Newsletter

January 2016

Contents

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Index

Investment Banking Report

January

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Companies
- Goldman Sachs
- Alibaba
- Boeing
- Pfizer
- Samsung
- Bridgestone
- Semapa
- Galp
- Teixeira Duarte

This month's detailed company reviews:
- Chipotle Mexican Grill
- Nokia

Table of Contents

1. Macro Overview

The month of December was defined by an historical FED meeting where Ms Yellen, chairwoman of the Fed, propounded that conditions in the US economy were sufficiently strong to warrant a tightening of monetary policy, raising the federal funds target rate by 25 basis points. The move marked the first time that US policy rates had increased since before the global financial crisis of 2008–2009, and it had been widely expected following another month of robust economic data from the US.

Prices for global commodities kept the downward trend from last month, hampering the economies of those countries most reliant on this revenue source. The most visible example was oil, with the Organization of the Petroleum Exporting Countries (OPEC) failing on December's semi-annual meeting to reach an agreement on any new production targets. This raised the possibility of further price weakness as its members seek to maintain market share.

Expectations of higher exports and production from Iran in 2016, when sanctions against the country are expected to be lifted, were thought to have hampered negotiations at the meeting over raising OPEC's existing output target. This event reinforces a new world paradigm for commodities that may help some economic areas such as the EU to recover, giving a new impulse to the region's industry.

As expected, at the start of December the European Central Bank (ECB) further eased monetary policy to bolster the region's weak recovery - the ECB confirmed that it would lower the deposit rate even further into negative territory, with a cut of 10 basis points to -0.3%, a move designed to maintain pressure on the region's banks to lend more.

Additional ECB decided to broaden its asset purchase program to encompass more municipalities. The decision was aligned with investors demand, asserting that the QE in the eurozone was limited regarding the availability of German Bunds for purchase and regional municipalities. The ECB program appeared to be designed to address that constraint from now onwards.

China's market was still under a lot of stress, particularly in this past week when transactions had to be halted for a couple of times because of severe losses. In more positive news the IMF announced that it would include the renminbi as the fifth currency present in the SDR basket. The move was interpreted as a vote of confidence in China's ability to push through deeper economic reforms.

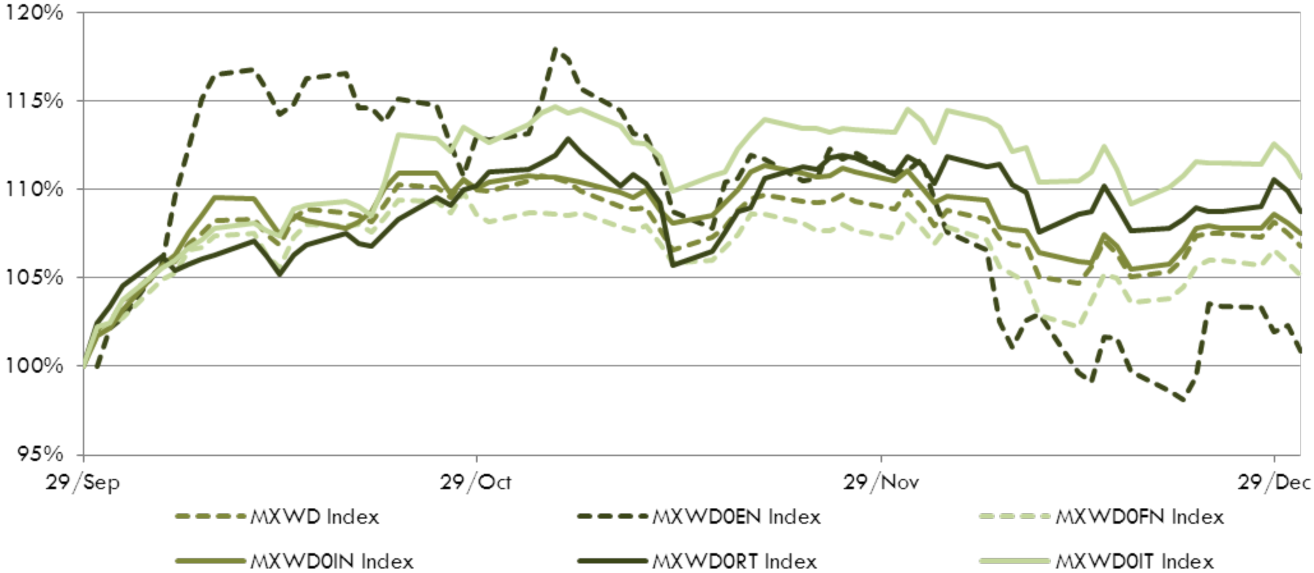
A small note goes to Brazil that is still strugling to face the new oil prices as well as dealing with the "Lava Jato" curruption scandal that has involved several high ranked politicians. With the Olympics just around the corner, there is some expectation that it may be the last life vest before the ship sinks. Some analysts already expect growth to dissapear until the beginning of 2017.

Countries' Economic Data

Country	December Inflation (%)		Exchange Rate		Unemployment Rate (%)		10 Year Yield	
	MoM	YoY	USD	Monthly Change (%)			Current (%)	Montlhy Change (bp)
United States	0.00	0.50	1.0000	-	5.17	Q4	2.204	-7
Eurozone	-0.10	0.20	1.0796	-0.78	10.83	Q4	0.565	-11
Portugal	-0.20	0.64	1.0796	-0.78	11.90	Q3	2.553	7
Japan	-0.30	0.30	0.0084	3.10	3.37	Q4	0.262	-8
Greece	-0.80	-0.74	1.0796	-0.78	24.73	Q3	8.158	-8
Russia	0.80	12.90	0.0137	-7.02	5.27	Q4	n/a	n/a
China	0.00	1.50	0.1530	-2.05	4.05	Q3	n/a	n/a
Brazil	1.01	10.48	0.2461	-7.65	7.57	Q4	n/a	n/a

- As shown in the table above, almost all economies had a decrease in their 10 Year Yield. Portugal was the exception with an increase of 7bp. GDP growth in Europe decreased from 0.40% to 0.30%, loosing momentum over Q3. The stimulus added by the ECB was less than the market expectations which led to a negative change of the 10 Year Yields.
- Brazil GDP fell by 4.50% (YoY) in the third quarter and as a consequence, unemployment increased and inflation decreased, which currently are at 7.57% and 10.48% (YoY), respectively. It is the first time since 2002 that inflation is above 10%. The decrease in GDP is mainly explained by the decrease in commodity prices, fiscal contraction and the declining of consumer credit boom. Moreover, the scandal of corruption at Petrobras also impacted the financial services industry.
- Regarding the currencies, it is possible to observe that only Japan appreciated against the USD. The Russian ruble and Brazil real were the ones that depreciated the most with decreases of 7.02% and 7.65%, respectively. Russia is now experiencing its first recession since 2009.

Sectors' Overview



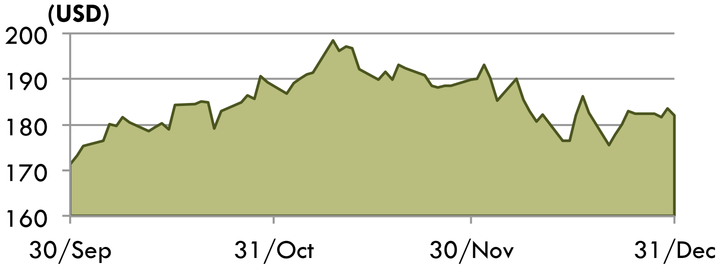
- Overall, sector indexes showed a decreased during the first weeks of the month of December, although they also showed a sharp increase in the second half of the month. The Technology Index (MXWD0IT) outperformed the other indexes. The Retail Index (MXWD0RT) also had a great performance.
- The MSCI World Energy Index (MXWD0EN) had significantly decreased during almost all month due to the low prices of oil. Oil prices have been decreasing due to the slowing growth of China and it has constantly decreased for almost two years.

