NIC

— Nova Investment Club —

Newsletter

April 2020

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, our IBD Head, Tobias Berberich elaborates on the impact of sponsor activity on the healthcare sector. Moreover, in our Regional View, our Head of Corporate Relations, Patricio Drexhagen examines the largest economic stimulus package in US history, a bill designed to rush federal assistance to workers and businesses.

Our Investment Banking Division will guide you through March's M&A overall activity. Read about Endeavour and Semafo Merger, the Investment Bank Boutique Riley to acquire SPOK holdings and Thai Conglomerate acquisition of Tesco's business in Asia. Additionally, get a detailed overview on what happened to Zoom Video Communications Inc., as well as consider our opinion on the impact of Covid-19 on global M&A activity.

Due to the current situation, Nova SBE activated its Contingency Plan for Covid-19 closing the facilities of the entire campus. As a result our Financial Markets Division will not be able to present the monthly results of the NIC Fund due to the limited access to the Bloomberg Terminal. The analysts will still provide commentary on each of the four major asset classes through analysis of the past month's major market moves.

On the Hot Topic of this month, Philipp Gall elaborates on the upcoming concerns of high-yield debt default during the crisis and, Mariana Nóbrega examines the lack of consensus on coronabonds among the European Union. Lastly, on our ESG review in collaboration with Nordea, our FMD Head, Maxime Hoze questions if the crisis will help ESG investing to gain resonance towards sceptical investors.

Macro Overview

Monthly

April 6th, 2020

Deeper Dive

Healthcare: A Playground for Private Equity

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Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	2.585	5,61%	-20,00%	-20,00%
DJIA	21.917	5,85%	-23,20%	-23,20%
Nasdaq	7.700	3,80%	-14,18%	-14,18%
MSCI World	2.290	6,88%	-26,32%	-26,32%
MSCI EM	3.129	5,37%	-21,78%	-21,78%
Russell 2000	1.153	5,16%	-30,89%	-30,89%
Euro Stoxx 50	2.787	2,64%	-25,59%	-25,59%
FTSE 100	5.672	4,15%	-24,80%	-24,80%
Nikkei 225	18.917	4,56%	-20,04%	-20,04%
Hang Seng	23.603	4,15%	-16,27%	-16,27%
Dollar Index	99,05	-2,93%	2,76%	2,76%
EUR/USD	1,103	2,25%	-1,62%	-1,62%
GBP/EUR	1,125%	3,19%	-4,83%	-4,83%
GBP/USD	1,242%	5,59%	-6,31%	-6,31%
USD/JPY	107,540	-3,32%	-0,99%	-0,99%
USD/CHF	0,96	-2,08%	-0,57%	-0,57%
Brent Crude	22,740	-16,24%	-65,55%	-65,55%
Gold	1.583,4	-4,66%	3,96%	3,96%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	0,670%	-17,7	-124,8	-124,8
GER 10Y Yield	-0,471%	-14,9	-28,6	-28,6
JPY 10Y Yield	0,022%	-1,9	3,3	3,3
UK 10Y Yield	0,356%	-12,3	-46,6	-46,6
PT 10Y Yield	0,868%	-20,5	42,6	42,6

**Source: Bloomberg, as of 2020-03-31*

In Focus

March

Markets Crashed in March. Stock indices fell further in March forcing investors to shift assets to cash. Given steep losses across government bonds, Treasuries stopped playing the safe asset role to cover the drop-down on the equity market. Crude oil fell below 20 USD and Brent hit the lowest level in 18 years, due to the demand shock in the energy markets.

Fed pledged asset purchases with no limit. On March 23rd, the Fed launched a package of measures aimed to fix the market downturn. One of the initiatives is the commitment to purchase corporate bonds in primary and secondary markets, and through ETFs. Other decisions include lending programs for main street business and term asset-backed loans implemented during the Great Recession.

Global growth slowdown. OECD forecasted the real GDP global growth to plummet to 2.4%, 0.5% less than 2019.

Bank of England cut rates to combat Covid-19 impact. On March 11th, the monetary policy committee voted unanimously to reduce bank rate by 50 bps to 0.25% in order to counteract the deterioration in risk appetite on the markets.

US unemployment increases as the virus spreads. On March 27th, the Federal Labour department in US reported 6.65 million people unemployed. As more businesses are forced to shutter, and with an increasing number of Americans living under stay-at-home orders, the unemployment rate is forecasted to rise to 20% in second week of April.

SNP requested to "hit pause" on Brexit. The Scottish National Party is urging the UK government to focus on the management of the current sanitary crisis. The party's Brexit spokeswoman, Philippa Whitford, called on an extension to the transition period. Post-Brexit talks with the European Union will continue this week despite the continent being on lockdown.

China's production restarts. The official purchasing managers' index for Chinese manufacturing rose to 52, signalling a restart for the world's second-largest economy.

Italy extends the lockdown. Italy has officially extended its emergency measures nationwide to the 18th of April, which concern travel restrictions and bans on public gatherings. The peak of infections is expected to come in a week time.

IMF and World Bank call on G20 to offer debt relief to poor countries. G20 Finance Ministers and Central Bank Governors discussed on the 24th of March urgent action to suspend debt service payments for most emerging countries, some of whom have also been hit hard by a plunge in oil prices.

Saudi Arabia-Russia oil price war. Oil prices have plunged by more than 60% since the beginning of the year after OPEC+ counties failed to reach a production agreement, leading Saudi Arabia and Russia to enter a price war. US crude inventories increased by 13.8 million barrels in the week to March 27th, while gasoline demand fell sharply. GOP Senator Dan Sullivan said that American strategic relationship with Saudi Arabia may permanently change if Riyadh does not end its latest oil price war.

EU-Turkey migration deal is over. The deal intended to stop irregular immigrants from entering the EU though Turkey "is dead", warned Greece's Prime Minister. European officials accused Turkey of enabling people's attempts to cross the border illegally and expressed their solidarity with Greece. Tens of thousands of migrants are currently gathered at the Greek-Turkish border.

Benedetta Laruccia
Financial Markets Division

Deeper Dive

Healthcare: A Playground for Private Equity

Tobias Berberich
Investment Banking Division

"New sources of capital continue to flow in from eager investors worldwide, who embrace the industry's fundamental strengths. Investors grasp the benefits of robust demand based on demographics and rising incomes; technological innovations that can improve medical outcomes and reduce the complexity of processes such as payments; and new business models in response to cost pressures and calls for greater efficiency and effectiveness in delivering care"

– Bain & Company

Looking back to a now seemingly distant 2019, Healthcare Private Equity posed another year for the record books. Reaching a total deal value of USD 78.9 bn with a deal count of 313. Shaking off macroeconomics risks simmering throughout 2019. However, with the current Covid-19 pandemic shaking our society to its core and exposing deep flaws within the healthcare systems of some of the most develop nations on earth. The question arises, is the over involvement of the principal investing financial sector contributing to the improvement or demise of healthcare provision?

Whilst, valuations have soared to unthinkable highs on the tail end of the recent bull market. Strong underlying demand for healthcare is making the sector an attractive target for investments. A theme expected to grow in the future as populations globally, are aging, incomes are rising, and an increasing number of diseases become treatable. Additionally, levels of dry powder are growing continuously, begging the question where to be deployed.

The large majority of PE investments in the sector flow into Healthcare IT. Unthinkable a decade ago, today everyone possesses a digital health record, Telemedicine is a thriving industry, and the industry as a whole is moving towards Omnichannel, as our desire for fast, frictionless and convenient experiences spilled into sectors it perhaps shouldn't have.

There is an overarching consensus that Private Equity does add value when operating in Healthcare. This is largely driven by the fact that vintage healthcare organisations are disorganised and underfunded and newly founded biotech companies, whilst possessing all the smarts in the world often lack business acumen. Hence, the wisdom of private equity can be a guiding light.

However, whilst PE involvement in the sectors undoubtably brings positives, there is a flip side. A common value creation strategy deployed is buy and build. Allowing a General Partner to justify the initial acquisition of a relatively expensive platform company by offering the opportunity to tuck in smaller add-ons that can be acquired for lower multiples later on. This strategy is particularly attractive in healthcare as the valuation of many firms is derived of their pipeline of drugs or other medical advancements. Hence, instead of investing into R&D and developing a pipeline organically, other corporations are bought solely for the purpose of acquiring their product pipeline.

Furthermore, if a PE firm wishes to be active in the Biotech space, buy and build allows to substitute some inter-company cash flows for debt service, as early stage biotech firms rarely generate sufficient cash flow for the private equity model of leveraged buyouts to function.

