



KTS
CAPITAL
MANAGEMENT

KTS weekly update Nr. 3

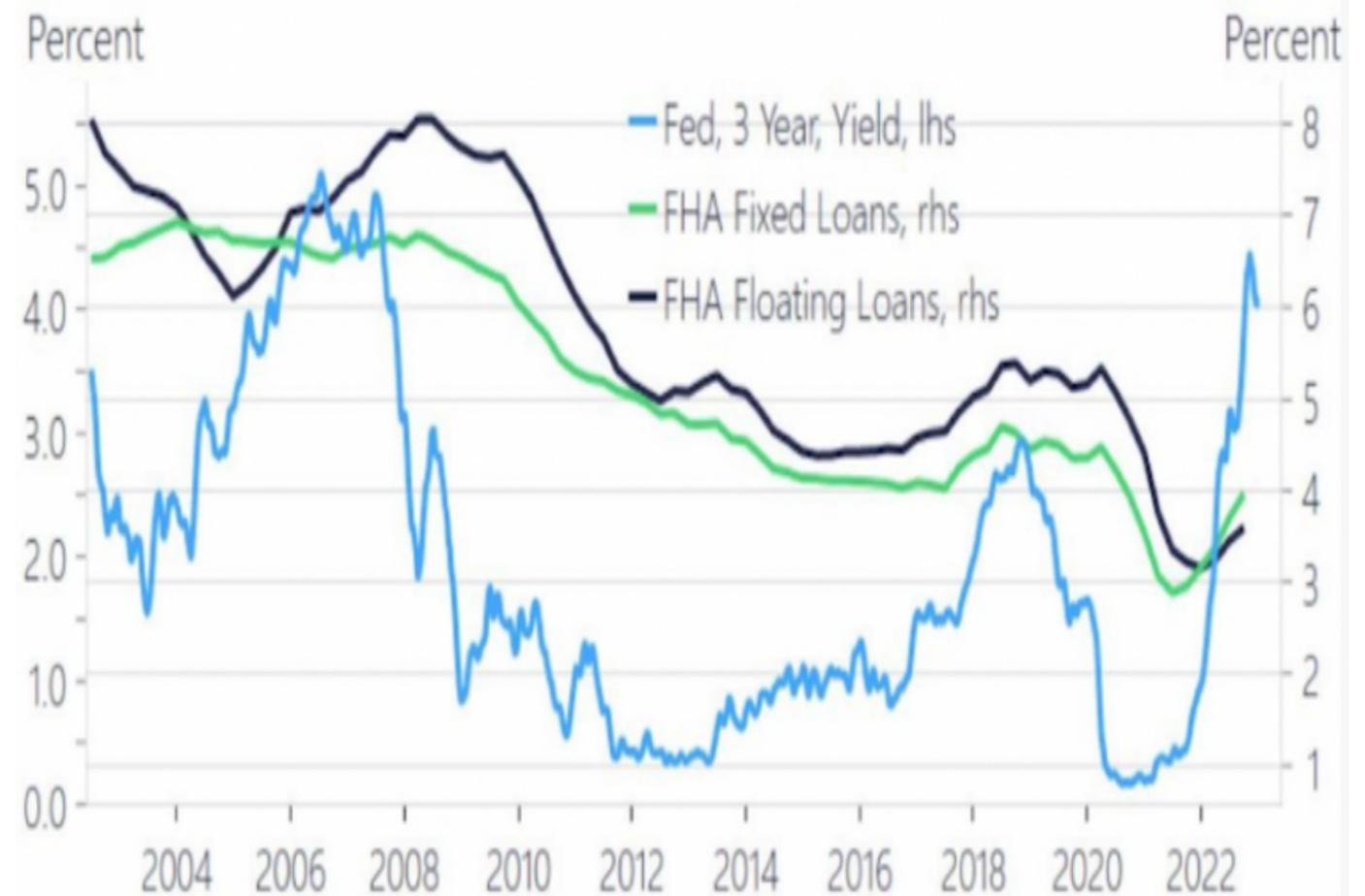
The 20th of January 2023

Delinquency rates rising: it is bad, but still not alarming

- Last week, KTS was arguing, how alarming could be the fact that US consumer have the highest level of loans, but the lowest level in savings.
- During the analysis of the results of US banks, Mr. Larsen argues that the delinquency rates is rising quite substantially and more is on the cards. This is definitely negative, but still not alarming.
- On the other side, not only the US citizen has a problem with debt, but especially the US government, which will have USD 11 trillion T-Bill maturing in 2023 and **Ms. Yellen already warning of US default risk by early June and for this reason urges debt limit hike**. For the moment the extraordinary measures the Treasury usually uses to avoid exceeding the cap, including using up the existing Treasury cash balance and finding from tax payments help to avoid default on the short term, but it is an open issue to be monitored, with the Republicans wanting to hold the debt limit as hostage to the Biden administration to accept their spending budget.

United States: Delinquency Rates

MBA National Delinquency Survey, 30-59 Days Due Rate, Total (1yr MA)



