GIGANT SWISS CONSULTING

Investment Letter

No 6
June
2020

Table of Content

- Yield Cockpit -> slide 3
- Don’t run after the money-better wait until it runs after you! -> slide 4-5
- Our Tactical Asset Allocation (6months horizon) -> slide 6-7
- House View: our Preferences on one Slide -> slide 8
- US Equity Model Portfolio
  - Overview -> slide 9
  - Constituents -> slide 10
- USD Bond Portfolio
  - Overview -> slide 11
  - Constituents -> slide 12

Yield Cockpit

Overview current effective yields in USD *)

	current	2 months ago
3 Months US T-Bills	0.14%	0.13%
2 Year US Treasury	0.20%	0.37%
5 Year US Treasury	0.34%	0.50%
10 Year US Treasury	0.70%	1.38%
3-5 Year IG Corp Bonds	**1.65%**	**2.55%**
7-10 Year IG Corp Bonds	2.38%	3.13%
15+ Year IG Corp Bonds	3.33%	3.60%
High Yield BB-rated	4.23%	5.30%
High Yield B-rated	6.34%	8.65%
EM Corporate Bonds	**4.45%**	**5.79%**
EM Sovereign Bonds	5.21%	6.45%
Spreads & Inflation		
FED Funds Rate	0.05%	0.05%
TED-Spread	0.17%	0.97%
10yr–2yr Treasury Spread	0.47%	0.45%
5yr Breakeven Inflation	0.95%	0.67%
10yr Breakeven Inflation	1.21%	1.01%

*) 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 11th of June

What to take note of:

- In 2020 alone, the **2yr Treasury yield** has **collapsed** all the way **from** around **1,5% to** almost **0%** *(see chart underneath)* in a few weeks time and the FED just made it clear in their June meeting that **short term rates are likely to stay there until 2020.** Therefore, those institutional investors which per definition of their mandate must invest in the bond market and my not switch to other asset classes will need to either increase credit- and/or duration risk in order to met their liabilities. With the implicit backing of the FED which has announced to buy even junk rated corporate bonds, we thus believe that **many investors will continue to chase corporate bonds** from all market segments, thus sending credit spreads back to the lows we have seen earlier this year.
- In contrast to credit risk, taking **duration risk is** the **less compelling** option in our eyes. The **increased funding requirement by the US government** (to finance their expensive covid19-combat programmes during times where the budget deficit was soaring anyway) is leading to a **rise in longer term US treasury rates** (higher yields imply lower bond prices). Together with the well anchored short term rates, this will lead to a **steepening of the yield curve**. We thus continue to favour the short end and the belly of the curve over the long end.

Don’t run after the money…..

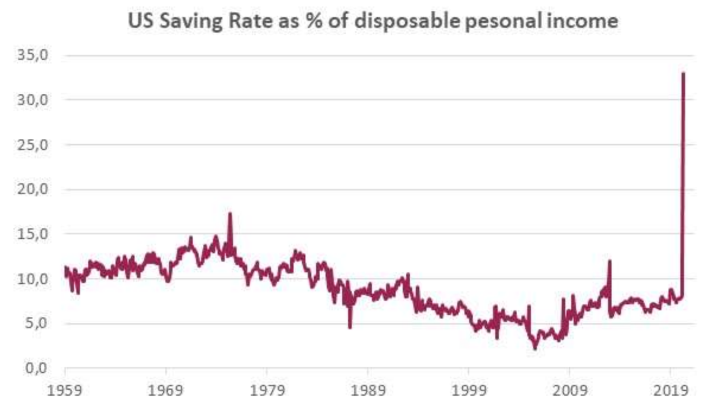
Over the recent weeks, both professional investors but also financial media have scratch their head about the astonishing speed and power of the equity markets recovery and subsequently, the decoupling from the dire economic reality. Many prominent commentators and market participants **conclude** that the unprecedented **wave of liquidity** unleashed **by central banks** around the world but also a **surge in retail investor** trading **activity** is **behind that rally**. Representing for this camp we cite the Head of Equity Strategy at Wells Fargo in a Bloomberg interview from 10th of June: *“The emerging narrative (…) is that this rally is a house-of-cards driven by FED largess and retail investors naiveté”.* **We at Gigant have some sympathy for that opinion** but note that there is no empiric proof for that thesis. Anyhow, the more interesting question to us is whether we do need to join this rally or if we shall continue to stay absent (having an underweight-rating in equities does off course imply we have exposure to the market but less than what we could). At that point, **arguing with economic data alone is** somewhat **tricky** as it is in the nature of most **economic data** series to be **backward looking** hence to be particularly **outdated when released** during this volatile times. Anyhow, following the gloomy outlook of the IMF from late April, this week’s turn was on the **OECD** which said that “*by the end of 2021, the* ***loss of income exceeds that of any previous recession over the last 100 years outside wartime****, with dire and long-lasting consequences for people, firms and governments”.* This is not exactly a message which screams “buy risk assets”. An other popular critic goes that a variety of valuation metrics stand at high, higher- or even highest levels which yes, generally makes us not feel very comfortable. That said, we have sympathy for the opinion that valuations are ill-suited for a proper assessment of the current times as unprecedented liquidity provided by Central Banks , the low absolute

