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Investment Letter No 10
Week 28
2019

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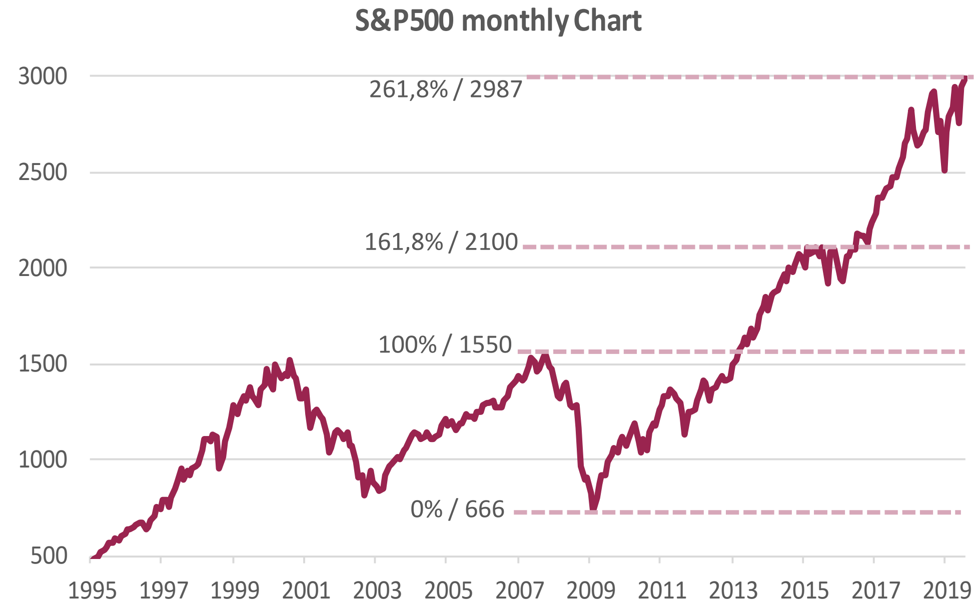
Have we reached the top?

The **macro economic environment is deteriorating rapidly** and questions are arising whether the current economic expansion which is in its 10th year will shortly coming to an end (*we have covered this extensively in our latest Investment Letters – see No 9, page 4-5 or No 5, page 3-4).* Anyhow, **in anticipation of easier FED policy**, the **stock market** has recouped its May losses and instead **rallied to a fresh record high** in early July (*see chart on the right).* In retrospective, this development does even look somewhat logic: when the economic prospects darkens sharply (as caused this time by the Trade War), policy rates suddenly appear inappropriately high. Consensus then grows that the policy needs to be eased to fight the slowdown and expectations for policy easing can help risk assets to rise again. **From a technical perspective**, the all important **S&P 500-index**, the world's largest stock market index and benchmark for trillions of equity related derivatives **has now reached a multi year projection target in the area of 3'000 points**. Thus, with **aggressive central bank policy easing now being priced in**, the economic outlook remaining uncertain and major technical projection targets being reached, **the odds are clearly NOT in favour for a decisive & lasting break above the 3'000 level**.



For that to happen, we would need to see a quick confirmation that the economy will pick up again for what we have no evidence for now. Subsequently, failing at the current level does not mean that a bear market must unfold all of a sudden. As a matter of fact, **markets can well trade sideways for months** or even years. However, **should the easing central bank policy fail to boost the economy** (a scenario which we have had back in 2008), then **one better prepares for an extended period of weakness in equity land**. If one thing is clear for now than that now is not the time for substantial fresh equity purchases.

Source: FIS Market Map

The case for gold and how to invest

The investment case for gold:

Gold is gaining **relative attractiveness** vs other asset classes **during times of falling interest rates**. Furthermore, gold usually performs well during **periods of macro economic uncertainty** since many investors but it as a hedge against a potential drop in risk assets. Gold does also perform well **when the USD is weakening**. While we don't think the USD will weaken substantially, at least FX is not a tailwind to gold for now. As one can see from the chart on the right, gold has **just surpassed a multi-year resistance** at USD 1400 per ounce.

