NIC

— Nova Investment Club —

Newsletter

January 2019

Table of Contents

Macro Overview

In Focus
December — p.1

Deeper Dive
Transformation in the global insurance market — p.2

Regional View
Venezuelan propaganda for investors — p.3

Economic Calendar
December — p.4

Investment Banking Division

M&A: Overall Activity — p.5
Global
Selected regions: North America, Europe, Asia

M&A: Top Deals
- Saudi Arabia’s Siphem to acquire Sahara Petrochemicals — p.6
- Anta Sports to acquire Amer Sports — p.7
- LMVH to acquire Belmond — p.8

What Happened To
- Herbalife Nutrition — p.9
- BMW AG — p.10

NIC’s View On
- Aftermath of the Monsanto deal: Bayer under pressure — p.11

Financial Markets Division

NIC Fund
Portfolio Overview — p.12
Assets in Brief — p.13
Equities — p.14
Fixed Income — p.15
Commodities — p.16
Currencies — p.17

Extras

Hot Topic
- 2018 in Review — p.18
- A look back at M&A in 2018 — p.19
- The future of mobility – China backs fuel cell technology — p.20

NIC 2019 Market Outlook
- Time for the brave investor — p.21

Foreword

This Month:

In our Macro Overview section, Analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, Cong Phuoc elaborates on the global insurance market and the prominence of insurtech. Moreover, in our Regional View, Nina Kusnirova examines the first national cryptocurrency in the world, the Petro, and the Venezuelan Government intentions.

Our Investment Banking Division will guide you through December's M&A overall activity. Read about Saudi Arabia's Siphem intention to acquire Sahara Petrochemicals, Anta Sports to acquire Amer Sports and LMVH's plans to buy Belmond. Additionally, get a detailed overview on what happened to Herbalife Nutrition and BMW AG, as well as consider our opinion on the Monsanto-Bayer deal.

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 December was slightly superior to the benchmark. Nonetheless, amidst major uncertainty and volatility we plan to adjust our Fund accordingly, namely by deploying innovative Fixed Income strategies.

Lastly, Vadim Nikitin provides a brief overview on the year of 2018, our IBD Head, Birk Carlenius, examines how the M&A activity developed throughout the year and João Sousa Mendes analyses the future of electric vehicles towards the adoption of fuel cell technology. In light of the beginning of a new year, our FMD Head, Lukas Muller, provides our 2019 outlook – which ultimately will conduct NIC Fund's strategy for the year.

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

NIC
Nova Investment Club

Macro Overview

Monthly

January 7th, 2019

Deeper Dive

Transformation in the global insurance market

— p.2

Regional view

Venezuelan propaganda for investors

— p.3

Market Moves

Market moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	2,498	3.36%	-14.28%	-6.57%
DJIA	23,223	3.47%	-12.23%	-6.05%
Nasdaq	6,628	4.65%	-17.63%	-3.99%
MSCI World	2,564	2.09%	-14.17%	-13.96%
MSCI EM	3,550	0.58%	-6.25%	-19.55%
Russell 2000	1,345	4.07%	-20.74%	-12.42%
Euro Stoxx 50	2,993	-0.25%	-11.94%	-14.58%
FTSE 100	6,734	0.19%	-10.33%	-12.40%
Nikkei 225	20,015	-0.75%	-17.02%	-12.08%
Hang Seng	25,130	-2.42%	-9.57%	-16.01%
Dollar Index	96.82	-0.14%	1.77%	5.10%
EUR/USD	1.135	-0.22%	-2.21%	-5.48%
GBP/` EUR	1.110	-0.06%	-1.12%	-1.41%
GBP/USD	1.260	-0.39%	-3.34%	-6.79%
USD/JPY	109.3	-1.74%	-3.89%	-3.03%
USD/CHF	0.989	-0.47%	0.75%	1.52%
Brent Crude	55.90	3.86%	-32.42%	-16.40%
Gold	1,288	2.73%	8.10%	-1.63%

Generic bond yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	2.661%	-12.9	-40.0	25.6
GER 10Y Yield	0.165%	-8.5	-30.5	-26.2
JPY 10Y Yield	0.003%	-4.4	-12.7	-4.5
UK 10Y Yield	1.209%	-11.2	-36.4	1.9
PT 10Y Yield	1.713%	2.6	-16.5	-23.0

**Source: Bloomberg, as of 2018-12-31*

In Focus

December

Temporary trade war ceasefire reached between Trump and Xi. After a working lunch at the G20 World Summit in Argentina, Trump and Xi agreed on a 90-day ceasefire and thus on restraint from imposing higher tariffs.

US Secretary of Defence Jim Mattis announced his step down. Mattis will resign at the end of February due to fundamental disagreements with President Trump. One of the main reasons was Trump's announcement to withdraw from Syria.

Sharp sell-off in equity markets after Fed lowers 2019 forecast. After Fed chairman Jay Powell announced the fourth rate hike in 2018, which raised the target range for the federal funds rate to 2.25-2.50%, and revealed the reasons for lower interest rate hike forecasts for 2019, the S&P 500 fell by 2.30%, the strongest negative reaction to a Fed announcement. The S&P 500 did not recover and recorded the worst trading day in its history on Christmas Eve. American and global equities end their worst year in a decade.

The European Court of Justice decides UK can unilaterally terminate Brexit. The Article 50 exit clause can be unilaterally revoked, allowing the UK to withdraw its notification to leave the EU without the consent of other EU member states during the two-year negotiation period. This underlines an enormous boost for anti-Brexit campaigners.

EU and Italy striking a deal on spending plans. The agreement reached between Brussels and the populist Italian government will lead to an expected budget deficit of 2.04% of next year's GDP, compared with 2.40% in Rome's original plan.

Theresa May wins the vote of confidence. After May was confronted with a dramatic vote of confidence in her leadership after Eurosceptic MPs launched a coup against the Prime Minister to gain control of the final phase of Brexit, May wins the Conservative Party's vote of confidence by 200 to 117.

Annegret Kramp-Karrenbauer elected head of Germany's CDU. Kramp-Karrenbauer, a close ally of Angela Merkel, won 52.00% in a run-off against Friedrich Merz, a corporate lawyer who formerly chaired the CDU parliamentary group.

French government suspends the increase in fuel tax after civil unrest. Prime Minister Edouard Philippe announced that the planned fuel tax increase would be suspended for six months to alleviate the violent "yellow vests" protests.

BoE left rates unchanged. After the BoE pointed out that Brexit's uncertainties had increased significantly over the past month and have little idea whether the UK would leave the EU smoothly or without a deal in March, it left its interest rate unchanged at 0.75%.

Indian central bank governor steps down after dispute with government. Urjit Patels resigned from his position as central bank governor, which he held since September 2016, after a tense stalemate with Prime Minister Narendra's government over the bank's independence.

Paris climate agreement signed. After two weeks of tense negotiations, almost 200 countries agreed on rules for the implementation of emission targets. In order to limit global warming to below 2C, a unified set of rules has been achieved that regulates how countries measure and report their emissions and climate targets.

Lisa Preußler
Financial Markets Division

Deeper Dive

Transformation in the global insurance market

Cong Tuan Huynh Phuoc
Investment Banking Division

> *"Insurers think the market can still appreciate a good strategic rationale for transaction. Whatever the reason, as long as there is a strong, strategic rationale, big companies aren't necessarily getting punished for it."*
>
> - Fergal O'Shea, Willis Towers Watson

Reviewing the past year, the first mega-deal was US giant AIG's purchase of reinsurer and specialist insurer Validus Holdings for USD 5.3 bn. This transaction was meant to enhance AIG's reinsurance services and data analytics capabilities.

In March this was followed by AXA's acquisition of Bermuda-based global property and casualty insurer XL for USD 14.1 bn. The rationale behind the deal was in line with AXA's strategy of shifting its business from life insurance to P&C and strengthening its commercial lines. The group also stated that the deal would help them expand geographically.

Strategic acquisitions and disposals are still in the front of the mind in most companies' boardrooms, with confident players eager to get involved. Since debt still remains cheap and geopolitical concerns have less of an impact on insurers than on other service sectors, 2019's outlooks remains positive.

Insurers, from all subsectors, are recognizing new ways of gaining market share, diversifying income streams and tackling new sectors. The drivers for investment and deals are as diverse as they have ever been, from seeking out new business models and consolidation to renewing focus on core assets. Meanwhile, technology is becoming an ever-threatening presence, which incumbents need to acquire if they are to see off insurance insurgents.

Technology is an inescapable trend in all major business lines and sectors, and insurance is no exception. After a relatively slow start, insurtech is slowly catching up to its fintech sibling. Apple, Google as well as a host of smaller start-ups represent an added level of competition in the P&C space, meaning insurers have to be ahead of the technology curve as to avoid being left behind.

The increased level of competition on many deals, complex acquisitions which split companies into many parts, and other prevalent issues have made dealmakers more cautious in their approach. While insurance companies across all sectors are dealing with different challenges, they are also seeking to seize new opportunities. As regulatory pressures become business as usual, new business models are emerging and boards are looking at how to shape their future.

For instance, China, an increasingly important player on the insurance stage, is looking beyond its own borders and using the Belt and Road initiative to expand internationally.

However, technology investment still divides insurance sectors, with P&C showing more engagement and the life sector lacking the motivation. Political and economic uncertainty may affect deal making in the future, although some remain optimistic that the insurance sectors will be relatively protected from cross-border instability.

For many European insurers, Solvency II was a huge challenge and very time-consuming. Models, testing and capital adequacy ratios filled months of executives' time. With the implementation of the regime going live in January 2016, boards were able to focus on how it affected their business in practice and what might lie ahead as the dust settled. Many have questioned whether this new level of capital intensiveness should strategically change their goals and ambitions.

