

NIC

— Nova Investment Club —

Newsletter

June 2020



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Foreword

This Month:

In our Macro Overview section, Analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, Tobias Berberich, our IBD Head, elaborates on the impact of the pandemic in the high-quality crude oil, shade, in the US. Moreover, in our Regional View, our FMD Head, Maxime Hoze examines Beijing's new attempt to erode Hong Kong's "one country-two systems".

Our Investment Banking Division will guide you through May's M&A overall activity. Read about Zynga to acquire Peak Games, Providence Equity Partners, Cinven and KKR to jointly acquire MasMovil, and Western Union looking to buy MoneyGram. Additionally, get a detailed overview on what happened to eBay, as well as consider our opinion on the Central Banks' digital currency.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across four different asset classes: Equities, Fixed Income, Commodities and Currencies. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The overall performance of the NIC Fund in May was positive, with a cumulative return of 3.97%, mainly driven by Equities in the Information Technology sector.

On the Hot Topic of this month, Henrique Oliveira examines the possibility of the stock market being detached from the economy and, Paulina Michel, our Head of Communications, elaborates on the racist incidents happening in the US and the shocking reaction from the President Donald Trump. Lastly, on our ESG review in collaboration with Nordea, Philipp Gall writes about the impact and the importance of ESG during Covid-19.



The following content is original and created by the Nova Investment Club, which is run by students from Nova SBE's Master's in Finance. The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.

Macro Overview

Monthly

June 8th, 2020

Deeper Dive

US Shale in the Age of Coronavirus

— p.2

Regional view

Beijing's New Attempt to Erode Hong Kong's "One Country-Two Systems"

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Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3,044	3.01%	3.05%	-5.77%
DJIA	25,383	3.75%	-0.10%	-11.06%
Nasdaq	9,490	1.77%	10.77%	5.76%
MSCI World	2,655	4.93%	-3.89%	-14.58%
MSCI EM	3,413	2.56%	-7.21%	-14.66%
Russell 2000	1,394	2.84%	-5.58%	-16.45%
Euro Stoxx 50	3,050	4.98%	-8.39%	-18.56%
FTSE 100	6,077	1.39%	-7.66%	-19.43%
Nikkei 225	21,878	7.31%	3.48%	-7.52%
Hang Seng	22,961	0.14%	-12.13%	-18.55%
Dollar Index	98.34	-1.52%	0.22%	2.03%
EUR/USD	1.110	1.83%	0.68%	-1.00%
GBP/EUR	1.112%	-0.34%	-4.34%	-5.95%
GBP/USD	1.234%	1.40%	-3.74%	-6.89%
USD/JPY	107.830	0.18%	-0.06%	-0.72%
USD/CHF	0.96	-0.99%	-0.34%	-0.52%
Brent Crude	35.330	0.57%	-30.07%	-46.47%
Gold	1,736.9	0.08%	10.86%	14.04%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	0.653%	-0.7	-49.6	-126.5
GER 10Y Yield	-0.447%	4.0	16.0	-26.2
JPY 10Y Yield	0.005%	0.5	15.8	1.6
UK 10Y Yield	0.184%	1.0	-25.8	-63.8
PT 10Y Yield	0.504%	-22.6	15.1	6.2

*Source: Bloomberg, as of 2020-05-29

In Focus

May

ECB takes action as the inflation in the euro-area inflation gets close to zero. The European Central Bank has now several reasons to continue with monetary stimulus as the euro-area inflation reaches 0.1% in May, its lowest level since July 2016. Central bankers also announced that they will axe their bond-buying program towards the members that need the most. The program is expected to continue throughout next year.

The rise of unemployment in the UK will challenge Boris Johnson's resolve. The UK sees now the number of Covid-19 deaths dropping; however, the country is again dealing with a worrying level of unemployment which undermines government resolve.

S&P warns that Air traffic will not recover until 2023. The ratings agency says global air passenger numbers will decrease by as much as 55% this year when compared to the previous one, with forecasts significantly deteriorating since March. Despite the peak of the pandemic being now behind in most countries, the rating agency highlights that boarders will reopen very slowly.

US protests over George Floyd's death. The death of an unarmed black man, George Floyd, while being arrested by the police, shocked the US and the world. The police tried to control the multiple protests happening across the country. However, the government took a rare decision of warning that the US Army could intervene if necessary, in case the situation would escalate in Minnesota.

The optimism over the US Presidential Election has faded way. Joe Biden is gaining points with the reactions of Mr. Trump towards the current unrest and violent seen in the US. Racial justice in

America might influence the result of this year's presidential election depending on the strategies of both candidates.

Trump revokes Hong Kong's special status in retaliation for China. The US President says that the national security law applied in Hong Kong is "a disgrace". Washington will also impose sanctions on China in order to penalize the country for its treatment of ethnic minorities.

Brazil's first-quarter GDP falls 1.5% as new Covid-19 cases climb. Brazil's GDP is coming back to 2012 levels impacted following social distancing measures against coronavirus. Comparing to the first quarter of 2019, Brazil's GDP shrank -0.3%. This might result in a future recession with the country approaching the global coronavirus hotspot followed by a poor action from their President Jair Bolsonaro.

Argentina extends term to creditors, amid negotiation to restructure debt. After defaulting on its sovereign debt for a ninth time, Argentina announced that it has extended the deadline for creditors to restructure USD 65 bn in bonds of foreign debt.

Renault will cut 15,000 jobs worldwide. Renault has excess production worldwide and announced in February its first loss in 10 years. With a huge cut in jobs, the reduction cost should reach, in total, EUR 2.15 bn less per year in fixed costs, while also cutting global production capacity from 4m vehicles in 2019 to 3.3m by 2024.

The pandemic forces a reorganization of FTSE 100. The index of the 100 largest companies listed on the LSE is expecting a major change in more than 4 years due to the impact of Covid-19. The virus outbreak has drastically slashed revenues for companies in travel and aviation sector.

Francisca Fernandes
Financial Markets Division

Deeper Dive

US Shale in the Age of Coronavirus



Tobias Berberich
Investment Banking Division

“OPEC tried before to flood the market and price U.S. operators out. In 2015, as now, prices dropped and U.S. production did fall. However, U.S. output rebounded within a few months as shale producers became more efficient, and by the time OPEC reined in supply to support prices, the U.S. was even better positioned than before.”

– Bloomberg

With the recent appreciation in WTI futures to a three month high of USD 37.6, driven by global production cuts, a tentative OPEC+ and Iraq deal on compliance with quotas, and slowly awakening economies following months of coronavirus induced hibernation, Oil futures in the realms of USD -40 seem quickly forgotten. However, the impacts are still felt strongly in the business of U.S shale.

Since early 2014 shale has created a domestic boom in U.S. crude production. Today, Shale delivers more than one third of onshore production in the lower 48 states. Particularly the Bakken Field in North Dakota and Montana as well as the Permian and Eagle Ford Basin in Texas.

Shale is a high-quality crude oil that lies between layers of shale rock, impermeable mudstone, or siltstone. Unlike conventional extraction there is no direct access to a reservoir of liquid oil. Traditional vertical wells are drilled into the shale formation to a depth of up to 1500 meters. Followed by the unconventional part, drilling horizontally, up to 2000 meters. Chemically treated water is subsequently forced into the rock for hydraulic fracturing. Releasing the oil from the sediment, allowing it to drift up the well. Enabling firms to tap reserves that were previously inaccessible.

However, there is one fundamental issue with the production of Shale, it is immensely expensive. The U.S. Shale patch requires a breakeven price between USD 50 and USD 55 per barrel according to CNCB. Compared to USD 45 for standard Crude or USD 9 per barrel produced by Saudi Aramco on the lowest end of the spectrum. The increased costs are driven by the complexity of the horizontal drilling as well as the continuous CapEx required to sustain, build, and develop the wells. As shale production is supported by many smaller drilling sides, often singular rigs, rather than large scale productions such as oil sands where economies of scale can be achieved in the exploration and production

processes. However, the effectively uncompetitive shale production has been supported in large by the government of the United States as energy independence has been on the top of the agenda. Which would have been unobtainable if it were not for the production boost of barrels per day shale provided.

