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Investment Letter

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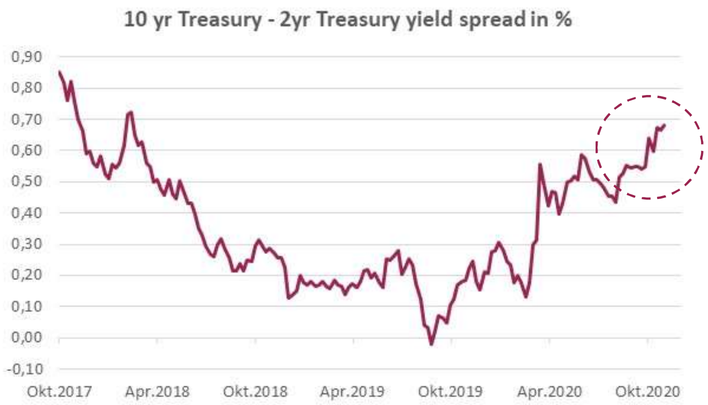
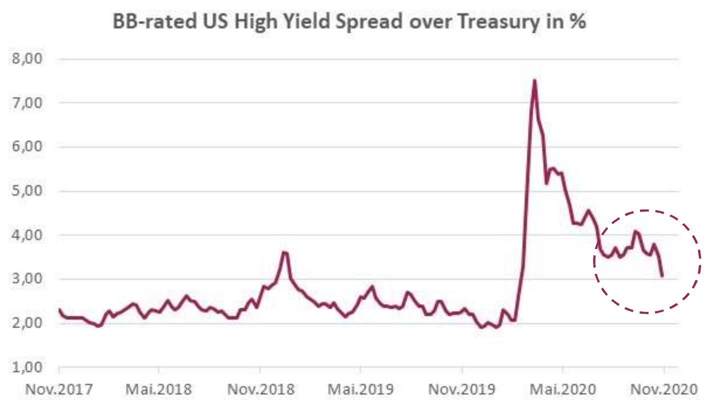
Same outcome but for a different reason (1/2)

In our latest investment letter, we drafter **a scenario** under which a **"blue wave"** (i.e. the democrats winning not only the presidency but also a comfortable majority in both chambers) would **lead to a larger fiscal deficit** in the US. Combined with rising corporate tax rates over time, this should ultimately lead to **rising inflation expectations** and thus **higher long term bond yields**. Such a development would be **a clear plus for value stocks** which, back in late October, just posted their lowest relative valuation level in history compared to growth stocks. We also warned that given the extremely high concentration of momentum- and growth-factor type of investments in portfolios and financial instruments around the world, such a regime-change could have significant implications on a variety of financial assets. Less than a months later, all off the above described **implications are about to become reality**, although **for a complete different reason**. As we now know, the **"blue wave" did not materialize** at all. Instead, the **trigger point** for the unfolding change in market regime was the **news of a sudden vaccine breakthrough**. Most obviously, the vaccine news are a strong game changer for industries directly impacted by the pandemic. For most of 2020, the major trend in equity markets was to buy pandemic winners such service companies enabling the digital transformation, online market places, video conference providers etc. On the other hand, shares from travel-, leisure- or hospitality-companies nosedived. The vaccine-breakthrough now leads to a sudden unwind of that trade which again will lead to a normalization of the valuation gap between those stock groups. But the **prospects for a live back to normal** in combination with ultra-loose monetary policy and continued fiscal support can be **felt already in a variety of financial assets**: **rates market** for instance already started to **price in higher growth** as one can see from the steeper yield curve which again is a function of higher long term rates while short term rates remain well anchored at rock

