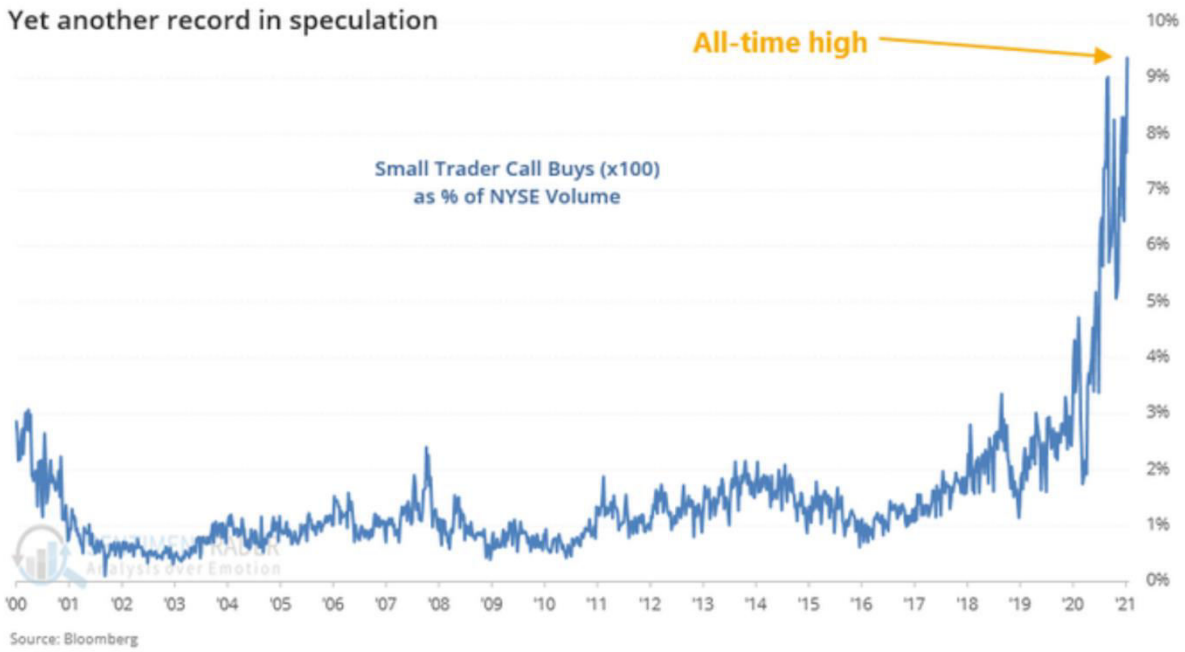
PVI – The Global Investment Newsletter

28th of January 2021

Stocks

The US stock market rose a little further in the last two weeks, the Nasdaq in particular drove a little again, but the market posted significant losses on yesterday's trading day. The DAX, on the other hand, was burdened by the extended lock-down measures, in particular also by the debates whether an opening can take place in March. In the USA in particular, in the technology sector, there are now many small investors who are driving the prices of actually less good companies to extreme heights (e.g. Gamestop). This speculative mood is known to be a warning indicator, this can also be seen in the put / call ratio; the chart below measures the percentage of call options made by small traders in the USA. Like several other indicators, this indicator is at multi-year highs and therefore provides us with clear warning signals.



Source: Lyn Alden, Twitter

On the fundamental side, the medium-term indicators are positive; in the short term, we could have seen a top in the purchasing managers' index in November. While the numbers of the technology companies in the USA should be clearly positive in q4 and also in q1 as a result of the corona lockdown measures and compared to the previous year, the prospects look rather worse afterwards. The special economic tailwind for “stay-at-home stocks” will then run out towards early summer and the comparative figures will then point to below-average growth; some companies could even feel a shrinkage of business. Since the

technology sector in the S&P500 currently has an extreme weight (27%), one must assume a significantly slower and more volatile development for the coming quarters.