Source: Bloomberg (as of 31.12.2015)

2. Followed Companies

Goldman Sachs
(Ticker: GS US Equity)
Industry: Financial Services

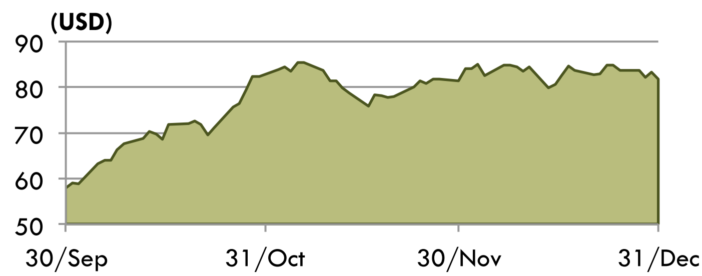
- Goldman Sachs has ended 2015 as one the top investment banks in the world. It is also the leader in the global M&A transactions ranking having performed USD 1.80 tn worth of transactions.
- Furthermore, it has closed 394 deals in 2015, the highest number of transactions with 36% of market share in the M&A sector.
- The bank reported net revenues of USD 6.86 bn and net earnings of USD 1.43 bn in the third quarter of 2015. Net Revenues in the Investment Banking Division were USD 1.6 bn for the third quarter of 2015, 6% higher than the third quarter of 2014.
- Operating Expenses were USD 4.82 bn, 5% lower than the third quarter from 2014.



Price (USD): ↑	180.23
Target Price (USD):	210.00
Up/downside:	16.5%
Performance 3M:	2.7%
P/E Ratio:	9.1x
ROC/WACC:	0.6x

Alibaba Group
(Ticker: BABA US Equity)
Industry: Retail

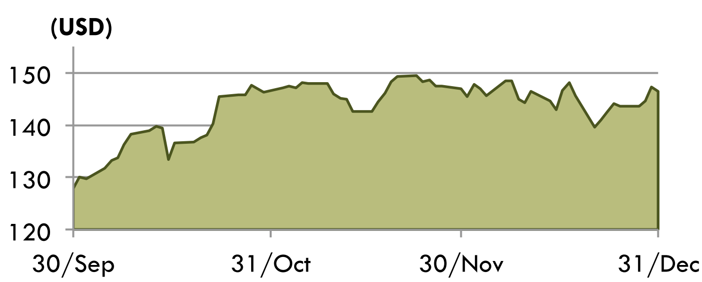
- Alibaba Group has around 34,000 employees, 10,000 of which are involved in China's marketplace. It reached USD 394 bn annual gross merchandise volume in 2015, an increase of 6% when compared to 2014, the year the company went public.
- In 2015 the company reached 350 million active buyers, which allowed them to reach USD 12.3 bn in revenues. Alibaba has a YoY revenue growth of 45%.
- The company delivered more than 24 million packages on a daily basis in 2015, which were handled by more than 1 million delivery personnel. In 10 years, they expect this number to increase to 10 million.



Price (USD): ↑	81.27
Target Price (USD):	95.00
Up/downside:	16.9%
Performance 3M:	38.0%
P/E Ratio:	63.5x
ROC/WACC:	1.0x

Boeing
(Ticker: BA US Equity)
Industry: Aerospace

- Boeing reported strong third quarter results, mainly due to the increase in revenues by 9% to USD 25.8 bn when compared to 2014, which reflect record commercial airplane deliveries. Also, Defence, Space & Security Division, operating margin increased by 10%, showing strong performance in this sector.
- The solid operating performance across Boeing's main sectors allowed Earnings per Share to increase from USD 2.14 to USD 2.52 an 18% increase when compared to last year's results.
- The operating cash flow in the third quarter amounted to USD 2.9 bn.



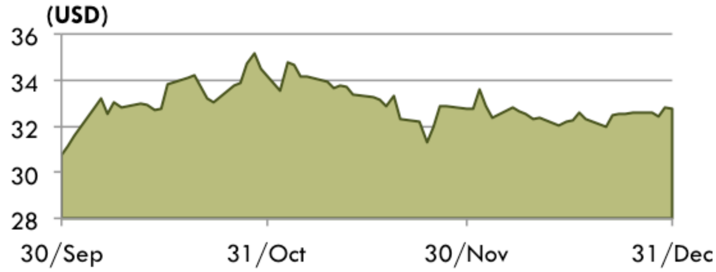
Price (USD): ↑	144.59
Target Price (USD):	167.00
Up/downside:	15.5%
Performance 3M:	11.4%
P/E Ratio:	15.8x
ROC/WACC:	1.4x

Source: Bloomberg (as of 07.01.2016)

2. Followed Companies

Pfizer Inc.
(Ticker: PFE US Equity)
Industry: Biotech & Pharma

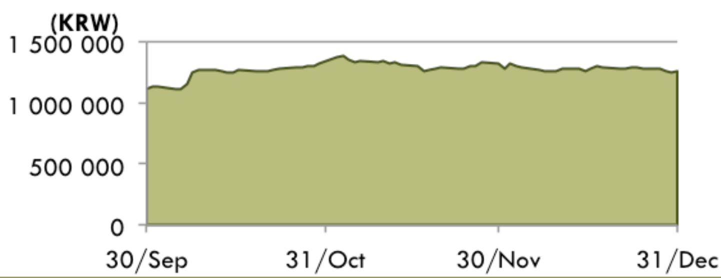
- Though Pharma deals in 2015 were disappointing, Pfizer is taking over Allergan in a USD 160.0 bn deal. The deal is moving Pfizer's tax base to Ireland, and according to Financial Times "is likely to generate a one-off earnings windfall" up to USD 21.0 bn and therefore avoid the heavier US tax billing system.
- Pfizer closes 2015 with a dividend yield of 3.7% and with a consensus analyst price target of USD 39.00 and a 52-week trading range of USD 28.47 to USD 36.46.
- The company presents a promising pipeline for 2016 as it has announced that it is starting twenty clinical trials this year to overcome cancer, which add to the eight approved cancer medicines, four of them launched in the past four years.



Price (USD):	↑	32.28
Target Price (USD):		39.00
Up/downside:		20.8%
Performance 3M:		2.2%
P/E Ratio:		17.5x
ROC/WACC:		0.7x

Samsung Electronics*
(Ticker: 005930 KS EQUITY)
Industry: Technology

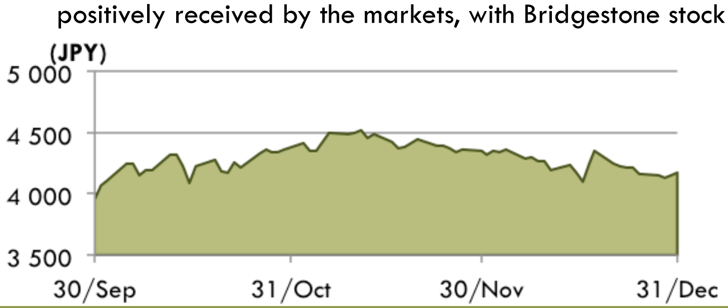
- 2016 is expected to be a difficult year for Samsung. As reported by Reuters, Mr. Kwon Oh-hyun, Samsung's CEO, gave a New Year's address stating that the weak global growth and increased competition in key segments will be problematic for the company in 2016.
- According also to Reuters, Samsung's mobile-payment service will allow its US users to do online shopping in 2016. Samsung Pay which will be also offered on lower-priced phones is the most popular mobile-payment service in the US because it can be used with both old- and new-generation payment terminals and does not require any extra equipment purchases by retailers according to Thomas Ko, global co-general manager of Samsung Pay.