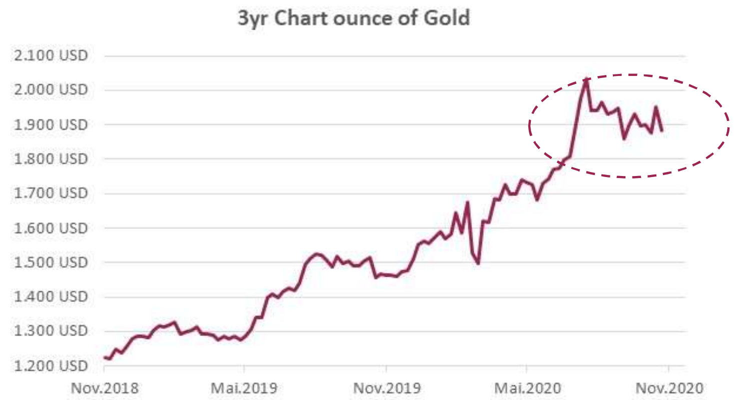


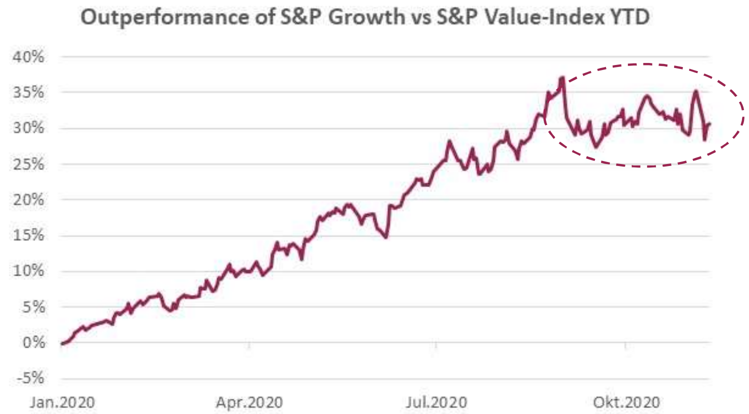


Source: Ice Data Indices; St.Louis Fred

Same outcome but for a different reason (2/2)

bottom levels *(see upper graph on page 3)*. But also the **extra yield** investors demand for **more riskier high yield bonds has collapsed** since release of the vaccine-news and now reached almost pre-pandemic levels *(see lower graph on page 3).* The **prospect for higher growth and higher rates** again **is weighting on the price of gold**, whose relative attractiveness suffers under such a scenario *(more about gold to be found on page 6).* But back to equities: apart from the before-described unwind of the pandemic winner/pandemic looser-trade, stocks from **more cyclically geared sectors** such as industrials or basic materials **suddenly lead the performance table** since the release of the vaccine-news. This is also confirming the higher growth scenario and in our eyes, this new trend in sector preference is here to stay for the months to come. But now back to the topic of value- and growth stocks: value stocks are equally set for a comeback if economic growth is picking up. Therefore, the **current environment** looks almost **ideal** for **value-type stocks**. And as we have demonstrated in our last Investment Letter, value stocks have never been cheaper compared to growth stocks. That all said, we know all to well that the value-factor has underperformed growth for most of the past decade (if not two) and thus calling an end of such long-lasting trends can be treacherous. Anyhow, **a reversion to a more rational valuation-men seams plausible** which is why our **bet on value looks save in our eyes** (as the *lower graph on the right* displays, growth stocks have already stalled most recently). . In the context of the proposed increase in equity allocation to our portfolios *(see page 5 for details),* adding value is the thing to do. On the other hand, the existing growth-factor exposure which is held in our portfolio must not be outright sold. While indeed the outperformance of growth might finally come to an end, the bell-wether tech stocks with solid fundamentals which we hold in our portfolios (and which are found in many growth-indices), are by no means a less good investment now.





Source: FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> INCREASE TO NEUTRAL

- For the first time since end of May, we **increase the level of equity allocation** in portfolios (again). The outlook for a vaccine-breakthrough is indeed a game changer for equity markets and its impact should not be underestimated! Most obvious: **businesses affected by COVID19 are finally due for a recovery** while the beneficiaries of the pandemic see their sky-high valuation implode. The improved economic outlook *(as implied by rates markets and explained in detail on page 3-4),* leads us to **upgrade cyclically exposed industries** such as **materials** and **industrials** to our **most preferred**. Financials are removed from our "least preferred list" for now. The expensive Technology sector, which has by far the largest sector weighting in the market, is being removed from our "most preferred list".
- The outlook for higher economic growth combined with higher rates is crushing the year-long mantra for growth and momentum stocks. Subsequently, **we add "value"** while **removing "growth" and "momentum"-style** investment **from our preferred list**. After a decade of outperformance, momentum & growth are definitively due for a correction while value has a lot of ground to make up. Time will tell but the mother of all rotations in the stock market might finally have just begun…
- Given the fact we now **actively seek higher beta and more cyclical exposure**, i.e. more risk for portfolios, it is only natural to that our tactical allocation is raised from "underweight" to "neutral". However, given the heavy weight of momentum- as well as growth-type of stocks in major indices, the **jury is still out whether the above rotation will lead to higher index levels per se**. Therefore, despite all "recent bullishness", we refrain from flipping to "overweight" in just one move. That step is reserved for the future and the moment where earnings start to pick up.