Therefore, it has been argued that predatory PE firms have destroyed some companies that were on the path to develop some ground-breaking new drug, as it got acquired for the sole purpose of window dressing valuation pre-sale with a strong product pipeline. After which R&A budget was slashed to maintain sufficient cash flow for debt service, resulting in the drug under development to fall short of expectations.

Overall it is not possible to draw a clear-cut conclusion on whether PE is a positive or a negative for the sector. Personally, I would argue that it is largely dependent on the PE firm itself and the guiding culture within.

Tobias Berberich
Investment Banking Division

Regional View

USD 2.2 tn US Stimulus Package

Patricio Drexhagen
Financial Markets Division

"In response to this crisis, and after much debate between the democratic and republican party on how the funds should be used, president Trump signed into law a historic USD 2.2 tn stimulus package to aid the areas of the economy that are suffering the most."

As Covid-19 breaks out in the US, the number of infected people surpasses the cases in Italy and in China, making the US the country with the most infections globally. The crippling effects of this pandemic on the US economy can be seen on the historic number of jobless claims, which surpassed 10 million in a period of just two weeks. Amongst the most severely hit by this economic freeze, are not only private individuals, but also small and large businesses as well as public services and local state governments.

In response to this crisis, and after much debate between the Democratic and Republican Party on how the funds should be used, president Trump signed into law a historic USD 2.2 tn stimulus package to aid the areas of the economy that are suffering the most. Markets reacted positively to the news of the largest ever economic stimulus package as major US indices saw a short-lived rise before heading back a downwards trend by the end of the month.

The largest part of the stimulus package, consisting of USD 600 bn, is destined to support individuals and families, which will be receiving a one-time check of up to USD 1200 in order to support rental and other necessary expenses. In addition to the one-time check, the funds are also destined to cover the massively rising unemployment payments and to support students in the payments of their student loans.

Another USD 500 bn of the package will be used to support large corporations. Most notably among these, are companies in the airline industry. These have been among the most severely affected by the crisis, taking a greater hit than during the 2008 financial crisis and after 9/11. The airline industry was taken under scrutiny by the public and government officials due to the controversial share repurchases performed by airlines such as Delta Airlines and American Airlines over the past decade in order to drive their share value up. A bail-out of the companies could come with the condition of stopping such practices in the future.

About USD 380 bn of the stimulus package will support small businesses in the form of grants, relief for existing loans and new additional loans to keep up with personnel wages and keep their businesses afloat. Compared to larger corporations, small businesses are much more vulnerable to the paralyzing effects of the Covid-19 outbreak on the economy. They are significantly more limited in their infrastructure and capabilities of running their businesses remotely, putting them at severe risk of going bankrupt within a few months of their activities coming to a halt.

The remaining amount of the funds will support state and local governments as well as public services in their response measures to handle the crisis of the outbreak. On one hand, hospitals need to be supplied with critical medical equipment, which they do not have in sufficient stock to deal with the large amount of patients and on the other hand, a large amount of testing facilities need to be set up nationwide. In addition, funds are being used to support public education systems and care for homeless people.

In addition to this stimulus package, we have already witnessed the Fed lowering interest rates to historic lows, reintroducing quantitative easing and providing liquidity to the overnight repo markets over the past weeks. Furthermore, the government implemented other fiscal measures such as the deferral of taxes. Whether these measures will be enough to steer the US economy back on track will remain to be seen over the next few months.

The actions being taken to face this unprecedented economic threat are of truly historical proportions, surpassing the ones taken in any other previous financial crisis hitting the US. As we enter this uncharted territory, and are still to witness the full impact of the virus outbreak in the US, all we can say at this stage is that this crisis will most likely have longstanding repercussions on both the economy and society.

Patricio Drexhagen
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

China Industrial Production and Q1 GDP

On April **17th**, China will announce its QoQ GDP growth which is expected to come in at -14.3%. Later on, the Manufacturing PMI will be published on the **30th**. These figures for April will be an important indicator for global economy and markets.

Covid-19 decisions in Europe

Several European countries impose lockdowns for Easter and beyond, e.g. Germany (**19th**), France (**15th**), Spain (**19th**) and Italy (**12th**). It is likely that these measurements will be prolonged, and the upcoming days are crucial to detect a secure trend.

US primary elections

Given no delays caused by Covid-19, there are several important primary elections that might impact markets. Especially Wisconsin (**7th**) and Ohio (**28th**) as swing states can be crucial in the process of determining a Democratic candidate and give implications for the election.

Central Bank Decisions

Fed Interest Rate Decision

The regular FOMC meeting will take place on the **28th and 29th** of April. After firing the “Bazooka” and lowering interest rates to 0-0.25% in the previous month, further rate cuts are not likely as negative rates are not expected to happen in the US economy and financial system.

Bank of Japan Interest Rate Decision

The Bank of Japan eased its policy in March by purchasing riskier assets such as ETF’s in an annual volume of USD 112 bn, pointing out it considers further steps of easing if necessary without hesitation. The next meeting will be on April **28th**, the rate is expected to remain at -0.10%.

ECB Monetary Policy Decision

The Governing Council of the ECB will hold its monetary policy meeting on the **30th** of April in Frankfurt. After expanding stimulus measures under PEPP that allows bond-purchases of up to EUR 750 bn, interest rates remained untouched. Major changes are not yet expected.

Inflation and Deflation

Update on Euro Zone Inflation

March inflation data for the euro area will be published on the **17th** of April. The annual inflation in February came in at 1.20% and is expected to fall by 50 bps to 0.70% in March.

US CPI

The US Consumer Price Index for March will next be released on April **10th**. After a fall in February by 20 bps to 2.3%, annual inflation is expected to slightly decrease in March due to severe implications of Covid-19 demand.

UK Consumer Price Index

The Consumer Price Index for March will be published on April **22nd**. After dropping 10 bps in February to 1.7%, annual inflation is expected to remain relatively unchanged compared to the previous month.

Labour Market

US Employment Readings

After seeing US initial jobless claims doubling to 6.6 m and the unemployment rate spiking to 4.4% from 3.5% in February, the situation is expected to get even worse. New preliminary updates will be given by the US Department of Labor on April **17th**.

German Labour Market

In March German unemployment rate went down by 60 k to a 5.1% rate. April data will be published on the **30th**. The labour market is likely to experience hikes in unemployment, yet German politics facilitated “Kurzarbeit” (engl. short-time work) in order to prevent layoffs.

Euro Zone Unemployment Data

The European area unemployment rate will be announced on the **30th** of April. For February, the rate for the Euro area was 7.3%, the EU came in at 6.5%. Effects of Covid-19 should arise in the next announcement where the rate is expected to spike on a YoY and MtM basis.

Philipp Gall
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Global M&A activity in late March plummeted, as the Covid-19 outbreak in Europe and the US left corporates focused on keeping their companies afloat rather than on acquiring others. As a result, deal activity during the last week of the month hits a historical weekly minimum of USD 12.5 bn since April 2009. Regarding the quarter's transaction volume, the deal value showed an overall decline of 28% from a year ago to USD 698 bn, and the number of deals fell by 16%. Cross-border activity also followed the trend, going down by 17%. The US saw the sharpest decline, while European volume rose by 51% to USD 232 bn during the quarter. According to Refinitiv, the next quarter will be marked by the difficulty to access capital markets for certain acquirers and M&A activity will be therefore pushed back to the last two quarters of the year. However, these predictions might need to be updated as the pandemic evolves.

Selected Regions

North America
Not only in North America, but also worldwide, the merger volume has come to a virtual standstill. This is mainly caused by the recent Covid-19 outbreak which is currently hitting hard on the US and European economy. The deal activity in the US dropped by 51% to USD 252 bn in the first quarter of 2020. However, in terms of numbers the deals dropped by 9% only.

EMEA
Europe managed to increase its deal volume during the first quarter. This is due to the fact that some mega deals were closed shortly before the virus broke out in Europe and harmed its economy. One of the biggest deals last month was the USD 30 bn acquisition of the Irish company Willis Tower Watson by the English company AON.

