KTS
CAPITAL
MANAGEMENT

KTS weekly update Nr. 35

The 2nd of September 2022

Technical analysis of the S&P 500 index

- The highs of July were matching exactly the 200day moving average and the 50% fibonacci. **Therefore an investor can be bullish again, only if the S&P 500 Index breaks out such resistance.**
- Otherwise we believe, we are in a sideway trading range for the next 2 months.We are going to wait for clear signals in order to invest our liquidity. First important support would be at around 3’900 points.

Resistance: 4327 points / next support: 3’900 points

Goldman Sachs warns UK inflation could hit 22% in January 2023

- **GS warns an UK inflation at 22% if natural gas prices remain elevated** in the coming months. Citigroup is forecasting 18.6%
- The Bank of England is currently forecasting a peak of 13.3%, which was already a shock for all of us, a few weeks ago.
- Market participants are also arguing, that if the GS's view would materialize, the **UK's GDP could decline by 3.4%**
- As per slide 13, we can feel, that natural gas prices are peaking. We believe, market participants where "pushing" prices high via Futures trading, in order to force industries into new expensive forward contracts. But as we have mentioned last week, the **German industry stopped to buy forward electricity and if prices would rise further, many heavy industries are going to close.**
- **In fact, in Italy many industries in the paper, ceramic and other heavy industry sectors have not open after August's holiday.**
- In addition, as also explained in the slide 13, the **EU wants to intervene with a cap in the natural gas market**. The real question is, how policy makers can decide a cap in such free and very complicated and interconnected market. We let us surprise, but we believe, that the EU believes, words' intervention should be enough to correct the natural gas futures market, which is mostly driven by speculations, rather than supply-demand imbalance.
- Because this report is an internal KTS's analysis, we can speak openly. Therefore we would assert, that normally, according to **KTS's experience, when major investment bankers are issuing such shocking reports, mostly are aiming to induce big clients to hedge portfolios via complicated option strategies**, which at the end of the day, are just a "cash cow" in commissions for major investment bankers.

Goldman Sachs warns UK inflation could hit 22% in January 2023

- **We have seen several times in the past, shocking news from GS, MS, JPM, etc. which induced to panic, which is translated in hedging strategies from important clients, but also companies and at the end of the day never materialized.** We refer for example back in May 2008, when major US investment bankings were issuing shocking forecasts on the oil price over 200 USD and airlines rushed in panic to hedge the oil price. The same is actually happened again this year in May, when JPM was forecasting the oil price at 180 USD and after such extreme forecast, the oil price only fell.
- In fact, we are reading, that many market participants are now “betting” against the GBP, UK equity market, etc. The same is also happening against the Italian debt.
- Rmx.news is already entitling: “Italian debt default could be biggest-ever shock to eurozone and hedge funds bet EUR 39 billion against Italy in August alone”. Apart the fact, that we do not know, if the EUR 39 bn are also hedging strategies and therefore investors are still long the Italian debt, the ECB still have enough “munitions” to avoid such scenario. But as recently explained, after the departure of Mr. Draghi, the EU wants to pressure the new governments, that reforms must go on, most especially, finally implemented. With Mr. Draghi, we were also feeling confident, Italy would be align with the EU. With the new government, it is a huge question mark, but the **new ECB mechanism,** going to make sure, Italian policy makers do not have much room for maneuvers and will have to align with EU policy and finally implement reforms.
- In our investment process, we always have to analyze forecasts of any major market players. We are taking into account such GS’s projection, but is not the base scenario of KTS. Therefore, we are not taking any specific actions based on such prediction.

Goldman Sachs warns UK inflation could hit 22% in January 2023

- We would like to mention the blog of Mr. Yardeni, who is also convinced, inflation peaked and on the **13th September we will most probably experience from August's US CPI number, that inflation is continuing to moderate.** In fact, gasoline and used car prices should have fallen further. The big question mark are still the rents.
- In addition Mr. Peters is **showing a chart of U.S. PPI and CPI inflation, which have peaked in June**. Over the winter he sees US inflation falling further, whilst Europe's inflation will continue to increase and conclude, it is a bullish signal for the USD.

Economic war

- The economist of Credit Suisse, Mr. Zoltan Pozsar, wrote an interesting research on globalization and economic war.
- A **global supply chains has being built in peacetime**, but now that the world is split after the Ukraine-Russia conflict, we are in the midst of an economic war and basically the end of globalization. Nothing new actually, but the question is, who is going to profit in such scenario?
- Mr. Pozsar says, to ensure that the West wins the economic war, to overcome the risks of "our commodities, your problem", "chips from our backyard, your problem" and "our straits, your problem"; the West will have to **pour trillions into 4 types of mega trends:**
  - **Re-arm (to defend the world order)**
  - **Re-shore (to get around blockades)**
  - **Re-stock and invest (commodities)**
  - **Re-wire the grid (energy transition)**
- Mr. Pozsar is comparing such transition phase with the Great financial crisis, where back in 2008, the issue was only the financial system and the new regulation Basel III restored confidence and stability in the bank system. **Currently we are in the midst of the Great crisis of globalization.**
- Mr. Pozsar explains, that the **West could enrich itself in an environment of low inflation, thank to globalization, having cheap immigrant labor keeping nominal wage growth stagnant in the U.S. . In addition to cheap Chinese goods and raising real wages and cheap Russian natural gas fueling Germany industry and Europe more broadly.**