Price (KRW):	↑	1 260 000
Target Price (KRW):		1 650 000
Up/downside:		31.0%
Performance 3M:		11.1%
P/E Ratio:		8.1x
ROC/WACC:		0.8x

Bridgestone Corp.
(Ticker: 5108 JT Equity)
Industry: Automotive (Auto-Parts)

- According to Bloomberg, the activist investor Carl Icahn has raised his bid for the auto-parts retailer Pep Boys to USD 18.5 a share, or more than USD 1.0 bn, representing the end of the bidding war with Bridgestone whose latest and last offer was of USD 17.0 a share.
- Icahn's investment firm also agreed to pay Bridgestone a USD 39.5 mm termination fee on behalf of Pep Boys, since the company had first agreed to be bought by Bridgestone.
- A concern of Bridgestone's shareholders, according to Kosuke Matsuda, analyst at Haitong, was that buying Pep Boys could drag down Bridgestone's margin in the U.S. (more than 10.0% vs. Pep Boys's 1.3%). Moreover, the company's withdrawal from Pep Boys race was positively received by the markets, with Bridgestone stock appreciating 0.4%.



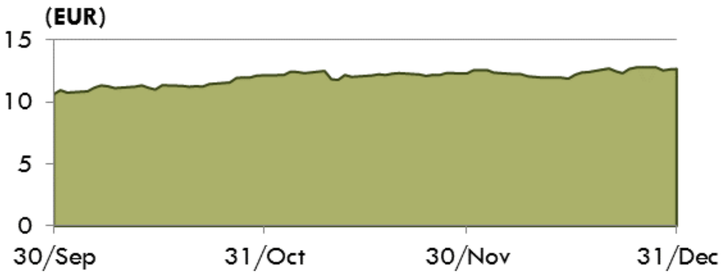
Price (JPY):	↑	4 174
Target Price (JPY):		4 875
Up/downside:		16.8%
Performance 3M:		1.5%
P/E Ratio:		11.3x
ROC/WACC:		1.1x

Source: Bloomberg (as of 07.01.2016; * Samsung Electronics Co. Ltd.

2. Followed Companies

Semapa
(Ticker: SEM PL Equity)
Industry: Industrial Products

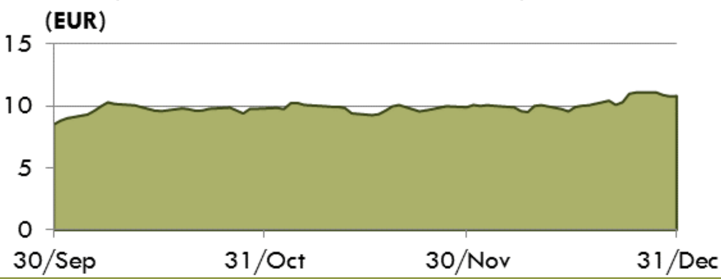
- One of the biggest Portuguese industrial companies, Semapa, reported negative results mainly because of the increase in taxes.
- In November, the change of the CEO was approved by assembly. Moreover, the company´s capital decreased after a repurchase of its own shares.
- However, the company increased their production capacity of paper Tissue by constructing a new factory in Brazil and one of the Semapa's subsidiary, Portucel Soporcel, open two plants in Portugal that totaled EUR 95.3 mm. This led to raise 6% of their volume of business to about EUR 1.6 bn and to an increase in debt of EUR 405 mm. It is expected that sales increase in the medium to long-term.



Price (EUR):	12.7
Target Price (EUR):	17.95
Up/downside:	41.4%
Performance 3M:	18.2%
P/E Ratio:	13.4x
ROC/WACC:	1.3x

Galp Energia
(Ticker: GALP PL Equity)
Industry: Oil & Gas

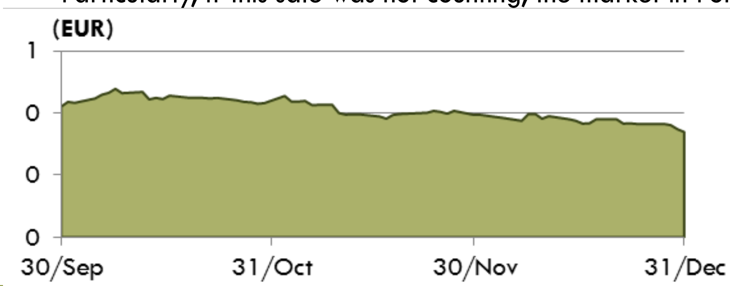
- Galp Energia recorded the sale in Gas of EUR 72 mm mainly due to the increase of trading. The refining margin rose to USD 6.7/boe after the recovering of refining margins in the international markets. However this margin is almost half when compared to the same period of the last year.
- One of the biggest strategies of the company was to invest EUR 253 mm in exploration and production activities. The latter occurred mainly as several operations taking place in Brazil. This country represents 86% of total production to the company.
- Despite the decrease in oil prices, the consumption in Iberian market increased by 2.4% mainly because of the economic recovery.



Price (EUR):	10.72
Target Price (EUR):	11.95
Up/downside:	11.5%
Performance 3M:	19.1%
P/E Ratio:	n/a
ROC/WACC:	-0.2x

Teixeira Duarte
(Ticker: TDSA PL Equity)
Industry: Construction

- Teixeira Duarte reported increasing results in the last quarter, reaching more EUR 17,000 compared to the same quarter in 2014, due to difference in exchange of other currencies and the acquisition of "TEGAVEN" (construction company in Venezuela). Revenues increased by 12.6% mainly because of their operations in Angola and Venezuela are having a positive impact on business.
- By contrast, the company lost about EUR 10,000 regarding their participation in BCP. Moreover, the volume of business decreased about 14.4%, since they alienated their participation in a company that transacted liquid fuels in Portugal.
- Particularly, if this sale was not counting, the market in Portugal increased by19.6%.



Price (EUR):	0.31
Target Price (EUR):	n/a
Up/downside:	n/a
Performance 3M:	-27.5%
P/E Ratio:	7.5x
ROC/WACC:	2.7x

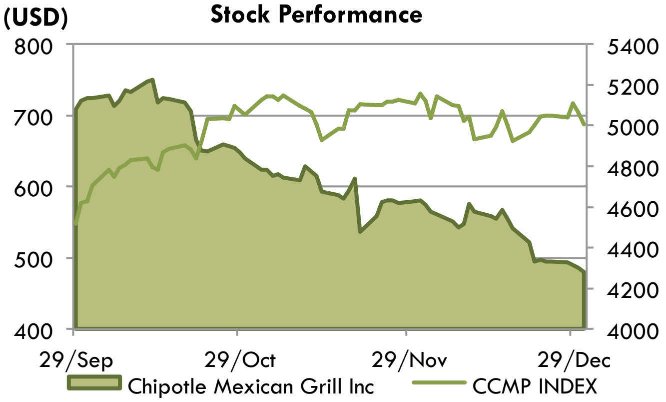
3. Detailed Review – Chipotle Mexican Grill

Company Overview

- Chipotle Mexican Grill Inc. (CMG:US) opened its doors for the first time in 1993 under the command of Steve Ells. Since then, it has expanded to over 1,900 locations spread across the USA, UK, Germany and France. Chipotle mainly serves tacos and burritos and prides itself of "putting the food back in fast food". The fast food chain itself defines its unique selling point as its ability to serve "food with integrity", which is essentially the use of fresh ingredients that are free from artificial additives.
- However, a recent outbreak of E. Coli and norovirus found in ingredients has completely jeopardized Chipotle's promise of continuing to confect an ethical and high quality menu. It was forced to close several of its restaurants in order to fully sanitize all equipment and eliminate any traces of these contaminants in its foods. Several customers were even hospitalized with acute food poisoning symptoms.
- In light of these events, Chipotle's previously constructed corporate image of a salubrious fast food chain may have been irrevocably tarnished as more and more people associate hospitalization with its services. As customers began to lose their appetite, Chipotle's stock quickly lost its balance as it plummeted from a price of over USD 700 in late September to a considerably lower value of USD 480 towards the end of December.
- Prior to the incident being first reported in late October, Chipotle showcased impressive annual growth rates with its shares normally rising around 30% a year between 2006 and early 2015. Chipotle's stock was erstwhile known to provide an almost epicurean appeal to most of its investors through its elevated profitability and operating margins of approximately 15%.
- Chipotle affirmed that its fourth quarter sales in 2015 would be around 10% lower than sales from around the same time during the previous year.

