. Experts in the sector argue, that this fact was already known since the beginning of the year.
- The dilemma in the oil sector is that, even if central banks increase interest rates, **there is no real demand destruction. The issue is the low capex in the sector since years and therefore it is important to have an increase of the supply**. Are Venezuela and Iran helping the Western? Apparently is a “0 sum game”, because according to experts, Venezuela and Iran were already selling in the past years oil to China, at huge discount, despite US sanctions and therefore, if they would start to sell oil to USA, nothing would change on the global supply, except they would substantially increase the output. Most probably, if sanctions on Venezuela or Iran are removed, **they are going to exponentially profit**, being in the position to sell oil at spot price and not anymore at substantial discount (basically 50%?) and could increase production.
- The proof, that at the moment in the oil sector it is difficult to find a solution is the desperate move of the G7, which came out with the idea to cap the oil price! No idea, how the can reach that, if not with dictatorial or “draconian” regulations.

Inflation

- **Conclusion: the oil price will stay unfortunately at high levels for the time being,** and KTS stay invested with our Oil&gas&green space expert Renaud. The only solution is the adaption of the worldwide population by switching to public transportations or increase efficiency of transportation, as it is happening according to latest news mentioned in our last weekly report.
- Meanwhile **23 million Californians are getting up to USD 1'050 as "inflation relief" checks.** The Biden's administration is issuing stimulus packages one after the other. Of course the gold bulls are calling for eternal inflation and therefore it should be positive for the gold price long term. We would rather assert, that such stimulus packages are only confirming our theory, that there is no point of return for Western government; indebtedness is getting only higher and Central Banks have less and less room for maneuvers and therefore interest rates are capped on the long term. It is still too early for calling "the end of the world" or "the end of the Ponzi scheme", as analyzed last week, Central Banks still have "fire power".
- German inflation eases on temporary government relief measures. As argued in the recent reports, the reduction of fuel taxes as also the cost reduction of public transportations are helping to ease inflation. **We expect more good news on the front of inflation as commodities prices collapsed and supply disruption is easing.**

General news

- The FDA panel recommends changing Covid shots to Omicron, in order to fight the upcoming Omicron wave in autumn. We all know what that means and **KTS slowly starts to invest again in the biotech companies Biontech or Moderna.** Up to now, we only had short put positions open on both stocks.

General news Asia/China

- Our best-in-class Fund Aubrey Emerging Markets entitled the latest research with **"tears in the rain, time to buy"**, arguing, that their **top positions have minimum 15% EPS growth, 15% ROE and 15% CROA (cash return on assets ratio) and a PEG ratio well below 1, therefore asserting, that most part of the portfolio is intrinsically strong with good fundamentals and capable of rapid recovery from market shocks.** The fund is invested **1/3 in India, 1/3 in China and 1/3 rest of the world** with the biggest positions into Varun Beverages, Trent, Meituan, Proya cosmetics, Godrej Properties, Tata Consumer Products, Tencent, Titan.
- According to Statista, courtesy Mr. Monchau, **China raise to economic superpower and is now representing with 18.8% the global GDP, vs 15.8% of the United States and 14.8% of the EU.** Even if China has a different government system, KTS is strongly convinced, that we need an exposure in the Asian region having the stronger fundamentals on a global base (young population, strong grow of the middle class, high internet penetration, still tremendous grow in sector like insurance, banking, investment and technology).
- The CIO of Citigroup is arguing, that **China is the only economy worldwide, that in their model is going to grow more next year than 2022 (5% for 2023 vs 4%) in addition to attractive valuation, improving regulatory environment, attractive earnings' growth and a lot of negativity is already discounted.**
- In addition Citigroup argues, that 70% of the volume in Chinese equity is now due to local private investors, which are causing high volatility, investing based on emotions. Most of institutional investors are out of market and therefore this is a perfect environment for professional active, which can reach substantial outperformance due to alpha. We feel very comfortable with our active managers Aubrey, Stonehorn, Vietnam fund and with the passive ETF EMQQ LN.

General news Asia/China

- The journey in the Asian region is not going to be easy, especially if we are reading, that **Beijing announced to may follow a zero-Covid policy for the next 5 years,** including mass mandatory testing and travel restrictions. Analyzing the behavior of the population around the world, which finally relaxed on the Covid or Omicron virus, we would have the courage to say, the strategy is ridiculous, but on the other side, it is quite clear to KTS, that the Chinese government by following such strategy, will have the **full control of the population (tracking, etc.) and is building a long term business with vaccinations and tests.** We have to be professional and accept the strategy, meanwhile for our investment process it means, we are going to **invest again in Covid vaccine' producers like Biontech and Moderna and focus on limiting the downside risk in case of any lockdowns.**

