KTS
CAPITAL
MANAGEMENT

KTS weekly update Nr. 38

The 23rd of September 2022

The FED - the facts

- On Wednesday, the 21st of September, the FED increased the interest rates by 0.75 bps, which was widely expected, as recently explained.
- The immediate reaction of the financial market was negative but could initially rebound strongly from the lows and finally closed again on the lows. During the speech of Mr Powell, US indexes experienced extreme volatility showing the uncertainness of the investor community.
- Technically speaking, during the intra-day reverse on the 21st of September, it looked like a clear and robust hammer formation and, therefore, the base for a bullish rebound. But finally, US indexes closed lower, and the risk, unfortunately, is still on the downside. **The next important supports are now June's lows, and we will wait** for clear intra-day signals at those levels. Perhaps the 30th of September is going to help? Many market participants are arguing we need to see a **significant volatility spike to call a major bottom**. Possibly our positions in the best-in-class volatility funds could contribute positively to our performance if this would happen.
- FED's future rate hikes are also in line with expectations: target 4.4% by year's end and 4.6% for 2023 (midpoint projections were 4.625% according to Goldman Sachs).
- For the moment, the updated FED's forecast shows unemployment rising to 4.4% by the end of next year and the same at the end of 2024, and estimated economic growth is 1.2% for 2023 and 1.7% for 2024. So, according to the FED, no recession, but how credible are such numbers?

The FED - what changed

- The more worrisome sentence in Mr Powell's statement is: "**the FED is strongly committed to returning inflation to its 2% objective". The big question is, which time window? And what about shelter/OER contributors and already falling real estate prices?** And, of course, market participants are asking themselves if the FED's determination to address high inflation **would cause a hard landing**?
- Mr Peccatiello, but also other market participants, **compared yesterday's speech of Mr Powell with the famous speech of Mr Draghi as president of ECB, back in July 2012**, when he announced the ECB was ready to do whatever it takes... Mr Powell clarifies that the FED will keep at it until inflation is down to 2%. And our monetary policy tightening will be enough. It will be enough to restore price stability. Stating that the FED's priority is to restate credibility.
- We agree, that the real positive trigger for equity market, would have been, as soon the FED would change the tone to a more dovish monetary policy, because inflation data are falling. After the 21st of September, this trigger is apparently gone, at least on the short term. Or, future inflation' numbers are surprisingly falling? On this matter, the investment community is really split. Respectable investors are of the opinion, that the FED is overdoing already, other asset managers, like Bridgewater, asserts, 60% of inflation' contributors will stay high for longer.

The FED - wage inflation

- In fact, Ms Rebecca Patterson, CIO of Bridgewater, point out in the interview that in addition to rents and housing, **wage inflation, particularly in the service sector, is likely to be sticky and is about 30% of the CPI basket.** According to a survey of US companies, **50% can't find the labour force they need,** so the job market is incredibly tight, and companies need to keep raising wages to attract those they need. KTS believes that only targeted immigration can solve such an issue and is also a subject on Biden's administration agenda. Mr Von Wyss, manager of our best-in-class value funds, mentioned such an issue last year as the central dilemma for the FED.
- On the other hand, we have to admit that according to other surveys, many **US citizens are working two jobs** in order to survive the high inflationary environment, which is a sign of desperation in KTS's eyes.
- But according to a survey of Gallup via weforum, only 12% of the population face severe hardship. In fact, on the question, how affected are households because of the high inflation, "only" **12% describe their hardship as severe, which might affect their ability to maintain their current standard of living.** Apparently, **44% of households face moderate hardship** and don't treat their standard of living. According to the survey, **inflation affects lower-income groups disproportionately.** With less than USD 48k income a year, 74% of US adults are struggling, but the percentage is consistently high (70% in 2021, 66% in January 2022). By incomers between USD 48k-90k, the percentage is 63% (from 46% in 2021). Households with USD 90k or more: 40% (from 28%).

The FED - wage and housing inflation is 60% of CPI

- **Therefore, having rent inflation, which tends to last longer, and adding wage inflation, Ms. Patterson argues, that we have 60% of the CPI basket, which is not going to give positive signals very soon, which is, of course, keeping the FED longer under pressure.**
- She asserts that it is unlikely we will get inflation cooling to 2% / 2.5% quickly, in addition to the fact that economic growth is slowing.
- But consumers are still spending, after running down savings excess, and now using credit cards.
- She adds that as long people have rising wages and high incomes, they will keep spending, making the job of the FED even harder.
- KTS would add, according to the manager of Flossbach, many US house owners fixed mortgage interest rates at the lowest levels back in February 2021 for the next 25 years. Therefore these people are enjoying stable housing costs but increasing salaries.
- In addition, we are surprised from the survey of Gallup, that only 12% of the US population is suffering severe hardship, showing that US consumption is still robust.

The FED - decreasing liquidity

- An additional dilemma is the fact, that M2 is collapsing.
- Some market participants argue that with the **QT accelerating after the excess monetary creation** and now with the money supply falling at the fastest pace since 1949, equity markets do not have any “fuel” for a rally. In addition, the strong USD is also reducing the value of the world money supply by USD 7.6tn from its high.

The FED - next possible positive triggers?

- **What are the next positive triggers?**
- As explained on page 9 last week (weekly report nr. 37), the coming **PCED (personal consumption expenditures) numbers on the 30th September 2022 could be better (lower) than the US CPI numbers** because shelters have a lower weighting (15% instead of 31%).
- KTS would assert that if equity markets reacted strongly positive to such lower PCED numbers, it would be a sign how most market participants are just reacting to numbers and not trying to figure out the meaning and influence of the single contributor, especially the **OER (owners' equivalent rent)** and the actual impact on the economy.

Macro

- The company FedEx had a significant profit warning, and the CEO was predicting that a global recession could be coming as demand for packages around the world tumbled. The company is also closing down 90 office locations, deferring staff hiring, cancelling specific projects, reducing flights, and temporarily parking aircraft to cut costs. In fact, the company said it expected business conditions to weaken further in the current quarter. FedEx reduced revenues forecast by around 4%, but earnings per share were cut by 50%, and the stock collapsed by 21%.
- Such **extreme measures from more major companies will weigh heavily on the real economy**, which is already sharply deteriorating. The positive side could be, as many market participants are arguing, that such a strong message from companies and, therefore, the real economy is not going to let the FED be indifferent, and **Mr Powell & team should start to realize that the real economic environment is already deteriorating very fast.** But, it was still not the case on the 21st of September; having the FED still arguing, the focus is on the inflation and resilient labour market.
- Meanwhile, the **global container freight rates hit another 17-mont low** and are now down 58% from their peak, but still 3x higher than pre-pandemic levels. Investors are arguing that at least it is moving in the right direction and should help to dismiss further inflation pressure, especially in transportation.
- But reading that **Apple is increasing prices on European or Asian app stores up to 30% due to the strong USD** is not helping.

