GIGANT SWISS CONSULTING

Investment Letter

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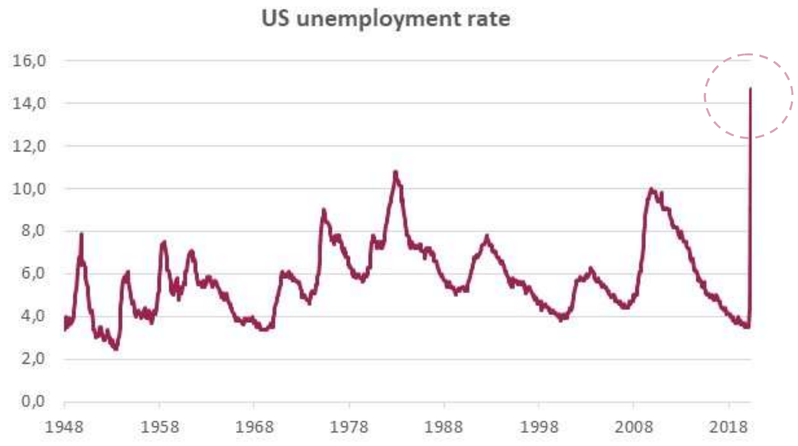
Reducing the exposure to equities again (1/2)

The **US equity market** benchmark S&P500 has rallied almost +30% from its nadir, trading just about -10% below its all time high reached this February, **implying a "V"-shaped recovery**. **In contrast** to this, the US just reported 20,5mio lost jobs in April alone, sending the **unemployment data to the highest since data are available** *(see lower chart on the right).* Bearing in mind that consumer spending accounts for almost 70% of the US gross domestic product, one keeps wondering if equity investors completely lost their mind or what might be behind their "optimism"? With hindsight, it is no surprise that the **equity rally started** just one day **after** the **Federal Reserve announced** it would **buy corporate bonds** – including those junk-rated. The expansion of their balance sheet injected an unprecedented amount of liquidity into markets and **helped address the liquidity crisis** that emerged in debt markets. Since then, borrowing costs were pushed down, various struggling companies were again able to refinance and all that **encouraged more riskier investments** into stocks. However, a closer lock below the surface may shed some light into the dark: quite a **substantial amount** of the rebound can be **attributed** to the performance of **just a handful of heavyweight stocks** such as Facebook (+4% year-to-date), Google (+5%), Apple (+7%), Microsoft (+18%) and Amazon (+30%). Those 5 companies alone account for 20% of the entire market capitalization of the S&P500-index. Secondly, the healthcare sector, another index heavyweight with 15% exposure, is down by just -1% since 1th of January. As a consequence of this concentration, the **median S&P 500 stock was down -28% at a time the aggregated index was just -17%** below its 52week high *(see table on next page- numbers as per end of April).* Given the race among pharma companies for a vaccine and the sudden digitalization of our lives in lockdown, the above paradox makes intuitively sense.

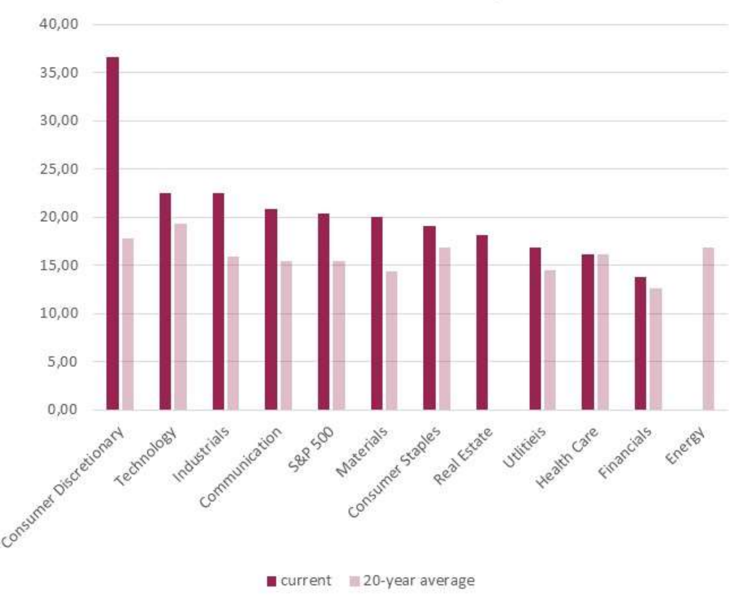


Source: FIS Market Map; Federal Reserve Bank of St.Louis

Reducing the exposure to equities again (2/2)