Mega trend E-mobility

- We are reading, **Sony Group announced a once-in-a-decade pivot**: the Japanese electronics maker was joining the electric vehicle race and the CEO, Mr. Yoshida, added, **like mobile phones during the past decade, the next mega trend will be mobility**. Sony is going to join Honda Motor Co in collaboration for consumer electronics, autonomous driving sensors and software as a way to differentiate new models and add value to the low-margin business of making cars.
- Meanwhile the Bank Vontobel held a very interesting presentation on their **e-mobility** certificate, and we would like to highlight following interesting points:
  - **Carsharing going to increase 4.7 times in the next 5 years**. We would confirm, that having the P3 robotaxi of Rimac already "live" by 2024 in Zagreb, the development is going to be faster, than what we all expect.
  - Autonomous driving is a mega trend and Vontobel's portfolio manager asserts, that consumer are also starting to accept the trend. Therefore the **chip industry is going to experience an incredible trend**, which was not possible at the moment, because of undersupply, but as we have seen in the past, Chip makers are increasing capacity in order to satisfy such upcoming demand. This was always the subject of the manager of Alkeon and for this reason, an **investor must be invested in the technology sector**! The main names are of course Nvidia, Taiwan Semiconductor, Qualcomm, Marvell, ADM, Infineon, STMicroelectronics. KTS feels comfortable with the exposure via either emerging market funds (invested in TSM), or Alkeon, 2xidea and the trading in QQQ US. Most of market participants purely "playing" the e-mobility topic are also invested into Alphabet and other FAANGS and therefore investing into QQQ we cover a substantial part of the sector.
  - Micron Technology just announced to cut back on spending on computers and smartphones and use stockpiles to fill orders, but we believe, it is a temporary effect and is showing, that the maneuvers of the FED are working on the short term.

Mega trend E-mobility

- In order to increase the **security on the network,** as also **increase efficiency on the navigation and connectivity** between machines, investments into the telecom sector and city's infrastructure are needed. As we know, governments put in place infrastructure' stimulus packages, which are not applied in the real economy yet, but will be very soon. **In the next months, such money' injection should support a prosperous economy growth for the next decades**, even if only few market participants want to believe it at the moment and focus only on the possible "end of the world".
- Reading official news on the P3 project of Rimac, we can understand that the response from governments and various cities on the project is very positive and robotaxis are not in competition with the public transportation, on the contrary, would complement it and we all have understood, that policy makers aim to reach sooner than later a "free of car" city center in order to increase energy consumption's efficiency. We would like to mention again, that the trend is developing faster than we all think and the fact the robotaxis are going to drive autonomous in the downtown of Zagreb already in the year 2024 is the perfect example. In addition, we would like to mention, that the **EIB invested EUR 200 mio in the P3 project of Rimac, which gives confidence, this is the direction policy makers want to go and is going to be the solid base for negotiations of P3 project with European cities.**
- We do not have to forget, that the **dialogue machine - machine is going to be based on blockchain technology,** without mentioning all the possible services offered on robotaxis, which are all automatized and therefore also based on blockchain technology (for example to order food from the robotaxi, book an hotel, book a city tour or whatever service). All the payments for such services are also going to run automatically based on blockchain technologies.

Mega trend E-mobility

- KTS feels comfortable with the investments in the sector, via the Swisscom VC (telecommunication and cloud) or Fasanara VC (Fintechs) and the private company Rimac, which is also shareholder of the P3 project.
- KTS is not long any crypto currencies at the moment and the arbitrage strategy is also not generating spectacular yields, even if the volatility on crypto currencies is high. We would like to remind that KTS was not long crypto from February 2021 and when long the crypto arbitrage strategy, which **reached +65% performance in 2021 and the Fund just won the Hedgeweek European digital assets awards 2022 for the best absolute 12-month performance Fund over USD 100 mio AuM**. Taking into consideration the Bitcoin performance from February 2021 (bitcoin at USD 58k), the outperformance is spectacular.
- As already explained in our recent weekly updates, the crypto arbitrage strategy can only profit, if retail investors are trading in the space, because they are mostly forced to trade on the platform, where they are clients and therefore accept the offered spreads. Meanwhile institutional investors trade on the most efficient platforms and therefore arbitrage opportunities are minimal, but lending costs high.
- Finally, we all know that **governments set aggressive targets for a 100% net zero emission** and therefore the electro-mobility in general is in the midst of a least **2 decades of grow and further innovation. As we know, Europe and China set a ban on new fossil-fuel cars by 2035, but the trend is set in motion globally with basically a global net zero emission by 2050.**