Macro

- Inventory of unsold houses is exploding across many US cities, pointing out that the US real estate situation is worsening quickly. Last week we analyzed how also New York City condo sales are collapsing. These are signals the FED needs to analyze seriously and decide how far they want the US real estate to collapse. We are not at the levels of 2008 yet, but the speed is problematic, and a further worsening would also mean much greater damage to the US economy, and in this case, we also start to believe that financial markets have not found the bottom yet. If we take into consideration the reliability of the FED up to now, we really begin to doubt they are going to stop at the right moment, which would already be now.
- Meanwhile, the “famous” chart of the **US Department of Treasury shows the percentage of all inverted yield curves is now at 60%, direction 90/100%, which is the signal which would foresee the economy is in recession.** We feel like this signal is too late, having financial markets discounting the future and not analyzing the past. We will keep monitoring the indicators, especially the development of equity markets.
- Mr Peccatiello adds that all the **yield curves worldwide are inverted (Canada, Australia, Europe and the US)**, which is unsuitable for the global economy. Having all the central banks aggressively tighten to fight inflation and the G5 credit index at the lowest levels ever, even lower than the year 2000, 2008 and 2020.

Macro - valuation support

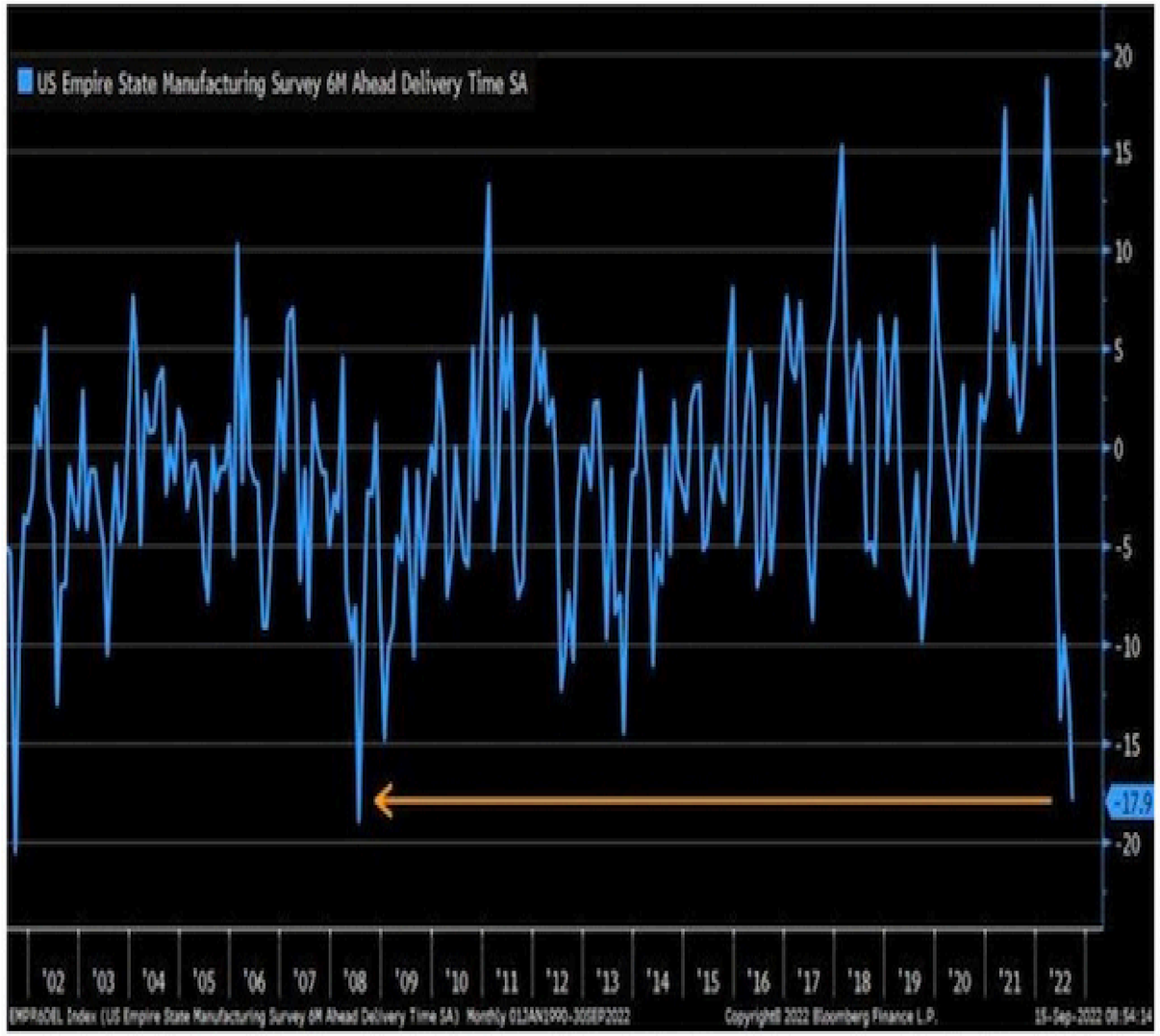
- The **macro model of Mr Peccatiello is long cash USD, long puts and VIX** because the **G5 credit impulse indicators and other macro indicators** are pointing out a deteriorating economic environment, in combination with a still too much tighter monetary policy stance. He fair value is around 3’500 points for the S&P 500 Index and we are almost there.
- Bridgewater is on the same line, arguing that **financial markets are still not pricing the next stage of the tightening cycle and therefore see more downside risk. They foresee an additional correction of 15-20% .**
- Mr Timmer, Fidelity, simulating the relationship of **P/E (equity multiples) with bonds yields, shows historically, with the 2-year US treasuries at nowadays levels, the fair value of the S&P 500 Index is 3’159 points, even if EPS are flat.**
- KTS believes that the **valuation support is around 3’500 points, coinciding with the re-test of June’s lows and the 200 weekly moving average.** (see technical analysis).

Real negative yields vs nominal yields

- During their webinar, the manager of our best-in-class fund **Flossbach argued, that at the end of the day, the only way to reach real yields is to invest in stocks of companies, which have pricing power, can still grow and repay shareholders via dividend and shares buy-back.**
- **Anything else reaches only real negative yields.**
- This also explains that investors switching equity into bonds for higher nominal yields **does not make sense because even if US yields are now over 4% nominal, they are still more than 4% negative in real terms.**
- Flossbach still invests 75% in equities in the fund with an absolute performance approach. The best hedge during 2022 was the long position in USD. For this reason, the fund is “only” -11% versus peers, which are all over -20% .