With oil prices in the regions of USD 60 and above this has not been an issue. However, as prices dropped to their lowest point on record over the last months many shale producers came under pressure and began with the shut down of rigs. Baker Hughes on Friday reported that the number of active rigs drilling for oil declined by 16 to 206 this week. The number of oil rigs has fallen on a weekly basis since mid-March, implying further declines in domestic crude output. The total active U.S. rig count, meanwhile, also fell by 17 to 284, according to Baker Hughes. July West Texas Intermediate crude held onto earlier gains, trading up USD 1.89, or nearly 5.1%, at USD 39.30 a barrel. Additionally, CapEx across the industry has been minimised, with exceptions of some of the supermajors.

Therefore, the question arises if shale production in the United States will survive this downturn if oil prices remain suppressed around the USD 30 per barrel mark. As lending of large banks to producers has already began to stagnate in fears of the repayment ability, the impending collapse of some firms may occur sooner rather than later. However, there are glimpses of hope in a post Covid-19 world. As many energy analysts are looking to China to assess the strength of oil demand rebounds once lockdowns are lifted, and so far, the signs have been promising.

Tobias Berberich
Investment Banking Division

Regional View

Beijing's New Attempt to Erode Hong Kong's "One Country-Two Systems"



Maxime Hoze
Financial Markets Division

"China has replaced its promised formula of 'one country, two systems' with 'one country, one system'. Therefore, I am directing my administration to begin the process of eliminating policies exemptions that give Hong Kong different and special treatment"

- Donald Trump, May 29th

A new milestone was reached in the public protests tormenting Hong Kong since March 2019 after the National People's Congress approved the highly-controversial National Security law on May 28th. Once in vigor, the legislation will allow Chinese authorities, including special security forces, to intervene and arrest HK citizens upon accusation of "treason, secession, sedition and subversion" according to foreign minister Wang Yi.

After the disastrous economic consequences of the civil protests that shook the former British colony in 2019 amid China's failure to impose an extradition bill, Chinese authorities are back on track with a new law meant to fight "terrorism" and halt the chaos harmful to the economic prosperity of the city. However, the security law is perceived by local citizens, and the international community, as another push from China to regain full control over the territory and put an early end to the "one country two systems" agreement originally set to last until 2047. The regain of violence in the city and the geopolitical turmoil around it have eroded investors' confidence even further; as a result, the Hang Seng Index suffered its worst day in 5 years as it fell by 5.6%.

Although HK is not as economically significant for mainland China as it used to be 30 years ago, the independent territory only accounted for 2.6% of mainland's GDP in 2018 as opposed to 21.3% in 1990. Beijing is still concerned about the Western style, free market and open immigration archipelago as the country is willing to harmonize policies within the bay's mainland neighboring cities of Guangzhou, Macao and Shenzhen. The latter is also home of a well-developed capital market and is expected to become the future leading hub in the region as China wants to make it "a national model of high-quality development" by 2025 along.

The Party's recent move have reignited geopolitical and trade tensions with the US while significant progresses were made on

Phase 1 trade deal. The Trump administration, firstly via its foreign secretary of State Pompeo, affirmed that it is no longer possible to observe a high degree of autonomy from HK with China which by consequent does not justify its current special trade treatment anymore. Pompeo was shortly corroborated in Trump's announcement on May 29th "China has replaced its promised formula of 'one country, two systems' with 'one country, one system'. Therefore, I am directing my administration to begin the process of eliminating policy exemptions that give Hong Kong different and special treatment. My announcement today will affect the full range of agreements we have with Hong Kong, from our extradition treaty to our export controls on dual-use technologies and more, with few exceptions". Meanwhile, following the recent accusations from the international community of numbers manipulation by China as well as suspicions regarding the origin of the Covid-19 out of a laboratory in Wuhan, the US decided to withdraw from the World Health Organization (WHO). Future US measures may also concern entrant Chinese students in United States.

On the other hand, the EU is in a more difficult position as it is caught in a crisis involving its two largest trading partners. Therefore, the EU's foreign affairs representative Josep Borrell is opting for a softer response to the crisis as he believes sanctions and tariffs are not an adequate solution in solving a political issue with China.

Nevertheless, even if HK's economy might be harmed, it is very unlikely that sanctions and China's appeal to regain control will erode or dismiss the city's financial ecosystem overnight as law firms, rating agencies and audit firms still have their regional branches headquartered in the territory. However, it wouldn't be surprising to see Singapore benefiting from the current situation and welcoming future regional investments and job creations over HK.

Maxime Hoze
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

US Primary Elections

Joe Biden consolidates his position to become the presidential candidate of the Democratic Party as he picks up wins in Montana, New Mexico, Pennsylvania and other states during the primary elections held on the 2nd of June.

OPEC Meeting

The OPEC countries and Russia are set to meet on the 9th of June to review cuts in oil production. A number of members did not comply with the previously agreed upon cuts, leading to the few compliant countries to carry the entire burden of the production cuts.

China Capital Investments

On the 14th of June, China will publish their report on YoY capital investments made in the country. Forecasts expect a 10% drop in investments, highlighting the impact on capital movement by the Coronavirus pandemic.

Central Bank Decisions

ECB Quantitative Easing

On the 4th of June, the ECB announced it would add further EUR 600 bn to its bond-buying program, reaching a total of EUR 1.7 tn in 2020. Furthermore, it was announced that QE will be extended until at least June 2021 as the central bank attempts to counter the economic contraction. Interest rates were left unchanged.

BoE Monetary Policy Decision

The monetary policy committee of the Bank of England will meet on the 10th of June. The meeting aims to take a decision on whether a change in the interest rates is necessary. It is expected that the interest rates will remain unchanged.

Federal Reserve Meeting

The next meeting of the FOMC is scheduled to be on the 10th of June. The Fed is expected to give an update on its economic projections and on its stimulus program in order to continue to assist the US economy in its recovery. Interest rates are expected to remain unchanged in the range between 0% and 0.25%.

Inflation and Deflation

Eurozone Inflation Numbers

Due to current market conditions, the inflation numbers for the Eurozone will fall way below the ECB's target of 2% in the coming years. On the 4th of June, Christine Lagarde announced the new inflation forecasts for the upcoming years being 0.3% for 2020, 0.8% for 2021 and 1.3% for 2022.

China CPI

The deflationary trend is expected to continue in China, as the CPI for May is forecasted to decline by another 0.5% after falling by 0.9% in April. The National Bureau of Statistics of China will post its actual findings on the 9th of June.

Brazil CPI

Brazil will report its numbers on inflation on the 10th of June. Forecasts expect the CPI to have a negative movement for the month of May of -0.2%. This movement would result in a YoY general price of goods increase of 2.49%.

Labour Market

German Unemployment Rate

Germany announced its most recent figures on unemployment on the 3rd of June. The number of new unemployed people surpassed forecasts, reaching 238 k new cases rather than the expected 200 k. This rise in jobless claims took the total unemployment rate from 5.8% in the previous month to 6.3% at the beginning of June.

US Jobless Claims

On the 4th of June the US Jobless Claims for the month of May were published. As businesses start to slowly reopen in some parts of the US, we saw a reduction in the number of applicants for unemployment benefits, which reached around 1.8 million in May, around 300 thousand fewer than in April.

Australian Employment Change

A rising unemployment rate is forecasted in Australia, as the number of new unemployed people is expected to amount to 575 k for May. This rise would take the unemployment rate from 6.2% up to 8.3%. The steep increase of unemployment will be one of the key drivers in talks to reopen Australian businesses. Exact numbers will be published on the 17th of June.

Investment Banking

M&A

Overall Activity

Global

Global M&A activity at the end of May is still declining. A recent analysis by S&P Global Market Intelligence indicates that the current trend of shrinking deals is continuing. Globally, M&A deals announcement in Q1 was down 13.8% , and the total value of those transactions was down 37.6%, compared with Q1/2019. These declines are attributable to a dearth of large deals. Only two transactions in the US last quarter were worth more than USD 10 billion, versus an average of six per quarter throughout 2019. This is not a problem that S&P Global sees going away anytime soon, mainly because of the current uncertainties. The US presidential election, the current “BLM” protests in the US, ongoing geopolitical challenges, recession, the continued growth of shareholder activism and the coronavirus outbreak all threaten to derail or delay M&A activity in the short to medium term. Therefore many “would-be acquirers” will adopt a cautious approach about the opportunities for growth and deals. The outlook for global M&A appears bleak for the foreseeable future. How the market rebounds from Covid-19 will probably be the deciding factor.

Selected Regions

North America

Covid-19 harshly affected M&A activity bringing more caution to the table. North America saw a consistent decline in number of deals during the Q1 of 2020. While the corresponding deal value slightly increased between January and February, going from USD 48 bn to USD 69.9 bn, the pandemic caused a decline towards the end of the quarter, registering a deal value of USD 60.5 bn in March.