Major banks buying crypto assets

- As we have recently mentioned, market participants were arguing, that the stablecoin Luna lost 90% of the value due to big hedge funds, in coordination with majors US banks, like Goldman Sachs, “provoking” the initial move.
- In addition we were reading, that the lending platform Celsius, which is in distress, is the result of major hedge funds provoking the “negative cascade”.
- We are reading now, that **Goldman Sachs** is leading an investor group in **order to buy Celsius** assets for around USD 2 billion.
- We do not want to discuss any conspiracy theory, but one reality is now sure: **the “big guys” are now entering also the lending crypto’s business**, as also all other possible segments. Apparently also Morgan Creek is planning to assemble USD 250 mio in order to give a credit line to BlockFi, another lender struggling to stay afloat.
- In the next slide, we can analyze, how top banks are buying crypto assets or substantially investing into crypto companies. This is for us the proof, that the sector was not stable and solid enough in order to reach the needed credibility. As argued in our special **report on DeFi (decentralized finance)** on the 1st October 2021 (weekly report nr. 35), banks needed to substantially invest along start ups or Fintechs in the crypto space, to reach the perfect balance and it is happening now.
- **Celsius had more than USD 8 billion lent out to clients and USD 12 billion in assets under management** as per May 2022 and back on the 12th of June 2022, the platform had to stop withdrawals due to extreme market conditions, which was also the consequence of further sell off in the bitcoin.
- To mention, last year Celsius raised USD 750 million from investors, including Canada’s second-largest pension fund, Caisse de depot et placement du Quebec (CDPQ), valuing the business at USD 3.25 billion.

Major banks buying crypto assets

- We believe, **there are now serious business opportunities also in crypto currency's lending** and were are going to search with our experts, if there are reliable ways to invest. Yields can be over 10% p.a.
- Below we can analyze, how top banks continue to invest in the crypto & blockchain companies and lately GS is aiming to raise Usd 2 bn to buy Celsius' crypto assets at a tremendous discount.

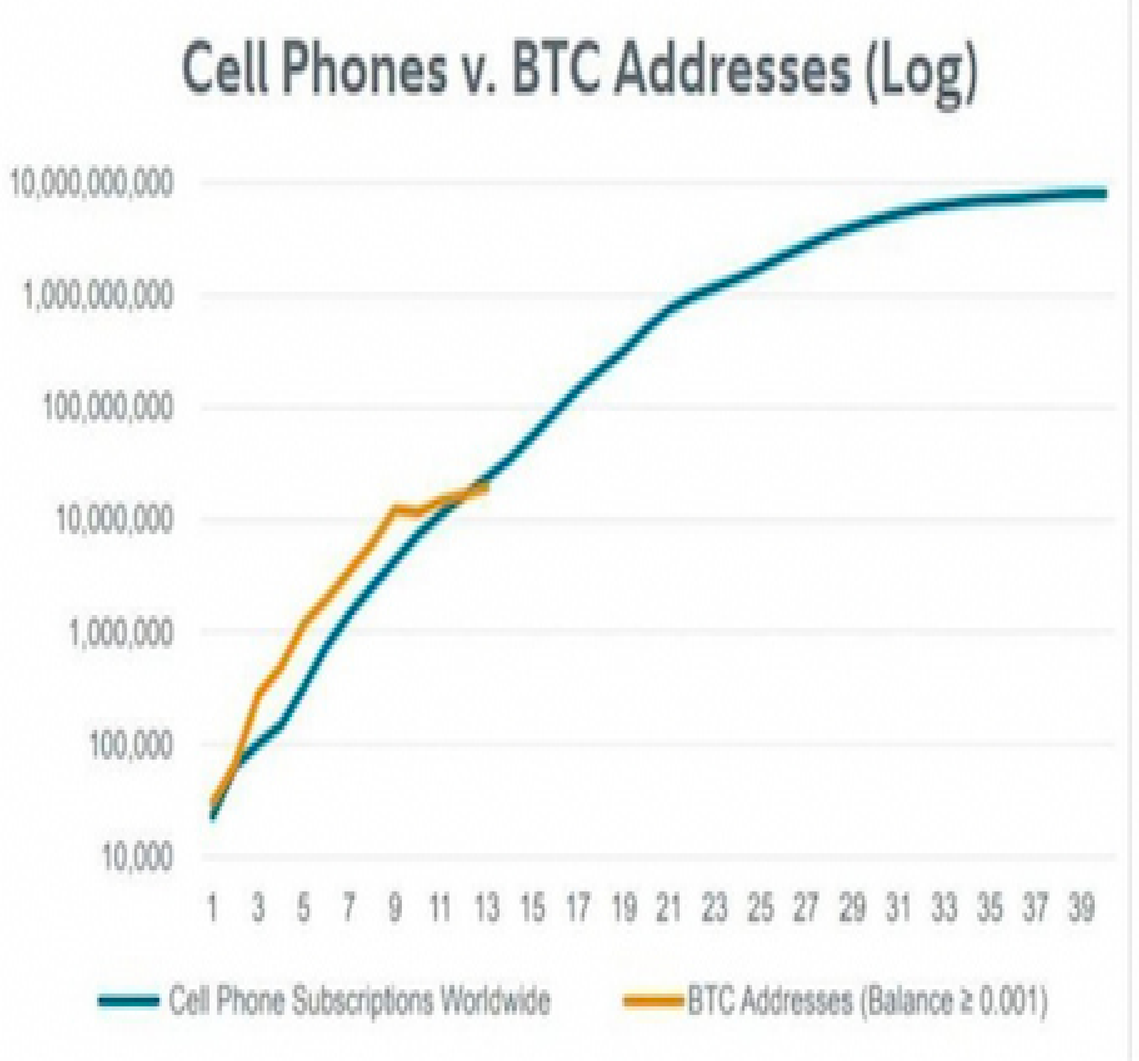
Parent Company	HQ	Assets Under Management	# of Investments	Size of Funding Rounds as a Proxy of Investment	Companies Invested In
Morgan Stanley	New York, United States	$1.400B	2	$110M	Figment, NYDIG
Goldman Sachs	New York, United States	$2.000B	5	$698M	CertiK, CoinMetrics, Elwood Technologies, Blockdaemon, Anchorage Digital
BNY Mellon	New York, United States	$2.300B	3	$60M	Talos, CoinMetrics, Fireblocks
Commonwealth Bank	New South Wales, Australia	$785M	4	$421M	Lygon, Xpansiv, Gemini
Citi	New York, United States	$2.29B	6	$115M	Talos, TRM, Contour, Blockdaemon, amberdata
UOB	Singapore	$1.450B	7	$204M	Kyro, Play It Forward DAO, ADDX, assembly, Evynet, Yield Guild, JAMBO
HSBC	London, United Kingdom	$3.021B	1	$200M	ConsenSys
Wells Fargo	California, United States	$1.948B*	2	$65M	Talos, Elliptic
KB	Seoul, South Korea	$970B	8	$43M	Streami, Piece, Xangle, Uprise, Kodebox, Luniverse, Block Odyssey