Distance below 52-week high

Sector	Aggregate Index	Median Stock	Difference
Consumer Discretionar	13%	42%	29%
Communication	16%	29%	14%
Materials	20%	33%	13%
S&P 500	**17%**	**28%**	**11%**
Real Estate	21%	32%	11%
Health Care	6%	16%	10%
Energy	48%	56%	8%
Technology	15%	23%	8%
Financials	31%	37%	6%
Consumer Staples	10%	14%	4%
Utilities	18%	19%	1%
Industrials	28%	27%	1%



The current easing of lockdown measures may also have attributed to investors renewed comfort. However, it should be noted that this tells more about **how investors see the world today rather than how the expected shape of the economic recovery is perceived**. And as we know, the single most important element for stock investment is not today but the future evolution of profits. Here however, things are getting a bit tricky as **visibility for earnings evolution has rarely been worse**. *FactSet* for instance reported that a record number of companies has **withdrawn** annual **earnings guidance** during Q1 earnings season. And the *Wall Street Journal* pointed out that the **dispersion of earnings** estimates has **reached** the **highest level** since 2009. Some strategists note that equity markets were too expensive now. However, we at Gigant are **not concerned by high valuation per se**. On the contrary, lower interest rates and a lot of excess liquidity does warrant high equity valuations! Rather, our view is that if apparently corporate financial executives have a very low visibility about their own business going forward, we as outsiders are very unlikely to do a better job at that. Given the **extremely high level of uncertainty** about both, macro economic developments but also profit evolutions in combination with the rather elevated level of stock prices, **we conclude** that a prudent risk management approach is more then ever our fiduciary duty we have for our client's assets. **We therefore reduce our exposure to equity markets again** and cut our exposure from "neutral" to "underweight" (n.b. we have only increased the equity exposure from "underweight" to "neutral" back in late March). To make this clear: we are no doomsayers and we do not pretend the end of the world is near but **we want to preserve some funds to re-invest at lower prices**.

Source: FacSet; Goldman Sachs

Our Tactical Asset Allocation (6months horizon)

EQUITIES –> DECREASE TO UNDERWEIGHT

- As we have highlighted on *page 4 & 5*, the markets **current rally** is mainly **driven by tech- and pharma-stocks**. Both sectors are on our “preferred list” *(see page 7 for details)* since quite some time and **almost half of our** US Model Portfolio **stock holdings are tied to those two industries**. Although this trade is getting more and more crowded it seems as if Covid19 will likely be supportive for tech- and pharmaceutical-earnings going forward. We thus see **no reason to cut our ties**.
- On the other hand, we **continue to avoid the “lockdown-losers”** such a transport and leisure, no matter how cheap they might look like. While lockdowns around the world are about to be lifted, **it will take a long time** until **those** particular **industries** will **finally get back to some sort of normality** (if ever). Equally, we see no need to add broad-scale exposure to materials, industrials, everything which is oil-production related in energy or banks.
- **Quality**, mainly in form of solid balance sheets and steady cash flow generation capacity remain the **criteria of choice**. On the other hand, during times of ultra low interest rates, price is less of an important component in evaluating individual stocks.

CASH –> INCREASE TO NEUTRAL

- After the various emergency rate cuts from the FED from March, **USD money market rates are finally close to zero**, a level investors in Europe, Japan or Switzerland have known for years (or decades, in case of Japan). **One of the last “hiding corners” has thus disappeared**. Anyhow, cash can not loose (at least not in nominal terms) and since opportunity costs are zero anyway, we happily park some cash for a few weeks or eventually months until better opportunities arise elsewhere.

