NIC

— Nova Investment Club —

Newsletter

February 2019

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 economic news from the past month. In our Deeper Dive section, Rita Silva Marques elaborates on the Chinese banks non-performing loans recent surge, amidst a slow growth economy looking for stimulus. Moreover, in our Regional View, Francisca Anselmo examines the Belt and Road Initiative as a Chinese "debt-trap" diplomacy for global dominance.

Our Investment Banking Division will guide you through January's M&A overall activity. Read about Bristol-Myers Squibb acquisition of Celgene, Newmont Mining to acquire Goldcorp Inc. and Fiserv plans to acquire First Data. Additionally, get a detailed overview on what happened to Deutsche Bank and Alibaba, as well as consider our opinion on Deutsche Bank's restructuring.

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 January was slightly superior to the benchmark. During January, the NIC fund outperformed all developed markets stock indices.

Lastly, Viktoria Wagner elaborates on the emergent industry of robotaxis and Sérgio Ferrás examines the recent Huawei's sanctions in US soil. Furthermore, Tim Borneck analyses Venezuela's fragile diplomatic state and Pedro Leão glances at market irrationality and economic cycles.

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 The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.

Macro Overview

Monthly

February 4th, 2019

Deeper Dive
China's Distressed Debt: Banks's Non-Performing Loans
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Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	2,707	2.43%	-0.19%	7.97%
DJIA	25,064	2.08%	-0.21%	7.44%
Nasdaq	7,264	2.69%	-0.58%	9.47%
MSCI World	2,780	2.23%	1.51%	8.46%
MSCI EM	3,816	2.38%	10.08%	7.48%
Russell 2000	1,502	2.57%	-0.62%	11.38%
Euro Stoxx 50	3,157	0.98%	-1.27%	5.18%
FTSE 100	7,035	3.17%	-1.31%	4.56%
Nikkei 225	20,884	1.50%	-4.73%	-
Hang Seng	27,990	3.21%	12.05%	8.30%
Dollar Index	95.76	-0.88%	-1.41%	-0.43%
EUR/USD	1.145	1.28%	1.21%	-0.16%
GBP/`EUR	1.140	-1.37%	1.02%	2.50%
GBP/USD	1.305	-0.10%	2.25%	2.34%
USD/JPY	109.95	0.28%	-2.65%	0.24%
USD/CHF	0.998	0.11%	-1.09%	1.57%
Brent Crude	62.42	2.18%	-17.29%	16.02%
Gold	1,310.1	2.37%	7.83%	2.25%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	2.706%	-1.01	-43.79	2.14
GER 10Y Yield	0.169%	-1.10	-21.60	-7.30
JPY 10Y Yield	0.009%	-2.00	-13.60	-1.20
UK 10Y Yield	1.255%	-1.00	-18.20	-2.20
PT 10Y Yield	1.654%	0.30	-21.90	-6.80

**Source: Bloomberg, as of 2019-01-31*

In Focus

January

Stock markets had the best January in 30 years. Investors are pretty confident that 2019 will be a good year for equities, even though it is expected to be a bumpy one. Throughout the month the S&P 500 was up 7.87%, which is the best performance since 1987, when it rose 13.21%. The EuroStoxx 600 gained 6.23% over the month.

A dovish Fed lifted stocks and US Treasuries. The Fed latest statement was more dovish than expected, signalling a more neutral bias instead of an ongoing approach of economic tightening. The 10-year treasury yield went down by 2.14 bps YTD.

US unemployment quote rose. The US unemployment quote rose in January by 0.20% compared to December and is now at a level of 3.90%.

German politicians' personal data leaked online. Sensitive data belonging to hundreds of German politicians, celebrities and public figures has been published online via a Twitter account in which is thought to be one of the largest leaks in the country's history.

President Emmanuel Macron wrote an open letter to French citizens. Throughout the letter Emmanuel Macron suggested to introduce an immigration quota that could help to address the *gilets jaunes crisis* in the country. However, Macron's moves have not removed tensions in Europe's second biggest economy.

Italy's business conditions worsen more than expected. As a sharper reduction on new orders led to a quicker decline in production, data showed eurozone's third biggest economy slid into technical recession in late 2018. Italian debt took a hit as the benchmark 10-year yield rose 8.50 bps to 2.68% while the 2-year yield on the sovereign bond rose 6.4 bps to 0.35%.

GBP went up high in January. After three straight quarterly declines against the USD, the sterling has started Q1 2019 on a high despite being dogged by Brexit uncertainty. GBP/USD finished January 2.78% higher. GBP/EUR logged its biggest monthly rise since September 2017, with an increase of 2.86% for January.

Russia is expanding its ties with Lebanon through energy deals. Moreover, Russia also efforts to mediate in regional politics as it seeks to fill a vacuum left by the US, as Washington steps back from the Middle East. The deal accelerated when Russia's Rosneft expanded its Mediterranean footprint by signing a 20-year deal to manage and upgrade an oil storage facility in Lebanon's second biggest city, Tripoli.

Oil surged more than 18.00% in January, which is the best month on record. Crude futures have powered through a steady flow of weak economic data from China amid an ongoing trade trade dispute with the US and China – the world's second largest oil consumer. The energy complex has been boosted by OPEC-led production cuts aimed at draining oversupply and US sanctions on Venezuela, which threaten to disrupt global trade flows and bolster prices.

World Economic Forum warns of impact of global tensions. International tensions and nationalist politics can further weigh on the global economy this year and hinder efforts to deal with big issues such as climate change. The annual risk report published this year by the WEF said that the world is evolving into "a period of divergence following a period of globalization". It is a darkening economic outlook which is fostered by geopolitical tensions between the United States and China.

Jan Schroff
Financial Markets Division

Deeper Dive

China's Distressed Debt: Banks' Non-Performing Loans

Rita Marques
Investment Banking Division

"Disposals of bad debt in China are reaching levels not seen in nearly two decades as the banking sector grapples with an onslaught of poor-quality loans.

The handling of non-performing loans has become a top priority for Beijing and is viewed as a threat to financial and social stability if it is not dealt with correctly"

– Don Weinland

Chinese banks extended far more new loans in December than expected. At the end of the year, loans rose to a record of USD 2.4 tn as China rushed to help cash-starved companies and ease mounting pressure on the weakening economy. Analysts consider that Chinese policy makers need to stimulate faster credit expansion this year to boost activity, as growth looks set to cool to near 30-year lows.

For 2018 as a whole, China's loan growth looked solid, with banks extending a record CNY 16.2 tn (USD 2.4 tn) in new loans. To put into perspective, the loans amounted to more than the Italian GDP (USD 1.9 tn) in the same period.

In addition to new loans, the trend has also been influenced by a regulatory crackdown on shadow lending that has forced banks to shift riskier loans back onto their books.

But that push started to weigh more heavily on the economy early in 2018, pushing up borrowing costs.

While new loans ended 2018 on a slightly more upbeat note, several other key credit gauges suggest overall credit conditions in China remain stubbornly tight despite the recent shift to policy easing.

As in past downturns, China has tried to stoke credit demand by fast tracking infrastructure projects, though such moves tend to benefit larger companies which are often state controlled. They have also been regularly injecting funds into the financial system to keep financial conditions supportive and bring down market interest rates, especially for private firms which account for most of China's urban jobs.

The People's Bank of China said earlier this month it was cutting the amount of cash that banks have to hold as reserves for the fifth time in the past year, freeing up another USD 116.0 bn for new lending. But government efforts to channel more funds to the struggling private sector are facing a hurdle, as banks are wary of more bad debts.

Chinese commercial banks' non-performing loans (NPL) ratio climbed to a 10-year high of 1.89% at the end of last year. The total NPLs of commercial banks amounted to CNY 2.0 tn (USD 296.5 bn) at the end of December, according to the deputy head of the statistics department of the China Banking and Insurance Regulatory Commission (CBIRC), Liu Zhiqing.

Liu added that "special mention" loans (loans considered at risk of becoming non-performing) rose to CNY 3.4 tn by the end of the year, accounting for 3.14% of the total loan volume for commercial banks. Regardless, he believes "risks remain under control".

To handle mountains of bad loans, Chinese banks accelerated the pace of bad loan disposal last year, resolving nearly CNY 2.0 tn in soured assets, compared with CNY 1.4 tn in 2017, CBIRC spokesman and CRO Xiao Yuanqi said at the press conference.

Banks also increasingly turned to unconventional measures such as asset-backed securities and debt-for-equity swaps and increased their loan loss reserves by CNY 676.2 bn over the prior year to CNY 3.7 tn to shore up their ability to fend off risks.

At the end of the year, the total domestic asset of Chinese banks rose 6.40% in comparison to 2017, to CNY 261.4 tn.

As Don Weinland puts it "disposals of bad debt in China are reaching levels not seen in nearly two decades as the banking sector grapples with an onslaught of poor-quality loans. The handling of non-performing loans has become a top priority for Beijing and is viewed as a threat to financial and social stability if it is not dealt with correctly".

Rita Silva Marques
Investment Banking Division

Regional View

Belt and Road: A Debt-Trap Diplomacy

Francisca Anselmo
Financial Markets Division

"There ain't no such thing as a free lunch".

– Milton Friedman

China's desire to outstrip the United States in the run to prevail as the world's largest economic superpower is conspicuous. From the *Made in China 2025* to the *Belt and Road Initiative*, the People's Republic of China is looking after global dominance, being it through an economic transition towards a high-tech manufacturing value chain or by building, potentially, the largest platform for regional collaboration – which ultimately could disrupt trade. This platform is, precisely, the so much controversial Belt and Road Initiative.