Source: www.moneymovesmarkets.com

Against this background, we can only warn against staying in highly speculative tech stocks. The hydrogen sector could also face a major correction. Values such as PlugPower, Nel and Co. are not valued with P / E ratios of 50-100, but these are their pice / sales multiples! Due to the positive medium-term outlook, we assume a 1-2 month correction of a good 10% in the S&P 500, which will then also be accompanied by a sector rotation towards value stocks.

More cautious investors should therefore keep a good amount of cash; more active traders can take short positions in the S&P 500 or in the highly valued stocks such as Tesla or Plug Power. But you should also be able to act and track the positions at short notice and have the appropriate experience. Values like Tesla or Plug Power could fall by 30-60% in the coming weeks. It should be mentioned here that such values are currently being propagated on social networks as short-squeeze candidates. This is of course very dangerous, as prices will have to fall very deep at some point. On the other hand, it is not easy for short sellers either, because you have to be able to wait for the right moment or not bet too much. Plug Power, for example, was only able to receive some orders to equip hydrogen forklifts (to Wal-Mart and Amazon) by sending these customers a total of 35% of the shares (!) through warrants, if they buy and use these forklifts. The value of these customer deals, however, is many times lower than the value of the options that Amazon and Wal-Mart got. It is strong to assume that neither Amazon nor Wal-Mart would have become customers if they hadn't

been offered these options. Such deals eventually run out of steam. So it seems only a matter of time before these shares will collapse.

In the sample portfolio, however, we include a put option (ISIN: DE000SD2L942, WKN: SD2L94, term: April 15, 2021, base price 4120 points, price: 2.8 Euros) on the S&P 500, as it is much less volatile and better fits into the multi-week strategy. The put has a participation ratio of 100 to 1 and a delta of approx. 0.7. Therefore a quantity of 1000 puts corresponds to a short exposure of 7 S&P 500 (approx. 27,000 USD). That means every 100 points that the S&P drops would bring a profit of 700 USD and vice versa. The put also protects us against a slide in the S&P 500 - the notional short exposure of the put in relation to the portfolio is 26%. This means that every 1% that the S&P 500 loses means an increase of 0.26% for the portfolio and vice versa.

Buy recommendation: Put options on S&P 500 *(ISIN: DE000SD2L942, WKN: SD2L94, term: April 15, 2021, base price 4120 points, price: 2.8 Euros, issuer: Societe Generale)*

Target price: 4.5 - 6 Euros, time horizon: 1-2 months, stop / loss: 1.0 Euros

Risk: high (when used as a hedge, the option can reduce the risk of a portfolio)

Precious metals

We see precious metals more positively than the stock market in the coming weeks. The metals have been in a correction or sideways phase since summer. The precious metals should be able to trend sideways or slightly upwards.

Platinum and palladium

Encouraged by a subscriber, we want to go into more detail here on the other two precious metals, platinum and palladium, which are rarely used as investments.

Chart: platinum / palladium ratio

Both precious metals are used in car catalytic converters and can be substituted for one another to a considerable extent. In the past, this has caused significant price cycles between the two metals. Since the auto industry usually takes a little longer to make a change (engineering takes time), these swings lasted several years. At the moment, palladium is used more in gasoline catalytic converters and palladium more in diesel catalytic converters. Since the price of platinum was so high before the financial crisis, the majority switched to palladium. In addition, the demand for diesel cars has plummeted since the VW scandal - these two circumstances mainly ensured that palladium's price developed much better than platinum.

The other parts of the demand - industrial demand (rather stable), jewelry demand (sometimes anti-cyclical, but also pro-cyclical, especially in China) and investment demand (ETFs) usually follow or reinforce the trend that is dictated by the demand for automotive catalysts becomes. An exception could be the demand for jewelry at the current low level of platinum, because dealers in Asia are increasingly promoting platinum jewelry.