*Numbers of the "Group Company"
Note: The # of deals and size of funding rounds are inclusive of group companies and their subsidiaries

Source: Blockdata, via Ms. Monchau-Richard

Bitcoin adoption

- On the right-hand side chart, courtesy Syz group via Fidelity, we can observe an interesting comparison: the **adoption development of cell phones vs Bitcon addresses (log)** in order to give a possible value to bitcoin.
- We also like another comparison in order to calculate the value of Bitcoin: the **Bitcoin transaction's volume vs PayPal.** Back in 2018, **Bitcoin network posted USD 1.3 trillion worth of transaction volume**, vs USD 578.65 billion of Paypal.
- As you know, Bitcoin' miners get paid in Bitcoins as fees for any transactions and therefore, the higher the transaction volume, the higher the value of Bitcoin, in addition to the costs for mining Bitcoins.
- According to the blog of Mr. Nadeau, **VC's invested over USD 40 billion in crypto start ups over the last year** and the **most important crypto projects have robust treasuries.** This is no wonder, if you take into consideration, that **Ethereum for example have inflows of over USD 7 mio on a daily basis** (data from cryptofees.info).



Source: Fidelity via Syz group

Blockchain adoption

- We would like to mention the blog of Mr. Kriaris, arguing that **Asia is undoubtedly a front-runner in building "superapps", which are helping on our day-to-day lives.**
- Most probably the main reason of such success, was the inexistent payments' infrastructure in the past and never developed the robust credit and debit card networks, like in Europe or USA. Therefore big techs like Tencent (WeChat) and Alibaba (Alipay) could build up a powerful position and **could expand the platform to all kinds of services**; from payments to money transfer, to food ordering or taxi hailing, to credit, taxes, insurance,etc. Grab, Go-Jek, KakaoTalk, Paytm, Careem, Meituan, Line, Momo, Rappi and Tata are also some additional successful superapp examples in the Asian region.
- Mr. Kriaris further argues, that **out of the world's total population of 7.93 billion, 5 billion are internet users with 2.6 billion, therefore more than the half, living in Asia pacific, which has an internet penetration of 72% (source: Statista).** We would like to add, that the **G7**, which is trying to lead the world, represent **"only" 10% of the worldwide population and 43.4% of GDP**.
- This is actually the main reason, why KTS is invested into the best-in-class fund Aubrey, Stonehorn or Vietnam, being the **region with the most attractive fundamentals and still at very attractive valuation.** According to Statista, also countries like Brazil (76% of interviewed people are using mobile Banking) or Turkey (85%), South Africa (79%) have a high internet penetration like Asia, and for this reason we bought the passive **etf EMQQ LN,** to have some exposure outside the Asian room.
- **We also have to remind ourselves, that all this apps and payment systems are based on blockchain technologies and therefore we are going to experience more innovation from Fintech start ups.** For this reason we strongly believe in our VC investments in Fintechs, especially BNPL (buy now pay later, the new efficient way for credit and lending to consumers) and telecommunication start ups.