Economic war

- The argumentations of Mr. Pozsar are going in the same direction like the article in the **Wall street Journal entitled "The coming war over Taiwan), explaining how weakening China (economically but also demographically) is more vulnerable** in search for external expansions via wars (see KTS weekly report nr. 32, on the 12th August 2022). In addition many market participants re-connect to the book of Mr. **Ray Dalio, The changing world order and why Nations succeed and fail.**
- Basically Mr. Pozsar asserts, when great powers have positive expectations of the future trader environment, they want to remain at **peace in order to secure the economic benefits that enhance long-term economic power**. When, however, these **expectations turn negative, leaders are likely to fear a loss of access to raw materials and markets**, giving them an incentive to initiate crises to protect their commercial interests.
- Nowadays trust is gone and Chimerica as Eurussia does not work anymore. Mr. Pozsar add, nowadays we have a special relationship between Russia and China, the core economies of the BRICS block and the king and the queen of the Eurasian chessboard - a new heavenly match, forget from the divorce of Chimerica and Eurussia. In addition we have new alliances.
- The enemy of my enemy is my friend, and Russia/China hold naval exercises with Iran around the Strait of Hormuz. Iran has also recently hosted talks between Russia and Turkey regarding grain shipments through the Bosporus Strait and not surprisingly, the first shipment sailed to the Syrian port of Tartus ,which hosts a technical support point of the Russian Navy. Turkey and Russia also agreed to clear bilateral trade flows, including gas, in Rubles.
- Mr. Pozsar call such **alliances TRICKs, an alliance of economies sanctioned by the U.S. getting ever closer economically and militarily.**

Economic war

- **India decided to increase its imports from Russia and participate in Russia's Vostok-2022 military exercises** and the U.S.'s "no-response" to China's sea and air blockade of Taiwan puts **South Korea in a very difficult situation** given the fact that the U.S. decided to not include South Korea in the AUKUS defense pact. South Korea is at the moment in a strategic ambiguity, no longer fighting China's ambitions in the North and if the 2 Koreas are reconciled, there is no need for the U.S. to station 30k troops to protect South Korea. Mr. Pozsar explains, this may well explain why President Yoon did not meet Speaker Pelosi.
- Mr. Pozsar writes, that China got very rich making cheap stuff, but when they wanted to build 5G networks globally and make cutting-edge chips, the U.S. said no way. Russia got very rich selling cheap gas to Europe, and Germany got very rich selling expensive stuff produced with cheap gas. The U.S. got very rich by doing QE, but it was in a world of low inflation.
- **China and Russia is a powerful relationship: a marriage of commodities and industry,** uniting the largest commodity producer and the factory of the world.
- The actual economic war is about control. **The control of technologies (chips), commodities (gas), production (zero-covid), and straits: chokepoints like the Taiwan Strait, the Strait of Hormuz, or the Bosporus Strait.**
- U.S. is threatening Turkey with secondary sanctions for financial cooperation with Russia, but there is a geographic inconvenience: the NATO access to the Black Sea goes through Turkey's Bosporus Strait.

Economic war

- Conclusions are:
  - **We can not forecasts a rapid deceleration of inflation**. Trust drove globalization, and globalization drove “the great moderation”, today distrust will drive de-globalization, and de-globalization “The great reflation”.
  - Also Ms. Agarwal argues, that the **side factors due to de-globalisation, mainly labour shortages, lockdowns and war** are **responsible for more than half of the current elevated level of the PCE deflator.** Supply-related issues are contributing 2.5% more than the pre-pandemic average, while demand drive factors are 1.4% higher than the pre-pandemic average. She finally assets, that Mr. **Powell stated, what the FED can control is demand, because the FED can not affect supply.** Therefore, the **question whether we can execute a soft landing or not, it may actually depend on factors, that we do not control. She adds, demand is not the main issue and therefore she asks, if it does make sense to hike rates! This is exactly also our opinion,** and for this reason we are worrying about the central bank’s strategy and the possible results.
  - L-shaped recession to slow inflation down, we had to generate a round of negative wealth effects to lower demand such that it becomes more in-line with the new realities of supply. Having still high consumption, but less import from “cheap supply chain”, the **West will have to produce stuff on its own. The West needs to increase CAPEX, investments and governments have to help.** The US Congress has just passed the USD 52 billion CHIPS Act for example. Germany increased by EUR 100 billion for military equipment.

Economic war

- The war in Ukraine also showed the importance of stockpiles in basic artillery, because high-tech weapons depend on chips and **70% of sophisticated chips for high tech US weapons are produced in Taiwan, and the Dutch company ASML is the most important maker of cutting-edge lithography machines.** Russia is also having military issues too and sanctions have limited its access to Western technologies, but China makes chips (SMIC). We are not going to discuss the quality of such chips and we are also not in the position to do so.
- In the Great Financial Crisis the banking system was the key issue, today the long-intermediation chains of the globalized world: masks, baby formula, chips, missiles, and artillery shells, to mention a fews. **Inventory for supply chains is what liquidity is for banks.**
- The huge operating leverage of economies. The best example is the **Germany USD 2 trillion of value added depends on USD 20 billion of gas from Russia.** This is a 100-times leverage and Lehman is nothing compared.
- The U.S. is trying to “invert time” using technology sanctions, in order to gain time to build up their own technology or stockpiles. **This economic war can not be won by slowing the progress and for this reason we have the 4 new mega trends in the West:**
  - **Re-arm,**
  - **re-shore,**
  - **re-stock**
  - **and re-wire the grid.**

