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Investment Letter No 9
Week 25
2019

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Yield Cockpit

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Overview current effective yields in USD *)

	current	1months ago
2 Year US Treasury	**1.74%**	**2.26%**
5 Year US Treasury	**1.77%**	**2.23%**
10 Year US Treasury	**2.00%**	**2.43%**
3-5 Year IG Corp Bonds	**2.79%**	**3.19%**
7-10 Year IG Corp Bonds	**3.06%**	**3.77%**
15+ Year IG Corp Bonds	**4.19%**	**4.45%**
High Yield BB-rated	**4.38%**	**4.79%**
High Yield B-rated	**6.48%**	**6.63%**
EM IG Corporate Bonds	**4.51%**	**4.74%**
EM Sovereign Bonds	**5.72%**	**6.01%**

Spreads & Inflation

FED Funds Rate	2,50%	2,50%
TED-Spread	0,27%	0,16%
10yr–2yr Treasury Spread	0,29%	0,17%
5yr Breakeven Inflation	1,53%	1,72%
10yr Breakeven Inflation	1,67%	1,83%

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

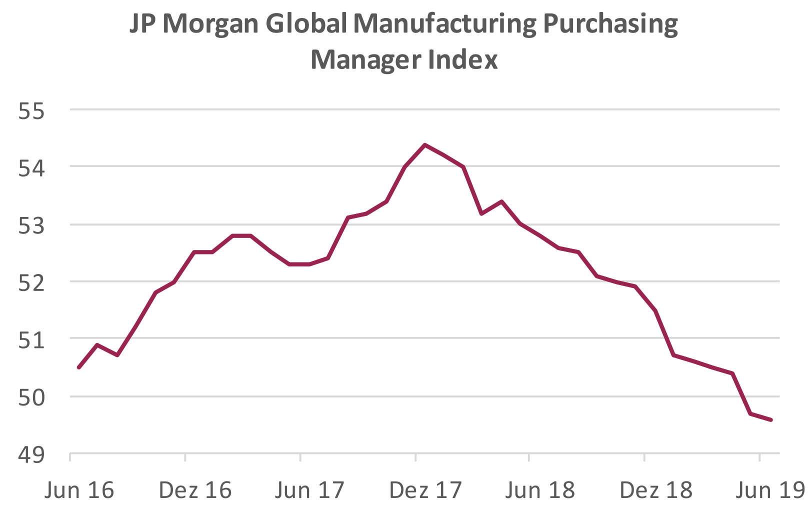
What to take note of:

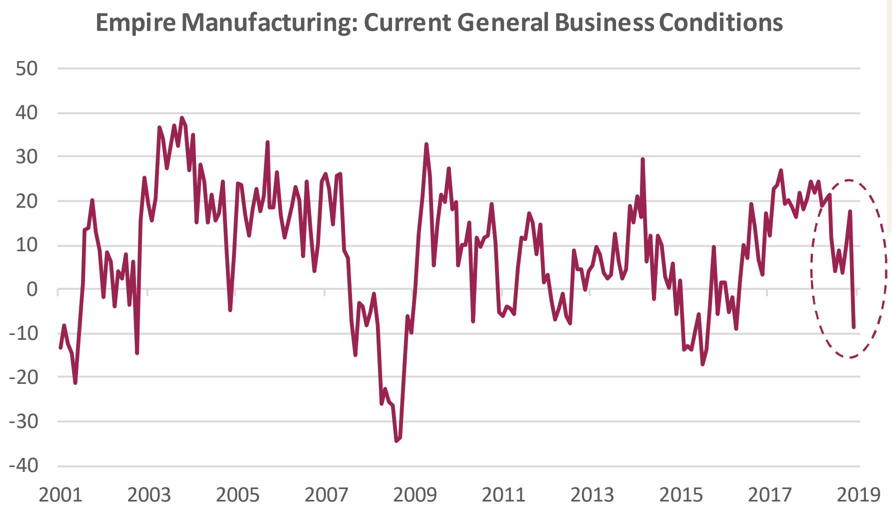
- Until now, the US Federal Reserve has indicated that they may cut their FED Fund target rate shortly again (but they haven't cut yet). In anticipation of this move, USD bond yields have nosedived with accelerating speed (and vice versa, bond prices have shoot up).
- Going forward, the question will not be in which direction yields will go (obviously down) but by how much? According to its own projection, published this week in the so-called "dot plot", the majority of voting members of the FED opts for anything between 1-3 cuts of 25bps each until end of 2020 before in 2021, rates shall rise again. Markets on the other hand expect up to 3 rate cuts worth a total of -0.75bps until March 2020. If history is any guide and if the FED wants to prolong the current economic expansion, they better cut fast (*see page 5 for details*).
- **The consequence for bond investors: no need to abandon their holdings but keep course.**