EMEA

European M&A threatens a dramatic fall in Q2 2020, following a relatively strong year's start before the Covid-19 pandemic. Indeed, 1Q20 recorded USD 199.4 bn deal value against USD 153.2 bn in 1Q19, a 30.2% increase. This was mainly driven by the USD 35.6 bn merge between Aon and Willis Towers Watson. Later, with almost zero activity in several European countries, dealmaking has then came to a halt.

Asia

APAC M&A activity, without considering Japan, registered a value of USD 103.2 bn across 616 deals in 1Q20. This figure corresponds to the lowest quarterly value since 1Q13. Initially, the truce in the US-China trade war made regaining momentum in 4Q19 but the coronavirus outbreak suddenly stopped dealmaking. 1Q20 saw China and Hong Kong, the most active contributors to the Asian M&A activity, registering a 32.5% YoY decline in combined deal volume.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target region	Target business	Value (USD m)	Premium (%)
09 Mar 20	Willis Towers Watson plc	AON plc	United Kingdom	Risk Management, insurance brokerage and advisory	35,600.00	NA
27 Feb 20	ThyssenKrupp Elevator AG	Cinven Partners LLP; Advent International Corporation; RAG-Stiftung	Germany	Industrial engineering and steel production	18,800.00	NA
11 Mar 20	OTIS Worldwide Corporation	United Technologies Corporation (Shareholders)	USA	Vertical transport systems	17,300.00	NA
20 Feb 20	ETrade Financial Corporation	Morgan Stanley	USA	Financial Services	13,000.00	NA
03 Mar 20	QIAGEN NV	Thermo Fisher Scientific Inc	Germany	Biotechnology	11,000.00	NA
09 Mar 20	Tesco Stores (Thailand) Limited; Tesco Stores (Malaysia) Sdn Bhd	Charoen Pokphand Foods Public Company Limited; CP ALL Plc; Charoen Pokphand Holding Co	Thailand	Retailing	10,600.00	NA
11 Mar 20	Carrier Global Corporation	United Technologies Corporation (Shareholders)	USA	Heating, ventilating and Air Conditioning systems	10,400.00	NA
03 Feb 20	Ingenico Group SA	Worldline SA	France	Financial Services	10,100.00	NA
17 Feb 20	Bombardier Transportation GmbH	Alstom SA	Germany	Aerospace	8,200.00	NA
22 Jan 20	CapitaLand Commercial Trust	CapitaLand Mail Trust	Singapore	Real estate investment trust	8,000.00	NA

*Source: GlobalData, Mergermarket

Raphael Salimi & Federico Farina
Investment Banking Division

M&A: Top Deals

Zynga to Acquire Peak Games

The Silicon Valley's giant Zynga has agreed to acquire 100% of Istanbul-based Peak Games for USD 1.8 bn. The deal is expected to close in the third quarter of 2020.

Buyer vs Seller

Zynga is an American casual gaming company widely known for developing games such as *Words with Friends* and *FarmVille*. The firm has currently 30m daily users and it reported revenues of USD 1.3 bn 2019. Peak Games is one of the most promising firms in the mobile game developing scene and the creator of *Toon Blast* and *Toy Blast*, two puzzle games that have consistently ranked in the top 10 highest-grossing mobile games in the last two years.

Industry Overview

The gaming industry has experienced strong growth in 2020, driven by the imposed lockdowns around the globe that have been forcing people to search for new ways to entertain themselves from their homes. However, maintaining these engagement rates will pose a challenge once the situation is back to normal. Moreover, although the industry is currently quite fragmented, consolidation is expected to accelerate in the upcoming years.

Peers	Currency	Market Cap (CUR m)
Score Media and Gaming Inc	CAD	324.07
Wirtualna Polska Holding SA	PLN	2,152.24
People.cn Co Ltd	CNY	21,638.37
Alphabet Inc	USD	982,400.99
Twitter Inc	USD	27,360.02

Deal Rationale

Up to date, the deal represents the biggest acquisition undertaken by Zynga. From a strategic point of view, Peak games' product offering complements Zynga's ones. While Zynga has a significant presence in the US, Peak Games' acquisition will bring the former access to Asian markets, specially the Japanese, where puzzle games are very popular. Thus, the acquisition represents an opportunity to expand to foreign markets and for product diversification. Furthermore, the combination of both firms would mean an increase of mobile active users by over 60%. The acquisition includes USD 900 m in cash and USD 900 m in stock.

Market Reaction

Zynga

On May 1st, the share price increased by 5.56%. However, the upsurge in the share price could also be influenced by the disclosure of higher than expected forecasted revenues.



Peak Games

The company is a very sought-after asset which has attracted attention from many of Zynga's competitors. Founded in 2010, the company had been experiencing consistent growth through the years, mainly led by the development of top-notch mobile games. Future growth prospects are good due to the current development of promising puzzle games, favorable market conditions at least in the short term, and the upcoming sale to Zynga, which will grant the company access to a more diverse client user base.

Future Challenges

First of all, since both companies are counter-cyclical to pandemic or economic downturns, a future challenge will be to maintain its current growth rates and profitability margins during buoyant periods. Other risks such as cultural fit are less critical, since the companies have agreed to remain independent and to just collaborate on data science operations.

M&A: Top Deals

Providence Equity Partners, Cinven and KKR to Jointly Acquire MasMovil

The Spanish telco operator Masmovil Ibercom SA will sell its business for USD 5 bn to a consortium of private equity firms. The acquirers pay a 20.00% premium on top of a share price of EUR 18.75. Providence owned a 9.20% stake, prior to the transaction.

Buyer vs Seller

The buy side is composed by three Private Equity firms: (1) Providence Equity Partners, a American firm with over USD 45 bn in capital commitments (2) Cinven, a British founded firm with EUR 37 bn total funds raised and (3) KKR & Co, a leading American firm with USD 218 bn AUM, that has been tremendously active in the European market in the last years. Masmovil is a Spanish upcoming telco player, founded as recently as 2006, which was able to dodge competition and stand fourth in market share.

Industry Overview

The Spanish telecoms market has not witnessed significant growth stories in recent times as the industry is quite consolidated with 3 players owing roughly 80.00% of market share. However, Masmovil has been able to cut through the current state of affairs and continuously achieve noteworthy growth - not only organically but also through acquisitions of smaller players – reaching fourth position in terms of market share.

Peers	Currency	Market Cap (CUR m)
Hellenic Telecommunications Or	EUR	6,042.44
Swisscom AG	CHF	26,325.75
Rostelecom PJSC	RUB	294,856.04
Proximus SADP	EUR	6,834.87
Iliad SA	EUR	9,769.79

Deal Rationale

The transaction values the company's equity at USD 3 bn which paired with almost USD 2 bn in debt gives it an enterprise value of almost USD 5 bn. Masmovil ticks the boxes for a great private equity target as the company was able to grow significantly up until 2018 and afterwards started to focus on cash generation. The deal comes amidst a time when PE funds hit record levels of dry powder and are looking to consolidate positions in upcoming companies. Moreover, taking the company private will facilitate a more aggressive approach to future consolidation endgames.

Market Reaction

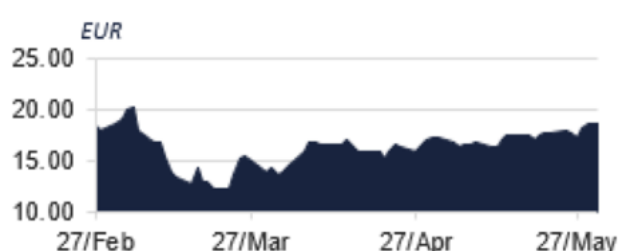
KKR & Co Inc

One day after the announcement on the 29th May, the stock price had a small increase of 1.94% to USD 28.29 - accumulating on the company's rally up from USD 19.07 on the 20th of March this year.



Masmovil Ibercom SA

The share price surged 23.82% from EUR 18.72 to 23.18 on the news of the transaction. As KKR – the PE fund - Masmovil is amidst a strong rally since the 20th of March.



Future Challenges

The operation will strengthen Masmovil's balance sheet and provide financial horsepower to further consolidation and hit the growth accelerators, which suggests the company will follow a path of acquisitions. That said, the company ought to be cautious to avoid regulatory bottlenecks coming from competition watchdogs – remember Masmovil was fined for a merger violation back in 2015 -. Moreover, a recently ruling by a top European court saw approved Three's takeover of O2, suggests regulators will be flexible around further consolidation therefore increasing the likelihood Masmovil will be up to bigger players.