US empire Manufacturing

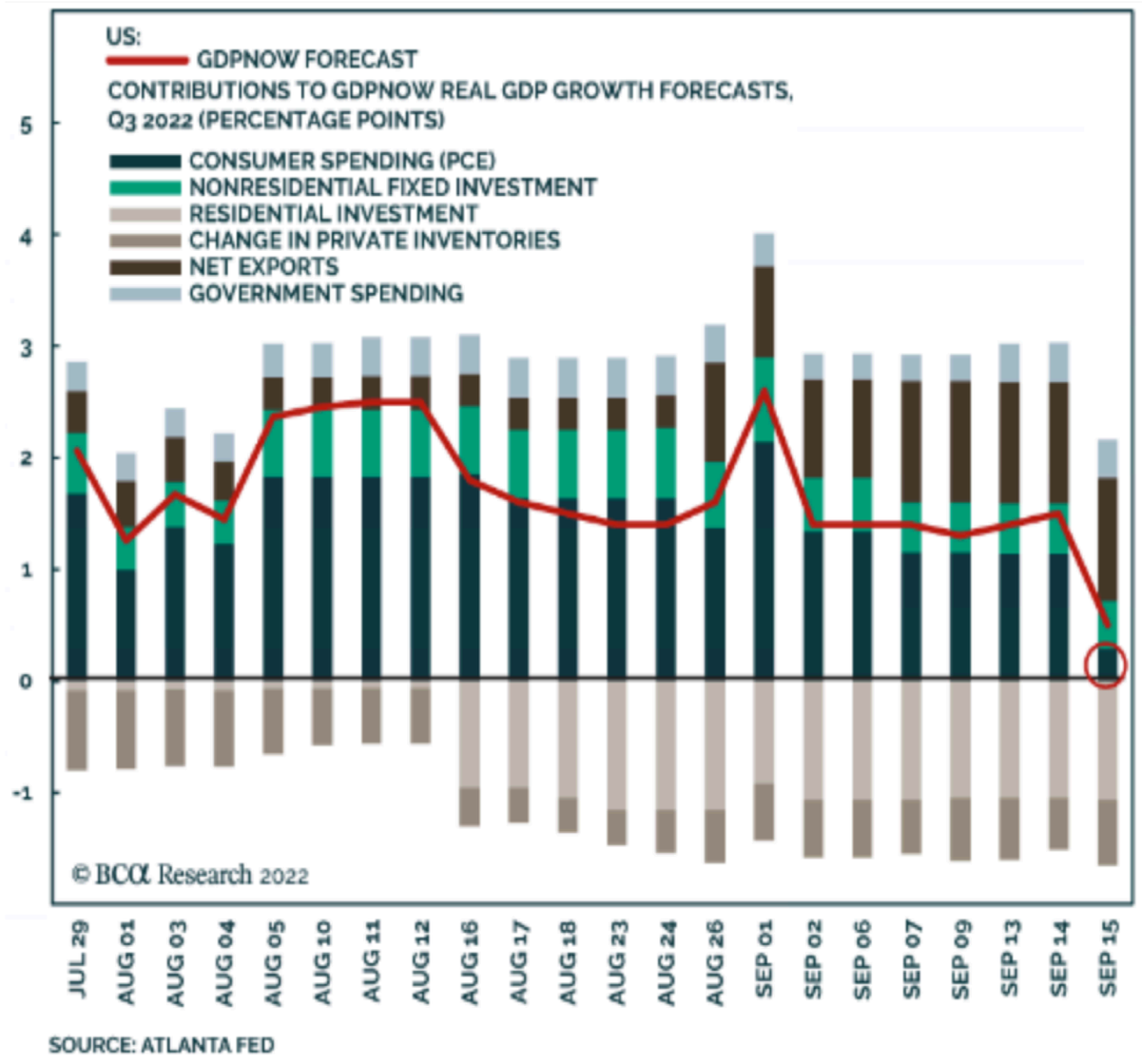
- The US empire manufacturing has collapsed and is at its lowest levels as of July 2008.
- On one hand, it is clearly negative and points out that the US economy is deteriorating sharply. On the other hand, negative data on the economy are positive for financial markets because investors will speculate that the FED will change the monetary policy to a more dovish stance.
- The only way to understand the direction of the equity market is to analyze strong technical signals. As explained last week, **a break out of the S&P 500 Index resistance levels at 4'330 would be a very bullish sign.** Or any intraday reversals at the markets' lows of June. A **breakdown of June's lows would be, on the contrary, very negative**, even if the market's sentiment is already very depressed because Hedge funds and momentum strategies would accentuate the move and increase selling pressure.
- KTS is going to monitor daily and react accordingly.



Source: Liz Ann Sonders via Syz Group

Atalanta Fed GDPnow deteriorating sharply

- We would like to report the BCA research because they are basically on the same line, like KTS.
- The Atlanta **Fed's GDPNow model is now signalling an annualized growth of just 0.3% in Q3** (from 2.5% one month ago). The sharp decline in the contribution is from consumer spending (from 1.14% to 0.29%). The downwards revision followed the release of the advanced monthly retail trade report, which revealed that the retail sales control group was flat in August.
- BCA is arguing although consumer sentiment is improving according country focus' survey, and the labour market is still resilient, in addition to the excess pandemic savings, which continue to provide a cushion for household balance sheets; the economic outlook faces headwinds from the Fed's aggressive tightening cycle. This creates a highly uncertain and turbulent environment for financial markets. But on the other hand, **evidence that inflation is peaking would prompt investors to reassess the extent of FED hawkishness in 2023.**



FED Atlanta GDPNow for Q3, was 1.5% on the 12.9, then 0.5% now 0.3%

KTS positions

- With a clear break down of financial markets, combined with very weak fundamentals, an investors would preferably be 100% cash USD or CHF and also be short equity markets. Nowadays bonds are not offering a hedge. We would like also to mention, that clients are not getting 4% or 3.5% on the US liquidity but rather around 2% vs an inflation over 8% .
- But history showed to us, that investors focusing on the short term, are not going to reach good performances on the longer term. In fact, we would like to mention **Q4 2018, where 2019 was the most hated equity market rally** in the history, having only a few market participants invested. In the contrary, a lot of investors had to liquidate positions, being leveraged. In addition, year 2020 was very similar, having many investors “very busy” selling positions in March 2020 an missing out the rebound during the rest of the year.
- Therefore KTS has to find a health mix. **KTS increased the cash position and the optima dynamic fund has a net equity exposure of around 1/3,** which is acceptable in our eyes. It would not be realistic to have 0% or even negative exposure.
- Our best-in-class fund, Flossbach, is still invested 75% in equities with no hedge (their hedge is the USD long position), but for example, the fund Carmignac Patrimoine has a net exposure of around 15%.
- We agree with many market participants, who are arguing in **case of a capitulation in financial markets, we would experience a volatility spike. In this case, our best-in-class volatility model would finally reach some profit (22% of the Optima dynamic portfolio,** which could finally become a hedge like back in year 2020).
- With the cash position, we believe, the best strategy is to step back and wait for clear signals, either from the fundamentals or technical analysis. This time, **we believe the first clear signals will be from the technical analysis** (see technical analysis slide).