Our Tactical Asset Allocation (6months horizon)

BONDS –> REMAIN NEUTRAL

- We risk repeating ourselves, but the Federal Reserve's announcement from late March to buy corporate but also junk-rated bonds can not be overemphasised. Essentially, without even having bought a single bond (according to their own terms, the purchase program just started on 12th of May) the **FED put a ceiling on credit spreads**. During times of de-facto 0% yields in US Treasury bonds, mutual **bond buyers** who **have financial liabilities to meet** will be **pressed into more riskier segments of the bond market**. We thus **continue to favour low investment grade / high non-investment grade corporate bonds** as we expect **credit spreads of that segment to further tighten**. Accordingly, total returns will be composed by a large parts of price gains- not yield to maturity. There is no contradiction in that view to the fact that default rates are deemed to rise- one just needs to be highly selective.
- After years of flattening and as we have already highlighted in our last investment letter, **we expect the USD yield curve to slowly steepen** again. To be clear, **we do not expect any inflation-** quite the opposite! **Rather we believe** the long end of the curve could **slowly grind higher following the record amount of debt issuance by the US treasury** which is need to cover its deficit. We thus cut duration exposure further to max 5 years.
- We happily maintain our relative preference for **emerging markets** in hard currency but likewise to developed markets, selectivity is more than ever, the strategy of choice. Within Emerging Markets, we now establish a **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

- As central banks awash the world with liquidity and fiscal spending reaches levels unseen, **real assets such as gold remain the asset of choice**. Over the last days, gold seems to just broke out of the most recent consolidation range. Next stop on the way up would be 1'800 USD per ounce.
- **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 +35% so far in 2020. A high volatility regime like the current is the perfect playground for it.

House View: our Preferences on one Slide

Asset Class	We Like	We Don't Like
Equities	*Area*: **businesses not affected by lockdown** *Sectors*: **Consumer defensives, Healthcare, Technology** *Style:* **Quality, Value, Dividends**	*Area*: **businesses affected by lockdown** *Sectors:* **Energy, Materials, Consumer Cyclicals** *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*: **duration > 5 ~~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:* **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

Removed from our Model Portfolio: Intuitive Surgical

Sector:	Healthcare Equipment
Risk Type:	**High Flyer**
Market Cap:	61bn USD
Holding Period:	343 days
Total Return:	**+12.80%**

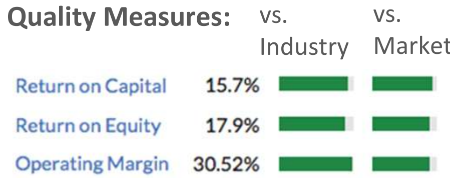
Chart Intuitive Surgical since Purchase

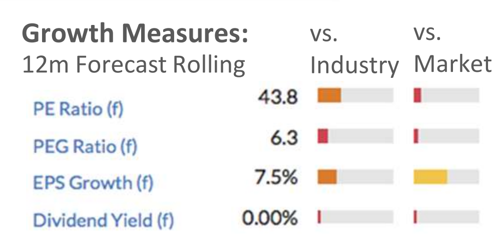
650
600
550
500
450
400
350
Jun.2019 Aug.2019 Okt.2019 Dez.2019 Feb.2020 Apr.2020

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.

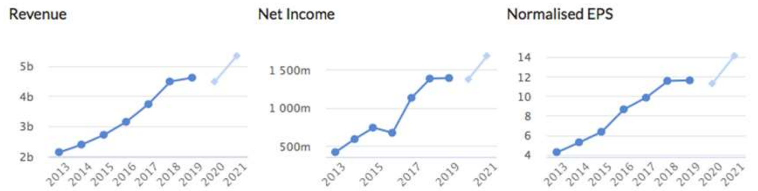
Rationale of Disposal:

- During the holding period of almost 1 year, shares of ISRG have on the one hand beat the broad stock market as represented by the S&P500 but failed to beat the tech-exposed Nasdaq 100-index to with ISRG is a member. To our disappointment, the stock performed relatively poor during the broad market sell of in March.
- In mid April, ISRG reported Q1 results which beat market expectations but noted the headwinds from the pandemic emerged in mid March and so the full effects will only be realized in Q2 and beyond. The company sees a tougher road ahead due to Covid19-disruptions and thus does not provide a specific guidance.
- While we continue to believe that ISRG is well positioned to benefit from a steadily growing robotic surgery market, we do not see the stock trading substantially higher over the months to come. We therefore want to lock in our paper profits and will happily buy ISRG again should it drop in price.





