NIC

— Nova Investment Club —

Newsletter

January 2020

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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, Paulina Michel, our head of communications, elaborates on the reduced Reserve Requirement Ratio in China and its positive effects on Chinese and American stocks. Moreover, in our Regional View, Valentina Heimann examines the historical development and impact of the Nord Stream II pipeline on European foreign policy and energy prices..

Our Investment Banking Division will guide you through December's M&A overall activity. Read about Tencent Group acquisition of a USD 3.4 bn stake in universal music, Fiat Chrysler to merge with France's PSA and Bristol-Myers Squibb completing their acquisition of Celgene. Additionally, get a detailed overview on what happened to The Bayer Group, as well as consider our opinion on the strong hype on cannabis market.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across four different asset classes: Equities, Fixed Income, Commodities and Currencies. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The active positioning of the NIC Fund in November yielded a 2.33% cumulative return, majorly supported by Equities.

Lastly, our IBD Head, Tobias Berberich, provides a brief overview on 2019 Mergers & Acquisitions, Corina Popa examines the impact of Trump's impeachment on the stock market and Alexander Keil elaborates on Deutsche Bank to raise revenue target for a reshaped investment bank. In light of the beginning of a new year, our Head of Corporate Relations, Patricio Drexhagen , provides our 2020 outlook, consisting in a different approach to stimulating a slowing economy.

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 The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.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

January 6th, 2020

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Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3 231	0,23%	8,53%	29,97%
DJIA	28 538	0,08%	6,02%	23,74%
Nasdaq	8 973	0,22%	12,17%	36,27%
MSCI World	3 108	0,18%	7,80%	22,05%
MSCI EM	4 000	1,71%	9,86%	13,11%
Russell 2000	1 668	-0,57%	9,52%	24,71%
Euro Stoxx 50	3 745	-0,77%	4,92%	25,40%
FTSE 100	7 542	-1,18%	1,81%	12,01%
Nikkei 225	23 657	-0,73%	8,74%	17,83%
Hang Seng	28 190	1,17%	8,04%	10,53%
Dollar Index	96,39	-1,30%	-3,01%	-0,01%
EUR/USD	1,121	1,12%	2,88%	-2,02%
GBP/EUR	1,183%	1,29%	4,87%	6,56%
GBP/USD	1,326%	2,42%	7,88%	4,39%
USD/JPY	108,610	-0,71%	0,49%	-1,51%
USD/CHF	0,97	-1,40%	-3,12%	-1,83%
Brent Crude	66,000	-1,79%	8,59%	26,44%
Gold	1 523,1	1,60%	3,92%	18,71%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1,918%	1,8	25,3	-80,1
GER 10Y Yield	-0,185%	5,7	38,6	-42,7
JPY 10Y Yield	-0,011%	-2,3	20,2	-1,4
UK 10Y Yield	0,822%	5,3	33,4	-44,7
PT 10Y Yield	0,442%	2,6	28,1	-128,0

**Source: Bloomberg, as of 2019-12-31*

In Focus

December

UK finally found an exit to Brexit dead-end. December 12th will be remembered as the day where Boris Johnson and the Conservatives won a vote that will put a close on January 31st, 2020 to more than 3 years of drama around Brexit.

Cooling down in US-China trade tensions. The White House and Beijing seem to have finally found common ground as Trump renounced to set new tariffs and China agreed to strengthen IP rights protection and purchase more US goods. A "Phase One" agreement will be signed between both parties in Washington D.C. on January 15th .

US stock markets reached all-time highs in Equities' strongest year since the crisis. Wall Street reacted positively to the announcement of a future trade agreement between the US and China. All three majors US indices (Dow Jones, Nasdaq and the S&P500) recorded historical high levels during the last week of December.

Revival of tensions in Bolivia after the expulsion of Spanish and Mexican Diplomats. In response to Mexico's decision to grant asylum to 9 allies of former President Morales, including former minister of presidency, Quintana, who faces charges of terrorism and sedition. Meanwhile, Bolivia accused Spain of having sent armed forces to exfiltrate Quintana out of the Mexican embassy, where he is currently in hiding.

Paris region paralyzed due to strikes around pension reforms. President Macron is facing strong protests nationwide, mainly from public sector workers regarding his will to amend the pension system which would result in postponing the year at which people can retire.

Hong-Kong protests persisted during Christmas. Protests on Christmas eve and Christmas day weakened even more retailers already fighting to survive since the start of the protests in the city in April.

Saudi Aramco's successful IPO pushed its valuation near to USD 2 tn. The deal was made mainly attractive for the domestic. Nonetheless, foreign IBs that worked on the deal can expect to make USD 3.5 m whereas HSBC, NCB and Samba, which led the Riyad listing, should earn up to USD 10 m.

Trump became the 3rd president to be impeached after being charged with abusive use of power by the House of Representatives. Yet, the impeachment inquiry is very unlikely to succeed as it will be voted on in 2020 by the Senate, which is predominantly Republican.

Fed likely to leave rates unchanged in 2020. On December 11th, the Fed decided to leave benchmark rates unchanged at 1.5% to 1.75%. The committee also maintained its estimations for 2020 and 2021 GDP growth at 2% and 1.9% respectively. This led us believe that there will be no further rates adjustment next year.

Weakening currencies in Latin America are beneficial to commodity producers. Social and Political tensions in the region led currencies such as the Brazilian Real and Chilean Peso to depreciate against the US Dollar. As a result, it augmented outputs and earnings for coffee, sugar and copper producers.

Chinese companies' credit defaults hit high record in the last weeks of 2019. Onshore corporate debt topped USD 18.6 bn at the end of the year, nearly 7% higher than last year. The exponential growth of Chinese companies in the chemical and textile sector over the last decade led to an oversupply of debt. However, the slowing growth results in corporate reneging on their debt obligations.

Maxime Hozé
Head of Financial Markets Division

Deeper Dive

China's Central Bank's early New Year's Gift

Paulina Michel
Investment Banking Division

On 02/01/2020, the People Bank of China announced that it will lower the reserve requirement ratio by 50 bps. This allows banks to lend more money and leads to a boost of the economy. Immediately, Chinese stocks rose by more than 1% on the same day.

"The [reserve requirement ratio] cut will help boost investor confidence and support the economy, which is gradually steadying"
(Wen Bin, economist at Minsheng Bank in Beijing)

Chinas Central Bank announced on the 2nd of January that it was cutting the amount of cash which all banks are required to hold as reserves. As a consequence, around CNY 800 bn (USD 114.91 bn) were released in funds to boost the slowing economy. As the Chinese Premier Li Keqiang pledged last month to encourage more bank loans to small companies that require cash, the move was widely expected.

The People's Bank of China (PBoC) has decided to reduce the "reserve requirement ratio". This new requirement brings the level for big banks down from 13.0% to 12.5% while the ratio for smaller lenders will drop to 10.5% from 11%.
However, this has not been the first cut. The PBoC has cut the reserve requirement ratio eight times since 2018 to counteract the weakest pace of economic growth since 30 years. One important factor for a slowing down economy has been obviously the trade war between China and the USA. However, since both parties have agreed to de-escalate their trade war one could expect that this will boost the Chinese economy again. Still, many analysts are not sure if this will actually prove sustainable and forecast growth could cool further this year.

The announcement of lowering the reserve requirement ratio is timed perfectly since Chinese Lunar New Year is in late January. During this period of time, people usually spend more on shopping and traveling. Therefore, depositors withdraw more cash leading to a tighter liquidity for banks. It has to be added, that bank lending is seasonal in China and exhibits a maximum in January. Freeing up USD 115 bn by lowing the reserve requirement ratio can help to provide the banking sector with enough liquidity.
The PBoC commente: "The total liquidity in the banking system will remain basically stable with appropriate flexibility. Such countercyclical adjustment of monetary policy is appropriate and sound. Our stance of sound monetary policy remains unchanged." Additionally, the PBoC said that lower reserve requirements will reduce banks' annual funding costs by CNY 15 bn, which consequently could reduce pressure on their profit margins from recent interest rate reforms.

These news had not only an impact on the Chinese economy, but also on the American since Wall Street has hit its record high after the announcement. For example the S&P was rising by 0.8% to a record high of 3,257.85 or the NASDAQ was climbing by 1.3% to its record high. Of course, Chinese shares have been boosted due to the action of the PBoC as well. The CSI 300 of Shanghai- and Shenzhen-listed companies was rising by 1.4% to hit their highest level since February 2018. More concretely, the Hang Seng Index rose by 1.3% to 28,543.52 on 02/01/2020, with 37 of its 50 constituent members advancing. Additionally, the Shanghai Composite Index advanced 1.2% to 3,085.20, the Shenzhen Composite Index climbed 1.9% to 1,756.16 and the ChiNext Index (Chinese index for start-ups) rose 1.9% as well to 1,832.74.

Even though Chinese stocks were delivering their highest returns in the past five years, they are still underperforming their US-rivals. However, if the trade war is going to end favourably for China and if the Chinese manufacturing industry is continuing to rise, the Chinese shares could start outperforming the US peers.

Alan Li, a portfolio manager at Atta Capital commented on the future development of the Chinese economy: "Looking forward in 2020, the trade war isn't over, but after the phase one trade deal, [US President Donald] Trump is not likely to open a new battlefield before the election. So attention of the market may shift back to fundamentals, like the economy."