Economic war

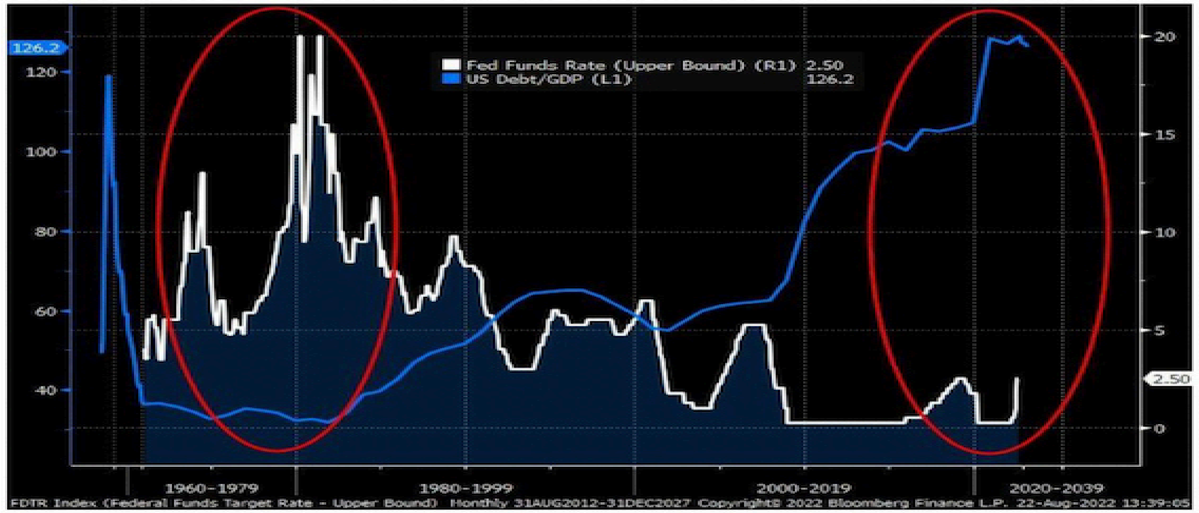
KTS feels comfortable with the investment into some mega trends, especially the technological and alternative energy ones. We are not investing into weapons or military equipments, which is also a big debate for ESG values.

We would also add, even Mr. **Elon Musk wrote in Twitter: "Countries should be increasing nuclear power generation**! It is insane from a national security standpoint & bad for the environment to shut them down". Even the "godfather" of electrisation launched an open debate on what is clean and sustainable energy, where it was clear for everyone, that nuclear would not be part of the "greener future"?

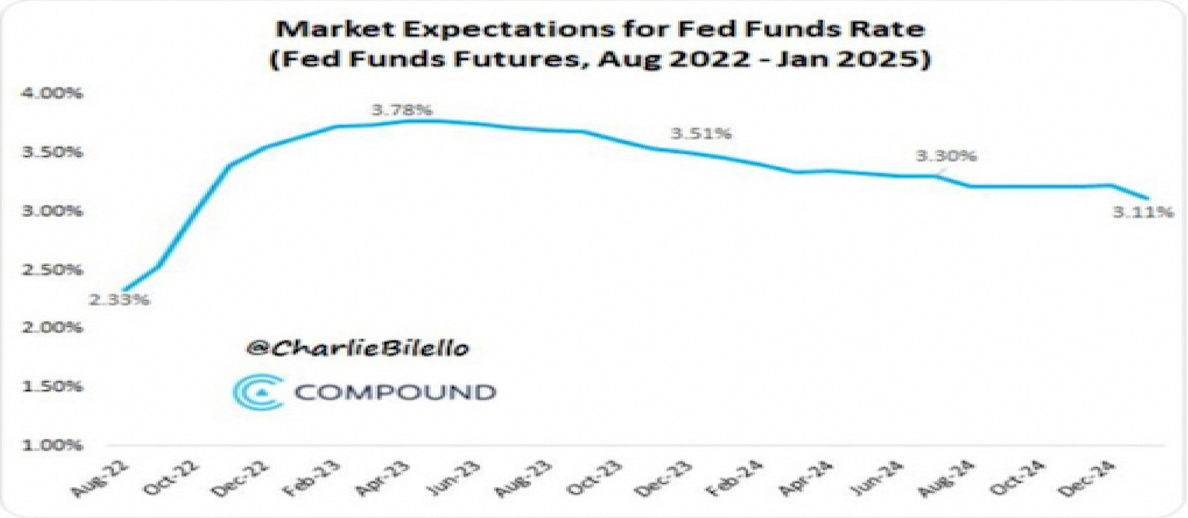
- Finally Mr. Pozsar asserts, that we have also **repercussions on currencies.** He re-connects to his previous research, the **"Bretton Woods III" (see KTS weekly report nr 11 on the 18th March 2022),** because he rightly asserts, why **China should rolling USD 1 trillion portfolio of U.S. Treasury securities, in addition to the Russia's RX reserves, which are frozen; in order to finance the West's effort to re-arm, re-shore, re-stock, and re-wire against the East**?
- We would add, the new cycle of tightening (QT) from the side of the FED has not stated yet and suppose to start this week. With the FED increasing interest rates, but taking out liquidity and on the other side, no real buyers for US T-Bill, the real question is, can the FED actually start a QT? **Of course, if the FED starts, liquidity going to dries up further, which are also not good news for equity markets.**
- Mr. Pozsar also re-connet to Mr. Dale Copeland's theory of trade expectations, where is does not make sense for the world, to go on under the regime of Bretton Woods II and Bretton Woods III is already ongoing.

FED

- KTS stubbornly continues to believe, that no Western country can pay much higher interest rates, having a substantial higher indebtedness compared to the 70' . In fact, again after the speech of Mr. Powell last week, most of market participants are comparing the today's situation with the successful Volcker disinflation in the early 1980s. We re-propose the left-hand chart, courtesy Mr. Wintersberger of Bloomberg via Syz Group, where we can notice, how USA used to have a **debt/GDP lower than 40%** and **nowadays is at 123%** . For this reason, the FED is not in the position to increase significantly interest rates, and market participants are rightly asking, how the FED is going to reach the targeted 2% inflation and also start the planned QT.
- In fact on the right-hand chart, courtesy CharlieBilello, we can notice how the market is expecting FED rates at 3.75% for February 2023 and thereafter falling rates. Such rate hikes are not going to be enough and for this reason, equity markets reacted negatively on Mr. Powell's speech.