What you should bear in mind:

Holding gold does not pay any interest or dividend. Instead it comes with costs (for storage or in form of opportunity costs). The sole return an investor may achieve is by selling at a higher price in the future.

How investors can get exposure to gold:

	Trading Unit	Market	Costs	Pro	Contra
Physical Gold	any, ranging from grams to kilo bars	interbank market; must be stored in bank vault	high costs for transport and storage	physical ownership of gold	by far the most expensive type of gold investment
Gold Ounces	1 ounce (worth approx. 1410 USD)	interbank market; likewise to foreign exchange markets, spot and forward transactions possible	no storage costs: same transaction costs as when trading foreign currencies	spot or forward transactions possible. The later allows for purchase on margin (from 250k USD onwards)	no physical ownership of gold
Gold ETF	1 lot (starting from approx. 100 USD)	various Exchanges; e.g. GLD on New York Stock Exchange or ZKB Gold on Swiss Exchange	no storage costs; transaction costs likewise to a stock transaction; management costs of ETFs usually < 20bps p.a.	easy to handle; cost efficient	physical ownership of gold possible but just on request; trading hours limited to opening hours of exchange

Source: FIS Market Map; Gigant Swiss Consulting

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN NEUTRAL

- We continue to believe that the growth oriented technology sector will continue to outperform thanks to the now well - known **“secular growth in a low growth, low inflation environment”-narrative.** Anyhow, stay off the trade sensitive semiconductor sub-sector.
- As long as growth which benefits from a lot of momentum, remains the style of choice, there is **no need to run after value stocks**, no matter how attractive their valuation they might look like.
- As highlighted on page 3, there is a major resistance for the S&P500-index is at 3’000 points. The market may well overshoot in the short term (e.g. up to 3035) but only a monthly closing above that level would clear the way for further upside. Better **prepare for months of choppy sideways trading** instead of outright short positions.
- The upcoming **Q2 earnings season is likely to bring a variety of guidance cuts** and cautious outlooks which again should temper stock investors current euphoria again.
- Apart from tech, **pharma is our other top sector pick**. Consumer Defensives look a bit stretched after the tremendous run over the last 6 months (2nd best sector performance after tech). No need to dump it yet but refrain from additional purchases.

CASH –> REMAIN NEUTRAL

- **Boring but save & stable**. With stocks near record highs and after one of the strongest quarters for bonds in a decade, holding cash for some time is by no means wrong.
- After almost 4 months of bottom building, the EUR seems now ready to move higher against the USD. Target 1,18 for the next 12 months. The USD-index has likely peaked. Don’t count on further USD-strength though.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- Over the past years, **a FED in easing mode was usually good for High Yield bonds?** To be frank, **we don't think it would be wise to chase them at this very late stage of the cycle once spreads are already at record lows.** The extra few basis points of yield one can earn presently is just not worth the potential downside if sentiment towards risk assets was to turn negative again. Likewise, avoid Senior Loans and Convertible Bonds. Better **stay in low IG or selected non-IG of the better rating brackets** for the months to come.
- **Emerging Market debt will shine further** in our eyes as looser monetary policy combined with a slightly weaker USD is likely to outweigh threats of a deteriorating macro economic environment.
- With the dramatic shift of FED policy in the last 6 months (from expected 2 rate hikes to 3 cuts for the 12 months to come), the market might have gotten a bit ahead of itself. Anyhow, unlike in 2018, the future **the direction for rates will be down with only the speed of rate cuts in question.** For the time being, we do not make any changes to our duration exposure.

ALTERNATIVES –> REMAIN OVERWEIGHT

- Lower rates for longer is the guiding principle (again): and thus the hunt for yield in alternative assets is on an will again lead to higher prices in this asset class.
- **Gold is back in the spotlight during times of low rates and low inflation.** See *page 4* for a more detailed overview about gold.

