GIGANT SWISS CONSULTING

Investment Letter

No 8
August
2020

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Yield Cockpit

Overview current effective yields in USD *)

	current	2 months ago
3 Months US T-Bills	0.10%	0.14%
2 Year US Treasury	0.14%	0.20%
5 Year US Treasury	0.26%	0.34%
10 Year US Treasury	0.65%	0.70%
3-5 Year IG Corp Bonds	**1.30%**	**1.65%**
7-10 Year IG Corp Bonds	2.00%	2.38%
15+ Year IG Corp Bonds	3.06%	3.33%
High Yield BB-rated	**3.73%**	**4.23%**
High Yield B-rated	5.83%	6.34%
EM Corporate Bonds	**3.82%**	**4.45%**
EM Sovereign Bonds	4.45%	5.21%

Spreads & Inflation

FED Funds Rate	0.05%	0.05%
TED-Spread	0.14%	0.17%
10yr–2yr Treasury Spread	0.53%	0.47%
5yr Breakeven Inflation	1.55%	0.95%
10yr Breakeven Inflation	1.68%	1.21%

*) derived from relevant BofA Merrill Lynch effective yield indices
mangenta = Gigant Swiss preferences

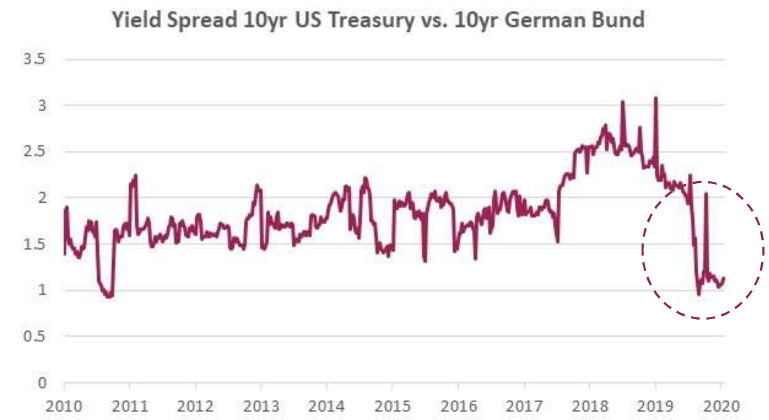
What to take note of:

- Since the Central Bank intervention at the height of the COVID19-sell off, (nominal) yields have further collapsed. In contrast to this, inflation expectations have picked up and are now trading back to pre-COVID19 levels. That in turn has sent **"real yield"** (= nominal yield – inflation) **to record low levels** *(see graph underneath).* In our eyes, **low real yields are the main driver for the current USD-weakness** as it diminishes the relatively attractiveness of USD-holdings. Additionally, low real yields are a **bullish sign for gold** *(read more about gold on page 5).*
- **Rising inflation expectations** imply a risk for a steepening yield curve. While we do not believe the long end of the yield curve is due to explode in a dramatic fashion anytime soon, we nonetheless note that presently, the time premium is extremely low. In other words, **investors are not adequately compensated for taking the risk of longer dated bonds**. We therefore continue to prefer (selected) credit risk over duration risk. Adding BB-rated bonds which in the jargon of rating agencies constitutes "non investment grade speculative"-credit quality is one of the few areas to explore for yield-starved fixed income investors.
- Adding to this, **a weaker USD always bodes well for Emerging Market bonds**: maintain your overweight on that sub asset class!

Source: BofA Merrill Lynch Indices retrieved from Federal Reserve Bank of St.Louis; Bloomberg Barclays Index Data; NY FED; all data as of 19th of August

A closer look at the USD and gold (1/2)