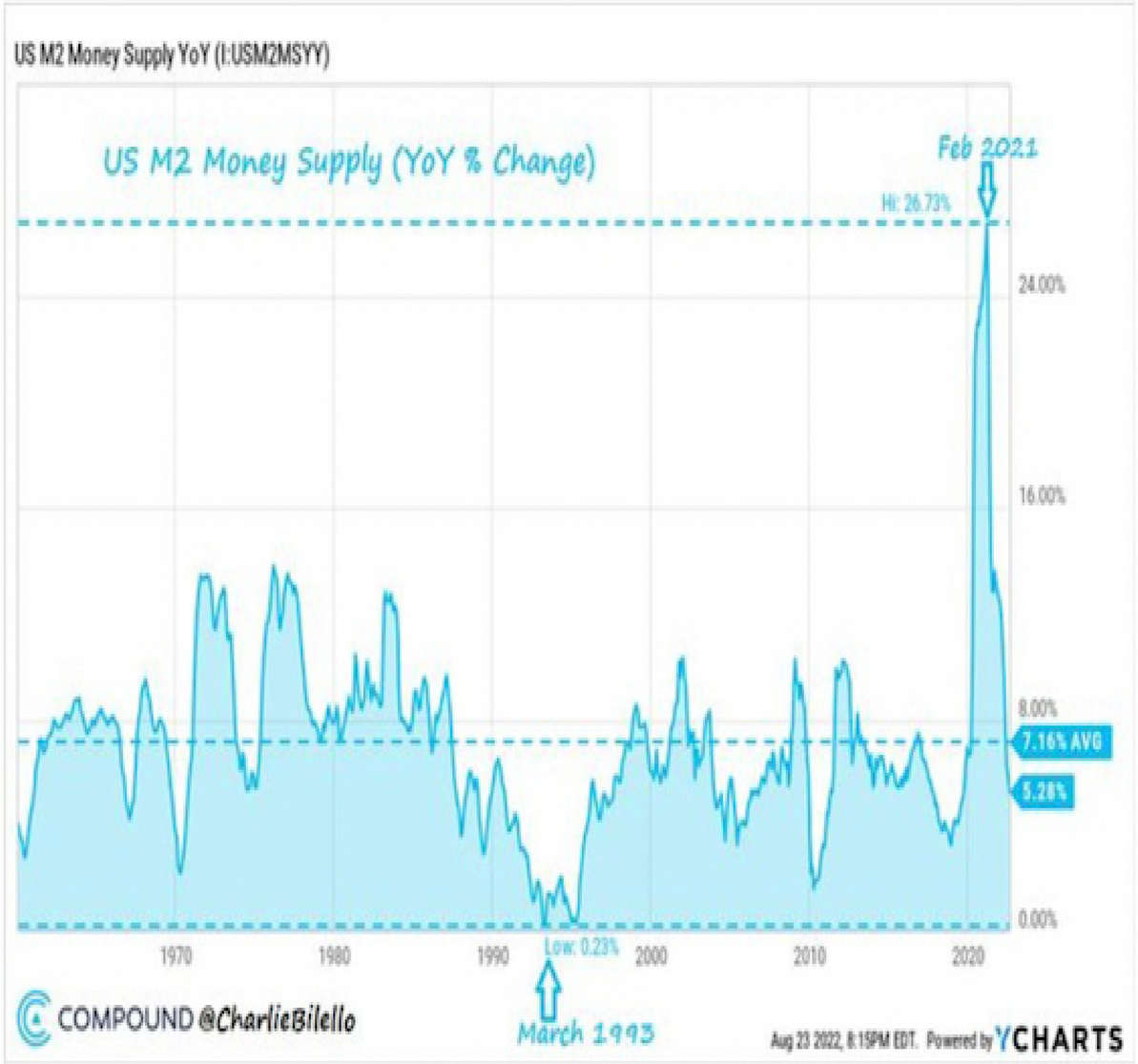
US debt/GDP back in the 70' was substantially lower than nowadays



FED funds rate market expectations

M2 collapsed

- On the other hand, the **US M2 money supply collapsed,** which is going to have direct repercussions on the economy, with a significant slowdown, falling into recession.
- The US money supply fell to 5.3%, which is below the historical average of 7.2% since 1959.
- As seeing in our last weekly report, according to Mr. Peccatiello, following the **historical correlation between the US NAHB housing index and the unemployment rate, in the next 12 months, US is going to experience a unemployment rate over 6%, which is not a soft landing!**
- Many economists and financial journalists are starting to point out, that it is clear, the first priority for the FED is to decrease inflation, but in order to achieve such target, it is not enough to hike rates, also the **conflict Ukraine-Russia must stop.**
- We fully agree, that the higher interest rates, but with an ongoing war, is going to worsening the global economy and we do not feel comfortable. **For this reason, we are not fully invested.**



Source. CharlieBilello, via Syz Group

FED and macro

- We are reading interviews in Bloomberg of the FED President Neel Kashkari, who is claiming, he was happy to see how the speech of Mr. Powell was received by equity markets and adding that people now understand the seriousness of our commitment to getting inflation back down to 2% and claiming to do not be excited to see the stock market rallying after our last Federal reserve open market committee meeting in June.
- Also the Former President of the New York Fed, Mr. Bill Dudley, wrote a piece: “if stocks do not fall, the FED needs to force them”.
- Mister John Williams, NY FED, said the FED will need to lift its policy rate “somewhat above” 3.5% and keep it there through the end of 2023. Analyzing the chart on slide 9, his assertion is exactly in-line with market expectation and if the FED is going to do so, it would be very bullish for equity markets, because is already discounted.
- Anyhow, for KTS, those are the proofs, that the upside potential for equity markets are capped for the moment.
- KTS also believes, if **equity markets would collapse, the FED is going to “calibrate” their hawkish language,** especially under the pressure of the Biden’s administration, having elections in November. For this reason, we believe, equity markets are bounded in a sideway trading range, as explained per slide nr. 1. We are closely monitoring, where we could re-invest our liquidity, but seen most market participants still downgrading equities, there is no hurry.
- **We were listening to the outlook of the Swiss Bank Credit Suisse, which went underweight equities arguing that it is too difficult to know the outcome of the FED’s strategy. Other Swiss banks like Lombard, Safra, etc. Are also underweight or neutral equities and invested only in quality stocks.**

