NIC

— Nova Investment Club —

Newsletter

December 2018

NIC

Nova Investment Club

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Foreword

This Month:

In our Macro Overview section, Analysts from both divisions will cover broad macro themes while reviewing major economics news from the past month. In our Deeper Dive section, Duarte Alves Pereira elaborates on leveraged loans and its implications on financial stability. Moreover, in our Regional View, Pedro Leão examines the Brexit deal and how it may impact possible trade deals and UK economic sectors.

Our Investment Banking Division will guide you through November's M&A overall activity. Read about Harris Corporation merger with L3 Technologies Inc., IBM acquisition of Red Hat and SAP SE acquisition of Qualtrics. Additionally, get a detailed overview on what happened to Spotify and McColl, as well as consider our opinion on SoftBank's IPO.

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 active positioning of the NIC Fund in November was inferior to the benchmark, mostly due to our exposure to equities – a development we would like to reverse in the upcoming months. Amidst markets turmoil and volatility we plan to adjust our fund accordingly.

Lastly, Lisa Preußler examines the role of *green* assets in investing, Nina Kusnirova evaluates Christmas behavioural biases, Cong Phuoc analyses Italy's proposed budget plan and Mariana Costa glances at Brexit implications.

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Macro Overview

Monthly

December 10th, 2018

Deeper Dive

Leveraged loans

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Market Moves

Market moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	2,760	4.85%	-4.87%	3.24%
DJIA	25,538	5.16%	-1.64%	3.31%
Nasdaq	7,331	5.64%	-9.61%	6.19%
MSCI World	2,764	1.87%	-7.35%	-7.23%
MSCI EM	3,626	1.67%	-4.55%	-17.82%
Russell 2000	1,533	2.99%	-11.92%	-0.15%
Euro Stoxx 50	3,173	1.14%	-6.48%	-9.44%
FTSE 100	6,980	0.39%	-6.08%	-9.20%
Nikkei 225	22,351	3.95%	-2.25%	-1.82%
Hang Seng	26,507	2.23%	-4.95%	-11.41%
Dollar Index	97.27	0.37%	2.24%	5.59%
EUR/USD	1.132	-0.18%	-2.46%	-5.73%
GBP/EUR	1.127	-0.34%	0.88%	0.07%
GBP/USD	1.275	-0.51%	-1.63%	-5.65%
USD/JPY	113.6	0.54%	2.29%	0.78%
USD/CHF	0.998	0.05%	2.99%	2.42%
Brent Crude	58.71	-0.15%	-24.17%	-12.20%
Gold	1,220	-0.25%	1.55%	-6.81%

Generic bond yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	2.988%	-5.1	12.8	58.3
GER 10Y Yield	0.313%	-2.7	-1.3	-11.4
JPY 10Y Yield	0.092%	-0.8	-1.5	4.4
UK 10Y Yield	1.364%	-1.7	-6.3	17.4
PT 10Y Yield	1.827%	-11.5	-9.7	-11.6

**Source: Bloomberg, as of 2018-11-30*

In Focus

November

US economy keeps adding jobs. As the economy grows, American employers added over 250 k workers to their payrolls. That represents the 97th month of consecutive job growth. Meanwhile, wages grew at the fastest rate since 2009.

Fed left rates unchanged. During its November meeting, Federal Open Market Committee decided to keep the federal funds rate in a range of 2.00%-2.25%. Markets anticipated that decision. In its statement, the FOMC emphasized slowing business investments despite declining unemployment, but made no comments regarding October's financial markets sell-off.

Mario Draghi reinforces commitment to end QE. ECB's head declared that the institution would stick to the plan of shutting down its massive quantitative easing programme despite disappointing data on growth in the Eurozone.

Italy struggled to push its budget through the European Commission. Regulator stated that the proposed budget goes against the established rules and threatened to impose sanctions, which would have to be approved by other members of the EU. Stocks of Italian banks came under pressure, despite the solid performance they displayed during the last stress test conducted by the European Banking Authority.

Teresa May has reached preliminary Brexit agreement with the EU. The deal reinforces UK as a part of the single market for the transition period. British prime minister expressed her satisfaction with the terms, yet there is serious opposition in the Parliament. Several minister resigned following the announcement, and the pound plunged.

British Treasury estimated consequences of Brexit. Under the terms of the current deal, in 15 years GDP of the UK will be 3.90% smaller than when it would have had chosen not to leave. In case of a no-deal Brexit, the gap widens even further, to 9.30%.

German GDP also declined in the Q3. German economy contracted for the first time since 2015. Current slowdown in global trade, caused by increasing political tensions, hit German exports, while some of the country's car manufacturers failed to timely adapt to new emissions-testing regulation.

OECD outlines drivers behind the slowing global economic growth. Organization for Economic Cooperation and Development named prolonged trade disputes and rising interest rates as the sources of the decline. According to the forecast, global growth will slow from 3.70% this year to 3.50% in 2019 and 2020.

Reserve Bank of India came to terms with the government. For months RBI was caught up in a conflict with the Indian government, which urged the Bank to stimulate the economy ahead of the upcoming elections. In the end regulator agreed to review its lending rules and the way it transfers surpluses.

Japan shrank in Q3. Japanese GDP lost 1.20% YoY in the third quarter of 2018. External factors, such as severe flooding and an earthquake all happening within last months, contributed greatly to the downfall. Yet the governments maintains a positive outlook, and projects record tourism revenues in the following years.

Vadim Nikitin
Financial Markets Division

Deeper Dive

Leveraged Loans: Is the market overheating?

Duarte Alves Pereira
Investment Banking Division

"The global leveraged loan market was larger than – and was growing as quickly as – the US subprime mortgage market had been in 2006"

- Bank of England

In the past few months, international organizations and banking regulators have highlighted leveraged loans and its current issuance volume as a potential risk to financial stability, arguing that the market is overheating. Among the entities who have flagged this issue we have Bank of England, the Federal Reserve, the Bank for International Settlements and the IMF.

In order to better understand authorities' concerns, it is crucial to define what a leveraged loan is and to interpret some of the signs that tend to be neglected by investors.

Typically, leveraged loans are extended to people or companies with significant amounts of debt or a poor credit history, with a credit rating below investment grade. Unlike most corporate bonds, these loans have floating interest rates. In fact, leveraged loans can be seen as an alternative to High Yield (or Junk) Bonds.

This investment product has been gaining particular relevance over the last years. Considering the recent economic framework with historically low interest rates, leveraged loans are seen as a viable option for investors who seek additional levels of return. At the same time, the normalization of monetary policies and its floating rate component have been pushing the numbers.

Currently, the leveraged loan market is over USD 1.0 tn, with the US being the country that contributes the most. In the past six years, the outstanding value in the US has doubled. In Europe, the share is smaller but the growth rate has sounded the alarm as well. However, regulators' fears run deeper.

Following the last years of economic boom providing higher returns, yield-hungry investors tend to accept weaker protection for their investments, fuelling standards deterioration. As a result, the issuance of covenant-lite loans is increasing sharply, representing roughly 80.00% of total issuance. In addition, weaker covenants have allowed borrowers to inflate projections of earnings, the so-called "EBITDA addbacks", causing the loosening of nonprice terms.

As a consequence, borrowers with extremely high amounts of debt have been able to load up on cheap debt. This year, both in Europe and in the US, companies with a Debt-to-EBITDA ratio higher than 6 represented almost 30% of total issuance. The worsening in credit quality makes investors more exposed to an economic downturn, in times where leveraged loans default rate is increasing and the average recovery rates have fallen to 69% from the pre-crisis 82%.

Moreover, one should also consider the current late stage of the economic cycle. Whilst in Italy, the world's ninth largest economy, the yield curve is inverted, the US is almost at its maximum employment rate. Essentially, we have been witnessing a number of phenomena capable of reminding past episodes of excess.

As a final concern, there has been a shift in the investor base, mainly driven by the rise of ETFs. Institutions, such as mutual funds, pension funds, insurance companies and CLOs, hold about USD 1.0 tn of leveraged loans, almost double the pre-crisis values and compared to about USD 1.2 tn in High Yield Bonds. Given that these institutions pack large amounts of loans and resell them to other investors, institutional ownership makes it harder for banking regulators to assess potential risk to the financial system in case of a downturn.

In the end, leveraged lending has increased its importance as a source of corporate funding, meaning that a sharp rise in the default rates may have an unprecedented negative impact in the real economy. The ultimate question we should answer is: did we learn anything from the Global Financial Crisis?

Duarte Alves Pereira
Investment Banking Division

Regional View

Brexit deal: Are come-what-(May)ers gaining ground?

Pedro Leão
Financial Markets Division

Mrs. May is threading on thin ice for now. Will she be able to convince MPs that she is the right person to pursue the Brexit negotiations with the EU?

Interesting times lay ahead with the possibility of a Brexit agreement. Theresa May has managed to come up with a deal that the European Union approved off, with German chancellor Angela Merkel calling the agreement a *"masterpiece of diplomacy"*. Nonetheless, there are raising concerns back home that MPs will not approve of the agreement once it comes down to a vote in December.

