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Investment Letter No 15
Week 46
2019

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Yield Cockpit

Overview current effective yields in USD *)

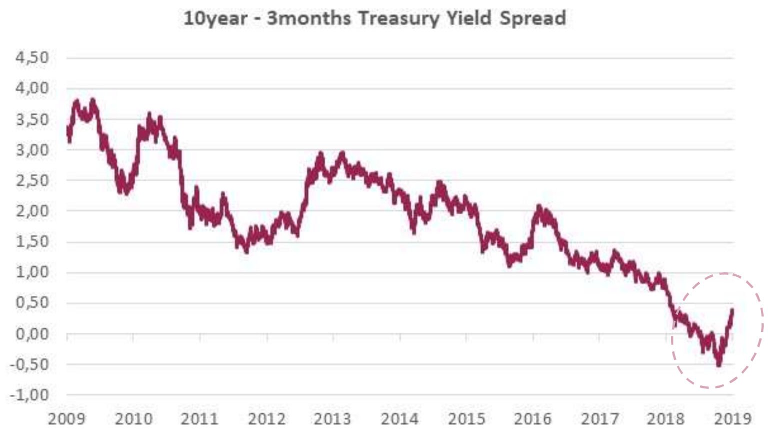
	current	2months ago
3 Months US T-Bills	**1.54%**	**1.95%**
2 Year US Treasury	1.66%	1.73%
5 Year US Treasury	1.73%	1.65%
10 Year US Treasury	1.92%	1.77%
3-5 Year IG Corp Bonds	**2.50%**	**2.61%**
7-10 Year IG Corp Bonds	3.06%	3.11%
15+ Year IG Corp Bonds	3.78%	3.86%
High Yield BB-rated	3.98%	3.96%
High Yield B-rated	5.92%	5.82%
EM Corporate Bonds	**4.22%**	**4.38%**
EM Sovereign Bonds	5.08%	5.36%
Spreads & Inflation		
FED Funds Rate	1.75%	2.00%
TED-Spread	0.37%	0.21%
10yr–2yr Treasury Spread	0.25%	0.03%
5yr Breakeven Inflation	1.54%	1.40%
10yr Breakeven Inflation	1.62&	1.59%

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

Source: BofA Merrill Lynch Indices retrieved from Federal Reserve Bank of St.Louis; Bloomberg Barclays Index Data; NY FED; all data as of 13th of November

What to take note of:

- Since the end of August, the **USD Treasury yield-curve has** un-inverted and **steepened quite significantly**. As one can see from the graph underneath, the spread of the yield of 10yr Treasury bonds over that of 3months Treasury Bills has widened from -0.49% to +0,40%. For investors, this means that the **extra yield an investor can earn by holding 10yr Treasury bonds over 3month Bills has soared** by almost +0,90% time in just two months time. While this is **still low by historic standards**, it also tells us that holding bonds at the longer end of the yield curve (something which we have avoided for the last months) posted a small loss while short term bonds rose (thanks to the FED which lowered rates 2x and actively buys short term Treasury Bills). We believe that the **current steepening** of the yield curve which is basically a function of a "better than feared economic development" **has further room** which is why we continue to avoid unnecessary exposure to longer-term bonds *(see page 7 for details).*
- The impact of the above phenomenon on borrowers should not be underestimated. **Quickly rising borrowing costs historically spelt troubles for corporations, in particular during times like now where the overall debt level is as high as hardly ever before**. As we have showed here in the past, it is usually not the inversion of the yield curve which actually triggers a recession but the subsequent steeping of the curve.



New highs- but are they worth being bought? (1/2)

