NIC

— Nova Investment Club —

Newsletter

October 2020

NIC

Nova Investment Club

Table of Contents

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, Timor Domin, elaborates on the impact of US-China relations on the Asian technology market. Moreover, in our Regional View, Emily Rushforth, examines the current outlook for the American presidential election.

Our Investment Banking Division will guide you through September's M&A overall activity. Read about Microsoft to acquire ZeniMax Media, Gilead Sciences to acquire Immunomedics and CaixaBank taking over Bankia. Additionally, get a detailed overview on what happened to Nvidia and Puma SE, as well as consider our opinion on special purpose acquisition companies (SPACs) and the 2020 boom.

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 overall performance of the NIC Fund in September was slightly negative, with a cumulative return of -1.78%. This loss was mainly attributed to a decline in Equities.

On the Hot Topic of this month, Ruben Pratapsinh examines Tesla's battery day and the impact on the electric vehicle market and, Gonçalo Marques, elaborates on Snowflake, the biggest software IPO in History. Lastly, on our ESG review in collaboration with Nordea, Madalena Azevedo writes about the rise of ESG Fixed Income.

Macro Overview

Monthly

October 5th, 2020

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3 363	3.90%	8.47%	4.09%
DJIA	27 782	3.81%	7.63%	-2.65%
Nasdaq	11 168	5.03%	11.02%	24.46%
MSCI World	2 859	1.30%	5.84%	-8.01%
MSCI EM	3 883	-0.54%	6.83%	-2.92%
Russell 2000	1 508	3.87%	4.60%	-9.64%
Euro Stoxx 50	3 194	0.42%	-1.25%	-14.73%
FTSE 100	5 866	-0.56%	-4.92%	-22.23%
Nikkei 225	23 185	-0.69%	4.02%	-1.99%
Hang Seng	23 459	-1.19%	-3.96%	-16.78%
Dollar Index	93.89	-0.53%	-3.60%	-2.60%
EUR/USD	1.172	0.52%	4.34%	4.53%
GBP/EUR	1.102%	1.02%	-0.14%	-6.77%
GBP/USD	1.292%	1.54%	4.19%	-2.54%
USD/JPY	105.480	0.09%	-2.27%	-2.88%
USD/CHF	0.92	-0.34%	-2.79%	-4.73%
Brent Crude	40.950	-1.96%	-0.49%	-37.95%
Gold	1 887.5	1.45%	4.83%	23.92%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	0.684%	1.2	2.8	-123.4
GER 10Y Yield	-0.522%	-1.7	-6.8	-33.7
JPY 10Y Yield	0.016%	0.8	-1.2	2.7
UK 10Y Yield	0.229%	1.1	5.7	-59.3
PT 10Y Yield	0.263%	1.5	-21.3	-17.9

**Source: Bloomberg, as of 2020-09-30*

In Focus

September

UK Internal Market Bill passes the House of Commons. The legislation, which gives UK members of parliament the right to overwrite details of the Brexit deal, will require no additional checks on goods moving from Northern Ireland to UK. The bill passed through the House of Commons by 340 votes to 256 and will now go to the House of Lords. Ministers have defended regulations contained in the bill despite warnings that it threatens the Union and the country's global reputation.

The EU is starting legal proceedings against UK over Brexit deal breach. After missing out on the September deadline set by the EU regarding the offending articles to be removed from the bill, UK has received a "letter of formal notice", the first step of formal EU infringement proceedings. Even though the bill has not turned into law yet, the commission decided to act because it believes the draft bill is a "breach of good faith" laid down in the Brexit deal and will be in full contradiction to the protocol on Ireland/Northern Ireland.

Dividend and buyback curbs for Big US banks will remain until the end of the year. The Federal Reserve extends the curbs on payout which it introduced in September. The Fed states as the reason for this extension the importance of maintaining a "high level of capital resilience" during this time of economic uncertainty resulting from the global pandemic. The restrictions apply to 33 banks with over USD 100 bn in assets.

IMF warns of risk in sovereign debt crises by pandemic without changes in international debt structure. The IMF called for the G20 debt service suspension initiative to be extended for another 12 months and a common restructuring approach across all official bilateral creditors.

Inflation may exceed its target according to ECB. Christine Lagarde is likely to align ECB's inflation target to the one announced by the Fed at the end of August. The Fed made public that it will overshoot its 2% target in the future to compensate for the period of inflation below 2%.

Deflation in the Eurozone will continue in the months ahead. Eurozone prices contracted 0.2% on an annual basis in August as the stronger euro made imports cheaper. After moving into deflation in August for the first time in years, Europe is expected to show negative annual inflation over the coming months according to ECB president Lagarde. She states as main drivers for this development earlier declines in energy prices, a stronger euro, and a temporary reduction in the value added tax rate in Germany.

Argentina's newly restructured government bonds have already fallen to distressed levels. In late August, Argentina negotiated a debt relief of USD 38 bn over the next decade. Less than a month after this announcement, Argentina's initial bond performance is the worst for any newly restructured emerging-market bonds in the past 20 years. The pressure on these financial instruments is fuelled by a collapsing Argentinian economy, which suffered from the pandemic with a GDP contraction of over 12% this year.

Record GDP drop in the UK. The UK's Office for National Statistics published data that shows a 19.8% contraction of the economy in the second quarter. The decline was twice as large as the ones recorded in Germany and the US over the same period.

Fitore Zeciri
Financial Markets Division

Deeper Dive

The Impact of US-China Relations on the Asian Technology Market

Timor Domin
Investment Banking Division

"The almost daily drumbeat of tensions between the US and China shows little sign of letting up, while touching on everything from the coronavirus to trade to defense issues to monetary policy."

– Bloomberg

With the latest developments in relations between China and the United States, the tensions are continuing to spread. These tensions are now even more evident in the global technology market, as not only the back and forth over the banishment of TikTok in the US is ongoing, but especially as the Chinese chip industry is suffering after the blacklisting of SMIC.