That would come as a hard blow against May's argument of the options being either *"this deal, no deal, or no Brexit"* to make her case for the current proposal - decreasing the likelihood of the existent deal to be maintained and fostering the no-deal advocates wishes of a come-what-may Brexit. A subsequent loss in power and credibility by the government to lead the Brexit negotiations could follow. Mrs. May is threading on thin ice for now. Will she be able to convince MPs that she is the right person to pursue Brexit agreement negotiations with the EU?

With an increasing chance of a no-deal Brexit it may be of utterly importance to investigate its impact on trade and what sectors can be impacted the most. Imports from the EU would face a trade-weighted tariff of around 5.70% and exports to the EU would face a 4.30% tariff, claims the Confederation of the British Industry. Some of the most affected sectors would be the automotive sector, the airline sector and the fish and agriculture sector.

With 54.00% of British car manufactures exports being into the EU, a 10.00% tariff can hurt companies' profits, with an estimated cost of £1.8 bn on imports and £2.7 bn on exports, according to SMMT. Moreover, one in ten people employed in the automotive sector are from elsewhere in the EU, leading to major layoffs as well as disinvestment in plants in the UK.

According to PWC, if no subsequent deal is agreed upon, there could be a decrease in output of light vehicle assembly to under 1 m units in 2022, from a current level of around 1.8 m units. As far as aviation is concerned, without a deal, airlines may be forbidden to fly between the EU and the UK. Even after (and if) an agreement is reached, it is likely that UK's carriers will not be able to provide services in internal EU routes and vice-versa. EasyJet shares have dropped around 10.00% in price since the beginning of November. Deal arrangements for transatlantic flights between the UK and the US are also being reached, but it is still unclear what impacts they will have in transatlantic flights in general and if EU carriers will be entirely excluded from the deal.

Some of the biggest challenges with trade may be presented at UK-EU borders (as is the case with the Ireland border) and ports, with the need to inspect goods, especially animal and agriculture products, given the specific set of food regulation in place in the EU. This is an important factor that can lead to clogging in most ports, as well as in the Channel tunnel, resulting in a shortage of goods and its rationing by supermarkets, and delaying manufacturers' output production throughout the entire United Kingdom, due to delays in lorry deliveries of part components.

The FTSE100 dropped 2.00% in November and is approaching its lowest level in 2 years. Although the index may benefit from the sterling depreciation resulting from a no deal Brexit (given that approximately 70.00% of its constituents' earnings come from abroad), there is a raising concern of the impact on GDP of a no-deal Brexit, with some estimating that the drop in GDP could be as high as 5.00% in the next 5 years.

The pound is now trading at GBP 1.28 but many investors fear it could be at par with the dollar next year, in case the UK exits the EU without any deal. With inflation levels already above the BOE's target of 2.00% and rates close to an all-time low of 0.75%, there may not be a lot of room for lowering rates. The future of the Brexit deal may well be decided in the next couple of weeks.

Pedro Leão
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Meeting of the European Council

On **13th and 14th** of December the European Council will gather in Brussels to discuss the EU's long-term budget, single market, migration and external relations. The institution will also review the progress on the implementation of earlier policy conclusions.

OPEC Meeting in Vienna

The cartel held its last meeting of the year on **6th** December. Although OPEC reportedly agreed to cut production in principle, no exact figures were announced, and the oil price tumbled more than 3.00%.

Armenian Parliamentary Elections

Armenians will elect their parliamentary representatives on December **9th**. General elections, first since the velvet revolution of spring 2018, were called after the acting Prime Minister Nikol Pashinian resigned from his post and dissolved the parliament in November.

Central Bank Decisions

Fed Interest Rate Decision

On December **19th** will announce its decision on interest rates. Despite recent volatility, markets are convinced that the regulator will raise interest rates and approve three more hikes in 2019. A press conference by the Chairman Powell will follow.

Bank of England Interest Rate Meeting

Bank of England will make its interest rate announcement on the **19th** of December. Inflation above the target of 2.00% and the uncertainty surrounding Brexit all weigh on the decision. Five of nine Monetary Policy Committee remain hawkish.

Bank of Japan Monetary Policy Decision

Japanese monetary regulator will meet on December **20th** to set the interest rate. BoJ Governor Haruhiko Kuroda earlier reassured the markets that the bank would maintain its stimulus programme. Minutes from that meeting will be released on December **25th**.

Inflation and Deflation

Update on CPIs in Germany and France

Two countries will release its respective annual consumer price reports on December **13th**. Current inflation in Germany stands at 2.30%, higher than 1.90% for France.

UK Consumer Price Index

YoY figures on consumer prices in the UK will be made public on December **19th**. According to the Office for National Statistics, in October the 12-month rate was 2.40%, unchanged from September.

Inflation in Portugal

Closing 2018 in style, Portugal will announce its inflation figures on December **31st**. As of November, Portugal's YoY CPI was at 0.90%. Rising housing prices is an important factor contributing to inflation.

Labour Market

US Unemployment Statistics

The Bureau of Labor Statistics is to release its monthly report on the employment situation in the US on December **7th**. While unemployment has been falling since 2009 and reached local minimums, filings for unemployment benefits rose to 4-month high in November.

Unemployment Rate in Brazil

On the **28th** of December figures for national unemployment rate in Brazil will be released. As the country is recovering from its worst-ever recession amidst times of political uncertainty, Brazil saw its unemployment rate rising from 6.90% to 12.50% between 2014 and 2016. Now it stands at 11.90%.

Australian Employment Data

Australia will announce its employment data on the **20th** of December. Now at 5.00%, its lowest level in more than six years, is expected to fall further, until 4.75% by the middle of 2020, according to projections by the Reserve bank of Australia.

Vadim Nikitin
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

The global M&A activity in November followed the trend already observed throughout October. In November, there were 1,436 globally announced deals, worth a total of USD 101.0 bn, which represented a decline of 36.00% in transaction volume compared to October. The deals were mainly focused on the technology sector, due to strong development and digitalization around the globe and the solid GDP and earnings growth in the US, which has been identified as the main cause for the observed trend. Additionally, the raw-material sector led the North American activity, targeting deals worth USD 25.2 bn. Followed by the machinery, equipment, furniture and recycling sector, which accounted for USD 6.8 bn.
During November, only one deal was observed above the USD 10.0 bn-barrier; the acquisition of BHP Billiton's assets valued at USD 10.5 bn through BP American Production. This deal itself accounted for 10.00% of total North American value during November. The venture capital and private equity deals targeting North America companies, increased on a month-to-month comparison to 1,087 (1,305) deals worth USD 28,350 m (24,264 m), although the volume declined over the same timeframe.

Selected Regions

North America
420 deals worth USD 145.4 bn were announced in November 2018. This constitutes a relatively high deal flow compared to previous months, where deal values amounted to USD 113.2 bn in October and USD 95.1 bn in September. The US saw 388 deals worth US 140.6 bn, which were mainly driven by domestic deals worth a total of USD 130 bn.

EMEA
In Middle East & Africa, M&A deal value amounted in November to USD 6.2 bn, seeing only 16 deals, compared to October with 42 deals. Likewise, both volume and value of M&A deals based in Europe declined over the month under review, decreasing from 662 deals with a value of USD 54.0 bn in October to 392 deals worth USD 39.2 bn in November. Most notably, 95 UK Deals amounted to 21.8% in Europe worth USD 8.5 bn.

Asia
In the first half of 2018, the value of China's M&A activity declined to USD 348 bn (18.00% decrease) compared to the second half of 2017. This slowdown may reflect the Chinese government's commitment to deleveraging, which has had some impact on M&A, especially among listed companies. The impact of the current trade war may be limited, as deals with the US have already been at low levels for the past 18 months.

M&A

Deals of the Month

Announce Date	Target	Acquirer Name	Announced Total Value (USD m)	Deal Status	Target Business	Current Premium
13.11.18	Power Solutions Business/Johnson Contols Internati	Caisse de Depot et Placement du Quebec,Brookfield	13244,0	Pending	Industrial	-
11.11.18	Qualtrics International Inc	SAP SE	7862,3	Pending	Technology	-
08.11.18	ARRIS International PLC	CommScope Holding Co Inc	7335,5	Pending	Communications	2,9173
03.12.18	Tribune Media Co	Nexstar Media Group Inc	6724,3	Pending	Communications	4,0618
03.12.18	TESARO Inc	GlaxoSmithKline PLC	4465,1	Pending	Consumer, Non-cyclical	1,8123
28.11.18	Hertz Global Holdings Inc	Sixt SE	4002,4	Proposed	Consumer, Non-cyclical	-
19.11.18	DJO Global Inc	Colfax Corp	3150,0	Pending	Consumer, Non-cyclical	-
15.11.18	UK oil & gas fields/ConocoPhillips	Potential Buyer	3000,0	Proposed	Energy	-
06.11.18	Kraft Heinz Canadian cheese business	Parmalat SpA	1232,7	Pending	Consumer, Non-cyclical	-

Phillip Hunold & Viktoria Wagner
Investment Banking Division

M&A: Top Deals

Harris Corporation to merge with L3 Technologies Inc.

The all-stock merger of Harris Corporation and L3 Technologies Inc., valued at USD 35.5 bn, stands to be the largest in the defense sector to date, resulting in a company that will become the 7th largest defense prime in the world.