Source: BofA Merrill Lynch Indices retrieved from Federal Reserve Bank of St.Louis; Bloomberg Barclays Index Data; all data as of 20th of June

A deteriorating macro economic environment…

After months of increased trade tensions, the **global economic momentum has cooled down** substantially. The **benchmark gauge for global manufacturing activities**, for instance, has just posted a reading below 50 which generally **suggest contracting activities** (*see graph on the right*). While Europe and Asia saw slowing economic activity back in late 2018 already, the US economy continued experienced robust growth for quite some time, mainly thanks to one–time effects from tax cuts and superior government spending activities. Anyhow, these effects are now abating. Subsequently, a series of **US macro economic data have disappointed** off late.





The **June Empire Manufacturing** report published by the NY FED for instance fell hard. The index just marked the first negative reading since the 2016 election and the **largest month over month setback in the history** of the survey dating back to 2001, as Bespoke Investment Group pointed out. So what does this all mean? While the manufacturing sector alone does not explain the US economy and slower economic growth does not equal a recession (an economic cycle is not linear which is why growth does neither speed up nor contract by default), it is clear that **things do not point into the right direction**.

Source: FIS Market Map; JP Morgan; NY FED; Bespoke Investment Group

…will it end in a recession?

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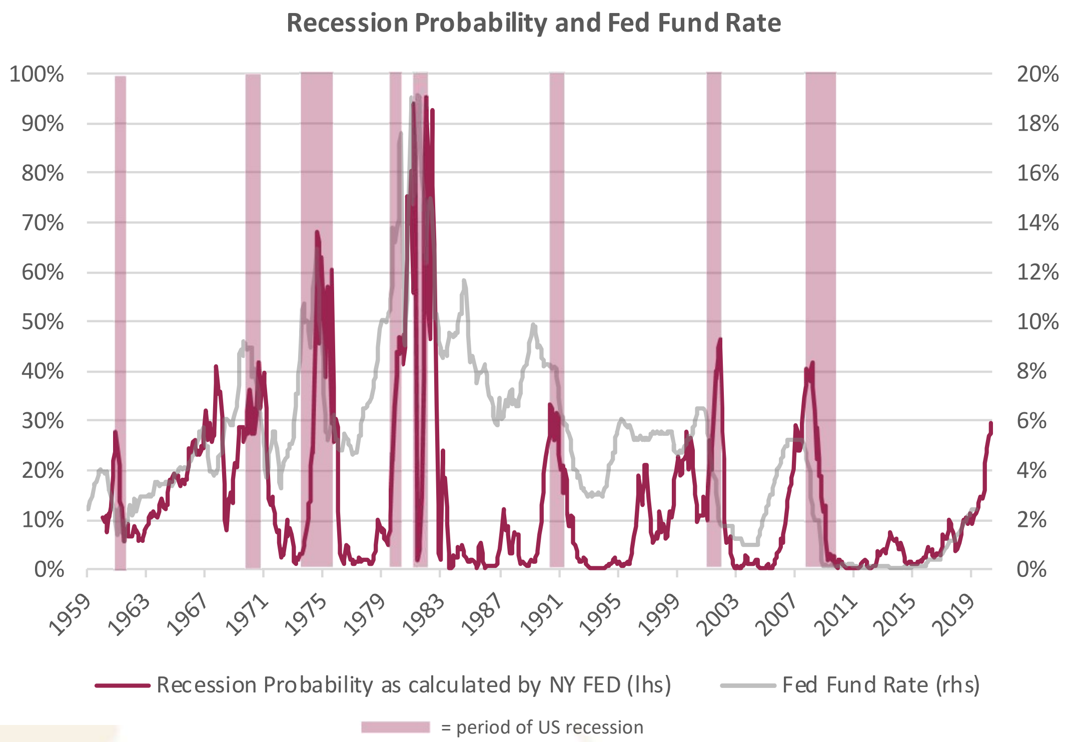
Accordingly, the **probability of a recession has increased rapidly**, according to a model computed by the NY FED. With a probability of 30-40%, a recession it is still nothing but sure but the **probability has never been higher since the great financial crisis**. What makes this alarming is the fact that **always in its 60 year history, the US economy ended in a recession** (sooner or later) **when the probability** before **has risen above the 30% threshold** (*see graph on the right).* The US FED's announcement to stands ready to cut interest rate has sent equity markets sharply higher in June on the back of hope that a recession can be averted. Historically, **an equity rally before a recession is not** an **unusual** pattern (just think of the year 2000 or 2007), but it normally ends in tears.