General news on cryptos

- We are reading in the news, that the layer-1 blockchain's main bridge between Ethereum, Binance Chain and Bitcoin has been hacked for USD 100 million. There is still a substantial risk of losses in the segment and it is still a long process to reduce frauds, but as we have seen in the previous slides, top banks are entering the sector with substantial investments and therefore solidity will increase massively with the time.
- The founder of **FTX crypto exchange is exploring whether it might be able to acquire Robinhood Markets Inc**, which lost over 80% from the highs and over 70% from the IPO's price. This is the proof, that non profitable stocks are really more than "beaten", exactly like it happened in year 2000, but the time of **M&A is faster and therefore quality is going to be bought already now**. This is also the proof that at present time, the situation is not comparable to the tech bubble of the year 2000, where no company had money. Today companies have a lot of liquidity for buying innovation and quality!
- The morning news Macrostrategy is reporting, that according to Reuters **Bitcoin miners have forced sellers as the fall in prices and rise energy costs have eaten into profitability** and therefore have been increasingly liquidating their coins on exchanges. Apparently several publicly listed Bitcoin miners collectively sold more than 100% of their entire output in May as the value of the coin tumbled, forcing them to sell to cover costs. Those are a sign of the typical "house of cards" cascade.

Gold, USD as global reserve currency, Marshall Plan for Ukraine

- Apparently the G7 is planning to **ban on imports of Russian gold**. According to the newspapers The New York Times, gold is Russia's second-most valuable export after energy products. Most of those exports go to G7 countries, particularly Britain, through the gold trading hub of London.
- **Russia did nearly USD 19 billion in gold exports in 2020, almost all of it going to Britain**. Gold experts are expecting a spike in the Gold price being **Russia the second biggest gold producer after China**, but KTS tend to believe market participants arguing, that the move of the G7 going to be only symbolic, because in fact, the London Bullion Market Association (LBMA) already banned the trading of Russian refinery back in March 2022. Therefore we would guess, that Russian gold is already sold entirely to India or China, of course at a discount, like it is already happening with the oil.
- Again, unfortunately is a win-win situation for both counter parties, especially for **India, which is the world's largest gold jewelry consumption**, as our clients know, mostly because of the traditional Monsoon wedding season and, as in the whole Asia, gold jewelry is used as collateral for bargain, though losing importance due to the new Fintechs. As per Investopedia statistic, China is the second country with the highest demand for gold jewelry (136.6 tonnes/year vs 132.1 t/y). We could not understand, if the ban is also to freeze any Gold reserves of the Russian Central Bank outside the country. The worst part of the sanction going most probably to be, like it is happening with oil, Indian refinery buy Russian gold at discount and re-sell it in Europe at spot! And some market participants are adding, such detour need more transport, which is not helping reducing CO2 emissions.
- Having the **Western discussing a possible "Marshall Plan" for Ukraine in July in Lugano**, we can imagine the Western trying to find a way to confiscate more Russian assets outside the country in addition to the already frozen USD 300 bn and most probably all the assets from Russian Oligarchs on the sanction - list.

Gold, USD as global reserve currency, Marshall Plan for Ukraine

- We are reading, that on the meeting in **Lugano in July, for discussing a possible Ukraine's recovery plan,** EU and USA are planning a financial support **from USD 500 billion to possibly trillions**? In order to reduce "populist" pressure, especially from the side of Europe, but USA does not have less "internal poverty" issues, we would expect the Western to maximize the financial involvement from the side of Russia.
- Market participants are arguing, that the substantial size of the recovery plan could cause a "rebellion" from EU populations and we already start feeling such sentiment in France and Italy. In fact, the French President, Mr. Macron, won the election, but the fact that **Le Pen's far right goes mainstream and had 41.5% of the vote**, **is a long term dilemma for Europe**. And having **Macron losing the control of parliament** and desperately looking for allies in order to win the majority over the far right party of Le Pen, is not going to help the future of France and Europe in the next 4 years, even if Europe is expanding to new members, such Ukraine. This is a reality we have to keep in mind and invest accordingly and for this reason, **KTS will always focus to limit the drawdown** of our discretionary portfolios and constantly invest money in protection or hedges. **This "annual costs" for protection have an enormous value added, especially in moment of panic!**

What could go wrong in 2022

- **KTS is constantly in contact with external partners in order to have the right assistance in optimizing such hedge costs.**
- YTD 2022 we have to admit, that **KTS could tremendously manage to limit the drawdown of our portfolios.** In fact, a lot could go wrong, if we take into consideration the YTD performance of bonds (not only 2022, but also 2021), or the performance of cryptos currencies, as also various blockchain assets, like cryptos lending, stable coins (Luna -90%), etc.