Corporate News

- According to the restaurant index of the S&P500, Chipotle was ranked the stock with the overall weakest performance within its industry in 2015, with Starbucks leading the group with an almost 50% growth rate and McDonald's trailing right behind with a solid 30% figure. The principal cause behind Chipotle's lagging position with an approximate -30% growth is of course attributed to its viral outbreak.
- The stock performance graph below is a clear roundup of how investors were left with a very bitter aftertaste immediately after hearing about the earliest contamination incidents that first began in late October 2015. The stock price has not managed to recover ever since as it continued to slip in the succeeding months. By the end of 2015, it had fallen below the USD 500 mark.
- Co-CEO and founder Steve Ells reacted by vowing to reinforce hygiene measures and promised to make Chipotle the "safest place to eat". Since then, the company has developed an enhanced food safety program with the help of IEH Laboratories that should theoretically allow the fast food chain to ensure the highest possible cleanliness of its establishments and quality of its ingredients.
- Chipotle Mexican Grill has clearly managed to "go viral", but perhaps in a far more literal sense than it had originally intended.



Chipotle Mexican Grill Inc (USD)	
Current Price (31/12/2015)	479.85
52-week high % change	-36.7%
Median Target Price	567.96
Market Capitalisation (mn)	14031
Return on Common Equity	24.6%
Dividend Yield	n/a
Beta (vs. CCMP INDEX)	0.0x
Total Debt/Equity	0.0%

Source: Bloomberg (as of 31.12.2015)

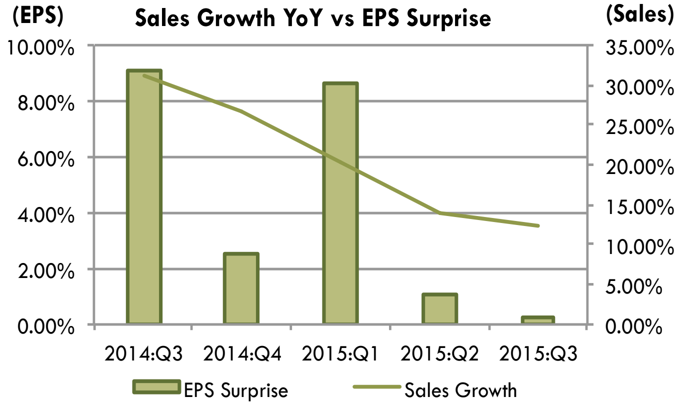
Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Chipotle Mexican Grill Inc	US	USD	14,031	13,059	26.5x	22.1x	4.7x	5.8x
Yum! Brands Inc	US	USD	30,804	33,228	23.6x	16.7x	2.8x	16.9x
Starbucks Corp	US	USD	86,311	87,049	35.3x	19.2x	4.5x	14.8x
McDonald's Corp	US	USD	107,048	122,586	24.3x	12.3x	4.1x	12.9x
Darden Restaurants Inc	US	USD	8,033	8,374	18.9x	9.0x	1.1x	4.0x
Brinker International Inc	US	USD	2,805	3,868	14.9x	9.2x	1.4x	n/a
75th Percentile					26.0x	18.5x	4.4x	14.8x
Median					**23.9x**	**14.5x**	**3.5x**	**12.9x**
25th Percentile					20.1x	10.0x	1.7x	5.8x

- For the comparable analysis a group of American food service and fast food companies were selected. The most notable being McDonald's, the world's largest chain of fast food restaurants. Other companies include Yum! Brands which is comprised of several well known brands such as Pizza Hut, Taco Bell and KFC and the world's largest full service restaurant company Darden Restaurants that owns Olive Garden and LongHorn Steakhouse among others.
- Analysis of Chipotle's ratios shows they are slightly higher than the industry medians. The P/E, EV/EBITDA and EV/Sales are all above the median values which suggests that Chipotle is an overvalued company. This overvaluation is further enforced by comparing to the 25th Percentile values.
- In past years Chipotle's high valuation could be justified by its fast growth and opening of a large number of restaurants across the United States and Europe while targeting the emerging market segment of healthy fast food. However, recent troubles with food borne illness are hurting the company's sales and more importantly the brand image of "food with integrity". The damage to the brand name could be a long lasting effect and lead to the perspective of Chipotle being highly overvalued.

Earnings Analysis

- Chipotle's sales have been declined since mid 2013 down almost 20% in the third quarter of 2015 compared with the same period in 2014. Contributing factors include supply chain problems and the brand novelty wearing off as many of Chipotle's competitors have introduced healthier menu items to compete in this area of changing consumer tastes.
- It can be expected that with the recent developments, regarding their food safety and a federal subpoena being raised against norovirus cases in their California restaurants, Chipotle's sales will continue to hurt.
- Chipotle's stock price has been trending downwards with mostly negative changes in the stock price after quarterly earnings announcements. Chipotle is continuing to mostly grow sales by opening new restaurants but is falling short in the one key metric of same store sales.



	Change in price after	
Quarter	2 Days	1 Week
2014:Q3	-6.74%	-3.51%
2014:Q4	-5.13%	-9.06%
2015:Q1	-6.65%	-6.29%
2015:Q2	7.05%	7.88%
2015:Q3	-7.37%	-8.20%

Source: Bloomberg (as of 31.12.2015)

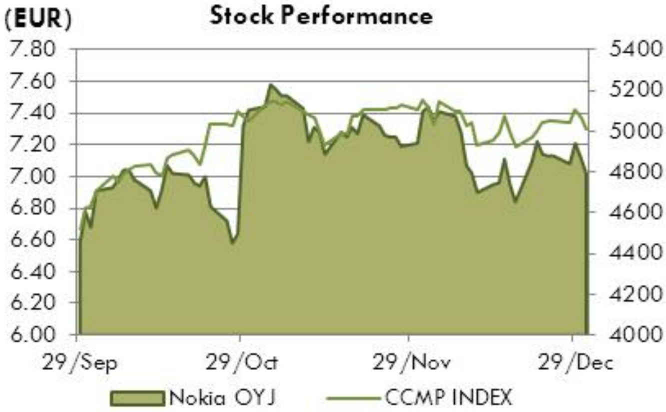
3. Detailed Review – Nokia

Company Overview

- The Finland based company Nokia (Nok) is a global communications company that operates in a network of product facilities in 4 main segments: Mobile Broadband, Global Services, HERE, and Nokia Technologies. For a period, Nokia was the largest vendor of mobile phones in the world, controlling 40% of the market in 2007, but due to its slow development of the smart phones technology, it was quickly overshadowed by the growing dominance of Apple's Iphone and Android devices. Recently Nokia has been primarily focused on its telecommunication infrastructure business, after having sold its unprofitable mobile phone business to Microsoft in 2014.
- Nokia has recently announced the closing of its initial offering to acquire the French rival Alcatel-Lucent for EUR 15.6 bn. This acquisition, will double Nokia's size and make it one of the biggest producers of network equipment as well as give it a greater scale in the global wireless equipment market and expand its product line, bringing more exposure to the cloud. These segments will allow the company to compete more efficiently with large system integrators such as Ericsson and Huawei.
- Nokia raised the 2015 operating margin outlook for its network division to the high-end of its long term target 8-11% vs its prior guidance near the midpoint of this range. The change reflects the positive impact from cost cuts, the timing of certain network deployments and the effect of seasonally strong wireless carrier capital spending in the 4th quarter. This suggests Nokia is executing well and remains focused on profitable deals, despite stiff price competition from Chinese providers. Over the last six months of 2015, Nokia's shares have picked up 5.3%, reflecting its good performance.