Historical Revenue & Profit Evolution:



Source: www.stockopedia.com; FIS Market MAP; all numbers as of 12th of May

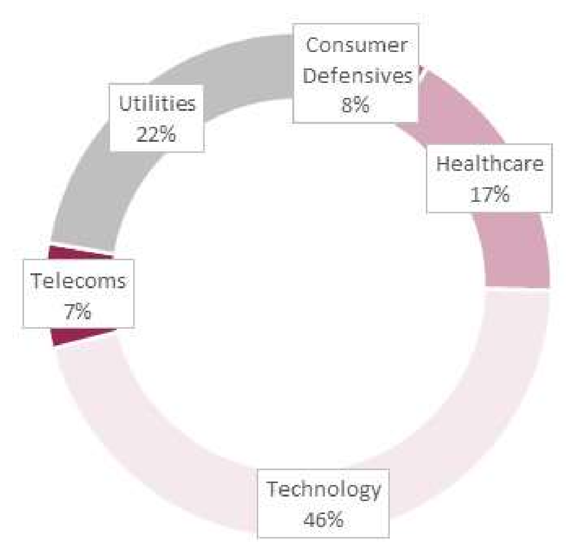
Overview US Equity Model Portfolio

Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**-1,06%**	**+30,56%**	**-1,2%**	**+17,6%**	**+49,98%**
S&P 500	-11,71%	+28,88%	-6,2%	+19,4%	+27,41%
Dow Jones	-17,22%	+22,34%	-5,6%	+25,1%	+19,55%
Nasdaq 100	+4,14%	+37,96%	-1,0%	+27,1%	+86,99%

Current Situation:	
Current Value:	1’499’641 USD
Start Value:	1’000’000 USD
Realized Gains:	+402’372 USD
Unrealized Gains:	+380’744 USD
Dividend Income:	+58’525 USD
Cash:	433’091 USD (21%)
Equities:	1’066’5499 USD (79%)

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

GICS Sector	Stock & Performance			
Energy				
Basic Materials				
Industrials				
Consumer Discretionary				
Consumer Defensives	**CVS Health** -22,70%	**Philipp Morris** -8,75%		
Health Care	**Merck** 36,00%			
Financials				
Technology	**Alphabet** 24,10%	**Joy (formerly YY)** -45,20%	**Microsoft** 51,20%	**Visa** 28,00%
Telecom	**AT&T** -21,10%			
Utilities	**NextEra Energy** -0,40%	**Orsted** -1,49%		
Real Estate				

performance = price return exluding dividends

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

Changes to our USD Bond Portfolio:
BUY TEVA 2023 to replace tendered General Electric 2023

2.8% Teva Pharma Finance 21.07.2023

Rating:	BB
Price:	94.25%
Yield:	**5.58%**
Duration:	**2.87**
Min. Size:	2'000 USD

Investment Rationale: While the way back to normal profitability is still long, we are of the opinion Teva is on the right track (for more details, see below). Therefore, this bond fits into our preference of selective high-non investment grade debt with short maturity and improving fundamental data. From a portfolio point of view, we are not (yet) overexposed to BB-rated bonds and some pharma-sector exposure is also welcome.

About the Issuer: Teva which is headquartered in Israel is the largest global generic company. It also has a portfolio of brands focusing on treatments of neurological disorders and respiratory therapeutic areas. Key products include Copaxone for multiple sclerosis and ProAir Albuterol inhaler for Asthma. Shares of Teva are publicly traded on Nasdaq. The company has a market cap of 12bn USD. After an ill-timed and expensive acquisition of Actavis as well as the expiry of exclusivity of its best selling drug, Copaxone, Teva underwent a restructuring in 2018 and 2019 during which the company started to cut costs and reduce the high debt burden. Q1 2020 results showed some early signs of improvements.

3.1% General Electric 09.01.2023

Rating:	BBB+
Price:	104.5%
Hold. Period:	**781 days**
Tot. Return	**13.87%**

Rationale of Disposal: In early May, GE announced a tender offer for a variety of short dated USD-bonds. Among them is our 2023-holding for which GE is offering a repurchase price of 104.5% which entails a small premium to the current market price. Given the fact that General Electric's credit spreads have compressed quite substantially since our purchase, we gladly tender our holding and lock in the accumulated profit.