Rafael Santos
Investment Banking Division

M&A: Top Deals

Western Union is Looking to Buy MoneyGram

According to Bloomberg, financial giant Western Union has made an offer to acquire cross-border payments company MoneyGram. A deal would bring together two of the biggest money-transfer companies in the United States.

Buyer vs Seller

The Western Union Company (Western Union) is a provider of money movement and payment services. The company operates through two segments: Consumer-to-Consumer and Business Solutions. The Denver, Colorado based company generated USD 5.6 bn in revenues in 2018 and has a market cap of USD 9.6 bn. MoneyGram International, Inc. (MoneyGram) is a global provider of money transfer services and bill payment services primarily to unbanked and underbanked consumers. MoneyGram has a market cap of USD 216 m and revenues of USD 1.3 bn in 2019.

Industry Overview

The business of both companies has been in decline as more people use online payments. The two companies have been rivals for decades but more recently have faced intense competition from younger, digital upstarts. Both still rely heavily on their vast physical networks, which have been negatively affected by the Covid-19 pandemic. Furthermore, policy makers are determined to trim fees associated with moving money around the world.

Peers	Currency	Market Cap (CUR m)
Evo Payments Inc	USD	1,887.76
WEX Inc	USD	7,283.66
FleetCor Technologies Inc	USD	21,269.01
Square Inc	USD	40,016.11
Global Payments Inc	USD	56,079.33

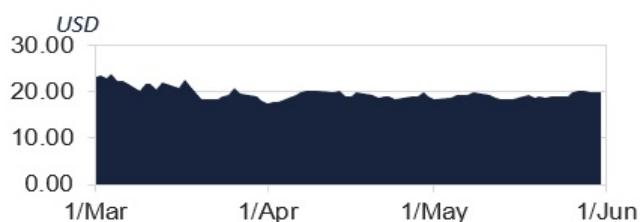
Deal Rationale

The acquisition would combine the two largest providers of money-transfers in the United States. Since the details are not public and no final decision has been made yet, it can only be speculated on the deal rationale. Certainly combining the two companies could provide a greater market power and enable cost-cutting by leveraging synergies on the physical networks. Additionally, MoneyGram is moving towards the blockchain industry and received a USD 50 m investment from Ripple and now uses Ripple's blockchain-based products to transfer remittances. Western Union might try to capture this technology and enter this market segment.

Market Reaction

The Western Union Company

Reportedly, after the announcement on 1st June 2020, Western Union stock was up 12.00%. The stock price climbed from USD 20.74 to USD 23.47.



MoneyGram International, Inc.

After the announcement on 1st June 2020, the MoneyGram stock initially jumped up roughly 50.00% at the beginning of the trading day and remained up by 30.00% from USD 2.6 to USD approximately USD 3.4 in the following days.



Future Challenges

Given the fact that the offer is not official yet and no ultimate decision has been made, it remains to see if this deal will go through. Both companies, will need to redefine themselves as lately more and more consumer moved towards online payments not relying on cash any longer.

What Happened To eBay

eBay Inc. is an American multinational e-commerce corporation based in San Jose, California that facilitates consumer-to-consumer and business-to-consumer sales through its website. During the years the company has completed several acquisitions, such as Paypal (online payments), Skype (instant messaging and video calls) and Corrigon (search engine).

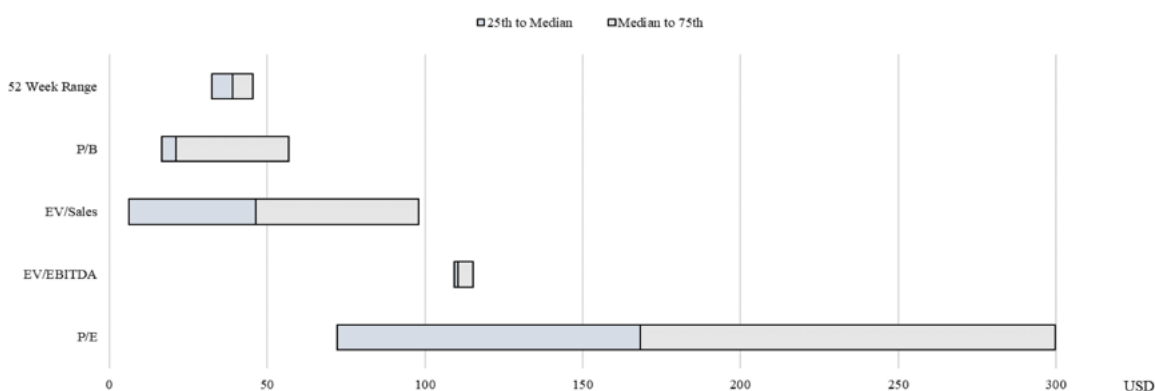
Corporate News

The price of eBay's shares is currently USD 48.84 with an increase of 40.98% in the last three months. The company's market cap heavily suffered from the Covid-19 pandemic in March 2020 but it immediately recovered, reaching a higher price than the peak on 4th of March 2020 (USD 38.49). The stock increase has mainly been driven by the rise in online sales volume due to the world's lockdown. EBay registered projected revenues in the range of USD 2.75 bn to USD 2.80 bn, up from a previous guidance of USD 2.38 bn to USD 2.48 bn. The company is projected to achieve earning of USD 1.04, up from a previous value of USD 0.76. The company expects the volume growth rates to reach a value between 23% and 26%, compared to Q2 of 2019. The increase in traffic is driven from both new sellers and new purchasers, who are active in all the sectors, from Tech to Fashion.

Price (31 May 20, USD)	48.84
Target Price (USD)	42.00
3M Performance	40.98%
Market Cap (USD m)	34,315.31
Enterprise Value (USD m)	38,336.31
<i>*Target Price is for 12 months</i>	



Valuation Analysis



Ebay, on the 31st of May 2020, was trading at USD 48.84 per share in the US. As shown by the football field above the market price seems fair, especially for the P/B, EV/Sales multiples and the 52-range. Regarding the Price-earnings ratio the valuation is quite dispersive and therefore, since eBay is in the tech industry, a bit misleading. The e-commerce trend seems here to stay and analyst agree on expecting a higher stock price in the near future.

EBay is operating in a fast-changing environment boosted by the Covid-19 shock. The competition is high but there are several countries in which the major players have not entered yet. The Californian company seems to have understood it and it is currently expanding its investments in marketing and technology, in order to retain buyers and increase the purchase frequencies. The ultimate goal of eBay is to increase the value of the single customer and expand on European and Asian markets not yet explored.

Peers	Currency	Market Cap (Cur m)
MercadoLibre Inc	USD	42,094.14
Amazon.com Inc	USD	1,225,183.47
JD.com Inc	USD	82,947.90
Alibaba Group Holding Ltd	USD	583,894.67
Vipshop Holdings Ltd	USD	11,787.52

Michele Marcaccio
Investment Banking Division

Private Equity

Venture Capital

DCM

ECM

Spinoff

Restructuring

NIC's View On

Central Banks' Digital Currency



Mariana Nóbrega
Investment Banking Division

The introduction of digital currency issued by central banks may threaten the overall role of commercial banks and even lead to a shrinkage on their financial statements.

Tough its evident advantages on being a worldwide medium of exchange that could substitute the decreasing cash circulating, nations remain concerned on the feasibility and successful implementation of this store of value.

Designed to be the new form of digital money, Central Bank's Digital Coin (CBDC) is entitled to be an efficient medium of exchange and a safe store of value with global access, under fixed nominal terms. Thus, it is expected to be valid and legal for every public or private transactions.

When compared to privately issued cryptocurrencies, such as Libra or Bitcoin, there are relevant differences that might contribute for a better customer acceptance of central banks' digital currencies in the future. This relies on the fact of being issued and regulated by the countries' monetary authority which creates greater trust and confidence about the accuracy and disclosure of information and even greater transparency on fraud and bankruptcy matters. Besides, as central banks hold the control of money supply, they are able to regulate the national economy's welfare and further enhance their monetary policy by eliminating zero lower bound on interest rates.

Under the issuance of digital currency, there might be evident structural changes on the financial intermediation of central banks through a drastic reduction of the funding to commercial banks. Thus, as they strive to minimize the loss of deposits, banks may seek funding through wholesale funds in order to replace outflows or raise the interest rates. This might generate a need to increase transaction fees and spreads to maintain the banks' level of profitability.