Corporate News

- On the 4th of December, Nokia announced the sale of its HERE digital mapping and location services business to a consortium of leading automotive companies, comprising AUDI AG, BMW Group and Daimler AG. Nokia received net proceeds from the transaction of approximately EUR 2.6 bn at closing, which is consistent with Nokia's earlier estimated net proceeds. The sale of HERE is the latest step of Nokia's transformation into a pure network vendor.
- Nokia's margins reflect the mix between high-margin software sales and lower margin hardware and service sales within its network division. The timing of new large contracts for network construction can affect margins, particularly if these deals initially call for more hardware sales in the mix. Once the Alcatel deal is completed, Nokia stands to benefit from greater volume efficiencies in its manufacturing operations, which could widen margins and drive profit growth.
- Nokia is expecting that its acquisition of Alcatel-Lucent will dilute the 2016 EPS by 2 cents but add 4 cents to its 2017 EPS, assuming the deal closes on the first half of 2016. Cost cut figure heavily into this forecast, with Nokia including the remaining EUR 78 mm in savings from Alcatel's "Shift" plan into its forecast for EUR 950 mm of annual operating expense savings by 2019. A risk to Nokia's outlook is the potential for customers to diversify purchases to decrease risk and avoid supplier concentration.



Nokia OYJ (USD)	
Current Price (31/12/2015)	7.02
52-week high % change	-16.1%
Median Target Price	9.10
Market Capitalisation (mn)	38 903
Return on Common Equity	13.0%
Dividend Yield	2.2%
Beta (vs. CCMP INDEX)	1.2x
Total Debt/Equity	31.1%

Source: Bloomberg (as of 31.12.2015)

Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Nokia OYJ	FI	USD	28,269	21,08	21.20x	9.3x	1.3x	2.6x
Alcatel-Lucent	FR	EUR	10,288	11,147	n/a	14.5x	0.7x	5.6x
Apple Inc	US	USD	558,33	417,126	10.9x	6.0x	2.1x	4.7x
BlackBerry Ltd	CA	CAD	6,487	3,629	n/a	5.5x	1.3x	1.3x
Samsung SDI Co Ltd	KR	KRW	7,873,539	8,424,166	33.1x	10.8x	1.1x	0.7x
Motorola Solutions Inc	US	USD	11,552	13,751	23.3x	11.03x	2.4	n/a
75th Percentile					28.2x	10.8x	1.9x	4.9x
Median					**23.3x**	**9.3x**	**1.3x**	**3.0x**
25th Percentile					17.1x	6.0x	1.1x	1.2x

- From this table, we may analyze that Nokia shows a relatively low Market Capitalization and Enterprise Value, when compared to its biggest peers such as Apple and Samsung, but presents higher values on both these parameters, when compared to smaller competitors such as Motorola, Blackberry and Alcatel. Nokia's P/E and EV/EBITDA places in the Median or close to it which suggests that the company is correctly valued when compared to its peers. EBITDA has been gradually decreasing throughout the quarters of 2015, but there is no evidence of overvaluation of the company, meaning that Nokia seems fairly priced.
- According to EV/Sales and P/B multiples, Nokia ranks in the Median percentile or really close to it, which means, once again, that the company is correctly valued in relation to the market sector. Nokia has been constantly reporting increases both in Gross and Operating Margin, as well as a solid presence in Greater China. On the other hand, part of the decrease in operating profit was partly due to higher investments in business activities which target long-term growth opportunities . Having this strategy in mind, it is expected that Revenues increase in the following quarters, putting an end to this cycle of decrease in sales, and the latest increase in share price may be seen as an evidence of the market's support of this theory.

Earnings Analysis

- The sales growth of Nokia surprisingly declined in Q4 of 2014 mainly due to a reduction of profitability of Nokia Networks primarily due to major new LTE network deployments in North America and Greater China, which benefitted Mobile Broadband, which was huge in the previous quarter.
- The 2014 annual report release created a positive impact among investors and an increase in sales growth of Nokia, with Diluted EPS up 25% from the previous year comparable quarter. This was mainly driven by a sharp increase in Global Services and Mobile Broadband net Sales, as well as increase in net sales and non-IFRS operating profit benefitted from higher intellectual property licensing income from existing licensees and revenue share related to previously divested intellectual property rights and intellectual property rights divested in this quarter.
- Since the end of Q1 2015, overall sales growth has been constantly decreasing. This lead to an ending Q3 with an year-on-year decrease of 2% in Nokia Networks segments, mostly due to a decrease in sales both in North America and in Europe, which was partially offset by an increase in the Greater China market. As opposite, Nokia Technologies has reported a 7% year-on-year net sales growth, primarily due to higher intellectual property licensing income.

	Change in price after	
Quarter	2 Days	1 Week
2014:Q3	5.17%	3.66%
2014:A	-3.68%	-2.53%
2015:Q1	-13.22%	-11.37%
2015:Q2	6.98%	3.95%
2015:Q3	11.75%	13.70%

Source: Bloomberg (as of 30.10.2015)

4. Mergers and Acquisitions

Announced Date	Target Company	Target Country	Buyer Company	Buyer Country	TV (m)	TV/EBITDA	Announced Premium
15.12.15	Heartland Payment Systems Inc	US	Global Payments Inc	US	$ 4,171.04	18.5x	29.0%
17.12.15	Acerta Pharma BV	US	AstraZeneca PLC	UK	$ 4,000.00	-	-
14.12.15	Jarden Corp	US	Newell Rubbermaid	US	$ 17,933.30	23.2x	24.0%
11.12.15	E I DuPont de Nemours	US	Dow Chemical Co	US	$ 65,590.62	13.5x	-
07.12.15	Keurig Green Mountain	US	JAB Holding	NL	$ 14,065.46	13.6x	77.9%