As an example, in February UK-based asset management firm Standard Life Aberdeen announced that it would offload its entire life assurance business to Phoenix Group for a cash and shares deal worth USD 4.3 bn. Those most affected by Solvency II in Europe have included long-term life insurance businesses and those offering long-term savings and guarantees. In practice, this means that companies are divesting non-core assets and offloading their legacy books.

Cong Tuan Huynh Phuoc
Investment Banking Division

Regional View

Venezuelan propaganda for investors

Nina Kusnirova
Financial Markets Division

"The petro will be an instrument for Venezuela's economic stability and financial independence, coupled with an ambitious and global vision for the creation of a freer, more balanced and fairer international financial system," the paper's authors wrote.

Once upon a time, thanks to the oil reserves, Venezuela was the wealthiest country in South America. Unfortunately for Venezuelans, it did not have a happy end. Due to beastly policies, its economy ended up in a whirlpool spinning between extreme hyperinflation, vast poverty and boundless unemployment.

The Venezuelan currency, the sovereign bolivar (VEF), is the worst-performing world currency against the USD this year. One USD is not worth VEF 250,000 anymore, but rather VEF 6.0 m. The problem, compounded by the government's withholding USD from importers, caused a dangerous shortage of basic commodities. The situation led to continual deterioration, and it is currently estimated that 2.3 m people left the country (out of 31.0 m).

The hope for better times arose at the 20th of February 2018, when the Venezuelan president, Nicolas Maduro, launched the first national cryptocurrency in the world, the petro (PTR). To make the petro saviour of the Venezuelan economy, president Maduro linked the petro to the country´s oil reserves.

In the pre-sale, the Venezuelan government claimed to raise USD 3.3 bn. The second launch was in the form of a public sale of 44.0 m tokens. Later, in February, president Maduro announced a gold-backed petro.

Maduro did not give up on his monetary policies and carried out a currency reform this August. The reform was centred around replacing the old bolivar fuerte currency with new bolivar soberano – one bolivar soberano is worth a hundred thousand bolivar fuerte. Due to the fixed exchange rate to USD, the new currency devalued by roughly 95.00% compared to the old bolivar fuerte. Therefore, one petro can be now exchanged for 3,600 bolivars soberanos or one barrel of oil.

Even though such intentions looked fair, by creating medium for daily transactions (like a fiat currency), as an investment vehicle, and as a digital platform – to represent real-world assets – do they result in the wished outcome? The first launch of white papers of the petro was not more successful than any other Venezuelan monetary policy. It was launched at NEM platform, however, white papers in various languages shared conflicting information, allowing scammers to establish their own "petro" cryptocurrencies on various platforms.

The white papers themselves do not mention the link between cryptocurrency and oil reserves. On the top of that, the region proposed for oil drilling seems to have very little evidence of oilfields activity or future prospect of oil discovery. Moreover, until now, it is not clear whether the gold backed tokens are actual gold reserves or some kind of share of the country´s untapped mineral reserves.

Not only Reuters' journalists did not find any users of the cryptocurrency for daily transactions, but also found just two people who bought it after release, out of whom one was scammed into the purchase. Also, there is no way to verify that the numbers published by government were real sales.

In conclusion, the following are the main reasons of the first national cryptocurrency failure except for mythical facts presented by the Venezuelan president and other officials. Firstly, the petro itself does not have any value as it is not traded on any cryptocurrency exchanges. Analyst share their opinion that the petro has "limited" utility. Secondly, the petro as it was conceptualized may not exist at all. Hugbel Roa, representative of the Venezuelan Blockchain Observatory, said that people have made reservations for the petro but no coins have been released yet.

Even though the current market situation points investors´ lances to emerging markets with fairy tales, some of those tales have a prince on a white horse who is just a disguised pirate.

Nina Kusnirova
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Brexit Events

The two-week recess of the House of Commons ends on the **6th** of January. After the vote on Mrs. May's Brexit agreement was postponed on the **11th** of December, the debate will resume on the **7th** of January with the vote scheduled for the week of **14th** of January.

World Economic Forum

From the **22nd** to the **25th** of January, political representatives, executives of global companies and non-governmental organizations will meet in Davos for the World Economic Forum, which is centered around the theme *Globalization 4.0: Shaping a Global Architecture in the Age of the Fourth Industrial Revolution*

New US Congress

On the **3rd** of January, the 116th Congress will meet for the first time since the Democrats won a majority in the House of Representatives in 2018. This marks the beginning of a new level of political opposition for Donald Trump.

Central Bank Decisions

Fed Interest Rate Decision

The FMOC meeting will take place on **29th and 30th** January. Due to lower expectations of US economic growth, signs of a global slowdown and volatility of the financial markets, Fed officials expect federal fund rate to rise, but signal only one or two rate hikes in 2019.

Bank of Canada Interest Rate Meeting

On the **9th** of January the Bank of Canada will meet. According to Stephen Poloz, interest hikes could be interrupted or sped up depending on economic circumstances. Currently two interest rate hikes are expected in 2019.

ECB Monetary Policy Decision

The Governing Council of the ECB holds its monetary policy meeting on the **24th** of January in Frankfurt. ECB's board continues to expect an interest rate hike in 2019, but points out that this will depend on inflation data in the first half of the year.

Inflation and Deflation

Update on Euro Zone Inflation

December inflation data for the euro area will be published on the **4th** of January. Inflation in the euro area is expected to ease and fall to 1.70%. ECB economists expect inflation to fall to just 1.60% in 2019.

Brazil's Inflation

Brazil's inflation rate will be announced on the **11th** of January. Following Jair Bolsonaro's victory, inflation risks became more balanced and inflation forecasts for 2019 stabilised at 4.25% after lower than expected November 2018 levels.

UK Consumer Price Index

YoY figures on consumer prices in the UK will be made public on January **16th**. Inflation is expected to fall further in the course of 2019, approaching 2.00%.

Labour Market

US Employment Readings

On the **4th** of January the US payrolls number with ADP employment change data for December and the weekly jobless claims are announced. Despite signs of economic slowdown, the labour market is expected to remain strong. The unemployment rate is expected to remain close to a 49-year low of 3.70%.

German Labour Market

On the **4th** of January, Germany announces its unemployment rate. The increase in employment continued for the thirteenth year in a row. It is expected to announce the lowest unemployment rate since reunification, at around 4.80%.

Euro Zone Unemployment Data

The European Zone unemployment rate will be announced on the **9th** of January. The overall unemployment rate is expected to fall further, while in some countries unemployment is still projected to be too high.

Lisa Preußler
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

The global M&A activity in December followed the slow down trend already observed throughout October and November. In the last quarter of the year, the total number of deals was below 8,000 which makes it the lowest Q4 figure since 2013. Such a decline mirrors the effect of negative factors such as the trade war, higher regulatory scrutiny and the increase in interest rates, which led to financing tightening as the end of the year approached.

The total M&A value in 2018 climbed up to USD 3.5 tn, representing an increase of 11.50% from 2017. The Energy, Mining & Utilities sector ranked first, adding up to USD 673.0 bn.

However, there was a decrease of 27.50% from the first to the second half of the year, according to Mergermarket. The top five deals of the year occurred before August and only one deal worth more than USD 20.0 bn was agreed in the last three months of the year, illustrating the deceleration observed from the third quarter onwards.

Selected Regions

North America

Due to high economic growth, the total deal value already exceeded the value from last year by USD 121.1 bn (YoY). Low unemployment rates and robust consumer spending are only a few macro-factors, that were crucial to boost the US economy and the M&A activity to 330 deals. The Energy, Mining & Utilities (EMU) sector had the highest value of deals (USD 35.3 bn, 36 deals), sharply followed by the Technology sector (USD 33.6 bn, 57 deals).

EMEA

Europe, especially the UK, remains on a level of uncertainty and instability, which led to a sharp drop in the total M&A value (USD 26.2 bn, 299 deals), on a YTD level of USD 905.5 bn. The largest acquisition was the transaction of US-based Boston Scientific Corporation´s (USD 4.0 bn) takeover of UK-based BTG Plc. Pharma, Medical & Biotech was the most dynamic sector in Europe with 23 deals worth USD 4.3 bn and JPMorgan was ranked top financial advisor, with 11 deals worth USD 20.2 bn.

Asia

Asia’s deal making activity has dropped by 39.70% on value, with 156 deals, to a total of USD 55.8 bn across 243 deals, compared to the same month of last year. This drop can be led back to the ongoing trade war and the resulting uncertainty in mostly China. Pharma, Medical & Biotech showed the highest volume in value with USD 11.0 bn across 17 deals. The most valuable transaction in this industry was Yunnan Baiyao Group´s acquisition of Yunnan Baiyao Holding (USD 7.3 bn).

M&A

Deals of the Month

Announced Date	Target	Buyer	Target region	Target business	Value (USD m)	Premium (%)
12 Dec 18	ABB	Hitachi	CH	Power Grids	6,400.00	-
07 Dec 18	Amer Sports	Anta Sports	FI	Sports	5,300.00	36.6
03 Dec 18	Tesaro	GlaxoSmithKline	US	Pharmaceuticals	5,100.00	-
06 Dec 18	Travelport	Elliot Management, Siris Capital	UK	Technology Services	4,400.00	-
03 Dec 18	GlaxoSmithKline (Horlicks)	Unilever	IN	Consumer Nutrition	3,760.00	-
13 Dec 18	Belmond Ltd	LVMH	UK	Travel Retail	3,200.00	39.7
14 Dec 18	Antelliq Group	Merck & Co, Inc	FR	Animal Health	2,380.00	-
06 Dec 18	Sahara Petrochemical Co	Saudi International Petrochemical Co	SA	Petrochemicals	2,200.00	-
06 Dec 18	IBM Corporation	HCL Technologies	US	Software	1,800.00	-

Phillip Hunold & Duarte Alves Pereira
Investment Banking Division

M&A: Top Deals

Saudi Arabia's Sipchem to acquire Sahara Petrochemicals

Saudi International Petrochemical Co (Sipchem) will acquire Sahara Petrochemicals in an all-share deal of USD 2.2 bn. The two companies entered into a binding agreement on the 5th of December 2018.

