Investment Letter No 7
Week 17
2019

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Yield Cockpit

Overview current effective yields in USD *)

	current	2months ago
2 Year US Treasury	**2.36%**	**2.54%**
5 Year US Treasury	2.36%	2.45%
10 Year US Treasury	2.57%	2.64%
3-5 Year IG Corp Bonds	**3.19%**	**3.49%**
7-10 Year IG Corp Bonds	3.82%	4.07%
15+ Year IG Corp Bonds	4.51%	4.70%
High Yield BB-rated	4.62%	4.96%
High Yield B-rated	6.42%	6.85%
EM IG Corporate Bonds	**4.76%**	**5.00%**
EM Sovereign Bonds	5.03%	5.38%

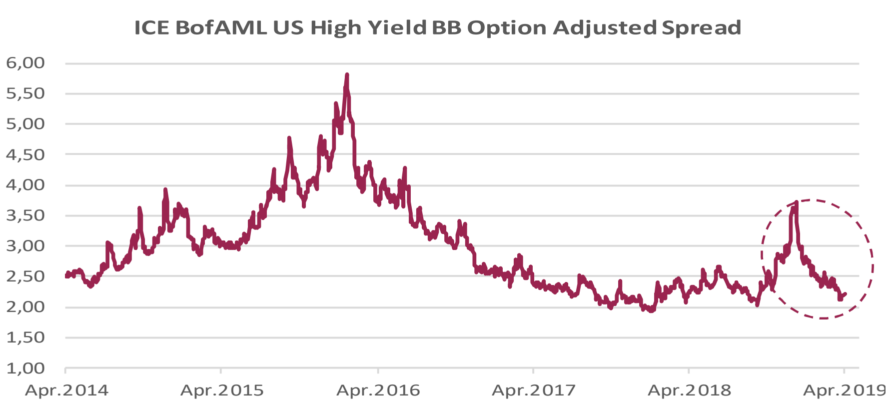
Spreads & Inflation

FED Funds Rate	2,50%	2,50%
TED-Spread	0,21%	0,26%
10yr–2yr Treasury Spread	0,21%	0,16%
5yr Breakeven Inflation	1,87%	1,82%
10yr Breakeven Inflation	1,96%	1,92%

*) derived from relevant BofA Merrill Lynch effective yield indices
mangenta = Gigant Swiss preferences

What to take note of:

- We have extensively covered the **FED's** extremely **dovish turnaround** in early 2019. The prospect for stable if not to say lower rates for longer has (again) **pushed** investors on the search for yield **into more riskier segments of the bond market**. That again **sent credit spreads lower** across the risk spectrum and maturities. As one can see from the graph below, an investment into an index consisting of BB-rated US corporate bonds would have paid approx. +3.5% of extra yield over "risk-free" US Treasury Bonds at the end of 2018. That yield pick up has melted down to just +1% today. In other words, **investors buying today are far less compensated for the risk they take**.
- As regular reader might recall, we have argued for higher credit spreads in 2019, a view which has not materialized at all (so far). Anyhow, by knowing that the market's average credit quality is as low as hardly ever before in history and given the fact this business cycle is very mature, the most insane thing investors can do today is to buy a risky bonds at low yields. **In our eyes, current yields in high yield corporate bonds markets offer very poor risk-reward ratios.**
- Better accept some lower yields temporarily (it won't last forever)! Higher yielding bonds shall only be added in the very short duration spectrum where they can be easily held until maturity.



Source: BofA Merrill Lynch Indices retrieved from Federal Reserve Bank of St.Louis; Bloomberg Barclays Index Data; all data as of 25th of April

Our Tactical Asset Allocation (6months horizon)