KTS positions - long term positions

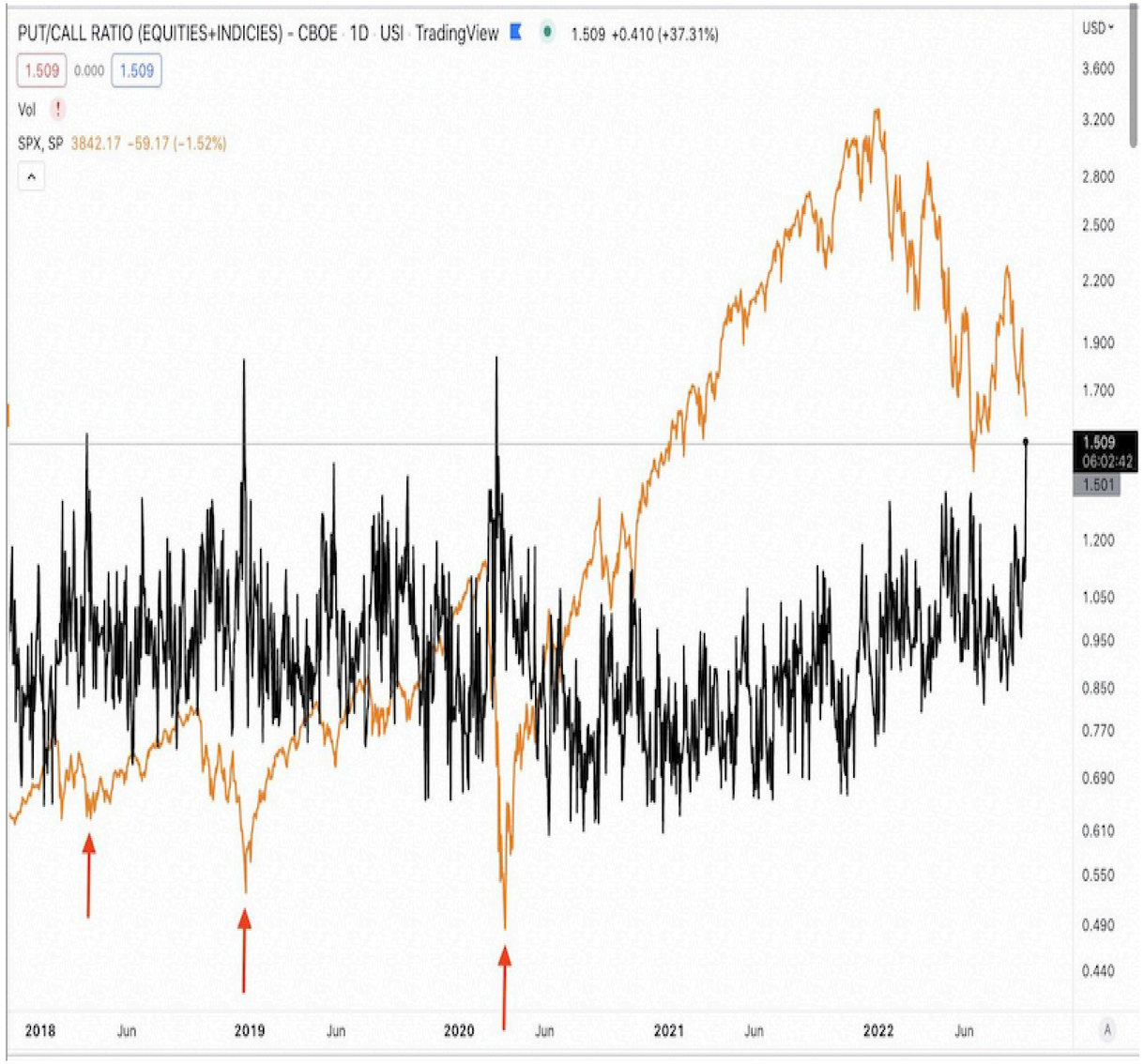
- But KTS also believes in investing in mega trends, which will profit from major global shifts.
- **KTS is invested not only in the energy shift but also in fintech, innovation, automatization and biotech.** Therefore we stay invested in such a theme, and we stay patient. Such positions also have specific triggers, like M&A activities or the result of products for the biotech sector, for example.
- In addition, our market-neutral strategies are also performing respectable vs benchmark. In fact, the crypto arbitrage strategy is only -1% YTD, for example, as also the Merger & Arbitrage strategy, which is holding very well.
- Meanwhile, the Swisscom venture capital fund is accumulating new positions at very attractive valuations. The Fintech VC is still at cost price and, therefore no need to correct it. On the contrary, we have a buffer for positive performance on the horizon of 6 to 9 months. Finally, our private equity position Rimac had an excellent performance vs peers or spac, which are all at -80%. This is to mention a few positions in our discretionary portfolio.
- In addition, during the actual correction, we built up some very “beaten-down” stocks, which have attractive valuations and very interesting business model, which are going to profit of digitalization over the next decade. DOCU US is the example we showed last weekly report.

KTS fixed income positions

- Our **fixed income part of the portfolio, except emerging market bonds, is quite resilient to the substantial correction of bonds YTD** (the headline of the newspaper il Sole 24ore says over -20% and the TLT US etf is -40% from the highs) and therefore is stabilizing our portfolios.
- In addition, our alternative fixed income strategies are fully uncorrelated to other asset classes; meanwhile, **US treasuries are not an effective hedge anymore** for the portfolio, being now almost **0.6x correlated to equity** (statistic of the dailyshot via Mr Monchau, but is a well-known fact since a while now, actually over 2 years). Many institutional investors have started to realize that bonds are not anymore a good hedge in the portfolio.
- As explained in our outlook last several years, KTS was focusing on the analysis of alternative fixed income strategies, which would help to diversify the portfolio, exactly in order to avoid the substantial correction of last 2 years. In addition, KTS sold all the asset allocation funds, which were only diversified amongst equity and bonds, because the correlation of the traditional asset classes was increasing and, therefore, not offering any more historical optimized asset allocation. We sold with good timing (February 2020) our best-in-class mixed asset allocation funds like Axa global income, M&G optimal income or Nordea stable return fund.
- We would like to add that many market participants, like lately also **Morgan Stanley, are advising or even urging investors to invest in emerging market bonds.**
- Finally, we also would like to mention that the **"famous" Austria 100 years government bond** (maturing in June 2120 and with a coupon of 0.85%) lost over the last ten months -70%! We were wondering back in the year 2020, at a price of 140%, how long it could rises, but unfortunately, we never shorted the bond.

Put/call ratio and technical analysis

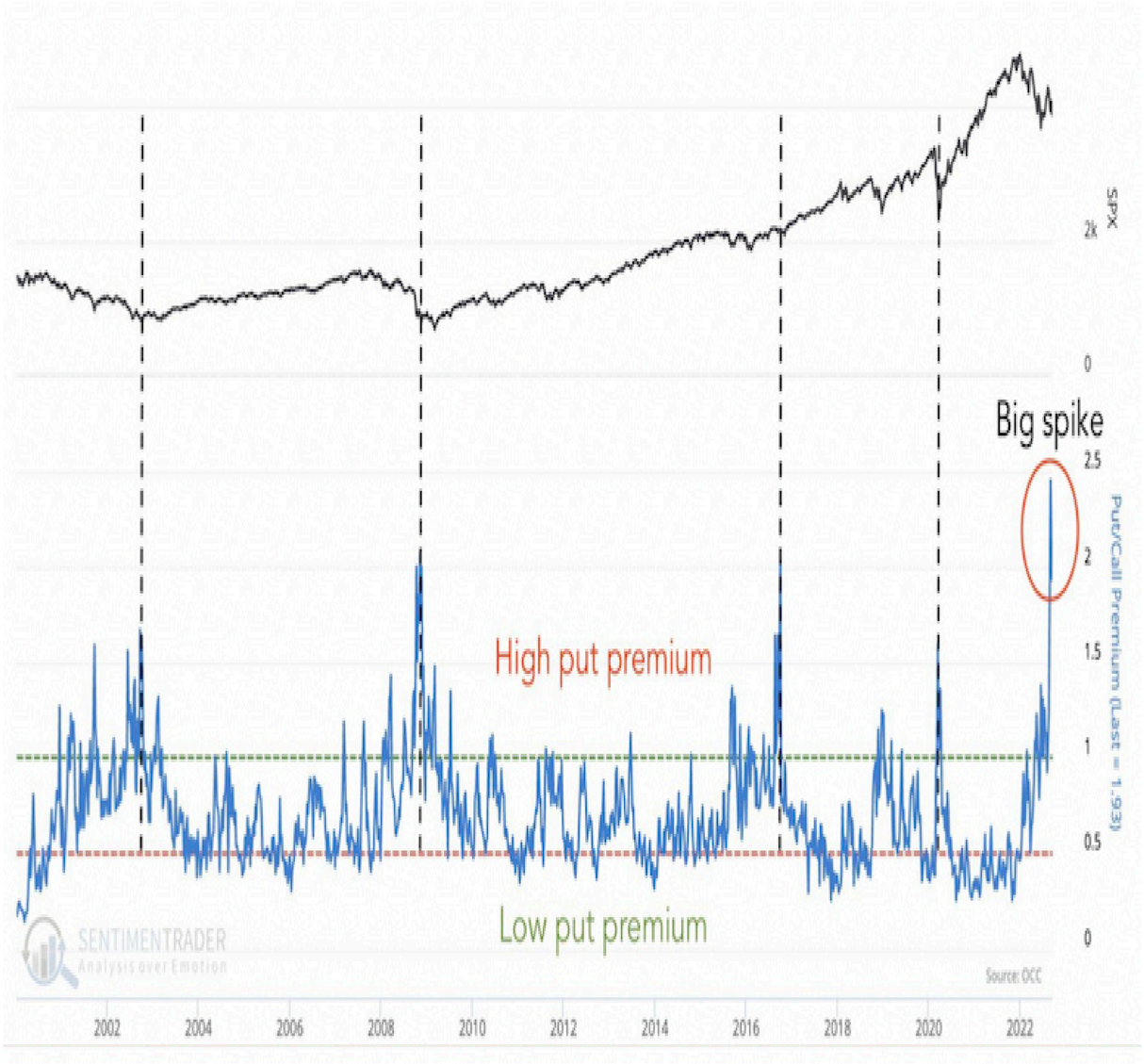
- We have seen via multiple sources the right-hand chart, which shows that historically, if the **Put/Call ratio reached the level of 1.5, which equal normally to the bottom of equity markets.**
- But we agree with market participants, arguing that the S&P 500 Index is **trading below the 200dma for 100 straight days** and is the longest streak since the bear markets of 2008-2009 and 2000-2002. Therefore, an **investor can be bullish only if the Index break out the resistance of 4'330 points**, which coincides with the down-trend line and the 200dma (around 4'250 today).
- Such breakout is the only clear signal for deciding major new investments, because it would show that even if fundamentals are weak, market participants are looking with a positive stance the future and equity markets are leaving extreme depressed levels.
- **As analyzed in the past, this is only going to happen, as soon as the FED is going to change the tone to dovish.**



