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Investment Letter

No 3
March
2020

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Yield Cockpit

Overview current effective yields in USD *)

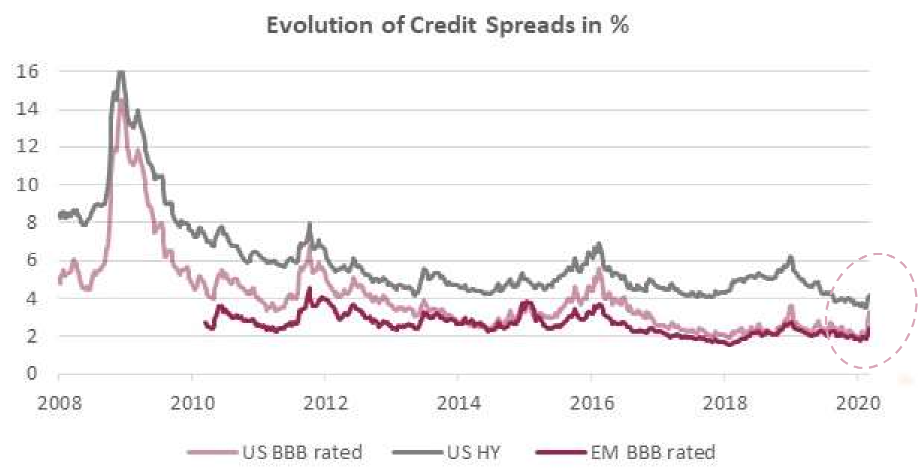
	current	3months ago
3 Months US T-Bills	**0.29%**	**1.95%**
2 Year US Treasury	0.51%	1.73%
5 Year US Treasury	0.65%	1.65%
10 Year US Treasury	0.88%	1.77%
3-5 Year IG Corp Bonds	**2.41%**	**2.61%**
7-10 Year IG Corp Bonds	2.88%	3.11%
15+ Year IG Corp Bonds	3.55%	3.86%
High Yield BB-rated	5.35%	3.96%
High Yield B-rated	7.92%	5.82%
EM Corporate Bonds	**4.41%**	**4.38%**
EM Sovereign Bonds	6.25%	5.36%
Spreads & Inflation		
FED Funds Rate	1.09%	2.00%
TED-Spread	0.39%	0.21%
10yr–2yr Treasury Spread	0.32%	0.03%
5yr Breakeven Inflation	0.63%	1.40%
10yr Breakeven Inflation	0.92&	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 March

What to take note of:

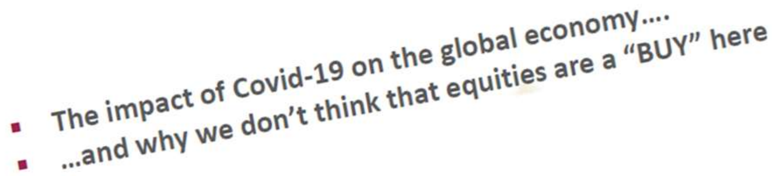
- While the spotlight is on equity markets, the **real dramatic moves** are **to be witnessed in fixed income markets**. First, **yields of so-called risk-free US treasury bonds have collapsed to historic lows** and at a pace not seen for decades. On the other hand, **credit spreads**, i.e. the extra yield investors demand over the risk free rate **have exploded higher**. Unsurprisingly, bonds of issuers with lower credit quality have suffered most *(see graph underneath)*. In our Investment Outlook for 2020, we have warned of the risk of too much credit at too low quality. The problem of quickly rising funding costs is that this might hurt corporations during at a time there business is already adversely impacted by the corona virus. Furthermore, rating downgrades and investors on “buying strike”, might quickly result in a lethal downwards spiral.
- In a historic context, **spreads could widen much further** in a worst-case scenario which is why **we refrain from increasing credit risk for now**. As **we have relatively little exposure** to below average credit quality, mostly within Emerging Markets (and what we have has a low duration) we just **hold onto current positions** until maturity. History has proven that it is never good execute a fire sale of credit positions into stressed markets with very tight liquidity conditions.



This escalated quickly….