The “PGM” metals are mainly mined in South Africa and Russia. Both metals often occur together, one metal is often created as a by-product of the other. Therefore, a rising price of only one of the two metals can only influence the supply to a limited extent. Similar

to gold, the mining costs are currently around USD 1100 (all-in sustaining costs) or around USD 700 (cash costs). Accordingly, platinum is currently cheap at around USD 1100, while palladium is rather expensive.

Future prospects

The future price development stands and falls with the use as catalysts. Since palladium is currently more than twice as expensive as platinum, a technical switch from palladium to platinum for gasoline engines would actually be worthwhile. Due to the wave of electrification and the "Green Deal", however, the focus of car manufacturers is currently less on the internal combustion engines of the future. However, simple gasoline engines will play a role in Asia (e.g. India) for a longer period of time - so the carmakers there could be more likely to rely on platinum for the next few years. However, we do not see a very large wave of re-substitution like in the past for the large western car manufacturers. In addition, the carmakers know very well that both markets - platinum and palladium - are rather tight and converting from one metal to the other will melt the cost advantage due to the price increase itself.

However, the platinum price should also get a tailwind from diesel vehicles (especially trucks and light duty vehicles), as regulations worldwide (especially in China) are becoming increasingly strict and these catalysts will therefore need more and more platinum. The effect of the diesel scandal should have been digested by now - there is probably no further headwind. The jewelry demand should meanwhile clearly favor platinum over palladium.

The trend towards electric vehicles is neither positive for palladium nor for platinum, because the batteries do not need PGM metals. However, platinum is used in hydrogen fuel cells; and this in considerable quantities. Battery technology is currently superior to hydrogen in terms of efficiency, which is why VW, for example, is only concentrating on battery-powered electric vehicles. However, a lot of research is being done on hydrogen propulsion, especially in Japan, and further efficiency gains could mean the longer-term breakthrough here. Fuel cells are already better than batteries in some instances, especially for trucks in northern areas (e.g. in northern China) and could already be in commercial use here in a few years. This is a significant currently underestimated potential that lies dormant in the platinum price.

Short, medium and long term prospects for platinum

Since we are assuming a correction on the stock markets in the coming weeks and months, purchases in industrial metals are currently not an issue. **We see platinum prices coming below $ 1000 for the next several months**. However, this could be a very good longer term entry point. In the medium term, we see platinum being well supported by production costs - in the wake of gold and driven by somewhat better diesel catalyst demand, **prices should be able to move towards USD 1500 in the coming quarters**. In the

long term, use in fuel cells should be able to give the price an enormous boost. **In 5 years, platinum could become more expensive than palladium again. Prices above $ 5000 seem quite conceivable**. This makes platinum the most promising precious metal alongside silver in the long term. Due to the currently low valuation, the **risk-reward ratio appears to be very advantageous.**

Investment options in platinum certificates:

Since VAT is charged on platinum, physical bar investments are ruled out. However, the following certificates are recommended:

1) WisdomTree Physical Platinum (ISIN: DE000A0N62D7, trading in London or via Xetra, total assets approx. USD 550 million, costs approx. 0.5% p.a.)