Source: Steno Research, Bloomberg and Macrobond

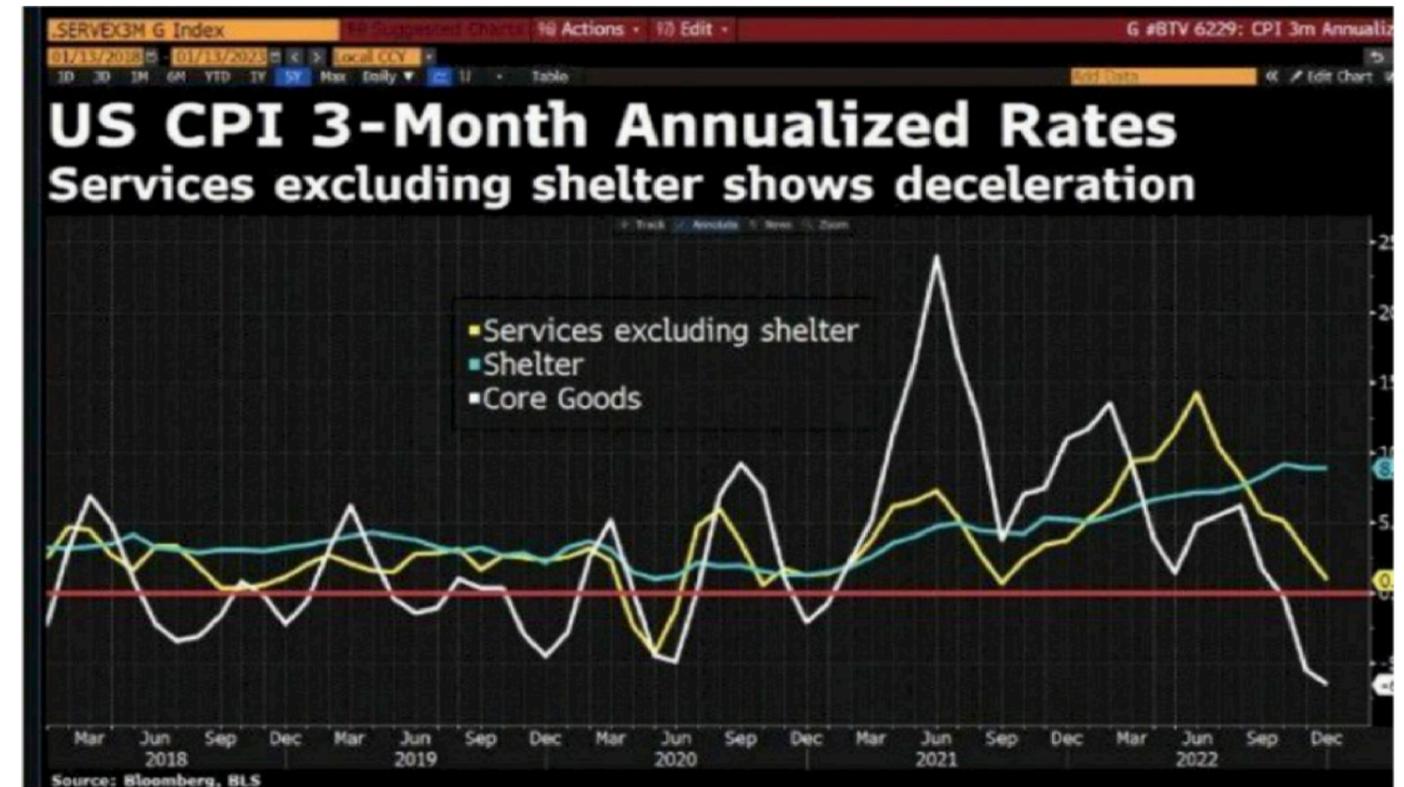
Source: Mr. Larsen and Macrobond

Macro: new consensus is for buying emerging markets

- The **Zillow rent index basically collapsed in the second half of 2022**, meanwhile the **CPI weighted OER and primary rent of official statistic are stubbornly high** (chart of Wall street silver not included). We all know the story, that the official OER is lagging, but the **divergence in the last 6 months are tremendous**. Even more, the shelter CPI moved up to 7.5%, the highest rate of housing inflation since 1982, but the US rent index collapsed from July 2022 (chart CharlieBilello not included). As we know, apparently the FED knows this fact and it is not basing its monetary policy on the shelter index, rather on the wage and core inflation.
- Mr Peccatiello attended a large investment bank conference in London, with institutional investors and hundreds of billions of capital under management. The feedback is:
 - **The FED is done**
 - **Inflation is coming down hard**
 - **No recession in H1, or maybe not at all**
 - **The most consensus trade is BUY EMERGING MARKETS, because of Chinese reopening, high real yields and geopolitical changes. This support the KTS investment into Emerging Markets and the increase into emmas debt in October 2022.**
- Basically the idea is that the worse is behind us, peak fed hawkishness, peak growth pessimism and peak inflation.
- We would like to remind, that Mr. Peccatiello was one of the most pessimistic expert...

US CPI on 3-month annualized basis: we are already in deflation

- As we recently mentioned, but it is always good to remind us, the **US CPI 3-month annualized rates is for core goods in deflation and services is also collapsing.**
- As explained, the official shelter rates are still high, but we know that in reality, rents are collapsing and the FED knows it too.
- These are good reasons for the FED, to at least avoid increasing further interest rates, which would be already enough to avoid a deep recession and panic among investors, but also CEOs of companies.
- **The biggest dilemma for the moment is the China re-opening, having the main commodity prices increasing and we have to monitor this development. In addition, with the weakness of the USD, imported prices are rising. According to the chart of Mr. Costa (not included), imported prices MoM change just experienced the highest level in 22 years.**



Core goods and services ex shelter in deflation(source: Syz group,Bloomberg)

CPI Less Shelter MoM

We have deflation ex housing costs on a monthly basis now



Deflation is already here, if we set aside housing costs (Mr. Larsen)

Technical analysis of S&P 500 Index: the Russell 2000 is interesting

- We agree with many technical analysts, that the S&P 500 Index breaks the 200dma and it should be a bullish signal.
- However, the index has still not broken out from the down trend channel. **This would occur only at 4'121 points. If the index would breakout such resistance, it is a strong bullish signal.**
- We are also increasing our **stop loss, especially for the purchase of put options, at 3'764 points.**
- Recently we have also mentioned, that **US small caps are trading at the most attractive valuation ever (P/E around 10x) and we realized, that YTD the IWM US outperformed the SPX by 3% and the QQQ by almost 2%.**
- **A breakout of USD 190 for the IWM US (Ishares, which are reflexing the performance of the Russel 2000), would be a clear bullish signal and KTS invested a small portion into US small caps, rather to stay only in the S&P 500 and Nasdaq Index.**



S&P 500 Index still not a clear breakout, but on the right path



IWM US: a breakout of USD 190 would be a clear bullish signal

Technical analysis S&P 500 Index: possible inverse head shoulder

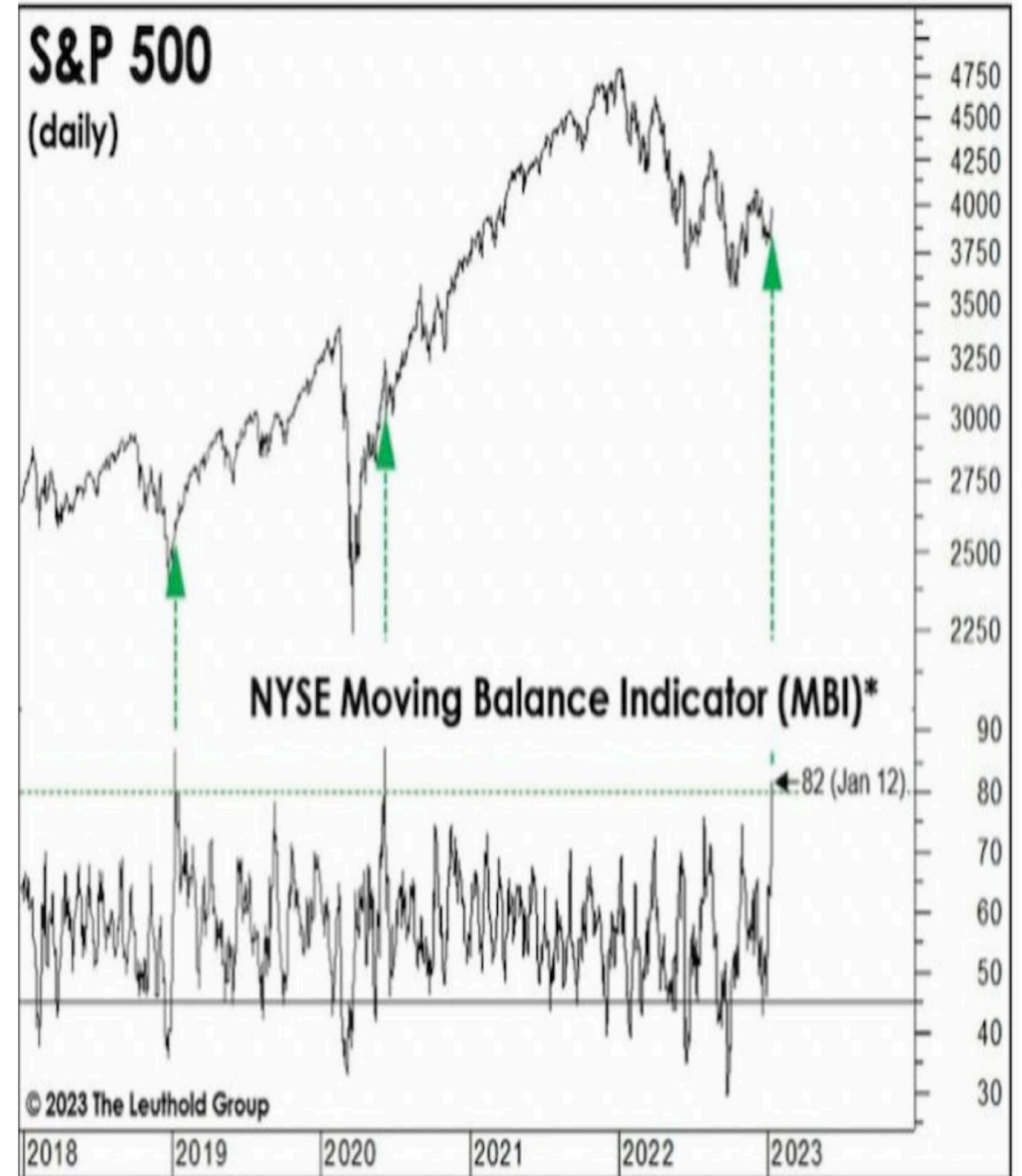
- Most of investors are arguing, that the Index has just reversed on the 200dma and the downtrend line and therefore is going to correct. We believe more the investment community arguing, that the last consolidation at higher levels than the lows in October 2022 is an inverse head shoulder formation and the Index could most probably breakout soon the downtrend-line. Of course we must set the stop loss at 3'764 points.



