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Investment Letter

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Yield Cockpit

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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

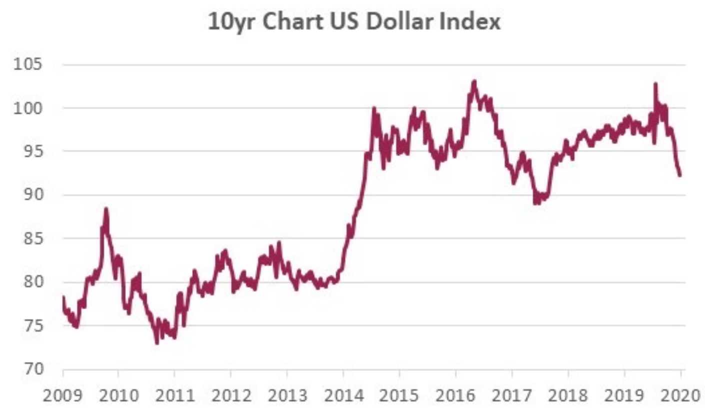
What to take note of:

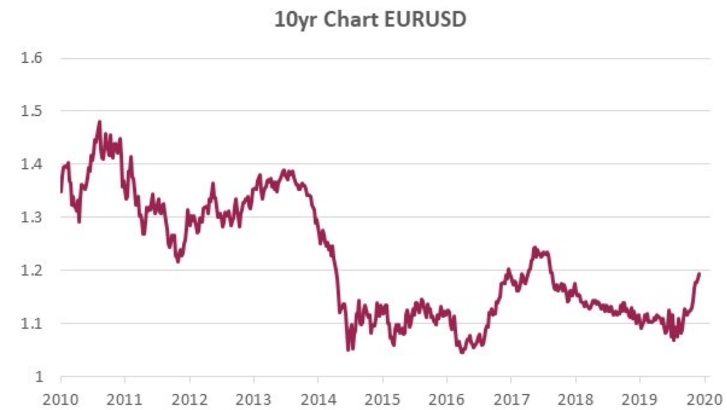
- Since the Central Bank intervention at the height of the COVID19-sell off, (nominal) yields have further collapsed. In contrast to this, inflation expectations have picked up and are now trading back to pre-COVID19 levels. That in turn has sent "real yield" (= nominal yield – inflation) to record low levels. In our eyes, this is the main driver for the current USD-weakness and vice versa, a driver for the bull market in gold (read more about this on page XXXX).
- Rising inflation expectations imply a potential 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, 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: keep an 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 look at the USD and what it implies for 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 XX since XX. 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. The ECB for example, while starting from a much lower absolute level, did not cut 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 NO! First of all, we lack the alternatives: out of G4, only EUR would potentially qualify as GBPs fate is still dominated by ongoing Brexit whose while JPY is hardly ever a good investment during "risk on"-times in global markets. So let's have a look at the EURUSD-exchange rate: over the last weeks, EURUSD, the world's most heavily traded currency pair has rallied quite swiftly by +10% in a few months times only, a move which 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 EURUS to say 1,25-1,30. 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.