CASH –> REMAIN NEUTRAL

- The above mentioned increase in equity allocation is financed by profit-taking in our gold positions (see page XX for details) . Therefore, no substantial changes to our relatively small cash holdings for now.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- The “higher growth – higher long term rates”-scenario has implications to fixed income markets too. Anyhow, they do **not** lead to **material changes in our tactical strategy**. We have warned of a steepening yield curve for quite some time and hence have avoided exposure towards the longer end of the curve (rising yields imply lower bond prices, a tendency which is geared for longer term bonds). We can thus **comfortably maintain our duration exposure of up to 5 years**.
- The only twist to our strategy occurs in credit: an improving economic outlook calls for higher risk appetite too and thus **make high yield attractive** on a relative basis where high **investment grade bonds** suddenly **look expensive**. Anyhow, if it comes to **high yield**, **be** extremely **selective**! Large parts of outstanding USD-high yield debt for instance have been issued by oil-companies and since we don’t believe in a lasting recovery of oil prices (the shift to more sustainable sources of energy has only just begun), defaults in the energy sector will ultimately come.
- **Emerging market corporate debt in hard currency** continues to be one of our **favourites** in fixed income land: (continued high) spending of a democrat-lead government will keep the US-deficit widening and hence, the USD weakening: add the economic recovery from the pandemic and you got a perfect recipe for the future success of this sub-asset class.

ALTERNATIVES –> DECREASE TO NEUTRAL

- The projection of a higher long-term rates as a result from the vaccine-breakthrough also has implications for alternative assets. Our long term favourite **gold** as a source of value was a beneficiary of the lower-for-longer interest rate regime and extraordinary monetary stimulus. It further benefitted from its save-haven status as investors saw it as a hedge against sky-high asset prices. This **investment rational does no longer apply** thus we **have started to realize some** of our high **paper gains**, thus resulting in a **decrease of our allocation to alternatives down to “neutral”.** Anyhow, as the US Dollar will remain relatively weak (what usually bodes well for gold), some exposure to gold shall still be kept. The proceeds from our reduction are used to increase the before-mentioned equity exposure.
- For now, no changes to the other preferred sub-assets within alternatives.

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~~ cyclicals, Healthcare, ~~Technology~~, Materials** *Style:* **Quality, Value**	*Area*: **businesses not affected by COVID19** *Sectors:* **Energy, ~~Consumer Cyclicals~~, ~~Financials~~,** *Style:* **Momentum, growth**
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**

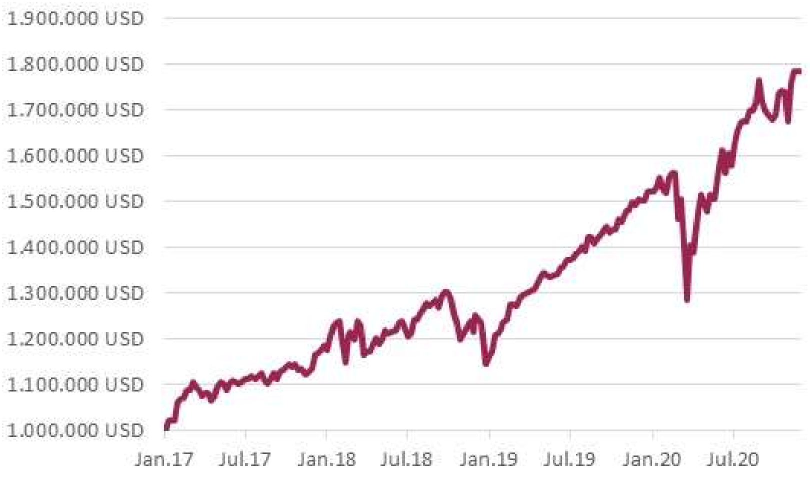
mangenta = recent changes

Overview US Equity Model Portfolio

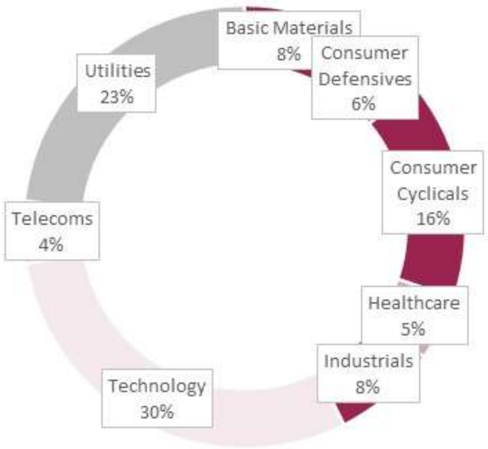
Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+17,77%**	**+30,56%**	**-1,2%**	**+17,6%**	**+78,52%**
S&P 500	+9,48%	+28,88%	-6,2%	+19,4%	+57,98%
Dow Jones	+1,90%	+22,34%	-5,6%	+25,1%	+47,15%
Nasdaq 100	+35,43%	+37,96%	-1,0%	+27,1%	+143,1%