Source: Mr Fiocco of Banca Generali

Put/call premium

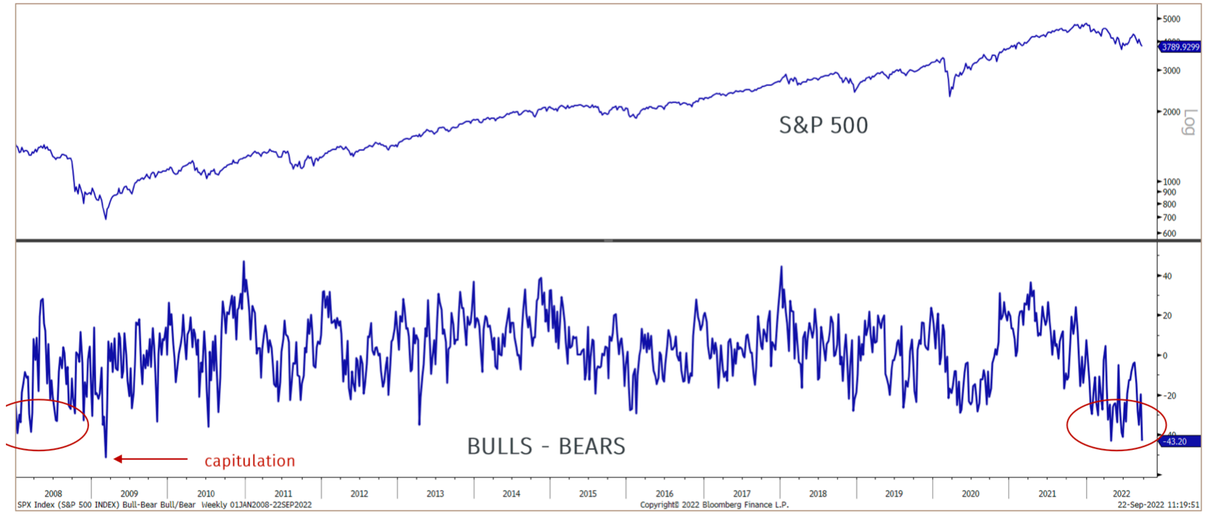
- On the right-hand chart, courtesy Mr Baird, we can analyze the **put/call premium, which also experienced a significant spike and historically this fact coincided with the bottom of the market,** except year 2008, which was almost the bottom.
- Interesting, the date of **such bottom are not the same as per the put/call ratio, except year 2020.**
- But Mr **Baird is not bullish on equity markets, because he is arguing, that retail investors are continuing buying equities** and therefore having the FED, which has not indicated that it will halt increasing interest rates and begin easing anytime soon, it could turn to the risk, that retail investors panic, if financial markets start to correct again.
- Mr Baird also argues, that **historically, the divergences between institutional and retail sentiment is not kind to retail investors.** Having weak fundamentals, the risk/reward environment of markets are still very concerning.
- At the moment, it is clear that **we have a 50/50 chance that the financial market can go either ways.**



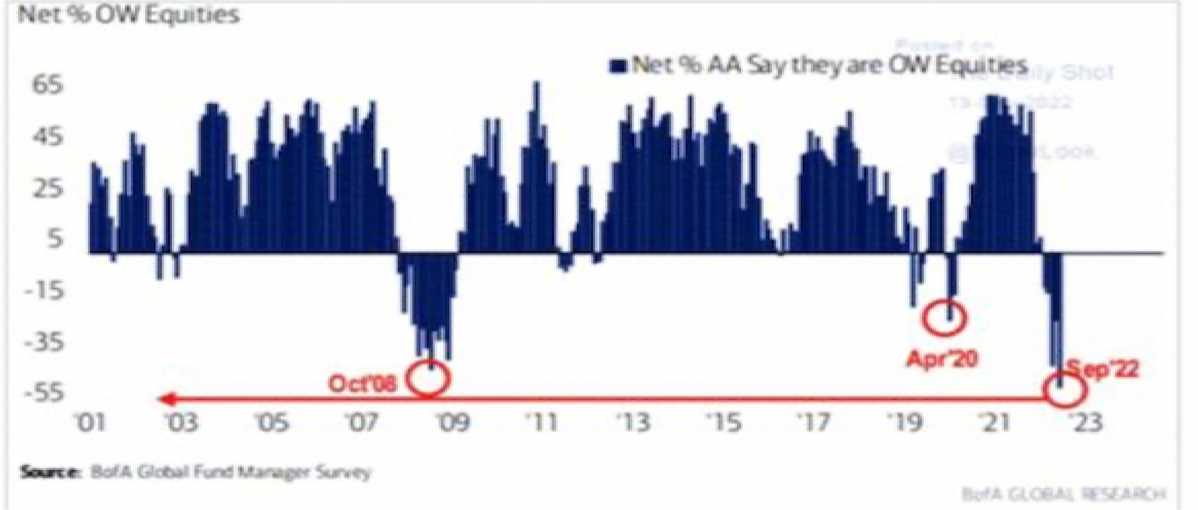
Source: Mr Baird

Extreme depressed market's sentiment

- The technical analyst of the EFG bank in the left-hand chart, shows that the **AAII bull-bear spread is as depressed as the GFC 2008, but the capitulation was in March 2009.**
- Mr Kirch shows again the BofA's chart on the net percentage overweighting in equity, which is more depressed than GFC 2008 and much more than during the pandemic in March 2020. This chart was before the 21st of September, therefore we can speculate, that the sentiment is today even more depressed.
- As contrarian is a bullish sign, but of course fundamental are still very weak.
- The point is actually quite simple: the whole world is positioned for more drawdowns and the real question is, how much more pressure can drive market lower? On the other hand, any small positive news, could really trigger a tremendous short squeeze. It is more a ticking bomb on the upside, rather than expect an additional 20% drawdown. The technical analysis should help us.