Paulina Michel
Investment Banking Division

Regional View

US Sanctions Stop Nord Stream II Construction

Valentina Heimann
Financial Markets Division

“Europe's energy supply is a matter for Europe, and not for the United States of America.”
– Sigmar Gabriel (Foreign Minister Germany).

Energy prices have been perpetually rising for the past decade in Europe, with an increase of about 23.8%, from 2018 with 0.16 EUR/kWh to 2019 with 0.21 EUR/kWh. With the currently constructed “Nord Stream II” pipeline, supplying gas directly from Russia to central Europe, a decrease was in sight for the first time. The pipeline is supposed to start operating in mid-2020. However, with US-sanctions imposed on the 20th of December, current construction firms stopped working on the project. This is bound to have severe effects on European energy policy and pricing.

In April 2017, Nord Stream II AG signed the financing agreements for the Nord Stream II gas pipeline project with ENGIE, OMV, Royal Dutch Shell, Uniper, and Wintershall. The remains are financed by the Russian state-owned company Gazprom, the worlds’ largest natural gas supplier, with total project costs of EUR 9.5 bn.

As the pipeline would increase the overall annual capacity up to 110 bn m^3, Russia can supply more gas to the EU decreasing the need to import more expensive American liquified natural gas (LNG). Hence, the import price for the remaining LNG volumes decreases, thereby reducing the overall EU-28 natural gas price level.

The direct connection to Germany would decrease risks in the gas transit zones, lead to economic savings (no transition fees) and increase Europe’s energy security, which is highly needed given the increase in renewable energies in Europe’s’ energy mix, as these are highly dependent on un-controllable factors, such as wind and sun.

The classic argument on the US side is, the loss of Ukraine's transit status as soon as the new pipeline comes on stream, which generate transit fee revenues of USD 1.5 bn. The Normandy Four talks in December ended the 18-month negotiations. Russia agreed to continue to pump gas through Ukraine after the treaty expires on 1st of January 2020.

However, the project does increase the dependency of Europe on Russia, as it is already responsible for 1/3 of Europe’s natural gas imports. Alarmingly, Russia has previously used the dependency of other countries on Russian gas supply as a political instrument and could do it again.

As the US seeks to increase the European demand for LNG and decrease Russia’s influence and power, it passed the PEES act (Protecting Europe’s Energy Security Act), sanctioning the civil engineering firms laying the pipe and contracting the boats to complete the job. This piece of legislation is a one-sided effort to roll back the rolled-out project which is almost near completion. As a reaction, “Allseas” announced that the company had suspended its Nord Stream II pipelay activities.

The delay or complete stop of the project could not only have a negative effect on the RUB but especially on the relationship between Europe and the US. The German Eastern Business Association (OAOEV) stated: "Should we arrive at the conclusion that US sanctions are intended to push competitors out of the European market, our enthusiasm for bilateral projects with the US will significantly cool.”

As a conclusion, the new arrangement agreed under Normandy format talks normalizes the gas transit issue between Ukraine and Russia, which means that the argument used by US to halt Nord Stream II has lost its weight, and even if one gives credence to this argument, the growing support for the project in the EU calls for a direct natural gas link between Germany and Russia, with Putin even suggesting to use Russian vessels to complete the project.

Overall, the completion of the project will lead to a significant demand decrease for LNG, about -20%, in Europe, an increase of Europe’s dependency on Russia and a decrease of the average energy price in Europe.

Valentina Heimann
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

UK: Johnson Ready to "Get Brexit Done"

Following his undeniable win on December 12th and the approval of the Brexit deal by the parliament, Boris Johnson is well positioned to make the UK leave the EU by January **31st** after more than 3 and a half years of drama.

Trade War: Agreement to be Signed Soon

On December 31st Donald Trump said that a "Phase One" deal will be signed on January **15th** at the White House with Chinese representatives. Amid the announcement the US halved tariffs on USD 120 bn of imports, whilst China pledged among others to enhance intellectual property rights protection.

France: Unions Call General Strike

Macron's New Year speech has not eased tensions with unions around the pension reform. Left-wing union CGT leader Martinez called for general strike in a country already facing the longest railway strike in history, paralyzing the region of Paris. Negotiations with the government will resume on January **7th**.

Central Bank Decisions

Fed Shows Confidence in Current Policies

According to the minutes of the December meeting, American policy makers were confident towards the results of the current monetary policies. Thus, interest rates should within the 1.5 to 1.75 per cent range for 2020 as unemployment falls and salaries inflate.

Bank of Canada to Maintain Low Rates

During the year-end speech on December 12th, Poloz tackled trends that will affect the economy and by consequence set the directions for monetary policies in 2020. As long as slow population and economic growths persist, rates will stay low. Yet this contribute to high debt levels. Next meeting will be on January **9th**.

ECB to Introduce Dual Interest Rates

Lagarde is expected to introduce new ECB policy on January **9th**. Instead of continuing with QE and negative interest rates, the ECB might use dual interest rates to increase deposit rates and lower rates on loans. This could also boost Europe's Green Deal according to Hedge fund manager from M&G Investments.

Inflation and Deflation

Euro Zone Inflation

On Tuesday, **7th** of January, the first estimate for yearly inflation in the Eurozone will be published. December CPI was flat, thus yearly inflation is estimated to be 1.3% in accordance to last month level.

UK YoY CPI Might Fall

YoY CPI numbers will be published on January **15th**. Estimates are forecasting YoY inflation at 1.4% vs 1.5% last month. Since August, yearly inflation have been constantly revised downwards as Brexit drama increased uncertainty and postponed investments in the kingdom.

Update on Japan CPI

Japan CPI excluding volatile fresh food prices, rose for the 35th straight month to reach 0.5% YoY. The hike follows a consumption tax introduced in October. Yet, the number falls significantly below the 2% target set by the BoJ. December data will be released on January **23rd**.

Labour Market

US Nonfarm Payrolls to Rise

Nonfarm payrolls as well as unemployment rate will be published on the **10th** of January. Forecasts range between 150 to 160k. As expressed by the Fed, a solid job growth is expected through 2020 too, which is set to drag unemployment rate even lower than current 3.5% forecasts for December 2019.

Unemployment Hikes in Germany

For the first time in 6 years unemployment rate slightly increased by 0.1% in Germany at 4.9%. According to the release on January **3rd**, 2.2 million people were reported unemployed in December, confirming that the weakening manufacturing sector is hurting the domestic labour market.

Australia Labour Force

Unemployment rate fell to 5.2% in November as announced on December 19th. Employment increased by 268,900 people (or 2.1%) in 2019 YTD, which was above the average annual growth rate over the past 20 years of 2.0%. The next announcement from the ABS will take place on January **22nd**.

Maxime Hozé
Head of Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Overall M&A activity in December followed the same trend as in the previous 3 months of 2019. In an uncertain global environment, cross-border deals have reduced as investors turn their attention to domestic markets to do what are often big, strategic deals. Though deal value and volume are down, the market remains close to what are historic highs. At a time of heightened regulatory and market uncertainty, it's perhaps surprising to see life sciences and healthcare sector M&A continuing to grow so strongly. Indeed, with deal value up by more than 19%, it was one of only two sectors to record growth in transaction value. Deal value is down by 7% and deal volume is down by 10% in the year so far, but despite this evidence of growing caution among some investors, 2019 will still turn out to be the third strongest year in terms of value and the fourth strongest in transaction volume for a decade. December was mainly marked by the deal between Fiat Chrysler Automobiles NV and PSA Peugeot Citroen for EUR 16 bn that will be explained in more detail in this month's newsletter.

Selected Regions

North America

The US is currently on its longest expansion period in history and close another golden year for M&A making reached USD 1,819 bn of deal value, up 6% from 2018. December closes a quarter chockfull of super deals that amidst a trade war drove M&A activity to its fourth best year on Refinitiv's records. Moreover, the number of deals saw a decrease from 12,752 in 2018 to 11,093 in 2019.

EMEA

An analysis from Willis Towers Watson exhibits Europe as the only region to have recorded above-regional-index M&A performance upon announcement in 2019 i.e. acquirers' share-price six months before the deal compared to price at the end of the transaction quarter - European dealmakers outperformed their regional index by 0.6pp. EMEA registered 16,560 deals with USD 953 bn in deal value.