Asia
Asia seems to be better off than the United States in terms of M&A deals. This is mainly caused by the fact that China has gotten the virus under control relatively fast. The deal volume dropped to USD 142.9 bn which is a decrease of 17% year-on-year. Nevertheless, this number represents a 7-year low. The largest deal in this region has been the Tesco selling its remaining Asia business to Thailand's CP Group (USD 10.6 bn) in March 2020.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target region	Target business	Value (USD m)	Premium (%)
10 Mar 20	Net1 Applied Technologies Korea	Payletter	South Korea	High Technology	USD 237 m	N/A
04 Mar 20	Haeundae Grand Hotel	Moon Dvlp Mktg	South Korea	Entertainment	USD 203 m	N/A
06 Mar 20	Bedford DC Investment	WestInvest	UK	Financial Services	USD 193 m	N/A
19 Mar 20	With Holdings	T Capital Partners	Japan	Consumer Products and Services	USD 91 m	N/A
23 Mar 20	Shanghai Hao Pei Properties	Qianan City Jiujian Xiancai	China	Financial Services	USD 67 m	N/A
26 Mar 20	TCL Education Web	Minsheng Educ Tech	China	Consumer Products and Services	USD 59 m	N/A
02 Mar 20	Trans-Grein	Investor Group	Russia	Industrials	USD 56 m	N/A
06 Mar 20	Simul International	Takara x	Japan	Consumer Products and Services	USD 46 m	N/A
16 Mar 20	Sourcehov Tax	Gainline Capital Partners	USA	Consumer Products and Services	USD 40 m	N/A
11 Mar 20	iBlocks	Tracsis	UK	High Technology	USD 33 m	N/A

**Source: Mergermarket, Dealogic*

Paulina Michel & Marina Quintero
Investment Banking Division

M&A: Top Deals

Endeavour and Semafo Merge to Create West Africa's Biggest Gold Miner

As the gold mining sector consolidation continues, Canada's Endeavour Mining and Semafo have agreed to merge. The CAD 1 bn deal will create one of the top 15 global gold miner and the largest in West Africa.

Buyer vs Seller

Endeavour and Semafo are both Toronto-listed firms with key operations in West Africa. Endeavour is an African gold producer leading project development, explorations and activities in the Birimian greenstone belt across Côte d'Ivoire and Burkina Faso. Semafo is a Canadian-based intermediate gold producer with strong experience in mines' building and operations in West Africa. Gleacher Shacklock LLP is acting as fiancial advisor to Endeavour while Maxit Capital is the financial advisor of Semafo.

Industry Overview

Cost cuts, automation and operational efficiency are becoming increasingly important in the mining industry. Meanwhile, geopolitical risk, natural resources use, industry-specific regulations, shareholder activism and public scrutiny create additional challenges. Undoubtedly, the gold mining industry is highly volatile and, specifically in Africa, it is split among different small to mid-tier companies, creating consistent fragmentation.

Peers	Currency	Market Cap (CUR m)
New Gold Inc	CAD	520.49
Eldorado Gold Corp	CAD	1,491.27
Golden Star Resources Ltd	CAD	390.27
IAMGOLD Corp	CAD	1,646.03
Centerra Gold Inc	CAD	2,578.60

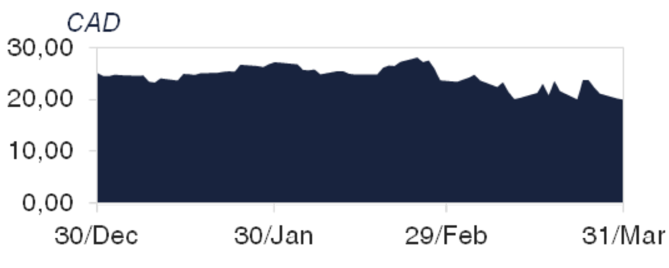
Deal Rationale

In order to consolidate this fragmented industry, Endeavour has agreed to combine with Semafo, thus creating the largest producer in Côte d'Ivoire and Burkina Faso. The combined group is expected to create over 1 m ounces of gold yearly. The deal is accretive on all key metrics and analysts see enhanced scale, improved trading liquidity, greater asset diversification and reduced risk profile. At the period ended on 20th of March 2020, with a 27% premium on the 20-volume weighted average price of the two companies, Semafo's shares will be exchanged at a ratio of 0.1422 Endeavour shares. Endeavour's largest shareholder, Mr Sawiris' La Mancha, will invest USD 100 m by reducing its stake from 31% to 25%, enabling a larger free float and greater stock liquidity.

Market Reaction

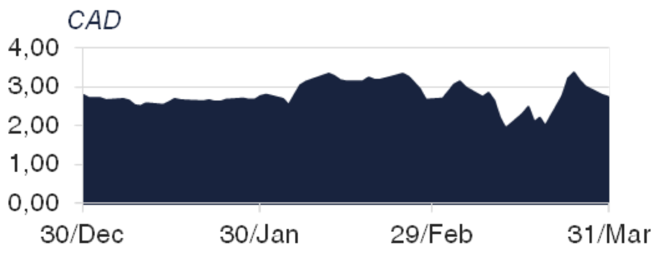
Endeavour Mining

On the 23rd of March, Endeavour's stock price was down 9% CAD 19.59. Nevertheless, the agreement has been recommended by the respective boards.



Semafo

Shares of Semafo have fallen by 49% over the past year. On the news day, the company's share price has climbed more than 32% to CAD 2.63.



Future Challenges

Even though unanimously recommended and approved by both companies' board of directors, the deal remains subject to shareholders and regulatory approval. The expectations are positive and key shareholders seem to support and recognise a value-creating opportunity for the two companies. However, the industry presents high unpredictability. Among other challenges, the combined entity will also need to counteract a surge in Islamist violence in the country, such as the attack on a Semafo convoy last year that killed 39 people, forcing the company to suspend operations at its Boungou mine.

Federico Farina
Investment Banking Division

M&A: Top Deals

B. Riley Financial Inc. Seeks to Acquire SPOK Holdings Inc.

On 17th of March 2020, the Investment Bank Boutique Riley offered to acquire SPOK holdings, a healthcare information company, with a bid of USD 12 per share, corresponding to a 39% premium on the day of the offer.

Buyer vs Seller

B. Riley is an Investment Bank boutique headquartered in Los Angeles, California. It provides financial services such as corporate finance, wealth management, sales and trading. Virginia SPOK holdings is a company specialized in providing communication and notification service in healthcare centres. B. Riley already owns 500,000 shares in the selling company, and it is looking to completely acquire the Virginia-based company.

Industry Overview

The global IT healthcare industry is expected to reach USD 297 bn in 2021 (pre Covid-19 estimates). The demand is mainly driven by an increase in number of patients and in the accuracy for treating the major diseases among the population. The estimates are expected to rise due to the virus outbreak. The two major markets for the IT healthcare industry are India and China with an expected CAGR of 24%.

Peers	Currency	Market Cap (CUR m)
Hightech Payment Systems SA	MAD	2,413.34
Beijing United Information Tec	CNY	14,081.50
IVS Group SA	EUR	254.75
China Conch Venture Holdings L	HKD	60,549.36
Edenred	EUR	8,546.79

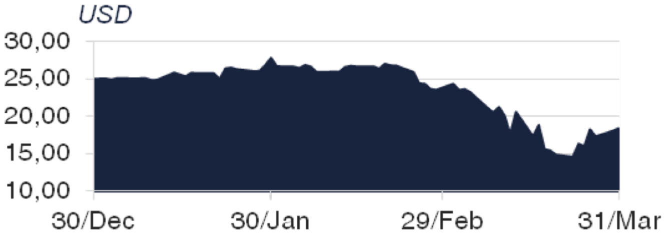
Deal Rationale

The intention of buying the remaining portion of the company is driven by two reasons: firstly, B. Riley identified in SPOK a costly structure not related to the scale of the business. Secondly, the market is expanding and, with an improvement in operations and new capital, SPOK can dramatically increase its value. On the 24th of March, the offer has been rejected unanimously by the Board of Directors, due to the low value of the unsolicited bid. B. Riley is currently preparing the documentation for a more competitive offer.

Market reaction

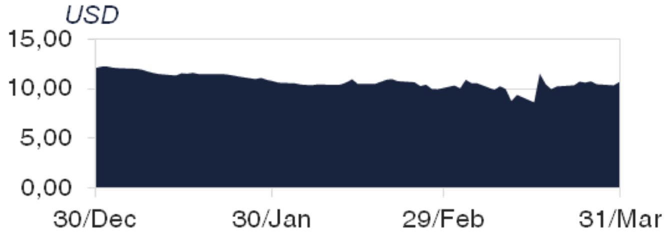
B. Riley Financial Inc.

Riley's stock price has sored after the rejection announcement of the 24th of March 2020 by the Board of Directors of SPOK.



SPOK holdings Inc.