EQUITIES –> REMAIN NEUTRAL

- In early April, we upgraded equities, noting that **"(…) not because fundamental data are awfully attractive** or because we have a ultra-strong conviction that they were to increase, **rather it is market price action which is very strong (…).** While the **Q1 19 corporate earnings season** is in full swing these days, it is **premature to draw any conclusion**. Anecdotal evidence suggest the aggregated numbers are above consensus expectations which is the good news. However, it should be noted that **earnings growth** while eventually better than initially expected is substantially **lower than in 2018**. According to data provided by UBS, the aggregated earnings per share of companies in the S&P500 index grew +18% in 2018% but are set to grow by only +3% in 2019.
- Global **macro economic data have stabilized for now**, earnings expectations continue to be low but prices have risen quite substantially year to date, resulting in much higher earnings multiples. Neither exactly a great combination but also not (yet) a source of concern as long a the strong upwards momentum in equities persist. Anyhow, the lesson of early 2018 that the combination of extremely low volatility, stock market gains concentrated to a few large cap tech companies and decreasing trading volume can (but must not) spell trouble any minute. Staying vigilant is a must!
- In terms of sector allocation, **"technology" was recently added to our most preferred sectors (again).** We argued that as with previous years, secular growth stories within the tech sector are set to outperform in an environment of low-growth and low-rates. Over the last days, a set of (again) better than expected Q1 earnings results from a variety of tech bellwether companies helped to send the tech-heavy Nasdaq-index to fresh all time highs, a move not (yet) seen in any other major benchmarks. On the back of further rising energy prices, **we remove the energy sector from our least preferred industry group list**. Overall, **our sector exposure remains well balance between cyclicals- and non-cyclicals.**
- Geographically, European equities look be already priced for a stabilization in global macro economic data but continue to face downside risks from Brexit and global trade. We thus **remove Europe from our preference list**.

ALTERNATIVES –> REMAIN OVERWEIGHT

- As the mantra of lower rates for longer is more actual than ever before, remaining overweight on assets whose return is decoupled from traditional assets such as equities and bonds is a must.

Our Tactical Asset Allocation (6months horizon)

BONDS –> REMAIN NEUTRAL

- Rates-wise, there is not much to do for now as the FED made it clear **“lower for longer” is the new normal**. While not imminent, **we believe the risk is to the upside** as market consensus is too dovish here. Keep in mind that from H2 2019 onwards, **energy prices will have positive base effect on inflation measures**. For the summer month, earning the carry is our strategy of choice.
- Duration was already extended during Q1 and credit risk was slightly increased but mostly on the very short end of the curve. As we highlighted on *page 3*, investors on hunt for yield, might find their timing weak when chasing some extra yield which need to be bought with a substantial amount of risk today. We do have and keep **exposure to below investment grade credit bond only for short duration bonds** which can be held until maturity or whose impact of rising credit spreads would be relatively contained. **Senior loans**, a crowded trade within the yield starving investor community **should now be avoided** in our eyes (we have cut our exposure in mid 2018 already).
- The yield curve remains historically flat which implies investors are not getting compensated for buying long term over short term debt papers. Unless you want to bet on even lower rates going forward (we don’t), there is **no reason to hold longer term debt in the portfolio**.
- Traditionally, a stronger US Dollar is hurting emerging market bonds for which we continue to have a preference. So far however, we have **no evidence to believe the US Dollar** while strengthen beyond a level which could **pose a threat to emerging markets**. Anyway, selectivity is key, as always. Higher energy & commodity prices for instance are supportive for export oriented countries such as Brazil or Russia.

CASH –> REMAIN NEUTRAL

- The above **raise of our equity allocation came at the expense of cash** which until now has had an overweight within our investment strategy. **Gold was rightly downgraded** on the back of lower rates and a lack of inflationary pressure. We might add gold again in the 1200-1250 USD per ounce area.
- We continue to expect the **USD to remain strong but not to appreciate much further** in 2019. The upper end of the multi-year trading range in the US Dollar-index may be reached shortly. EURUSD may thus go as low as 1.08 which in our eyes would represent a very compelling longer term buying opportunity.