Asia

Asia-Pacific closed the year on USD 757 bn of transacted valuation, down 15% from 2018. The region is refraining from M&A activity due to government-imposed restrictions on investment outflows and dealmakers cold feet on a potential recession. Moreover, the number of deals also decreased from 14,409 in 2018 to 14,181 in 2019. Looking ahead analyst expect 2020 to follow the same regional trend.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target region	Target business	Value (USD m)	Premium (%)
18 Dec 19	PSA Peugeot Citroen	Fiat Chrysler Automobiles NV	France	Car manufacturer	16,000.00	-
18 Dec 19	Hengfeng Bank Co Ltd	An investor group led by China SAFE Investments Limited	China	Financial Services	14,300.00	-
19 Dec 19	Hitachi Chemical Co., Ltd.	Showa Denko K.K.	Japan	Industrials & Chemicals manufacturer	9,000.00	-
29 Dec 19	Anixter International Inc	Wesco International Inc	USA	Electrical equipment manufacturer	3,287.00	-
30 Dec 19	Careem Networks FZ	Uber Technologies Inc.	Egypt	Middle East ride-hailing service	3,100.00	-
12 Dec 19	Permata Bank	Bangkok Bank	Thailand	Banking activities	37,000.00	-
28 Dec 19	Pivotal Software	VMware Inc.	USA	Cloud software services	2,700.00	-
29 Dec 19	Cincinnati Bell Inc	Brookfield Infrastructure	USA	Telecommunication services	2,600.00	-
29 Dec 19	DraftKings Inc	Diamond Eagle Acquisition Corp	USA	Gambling services	2,055.00	-
29 Dec 19	Aquaventure Hldg Ltd	Culligan International Co	USA	Machine shop operator services	1,100.00	-

**Source: Mergermarket, Dealogic*

Rafael Santos & Raphael Salimi
Investment Banking Division

M&A: Top Deals

Tencent Group Buys a USD 3.4 bn Stake in Universal Music

Led by Tencent Holdings Ltd, a Chinese consortium agreed to purchase a 10% stake of Universal Music Group for USD 3.4 bn from the French media giant Vivendi SA. The deal sent the valuation of the worlds biggest media company soaring to USD 33.6 bn. The consortium holds the option to purchase a further 20% stake by January 15, 2021.

Buyer vs Seller

Tencent Holdings Limited is a Chinese multinational conglomerate specialising in internet and entertainment. Other members of the consortium were not name. However, people familiar with the matter told Bloomberg that two participants are Hillhouse Capital and Singapore's sovereign wealth fund. Vivendi's Universal Music Group is the largest amongst its peers, holding an impressive portfolio of artists, including the likes of Drake, Adele and Lady Gaga. Vivendi stated in July 2018 that the company is seeking to unload up to 50% of its holding in Universal. The proposed financing of the deal between Tencent and Vivendi is unclear to date.

Industry Overview

Focusing on Universal, the industry is highly consolidated with a few household names managing the most popular artists globally. In Asia holding companies are competing for influence in the lucrative western entertainment market, by swooping up stakes in groups such as Universal.

Peers	Currency	Market Cap (CUR m)
Momo Inc	USD	7 522,63
Alibaba Group Holding Ltd	USD	589 582,04
NetEase Inc	USD	42 060,69
Zynga Inc	USD	5 817,42
Roku Inc	USD	16 189,72

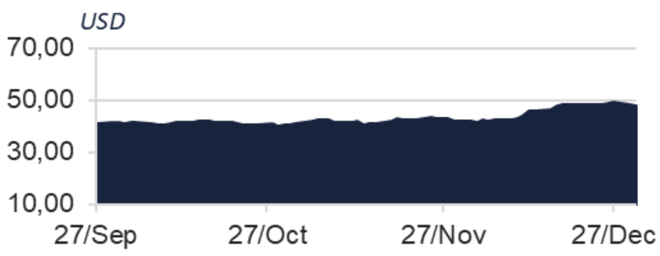
Deal Rationale

Vivendi is cashing in on a boom in subscription music streaming, which was pioneered by the likes of Spotify. The popularity of straming over the last years led to inflated valuations of Universals back catalog and the line up of artists such as Drake, Post Malone, Taylor Swift and Adele, which dominated the billboard charts over the last decade. Nevertheless, there are signs of weakening growth in Europe and North America, whereas streaming in Asia continues to prsoper, despite issues of piracy. Through the acquisition Tenecent could assist Universal in penetrating the Asian market.

Market Reaction

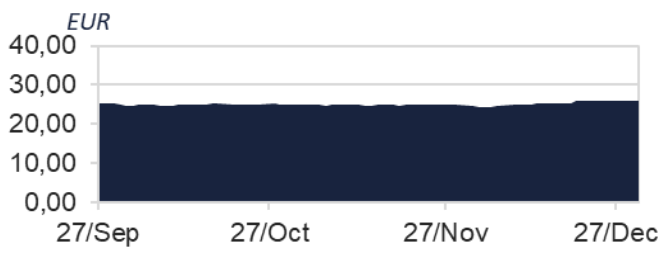
Tencent Holdings Ltd

On announcement, December 31st, Tencent stock closed roughly 1.3% lower. Since, signs of recovery are apparent being up by 0.24% compared to pre-announcement



Vivendi SA

Vivendi stock traded roughly 0.2% lower at Paris open. This comes after returning an impressive 16.2% in the third quarter of 2019.



Future Challenges

There are fears about regulatory intervention from US authorities. Donald Trump and his government have used increasingly negative rhetoric regarding Chinese investments in US companies as well as US influence in North America. Therefore, some analysts suggest that the deal proceedings will face scrutiny by regulators.

Tobias Berberich
Head of Investment Banking Division

M&A: Top Deals

Fiat Chrysler to Merge with France's PSA

FCA and Peugeot maker PSA have reached a binding combination agreement for a roughly USD 50 bn merge that will reshape the automotive industry creating the world's fourth-largest carmaker. The deal is likely to attract competition regulator's scrutiny.

Buyer vs Seller

FCA is a global automaker that counts in its portfolio, among the others, notorious brands like Jeep, Dodge, Alfa Romeo and Maserati. The company has been searching for a partner and, after the failed union with Renault earlier this year, PSA would bring to the table brands like Citroën, Opel and Vauxhall. Goldman Sachs acted as lead financial advisor for FCA while Messier Maris & Associés advised PSA. The joined forces will count a workforce of 400.000 and an augmented investment capacity.

Industry Overview

The deal will reshape the automotive industry. The sector is undergoing a unique transformation period led by electrification and regulatory standards. Companies need to invest in new technologies to define vehicles of the future, requiring massive expenditures to develop self-driving systems and electric cars. Moreover, automakers come under regulatory pressure to cut exhausts emissions in the fight against global warming

Peers	Currency	Market Cap (CUR m)
Aston Martin Lagonda Global Ho	GBp	1 215,71
Fiat Chrysler Automobiles NV	USD	23 638,19
Volkswagen AG	EUR	87 603,05
Renault SA	EUR	12 081,73
Bayerische Motoren Werke AG	EUR	46 759,74

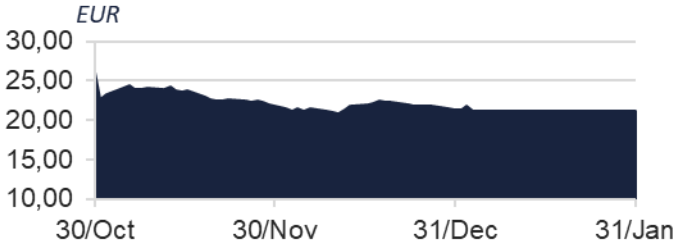
Deal Rationale

Shareholders of FCA and PSA will hold 50% each in the new entity, which will have revenues of EUR 170 bn. With sales of 8.7 m vehicles a year, the new entity will overcome those of GM and Hyundai-Kia. Based on their current market capitalisation, the new company will have an equity value of EUR 41.1 bn and estimated annual cost-savings of around EUR 3.7 bn. To balance the value of the two automakers, FCA will pay to its shareholders a EUR 5.5 bn dividend while PSA will distribute to its investors the 46% stake it owns in components supplier Faurecia. Upon completion, PSA shareholders will receive 1.74 shares and FCA investors one share each.

Market Reaction

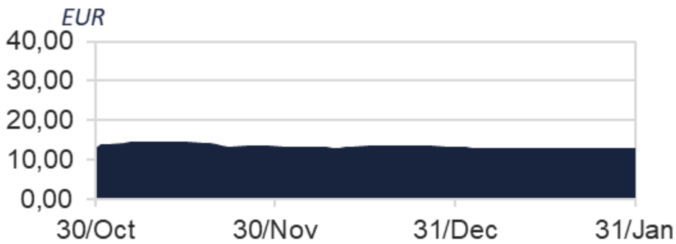
Peugeot SA

Analysts see a good logic behind the merge. Since the announcement, Wednesday 18th of December, the stock price had a small increase and shares in PSA gained 1.5%.



Fiat Chrysler Automobiles NV

The company's share performance in the past two months has been slightly positive, even though investors reaction to the potential deal remained flat.



Future Challenges

PSA and FCA said they expect the transaction to be complete in a 12 to 15 months period. The deal is subject to shareholders approval and regulatory clearances. Both businesses are weak in China and have laggards on electrification. FCA is lossmaking in Europe and PSA's growth in the "old continent" is reaching the end of the road. The combined entity will face massive challenges to find cost savings and shrink the number of brands, in order to be able to electrify its portfolio and meet EU standards.

Federico Farina
Investment Banking Division

M&A: Top Deals

Bristol-Myers Squibb Completes Acquisition of Celgene

Bristol-Myers Squibb Company (NYSE:BMY) announced that it has completed the USD 74 bn acquisition of Celgene Corporation (NASDAQ:CELG) upon receipt of all governmental approvals required by the merger agreement announced on 12th of April 2019.

Buyer vs Seller

Bristol-Myers Squibb Company (BMS) is a global biopharmaceutical company. The company develops, licenses, manufactures, markets and sells pharmaceutical and nutritional products. Bristol-Myers Squibb focuses primarily on the areas of cancer, heart disease, HIV and AIDS as well as diabetes. Celgene Corporation is a biopharmaceutical company focused on the development and commercialization of therapies for the treatment of leprosy, cancer and immunological diseases. Celgene is particularly known for its product called Thalomid, a product the company first introduced for the treatment of leprosy complications.