On the day of Riley's bid the stock price of SPOK saw an increase of 33%, closing at USD 11.55. The price slowly decreased in the following days.



Future Challenges

B. Riley Financial Inc. at the current state of things is facing two problems: convincing the Board of Directors of SPOK with a competitive offer and securing the approval from the financial agencies, DOJ and FTC. The acquisition of a company involved in healthcare IT in this specific historic period is highly at risk of reschedule in order to avoid service interruptions.

Michele Marcaccio
Investment Banking Division

M&A: Top Deals

Thai Conglomerate Buys Tesco's Business in Asia for USD 10.6 bn

Largest private group in Thailand, Charoen Pokphand, is buying Tesco's operations in Thailand and Malaysia for USD 10.6 bn, including more than 2,000 stores. The transaction continues Tesco's divestment from Asia which is part of the group's broader international retraction.

Buyer vs Seller

Tesco is UK's biggest supermarket, Europe's largest private employer, and the world's second-largest retailer. In the UK Tesco has over 2,200 stores now, ranging from hypermarket style stores to small Tesco Express outlets. The 2019 revenues for the retailer were north of GBP 63 bn. Charoen Pokphand is Thailand's largest private group and operates eight business lines including an integrated agro-industrial and food business.

Industry Overview

The deal comes amid unprecedent dynamics in the retailing market with COVID-19 outbreak impacting how retailers function. Against public intuition, the head of retail at Jefferies sees potential upside in the current pandemic as people swap consumer habits from bars and restaurants to supermarkets. The cash generated by the deal will also allow Tesco to increase competitiveness in the intense price war with European discounters.

Peers	Currency	Market Cap (CUR m)
Wm Morrison Supermarkets PLC	GBp	4,369.95
Magnit PJSC	RUB	318,982.54
Colruyt SA	EUR	7,395.07
Lenta Plc	USD	929.02
ICA Gruppen AB	SEK	85,869.57

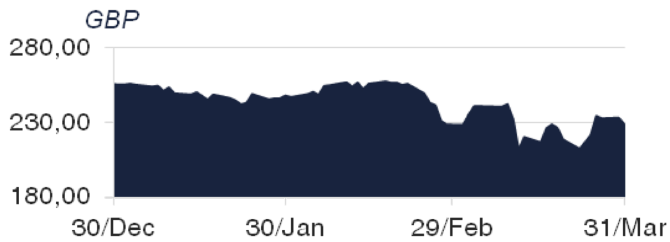
Deal Rationale

On Tesco's side the deal follows its exiting behaviour from emerging markets and consolidating the core business in UK and Central Europe. The all cash transaction will allow the British retailer to return about GBP 5 bn to shareholders via a special dividend, and pay GBP 2.5 bn into its defined-benefit pension schemes to erase deficits. The sale generates significant return to Tesco who entered the country in 1998 after acquiring Lotus Supermarkets for USD 180 m. On Charoen Pokphand side it was a sentimental victory for its leader who had sold its Lotus Supermarkets share to Tesco and has claimed to desire it back ever since.

Market Reaction

Charoen Pokphand
The largest Thai private group was founded in 1921 and nowadays counts roughly 300 k employees. It is a family-owned business, structured into several categories such as agro-industry, food industry, manufacturing and services. The group operates across a myriad of verticals from manufacturing to services and is categorized into eight business lines covered by 13 business groups. Furthermore, it has investments in 21 countries worldwide and has consolidated more than USD 63 bn of revenue throughout 2018.

Tesco PLC
The company's share price stayed flat on the news which made it the best performer in the UK stock exchange as the Covid-19 outbreak is sinking the market



Future Challenges

The key challenge for the transaction is the regulatory scrutiny of Thailand's competition watchdog. According to Sakon Varanyuwatana, chairman of Thailand's Office of Trade Competition Commission, "We have the authority to prohibit the merger or acquisition if we believe it will lead to a monopoly", as the acquirer is the largest private group in the country and is very much breached in the food market, one could suspect of monopolistic forces shaping up.

Rafael Santos
Investment Banking Division

What Happened To

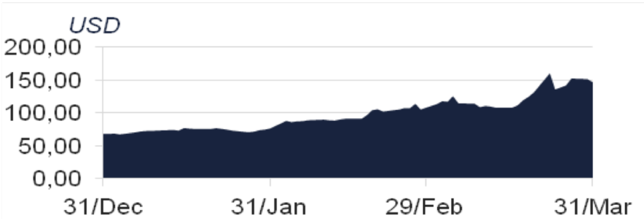
Zoom Video Communications Inc.

Zoom Video Communications Inc. is an American remote conferencing services company, headquartered in San Jose, California and created by Eric Yuan. It provides a remote conferencing service that combines video conferencing, online meetings, chat and mobile collaboration. On the 18th of April 2019, the company went public and it was valued at just under USD 16 bn.

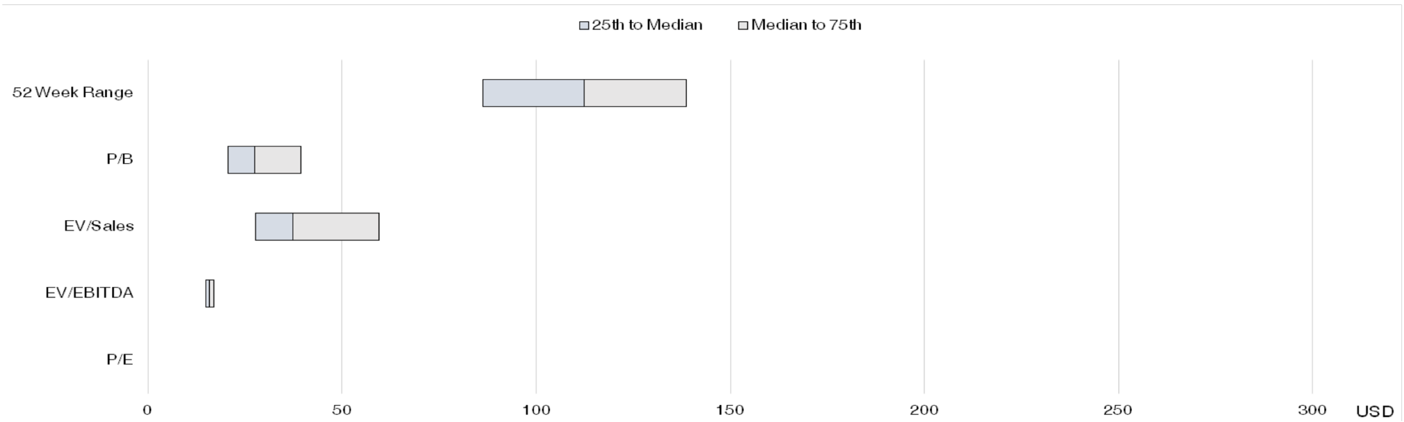
Corporate News

Zoom's shares are up 114.7% YTD and 305.8% during the last 52 weeks. The strong performance is being mainly due to the Covid-19 pandemic and associated to quarantine measures. These exceptional measures have skyrocketed the demand in online meeting ranging from telecommuting, home schooling and all other forms of informal meetings. This strong performance was also generated by the solid results achieved in the 2019 fiscal year. In their last earnings report, published on the 20th of March 2020, their turnover grew by 88.3% YoY from USD 330 m to USD 623 m. Overall, the net income increased by 233% YoY from USD 17 m to USD 25 m driven by revenue. The target price of USD 115 has been reached since the 18th of March 2020. Shortly after the Corona outbreak, on the 23rd of March 2020, the stock was valued at USD 159.56 which is marked as their all-time high.

Price (31 Mar 20, USD)	**137,00**
Target Price (USD)	115,00
3M Performance	101,35%
Market Cap (USD m)	38 223,22
Enterprise Value (USD m)	37 440,49
**Target Price is for 12 months*	



Valuation Analysis



Zoom's was, on the day this piece was written, trading at USD 146.12. If we make a quick comparable analysis, we can immediately see that the dispersion in valuations in the video conferencing market range between 23.6x and 59.0x. The current EV/Revenue of Zoom is 53.4x which is located in the 75th percentile. The EV/EBITDA multiple, which amounts to 1,140.4x against multiples that range between 13.9x and 17.9x for the peers, indicates that Zoom is overvalued and should be trading at a lower price.