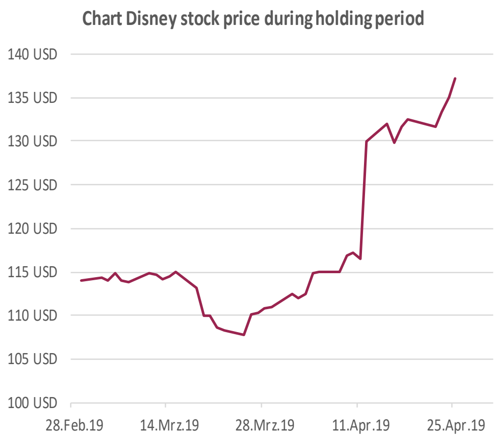
House View: our Preferences on one Slide

Asset Class	We Like	We Don't Like
Equities	*Area*: **Diversification among US~~, EU~~ & EM** *Sectors*: **Pharma, Consumer Defensives, Utilities, Technology** *Style:* **Growth (with Quality)**	*Area*: **~~China~~; UK, Switerzland** *Sectors:* **Telecom, ~~Energy~~** *Style:* **High growth *without* quality**
Bonds	*Duration:* **Medium term duration** up to **7** years *Area:* **US; *selected* Emerging Markets** *Credit:* **low grade IG**	Area: **China** *Credit:* **EU & US High Yield; Senior Loans**
FX & Commo-dities	*FX Majors:* **~~JPY~~, USD** *Commodities:*	*FX Majors:* **GBP; CAD** *FX Minors:* **~~NOK~~, TRY** *Commodities:*
Alternatives	*Alternatives:* **Gigant Option Based Equity Growth Strategy; strategies with uncorrelated payoffs to equity & bond market direction**	

mangenta = recent changes

Removed from our Model Portfolio: Walt Disney

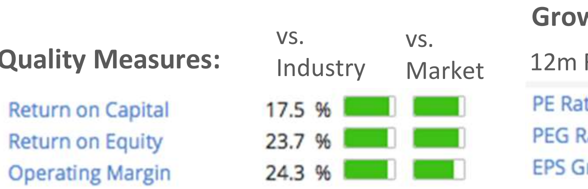
Sector:	Consumer Cyclicals
Risk Type:	**Conservative**
Market Cap:	246bn USD
Holding Period:	56 days
Total Return:	**+21.62%**



Company Description:
The Walt Disney Company is a diversified media conglomerate operating media networks, theme parks and resorts, film and TV studios and consumer products businesses. Its broadcast network targets upscale women, while its cable networks are focused on kids, family and sports. It is the global leader in theme parks with hotels and cruise lines aimed at families. Its film studio releases family friendly content from four distinct brands. It is the leader in global licensing to support its brands, and has 11 franchises with greater than $1B annual consumer products sales.

Rationale of Disposal:

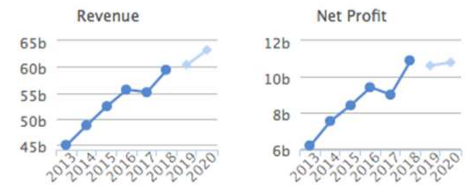
- Less than two months ago, when we released our fresh idea to buy shares of Disney, we wrote that «Disney is scheduled to launch its own streaming business called Disney+ in September 2019 to compete with Netflix.". It must have been an element of luck that only on 12th of April, Disney did not only introduced it Disney+ to investors but as well revealed content plans and gave aggressive growth estimates. All that sent shares higher by just over +9% in just a single day of trading.
- Since then, the prospects of Disney being able to seriously compete with Netflix has helped shares of Disney break out their 4 years sideways range and rank it among the Dow Jones top performers year to date. However, the gain off almost +100bn USD in market cap is equally impressive for a company which expects its new service to only break even in 2024.
- As much as we like the story behind Disney, recent price action screams for profit taking! We are happy buyer of Disney-shares at lower levels again.

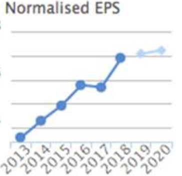


Quality Measures:		vs. Industry	vs. Market
Return on Capital	17.5 %		
Return on Equity	23.7 %		
Operating Margin	24.3 %		

Growth Measures: 12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	20.8		
PEG Ratio (f)	n/a		
EPS Growth (f)	-2.72 %		

Historical Revenue & Profit Evolution:

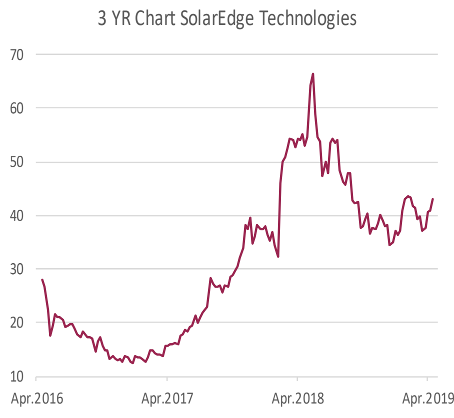




Source: www.stockopedia.com; FIS Market MAP; all numbers as of 25th of April

Added to our Model Portfolio: SolarEdge Technologies

Sector:	Energy
Risk Type:	**Adventurous**
Market Cap:	2bn USD
Dividend:	0%
1Yr-Return:	+26%



Company Description:

SolarEdge Technologies Inc (SEDG) designs and sells solar power optimizers and inverters for residential and small-scale solar power plants. SEDG outsources manufacturing of its products to third parties. The company's product differs from traditional solar inverter designs in that individual solar module power optimizers provide module level monitoring and power balancing, maximizing total system output under a variety of conditions. Users can thus replace multiple separate management devices ranging from storage (battery, backup and energy control) into one device. Since beginning of shipment in 2010, SEDG has shipped over 10,6 Gigawatt of optimized inverter systems and its products have been installed in solar PV systems in 133 countries.

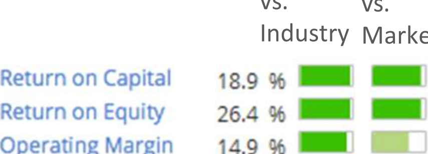
Investment Rational:

While most agree that the future of energy is with alternatives, investing in alternative energy sometimes resembles walking over a minefield. As with every fast growing and rapidly changing industry, there were a number of high profile bankruptcies to be witnessed (most prominently in the field of solar panel manufactures whose market was flushed with cheaper Chinese substitutes). With its intelligent inverter solution, SEDG is considered a solar equipment maker which is not directly depending on the cost of solar energy and/or the subsidy payments for alternative energy sources which are an important element in many of the worlds leading market. Since 2014, annual revenues of SEDG grew 44% CAGR and as of 2018, SEDG ranked global nr. 1 PV inverter supplier, well ahead of global players such as Huawei or ABB. With its most recent acquisition of Kokam, a global top 5 provider in the energy storage systems which provides batteries to electric vehicles, other transport industries and utility scale batteries, SEDG is well positioned to become an industry leading one-stop-shop for smart energy solutions.

Risk associated:

Unlike other direct stock investments in our Model Portfolio, SEDG has a relatively small market capitalization which may make their shares much more volatile. Given the superior risk profile of the renewable energy industry (and their dependency on policy decision) and the relatively "early stage" of SEDGs business, an investment into its shares does only qualify for investors with a medium- to long-term time horizon and who do not mind suffer a capital loss.

Quality Measures:

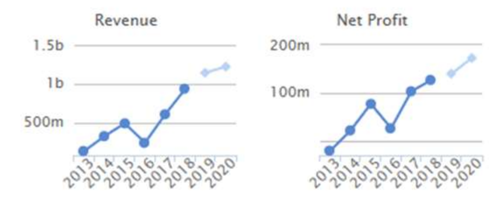


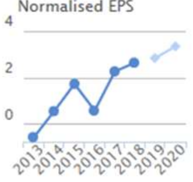
		vs. Industry	vs. Market
Return on Capital	18.9 %		
Return on Equity	26.4 %		
Operating Margin	14.9 %		

Growth Measures:

12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	14.2		
PEG Ratio (f)	1.48		
EPS Growth (f)	10.7 %		

Historical Revenue & Profit Evolution:





Source: www.stockopedia.com; FIS Market MAP; all numbers as of 18th of April 2019