  In addition to the disastrous performance of many VC funds, like Tiger Global Management (YTD losses of over 50%) and without to mention all “meme” and non profitable stocks. Finally, KTS was not investing in any IPOs or SPAC, which are now on average -60% from April 2021 (following the SPAK US and Renaissance IPO ETF).

  On the contrary, KTS could profit of the distressed market situation and started to invest via Swisscom VC 2 (nowadays invested only around 25%) and Fasanara VC fund, which has still money to invest and all positions are at cost price, but valuations are on average 3 to 5x higher, based on last rounds. Fasanara team , being “credit guys” had an extremely conservative approach on valuations and it paid off during 2022.
- In addition, KTS could also profit of a few M&A transactions and finally, our private equity investment, the Croatian company **Rimac automobili, could increase their valuation up to EUR 2.2 billion** and gain new well known investors, Goldmann Sachs and Softbank, and could still count on the support of the existing major investors like Porsche, Investindustrial or Hyundai. Meanwhile, high flyers like **Rivian or Lucid, which experienced last year IPOs at ridiculous valuations, lost on average over 80% of their value!** Our clients will remember our comments on the 2 IPOs, which were trading at insane valuations and had no strong fundamentals.

Gold, USD as global reserve currency, Marshall Plan for Ukraine

- **The most important message on the meeting in Lugano in July 2022 is, if the "Marshall Plan" is signed, we also believe that Mr. Ukrainian President Zelensky should finally also be willing to end the war and focus on rebuilding the country.**
- In fact, as long a war is ongoing, Mr. Zelenskyy has the possibility to ask for financial support from Europe and USA. The day Mr. Zelensky would sign a peace deal with Russia, it will be harder to ask for assistance. A possible agreement in Lugano, most probably in combination with the EU candidacy, **is for Mr. Zelensky the only way to guarantee a prosperous and safer future to his own country.** We believe, for Russia, or better for Mr. Putin, to win the boarder zone should be enough to do not "lose the face" and keep the "industrial heart" in Russia. Russia can also now count India as trading partner, not only China.
- In addition we are reading in the news, that the **BRICS are creating a new reserve currency as an alternative currency**, which would rival the IMF. The new currency supposes to be a basket of currencies.
- We believe that, if in **Lugano there is a final agreement, it should be a positive short term event and should help to reduce tensions, especially fears of a nuclear conflict,** which honestly speaking was never a real threat, but looking back in the months of March-May 2022, it was very difficult to believe otherwise.
- We would conclude by commenting on the fact, that **Russia experiences its first foreign debt default since 1918** and most of market participants are arguing, that sanctions are working, because in case Russia would need to go back to debt market, the spreads would be substantially higher. KTS was always wondering, who are the real losers, because the debt is defaulted by foreign investors.

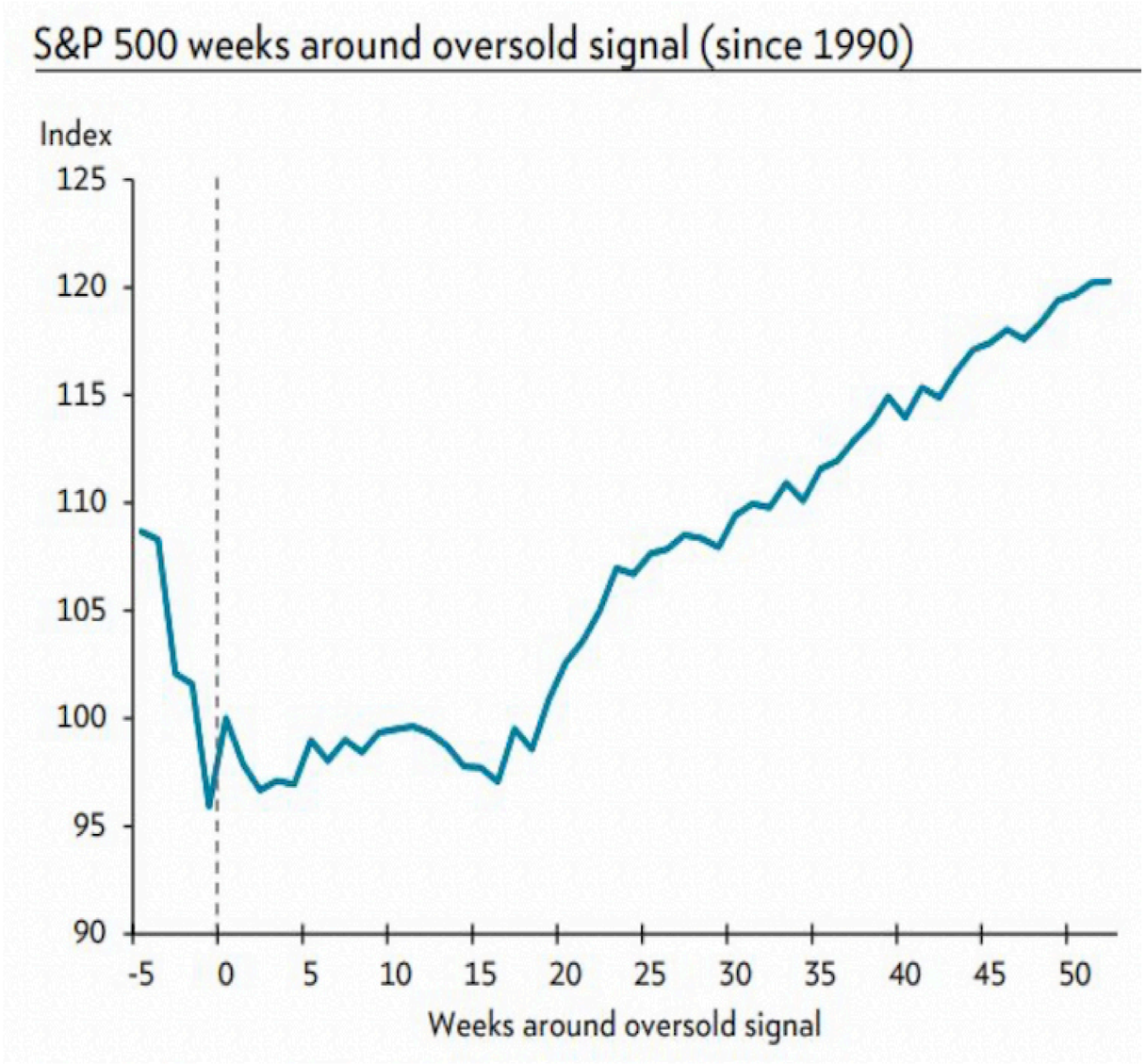
Gold, USD as global reserve currency, Marshall Plan for Ukraine

