# The NIC Fund
Student-run Virtual Fund - March

March 2014

Nova Investment Club

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## 1. Market Outlook

During February, the S&P 500 had a positive return of 4.31% and it was trading at 1860 by the end of the month. Investors seem to have reacted positively to Janet Yellen's speech, in which it was stated that the recent data on the US economy, which turned out to be below consensus expectations over the last few months, was due to poor weather conditions. Relatively to the US job market, some economists have estimated a decrease in the level of unemployment that can reach 6.5%. This level is particularly important since it was appointed by the FED as the threshold that could mark the beginning of a cycle of rising interest rates, which are at historically low levels, and further tapering.

On the other side of the world, the actual situation in Ukraine is concerning global investors. With a lot of uncertainty regarding the country's future, investors are very sensitive to any rumors and they have been investing in gold, a traditional safe haven in times of political crises. Since the beginning of the year, gold is rising and it is now up by more than 12%, after a severe decline in 2013. For the markets, the worst case scenario would be a Russian military intervention on a large scale, as it could trigger a reaction of the military forces loyal to Kiev. This kind of scenario would not only destabilize the Eastern countries but would also have a negative impact on the political relations between Russia and the Western countries, which would be dramatic. However, the Russian President Vladimir Putin recently said that there is no immediate need to send troops to Ukraine, which can attenuate the negative effects on the financial markets.

In China, contrasting actions are being taken by its monetary authorities. The effort to regulate the shadow banking industry has deteriorated credit conditions and money market rates have increased to reflect uncertainty. At the same time, credit facilities remain abundant as fears of economic slowdown detained the authorities from abruptly reducing credit supply. Moreover, with its economic slowdown becoming evident by the decrease in the manufacturing index, The People's Bank of China is expected to widen the trading band of the Yuan.

As for Argentina, recent student riots are evidence of the unsustainable economic situation. After having devalued the peso by the most in 12 years, Argentina is now raising deposit rates to 24.6% as a way to boost demand and avoid the erosion caused by the 28% inflation rate. CDS data shows that investors perceive a default as very likely to happen in the next five years.

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Source: Bloomberg (as of 28.02.2014)

## 2. Fixed Income, FX and Commodities

### EURUSD short, still

- Since last month's report the EURUSD rose around 1% (against my position), but I believe the outlook remains the same. There have been some sluggish figures from the US, as the Unemployment Claims in the13th, 20th and 27th of February were a bit higher than expected (339K, 336K and 348K respectively). In Europe, the main news of this month were that yearly inflation was actually higher than expected, at 0.8%
- Fundamentals: Even though fundamentals moved in the opposite way, I believe the change was not sufficient. The US seems to have been affected by the severe weather in some states, from which it should recover soon and Europe is experiencing a serious conflict in Ukraine which I believe will impact negatively the economy throughout May, bringing back the expectations of a possible rate cut by the ECB.
- Technical: The pair broke the downward channel resistance but still is below the main resistance level at 1.38. I will maintain my position unless it consistently moves above the 1.38 area.

Analyst: Bernardo Câncio
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Trade Summary:
Short 100% EURUSD

Asset Class: FX
Region: Europe; US

### Emerging Markets' malaise

- The numbers are out and the deflation fears in the Euro Area became more evident with the failure of the ECB to create inflationary pressures. Deposits held by the banks at the ECB seem to be increasing and demand for credit has remained low. Money is not reaching the real economy. Instead, companies took advantage of low rates to repurchase stock or refinance long term borrowing. Investment is at the lowest rate since 2007 and growth perspectives are vague. Having said this, further economic stimulus is expected from the monetary authorities which will put downward pressure on the Euro. In the US, a weak but steady growth will imply a continuous reduction in the asset purchasing program of the Fed and, as a result, the US dollar is expected to appreciate against the Euro.
- Regarding last month's idea that the spot price of gold would increase, I will maintain my bullish view given the rising uncertainty levels. Emerging markets are still shaky due to Chinas' growth perspectives and Argentina's possibility of default.