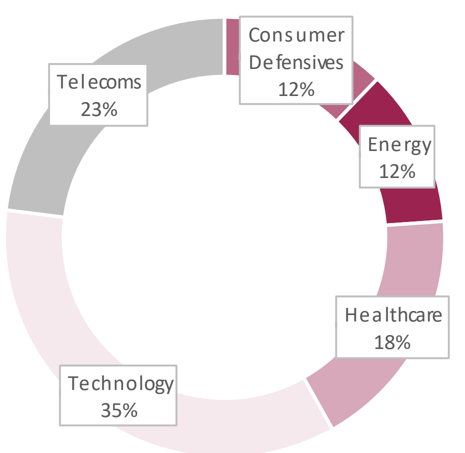
Overview US Equity Model Portfolio

Performance Overview	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+15.03%**	**-1.24%**	**+17.56%**	**+33.56%**
S&P 500	+16.73%	-6.24%	+19.4%	+30.70%
Dow Jones	+13.44%	-5.63%	+25.1%	+33.90%
Nasdaq 100	+23.49%	-1.04%	+27.1%	+60.72%

Current Situation:	
Current Value:	1’335’559 USD
Start Value:	1’000’000 USD
Realized Gains:	+257’329 USD
Unrealized Gains:	+38’698 USD
Cash:	420’584 USD (31%)
Equities:	914’975 USD (69%)

Evolution of 1Mio USD invested into the Gigant US Equity Model Portfolio since inception:

Current Sector Allocation:



computed by stockopedia.com; all data as of 25th of April; *) inception date = 31th of Dec 2016

GICS Sector	Stocks & Performance		
Energy	**SolarEdge Technologies** 6,30%		
Basic Materials			
Industrials			
Consumer Discretionary			
Consumer Defensives	**CVS Health** -33,90%	**Philipp Morris** 12,20%	
Health Care	**Merck** 29,70%		
Financials			
Technology	**Alphabet** 21,20%	**Microsoft** 8,20%	**YY** -14,70%
Telecom	**AT&T** -16,30%	**Soft Bank** 23,50%	
Utilities			
Real Estate			

performance = price returns excluding dividends

Changes to our USD Bond Portfolio:
SELL BBVA Banco Continental 2022 to BUY Volcan 2022

5% BBVA Banco Continental 26.08.2022

Rating:	BBB+
Selling Price:	105.675%
Hold. Period:	**588 days**
Tot. Return	**11.98%**

Rationale of Disposal: Credit Spreads of BBVA Banco Continental have compressed very aggressively over the course of 2019. Accordingly, today's yield to maturity stands at around 3,2% vs. 4,5% at peak in Q4 2018. Thanks to this surge in price, we can now lock in an attractive total return.

About the Issuer: BBVA Banco Continental is the second largest bank in Peru in terms of total assets and loans. Its domestic market share of total deposits hovers around 22%. We regard BBVA Continental as a solid financial institution with high systemic importance, and would expect Central Bank support in an improbable situation of extreme financial stress. In April 2018, S&P upgraded the entity from BBB to BBB+, with Stable outlook.

5.375% Volcan Compania Minera S.A.A 02.02.2022

Rating:	Ba2
Buy Price:	103.25%
YTM:	**4.12%**
Duration:	**2.47**
Min. Size:	2'000 USD

Investment Rationale: Admittedly, the credit rating of Volcan is weaker than that of BBVA which we replace (see above). However, the fact that Glencore (rated BBB+) de facto controls Volcan gives it a good level of stability. The +1% extra yield over BBVA thus looks attractive from a risk-reward point of view. Furthermore, this switch transaction does neither change duration- nor the geographic-exposure of our Portfolio.

About the Issuer: Volcan is a diversified Peruvian mining company that began its operations in 1943. It generates revenues from five mining units that include eight mines in operation, seven concentration plants, and one lixiviation plant. The company is the largest producer of zinc and lead, and the second-largest producer of silver in Peru, and is among the global top 10 in these three metals. In 2018, leverage (total debt divided by 12-month trailing EBITDA) declined to 2.4x, from 2.8x in December 2017. Most recent credit ratings have been on the positive side. The mining conglomerate Glencore holds a 24% economic interest in the company, including 55% of its voting shares.