What change just a months can make! In mid February, when the S&P 500 was hovering around all time highs close to 3400 points, we published a warning not to underestimate the impact of the corona virus *(see extract on the right).* Fast forward to today, the **US equity markets just suffered its single worst day since 1987** and **major equity indices** now trade approx. **-20% lower** which by definition defines **“bear market” territory**. To put this in perspective and according to Deutsche Bank, **never in** the **history** of US stock markets **took it so little time** to enter a bear market (!) **Under normal circumstances**, such a move is a **no-brainer to “buy the dip”** and increase the allocation to risk assets. On most technical measures, stocks are already deeply oversold and from a historic perspective, a rise in stock prices (over the longer term) is almost guaranteed. However, **we believe it is still to early to increase allocations to risk assets** instead we several reasons that this bear market will continue for most of 2020:

1) The **number of infections from the virus is likely to rise**. Using data from China where the virus spread much earlier than in Europe & the US, the peak of infections in those areas is only to be expected in late May.
2) As we have highlighted in our Outlook for 2020, **the world is awash with too much credit of poor quality**. As asset prices have fallen, credit investors will **demand higher risk premiums** and **banks** will **scale back the supply of credit**. This could easily lead to deflationary pressure, a recession or credit crisis (or altogether). As one can see from the graph on *page 5*, financial conditions in the USD have already tightened quite dramatically. International banks, which can not directly borrow from the FED

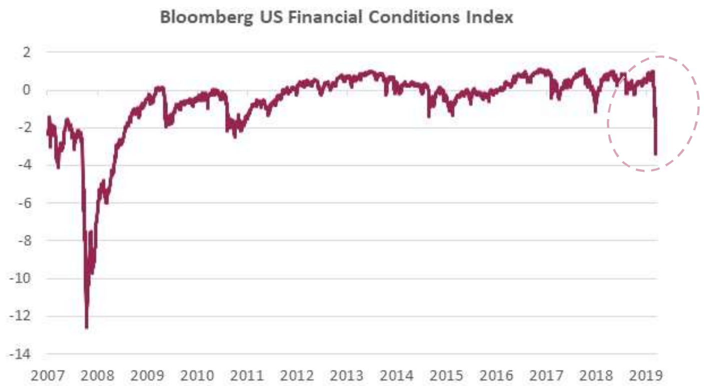


Headline of Investment Letter No 2 2020

The 200 day moving average (grey line) which proved to be a good support for the last years, has been broken to the downside. Next support comes in at the lows from December 2018 at around 2350 points (dotted horizontal line).

Source: FIS Market Map

…but equities are not cheap (yet)



Source: Bloomberg; FactSet

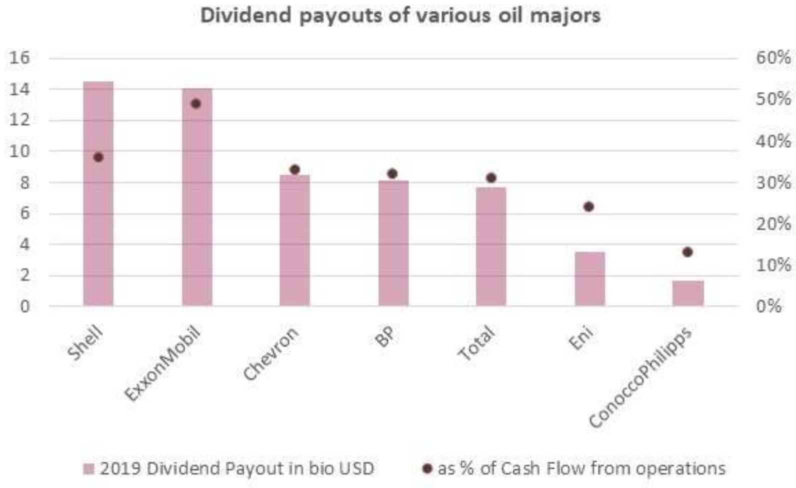
seem also be short of USD as the rise in spreads in the interbank funding markets suggest and USD Basis Swaps suggest.