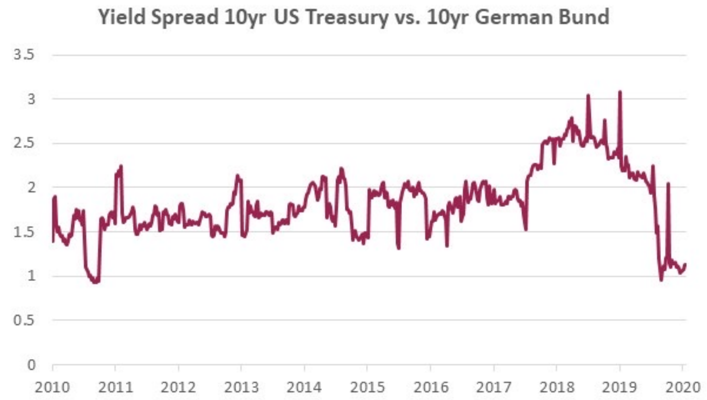


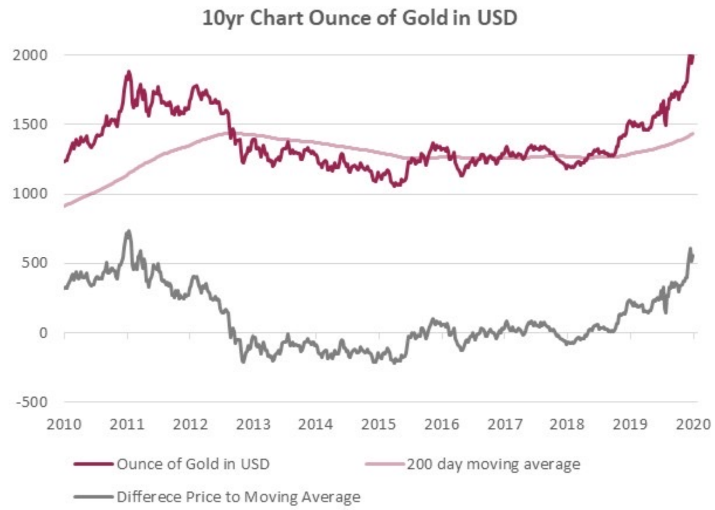
Source: FIS Market Map

A look at the USD and what it implies for gold (2/2)

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 by many indicators constitutes "fair value" for the exchange rate of 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 the 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 +XX% in 2020. The strength of the yellow metal one the one hand can be attributed to the extremely low yield-levels (see page XX for details) but also to the weak USD. Presently, the price of gold has deviated quite markedly from its longer term moving average. 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 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.





Source: FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN UNDERWEIGHT

- As we have highlighted on *page 3 & 4*, the current market rally is extremely concentrated in a few large cap tech stocks (to which we already 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 any increased exposure**.
- **We continue to avoid an increase in cyclical exposure at the expense of more defensives**. 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.
- Covid19 is not contained: more regional lockdowns may still occur. Therefore, **the road to normality for the most exposed industries such as transport, leisure, lodging or entertainment is most probably longer than hoped** by many. In our eyes, there is still no need to get exposure to those sectors.
- **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.

CASH –> REMAIN NEUTRAL

- 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

- 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 one is 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 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.

ALTERNATIVES –> REMAIN OVERWEIGHT

- **Gold**, which we have been advocating for quite some time is the **best performing asset in 2020**. Short term, the level of USD 1’800 per ounce around which the price is hovering at the time of writing might be a short term resistance level. Therefore, intermediate setbacks would only be natural & healthy. Anyhow, **any lower level we shall see is just another buying opportunity** as the overall investment case for real assets such as gold has not changed.

House View: our Preferences on one Slide

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Asset Class	We Like	We Don't Like
Equities	*Area*: **businesses not affected by lockdowns** *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:* **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

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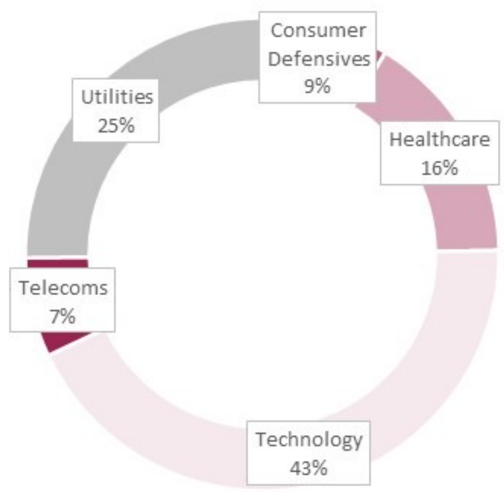
Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+8,77%**	**+30,56%**	**-1,2%**	**+17,6%**	**+64,88%**
S&P 500	-1,88%	+28,88%	-6,2%	+19,4%	+41,59%
Dow Jones	-8,66%	+22,34%	-5,6%	+25,1%	+31,90%
Nasdaq 100	+22,14%	+37,96%	-1,0%	+27,1%	+119,2%

Current Situation:	
Current Value:	1'648'790 USD
Start Value:	1'000'000 USD
Realized Gains:	+398'982 USD
Unrealized Gains:	+188'701 USD
Dividend Income:	+61'107 USD
Cash:	542'312 USD (33%)
Equities:	1'106'478 USD (67%)