Considering that the business model of commercial banks includes cross subsidized deposits, they would need to become autonomously managed with possible future repercussions on loan agreements between financial institutions. Alongside with this, if the digital currency is turned into a successfully adopted asset,

there might occur seniority shifts from commercial to central banks with consequent negligence on commercial banks' deposit services.

Currently, nearly 50 banks are developing digital currency forecasts, with special target on token or account-based projects for the access of overall public. In the front line, Sweden and Uruguay with pilot projects for consumer-focused digital currencies, under the form of e-krona and e-peso, respectively.

However, central banks hold major concerns due to privacy policies and the incremental responsibility of verifying the customer activity and properly screen illegal activity, as money laundering. Moreover, having a digital currency available for consumers would demand people to hold an account at their central bank instead on a commercial bank. This would compromise commercial banks' function on being a trusted intermediary for money circulation.

During this pandemic outbreak, People's Bank of China launched the experiment of a central bank digital currency, e-RMB, to be rolled out by state-owned banks making it the first sovereign nation to introduce a central bank-backed cryptocurrency. This creates high expectations on a possible turning point for the future of both central and commercial banks.

Date	Recent News
31 May 20	We may be heading towards a post-dollar world. Source: : financialtimes.com
13 May 20	Why Apple wants to deepen its China supply chain. Source: : financialtimes.com
05 Feb 20	Central banks 'hesitant' on digital currencies, says former governor. Source: : financialtimes.com
28 Mar 18	Committee on Payments and Market Infrastructures. Source: : bis.org

Mariana Nóbrega
Investment Banking Division



NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	SPY	Despite major economic indicators pointing to an economic downturn, such as unemployment rate at nearly 15%, GDP contraction of 5% for the first quarter, and over 100,000 deaths due to Covid-19, the S&P 500 has had very strong bull rally in the past 2 months rising almost 22%, with tech giants paving the way up. The benchmark index is now only 8% below its all-time high of February. The iShares S&P 500 Value ETF had a 3.23% return for the month.
UK Equity	FTSE	In the UK, the pandemic outbreak has also been acute. The main index, FTSE 100, might see some reshuffling as some big players from the most affected industries took a toll from the lockdowns imposed. Airline EasyJet and cruise company Carnival shares lost approximately 45% and 67% in value this year, respectively, which may result in both companies being delisted from the index. However, the “Footsie” has managed to rally 27% since its low point on March 23 rd and closed the month of May at 6,076.6, generating a monthly return of 1.43%.
EM Equity	MELI	Amidst extended lockdowns in Latin America, e-commerce and digital payments companies have been leading stock markets whilst other industries suffer from weak consumer spending. Argentina’s MercadoLibre had an incredible month as the company’s stock returned a whopping 45.96% in the month of May, just shy of 50% year-to-date.
US Equity	ZNGA	Shares of San Francisco-based Zynga jumped by 21.35% in May. The video game industry has gained good momentum during the pandemic, after featuring in CNBC’s Mad Money, Zynga got some attention as the host Jim Cramer seemed bullish on the Californian company. However, the main reason behind the 13% price jump at the end of the month was the announcement that Zynga was engaging in a major acquisition. A few days later, Zynga announced they had acquired Turkey’s Peak Games for USD 1.8 billion.
EU Equity	BNP	Financials had a strong month of May in the stock market with American banks JPMorgan’s and Goldman Sachs’ shares returning 6% and 7.81%, respectively. However, in the Eurozone, analysts maintained buy and hold recommendations for French bank BNP Paribas. The bank’s stock, which we hold in our portfolio, returned 14.31% for the month.
US Treasury Bonds	SHY	The unprecedented levels of government spending in addition to the expectation that the Fed will maintain interest rates at all-time lows have steered investors away from long-maturity treasury bonds. As investors moved away from it, the yield of the 30-year bonds increased considerably, helping to steepen the yield curve to the highest level in the past three years. Additionally, the spread between the 3-month and the 10-year yields have been steady at 53 bps, as opposed to negative spreads as in 2019. The iShares 3-7 Year Treasury Bond ETF had a 0.32% return during May.
Commodities	DBC	Covid-19 has created a simultaneous shock in both supply and demand across many industries, which greatly impacts the world of commodities. With production and supply chain being disrupted, we saw negative oil prices for the first time in history at the end of April. Weaker demand for energy and metals globally has also played a role in commodity prices falling (with the exception of gold – our Perth Mint Physical Gold ETF is up 9.8% in 2020 and returned 2.6% in May). However, commodities prices recovered quite well in the month of May, and Invesco DB Commodity Index Tracking Fund returned 8.07% MTD.

Henrique Oliveira
Financial Markets Division



NIC Fund

Equities

World Equities

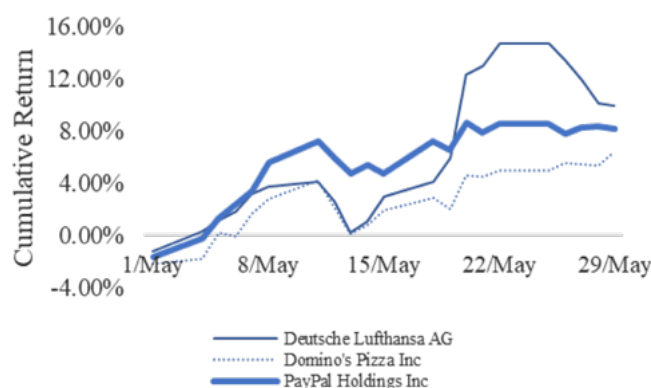
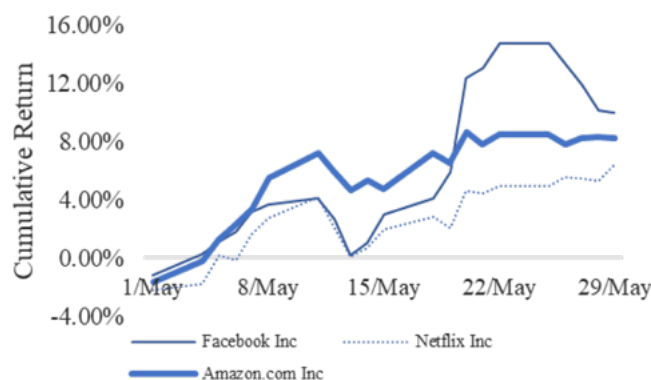
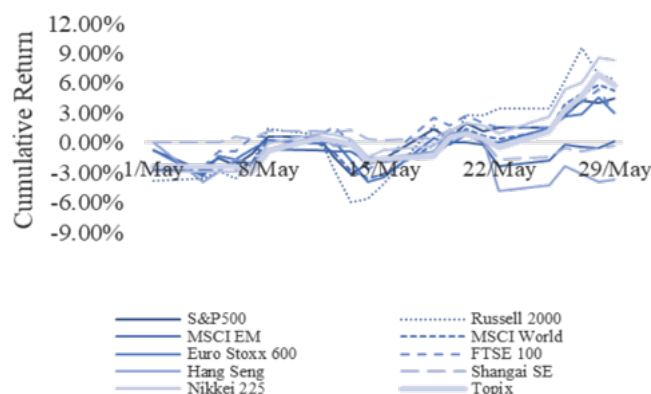
The US market continued to display remarkable resilience despite the surge in jobless claims, disregarding the possibility of an upcoming recession instead of reflecting optimism over a quick economic recovery. While MSCI ACWI (All Country World Index) returned over 5.3% at month end, the S&P yielded 4.83% at month-closing, climbing 6% on the heels of a very strong 18% rally in April. Moreover, the US benchmark spiked on May 29th, after President Trump said that his administration would revoke special trade privileges for Hong Kong. The Dow Jones rose 4.26% while the Nasdaq continued its rise despite the pandemic, gaining 9.1%, as most of the tech stocks benefitted from the staying at home orders. Russel 2000 index closed the month 6.36% lower than its peak at 9.59% MTD on May 27th. In Europe, the FTSE 100 closed to -0.88% putting an end to the last month rally caused by the central bank's extraordinary injections and rate cuts. Nonetheless, Euro Stoxx 600 was up by over a quarter. Moreover, Brussels and Berlin have reached an agreement over a EUR 9 bn rescue package for the German airline Lufthansa. Meanwhile in Asia, the Nikkei gained more than 30% since the climb began on March 23rd.