Buyer vs Seller

Harris Corporation is an American defense company which produces communication, electronic, and space and intelligence systems. In 2017, Harris Corp. reported annual revenues of approximately USD 6.0 bn. L3 Technologies is also an US defense company, reporting USD 10.0 bn annual revenues in 2017. Recent acquisitions have yielded L3 a strong position in the maritime, cyber and combat systems segments. Both companies generate the majority of their revenues from government contracts.

Industry Overview

The defense industry has seen high deal activity in recent times, fuelled by global increase in government spending. The merger adds to an already eventful pipeline of to-be deals in the upcoming year, as key market players seek to strengthen their positions. Consolidation and further increase of vertical-integration in the market are likely to result in fiercer competition for high-margin prime contractor roles and margin pressure.

Peers	Currency	Market Cap (CUR m)
Ultra Electronics Holdings PLC	GBp	1,025.77
CAE Inc	CAD	7,078.44
Thales SA	EUR	22,737.23
Meggitt PLC	GBp	4,056.63
HEICO Corp	USD	9,751.74

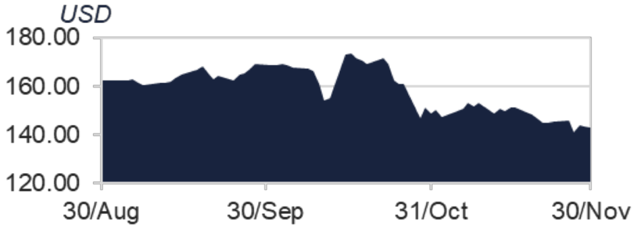
Deal Rationale

The transaction will be a merger of equals, where shareholders of L3 Technologies will receive 1.3 shares of Harris Corporation per each share they own. Strategic reasons supporting the deal include diversification of products, aligned cultures and positioning for tougher future market conditions – size means leverage in negotiations with the primes. Furthermore, the deal is expected to produce strong free cash flows to be deployed to shareholders, and realize synergies of USD 500.0 m in corporate costs reduction within the first three years, stemming from supply chain improvements, facility rationalization and overhead reductions.

Market Reaction

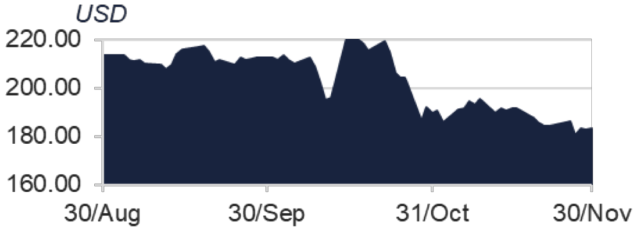
Harris Corporation

The initial reaction of the market was an increase in share price, signaling optimistic investor sentiment regarding merging with a relatively similar company with higher revenues but lower financial margins.



L3 Technologies Inc.

The share price rose on the news of the merger, indicating support for what the deal means to LLL's shareholders; improved operational margins and more vertical bargaining power.



Future Challenges

The path ahead seems clear for both parts of the deal; shareholders approval from both sides are awaiting and Pentagon's and other government offices' acceptance of the deal must be in place before the process is finalized. Futures tasks for the appointed CEO of the new company, likely to be Harris Corp. CEO William Brown, will be integrating the two companies, executing on existing programs, cutting staff and evaluating whether some parts of the company should be divested.

Birk Carlenius
Investment Banking Division

M&A: Top Deals

IBM to acquire Red Hat

Red Hat, a major distributor of open-source software and technology, is being targeted by IBM in a USD 34.0 bn offer. According to a joint statement, IBM will pay cash to buy all shares in Red Hat at USD 190.0 each.

Buyer vs Seller

IBM is a US multinational IT company which is currently transforming the foundation of its business model from infrastructure related to cloud and data driven. Prior to the deal announcement, IBM had reported lighter-than-expected revenues in its most recent earnings update, which fall behind last years results. In fact, revenues experienced a steady decline for the last five years. Goldman Sachs, JP Morgan and Lazard advised IBM on the Red Hat deal, while Morgan Stanley and Guggenheim advised Red Hat.

Industry Overview

Open source has been the biggest theme in technology this year. Prior to IBM's purchase of Red Hat, two of the biggest tech deals of the year were Microsoft's USD 7.5 bn purchase of GitHub, a code-sharing service, and Salesforce's USD 6.5 bn acquisition of MuleSoft. This acquisition is IBM's largest deal ever, and the third-biggest in the history of US tech.

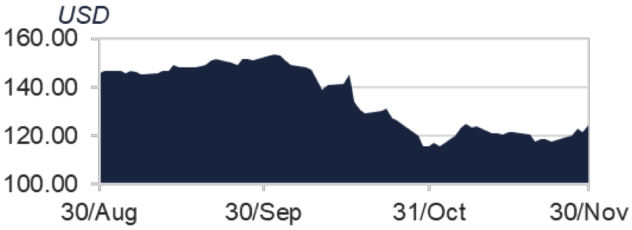
Peers	Currency	Market Cap (CUR m)
MobileIron Inc	USD	492.94
Microsoft Corp	USD	810,144.83
Check Point Software Technolog	USD	16,602.39
ServiceNow Inc	USD	32,700.73
Palo Alto Networks Inc	USD	16,612.69

Deal Rationale

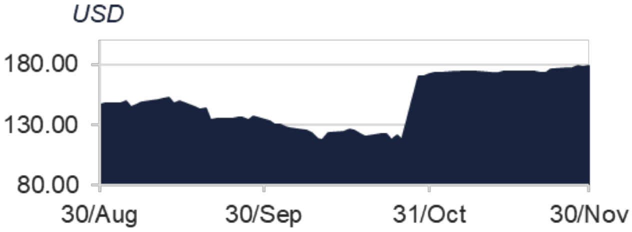
This acquisition cements IBM as the key partner in the Linux ecosystem. Two primary factors about Red Hat's capabilities explain why the acquisition will reshape IBM's competitive positioning in the market: Red Hat's hybrid cloud capabilities and its fully formed digital operating model. This deal also means IBM will be doing business with some of its cloud competitors, such as Amazon Web Services, Google Cloud Platform, and Microsoft Azure. This represents an interesting twist even though IBM insists that Red Hat will be maintained as a separate business unit.

Market Reaction

International Business Machine
Since the announcement, October 28, the stock price had a small decrease, from which it has already recovered.



Red Hat Inc
The company's share, which was trading at USD 116.7 before the deal announcement, rose more than 50% since the deal announcement. It is currently trading at USD 178.9 .



Future Challenges

Red Hat will become a unit of IBM's Hybrid Cloud division, with Red Hat CEO Jim Whitehurst joining IBM's senior management team and reporting to CEO Ginni Rometty. The acquisition has been approved by the boards of directors of both IBM and Red Hat. It is subject to Red Hat shareholder approval. It is also subject to regulatory approvals and other customary closing conditions. The transaction is expected to close in the latter half of 2019.

Rita Silva Marques
Investment Banking Division

M&A: Top Deals

SAP SE to acquire software maker Qualtrics

SAP SE is paying USD 8.0 bn for Qualtrics in an all-cash deal at a premium of USD 5.5 bn in comparison to the last private funding round in April 2017. The survey software maker was on the brink of going public prior to the deal announcement.

Buyer vs Seller

SAP is a German multinational developer of enterprise software used to manage business operations and customer relations. The firm's market cap at the time of the deal was USD 124.89 bn, about 15.5 times the amount paid. Qualtrics develops software to capture customers' sentiments through analyses of data on brands and products from real-time sources, as social media. Qualtrics hired the technology-focused investment bank Qatalyst Partners and JPMorgan Chase acted as a financial adviser to SAP.

Industry Overview

The biggest competitors in SAP's core business are Salesforce and Intuit. All three have been active in the M&A market, buying small competitors. SAP is the largest in Europe and has a fairly stable position. Growth in enterprise software is stagnating, 4% of expected CAGR for the next 5 years. As such, software producers in the market have migrated to cloud services and customer experience, which are predicted to grow at a faster pace.

Peers	Currency	Market Cap (CUR m)
Ultimate Software Group Inc/T	USD	7,979.31
Veeva Systems Inc	USD	13,439.37
Constellation Software Inc	CAD	19,801.58
salesforce.com Inc	USD	106,518.60
Intuit Inc	USD	53,892.50

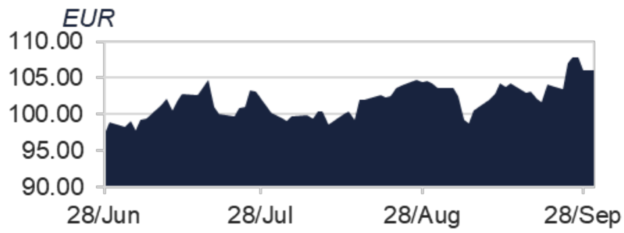
Deal Rationale

SAP is strong in operation management, while Qualtrics is strong in consumer experience. By combining both, SAP wants to create an integrated experience for its clients. The acquisition is part of SAP's diversification strategy, investing more in cloud and customer experience services and less on the traditional premise ones. The German multinational is paying an enterprise value of 20x the revenues. The deal is all-cash financed, with USD 7.0 bn already secured pre-deal announcement. Both companies seem to combine well, but at what price?