For the less mindful on the topic, the Belt and Road is a highly ambitious economic and diplomatic program – proposed in 2013 by President Xi Jinping – that aims to revive trade routes that in the past led China to prosperity, namely the Silk Road. Thus, by comprising around 70 countries – by recreating both the terrestrial ("Belt") and maritime ("Road") routes of the ancient Silk Road – the involved nations would cover one-third of the world's GDP, by addressing about 65.00% of the world's population and providing, roughly, one-fourth of all goods and services the world exchanges.

Nevertheless, as Milton Friedman would put it: "There ain't no such thing as a free lunch". An effective implementation of the Belt and Road heavily depends on the capacity of the other countries to grow on infrastructure and manage investment properly. Investment which analysts estimate would be above USD 1.0 tn.

Meantime, Chinese companies have already secured more than USD 340.0 bn in construction to countries such as Djibouti, Laos, Pakistan, Kyrgyzstan, the Maldives, Mongolia, Montenegro and Tajikistan – nations currently owing more than half of their foreign debt to, not surprisingly, Beijing.

What some started denominating as Chinese Marshall Plan – a state-backed campaign for global dominance – now threatens to be a "debt-trap diplomacy", where China leverages strategic debt to gain political influence with economically vulnerable countries across the Asia-Pacific region.

Even though credit conditions have been appealing to countries with weaker economies and governance, amidst extended grace periods and debt forgiveness, these perks have been offered in exchange for both political influence and strategic equities.

Sri Lanka's Hambantota port represents an example of a Chinese financing (USD 8.0 bn) that ended-up as a debt-for-equity swap, in 2017, where a Chinese naval hub was carried out. More recently, the Maldives seek to renegotiate with China over the country's Belt and Road debt (USD 600.0 m), claiming the values of the construction contracts were inflated whilst alleging corruption from these China-backed projects.

Once again, analysts linked Beijing's interest in the Maldives to its strategic location – as Malé controls a maritime territory three times greater than the land area of the UK, hence representing the biggest shipping route between China and Europe.

In fact, the long-term benefit for the remaining Belt and Road nations is questionable, as the intended geographic coverage might not even be attained and, therefore, financial returns might not be enough to compensate for the inflated construction contracts required.

As Jennifer Harris and Robert Blackwill assert on their book "War by Other Means", nations carry out geopolitical combats through economic means. Being it a debt-trap diplomacy or not, it is indeed a result of Beijing's not geopolitical, but rather geo-economic strategy towards financial prosperity: a stimulus package for an economy slowing down.

Francisca Anselmo
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Brexit Events

After restarting negotiations with the EU Mrs. May needs to update the House of Commons and ask for its approval on **13th** of February, until the **14th** of February the members of the parliament will be able to amend the deal.

US Government Shut Down

The US President Donald Trump has signed a measure to reopen the government until February **15th**. The shutdown was already the longest in US history and could be continued if no agreement will be evolved.

EU-Japan Trade Deal

The **1st** of February is the date set for entry into force of the EU's trade agreement with Japan. It is the largest bilateral trade deal ever negotiated by the EU. The deal was signed on July 17th 2018.

Central Bank Decisions

RBA Interest Rate Decision

The Royal Bank of Australia will meet on February **5th** to discuss further interest rates hikes. It is expected that the interest rate remains on its current level of 1.50%.

Bank of England Interest Rate Meeting

On the **7th** of February the Bank of England will meet to evaluate a potential interest rate increasement. Currently, analysts expect that the interest of 0.75% will not change according to the meeting.

Bank of India Interest Rate Meeting

Bank of India will meet on **7th** of February to speak about potential interest rate hikes. Appraisals of analysts say that interest rate hikes are not expected to change – thus remaining at its current level of 6.50%.

Inflation and Deflation

Update on Euro Zone Inflation

January inflation data for the euro area will be published on the **22nd** of February. Inflation in the euro area is expected to ease and fall to 1.60%. ECB economists expect inflation to fall further to 1.50% in 2019.

US Inflation

The US inflation rate will be announced on the **13th** of February. Analysts predict that the current inflation rate of 0.20% will not change throughout the upcoming month.

Bank of England Inflation Report

On February **7th** the Bank of England will publish UK's inflation report and will announce their decision regarding further interest rate hikes. Additionally, the report contains an appraisal for the next two years regarding the future monetary and inflation policy.

Labour Market

US Employment Readings

On the **4th** of February the US payrolls number with ADP employment change data for January and the weekly jobless claims are announced. Despite signs of economic slowdown, the labour market is expected to stay solid. The unemployment rate is expected to increase slightly to 4.00% after a 49-year low of 3.70%.

Germany Labour Market

On the **19th** of February, Germany announces its unemployment rate. Additionally the average payroll figures will be published. It is expected that the unemployment rate will decrease slightly from 4.30% in January to 4.20% and will stay on that level for the next four months.

Australian Unemployment Data

The Australian unemployment rate will be announced on the **21st** of February. The overall unemployment rate is expected to remain at 5.50% for Q1 2019.

Jan Schroff
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Several of the key drivers and catalysts of M&A have continued from prior years. Positive global growth, improving cash flows, strengthening balance sheets, low cost of debt, investor support and CEO confidence are all continuing to boost M&A activity. Innovation, disruption and the need for growth also contributed to M&A activity, driving change across industries, geographies and organizations. An accelerating rate of disruption has driven the need to act with urgency. As a result, new consumption patterns, new platforms and new business models are resetting the basis of competition, redistributing industry economics and reallocating value. While geopolitical uncertainty was prominent throughout the whole of last year and the regulatory environment still remaining a challenge, these circumstances had limited effect on global deal volumes. However, these concerns may have contributed to the deceleration of M&A activity in the first month of 2019. Two of the biggest announced deals in January were Fiserv's acquisition of First Data, valued at USD 22.0 bn, and Newmont Mining's acquisition of Goldcore Inc for USD 10.0 bn.

Selected Regions

North America

Despite a trend of lower M&A activity during the second half of 2018, the beginning of 2019 has seen strong deal growth in North America. Compared to last year, monthly activity is up 40.50% in terms of deal value. The transactions were valued at a total of USD 186.5 bn, with several mega deals driving up the sum. The largest deal of the month was Bristol-Myers Squibb's acquisition of Celgene Corp, valued at a stunning USD 88.8 bn.

EMEA

M&A activity varied amongst the regions, with a total transaction value of USD 35.9 bn. While Eastern Europe, the Middle East and Africa experienced over 50% YoY growth, Western Europe saw a 25% decline in total deal value during the first month of the year. Increased geopolitical uncertainty as we approach the Brexit deadline, disproportionately affecting Europe, is likely to partly explain the sluggish deal sentiment in the region.

Asia

The Asian M&A market has been off to a good start in 2019, as deal volumes were up 18.60% in January. A breakdown of the largest deals reveals that Chinese companies have been the most active deal makers, with a majority of the transactions (in terms of value) belonging to the financial and non-cyclical consumer goods space. The total deal value reached USD 50.8 bn, consisting of 144 completed and 322 pending deals.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
03 Jan 19	Celgene Corp	Bristol-Myers Squibb Co	US	Medical-Biomedical/Gene	88,848.00	51.8
16 Jan 19	First Data Corp	Fiserv Inc	US	Data Processing	38,200.00	31.1
14 Jan 19	Goldcorp Inc	Newmont Mining Corp	CN	Gold Mining	12,565.87	15.6
17 Jan 19	Sears Holding Corp	ESL Investments Inc	US	Retail	7,900.00	-
07 Jan 19	Loxo Oncology Inc	Eli Lilly & Co	US	Medical-Biomedical/Gene	6,572.42	72.7
23 Jan 19	Beijing Easyhome Furnishing New Retail Chain Store	Whuhang Zhonshang Commercial Group Co	CH	Home Furnishing	40,100.52	-
23 Jan 19	RPC Group PLC	Apollo Global Management LLC	LN	Containers – Paper/Plastic	4,392.57	15.1
28 Jan 19	TCF Financial Corp	Chemical Financial Corp	US	Commercial Bank	4,270.19	- 1.4
14 Jan 19	Multiple Targets	CapitaLand Ltd	SP	Real Estate Development	5,717.25	-

Cong Tuan Huynh Phuoc & Birk Carlenius
Investment Banking Division

M&A: Top Deals

Bristol-Myers Squibb to acquire Celgene

On the 3rd of January, biopharmaceutical giant Bristol-Myers Squibb agreed to acquire Celgene in a record-sized USD 74.0 bn deal. Under the proposed terms, investors will receive one share and USD 50.0 in cash for each Celgene holding.

Buyer vs Seller

Bristol-Myers Squibb and Celgene are both global biopharmaceutical companies whose mission is to discover, develop and deliver innovative medicines that help patients prevail over serious diseases. Celgene is focused on the treatment of cancer and inflammatory diseases through next-generation solutions in protein homeostasis, immuno-oncology, epigenetics, immunology and neuro-inflammation. Morgan Stanley is acting as Bristol-Myers Squibb's advisor, while Citi is Celgene's advisor.

Industry Overview

Since biopharmaceuticals could become the core of the pharmaceutical industry, the opportunities in the industry are substantial, currently growing too rapidly to be ignored. Biosimilar players have to focus on cost, quality, and scale. For them, speed, process innovation, and operational excellence are must-win battles. This deal follows the wave of innovation that is sweeping through the industry.