Source: Bloomberg

- Mergers and acquisitions announcements reached more than USD 5 tr in 2015, setting a new record and beating the USD 4.6 tr in M&A announcements seen in 2007, a year before the financial crisis. About USD 2.5 tr of the M&A announcements were among U.S.-based businesses.
- With USD 703.5 bn of transactions volume, the strongest sector in 2015 was Healthcare, with an increase of 62.8% compared with the previous year. The second most targeted industry for global M&A in 2015 was the Technology sector wherein deals doubled from USD 308.7 bn in 2014 to USD 623.8 bn. Among the next ranks were Real Estate and the Oil & Gas Industry with almost unaltered volumes. For last comes the finance sector, though with a strong increase in transactions worth USD 351.1bn.
- Top M&A advisors in 2015 are, as in previous years, Goldman Sachs advising 403 transaction and summing up to USD 1,805.7 bn in transaction value. On the second position follows Morgan Stanley in value and quantity with respectively USD 1,531.6 bn and 383 deals. The bank subsided last years' second-placed JPMorgan, which advised in 339 transaction reaching USD 1,504.0 bn.
- The announcement of the mega-deal between Dow Chemical Co. and DuPont electrified the chemical industry in December 2015. The merger of equals would fuse two stalwarts of the American industry into a giant worth more than USD 120.0 bn and would reshape the chemical and agricultural industries. Combined they would have about USD 90.0 bn in total revenue, based on 2014 numbers before splitting into three separate public businesses 18 to 24 months after the merger closes. As indented they will both specialize in one area of the industry: agriculture, material science, and specialty products. The transaction is expected to deliver approximately USD 3.0 bn in cost synergies.
- On December 14th Newell Rubbermaid and Jarden Corporation announced that they have entered into a definitive agreement to combine the two companies. The transaction creates a USD 16.0 bn consumer goods company. The new company will be called Newell Brands and oversee several consumer brands, including Newell Rubbermaid's Sharpie, Paper Mate and Calphalon, and Jarden's Yankee Candle, Mr. Coffee and Crock Pot. As part of the agreement, Jarden shareholders will receive USD 21 in cash and 0.862 shares of Newell Rubbermaid. The transaction is expected to close in the second quarter of 2016.
- Keurig Green Mountain Inc., a personal beverage system company that has revolutionized the way consumers create and enjoy beverages and JAB Holding Company, announced a definitive merger agreement on the 7th of December under which a JAB-led investor group will acquire Keurig Green Mountain for USD 92.0 per share in cash. The deal will be the biggest acquisition ever in the packaged coffee sector and Keurig Green Mountain will become a privately owned company operating independently as part of JAB's global coffee platform.
- After spurning a USD 160.0 bn takeover bid from Pfizer Inc. last year, U.K. drug maker AstraZeneca PLC is in advanced talks to acquire the little-known biotech company Acerta Pharma BV to rebuild its pipeline. Acerta is developing a cancer drug similar to a blood-cancer drug from AbbVie Inc. and Johnson & Johnson that analysts expect to be a multibillion-dollar seller. Among all disease areas by sales, Cancer drugs constituted No. 1 with USD 79.2 bn, according to EvaluatePharma.
- Payment technology company Global Payments Inc. agreed to buy Heartland Payment System Inc. for USD 100.0 per share in stocks and cash. The combination will leverage Global Payments' scalable and worldwide infrastructure. It is expected to realize synergies of at least USD 50.0 mm in FY 2017 and approx. USD 125 mm annually thereafter. It will expand the payment company's reach among midsize and small merchants, providing market-leading payments solutions to nearly 2.5mm merchants globally.

Source: Financial Times; Bloomberg

The NIC Fund

Student-run Virtual Fund - January

January 2016

Nova Investment Club

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1. Macro Outlook

US

On the 16th of December, the FOMC raised, for the first time since 2006, the interest rate in the United States. On the 7th of January the FED released the minutes for the meeting which are very significant, since they offer insight into the decision to finally initiate interest-rate liftoff. However, they confirm the most shared idea: while there was a broad consensus among policy makers to begin raising rates last month, there does not appear to be much cohesion among FOMC members regarding the timing and pace of further increases. A cadre of policy makers appears to be forming that does not want to continue raising rates until reported inflation metrics begin to confirm that expectations of higher inflation are actually coming to fruition. Nonetheless, the minutes revealed a "number of lingering concerns, including the possibility that further dollar appreciation and persistent weakness in commodity prices could increase the stress on emerging market economies and that China could find it difficult to navigate the cyclical and structural changes under way in its economy." As the new year begins, China's issues are again jolting the financial markets, and may be problematic for policy makers in coming meetings. The Fed has historically made it a policy to not speak about the dollar, but when the currency is upending manufacturing, exports and, to a large extent, corporate earnings, it becomes a topic too big to ignore. In the December minutes there were eight mentions of the stronger dollar and the noticeable impact it has had on the macroeconomy, particularly inflation. The risks to the inflation forecast were to the downside as "the foreign exchange value of the dollar could rise substantially further, which would put downward pressure on inflation." Since the Dec. 16 meeting, the dollar, as measured by the DXY Index, has appreciated an additional 1.4 percent. Most participants view full employment as either having already been achieved or within reach in 2016. This is not to say they will ignore the labor data, but as long as the unemployment rate is stable or falling and payroll gains exceed 100,000 - 125,000, policy makers will view labor conditions as satisfactory.

Europe

Dragged down by the worst Chinese trading day in nine years, European equities welcomed 2016 with a slump. In December, German's inflation dropped to 0.3% (it had registered 0.4% in November). Also, it was known that in November, German's industrial output decreased 0.3%. The French one also decreased 0.9%, possibly due to the emerging markets' slowdown. Nevertheless, S&P affirmed German Rating at AAA, with a stable outlook for the next two years. Netherlands also saw its rating return to AAA level.

Table of Contents

The NIC Fund

Student-run Virtual Fund - January

However, its GDP grew only 0.1% in the last quarter. Finally, in its latest bid to boost inflation, the EU central bank has promised to extend the bond buying programme from the original deadline of autumn of 2016 to the spring of 2017 (an additional purchase of EUR 360 bn). The latest figures highlight the struggle in the Eurozone in hitting during 2015 its inflation target of just under 2%.

Asia

The first trading day on the Chinese market was marked by the biggest loss ever: the CSI 300, the index for the country's biggest companies, fell by 7%. Moreover, for the first time new "circuit breakers" were, unsuccessfully, used to stop the frenzy in the market, forcing Chinese authorities to suspend trading for all the day. The main reason behind this fall may be traced in the data that showed the contraction of manufacturing for the fifth straight month and in the investors anticipating the end of a ban on share sales by major stakeholders at the end of the week. China's currency also glowed red on the first day. It started the year with a 0.6% fall against the dollar, a large move given the many restrictions on trading. The central bank set its daily reference rate below 6.5 Yuan to the dollar for the first time since 2011, suggesting that it will tolerate more depreciation in the coming months. Moreover, on the 5th of January, the POBC injected 130 billion Yuan, in order to seek the 6.5 percent growth rate which President Xi Jinping says is vital for China to double its gross domestic product and income per capita in the decade through 2020. Japan is striving to accelerate innovation, given President Shinzo Abe's goal of raising the ratio of investment in research and development to the economy's size to 4 percent by the end of March, and to reach the first place in the world by the end of 2018, in order to reinvigorate the world's third-largest economy. However, both China and South Korea have increased research and development spending at a faster pace than Japan in recent years, according to the Organization for Economic Cooperation and Development. Expenditure on R&D as a proportion of gross domestic product for China rose to 2.08% in 2013 from 0.9% in 2000, while the figure for South Korea increased to 4.15% in 2013 from 2.18% in 2000, according to the OECD. In Japan it was 3.47% in 2013, up from 3% in 2000. One of the biggest risks to Japan comes from China, where companies are acquiring their South Korean counterparts at a record pace, tapping into one of the world's most innovative countries to accelerate President Xi Jinping's push for an economy led by technology and consumer services.

Table of Contents

The NIC Fund

Student-run Virtual Fund - January

Emerging Markets

Brazil entered 2016 with news that its central bank missed the inflation target for 2015. Nevertheless, inflation this year is forecasted to remain above the ceiling of the central bank's target, with economists predicting a new round of monetary policy tightening. Moreover, in the year it hosts Olympics, the country's record recession is set to hurt fiscal prospects, erode sovereign ratings, swell unemployment, fuel popular discontent and sour politics. Also going through bad times, Venezuela saw its oil-exports (that account for 95% of total exports) to reach a 12-year low. This fact has exacerbated shortages from medicine to soap, with government saying that it will not subsidize products if population can not afford to buy them. In Argentina, president Macri has already started to implement reforms. The new aid to dairy producers is a sign of a run to revival exports. Due to the slowdown, specially in the primary sector, the Argentine peso dropped on this week's Tuesday 5.3% to the dollar, the biggest drop since Macri lifted capital controls. Switching focus to Eastern Europe, Russia has seen its oil production hit the highest level since the fall of Soviet Union. 2015 ended with news saying that Russian international reserves rose USD 1.3 bn to end the year totalling USD 370.2 bn. Russian economy was expected to contract 3.7% in 2015, with prospects of a 2-3% contraction if oil prices remain at the current USD 35 p/barrel.