Inverse head shoulder formation

NYSE moving balance indicator (MBI) sending bullish signals

- We are including the MBI chart, courtesy Mr. Leisinger, which to be honest was not known by KTS.
- Mr. Leisinger argues, that historically, when the Moving balance indicator, a 10-day breath oscillator incorporating not only the usual daily NYSE advance/decline data, but also figures for advancing and declining volume; reach such super-overbought levels, were a base for even more strength.



*Combination of 10-Day NYSE Advance/Decline Ratio, 10-Day Up/Down Volume and

Source: The Leuthold Group / Mr. Leisinger

Technical analysis: DAX in breakout, MIDD LN should “catch up”

- Contrarily to the U.S., Europe Indexes already experienced clear breakouts and are on the direction for new highs, for example the German Index DAX.
- As we have recently analyzed, the **FTSE 100 Index is again at the highs of 2018 and already broken out the highs pre-pandemic**, due to the strong weighting of the energy, pharmaceutical, financial, materials and consumer staples sector.
- As we have also mentioned, **UK stocks are currently trading at the most attractive valuation worldwide with a P/E of 10x** (according to the metrics of GS, chart not included), meanwhile the S&P 500 Index is trading at 19.4x and experts are arguing, that any bottom of bear market has happened only at 11.7x . For this reason 2 weeks ago we decided to invest a part of the portfolio into the **MIDD LN**.
- According to Mr. Blockand, the average of the last 6 bear markets, the avg P/E ratio was 14x, but on this bear market, we bottomed at 17.3x (Sep. 2022).



DAX Index: good support at the 200dma and break out

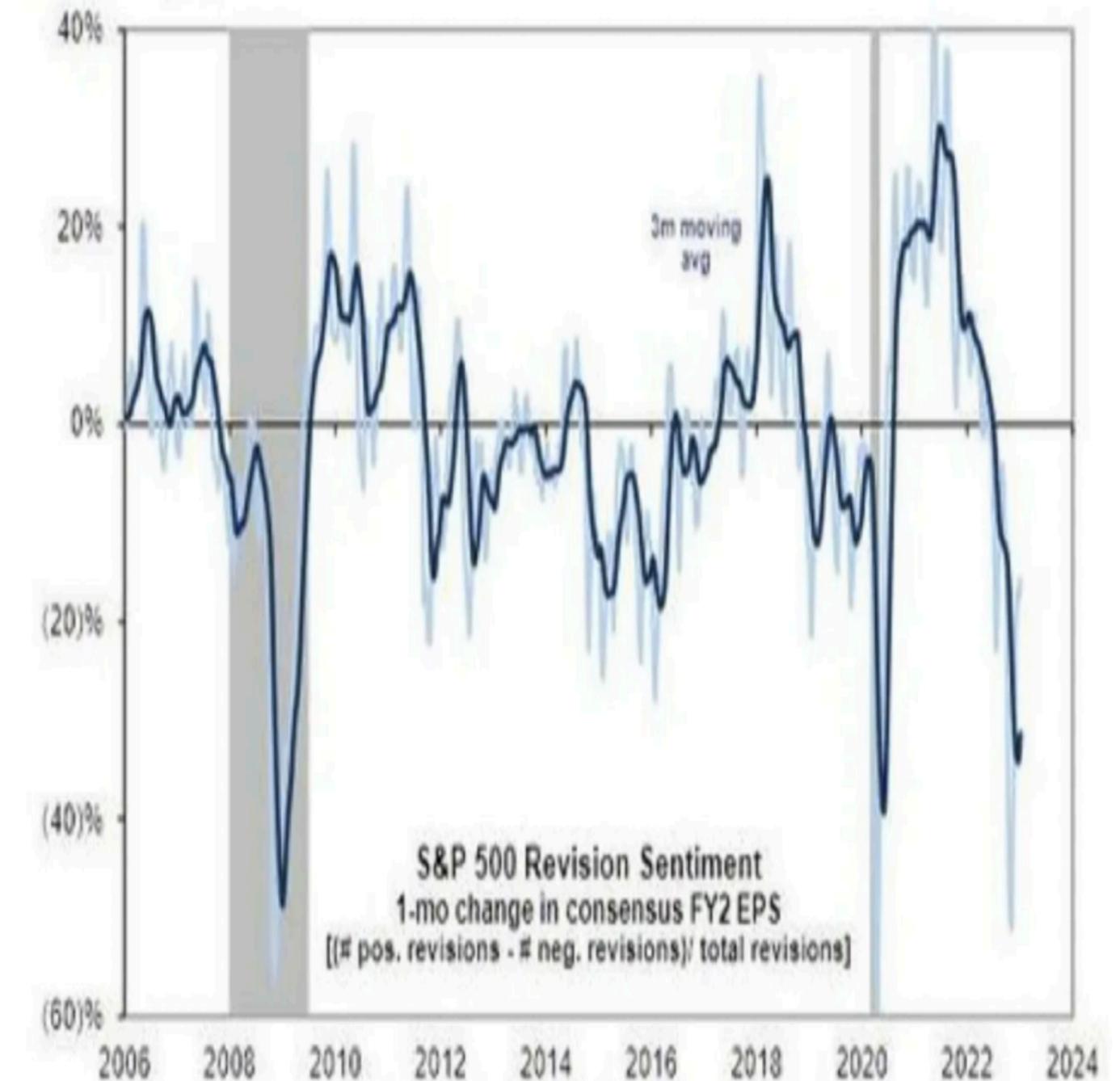


UK mid caps: still need to catch up vs FTSE 100 Index

Earnings as a next catalyst? Investors are deeply pessimistic

- We would like to include the chart, courtesy weekly Chartstorm, which is clearly pointing out, how **deeply pessimistic earnings sentiment has become and therefore it is easy to surprise on the upside, even if mediocre.**
- Meanwhile, even if we had a strong start of the year, **retail sentiment (TD Ameritrade investor movement index) has just plumbed to new lows, like March 2020** (chart not included).
- Still from the chartstorm, a chart of GS shows how **retails has sold all the S&P 500 stocks they accumulated between 2019 and 2021. Even more, they sold 1.5x the amount.** We believe, the reason is more simple than market participants could think, in fact, the middle class has to use savings to keep up with the high inflation, having real wage negative.