In Depth: US Equity

US equity appreciated as investors focused on signs of economic recovery despite tensions with China, failures in virus drug-tests and increasing protests over the murder of George Floyd. Stocks were close to a three-month high as businesses reopened, ignoring 40 million Americans having filed for unemployment benefits. The tech-heavy Nasdaq Composite drove the equity market's climb. On May 20th, Amazon stock registered a record high of USD 2525, surging 1.5%, thanks to increasing customer loyalty and accelerated e-commerce adoption over the pandemic. Moreover, after the announcement of the forthcoming launch of Facebook Shops and Instagram Shops, Facebook shares triggered a rally, due to the expected expansion of revenue streams beyond advertising. Lastly, Netflix, which claims 87% of households in United States, is expected to remain the top streaming platform in the long-run. Its asset value is forecasted to grow by USD 91 bn from 2020 to 2024.

Our Performance

In May, the NIC fund yielded to a 3.97% return, the top performer being MercadoLibre which surged by 45%. Heterogeneous performances can be attributed to the tech firms: while Netflix registered a low return, Solution 30 SE rose by 12.73%. Following several weeks of price contraction caused by the stop in operations, Lufthansa gained 13.8% as business resumed. Furthermore, the companies such as Domino's and Chipotle, as well as PayPal, continued their positive run and boosted our portfolio performance.



Benedetta Laruccia
Financial Markets Division



NIC Fund

Fixed Income

World Yields

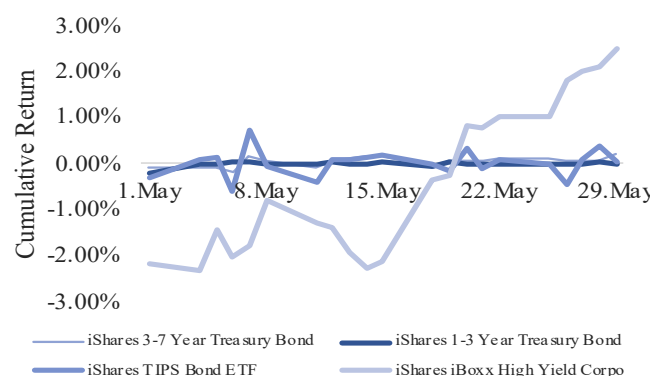
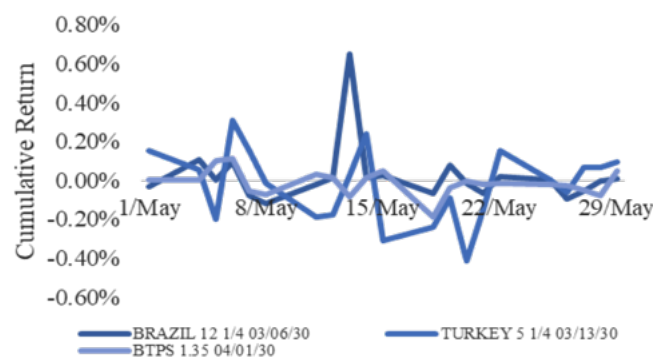
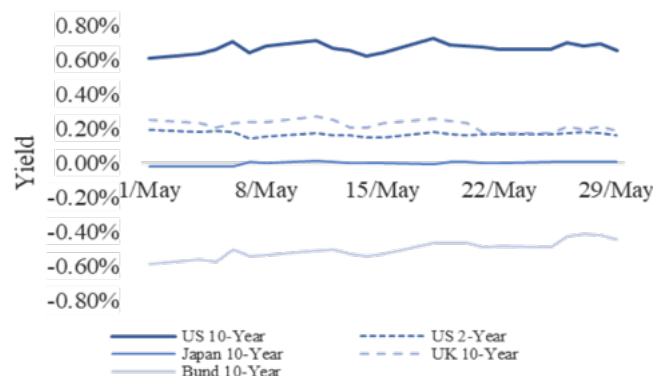
Volatility of global debt markets was primarily affected by Covid-19 and according measures by governments, central banks and the development of the pandemic outbreak. In Europe, countries tried to find a common strategy regarding re-openings and going back to normality. Additionally, the ECB is expected to give further stimuli and German government prepared a multi-billion Euro program, thus risk appetite of investors increased. Accordingly, demand for the 10Y Bund decreased which lifted the yield by 13.9 bps to negative 0.45%. In the UK, investors remained cautious in May as the situation only improved lately which reflected to GBP having a comeback, while yields decreased slightly by 6.4 bps. The US 10Y on the other hand had a volatile month with uncertainties and hopes changing the pole position through job reports, the FED and political instability. Yet, MoM the yield did not change notably. Worth mentioning is the volatility of TIPS, which price increased by 0.4% in May. TIPS are inflation protected and demand increased in the light of unprecedented market liquidity. Interestingly, default risks in high-yield debt obligations decreased amid re-openings and governmental financial support which translated into the iBoxx high yield ETF returning 2.5% in May.

In Depth: Emerging Markets and Italy

While most Western countries are looking to move forward from the crisis and macroeconomic data like Eurozone Manufacturing PMI (39.5 in May vs. April 33.4) suggests the bottom might have been reached, emerging markets, like in South America, lag behind. More especially, Brazil is the hotspot of the virus, and the ultra-right president's rhetoric pledges public life to not shut down significantly. This led to a high volatility of 10Y notes. Cumulative return peaked at some 0.7% in mid-May, yet MoM stayed almost unchanged. The yield came in at 6.9%, yet well below top levels in March of around 9.4%. Turkish debt faced an indecisive month, with the Lira being under pressure as the virus affected the country. While the cumulative return was moderate, the yield peaked at 12.87% in mid-May and closed the month at 12.24%, a MoM increase by 78 bps. Lastly, Italian bonds' yield decreased by 26 bps in May, which reflects the situation improving recently. EU discussions regarding possibilities to vitalize tourism and borders re-opened with airlines offering more and more flights, we expect this trend of the yield decreasing to continue.

Our Performance

While the IEI, our major fixed income position, returned 0.2%, the most notable contribution was our TIPS position. As inflation concerns have a comeback, buyers came in to drive prices, stating a 0.4% return in May. We remain confident on further upside for TIPS as we expect that inflation might not be the main concern of central banks in the current environment.



Philipp Gall
Financial Markets Division



NIC Fund

Commodities

May Round-Up

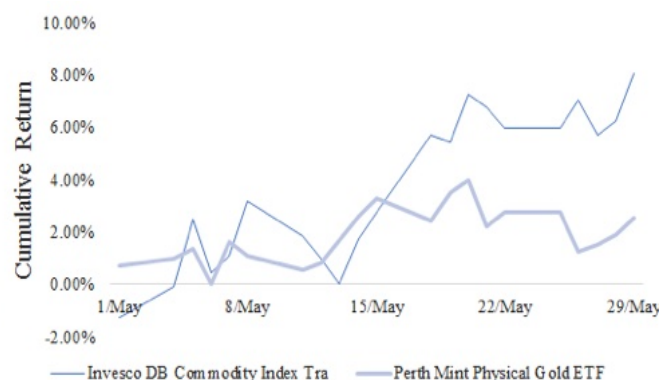
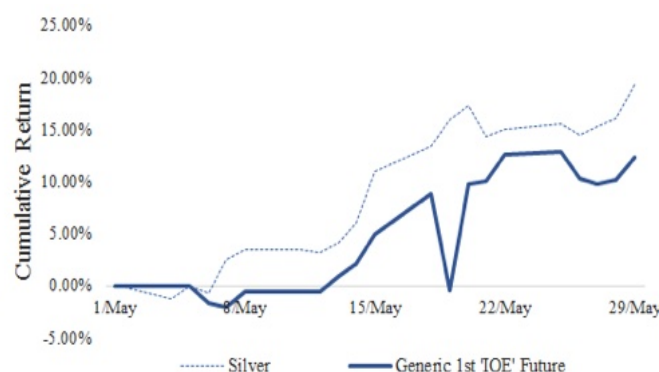
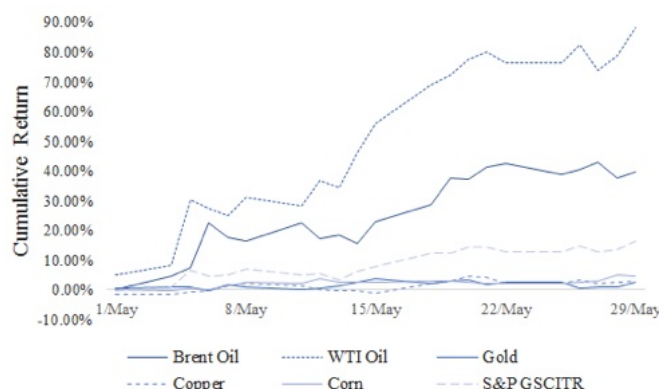
In May, the S&P GSCI Total return index, which consist of 24 ETFs covering physical commodities across 5 sectors, rose by 16.37%. This was the index's best monthly return since 2009, with a strong performance driven by industrial and precious metals despite weak US economic data, with consumer spending suffering the largest drop since 1959 (-13.6%) and savings rising to record highs. The commodity index is highly exposed to energy, which was key to its performance. WTI Oil went up by 88.38% to USD 35.49 per barrel after reaching record low prices in April, with demand expected to recover as countries begin to ease lockdown policies and production cuts. Despite the record rise in May, prices are still down 45% YTD following several months of losses. The market remains in a fragile situation as higher prices may encourage producers to restart production. The OPEC+ is expected to meet in June to discuss future output restrictions, with Russia and Saudi Arabia pledging to comply with the supply deal. The anticipated outcome of the meetings is the extension of the production cuts. Brent Oil, the international benchmark, gained 39.81% to USD 35.33 per barrel. In what regards the most important metals, on one hand, the price of gold appreciated by 2.52%, standing at USD 1736.9 per oz at month end, supported by rising demand from US traders following escalating US-China tensions, after the Trump administration decided to impose new sanctions as Beijing announced new security laws for Hong Kong, and fears of lower interest rates as the economy remains weak. On the other hand, copper gained 3.04% driven by Chinese manufacturing data indicating the recovery of production and concerns of output cuts by Chile, the world's largest producer, following the sharp rise in Covid-19 cases which could disrupt mining activities. Corn returned 4.57% fueled by strong export data after months of losses as the demand for biofuel collapsed during the lockdowns.