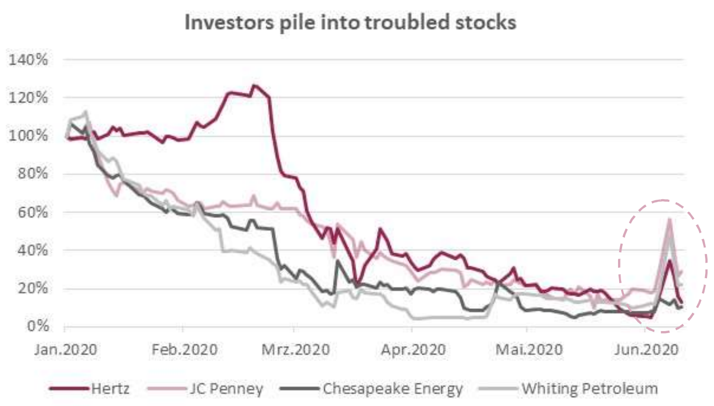
OECD global real GDP expectation

110,00%
105,00%
100,00%
95,00%
90,00%
85,00%
Q1 19 Q2 19 Q3 19 Q4 19 Q1 20 Q2 20 Q3 20 Q4 20 Q1 21 Q2 21 Q3 21 Q4 21
November 2019 forecast
Single pandemic wave scenario
Double pandemic wave scenario

Source: FIS Market Map; OECD

…better wait until it runs after you!





Source: St.Louis FRED; FIS Market Map

level of interest rates but also the currently limited explanatory power of corporate earnings are distorting equity valuations. Accordingly, it might **not be wise to rely entirely on valuation as a reason for folding on the current rally**. We also well understand that the recent optimism surrounding the latest releases of lockdowns is sparking risk appetite: a development which is best described by the **recent outperformance of more cyclically geared industry groups** which contrasts to the market behavior witnessed during the first phase of the rally during which defensive sectors outperformed. However, what definitively makes us **uncomfortable** is the **increased retail investor activity** which has also gained a lot of media attention recently. Goldman Sachs noted in a proprietary study that the trading volume of retail- or commission free brokers has exploded to unseen highs, a development which seems intuitively logic given the **spike in the US savings rate** *(see upper chart on the right)* and the collapse in USD interest rates (historically, Americans tended to hold non-invested savings in money market funds whose yield has now collapsed). The most ominous sign is probably the sharp rise of companies which recently filled for bankruptcy *(see lower chart on the left).* The backing of retail investors of those stocks is confirmed by the soaring number of clients of the market leading, commission free trading platform Robin Hood. The **problem with increased retail speculation is that it has a historically bad track record** (anybody remembering the crypto asset bubble in late 2017?). For now, we conclude that there is no specific killer reason why we do not want to chase this rally and we do not pretend to say it is all built on sand. Anyhow, the **sum of the above reasons leads us to conclude that the current risk reward ratio for additional purchases is not attractive**. We hence want to preserve our fire power for better opportunities.