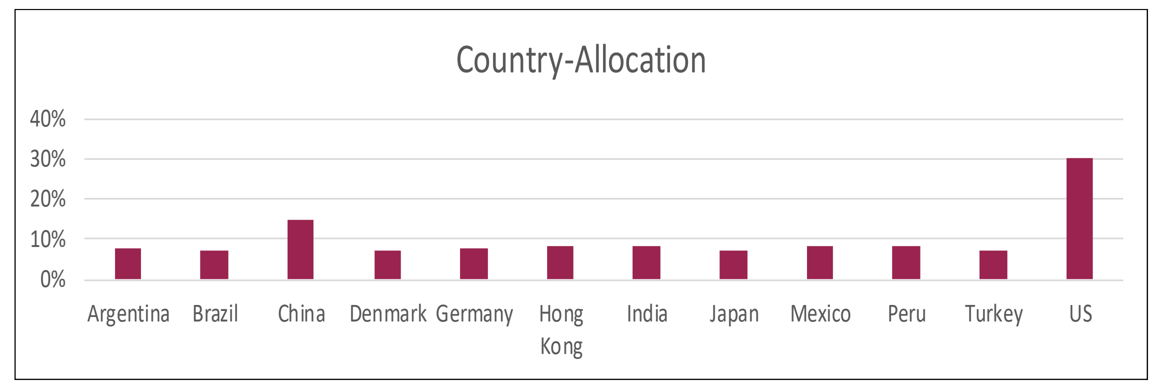
*) non-annualized total return including coupon payments, changes in accrued interest and price changes; all price data from FIS Market Map

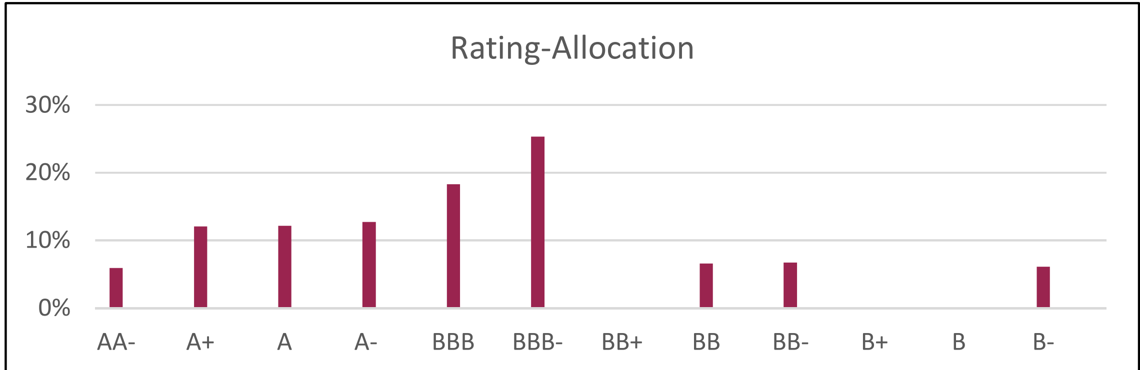
Overview USD Bond Model Portfolio

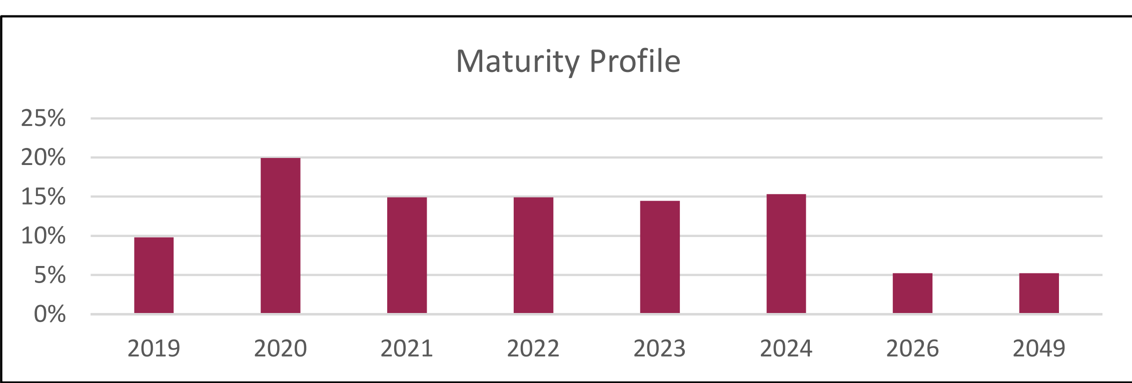
Performance Overview	YTD	2018	2017
Gigant USD Bond Model Portfolio	**+3.11%**	**+1.00%**	**+4.70%**
Bloomberg Barclays US Aggregate Index	+2.79%	+0.01%	+1.17%
Bloomberg Barclays EM USD Aggregate Index	+2.88%	-2.46%	+6.87%