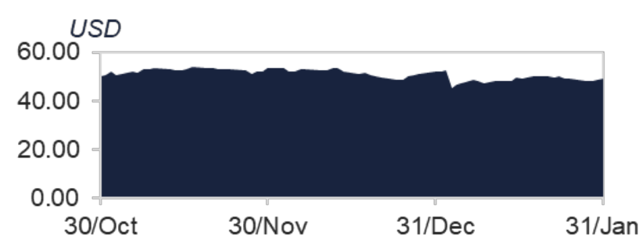
Peers	Currency	Market Cap (CUR m)
Biogen Inc	USD	66,672.61
Gilead Sciences Inc	USD	90,618.05
Amgen Inc	USD	117,854.10

Deal Rationale

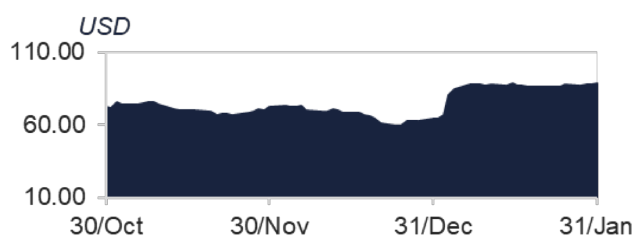
"Together with Celgene, we are creating an innovative biopharma leader, with leading franchises and a deep and broad pipeline that will drive sustainable growth and deliver new options for patients across a range of serious diseases", said Giovanni Caforio, CEO of Bristol-Myers Squibb. Other strategic goals are focused on the launch opportunities that represent greater than USD 15.0 bn in revenue potential, hereunder achieving an early-stage pipeline to build a sustainable platform for growth as well as powerful combined discovery capabilities. Financial goals are focused on strong returns and EPS accretion.

Market Reaction

Bristol-Myers Squibb
Since the announcement, the stock price, that was trading at USD 52.43, has dropped by 5.87%.



Celgene Corporation
Differently to the acquirer, the stock price of Celgene increased by 32.50%. It is currently trading at USD 88.3. Wall Street analysts see the deal as a big win for Celgene.



Future Challenges

The transaction is subject to approval by Bristol-Myers Squibb and Celgene shareholders and the satisfaction of customary closing conditions and regulatory approvals. Bristol-Myers Squibb and Celgene expect to complete the transaction in Q3 2019.

Mariana Costa
Investment Banking Division

M&A: Top Deals

Newmont Mining to acquire Goldcorp Inc.

The New York listed group is targeting Goldcorp, from Canada, in a USD 10.0 bn transaction. Newmont will offer 0.328 of its own shares plus USD 0.02 for each Goldcorp share, reflecting a premium of roughly 18.00% at the time of the announcement.

Buyer vs Seller

Newmont Mining is an American mining company with active gold mines in Nevada, Australia, Ghana, Peru and Suriname, and it is the only gold company in the S&P's 500. Goldcorp Inc is a gold production company headquartered in Canada, with presence along the American continent. Newmont is being advised by BMO Capital Markets, Citi and Goldman Sachs, while Goldcorp is working alongside TD Securities and Bank of America Merrill Lynch.

Industry Overview

The gold mining industry is currently in transformation, with big companies fighting to consolidate its position. In September last year, Barrick Gold agreed to buy Randgold Resources, which triggered the return of M&A to the industry. The new paradigm comes after years of punishment from investors, due to the sector's shy returns, excessive spending and executive's overpaying.

Peers	Currency	Market Cap (CUR m)
Barrick Gold Corp	CAD	30,349.38
Newmont Mining Corp	USD	18,091.37
Agnico Eagle Mines Ltd	CAD	13,283.41
Kinross Gold Corp	CAD	5,488.50
Yamana Gold Inc	CAD	3,503.07

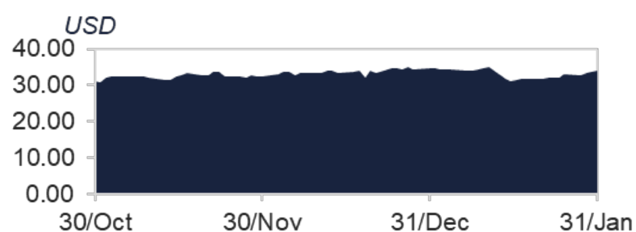
Deal Rationale

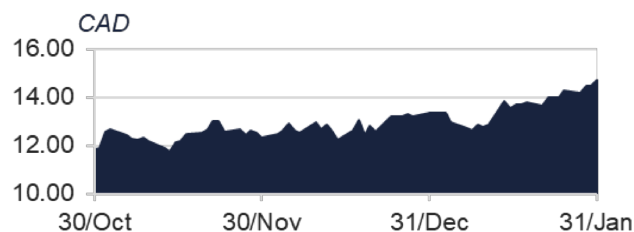
As deal making activity in the industry intensifies, the acquisition will create the world's biggest goldminer. According to Newmont, the combined company, with presence in Americas, Australia and Ghana, would benefit from having the largest gold reserves and resources in the sector, exceeding Barrick-Randgold in scale. The announcement took place after two years of poor stock performance by Goldcorp. Moreover, the combination of the two companies is expected to represent USD 100.0 m per year in cost savings, a major sign to investors that the company is carefully managing its capital.

Market Reaction

Newmont Mining
With the announcement, on the 14th of January, the stock price went down by 6.40%, meaning that investors reacted with caution.

Goldcorp Inc.
The company's share performance in the last 2 years has been negative. However, since the announcement, the share price has been constantly increasing.





Future Challenges

With a negative reaction from Newmont's shareholders and with an industry in transformation, the combined company's future still has many questions to answer. Big transactions and acquisitions may take place and Newmont-Goldcorp's positioning can be affected with the entry of new players. However, its worldwide presence and size bring confidence to the markets and an advantage regarding competitors.

Duarte Alves Pereira
Investment Banking Division

M&A: Top Deals

Fiserv to acquire First Data

Fiserv announced it is acquiring First Data for USD 22.0 bn in an all-stock deal. This marks one of the largest acquisitions in the fintech industry, reflecting a continuing trend of consolidation in the processing space.

Buyer vs Seller

Fiserv sells financial processing systems that help institutions complete debit, credit and cash machine transactions. First Data provides payment processing systems such as credit card readers for businesses as well as ecommerce services. J.P. Morgan and BofA Merrill Lynch were the financial advisors of Fiserv and First Data respectively. J.P. Morgan has also provided financing to Fiserv. The transaction, which is expected to close during Q2 2019, is subject to regulatory approvals.

Industry Overview

Acquisition activity in the payments technology space has been on the rise as consumers and merchants turn increasingly to cashless payment methods. In 2018, merger and acquisitions activity in the payment industry reached what was likely to be an all-time-high as more firms consolidated to build out emerging business segments or open up new streams of revenue — a trend that is poised to continue through 2019.

Peers	Currency	Market Cap (CUR m)
Worldpay Inc	USD	25,967.39
Global Payments Inc	USD	17,914.42
FleetCor Technologies Inc	USD	17,709.31
Total System Services Inc	USD	16,111.41
Square Inc	USD	32,240.41

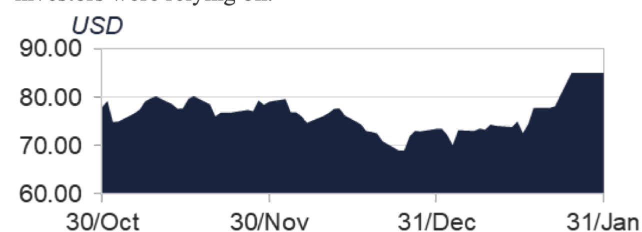
Deal Rationale

The consolidation of Fiserv and First Data is perceivable as the firms largely offer complementary products and services. The deal will enable Fiserv to broaden the suite of products it offers to its existing clients, including account processing and digital banking solutions. First Data will now have backing from a company with vast resources and reach, favoring an easier access to capital that once has been restrained due to its USD 17.0 bn of debt. This transaction is expected to generate at least USD 500.0 m of revenue synergies and approximately USD 900.0 m of run-rate cost synergy savings over a five year span.

Market Reaction

Fiserv

Fiserv's share price declined 6.00% to USD 70.8 on announcement day (16th of January). This acquisition suspended the share repurchase programme that Firserv's investors were relying on.



First Data

First Data's shares climbed 19.00% to USD 20.9 after announcement. This is in line with the positive growth prospects that the company will benefit from being integrated in Fiserv.

Future Challenges

The massive financial obligations that have been troubling First Data may have similar effects on the consolidated entity, which can be problematic since fintech competition is fierce. Fiserv must be prepared to invest in its new lines of business in the short-term so that most of the forecasted synergies soon start to materialize. Additionally, the cultural fit will be a challenge for two big standalone companies like Fiserv and First Data.

João Sousa Mendes
Investment Banking Division

What Happened To

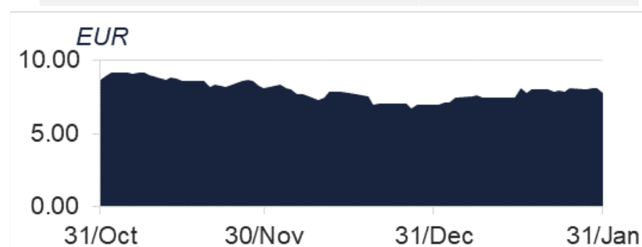
Deutsche Bank

Deutsche Bank AG is a bank from Germany that offers a range of investment, financial and related products to private individuals, corporate entities and institutional clients. It operates through six divisions: Global Markets, Corporate & Investment Banking, Private, Wealth and Commercial Clients, Deutsche Asset Management, Postbank, and Non-Core Operating Unit.