Exhibit 3: S&P 500 EPS revisions sentiment is the most negative since 2020 as of January 5, 2023

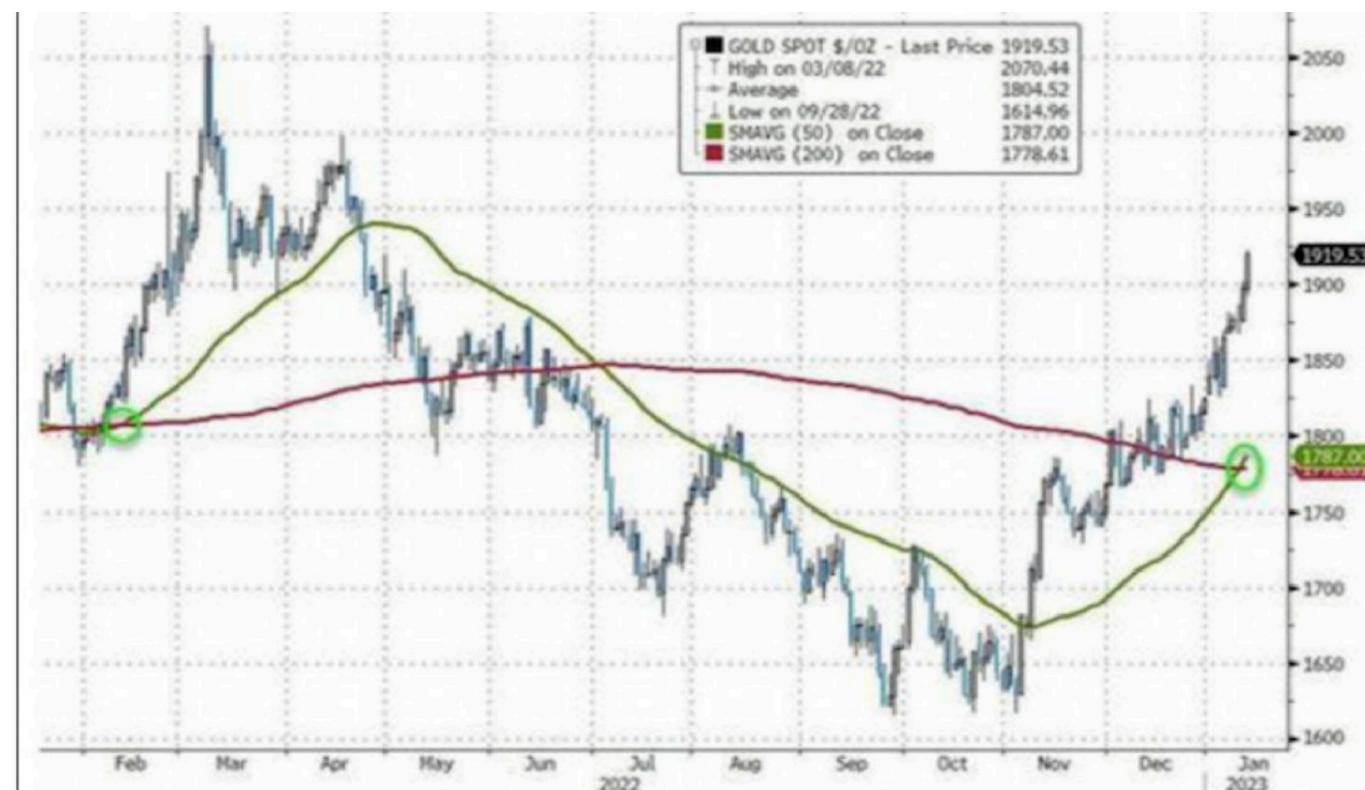


Source: FactSet, Goldman Sachs Global Investment Research

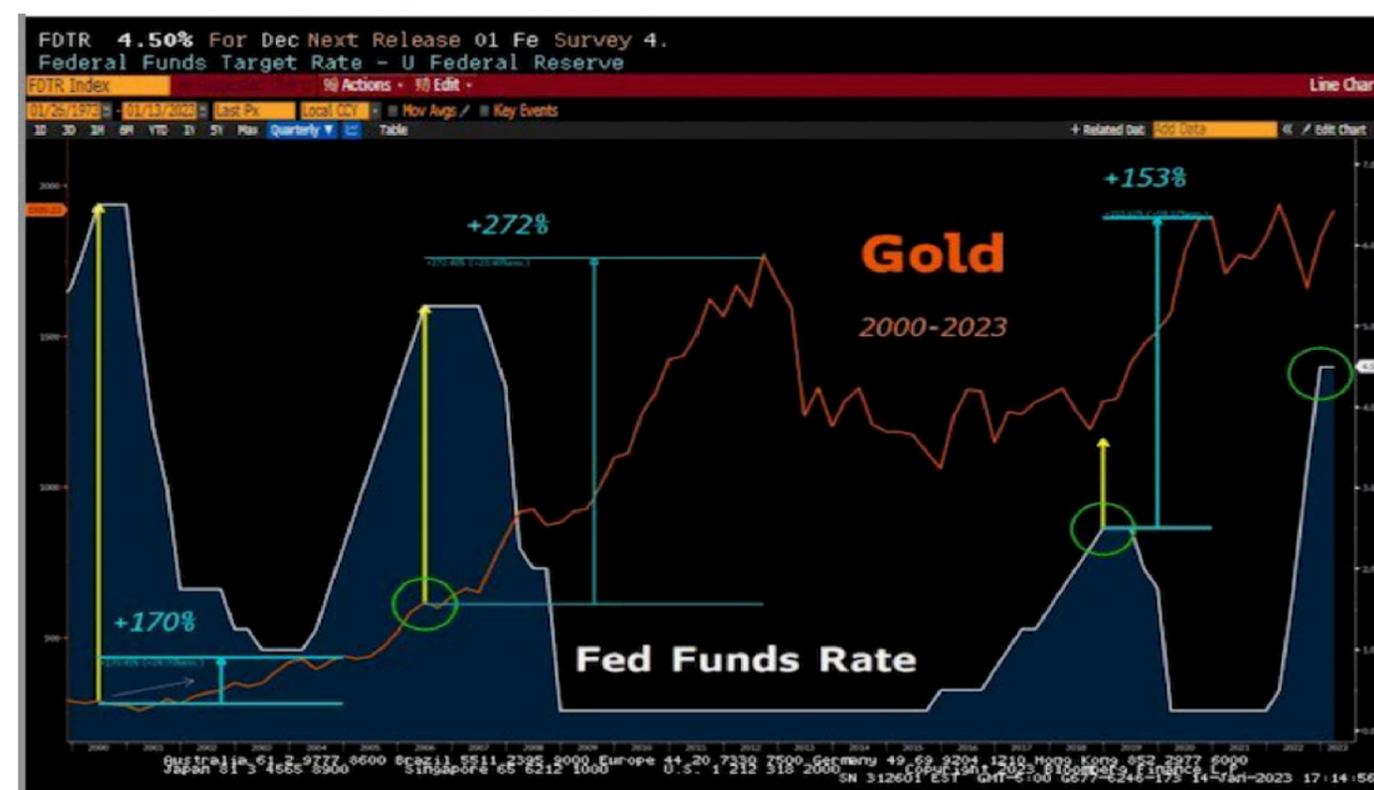
Source: GS via Chartstorm

Golden cross for gold: price squeeze coming?

- Last time the 50dma crossed above the 200dma it was February 2021, just before the gold price with spike over 2000 USD.
- The **gold price is rising tremendously strong, due to a weak USD and weak yields.**
- Taking into consideration, that KTS is expecting weak yields going forward, this time it could be the right time, that the gold price can finally reach new highs.
- KTS stays invested. **Apparently also crypto currencies are following the same wave, also due to the rising M2 liquidity as we have seen last week.** During last few days, crypto currencies were uncorrelated to equity markets.
- We include also the chart below, courtesy Mr. Lawrence McDonald via Syz Group, where we can notice, when the FED stops hiking rates, historically the gold price jumped. An additional argument is, gold is also profiting from the rising liquidity, as we have analyzed last week.