The global video conferencing market size was at USD 3.02 bn in 2018 and is projected to reach USD 6.37 bn by 2026 (+ 9.80% CAGR). Recently, the company has had some setbacks when Zoom's CEO E.Yuan apologized, "We did not design the product with the foresight that, in a matter of weeks, every person in the world would suddenly be working, studying, and socializing from home." The challenge over the next few days will be to update the software and ensure that it is able to support more than 200 million daily users.

Peers	Currency	Market Cap (Cur m)
VMware Inc	USD	48 489,09
Twilio Inc	USD	11 865,64
Dropbox Inc	USD	7 489,12
Anaplan Inc	USD	3 883,75
Box Inc	USD	2 135,47

Raphael Salimi
Investment Banking Division

NIC's View On

Impact of Covid-19 on global M&A activity

Alexander Keil
Investment Banking Division

"In the first week of a crisis, everyone looks at their balance sheet and says everything looks OK. And then as time goes on, they look at the cash burn rate amid declining revenues and become focused on their liquidity, credit profiles and ratings."

– Dietrich Becker, Head of European Advisory at Perella Weinberg Partners

In our first newsletter of the year we shared our view on the global M&A activity in 2020. At that point in time, our global deal-making outlook was cautiously optimistic while bearing in mind the dependency of M&A activity on recession fears and especially on the impact of Brexit in Europe. However, given the current unprecedented crisis we are facing due to the coronavirus, it is time to update the global M&A outlook. Furthermore, this article intends to investigate the implications of Covid-19 on the drivers of global M&A activity.

The overall value of global mergers and acquisitions activity in the first quarter of 2020 fell 28% from USD 964 bn a year ago to USD 698 bn which marks the weakest year-opening period since 2016. Especially, in March 2020 when the coronavirus began to spread around the world, global deal activity came to a halt. The US M&A activity dropped significantly by approximately 51% to USD 253 bn for the quarter compared to the same period of the previous year. Among the few US deals were Morgan Stanley's USD 13 bn acquisition of brokerage ETrade, and Thermo Fischer's USD 11.5 bn purchase of Qiagen, a Dutch diagnostics group.

Surprisingly, European deal volumes more than doubled (+51%) and rose to USD 232 bn. However, this sharp increase was caused by a pick-up in private equity transactions before the peak of the crisis, the USD 39 bn purchase of Sberbank by the Russian National Wealth Fund and the USD 30 bn AON-Willis Tower Watson deal. Furthermore, most of the European activity took place before the pandemic shifted focus among corporations.

In Asia, deal volumes dropped 17% on a year-on-year basis down to a total volume of almost USD 143 bn. On the other hand, the biggest jump in positive sentiment was precisely in Asia, where more than half of professionals there expected market growth, at an average of 10.4% (up from 2.4% last year).

According to industry experts, M&A activity is expected to remain at a near standstill in the short-term since most companies that considered an acquisition already pressed the hold button. Quite understandably, M&A activity is slowing down as companies are trying to assess how severe the coronavirus and its implications are impacting their individual sectors and business and when the market is going to stabilise again. Especially, given the fact that this crisis is unique to everyone as nobody in our generation has ever witnessed something comparable before.

Nonetheless, it is expected an increase restructuring deals, rescue deals and various state interventions in order to save companies of strategic national interest. Financial robust companies will most likely take advantage of the current situation to drive industry consolidation initiatives.

Despite the severe decline in M&A activity, global deal-making could probably bounce back and accelerate very quickly once the global impacts of the virus become more graspable and corporations have assessed their situation in more depth.

Date	Recent News
03 April 20	One Million Coronavirus Cases Worldwide in Just 18 weeks ***Source:*** *bloomberg.com*
02 April 20	US weekly jobless claims blow past six million as coronavirus lockdowns spread ***Source:*** *reuters.com*
01 April 20	SoftBank abandons USD 3 bn deal with WeWork investors ***Source:*** *bloomberg.com*

Alexander Keil
Investment Banking Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**V**	Visa announced its transaction volume deteriorated during the second half of March, as countries imposed social distancing and sheltering in place due to the virus outbreak. As a result, stock price depreciated by 11.36% last month and the company dropped their full year outlook due to uncertainty from Covid-19.
US Equity	**AMZN**	Despite a negative first quarter stock price performance, Amazon was a standout in the S&P 500, gaining 5.4% as online grocery orders surged amid stay-at-home measures. As the company is currently looking for workers currently to meet increasing demand, Amazon is likely to sustain the crisis without major further hits in share price.
US Equity	**DIS**	Disney will take a while to ramp back up once their parks finally reopen, which contribute to half of their annual profit. Their share closed the month trading below USD 100 loosing 17.89% in March. The company launched its streaming service Disney+ in the U.K. and Europe in March, at the height of a global coronavirus pandemic that has forced citizens across the region to remain indoors.
US Equity	**DPZ**	Domino’s Pizza withdrew its financial guidance, as many stores in international markets remain closed, although most US locations remain open. The company reported the same store sales growth in the US of only 1.6%, which caused their share price to fall almost 5%.
US Equity	**NVDA**	Information-technology sector continued to be the best-performing sector, after outpacing all the other sectors last year. Nvidia stock rallied 17.2% on the 24th of March after Needham upgraded the company from hold to buy. The firm said Nvidia has a superior balance sheet and robust free cash flow. The company is expected to report their earnings in May.
US Equity	**NFLX**	Many investors expect the stay-at-home era to have both near-term and long-term benefits for Netflix. On the other hand, new TV shows are postponed due to the virus and streaming quality was reduced to ensure internet stability. The stock traded at USD 383.79 at its highest and USD 298.84 at its lowest during March, depreciating 1.75%.
GR Equity	**LHA**	German carrier Lufthansa has grounded most of its fleet and insisted that the industry may not survive the pandemic without government bailouts. The airline and many other firms in Germany have sent their staff on short-term working to trim payroll costs with immediate effect. Their stock depreciated by 26.78% in March.
US Equity	**GS**	Stocks of major financial services companies were down during the third month of the year. Goldman Sachs slipped 23% during March closing at USD 154.59. The main challenge for Banks is that they are still going to have a hard time making fee income because a lot of IPOs and M&A deals are going to be postponed. In addition, interest rate cuts will put pressure on margins and debt defaults are likely to spike.
US Treasury Bonds	**IEI ETF**	Our benchmark bond index, IEI, invests in treasuries with maturities from 3-7 years. Treasury yields climbed at the end of March as negotiations continued in Washington over a massive fiscal stimulus package to combat the virus outbreak. President Donald Trump signed a USD 2 tn coronavirus relief bill, as the White House tries to blunt economic destruction from the pandemic ripping through the United States.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had negative performance over the last month, mainly driven by the sharp decrease in oil prices (57% drop) as the pandemic continues to crush global demand for crude. Global oil storage could soon reach maximum capacity, as the current crisis dramatically reduces consumption and some of the world’s most powerful crude producers start to ramp up their output.

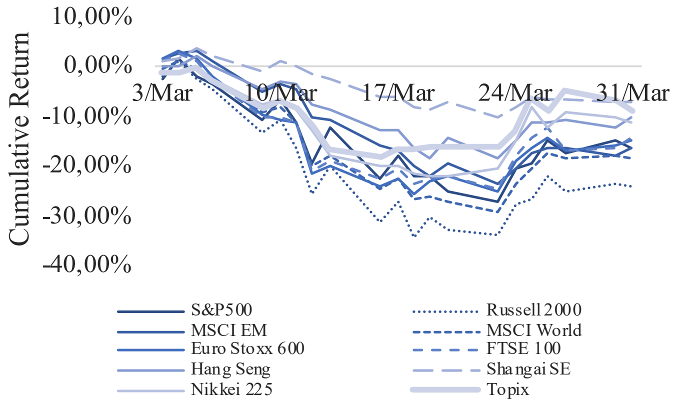
Francisca Fernandes
Financial Markets Division