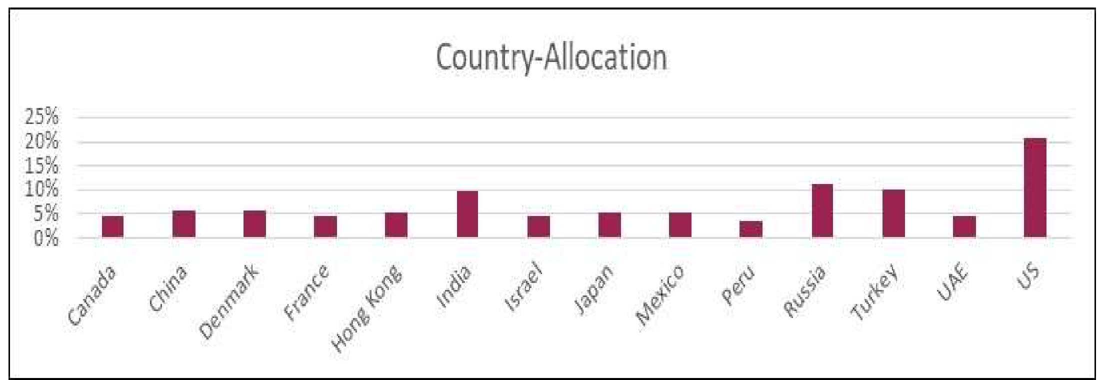
About the Issuer: We bought General Electric bonds after a period of severe underperformance during which in particular GE Capital represented an overhang following the charge taken in its legacy insurance business. In addition, the company's oil and gas and power segments were also under pressure. But despite all challenges, GE did not encounter a liquidity crunch as and cash flow recently showed improvement in the industrial businesses.

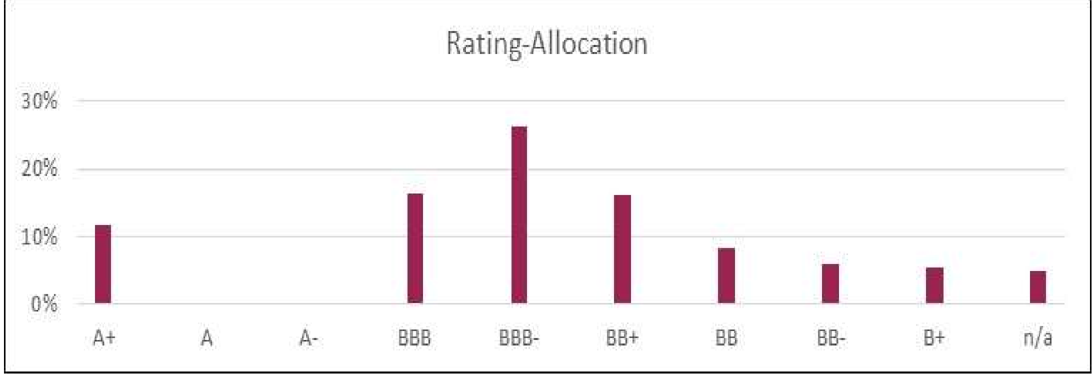
*) total return including coupon payments, changes in price and accrued interest