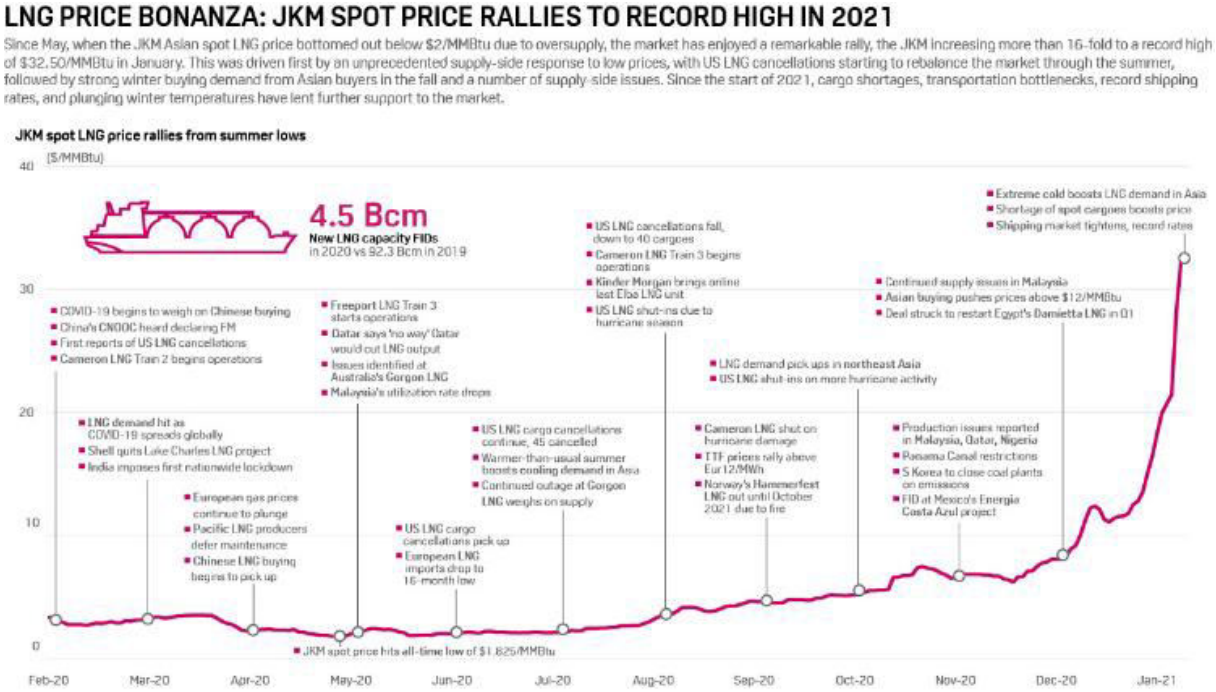
2) iShares Physical Platinum ETC (ISIN: IE00B4LHWP62, trading in London, total assets approx. USD 130 million, costs approx. 0.2% p.a.)

Both ETFs are good, the Wisdomtree ETF is currently the market leader, the iShares a little cheaper.

News about stocks in the model portfolio and on our watch list:

Natural Gas Stocks

The price of natural gas and gas stocks has been very volatile in recent weeks. This is mainly due to the weather models according to which traders act at short notice. However, as is well known, one should not give much attention to the 14-day weather report, because it is relatively unreliable. What is important, however, is the general weather situation - the collapsed polar vortex has so far brought very cold weather to China, Russia and Europe. So far, little of it has been seen in the USA, as the smaller of the two divided vertebra is currently sitting here. This has led to record LNG prices in Asia: the price rose from under $ 3 in the summer to over $ 30 now.



Source: spglobal.com

This is why LNG exports from the USA are also at record highs and this supports the North American gas price despite a very mild winter so far. Nevertheless, one should not tick off the winter in the USA yet. Several weather researchers believe that a rotation of the collapsed polar vortex to North America is possible. Should this happen, this could fuel a rally in natural gas prices in the USA. Prices over 4 USD could come (price currently around 2.7 USD). So we definitely stay invested in our natural gas stocks, even if we see a correction coming for the S&P 500. The **natural gas leverages certificates (mini-futures)** mentioned in the last newsletter (Vontobel call: ISIN: DE000VQ19AP5, barrier: USD 2, price EUR 0.52, target price EUR 1.8-2.5, stop loss EUR 0.2) **should be retained or positions can even be expanded here.**

Centrica Plc:

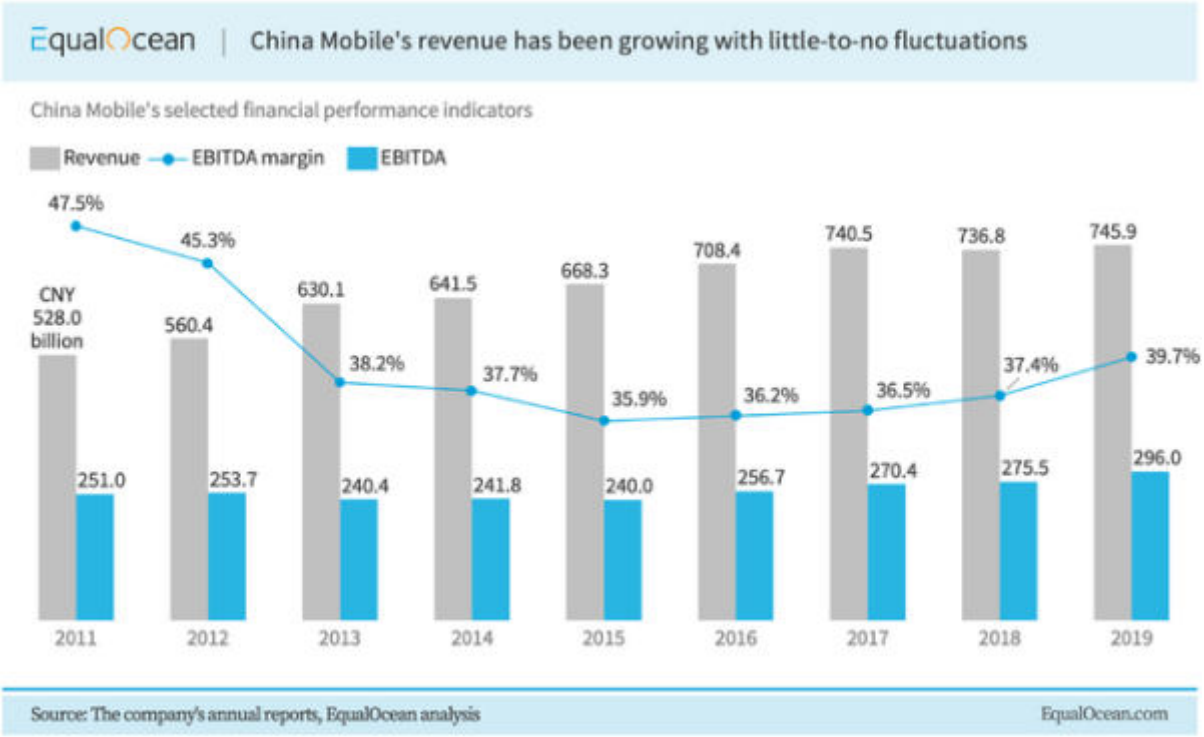
The h2 numbers presented confirmed the beginning turnaround under the new CEO. In the second half of the year the number of customers stabilized (after many years!) and the debt level was reduced. The ongoing strikes of the last of the unions should be settled with an agreement in the coming months. **However, as we expect a correction in the markets, we are selling Centrica Plc in the short term**. In the longer term - the coming quarters - the price should be able to rise significantly. Therefore, long-term thinking investors can keep the shares.

New trading recommendations:

China Mobile Ltd *(Price 47.5 HKD, ISIN: HK0941009539, WKN: 909622, trading in Hong Kong)*

We are including the shares of China Mobile in the conservative model portfolio. The share has fallen significantly in the last few quarters and now offers an interesting entry opportunity (despite the likely imminent correction in the S&P 500).

China Mobile is 72% owned by the Chinese government and is one of the 3 mobile network operators (the largest and most profitable) in China, alongside China Unicom and China Telecom (both also majority-owned). After booming growth in the early 2000s, China Mobile is now a stable cash cow.