Macro data in Europe

- In Germany, the **harbor workers have just signed a salary increase of 9.4% from 1st July 2022** and is going to be followed by a further hike of 4.4% (with an inflation clause covering an increase up to 5.5%) from June 2023.
- Companies in Germany are facing extremely higher energy costs, a coming recession, which is translated into significant lower revenues and now also an effective significant labor wage increase.
- Therefore many European companies could default and many others are going to experience a substantial erosion of margins. KTS is trying to keep a minimal exposure in European equities.
- But, it could be, the situation is getting slowly better. Mr. Steno Larsen shows the chart of **German natural gas storage in Rehden, which is much higher than during the winter of 2021**.
- In addition, Mr. Steno also asserts, that **German natural gas storages are 1-2 months ahead of schedule.** According to the 3 scenario of Mr. Steno, even with the worst case scenario (Russia cutting completely and a severe cold winter), Germany will not make it until 1st of April 2023 without rationing gas. **Therefore, if we calculate with a neutral winter season, Germany should make it through with even 0 gas flows from Russia until April next year.**
- **On this news, electricity prices, 1y ahead power price, in Europe dropped 50% in Germany and France over 2 days** (from EUR 1’050 Mwh to EUR 545).

Macro data in Europe

- This should be the proof, that huge speculations on the future market of natural gas were going on, most probably aiming to force European industries to buy longer term forward contracts at higher prices. Having European industries stopping to buy electricity forward last week combined with high storage, helped most probably to stop such speculations.
- In addition, apparently **Ms. Ursula von der Leyen is going to speak this week on power market reforms and how EU is seeking to develop an instrument to break the link between gas and electricity prices.**
- Those are actually very good news for Europe, it is finally the peak of natural gas prices? At least on the short term?
- Nevertheless, on the research of Mr. Steno Larsen, the German economy will take a hit, no matter what. The cost of acquiring the gas is out of league with anything seen before and modeling the impact on the GDP, Mr. Steno Larsen **fears a 6-8% drawdown of the GDP based on the already observed prices.**
- **Mr. Steno adds, the only way for politicians to mitigate such a recession, would be to swallow the entire "gas bill" via the public budget. Of course other market participants are arguing, that compensating such energy issue with more printing, going to cause more inflation and therefore, the solution should be into reducing the natural gas price, not printing more money.**

Macro data in Europe

- **Mr. Steno compare the bail-out of banks in 2008, with the extend of 100bn EUR,** it could be something similar this time with energy bail-outs. Uniper is already happening by the way.
- Mr. Steno rightly argues, if the actual government wants to be re-elected, they should be looking at the energy component of CPI with much fear. This assertion is basically in line with KTS. Last week we mentioned, that if European governments, especially Germany, want comprehension from European citizen to keep such hardline with Russia on the natural gas, they have to substantially support European consumers, in order to avoid a recession and to be re-elected.
- We are reading an interview of Mr. Philipp Vetter in the magazine die Welt, that stimulus packages from European governments are not going to companies, which are paying bonuses to Management and to companies, which are too important for the system, like Uniper for example.
- Mr. Steno concludes by saying, **if Russia is keeping the gas flows at just 20-30% of normal levels, it might be time to consider going long Europe during Q4.** KTS is adding, it is right, Russia directly gas flow to Europe is only 20%, but according to the blog oilprice-com, China's JOVO Group as also Sinopec Group increased exports of LNG to Europe. Apparently, JOVO Group, a big LNG trader, recently disclosed that it has resold an LNG cargo to a European buyer. Therefore we are confident, that at the end of the day, Europe is getting LNG delivered, just at 10 times the initial price, but this is another political story.....

Oil international dynamics

- As explained last week, the **US strategy petroleum reserve falls to a 35-year low**, with 453.1 million ballers' in its inventory and **according to our oil's expert, during November 2022, the reserves going to fall to 0.**
- Therefore the **Biden administration is warning refiners, that it may take "emergency measures" to address fuel exports** as stockpiles of gasoline and diesel fuel remain near historically low levels in the Northeast.
- Market participants in Europe are rightly asking, if USA is not going to help Europe and Japan this winter, because of course needs to prioritize the domestic economy, **what is the incentive for Europe to continue fighting the war against Russia?**
- We are also reading that **UAE is going to supports Saudi on possible oil output cuts**, basically in order to support the oil price, if the FED's tightening monetary policy is going to successfully destroy demand.
- We are reading rumours, **US and Iran reached a deal and the oil price fell 6%** . As explained last week, Iran with 1.2mio bpd production, would compensate Russia's falling export and therefore, the market would not be in over supply. Nevertheless, if the oil price is not increasing further, those are very good news for equity markets and should help inflation to have peaked.
- We were reading the speech of the oil company Shell, Mr. Ben Van Beurden, who is **warning Europe, we may need to ration access to energy for several years, as the energy crisis will last more than one winter**. His warning over the longevity of the crisis was echoed by Total chief executive, Mr. Patrick Pouyanné, who adds, "my advice to the European governments and policymakers is you have to think without (Russian gas), and if you think without it we will manage. There is enough energy in this planet to do without it". Meanwhile, the Finnish utility Fortum asked the Finnish government to support more, after the collateral it needed to hedge surging power prices jumped by EUR 1 billion in a week to EUR 5 billion. The German Uniper is in the same situation.

Oil international dynamics

- As a conclusion of our analysis on international dynamics on the oil market and after speaking with our oil's expert, we feel **comfortable to keep our exposure into the energy and alternative energy sectors** as hedge of geopolitical tensions. Our oil's expert has a long/short strategy, being invested into attractive oil and alternative energy companies, but short main indexes and therefore with, at the moment, a net exposure of 25%, for this reason, our energy investments are YTD +50% and the alternative energy vehicle is +1.45% vs -17% of the green etf PBW US.