House View: our Preferences on one Slide

Asset Class	We Like	We Don't Like
Equities	*Area*: **Diversification among US, EM** *Sectors*: **Pharma, Consumer Defensives, Utilities, Technology** *Style:* **Growth (with Quality)**	*Area*: **China; UK, Switzerland** *Sectors:* **Telecom** *Style:* **High growth *without* quality**
Bonds	*Duration:* **Medium term duration** up to **7** years. *Area:* **US; *selected* Emerging Markets** *Credit:* **low grade IG**	*Duration*: **below 2 years** *Area*: **China** *Credit:* **EU & US High Yield; Senior Loans; Convertible Bonds**
FX & Commo-dities	*FX Majors:* **~~USD~~; JPY, CHF** *Commodities:* **Gold**	*FX Majors:* **GBP; ~~CAD~~** *FX Minors:* **TRY** *Commodities:* **Base Metals**
Alternatives	*Alternatives:* **Gigant Option Based Equity Growth Strategy; strategies with uncorrelated payoffs to equity & bond market direction**	

mangenta = recent changes

Overview US Equity Model Portfolio

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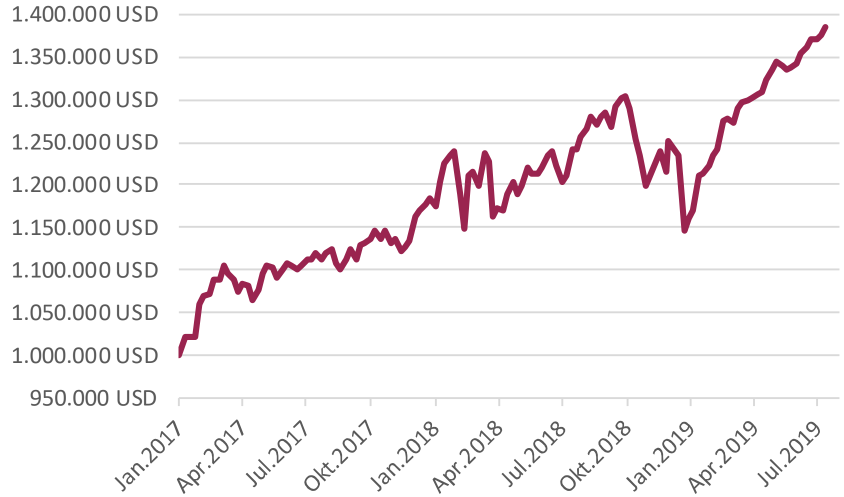
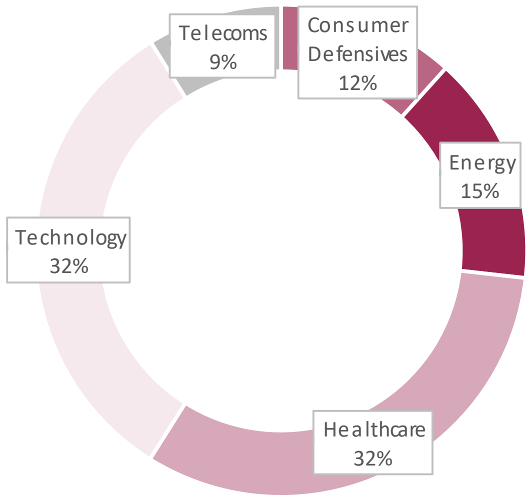
Performance Overview	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+19.25%**	**-1.24%**	**+17.56%**	**+38.45%**
S&P 500	+19.67%	-6.24%	+19.4%	+33.99%
Dow Jones	+16.12%	-5.63%	+25.1%	+37.07%
Nasdaq 100	+24.75%	-1.04%	+27.1%	+62.36%

Current Situation:	
Current Value:	1’384’492 USD
Start Value:	1’000’000 USD
Realized Gains:	+282’650 USD
Unrealized Gains:	+57’821 USD
Cash:	450’366 USD (33%)
Equities:	934’126 USD (67%)

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 11th of July; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