Depressed sentiment, but still no capitulation?



Extreme depressed sentiment

Technical analysis

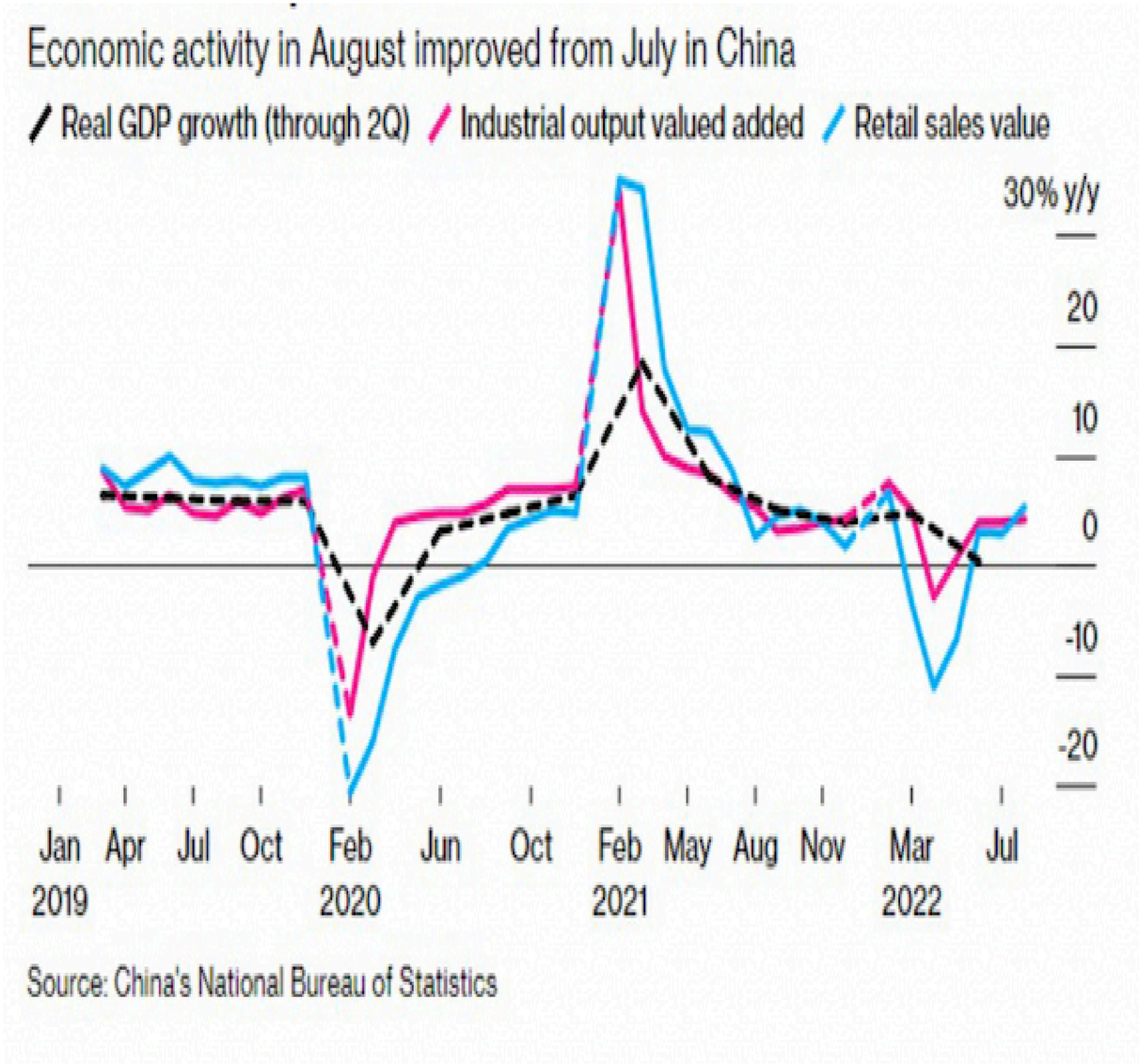
- As explained last week, equity markets are in break down and therefore it is important to find the next important support. In this slide we are showing the S&P 500 Index, which should also influence equity market worldwide.
- On the left-hand chart we can notice, how yesterday the Index is trying to stabile at the lows of June, but we unfortunately have not experienced a clear intra-day reverse / hammer formation and therefore it is too early to call the bottom.
- On the right-hand chart we can analyze, that the 200 weekly mov av is at 3’585, which is also an important support.
- In order to call a buying opportunity, we are waiting for the right technical signal, which we do not have yet. Perhaps the PCE numbers on the 30.9.2022?
- Meanwhile we do not have to forget, the share buyback programs of companies, which are still a strong support of equity markets.

Picture Title

Picture Title

China's economy shows signs of recovery

- We are reading from multiple sources negative news on the Chinese real estate, lock downs, demographic issues, etc.
- But according to the chart of Bloomberg, **stimulus packages are supporting the Chinese economy.**
- On the webinar of our best-in-class emerging market fund Aubrey, the manager is arguing that their positions in **Chinese stocks (1/3 weighting of the fund) have the most attractive valuations and are generating constant cash flows with still attractive growth.** Even **Bridgewater, which is negative on global financial markets, argues that Chinese equities have attractive valuations and is a way to get diversification in a portfolio.**
- Meanwhile the Aubrey's positioning in the **Indian market, also 1/3 weighting of the fund, have much stronger fundamentals, but valuations are starting to be expensive** and therefore the manager took some profit and allocated in other interesting markets as **Vietnam, Thailand, Indonesia, Poland, Brazil, Mexico, South Korea and Taiwan.**



Source: Bloomberg

India and Vietnam

- We were reading an interesting article in the magazine The Economist, where the journalist argues, what Tata wants to achieve with the investment of USD 90 billion in the Indian economy.
- **Tata also started to make components for the latest iPhones on behalf of Apple** and with the 90 bn investment, India wants to reposition itself towards its home market and away from its 30-year strategy of fanning out globally.
- We are reading in the blog of our Vietnam's expert, Mr Martinelli, that **Apple is more aggressively relocating production from China to India and Vietnam**. The analyst of JPMorgan forecasts that Apple is manufacturing around 95% of its products in China today, a number that should fall to about 75% by 2025. This is very positive also for our exposure in Vietnamese equities.
- **Tata's ambition to create electronics factories and semiconductor fabs in India could transform its economy, so the journalist**. India wants to adapt to the new mega trends, of which also include, the rebasing of strategic manufacturing away from China, the rise of a new energy system (electric vehicles, battery giga factories, clean power), and industrial policy.
- The manager of our **best-in-class emerging market fund, Aubrey, also confirm, that India wants to profile themselves as a reliable and cheaper manufacturing than China and India still have a good relationship with U.S.**
- According to the journalist, when blue-chip multinationals head to India, not just Apple, but everyone from Starbucks to Zara, they seek to team up with Tata, the one firm you can really trust. The journalist add, Tata is run by technocrats who report to what may be the world's least-known and richest charity, not tycoons eyeing the Forbes rich list.