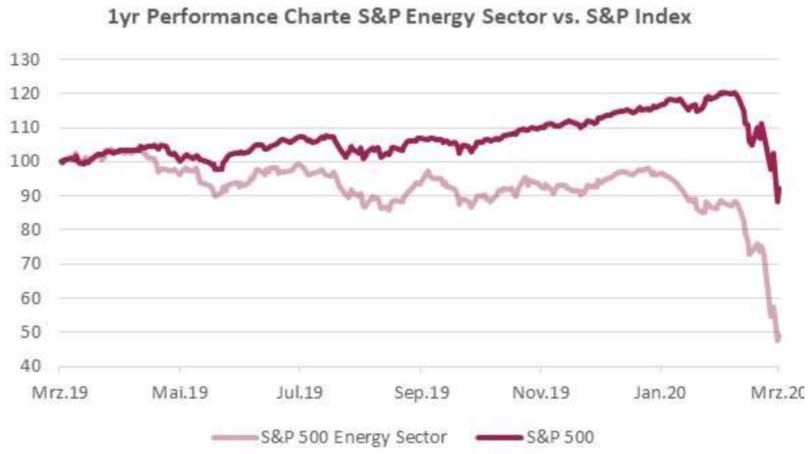
3) Although various central banks already lowered rates, we are of the impression that **reactions** from fiscal and monetary **policy makers** around the world **is very little coordinated** and rather dominated by political infights. It probably **needs more pain until this changes**.
4) Despite being oversold, **equity markets are nowhere near "cheap".** A very simple calculation may illustrate this. Assuming, the S&P 500-companies will generate the same earnings in 2020 as in 2019 (174 USD), applying the 10yr average earnings multiple of 15x will lead to a price target of 2'445. That is still approx. -8% from todays index level. Furthermore, under this increasingly positive assumption of no negative earnings growth for 2020, **markets** would **only be back to "average" valuation** which again is not outright cheap. With consensus expectations moving down sharply *(see lower graph on the right)* bargain hunters may still hold back with broad based purchases.
5) The **macro economic consensus** is **still too bullish** implying a strong, V-shaped recovery for H2 2020. Given the current high level of uncertainty we consider this an overly optimistic scenario which leaves plenty of room for disappointments in case it is not met.

While one should always be careful to derive purchases of individual securities to overall levels in broad equity benchmarks, **an appealing buying level for the S&P500 index is to be found at 2350**, which corresponds to the lows reached in the sell off of H2 2018 *(see chart on page 4).* At the time of writing, this is approx. -10% from current levels. Last but not least, we shall add a little disclaimer here noting that our assessment of the situation may change anytime given the highly dynamic market environment.

What to make out of the route in oil

On Monday 9th of March, the price war launched by Russia and Saudi Arabia triggered the **biggest daily drop in crude oil** prices **since** the start of the first **gulf war in 1991**. While share prices of oil companies around dropped by double-digit numbers, the **US shale industry** which helped the US cut its dependence on oil imports, **suffered shares price declines of more than -30%**. Production of US shale was running at a record high of 13,1mio barrels per day in February, more than double its level before the shale oil boom which started in 2010. But also international oil majors, whose break-even is USD 55 per barrel according to Jefferies were not immune to the drop. Being popular among investor for their **high dividends**, those **might quickly be cut** *(see graph on the right).* On the other hand, weakness in oil prices leads to reduction in raw material costs among companies that use oil as feedstock. Anyhow, the overall equity market weakness did not produce any intermediate winners. Going forward, **we see no evidence that oil prices will rebound quickly** as **this is not just a supply but also a demand shock** due to corona virus. With the announced capacity expansion from Saudi Arabia, **we think** it is just a question of time when **crude oil prices will drop below 30 USD**. In that regards, **oil stocks** which were already before out of fashion thanks to investors appetite for "greener" energy sources, **are poised to further underperform the market**. Apart from that, we strongly advice not to catch the proverbial falling knife in low quality bonds from US shale gas producers (a market which we luckily haven't touched before). (Even) higher credit spreads and an increasing number of defaults will come.





Source: Financial Times, Janus Henderson, FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN UNDERWEIGHT

- *"As we have highlighted in the past, exuberance can persist for longer but the market is now so heavily oversold these days that it would just be outright irresponsible to throw client's money after it. For instance, the* ***Nasdaq-index*** *is now trading* ***about +17% above it's 200-day moving average****, a level which was* ***higher only during the "dot-com bubble"*** *in the year 2000."* This is an extract from our February-Investment Letter and it now reads like a piece from another time. Just one months later, a lot of hot air has been removed from the market but we can not say that market are screamingly cheap *(see also page 4-5 for details)* which is why **we maintain our underweight rating for now**.
- That all said, **selective, longer-term buying opportunities are about to arise**. What investors shall **look out** are not the stocks which were hit hardest (that usually happens for a reason) but **consumer oriented**, stable businesses with **steady cash flows**. We may find those in the technology sector but also in consumer defensives such as food and beverage, household products, healthcare & utilities. The best companies in these industry groups will generate revenues no matter how dire the corona virus lockdown will be. (Still) to be avoided are materials, industrials, energy (if oil-related), financials and stocks related to transport and leisure!
- Rather than outright equity purchases, the **strategy of choice is to capitalize on the record high level of volatility**. For an idea with a superior risk-return ratio, kindly refer to our product of the months on *page 10+11*.