Buyer vs Seller

Sahara and Sipchem, both operating in petrochemical and chemical manufacturing, have the Zamil Group, one of Saudi Arabia's most prominent family businesses, as a significant shareholder. The two companies had earlier signed a non-binding memorandum of understanding to start talks for a potential merger in December 2013. However, the negotiations were called-off in June 2014. Morgan Stanley Saudi Arabia is acting as Sahara's advisor while HSBC Saudi Arabia is Sipchem's advisor.

Industry Overview

The Middle East remains the lowest-cost centre for many key petrochemicals. Saudi Arabia and the wider Middle East are at the lower end of the cost curve among petrochemical-producing regions for primary chemical production. Currently the region accounts for 12.00% of the global production of high-value chemicals. This merger follows the wave of consolidation that is sweeping through the industry.

Peers	Currency	Market Cap (CUR m)
Saudi International Petrochemi	SAR	7,040.00
Saudi Industrial Investment Gr	SAR	9,693.00
Advanced Petrochemical Co	SAR	10,075.85
National Petrochemical Co	SAR	11,500.80
Saudi Kayan Petrochemical Co	SAR	20,010.00

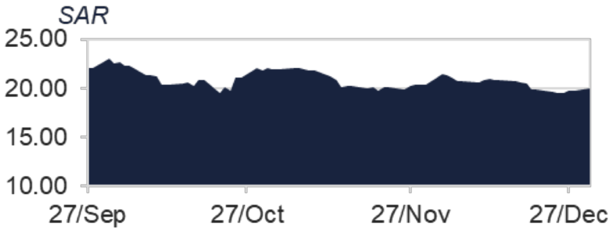
Deal Rationale

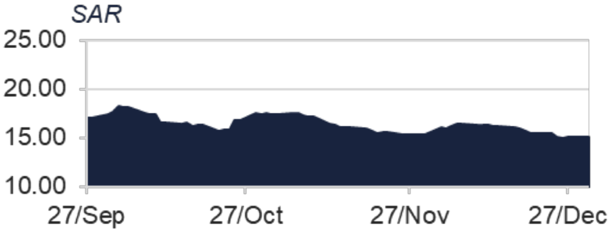
Sipchem stated the merger will strengthen the product portfolio, diversify feedstock supply and build out company's presence along the value chain; increase the scale and resilience in the evolving petrochemical sector in Saudi Arabia and internationally, building competitive advantages and complimentary capabilities of Sahara and Sipchem to provide benefits commercially, operationally and functionally; and create a platform with improved financial resources, capital market access, and product and technological expertise to take advantage of local and international growth opportunities, both organic and inorganic.

Market Reaction

Saudi International Petrochemical Co
Since the nonbinding announcement, October 3rd, the stock price, that was trading at SAR 20.24, has dropped by 6.88%.

Sahara Petrochemicals
Similarly to what happened to the acquirer, the stock price of Sahara decreased by 8.76% since the nonbinding announcement. It is currently trading at SAR 15.12.





Future Challenges

According to the filling, "*Sipchem will issue, and each Sahara shareholder will receive, 0.8356 new Sipchem shares for each Sahara share held by them (the "Exchange Ratio")*". The agreement is still subject to shareholder and other approvals, regardless the transaction is expected to be completed by the 30th of June 2019.

Rita Silva Marques
Investment Banking Division

M&A: Top Deals

Anta Sports to acquire Amer Sports for EUR 5.6 bn

China's largest sportswear company, Anta Sports, launched an offer for Finland's Amer Sports, valuing equity at EUR 4.6 bn plus EUR 1 bn in Amer's net debt. In case of success, it would be the biggest acquisition by a Chinese company in Europe this year.

Buyer vs Seller

Anta Sports is the market leader and represents the Fila brand in China since 2009, Descente from 2016 onwards and is the official marketing partner of NBA China. This multi-brand strategy has delivered strong revenue growth, around 44.10% in 2017, and positive profits of USD 289.0 m in the first half of 2018. Amer Sports owns strong brands such as Wilson, Salomon and Atomic Skis. Goldman Sachs is Amer's advisor, while Citigroup is working alongside Anta Sports.

Industry Overview

China's sport market is rapidly growing at a CAGR of 19.00%, being the projected market size in 2019 of USD 162.0 bn. Anta has grown at double the pace of its peers and is currently worth USD 12.7 bn. Beijing will host the 2020 winter games and in an effort to boost winter sports, the government estimated a total of 1,000 ski stations in 2030, twice the current number. Winter sports' apparel is expected to increase proportionally.

Peers	Currency	Market Cap (CUR m)
Thule Group AB	SEK	16,007.65
Yonex Co Ltd	JPY	55,798.00
Mizuno Corp	JPY	61,953.88
Goodbaby International Holding	HKD	4,036.62
Fox Factory Holding Corp	USD	2,088.39

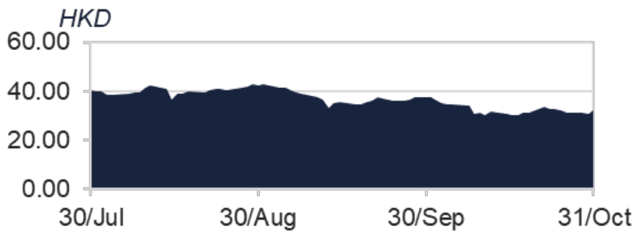
Deal Rationale

The buyer is offering EUR 40.0 per share in all-cash deal, constituting a 40.00% premium. Anta is leader and majority stakeholder (58.00%) in the buying consortium which also includes private equity firm Fountain Vest and Tencent. The acquisition is part of Anta's globalization and multi-brand strategy. Through the acquisition of well-established brands it can capture the mass high-end markets and key retail channels in China. Since Amer is strong in winter sports, it would enlarge Anta's product offer for the Beijing 2022 Winter Olympics.

Market Reaction

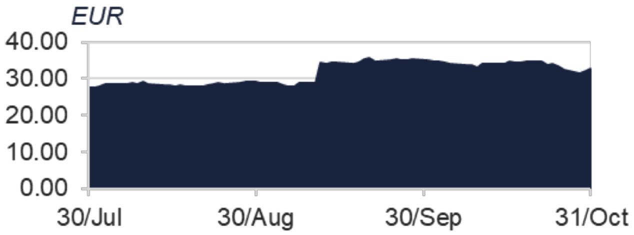
Anta Sports Products Ltd.

Anta was down 3.00% to HKD 37.0 per share after the announcement and the stock price has been fairly constant since.



Amer Sports Oyj

On the day of indication of interest by the consortium, the stock rose 19.00%, from EUR 28.6 to 34.2. Currently the stock is trading at EUR 38.72, close to the buying price.



Future Challenges

The tender offer is subject to the consortium holding 90.00% of the firm's capital. The deal has yet to be approved by Amer's shareholders and the offer expires on the 28th of February. The stock is trading at EUR 38.0, below the acquisition price of EUR 40.0, meaning that the market does not consider the deal as a certain reality. Although Anta has more than 11,000 stores nationwide, integrating Amer's high-end brands in China will be a considerable challenge.

Vasco Lupi
Investment Banking Division

M&A: Top Deals

LMVH to acquire Belmond

On the 14th of December, the world's largest luxury conglomerate LVMH Moet Hennessy Louis Vuitton announced that it would buy luxury hotel chain Belmond, including debt for USD 3.2 bn.

Buyer vs Seller

The hospitality group Belmond, operating in 24 countries, owns several luxury hotels, trains and venues, among others the well-known luxury Hotel Cipriani in Venice and the Orient express train service. Its acquirer LVMH, which owns brands such as Christian Dior and Louis Vuitton, is the world's largest luxury company.

Industry Overview

The global luxury hotel market was worth USD 83.1 bn in 2017 and is expected to grow at a compound annual growth rate of 4.30% to reach USD 114.8 bn by 2025. LVMH's acquisition of Belmond comes as companies seek to tap into a rising trend of so-called "experiential" luxury, with consumers buying fewer products and more experiences in areas such as high-end food and wine, luxury hotels and travel.

Peers	Currency	Market Cap (CUR m)
Millennium & Copthorne Hotels	GBp	1.559,00
InterContinental Hotels Group	GBp	7.897,90
Melia Hotels International SA	EUR	1.909,96
NH Hotel Group SA	EUR	1.556,96
PPHE Hotel Group Ltd	GBp	702,80

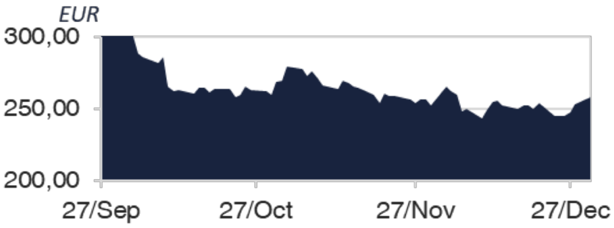
Deal Rationale

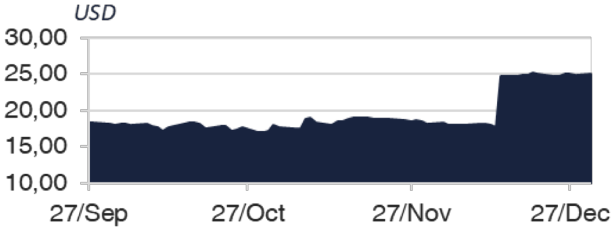
Over the past decade, LVMH has aimed to expand its product offering beyond its traditional boundaries with continued expansion of travel retail and other experiential luxury services, as these have been among the group's fastest growing businesses over the past years. As LVMH already owns the Bulgari and Cheval Blanc hotel brands, adding Belmond to its portfolio will facilitate moving the company further into "experiential" luxury. With this acquisition, LVMH is paying USD 25.0 per share in cash - a premium of more than USD 7.0 per share to the stock's closing price on December 14th. Including debt, Belmond is being valued at USD 3.2bn.