Evolution of 1Mio USD invested into the Gigant US Equity Model Portfolio since inception:

Current Sector Allocation:

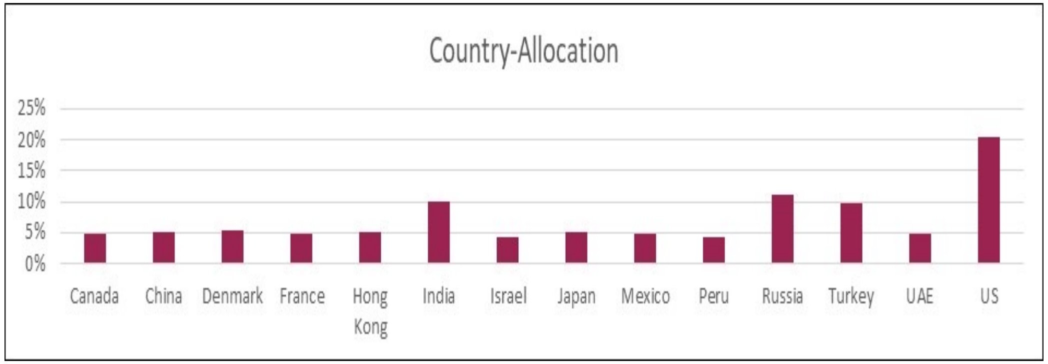


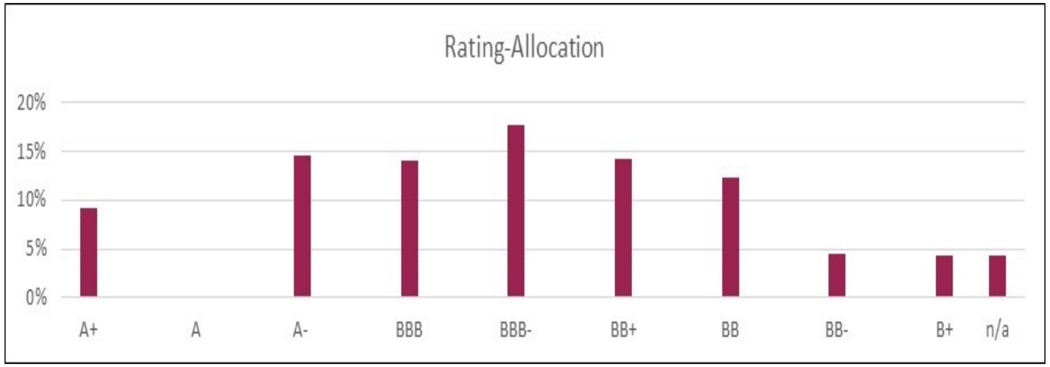
computed by stockopedia.com; all data as of 8th of July; *) inception date = 31th of Dec 2016

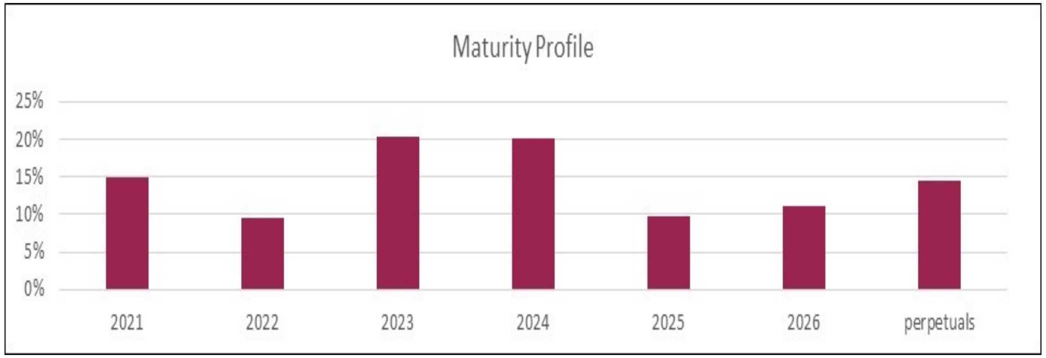
Overview USD Bond Model Portfolio

Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**+1,86%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+6,54%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**+0,95%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	4,19%
Weighted average Duration:	4,40







Source of data: FIS Market Map; own calculation; all data as of 9th of July

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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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