Market Reaction

SAP SE

The SAP stock price dropped 4.7% after the announcement, as the market questioned the price of the deal. It has slowly recovered since, returning to pre-deal values.



SAP affirmed investors significantly valued the 40% top line growth rate, projecting its market value to reach USD 5 bn. More conservative approaches pointed to values closer to the last private funding round. Morgan Stanley and Goldman Sachs were the listed lead banks in the IPO and the underwriting had already been 13 times oversubscribed.

In terms of sales in the first half of 2018, Qualtrics had revenues of USD 184.2 m, a 41.7% growth. Inversely, the company reported a USD 3.4 m net loss for the first six months of this year in comparison to USD 3.1 m last year.

Future Challenges

This represents the German company's second biggest acquisition to date, only topped by its 2014 acquisition of Concur Technologies for USD 8.3 bn. Both boards have already approved the deal and so have Qualtrics shareholders. The transaction, which is expected to close in the first half of next year, still lacks regulatory approval; however, analysts' predictions point to a favorable outcome.

Vasco Lupi
Investment Banking Division

What happened to

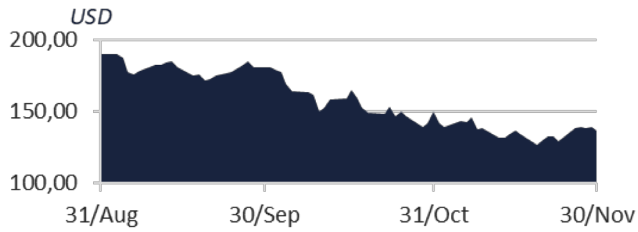
Spotify

Spotify Technology S.A. is the leading provider of music streaming services worldwide, counting 191.0 m monthly active users and present in 65 countries. The Sweden-based company offers unlimited ad-free usage of its full catalogue to subscribers in the Premium segment – accounting for 90.00% of its revenues in 2017 – and shuffle-only access to ad-supported customers.

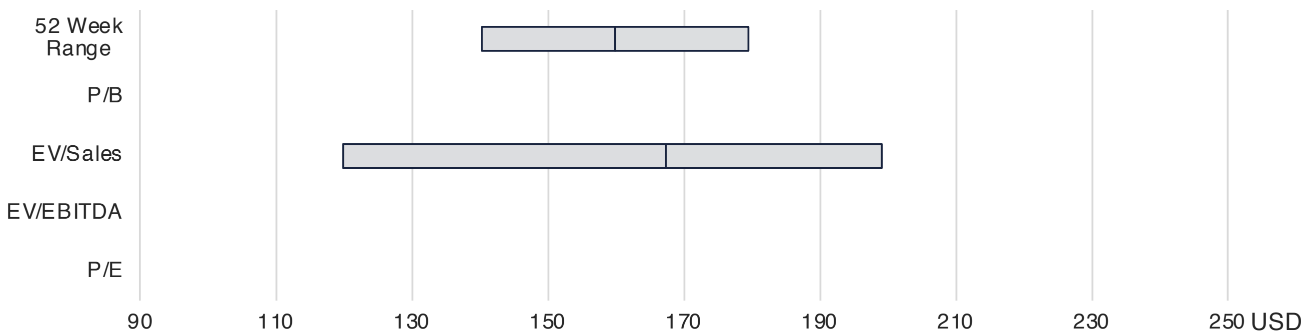
Corporate News

Spotify is the largest firm to go public through a direct listing, having made its debut on the NYSE on April 2nd at USD 165.9 per share. The poor performance observed reflects investors' fear over the company's slow down in market share growth. Fourth-quarter results have fallen short of expectations, mainly due to low growth projections concerning the number of premium subscribers and monthly active users. The Swedish firm has also shifted towards family-plan subscriber set-ups, which are yielding a lower turnover per user. The change in the company's outlook has put pressure on the streaming giant to demonstrate its ability to sustain fast subscriber growth. In fact, Spotify is currently looking for new initiatives with growth potential, even if it implies some margin erosion due to increased R&D spending. The company has recently launched a podcast into its music streaming platform and established a new partnership with Google, hoping these to be steps in the right direction.

Price (30 Nov 18, USD)	134.50
Target Price (USD)	195.00
3M Performance	-29.03%
Market Cap (USD m)	24,363.91
Enterprise Value (USD m)	19,722.83
**Target Price is for 12 months*	



Valuation Analysis



As of November 30th, Spotify Technology S.A. was trading at USD 134.5, still far below analysts' target price of USD 195.0. Looking at the share price graph, Spotify seems to be recovering from its lowest value of USD 126.7 per share. In the football field above, the EV-to-Sales ratio suggests that Spotify Technology S.A. was undervalued as the theoretical price predicted was close to USD 170.0. This deviation is likely to be explained by Spotify's low ability to translate sales into profits compared to other industry players.

The music streaming industry is characterised by its compelling growth observed in recent years and expected to persist in the future. Despite being the market leader for music streaming services, having twice as much as Apple's market share, Spotify has yet to obtain positive results. In such a competitive space, Spotify has established strong relationships with record labels that are expected to drive its profit-making ability and put the Swedish firm ahead of larger peers.

Peers	Currency	Market Cap (Cur m)
Yahoo Japan Corp	JPY	1,684,578.04
Weibo Corp	USD	14,525.08
iQIYI Inc	USD	14,169.40
Autohome Inc	USD	10,151.55
Yandex NV	USD	9,310.22

Vera Teixeira Wahnon
Investment Banking Division

What happened to

McColl

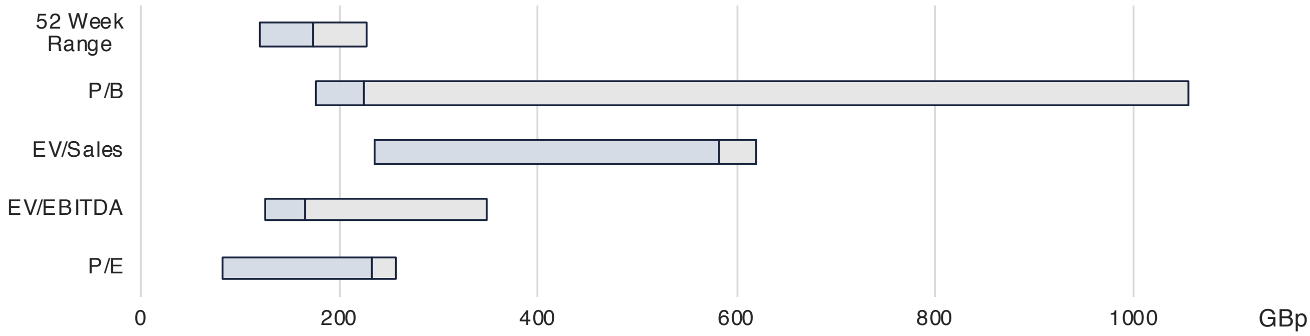
McColl's Retail group is a UK-based convenience store chain which was founded in 1973. The companies business is based on three main pillars: convenience services (McColl), news paper sale (Martins) and postal services integrated into their convenience stores. With around 1,650 locations the company covers England and Scotland with its services.

Corporate News

Last week the company issued its second profit warning this year, indicating that adjusted EBITDA would be expected at GBX 35.0 m instead of earlier reported GBX 44.0 m. Likewise the first one, the second profit warning was explained by company officials as continued suffering of the business due to the collapse of one of its major suppliers, Palmer & Harvey. The wholesaler fell into administration at the end of 2017, leaving McColl with a major gap within its supply chain. Although the company managed to sign an agreement with supermarket Morrison to take over the supply for 1,300 of its stores, the necessary transition brought up some major challenges, leading to empty shelves in the group's stores. Linked to that, revenue is down by 1.40% YTD, worsening the outlook of the company. All these developments raise the question of whether the company's dividends will be cut at the end of the year.

Price (30 Nov 18, GBp)	66.00
Targe Price (GBp)	100.00
3M Performance	-52.86%
Market Cap (GBp m)	76.01
Enterprise Value (GBp m)	185.41
**Target Price is for 12 months*	

Valuation Analysis



McColl's Retail group was, on the day of writing, trading at GBX 66.00. Trading at these levels equals a price reduction of nearly 73.00% since the 52-week high on 14th of December 2017. By looking at the football field overview, almost all ratios indicate a limited upside potential. Especially the P/E and EV/EBITDA multiples reflect the profitability issues the company is currently facing.

McColl has gone through a recent crisis. Although the supplier issues may be solved soon by the partnership with Morrison, low cost supermarkets like Aldi and Lidl are pushing into the market. Those developments question the long-term positive outlook of the company, as McColl's overall pricing lags behind the strong competition. Hence the mentioned profitability problems may remain.

Peers	Currency	Market Cap (Cur m)
J Sainsbury PLC	GBp	6,605.09
Distribuidora Internacional de	EUR	342.23
Lenta Ltd	USD	1,595.58
Dino Polska SA	PLN	9,666.74
Axfood AB	SEK	

Tim Borneck
Investment Banking Division

NIC's view on

Is the biggest IPO coming?