NIC Fund

Equities

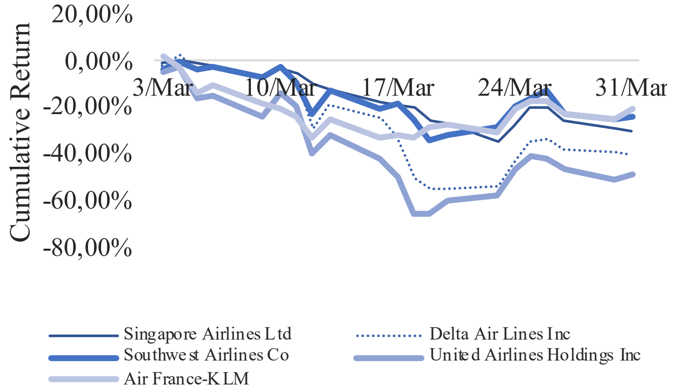
World Equities

March was a dark month for global equities following the spread of Covid-19 to Europe and then the US, with continuously increasing mortality. All major global equity indexes closed the month in the red, entering a bear market at the fastest pace ever as rising uncertainty triggered a heavy equities sell-off. The VIX, which is based on the prices of options on the S&P 500 and measures the implied volatility in the market, reached a record high of 82.69 closing the month at 53.54 (+60.20% MoM). The S&P 500 registered a 15% loss while the Russell 2000 dropped by 24.06%, as small-cap stocks do not usually have the resources to cope with a sudden fall in demand, thus, making them more volatile to negative events. Despite the slight rally in the last days of March, as investors rebalanced their portfolios at the end of the quarter, many asset managers have decided to hold cash given that analysts anticipate a high jump in unemployment figures and a severe drop in output. Goldman Sachs forecasts a 34% YoY contraction in Q2 2020 with US reaching an unemployment rate of 15%. The Dow Jones recorded its worst year debut in its history, losing 24.08% in Q1 2020. European markets were not spared either by the dramatic consequences of the current health crisis. Indeed, the STOXX Europe 600 Index declined by 14.87%, amid the strict lockdown measures leading to the closure of nonessential services. The European composite PMI index of services and manufacturing fell to 29.7 in March, reaching the lowest level since inception in 1998. Meanwhile, in the UK, the FTSE 100 plunged by 14.77% month to date. In what regards emerging economies, at least 27 countries have imposed restriction on movement, with the MSCI EM index dropping by 16.48%. The broad MSCI World index lost 18.67%. In China, the SSE Composite Index dropped to 2,750.30 (-7.43% MoM) while the Hang Seng Index closed the month at 3,258.03 (-10.53% MoM), trading below its book value for the first time since 2016.



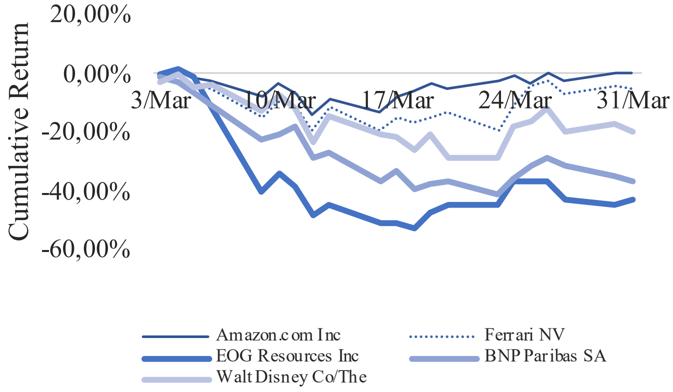
In Depth: Airlines at risk

The pandemic has particularly affected the airline industry resulting in record low demand globally. Various airlines asked for government aid, including Air France KLM (-19.97% MoM). Meanwhile others, such as Delta Air Lines Inc. (-39.50% MoM) and Singapore Airlines Ltd (-29.57% MoM), obtained capital from bank loans to resist the crisis, raising a total of USD 17 bn. Airline traffic is not expected to recover rapidly, with analysts predicting a wave of mergers and bankruptcies leading to further industry consolidation.



Our Performance

In March, the most affected sectors were financials and energy following interest rates cuts and the sudden drop in the oil price as a result of the war initiated by Saudi Arabia. BNP Paribas SA declined to USD 27.51 (-36.69% MoM) while EOG Resources lost 42.85%. Yet, Amazon was the best performer, closing at USD 1,949.72 (-0.22%) after a surge in demand triggered by the Covid-19 outbreak.



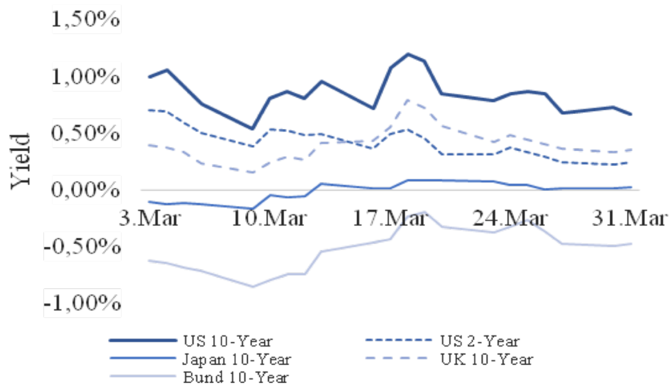
Corina Popa
Financial Markets Division

NIC Fund

Fixed Income

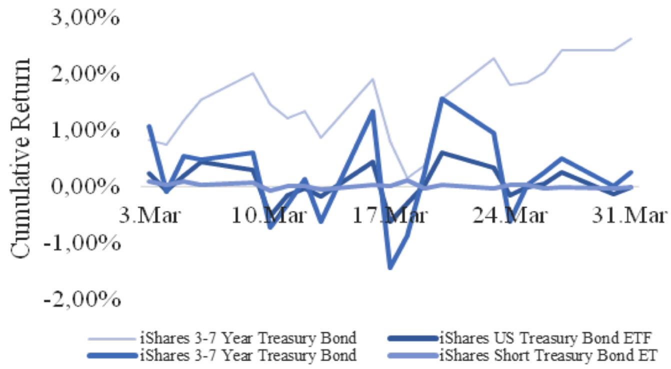
World Yields

The corona crisis has had a severe impact on the fixed income market. Firstly, the Fed cut the interest rates in an emergency meeting on the 3rd of March to 1-1.25% and, in a later move on the 15th of March, to 0-0.25%. At the same time the Fed launched a massive USD 700 bn quantitative easing program during an emergency move to protect the US economy from the effects of the pandemic. The announcement caused yields to spike for a few days leading to prices to drop by as much as 1% for the 3-7year treasuries. The market's negative reaction may reflect a sentiment that cutting interest rates or engaging in other types of fiscal stimuli will do little to contain the economic effects of the virus. The drop in bond prices, despite lower interest rates, implies that investors are pricing a higher risk premia due to the impact of Covid-19 not only on demand but also on supply. Moreover, the US 10-year Treasury bonds yields fell from around 1% to nearly 0.75%. The decrease in yields implies, that the risk of 10-year bonds has decreased. Moreover, the March's bond market was characterized by sellers in need of liquidity, leading to falling bond prices. UK 10-year Treasury bonds, in contrast, returned to the same levels as at the start of March after spiking due to fiscal stimuli. Looking at the Bund and Japan 10-year Treasury bonds, one can see that the yields continued to increase, consequently attributing more risk to these securities. Additionally, over the course of the month, and with the increasing intensity of the impact of Covid-19's, credit spreads continued to widen on a whole range of securities, including junk bonds, high grade credits and muni bonds.



In Depth: European Bond Markets

In past crisis environments, long-term yields decreased during recessions, as investors evaluate high maturity notes at lower risk than short-term bonds, leading to an inverse yield curve. However, this time long-term bond yields in Europe, such as the Bund 10-year increased, which could be a consequence of several factors. First, inflation expectations are being priced in. In typical recessions, inflation is not priced into bonds, as price increases are not feasible. However, as this time there is not only a demand, but also a supply shock, inflation forecasts could be priced in. Second, the rise of risk premia drives up yields in Europe. In crisis time people are looking to convert to cash and safe-haven assets such as gold, leading to falling high maturity notes prices. However, during the Euro development, all interest rates converged, disregarding countries differences in credit standing. Yet, after the ECB announced on the 12th of March that it would expand its quantitative easing program with EUR 120 bn extra purchasing, Ms. Lagarde announced "We are not here to close spreads, this is not the function or the mission of the ECB". After her speech, Italian sovereign bond prices fell by a daily record amount, widening the spread between Italian and German 10-year Treasury bonds, a key market indicator of concern about Italian sovereign risk, to more than 2.6 pp, its highest since June 2019.