CASH –> REMAIN OVERWEIGHT

- During the World Economic Forum in January 2020, Ray Dalio, the iconic founder of Bridgwater, allegedly the world's largest hedge fund, made his now infamous comment that "cash was trash". Well, dear Ray, only now, **"cash is king" again!** Only those which have spare cash (or haven assets such as gold) will be able to buy into the market once risk assets have reached truly cheap levels.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- **Credit risk** is the place to **closely watch these days**. As we have highlighted on *page 3,* the current rise in credit spreads, while large over such a short period of time, is by no means unseen in history but instead **leaves room for further deterioration in case things turn to the worse**. That said, our exposure is mostly in the rating brackets around the investment grade / non-investment grade boundary and predominately in Emerging Markets, albeit with a sound geographic and sectorial diversification. Luckily, we have very little if no exposure to the most exposed industries such as energy, transport and leisure (*see also page 6 for an overview about the particular problems in the energy sector).* Presently, we strongly advice NOT to sell existing positions. The current dire liquidity situation might result in ugly execution prices. On the other hand, **wait until the dust settles down for bargain hunting too.**
- Duration wise, we maintain our exposure of max. 7 years as the curve seems to be in a early phase of steepening again.
- For now, we keep our relative preference for **emerging markets** (both corporates and government bonds) in hard currency.

ALTERNATIVES –> REMAIN OVERWEIGHT

- Even the notoriously save haven **gold** has been down in those historic days of March 2020. We suspect this has to do with investors in need for cash liquidating their profitable gold trades. Be it as it may, **we remain long or add on weakness**.
- **Relative value** and low beta strategies continue to be the place to hide during troubled times.
- **Gigant Option based Equity Growth Strategy**, one of the underperformers in 2019, is back with a vengeance, performing a stunning +40% so far in 2020. A high volatility regime like the current is the perfect playground for it.

House View: our Preferences on one Slide

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Asset Class	We Like	We Don't Like
Equities	*Area*: **"domestic" sales exposure** *Sectors*: **Consumer defensives, Healthcare,** *Style:* **Quality, Value, Dividends**	*Area*: **"global" sales exposure** *Sectors:* **Energy, Materials** *Style:* **Value traps, High Growth with no quality**
Bonds	*Duration:* **Medium term duration** of up to **7** years *Area:* **Emerging Markets corporate & sovereign debt in hard currency** *Credit:* **high & low grade IG; subordinated debt**	*Duration*: **Floating Rate Notes, duration > 10 years** Area: **EU government bonds** *Credit:* **High Yield, Senior Loans, Convertible Bonds**
FX & Commo-dities	*FX Majors:* **EUR** *FX Minors:* **CAD, NZD, ~~NOK, RUB,~~ BRL** *Commodities:* **Gold**	*FX Majors:* **CHF** *FX Minors:* **TRY** *Commodities:* **Base Metals**
Alternatives	*Alternatives:* **relative value strategies, Gigant Option based Equity Growth Strategy**	*Alternatives:* **listed Private Equity**

mangenta = recent changes

Product of the Months: 1yr Low Strike RC on a basket of Consumer Stocks (1/2)

How it works:

- The investor receives a **fixed & guaranteed coupon of 6% p.a. The invested amount is fully repaid if none of the stocks within the basket trades < 60% of today's level** **<u>at maturity date in 1 years time</u>.** If not, the investor will be required to buy the worst performing share at the barrier level (i.e. at 60% from today's price).
- Accordingly, the investor will only suffer a capital loss in case the worst performing of the three underlying shares looses *more than -40%* of today's value *at maturity date*. However, the investor will then buy this share at a price which is -40% cheaper than today. If for example the worst performing stocks looses -50%, the capital loss will amount to just -10%.
- The issuer may early recall the note first after 6 months at 100% provided all 3 underlying shares trade> 100% of inception level
- The selected stocks are **Disney, Johnson & Johnson** and **Mondelez** (see next page for details).