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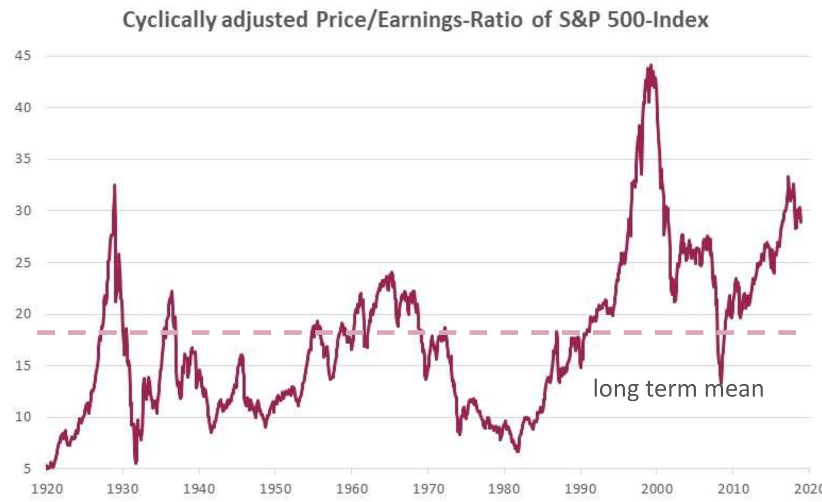
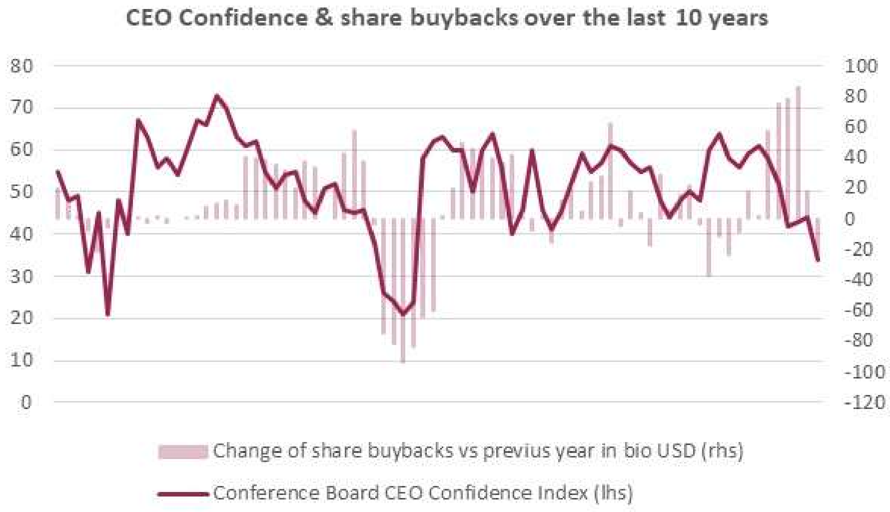
On the back of less bad than expected macro- and micro-economic data as well as a glut of fresh liquidity induced by Central Banks, important **US equity benchmarks have** finally **broken** their 18-months long **sideways ranges to the upside** *(see upper chart on the right)*. In the past, we have argued that a break of these levels would, at least **from a technical perspective, open the way for further** equity market **gains** and indeed, it seems as if many investors apparently believe that in case economic growth was to accelerate (again), it will propel the equity market further up. However, we note two observations here which are important in our eyes: first, a **fresh bull market usually starts from levels which are substantially below previous record highs**. That is not the case this time so it would not be wise to expect a rally of an additional 20-30%. Secondly, it should be noted that the **market has never been cheap over the past years** *(see lower chart on the right).* No matter which metric one takes, all conclude that the market is highly expensive by historic means! From that perspective, a potential **resumption of past growth rates is in todays prices already!** We at Gigant are of the opinion that over the long term, the market will reverse back to its historical mean and indeed, the **current** level of the **valuation is a reliable indicator for calculating the longer term expected return** and with **meagre returns most likely ahead of us**, we don’t see the point to pay record high prices for it today. That all said, **an overshooting is always possible** as there is no law prohibiting a hyperbole. In that regards, a scenario similar to late 1999/early 2000 looks increasingly possible to us. For the sake of dropping a number, our **best guess** is that the **upside until end of Q1 2019 is in the area of +10%** at best.