Industry Overview

Both companies operate in the biotech and pharmaceuticals sector. The market is projected to expand at a 9.9% CAGR and to hit USD 775 bn by 2024 . It is mainly driven by the increasing number of chronic diseases worldwide. Other factors include advances in novel technologies, the growing demand for biotechnologically-based therapeutic and diagnostic solutions, DNA sequencing and recombinant technology.

Peers	Currency	Market Cap (CUR m)
Karuna Therapeutics Inc	USD	1 889,57
Biogen Inc	USD	53 093,22
Gilead Sciences Inc	USD	82 525,45
Aravive Inc	USD	200,18
Solid Biosciences Inc	USD	203,72

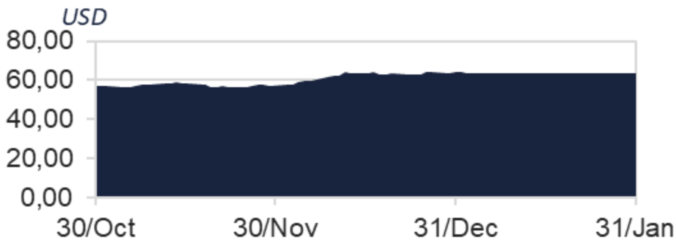
Deal Rationale

With the acquisition, Bristol-Myers Squibb aims to combine the leading science, innovative medicines and talents of Bristol-Myers Squibb and Celgene into a leading biopharmaceutical company. The acquisition will create a specialized biopharmaceutical company that will develop high-quality innovative drugs to meet the needs of patients with cancer, inflammatory, immunological and cardiovascular diseases. The Federal Trade Comission (FTC) required Bristol-Myers and Celgene to sell the rights of Otezla, Celgene's psoriasis drug, as a condition of the deal. In August, Amgen agreed to buy the rights to the drug for USD 13.4 bn.

Market Reaction

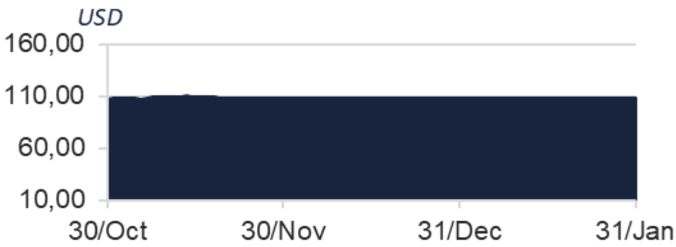
Bristol-Myers Squibb Co

Despite concerns from major shareholders, investors reaction to the announcement has been positive. Since the announcement of the acquisition in April 2019, BMS share price rose by 35.27% (11.63% in the last 3 month).



Celgene Corp

The company's share performance since the acquisition announcement has been positive. Its share price rose by 14.98% from USD 94.14 in April to USD 108.24 in January.



Future Challenges

BMS focuses on disease areas with high uncovered needs. With a relatively focused portfolio, investors are watching some products in the late stages of development much more closely. While achieving many regulatory milestones in the past, according to its own statements, BMS has also experienced setbacks in late stages of development within clinical studies and will possibly continue to do so. In addition, the success of the transaction depends on how well and quickly BMS manages to complete the integration of Celgene.

Marvin Breuer
Investment Banking Division

What Happened To

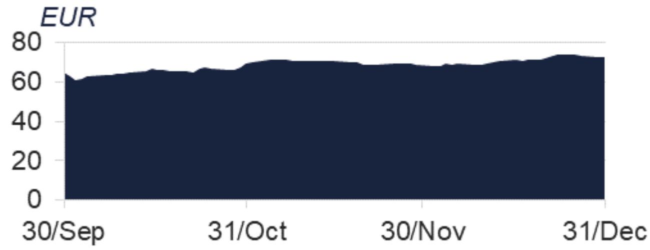
The Bayer Group

The Bayer Group ("Bayer") is a German life science company that produces and markets healthcare and agricultural products. The company's core business units are consumer health, crop sciences and pharmaceuticals. As a global player in its industry, Bayer operates in 90 countries and employs more than 117k people.

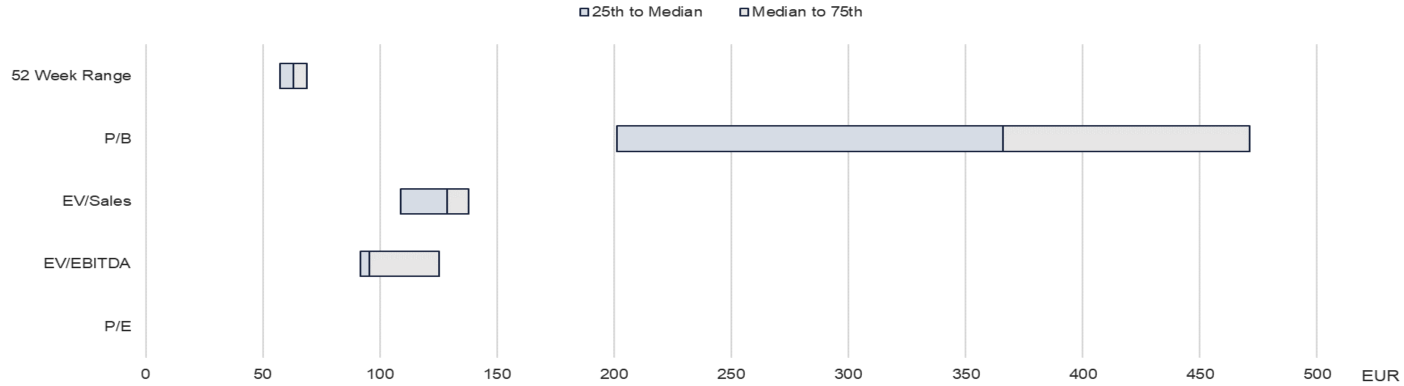
Corporate News

Bayer's recent share price performance shows signs of recovery as the company received legal tailwinds this month. Shares reached their highest level in 14 months, after the United States government said that a USD 25 m glyphosate decision against the company should be reversed. Bayer faces an ever-growing number of lawsuits over weed killer Roundup taken on via the Monsanto buyout. Its shares traded at EUR 72.81 as 2019 ended (5.7% increase for December).
Potential related damages or settlements paid to plaintiffs could take a toll on Bayer's free cash and thus keep investors cautious.
As part of a major restructuring, Bayer engaged in various divestments such as the USD 7.6 bn sale of its animal health unit to Elanco. This is expected to enable the firm to channel resources to its core business units pharmaceuticals and crop sciences.

Price (31 Dec 19, EUR)	71.21
Target Price (EUR)	84.00
3M Performance	9.84%
Market Cap (EUR m)	69,958.42
Enterprise Value (EUR m)	108,371.42
**Target Price is for 12 months*	



Valuation Analysis



Bayer shares might be an interesting opportunity for investors that seek to benefit from share price recoveries of unpopular companies. As the company has suffered significant losses in firm value due to the acquisition of Monsanto in June 2018, upcoming court rulings in the US on Roundup cases are expected to set direction and give notion on actual settlement costs. Currently trading at EUR 72.58, the company is valued at the upper bound of it 52-week range (EUR 52.02 – 74.36). Looking at total firm valuation (EV), the company seems to have an upside potential from an EV/Sales multiple perspective (EUR 109 – 135 m). From EV/EBITDA multiple perspective, Bayer's current valuation of EUR 109.4 bn seems appropriate.

The life science industry is shaped by very large corporates that have adequate resources to drive innovation in this R&D heavy business. Among its 5 peers, Bayer represents the smallest player based on market capitalization. 2019 has been a rough year for the company as mentioned uncertainties regarding lawsuit outcomes in the US have pressured market valuation. Required restructuring measures caused various divestments that reduce Bayer's operation size.

Peers	Currency	Market Cap (Cur m)
Novartis AG	CHF	231,810.82
Roche Holding AG	CHF	269,495.15
GlaxoSmithKline PLC	GBp	88,076.35
Sanofi	EUR	114,053.51
AstraZeneca PLC	GBp	99,446.94

Benedict Minkner
Investment Banking Division

Private Equity	Venture Capital	DCM	ECM	Spinoff	Restructuring

NIC's View On

Strong hype on Cannabis Market, Long Term Growth or Short Term Excitement?

Michele Marcaccio
Investment Banking Division

In the US, VC dollars are beginning to pour into the space on the assumption that recreational use will eventually be legalized under federal law. The "when, not if" assumption is fueling a sense of promise for investors, but in the meantime, the state-by-state expansion of the cannabis market means that any attempt for companies to scale across state lines comes with regulatory headaches. On top of the difficulty in scaling, the prize of doing business in a new state is limited to the size of that state's population, which isn't always significant.

- David Stevenson, Active Private Investor

Since the legalization of the cannabis for medical and recreative purposes in 11 US States there has been an increase in the M&A and Venture Capital activity in this sector.
In 2019, as of August 1st , almost 90 deals with an overall value of USD 5.3 bn, have already been closed continuing the rising trend which started in 2015.

From a business prospective the interest in the market is high, a report from Cowen & Co shows that in 2030 the industry will be worth USD 75 bn and another report from Morningstar shows that sales from recreative marijuana are projected to grow at a CAGR of 25% while sales for medical at a 15% CAGR. If it is true that these figures could seem exciting it is hard to define how much this trend is fuelled by a strong hype for the industry and how much, instead, by the real product worth.