Analyst: Gustavo Ferreira
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Trade Summary:
Short 50% EURUSD
Long 150% Gold

Asset Class: Commodities
Region: Europe; US



Source: Bloomberg (as of 28.02.2014)

## 2. Fixed Income, FX and Commodities

### Short Copper futures and Long PGB's

- Last month's investment in Portuguese debt has shown to be the correct decision as yields have decreased, as has the spread between the yields of the Portuguese and Irish bonds, meaning that Portugal is clearly being able to follow Ireland's lead in economic recovery and access to financial markets: Fundamental signs that the economy is now under full recovery are increasingly evident, with the 4th Quarter YoY growth achieving the highest value of the Euro Zone, 1.6%. The market seems to be progressively incorporating this view, as both the issue of a 10y bond and the buyback of bonds maturing in October 2014 and October 2015 were a clear success, indicating that there is increasing demand for Portuguese debt. Again, the 5 years maturity has the most potential and for that reason we will allocate 50% of the investment on the 5 years note and 25% each on the remaining 2 bonds.
- Although the short on the Taiwanese Dollar through a long position on the USDTWD pair did not yield the expected results, with the currency appreciating at an annualized rate of 0.66% in February, we still strongly believe that growth in China is set to suffer an inevitable deceleration. The signs are increasingly clear, with HSBC's Composite PMI falling below 50 for the second time in the last 8 months. The scenario of a corporate default is also becoming more likely, with the spotlight currently on the Chaori Solar bond due on Friday the 7th. Such corporate default would be the first to ever occur in Communist China, forcing investors to price in this new possibility, thus driving interest rates up, which would have a clear negative effect given the size of the corporate debt market. On the other hand, there is the relatively widespread belief that the substantial growth in exports is mainly explained by over-invoicing, in an effort to go around the country's strict capital controls. A deceleration of growth in China would have an immediate impact on the world's economic growth, which would in turn severely affect demand for copper, given its widespread applications in most sectors of the economy. This effect would be exacerbated by the fact that China is currently the largest consumer of copper, which makes its price particularly vulnerable to Chinese economic growth.

Analyst: João Madeira
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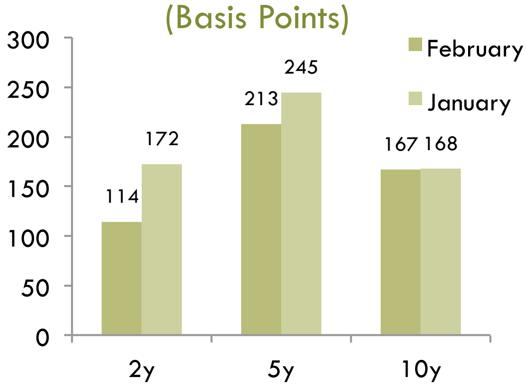
Trade Summary:
Long 75% 5Y PGB
Long 37,5% 10Y PGB
Long 37,5% 2Y PGB
Short -50% Copper

Asset Class: Commodities; Fixed Income
Region: U.S; Europe

PT-IRL Yield Spreads (Basis Points)




### Short Russian Ruble and Long Natural Gas and Coffee

- Since the Ukrainian crisis caused historically high Natural Gas, driving prices upwards, the long position in Natural Gas should be maintained.
- The Ukrainian crisis also means a hard hit for the Russian economy. The Russian ruble is falling (down to a record low of below 36.4 to the dollar on March 3). The impending sanctions and escalating conflict, coupled with an already weak ruble (the currency has already lost 10% of its value since the beginning of the year) make it a good time to sell.
- On the other side of the spectrum for extreme weather, the Brazilian drought, which is affecting regions such as São Paulo and Minas Gerais, is affecting the price of Coffee. Due to the fact the 37% of expected rainfall in December and the 50% in January, coffee production was 60% below normal February levels, a period considered to be of the highest growth. It is a good time to go long.