Relations between the US and China have always been difficult. Starting with obvious tensions between two nuclear powers in World War II, where afterwards, relations only improved with the One-China Act in 1979. But the democratic aspirations in China created new tensions with the Tiananmen Square Massacre in 1989, where the US cut off all military support by suspending all military exports to China and diplomatic relations. It took a long time until the first major advances in relations were made in 2000 and the US-China Relations Act of 2000 was signed, enabling China to become the US's second largest trading partner after Canada in 2006. It is not only in 2008 that China's growing influence on the US and vice versa became apparent, when China became the largest US debtholder with about USD 600 bn. As this showed the growing interdependence between the US and Chinese economies in the middle of the financial crisis, it fuelled concerns about the economic imbalances between the US and China and its effect on the world economy. After the introduction of export quotas for rare earths from China, relations deteriorated and with the election of a new president in the US, an improvement in relations in 2016 seemed to be a distant prospect.

Looking at current relations, news, such as the ban of TikTok or WeChat, show that security concerns play an important role. Even if the negotiations seem to come into the final phase in the last weeks, this back and forth has been going on for 2 years already. Although this ban is not the only one worldwide, after India has already banned TikTok and Australia has thought about it, it seems to be pushed forward under wrong reasons. So it is all the more gratifying to hear that ByteDance, TikTok's Chinese parent, had chosen Oracle as its "trusted technology provider" in the US. The end is still uncertain.

It is precisely these false motives that are now revealing themselves in further cuts in the Chinese technology market from the American side. With the blacklisting of the Chinese top chip manufacturer SMIC, not only China's semiconductor industry continues to suffer after Trump had already restricted important exports to Huawei, but also the entire technology market in Asia and Europe. This time, the official motives are from a military nature, as SMIC carries an "unacceptable risk" of being diverted to a "military end-use". The result was a falling share price of 7% when the announcement was made.

This uncertain and unresolved situation has not least prevented the largest IPO in Japan in 2020. In fact, Kioxia, the world's second largest manufacturer of NAND flash memory chips, has just postponed its USD 3.2 bn IPO due to predicted lower demand and uncertainties in the market. One of the concerns was certainly not being able to execute this mega deal at the desired conditions, as investor and shareholder Bain Capital had tried to maximize the price. The cancelled IPO has caused a short-term share price drop of 8.60% for Toshiba, which owns a 40% stake in Kioxia, after Toshiba's shares had already fallen by 15% throughout September due to concerns about US sanctions against Chinese technology companies and their possible impact on the memory chip business in general.

It can be expected that Huawei, SMIC and TikTok will not remain the only targets of US sanctions and that the gap in the technology industry will widen further so that suppliers and buyers of Chinese technology products will suffer long-term damage as well.

Timor Domin
Investment Banking Division

Regional View

A Momentous American Presidential Election Approaches

Emily Rushforth
Financial Markets Division

"While some folks are frustrated and tuned out and staying home on election day, trust me, other folks are showing up. Democracy continues with or without you."

- Michelle Obama

All eyes will turn to the United States on Tuesday, 3rd of November, as American voters decide the presidency between incumbent Republican President Donald Trump and Democratic nominee Joe Biden.

President Trump started 2020 off strongly as the S&P 500 hit all-time highs and a new trade deal was signed with China. However, his chances now hinge on the public's perception of his reaction to the Covid-19 pandemic, as the only two incumbent presidents to lose re-election since the Civil War experienced an economic recession during their first term. The President's approval ratings fell to a sixteen-month low of 41.1% in May, but have been steadily climbing ever since, coinciding with the fiscal stimulus package being passed.

"America First" remains a core feature of President Trump's campaign with the US-China relationship coming to the forefront. Tensions between the two countries are escalating due to the American government claiming the Chinese allegedly practiced unfair trade, allegedly failed to protect intellectual property, and allegedly sparked national security concerns. This resulted in the United States attempting to restrict both Chinese investment domestically and the sale of American technology to Chinese businesses. Additionally, as tax cuts remain a key, unifying aspect of the Republican platform, Trump has stated his wish to enact further tax cuts during his second term.

Conversely, Biden has supported the bipartisan consensus throughout his career. If elected, it is likely that the United States will revert to predictable stances on trade and foreign policy, including re-joining the Paris Agreement, the Iran nuclear deal, and the World Health Organization. Nevertheless, due to the Democratic party and Biden's own campaign emphasising a harsh-on China stance, it is likely that the US-China rivalry will persist under Biden. To what extent, though, is not yet clear, as Biden has yet to clarify the exact approach that he will take.

In a gauge of the candidates' current momentum, Biden leads Trump by 7.1 pp after the first presidential debate. Included in this is Biden leading by a 1- to 7-point margin in all six swing states: Arizona, Florida, Michigan, North Carolina, Pennsylvania, and Wisconsin.

Not to be forgotten in this is the contest for the Senate and House of Representatives, as the president's ability to enact policy goals is largely influenced by Congress. The Senate is currently controlled by Republicans, while the House is controlled by Democrats. If Congress remains divided, the winner of the presidential election will heavily depend on executive orders and rulemakings by federal departments and agencies, as the Congressional approval that large policy proposals require will be much more difficult to obtain. Recent models from The Economist predict that the Democrats have a 68% chance of winning the Senate and a 99% chance of keeping the House.

Although the Senate is currently held by Republicans, there are 35 seats up for grabs this year, 23 of which are held by Republicans and 12 by Democrats. To gain control, Democrats must keep all their existing seats and flip either three more if Biden wins the presidency or four more if he does not, as the vice president casts the tie-breaking vote. The main priority for whoever heads the next administration will be to manage the economy. Federal finances have been stretched, with US national debt-to-GDP set to rise above 100% this year, so tough decisions about whether to implement further fiscal stimulus must be made.

When comparing the parties, the Democrats pushing for raising corporate taxes, enacting antitrust legislation to rein in "Big Tech", and transitioning towards renewable energy seems to be the clearest difference. This implies that regardless of the outcome of the election, the impact will likely be seen at a sector level with energy, financials, technology, and utilities facing headwinds in the case of a Democratic sweep.

Emily Rushforth
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

US Presidential Debate

On the **15th** of October, the second Trump vs. Biden debate will take place, after the first debate held on the 29th of September. There has been some uncertainty regarding the 2020 election, now amplified after President Trump tested positive for Covid-19.