Source: FIS MarkeMap; University of Yale; UBS

New highs- but are they worth being bought? (2/2)

We very well understand the bull's argument of the strong impact of expanding central bank balance sheets on risk assets but as long as the fundamental situation is dire as described above, our prudence prevents us from turning bullish. **"Fear of missing out"** might influence the thinking of many asset managers whose result is benchmarked but in our eyes, it **is just not enough to build an investment case**. And it seems as if our thinking is joined by a group of successful decision makers. According to a recent report published by UBS, one of the world's largest asset managers for wealthy individuals, their **billionaire** clients **brace themselves for a turbulent 2020** with holdings of 25% in cash. We conclude that if one the best informed investor groups apparently is not willing to wager large parts of their own money onto risky assets at current elevated prices, it would probably be unwise to do the opposite- now matter how tempting the see of liquidity from central banks might look like. And speaking about liquidity, most US corporations have plenty of – not last thanks to the US Tax Reform 2017. But rather than investing this cash into the real economy, corporations implemented large share buyback programs. In 2018, shares worth 800bn USD were repurchased, making **corporate buybacks the single biggest group of equity buyers** for large parts of the bull market of the last decade. However, **during Q2, corporate buybacks from S&P500 companies fell -18%** compared to Q1 19. The amount being spent this year is down -17% from a year earlier according to study from Goldman Sachs. This rather dramatic drop perfectly correlates with a drop in confidence of business leaders *(see chart above)*. For instance, the CEO confidence-index dropped to the lowest level since the Global Financial Crisis. The link between business confidence and the level of buyback activities is rather obvious: during times of higher uncertainty, companies spend less- also for share buybacks. So if **one of the largest buyers of shares over the last years is reducing his activities**, this is **another reason of not turning overly euphoric**. And last but not least, as **our stock selection** *(which can be tracked by our Model Portfolio- see page 13-14 for details)* **has outperformed** the broader market quite handsomely over the last years, we are now **in a comfortable situation where we can afford to miss out a few percentage point**. And a last reminder for those who nonetheless want to place some small punts on stocks: wait for a setback of the S&P500 to approx. 3025 as in technical terms, a break-out is only confirmed once the previous high has been tested again.



Source: FIS MarkeMap; The Conference Board; Goldman Sachs

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN UNDERWEIGHT

- For the time being, we **continue to hold on to our "underweight"-exposure** on equities which was established in late August. In the last edition of this Investment Letter, we summarized an outlier scenario in which the looming recession can be avoided. We wrote that such a scenario would require us to not only increase our equity allocation but also to rotate in more cyclical sectors and higher beta-stocks. We labelled a decisive break above the 2-year old upwards-trend line as trigger-point. Fast forward to today, this **breakout has indeed happened** and some of the **most recent economic data releases point towards a scenario, where growth is not deteriorating any further**. The rather extreme stimulus by central banks has done a full job – and be it mainly in turning around investor's mood for now. However, as we have detailed on *page 4*, **this is rarely the start of a fresh bull market**. We therefore remain prudent and set a new trigger to reconsider our alternative scenario: the moment the US agrees to remove tariffs on China (but bear in mind: "marketing" tweets from the sort of "making good progress" does not equal a inked deal).
- As long as we maintain our base case scenario, **we also maintain most of defensive sector preferences** (pharma, consumer defensives) but we are finally **removing technology**. Instead, on the back of a steepening yield curve, we **add financials** to our preferred list.
- In terms of styles, the most recent performance allows the conclusion that the **year-long-outperformance of "momentum" has taken its course**. Whether this ultimately implies the rebirth of value remains to be seen which is why **for the moment we do not have any strong preferences for any dedicated style**. However, **we do hold the two most prominent value stocks** of the Dow Jones (AT&T as well as CVS Health) **in our model portfolio** so no one need's to be afraid an eventual "value-renaissance" would be missed.

CASH –> REMAIN NEUTRAL

- **Boring but save & stable**. With stocks near record highs and bond yields back down at record low levels, holding cash for some time is by no means wrong. As we elaborated in greater detail in the recent past, **holding cash in form of short term fiduciary deposits or Treasury-Bills is most likely more attractive than buying longer term bonds**. An as a side effect, keeping cash leaves investors with enough dry powder for eventual future opportunities (wherever they might arise).

