GIGANT SWISS CONSULTING

Investment Letter

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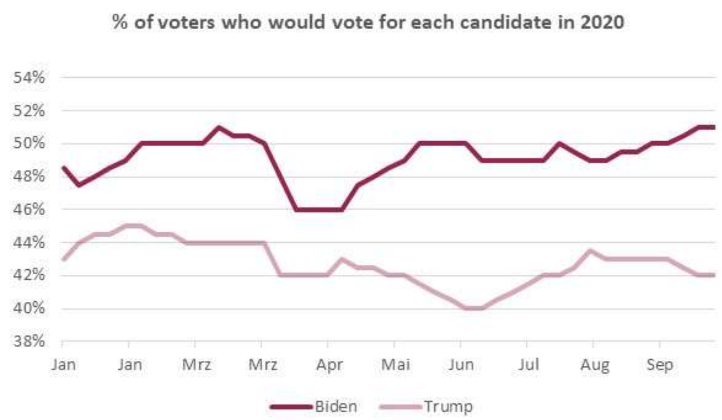
Implications from the US elections (1/2)

If polls and prediction markets are to be believed, Joe Biden will be elected new US president on 3rd of November *(see upper graph on the right).* The **probability** of a so-called **"blue sweep"** under which the democrats do not only maintain their majority in the house of representatives but also gain fresh majority in the senate, has **increased** over the last few weeks. Thus, the polls seem to confirm the view that larger parts of the US population are opting for "more government" (which they'll likely get from the democrat party) during the current recession. Subsequently, **markets have already started to price in** such a scenario and during that process, the **overall stock market held** not pretty **stable** but overall volatility remains elevated *(see lower graph on the right)*. For the stock market, a scenario under which a very tight result (which again Trump would most likely not accept), is clearly the worst-case scenario and again, the probability of that to happen has decreased over the last weeks. No doubt, a democratic majority could lead to higher taxes at some point in the future. Anyhow, the current pandemic-induced recession does not seem to be the right time for broad based tax increase which is why markets might not be too concerned about that (for now). Rather, a **democratic majority could lead to an (even larger) fiscal stimulus package** to be passed shortly and this again would most likely be cheered warmly by stock market investors. Therefore but albeit counterintuitively, a **"blue wave"** is most likely **to be seen as a mildly positive** for the overall stock market, at least for the foreseeable future. That said, some more inter-market dynamics could unravel. A **larger fiscal deficit** combined with rising corporate tax rates over time could **send inflation expectations higher**. And this again would be **a clear plus for value stocks** which just posted their lowest relative valuation level in history compared to growth stocks *(see upper graph on page 4).* Add potentially increasing regulatory pressure on "big tech" and you'll get the "mother of all style-rotations" in equity markets. Admittedly, it is pre-



Source: RealClearPolitics via statista.com; FIS Market Map

Implications from the US elections (2/2)