Table of Contents

2. Fixed Income, FX and Commodities

Emerging Markets' Failure Persists

The portfolio performance improved greatly to a return of 10.89% for the respective period, strongly by consequence of the hefty depreciation (33.05%) of the Argentinian peso versus the dollar after the Central Bank of Argentina foreign reserves´ falling short to defend its currency. However, higher returns of the overall portfolio were harmed mainly due to the portfolio's exposure to oil. The recent spike caused by the increased tensions between Saudi Arabia and Iran was short lived, since oil dropped by more than 10% since then. The exposure to soybeans and oil will be closed, as well as the position shorting the Argentinian Peso and the Brazil´s 10 Year Government Bond since for both of these positions a floor may have been reached already. However, regarding the Turkish Lyra, I will roll over the position since it might suffer pressure to drop due to Turkish Central Bank´s decision to maintain benchmark interest rates. Due to Columbia´s wide current account gap, which signals a weakening of its currency in order to facilitate the necessary external account adjustment, I will go long on the US dollar versus the Colombian peso. Also, the direction of crude oil prices will benefit this position. Another position which will grasp the strengthening of the US dollar, will be to go long on the USD versus Thailand´s currency. This is due to monetary policies divergence. In fact, Thailand´s Central Bank governor stated on December 28 that he stands ready to tailor the bank´s policies to support more growth while strictly managing price pressures. In order to overcome the challenging economic outlook and persistent deflation, benchmark interest rate is expected to drop slightly.

Analyst: Luís Miguel Aguiar
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Trade Summary:
Long 20% USD/TRY
Long 40% USD/COP
Long 40% USD/THB

Asset Class: Currencies
Region: Asia and Latin America

Uncertainty, Tension and Crisis

The behavior of my positions in the last month generated a total return of around 17%. The insights on Turkey turned out to be correct, which implied a total return of 7.8% from the long position in USD/TRY. Thus, I will increase slightly my long position, as I predict a stronger dollar due to Fed policy action to increase progressively US interest rates, aligned with Turkish Central Bank's dovish policy to hold interest rates despite inflation acceleration. I will close out my long position on the USD/BRL, besides a return of 3.52%, I do not anticipate extreme depreciations of the Real in the beginning of 2016 because of the gradual change in policy action of Dilma administration towards an effective fight of inflation, specifically through a tougher control of public finance.

My bond positions in peripheral European countries (Spain and Italy) represented a total return of 0.39% mainly explained by capital gains related to decreasing yields, and as long as the ECB keeps its accommodative stance, those bonds are still attractive due to its low riskiness. However, I will close my short position on the 5 years US Government Bonds as it affected negatively the return of the portfolio and I do not believe that further interest rate increase will lead to substantially capital gains.

I will also go Long on the USD/RMB as the recent turmoil in China's market is making pressures for a further currency devaluation as an effort to boost exports and foster growth. Moreover, the recent tax alleviation in Argentine as a mechanism to increase exports, combined with the selling of soybeans is making pressures for a price decrease for this commodity, and therefore I will short soybeans' futures contracts.

Analyst: António Damásio
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Trade Summary:
Long 20% 5Y ES00000127H7
Long 20% 5Y IT0005107708
Short 10% S F6: COMDT
Long 30% USD/TRY
Long 40% USD/RMB

Asset Class: Currencies, Bond
Region: Europe, US and Latin America

Betting on the strong dollar

Analyst: João Ramos
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Trade Summary:
Long 40% USD/CAD
Long 20% USD/EUR
Long 40% USD/BRL
Short 15% Wc1:CBT
Long 15% USD/COP

Asset Class: Currencies, Commodities
Region: US, Europe, Asia and EM

First of all, the last month has yielded a decent 2.14% return. On the one hand, the positions which performed relatively well were the following ones and I have decided to keep them in my portfolio: long on USD/CAD (return of 4.49%) and the long USD/BRL (return of 7.38%). I have decided to close both the negative positions (long on the USD/JPY and CL1 oil futures). Firstly, both the elevated uncertainty of the Japanese Yen, which rallied into 2016, trading at multi-month highs (mostly driven by sentiment) and the fact that no further stimulus in the form of quantitative easing is likely to occur in the short-term made me choose to close this position. Secondly, an oil recovery on the short-term seems very unlikely, once the OPEC countries will preserve market share at a very high cost and, despite the reduction on production in the US, a 11-year low (USD 34.23 per barrel) took place on 06/01/2016. I think that the USD will continue strengthening though the "easy" money has already been made. So an increase in volatility of the USD against some major currencies is expected as this rally is maturing. That is why I am long on the USD in most of my positions. A 40% long position on the USD/CAD will be taken as the CAD is liable to further weakening in 2016, as low oil prices and sluggish domestic growth will count against the CAD. It is expected that the most of the gains of betting against the CAD should occur in the first quarter of 2016. However, if the spot USD/CAD reaches 1.42/1.45 per USD (now at 1.39), then investors should not expect a further loss of the CAD against the USD. I will open a short position of 15% on Wheat, after Argentinian new president announced the removal of taxes and quotas on agricultural exports (along with the peso devaluation) making Argentinian wheat exports very attractive on the foreign market (85.5% difference before the tax remove). All things considered, this massive selling pressure on the Wheat market, with prices likely to go down. A Long Position of 20% USD/EUR. The recent December rally of the Euro against the USD was mainly temporarily and it is thought that the Euro will continue to weaken, as interest rate differentials relative to the USD (the largest since 2006 at a 140bp level). According to most forecasts, a target of 0.95 on the EUR/USD at the end of 2016 is expected. Since the BRL will continue to weaken on the grounds of intensifying political risk, accelerating inflation and deep recessionary conditions (most part of the deflationary effects have already taken place) I have decided to go long 40% on the USD/BRL . Moreover, low investment is expected in Brazil as prices in commodities will continue to go down and also due to the recent downgrading of Brazil`s debt to a junk level. Finally, I will open a long position on USD/COP of 15%. Columbia will keep on suffering from depressed copper and oil prices more than previously anticipated. The COP has lost 25% against the dollar the last 12 months and along with the large current account deficit a downgrade to BBB- on the medium term might be possible. All things considered, we should expect a significant depreciation in the following months.

3. Equities

Confidence is key

During the last month my portfolio lost 5.45%. With continuous low oil prices and low expectations in a 2016 rise drove an 8% loss for BP. Furthermore, and even though Star Wars is crushing box offices all over the world, it became known that Disney and Univision lost in the last two years USD 64 million with their merger. Nevertheless, I am keeping both positions because I believe in the companies' valuation and in its recovery, even though I am reducing the size of my exposition. To compensate for it, I am investing 25% of my portfolio in Wal-Mart. The turnaround plan for 2016 is now in effect and I believe the stock is undervalued (selling for 40% of its annual revenue and with a P/E ratio of 13.4, below the one for its comparable companies). Moreover, the finances are in solid shape with long-term debt representing just 20% of their assets and with prospects of increasing revenues for 2016.