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GICS Sector	Stocks & Performance		
Energy	**SolarEdge Technologies** 40,70%		
Basic Materials			
Industrials			
Consumer Discretionary			
Consumer Defensives	**CVS Health** -28,00%	**Philipp Morris** 9.1%	**Intuitive Surgical** 13,00%
Health Care	**Merck** 37,60%		
Financials			
Technology	**Alphabet** 10,30%	**Microsoft** 16,00%	**YY** -29,70%
Telecom	**AT&T** -10,20%		
Utilities			
Real Estate			

performance = price returns excluding dividends

computed by stockopedia.com; all data as of 11th of July

Overview USD Bond Model Portfolio

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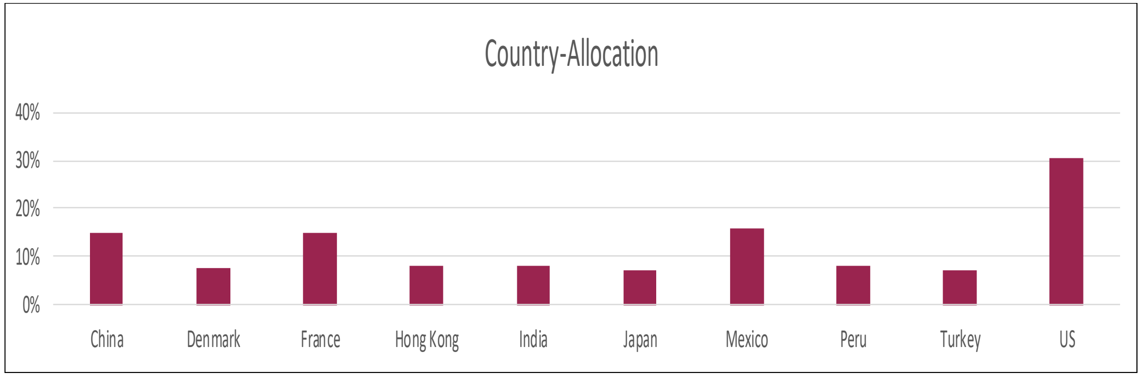
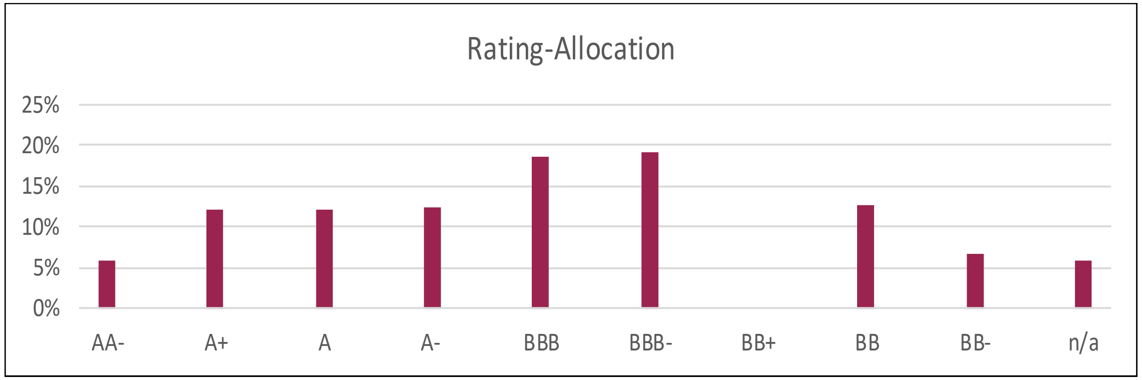
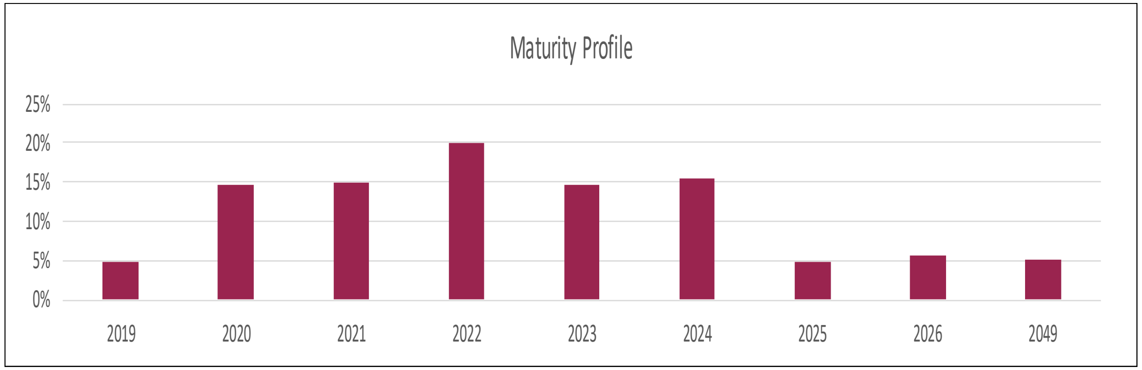
Performance Overview	YTD	2018	2017
Gigant USD Bond Model Portfolio	**+4.70%**	**+1.00%**	**+4.70%**
Bloomberg Barclays US Aggregate Index	+5.66%	+0.01%	+1.17%
Bloomberg Barclays EM USD Aggregate Index	+6.87%	-2.46%	+6.87%