When comparing the FED Funds Rate with the recession probability, one can see that **interest rate cuts usually occur too late** and that the **FED reacts to slowly**. Never in history have rate cuts prevented a recession (but to give some credit: they usually facilitate the subsequent turnover). While it is indeed to early to say whether a recession will truly hit, **the problem is already here** in our eyes. After all, it is **corporate earnings which are driving equity prices** and as a matter of fact, **equity markets** near all time highs are **not priced for earnings to go down**. And according to the macro economic slow down, they inevitably will – rather sooner than later…

Source: Federal Reserve Bank of St.Louis; NY FED

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN NEUTRAL

- The FED rescued the (US) stock market again in early June after they hinted that next moves in rates will be down. On the back of the **“secular growth in a low growth, low inflation environment”-narrative,** the **technology sector** (with the exception of trade sensitive semiconductor stocks) took the lead again and given the dramatic collapse in rates across the yield curve, there is strong evidence to believe this **leadership is about to stay for some time** (and vice versa: value-type stocks to stay out of fashion).
- We shall not rule out a temporary break of the former all-time highs in US stocks (at which US indices are hovering around at the time of writing). However, 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. Therefore, **we do not see any need to join the rates-induced stock exuberance** but keep our neutral approach. Not convinced? See it from the big picture: **major stock averages did not post any gains over the last 18 month during which the macro economic situation deteriorated from relatively bright to pretty cloudy.** At current levels, the market failed for several times already. We don’t see any evidence it can clear it now.
- Our **stock selection continues to be only marginally exposed to the economic cycle** and we do have **only limited exposure to companies with a substantial amount of sales exposed to China** in general or to goods affected by tariffs. Furthermore, we continue to avoid exposure to goods with sensitive supply chains such as autos or semiconductors.

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.
- While the EURUSD-exchange rate is about to establish a floor at 1,10, we still see no need for USD-investors to get meaningful EUR-exposure.

Our Tactical Asset Allocation (6months horizon)

BONDS –> REMAIN NEUTRAL

- The very dramatic collapse in rates *(see page 3 for details)* brought fixed income investors substantial gains in H1 2019. On the back on the ongoing hunt for yield, some of the most riskiest segments of the market such as High Yield and Emerging Market fared also very well. While we benefitted from our EM exposure, we missed the move in HY-bonds which we avoided for most of H1 over fears of rising credit spreads. **Going forward**, **do we need to change our stance** as over the past years, **a FED in tightening mode was usually good for HY?** To be frank, **we don't think it would be wise to chase them now** as the extra yield one can earn presently is just not worth the potential downside if sentiment towards risk assets was to turn negative again. Be on hold for now.
- We started 2019 being short on duration but we subsequently extended our exposure early in the year. 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** *(see page 3 for details).* 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.** If it can clear the all-important USD 1390-level per ounce (which proved to be a resistance for the last 6 years), we'll see a quick leg higher toward USD 1350.