João Sousa Mendes
Investment Banking Division

Softbank Corp. is expected to go public on the 19th of December at the Tokyo Stock Exchange. If all conditions are confirmed, this could be the world's largest IPO.

The transaction is believed to be a strategic move of the parent company, aiming to transform a telecom-focused conglomerate into a global investment powerhouse.

SoftBank Group Corp. is a Japanese multinational holding conglomerate headquartered in Tokyo, Japan. The company wholly owns Softbank Corp., Softbank Vision Fund (the world's largest technology fund), Arm Holdings, Fortress Investment Group and Boston Dynamics. It also owns stakes in high-caliber companies such as Sprint, Alibaba, Yahoo Japan and Uber. The conglomerate under the leadership of Masayoshi Son operates in the businesses of broadband, fixed-line telecommunications, e-commerce, internet, technology services, finance, media and marketing and semiconductor design. It has a market cap of roughly USD 90.0 bn, which ranks it as the 4th largest publicly traded company in Japan.

Softbank Corp., the mobile unit of the group, is about to IPO on the 19th of December if all goes as expected. The company has set a single indicative price of JPY 1,500 (USD 13.0) per share, which is the first time this has happened in Japan. At JPY 1,500 per share, the business will be valued at nearly JPY 7.2 tn (USD 63.0 bn), which implies a EV/EBITDA of 8.3x and suggests a valuation premium over its domestic competitors. Until recently, discussions were based around Mr. Son's intention to sell 30.00% - 35.00% of the business. However, people close to the situation say that free float could now increase to more than 40.00%. If this is the case, we may be approaching the world's largest IPO, surpassing the 2014 flotation of Alibaba (USD 25.0 bn).

According to bankers, about 87.00% of the shares on offer are to be pitched at Japanese retail investors, with the rest shared between domestic and foreign institutions. The new shares offer a generous dividend payout ratio of about 85.00% of net profit, which implies a 5.30% dividend yield. Softbank relied on TV commercials, the first time that have been used in Japan, to alert Japanese viewers of the existence of its IPO.

Even though retail demand is high, due to Softbank's brand recognition and positive result forecasts, some concerns might be expressed for the world's biggest IPO. In early November, NTT DoCoMo, SoftBank's largest rival, announced a price cutting plan, which sparked fears over Softbank's ability to survive as a stand-alone entity. New corporate governance rules, backed by the Tokyo Stock Exchange, might also complicate the targeted 66.50% stake that the group intends to retain on the new firm. Similarly, the recent disappearance of journalist Jamal Khashoggi has created some controversy around Softbank's business due to its ties to Saudi Arabia.

However, the IPO is expected to be warmly welcomed by investors. In 2018, we have been assisting to a strong IPO pipeline, where investors are willing to engage on market leading businesses with growth potential as well as those with large capitalization offering liquidity. Well, Softbank forecasts its mobile business to expand revenue and net profit by 3.30% and 4.80% respectively. Moreover, a high liquidity is foreseen on Softbank's stock coming from the expectation that the newly listed company is added to various indices tracked by funds.

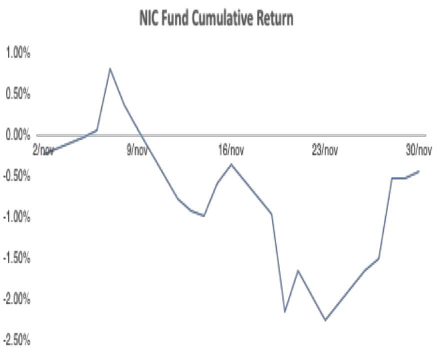
Date	Recent News
08 Nov 18	SoftBank mobile IPO set for approval. ***Source:*** *asia.nikkei.com*
31 Oct 18	Process of selecting brokerages to underwrite the listing and settling on an IPO price. ***Source:*** ft.com
07 Oct 18	Rising investor worries over the conglomerate's links to the Saudi scandal. ***Source:*** *scmp.com*
15 Jan 18	Announcement of IPO intentions. ***Source:*** *asia.nikkei.com*

João Sousa Mendes
Investment Banking Division

NIC Fund

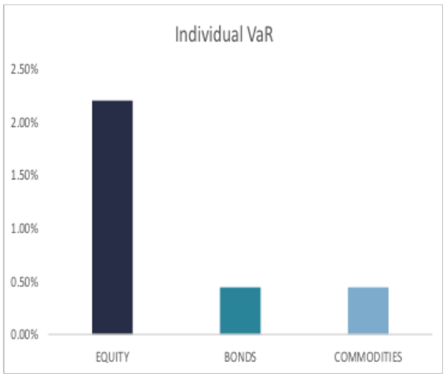
NIC Fund

Portfolio Overview



Portfolio Statistics	
Cumulative Return	-0.44%
Annualized Return	-5.52%
Daily St. Dev	0.54%
Period St. Dev	2.43%
Annualized St. Dev	8.58%
Info Sharpe	0.64
Skew (Daily)	-0.25
Kurtosis (Daily)	-0.08

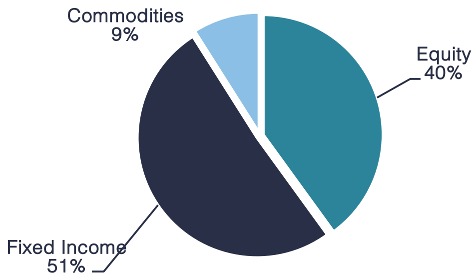
Benchmark	
iShares 3-7 Year Treasury Bonds	55%
MSCI World ETF	35%
MSCI Emerging Markets ETF	10%
Invesco DB Commodity Index	10%



Portfolio Snapshot

During the last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities with similar allocations to our benchmark fund. Overall, 40.00% of our fund remained devoted to Equities, 51.00% to Fixed Income and 9% Commodities. Yet, only 65.00% of Equities were allocated to the MSCI World and MSCI Emerging Markets Indexes, while the remaining 35.00% were allocated to thirteen specific stocks, using an equally weighted strategy. Regarding Fixed Income, we remained slightly underweighted in relation to the benchmark.

Our fund is 9.00% allocated to the commodity Index.



Return Metrics

The overall performance of the portfolio was negative, with a cumulative return of -0.44%. The best performer was Fixed Income, contributing with a positive return of 0.73%. On the contrary, Commodities contributed negatively to the portfolio, with a loss of -9.20%.

The month was once again marked by high volatility in the market. Nvidia was down by 22.40%, and General Electric was down 22.38%. Umicore was down by 7.93%. Domino's was up by 3.17% and Amazon was up by 2.37%.

Risk Metrics

Compared to October, our VaR reduced from 2.70% to 2.24%. Although this value is now below the threshold of 2.50%, it still reflecting the markets' reaction to a more uncertain environment.

Equities were once again the class of securities with the highest VaR. However, it was reduced from 2.55% to 2.20%. VaR for Fixed Income remained practically unchanged at 0.44%, whereas the VaR contribution of Commodities decreased to 0.44%.

Sérgio Ferrás
Financial Markets Division

NIC Fund

Assets in brief

Asset Class	Symbol	Comments
US Equity	**MXWO**	One of our benchmark equities index MXWO tracks the MSCI World Index. The Index has been hit hard by all the corrections happening during the year. However, the overall state of the world economy still has a positive outlook.
US Equity	**MXEF**	One of our benchmarks, the MSCI Emerging Markets ETF, tracks the evolution of Emerging Markets. Equities in emerging markets had significant losses, many related to the strengthening of the dollar. However, expectations of the Fed pausing its rate hikes could signal a trend reversal for next year.
US Equity	**HSBC**	HSBC is set to be the first foreign company to be listed in China. Despite all the tensions arising from Brexit, and the minor loss of 2.74% on the stock price, we are confident it can maintain its position as a link between Asia and Europe, and therefore decided to keep our expectations, maintaining the stock in our portfolio.
US Equity	**NVDA**	Nvidia has been highly affected in November, with the stock down more than 20.00%. This was caused by a slowdown on the gaming market, cryptocurrencies fall and the trade-wars outlook. The main reason was a crypto mining hardware pile-up, forcing the company to issue a sales and profit warning.
EU Equity	**BNP**	Last month, BNP has been a part of the first syndicated loan on the blockchain. According to the industry experts, this technology could slash transaction times in the $4.6tn-a-year market. This could represent a great opportunity to further explore the new technology.
US Equity	**AMZN**	Amazon has increased its minimum wage last month, in a response to the latest critics to its policies. The tech giant, along with the rest of the FAANG stocks, has been hit hard during the year of 2018. November represented a highly volatile month, but Amazon managed to keep afloat and maintain its share price almost unaltered, with a slight increase of 2.37%.
Commodity	**DBC ETF**	Our Commodities index DBC tracks a basket of 14 commodities. Oil prices dropped sharply in November, reaching a declining of one third from its peak in October. US oil output has surged to new record highs, increasing pressure over the OPEC to cut their supply.
US Treasury Bonds	**IEI ETF**	Our benchmark bond index IEI invests in treasuries with maturities from 3-7 years. There is a concern for tighter monetary policy around the globe, especially in the US. However, November has seen some slow-down on the general economy, which could improve the outlook for fixed income securities.