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- Our assumption of a further steepening yield curve *(see page 3 for details)* implies that durations in portfolio should not be kept overly long. While short term bond investments will not result in large gains, they will nonetheless generate moderate returns with very limited risk.
- We are of the opinion **that demand for yield carry** which is usually high during period of low rates will keep **demand for Emerging Market Bonds** high. Additionally, it further upside potential for the USD is truly limited which again is an ideal background for Emerging Market Bond investments.
- Corporate leverage is at all time high and rapidly rising borrowing costs pose a threat. Was the yield curve to steepen quickly, access to re-financing could get sticky. True, high earnings margins and low rates have supported low credit spreads for now but we are of the opinion that the current credit spreads do offer a poor risk reward-ration. **We** rather **buy / hold corporate bonds with relatively solid credit fundamentals**.
- If it comes to the riskiest parts of fixed income investments, we repeat our mantra again and again: Avoid large exposure to riskier buckets of the bond market such as **High Yield, Senior Loans or Convertible Bonds. The only riskier bet we advocate for now is subordinated bank debt** of borrowers whose senior debt has above average credit ratings.

ALTERNATIVES –> REMAIN OVERWEIGHT

- We have advocated exposure to gold for quite some time and **we continue to believe that over the medium term (i.e. > 12months time), gold will benefit from its save-haven status.** True, over the last 3 months, gold was in consolidation mode (which again is not truly unusual after the steep raise earlier this year). Anyhow, the **area of 1’440- 1’450 USD per ounce offers ample of support** from which we expect gold to resume its uptrend again. T**hose who do not yet have any exposure to gold may find an opportunity here to add positions here.** Pencil in USD 1’700 as a target.

House View: our Preferences on one Slide

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Asset Class	We Like	We Don't Like
Equities	*Area*: **Diversification among US, EM** *Sectors*: **Pharma, Consumer Defensives, ~~Technology~~, Financials** *Style:* **Growth (with Quality)**	*Area*: **~~China~~; UK, Switzerland, Hong Kong** *Sectors:* **Telecom, Energy** *Style:* **High growth *without* quality**
Bonds	*Duration:* **Medium term duration** up to **5** years. *Area:* **US; *selected* Emerging Markets** *Credit:* **low grade IG**	*Duration*: **long term duration ~~>10~~ 7 years** *Area*: **China** *Credit:* **EU & US High Yield; Senior Loans; Convertible Bonds**
FX & Commo-dities	*FX Majors:* **JPY, CHF** *Commodities:* **Gold**	*FX Minors:* **TRY** *Commodities:* **Base Metals, Crude Oil**
Alternatives	*Alternatives:* **Gigant Option Based Equity Growth Strategy; strategies with uncorrelated payoffs to equity & bond market direction**	

mangenta = recent changes

Product of the Week: 1 Year Low Strike Reverse Convertible on two of the largest gold miners (1/2)

Investment Rationale:
Gold Miners are of the few stocks which have limited exposure to the ups- and downs of the overall equity market. Rather, their fate is largely driven by the price of gold whose level is the predominant driver of their profitability. While gold has already appreciated by about +13% in 2019, we believe gold is very unlikely to drop meaningfully thanks to a less **stronger USD**, a mild inflation and **golds ability to act as a hedge against macro economic risks**. Accordingly, the future downside for gold mining stocks looks equally limited in our eyes.

How it works:
- The investor receives a **fixed & guaranteed coupon of 7% p.a. The invested amount is fully repaid if none of the two stocks within the basket trades < 65% of today's level <u>at maturity date in 1 years time</u>.**
- Accordingly, the investor will only suffer a capital loss in case the worst performing of the two underlying shares looses *more* than -35% of today's value at maturity date. In that case, the capital loss would be equal to the negative performance of the worst performing stock.
- After 3 months onwards, the issuer may early recall this note at 100% in case both underlying stocks trade above their initial level.