Analyst: Francisco Franco Nunes
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Trade Summary:
Long 50% DIA US Equity (SPDR Dow Jones Industrial Average ETF)
Long 25% BP LN Equity (BP)
Long 25% GSK LN Equity (GSK)

Asset Class: Equities
Region: USA and Europe

A change in strategy

Unfortunately, during the month of December I was not able to follow the same way of the month before. The overall performance of my portfolio is a disappointing -0.55%, hence leaving the return since the inception at a reasonable 5.62%. However, what I want to point out is that, when comparing the performance of my portfolio against two of the most important indexes: the S&P 500 and the EuroStoxx 50, it can be noticed that my portfolio beat both of them, gaining a 500bps spread against the US index and 1000bps against the European one.

As far as the performances of each component of the portfolio, for the month of December, the only positive sign comes from Ryanair which gained a sound 5.89%. The worst performer was the position in the ETF over the Eurostoxx 50, which fell after Mario Draghi's announcement of a new maneuver of the ECB which was smaller in size of what markets were expecting.

Finally, I have decided to rebalance my portfolio: I am going to reduce my exposition to the EuroSoxx's ETF from 45% to 15%. Moreover, given the 'hot' climate in financial markets I have decided to invest the proceeds in more 'conservative' stocks with a lower beta. In this sense, my new pick is Wal-Mart, a company known in the US for operating convenience stores. With its beta of 0.83 it should offer a little bit of serenity in this storm. Moreover, I expand my position in Ryanair since I really believe in the potential of this company. Finally I invest a small proportion in Edwards Lifesciences, which attracts me for its growth potential.

Analyst: Roberto Tedesco
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Trade Summary:
Long 15% AGN US Equity
Long 20% WMT US Equity
Long 10% WEGR Equity
Long 15% SX5EEX GY Equity (iShares EuroStoxx50 ETF)
Long 20% RYA ID Equity
Long 20% AMZN US Equity

Asset Class: Equities
Region: Europe and US

The China effect on equities

Analyst: Ana Lambiza Pardal
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Trade Summary:
Long 30% AIR:FP
Long 30% CARZ:US
Long 30% BA:LN
Short 20% 009540:KS

Asset Class: Equities
Region: US, Europe and Asia

This month my portfolio had a negative performance of -3.8%. The main drivers of this outcome were Airbus Group and CARZ ETF with a contribution to return of -1.9% and -1.0%, respectively.

Regarding Airbus Group, recent data on lasts year's performance suggests that its main opponent Boeing has, for the fourth consecutive year, completed more deliveries. This fact, along with the negative shock felt all over the equity markets due to the Chinese market instability, has greatly contributed for its share's poorer behaviour. However, I believe that the fundamentals that lead me to pursuit the previous strategy still hold (opportunity of growth with the recent expansion to the US market and increase in airspace defence across Europe). I will adjust my position into a more dovish one, thus going Long by 30% on Airbus.

I will also maintain my 30% Long position on the CARZ ETF. With China's most recent tumble, the Japanese Yen is being perceived as a safe haven for investors thus appreciating against some currencies. Despite this fact, I believe that once the market calms, the Japanese Yen will continue its weakening pattern thus allowing this ETF to track the advantageous situation of Japanese car manufacturers.

Although BAE Systems (BA/:LN) was significantly affected with the volatility felt in the beginning of this year, its' shares already present an improvement of 5.0% since the 5th of January and are headed to reach its highest point since inception. This stock has been rising significantly since the Paris' terrorist attacks and the surge in spending on defence by European governments signals the good performance to come. Therefore, I will increase my position in this stock to a Long 30%.

Considering that Vodafone Group's stock hasn't been performing as expected - suffered a decrease of about 3.0% last month and has been trading at around 16.0% less than its peak in June last year – I will close my position in this company.

Netflix Inc (NFLX:US) just launched its services on 130 new countries. This stock, which has provided the best return of any stock in the S&P500 last year, faces significant growth opportunities given the larger subscriber base the company is about to capture. Although the meaningful costs of expanding might affect the profit to the achieved by the company this year, the increased cash-flows from the expanded subscriber network will continue on fuelling the stock and, therefore, I will enter in a Long 30% position on the firm.

With the current context of low oil prices and slowing demand, the world leader in shipbuilding, Hyundai Heavy Industries Co. (009540:KS) is facing a though challenge – costumers are cancelling orders, delaying delivery dates and profitable opportunities for building offshore rigs are far gone. This situation left the South-Korean company with significant problems in dealing with its debt and share prices have been plunging by a total of 8.6% since 24/12 last year. I will, therefore, assume a 20% Short position in Hyundai Heavy Industries Co.

January Article

Should we be optimistic for 2016?

The year of 2015 was full of action all around the world. However, some regions benefited more than others.

The American economy continued its recovery, what ultimately “forced” the Federal Reserve (Fed) to increase the interest rates last December for the first time, since 2008. For 2016, analysts are expecting new interest rates hikes but the rhythm to be followed by the Fed chairwoman Janet Yellen remains to be seen. In relation to the stock market, during 2015 the S&P 500 suffered a lot in August with the volatility of the Chinese economy. Nonetheless there were some great performers like Apple (hit a record USD 775 bn market capitalization) and Netflix (best performer of the year with a return of 143%).

By contrast, the European economy had a very volatile year mainly because of “Grexit’s” threat, the huge influx of refugees from warzones in Syria and the Volkswagen scandal.

In what concerns the emerging economies, they had a very difficult year due to the slow-down in the Chinese economy and the fall of oil prices. Countries like Brazil and Russia rely a lot on their natural resources wealth and also on countries like China, which used to play a bigger role in these countries’ commercial balance. This situation allied with high inflation rates had a significant impact in the growth rates of these countries that are also slowing down, leading ultimately to recessions.

In terms of M&A deals, 2015 was the greatest year of the century so far. When comparing it with 2014, we observed an increase of USD 4 Trillion during the last year. In fact, this performance was related with the so-called “mega-mergers”* which established a new record of 56 deals. But that wasn’t the only record to be beaten in 2015. The deal between Pfizer and Allergan is the largest health-care transaction of all time, as well as the deal between Dell and EMC in the technological sector and, finally, between AB Inbev and SAB Miller in the beverage’s industry.

Concerning 2016, there are key subjects that worth our attention in the next months. Questions like the possibility of future interest rates increases by the Fed, the state of the Chinese economy and its growth rate, the volatility of oil prices and, finally, the evolution of the European instability all need to be addressed.

According to the futures market, the first interest rate increase of 2016 can occur at the 16th of March with a probability of 55%. However, every single increase has a global impact and that is why it is so important for the Fed to assess what is the adequate rhythm that minimizes these consequences.

Regarding the Chinese economy, analysts expect another very volatile year. In 2016, the growth rate of the Chinese economy should be lower than 7% which is worrying investors all over the world. Due to the importance of the Chinese market for many economies, even a small difference in the forecasted growth rate could have significant multiplier effects.

The Oil prices are expected to continue to decrease if there is not a cut in production. European countries like Portugal benefit with this decrease, since they are traditionally importers of oil. However, if the price continues to decrease, this will continue to negatively affect the emerging economies, slowing-down even more their growth. Their hopes reside on the speculation about whether OPEC’s countries will cut or not the production of oil, situation that would allow the prices to increase again.

In Europe, the ECB is expected to continue with its Quantitative Easing program, which aims to ease the European financial conditions. The European stocks are being recommended by some financial institutions as good investments for 2016, which might enable them European stocks to outperform the US stocks for the first time in recent years. This forecast has become very popular among equity analysts in recent weeks.

Though the evolution of the Chinese economy continues to be quite uncertain, the expectations regarding the stabilization of the European markets and the strengthening of the American economy allow us to believe that 2016 will be in general a better year than 2015 and for sure an interesting and thrilling year for financial markets.

*Deals worth more than USD 10 Billion.

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