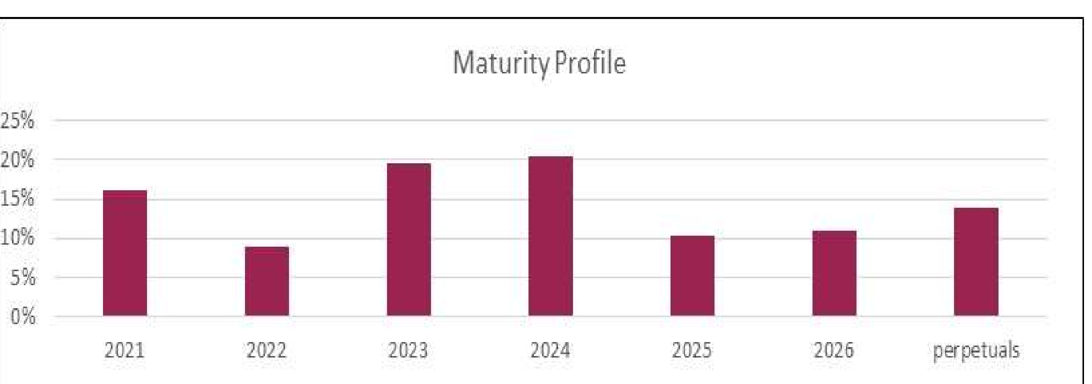
Overview USD Bond Model Portfolio

Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**-2,70%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+4,86%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**-5,97%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	5,15%
Weighted average Duration:	4,30







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

Constituents USD Bond Model Portfolio

	Coupon	Bond Instruments	Maturity	Rating	Country	Industry	YTM	Duration	Bid-Price	minimum size	Allocation
	5,950%	GAP INC	12.04.2021	BB-	US	Retail	2,28%	0,8	103,25	200.000 USD	5,53%
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	0,68%	1,0	101,71	200.000 USD	5,37%
	5,000%	TURKIYE IS BANKASI AS	25.06.2021	B+	Turkey	Banking & Finance	5,16%	1,0	99,83	200.000 USD	5,17%
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	BB	Peru	Mining & Refining	19,69%	1,3	80,05	200.000 USD	3,33%
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	0,94%	1,9	103,50	200.000 USD	5,56%
	8,500%	FORD MOTOR CO	21.04.2023	BB+	US	Automobile Manufacturers	9,24%	2,3	98,13	2.000 USD	5,00%
	5,250%	LOUIS DREYFUS COMPANY B.V.	13.06.2023	n/a	France	Commodity Trading	7,28%	2,7	94,50	200.000 USD	4,63%
	2,800%	**TEVA PHARMACEUTICAL FINANCE NETHERLANDS III B.V.**	**21.07.2023**	**BB**	**Israel**	**Pharmaceutical**	**5,59%**	**2,9**	**92,00**	**2.000 USD**	**4,39%**
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	2,89%	3,0	103,09	2.000 USD	5,52%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	4,08%	3,2	102,25	200.000 USD	5,43%
	5,250%	ALFA, S.A.B. DE C.V.	25.03.2024	BBB-	Mexico	Industrial (General)	5,19%	3,3	100,20	200.000 USD	5,21%
	5,375%	GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED	10.04.2024	BBB	India	Services	8,60%	3,2	89,52	200.000 USD	4,16%
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	4,72%	3,8	98,04	2.000 USD	4,99%
	4,000%	BOS FUNDING LTD	18.09.2024	BBB+	UAE	Banking & Finance	5,28%	3,8	95,10	200.000 USD	4,69%
	6,125%	EQT CORPORATION	01.02.2025	BB+	US	Oil & Petroleum	6,36%	3,8	99,06	200.000 USD	5,09%
	3,500%	OAKTREE SPECIALITY LENDING	01.02.2025	BBB-	US	Banking & Finance	3,69%	4,6	99,15	200.000 USD	5,10%
	5,150%	GAZPROM OJSC	11.02.2026	BBB	Russia	Oil & Petroleum	3,45%	4,8	108,74	200.000 USD	6,14%
	4,949%	GTLK EUROPE DESIGNATED ACTIVITY COMPANY	18.02.2026	BB+	Russia	Oil & Petroleum	5,55%	4,7	97,05	200.000 USD	4,89%
*)	4,750%	TOWNGAS FINANCE LTD		A-	Hong Kong	Utilities	4,62%	15,3	102,00	200.000 USD	5,40%
*)	4,800%	BANK OF MONTREAL		BBB-	Canada	Banking & Finance	5,21%	19,2	92,12	200.000 USD	4,40%

Source: FIS MarketMap; all data as of 15th of May   mangenta = recent changes   *) Perpetual bonds

Please contact:

Phone: +41 44 493 90 90
Fax: +41 44 493 90 11
Email: info@gigant-swiss.ch

Gigant Swiss Consulting AG
Bodmerstrasse 9
CH-8002 Zurich

www.gigant-swiss.ch
info@gigant-swiss.ch

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