Source: FIS Market Map

Product of the Week: 1 Year Low Strike Reverse Convertible on two of the largest gold miners (2/2)

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Preliminary Product Parameters:

Issuer:	Bank Vontobel (credit rating: A2)
Coupon:	7% p.a.; paid monthly (0.58%)
Maturity	1 year
Barrier at Maturity:	65% of today's share price of Barrick Gold & Newmont Goldcorp
Minimum Investment Size	1'000.- USD
Early Redemption:	monthly, first after 3 months, if both underlying shares >100%

Where your risks are:

Scenario Analysis at Maturity:

Performance of wort performing share at maturity of product:	Capital Loss of invested amount:	Interest Payment:
+50%	0%	7%
+40%	0%	7%
+30%	0%	7%
+10%	0%	7%
0%	0%	7%
-10%	0%	7%
-30%	0%	7%
-35%	0%	7%
-40%	-40%	7%
-50%	-50%	7%

The selected underlying stocks:

BARRICK

Barrick Gold Corporation is the world's largest gold miner. Barrick operates mines and develops projects in the United States, Canada, South America, Australia, and Africa. Since 2015, they sold several assets and reduced debt by over USD5bln. Five large mines provide over 60% of overall production at a very competitive price and produce over 75% of Free Cash Flow from operations. In 2018, it produced 4,5mio ounces of gold at an all-in cost level of USD 806.- per ounce as well as 383mio pounds of copper. For 2019, the market expects Barrick to poste revenues worth 9,7bn USD and a profit of about 975mio USD. The company's market cap is currently approx. 30bn USD.

NEWMONT GOLDCORP

Newmont Goldcorp Corporation is an American gold mining company with operations in the US, Australia, Peru, Indonesia, Ghana, Canada, Bolivia, New Zealand and Mexico. After completion of the merger with Goldcorp in early 2019, the company second largest gold producer and one of the few growing gold volumes. Newmont has approx. 24'500 employees and is the only gold company in the S&P500-index. For 2019, the market expects Newmont Goldcorp to post revenues worth 9,7bn USD and a profit of about 1bn USUSD. The company's market cap is currently 30,5bn USD.

Removed from our US Equity Portfolio: Alphabet

Alphabet

Sector:	Technology
Risk Type:	**High Flyer**
Market Cap:	879bn USD
Holding Period:	627 days
Total Return:	**+24.3%**

Company Description:
Alphabet is a holding company comprised of the internet search engine “Google” and a variety of other businesses collectively called “Other Bets”. According to various sources, Google and YouTube’s web pages were the most visited Internet properties in the world. Further to the search engine Google and the ownership in YouTube, Alphabet developed and manages the Android operating systems.

Rationale of Disposal:
On 28th of October 2019, shares of Alphabet finally hit a fresh all time high around USD 1299.- After the market close of the same day however, the company reported Q3 2019 earnings which slightly missed analyst estimates. Accordingly, the stock dropped back to approx. USD 1270.- in after hours. The main source for the miss were higher costs for their cloud computing activities, a segment Alphabet wants to catch up to market leaders Amazon & Microsoft. That is not a tragedy as future growth usually comes with higher costs for staff, R&D etc. Furthermore, it should be noted that fundamental results remain strong and that mobile search saw robust demand. However, the earnings release might not be enough to propel Alphabet shares above the USD 1300.- resistance, a level the stock has already 2x failed to clear. Since we hold shares of Alphabet for more than 18months, it seems as a good moment to lock in the accumulated profits. Should there be more pronounced stock price weakness for the months to come, we are happy buyers at lower levels again

Chart Alphabet stock price during holding period

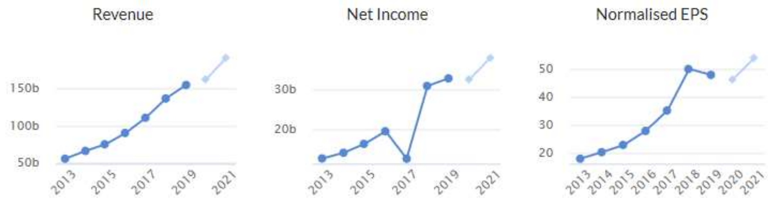
Quality Measures:

		vs. Industry	vs. Market
Return on Capital	14.7%		
Return on Equity	19.6%		
Operating Margin	21.78%		

Growth Measures:

12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	23.3		
PEG Ratio (f)	2.3		
EPS Growth (f)	11.1%		

Historical Revenue & Profit Evolution:



Added to our US Equity Portfolio: NextEra Energy

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NEXTera ENERGY

Sector:	Utilities
Risk Type:	**Conservative**
Market Cap:	115bn USD
Dividend:	2.3%
1Yr-Return:	+36%

Company Description:
NextEra Energy is a leading clean energy provider with approximately 46,000 megawatts of generating capacity, composed principally of renewable, emission-free nuclear, and gas-fired. NEE operates Florida Power & Light (FPL) and NextEra Energy Resources (NEER). FPL is a regulated electric utility serving approximately 5 million customers in Florida. NEER is the world's largest generator of renewable wind and solar energy.