Market Reaction

LVMH
Investors in LVMH reacted with caution to the news of the acquisition— the luxury group's shares fell by 1.30%.

Belmond
Belmond's share price has soared more than 50.00% since the announcement.





Future Challenges

Like other companies, LVMH has reason to worry about future demand from China, the largest and fastest-growing market for luxury goods. LVMH's share price is down 20.00% this year form its May peak, reflecting concerns about a slowdown in China. With consumers buying fewer luxury products and more experiences, this acquisition is necessary for LVMH to remain its market leadership position in the future, capturing the desire to travel by the younger generation of Asian consumers.

Viktoria Wagner
Investment Banking Division

What happened to

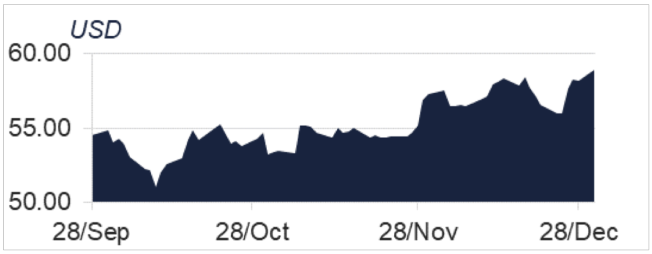
Herbalife Nutrition

Herbalife Nutrition (HLF) is a global nutrition company. The company develops, markets, and sells dietary supplements, weight management, sports nutrition, and personal-care products. Herbalife distributes its product through multi-level marketing, a network of independent members that earn fee based on product sales and the recruitment of new members.

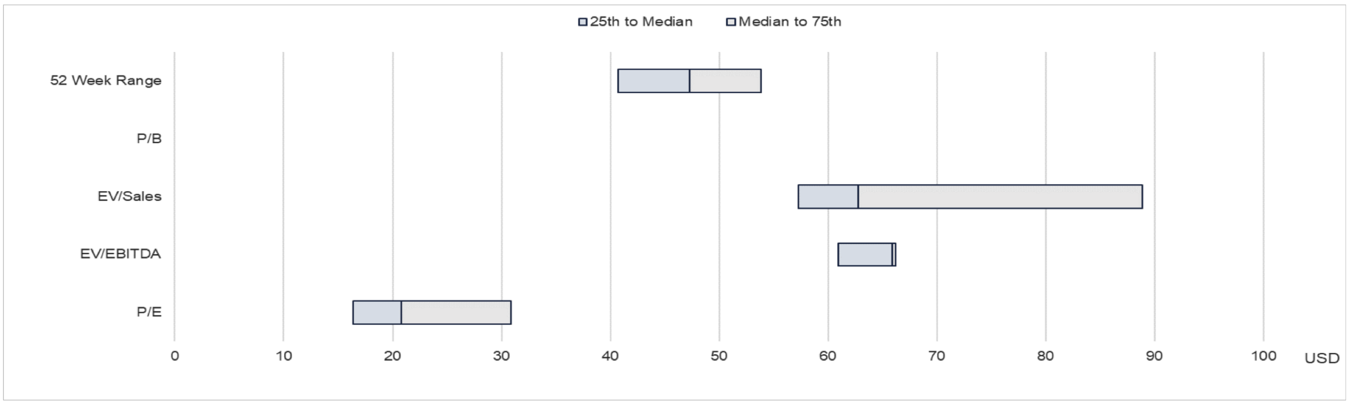
Corporate News

In 2013, Bill Ackman, CEO of Pershing Square Capital, claimed that Herbalife operates a "sophisticated pyramid scheme" instead of being a multi-level marketing firm, stating that Herbalife's stock would "go to zero". In 2016 the Federal Trade Commission charged Herbalife with four counts of unfair, false and deceptive business practices. To settle the complaint the FTC required Herbalife to pay a USD 200 m fine and "fundamentally restructure its business". In late 2017, Ackman exited his entire USD 1 bn short bet against Herbalife. As skeptical as one may be of the model, business regained traction over the past year both in the US and abroad as the company worked to expand its membership. Revenue growth was 11.40% and EPS stabilized at USD 1.64. As a consequence, Herbalife´s shares are up 65.70% YTD. Finally, after the past troubled times are resolved, is 2019 the year to long or short Herbalife´s stock?

Price (31 Dec 18, USD)	58.95
Target Price (USD)	63.50
3M Performance	8.07%
Market Cap (USD m)	9,045.51
Enterprise Value (USD m)	10,381.61
**Target Price is for 12 months*	



Valuation Analysis



Herbalife was trading at USD 58.95 as of the 31st of December 2018, and moved 1.29% in recent closing trade. HLF shares have been seen trading 2.42% off its 52 week-peak value and 75.66% above its 52 week-bottom price value. The valuation analysis above indicates a median valuation of approximately USD 64.0 for the first two ratios, suggesting that Herbalife might be undervalued compared to its peers. This divergence may be due to the media disputes and pyramid accusations it has been involved in.

In the last 23 months, Herbalife generated USD 184 m in net profit on USD 4.8 bn in sales. Herbalife is likely to continue upward growth trajectories pushing short-sellers. Recently, Morgan Stanley increased its stake in shares of HLF by 6.10% with other institutional investors also changing its long positions. Simultaneously, the industry is expected to expand, according to the report by MRFR, the global health supplements market is expected to surge at a CAGR of 7.80% during the forecast period (2017-2023).

Peers	Currency	Market Cap (Cur m)
Kraft Heinz Co/The	USD	52,770.31
Lamb Weston Holdings Inc	USD	10,770.27
Hain Celestial Group Inc/The	USD	1,680.63
General Mills Inc	USD	22,945.00
Hormel Foods Corp	USD	22,036.03

Mariana Costa
Investment Banking Division

What happened to

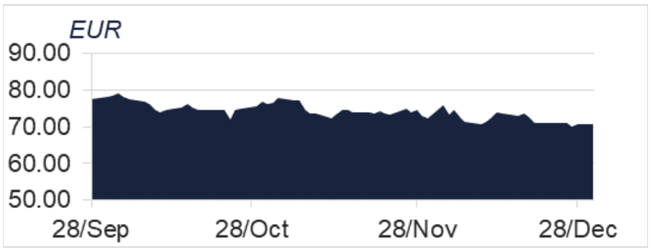
BMW AG

Bayerische Motoren Werke AG is a leading manufacturer of luxury automobiles and motorcycles headquartered in Germany. The high-end carmaker focuses on the development, manufacture and sale of vehicles in the Automotive and Motorcycles segments, and provides leasing and financing activities for retail and commercial customers through its Financial Services division.

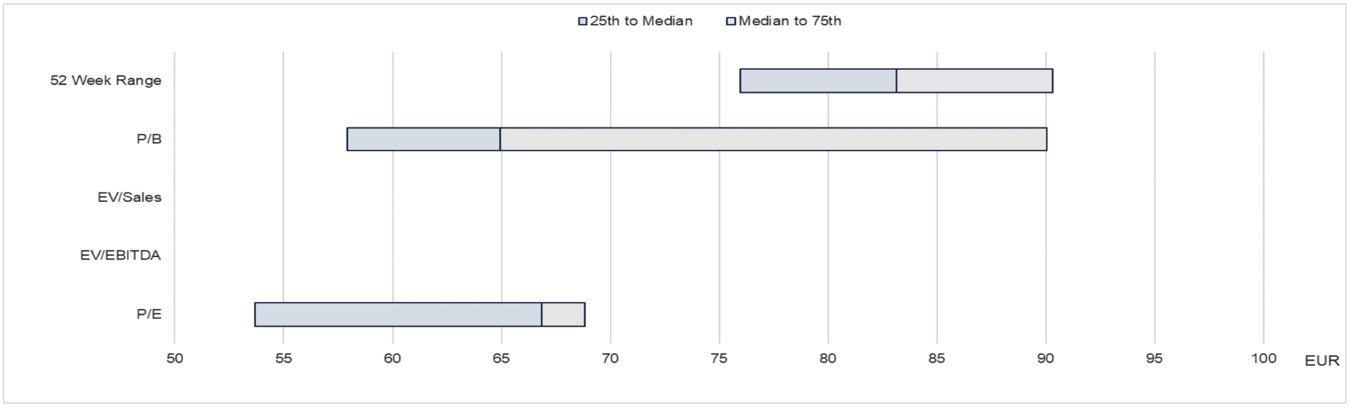
Corporate News

BMW AG is a publicly traded company listed on the Frankfurt Stock Exchange, in Germany. The carmaker's stock price suffered losses of 17.00% over the year, having reached its two-year lowest price of EUR 70.1 on December 27th. Munich-based BMW has been recently put under the spotlight over engine fires due to leaking coolant, having dented its reputation and prompted a criminal investigation in South Korea. The issue led the German automaker to recall 1.6 m automobiles worldwide, of which 22,670 in the Asian peninsula, ultimately decreasing the company's sales in the country by 10.00%. However, despite the defect setback and trade war potential hazards, BMW AG aims to keep its strategic profitability target of between 8.00% and 10.00% for 2019 according to CFO Nicolas Peter. The luxury automaker has spent high amounts in research for self-driving automobiles, having also invested in technology start-ups such as UK chipmaker Graphcore for the development of its electric cars.

Price (31 Dec 18, EUR)	70.70
Target Price (EUR)	80.00
3M Performance	-10.70%
Market Cap (EUR m)	45,019.87
Enterprise Value (EUR m)	88,898.87
**Target Price is for 12 months*	



Valuation Analysis



On the 31st of December, compared to analysts' twelve-month price of EUR 80.0, BMW AG was trading at a lower price of EUR 70.7. Looking at the share price graph, BMW AG seems to be moving further down from the target value. In the football field above, both valuation multiples suggest the automaker was overvalued as the theoretical prices predicted were below EUR 70.7. This deviation is likely to be explained by BMW AG's status as a premium brand and the fact that it is less volatile than other industry players.