Preliminary Product Parameters: *)

Issuer:	tbd, minimum rating A	Barrier at Maturity:	60%
Coupon:	6% p.a. ; paid monthly (0,5%)	Minimum Investment Size	1'000.- USD
Maturity	1 year	Early Redemption:	monthly, first after 6 months)if all 3 stocks > 100%

Source: FIS Market Map   *) subject to change depending on market developments

Product of the Months: 1yr Low Strike RC on a basket of Consumer Stocks (2/2):

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The selected underlying stocks:

The Walt Disney Company is a diversified media conglomerate operating media networks, theme parks and resorts, film and TV studios and consumer products businesses. Its broadcast network targets upscale women, while its cable networks are focused on kids, family and sports. It is the global leader in theme parks with hotels and cruise lines aimed at families. Its film studio releases family friendly content from four distinct brands. It is the leader in global licensing to support its brands, and has 11 franchises with greater than $1B annual consumer products sales. In 2019, Disney generated revenues worth 70bn USD and net earnings of 11bn USD. Disney is now rolling out its own streaming business called Disney+. With a content offering ranging from Disney Studios, Marvel, Pixar, Lucas Films, ABC Studios, National Geographic, Fox Networks, ESPN and many more, the changes are high Disney can emerge as no1 challenger to Netflix, which so far has dominated the over the top media services market.

Johnson & Johnson (J&J) is a global manufacturer and provider of diversified health care and pharmaceutical products, medical devices and equipment. According to their own sources, J&J is the worlds largest healthcare company serving 1bn customers each day. J&J‘s brands include numerous household names of medications and first aid supplies. Among the well-known consumer products are Band-Aid brand line of bandages, Tylenol medications, Johnson‘s Baby products, Neutrogena skin and beauty products, Clean and Clear fascial wash and Acuvue contact lenses. In 2019, J&J generated sales of 81,6bn USD and 22,2bn in net earnings. The company boasts itself to have a history of 35 consecutive 35 years of consecutive operational earnings growth. It must be noted that in August 2019, J&J was ordered to pay 572mio USD in fines related to the US opiod crisis. State lawyers argued the company has helped fuel the crisis. Recall that the company already reserved USD 4bn for this and management suggested their financial liability may be spread out over time.

Mondelez completed its spin out from Kraft in 2012 and is now the global leader in snacking, with pro forma sales of 26bn USD (net profit 3,8bn USD in 2019). Key brands include Oreo, Cadbury, Milka, Triscuits, Trident, and Ritz. Mondelez possesses sustained sales growth momentum, solid margin expansion opportunity, and an attractive valuation. As the global snacking leader with almost 21% market share, the company holds number one positions in biscuits and candy, is tied for number one in chocolate, and is number two in gum. Mondelez revenues are well diversified across the globe with 38% of sales from Europe, 26% from North America, 23% from Asia & Middle East and 13% from Latin America. Unlike many competitors, Mondelez has generated organic sales growth over the last few years.

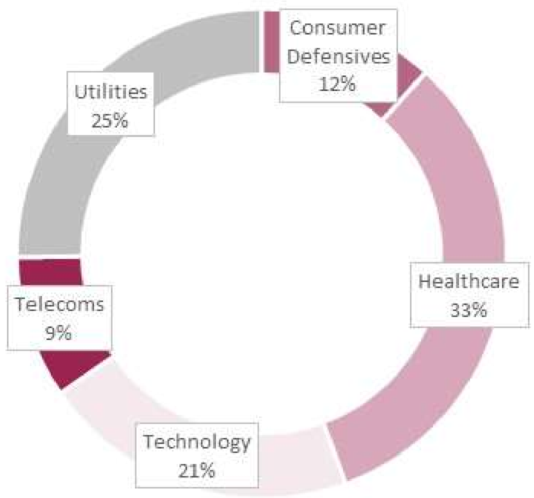
Overview US Equity Model Portfolio

Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**-10,83%**	**+30,56%**	**-1,2%**	**+17,6%**	**+35,17%**
S&P 500	-23,22%	+28,88%	-6,2%	+19,4%	+10,80%
Dow Jones	-25,71%	+22,34%	-5,6%	+25,1%	+7,28%
Nasdaq 100	-16,83%	+37,96%	-1,0%	+27,1%	+49,35%