Gold cross: the 50dma is above the 200dma, normally a bullish signal



Gold jumps when the FED stop hiking (Source: McDonald/Syz Group)

Cronos Group: Market cap under net cash and Altria owns 41%

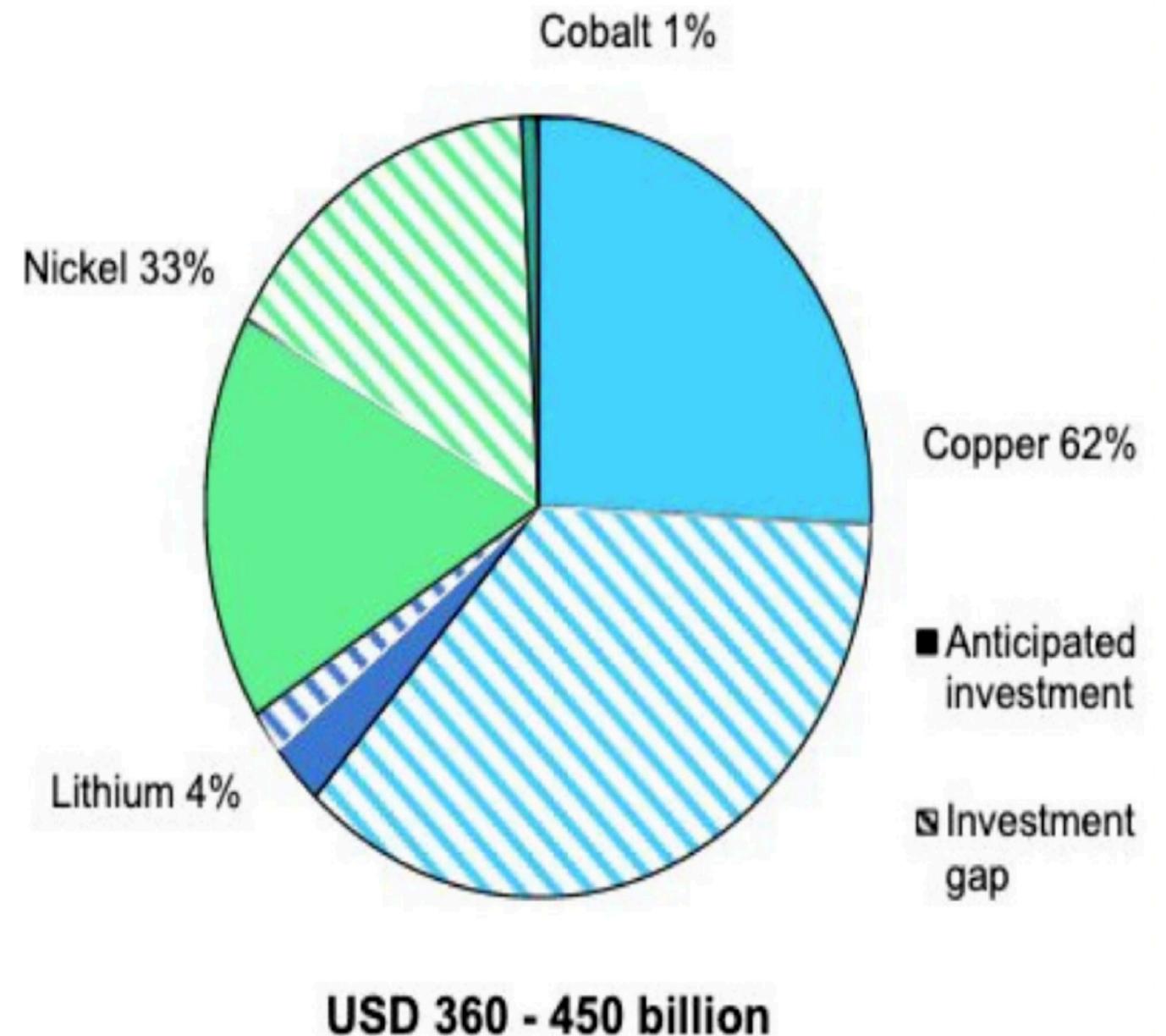
- Mr. Deadlock is rightly arguing, that the cannabis stock **Cronos Group**, in which KTS has a small exposure, is now trading under net cash (around CAD 1 billion).
- Most of cannabis stocks were more of a “financial destruction” and debt load, but **Cronos not only can count on a huge pile of cash and a minimal debt, but also Altria owns 41.34% and managers perhaps an additional 10%.**
- Having the stock trading under **book value and EV to sales multiple close to 0.7**, meanwhile other larger players (with tonnes of debt) trade near at **2 or above**, the best strategy for Altria is a going private, which would be basically “for free”. In addition, is always easier for a major company to acquire a smaller competitor, if they already know, they can control basically more than the half of votes for approval.
- The cannabis sector is gaining traction worldwide, being cannabis finally recognized as a medicine, but more especially as tranquilizer and painkiller.



New lows of Cronos, but market cap under net cash, with Altria owning 41%

USD 450 billion in 180 new mines: stay invested into green transition

- We would like to include the following chart, which gives a perfect idea of **investments to be done for the “green transition”**.
- **180 new mines are required to hit 2030 climate goals** using solar, wind and electric vehicles for a total investment up to USD 450 billion.
- **30 cobalt mines**
- **70 lithium and nickel mines**
- **80 copper mines**
- **Opening a new mine takes on average 17 year** according to IEA. For this reason we are invested into the best-in-class fund Bakersteel Electrum, which invests into more solid miners and KTS is also invested into special situations, which same we regard more as a call option without maturity as for example:
- **Nevada copper (NCU CN) and ZincX (ZNX CN)**
- **But also Largo (LGO CN), Livent (LTHM US), Freeport (FCX US), or Hecla Mining (HL US)**



Source: IEA / Syz group

General news: priciest cars are selling fast

- Interesting article on The Economist, where the journalist explains the **new era of grandparent, in fact, the ratio of grandparents to children is higher than ever before.**
- https://www.economist.com/international/2023/01/12/the-age-of-the-grandparent-has-arrived?utm_content=article-link-1&etear=nl_today_1&utm_campaign=r.the-economist-today&utm_medium=email.internal-newsletter.np&utm_source=salesforce-marketing-cloud&utm_term=1/13/2023&utm_id=1448350
- An additional article of The Economist is informing, how the **priciest cars are selling fast and Rolls-Royce and Ferrari are at full throttle, as also Bugatti and Nevera and therefore are good news for our investment into Rimac automobili.** KTS is invested in the high end segment and it is the right place to be, because according to global statistic, **China's car exports surpassed Germany's and it is even narrowing Japan's lead.** According to CAAM (China Association of Automobile Manufacturers), **electric vehicles (EV) have become a significant factor in China's buoyant car exports,** with EV shipments surging 120% year on year to 679k in 2022.
- https://www.economist.com/business/2023/01/12/the-priciest-cars-are-selling-fast?utm_content=article-link-4&etear=nl_today_4&utm_campaign=r.the-economist-today&utm_medium=email.internal-newsletter.np&utm_source=salesforce-marketing-cloud&utm_term=1/13/2023&utm_id=1448350
- According to experts, never in history, **the European stock exchange started the year with such strength as in 2023, in fact the Eurostoxx50 is YTD +9.4%.** On one way we can be very surprised, because the European economy should “suffer” more than U.S. and the rest of the world, on the other way the rally was due more based on the China re-opening and therefore sector like luxury increased over 13%.