The automotive industry is expected to experience a growth slowdown in 2019 due to risks arising mainly from tight emission standards and increased competition, as well as the trade war between US and China and likelihood of a disruptive Brexit. In such a pressured and competitive space, BMW AG must produce value-added and innovative vehicles, allowing for a reduction of carbon dioxide emissions and higher fuel efficiency, to successfully turn around the low expectations for the year.

Peers	Currency	Market Cap (Cur m)
Volkswagen AG	EUR	68,551.17
Renault SA	EUR	15,652.58
Daimler AG	EUR	48,554.57
Fiat Chrysler Automobiles NV	USD	22,127.31
Peugeot SA	EUR	16,395.49

Vera Teixeira Wahnon
Investment Banking Division

NIC's view on

Aftermath of the Monsanto deal: Bayer under pressure

Tim Borneck
Investment Banking Division

"No regrets.'"

- Werner Baumann (CEO, Bayer AG) commenting on the Monsanto acquisition

The Bayer AG is a German multinational pharmaceutical and life sciences company, headquartered in Leverkusen, Germany. The company under the leadership of Werner Baumann (CEO) operates in the businesses of crop science, consumer health, pharmaceuticals and animal health. It has a market cap of proxy EUR 50.0 bn, which ranks it as the 7th largest publicly traded company in Germany and makes it one of the largest pharmaceutical companies in the world. Further the company reported a revenue of about EUR 35.0 bn in 2017 and employs around 118,200 people worldwide.

On the 29th of November 2018, the Bayer AG announced a major restructuring program including portfolio as well as efficiency and structural measures. The portfolio measures are made up by the divestments of the animal health business, the brands Coppertone (sun care) and Dr. Scholls (foot care), and the site services provider Currenta. These exits shall increase the focus of the company on the life science business which has been identified as core. The structural and efficiency measures contain cost cuts and synergies amounting to EUR 2.6 bn annual savings from 2022 on. These measures are linked with a workforce reduction of 12,000 employees, mainly in Germany. The Group's EBITDA margin before special items is targeted to increase over 30.00% in the period through 2022.

The announcement follows the completion of the take-over of Monsanto, an American agrochemical and agricultural biotechnology corporation, on the 7th of June 2018. The deal made public in 2016 was first praised as the deal of the century, but later some doubts arose when regulatory hurdles led to a postponement of closing and legal obligations to a major penalty payment by Monsanto. Especially a lost lawsuit with regards to the product "Round-up" made by Monsanto containing the criticized pesticide Glyphosat which is assumed to cause cancer, is threatening investors. The doubts about further penalties and potential damage of the company's image are also reflected in the decreasing share price which dropped by 35.00% during the year 2018 alone. Besides that the level of higher net debt of Bayer after the transaction led to a downgrade in ratings, e.g. from A- to BBB by S&P, showing that the financial flexibility of the company is limited.

Hence the announced restructuring program is the only way for the company to free up resources in order to keep up the innovative power by high R&D expenses of the company which operates in a sector which relies heavily on break through innovations. In addition, there is hope that the company will focus management capacity back to the core business which was occupied by the deal itself.

The deal of Bayer to buy Monsanto will continue to face the company with challenges, but once the image of the agrochemical division changes and the uncertainty about financial penalties ends – as the next lawsuits on Monsanto's products go to court – the deal has the potential to turn out beneficial for the company.

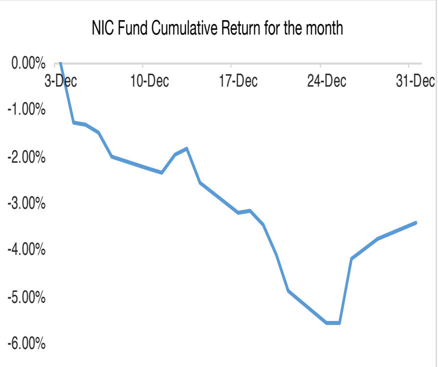
Date	Recent News
29 Nov 18	Press Release: Restructuring Program. ***Source:*** *bayer.com*
07 June 18	Press Release: Bayer closes Monsanto acquisition. ***Source:*** *bayer.com*
14 Sept 16	Press Release: Bayer and Monsanto to Create a Global Leader in Agriculture. ***Source:*** *bayer.com*

Tim Borneck
Investment Banking Division

NIC Fund

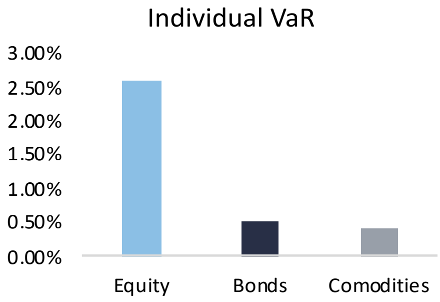
NIC Fund

Portfolio Overview



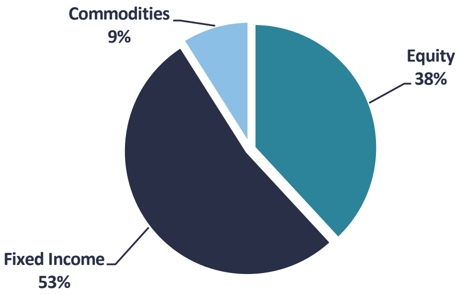
Portfolio Statistics	
Cumulative Return	-3.35%
Annualized Return	-4.33%
Daily St. Dev	0.44%
Period St. Dev	2.85%
Annualized St. Dev	6.95%
Info Sharpe	1.25
Skew (Daily)	-0.71
Kurtosis (Daily)	1.70

Benchmark	
iShares 3-7 Year Treasury Bonds	55%
MSCI World ETF	30%
MSCI Emerging Markets ETF	5%
Invesco DB Commodity Index	10%



Portfolio Snapshot

During December, the NIC Fund remained invested in Equities, Fixed Income and Commodities with slight different allocations to our benchmark fund. Overall, 38.00% of our fund remained devoted to Equities, 53.00% to Fixed Income and 9% to Commodities. Yet, only 65.00% of the Equities were allocated to the benchmark MSCI World and MSCI Emerging Markets Indexes, while the remaining 35.00% were allocated to fourteen specific stocks, using an equally weighted strategy. Regarding Fixed Income, we remained slightly underweighted in relation to the benchmark.
Our fund is 8.00% allocated to the commodity index and 1.00% into EU Potatoes' Futures.



Return Metrics

The overall performance of the portfolio was negative, with a cumulative return of -3.35%. Despite the NIC Fund still being on the red, we beat the benchmark by 31 bps, in a month that was consistently in *correction territory*. The best performer was Fixed Income, contributing with a positive return of 80 bps. Conversely, Equities were, once again, the worst performer of the month (-3.71%) – amidst a disappointing outlook for global growth and unsatisfactory macroeconomic data for both the US and the EU. The MSCI World was largely hit, having dropped by 8.85%, thus contributing with a negative return of -2.18% to the portfolio.

In what concerns our fourteen stock picks, the energy sector was arguably one of the biggest losers – as the OPEC meeting in Vienna proofed faulty to accomplish the desired results –, with EOG Resources closing the month with a -19.33% cumulative return. Everbridge was the only stock closing the month on the green (1.16%).

Risk Metrics

Amidst a highly volatile December, the VaR of the NIC portfolio soared to 2.43%, considerably close to our 2.50% threshold. With such an indicator being reflective of the damage from the equity market crash, adjustments in the portfolio were made in order to reduce the risk of the NIC Fund.

Among all investment classes in our allocation, as expected, Equities displayed the highest individual VaR – 2.60%. VaR for Fixed Income and Commodities was 0.52% and 0.43% respectively.

Francisca Anselmo
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
Equity Index	MXWO	One of our equity benchmarks that tracks the MSCI World Index. Throughout the month of December the index was considerably harmed by a gloomy global outlook, uncertainty over the Brexit outcome and disappointing macroeconomic data - both in the US and EU.
Equity Index	MXEF	One of our equity benchmarks, the MSCI Emerging Markets ETF, tracks the evolution of Emerging Markets. Despite having closed the month in negative territory (-4.16%), it performed noticeably better than, for instance, the MSCI World and other indexes that track major developed economies. Nonetheless, China's prospects could entail a threat.
US Equity	V	Visa has been positioning itself as a major player in the digital payment industry. Despite having been considerably harmed by the most recent market corrections, the company has recently presented Q4 results above analysts' consensus. This comes in light of the firm's expectations given its most recent developments and partnerships such as the one with IBM.
US Equity	GS	Goldman Sachs stock continued to sink, as the slowdown in global growth and a flattening of the yield curve hit financial stocks broadly. Moreover, the bank increasing exposure to the 1MDB scandal was unfavorable. Nonetheless, we decided to preserve our long position in Goldman, as we anticipate major revenues via *Marcus* in the future.
EU Equity	VOW	Volkswagen has been accelerating to push for lower costs and lift profits, as the carmaker is looking forward to improve profitability – as it expects to lift margins by 6.00% by 2022. Volkswagen intends to prevail as a relevant player in the EU market, as Tesla prepares for the European rollout of its *Model 3*.
IN Equity	HDFC	HDFC Bank, the Indian banking giant, is in a strong stance after having taken a conservative position on corporate lending, thus limiting its exposure to other Indian banks. HDFC Bank has posted steady growth and currently holds India's largest consumer loan book - being now the second-largest private sector Indian bank.
Commodity	FEPJ9	We decided to go long on European Potatoes Futures for April 2019 for two main reasons: (1) potatoes harvest deficits; (2) surge in the potatoes' industry, thus larger demand for the product. Amidst climate irregularity, the production of potatoes was largely affected, which resulted into a 5.23% return for December.
Commodity	DBC ETF	Our primary commodities index, DBC tracks a basket of 14 commodities. Oil, a major component of the index, reached as low as USD 50.0 a barrel, as the OPEC meeting in Vienna proofed faulty to accomplish the desired results. In the metals market, gold took the center stage, following a month of bearish sentiment and pursuit of safe haven assets.
US Treasury Bonds	IEI ETF	Our benchmark bond index, IEI tracks US Treasuries with maturities from 3-7 years. Throughout December a stronger correlation between stocks and bonds was verified, which resulted into a boost in the fixed income market – as investors seek safer alternatives.