India and Vietnam - positioning

- As mentioned in the previous slide, **KTS feels comfortable with the investments in our best-in-class funds** Aubrey and Stonehorn, which have exposure into the Indian equity market. Aubrey is invested 1/3 in India and Stonehorn has a 5% allocation.
- In addition of course to our investment into the Vietnamese equity markets, which also corrected YTD, but it is still more resilient than many other emerging markets.

Geopolitics and portfolio positioning

- From reading last week, that Mr Putin would like to end the war with Ukraine as soon as possible, to read this week, that Russia announced a partial military mobilization and holding referendums on formally joining Russia the coming weekend in Donetsk, Luhansk, Kherson and Zaporizhzhia, it is quite a dramatic change.
- Experts expect the results to be rigged in favor of Russia. According to CNBC, if the referendums in the regions are in favor of Russia, it would enable the Kremlin to claim, that it was defending its own territory and citizens. It is a sign, that geopolitical tensions are not cooling down, on the contrary.
- Mr Putin also continues to threat with nuclear weapons, but on that issue we keep our conviction, that we can not base any investment decision on nuclear threats, because if a nuclear war would break out, it would not matter anymore, what we would hold in the portfolio.
- We are reading from multiple sources, that in **Google the search activity in Russia for "how to leave Russia" or "how to avoid military service", spiked.** Therefore we can assert, that Mr Putin, slowly but surely, have less support from Russian. This fact, should put significant pressure to Mr Putin and actually, if young men are living the country, it is questionable, how many new troops can Mr Putin assemble in the future?
- As explained in the past, we keep our **exposure in the energy space as a hedge of geopolitical tensions. We are still holding our position in gold,** even if we are clearly very disappointed of the YTD performance.
- Of course, also the energy sector in not increasing during falling markets, but our energy expert, Mr. Renaud, is investing with a long/short strategy and could limit the downside.

Gold

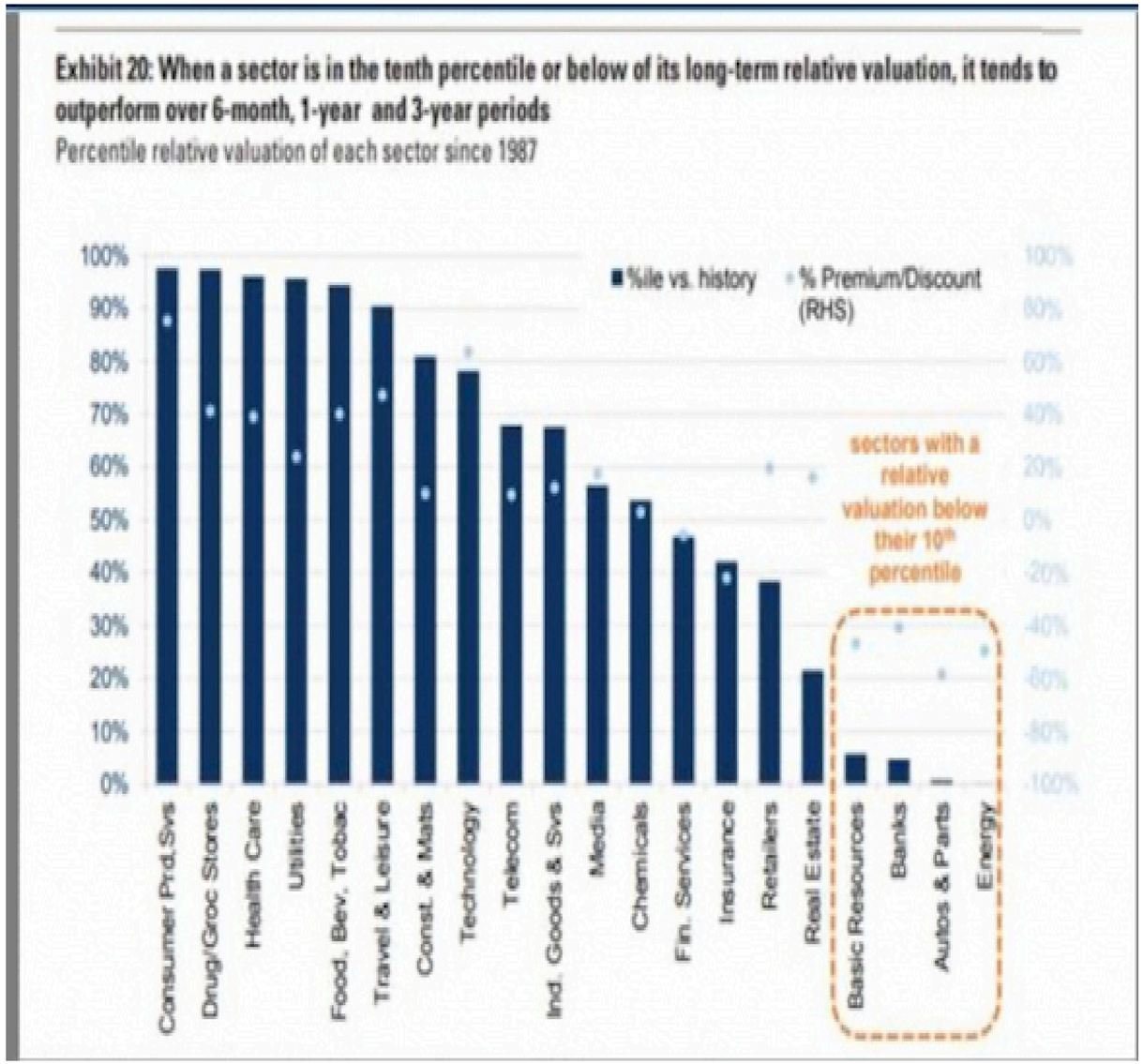
- We are still holding our position in gold, even if on a technical point of view, USD 1’650 is a very important support in addition that it coincides with the 200dma.
- It is extremely important, that gold holds such support, if not, the downside risk could be substantial on the short term.
- On the announcement of Mr Putin of the military mobilization, gold was actually not spiking, which is unfortunately the proof, that is not reacting anymore on geopolitical tensions. On the contrary, as we experienced during the pandemic, if financial markets would collapse further, investor would sell gold in order to cover margin calls.
- But as recently explained, gold is the only currency, which can be as diversification out of the USD for the “communist bloc”.
- In fact, we have to remind our clients, that **gold reached a negative YTD performance of 8% in USD terms, but in EUR is actually +3% and GBP +8%, without mentioning Gold in Turkish Lira or Argentinian Pesos. Therefore, it is always important to measure the performance of gold in the reference currency of the client.**
- For our GBP discretionary mandates, gold is a very good hedge, having the **GBP falling to new lows** because of the last new stimulus package. KTS is still not hedging the USD, because the strength of the USD is impressive, but actually normal in a “risk-off” mood of the investor community, But we have to closely monitor, when the trend is going to reverse, because on the day, when investor are going to switch into “risk-on” mood, the USD going to also correct substantially.
- Finally, we are reading the headline in the newspaper Business & Finance, “gold loses status as haven”. We agree with Mr Monchau, normally such headlines are rather a contrarian buy signal.