General news: oil under supply and BOJ with new weapon

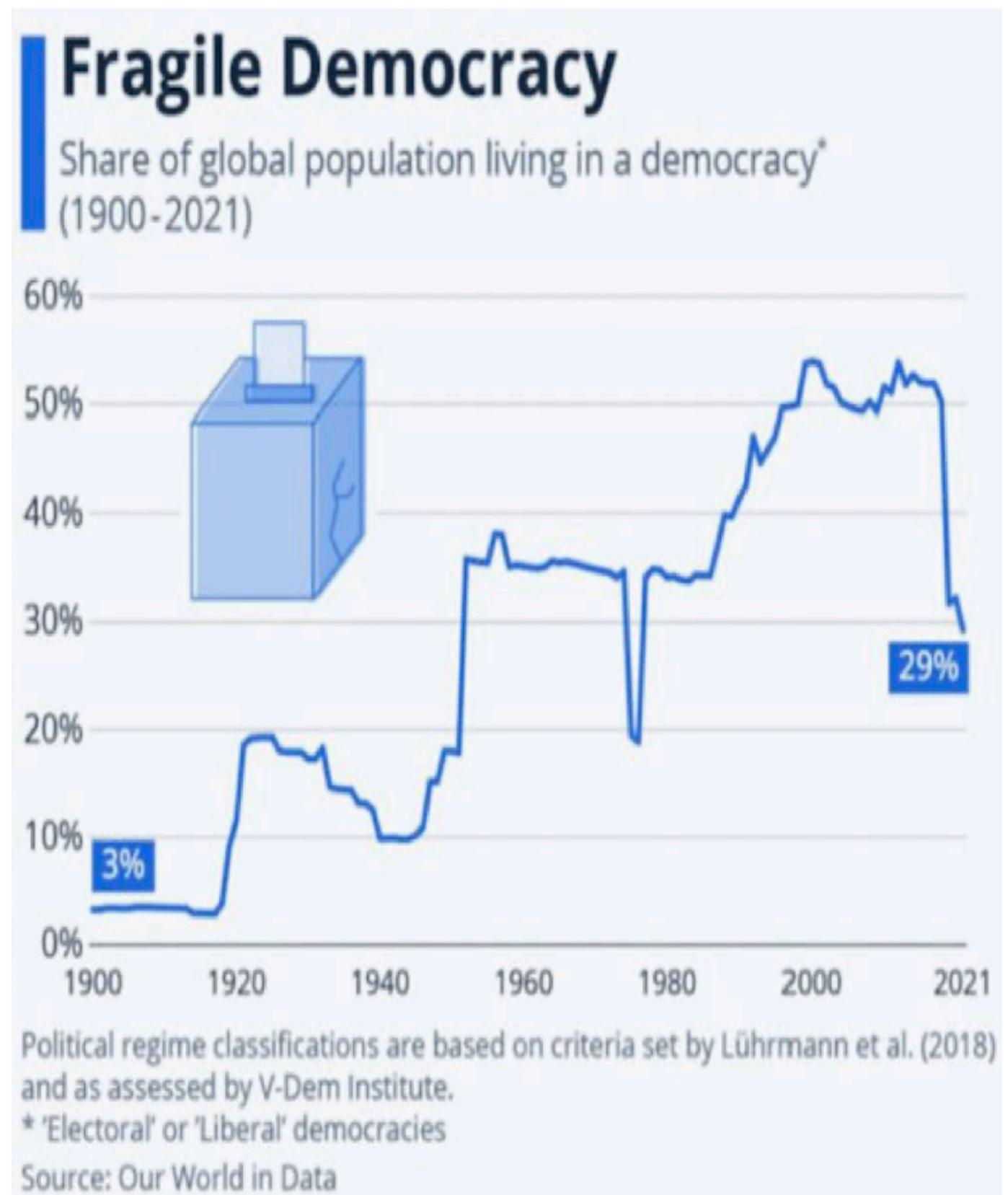
- The world's largest oil company, Saudi Aramco, is warning about the global crude supplies in the mid-to-long term and is worried about the growing demand, especially after the China's reopening. This is a dilemma, which is known and we have to monitor the oil price, as also the risk of increasing energy costs, which would push the US CPI higher, especially with now a lower USD and therefore put under pressure the FED. For the moment we can at least say, the news support our investment into the energy sector.
- The Bank of Japan announced a new way to control long term yield. In fact, the BOJ not going to buy long term Treasury, but instead is going to give fixed and variable rate loans up to 10 years' duration against collateral to financial institutions. Before the change, the BOJ was able to offer only funds with a fixed-rate loans. By adding variable-rate loans, it can use the funds-supply operation as a tool to control the shape of the yield curve.

Google has DeepMind vs ChatGPT

- As mentioned last week, all the eyes are focused on the transaction Microsoft - ChatGTP and experts are warning, that the AI system could be the killer of Google. But according to the blog of Mr. Beliunas, Google isn't sleeping and is planning to use DeepMind as competitor to ChatGPT already this year. Mr. Beliunas also asserts that this would put the Artificial Intelligence game on a whole new level and we tend to agree, because for what we can read and see now, the system is working incredibly well
- KTS is still testing and trying to figure out, in which contest the AI ChatGTP can help to improve our daily working routing. We guess is going to be a process and we have to embrace the technology and understand as soon as possible the advantage.
- It is important to notice, that Google is not improvising, but already acquired DeepMind in 2014 for USD 500 million, for one of the world's leading artificial intelligence labs.
- Mr. Beliunas also writes, that Alphafold was the software platform, that has solved the "protein folding problem", which is considered not only the most important achievement in AI ever, but more importantly, it's believed to be one of the most important achievements in modern science.

You want to invest in free and democratic countries

- KTS always argued that it is important to invest in stable and democratic countries.
- After the Covid pandemic, we all realized that worldwide freedom is only a “word”.
- But the right-hand chart shows how alarming the share of global population living in a democracy is falling and this matter of fact has also repercussion in our investment process.
- **Mr Eric Helderlé, co-founder and Managing director of Carmignac said something very simple and basis, but KTS likes it: he only invests in countries where he feels, he would live with his family.**



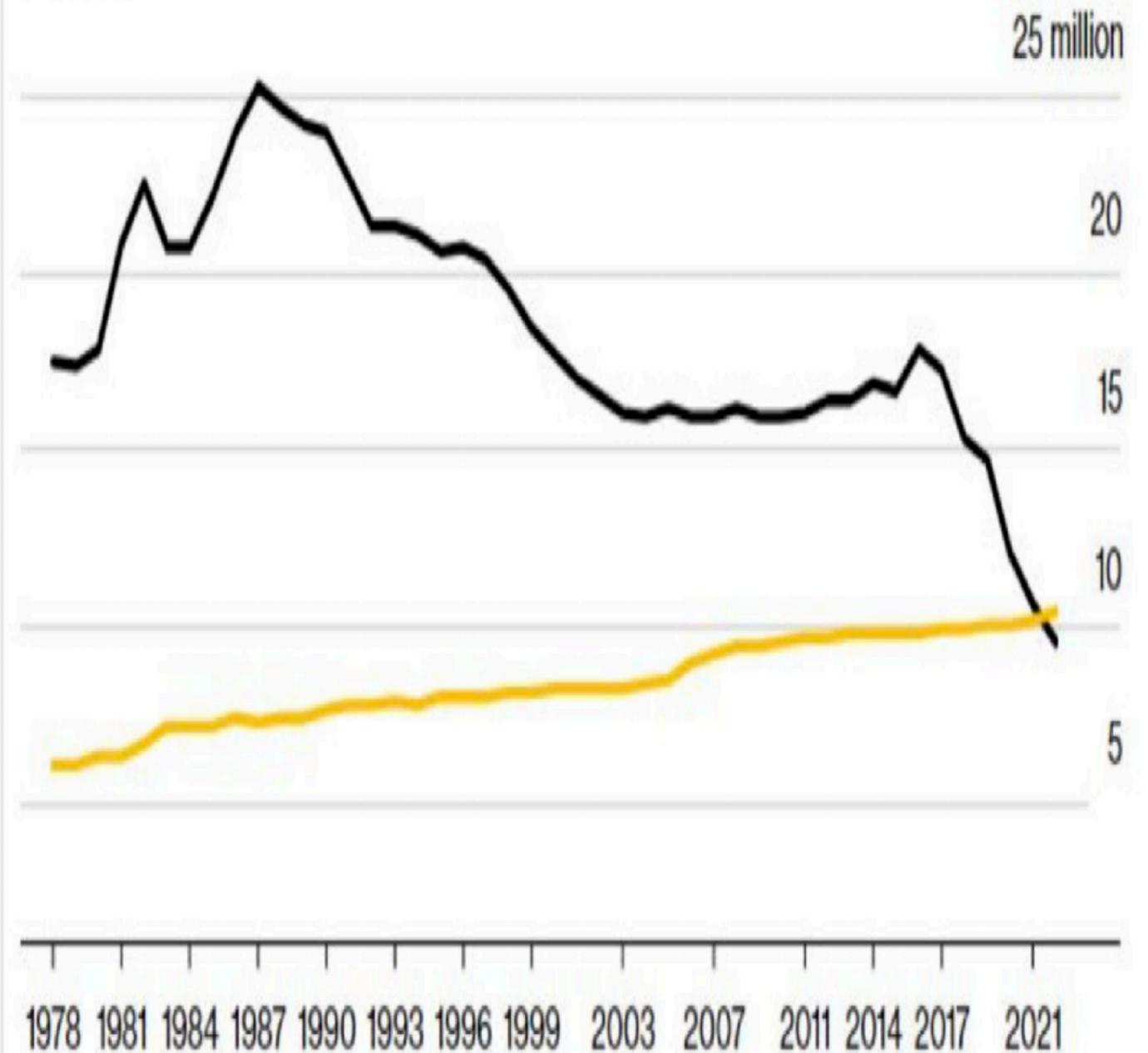
Source: Credit Suisse, our world in data via Mr. Kirch