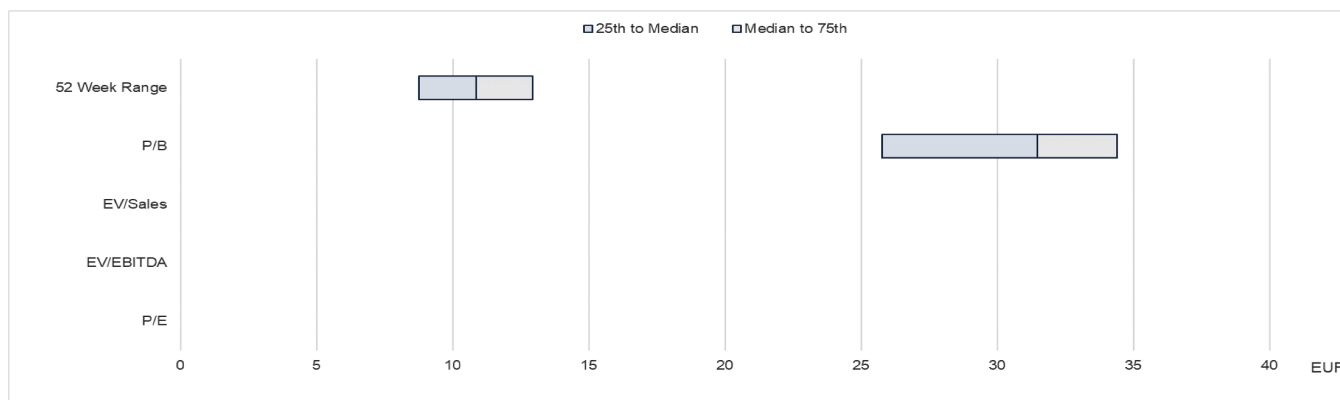
Corporate News

DB's former CEO, Josef Ackerman, changed the position of the bank from a conservative institution, supporting mid-cap industry firms in Germany, into a global player. Since then, the profitability, reputation and the stock price has changed tremendously. The aggressive expansion into risky investment banking and the active competition against US banks, grieved the global lender. The Libor interest rate scam from 2003 to 2007, where the bank got fined USD 2.5 bn from regulators, was the beginning of a downward-trend the bank is still facing. Nowadays, several setbacks, including the involvement in the Cum-Ex tax – or the Panama Papers affair – harmed the stock price. Experts are widely speculating about the future of Germany´s largest financial institution and a potential merger with Commerzbank.

Price (31 Jan 19, EUR)	7.70
Targe Price (EUR)	8.00
3M Performance	-10.99%
Market Cap (EUR m)	15,914.15
Enterprise Value (EUR m)	-
**Target Price is for 12 months*	



Valuation Analysis



Deutsche Bank was trading at USD 7.7 as of 31st of January and lost 3.96% on the last trading day, due to new rumors regarding a potential merger with Commerzbank. On a 52-week basis, Deutsche Bank lost 48.52%, with a peak value of USD 8.1 and a bottom price value of USD 7.1. Regarding the valuation analysis above, a median valuation of approximately USD 7.1 suggests that Deutsche Bank is undervalued compared to its peers. This divergence may be due to the recent controversies and public discussions.

Deutsche Bank reported in 2018 the first full-year net profit since 2014, amounting to USD 390.0 m. Especially fixed income (USD 902.0 m) and equity trading (USD 435.0 m) were crucial for the positive profits. Due to a lot of recent negative press releases, several experts expect rough waters ahead for the trouble-ridden bank. Nevertheless, the royal family in Qatar recently announced to boost their equity stake in DB, proving that the market is ambivalent towards the German giant's future.

Peers	Currency	Market Cap (Cur m)
Goldman Sachs Group Inc/The	USD	76.851,14
Morgan Stanley	USD	72.437,00
Citigroup Inc	USD	155.808,33
Bank of America Corp	USD	277.540,43
JPMorgan Chase & Co	USD	347.904,47

Philip Hunold
Investment Banking Division

What Happened To

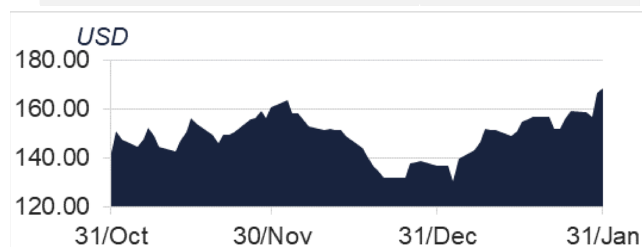
Alibaba

Alibaba Group is a Chinese conglomerate specialised in online retailing. Although it is most commonly known through its e-commerce business, it also provides electronic payment systems and cloud services, both core components of its revenues. The group employs more than 66,000 people and is considered the 6th largest internet company by revenue, with US 40.0 bn in 2018.

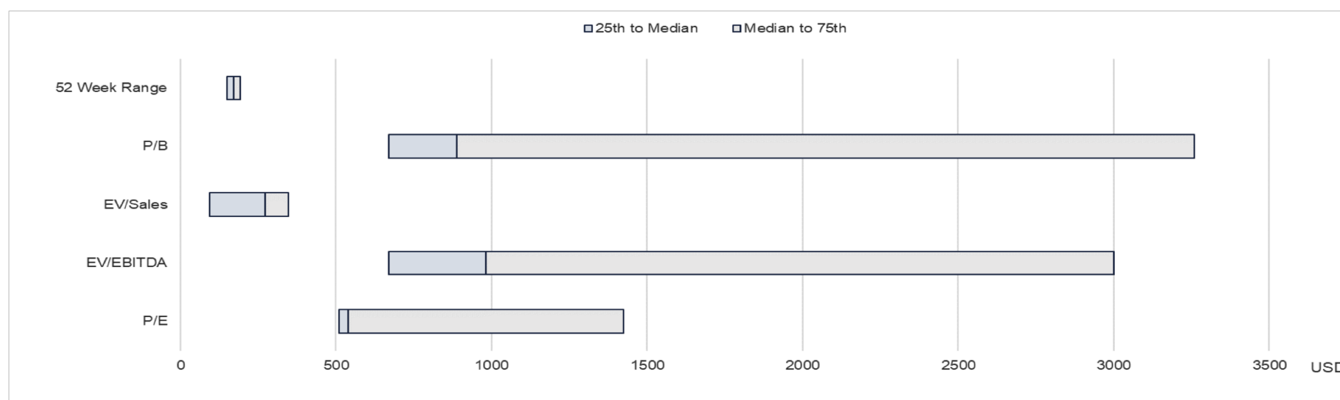
Corporate News

Alibaba's shares were down 10.20% last year. The sluggish performance contrasts with the strong revenue growth in the previous year, a CAGR of 25.00%. The recent bad performance can be explained by two major factors: the ongoing US-China trade war and Jack Ma stepping down. Although Alibaba was not directly affected by Trump's tariffs, the slowdown of the Chinese economy strongly affected the group's retailing business. Chinese consumers are cutting back and since Alibaba is the market leader, the stock has taken a hit.
Additionally, the departure of the founder and chairman Jack Ma, an iconic figure, also doomed the stock's performance in late 2018. The share price was USD 168.0, away from the 52-week and all-time high of USD 212.0. Revenues in Q4 beat expectations – YoY growth was 41.00%, slightly above the market consensus. Operating margins decreased 8 percentage points and net income was RMB 33.1 bn (USD 4.9 bn).

Price (31 Jan 19, USD)	167.97
Targe Price (USD)	202.50
3M Performance	18.06%
Market Cap (USD m)	435,409.19
Enterprise Value (USD m)	2,842,447.44
**Target Price is for 12 months*	



Valuation Analysis



The stock closed at USD 168.0 on the 31st of January, yielding a PE ratio of 48.12. Despite a high PE ratio, it still lags behind certain American behemoths. Comparing Alibaba with its often considered American counterpart, Amazon, may, though, be misleading. While the Chinese conglomerate sells ad space for sellers, Amazon buys and re-sells products, having different business models and hence different multiples. Recent earnings surpassed expectations and the stock price soared 6.00% in the subsequent day.

The e-commerce business in China has been booming in the recent years, with Alibaba controlling the biggest chunk of the market, at nearly 58.00% of the generated revenue. The second biggest competitor in the national market is JD.com, with a share of 16.00%. With the slowdown of the economy, online retailing will likely decelerate, naturally affecting Alibaba. Taking this into account, the group has looked to diversify its activity. An example of this is Ant Financials, valued at USD 150.0 bn.

Peers	Currency	Market Cap (Cur m)
Amazon.com Inc	USD	798,808.88
JD.com Inc	USD	35,634.27
Vipshop Holdings Ltd	USD	5,065.04
eBay Inc	USD	31,389.55
MercadoLibre Inc	USD	16,363.34

Vasco Lupi
Investment Banking Division

NIC's View On

Deutsche Bank Remains Under Pressure in 2019

Vera Teixeira Wahnon
Investment Banking Division

"We must concentrate on what we truly do well."

- Christian Sewing, CEO at Deutsche Bank

Deutsche Bank is a multinational investment bank headquartered in Frankfurt, Germany. It has a strong position in Europe and presence in several fast-growing economies in emerging markets, including the Asia Pacific region and Latin America. It offers a variety of financial services to its private, corporate and institutional clients in wealth and asset management, as well as retail and investment banking.