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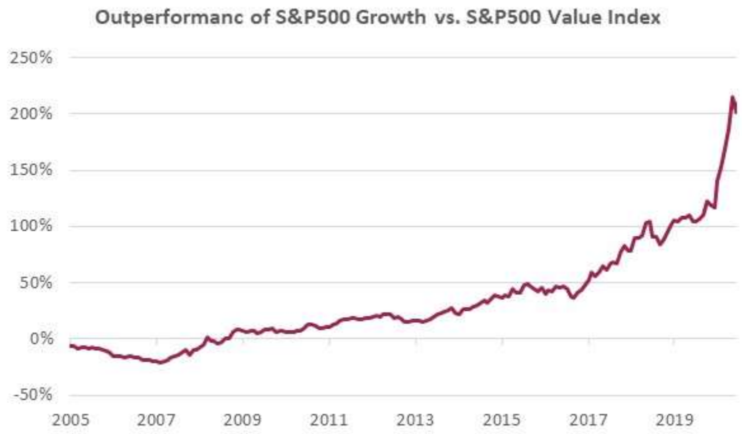
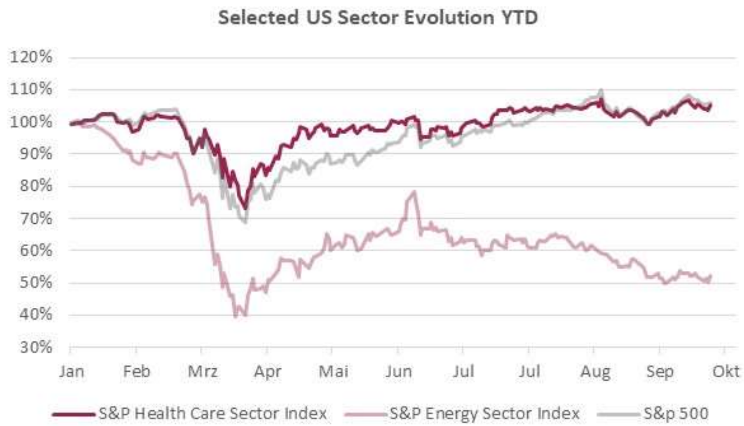
mature to call an end to the era of momentum and growth-factor but given the extremely high concentration of these factors in portfolios and financial instruments around the world, one shall **keep a very close eye on any potential changes for the current factor regime** in equity markets. For portfolios, increasing exposure to beaten-down value stocks however seems like a decent thing to do at current historic low levels. But again, this does not mean that all high-momentum and/or growth stocks must be sold straight away. Rather, cleaning one's inventory after that tremendous bull run seems like a good thing to do. **Sector wise**, the **biggest impact from a "blue sweep"** is to be expected on **pharmaceuticals and energy**. In the later, "greener" energy sources will clearly benefit when the democrats take over. However, the stock market has anticipated a change to a more environmentally friendly policy for some time. Ironically, NextEra Energy, the poster child of alternative energy production (which we do hold in our Model Portfolio) has just surpassed Exxon Mobile as largest US energy company by market cap. Instead, **more imminent market action is to be expected in the pharma sector**. This industry group has held up quite well in the past so there is also more at stake *(see lower graph on the right).* On the one hand, the race for a COVID-vaccine keeps large pharma but also biotech stocks buoyant, on the other hand, the sector is likely facing a regulatory overhang. Unlike during past democratic regimes, **this time "big pharma" could indeed get under increased pressure as calls for a more substantial reform of the US health system** which failed miserably during the COVID-stress test **will gain traction**. The Brexit-vote as well as the previous US election back in 2016 have showed that polls and predictions results should not be taken for granted. Anyhow, while those events did indeed lead to very short term volatility, **initial weakness** was aggressively bid again and **recovered within days or weeks**. **In our eyes**, there is **no need** from a stock market perspective **to be afraid** of the upcoming US elections.





Source: FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN UNDERWEIGHT

- As we have detailed on *page 3 &4* , **we do not expect the level of overall equity markets to change dramatically around the time of the US elections**. The risk to that of course is an outlier scenario (eg. a surprise re-election of Trump or a very narrow vote which would not be accepted by Trump) but again, this is not our base scenario.
- Under our base scenario, the **implications of the US elections are to be felt "under the surface"** where a "blue sweep" **could** finally **lead** to a **renaissance of "value investing"** (*for a more detailed rationale kindly refer to page 3-4*). While we consider it premature to wave goodbye to the decade-old outperformance of **growth and momentum**, we nonetheless **remove** both factors **from our "most preferred" list**. Instead, we opt to **establish some exposure to "value"**. Our Model Portfolio does hold already two of the largest and most prominent value stocks in the US: AT&T and CVS Health. As both our down for now, our tactical orientation calls for hanging in on both names.
- Because of the increased odds of a "blue sweep", **we remove healthcare** from our "most preferred" list. Energy, the other most likely victim from a democrat majority, has been on our "avoid list" for quite some time so no action required there.
- Geographic-wise, Asia which seems to have the COVID19-situation much better under control than the US and Europe deserves some renewed attention. Europe, which is attractive from a currency- as well as valuation-perspective, is put on hold until the virus-situation does not improve.