Our Tactical Asset Allocation (6months horizon)

EQUITIES –> REMAIN UNDERWEIGHT

- As we have detailed on *page 4 & 5,* we **do not see enough evidence to chase the current rally** (i.e. increase our underweight position) and so yes, we risk some intermediate underperformance. Although with the sell off from Thursday 11th of June, that risk has already substantially diminished again.
- More cyclically geared sectors have started to catch up in late May, earl June. Anyhow, while we do not mind adding one or the other stock of that group, **we do not advice to increase cyclical exposure at the expense of more defensives**. The above mentioned sell-off has demonstrated (again) that gains in cyclicals may be short lived. Our preference for less cyclical sectors is undermined by the fact that the consumer defensive but also the technology-sector are the first two sectors which just surpassed their previous all time highs and are thus likely to attract more buyers.
- **Quality**, mainly in form of solid balance sheets and steady cash flow generation capacity remain the factor **criteria of choice**. We well understand that the current euphoric mode leads to high demand for speculative grade stocks (which usually come free of "quality") but that is just a very short term market spleen which is unlikely to pay off over the medium term. On the other hand, during times of ultra low interest rates, valuation is less of an important component so a high valuation does not per see make a single stock unattractive these days.

CASH –> REMAIN NEUTRAL

- Traditionally US savers park their savings which they do not invest in the stock market in money market funds. Now, the 3months Treasury Bill yield has collapsed all the way from around 1,5% to almost 0% in a few weeks time. In that perspective, it seems intuitively logic that savers increase their allocation to the stock market (*for the anecdotal evidence of increased retail activity in the stock market & the increase of US savings rate, kindly refer to page 4&5).* Anyhow, the March-turmoil in markets was a stark reminder that **large drawdowns must be avoided at any price**: for illustration purposes, when an asset drops by -30% and rises subsequently by +30%, it only trades at 91% of initial value, resulting in a loss of -9%. As this simple example explains, **keeping funds on cash does not always need to be a loss of opportunity**.

Our Tactical Asset Allocation (6months horizon)

BONDS –> REMAIN NEUTRAL

- On the back of soaring funding requirements, the very long end of the US treasury yield curve has increased, sending the US treasury yield curve to its steepest level in more than a year. The FED on the other hand just announced to keep short term rates near 0% until at least 2022. Further soring funding requirements by the US government will thus **lead** to a **continued steepening of the US treasury curve** which is why we continue to avoid exposure to the long end of the curve (rising yields imply falling bond prices).
- As indicted on *page 3*, 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.
- 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.
- Until the dust settles down, we avoid exposure to less liquid markets such as for example senior loans.

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 **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:* ~~**CHF**~~, **GBP** *FX Minors:* **TRY** *Commodities:* **Base Metals**
Alternatives	*Alternatives:* **relative value strategies, Gigant Option based Equity Growth Strategy**	*Alternatives:* **listed Private Equity**

mangenta = recent changes

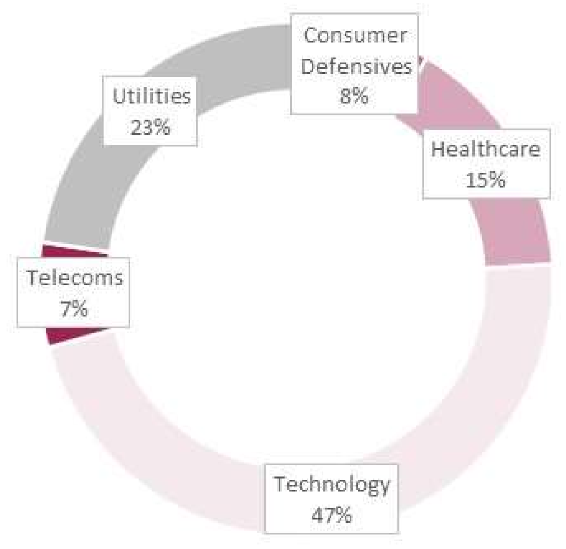
Overview US Equity Model Portfolio

Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+3,11%**	**+30,56%**	**-1,2%**	**+17,6%**	**+56,30%**
S&P 500	-7,08%	+28,88%	-6,2%	+19,4%	+34,09%
Dow Jones	-11,95%	+22,34%	-5,6%	+25,1%	+27,15%
Nasdaq 100	+9,80%	+37,96%	-1,0%	+27,1%	+97,15%