More doubts are also raised by the fact that in the United States, Cannabis is still considered a Schedule I controlled substance and therefore illegal under the Federal Law. Even though legal for recreational use in 11 states and for medical use in 33 states the risk that a deal is cancelled by the Federal Government is still high and this could discourage investments. The same problem applies for UK investors, but with more serious legal consequences: getting involved in a cannabis deal can be equate to financing cocaine cartel and this obviously prevent them from investing.

Regulations problems are also reflected by a soaring stock market. The major ETFs tracking the industry - ETFMG Alternative Harvest fund – lost 34% over the last 12 months and 41% in the last 26 weeks. This was mainly due to two reasons: the difficulty in trading cannabis stocks and the delay in the legalisation in the major north-American markets- New York, Connecticut and New Jersey.
In the first case, since Cannabis is still an illegal substance for the federal law many Wall Street brokers do not allow their clients to buy cannabis related stocks and obviously this is a problem for a growing market.
In the second case many investors were expecting the legalisation of the product in one of the biggest market in North America: New York. It did not happen and this refrained many subjects from investing.

Nevertheless all the mentioned issues, the interest in the Cannabis industry is still important and only in the first half of the year 2019 venture capital investments had reached USD 1.3 bn.

The threats and the opportunities for the Marijuana industry are the same of Cryptocurrencies and tech in the past. The underlying product is interesting from a business perspective and there is a strong demand for it. Regulations are not always updated to the new trends of the industry or, worse, are not clear, which puts in danger capital and personal careers.
In conclusion, the Cannabis Market is still an interesting industry with enormous potential in the future but at the moment the risks involved in investing in it are probably too high to attract unqualified investors.

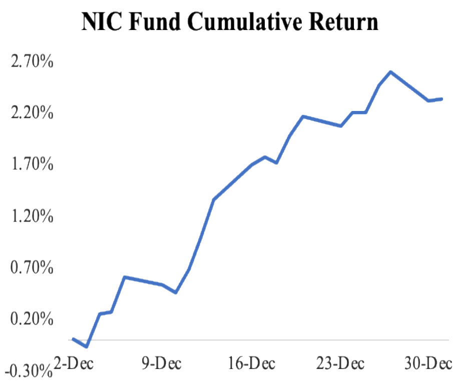
Date	Recent News
4 Dec 19	Harsh comedown for cannabis stocks as US legalisation slows **Source:** *ft.com*
4 Dec 19	Cannabis has the VC market buzzing as firms seek to capitalize on hype **Source:** *pitchbook.com*
30 Oct 19	Cannabis remains an investment market worth watching **Source:** *ft.com*
12 Jun 19	Venture capital pot investments jump to $1.3bn in 2019 **Source:** *ft.com*

Michele Marcaccio
Vice President - Investment Banking Division

NIC Fund

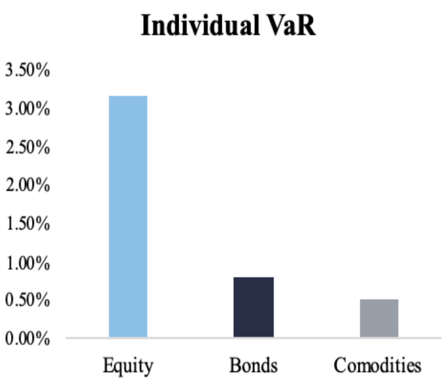
NIC Fund

Portfolio Overview



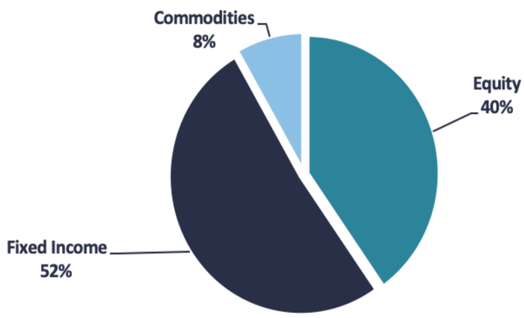
Portfolio Statistics	
Cumulative Return	2.33%
Annualized Return	27.99%
Daily St. Dev	0.21%
Period St. Dev	0.97%
Annualized St. Dev	3.37%
Info Sharpe	8.31
Skew (Daily)	-0.55
Kurtosis (Daily)	-0.46

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



Portfolio Snapshot

Throughout December, the NIC Fund remained invested in three asset classes: 40% in equities, 52% in fixed income and 8% in commodities, with no significant changes in its composition relative to November. Within equities, 19.7% was roughly equally distributed among 19 individual stock picks, while the remaining 20.56% were allocated to several ETFs, namely MSCI World, S&P 500 Value Index, MSCI Emerging Markets and FTSE 100 Index. Regarding fixed income and commodities, we remained slightly underweighted in relation to the benchmark in both asset classes.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 2.33%. Equities were the major source of growth, accounting for 1.80% of the overall return, while fixed income registered the weakest performance, providing only 0.06% to the portfolio's return. Commodities had a particularly strong month, contributing to 0.49% of the portfolio's return. Among the various ETFs in our portfolio, MSCI Emerging Markets and FTSE 100 Index registered the highest gains, both boosting the overall performance of the Fund by 0.16%.

Individual stock picks resulted in a cumulative return of 0.89% and the best performers were EON Resources Inc (EOG) and Umicore (UMI), which yielded 18.32% and 15.79%, respectively. On the other hand, Everbridge Inc (EVBG) was the worst performer, closing with a loss of 8.82%. Additionally, December was also a strong month for Financials and Information Technology stocks.

Risk Metrics

In terms of risk, when taking into account the benefits of diversification, our portfolio registered a relatively high daily VaR of 3.03%, exceeding November's VaR as a result of a higher discrete VaR of Equity. During the same period, the non-diversified VaR was at 4.51%, notably above the maximum established threshold of 2.5%.

Equities were the asset class with the highest individual VaR, which was around 3.18%, while Bonds and Commodities displayed slightly lower VaRs of 0.80% and 0.53%, respectively.

Corina Popa
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
Equity Index	**EEM**	The iShares MSCI Emerging Markets ETF, was our best performing Equity ETF in December, yielding 7.74%, following recent developments around the Trade War and the announcement of "phase one" trade deal between US and China.
US Equity	**MC**	Undeterred by the threat of US tariffs on French goods, sluggish demand and expected store closures in Hong Kong, LVMH saw its shares going up 6.49% in December as a result of advancements in the US – China trade deal negotiations. Moreover, the international luxury conglomerate recently announced the USD 16.2 bn acquisition of Tiffany & Co. with the goal of strengthening its US presence and overall capacities in the jewelry segment – the deal is expected to be executed in 2020.
US Equity	**NVDA**	Despite sluggish demand for the firm's graphics processors in the late quarters of 2019 and a revenue drop of 5% YoY in Q3 2019, the stock has been climbing since June of 2019. In December, Nvidia Corp. returned 12.45% and analyst expect this upward trend to continue as both revenues and earnings are predicted to grow. These bullish expectations are based on the increased confidence that Nvidia will benefit from the re-accelerating demand for its gaming and data-centered businesses. Additionally, the upcoming acquisition of Mellanox Technologies, which is pending China's approval, should help the company's expansion plans if the deal is authorized. The American technology company enjoys a first-movers advantage in AI computing, further boosting the company's returns as high enterprise demand for this segment is expected.
EU Equity	**EVBG**	Although it was the best performer in November, Everbridge Inc. lost its momentum in December, as its share price plummeted 8.82%, closing at USD 78.08. Due to the stock's increased volatility, frequent characteristic among small cap firms – EVBG's market capitalization is around USD 2.7 bn, several hedge funds abandoned their long positions in the software company resulting in an equity sell-off driving the share price down.
EU Equity	**EOG**	EOG Resources Inc., primarily involved in oil and natural gas exploration, delivered a 18.32% return in December, following the recovery of oil prices in December. The US company continues to make strong efforts to generate profit despite market cycles. The firm has secured long-term gas supply agreements starting in 2020 and is committed to repay its debt in order to strengthen its balance sheet.
EU Equity	**CMG**	Chipotle Mexican Grill ended December at USD 837.11 (+2.87%). Investors expect the fast-causal restaurant chain's revenues to increase as a result of digital orders, which will cut preparation time, and loyalty programs, in spite of the rising beef inflation following the African swine fever.
Commodity Index	**DBC**	Our investment in Invesco DB Commodity Index, our primary commodities index, displayed a strong performance in December (+5.99%). Gold and oil prices rose significantly overweighting the decline in the price of natural gas.