In 2018, the German bank was ranked the 15th largest worldwide by value of total assets, with an overall USD 1.8 tn. On the 26th of April 2018, after appointing Christian Sewing as CEO, Deutsche Bank announced its fourth reorganisation plan in the last three years along with its poor Q1 results. The released strategy outlined the urge to focus on "more stable revenue sources and strengthening of its core business lines". The Germany-based bank thus intended to enhance its private and commercial banking, asset management and global transaction banking businesses – to make up 65.00% of its net revenue by 2021 – while reducing its reliance on investment banking. Furthermore, the prioritisation of its focal market represented by Germany and other European economies would lead to a reduction in its cross-border activity, mainly in equities sales and trading, due to their capital intensive characters.

However, despite Mr. Sewing's efforts to solve Deutsche's problems, the restructuring plan has seen little to no success, as the bank's operating results remain underwhelming. Although it has managed to squeeze EUR 1.0 bn out of its cost base in 2018, and is expected to do so this year as well, the bank still has one of the worst ratios of overheads to revenues in the market – higher than 90.00% – proving that revenues have shrunk more significantly than overheads. After long years having a bumpy ride in the industry, with several plans to turn the bank around, one could appoint a big-player acquisition as the most suitable solution. However, Deutsche Bank's current state alongside the ongoing litigation concerns related to the Panama Papers scandal and potential connection to money laundering cases are likely to shy away any potential buyer. Moreover, cross-border M&A deals are strictly regulated.

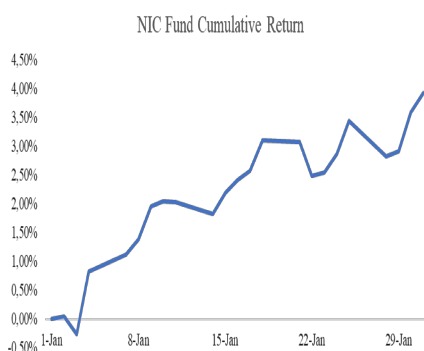
In this scenario, the much-publicized potential merger with Commerzbank appears as a plausible approach, mainly considering that the German government is reportedly encouraging for a leader in the banking industry to financially support the overall activity of the country's corporate sector. Nevertheless, shareholder resistance might be a significant drawback from the deal due to fears of worsening Deutsche Bank's situation combined with the need for a major capital increase. In addition, Germany's softening economy makes the transaction less attractive, and perhaps not beneficial without major adjustments. Aligning Deutsche Bank's needs with its current strategy, the most plausible option to consider would be a commercial banking joint venture with Commerzbank. Not only would it enable Deutsche to strengthen its retail banking segment through synergies, but also to accentuate its position as a leader in its domestic market.

Date	Recent News
25 Jan 19	Deutsche Bank still needs some radical surgery. ***Source:*** *ft.com*
10 Dez 18	Deutsche Bank needs a bold and swift restructuring. ***Source:*** *ft.com*
23 May 18	Deutsche Bank to slash 7,000 jobs in restructuring. ***Source:*** *ft.com*
09 May 18	Deutsche Bank's new restructuring plan trades off some long-term value for stability. ***Source:*** *forbes.com*

Vera Teixeira Wahnon
Investment Banking Division

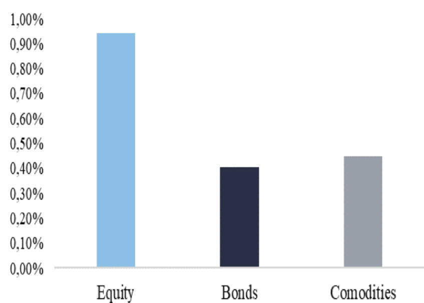
NIC Fund

NIC Fund
Portfolio Overview



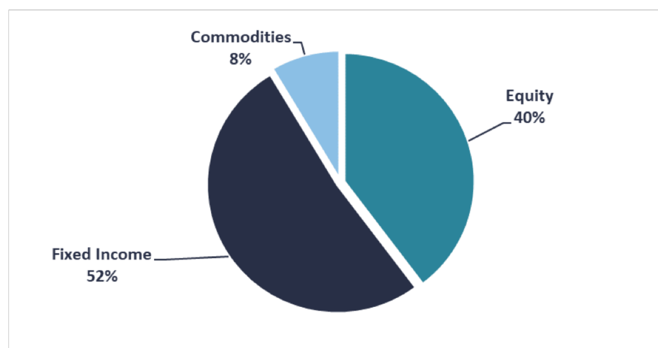
Portfolio Statistics	
Cumulative Return	3.93%
Annualized Return	47.88%
Daily St. Dev	0.39%
Period St. Dev	1.81%
Annualized St. Dev	26.28%
Info Sharpe	2.12
Skew (Daily)	0.03
Kurtosis (Daily)	0.08

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



Portfolio Snapshot

During January, the NIC Fund remained invested in Equities, Fixed Income and Commodities without suffering any major changes to the composition from the previous month. Overall, 40% of our fund remained devoted to Equities, 52% to Fixed Income and 8% Commodities. Yet, only 49% of the Equities were allocated to the benchmark MSCI World and MSCI Emerging Markets Indexes, while the remaining 51% were allocated primarily to fourteen specific stocks, using an equally weighted strategy. Regarding Fixed Income, we remained slightly underweighted in relation to the benchmark. Our fund is 8.57% allocated to the commodity index and it has 1.04% long position in EU Potatoes' Futures.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 3.93%, that allowed us to beat the benchmark by 10 bps. After a very harsh December, Equities recovered at a strong pace with both the MSCI World and the MSCI Emerging Markets gaining 8.68% and 8.71%, respectively. The Commodity Index rose 7.11% in January, showing some positive signs to investors. Conversely, as expected, Fixed Income was the worst performer in terms of asset classes, as with a better outlook in Equities demand for safe haven assets as slowed down.

In terms of stock picks, the fourteen selections produced a cumulative return of 8.02%. In general, US Equities performed better than their European and Asian counterparties, with Consumer Discretionary, Energy and Financials driving the gains. Amazon, Domino's Pizza, Bank of America and Goldman Sachs were the top performers, finishing the month up by more than 14.00% each. The only equity in the red was the Indian stock HDFC Bank, that closed January down by 4.89%.

Risk Metrics

In terms of risk, our portfolio registered a relatively low daily VaR of 0.63%, significantly below the maximum established threshold of 2.5%. This result is illustrative of the benefits of diversification and mainly of the stabilization of capital markets after a very tumultuous end of 2018.

Equities were the asset class with the highest individual VaR, which was around 0.94%. On the other hand, VaR for Fixed Income and Commodities were only 0.40% and 0.45% respectively.

Gonçalo Marques
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
Equity Index	**URTH**	One of our benchmark for equity indexes, the URTH ETF tracks the MSCI World Index. Through January the index increased 7.72%, reflecting investors' preference for equities, after consecutive months of stock sell-offs and high demand for fixed income securities.
Equity Index	**EEM**	The MSCI Emerging Markets ETF, the other benchmark for equities, tracks the evolution of Emerging Markets. Despite concerns with weak Chinese trade data and signs of an economic slowdown, Emerging Markets finished the month up 10.34%.
Equity Index	**IVE**	The S&P 500 Value ETF holds over 340 large capitalization US companies that exhibit value characteristics in the US equity market. The ETF is adequate for investors that weigh stability, dividends and that have long-term horizons. In January, the ETF delivered a total return of 8.54%, benefiting from strong Q4 earnings reported by US companies, as well as from a better outlook for the US economy, based on a more flexible Fed, a healthy labor market and on-going US-China trade negotiations.
US Equity	**AMZN**	In January, Amazon delivered a 14.43% return. Strong monthly performance came from Q4 results that topped analysts' estimates. Revenue reached USD 72.4 bn while reported EPS were USD 6.04 against an estimate of only USD 5.68. Results were backed by strong holiday sales, with quarterly sales climbing 19.70%, higher than the 18.80% estimated mark. However, concerns about slowing growth and heavier investments in 2019 dragged shares down more than 5.00% in after hours trading (after the end of the session of January 31st).
US Equity	**GS**	Goldman Sachs had a prolific month with the stock price increasing 18.53%, mainly driven by strong Q4 results. Solid performance from the investment banking division, which registered a 56.00% increase in advisory revenue, as well as from the investing and lending division lifted shares by 9.54% in January 16th, the biggest one-day gain since 2009.
US Equity	**BAC**	A strong performance in the consumer-banking business and lower taxes were the key drivers for a solid Q4 for Bank of America. Quarterly profit tripled, reaching a record USD 7.3 bn mainly due to a 52.00% YoY increase in consumer banking profits. In addition to this, Bank of America announced that it bought back USD 26.0 bn in common stock, leading to a monthly gain of 15.54% in January.
US Equity	**NVDA**	Nvidia lowered its Q4 revenue guidance by 18.52% to USD 2.20 bn with less than three weeks to report its earnings, citing "deteriorating macroeconomic conditions, particularly in China". As a result, Nvidia shares dropped 14.00% in January 28th, leading to a USD 13.0 bn market cap wipeout. Nonetheless, Nvidia ended January in the green rising 7.68%.
US Treasury Bonds	**IEI ETF**	Our benchmark bond index, IEI invests in treasuries with maturities from 3-7 years. US treasuries remained essentially flat, despite the bond sell-off during January. Such situation was possible thanks to the Fed intervention in end of the month, that left interest rates unchanged and vowed to be "patient" on future rate decisions, thus signaling a more-than-expected dovish orientation.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had positive performance over the last month, rising 7.11%, mainly driven by the sharp recovery of oil prices. During the month, Brent registered a gain of 15.00%, while WTI oil, the US benchmark, had its best January since 1983, as prices jumped more than 18.00%. Despite growing concerns of economic slowdown in China, behavior of oil prices in January reflected the decision agreed by OPEC and its allies in December 2018 to cut daily output by 1.2 m barrels to ease concerns about a supply glut. Note also that US imposed sanctions on PDVSA, the Venezuelan state-owned oil company, have been priced in the market, making the case for a strong rally of oil prices in the last days of January.