German Manufacturing PMI

On the **23rd** of October, Germany's October manufacturing PMI will be released. A drop is expected from the previous month, with a forecasted value of 52.5, lower than the 56.4 reported for September.

Brexit Full Legal Text

31st of October was the day defined as the last date for the EU and the UK to reach an agreement regarding the trade deal. The UK's Prime Minister has even set the 16th of October as the deadline, but the EU has not committed to such an early date.

Central Bank Decisions

Fed Interest Rate Decision

There will be no FMOC meetings until the US presidential election. Yet, on the **7th** of October, the Fed will release meeting minutes and statements of their last assembly.

Bank of Canada Interest Rate

On the **28th** of October, the Bank of Canada will meet. The interest rate has remained stable at 0.25% for the five previous periods, following three consecutive rate cuts in an attempt to stimulate the Canadian economy.

ECB Monetary Policy Decision

The Governing Council of the ECB will hold its monetary policy meeting on the **29th** of October in Frankfurt. The central bank is expected to leave its recent policy unchanged, maintaining rates at the current 0% level.

Inflation and Deflation

Update on Euro Zone Inflation

September inflation data for the Eurozone was published on the **2nd** of October. Inflation in the Eurozone decreased to -0.30%, lower than the -0.20% predicted. This decline in prices means the EU remains in deflation territory, since the first negative values reported for August.

US CPI

The US's inflation rate will be announced on the the **13th** of October. A number close to 1.20% is expected to be announced for September, after a previous rate of 1.30% reported for August. Inflation in the US seems to be picking up to historical values, after a 12-month low reported for May, at 0.1%.

UK Consumer Price Index

YoY figures on consumer prices in the UK will be made public on October **21st**. This announcement follows a recent drop in the inflation rate down from 1% in July to 0.20% in August. This figure was the lowest inflation rate in the UK's economy since December 2015.

Labour Market

US Employment Readings

On the **2nd** of October, US nonfarm payrolls number with ADP employment change data as well as the unemployment rate for September were announced. The unemployment rate fell to 7.9%, from 8.4% in August, suggesting a continuous but slowing job recovery in the US economy.

UK Claimant Count Change

The UK's change in the number of unemployed people receiving unemployment benefits will be announced on October **13th**. Forecasts are betting on an increase compared to last month. Figures could reach up to 100 k, confirming a weakening UK labour market.

German Unemployment Change

On the **29th** of October, Germany will communicate its October unemployment figures. There has been a positive trend in the German's labour market, with the four previous releases all beating expectations.

Ruben Pratapsinh
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Global M&A made its comeback in Q3/2020 as executives hurried to reconsider deals left on hold at the peak of the coronavirus pandemic and boards regained confidence after an unstable year. According to Refinitiv data, deals rocketed in September with a major focus on Covid-19 resilient sectors such as technology and healthcare resulting in a record third quarter with more than USD 1 tr worth of transactions around the world. M&A activity in Q3 rose by 80% compared to the previous quarter when the spread of Covid-19 triggered global lockdowns and brought business to a standstill. Some of the transactions contributing to this growth were deals that were discussed before the pandemic and then put on hold or stopped because of geopolitical tensions such as the one between the US and China. Experts believe that M&A is the way out of the crisis and corporations understood that consolidation is essential to built stronger balance sheets and better-equipped businesses to deal with upcoming issues. In contrast, companies could follow an opportunistic strategy in regard to M&A to built bigger and more scalable businesses. In case of sectors such as retail, oil and gas that experienced difficulties in raising new funds companies may be opportunistic targets for industry consolidation.

Selected Regions

North America

In the United States, deal volume in Q3 increased by the factor of 3 to USD 414 bn compared to the previous quarter. The latest deal that was off due to the pandemic was LVMH's USD 16 bn takeover of US jeweller Tiffany after LVMH stepped back from the transaction because of mismanagement by Tiffany. While that was a setback for transatlantic M&A, Nvidia's USD 40 bn acquisition of British chip designer Arm Holdings restored the deal flow.

EMEA

The deal value in Europe went up by 21% to USD 231 bn in the third quarter of 2020. Moreover, during the summer the long-anticipated bank consolidation launched where Spanish (Bankia and CaixaBank) and Italian banks (Intesa Sanpaolo and UBI Banca) finalised merger discussions. As a result, this increased expectations that Swiss (Credit Suisse and UBS) and German (Deutsche Bank and Commerzbank) competitors might follow the same.

Asia

M&A deal value in Asia Pacific grew by 67% to USD 274 bn. Main drivers for this development were technology companies and conglomerates making strategic moves as they overcome the pandemic. Deal value involving Asian companies went up by 13% in the first nine months of 2020 compared to the 20% downturn globally. Major deals include NTT's buyout of its wireless carrier business with USD 40 bn and PetroChina's sale of its oil and gas pipelines for USD 49 bn.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
29 September 20	NTT DOCOMO Inc.	Nippon Telegraph & Telephone Corp	JPN	Telecommunications	40,330.79	40.03%
13 September 20	Arm Ltd.	Nvidia Corp	UK	Semiconductors	40,000.00	-
2 August 20	Speedway LLC	7-Eleven Inc	US	Retail	21,000.00	-
13 September 20	Immunomedics Inc.	Gilead Sciences Inc.	US	Pharmaceuticals	19,798.99	112.73%
2 August 20	Varian Medical Systems Inc.	Siemens Healthineers AG	US	Healthcare Equipment	16,177.07	36.33%
6 August 20	Ellie Mae Inc.	Intercontinental Exchange Inc.	US	Software	10,980.88	-
21 September 20	GRAIL Inc.	Illumina Inc.	US	Professional Services	8,000.00	-
28 September 20	WPX Energy Inc.	Devon Energy Corp.	US	Oil & Gas	5,437.06	-8.16%
3 September 20	Bankia SA	CaixaBank SA	ES	Banking	5,140.11	35.09%
22 June 20	T-Mobile US Inc.	Deutsche Telekom AG	US	Wireless/Telecommunications	4,800.40	13.08%

Jan Bich
Investment Banking Division

M&A: Top Deals

Microsoft to Acquire ZeniMax Media

The American multinational tech company, Microsoft, announced on the 21st of September 2020 that it intends to acquire 100% of the private video game holding company ZeniMax and all its subsidiaries for USD 7.5 bn.