House View: our Preferences on one Slide

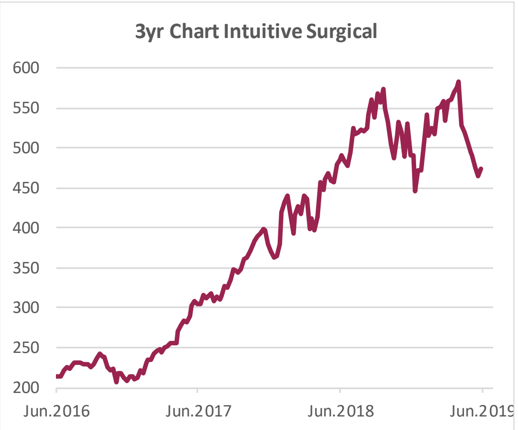
Asset Class	We Like	We Don't Like
Equities	*Area*: **Diversification among US, EM** *Sectors*: **Pharma, Consumer Defensives, Utilities, Technology** *Style:* **Growth (with Quality)**	*Area*: **China; UK, Switzerland** *Sectors:* **Telecom** *Style:* **High growth *without* quality**
Bonds	*Duration:* **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** *Commodities:* **Gold**	*FX Majors:* **GBP; CAD** *FX Minors:* **TRY** *Commodities:*
Alternatives	*Alternatives:* **Gigant Option Based Equity Growth Strategy; strategies with uncorrelated payoffs to equity & bond market direction**	

mangenta = recent changes

Added to our US Equity Portfolio: Intuitive Surgical

INTUITIVE SURGICAL®

Sector:	Healthcare Equipment
Risk Type:	**High Flyer**
Market Cap:	55bn USD
Dividend:	0%
1Yr-Return:	-1%



Company Description:

Intuitive Surgical (ISRG) designs, manufactures and markets da Vinci Surgical Systems, and related instruments and accessories. The da Vinci Surgical System translates a surgeon's hand movements, which are performed on instrument controls at a console, into corresponding micro-movements of instruments positioned inside the patient through small incisions or ports.

Investment Rational:

- ISRG, whose shares we have already held in the past, continues to benefit from growing use in robotics in certain surgeries. Besides high precision, robotic-assisted surgeries can sometimes reduce the length of hospital stay which helps lower hospitals and patient costs.
- The da Vinci system is installed in major hospitals worldwide. Approx. 70% of ISRG installed base is in the US, leaving room for international expansion opportunities. It should also be noted that ISRG derives approx. 19% of revenues from services.
- ISRG slightly missed earnings expectations in Q1 19 for the first time in several years (sales was still up +15% and earnings per share grew by +7%). Analysts argued that more clients leased rather than bought equipment which led to slower growth rates. Subsequently, the shares have retraced almost -20% from its all time high reached back in Feb'19. The "less than expected"-growth thus seems to be well priced in today and going forward, lower USD-interest rates is bolstering the investment case for high growth companies for which the market is always willing to pay a premium.

Risk associated:

The market for medical robots faces relatively high competition. However, as they are very capital intense, customer fluctuation should be relatively limited.