Current Situation:	
Current Value:	1’351’658 USD
Start Value:	1’000’000 USD
Realized Gains:	+391’136 USD
Unrealized Gains:	-93’218 USD
Dividend Income:	+53’740 USD
Cash:	525’845 USD (39%)
Equities:	825’813 USD (61%)

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 March; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

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GICS Sector	Stock & Performance	
Energy		
Basic Materials		
Industrials		
Consumer Discretionary		
Consumer Defensives	**CVS Health** -32,20%	**Philipp Morris** -2,99%
Health Care	**Merck** 26,50%	**Intuitive Surgical** -3,56%
Financials		
Technology	**Microsoft** 16,50%	**Joy (formerly YY)** -48,90%
Telecom	**AT&T** -13,50%	
Utilities	**NextEra Energy** -10,40%	**Orsted** -16,30%
Real Estate		

performance = price return exluding dividends

computed by stockopedia.com; all data as of 12th of March

Overview USD Bond Model Portfolio

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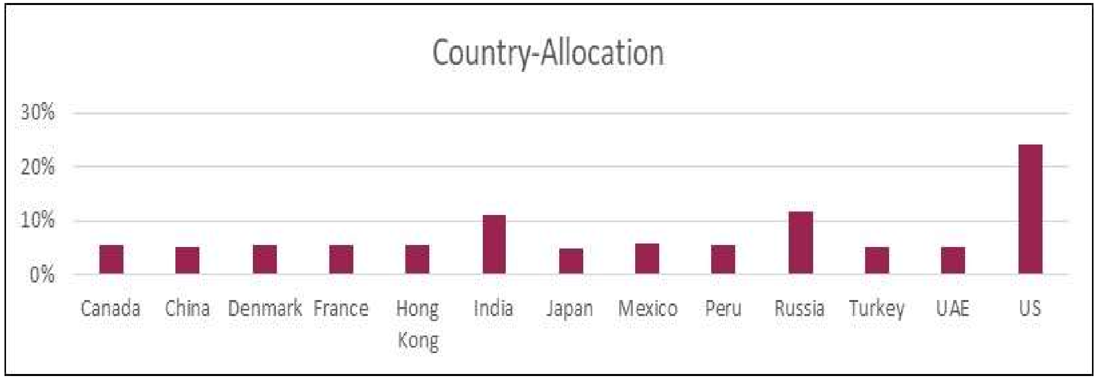
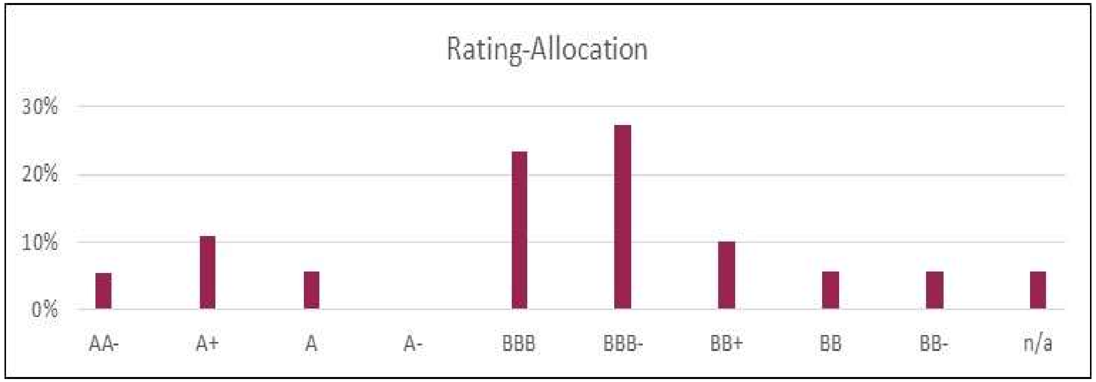
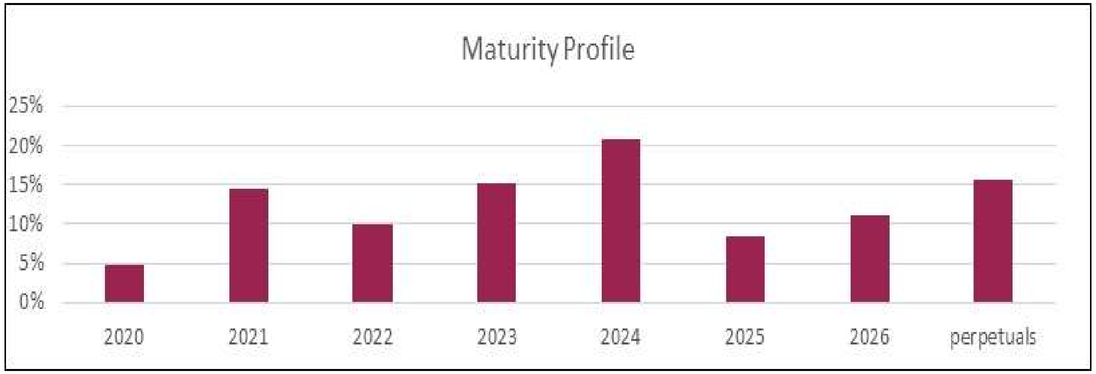
Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**-3,60%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+3,00%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**-5,06%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	4,41%
Weighted average Duration:	4,4