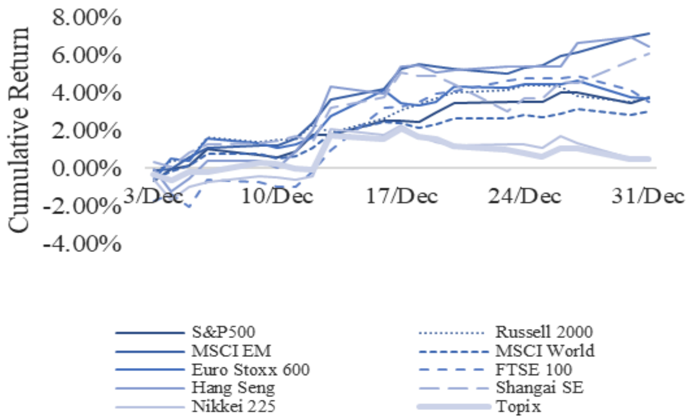
Corina Popa
Financial Markets Division

NIC Fund

Equities

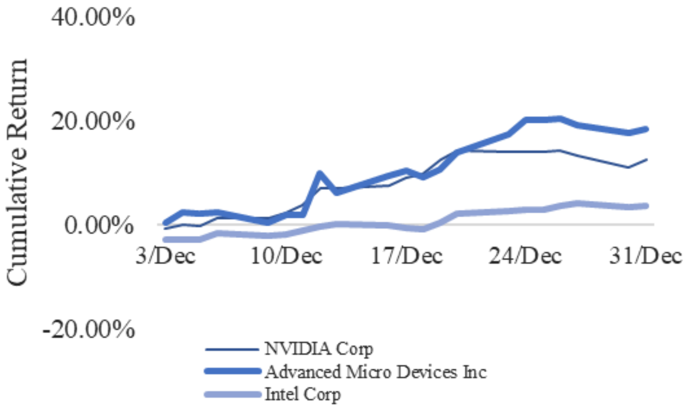
World Equities

A successful holiday season gave the world equity indexes one last push in December to seal their best year in long periods of time. The MSCI World index gained a staggering 25.19% over the year. Similarly the S&P 500 delivered its best performance since 2013 with a return of 29.21%. The Stocks of Apple and Microsoft, which rose by 85% and 54% in 2019 respectively, single handedly contributed to about 15% of the overall gain of the S&P 500. The loosening of monetary policy managed to push back against the slowing growth and fears of recession that were present throughout the year. The FTSE 100 index closed December with an overall yearly gain of 12.10%. Strong growth was also seen in European markets, with the Euro Stoxx 600 returning 23.12%, as well as in Asian Markets, where the Shanghai Composite rose by 22.42% and Japan's Nikkei 225 gained 18.31%. On the other hand, among the worst performers was TripAdvisor. Its stock fell by 44.83% as it continues to loose its market share to Google.



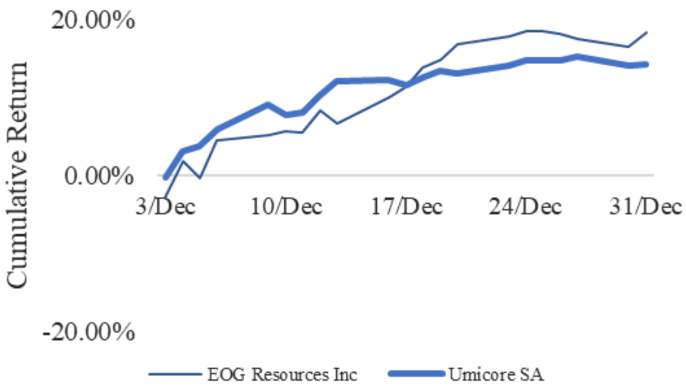
In Depth: Intel strikes back

It has been a great few years for the market of computer processors. As the entire tech sector grew at unprecedented rates, this specific area spared itself of the antitrust and data privacy problems that tech giants such as Facebook and Google are facing. Long-term market leader Intel has been loosing a considerable part of its market share to competitor AMD. Despite this setback, its stock managed to rise by 27.48% in 2019, yet this growth is overshadowed by the 148.43% rise AMD has had in the same period. As Intel prepares to fight back against AMD with the launch of its new 10 nanometer desktop processors early 2020, investors are eager to see if it manages to defend or partially regain its market share. Furthermore, Intel recently announced that in 2020 it would enter the graphic cards market, which has so far been dominated by Nvidia and AMD. If Intel manages to produce a competitive product and take some of its competitors market share, it would be creating a solid new source of revenue for the company. As the outlook for the three companies' stocks is largely positive for 2020, it is worth noting that Intel has by far the lowest forward price-to-earning ratio out of the three (Intel 12.47; AMD 43.48; Nvidia 32.79), which might proof to be of good value for investors in January and throughout the entire year.



Our Performance

In December, equities' contribution to the overall portfolio performance was positive, with a 0.89% cumulative return. The best performing stock in our portfolio for December was EOG Resources Inc, with a stunning 18.32% return driven by a strong continued rise in profits this last month. Another strong performer is Umicore, with a 15.79% return. Its latest advancement in battery-recycling positions the company strongly for partnerships in the electromobility area, most notably, it recently partnered with Audi. Nvidia also had a good month with the stock rising by 12.45%, highlighting the positive trend for processor and graphic cards producers.



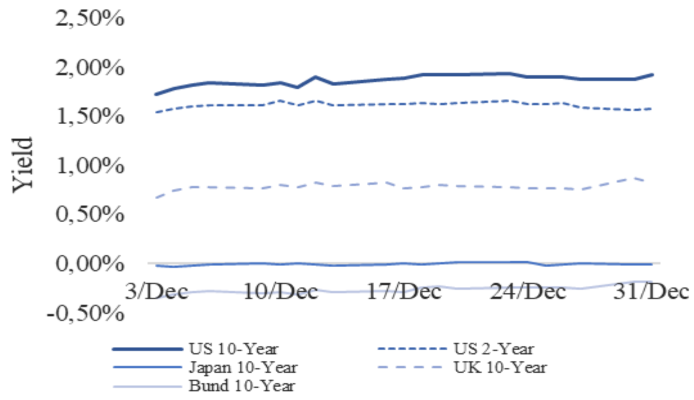
Patricio Drexhagen
Financial Markets Division

NIC Fund

Fixed Income

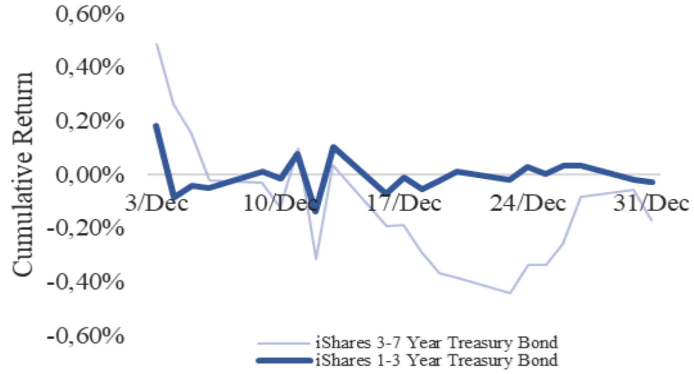
World Yields

Although 2019 was the best year for equities since 2013, investors remained attracted by fixed income. In response to fears of an economic slowdown, Central Banks across the globe pushed for a loose monetary policy, helping fixed-income funds to have investment inflows for 49 straight weeks. The amount totals an additional USD 468 bn into the asset class, according to EPFR Global. The high demand for bonds sent yields down compared to the start of the year. US 3-month rates ended up at 1.54%, down from peak of 2.43% in May, whilst the 10-year rate closed at 1.92%, also down from the peak of 2.76% in March. Investors are well aware that monetary policy might have a more discrete year in 2020 as Fed's Chairman Jerome Powell has signalled that inflation would have to rise significantly and remain at high levels before the market see any Fed hikes. The ECB has taken a similar approach, leaving interest rates at the -0.5% level for Christine Lagarde's debut meeting early in December. The new president also mentioned that rates will remain at this level as long as inflation remains close but below 0.2%. UK, Japanese and German 10-year indices closed the year at 0.82%, -0.02%, and -0.19%, respectively.



In Depth: Global Investment Grade Outlook

The decline in interest rates globally pushed for a new search for yield, which contributed for the year of 2019 to hit record-high levels in all major stock indices. Following such performances, earnings releases for the first quarter of 2020 will be closely watched by both equities and bond markets to assess whether companies meet expectations. In addition, uncertainty of macro economical events (i.e. US-China trade war, a no-deal Brexit, Donald Trump's potential impeachment, US elections and fear of global economic slowdown) might incentivise corporate deleveraging. We see the combination of these factors and ECB's quantitative easing policy to benefit euro-denominated investment grade bonds. Central bank liquidity worldwide may also play a significant role in helping corporate credit outperforming sovereign debt in next year's race to return.



Our Performance

In December, 51.43% of the NIC Fund was invested in fixed income instruments. iShares 1-3 Year Treasury Bond ETF returned 0.19%, whilst iShares 3-7 Year Treasury Bond ETF had a negative yield of 0.03%. The asset class returned 5.73% to the Fund.