Current Situation:	
Weighted average YTM:	3.94%
Weighted average Duration:	3.2

Source of data: FIS Market Map; own calculation; all data as of 26th of April







Constituents USD Bond Model Portfolio

	Coupon	Bond Instruments	Maturity	Rating	Country	Industry	YTM	Duration	Bid-Price	minimum size	Allocation
	5,750%	BUENOS AIRES, PROVINCE OF	15.06.2019	B-	Argentina	Municipality	9,20%	0,1	99,55	150.000 USD	4,89%
	4,125%	SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPO	07.10.2019	BBB-	China	Electrical & Electronic	3,63%	0,4	100,21	200.000 USD	4,96%
	4,950%	BARRICK (PD) AUSTRALIA FINANCE PTY LTD	15.01.2020	BBB-	Canada	Mining & Refining	3,40%	0,7	101,07	2.000 USD	5,04%
	4,375%	AFRICA FINANCE CORPN	29.04.2020	A3		Supranational Agency	3,11%	0,9	101,24	200.000 USD	5,06%
	4,000%	VOLKSWAGEN INTERNATIONAL FINANCE N.V.	12.08.2020	A3	Germany	Automobile Manufacturers	2,77%	1,2	101,54	100.000 USD	5,09%
	2,343%	FORD MOTOR CREDIT COMPANY LLC	02.11.2020	BBB	US	Finance & Investment	3,59%	1,4	98,19	200.000 USD	4,76%
	5,950%	**GAP INC**	**12.04.2021**	**BB-**	**US**	**Supermarkets & Stores**	**3,62%**	**1,8**	104,35	**200.000 USD**	**5,37%**
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	3,05%	2,0	98,63	200.000 USD	4,80%
	2,125%	CORPORACION ANDINA DE FOMENTO (CAF)	27.09.2021	AA-		Supranational Agency	2,97%	2,3	98,05	1.000 USD	4,74%
	5,375%	**VOLCAN COMPANIA MINERA S.A.A.**	**02.02.2022**	**BB**	**Peru**	**Mining & Refining**	**4,16%**	**2,5**	103,13	**200.000 USD**	**5,25%**
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	3,07%	2,8	99,08	200.000 USD	4,84%
	2,500%	PHILIP MORRIS INTERNATIONAL INC.	22.08.2022	A	US	Tobacco	2,80%	3,1	99,07	1.000 USD	4,84%
	3,100%	GENERAL ELECTRIC CAPITAL CORPN	09.01.2023	A	US	Finance & Investment	3,33%	3,4	99,19	200.000 USD	4,86%
	3,500%	BRASKEM AMERICA FINANCE COMPANY	10.01.2023	BBB-	Brazil	Chemicals	3,93%	3,3	98,54	200.000 USD	4,79%
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	4,14%	3,8	98,96	2.000 USD	4,83%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	3,89%	4,1	103,69	200.000 USD	5,31%
	5,250%	ALFA, S.A.B. DE C.V.	25.03.2024	BBB-	Mexico	Industrial (General)	4,12%	4,1	104,99	200.000 USD	5,44%
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	5,01%	4,6	96,27	2.000 USD	4,57%
	5,150%	GAZPROM OJSC	11.02.2026	BBB	Russia	Oil & Petroleum	4,56%	5,5	103,38	200.000 USD	5,27%
*)	4,750%	TOWNGAS FINANCE LTD	12.08.2049	A-	Hong Kong	Utilities	4,55%	15,7	103,35	200.000 USD	5,27%
						weighted average YTM and Duration	***3,94%***	***3,2***			

Source: FIS MarketMap; all data as of 26th of April

mangenta = recent changes

*) = Perpetual Bond with next call date on 31th of Jan 2024

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