Genetic modification / Biotech investments

- An interesting article on the magazine The Economist, is explaining the huge potential of **genetic modification of plants and new genetic therapies on fatal incurable diseases, which had remarkable results**.
- There is still a lot to do, also from authorities, but the innovation is going to bring more efficiencies in the fight against untreatable genetic diseases, where the alternative is often death.
- KTS is convinced, that the biotech sector belongs to the mega trends, which are going to profit in any kind of economic environment. Of course, during equity market boom, many non-profitable with poor product pipeline get too much capitals at unsustainable valuations. But at the moment, we the biotech sector is at lowest valuations ever, but big pharmaceutical companies are “sitting” on a lot of cash, therefore as seen last week, M&A activities picked up again.
- **KTS believes, that a discretionary portfolio, should have at least 5% of the asset allocation exposed to the Biotech sector.** We feel comfortable with our investment vehicles and our expert, Ms. Myoung, who is also partner of the Swisscom Venture capital fund and Manager of the our best-in-class fund PMG Biotech.
- We are confident to be invested in a good diversified portfolio and we are looking forward for the next M&A in our portfolio, as it happened with our position Turning Points Therapeutics in June this year.

The world needs a super grid

- We were listening to an interesting video of Bloomberg, arguing, that as the world move towards to new alternative energies, in order to reduce CO2 emissions, the electricity grid need to evolve too.
- Many government are announcing stimulus packages in different alternative energies and high targets on decarbonization, but it is not enough to simply generate green energy, we also need to make sure that it's transmitted and distributed to the end consumers.
- **In fact, the grid of today is just not equipped for renewables and a new kind of grid is starting to take shape, the super grid.**
- The super grid supposes to connect nations, not only parts of a country in order to maximize the use of renewables, wherever they are generating electricity.
- The biggest challenge in building the super grid is politics, mostly because everyone is still competing with each other. But there are still a lot of technological barriers, especially with the actual technology for electricity transmission (AC: alternating current), the system lose power the longer are the distances. But this fact is opening opportunities in innovation.
- **ABB and Siemens Energy are supposed to be the best companies worldwide in the sector electricity transmission**. According to the video, nowadays, in order to transport efficiently electricity over longer distance, the technology HVDC (high voltage direct current) is going to help achieve such goal, in order to connect solar panels or wind mills, which have to be in region where is sunny respectively windy.

The world needs a super grid

- Of course, **copper and aluminum are needed for the cables**. The partner of Siemens in cabling is the Italian company Prysmian.
- According to the report, the super grid is already a reality in Europe. In fact, Denmark is connected to Norway, or France with Spain and even Sweden to Italy, for example. This interconnection allows to take advantage of renewable energy, wherever it's being generated. For example, if one country experienced a particularly windy day, it can share some of that power with their neighbors.
- The report shows the project called ElecLink, which installed cabling through the Channel Tunnel, allowing electricity interchange between UK and France.
- In America is quite challenging to build a giant long-distance high-voltage DC cables and link the country. The issue is the patchwork of federal, state and local landowner rights. The best example is the **TransWest, which is in development since 17 years** and finally after 17 years, construction of the line can get started, which is going to help the huge electricity dilemma of Las Vegas, having a connection transporting 3k megawatts of wind power, from Wyoming into Vegas over more than 700 miles. The real issues were to get permissions for more than 400 landowners along the route. **Therefore experts in the field rightly argue, if the country has now the mandate to clean up the grid by 2035, the government really needs to figure out, how to speed up such process.**

The world needs a super grid

- Asia is trying to be more like Europe. Japan has a project, Asia super Grid, with the concept to integrate major Asian countries. The project started with the focus on Eastern Asian countries (like China and Korea), but **Mongolia need to be integrated too, because has the best renewable energy potential in the area. Apparently, wind and solar energy generated from Mongolia's Gobi Desert could produce as much as 2.6 terawatts of electricity, which means, more than twice the capacity of the entire U.S.** The Asia Super Grid project would link that power to countries that produced more than 1/3 of the world's CO2 emissions.
- China has the biggest idea coming out of Asia, which would like to build a global grid, with the China's state-owned company called State Grid, which has the technology to build HVDC lines and has already built many of them across China. The report conclude, that this are proposals are for the time being are staying proposals, having politics the most difficult hurdle.
- The final assertion is, developed countries set very challenging targets to reduce Co2 emissions, but do not have enough time to deploy them and basically, every single cents or Yen has to be invested for climate change actions from now on.
- Now we have to cooperate on larger and larger scales projects. Edison's DC grids served just a few factories and rich people's home back in 1880. With Tesla inventing the AC grid (alternating current) the grids of the 20th century spanned nations.
- Now the grids of the 21st century, would forge links between people hundreds or even thousands of miles apart.
- KTS believes to be invested in different ways in such mega trends, but of course, we are always talking to our experts, if there are even better ways to invest efficiently.

Alarming message of Huawei

- According to news.com.au, the founder of technology company **Huawei has sparked alarm in China after warning about a "very painful" decade ahead.**
- Apparently the CEO, Mr. Ren Zhengfe, sent a company-wide memo to staff, according to local media. Mr. Zhengfei warned that Huawei was simply trying to survive by focusing on cash flow and profit and that expansion and growth was no longer a priority.
- He added, the next decade will be a very painful historical period, as the global economy continues to decline and Huawei must reduce any overly optimistic expectations for the future and until 2023 or even 2025, "we must make survival the most important guideline, and not only survive but survive with quality".
- Mr. Ren Zhengfe also partially blamed Huawei's struggles on Western countries including Australia, mentioning a "continued blockade". Australia started to ban in 2018, followed by US in 2019. The US ban was particularly devastating for the telco company as it prevented Huawei customers from using key Google apps such as Gmai. Mpas and Youtube on their phones.
- Mr. Ren is asking " in the **past, we embraced the ideal of globalization** and aspired to serve all mankind, so what is our ideal now?". "**Survive and earn a little money where we can**. From this point of view, we need to adjust the market structure and study what can be done and what should be abandoned".
- With such message, KTS believes that also in China, the private economy is suffering more than policy makers are expecting and such message are more desperate signals to policy makers. Nevertheless, it is clear to KTS, **that after the conflict Ukraine-Russia the world is split, globalization is not the future and this transitional phase going to have winner and losers**. KTS is going to focus on active managers, which are going to hopefully select more winners and meanwhile, as always argued, uncertainties are too many and therefore **we still need to keep the priority on limiting the drawdown risk.**