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

Constituents USD Bond Model Portfolio

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	Coupon	Bond Instruments	Maturity	Rating	Country	Industry	YTM	Duration	Bid-Price	minimum size	Allocation
	2,343%	FORD MOTOR CREDIT COMPANY LLC	02.11.2020	BBB	US	Finance & Investment	3,44%	0,6	99,32	200.000 USD	5,04%
	5,950%	GAP INC	12.04.2021	BB-	US	Supermarkets & Stores	6,63%	1,0	99,31	200.000 USD	5,03%
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	1,33%	1,2	101,22	200.000 USD	5,23%
	2,125%	CORPORACION ANDINA DE FOMENTO (CAF)	27.09.2021	AA-		Supranational Agency	1,17%	1,5	101,44	1.000 USD	5,25%
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	BB	Peru	Mining & Refining	10,78%	1,6	91,02	200.000 USD	4,23%
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	1,94%	2,0	101,67	200.000 USD	5,28%
	3,100%	GENERAL ELECTRIC CAPITAL CORPN	09.01.2023	A	US	Finance & Investment	3,16%	2,6	99,83	200.000 USD	5,09%
	5,250%	LOUIS DREYFUS COMPANY B.V.	13.06.2023	n/a	France	Commodity Trading	5,42%	2,8	99,50	200.000 USD	5,05%
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	2,48%	3,2	104,63	2.000 USD	5,59%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	3,23%	3,4	105,43	200.000 USD	5,67%
	5,250%	ALFA, S.A.B. DE C.V.	25.03.2024	BBB-	Mexico	Industrial (General)	3,50%	3,6	106,52	200.000 USD	5,79%
	5,375%	GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED	10.04.2024	BBB	India	Services	5,73%	3,5	98,71	200.000 USD	4,97%
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	4,75%	3,9	97,87	2.000 USD	4,89%
	4,000%	BOS FUNDING LTD	18.09.2024	BBB+	UAE	Banking & Finance	3,90%	4,0	100,42	200.000 USD	5,15%
	6,125%	**EQT CORPORATION**	**01.02.2025**	**BB+**	**US**	**Oil & Petroleum**	**16,96%**	**3,4**	**65,00**	**200.000 USD**	**2,16%**
	3,500%	**OAKTREE SPECIALITY LENDING**	**25.02.2025**	**BBB-**	**US**	**Banking & Finance**	**3,69%**	**4,6**	**99,15**	**200.000 USD**	**5,02%**
	5,150%	GAZPROM OJSC	11.02.2026	BBB	Russia	Oil & Petroleum	4,47%	4,9	103,51	200.000 USD	5,47%
	4,949%	GTLK EUROPE DESIGNATED ACTIVITY COMPANY	18.02.2026	BB+	Russia	Oil & Petroleum	5,22%	4,8	98,65	200.000 USD	4,97%
*)	4,750%	TOWNGAS FINANCE LTD		A-	Hong Kong	Utilities	4,42%	15,5	105,39	200.000 USD	5,67%
*)	4,800%	BANK OF MONTREAL		BBB-	Canada	Banking & Finance	5,13%	19,5	93,50	200.000 USD	4,46%

Source: FIS MarketMap; all data as of 13th of March mangenta = recent changes

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