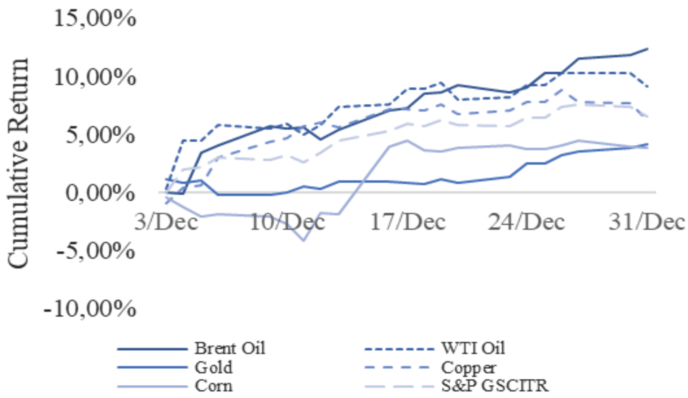
Henrique Oliveira
Financial Markets Division

NIC Fund

Commodities

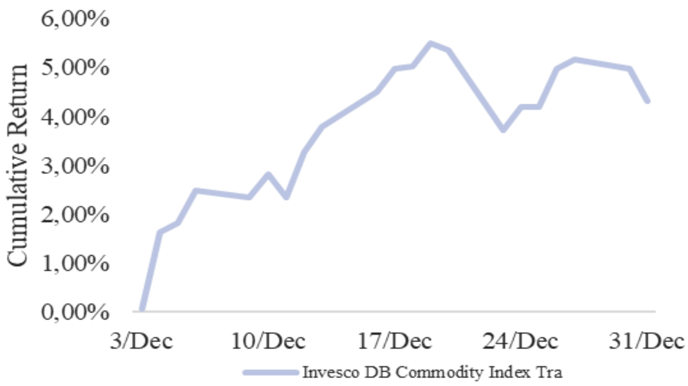
December Round-Up

Commodities overall performed well in December. The S&P GSCI Total Return index, which tracks 24 commodities, has gained 6.56% during the last month. Oil prices were fuelled by the tensions between the USA and Iran as well as the OPEC+ agreement on a production cut. As a result, the Brent and the WTI barrel increased by 8.34% and 9.11% respectively. As far as metals are concerned, Gold went up by 4.16% and Copper 6.25%. Gold profited from current geopolitical risks such as the conflict between the US and Iran in December. Investors hence valued gold as a safe haven. Furthermore, Gold being mainly traded in USD, benefited from the weakening dollar. Copper prices are usually closely correlated with economic cycles. Positive signals came from the US, as president Trump announced that a 'phase one' trade deal with China will be signed on January 15th. This would potentially fuel world trade and production which is why Copper prices increased. Corn prices were quite volatile in 2019 and bounced up by 3.82% during the month of December. In the beginning of the year prices decreased because farmers switched from soybeans to corn because of the trade war, which resulted in a larger supply of corn. Later that year prices increased due to destroyed crops because of bad weather. The price of corn at the end of 2019 is only a little lower than at the end of 2018.



Outlook for January

The US-Iran conflict is on the brink of escalating after the US military assassinated General Ghassem Soleimani, the head of the Iranian Revolutionary Guards, in a targeted air strike. Hence, oil prices could further increase in January as Iran is a major oil producer. Also, currently 7% of the world's daily production is transported through the Strait of Hormuz. Already in the past, Iran was accused of being responsible for attacks on oil tankers near the Strait. Iranian officials announced that they will take revenge for the killing which is why experts expect the oil price to carry a 'geopolitical risk premium' in 2020. Gold might continue gaining in value as geopolitical conflicts show no sign of calming down, making it attractive for investors which value it as a safe haven. Copper could be interesting for investors which want to bet on a recovery in global economic growth. Corn prices could increase with the signing of the 'phase one' trade deal which could incentivize farmers to switch back to soybeans as a crop.



Our Performance

In December, we maintained an allocation of 7.87% in the Invesco DB Commodities Benchmark ETF, which is 2.13% below our benchmark weight of 10%. During the month of December, the Invesco DB Commodity Index Tracker Fund returned 4.32%. The Index is a rules-based index composed of futures contracts on 14 of the most heavily traded commodities.

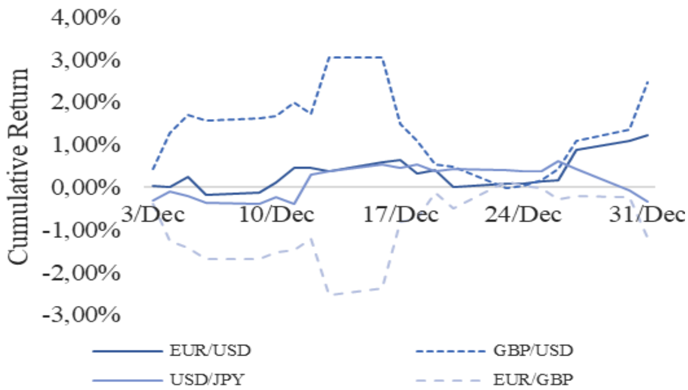
Oliver Schoch
Financial Markets Division

NIC Fund

Currencies

World Currencies

The euro, the pound and a clutch of trade-sensitive currencies rallied as the dollar slid to a six-month low on the last week of December, as investors' confidence in global growth prospects and the Phase 1 US - China trade deal spurred a risk-on move. The dollar index was down 0.36% to 96.388, its fourth consecutive session in the red and its weakest level since the 1st of July. The perspective of a phase one agreement ratified in early January has reduced the demand for the safe-haven currency, pulling the dollar down 1.92% in the last month. December's move has undone much of the dollar's strong 2019 thanks to the relative outperformance of the U.S. economy and a long period of uncertainty in the negotiations between Washington and Beijing. On the last trading day of the year, the dollar was up by just 0.25% YTD, a relative poor performance compared to 2018 when it went up by 4.4%. The shift also reflects investor bets that the dollar will weaken further in 2020. Investors' appetite for risk also helped to drive the euro up to USD 1.124, a five-month high. Signs that the euro zone economy may be stabilizing have lifted the common currency in recent weeks as investors unwound short positions. Sterling hit two-week highs against the dollar, although the possibility of a 'no-deal' Brexit at the end of 2020 means the currency is still not close to where it was on Dec. 12, the day Prime Minister Boris Johnson won the British election. The British Pound rose nearly 4% against the dollar in 2019, only its second annual rise in six years. The Japanese yen traded at 108.70 per dollar after touching an earlier high of 108.59 in the last week of the year.



In Depth

The Canadian dollar may struggle in 2020 to top its stellar performance from this year. The Canadian Dollar was the best-performing currency in 2019, as it gained 5% against the USD. An outstanding performance given the year low volatility in the FX market. Resurgent commodity prices helped buoy the currency, as did the central bank that kept borrowing costs steady, making it an outlier in the global easing trend. CAD went higher against its US rival during the last trading day of the year but lower against the Pound, although it has risen against both for 2019. The Loonie gained more than 3% against all major rivals other than Sterling for 2019, against which it has risen 1.49%. The Canadian Dollar dominated the G10 currencies this year but has received significant pushback in recent months from GBP, which reversed earlier losses in Autumn after the deal agreement and the December election results which has all-but guaranteed that his withdrawal agreement will be ratified in January 2020. However, appetite for the British currency will be tested in the New Year by the next stage of the Brexit negotiations. In addition, since the Bank of Canada's last rate decision of the year and with gross domestic product shrinking for the first time in eight months, domestic data has been weak showing that the nation is suffering its biggest jobs loss since 2009.

Our Performance

We currently hold no currency related assets in our portfolio.

Francisca Fernandes
Financial Markets Division

Extras

Hot Topic

2019 Mergers & Acquisitions – A Tale of Mixed Fortunes

Tobias Berberich
Investment Banking Division

"On one day alone, Nov. 25—dubbed "Merger Monday"—more than $60 billion worth of deals were announced, including Charles Schwab's $26 billion all-share deal to buy rival broker TD Ameritrade and LVMH of France's $16 billion swoop on one of the most famous names in jewellery, Tiffany."

– Fortune

Low interest rates, soaring stock markets and attractive financing conditions have propelled takeover activity despite fears of an economic slowdown, US-China trade war and geopolitical uncertainty, including Brexit.

Looking back at 2019, global M&A activity portrays a capricious picture. Despite posting the fourth largest annual period for mergers & acquisitions since 1980, totalling USD 3.9 tn, worldwide deal making in terms of value fell 3% YoY. By number of worldwide deals the decline was slightly more significant at 5%. Further, adding to the temperamental inclination of the year was the dispersion of deals. On the back of a record breaking 2018 the first two quarters were of to a slow start, hurting from continued global geopolitical uncertainty. Whereas, the fourth quarter produced a 30% increase from the third quarter alone, recognising the strongest final quarter since 2016. Principally driven by late cycle mega deals, such as the acquisition of Tiffany & Co by LVMH for USD 16.4 bn and Charles Schwab's USD 26 bn all-share deal to buy rival broker TD Ameritrade.

A trend that continued from 2018 was the prevalence of mega deals. Forty-three deals surpassed the USD 10 bn mark in 2019, accounting for 31% of total value, or USD 1.2 tn in dollar terms. A 28% increase YoY and the greatest percentage contribution of mega deals since 2015. The largest deal of the year goes to Bristol-Myers Squibb, acquiring Celgene in a $74 billion cash-and-stock deal that unites two cancer-drug makers in one of the largest pharmaceutical-company mergers ever. In addition the year saw the largest IPO in history. Saudi Aramco reported a capital injection of USD 68 bn on November 3rd.

Another driving force in M&A were private equity houses, accounting for 13% of total deals. Marking the strongest annual period for PE post financial crisis. Holistically, value increased by 5% compared to 2018. With some USD 1.5 tn in dry powder remaining locked an loaded at Private Equity firms for 2020 the question when it will be deployed remains. With the potential for troubled waters ahead, Private Equity firms perhaps jump to action to swoop up assets at discounted valuations.

Among the sectors leading the charge in 2019 were Healthcare, Technology and Energy & Power. Deal making in the Healthcare sector was up 26% from an already strong 2018, totalling USD 532.9 bn, an all-time record. Energy & Power decreased 24% YoY, affected negatively by falling Oil prices and heightened tensions in the middle east. However, still accounting for 13% of annual deal value. Together, the three sectors amassed 42% of the 2019 total.