Analyst: Mariana Sampaio e Mello
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Trade Summary:
Long 50% Natural gas
Long 50% Coffee
Short 100% Russian Ruble

Asset Class: Commodities

Source: Bloomberg (as of 28.02.2014)

## 2. Fixed Income, FX and Commodities

### Bond rally in Europe

Analyst: Rodrigo Lameira
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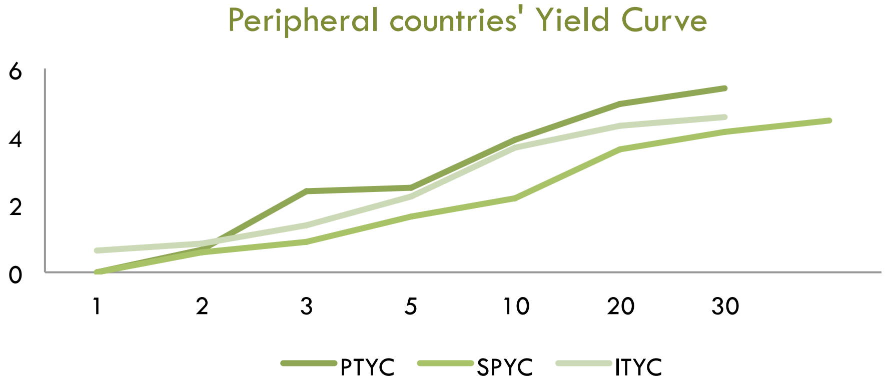
Trade Summary:
Long 20% 10Y PGBs
Long 20% 5Y SPGBs
Long 25% 5Y SPGBs
Long 10% 5Y BTPs
Long 10% USDCAD

Asset Class: Fixed Income and FX
Region: Europe and U.S

- Within Eurozone, Portugal and Spain have been the best performing markets since the beginning of the year (12.2% and 5.5%, respectively). Markets are recognizing that growth is improving in the periphery, fiscal balances corrections are on a good track and investors are getting confident. The uncomfortably low inflation in Europe is increasing my expectations of a further easing by the ECB. Therefore, I remain bullish on peripheral sovereign bonds: Portugal, Spain and Italy. Again, I believe 5-year maturity bonds are the ones that best match investors' horizon, so from a risk/reward perspective shorter maturities are a more interesting investment.



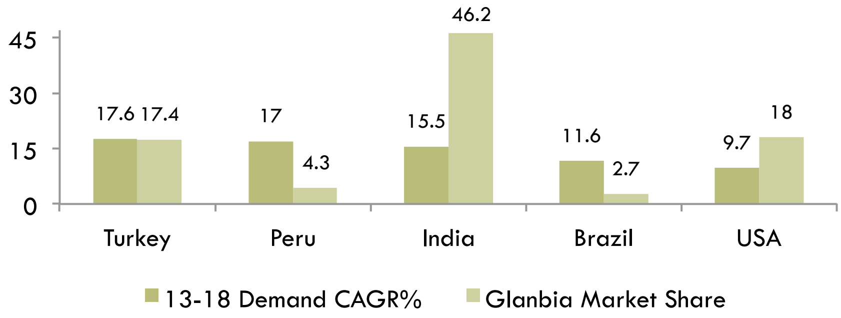

- Despite the series of below expectations numbers out of the US, Janet Yellen speech last week supported the view that the Fed is likely to continue tapering its QE program in March. I believe that a further trim to the QE program is bullish for the US dollar and would be an important signal for investors regarding the Fed's expectations for future US economic performance.


Source: Bloomberg (as of 28.02.2014)

# 3. Equities

## Profiting from a healthier world

- Not only are obesity rates rising in most countries but people are also becoming increasingly more concerned about their health. Glanbia is an Irish company that focuses on performance nutrition and ingredient solutions. It is highly specialized in the sports nutrition area that represents 16% of the company's revenues and, as the demand for lactose and protein increases, its ingredient sector ( which accounts for nearly a third of the company's revenues) is set to prosper. Moreover, according to data provided by Passport, Glanbia is very well prepared to capture the pickup in Sports Nutrition. Passport forecasts that Sports Nutrition growth will be higher in Turkey, Peru, India, Brazil and in the US and Glanbia has very significant market shares in most of the above.