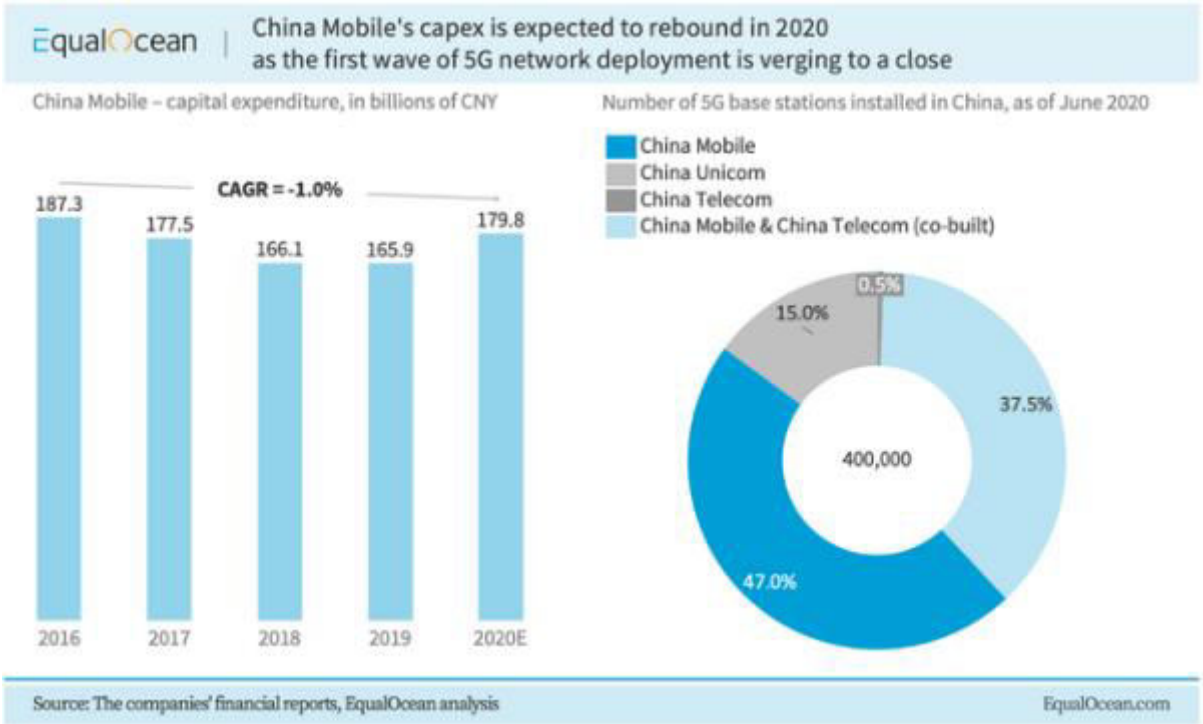
Source: seekingalpha.com

As the graphic above shows, the operating margins have fallen due to the falling mobile phone service prices, but are offset by the increasing sales in such a way that relatively stable or slightly increasing EBITDA results are achieved.

Chart: China Mobile Ltd.

Source: www.bigcharts.com

The weak stock price development in recent years can be explained in particular by 3 temporary factors: On the one hand, the value stocks have been severely neglected over the past few years; on the other hand, Donald Trump agitated against Chinese state-owned companies, which shortly before the end of his term in office led to a de-listing of China Mobile from the New York Stock Exchange and led to a ban on the facility for US investors. This has resulted in constant selling pressure over the past few months. Thirdly, there were always concerns that the expansion of the 5G networks would necessitate a huge jump in investment costs and that this could not be passed on to end customers. However, this was absorbed by cooperation among the 3 state network operators in China and by operating efficiencies. Therefore, so far, one sees only a moderate increase in the planned investments for 2020 and 2021. By 2022, investments for 5G should be past their peak.



Source: seekingalpha.com

These stress factors should play less of a role in the coming period or are now clearly priced into the price. The market should focus on the tremendous profitability of China Mobile in the coming quarters.