Investment Rationale:

- NextEra Energy (NE) is the largest energy utility company in Florida, a state which is expected to experience continued population growth thanks to its warm climate. NE offers among the lowest rates in the country and above-average reliability which puts in a good relationship with regulators which ultimately control NE's customer rates.
- The NEER unit sells power from renewable sources to third parties under long-term contracts which provide steady income. Accordingly, NE is among the utilities best positioned from the secular trend towards renewable and clean power and the management has committed up to 30bn USD of capital spending until 2022 in order to keep capacity keeping up with rising demand.
- NE's management targets group earnings growth of 6-8% for the years to come which is well above industry average for utilities and in late October, the company just announced strong earnings across all three segments. For 2019 it remains on track to hit the high end of its full-year outlook.
- Shares of NE are not cheap, no matter which price metric you consider. Anyhow, we are of the opinion that in today's fragmented market, investors must pay a premium for owning a "strategic winner" over a strategic looser" and those premiums will probably even increase over time.
- Last but not least, earnings of utility companies are less geared to the economic cycle which should make its shares a good add on to our Model Portfolio during this late stage of the economic cycle.

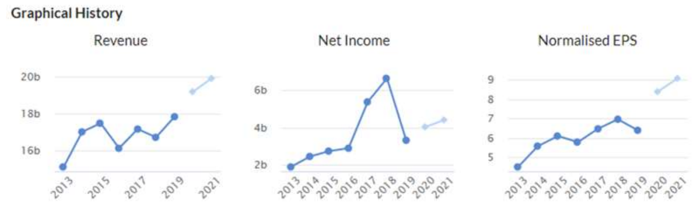
Quality Measures:

		vs. Industry	vs. Market
Return on Capital	5.1%		
Return on Equity	10.0%		
Operating Margin	27.72%		

Growth Measures:

12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	26.4		
PEG Ratio (f)	2.9		
EPS Growth (f)	10.2%		

Historical Revenue & Profit Evolution:



Source: www.stockopedia.com; FIS Market MAP; all numbers as of 24th of October

Overview US Equity Model Portfolio

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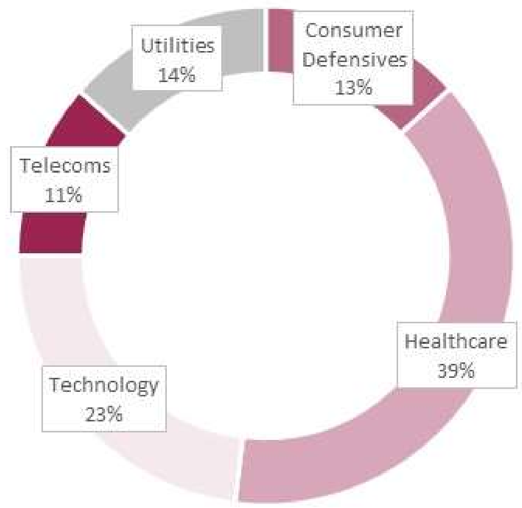
Performance Overview	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+27.88%**	**-1.24%**	**+17.56%**	**+48.48%**
S&P 500	+23.53%	-6.24%	+19.4%	+38.31%
Dow Jones	+19.10%	-5.63%	+25.1%	+40.58%
Nasdaq 100	+30.46%	-1.04%	+27.1%	+69.79%

Current Situation:	
Current Value:	1’484’750 USD
Start Value:	1’000’000 USD
Realized Gains:	+391’135.80 USD
Dividend Income:	+44’021.23 USD
Unrealized Gains:	+47’410.32 USD
Cash:	643’361 USD (43%)
Equities:	841’389 USD (56%)

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 14th of November; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