Mr. Lemand rightly asks on his blog, if the Western should really celebrates such default, having basically all Western financial institutions like Capital group, Wellington, Allianz, Fidelity, BlackRock, etc. losing their money, not because Russia did not want to pay, but because of Western sanctions. We would add to the blog, that such institutions had the positions in emerging market funds, which most probably were bought into pension plans and therefore we would have the courage to assert, that the **final loser of such sanctions is the middle Western citizen** having lost value with his pension plan. Honestly speaking, it was not that difficult to foresee such development and even more we are really disappointed, that having so many universities with so many multiple factor models, policy makers are not able to double check with some well known and highly recognized Professors, simulating possible consequences of their own maneuvers.

- The Chinese government simulated better its own maneuvers in the case of the foreign default of the real estate developer Evergrande and other Chinese real estate developers. In fact, foreign investors, again emerging market debt funds (almost every emmas funds was invested in Chinese real estate bonds and KTS was arguing back in 2021 it was not a smart move) were the only one losing capital. Local investors could profit from the debt restructuring.
- **On the long term horizon it is clear, the world is going to be divided in 2 main blocks and this reality has to be considered in our investment process.**
- **It will be extremely important to separate emotions and personal opinion with facts and economic growth or risks.**

Technical analysis

- On the right-hand side chart, courtesy Mr. Mensur Head technical analysis at Julius Baer, we can analyze how a V-shaped recovery would like like.
- As we recently mentioned, the **S&P 500 index has seen one of its most oversold breadth readings since 1990** and the actual extreme investor sentiment is a rare event, which happens according to the manager of Alkeon, every 60 years. Also the CIO of Citigroup asserts, that the **actual drawdown severity of equity and bond is the highest in the last 60 years**. Finally all technical analysts agree, the investor sentiment is as depressed as in year 2008 and during the pandemic.
- But JB argues, that historically, such **deep oversold readings have led to a volatile bottoming process, before a recovery become sustainable.**
- **This assessment is align with KTS's forecast, equity market going to move sideway up to November 2022?**



Source: JB, Mr. Mensur

Technical analysis

- The CIO of Lombard rightly asserts, that most of market participants are only focusing on the downside and forgetting the substantial upside, when equity markets would rebound.
- Mr. Monier further explains, that their discretionary mandates are positioned to benefit from a potential bounce back, while protecting the downside using put option.
- **KTS fully agrees on the upside, but we can not understand, if it make sense to protect the portfolio with put options at the moment, being extremely expensive.**
- **KTS is rather buying step by step long term solid names on the way down with the intention to keep such position over mid term.**