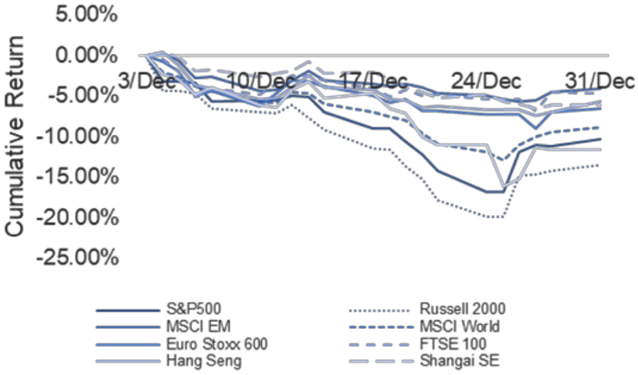
Francisca Anselmo
Financial Markets Division

NIC Fund

Equities

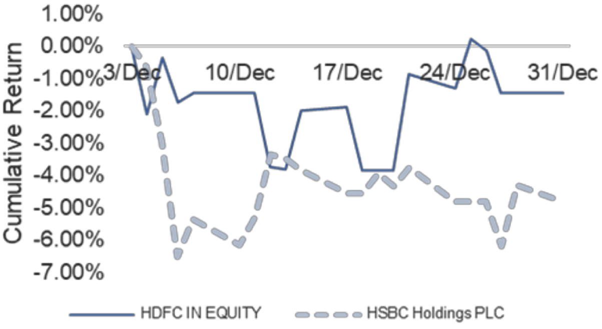
World Equities

December was a very negative month for global equity markets, at a time of growing uncertainty about future outlooks worldwide. Fears still loom about a US-China trade war. Moreover, not only the US faced a government shutdown, but also interest rates were raised by the Fed. Also, China's manufacturing output slowed down. As a result, the S&P500 and Shanghai SE fell into the red in the last month of the year with returns of -10.38% and -6.19% respectively. Investors' prospects about the underlying fundamentals of the US economy are not very positive for the next couple of years given the inverting yield curve. As a consequence, small and medium-sized companies are exposed to increased risks of poor performance, which led to a strong negative performance of the Russel 2000 in December with a monthly return of -13.46%. In Europe, a hard Brexit or "No-Deal" seems increasingly likely and the EU remains concerned about Italy's budget deficit situation despite the reached agreement. These worries combined with the bad global performance in equity markets led the FTSE 100 to lose 4.70% and the Euro Stoxx 600 to lose 6.57% this month. In Asia, the Hang Seng lost 5.67%, the Topix lost 11.42% and the Nikkei 225 lost 11.64%.



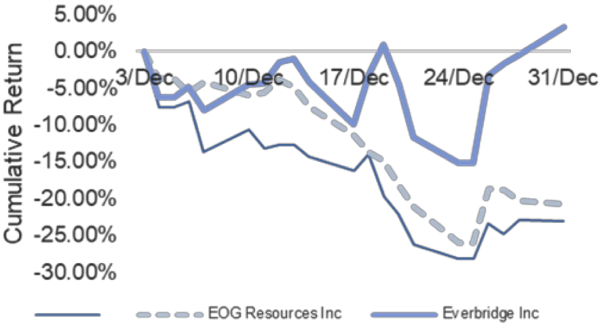
In depth: HDFC Bank

In December, despite the negative performance of HDFC Bank's stock, it was one of the best performing financial institutions in our portfolio and, given its exposure to emerging markets, a pleasant surprise. Given investors' current fears about China's economic slowdown, turning to its neighbour India for investment opportunities may be a good strategy. India's middle class is growing fast and the country will become the most populous country in the world in the coming years. These forecasts suit perfectly HDFC Bank's needs, given that the bank is among the best capitalized of the Indian private banking sector but still needs to attract more deposits going forward. HDFC has a non-performing loans ratio significantly below to that of its peers at a time when the Reserve Bank of India is pushing banks to be more proactive in NPL recognition. Coupled with being one of the best capitalized banks of Indian's private sector, this puts the bank at a comfortable strategic position going forward. In 2018 the bank's stock provided a decent 15.00% return and it will be an interesting stock to follow in 2019 for investors seeking exposure to emerging markets financials' stocks.



Our performance

In December, equities made a negative contribution to the overall portfolio performance with a cumulative return of -1.45%. Everbridge Inc. was our best performer with a 1.16% gain, benefiting from being a dominant company in a niche winner-takes-all market. Meanwhile, EOG Resources lost 19.33% of its value in a single month, topping the list of our biggest losers, as a consequence of the further decline in oil prices. The performance of EOG will be strongly linked to oil prices in the upcoming months and investors can benefit greatly if oil prices bounce back. Lastly, given the current volatility in equity markets, we decided not to add any equity position to our portfolio this month.



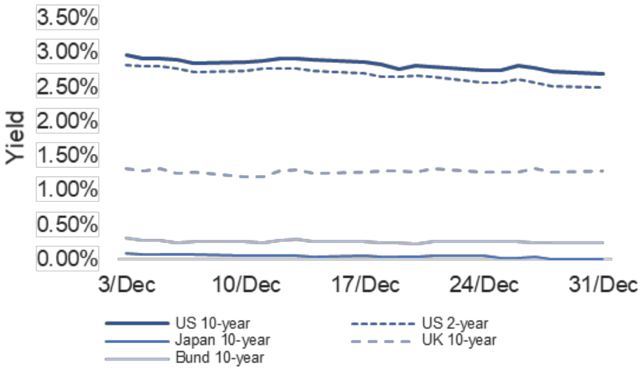
Pedro Leão
Financial Markets Division

NIC Fund

Fixed Income

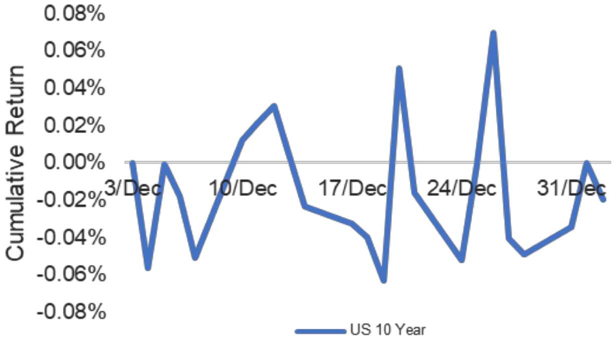
World Yields

December was one of the worst on record for US equities, with the S&P 500 losing 10.38%. This represents the second worst December in history for the S&P 500, only behind December 1931. Rising concerns over the health of the overall global economy pushed investors for relatively safer assets, providing global bond markets their best month in over a year, with yields considerably falling. The US 10-year Treasury yield ended the year at 2.68%, the first time it is below 2.70% since February. The Federal Reserve kept reducing its balance sheet, while pushing US interest rates higher. In the last meeting, the FOMC increased rates by 25 bps to the corridor 2.25%-2.50%. At the same time, the ECB trimmed and ultimately ended its Quantitative Easing program, reducing its support of economic growth. In Europe, Gilt fell from 1.37% to 1.27%, reflecting concerns over the possibility of a no-deal Brexit, as the parliament vote has been postponed by Theresa May amidst fear the government might be posed to an embarrassing defeat. Bund fell from 0.31% to 0.25%. In Japan, the rates also continued its decline, reflecting the weak long-term economic outlook, backed by the decline on its GDP growth on Q3 2018 to 3-year lows.



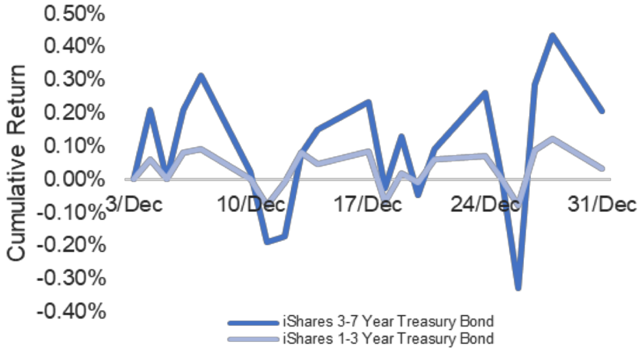
American markets in depth

The beginning of December was marked by an inversion on the yield curve, with the 2-year yield briefly rising above the 5-year yield. This signals investors' concerns about weakening prospects of short-term stability, as it generally precedes a recession. The Fed rate hike and balance sheet reduction is also set to continue, on a time when investors are increasingly worried that the Fed might have gone too far, too soon. The US economy is expected to continue to slowdown, as the long growth cycle is running out of gas. Investors' worries about the end of the cycle may lead the Federal Reserve to stop its monetary policy tightening, with investors believing it may even reverse it if conditions deteriorate from here. Next month, the House of Representatives will be in the Democrats' control, which increases political gridlock. This political deadlock associated with expectations of economic growth slowdown might bring US yields even further down, as investors increasingly seek safer assets to include in their portfolios.



Our performance

Our portoflio had a 41.00% long position on the IEI ETF, tracking 3-7 year US Treasury Bonds, and a 10.00% long position on the SHY ETF, tracking 1-3 year US Treasuries. Over December, the IEI index gained 0.20%, while the SHY index presented a cumulative return of 0.03%. This lead to a negative contribution of 1.53 pp when compared to the fixed income portion of our benchmark. Given the outlook for the next period regarding global economic growth slowdown, we decided to rebalance our portoflio so that the fixed income portion corresponds to the one of our benchmark.