Current Situation:	
Current Value:	1’562’955 USD
Start Value:	1’000’000 USD
Realized Gains:	+402’372 USD
Unrealized Gains:	+100’339 USD
Dividend Income:	+60’244 USD
Cash:	434’811 USD (21%)
Equities:	1’128’144 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 11th of June; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

GICS Sector	Stock & Performance			
Energy				
Basic Materials				
Industrials				
Consumer Discretionary				
Consumer Defensives	**CVS Health** -22,70%	**Philipp Morris** -8,75%		
Health Care	**Merck** 31,40%			
Financials				
Technology	**Alphabet** 28,40%	**Joy (formerly YY)** -24,80%	**Microsoft** 56,10%	**Visa** 33,60%
Telecom	**AT&T** -16,70%			
Utilities	**NextEra Energy** 6,47%	**Orsted** 6,40%		
Real Estate				

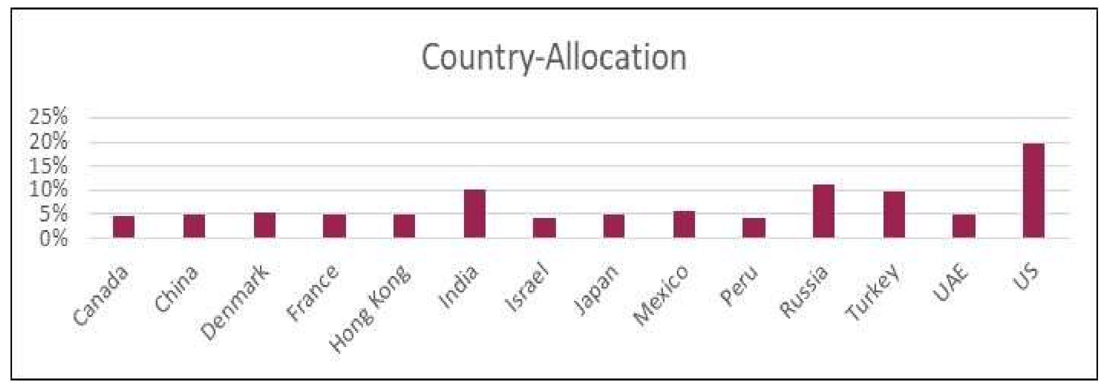
performance = price return exluding dividends

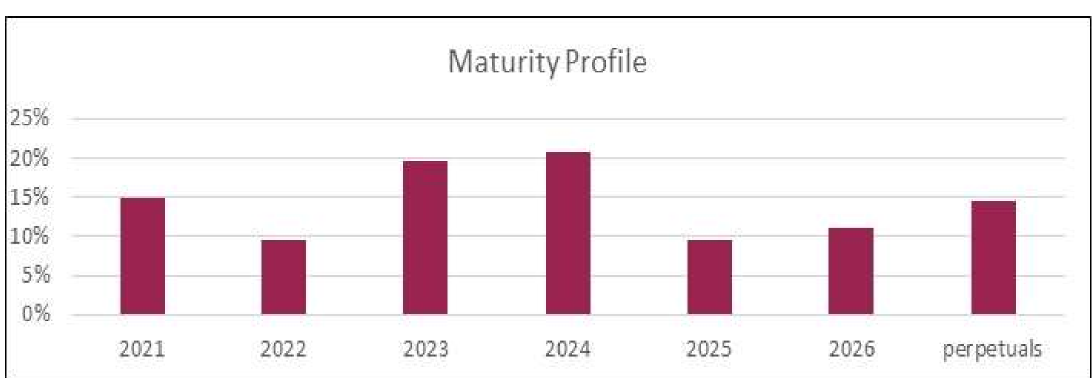
computed by stockopedia.com; all data as of 11th of June

Overview USD Bond Model Portfolio

Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**+1,15%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+5,89%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**-1,08%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	4,16%
Weighted average Duration:	4,40