Analyst: Artur Silva
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Trade Summary:
Long 12% ATVI US
Long 12% CSCO US
Long 12% DPW GY
Long 12% GOOG US
Long 12% SAP GY
Long 12% GLB ID

Asset Class: Equities
Region: U.S and Europe

## Waiting for the American numbers

- There will be no changes in the portfolio. The focus this month will be on the data releases concerning the American economy, more precisely the jobless claims that did not show much improvement over the last month, the industrial production should also be followed closely, since it is likely to influence the portfolio and it will be interesting to see if there are any improvements or if it will follow the downward trend. Furthermore, depending on the numbers, the Federal Reserve might pause or adjust the tapering program that it is conducting.

  From a company's perspective , 3M is potentially selling some of its electronic units. This is in line with the restructuring behaviour within 3M, translated in a cut of costs and a focus on profitable units of the business. Essentially, 3M will likely become active in the M&A spectrum in order to undertake the restructuring, which will affect the stock's price evolution over the foreseeable future.

Analyst: Bosco Olazabal
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Trade Summary:
Long 10% F US
Long 20% DFT US
Long 15% PM US
Long 18,33% GE US
Long 18,33% MMM US
Long 18,33% HON US

Asset Class: Equities
Region: U.S and Europe


Source: Bloomberg (as of 28.02.2014)

# 3. Equities

## Overweighting Techs

- Given last month performance, I will hold AAPL and I will sell BIDU. After having a return of about 15% on Baidu.com I believe it is right time to do it. This month I will invest in two companies, General Motors and LinkedIn. Currently GM is valued at $37 a share and it is trading at 10x this year's expected earnings, which is lower than the overall market multiple (~15x). Additionally, General Motors is having an outstanding performance in China with its sales growing 20% YoY and is also investing heavily in this market, with plans to introduce 19 new or refreshed models in 2014. In USA it is expected that auto sales will increase this spring, benefiting GM. Therefore, I am going long GM this month.

- LinkedIn is expanding and will launch its Chinese version. In order for them to be successful LinkedIn will take extensive measures to protect member data and restrict some content in order to ensure that it sticks to the government's censorship regulation. This is a great opportunity to expand, since the English version already attracted 4 million Chinese users. China has an internet penetration of 42.1% and it is growing at a rate of 9.9% every year. The company has a great future outlook and also enormous expansion opportunities in China, making me believe it is a good investment. I am going long on LNKD.

Analyst: Filipe Lopes
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Trade Summary:
Long 40% AAPL US
Long 30% GM US
Long 30% LNKD US

Asset Class: Equities
Region: U.S

## Exploring Europe's upside

- Given the amazing performance of BES PL stock during February with the stock rallying almost 30%, we consider this is a point for profit taking. Under such reasoning we will sell half of the position and place a stop profit on the remaining shares at €1,35.
- Considering our view regarding the upside for European equities for 2014, Jerónimo Martins is one of the best positioned European food retailers, with an increasingly dominant market share. From the last earnings release we highlight the increase in competition in Poland (which contribute with more than 60% of the company's EBITDA). JMT PL is now trading around €12,10 (close to one year minimum). However, we consider that this is an opportunity to "buy on the dips" an excellent performer on the food retail industry and which is also successfully expanding its business to Colombia.
- We still believe that VOW is an interesting stock to pick at these values. Cyclical industries such as the automotive one tend to outperform under the expected global economic rebound. The biggest European automaker has a very interesting mix of market products (Audi, Seat, Bentley Ducatti, MAN, among others) and with a major presence in Europe and China, Volkswagen appears to be a very interesting pick under these circumstances. Moreover the stock is trading at a discount comparing with its peers: P/E= 9,70 vs. Industry average P/E= 13,84 and a P/B= 1,05 against the P/B= 1,48 of the industry's average. So, given the weak start of the in 2014, this appears to be an excellent opportunity to buy cheap a stock that will certainly be leading gains this year.

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Trade Summary:
Long 25% BES PL
Long 25% JMT PL
Long 50% VOW GR

Asset Class: Equities
Region: Europe



Source: Bloomberg (as of 28.02.2014) 

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