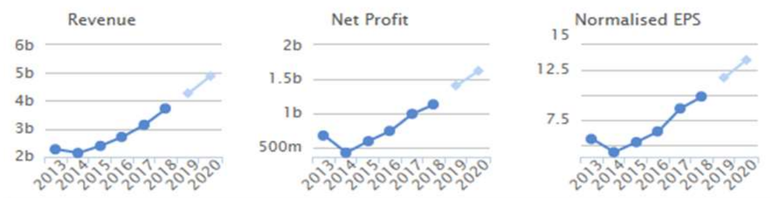
Quality Measures:

		vs. Industry	vs. Market
Return on Capital	15.7 %		
Return on Equity	18.2 %		
Operating Margin	30.5 %		

Growth Measures:

12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	38.0		
PEG Ratio (f)	2.57		
EPS Growth (f)	17.3 %		
Dividend Yield (f)	n/a %		

Historical Revenue & Profit Evolution:



Source: www.stockopedia.com; FIS Market MAP; all numbers as of 4th of June

Overview US Equity Model Portfolio

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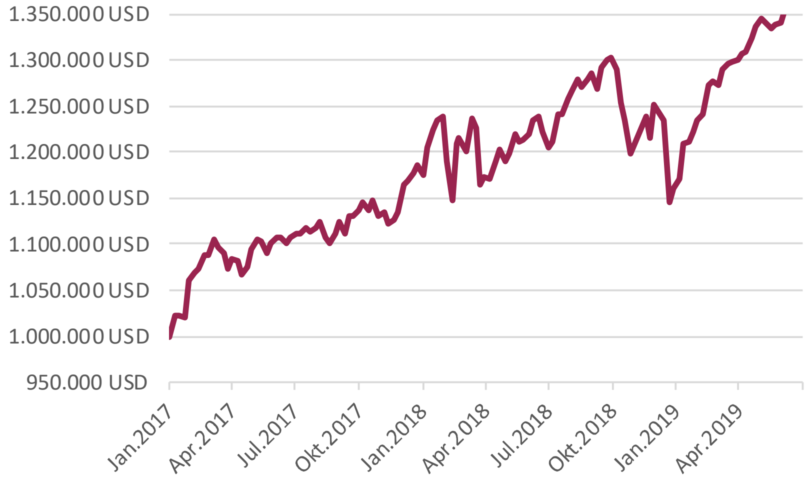
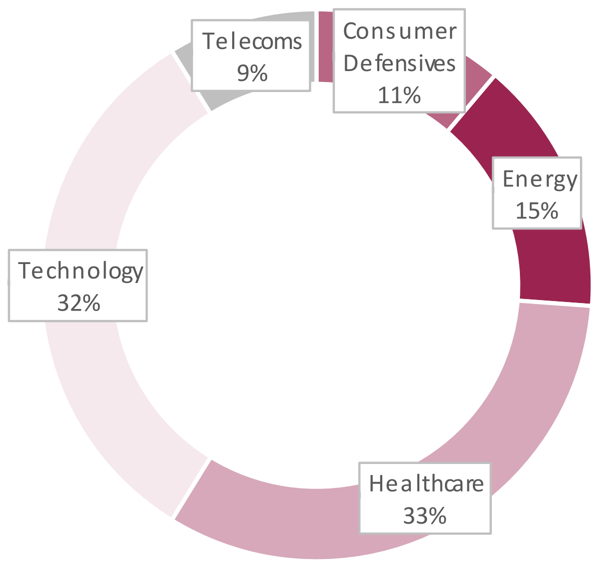
Performance Overview	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+18.05%**	**-1.24%**	**+17.56%**	**+37.06%**
S&P 500	+17.84%	-6.24%	+19.4%	+31.95%
Dow Jones	+14.69%	-5.63%	+25.1%	+35.37%
Nasdaq 100	+22.24%	-1.04%	+27.1%	+59.10%

Current Situation:	
Current Value:	1'370'644 USD
Start Value:	1'000'000 USD
Realized Gains:	+282'650 USD
Unrealized Gains:	+46'279 USD
Cash:	448'060 USD (33%)
Equities:	922'584 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 20th of June; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

GICS Sector	Stocks & Performance		
Energy	**SolarEdge Technologies** 38,20%		
Basic Materials			
Industrials			
Consumer Discretionary			
Consumer Defensives	**CVS Health** -33,10%	**Philipp Morris** 3,63%	**Intuitive Surgical** 12,40%
Health Care	**Merck** 43,70%		
Financials			
Technology	**Alphabet** 7,10%	**Microsoft** 14,70%	**YY** -27,10%
Telecom	**AT&T** -10,20%		
Utilities			
Real Estate			

performance = price returns excluding dividends

computed by stockopedia.com; all data as of 20th of June

Changes to our USD Bond Portfolio:
MATURING **Buenos Aires 2019** to BUY **Louis Dreyfus 2024**