China: first time a negative balance between births and deaths

- KTS was recently discussing one of the biggest dilemma for China and its economic growth, namely the shrinking population.
- Now it is happening, having more deaths than births, most probably also due to the increasing cases of Covid. But it is clear, the long term Chinese demographic trend is clear: a aging population, which is going to weight even more on the global economy in the coming years, with of course negative effects.
- Also China desperately need to increase productivity in order to compensate the missing workforce.

China's population shrank last year as births have fallen again and deaths keep rising as nation ages

/ Births



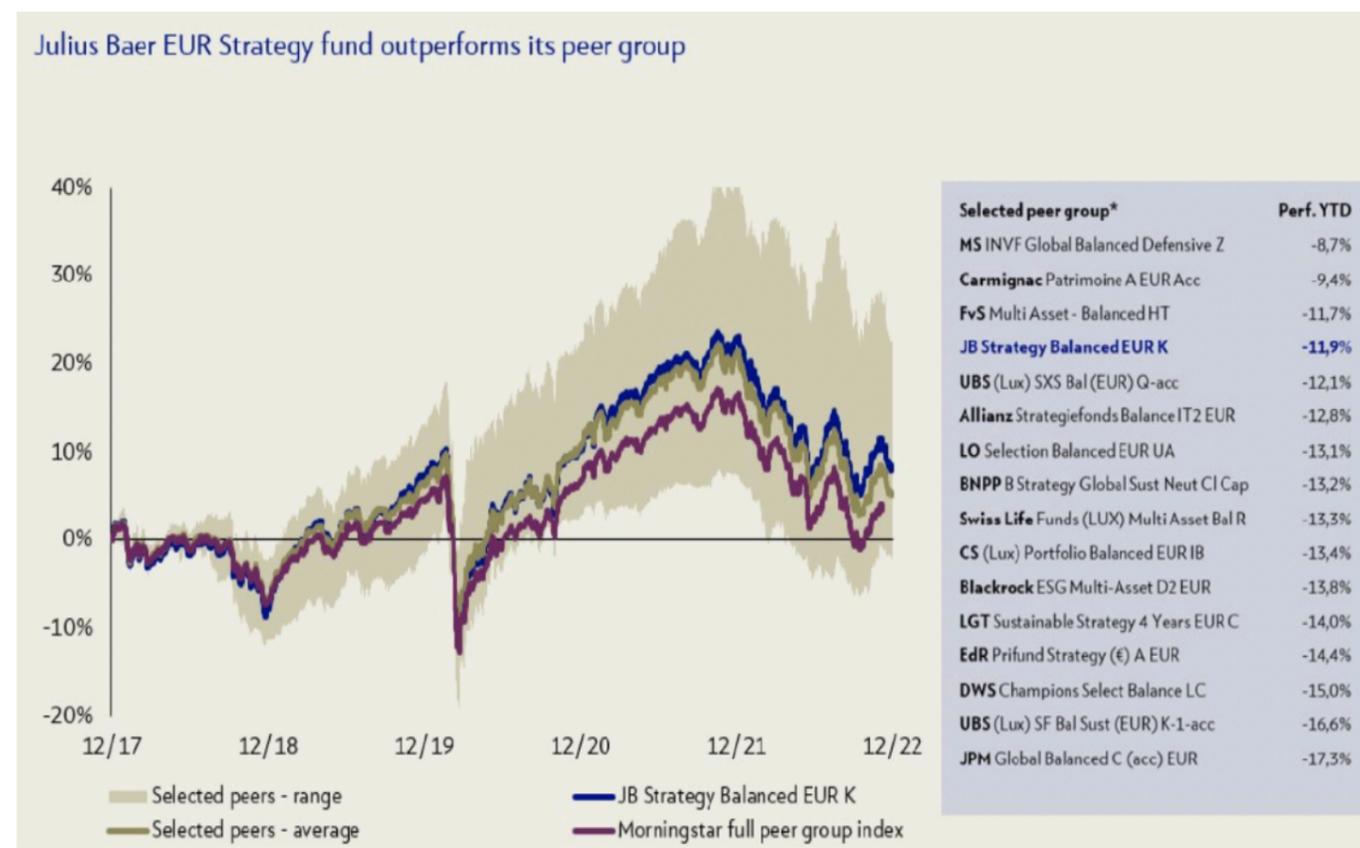
Source: Bloomberg based on NBS He Yafu / via Mr. Ippoliti

Optima dynamic: nice long term outperformance vs peers

- KTS came across of a chart, where JB is comparing their balanced fund claiming to outperforms its peer group (right-hand chart).
- On the top of the list as best performer for 2022 there is the MS balanced, which we can see, lost less during the year 2022, but as we can see in the comparison (left-hand chart), has also a much lower beta on the upside and this is exactly the case of most funds, which performed relatively well in 2022.
- KTS believes, it is time to take again risk. Our best in class fund Flossbach multiple opportunities has still the best performance over the longer term and we have to admit, that Carmignac Patrimoine had a tremendous rebound from November 2022, due to the overweight in China.