Buyer vs Seller

Microsoft is the second biggest public traded company by market cap, that has been pushing forward to expand its presence in the gaming industry. ZeniMax, instead, is a Rockville (US) born company which creates and publishes original interactive entertainment content for consoles. It is the parent company of gaming studios such as Bethesda, which will allow Microsoft to grant access of relevant gaming titles such as Fallout, Quake and The Elder Scrolls.

Industry Overview

According to the games analytics firm Newzoo, the industry is forecasted to generate revenues of USD 159 bn this year. This notorious growth in the gaming industry experienced in 2020, was driven by the imposed lockdown earlier this year, which lead to companies reporting rising profits and revenues. The consolidation process of the industry is expected to accelerate its pace in the upcoming years, as it is currently still quite fragmented.

Peers	Currency	Market Cap (CUR m)
Check Point Software Technolog	USD	16 662.78
Oracle Corp	USD	179 689.80
VMware Inc	USD	60 792.40
Palo Alto Networks Inc	USD	24 144.40
Fortinet Inc	USD	19 460.25

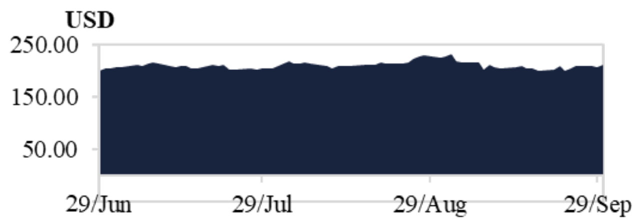
Deal Rationale

The deal follows Microsoft's ambition to be in the forefront of a high-growth sector, which is a strategic goal according to the company's CEO Satya Nadella. With the addition of ZeniMax, Microsoft's creative studio teams will increase from 15 to 23. The tech giant is expected to release its new console Xbox X, on 10th of November. Similarly, Sony, one of Microsoft main competitors in the gaming industry, is also expected to launch PlayStation 5 in November. Therefore, to increase its competitive presence, the American multinational decided to increase gaming flexibility for its customers and would include a cloud gaming service, Xbox Game Pass, that gives access to more than 200 games for a monthly subscription, in which Bethesda games will be a major addition.

Market Reaction

Microsoft

Since the announcement, on the 21st of September, Microsoft stock rose 3.18%, allying from the initial USD 202.54 to the USD 208.97.



ZeniMax Media

Founded in 1999, ZeniMax was valued at USD 2.5 bn in May 2016 and has raised over USD 600 m. Additionally, it has been consistently growing throughout the time, due to its several successful game releases, namely, Fallout 4, which sold more than 12 million copies within 24 hours. With this acquisition, ZeniMax is expected to join Microsoft into what is expected to be the process of transformation for the next-generation gaming experience.

Future Challenges

Since ZeniMax is operating in a counter-cyclical industry both to pandemic and economic downturns, a current challenge is clearly to manage and maintain the growth rate that has been experiencing during the current periods. Since Microsoft considers that ZeniMax is developing an impressive path, the American Multinational decided to maintain the newly acquired company independent, lowering any risks related to cultural fit.

Gonçalo Pina Santos
Investment Banking Division

M&A: Top Deals

Gilead Sciences to Acquire Immunomedics

Gilead Sciences, California based company, is to acquire the biopharmaceutical company Immunomedics, with headquarters in New Jersey, for USD 21 bn, which is equivalent to USD 88 per share in cash, representing double of Immunomedics market value.

Buyer vs Seller

The agreement serves as an attempt to broaden Gilead's oncology spectrum, after Immunomedics got an approval from the FDA on an anti body drug for advanced triple-negative breast cancer, also known as TrodelvyTM. The deal will consist of a first payment of USD 15 bn in cash and almost USD 6 bn in newly issue debt. Lazard and Morgan Stanley acted as financial advisors for Gilead. Centerview Partners and BofA Securities advised for Immunomedics.

Industry Overview

Since 2001 the pharmaceutical industry registered an upward trend, growing approximately 220% in revenues worldwide. Of all countries, US marks the highest revenues in this industry, with the oncology segment recording the highest revenues within this industry compared to the other therapeutic classes. The global market for pharmaceuticals is expected to growth at 4.90% in 2020.

Peers	Currency	Market Cap (CUR m)
Sarepta Therapeutics Inc	USD	11 112.44
ChemoCentryx Inc	USD	3 781.51
Halozyme Therapeutics Inc	USD	3 638.06
Insmed Inc	USD	3 374.24
Agios Pharmaceuticals Inc	USD	2 415.40

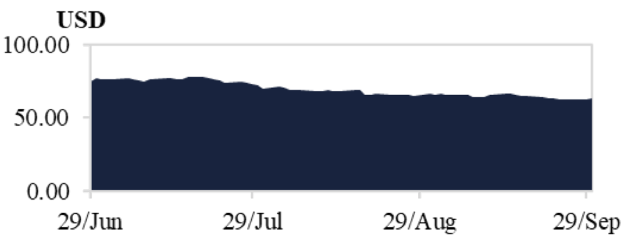
Deal Rationale

The premium that Gilead is paying to acquire the biopharmaceutical company shows numerically its need to expand its assets and improve his medicine portfolio. TrodelvyTM drug has been pursed for several large pharmaceutical groups recently, hence this acquisition will strengthen Gilead's power. The rationale continues following acquisition of other two companies focused on oncology, Kite Pharma in 2017 and Forty Seven this year. Gilead expects to establish infrastructure in Europe and China through this acquisition and, pending approval, launch TrodelvyTM in those regions.

Market Reaction

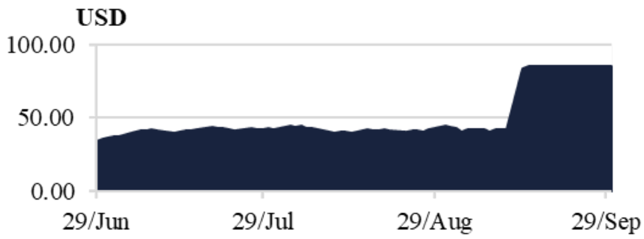
Gilead Sciences, Inc.