GICS Sector	Stock & Performance	
Energy		
Basic Materials		
Industrials		
Consumer Discretionary		
Consumer Defensives	**CVS Health** -9,46%	**Philipp Morris** 12,30%
Health Care	**Merck** 43,60%	**Intuitive Surgical** 16,90%
Financials		
Technology	**Microsoft** 24,00%	**YY** -37,10%
Telecom	**AT&T** 7,51%	
Utilities	**NextEra Energy** -1,44%	
Real Estate		

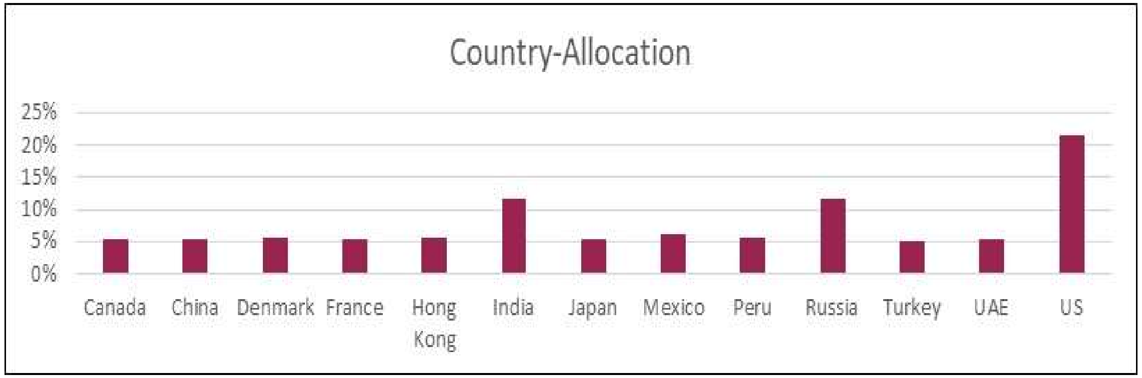
performance = price return exluding dividends

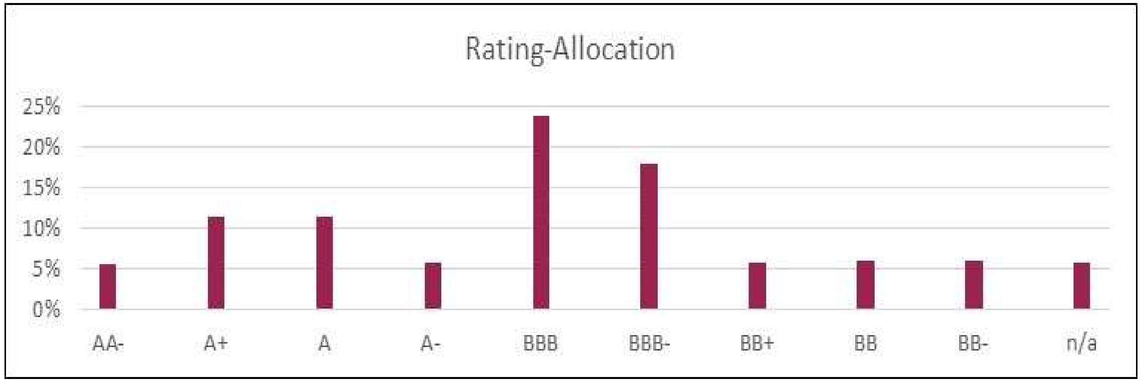
computed by stockopedia.com; all data as of 14th of November