Over the last months, the US dollar has been fairly weak to say the least. The **US Dollar Index** which measures the value of the US Dollar relative to a basket of US trade partners currencies, has **lost almost -10%** since its peak during the COVID19-related market sell-off in March *(see upper graph on the right).* A variety of reasons can be cited for that move: to start with, **USD-yields** were substantially higher pre-COVID19 but that **relative attractiveness** has **diminished** quite a bit given the aggressive easing of the US Federal Reserve *(see lower graph on the right).* The ECB for example, while starting from a much lower absolute level, did not cut short term rates any further post COVID19. Secondly, the announced **fiscal measures** to combat COVID19 where **much larger in the US** when taking into account the size of the budget. So while budget deficits are likely to be increased around the world, the US one is probably widening the most. Last but not lest it should be noted that the **USD was starting from** an **"overvalued" level** pre-COVID19 in many metrics. Going forward, the all import question for USD-denominated portfolios (i.e. the majority of our client base) is whether or not they should **diversify into other currencies?** The quick answer in our eyes is **"not yet"!** First of all, **we lack** the **alternatives**: out of G4, only EUR would potentially qualify as GBPs fate is still dominated by ongoing Brexit woes while the negative-yielding JPY is hardly ever a good investment during "risk on"-times. So remains **EUR as a potential alternative**: over the last months, EURUSD, the world's most heavily traded currency pair has rallied quite swiftly by +10% *(see upper graph on page 5)*. A move of that magnitude, if history is any guide, is more likely to be retraced rather than continued. This rather anecdotal observation is undermined by the fact that **economic growth in the Euro-area remains weak** and the fact that the ECB is too expansionary to promote a follow through of EURUSD to say 1,25-1,30.



Source: FIS Market Map

A closer look at the USD and gold (2/2)

US yields are still higher than those in the Euro-area and there is a change that at some point, also the US will overcome its ever rising COVID19 cases. That all said, **over the longer term**, the **USD** is likely to **weaken further** due to the increasing budget deficit of the US. A good target in EURUSD could then be the **1,25-1,30 area**, which from a fundamental perspective constitutes **“fair value”** for the currency pair. Anyhow, **for that to happen** we would need to see much **stronger global economic growth** and even **lower USD-yields**: a scenario which needs at least 12-24months to play out. To summarize: **in the short run, the EUR strengths looks capped for now.** There is no need for USD-denominated portfolios to rush out of USD. Instead, a potential consolidation over the next months shall be used to diversify some (but not all!) holdings out of the USD, most likely into EUR.

Gold on the other hand has seen its **best period in many years**, gaining a whopping +27% in 2020. The strength of the yellow metal one the one hand can be **attributed to the extremely low yield-levels** as the opportunity cost of holding the no-yield-metal decreases *(see page 3 for details)* **but also to the weak USD**. Traditionally, gold tends to perform well during times of USD weakness. Presently, the price of **gold** has **deviated quite markedly from its longer term moving average** *(see grey line on lower graph on the right).* In line with the above described pause for USD-weakness, we would **equally expect the gold-rally to take a break here**. This however does not imply the end of the current up-trend, it is rather the digestion of the very large move we have seen. As the longer term investment case is still very much intact, **we do not see any need for investors locking in accumulated profits**. Instead, look out for more buying opportunities in case of any short term price correction. Warren Buffet by the way, only this week announced to have added stakes in gold mining shares after he has not touched that market segment for years.

Source: FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN UNDERWEIGHT

- As we have already mentioned in our July-letter, the current market rally continues to be concentrated in a few large cap tech stocks (to which we have exposure via the stock selection in our US Model Portfolio). The **extremely high** current **valuation** level **combined with very low visibility for the future path of corporate earnings does not warrant an increased exposure**.
- **Equally, we do not make any changes to our sector selection: we continue to avoid cyclical exposure at the expense of more defensives**. Our preference for less cyclical sectors is undermined by the fact that the technology and consumer defensive continue to lead performance tables. Only Healthcare, the 3rd of our preferred sectors, has stalled over the most recent past but in our eyes, high quality balance sheets and superior cash flow generation makes the sector a "must hold" for the time to come.
- Covid19 is not contained but lockdowns are most likely to be regional only. Anyhow, **the road to normality for the most exposed industries such as transport, leisure, lodging or entertainment will be longer** many. In our eyes, there is still no need to get exposure to those sectors.
- With yields lower for longer, **"growth"** is **expected to remain the leading factor going forward**, no matter how expensive it might be vs value. And as long as the low interest-narrative is not to changed, **expect more of the same, i.e. the "momentum"-factor to lead**.