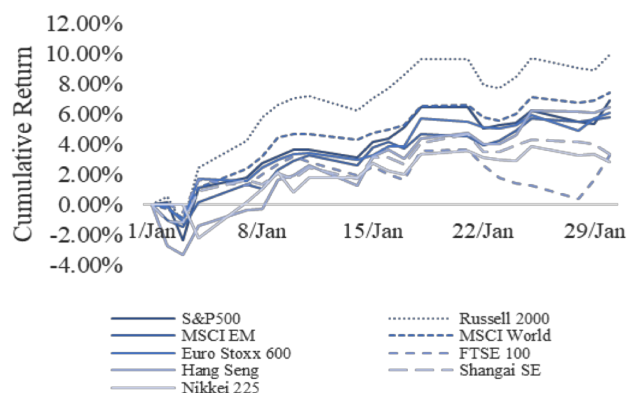
Gonçalo Marques
Financial Markets Division

NIC Fund

Equities

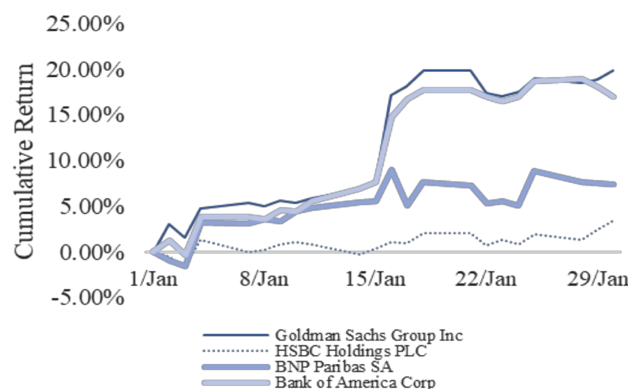
World Equities

Global equities were able to take the momentum of the last days of 2018 into 2019 and posted a 7.68% gain in the MSCI World. The S&P 500 rallied back to 2700, increasing 7.87% and with that closing out the best January since 1987. European stocks lagged their US peers somewhat, the Euro Stoxx 600 gained 6.23%. Emerging Markets equities outperformed over the month, with the MSCI EM returning 8.71% to investors. In contrast, British and Japanese stocks were rather muted with returns of 3.58% for the FTSE 100 and 3.79% for the Nikkei 225. Drivers of this strong early-year rally where threefold. Investors were encouraged by signals of Washington and Beijing officials aiming at ending the trade disputes roughly one year into the simmering conflict. Additionally, the earnings season for Q4 and FY 2018 kicked of in mid-January and provided predominantly less negative numbers for the last quarter of 2018 and a slightly better outlook for 2019 then previously expected. In the end of the month, the Fed supported equity markets with a U-turn in their communication which turned dovish. Quickly, the phrase “Powell put” reemerged, suggesting the Fed aims to back Wall Street when markets get rocky.



In Depth: A Two Class Society – European and US Financials

Our portfolio includes two big US banks, Goldman Sachs and Bank of America Merril Lynch, as well as two major European players with BNP Paribas and HSBC. The January is representative for how different the two groups developed since the Financial Crisis. GS and BoA ML released strong earnings for Q4 in mid-January and gained 18.53% and 15.54% respectively. BNP and HSBC have not yet released numbers but analysts expect them to have underperformed their US peers significantly. Stock prices of the European lenders increased only 3.77% and 2.48%, with that also underperforming the broader market over the month. Brussels and European bank bosses agree on the notion that there is need for consolidation in the sector to create an European player that can support the export oriented EU economy and is on par with the US banks. For orientation, JP Morgan’s market capitalization currently exceeds the combined value of BNP, ING, Santander, Credit Suisse, Deutsche Bank and UBS.



Our Performance

On a strategic asset allocation level we did not materially deviate from the benchmark in January. Within the equity portion of the portfolio however, we attributed roughly 15% to discretionary stock picks. Our picks returned 8.16% and contributed 1.19% to the overall fund performance. With that, we were able to outperform all developed markets stock indices. Within our Index Funds allocation, we over weighted British stocks against Emerging Market stocks, betting on UK Prime Minister Theresa May being able to push a Brexit deal through the Parliament. However, the deal was rejected by the House of Commons, which leaves the situation extremely complicated with fewer and fewer time left. Our misjudgment prevented us from an even stronger performance in January.

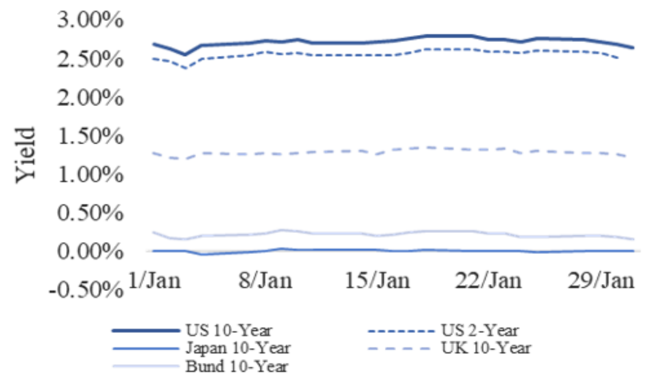
Lukas Müller
Financial Markets Division

NIC Fund

Fixed Income

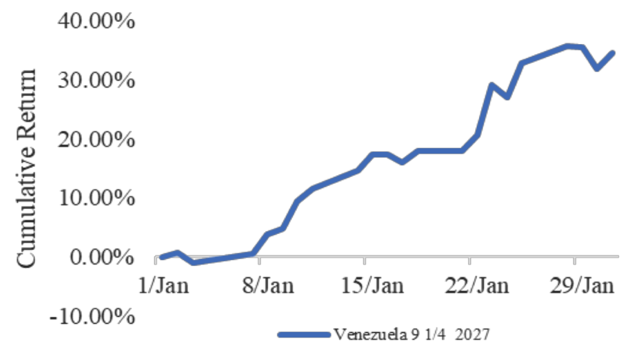
World Yields

For January, the 10-year US Treasury yield was up 6 bps (2.69%) while two-year Treasuries fell under 2.50% for the first time in three weeks. Moreover, the US Federal Reserve set this week a U-turn policy which confirmed that global interest rates are expected to stay low in the upcoming month. This change in expectations around the Fed has supercharged the market and created the best month for equities in almost three years. Meantime, the balance between low interest rates and slow, but positive economic growth turned European governmental bonds into sweet spot. The European sovereign market started the year with a provisional step, due to the volatility across financial markets and the end of QE. On the other hand, investors' demand has boomed. This was mainly observed in Italy, Portugal and Spain, as all of them saw record investor demand in their debt sales. Spanish 10-year governmental bonds recognized last week the largest book ever in the euro-denominated public sector debt market. Fixed income rush in Europe led to buoy of even non-investment grade sovereigns (Greece). The surge in investor demand is empowered by the limited amount of net supply and continued reinvestment of ECB´s maturity holdings. Investors' strong appetite for European sovereign debt is expected to continue in the following months. The periphery of eurozone is benefiting from investors' search for yield, turning attention towards riskier sovereign bonds.



In Depth: Emerging Markets

January was the best month for emerging market bonds since 2016, even Ecuador, expected to apply for International Monetary Fund programme, raised funds from international investors. Ecuador issued a USD 1.0 bn 10-year bond this week, paying over 10.00% for the privilege. This is the result of investor scepticism towards the US Federal Reserve raising interest rates (4 times so far) and trade war between China and the US. Another factor influencing the rally in emerging market bonds is a series of idiosyncratic bounces in the debts of big countries (Argentina, Brazil and Venezuela). The average yield of dollar-denominated emerging market debt has decreased from 6.30% in November to 5.70% this week. For example Venezuelan bond maturing in 2027 have paid 34.00% return in January, due to the change in the price from USD 24 cents to USD 32 cents for one dollar. This combination of domestic and international pressure increases the probability of further activity in the emerging market bond market.



Our Performance

IEI ETF, tracking 3-7 year US Treasury Bonds, our benchmark fund for fixed income, remained stable with small positive change of 2 basis points. 1-3 year US Treasuries, SHY ETF, recognized only 1 basis point move up.