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5.75% Province of Buenos Aires 15.06.2019

Rating:	B
Redemption at:	100%
Hold. Period:	**512 days**
Tot. Return	**+1.13%**

Rationale of Disposal: This bond has matured on 15th of June and the invested capital was redeemed at 100%.

About the Issuer: The province of Buenos Aires is the largest of the 23 provinces of Argentina and home to over 15.6 mn people, or more than 38% of the country's population. The City of Buenos Aires is not part of the Province. The economy of the Province represents a significant part of the overall argentine economy, roughly 33% of the country's GDP.

LDC.
Louis Dreyfus Company

5.25% Louis Dreyfus Co. 13.06.2023

Rating:	not rated
Buy Price:	98.175%
YTM:	**5.63%**
Duration:	**3.35**
Min. Size:	200’000 USD

Investment Rationale: We consider this bond’s yield as attractive for the relatively sound credit profile of the issuer which does not poses an official credit rating. Thanks to its well diversified business activities and its shareholder structure (family owned business), we are of the opinion that this bond is a good add-on to our existing portfolio.

About the Issuer: Paris based Louis Dreyfus Company which was founded back in 1851 is a global merchant firm that is involved in agriculture, food processing, international shipping, and finance. The company owns and manages hedge funds, ocean vessels, develops and operates telecommunications infrastructures, and it is also involved in real estate development, management and ownership. With 18’000 staff members, the company generated a net income of 357mio USD in 2018. The equity capital worth 5bn USD is held by the founding family.

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

Changes to our USD Bond Portfolio:
SELL Volkswagen 2020 to BUY Pemex 2022

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4% Volkswagen 12.08.2020

Rating:	A3
Sell Price:	101.77%
Hold. Period:	**419 days**
Tot. Return	**+7.92%**

Rationale of Disposal: When we added VW to our USD Bond Model Portfolio, the company still suffered from the aftermath of the infamous "Dieselgate-scandal" in which Volkswagen with its brands Audi & VW played a prominent role. Since then, things have somewhat cooled down and most importantly, the credit spreads of VW have tightened meaningfully. Today, this bond's yield carry is not attractive any more which is why we realize our decent profit here.

About the Issuer: : Volkswagen is Europe's largest automaker, and a leading producer of commercial vehicles. Its portfolio comprises 12 brands in all segments, from motorcycles to supercars and heavy trucks, including VW, Audi, Skoda, Seat, Porsche, Bentley, Lamborghini, Bugatti, MAN and Scania. VW's main voting shareholders are Porsche SE (51%), Lower Saxony (20%) and Qatar (17%). VW also operates two joint ventures in China, with SAIC and FAW.

PEMEX

5.375% Petroleos Mexicanos 13.03.2022

Rating:	BBB-/BB+
Buy Price:	100.25%
YTM:	**5.27%**
Duration:	**2.41**
Min. Size:	10'000 USD

Investment Rationale: On 6th of June, Fitch downgraded the credit rating of Pemex from BBB- to BB+ and Moody's revised its outlook on the company to negative from stable. Rating agencies cited their downgrade of Mexico's sovereign credit rating as reason. Pemex' partial lose of its investment grade status prompted a wave of selling which again sent Pemex bond yield higher by about +1% during a time where bond yields across the globe collapsed. We believe Mexico stands ready to support Pemex if necessary and thus see the most recent sell off as compelling entry point.