Outlook for June

Similarly to the supply-side disruptions experienced by copper, iron ore rallied 12.3% in May and prices are expected to continue to rise as the pandemic is starting to more heavily affect key producers such as Brazil and South Africa. In Brazil, the virus has advanced to the northern states such as Para, which supplies around 8% of the global market. As demand from China continues to rise, Australian producers are taking advantage of higher prices, shipping record volumes by avoiding production stops thanks to innovative technology, adaptive workforce and government regulation. The price of silver increased to USD 17.87 per oz in May (+19.4%). Supply restrains in major producing countries, such as Peru and Mexico, coupled with strong demand for the production of microchips and solar panels, indicate that the rally is likely to continue in June.

Our Performance

Last month, we maintained an allocation of 1.65% in the Invesco DB Commodity Index, which tracks the 14 most heavily traded commodities, yielded 8.07%. Our position in the Perth Mint Physical Gold ETF returned 2.55%.



Corina Popa
Financial Markets Division



NIC Fund

Currencies

World Currencies

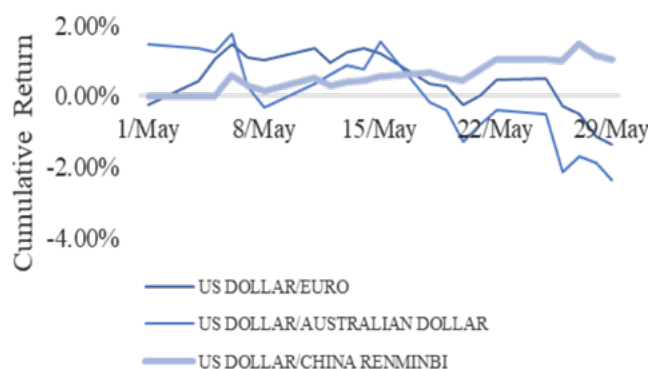
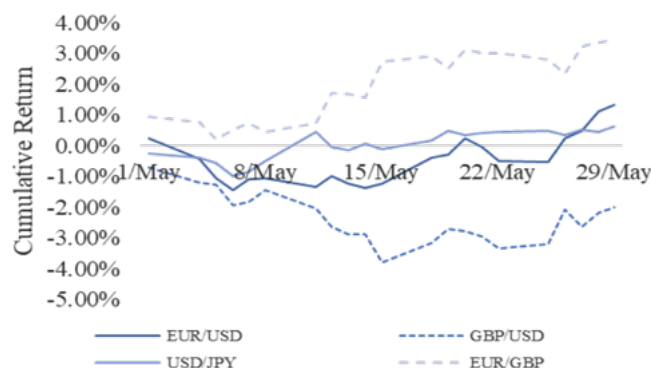
At the beginning of the month the USD rose in the wake of the Covid-19 crisis, as investors preferred a safe currency meanwhile other currencies worldwide were getting weakened by fiscal stimulus programs. As a result, the dollar appreciated in the first quarter especially against emerging market currencies. This disrupted the foreign operations of large US companies. Apple even warned that the stronger dollar has cost 1% of quarterly revenues. However, EUR and GBP strengthened strongly against the USD from mid-May onwards with the easing of Covid-19 related restrictions in the Eurozone, better economic prognoses for the summer and a EUR 750 bn stimulus plan in Europe, leading investors to buy riskier assets. The EUR disregarded a contraction in economic activity in May, indicated by a PMI of 30.5, and continued to appreciate. Over the past month, Sterling has strengthened against the generally weak dollar, however, still ending up with negative monthly return against USD. Moreover, GBP lost ground against the EUR due to several factors, including Brexit-related risks, speculation about negative rates, a lack of progress in EU trade talks and one of the world's worst covid-19 death tolls. Additionally, the Bank of England warned that Britain's economy is unlikely to recover fully from the "searing experience" of the pandemic in the next two to three years, hence further decreasing its appeal to investors. The reference currency has strengthened against the Japanese Yen, driven primarily by the market interest to let go of the safe-haven JPY amid the improvement in risk sentiment.

In Depth – US dollar weak, Yen weaker

The greenback lost ground mid-month. The US dollar fell against the British pound, the Norwegian and Swedish crowns, as well as the Canadian dollar following masses protests racism across the United States and the willingness of investors to increase their risk exposure, weighing on the currency. Protests over the death of a black American due to police violence continue with violent riots in several cities. At least 40 cities have imposed night curfews and 15 US states have mobilized the National Guard. Numerous observers criticize the reaction of the police to the protests. President Trump blames radical left-wing groups, called on the state governors to dominate the protests and threatened otherwise to send the military to "solve the problem quickly". Rivals of the US seize the moment: China accuses Washington of double standards, while Iran calls on the White House to end the "oppression" of its people. Meanwhile, on Friday the policeman in question was charged with manslaughter in Minneapolis. The USD only strengthened against the CNY. The Chinese currency has depreciated steadily lately and reached on 27th of May 7.17 Yuan per USD, the lowest level since last September. At that time, the Yuan was at a 12-year low value. The trigger is likely to be acute international pressure against China during the pandemic and the situation in Hong Kong. Due to the weak CNY/USD exchange rate, the US classified China as a currency manipulator about a year ago, in the middle of the trade war. The assessment was dropped in January.

Our Performance

We currently hold no currency related assets in our portfolio.



Valentina Heimann
Financial Markets Division



Extras

Hot Topic

Is the Stock Market Detached from the Economy?



Henrique Oliveira
Financial Markets Division

"A potential second wave of infections in developed markets and lagged effects in emerging markets are not off the table, which would likely drag down investors' optimism about the recent re-openings of the economy"

When thinking about the stock market, one could think of it as thousands of companies doing business in the economy. Accordingly, one would expect stock prices to reflect the economy's current, or at least short-term future, situation. In other words, if unemployment rates moved up from 3.5 to nearly 20%, GDP contracted by 5% in the first quarter, and investors did not have a clear view on future corporate earnings, the stock markets would, adversely, plummet.

However, that is not what the current scenario depicts. Unemployment rates in the US were indeed as low as 3.5% in the beginning of December 2019, with the S&P 500 at around 3,112. Six months later, a Goldman Sachs estimate puts the unemployment rate to a whopping-Great-Depression level of 21.5%, and the Federal Reserve Bank of Atlanta predicts a drop of 52.8% in GDP for the second quarter of 2020, whilst the S&P 500 is higher than in December, sitting at around 3,123. Similarly, the EU's jobless rate rose to as high as 6.6% in April, up from a 12-year low the previous month, whilst the Stoxx 600 has been steadily growing since the peak of the pandemic outbreak in late March. This disconnection of prices and economy would not make sense to analysts or investors as if we not been living in unprecedented times.