CASH –> REMAIN NEUTRAL

- Over the last months, we have argued to hold cash for future **buying opportunities**. For now, it seems they **won't come anytime soon**. Anyhow, **do not invest for the sake of reducing cash**. While the real yield of cash may be negative, the **opportunity costs are low**. And bear in mind 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 in case markets turn sour.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- We continue to believe that soring funding requirements by the US government will **lead** to a muted **steepening of the US treasury curve** over time which is why we continue to avoid exposure to the long end of the curve (rising yields imply falling bond prices). The time premium, i.e. the extra yield one can earn for holding longer dated bond over shorter ones is still low which is why think investors are not adequately compensated for the duration risk.
- Instead, we prefer to have "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. 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, 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

- **Gold**, which we discussed in detail on *page 5*, remains our long term favourite but expect some consolidation after the massive move to the upside. Lower levels are buying opportunities. **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 lockdowns** *Sectors*: **Consumer defensives, Healthcare, Technology** *Style:* **Quality, Growth, Momentum**	*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:* **GBP** *FX Minors:* **TRY** *Commodities:* **Base Metals, Oil**
Alternatives	*Alternatives:* **relative value strategies, residential real estate, infrastructure**	*Alternatives:* **listed Private Equity**

mangenta = recent changes

Added to our US Equity Portfolio: MGM Resorts Int.

Sector:	Consumer Cyclicals
Risk Type:	**Adventurous**
Market Cap:	11bn USD
Dividend:	0%
1Yr-Return:	-24%

Company Description:
MGM Resorts Int. owns and operates casino resorts. Its (US) domestic resorts segment consists of hotel, food and beverage, as well as the casino operations consisting of slots, table games, and race and sports book wagering. Its MGM China's operations consist of the MGM Macau resort and casino. In 2019, well before the Covid19-crisis, MGM was pressured by investors to sell its Las Vegas flagship properties of MGM Grand and Bellagio to private equity group Blackstone, cashing in USD 2,5bn USD. It now continues to operate them under contract.

Investment Rational:

- MGM runs a business which is among the most heavily impacted by COVID19. For Q2 2020, the company reported revenues of USD 290mio, a drop of 90% compared with USD 3,2bn a year earlier. This resulted in a net loss of USD 857mio for Q2. Subsequently, its shares are down -35% in 2020 at the time of writing vs. a gain of the S&P500-index of +3%. It is thus save to assume that a lot of bad news is already priced in today.
- In March 2020, MGM launched "BetMGM", a sports betting platform and mobile app. In the US, operating sports betting and online gambling requires a partnership with a local casino, which forms a natural barrier for new market entrants. Online gaming has seen a surge in recent years thanks to the easing of restrictive state regulations. However, so far, online gaming only contribute a fraction to MGMs revenues. Earlier this week, Barry Diller's IAC group reported having accumulated 12% of MGMs shares worth 1bn USD. Diller's IAC holding has an impressive track record in ecommerce and digital media companies. Dillar signaled that IAC plans to be a long-term strategic partner and will try to help MGM's foray into online gaming.

Risk associated:
As mentioned above, MGM is currently loss making due to COVID19. It's legacy casino business is unlikely to return back to pre-crisis levels anytime soon. Instead this investment is a bet on a successful long-term implementation of its expansion strategy in online gaming. We classify MGM's shares as "adventurous" and thus, they are only suited for investors with an above-average risk tolerance.

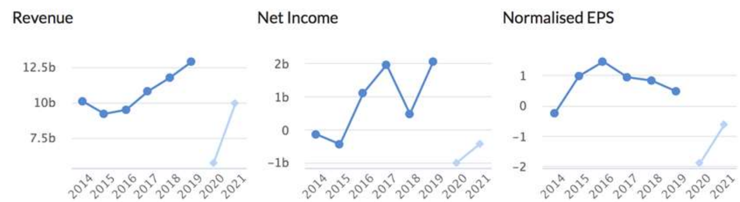
Quality Measures:

		vs. Industry	vs. Market
Return on Capital	9.8%		
Return on Equity	28.3%		
Operating Margin	37.77%		

Growth Measures:

12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	n/a		
PEG Ratio (f)	n/a		
EPS Growth (f)	n/a		

Historical Revenue & Profit Evolution:



Source: www.stockopedia.com; FIS Market MAP; all numbers as of 11th of August

Overview US Equity Model Portfolio

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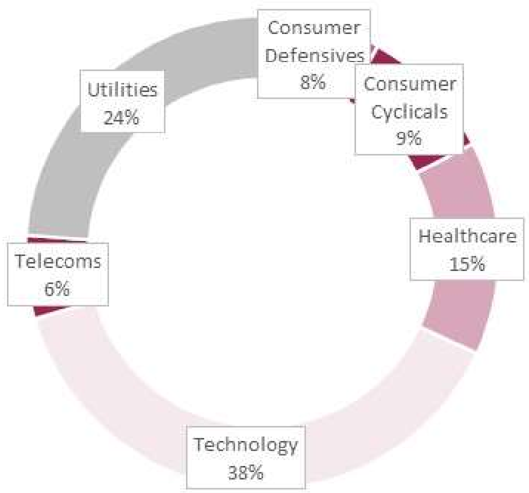
Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+13,14%**	**+30,56%**	**-1,2%**	**+17,6%**	**+67,72%**
S&P 500	+4,79%	+28,88%	-6,2%	+19,4%	+51,22%
Dow Jones	-2,88%	+22,34%	-5,6%	+25,1%	+40,36%
Nasdaq 100	+31,42%	+37,96%	-1,0%	+27,1%	+135,9%

Current Situation:	
Current Value:	1’715’138 USD
Start Value:	1’000’000 USD
Realized Gains:	+398’982 USD
Unrealized Gains:	+250’274 USD
Dividend Income:	+65’883 USD
Cash:	427’122 USD (25%)
Equities:	1’288’016 USD (67%)

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 20th of August; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

GICS Sector	Stock & Performance		
Energy			
Basic Materials			
Industrials			
Consumer Discretionary	MGM Resort Int -0.34%		
Consumer Defensives	CVS Health -20.90%	Philipp Morris 5.02%	
Health Care	Merck 44.40%		
Financials			
Technology	Alphabet 44.70%	Microsoft 79.80%	Visa 44.40%
Telecom	AT&T -18.10%		
Utilities	NextEra Energy 21.00%	Orsted 33.10%	
Real Estate			

performance = price return exluding dividends

computed by stockopedia.com; all data as of 20th of August

Changes to our USD Bond Portfolio:
BUY Nova Chem 27 to replace Nippon Expressway 21

5.25% Nova Chemicals 01.07.2027

Rating:	BB-
Price:	97.51%
Yield:	**5.77%**
Duration:	**7.78**
Min. Size:	2'000 USD

Investment Rationale: This bond's current yield to maturity is neither high nor low when compared with BB-rated issuers in the same duration-bracket. However, unlike most of the higher yielding BB-rated issuers, Nova Chemical operates a business is not particularly vulnerable to COVID19 but more to the overall macro economic cycle. On the other hand, lower energy prices, usually the highest cost block for the energy consuming chemical industry, translates into lower expenses. Its' deep pocket shareholders should give Nova Chem additional stability. Within the framework of our broad USD Bond Model Portfolio we can afford to add some more credit risk. The duration of the total portfolio will only increase by 0.2 due to this transaction.

About the Issuer: Canadian Nova Chemicals is a plastic and chemical company. Its products are used in packaging for food or electronics, industrial materials but also consumer goods. Further, the company holds a 50% interest in a joint-venture with British chemical company giant INEOS called INEOS NOVA. Since 2009, Nova Chemicals is wholly owned by Mubadala, the government backed, state-fund like investment company from Abu Dhabi. In 2019, Nova Chemicals generated a turnover of USD 3,5bn USD which resulted in a profit of USD 214mio. As per end of 2019, the company held USD 4,4bn in debt.

2.362% Central Nippon Expressway 28.05.2021

Rating:	A1
Price:	101.325%
Hold. Period:	**846 days**
Tot. Return	**+9.90%**

Rationale of Disposal: When we bought this bond back in March 2018, its yield to maturity was around 3,35%. On the back of rate cuts but most importantly, a relentless bid for IG-bonds, its yield has compressed all the way down to about 0,65%. As there is hardly an room left for further spread compression, we are required to add some more credit risk (see transaction above) to the portfolio in order to achieve a meaningful return.