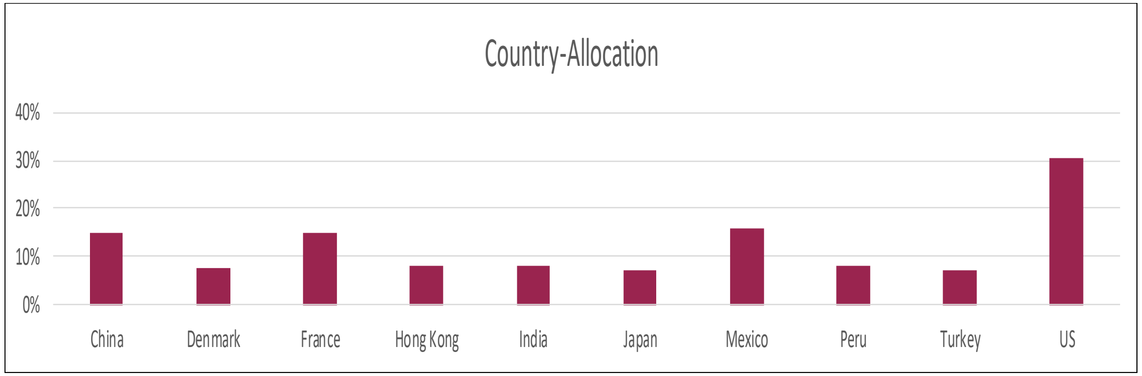
About the Issuer: Pemex is Mexico's national oil company and it is 100% owned by the Mexican state. We remain of the view that the Mexican government will continue to support Pemex, if needed, to ensure that the company remains current with financial and supplier obligations.

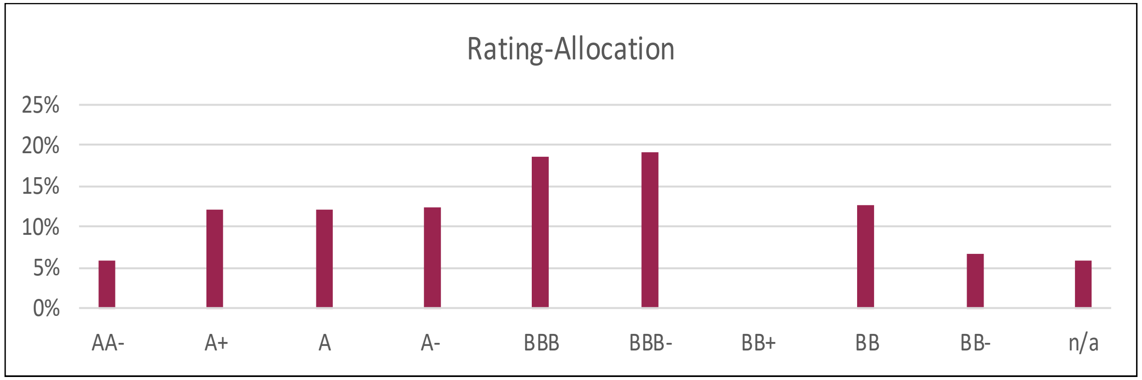
*) non-annualized total return including coupon payments, changes in accrued interest and price changes; all price data from FIS Market Map