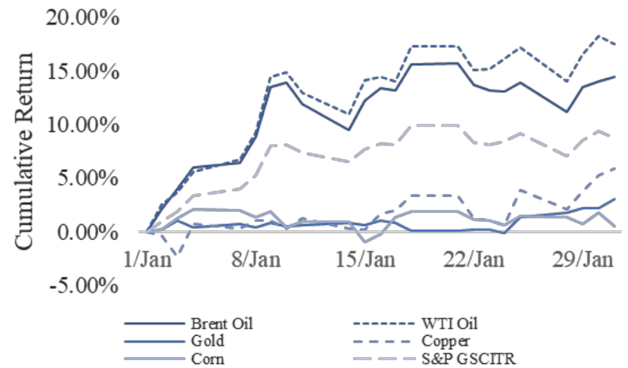
Nina Kusnirova
Financial Markets Division

NIC Fund

Commodities

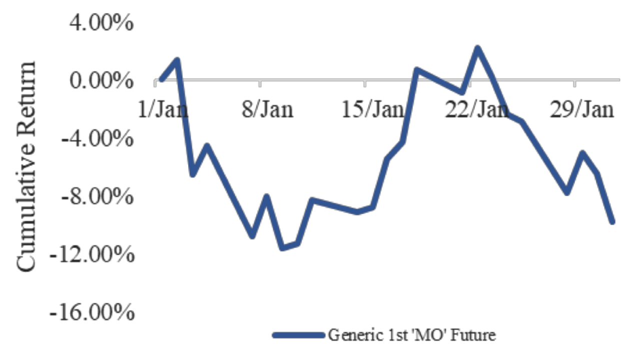
January Round-Up

The S&P GSCI Total Return Index, which tracks 24 commodities, has been rising by 8.99% after falling 9.77% in December. YoY, the index is still down 9.91%. This positive movement was mainly driven by this month's top gainers: Brent Crude Oil and Heating Oil, while Coffee and Lean Hogs contributed the least to the index performance. Although crude oil rose from a low of under USD 50.0 a barrel over Christmas to over USD 60.0 this month, it seems difficult to be the bull in 2019 as volatile production from OPEC countries such as Venezuela, Iran, Nigeria, Libya, Saudi Arabia could easily steer prices in the opposite direction. This volatility is mainly caused by the political turmoil in Venezuela and the associated reduction in oil production after Canada and the US welcomed the opposition leader of Venezuela as interim president and imposed sanctions. In addition, US sanctions against the Iranian oil sector and a possible wave of violence related to next month's presidential elections in Nigeria are intensifying price volatility. The return on gold is with 3.00% still dull, but the volatility gave miners a new shine in January. After the equity sell-off in December, investors are moving towards gold. Sentiment towards gold rose and continued amid speculation about the weakening US economy and the Fed's decision not to hike rates further. The agricultural sector is still affected by the trade war.



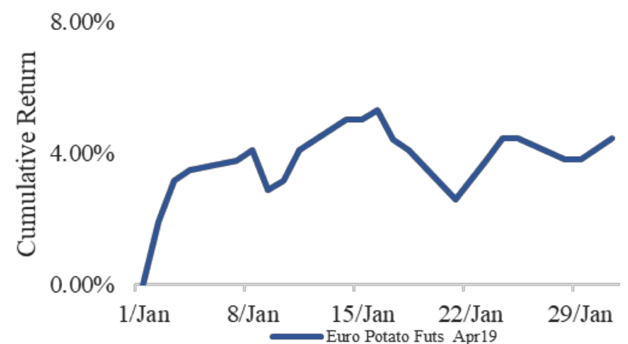
Outlook for February

The carbon futures, which reflect the prices that factories and utilities pay for their emissions, tripled in 2018, making them last year's best-performing major commodity. As the amount of climate-damaging carbon dioxide in the atmosphere is expected to reach another record level in 2019, driven by an increase in fossil fuel consumption and a decrease in the planet's forest-covered area, these contracts could rise again by 20.00% to nearly USD 29.0 per tonne or more, in 2019. The development of iron ore prices must also be taken into account in February. As Vale plans to cut production by 10.00% in response to the disaster in Brazil, this will contribute to a further narrowing in an already tight market and boost iron prices significantly. In addition, it should be noted that a tailing disaster can trigger an almost impossible regulatory and reputational climate for other mines and new mining projects, which will have a long-term impact on price movements.



Our Performance

In January, we maintained our allocation of 8.00% to the benchmark ETF, which remains roughly equivalent to our benchmark weight of 10.00% for commodities. The benchmark ETF gained 7.11% in January. The extraordinary performance of our potato futures continued to improve compared to December, rising by 1.19% to 4.47%.



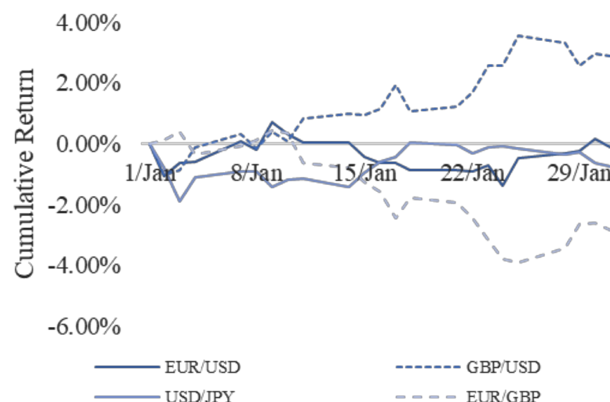
Lisa Preußler
Financial Markets Division

NIC Fund

Currencies

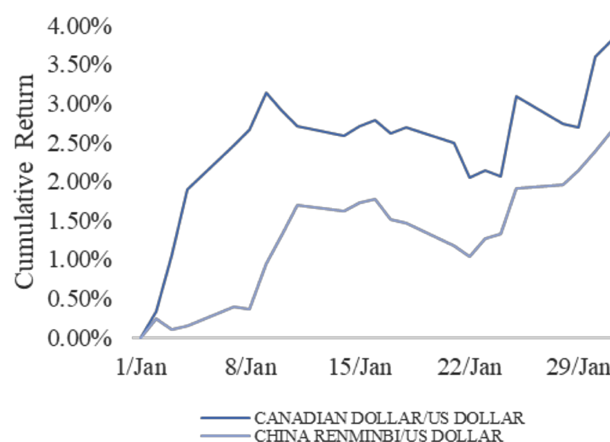
World Currencies

Year 2018 was an investor rollercoaster. Judging by its first month, 2019 will not be any less exciting. At the end of January, Fed held its meeting, leaving interest rates in the range of 2.25-2.50%, just as markets expected. In its supporting statement, however, the regulator hinted at the possible end of the interest rate hike cycle. That is bad news for the USD, which rallied against emerging market currencies last year. Investor sentiment changed accordingly: last December, markets anticipated two to three rate rises in 2019, but now expect the Fed to begin cutting rates as soon as 2020. USD dropped 0.60% against a basket of currencies. Meanwhile, the British pound saw its biggest monthly rise in a year as the government decided to renegotiate Brexit terms with the European Union. Investors, increasingly anxious about the deal, embraced the move. The pound strengthened 3.00% against the USD and 2.83% against the EUR in January. On the continent, concern about slowing growth amid slowing QE weighs heavily on euro. Yet there are some good news for the EU: official data on inflation in the area showed an increase in core inflation from 1.00% to 1.10%. Finally, in what would otherwise be a calm month for the JPY, the Japanese currency, surged more than 3.00% against the dollar in less than eight minutes on January 2nd. The magnitude of the move left investors puzzled about what had caused it. One potential culprit is the so-called witching hour, occurring between 5pm and 6pm New York time — period when traders in New York leave the office and those in Tokyo arrive. During the witching hour, market liquidity is limited, thus exacerbating any price move.



In Depth

January saw two big currency winners. One of them is the Canadian dollar, which strengthened almost 4.00% against the greenback. The driver behind such growth is the oil market rally (Canada is a big exporter), which sent crude over 15.00% up, as well as a renewed taste for risk inspired by the Fed's dovish turn. The Australian dollar and the New Zealand dollar also benefitted from the latter. Like the British pound, the yuan had its best month in a year. Despite slowing growth and ever-present trade war concerns, the Chinese currency saw its biggest gain in almost two years in January. This growth is even more impressive given recent quantitative easing efforts by China's central bank. While the present is bright, there is no consensus on how yuan's future will look like. Analysts at Morgan Stanley believe the currency can appreciate even further, citing an accumulated USD 68.0 bn of export revenues that could soon be converted to CNY. On the bigger scale, though, imports are outweighing exports. That leads some analyst to believe that a narrowing current account will force China to further open its capital market to foreign investors, which could lead to increased volatility.



Our Performance

We currently hold no currency related assets in our portfolio.

Vadim Nikitin
Financial Markets Division

Extras

Hot Topic

The Industry Race Around Robotaxis

Viktoria Wagner
Investment Banking Division

" The driverless-car technology will come along with an industry race the likes of which we haven't seen before. "

– Itay Michaeli, Citibank

The automotive industry is among the most capital intensive industries in the world: if the economy declines, the car industry suffers, too. This can be seen by examples such as General Motor and Crysler, which both filed for bankruptcy after the financial crisis in 2008. Bain consultants predict that this could happen again if the US faces a recession in the next 12 to 18 months. But there is hope – the rise of shared, driverless so-called "robotaxis", which are autonomous cars that drive without human intervention. This emerging market, which nowadays is virtually non-existent, promises tremendous future potential. GM calls it the biggest business opportunity since the internet, and Bain expects the innovation to become mainstream in some large cities in six to eight years. By 2050, when robotaxis are likely to be common in most cities, chipmaker Intel projects a passenger economy worth USD 7.0 tn.

However, to realize this potential, the industry will have to update its entire business model. One of the greatest challenges for carmakers will be to gain the expertise in self driving algorithms, in-car entertainment, fleet management and streaming services. Investments in mobility start-ups have been enormous already: about USD 211.0 bn have been invested since 2010. However, only 7.00% of those investments came from carmakers. Another challenge will be the integration of this new technology – Itay Michaeli, Citi analyst, predicts "an industry race the likes of which we haven't seen before". As a consequence, carmakers could potentially even be relegated to the status of a supplier, if they fail to keep up advancing with this new technology.

The current leader in the landscape around robotaxis is Waymo, the alphabet self-driving unit that, founded in 2009, originally began as a Google project. Waymo valuations are already sky high – being valued at USD 70.0 bn last year by Morgan Stanley, which is roughly the same value as Volkswagen, the world's largest carmaker by sales. Moreover, with the infrastructure of Google at hand, aside from the vehicle itself, Waymo is a vertically integrated, closed system, using data from Google Maps and Search, while benefitting from YouTube and Play Store. Furthermore, there is even potential for Waymo to advance its technology and license it to enter the logistics business, where, for example, it could help Walmart deliver goods to better compete with Amazon. Moreover, the scope of Waymo could potentially also influence the advertising, entertainment and media business.