CASH –> REMAIN NEUTRAL

- We have argued for some time to keep some spare cash at hands for the moment opportunities will arise. And as early September proved, **opportunities do appear- sometimes one just needs to be patient until they arrive**. Another learning was that **risks remain high**: during times, virtually all assets are expensive, one may loose more than the loss of opportunity within a short period of time.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- Unlike in equities, we do not make any change to our tactical allocation in the fixed income space. We have previously highlighted our theory that an **ever-rising US budget deficit will lead to rising long term rates** and subsequently, a **steeper yield curve** (as short term rates remain well anchored at rock bottom levels by the FED). The ”blue sweep”-scenario with the subsequent increased fiscal stimulus will only increase that tendency. We thus continue to avoid bond exposure beyond 7 years. In historic terms, the extra yield longer terms bonds offer is still very thin which is why we consider the risk reward ration of those bonds as heavily unfavourable.
- Instead, we continue to prefer “credit risk” **in the form of low investment grade / high non-investment grade corporate bonds** as we expect **credit spreads of that segment to either stay where they are or even tighten further.** To be fair, the big moves in spreads are done and it is hard to imagine how low they can further go but we are of the opinion that the Central Banks “crowding out” in better quality parts of the bond market will keep demand for lower quality high.
- During times where the USD is rather weak, we maintain our overweight rating for **emerging markets.** Keep the **preference for selected Corporates vs. Governments** as the group of the later are facing (even) larger fiscal deficits due to Covid19-combat measures.

ALTERNATIVES –> REMAIN OVERWEIGHT

- Our **long time favourite gold** has been **in consolidation mode** since August which is not necessarily a bad sign given the tremendous runup it enjoyed so far. The area between USD 1850.- and 1900.- per seems to be a comfortable support zone. The renewed interest in bitcoin, like gold a non-interest bearing source of value, is confirming us in the view that gold will remain in fashion. **Residential property is a good ad-on** during times where low rates keeps demand for stable yields high but make sure your investment vehicle of choice does not hold any commercial real estate (the classic COVID19-victim). The same effects are likely be beneficiary for (listed**) infrastructure investments** which have virtually no exposure to the economic cycle but generate steady cash flows.

House View: our Preferences on one Slide

Asset Class	We Like	We Don't Like
Equities	*Area*: **businesses not affected by COVID19, Asia** *Sectors*: **Consumer discretionary, ~~Healthcare~~, Technology,** *Style:* **Quality, ~~Growth~~, ~~Momentum~~**	*Area*: **businesses affected by COVID19** *Sectors:* **Energy, Consumer Cyclicals, Financials** *Style:* **~~Value~~**
Bonds	*Duration:* **Medium term duration** of up to **5** years *Area:* **Emerging Markets corporate debt in hard currency** *Credit:* **high & low grade IG; subordinated debt**	*Duration*: **duration > 7 years** Area: **EU government bonds, EM sovereign in local currency** *Credit:* **High Yield, Senior Loans, Convertible Bonds**
FX & Commo-dities	*FX Majors:* **EUR** *FX Minors:* *Commodities:* **Gold**	*FX Majors:* **GBP** *FX Minors:* **TRY** *Commodities:* **Base Metals, Oil**
Alternatives	*Alternatives:* **relative value strategies, residential real estate, infrastructure**	*Alternatives:* **listed Private Equity**

mangenta = recent changes

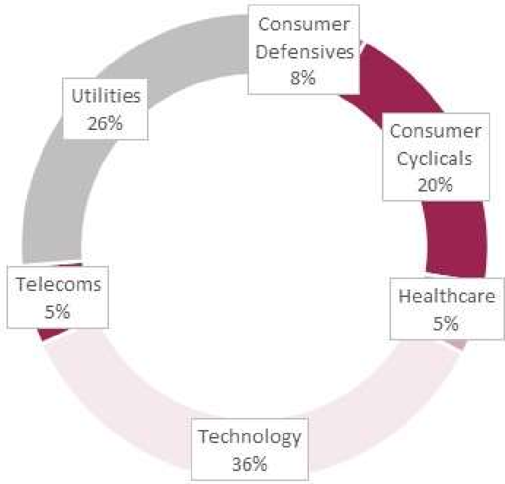
Overview US Equity Model Portfolio

Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+14,41%**	**+30,56%**	**-1,2%**	**+17,6%**	**+73,44%**
S&P 500	+6,91%	+28,88%	-6,2%	+19,4%	+54,25%
Dow Jones	-0,61%	+22,34%	-5,6%	+25,1%	+43,52%
Nasdaq 100	+33,55%	+37,96%	-1,0%	+27,1%	+139,8%

Current Situation:	
Current Value:	1’734’387 USD
Start Value:	1’000’000 USD
Realized Gains:	+479’985 USD
Unrealized Gains:	+184’928 USD
Dividend Income:	+69’474 USD
Cash:	465’034 USD (27%)
Equities:	1’269’353 USD (73%)

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

Current Sector Allocation:

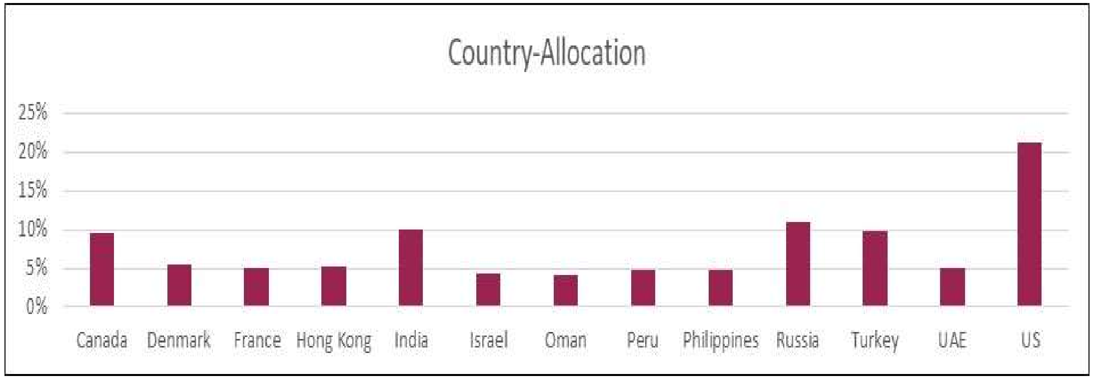


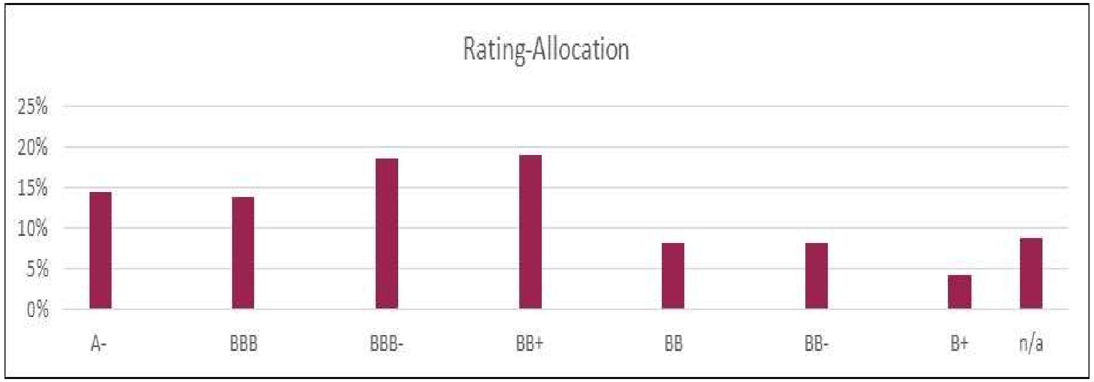
computed by stockopedia.com; all data as of 22nd of October; *) inception date = 31th of Dec 2016

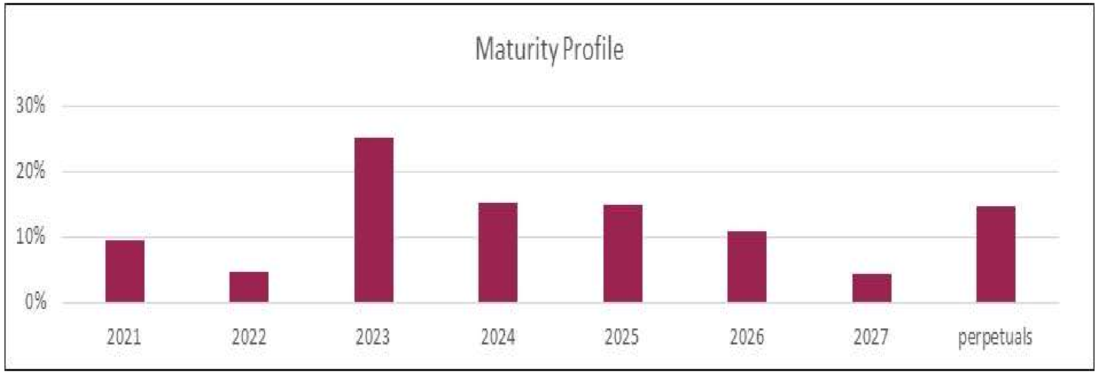
Overview USD Bond Model Portfolio

Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**+4,87%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+6,79%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**+2,36%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	3,80%
Weighted average Duration:	4,5







Source of data: FIS Market Map; own calculation; all data as of 22nd of October

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