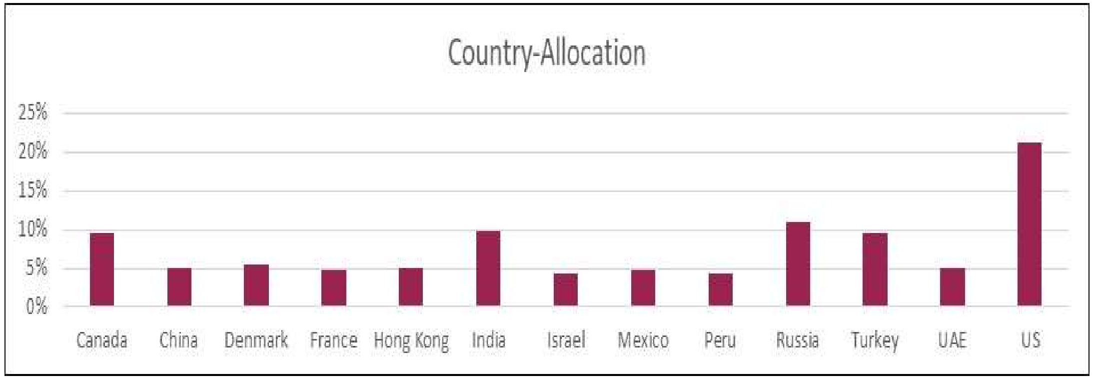
About the Issuer: Central Nippon Expressway is one of the main operators of expressway and toll roads in Japan, operating more than 2'000km of roads handling an average traffic volume of close to 2mio cars per day. In 2017, the company generated approx. 8,5bn USD revenues from toll collection and retail sales. The company was founded in 2005 as a result of the privatization of Japan Highway Public Corporation.

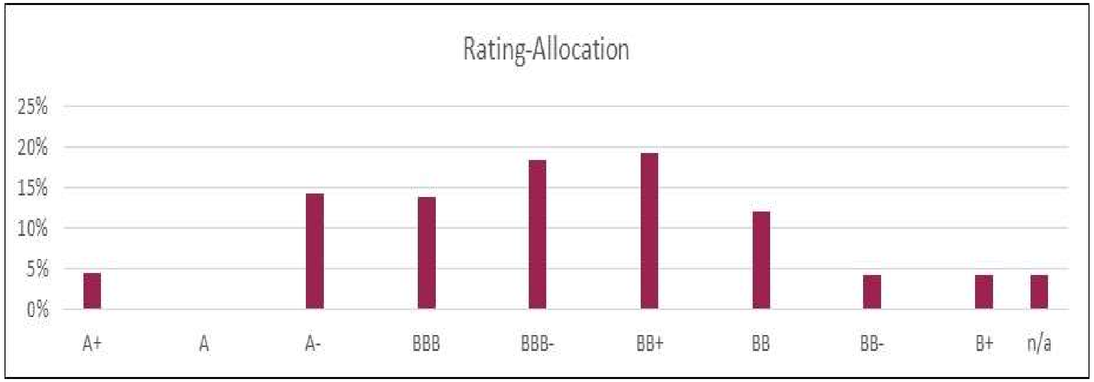
*) total return including coupon payments, changes in price and accrued interest

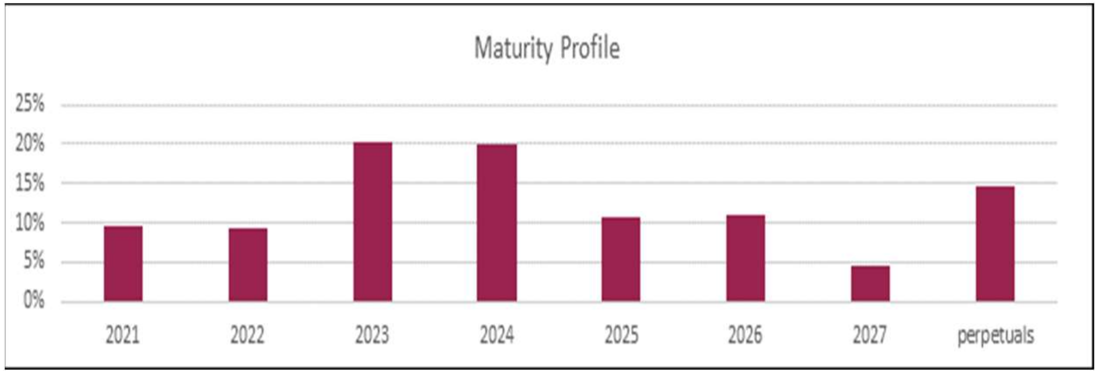
Overview USD Bond Model Portfolio

Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**+3,81%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+7,10%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**+3,18%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	4,00%
Weighted average Duration:	4,60