In order to keep up with this giant, traditional carmakers have already started to partner up. In fact, German carmakers Mercedes and BMW have pooled their expertise, while Volkswagen has entered a mobility partnership with Ford. According to industry experts, the main advantage for carmakers lies in such partnerships and, more specifically, the ability to select the best partners and to integrate different technologies. Thomas Müller from Volkswagen, states that "there is not just one company that can do everything. You can follow that approach, but it will be expensive and risky. We learnt how to work in a network, to manage that network of different partners, and to integrate that into the car, a product or a piece of software."

In the end, the most successful organisations will be the ones that manage to integrate the innovation into their supply chain most effectively. Moreover, it is still unclear how the promising future of Waymo and the traditional carmakers, as well as their relationship, will evolve in the future. With all measures taken, the driverless car technology and the development of robotaxis remain exciting topics that one can observe eagerly in the future.

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Hot Topic

Trade War: First Innocents Harmed?

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"We are like a small sesame seed, stuck in the middle of conflict between two great powers."

– Mr Ren, Huawei CEO

In the era of digital revolution and big data, the Chinese company Huawei is under fire, accused of stealing American technology and of breaking US sanctions against Iran. The most important aspect, however, is the accusation that Huawei supports China, its home country, in espionage.

There is some hypocrisy on the US side. Edward Snowden, the US whistle-blower, gathered the information later leaked on the internet by planting a back door access in Cisco equipment. However, this only proves the ease of access to information in the current era. The forthcoming penetration of 5G networks further intensifies the problem.

Whereas in 3G and 4G network boundaries between data and communication were easy to keep – Huawei was only allowed into masts, antennas, and other radio equipment, which is peripheral – in 5G networks the boundary is much harder to define. The technology can be embedded in factory equipment and autonomous cars, which makes it extremely hard to strictly separate communication signals from raw data.

With such a distribution of data, it is rather easy for any company involved in the technology development to gain access to relevant information without much ado. Huawei, the world's biggest telecoms equipment maker, is on the forefront of the new 5G networks development.

Huawei is not China. The company consistently denies all the accusations. "We are like a small sesame seed, stuck in the middle of conflict between two great powers", said Mr Ren, Huawei's founder. China's 2017 intelligence law permits intelligence institutions to "request relevant organs, organisations, and citizens provide necessary support, assistance and cooperation", as stated in Article 14. Despite no clear-cut evidence that China ever asked Huawei to create a "back door" access to Western networks, the company would forcibly need to give in to the government's demands if asked to do so.

A spokesman for China's Ministry of Industry and Information Technology states "it is neither fair nor ethical to use state power to discredit and attack specific companies without evidence".

Meng Wanzhou, CFO of Huawei, was arrested in Canada, following US investigations of alleged Huawei exports of embargoed US technology to Iran. China responded threatening Canada with "serious consequences", and later detained two Canadians, including a former diplomat, on charges of "harming national security". The move appears to be a retaliation against the perfect response of Canada's judicial system to a US extradition request.

Steve Mnuchin defends that the US "are focused on unfair economic practices" and that "violations of US law or US sanctions are going through a separate track". However, the incident may be catching innocent people (and countries) on the cross-fire between Beijing and Washington.

The US and China are set to craft a deal by the 2nd of March 2019, otherwise US tariffs on USD 200.0 bn of Chinese imports will rise from 10.00% to 25.00%. Mr. Trump believes Mr. Xi will eventually give in to his pledges. However, China has consistently proven its ability and willingness to become the greatest power in the world. The latest trade talks, led by Mr. Liu, the vice-premier of China, did not register any breakthrough. With this attitude, Trump risks blowing the deal and further hurt innocents. To be truly fair, both countries need to separate their trade talks from their tech fight.

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Hot Topic

In Venezuela There is Hope

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"The Venezuelan people deserve to decide freely and in security about their future"

– Angela Merkel, German chancellor

Venezuela, once one of the richest countries of Latin America with bigger oil reserves than Saudi Arabia, now heavily plagued by an economical crisis, is at a turning point of a up-to-now peaceful revolution against the ruling power's ouster. The current socialist president Nicolas Maduro, 56, has tightened his hold on power as opponents complain of economic mismanagement, corruption and political oppression.

Juan Guaidó, 35, the president of the opposition-dominated National Assembly, announced on the 23rd of January that he would assume Maduro's powers temporarily, a move recognized by the US, Brazil, Canada, Colombia, Peru and Chile. He argues that the presidential election in May 2018 was not legitimate since oppositional candidates were not allowed to run. Hence, he assumes Venezuela to be leaderless since the 9th of January when the second, self-claimed legislation period of Maduro began.

As a reaction to that, major European states have set an ultimatum for free elections within one week. So far this was denied by Maduro himself in an interview, claiming that no one could pressure Venezuela with such an ultimatum. Meanwhile, the US announced a new round of sanctions on Venezuela, including ones on Venezuela's state-owned oil group. The measure blocks about USD 7.0 bn in assets and would result in more than USD 11.0 bn in lost assets over the next year, state officials claimed.

Further, a note of the National Security Adviser John Bolton has sparked speculation of a military intervention by the US in Venezuela. He appeared at a White House briefing holding a note pad with two scribbled lines in full view of reporters on Monday, 28th of January. The important information was revealed by the second line, "5000 troops to Columbia", which was not wiped out by the White House afterwards, saying that "the US continues to keep all options on the table until Maduro transfers power to Guaidó". Although this move is seen by experts as a bluff, it shows that the conflict is on the agenda of the US government.

In this situation, the influence of the neighbour Cuba on the Venezuelan state remains strong. Since a series of bilateral agreements in 2000, the communist island's economy depends heavily on Venezuelan crude oil, which Havana compensates for by providing Venezuela with Cuban doctors and other services. It is even assumed that Cuban officials are advising Venezuela's government on how to monitor opponents and put down street protests.

On the bond markets, Goldman Sachs and BlackRock are already among the winners of the new developments. As the confidence of Venezuela's major debtors rises – so do the prices of Venezuelans government and state-owned company's bonds. In detail, governmental bonds have jumped from about 23 cents on the dollar earlier this month to over 33 cents on Monday, while bonds issued by PDVSA, the state oil company, have climbed from approximately 14 cents on the dollar to around 24 cents.

The coming week will show whether the revolution of the Juan Guaidó can remain peaceful in the light of brutal attacks of paramilitary gangs, so called "colectivos" which spread fear on behalf of current administration. In addition, both Maduro and Guaidó, are trying to persuade the military forces to support their parties. Nevertheless, there is hope that current ruling power will make place for new and free elections, which would equal a change of administration.

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Hot Topic

Market Irrationality and Economic Cycles

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"To understand the economy then is to comprehend how it is driven by the animal spirits (...) Keynes' animal spirits are the keynote to a different view of the economy – a view that explains the underlying instabilities of capitalism."

– George Akerlof

After the closing of a tumultuous year for financial assets all over the world, investors were split between those who believed December was just a temporary correction and a perfect time to invest, and those who believed a recession was coming. Over the past century, US financial markets experienced a recession every 5-6 years on average. Therefore, a case can be made that we approach the end of an economic cycle, the bullish run of the past 10 years.

Devil's advocates would point out that since the financial crisis of 2008 the introduction of new regulations has significantly lowered the risks of a widespread recession. Reducing capital ratios of banks doomed "too big to fail" and bringing almost all the financial derivatives' products traded over-the-counter to be cleared through clearing houses (which have never defaulted since the start of their existence in the 19th century) greatly reduced counter-party risk.

Moreover, as it is always stated in any financial advice report, past performance is never a good measure of future performance. With the increase in regulations, technological development, the expansion of quantitative methods and data availability, some investors could argue that it is possible that another full-blown recession will not come in the future given the available mechanisms to soften an economic downturn .

Although it is true that financial markets evolved since the last crisis, humans did not. In an ever more industrial world it is easy to forget that we are animals as well. Organisms whose behaviours and responses change slowly over millions of years, not decades. Hence the inevitability that history tends to repeat itself.

Already in the 17th century, in Amsterdam, animal spirits were in control of humans' behaviour, with investors selling their homes to get in on the latest investment fad at that time, tulips. In the end, once the tulip bubble burst in 1637, some investors were left homeless, with just tulips in their hands. The point here is that although we have invented the internet and left our footprints on the moon, at our core we are not very different from those investors. The emotions they experienced are the same as the ones we experience.

Labour returns in the US have been almost stagnant since 1977 for the typical worker while owners of capital benefited from the increase in the value of financial assets since 2008, due to quantitative easing. This fostered inequality, with the wealth of the top 0.10% equalling that of the bottom 90.00%, which did not happen since 1937. Eventually leading to the rise of populism and conflicts around the world.

With Fed interest rates at 2.25% and unemployment rate at 4.00%, there is not a wide margin to protect against a recession. Eleven out of the thirteen times the Fed increased its interest rates, a recession followed. When a recession hits again, political instability and divisiveness will likely be higher than in 2008. Governmental entities will play a major role in managing conflict between the left and the right amid high levels of polarity. In such an uncertain period there may not be many financial products that look attractive, with several fund managers giving money back to clients. Cash as a store of value is looking as a better alternative than previously. As we approach the end of an economic cycle, holding a conservative diversified portfolio (that includes cash and different currencies) may be key in minimizing losses.

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Thank you!

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

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