Current Situation:	
Weighted average YTM:	3.42%
Weighted average Duration:	3.4







Source of data: FIS Market Map; own calculation; all data as of 12th of July

Constituents USD Bond Model Portfolio

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	Coupon	Bond Instruments	Maturity	Rating	Country	Industry	YTM	Duration	Bid-Price	minimum size	Allocation
	4,125%	SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPO	07.10.2019	BBB-	China	Electrical & Electronic	3,13%	0,2	100,22	200.000 USD	4,84%
	4,950%	BARRICK (PD) AUSTRALIA FINANCE PTY LTD	15.01.2020	BBB-	Canada	Mining & Refining	2,77%	0,5	101,07	2.000 USD	4,92%
	4,375%	AFRICA FINANCE CORPN	29.04.2020	A3		Supranational Agency	2,73%	0,8	101,27	200.000 USD	4,94%
	2,343%	FORD MOTOR CREDIT COMPANY LLC	02.11.2020	BBB	US	Finance & Investment	2,82%	1,2	99,39	200.000 USD	4,76%
	5,950%	GAP INC	12.04.2021	BB-	US	Supermarkets & Stores	3,15%	1,6	104,70	200.000 USD	5,28%
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	2,64%	1,8	99,49	200.000 USD	4,77%
	2,125%	CORPORACION ANDINA DE FOMENTO (CAF)	27.09.2021	AA-		Supranational Agency	2,49%	2,1	99,21	1.000 USD	4,74%
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	BB	Peru	Mining & Refining	3,72%	2,3	103,99	200.000 USD	5,21%
	5,375%	**PETROLEOS MEXICANOS (PEMEX)**	**13.03.2022**	**BB**	**Mexico**	**Oil & Petroleum**	**5,13%**	**2,4**	100,59	**200.000 USD**	**4,87%**
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	2,94%	2,6	99,50	200.000 USD	4,77%
	2,500%	PHILIP MORRIS INTERNATIONAL INC.	22.08.2022	A	US	Tobacco	2,43%	2,9	100,19	1.000 USD	4,84%
	3,100%	GENERAL ELECTRIC CAPITAL CORPN	09.01.2023	A	US	Finance & Investment	2,80%	3,2	101,00	200.000 USD	4,91%
	5,250%	**LOUIS DREYFUS COMPANY B.V.**	**13.06.2023**	**n/a**	**France**	**Commodity Trading**	**5,04%**	**3,3**	100,75	**200.000 USD**	**4,89%**
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	3,32%	3,7	102,14	2.000 USD	5,02%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	3,38%	4,0	105,67	200.000 USD	5,38%
	5,250%	ALFA, S.A.B. DE C.V.	25.03.2024	BBB-	Mexico	Industrial (General)	3,65%	4,0	106,86	200.000 USD	5,50%
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	4,70%	4,4	97,80	2.000 USD	4,61%
	3,375%	BNP PARIBAS	09.01.2025	A-	France	Banking & Finance	2,96%	4,8	102,08	200.000 USD	5,02%
	5,150%	GAZPROM OJSC	11.02.2026	BBB	Russia	Oil & Petroleum	3,93%	5,4	107,02	200.000 USD	5,52%
*)	4,750%	TOWNGAS FINANCE LTD	12.08.2049	A-	Hong Kong	Utilities	4,50%	15,7	104,13	200.000 USD	5,22%

Source: FIS MarketMap; all data as of 12th of July

mangenta = recent changes

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

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