Alarming message of Huawei

- Also the Chinese real estate developer Country Garden Holding announced, that China's property market is in a severe depression, but remains optimistic about the long term.
- Meanwhile, **American firms' optimism about China has fallen to a record low,** with President Xi Jinping's Covid Zero policy causing more than half of companies to delay or cancel investment, a new survey from an US business group shows. Of course, when sentiment is so depressed, it is actually time to be contrarian.
- Analyzing the **China stimulus indicators chart, is rebounding from very low levels** and therefore we can asserts, that **Chinese stimulus packages are starting to "kick in" the real economy.** We keep our exposure in the Asian region via our experts, which have local analysts and are supposed to actively select companies we stable and solid business.
- In fact, Asian stocks have underperformed US and European stocks by 30% since 2021 and as repeatedly said in the past, **valuation of Asian stocks are very attractive, with solid balance sheets (private and governments) and attractive growth**. **Emerging markets in general is also suffering from the strong USD and therefore a rebound also depend on the direction of the dollar.** According to Mr. Peters of Macrobond, **the strong dollar reduced liquidity by 7% of global GDP,** much is coming from the devaluation of the YEN and EUR. In fact, investors were shorting the YEN and investing in more risky assets.
- On the 16th of October, China's ruling Communist party will hold its five-yearly congress and Mr. Xi Jinping is poised to secure an historic third leadership term and cement his place as the country's most powerful leader since Mao Zedong. Contenders would be Mr. Wang Yang (&/), who heads a key a political advisory body, Hu Chunhua (59), a vice premier and Mr. Chen Mi'er (61) a Xi protege who is party chief of the vast municipality of Chongqing but has never held nationwide office. It does not matter, what happen, China policy will be the same as in the past.

General news China

- Geopolitical tension between U.S. and China are not cooling down, in the contrary. Nvidia said, it hd been instructed by U.S. Official to stop exporting 2 top computing chips, A100 and H100, for artificial intelligence work to China. The company said, that U.S. Officials said the new rule “will address the risk that the covered products may be used in, or diverted to, a military end use or military end user in China”. Nvdia is -6% pre-market and **Nvdia’ revenues to China are 10%** . Reading that only 10% of Nvdia’ revenues are in China, is showing, how countries are starting to be much more independent to each other. In addition, Nvdia is already down 50% YTD. By the Dutch company **ASML is a different story, because being the main supplier to chip producers, 54% of revenues are to Taiwan, 19% to South Korea and 15% to China.**
- The Chinese metropolis of Chengdu will lock down its 21 million residents to contain Covid-19 outbreak. The immediate consequence is a chill on consumer activities like shopping and dining out. But the fallout could be sever for the giant southwestern manufacturing sector. **Analyzing the recent lock downs, we have to admit, that the global supply chain did not experience major disruptions**, therefore if such lock downs are isolated, 21 mio over 1.3 billion Chinese citizens in lock down, do not have much repercussions on the global economy.

USD hegemony in trouble

- Reading, that Russia is considering a plan to buy as much as USD 70 billion in yuan and other “friendly” currencies this year to slow the ruble’s surge and even Egypt abandoning the USD and turning to Chinese RMB, is the proof, the USD going to weaken over the long term. Back in March, Egypt was raising USD 500 million worth of bonds in Japanese YEN, because the rates were cheap.
- Market participants are arguing, that the new bond issue of Egypt over USD 500 million worth of bonds denominated in RMB is nothing compared USD 130 trillion global bond market’s size, of which 40% are in USD. But it is the beginning of a shift, which going to trouble the dollar hegemony over longer term.
- **Having the USD the strongest it’s been in 20 years, countries around the world are looking for alternatives.** In fact, Egypt’s currency has collapsed 70% against the USD over the last 20 years.
- It is latest blog gloomboomdoom, Mr. Faber argues, that traditionally, whenever a recession got underway, the best strategy was to purchase US government bonds, but this time, he is not convince, that they would rally in the coming recession. **He also added, that the Biden’s administration is hiring 87’000 new IRS agents. Apparently, 25k new IRS enforcement are going to be needed to audit every single taxpayer with annual income over USD 1 million.**

Central banks increasing position in gold

- According to media (kitco.com), Qatar boosts gold reserves to record levels after buying 14.8 tonnes in July. According to the senior European and Middle East market analyst at the World Gold Council, Mr. Krishan Gopaul, this is the biggest gold purchase on record, going as far back as 1967, with gold reserves now stand at 72.3 tonnes, the highest on record.
- Also the Central Bank of Uzbekistan bought 8.7 tonnes of gold in July, as per June already.
- Some analysts argue, central bank could have seen July as a strategic time to buy gold as prices fell to a 16-month low dropping briefly below USD 1’700 an ounce.
- As always argued, gold is the only safe haven in the currency’s war, which escalated after the Ukraine-Russia conflict.

General news

- According to Mr. Peccatiello, in the 1960s, the typical investor held a stock in its portfolio for about 7-8 years on average. Today, we are looking at 4-5 months. Mr. Peccatiello argues, the income inequality grows and it seems people are treating financial markets like a casino more than anything else.
- The French President Emmanuel Macron said there will be a first meeting in Prague in coming weeks to discuss creating a new European political community to address political and security-related challenges facing the continent. We do not know, how we should interpret such news.

ESG investing is not designed to save the planet?

- We were reading a research of Harvard Business review, which is strongly criticizing ESG investing and is entitled: ESG investing is not designed to save the planet. Quite strong wording, actually.
- As reported (see KTS weekly report nr. 30 on the 29th July 2022), we believe, the **common sense is the only solution**. We fully agree with the Manager of our best-in-class fund Flossbach, that **ESG is not synonym of green and the key of sustainability is governance,** which means, company's managers investing in innovation, R&D or having the right vision and social responsibility for our future generations. **The right governance is finding the balance between profit and social responsibility.** We would like to mention again, as in our weekly report dated the 8th October 2021, that the fundamentals for sustainability have roots already in the 18th century, when Mr. Carl von Carlowitz tried to save forests from deforestation for future generations.
- Unfortunately, we had also the feeling, much of the **ESG momentum amongst asset managers and private banking, is more linked to increase management fees, rather than save the world**, as explained in the report of Harvard Business review. In addition to the fact, that **most asset managers, does not have really innovation or better strategies,** for this reason ESG was **the new way to marketing themselves new. Therefore, unfortunately, the ESG momentum was just a new marketing campaign with no real value added**.
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ESG investing is not designed to save the planet?