Source of data: FIS Market Map; own calculation; all data as of 12th of June

Constituents USD Bond Model Portfolio

	Coupon	Bond Instruments	Rating	Country	Industry	YTM	Duration	Bid-Price	Value in USD	minimum size	Allocation
	5,950%	GAP INC	BB-	US	Supermarkets & Stores	3,46%	0,8	102,00	208.080 USD	200.000 USD	5,03%
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	A1	Japan	Railways & Transportation	0,82%	0,9	101,46	205.862 USD	200.000 USD	4,98%
	5,000%	**TURKIYE IS BANKASI AS**	**B+**	**Turkey**	**Banking & Finance**	**4,34%**	**1,0**	**100,66**	**202.629 USD**	**1.000 USD**	**4,90%**
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	BB	Peru	Mining & Refining	8,88%	1,4	94,77	179.627 USD	200.000 USD	4,34%
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	A+	China	Utilities	1,35%	1,8	102,60	210.525 USD	200.000 USD	5,09%
	8,500%	**FORD MOTOR CO**	**BB+**	**US**	**Automobile Manufacturers**	**7,19%**	**2,3**	**103,30**	**213.418 USD**	**2.000 USD**	**5,16%**
	5,250%	LOUIS DREYFUS COMPANY B.V.	n/a	France	Commodity Trading	5,35%	2,6	99,73	198.902 USD	200.000 USD	4,81%
	2,800%	**TEVA PHARMACEUTICAL FINANCE NETHERLANDS III B.V.**	**BB**	**Israel**	**Pharmaceutical**	**4,78%**	**2,8**	**94,35**	**178.046 USD**	**2.000 USD**	**4,31%**
	3,875%	DANSKE BANK A/S	A-	Denmark	Banking & Finance	1,91%	3,0	106,15	225.354 USD	2.000 USD	5,45%
	4,750%	INDIAN OIL CORPN LTD	A-	India	Oil & Petroleum	3,01%	3,2	105,86	224.106 USD	200.000 USD	5,42%
	5,250%	ALFA, S.A.B. DE C.V.	BBB-	Mexico	Industrial (General)	3,34%	3,3	106,70	227.698 USD	200.000 USD	5,51%
	5,375%	GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED	BBB	India	Services	5,83%	3,2	98,45	193.848 USD	200.000 USD	4,69%
	4,215%	COCA COLA ICECEK URETIM AS	BBB	Turkey	Food Manufacturing	3,91%	3,8	101,20	204.829 USD	2.000 USD	4,95%
	4,000%	BOS FUNDING LTD	BBB+	UAE	Banking & Finance	3,82%	3,8	100,70	202.798 USD	200.000 USD	4,90%
	6,125%	EQT CORPORATION	BB+	US	Oil & Petroleum	6,11%	3,8	100,05	200.208 USD	200.000 USD	4,84%
	3,500%	OAKTREE SPECIALITY LENDING	BBB-	US	Banking & Finance	3,69%	4,6	99,15	196.626 USD	200.000 USD	4,76%
	5,150%	GAZPROM OJSC	BBB	Russia	Oil & Petroleum	2,87%	4,8	111,85	250.186 USD	200.000 USD	6,05%
	4,949%	GTLK EUROPE DESIGNATED ACTIVITY COMPANY	BB+	Russia	Oil & Petroleum	4,57%	4,8	101,89	207.611 USD	200.000 USD	5,02%
*)	4,750%	TOWNGAS FINANCE LTD	A-	Hong Kong	Utilities	4,58%	15,4	102,67	210.823 USD	200.000 USD	5,10%
*)	4,800%	BANK OF MONTREAL	BBB-	Canada	Banking & Finance	4,88%	20,5	98,40	193.635 USD	200.000 USD	4,68%

Source: FIS MarketMap; all data as of 12th of June   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

Disclaimer

This material is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. Information and opinions presented by Gigant Swiss Consulting AG have been obtained from sources believed to be reliable, and, while all reasonable care has been taken, Gigant Swiss Consulting AG is not able to make any representation as to its accuracy or completeness. Information usually attributable to a unique specific source is quoted whenever such information is available. Otherwise, the information may have been gathered from public news dissemination services. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. For structured financial instruments and funds the sales prospectus is legally binding. Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by Gigant Swiss Consulting AG regarding future performance. Accordingly, Gigant Swiss Consulting AG accepts no liability for loss arising from the use of this document presented for information purposes only. Gigant Swiss Consulting AG makes no representation and gives no advice in respect of any tax, legal or accounting matters in any applicable jurisdiction. This report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Additional information is available upon request.