After the announcement, on 13th of September, the stock price had a small increase, of 1.15%. Nevertheless, Moody's has affirmed a negative outlook for Gilead.



Immunomedics, Inc.

On the open day, after deal announcement, the company's share doubled given the terms of the acquisition. This growth represented a 108% share premium.



Future Challenges

Even after the drug has been approve by the FDA, the risks and uncertainties associated with the performance of the medicine are still high. The firm is waiting for approval from Biological Licenses Application (BLA) in the US and on track for regulatory permission in Europe. Also, several big companies are pursuing the same strategy as Gilead by acquiring anti-drug conjugates (ADCs), consequently representing a threat to the market value of TrodelvyTM.

Madalena Azevedo
Investment Banking Division

M&A: Top Deals

CaixaBank takes over Bankia

The Spanish lender CaixaBank is about to become Spain's largest bank domestically after setting a deal to acquire its rival Bankia, in a USD 4.5 bn deal. The plan has yet to be submitted for approval in the two banks' shareholders meetings in November and it is expected to be completed in the first quarter of 2021 being subject to regulatory approval.

Buyer vs Seller

Barcelona-based CaixaBank has a market value of USD 14.4 bn as well as strong presence in the insurance and asset management businesses. Currently state-owned Bankia specializes in low risk mortgages and was formed in 2010 as a merger of seven regional savings banks. The bank played a key role in Spain's financial crisis when almost collapsing and was funded by a USD 26 bn bailout program in 2012. Morgan Stanley and Rothschild were CaixaBank's and Bankia's respective financial advisors.

Industry Overview

Further consolidation in the Spanish banking sector has long been expected. The industry has mainly retail-focused lenders that have suffered from low interest rates. Moreover, subdued credit demand, increased regulatory costs and the need to invest in digitalisation are also pressuring banks' efficiency and financial results. Banks are thus shifting towards commission-based income from the likes of payments and tech businesses.

Peers	Currency	Market Cap (CUR m)
Banco de Sabadell SA	EUR	1,659.39
Bankinter SA	EUR	3,461.53
CaixaBank SA	EUR	11,182.30
Liberbank SA	EUR	676.26
Banco Bilbao Vizcaya Argentari	EUR	15,716.21

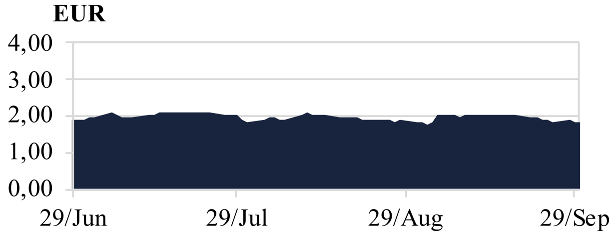
Deal Rationale

The transaction stands CaixaBank with a USD 16.6 bn market value and more than USD 756 bn in assets, overcoming its main competitors Santander and BBVA domestically. Strategically, the deal surges at a crucial time where banks are being pressured by the economic fallout of the pandemic which already rose loan provisions and that could further weaken banks' profitability. A robust bank is therefore critical to face the crisis that is yet to come. Furthermore, estimation points towards achieving annual recurring cost savings of EUR 770 m would considerably increase the cost-to-income ratio up to highly competitive levels.

Market Reaction

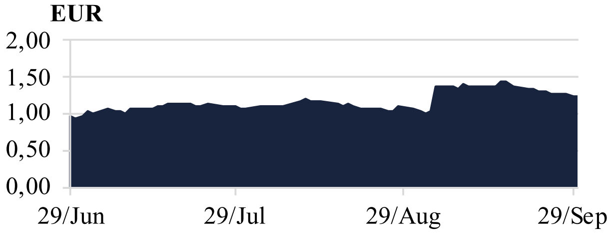
CaixaBank

When news regarding potential deal talks started, CaixaBank's stock price increased 14.60% from EUR 1.78 to EUR 2.04, consolidating a post-march valuation trend.



Bankia

The share price surged 35.64% from EUR 1.01 to EUR 1.37 on the news of the transaction. YTD movement saw a big fall in March due to Covid-19 but has been steadily recovering.



Future Challenges

The operation might raise concerns among regulators regarding the new bank's dominant position in some regions, such as the Balearic Islands and Madrid, where it would have more than 40% market share. In addition to that, it has been highly questioned whether the terms represent a stronger institution in the short-term without a capital increase, as efficiency gains can take some time to materialize and impose significant restructuring costs in the short-term.

Francisco Costa Guimarães
Investment Banking Division

What Happened To

Nvidia

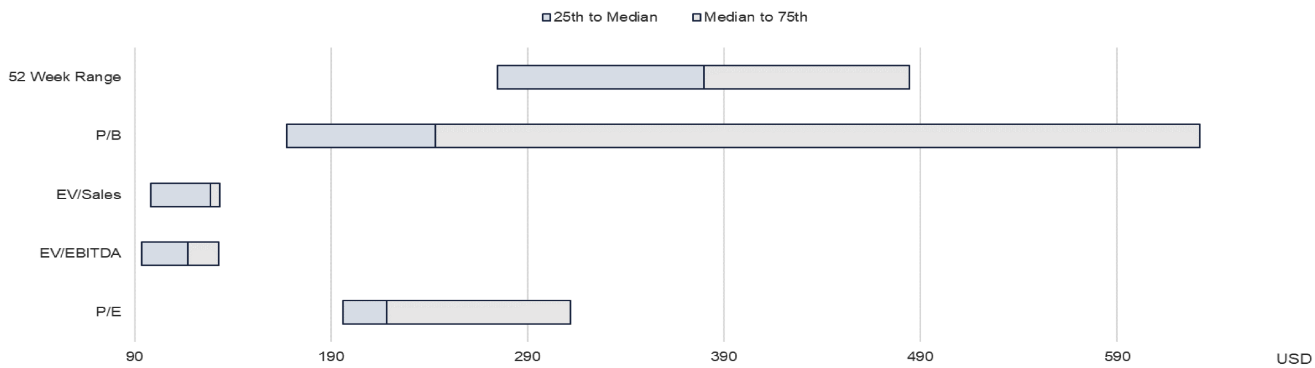
Founded in 1998, Nvidia is a provider of 3D graphics processors and related software. The company focuses in particular on personal computer graphics (PCG), graphics processing unit (GPU) as well as on artificial intelligence. Nvidia is headquartered in Santa Clara, California, and employed approximately 14,226 employees in 2019.