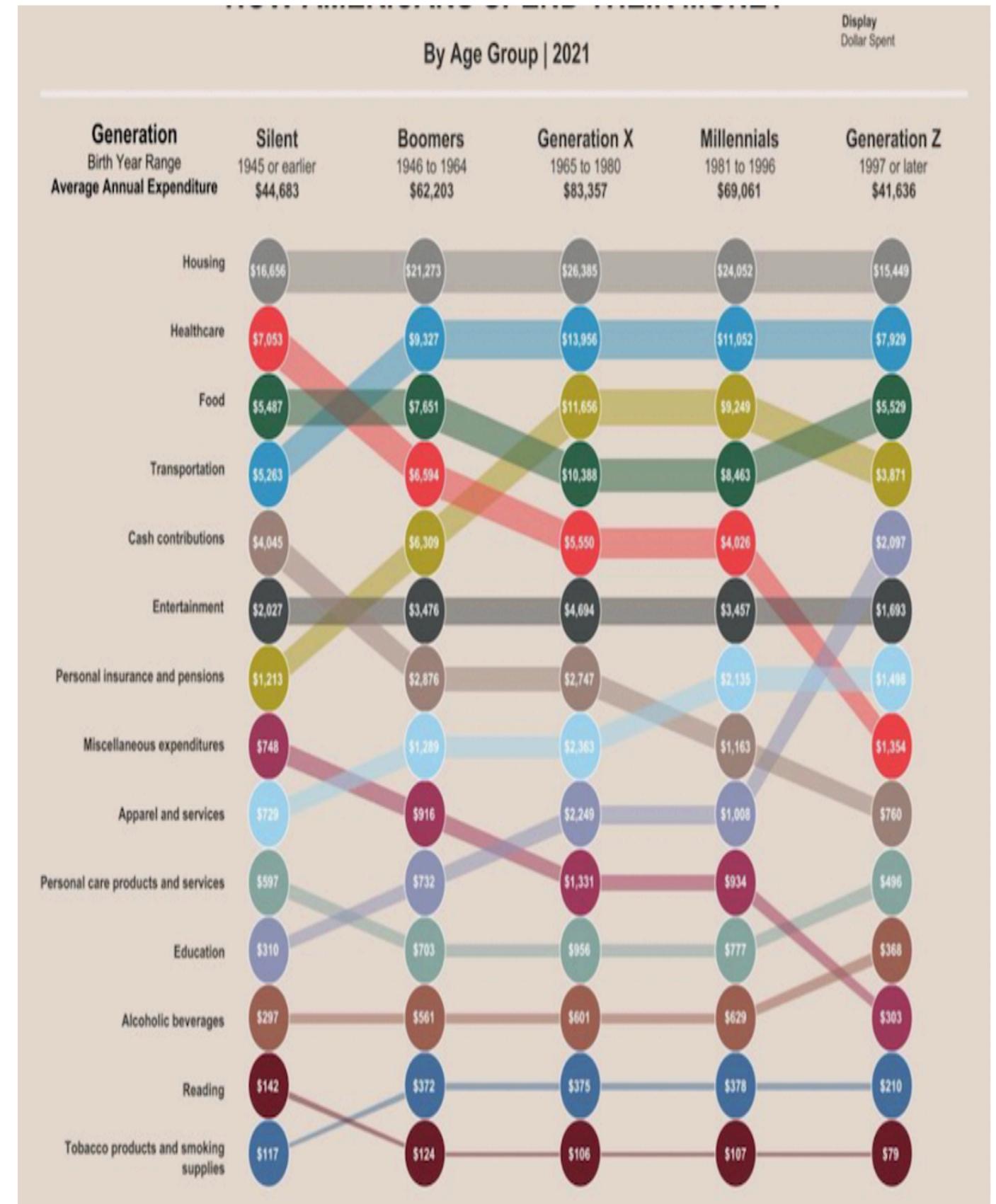
Tremendous outperformance of the Optima dynamic vs MS balanced



Flossbach Multiple opportunities is still the best in class per excellence

How Americans spend their money: Housing and entertainment

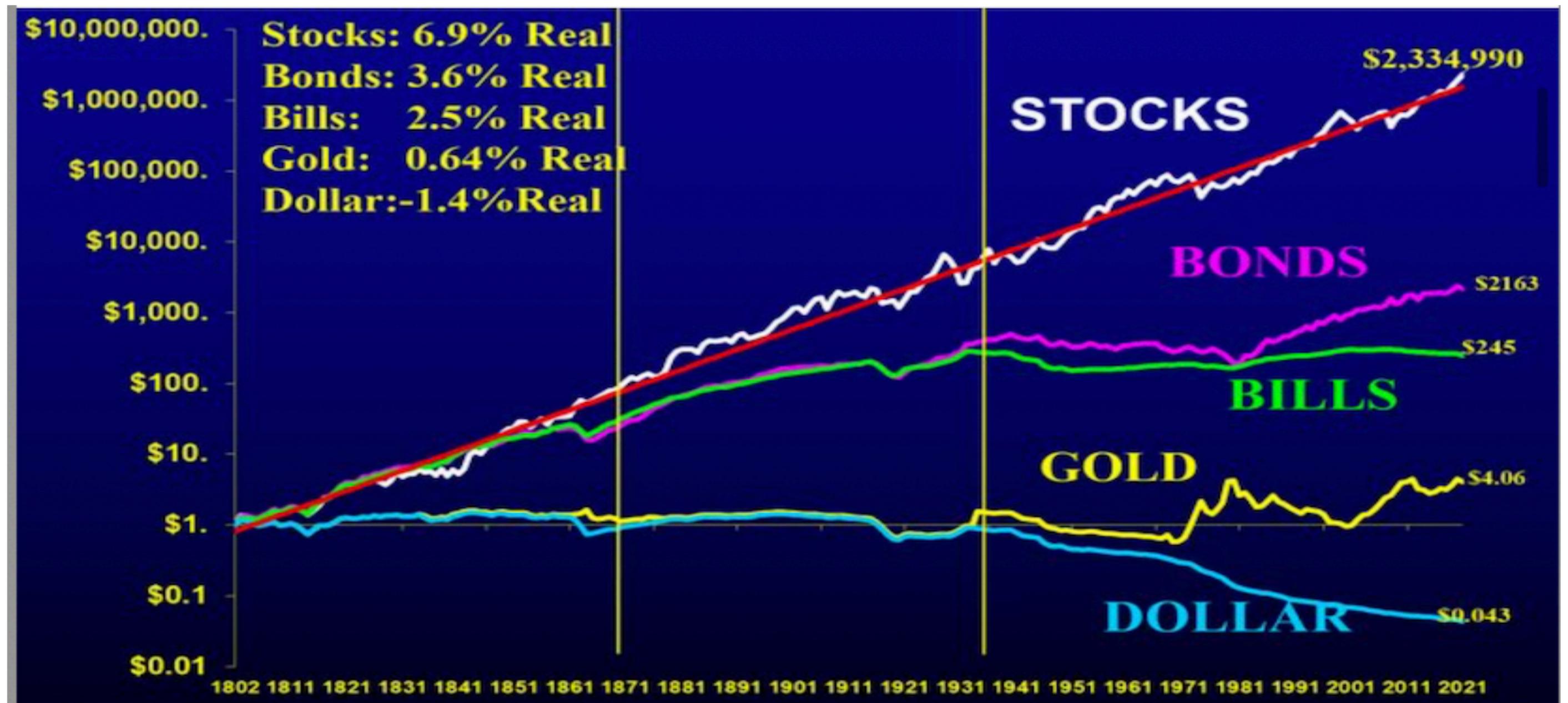
- We would like to include again a chart, where we can analyse, how US citizens grouped by age group are spending their money.
- Any age group spends steady money in housing and Entertainment (as we have analysed in our weekly report nr 1 for 2023, Music and gaming are the top topic for younger generations).
- Also the magazine the Economist had an interesting article on how young spend their money. The journalist argues, that young people have thin wallets but expensive tastes. They prize convenience and a social conscience. They crave authenticity while being constantly immersed in an ersatz digital world.
- A study of McKinsey shows that a quarter of Gen-zs doubted they would be able to afford to retire and less than half believed they would ever own a home. American millennials and Gen-zs have accumulated less wealth than Gen-x or Boomers at the same age, but will heritage more. The article also explain well over online and BNPL apps.



Source: Preethi Lodha via Mr. Rowles

Long term purchasing power

- We have already included several of such long term charts, but we would like to publish also this chart, having also the real purchasing power's loss from 1802 of the cash.
- Basically, investing USD 1 in 1802, today we would have USD 2'334'990 from stocks, or USD 2'163 from bonds, USD 245 from US T-Bills, we are surprise on the USD 4.06 from Gold and USD 0.043 cash.



Source: Mr. Kavrak

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