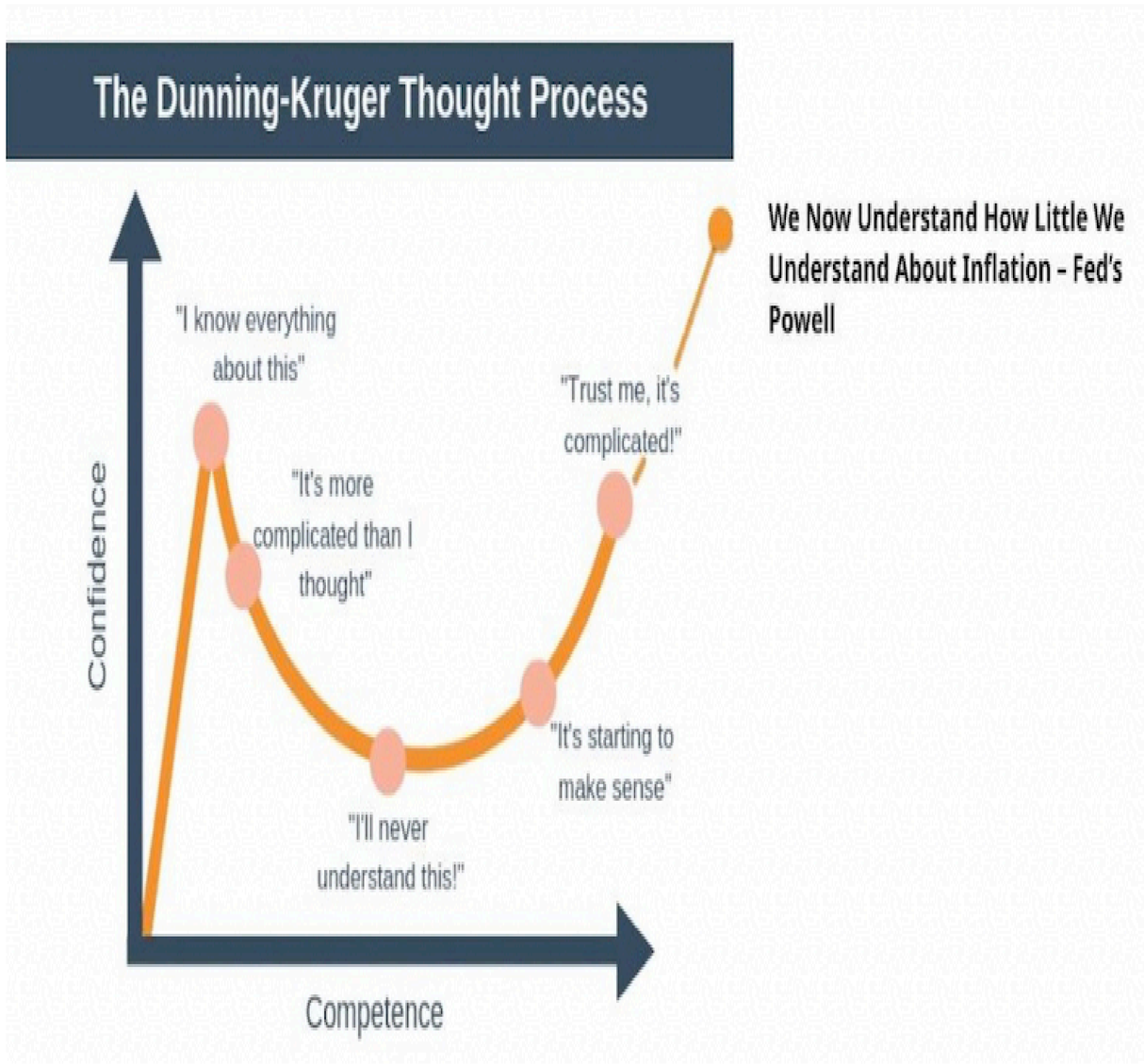
Picture Title

Swiss pension system

- As argued in our outlook 2021 and 2022 and multiple weekly reports, Western governments need to find solutions in order to reduce the significant deficit of pension plans and as we have seen in the outlook 2022, a **pension plan needs at least 5.15% p.a**. performance only to achieve the necessary capital repayment for a young person.
- As we all know, even if nominal interest rates recently raised, and we are not anymore in a 0% yield environment, the only asset class, which can realistically achieve such annual yield are global equities.
- We mentioned, that policy makers know exactly the dilemma and are constantly proposing to increase the pension age. **This is what is happening also to the Swiss regulations**, whereby the Federal council will most probably increase the pension age for women (from 64 to 65 years old, like for men), in addition to also an increase of 0.4% from the VAT in favor to the first pillar (AHV).
- But the Federal council will also most probably change regulations on the **free capital of the second pillar** and the **Swiss population will not be able to have the right to vote against such change**, which is for Switzerland quite a dramatic step, as unfortunately already happened by the Covid19 pandemic! We can not change policy, but we can prevent what is going to happen and we are acting accordingly.

The FED

- Finally something funny, which is unfortunately not funny at all.



Source: Mr. Kürpick

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