Corporate News

On 30th September 2020, Nvidia's shares are up 115.23% YTD and 198.41% for the last 52 weeks. The Company's positive trend was mainly supported by the historic rally in US tech stocks and a strong fundamental performance in the second quarter of 2020. Nvidia has previously reported record revenues in Q2 reaching a total of USD 3.9 bn, up 50% from a year earlier. The company especially benefits from strategic advantages on the PCU market due to a significant market share of 80%. In addition, Nvidia announced the acquisition of Arm, a British chip designer, for USD 40 bn which will further strengthen Nvidia's position in the data-center market. Moreover, given the current trend in autonomous mobility, Nvidia's business with automobile manufacturers promises attractive growth potential. The company has recently announced a partnership with Mercedes-Benz, who will integrate Nvidia's software in every vehicle starting in 2024.

Price (30 Sep 20, USD)	516.37
Target Price (USD)	570.00
3M Performance	35.92%
Market Cap (USD m)	318,600.23
Enterprise Value (USD m)	315,314.23
**Target Price is for 12 months*	

Valuation Analysis



Nvidia was trading at USD 516.37 on 30th September 2020. The football field analysis provides strong evidence of the fact that Nvidia should be trading at a lower price. Relative valuation based on EV/Sales, EV/EBITDA, and P/E specifies a price ranging between USD 130 and USD 200. In addition, the comparable analysis shows that the dispersion in valuations is quite big when taking P/B into account.

The semiconductor industry reached a total volume of USD 481 bn in 2018. Especially the graphic cards market is expected to grow significantly over the upcoming years. CAGR from 2020 to 2025 is estimated to be 33.35% supported by a massive growth of the gaming market and an increasing demand for 3D graphic cards. North America represents the largest part of this industry. However, developing countries in the Asia Pacific, such as China, Japan, Singapore, and India are currently the fastest-growing markets supported by the technological enhancement the area is currently facing.

Peers	Currency	Market Cap (Cur m)
Advanced Micro Devices Inc	USD	92,644.82
Intel Corp	USD	215,542.04
QUALCOMM Inc	USD	131,051.04
Broadcom Inc	USD	147,440.74
Xilinx Inc	USD	25,098.38

Hannes Stingel
Investment Banking Division

What Happened To

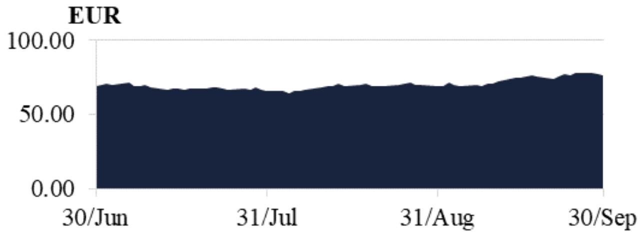
Puma SE

Puma Societas Europaea is a German multinational corporation that designs and manufactures athletic and casual footwear, apparel, and accessories, which is headquartered in Herzogenaurach, Germany. Puma is the third largest sportswear manufacturer in the world and distributes its products in approximately 120 countries. The company is listed on the Frankfurt Stock Exchange.

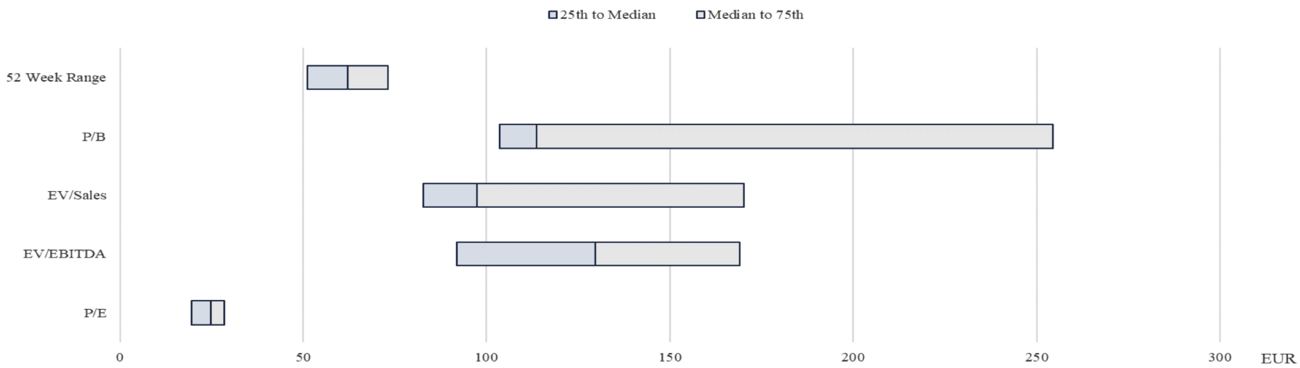
Corporate News

Puma's shares are up 15.99% YTD and 14.50% for the last 52 weeks. Similarly to the overall apparel manufacturer industry, the company's market cap was hardly hit by the Covid-19 pandemic in March and its share price almost halved going from a peak of EUR 80.45 on the 20th of February to a low of EUR 42.14 on the 18th of March. From then on, the company moved through 3 phases - survival, recovery and growth. Currently, Puma is trading around EUR 79.28 per share, i.e. very close to the previous high registered in March 2020. This indicates that the company is almost at the end of the recovery phase and is ready to approach the growth phase. A strong signal of the company's willingness to grow came two weeks ago when the company announced the closing of the individual sponsorship contract with the Brazilian football star Neymar, which is worth reportedly more than EUR 25.0 million annually.