Sérgio Ferrás
Financial Markets Division

NIC Fund

Commodities

December Round-up

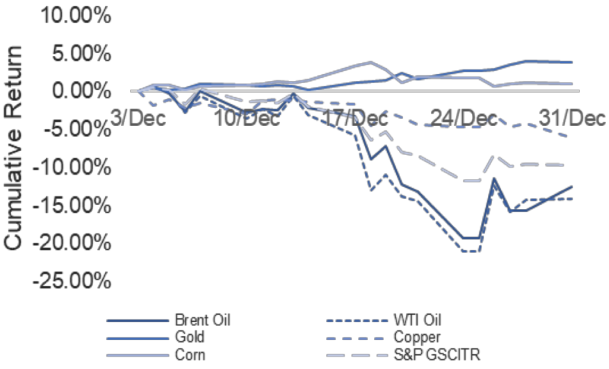
December was not in favor for commodities. S&P's GSCI total return index lost 9.77%, bringing it's YTD performance with -8.53% into negative turf. The key driver for such development is the plunging crude oil price which did not stop dropping since months. The US crude ends the year down 25.00% YTD settling at USD 45.41, it is the first annual loss since 2015. Even though the OPEC met on December 6th in Vienna to seek for a consensus to stabilize oil prices and trying a few days later to vainly convince Russia to commit to a specific production quota the downswing did not stop. As the trade dispute between China and the US remains unsolved and the market remains concerned that a full-blown trade war between the world's two biggest economies will dent fuel demands, investors feel very uncertain about the future of oil prices. Gold prices were on course for their first annual fall in three years throughout December but due to the current geopolitical situation and trade tensions the US Dollar cachet the major losses of gold. Spot gold traded at USD 1279.41 on new years and ended 2018 down nearly 1.80% YTD. Copper prices bounced up this month by 2.00% after the G20 meeting but due to concerns about the Chinese economy the on holding decrease of copper prices continued throughout the month and closed the year by USD 2.631.

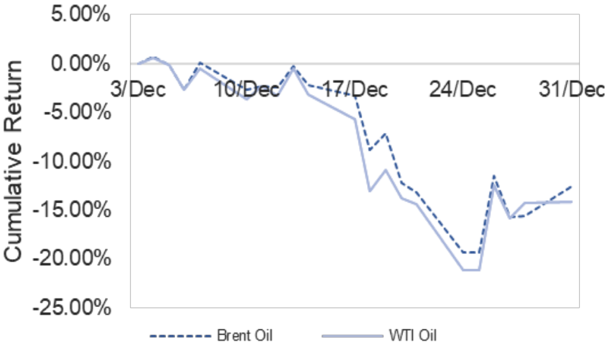
Outlook for January

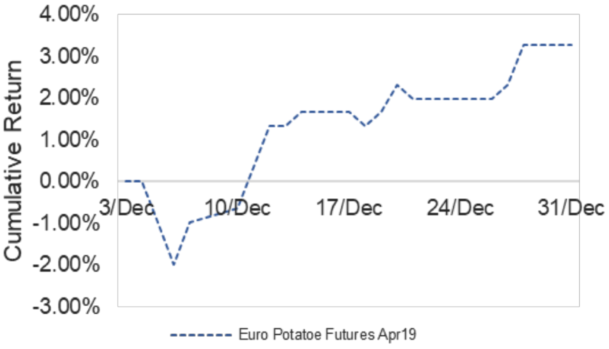
With an ongoing trade dispute between the world's largest economies and a slowing economic growth, analysts expect a slight upswing for gold prices throughout the next weeks as gold is still considered as a safe harbor. Additionally, with weakness in the USD, every pullback in the gold market will attract buyers, which underlines a potential upswing in the future. Crude oil is very likely to hold around the level as the entire market is riddled with uncertainty. Some analyst are even bearish towards oil due to beliefs in an oversupply glut and the down slowing world economy.

Our performance

In November we had allocated 8.00% of our portfolio to the benchmark ETF which is roughly in line with our benchmark weight of 10.00% for commodities. The benchmark ETF lost 3.99% in December. A extraordinary performance had our Future on Potatoes for April 2019, which was quiet volatile throughout the month but closes at 3.28 %, which matched our expectations of potatoes as an asked good.







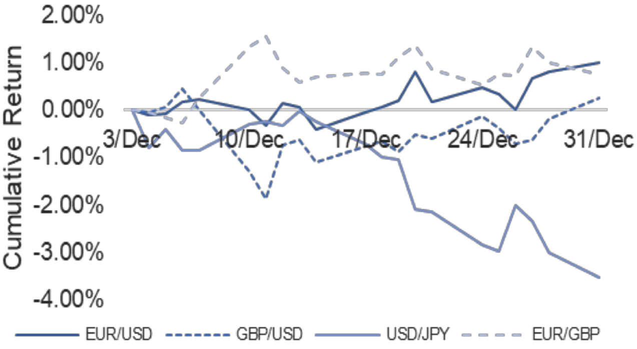
Jan Schroff
Financial Markets Division

NIC Fund

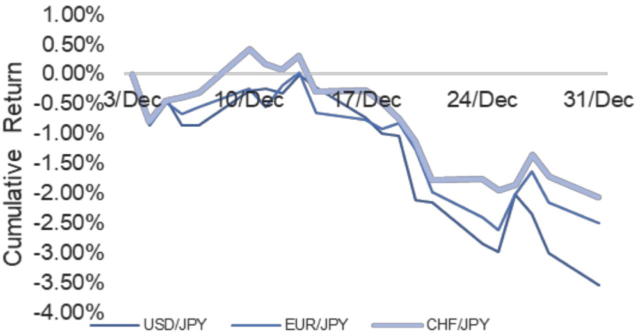
Currencies

World Currencies

December marked the end of a turbulent year for world economies, with the US taking a very important role in it. A government shutdown, a continuous sell-off in the stock market and consequent increase in demand for fixed income securities allied with an increasingly less hawkish Federal Reserve set the tone for the last month of 2018, where the US were the clear losers in currency markets. In general, the USD depreciated against all major currencies, with the US Dollar Index (DXI) finishing at 96.400, after reaching an 18-month high prior to the last FOMC meeting of 2018.



The USD was particularly punished by the negative market reactions to the Fed's meeting. In fact, investors were disappointed with the decrease in the expected number of interest rate hikes in 2019, from three to only two, as well as with inflation forecasts, that were revised down. However, despite the downward movement in December, the USD rallied during the year, while EM currencies have pulled back. This marks a large contrast with 2016 and 2017, but it represents a mere interruption of the process of monetary policy normalisation, and not a complete derailment of it. Consequently, under current circumstances, the USD is estimated to be 20.00% overvalued relative to EM currencies.



Looking now to the UK, the GBP remained essentially flat against the EUR and the USD in December, despite the high volatility. Nonetheless, the next months will be extremely challenging for the GBP as forecasts and trades remain highly conditional and tactical. Depending on the Brexit outcome, the GBP could reach the USD 1.59 mark or drop to USD 1.10.

In depth

Worse-than-expected earnings forecasts and increasing volatility in the US motivated investors to extend the stock market sell-off through December, dragging further down the S&P 500 and the Dow Jones indexes. At the same time, investors continued to pursue safe haven assets, because of their capacity to perform relatively well during times of stress. As a consequence, demand for the JPY increased steadily, leading to substantial appreciations of the Japanese currency. In December, the JPY appreciated 3.53% against the USD and 2.49% against the EUR.

Our performance

We currently hold no currency related assets in our portfolio.

Gonçalo Marques
Financial Markets Division

Extras

Hot Topic

2018 in Review

Vadim Nikitin
Financial Markets Division

"Navigating financial markets in 2018 was a very humbling experience for most investors, and it will not be forgotten for quite some time."

2018 was the year when all asset classes took a hit. From stocks and currencies to commodities and real estate — most parts of the global economy were damaged at some point or another. Investors' mood went down as well: market corrections, largely seen as a small bump along the road in the beginning of the year, became a sign of serious problems as the yield curve partially inverted in December.

What made this downfall even more surprising is that it happened amidst solid economy performance. The US and Europe posted strong growth figures, while keeping unemployment historically low. Good days in the corporate world were marked by record levels of M&A and private equity activities. At the peak of the stocks rally, Apple and Amazon, two of Wall Street darlings, surpassed USD 1 tn in market capitalization.

It seems, however, that investors were not overly impressed with these facts. And they might be right: 2018 also brought many concerns about future growth.

China slowed down as it engaged in an on-going trade war with the US. What started in March as tariffs on steel and aluminium turned out to be a tit-for-tat series of retaliatory restrictions between the two countries. This not only slowed global trade, but also hurt companies that rely on exports, such as car manufacturers and chipmakers. According to Reuters, if the US enacts all planned tariffs, it will slow China's GDP by 1.5 pp. That will inevitably damage profits across the world, since more and more companies do business in Asia's largest market.

Given that China is the biggest importer of various commodities, raw materials came under pressure as well. To stop the freefall of oil prices, OPEC had to reinforce supply cuts. What worked well in the past might not be as effective now, because the very pricing power of the cartel is questioned. Throughout the period of high price the US kept adding shale capacity, and now represents an oil superpower, along with Saudi Arabia and Russia. The fact that Qatar decided to leave OPEC shows that the cartel's days might be numbered.

At times of market turmoil, investors look up to the Fed to provide some stimulus. 2018 took it a step further, with Donald Trump urging the Fed not to rise rates prior to its December meeting. The regulator remained committed to rising rates, but lowered its expectations of 2019 hikes from three to two, while markets expect only one.

Across the Atlantic, the ECB decided to curb its massive quantitative easing program by ending net purchases of assets. The bank will, however, continue to reinvest proceeds from maturing bonds until at least late 2020. After a turbulent year, full of events like Italy struggling to approve its budget with the European Commission, some degree of flexibility might be exactly what ECB needs.