Despite Covid-19's surpassing the six-million-cases mark, an apparent optimism amongst investors seems to be spreading just as much. The S&P 500 is up almost 40% from its lowest level of the year on March 23rd, recovering much of its losses for the year, and standing at only 10% lower than all-time high in February. Brazil's main benchmark index Ibovespa is up as much as 46% from its lowest level in the year, despite the elevated number of cases and the current death toll in the country. Similarly, the MSCI All Country World Index is up 35% for the same period.

Some investors are putting their hopes into the development of new a vaccine in the near term. Others are taking a more macroeconomic view and understand that the recent enormous stimulus packages from central banks such as the ECB and the Fed will have sufficient impact to sustain the economy during the limitations of lockdown. Also, as interest rates have been falling across the world, conversely, asset prices tend to rise. Low inflation also has investors predicting that central banks will keep interest rates at low levels for at least as long as the economy is still recovering from the pandemic effects. Finally, a few investors believe that the stock market already "hit the bottom" in late March. When taking these assumptions into account, even more pessimistic investors are tempted to jump into the recent 50-day bull rally.

Nevertheless, investors should be wary about the fragility of disengagement between the market and the economy. Despite current prices, stimulus, and optimism, changes in consumer behaviour could have everlasting effects in industries such as airlines¹, hotels, entertainment, sports, retail, amongst others. One can better understand this by looking at Sweden's situation. The country did not impose any lockdown or restrictions to its economy, but according to data from its central bank, Sweden's economy will suffer just as much as its neighbours. Moreover, a potential second wave of infections in developed markets and lagged effects in emerging markets are not off the table, which would likely drag down investors' optimism about the recent re-openings of the economy.

Whether it will be a V-shaped recovery or a U-shaped one is yet to be seen, but one thing is sure: investors' optimism seems to be the strongest data the stock market is currently reflecting.

Henrique Oliveira
Financial Markets Division

¹ See "The Impact of Coronavirus on the Airline Industry" in our May Newsletter.

Extras

Hot Topic

Black Lives Matter



Paulina Michel
Investment Banking Division

"These THUGS are dishonoring the memory of George Floyd, and I won't let that happen. Just spoke to Governor Tim Walz and told him that the Military is with him all the way. Any difficulty and we will assume control but, when the looting starts, the shooting starts. Thank you!"

—Donald Trump on Twitter

On 25 May 2020, George Floyd, an African-American man, was killed. He was a victim of police violence. This triggered mainly US-wide, but also worldwide protests and movements against racism and police violence. But not all of these protests were peaceful, but instead turned into riots.

Trump first expressed his sympathy to family and friends. But as soon as the riots began, Trump threatened the protesters via Twitter. It should be noted that Trump was not the first to use the phrase "when the looting starts, the shooting starts" in connection with racism. With these words, the former Miami police chief announced a hard line approach against the black population in 1967.

Trump not only threatened the protesters, but also put pressure on the governors to act more aggressively. According to the tape of a phone conversation with the governors, Trump said: "You've got to arrest people, you have to track people, you have to put them in jail for 10 years and you'll never see this stuff again." In addition, he announced that if a state does not respond correctly in his opinion, he would call in the military to quickly resolve the problem for that state. Trump showed at the same time what he meant by this sentence. Peaceful protesters were driven out with tear gas, although the curfew for Washington was not scheduled until half an hour later.

These quotes and actions were sparking off a controversy. The former defence secretary Mattis wrote "Donald Trump is the first president in my lifetime who does not try to unite the American people — does not even pretend to try. Instead, he tries to divide us".

2020 has been a tough year for Donald Trump, and moreover, it is an important

year since elections will take place in November and these riots and movements against racism could mark a turning point. Currently, in more than 40 national polls, Trump lays behind his opponent, the former vice president Joe Biden. The combination of the ongoing unrests and the failure of the Trump administration to cope with the Covid-19 pandemic will be most likely a setback for the current president. Reason for that is that his political asset used to be the thriving economy. If the protests are going to last longer and stay violent, this will continue interrupting the country's economic resumption plan, and the great economic loss from the coronavirus outbreak would worsen.

Sun Chenghao, assistant research fellow at the Institute of American Studies of the China Institutes of Contemporary International Relations told the Global times on 02/06/2020 that Trump's failure to resolve racial conflicts offers Biden a great opportunity to demonstrate his ability to address such racial conflicts, as his approach is believed to be a softer and more inspiring way.

How the protests will eventually be beaten back in November remains uncertain. Over the past decade, however, many whites (especially Democrats) "have become increasingly conscious of discrimination against black Americans — particularly in the years since Trayvon Martin was shot and killed in 2012 and Michael Brown was shot and killed in 2014", Perry Bacon Jr. said, and probably the killing of George Floyd is likely to reinforce this trend and raise awareness.

Paulina Michel
Investment Banking Division

Extras

ESG Review

ESG after Covid-19: Now More than Ever



Philipp Gall
Financial Markets Division

“The effects of the Covid-19 pandemic this year has made it obvious that the impact investment community is needed to support those most vulnerable to its sometimes devastating consequences”

– Ylva Hannestad, Deputy Head of Group Sustainable Finance at Nordea

The international pandemic has caused unprecedented measures all around the globe. Experts try to define the future of the “new normal” in various disciplines, and so do ESG analysts and pioneers discussing implications for capital markets and corporate strategies. While various business areas might be substantially endangered, there is a rising consensus for a bright future of ESG that is already affecting corporate policies and stock performances.

Naturally, the question that arises is if ESG in times of a pandemic with failing businesses, millions of unemployed and rising indebtedness might just have become too expensive. Yet, the acronym's constituents “Environmental”, “Social” and “Corporate Governance” count now more than ever. We can first focus on the social aspect. “The effects of the Covid-19 pandemic this year has made it obvious that the impact investment community is needed to support those most vulnerable to its sometimes devastating consequences”, Nordea's Deputy Head of Sustainable Finance, Ylva Hannestad, explains. The focus on social matters and the public pressure to contribute to it, will make investors seek for sustainable investments.

Secondly, there is the environmental crisis that increasingly concerns public opinion. When US bank CEOs recently gave their remarks on their corporate's investment strategies, they ramped up pressure on fighting global warming despite or even because of fallouts caused by the Coronavirus. Also, we have seen increasing action of investors on fuel companies and their financiers. This was even backed by the oil-price shock and the need to overcome future dependence of revenues on corresponding volatility. This development is in line with the need of reducing systemic risks that ESG investors and professionals already focus on for several years.

Regarding financial metrics, MSCI ESG indices have outperformed during Covid-19, and recent studies show the lower cost of capital of highly ESG-rated corporates. In the MSCI World index, the cost of capital for the highest rated quintile was 6.16%, while the lowest cost was 6.55%. In addition, their betas, the measure of market or sector-specific risk, were on average lower when they had a high ESG rating. This provides evidence for the “G” of ESG as cost of capital, according to theory, should negatively correlate with high corporate governance standards.

Therefore, we should now think, what to make out of this crisis? Beforehand, there was a huge momentum for environmental and governance issues. Many people fear that the previous efforts in that direction were vanished by the virus. Airlines get bailed out and governments in France and Germany financially support car purchases – even for fossil fuel consuming cars. Several politicians and economists argue that now employment and people count and that other issues simply cannot be handled.

Yet, we have seen a different reality. For instance, there are no restraints of environmental goals by the EU. Investors are still betting on ESG and for those who did, it paid off – so far. We even see bailouts depending on taking environmental measures and an upcoming realization, that this crisis might just be the little brother of the upcoming multinational concern of global warming. Sustainability-themed funds have recorded hundreds of millions of cash-inflows in Q1 2020, while their counterparts saw billions of dollars flowing out. All of those developments should eventually silence ESG critics and make companies aligning their standards. The future of ESG is bright, and there is still a chance to jump on the accelerating train.

Philipp Gall
Financial Markets Division

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Our team:

Investment Banking Division

Paulina Michel
Tobias Berberich
Federico Farina
Alexander Keil
Mariana Nóbrega
Michele Marcaccio
Raphael Salimi
Marina Quintero
Rafael Santos

Financial Markets Division

Corina Popa
Francisca Fernandes
Henrique Oliveira
Maxime Hoze
Patricio Drexhagen
Valentina Heimann
Philipp Gall
Benedetta Laruccia

Email us at:
nic@novainvestmentclub.com

Design by: Carmo Cunha e Sá

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