Price (30 Sep 20, EUR)	**79.28**
Target Price (EUR)	76.00
3M Performance	14.50%
Market Cap (EUR m)	11 981.51
Enterprise Value (EUR m)	12 545.68
**Target Price is for 12 months*	



Valuation Analysis



On the 30th of September 2020, Puma SE was trading at EUR 79.28 in Germany. Looking at the football field reported above, it is evident the large scattering in valuations for companies belonging to the sports industry. The market price seems fair if we consider the EV/Sales multiple. However, observing other indicators may lead to different conclusions. Indeed, from an EV/EBITDA standpoint, the company is slightly undervalued, while according to the 52 week range the company is a bit overvalued.

Puma's main competitors are Nike Inc. and Adidas AG. Nike has higher global revenue than Adidas and Puma put together, as Nike is a US-based company and North America is a key market for this industry. On the contrary, both Puma and Adidas, are of German origins and harshly compete for the lead in the European market, where still Nike has a huge share. Even if Puma's market share is far smaller than its main competitors, the firm is paving its way for long-term growth through winning sponsorship deals with the top clubs and athletes that will drive future sales.

Peers	Currency	Market Cap (Cur m)
adidas AG	EUR	55 896.07
Under Armour Inc	USD	5 014.64
NIKE Inc	USD	197 544.29
VF Corp	USD	27 891.05
Lululemon Athletica Inc	USD	44 443.35

Daniele Notarnicola
Investment Banking Division

NIC's View On

SPACs: Special Purpose Acquisition Companies and the 2020 Boom

Pedro Santos Vitor
Investment Banking Division

"Our goal is to buy a minority interest in a business, and what I mean by that is we're going to merge with someone. We're going to take them public and our shareholders will own 20%, 25%, 30% of the company. We believe we can make an advantageous deal for our shareholders, really bringing a great opportunity for a company to accelerate its growth, deleverage the balance sheet, and provide capital for investors seeking to make an exit."

– Bill Ackman, Founder of Pershing Square Tontine Holdings SPAC

SPACs are publicly–traded investment vehicles that raise funds through a traditional IPO to finance an acquisition and merger with a private company, taking it public in an alternative way. After the SPAC's listing, the cash raised is deposited in a trust, earning interest until the acquisition target is identified and a merger is completed, in a maximum period of two years. They are commonly known as "blank-cheque companies" as investors funding the SPAC are not aware of what is the target company until it is made public to them. Although there is no initial information, these investment vehicles generally focus on acquiring companies within a particular industry, with technology being a popular playing field.

2020 marks a year of uncertainty due to the Covid-19 pandemic. Ironically, it is also the year with the biggest growth in special purpose acquisition companies, having raised USD 42.0 bn in public markets compared to USD 13.6 bn in 2019. But why do investors flock to buy a stake in these "shell companies" with no active operations and no disclosed information of the potential acquisition target? It all lays down to the trust in the SPACs sponsors, which are usually business executives, entrepreneurs and investment moguls.

One of these sponsors is Bill Ackman, founder of the hedge fund Pershing Square Capital Management, which launched Pershing Square Tontine Holdings, raising USD 4 bn in the largest SPAC IPO ever recorded. By using this vehicle, he intends to buy a minority stake in a mature unicorn and takes it to public markets through a merger with his SPAC. Most recently, it was reported that Airbnb turned down an approach by Mr Ackman to be listed through a merger with his blank–cheque company, prioritising a traditional IPO to go public. Pershing Square Tontine Holdings has yet to define a target company thus far. One of the many SPAC mergers finalized this year was Nikola Corporation, a battery-electric and hydrogen trucks company, with VectoIQ Acquisition SPAC in June, valuing Nikola Corp. at USD 3.3 bn.

Nevertheless, SPAC mergers do not come without their pitfalls. A merger with a SPAC profits from its efficiency, as it takes just a few months to complete the due diligence process, making it more attractive to investors in contrast with a traditional IPO approach. Still, concerns regarding less regulatory scrutiny are mounting, making it a risky bet for investors. Nikola Corporation is a good example of a company that did not receive strict due diligence and auditing, currently being investigated with allegations of fraud. It also sheds light to the fact that investors do not know what they're buying into, having to rely on the sponsor's judgement on a successful deal.

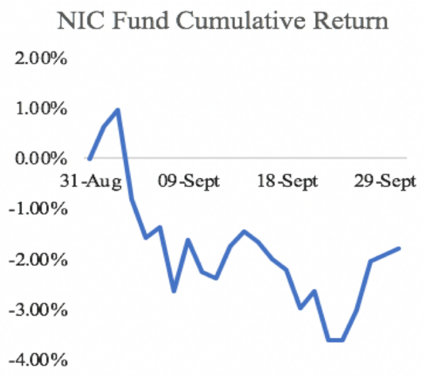
It has been a boom year for SPACs, having raised more than triple in IPO proceeds since last year. With a pandemic and economic shock looming over the world, SPACs are breaking records. Will it be a "boom and bust" for these investment vehicles or will they gain footing in capital markets? We will have to wait and see.

Date	Recent News
22 Sep 20	*Why Finance Executives Choose SPACs* **Source:** *Wall Street Journal*
2 Sep 20	*Airbnb turns down approach from Bill Ackman SPAC* **Source:** *Financial Times*
13 Aug 20	*Can SPACs shake off their bad reputation?* **Source:** *Financial Times*
05 Jun 20	*SPAC momentum charges on with Nikola* **Source:** *Nasdaq*

Pedro Santos Vitor
Investment Banking Division

NIC Fund

NIC Fund
Portfolio Overview

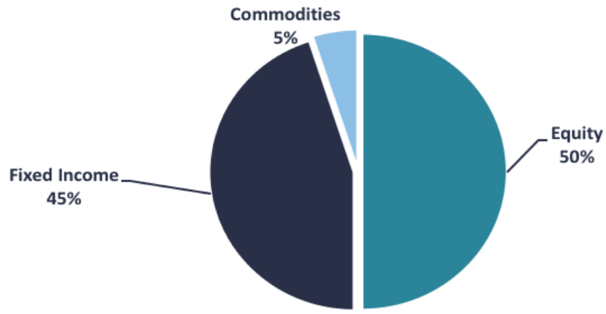


Portfolio Statistics	
Cumulative Return	-1.78%
Annualized Return	-21.34%
Daily St. Dev	0.74%
Period St. Dev	3.39%
Annualized St. Dev	11.74%
Info Sharpe	-1.82
Skew (Daily)	-0.10
Kurtosis (Daily)	0.65

Benchmark	
iShares 3-7 Year Treasury Bonds	50%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%

Portfolio Snapshot

During the month of September, our assets remained invested across three main asset classes: Equities (50%), Fixed Income (45%), and Commodities (5%). In a market that remains highly volatile with VIX levels around 30, this heavy weighting in equities enabled us to capture strong market returns with the progressive reopening of economies globally. Indeed, this situation offers us an opportunity to hand pick stocks with some momentum and potential in the mid-term, as well as scan sectors that will be able to ultimately profit from this current environment and allow for some solid investments on a long term horizon.