Overall, calling 2018 a catastrophe would be an overstatement. Despite the fall of broader markets, there were plenty of great trades throughout the year, and some hedge funds shorting the markets finally made their profits — at least those who survived the bull run. But navigating financial markets in 2018 was definitely a very humbling experience for most investors, and it will not be forgotten for quite some time.

Vadim Nikitin
Financial Markets Division

Extras

Hot Topic

A look back at M&A in 2018

Birk Carlenius
Investment Banking Division

M&A activity in the first half of 2018 was growing and focused on larger transactions. As the year progressed, obstacles threatening transaction appetite amongst companies materialized:

"We've got some clouds on the horizon, vis-à-vis a trade skirmish, or potentially a trade war with China. You have the potential for a hard Brexit and we've got rising rates."

- Mark Shafir, global M&A co-head at Citigroup Inc.

An action-packed year in 2018 was initially on track to reach record high numbers, with global M&A volumes of 35,543 transactions and total value of nearly USD 3.3 tn, when counting until the end of September. Despite political instability, trade wars and increasing interest rates, acquiring companies' pursuit of improving business models and increasing market shares, in conjunction with target companies' attractive valuation multiples, fuelled M&A activity in the first nine months of the year. The YoY growth of the three first quarters amounted to 39.00%, mainly driven by an increase in deals valued at over USD 500.0 m.

The second half of 2018 did, however, see a change of pace, as shaking markets, less attractive valuation multiples and increasingly volatile commodity prices contributed to lower deal activity. Looming trade tension between the US and China represented an increase in risk when engaging in cross-border M&A, especially regarding financial and regulatory prospects, as companies feared opposing governments could delay or deny necessary approvals. When factoring in the final quarter, the total value of all announced deals amounted to USD 3.9 tn, revealing a growth of 15.90% YoY.

A characteristic of 2018 was the prevalence of mega-deals, with more than 40 transactions valued at over USD 10.0 bn, overshadowing previous' years activity and dethroning 2007 as the year with the highest number of mega-deals. The list of large deals in 2018 includes Cigna Group's USD 52.0 bn acquisition of Express Script in the healthcare sector, Energy Transfer Equity's USD 25.0 bn acquisition of Energy Transfer Partners in the pipeline industry and Broadcom's USD 18.9 bn acquisition of CA Technologies in the software industry.

Among the sectors that emerged as best-performing the past year were the healthcare and energy sector. The healthcare sector saw an increase in deal volumes of 30.00%, while activity in the energy sector was boosted by investors' demands of clearer corporate structures and favourable tax changes. The energy sector also enjoyed high oil prices until the last quarter, when falling oil prices negatively affected deal volumes in the sector.

Amidst the surge of mega-deals, a deal that did not satisfy its short-lived hype was the twitter-announced buyout of Tesla, aiming to take the company private. According to Elon Musk, the company was valued at USD 72.0 bn and funding had been secured. Instead of becoming the largest transaction of all-time and the symbol of the year of giants, Musk decided to not pursue the deal – and was later sued by the US Securities and Exchange Commission for market manipulation.

Companies that are more likely to remember 2018 on a positive note are Goldman Sachs and Morgan Stanley, which both advised on deals for almost USD 1.0 tn. A trend for investment banks in 2018 has been falling advisory fees, countering some of the effect the booming start of the year had on the advisors' revenues. Still, current level of M&A fees is only rivalled by those in 2007 and 2017.

To conclude, the past year was an eventful year for M&A: we have witnessed a historically strong pipeline of deal announcements in the first quarters; political tension and macroeconomic mechanisms majorly influenced the transaction climate in the second half; and an unprecedented number of transactions valued at over USD 5.0 bn were executed.

Birk Carlenius
Investment Banking Division

Extras

Hot Topic

The future of mobility - China backs fuel cell technology

João Sousa Mendes
Investment Banking Division

> *"I think this is the answer to the energy challenge of mankind. It's no longer pie-in-the-sky PowerPoint presentations."*
>
> - Benny Oeyen, head of market development at Anglo American

Electric vehicles are here to stay and will dominate the mobility market over the next 20 years. This is strictly related to the scarce oil that is consumed by diesel and petrol engines, as well as its damaging effects for the environment. Even though electric vehicles are certainly on their way, the most suitable technology to be used is still under discussion. Electric batteries have been presented as a disruptive solution, however fuel cells may also play a crucial role in the future of mobility.

China is becoming the centre of a global energy transformation, which is led through technological change and the dropping cost of renewable energy sources. China has spent an estimated USD 58.8 bn subsidising its electric car industry over the past decade. Subsidies have also helped propel Chinese solar makers into the ranks of the world's largest producers, overtaking competitors in the US and Europe. Now Beijing hopes to do the same for fuel cells, which along with electric vehicles could help decarbonise the entire transportation fleet and reduce China's vast reliance on imported oil.

While many experts believe fuel cell technology is costly, potentially unsafe, and lacking in supporting infrastructure, fuel-cell electric vehicles (FCEV) can travel farther and are refuelled in a similar way to diesel and petrol cars, in comparison to battery electric vehicles (BEV). Moreover, total cost of FCEV is expected to decrease, shrinking its premium over BEV. China plans to make this happen by phasing out subsidies for BEV by 2020, whereas they will continue for FCEV to at least 2025. China has already proven that with subsidies they will drive production capacity and volume and see significant cost reductions.

The reason why China is betting on this technology lies in the fact that most fuel cells only require platinum, of which there is an abundant supply. Additionally, China is self-sufficient in hydrogen, the substance that this new engine relies on, which can be produced by electrolysis. More specifically, while most hydrogen is created from fossil fuels such as methane, another method is to produce it using electricity to split water. This process is not an efficient use of energy, but it makes sense when Beijing's huge investment in renewable energy over the past decade has caused a lot of electricity to be wasted. It is estimated that around 150 gigawatts of renewable energy is abandoned in China every year, allowing this country to use some of that wasted energy to generate hydrogen cheaply.

The Chinese government is issuing a New Energy Vehicle roadmap, facilitating hydrogen infrastructure to support about 50,000 zero-emissions fuel-cell cars and 300 hydrogen refuelling stations by 2025. It has also been directing some resources towards captive fleets (e.g., buses or trucks) to facilitate the commercial viability of hydrogen fuelled bus fleets. The Shanghai's Fuel Cell Vehicle Development Plan is a perfect example of that. According to this plan, 30.00% of all electric mass transit buses and commercial trucks will be FCEVs by the year 2030.

Benefits and concerns apart, in a foreseeable future fuel cells are unlikely to compete with batteries for small passenger cars, however this technology is anticipated to be implemented on larger vehicles, as well as trains and ships. Will fuel cells and electric batteries coexist?

João Sousa Mendes
Investment Banking Division

Extras

NIC 2019 Market Outlook

Time for the brave investor

Lukas Müller
Financial Markets Division

> *"Over the full course of the year, we expect stocks to be able to deliver low but positive returns. Upside potential is embedded in a less hawkish Fed, convergence in trade-dispute and stronger than expected growth in China.*
>
> *Downside risk can reveal itself in further downward revision of expected earnings, escalation of trade talks and a chaotic Brexit."*

2018 was a year to forget for investors across the board in equities and in most fixed income markets. The why and how is examined in our 2018 wrap-up in this edition of NIC's newsletter. Additionally, we take a look into our crystal ball and give our view on the market for 2019. Fasten your seatbelts, it is going to be a bumpy ride.

Global growth is poised to slow down with Chinese growth rates decelerating and US cooling down as well. At this point, there is nobody in sight that could step in, close the gap and work as the new draught horse for growth. However, GDP growth is still expected to remain positive over the year while recession fears are postponed for now into 2020. We expect continued tightening of labour markets in most developed markets and with that eventually inflation picking up gradually. This would come as great relief for central banks around the world, especially ECB, as this would enable them to start raising rates to gain some ammunition and room to manoeuvre with the next recession already on the horizon. So, what's in this mix for investors?

A rally in equities to kick off the year is definitely too much to ask for. Too heavy lies the burden of unsolved Brexit negotiations and open questions about the future of free trade on markets. In December, UK prime minister Theresa May survived the so far biggest threat to her leadership, a "no confidence" vote of her own party. Nevertheless, time for victory celebration is not available, since the 29th of March is approaching quickly and Mrs. May still lacks support of the parliament for her deal. On the bright side, an agreement has the potential to surprise significantly on the upside.

Generally, we believe that there has been an overshoot to the downside with the sharp sell-off in equities. Stocks will remain highly volatile, with many investors becoming more and more cautious and further growing positioning in high quality growth stories and value. However, it is still noteworthy that corporations will once again be the strongest net buyer of their own shares. Over the full course of the year, we expect stocks to be able to deliver low but positive returns. Upside potential is embedded in a less hawkish Fed, convergence in trade dispute and stronger than expected growth in China. Downside risk can reveal itself in further downward revision of expected earnings, escalation of trade talks and a chaotic Brexit.

In fixed income we see headwinds for markets for at least the first half of the year against the backdrop of central banks tighten (Fed/BoE) or unwind QE (ECB/BoJ). Building inflation pressures add to an unfavourable environment for now. We believe fixed income portfolios should still underweight duration and can even opt for inflation protected bonds like TIPS. For late 2019, the story might change significantly. Longer-term risks will cap rates at first in the US and eventually as well in Europe. Investors should prepare to extend duration in the end of the year.

We see Emerging Markets as a gamble at the moment. Valuations are low and the market might be bottoming out after the poor performance over the last years. However, the threats of slow Chinese growth, a stronger dollar and trade wars prevent us from turning too bullish on EM. Nevertheless, we see opportunities for selective buyers of equities and in countries with strong external balance sheets.

For most of us, 2018 was the first severe bear market in equities since we actively manage a portfolio. We are eager to learn and look forward to navigate the NIC fund through a challenging 2019.

Lukas Müller
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Thank you!

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

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