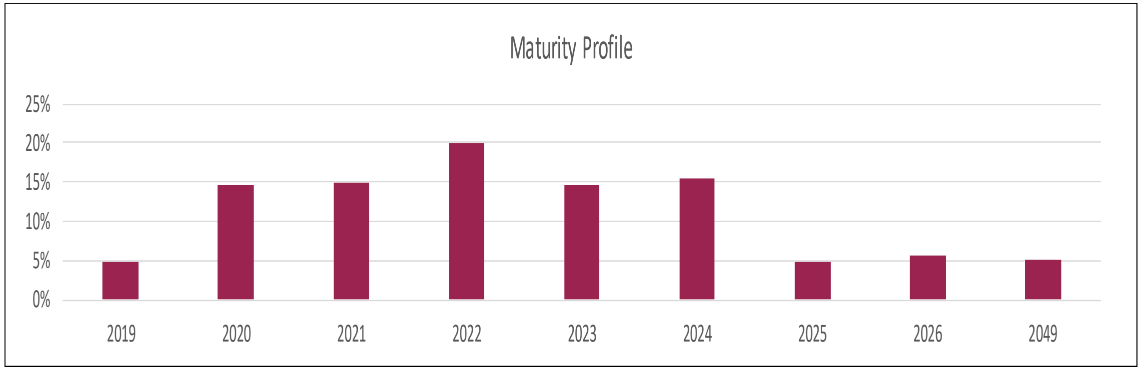
Overview USD Bond Model Portfolio

Performance Overview	YTD	2018	2017
Gigant USD Bond Model Portfolio	**+4.20%**	**+1.00%**	**+4.70%**
Bloomberg Barclays US Aggregate Index	+5.6%	+0.01%	+1.17%
Bloomberg Barclays EM USD Aggregate Index	+8.60%	-2.46%	+6.87%

Current Situation:	
Weighted average YTM:	3.57%
Weighted average Duration:	3.4







Source of data: FIS Market Map; own calculation; all data as of 21th of June

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	2,89%	0,3	100,35	200.000 USD	4,88%
	4,950%	BARRICK (PD) AUSTRALIA FINANCE PTY LTD	15.01.2020	BBB-	Canada	Mining & Refining	2,99%	0,5	101,07	2.000 USD	4,95%
	4,375%	AFRICA FINANCE CORPN	29.04.2020	A3		Supranational Agency	2,79%	0,8	101,31	200.000 USD	4,97%
	2,343%	FORD MOTOR CREDIT COMPANY LLC	02.11.2020	BBB	US	Finance & Investment	3,10%	1,3	99,00	200.000 USD	4,75%
	5,950%	GAP INC	12.04.2021	BB-	US	Supermarkets & Stores	3,16%	1,6	104,82	200.000 USD	5,32%
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	2,54%	1,8	99,67	200.000 USD	4,81%
	2,125%	CORPORACION ANDINA DE FOMENTO (CAF)	27.09.2021	AA-		Supranational Agency	2,44%	2,1	99,30	1.000 USD	4,78%
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	BB	Peru	Mining & Refining	3,75%	2,4	104,00	200.000 USD	5,24%
	5,375%	**PETROLEOS MEXICANOS (PEMEX)**	**13.03.2022**	**BB**	**Mexico**	**Oil & Petroleum**	**5,15%**	**2,4**	100,55	**200.000 USD**	**4,90%**
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	2,55%	2,7	100,54	200.000 USD	4,90%
	2,500%	PHILIP MORRIS INTERNATIONAL INC.	22.08.2022	A	US	Tobacco	2,49%	3,0	100,02	1.000 USD	4,85%
	3,100%	GENERAL ELECTRIC CAPITAL CORPN	09.01.2023	A	US	Finance & Investment	2,95%	3,3	100,52	200.000 USD	4,89%
	5,250%	**LOUIS DREYFUS COMPANY B.V.**	**13.06.2023**	**n/a**	**France**	**Commodity Trading**	**5,62%**	**3,4**	98,72	**200.000 USD**	**4,72%**
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	3,91%	3,7	99,85	2.000 USD	4,83%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	3,44%	4,0	105,50	200.000 USD	5,39%
	5,250%	ALFA, S.A.B. DE C.V.	25.03.2024	BBB-	Mexico	Industrial (General)	3,93%	4,1	105,68	200.000 USD	5,41%
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	4,54%	4,5	98,49	2.000 USD	4,70%
	3,375%	BNP PARIBAS	09.01.2025	A-	France	Banking & Finance	3,26%	4,9	100,60	200.000 USD	4,90%
	5,150%	GAZPROM OJSC	11.02.2026	BBB	Russia	Oil & Petroleum	3,81%	5,5	107,81	200.000 USD	5,63%
*)	4,750%	TOWNGAS FINANCE LTD	12.08.2049	A-	Hong Kong	Utilities	4,53%	15,7	103,59	200.000 USD	5,20%

Source: FIS MarketMap; all data as of 21th of June

mangenta = recent changes

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

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