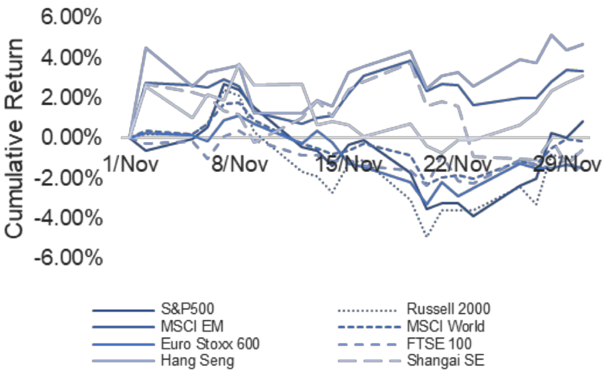
Sérgio Ferrás
Financial Markets Division

NIC Fund

Equities

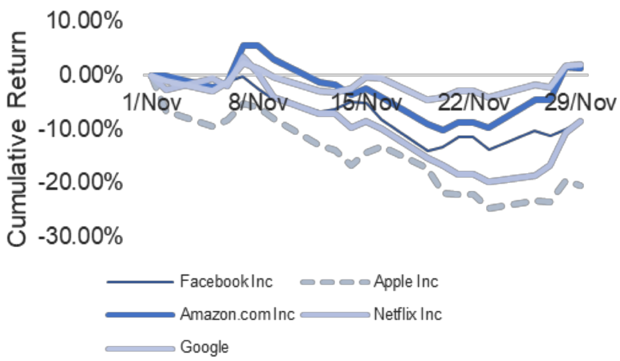
World Equities

November clearly depicted three major winners: Hang Seng (4.66%), Nikkei 225 (3.13%) and the MSCI EM (3.32%). The aforementioned indexes were considerably boosted by a further optimistic outlook on a possible US-China trade deal, amidst a more dovish Fed – as Mr. Powell declared interest rates as approaching neutral levels. Nonetheless, the Shanghai SE remained on the red (-0.54%), further pressured by gloomy growth prospects. Meanwhile, the S&P 500 rebounded mildly in November, gaining only 0.86%. The performance of the US benchmark came after a strong start of the month, motivated by non-farm payrolls exceeding expectations and a very much expected mid-term election, but that was quickly dissipated after a massive tech-led stock sell-off in mid-November. Regarding to European stocks, both the Euro Stoxx 600 (-1.50%) and the FTSE 100 (-1.86%) closed on negative territory. Uncertainty over the Brexit outcome was a key driver, followed by the Italian's budget deficit and weaker macroeconomic indicators.



In depth: Amazon

In November, Amazon (AMZ) had a positive cumulative return of 2.37%, despite its exposure to tech sector volatility and prevailing bearish sentiment. The stock outperformed the FAANGs, ultimately supporting firm's fundamentals and growth prospects amidst a perceived overvalued industry. In fact, not only Amazon's product and service sales grew a combined 29.00% YoY over the 2018 Q3, but also Amazon Prime subscribers surpassed the 100m level. Moreover, Amazon still has plenty of room to grow, both organically and through acquisitions. The potential value creation of entering online food orders and leveraging from its streaming business segment are value drivers that one can perceive as if major relevance for the long-term stock performance. Nonetheless, it is relevant to highlight that an escalating trade war could significantly harm the profits from Amazon Web Services (AWS) – amidst more expensive components for servers and networking gears. Given AWS representativeness of 66% on Amazon's total profit, the outcome of talks about the US-China trade war on the upcoming G20 Summit is of highest importance in order to assess the short-medium term attractiveness of Amazon.



Our performance

In November, equities' contribution to overall portfolio performance was negative, with a -0.23% cumulative return. Among the top performers was HDFC Bank, with a 18.14% gain. Conversely, Nvidia (NVDA) was the worst performing stock, with a monthly loss of 25.06%. Additionally, General Electric (GE) was dropped from the fund – amidst continuous disappointing performance and weak future outlook. Lastly, Goldman Sachs (GS) was included in the fund after the 1MDB's humongous impact, that drove the stock price below $190 for the first time in more than 2 years.

Francisca Anselmo
Financial Markets Division

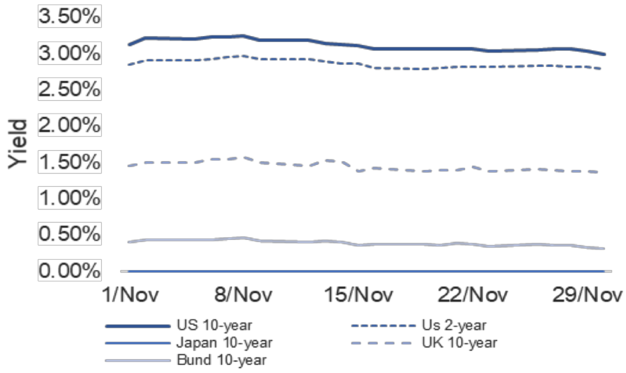
NIC Fund

Fixed Income

World Yields

November was particularly rough for US equities. Following the events of the "Red October", there were no signs of a decrease in market volatility. In fact, investors' anxiety continued to surge amid fears that the Fed might be tightening monetary policy too quickly. Investors fears allied with less optimistic expectations of future growth and inflation led to a shift in focus to fixed income securities, in lieu of equities. Therefore, US treasury yields fell continuously during November, with the 10-year treasury yield closing below the 3.00% mark, for the first time since mid-September. The high demand for US government debt extended to all maturities. However, the decrease in the yield was sharper for longer maturities rather than shorter pointing out to an imminent reversion of the yield curve.

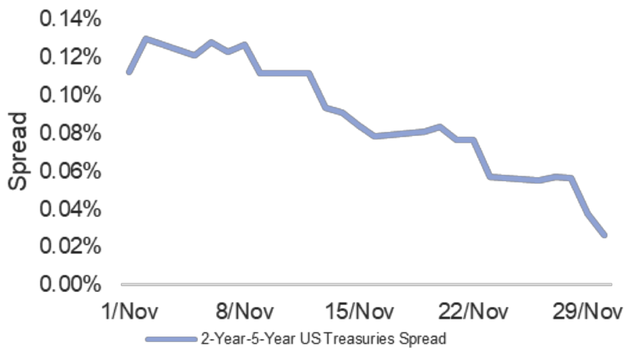
In Europe, both the Bund and the Gilt followed the American counterpart. The 10-year German treasury yield finished the month at 0.31%, a 9 bps decrease, reflecting a 0.20% contraction of the German GDP, the first in more than three years. In the UK, Brexit risk continues to influence investors, with the 10-year treasury yield falling 10 bps to 1.36%. Lastly, in Japan, the yields continued to decline, reflecting the weak long-term economic outlook.



American markets in depth

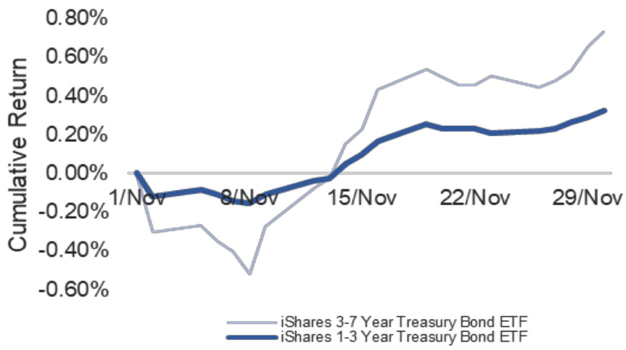
October and November have been catastrophic for the stock market. The gains that the major indexes experienced through the year vanished with major stock sell-offs.

Through the year, the US posted strong economic data, with a labor market marked by full employment and rising wages. Inflation was growing, mainly driven by the continuous increase in oil prices. To ensure price stability, the Fed committed to gradually increase interest rates. However, it may have been just too ambitious for the Federal Reserve. Oil prices decreased tremendously, high interest rates are compromising corporate profits and growth is not matching expectations. Hence, an increasing demand for risk-free securities is dragging yields down, leading to a yield curve inversion, for the first time in more than a decade. This scenario is expected to hold and worsen during the next month. However, it does not necessarily imply a recession is coming. Instead, it might just reflect the adjustment to a slower GDP growth in 2019. Thus, the key takeaway for December is to be patient. Wait for the Fed decision and guarantee high liquidity by increasing cash holdings and decreasing exposure to equities, as cash is set to deliver a higher return than equities and several bonds.



Our performance

Our portfolio has a 41.00% long position in the IEI ETF, tracking 3-7-year US Treasury Bonds, and a 10.00% long position in the SHY ETF, tracking 1-3 year US Treasuries. Over November, the IEI index gained 0.73% while the SHY index only gained 0.33%, leading to a total negative contribution of -7 bps against the fixed income portion of our benchmark.