Source of data: FIS Market Map; own calculation; all data as of 21th of August

Constituents USD Bond Model Portfolio

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	Coupon	Bond Instruments	Maturity	ISIN / Ticker	Rating	Country	Industry	YTM	Duration	Bid-Price	Value in USD	minimum size	Allocation
	5.950%	GAP INC	12.04.2021	US364760AK48	BB-	US	Supermarkets & Stores	2.72%	0.6	102.00	208'080 USD	200'000 USD	4.90%
	5.000%	TURKIYE IS BANKASI AS	25.06.2021	XS1079527211	B+	Turkey	Banking & Finance	5.30%	0.8	99.75	199'001 USD	200'000 USD	4.68%
	5.375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	USP98047AA42	BB	Peru	Mining & Refining	8.18%	1.3	96.26	185'301 USD	200'000 USD	4.36%
	2.750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	USG8450LAG98	A+	China	Utilities	0.89%	1.6	103.11	212'633 USD	200'000 USD	5.00%
	8.500%	FORD MOTOR CO	21.04.2023	US345370CV02	BB+	US	Automobile Manufacturers	4.42%	2.3	110.10	242'440 USD	2'000 USD	5.71%
	5.250%	LOUIS DREYFUS COMPANY B.V.	13.06.2023	XS1629414704	n/a	France	Commodity Trading	4.84%	2.5	101.07	204'283 USD	200'000 USD	4.81%
	2.800%	TEVA PHARMACEUTICAL FINANCE NETHERLANDS III B.V.	21.07.2023	US88167AAD37	BB	Israel	Pharmaceutical	4.21%	2.7	96.18	185'012 USD	2'000 USD	4.35%
	3.875%	DANSKE BANK A/S	12.09.2023	US23636BAR06	A-	Denmark	Banking & Finance	1.41%	2.9	107.35	230'480 USD	2'000 USD	5.42%
	4.750%	INDIAN OIL CORPN LTD	16.01.2024	XS1936310371	A-	India	Energy	2.46%	3.1	107.41	230'738 USD	200'000 USD	5.43%
	6.000%	**CEMEX FINANCE LLC**	**01.04.2024**	**USU12763AD75**	**BB**	**Mexico**	**Construction Materials**	**5.53%**	**3.1**	**101.52**	**206'106 USD**	**200'000 USD**	**4.85%**
	5.375%	GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED	10.04.2024	USY3004WAB82	BBB	India	Transport	6.24%	3.1	97.23	189'054 USD	200'000 USD	4.45%
	4.215%	COCA COLA ICECEK URETIM AS	19.09.2024	XS1577950402	BBB	Turkey	Food Manufacturing	3.75%	3.6	101.74	207'000 USD	2'000 USD	4.87%
	4.000%	BOS FUNDING LTD	18.09.2024	XS2052951600	BBB+	UAE	Banking & Finance	3.46%	3.7	102.04	208'223 USD	200'000 USD	4.90%
	6.125%	EQT CORPORATION	01.02.2025	US26884LAH24	BB+	US	Oil & Petroleum	3.01%	3.8	112.87	254'793 USD	200'000 USD	6.00%
	3.500%	OAKTREE SPECIALITY LENDING	25.02.2025	US67401PAB40	BBB-	US	Banking & Finance	3.69%	4.6	99.15	196'626 USD	200'000 USD	4.63%
	5.150%	GAZPROM OJSC	11.02.2026	XS1951084471	BBB	Russia	Oil & Petroleum	2.66%	4.6	112.61	253'598 USD	200'000 USD	5.97%
	5.250%	**NOVA CHEMICALS CORPORATION**	**01.06.2027**	**USC67111AJ05**	**BB+**	**Canada**	**Chemicals**	**5.55%**	**5.4**	**98.30**	**193'258 USD**	**200'000 USD**	**4.55%**
	4.949%	GTLK EUROPE DESIGNATED ACTIVITY COMPANY	18.02.2026	XS2010044381	BB+	Russia	Banking & Finance	4.22%	4.6	103.54	214'411 USD	200'000 USD	5.05%
*)	4.750%	TOWNGAS FINANCE LTD		XS1933097633	A-	Hong Kong	Utilities	4.49%	15.3	104.25	217'361 USD	200'000 USD	5.12%
*)	4.800%	BANK OF MONTREAL		US06368B5P91	BBB-	Canada	Banking & Finance	4.68%	21.4	102.50	210'125 USD	200'000 USD	4.95%

Source: FIS MarketMap; all data as of 21^{th} of August mangenta = recent changes *) Perpetual bonds

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