At the current exchange rate of approx. 47 HKD, China Mobile is valued at approx. 940 billion HKD. However, the company is sitting on an enormous mountain of cash and liquid investments (465 billion HKD) that were actually not needed for normal business operations. In other words, most western mobile phone companies are run with a debt burden of around 1-3x EBITDA for reasons of tax optimization. Certainly it cannot be assumed that this enormous mountain of cash will simply be distributed to investors (China Mobile is state-owned). However, special dividends were paid out from time to time - this could become an issue after the completion of the 5G expansion. However, the cash balance of around 50% of the market capitalization acts like a safety net under the stock price.

China Mobile generates net profits (free cash flows) of approx. HKD 130 billion per year and pays out approx. 50% of this amount as dividends. **Based on the current price, this results in a PE- ratio of 7 and a dividend yield of 6.8%.** If you were to leave out the mountain of cash, you would get a PER of approx. 5. This is moderate in view of the stability of the business. Historically, China Mobile has often been valued at P / E ratios between 10 and 14. The dividend yield was often just above the interest rate on 10-year Chinese government bonds (approx. 3.5%).

We therefore see a good buying opportunity in China Mobile and see the price rise to over HKD 60 in the coming quarters (by the end of the year). In the longer term (2022), the rate should be able to rise again to 75-80 HKD when the 5G network expansion has taken place.

Buy: China Mobile Ltd. *(Price 47.5 HKD, ISIN: HK0941009539, WKN: 909622, trading in Hong Kong),*

Price target 70-80 HKD, time frame: 18-30 months, stop / loss 28 HKD

Risk: moderate

Conservative Model Portfolio: (starting value on 01/13/2021: 100.000 Euro)*

Performance 2021: -1,15%*

14.400	**Euro ENAV Spa (entry price 3,58 Euro, now 3,44 Euro)**
15.000	**Euro China Mobile (entry price 47,6 HKD)**
9.450	**Euro Barrick Gold (entry price 23,6 USD, now 22,3 USD)**
60.000	**Euro Cash**
98.850	**Euro Total Value as of 01/28/2021**

Transactions:

Buy: China Mobile at 47,6 HKD

In the conservative model portfolio, investments are presented which have a rather low-risk business and very strong balance sheets. In addition, stocks with high dividends are presented, since even the bond ETFs in the USA currently hardly yield any interest, or the risk of such an investment is even higher in the long term than a good selection of solid dividend stocks.

The expected returns will of course not be able to match the speculative portfolio. In general, we are satisfied with returns of 7-10% p.a. here, even more can be achieved with clever timing.

Speculative Model Portfolio: (starting value on 01/01/2020: 100.000 Euro)

Performance in 2020: +22,89%*

Performance year to date: +21,3%*

25.080	**Euro Rafael Holdings (entry 12/29/2020: 24,2 USD, now 24,1 USD)**
28.400	**Euro Peyto (entry 11/11/2020: 2,85 CAD, currently: 3,7 CAD)**
5.000	**Euro Natural-Gas Leveraged Certificate (entry: 0,51 Euro)**
5.000	**Euro S&P 500 Put Option (entry: 2,8 Euro)**
85.605	**Cash**
149.085	**Euro Total Value as of 28/01/2021**

Transactions:

Sold: Centrica Plc at 52,9 pence (gain of 19% pre-tax)

Bought: Leverage certificate on natural gas (Vontobel call: ISIN: DE000VQ19AP5, barrier: USD 2, price EUR 0.51, target price EUR 1.8-2.5, stop loss EUR 0.2)

Bought: Put options on S&P 500 (ISIN: DE000SD2L942, WKN: SD2L94, term: April 15, 2021, base price 4120 points, price: 2.8 Euros, issuer: Societe Generale)

* We base the portfolio on a simplified flat tax of 25% (calculated after positions are sold). The exchange rate changes are taken into account in the values, but not shown above (for reasons of clarity).