Gonçalo Marques
Financial Markets Division

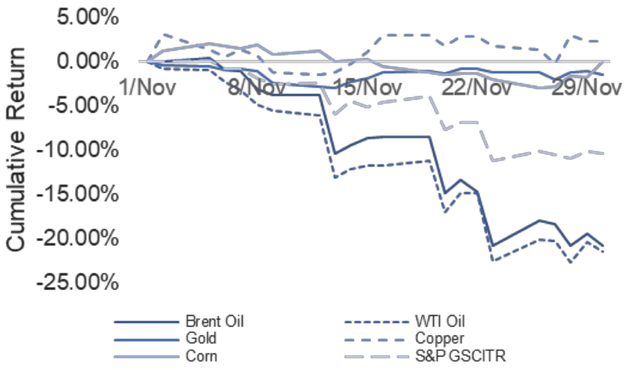
NIC Fund

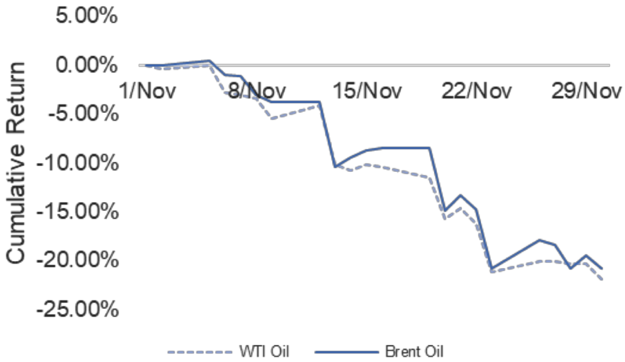
Commodities

November Round-up

November was a rough month for commodities. S&P's GSCI total return index lost 10.50%, bringing it's Year-to-date performance with -6.60% into negative territory. The one to blame is quickly found – crude oil dropped sharply over the course of the month. Brent and WTI, the two global benchmarks, have had their weakest month for more than 10 years, both losing more than 20.00%. Right from the start of the month, oil prices were under pressure when the US published a larger than expected waiver list for Iranian oil exports. Originally, markets anticipated weaker supply due to the Iran embargo. In the second half of the month we saw two major reasons that drove prices further down, culminating in a Brent price below 60 USD/Barrel. We think that the strong movement reflects (1) concerns over massive excess supply against the backdrop of a weaker economy and (2) a broader cross-asset tendency of investor to move away from risky assets due to similar reasons.

For now, Gold has not been able to take advantage of rising recession fears as prices have been slightly down in November. If it can regain its reputation for portfolio diversification and protection remains to be seen. Speculative positioning in Gold for example is compared to last years still on a very low basis which could provide upside in case of investors remembering Gold as their safe haven. Other Metals saw mixed results for November. Iron Ore lost sharply in the last week of the month amid less constraints in Chinese steel production and therefore an upside surprise in steel supply in a macro environment with uncertainty about demand and a cautious sentiment. One of the few bright spots was Copper that gained 2.30%. However, Copper is still down 13.10% year-to-date which is representative for industrial metals. At this point, it seems like market concerns have been incorporated into the prices rather early in the year. This might give room for outperformance if worries about China's growth.





Outlook for December

Key date for oil markets will be the 6th of December as the OPEC meets in Vienna. Main goal of the meeting will be to seek for common ground to stabilize oil prices. Crucial for an agreement will be coordination with Russia, the second largest oil producer in the world. US-President Donald Trump however has a strong preference for no production restrictions as he hopes that low oil prices give some support for the US-economy.

Analysts are becoming more bullish on Gold as they advise clients on diversifying their portfolios. They make the case that with Central Banks major players are re-entering the stage and ramping up Gold purchases. Additionally, November saw a slow pick-up in Gold ETF inflows that could be the first sign that retail investors are coming back as well. We will monitor this development closely during December.

Our performance

In November we had allocated 9% of our portfolio to the benchmark ETF which is roughly in line with our benchmark weight of 10% for commodities. The benchmark ETF lost 9.2% in November.

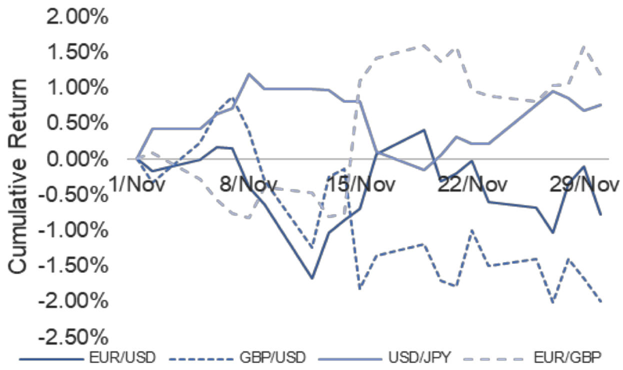
Lukas Müller
Financial Markets Division

NIC Fund

Currencies

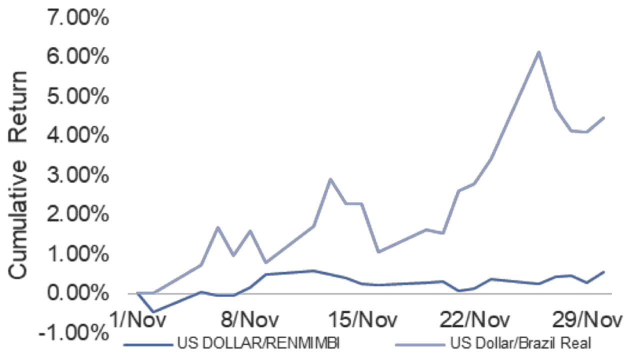
World Currencies

After a modest backdrop in mid-November, the EUR recovered against the USD as Brussels is about to set out plans to increase the use of the EUR in strategic sectors such as energy, commodities and aircraft manufacturing, since the EU wants to challenge the current dominance of the USD as world's reserve currency. To get grip on the track, the European Commission needs to foster the Euro's international role, which would imply a greater sovereignty of the European economy. A first call for action, would be a likely yield hike in summer 2019 to set an end to the negative yield environment in the European Union. Nonetheless, the EUR weakening against the USD throughout the month is majorly attributed to Mario Draghi's acknowledgement that the euro zone felt short on growth expectations. Moreover, the ECB had some concerns about the Italian financial politics after the latest Italian government bond issuing. However, Italy announced in mid-November that it may cut its budget deficit to satisfy the European Union, which was appreciated by the EUR.



Having a look on Europe's biggest island where the British government was found to be in contempt of parliament after refusing to publish key Brexit papers. This move led to an over 17-month low of the sterling. As uncertainty is not about to come to an end the GBP is about to stay volatile in the near future.

Meantime it is relevant to highlight the JPY strengthen from mid-November onwards, as amidst a bearish sentiment and market turmoil investors went after the so called *safe haven currency*.



In depth

After the Meeting of Donald Trump and Xi Jinping in November, both Presidents declared trade truce at G20. Furthermore, Trump has delayed his imposition to raise tariffs from 10.00% to 25.00% on Chinese import goods, to create room for further negotiations. Due to the temporary truce the CNYUSD remained calm throughout the month. As the current situation on tariff negotiations is about to continue at least until the end of February 2019, the CNYUSD is very likely to close below a level of 7 by the end of 2018. As the level of 7 is an important psychological threshold, currencies of emerging markets will potentially suffer due to a high exposure of emerging markets to Chinese economy if CNYUSD moves above 7.

Referring to November, the Brazilian Real did not continue to outperform the other EM currencies. Investors adjusted their expectations on Brazil's new president Jairo Bolsonaro and his pro-business attitude, so the Brazilian Real trended downwards throughout the month.

Our performance

We currently hold no currency related assets in our portfolio.

Jan Schroff
Financial Markets Division

Extras

Hot Topic

Investors needed to save the planet

Lisa Preußler
Financial Markets Division

Climate change poses a complex, systemic global challenge, but its risks can be mitigated and an investment portfolio, no matter the size, can play a role.

The current market slowdown in green finance is only a blip on the radar, and long-term interest in the market is still strong and growing.

Extreme weather events make global head-lines and scientists warn about a shifting climate. A growing number of investors want to play a role in tackling climate change. In December the Paris climate accord will meet in Poland to discuss how the pledges can be implemented.

Eleven years ago, the first green bonds were issued by World Bank and European Investment Bank. The two supranationals pioneered social bonds, sustainable bonds and, most recently, a blue bond. Despite the growing importance of green finance in the financial markets, its participants have not yet found a uniform answer to the question of what 'green' means. Although transparency and impact reports are indispensable in the green finance process, there are only non-binding guidelines. Therefore, as with any other investment, investors should carry out due diligence on issuers.

Investors can 'green' up their portfolios on the debt and equity side by buying bonds from companies with sound environmental policies or by buying corporate bonds issued as green bonds. Research shows that the potential of green bonds is enormous: around USD 90 tn will be needed over the next 15 years to invest in infra-structure in order to achieve a low-carbon economy. Green bonds will be an important financing instrument. On the equity side, investors can focus on companies that are leading in developing environmental-friendly products or supporting other companies to exit "dirty" industries. Moreover, there are opportunities for investment in companies that focus on energy conservation within existing infrastructure in developed economies and in companies that focus on integrating resource efficiency in new commercial construction in emerging markets. The share of companies in the "green" construction market is expected to rise from 18.00% in 2018 to 36.00%. In addition, investments in clean agriculture, water purification systems or companies with activities in parts of the world where food or water may become scarce can be considered. Another approach is to invest in all sectors of the economy, including traditional energy, but only in companies that have industry-leading quantitative and qualitative environmental, social and governance practices.