Valentina Heimann
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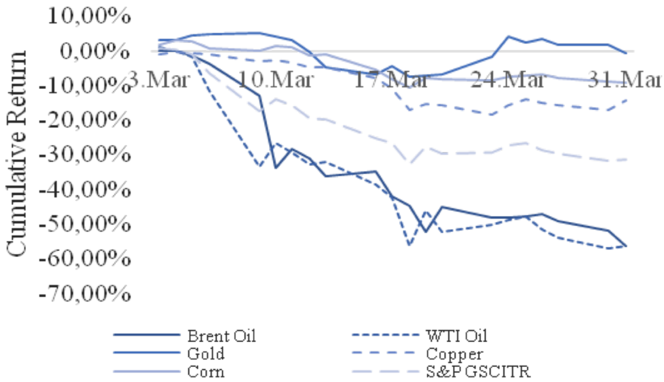
Commodities

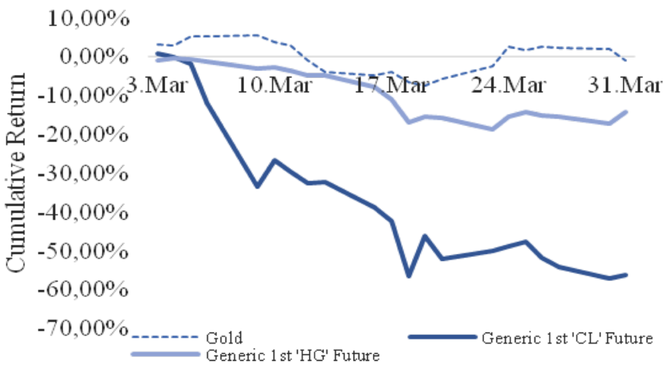
March Round-Up

The month of March started off with the end of a three-year pact between OPEC and Russia as Moscow refused to comply with deeper oil production cuts in a response to the spread of the coronavirus. The deal aimed at propping up prices, which would benefit US shale the most, however, the news triggered a downturn of 10% in oil prices. On top of the rupture of the OPEC deal, which led Saudi Arabia to increase production and drastically push prices down, Covid-19 slashed demands for the commodity worldwide, leading Brent Crude and WTI Crude prices to decline by 55% and 56% during March, respectively. It was also the worst month since oil futures started trading in NYMEX in 1983. The unprecedent drop in demand left WTI trading at USD 20.40 per barrel and Brent Crude at USD 22.71 per barrel, down 66% and 65% year-to-date, respectively.

The S&P GSCI Total Return Index, widely recognized as the leading measure of general commodity price movements, declined by approximately 31.4% during the last month, and closed the first quarter of 2020 down by 42.4%. The pandemic outbreak has created extreme high levels of volatility across all financial markets, which traditionally would lead investors to fly to safe havens such as gold. Nevertheless, not even the “currency of last resort” was free from the market swings as gold prices declined by 1.2% in March but ended the quarter with a comforting 3.5% return.

More job losses could take place in the next few weeks as the aluminum industry is facing a major supply glut. The lightweight metal, that can be used in anything from cars to soda cans, will have its demand slashed by roughly 8% this year according to consultancy CRU Group. A halt in production from large carmakers across Europe and North America could lead aluminum production to considerably overtake consumption. The surplus would add on to the ongoing pressure in aluminum prices since the US-China trade war. In the last week of March, aluminum prices hit a four-year low, below USD 1,600 per ton.





Outlook for April

Despite the unprecedent times and high volatility all around, investors are starting to come back to their senses, which has led gold to rally in the second half of March. After announcements from central banks, including the Fed’s pledge to buy unlimited amounts of government bonds and the ECB’s (almost) “whatever it takes” stimulus packages, the price of the yellow metal surged by 4%. The commodity gained another 4% after Wallstreet’s Goldman Sachs recommended gold as a buy, predicting its price could reach as high as USD 1,800 within the next 12 months. “We’re going to go through a very tough two weeks”, on a dramatic tone change, President Donald Trump addressed American citizens on the last day of March about the potential outcome of the Covid-19 pandemic in the US, sustaining the scenario of high volatility in the markets, which then bolsters the view on gold as the safe haven investors might be looking for.

Henrique Oliveira
Financial Markets Division

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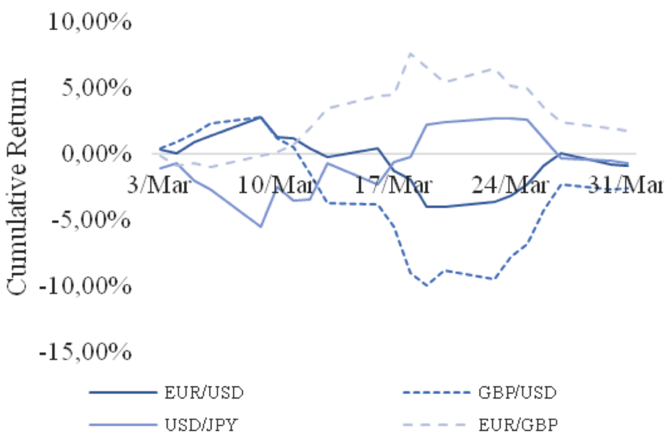
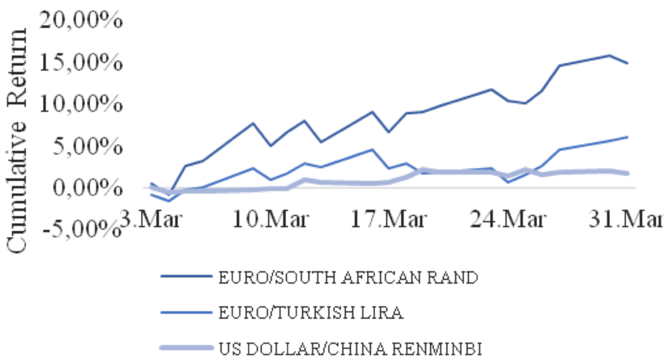
Currencies

World Currencies

Volatility was unusually high for FX last month as corporates hoared for US dollars when revenues crashed meanwhile governments spending soared. The greenback had a roller coaster month against the euro. After hitting a one year-low level on March 9th when it traded for EUR 0.8735, the currency engaged in a rally to historic highs since the subprime crisis closing at EUR 0.9353 on March 23rd. Sterling also went through a wild month of March. While everyone was expecting the pound to be driven by Brexit in 2020, the currency ended up being completely overwhelmed by the pandemic. GBP conceded more than 8% in the first weeks of March against the euro and the dollar, trading below USD 1.15 for the first time since the 1980's before a sharp rebound in the last days of March. Net oil exporter countries also suffered a strong hit as crude prices plunged. As a result, Russian rouble lost 23% year to date against the greenback meanwhile Norwegian krone depreciated by 16% over the same period. Emerging markets apart from China also fell into record low territories since the 1990's. For instance, Turkish lira continued its fall, weakening by further 7% to the US dollar last month following the attempt from the Turkish central bank to counter the economic impact of coronavirus by lowering reserves that banks must hold at the central bank. Other examples of strong depreciation in March include the South-African rand and the Mexican peso. The latter flirted with record-low level with a peso exchanging for nearly 25:1 against the US dollar. Mexico also suffered from the drop in oil prices which yielded in State-oil producer Pemex and sovereign debt to be downgraded by rating agencies last month.





In Depth: South African Rand Plunges to Historical Low

On March 27th Moody's downgraded South Africa sovereign debt to junk driving the rand to unprecedent low against the US dollar. Moody's joined Fitch and Standard & Poor's who already withdrew South Africa's investment grade in 2017. This decision resulted in a 2% depreciation of the currency intraday. Rating agencies are pessimistic about Africa's second largest economy. The country was already having very poor growth for years now and the 3 week-lockdown established to contain the pandemic will certainly not help to improve the situation. The credit downgrade was decided weeks before the spread of Covid-19. Indeed, sovereign debt skyrocketed recently amid the numerous bailouts of state-owned companies which are likely to result in government debt ratio soaring to a level as high as 70% of GDP by 2022. The credit downgrade to junk will see sovereign bonds being withdrawn from indices tracking investment grades globally which will push investors to sell South-African bonds according to their mandates, consequently putting further pressure on the rand. This is likely to drag the currency even further into record lows in the next months.

Maxime Hozé
Head of Financial Markets Division

Extras

Hot Topic

High-Yield Debt Default Concerns Arise During the Crisis

Philipp Gall
Financial Markets Division

"There is not one corporate that is not absolutely transfixed with what is going on in markets right now"

– Mark Lynagh,
Co-Head of Debt Markets
EMEA, BNP Paribas

In the past month, capital markets in all sectors were dominated by the effects of the Covid-19 pandemic, which has now spread worldwide. Parallel to the stock markets, credit markets were also subject to high volatility. Significant effects on risk premiums were observed not only in the high-yield credit spread, but European credit markets in particular are showing signs of distortions in corporate debt. Although government bonds posted record negative yields at high speed, especially at the beginning of the global outbreak, investors are preparing for the threat of impending corporate default.