Looking towards Europe and Asia Pacific an exceedingly morbid picture is emergent. European M&A fell by 25%, whilst Asia Pacific hit a five year low. Deal value totalled USD 751 bn and USD 770 bn respectively. To put this in perspective, the United States added almost USD 1 tn to their total in the month of November alone.
However, it is not a total calamity outside the US Japanese M&A increased 40% YoY, soaring to a 21 year high.

Goldman Sachs kept the top spot for worldwide M&A advisory work in 2019, ahead of rival US investment banks JP Morgan and Morgan Stanley. All three banks advised on more than USD 1 tn worth of deals.

Tobias Berberich
Investment Banking Division

Extras

Hot Topic

Trump's Impeachment and its Impact on the Stock Market

Corina Popa
Financial Markets Division

"Presidential impeachments are associated with weaker, stronger, and indifferent asset market performance." – Craig Botham, Emerging Markets Economics

On December 18th, President Donald J. Trump joined Bill Clinton and Andrew Johnson as the third US president to be impeached by the House of Representatives.

In the aftermath of a whistleblower complaint regarding Trump's phone call with Ukrainian President Zelensky during the summer of 2019, allegations of misuse of power emerged. Trump was perceived to have pressured the Eastern European nation to investigate Joe Biden, Democratic candidate for the US 2020 presidency, as well as theories related to the 2016 US election meddling. This set the stage for the impeachment inquiry initiated by House Speaker Nancy Pelosi on September 24th.

Following the charges of abuse of power and obstruction, the motion was passed, clearly demonstrating the Democratic rule within the House, as all 197 Republicans voted against the articles of impeachment.

Impeachment does not imply removal from office. The articles of impeachment are expected to be sent to the Senate in early 2020, which will hold a trial with a two-thirds majority required to convict the current president. Given Republican's majority in the Senate, the probability that Trump will be found guilty is low if party-line votes continue to be the norm.

The market's reaction was to turn away from the political unrest and focus on the strong economy, a potential US-China trade deal and corporate profits. Major equity indexes such as the S&P 500, the Dow Jones and the NASDAQ closed near all-time highs following the announcement, as the odds are in Trump's favour and no consequent changes are expected in what regards fiscal or monetary policy. Nevertheless, some money managers believe that the market's performance could be even higher without this political turmoil, as uncertainty is not good for the financial environment.

A 2017 report on "The Impact of Presidential Impeachment on Markets" by Craig Botham concludes that there is no indisputable effect on market performance following presidential impeachments. Market behaviour seems to be mainly linked to expectations of policy changes resulting from impeachment.

Despite not affecting overall investor confidence, the beginning of the impeachment proceedings may have affected Trump's re-election campaign. Will his political condition overshadow the strong economic environment and the 2019 equities bull market? Some analysts argue that impeachment has actually had a positive effect on swing voters, and strengthened his support among Republicans. Trump's approval rating remains at roughly 42.5%, with no major changes since March 2019.

The race for the highest office in the land only ends in November 2020, and Trump's opponent still has to be chosen. Unlike the impeachment motion, the results of the upcoming US presidential and Senate election could majorly influence markets. A complete shift, this is, the election of a Democratic president and Senate majority could imply increased uncertainty and higher taxes – Wall Street usually is not fond of progressive policies.

This year is scheduled to begin with the impeachment trail and it will end with the presidential election. Overall, analysts and economists predict that the market's reaction will highly depend on the macroeconomic environment. Wall Street mainly cares about corporate earnings and the economy, changes in investors' confidence are only expected if the results imply fiscal or monetary policy shifts.

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Extras

Hot Topic

Deutsche Bank raises revenue target for reshaped investment bank

Alexander Keil
Investment Banking Division

"In the past few months we have made significant progress on every dimension of our strategic transformation. We are in line with our plan and even ahead in several areas."

– Christian Sewing,
CEO Deutsche Bank

After losing billions in 2019, the Frankfurt financial institution will have to prove in 2020 that the biggest restructuring in the company's history works out successfully.

According to S&P Global Ratings, Deutsche Bank has already made positive early progress in its profound multi-year restructuring program. The progress has been predominantly driven by unexpectedly high earnings from the investment bank and sufficiently strong progress in cost reduction. At the end of September, the investment bank accounted for almost a third of the total income of EUR 17.8 bn. Business with the approximately 19 m retail customers accounted for 35% of revenues, with the corporate customer division accounting for 22%. According to the management, the bank exceeded its earnings expectations in October and November.

Regarding the focus of the restructuring program of Deutsche Bank, it is quite interesting to see that there has obviously already been a strategic reorientation concerning the importance of the investment banking division of the bank.

Initially, in the beginning of July, Deutsche Bank CEO Christian Sewing had still announced that the strategy of the restructuring program would intend a shrinkage of the investment banking division. Simultaneously, management said it would focus on building a strong private and corporate customers business. According to Sewing, the investment banking division was responsible for horrendous losses in the past and was supposed to be downsized.

However now, only a few months after the announcement of the new strategy, low interest rates and fierce competition have already tipped the growth targets for the private and corporate customer business. It consequently now seems as if the investment banking division shall save the faltering profit target. In a presentation published on the 10th of December, Christian Sewing talked about encouraging returns from investment banking and said the bank was targeting 2% in top-line growth at its investment bank in 2020.

Sewing explained that he had increased the investment banking target as a result of positive signs and dynamics in the division. According to Sewing, Deutsche Bank's management has made the right moves to bring the investment banking division back on track. This statement seemed to be surprising to the market in the light of Deutsche Bank's announcement of July 2019. Consequently, expert's and investor's reactions were mixed. Portfolio Manager Alexandra Annecke from Union Investment commented: "It's surprising that Deutsche Bank is once again focusing more on investment banking. Investors will only believe in a renaissance of investment banking when they see it in the figures."

Moreover, lawyer Klaus Nieding of the German Association for the Protection of Securities Holdings (DSW) warns: "If Sewing is already highlighting the progress made in investment banking, this could be a sign that the bank is clearly lagging behind in other areas."

All in all, it will be exciting to see if Deutsche Bank's strategic shift pays off in the future. As Philipp Häßler, Analyst of the brokerage house Pareto Securities says: "It has become clear that investment banking remains a cornerstone" for Deutsche Bank.

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NIC 2020 Market Outlook

A different approach to stimulating a slowing economy

Patricio Drexhagen
Financial Markets Division

“ There seems to be a clear shift in the measures to be taken to stimulate the economy looking forward. As the applied policies of the last decade seem to be loosing their effectiveness, it remains in the hands of policy makers to find the best solution to stimulate a slowing economy. ”

As 2019 comes to an end, we close the decade with a year of extraordinary growth throughout most asset classes amidst current global trade tensions, a slowdown in manufacturing output and many indicators showing that we have entered the late-stage of the economic cycle. Our 2019 wrap-up takes a deeper dive into the main elements that have shaped last year, lets now focus on what 2020 has in store for us.

Largely driven by the loosening of monetary policy and quantitative easing, central banks have managed to keep the economy up and running over the last decade following the financial crisis. Policy makers of developed countries have to look elsewhere to give the economy the stimulus it needs for 2020, as interest rates are already at all-time lows and partially negative. This leaves fiscal policy and international trade deals as main drivers to get the economy back on track for 2020.

As the US seemingly managed to reach a first stage agreement with China, and has other trade agreement with Canada, Mexico and Japan mostly settled, optimism arises that 2020 might finally bring some much needed stability on this front. These developments should also give Europe a breather, as it was mostly caught in-between these trade conflicts and saw its manufacturing industry greatly affected by them. Much of this will however depend on the results of the upcoming presidential elections in the US later this year and how the next government taking office will proceed with trade negotiations.

Whether we will see fiscal stimulus by cutting tax rates and increasing government spending to push the economy forward remains to be seen. In the current low interest and low inflation environment, the EU might reconsider its budget constraints and reassess its position on government spending. Similarly, China will have to deal with its high leverage and assess what measures are feasible to invert the slowing growth trend.

Having a look at fixed income, unlike developed markets, emerging markets will probably still continue cutting rates. The yield curve has un-inverted by the end of 2019 as recession fears recede and inflation is expected to rise. Due to the low yields, investors will most likely continue opting for emerging markets debt in search for returns. ESG bonds will be among the most sought after vehicles to gain exposure to emerging markets. In order to protect themselves from rising inflation, we expect investors to have an increase in appetite for Treasury Inflation-Protected Securities (TIPS)

In equities we see a headwind in consumer staple stocks, as this area is the least affected by possible international trade turmoil and consumer spending remains resilient. Having a look at the technology giants such as Facebook, Google and Amazon, we expect these to display slower growth compared to 2019. This comes as a result from regulators putting these tech-giants under scrutiny on antitrust and privacy concern issues.

All in all we see a continued slowdown of growth for 2020. There seems to be a clear shift in the measures to be taken to stimulate the economy looking forward. As applied policies of the last decade seem to be loosing their effectiveness, it remains in the hands of policy makers to find the best solution to stimulate a slowing economy. The way many markets will act in 2020 and in the following years will depend on the solutions found to the trade conflicts and on the result of the upcoming US elections.

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Thank you!

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

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