As long as trading conditions are good and money is easy, financial innovation flourishes. When volatility increases and investors become fidgety, newer parts of the market are put on test. It is an experience that the green finance industry is facing nowadays.

The sale of green bonds is stuttering after several years of rapid growth. In the Q3 of 2018, issuers around the world sold 30.00% less than in the Q2 and 18.00% less than in the same quarter of 2017. Moody's had originally forecast that sales of green bonds would reach USD 250 bn this year, a significant increase over the record of USD 163 bn last year. This forecast has already been revised to USD 175-200 bn after revenue slowed in the Q2. One reason for the decline in the Q3 is the growing supply of alternatives to green debt. More fundamentally, exceptionally simple market conditions have allowed green finance to flourish as QE and extremely low interest rates have boosted asset prices and driven investors to diversify. As monetary policy tightens, Treasury yields rise and the dollar's strength takes investments out of risk-weighted assets conditions are becoming more difficult.

What are the future opportunities for green finance? Can we afford to wait under the mounting evidence of catastrophic climate change?

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Extras

Hot Topic

How Mr. Trump could steal Christmas from investors

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During the period of the last 5 days of the year and the first two trading days of New Year´s stock markets experience a sustained increase, also called Santa Rally.

Santa Claus comes to Wall Street at the second trading day of the New Year and brings 1.30% average cumulative return to investors who invested at St. Stephen's Day since 1950. Historically, investors behaved well, and Santa Claus brought them positive returns 75.00% of the time (since 1969). However, this year investors might find just coal under their Christmas tree at Wall Street.

As one of the market anomalies, Santa Claus Rally is very dependent on investor sentiment. Therefore, the appearance of the effect is influenced by the upcoming news flow. Santa Claus disappoints investors if markets are bearish or if investors can get their treat of low stock prices later in the year. On the other hand, expectations about markets in the New Year has to be bearish to lead the way for Santa Claus to investors.

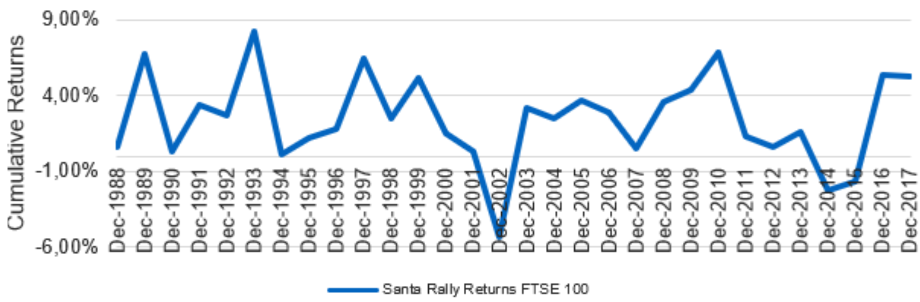
Upcoming Santa Claus´ trip to Wall Street might be blocked by the US-China trade-war concerns that have buffeted the market lately. But there is a hope, at the end of November President Donald Trump meets President Xi Jinping at the G-20 summit in Argentina. However, the meeting itself is not expected to improve the situation. Lack of a trade deal could not only completely stop Santa Claus, but also result in a very ugly start of 2019. An indication is the decline of estimated earnings per share increases for 2019 from 10.00% to 7.60%.

However, from historical perspective this is not bad, but the market is generally more interested in the trend and direction not the absolute numbers.

Another major roadblock in Santa´s way to investors might be the Fed. The major date will be the 19th of December, during the Fed monthly meeting. It is unlikely that Jerome Powell, Fed's Chairman, will stop pushing for the rate hike. However, Mr. Powell could abolish the aggressive tone from his October speech about Fed being far from the neutral rate as the market overreacted to these news.

At St. Stephen's Day, investors should make their decision if they believe in Santa this year. The outcome of the described events will surely be important as they impact sentiment significantly. In case of positive outcomes investors should focus on FTSE 100 (79.00%) with highest percentage of times with a f Santa Rally, then MSCI World (77.00%) and S&P 500 (73.00%). Within these markets, value stocks tend to outperform growth stocks in this period. Tech companies should be out of the questions based on the results from last month.

With the market correction territory in recent weeks, investors would probably accept any rally – even if the Grinch brought it.



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Hot Topic

Italy's proposed budget plan

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"Negotiations on the deficit are the main driver of spreads and that dialogue seems to be going in the right direction."

– Nick Gartside, JPMorgan Asset Management

In October 2018, the European Commission has rejected Italy's draft budget which envisages a deficit of 2.40% of GDP next year due to proposals to reduce taxes, increase spending on the poorest and lower the overall retirement age. This deficit represents a number three times higher than the EU mandated target. Earlier this year the European Commission warned the populist government in Rome that plans for a wider deficit would be against EU fiscal rules as well as Italy's previous commitments.

Italy's budget plan is based on a forecast of 1.50% growth for gross domestic product in 2019 to help pay its spending plans. This estimate is significantly higher than forecasts of both the European Commission and IMF.

Following the draft budget's rejection, Giovanni Tria, Italy's Minister of Economy and Finances, has argued that the planned budget is necessary to revive a dormant economy, alleviate poverty and eventually start bringing down Italy's debt levels from 2020. However, according to the European Commission, Italy has already used up all available flexibility under the EU's Stability and Growth Pact which also includes significant spending on infrastructure, investment and refugees. Relative to the size of the economy, Italy's debt levels are currently the second largest in the Eurozone, only behind Greece, limiting its scope for extra spending.

In late November 2018, Brussels declared Rome's populist coalition government's budget plan as a serious non-compliance with previous commitments of the country and justified the opening of an "excessive deficit procedure" which would last long into next year before any results become apparent. This disciplinary process could eventually lead to fines starting at 0.20% of Italy's GDP.

Just earlier this month there has been some new developments. After harsh criticism from Brussels, Giuseppe Conte, Italy's prime minister, has signalled that if the budget's expensive welfare policies remain intact, he would be willing to modify the budget plan to a certain degree. To avoid being sanctioned by the European Commission, minor adjustments could be made to Italy's budget.

Even though Giuseppe Conte and Giovanni Tria have signalled a certain willingness to compromise with the European Commission, no concrete details have surfaced so far on their approach to this matter. The question is how Rome plans to adjust its spending policies to comply with the EU's spending rules as to avoid formal sanctions from Brussels and still achieve its goals of reducing Italy's retirement age and the citizens' income welfare payments. The internal dynamics of the Italian coalition, specifically that the ultimate decision-making lies with the heads of the coalition parties, namely Five Star's Luigi Di Maio and the League's Matteo Salvini rather than Giuseppe Conte and Giovanni Tria, poses another challenge.

Deputy prime ministers Salvini and Maio have signalled a willingness to negotiate with Brussels over the budget. However, huge compromises over their policies may risk upsetting their supporters.

The ongoing discussion sparked concerns in financial markets due to the perception that Italy is not willing to start reducing its debt. Rating agency Standard & Poor's stated that this debate may result in higher funding costs for the private sector, including banks.

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Hot Topic

Brexit may damage US-UK trade deal

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“Donald Trump has slammed the UK prime minister’s Brexit deal, saying it would benefit the EU while damaging the UK’s ability to trade with the US.”

– Financial Times

Regarding the Brexit deal, President Trump has told reporters outside the White House that he has to take a serious look on whether the UK is allowed to trade with the US. Trump added that *“Right now as the deal stands, they may not be able to trade with the US, and I don’t think they want that at all. That would be a very big negative for the deal.”*

Trump’s intervention caught Theresa May by surprise and also many of her backbenchers, for whom the idea of the US-UK trade deal was stabilized and solid. The statements mentioned above are likely to weaken May’s hand at a time where she is seeking to get the deal approved by the parliament.

Problems arise since the UK cannot negotiate trade deals during the transition period. That period is expected to finish at the end of 2020 but it is a highly likely scenario that the transaction’s period get extended up to two years. Consequently, two things can possibly happen. Either the UK activates the new trade arrangement, or they will fall into the backstop.

In case the backstop solution takes place, the UK will not be able to pursue trade deals. Technically, the UK will be free to seek agreement in the services sector but not on goods and no country is going to bargain on those terms. The only way for Britain to get meaningful deals is by securing penetration of its financial services in exchange for opening itself up to the other country's goods.

In case the backstop is avoided, a trade deal would be possible, once the UK has secured their future long term relationships. *"We will have an independent trade policy so that the UK can sign trade deals with countries around the world – including with the US.”* a spokeswoman for Theresa May’s office said.

It is crucial to notice that if you want to prevent a hard border on the island of Ireland and the Irish Sea, you need regulatory alignment between the UK and the EU. On the other hand, if you have regulatory alignment between the UK and the EU, it is not possible to unilaterally lower tariffs and regulations on goods. And if you can not unilaterally lower tariffs and regulations on goods, it is not possible to get a trade deal with the United States.

Hence, the UK might, in fact, not to be able to do a trade deal with the US. Britain will be technically independent to sign trade deals but functionally unable to negotiate them.

From the UK’s point of view, as Whitehall's own Brexit impact assessment showed, a trade deal with the US would only be worth 0.20% of GDP, meaning that the impact will not be significant on the British economy.

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Thank you!

Visit www.**novainvestmentclub.com** for more updates.

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