This was particularly evident in the iTraxx Crossover Index, which in March reached the highs from the years of the 2011 European bank crisis. The index tracks the creditworthiness of European companies with a junk rating comprising 75 5-year credit default swaps (CDS) with a term of five years. These individually are often illiquid in times of crisis, so that the index is often traded as a generic hedge against the risk of default. At present, the index marks a spread of 550 bps, which is well above the pre-corona crisis level of 200-300. The corresponding US index reached a spread of over 700 bps, the highest since December 2011.

While markets are now facing the reality of higher insurance costs for bondholders and also default speculators, the impact of the scenario and the crisis should be taken into account. as a result of central banks accommodative policies worldwide, outstanding corporate debt significantly increased since the 2008 financial crisis.. A large part of this debt, particularly in the energy sector, is classified as non-investment grade, at USD 13.9 billion (OECD 2019), which exceeds the 2008 peak. Given the uncertainty about the scope and duration of the crisis, the spike of CDS spreads could only be a first indication of the risk ahead. An economic downturn would weaken debtors' cash flow, which could lead to defaults. Since the energy sector accounts for a large share of junk debt, a sustained decline in oil prices by a level of USD 20 for Brent will further impair the creditworthiness of many debtors, which could also lead to a continuing downgrade of bank debt and therefore affect other sectors. Mark Lynagh, EMEA Co-Head of Debt Markets at BNP Paribas, summarizes: "There is not one corporate that is not absolutely transfixed with what is going on in markets right now".

In times when money is cheap or can actually be borrowed at negative yields, it is important to highlight the effects of an economic crisis. At the end of 2019, double B-rated bonds were trading around 160 bps higher than US Treasury bonds. The question is whether these yields correctly price the underlying risk, as the neutral observer might argue, precisely if this can be considered a "high-yield bond" at all. Quite a few investors saw a bubble caused by the unprecedented need to generate bond yields.

Although the nature of bonds usually carries less risk than equities, the effects of the virus are obvious. The S&P US High Yield Corporate Bonds Index fell from 690 to 593, a loss of about 14.06% YTD. It seems that investors are having problems with their holdings and investment policies at the moment as their holdings are suddenly trading below par in some cases. Credit issuers, on the other hand, are facing a new market environment as the respective companies put the issuance of bonds on hold. Even though CDS spreads have recovered from their mid-March highs, only the actual extent of the virus will cool volatility. Investors should follow developments closely, as the storm may not have already shown its full force for high-yield bonds.

Philipp Gall
Financial Markets Division

Extras

Hot Topic

Coronabonds: Why is There No Consensus Among the EU?

Mariana Nóbrega
Investment Banking Division

*"We have no previous analysis of the impact of such a widespread lockdown in major economies (...)
The consensus is growing day by day that we need to face an extraordinary crisis with extraordinary tools"*

– Paolo Gentiloni,
EU Economics Chief

Regarding the recent shift of Covid-19's epidemic focus from China to the Euro Area and the accelerated impact it is causing on both health and economic sectors within the continent, the EU is aiming to present a financial instrument to tackle the repercussions of coronavirus. The introduction of Coronabonds, or European Health Bonds, which would, in theory, allow the European countries to collect funds in order to finance increased spending and promote lower taxes without increasing their national debt, representing a great solution.

However, in practice, this process is way more complex. In fact, the issuance of Coronabonds would very likely be made through existing institutions such as the European Stability Mechanism (ESM) which would demand a political decision to shift sovereignty from national to European level, under a mutual agreement of all state members. Moreover, the EU would need direct fiscal authority over the European economy through the transfer of significant amounts of various national budgets to a single European budget. The high possibility of moving the health systems' authority from state members to a common European structure would also have to be considered as well as the associated major decisions to be taken collectively. In practice, this may not be possible to achieve in a short amount of time.

Taking a deeper view, this type of public bonds issued in the markets, are attractive to investors due to their guarantees of regular payments made by the states' assets and their exemption of state income taxes. Thus, the higher the concerns on the guarantees, the greater the risk premium required by investors as well as the associated yield. Nonetheless, it is crucial to highlight that not only the interest rate but also the risk of the governmental debt differs from one country to another, within the European Union, as they may have different growth rates, various political uncertainties and even distinct levels of debt.

To ascertain this, the long-term interest rates of government bonds, with maturity up to 10 years, regarding February 2020, illustrates a significant discrepancy from countries with high levels of debt like Italy or Greece (yearly interest rate of 0.96% and 1.07%, respectively) contrasting with the rates of countries with less amount of governmental debt to GDP, such as Germany (-0.47%) or even France (-0.18%). For this reason, in some countries, the risk associated with the Coronabonds would be lower than some national debt instruments. Thus, considering the current institutional pattern, these bonds could only avoid high levels of risk if they could be supported by specific defined guarantees established by the EU. However, there are no current European assets neither capacity within the Eurozone to generate independent tax revenues for this purpose.

One further alternative to be considered is based on the ESM, the Euro Area's bailout fund, to provide precautionary credit lines to a certain number of member states, allowing a lower cost of borrowing as well as a low risk of illiquidity within the capital raised. Nevertheless, if this measure demands a limited number of contemplated member states, it will generate stigma among countries and consequently seen as a sign of weakness towards the market.

Given the little time frame and urgent need to act, both measures remain a very controversial topic as there are evident practical barriers that may jeopardize the positive theoretical output. The European leaders are debating on the possibility of complementary financial instruments exercised within different time periods.

Mariana Nóbrega
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Extras

ESG Review

Will the Crisis Help ESG Investing to Gain Resonance Towards Sceptical Investors?

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Financial Markets Division

"This crisis makes companies ever more focused on what's going to make them resilient, it is a dress rehearsal for what could be a far worse crisis triggered by climate change"

– Andrew Kassoy, CEO
Co-founder of B Lab

At the heart of an unprecedent sanitary crisis since the Spanish flu, the fear of a financial crisis surges globally. After a dramatic month of February, quarantined measures taken worldwide in March brought business activities at record lows and blooded markets even harder. These dramatic times are leading companies across sectors to face bankruptcy risks and require government support, highlighting weaknesses in current economic models that need to be reinvented. Hopefully, seeing images of empty cities, hospitals reaching saturation, people working from home when others are getting laid off, will not be vain and will help building a brighter future. It must open the eyes of the most sceptical and conservative investment firms to realize that they must reconsider performance appraisal, considering other factors than pure financial metrics and push companies to pursue other goals than profit maximization. Instead, it is now time, more than ever before for companies to put emphasis on ESG performance targets, with a focus on "social" matters.

This crisis "makes companies ever more focused on what's going to make them resilient", it is "a dress rehearsal for what could be a far worse crisis triggered by climate change" said Andrew Kassoy, CEO and co-founder of B Lab, a non-profit which assesses corporates ESG performance.

Companies investing and caring about their impact on all stakeholders, not only shareholders, have proved to outperform in the long-run the peers who do not as they grow addressing younger generations' demand and reduce future risk exposure in several matters by being less sensitive to negative market shocks. For instance, the MSCI World Socially Responsible Index that tracks companies with outstanding Environmental, Social and Governance (ESG) ratings excluding companies whose products have negative social or environmental impacts outperformed the MSCI World Index every year since 2016.

Similar evidences can be observed today when comparing top ESG performers against peers in their sectors. Kering, the French luxury conglomerates ranked multiple times by Dow Jones Sustainability Index as the most sustainable company in the luxury market saw its share price losing 5.69% last month when its peer LVMH stock fell by 10.01% over the same period.

Kering, similarly to L'Oréal were pioneers to achieve gender parity in leadership roles but also equal pay and other measures such as increased pay during maternity leaves. Julie Bech, co-Manager of Nordea's Global Gender Diversity Strategy, sees added-value in promoting gender equality "there is great demand for the best talent, so if a company succeeds in creating equal opportunities for everyone, it will have a wider pool to choose from. This gives the company an edge compared to competitors who will not have the same growth potential." As a result, L'Oréal stock lost fewer than 1% in March when some of its direct competitors lost nearly 7%.

There are many way investors can drive the change and push companies to sustainable performance such as doing screening investing, changing wealth allocation to companies meeting certain ESG standards; or, being proactive by doing active ownership and engaging in proxy fights for instance.

In the aftermath of the crisis it is evident that companies will embrace ESG performance unlike anytime before, in a scope that must go far beyond carbon emission and environmental issues, embracing the "S" and employees' satisfaction as grounds for resilient growth.

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Thank you!

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