- The recent example is some private Banking increasing fees, obliging our clients to pay more custody fees. This is only the start of the trend, and therefore we can assert, that banking find a new way to increase fees in an industry, which is struggling since years in increasing profitability. Even Swiss authorities started to analyze the trend, because they realized, many institutes are abusing of the momentum.
- But also the asset management is an industry, which is struggling with the tendency of lower fees, because clients are investing in passive instruments. Also in the case of the main asset managers like Blackrocks, State Street to mention the most important, are now launching ESG instruments, which of course have much higher management fees.
- The rating agencies Mood's and Standard & Poor's are also experiencing a tremendous increasing in earnings, because the whole financial industry must buy ESG database from them. As explained recently, such database are not a real quantitative and qualitative analysis and therefore not a benchmark to follow. **But having had the industry desperately searching for a benchmark, for the moment, everyone is just buying data without the focus on the quality of the data.**
- As explained, we believe, the path is the right one, but there is still a lot to do and we believe, our investment process always included the right ESG analysis, as also our counter parties and best-in-class funds selection. Our discretionary mandates are invested more than the half in ESG investments and KTS is constantly investing capital in the search of better ESG investments.
- Link to the research:
- https://hbr.org/2022/08/esg-investing-isnt-designed-to-save-the-planet
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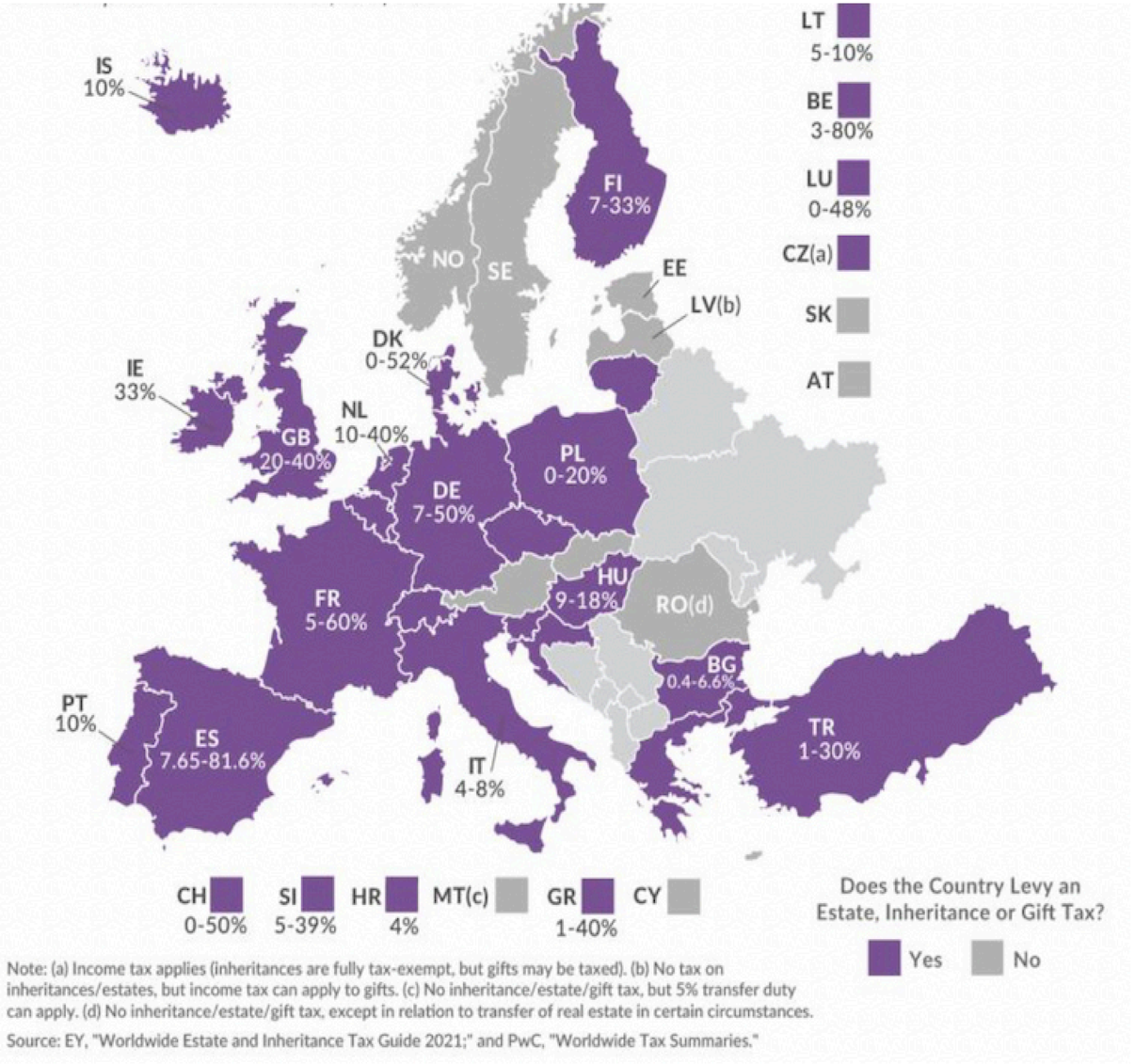
Estate, Inheritance and Gift taxes in Europe

- On the right-hand map, courtesy Mr. Magistra of Nemesis Group, we have a very good summary on Estate, Inheritance and Gift taxes in Europe.
- The comment of Mr. Magistra is quite simple: family assets can easily be lost among generation of residency is not well thought.



Estate, Inheritance and Gift Taxes in Europe

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