Current Situation:	
Current Value:	1’785’236 USD
Start Value:	1’000’000 USD
Realized Gains:	+479’985 USD
Unrealized Gains:	+235’777 USD
Dividend Income:	+69’474 USD
Cash:	225’100 USD (13%)
Equities:	1’560’136 USD (87%)

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 12th of November; *) inception date = 31th of Dec 2016

Overview USD Bond Model Portfolio

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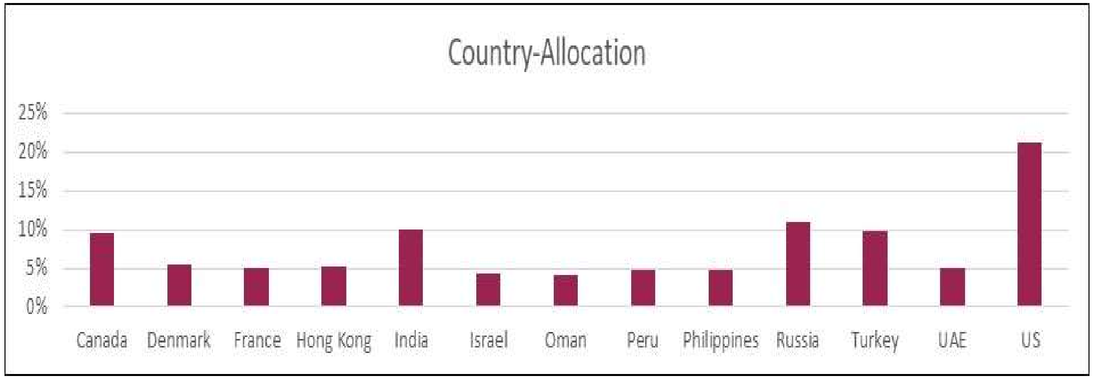
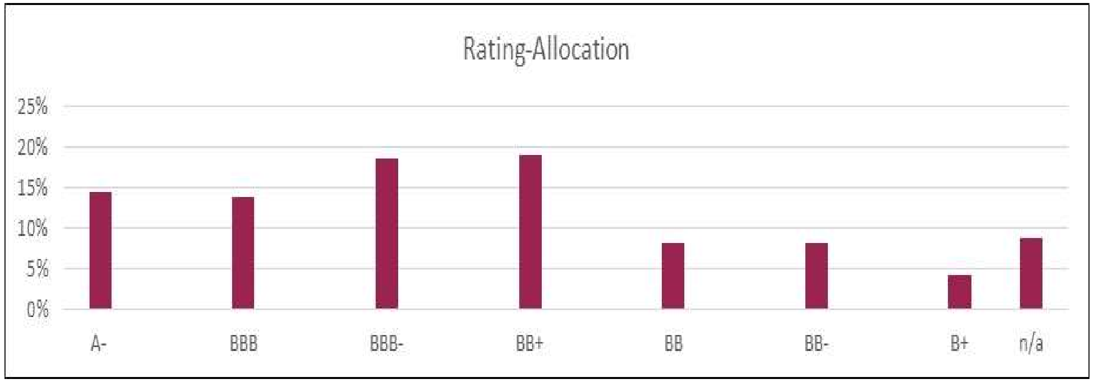
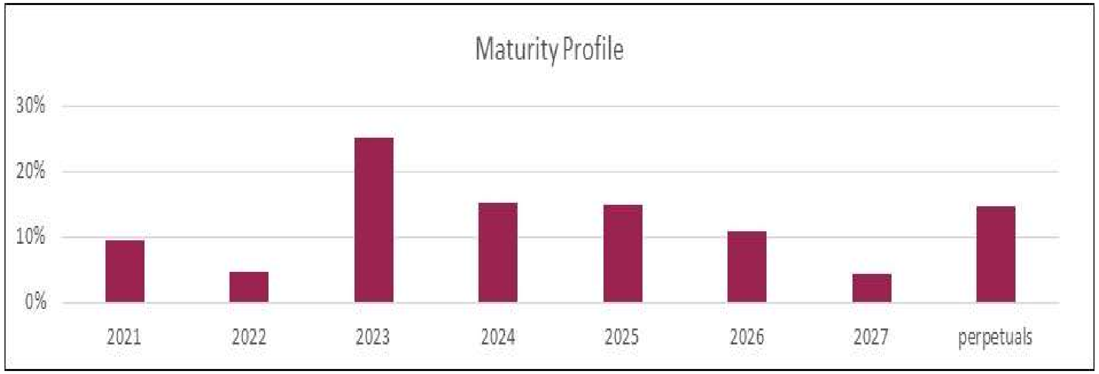
Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**+5,87%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+6,68%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**+4,27%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	3,59%
Weighted average Duration:	4,5







Source of data: FIS Market Map; own calculation; all data as of 13th of November

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