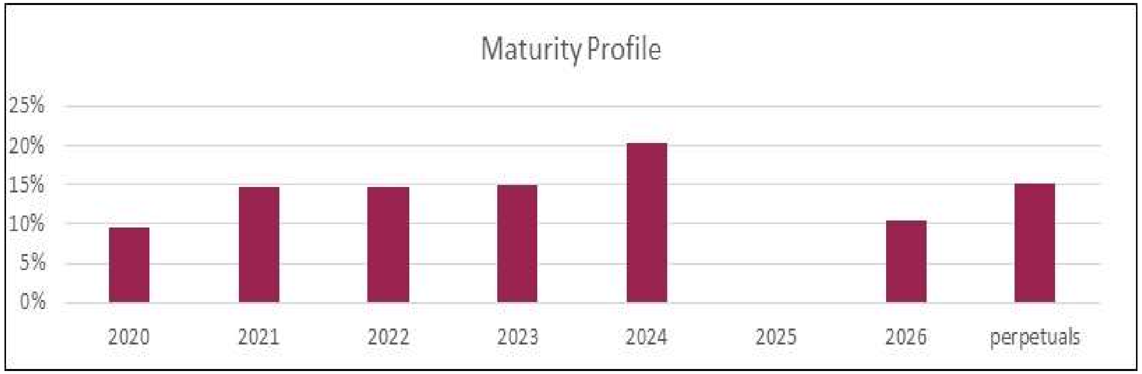
Overview USD Bond Model Portfolio

Performance Overview	YTD	2018	2017
Gigant USD Bond Model Portfolio	**+8.13%**	**+1.00%**	**+4.70%**
Bloomberg Barclays US Aggregate Index	+8.40%	+0.01%	+1.17%
Bloomberg Barclays EM USD Aggregate Index	+8.43%	-2.46%	+6.87%

Current Situation:	
Weighted average YTM:	3.33%
Weighted average Duration:	4.5







Source of data: FIS Market Map; own calculation; all data as of 15th of November

Constituents USD Bond Model Portfolio

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	Coupon	Bond Instruments	Maturity	Rating	Country	Industry	YTM	Duration	Bid-Price	minimum size
	4,375%	AFRICA FINANCE CORPN	29.04.2020	A3		Supranational Agency	2,53%	0,4	100,81	200.000 USD
	2,343%	FORD MOTOR CREDIT COMPANY LLC	02.11.2020	BBB	US	Finance & Investment	2,70%	0,9	99,67	200.000 USD
	5,950%	GAP INC	12.04.2021	BB-	US	Supermarkets & Stores	3,24%	1,3	103,69	200.000 USD
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	2,22%	1,5	100,20	200.000 USD
	2,125%	CORPORACION ANDINA DE FOMENTO (CAF)	27.09.2021	AA-		Supranational Agency	2,13%	1,8	100,00	1.000 USD
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	BB	Peru	Mining & Refining	3,48%	2,0	103,99	200.000 USD
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	2,39%	2,3	100,85	200.000 USD
	2,500%	PHILIP MORRIS INTERNATIONAL INC.	22.08.2022	A	US	Tobacco	2,01%	2,6	101,30	1.000 USD
	3,100%	GENERAL ELECTRIC CAPITAL CORPN	09.01.2023	A	US	Finance & Investment	2,36%	2,9	102,22	200.000 USD
	5,250%	LOUIS DREYFUS COMPANY B.V.	13.06.2023	n/a	France	Commodity Trading	4,68%	3,1	101,85	200.000 USD
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	2,83%	3,4	103,75	2.000 USD
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	3,17%	3,7	106,12	200.000 USD
	5,250%	ALFA, S.A.B. DE C.V.	25.03.2024	BBB-	Mexico	Industrial (General)	3,26%	3,8	108,00	200.000 USD
	5,375%	GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED	10.04.2024	BBB	India	Services	4,49%	3,7	103,48	200.000 USD
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	3,97%	4,2	101,07	2.000 USD
	4,000%	**BOS FUNDING LTD**	**18.09.2024**	**BBB+**	**UAE**	**Banking & Finance**	**4,00%**	**4,2**	**99,99**	**200.000 USD**
	5,150%	GAZPROM OJSC	11.02.2026	BBB	Russia	Oil & Petroleum	3,31%	5,2	110,26	200.000 USD
	4,949%	**GTLK EUROPE DESIGNATED ACTIVITY COMPANY**	**18.02.2026**	**BB+**	**Russia**	**Oil & Petroleum**	**4,39%**	**5,2**	**103,00**	**200.000 USD**
*)	4,750%	TOWNGAS FINANCE LTD		A-	Hong Kong	Utilities	4,43%	15,7	105,22	200.000 USD
*)	4,800%	BANK OF MONTREAL		BBB-	Canada	Banking & Finance	4,72%	21,2	101,63	200.000 USD

Source: FIS MarketMap; all data as of 15th of November   mangenta = recent changes   *) = Perpetual Bonds with next call date in 2024

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