Gold - Bridgewater

- Ms Patterson, Chief investment strategist at Bridgewater (founder Mr Ray Dalio, USD 150 billion in discretionary clients), said in an interview with Pension&investment, that Bridgewater is **bullish on inflation-linked securities (most famous would be the TIP US) and gold.**
- This is based on their analysis over last **100 years in stagflationary periods, where the best performing asset classes are inflation-linked bonds, gold and broad commodities.**
- **What did worst was equity,** getting really hurt from the falling growth and rising inflation dynamic.
- Ms Patterson also mention that globalization was the major disinflationary force during the last few decades. Nowadays, with all the geopolitical tensions, **companies are shifting the supply chains to resilient countries, rather than just low-cost.** As we have seen, KTS is invested on the 2 major profiteers of the trend.
- In addition, the green and climate transition is going to take years and this process is going to be inflationary.
- Finally, Mr Patterson also argues, as KTS did multiple times, and in our outlook 2021 and 2022, that **50% of gold's demand is from jewelry and the biggest sources of demand are from China and India.** Both countries had internal issues lately (lock downs, etc.) and this also affected negatively the price of gold.

Value

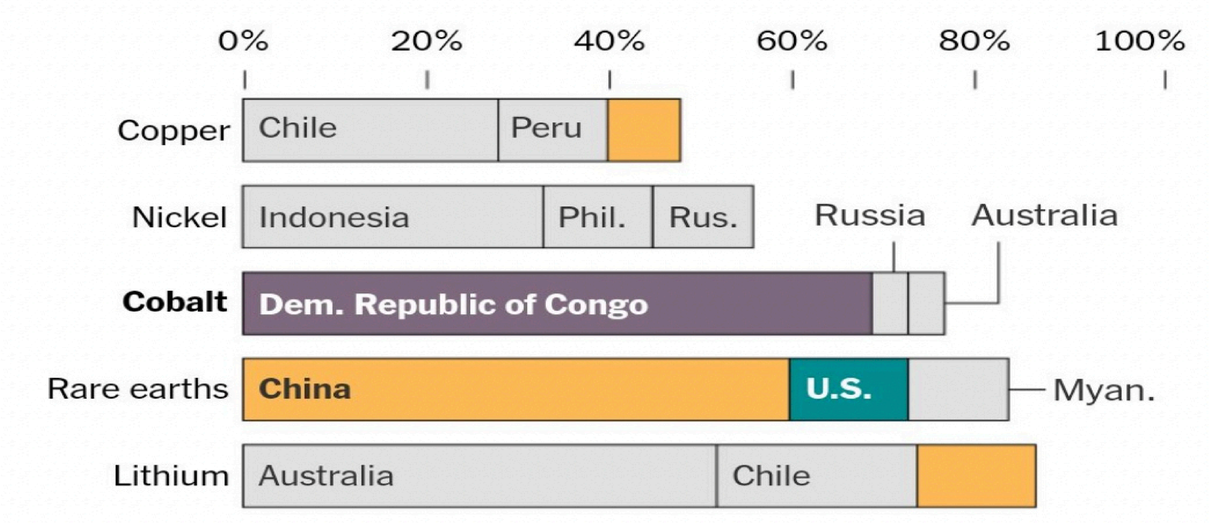
- On the right-hand chart of Goldman Sachs, courtesy Mr Kirch, we can analyze, that the **sector energy, autos, banks and basic resources are the most attractive sectors in term of valuation.**
- According to the calculation of Goldman Sachs, such **3 sectors are at the 10th lowest valued decile since 1987 and historically, each time this happened it created outperformance.**
- For this reason, we stay long our **energy investments** and we started investing something small into **EU banks and insurances**. Regarding autos, we believe, we cover enough with our investment in the private company Rimac automobili.
- We are also invested into the **Classic global value Funds**.
- On basic resources, we are reading again in Bloomberg, that experts are expecting a **copper squeeze**, because falling prices discourage new investments and having the mega trends of electric vehicles and green transition, nowadays we are worsening the coming deficit. KTS is exposed in the sector.



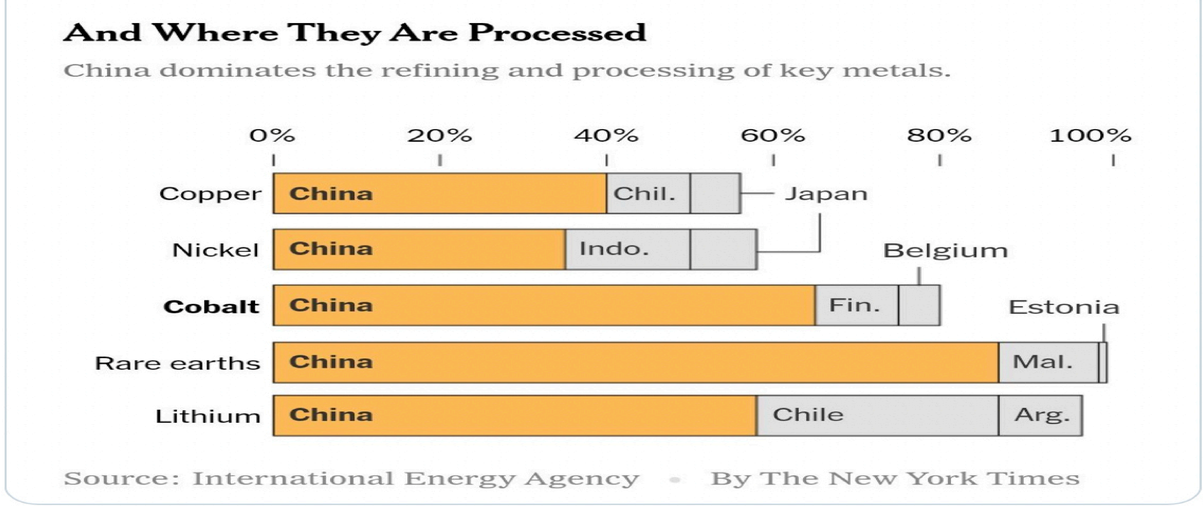
Picture Title

The green transition dependency

- Market participants like Mr Larsen rightly argue, that the green transition to make the **West energy independent have the risk to make us at the end of the day 100% dependent on China instead of Russia.**
- On the left-hand chart, we can analyze how China is responsible for the production of 80% of rare earths, nothing new actually, and also the production of Cobalt is basically in Congo and the Lithium production is mainly in Australia and Chile.
- But most of the important **commodities for the green transition are processed in China** and this is the main dilemma (right-hand chart).
- KTS also believes, that the targets of Western countries are going to be too challenging and at some points in the future, they will be revised, but for the moment we stay invested in our special investments like Rimac, Bakersteel Electrum, L/S green basket, Gevo, etc.**Our Bakersteel Electrum investments outperformed the GDX and GLD by 63% from 2020.**



Where clean energy metals are produced (source. Mr Larsen)



Most of the key green materials are processed in China

General news

- We are reading that Volkswagen could even reach a profit of EUR 400 million from selling gas, it had bought in advance for next year, because is now sticking to burning coal in its power plant as economic pressures drive German industry to save gas.
- The IPO of Porsche is fixed for the 29th September and the book is highly oversubscribed.

General news on cryptos

- Last week, Ethereum successfully transitioned from a so-called “proof-of-work” system to the “proof-of-stake”. Previous the transition, **market participants were speculating in a price spike, but at the end of the day, the price of Ethereum fell inline with Bitcoin.** Therefore, we would assert that crypto currencies are **correlated to the M2 and to the central banks’ policy.** Crypto currencies are most probably going to rebound inline with equities in case the FED change the tone to a more dovish monetary policy.

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