Return Metrics

Our portfolio returned a negative 1.78% this month as markets are still highly volatile and uncertainty is omnipresent across a large number of industries. All asset classes have contributed negatively on the fund this month, as follows: Equities -1.55%, Fixed Income -0.03%, and Commodities -0.20%. In contrary, our portfolio currently has a YTD return of 7.84% mainly driven by Equities in the Information Technology sector.

However, a few hand picked stocks were able to be bright spots among this gloomy month. Indeed, Trupanion (TRUP) and Solutions 30 SE (S30) have kept rallying both over 20% returns this month. Other resilient stocks such as Kering (KER) and Domino's Pizza (DPZ) yielded over 5% return over the period and proved to be extremely reliable picks. On the flip side, it has been another crushing month for several industries such as Banking, Industrials, and Energy. This was reflected on our portfolio through BNP Paribas (BNP), Lufthansa (LHA), and EOG resources Inc (EOG) respectively diving -16.94%, -17.34%, and -20.73%.

On the Fixed Income side, it has been relatively calm and uneventful as our Fixed Income products had little to no impact on our fund in September (-0.03%); our biggest mover being the iShare Tips Bond ETF (-0.38% this month). However, a few events during the course of the period like the Fed's decision to aim for an inflation rate at 2% will be a key factor to keep our eyes on.

Overall, markets are still trying to adapt in these uncertain times, even if the most volatile months seem to be behind us for now. Industries and sectors are not all recovering and adapting at the same pace, which could allow for great windows of opportunities for us to take advantage of in the coming months.

Vincent Sardinha Marques
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**DIS**	Disney had a difficult month (-5.91%) in an overall hectic year (-14.21%). The pandemic has hammered their theme park activities which struggle to get back to normal levels, as they just announced 28,000 new layoffs in the US. The launch and overall success of their streaming platform Disney Plus is looking like the only bright spot, even with controversies surrounding their latest movie Mulan, as the number of subscribers has massively outperformed any forecast. Overall, revenues tumbled 42% in Q3 and will remain highly linked to political decisions and the current environment.
US Equity	**TRUP**	Trupanion has been skyrocketing all year with 142.99% YTD total returns. Not affected at all by the pandemic, this pet insurance provider has been exhibiting strong revenue growth and impressive customer retention levels. The stock has entered the S&P Smallcap Index 600 which has been boosting its performance significantly since late August and through September registering a 25.78% appreciation this month. Even though the company is yet to be profitable, it seems like there is significant room to grow in a highly promising market.
FP Equity	**BNP**	The European Banking Sector has gotten crushed this year and BNP Paribas did not avoid it. Posting -38.74% total returns YTD, the French bank took a -16.94% hit over the month of September and is struggling to get back anywhere near its pre-pandemic level. Uncertainty over loan-loss provisions and interest rate levels on top of the ban on dividend payments by regulators until January 2021 has made it extremely difficult for investors to value the industry.
FP Equity	**KER**	As an industry, luxury goods have greatly suffered from the situation in China as the Asian market has been a fast developing area in terms of clientele. A situation that resulted in a 44% drop in sales for Kering in Q2. However, Kering has been recovering nicely from its Covid hit due to a solid market position for a few months now, posting a 8.15% progress in September which allows it to get back around its January pre-pandemic level. On a governance side, the firm made some noted additions to their board, welcoming actress Emma Watson and ex-Credit Suisse Tidjane Thiam in an effort to bring sustainability and diversity to an industry which struggles in these areas and tries to appeal to a younger audience of shoppers which could impact sales levels in the long term.
Commodity	**AAAU**	The ETF has dipped a little in September, registering -4.13% yet still up 19.52% YTD and remains a trusted asset in our portfolio especially in these uncertain times. In such a market environment with high volatility, gold has been a great way to diversify and hedge portfolios all year long. The Perth Mint Physical Gold ETF is a really accessible and cost effective way to invest in gold with all reserves backed and secured by the Australian government.
US Treasury Bonds	**TIPS**	Within the Fixed Income part of our fund, the TIPS ETF allows us to track inflation protected notes that pay a premium based on inflation and interest rates. It presents a convenient way for us to gain exposure to government-guaranteed fixed income instruments. This particular ETF is considered relatively low risk, liquid, and has had a nice year with a 9.06% return even with a small dip in September (-0.38%).

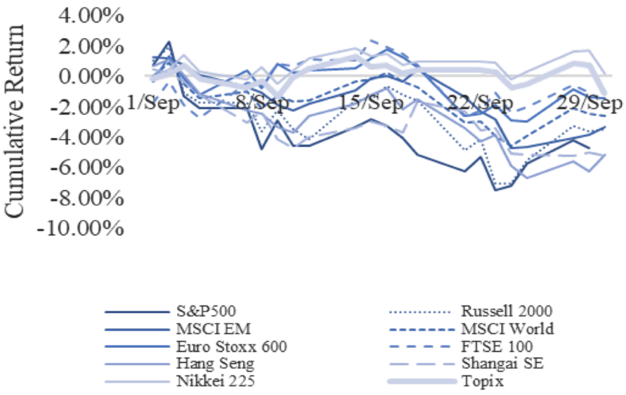
Vincent Sardinha Marques
Financial Markets Division

NIC Fund

Equities

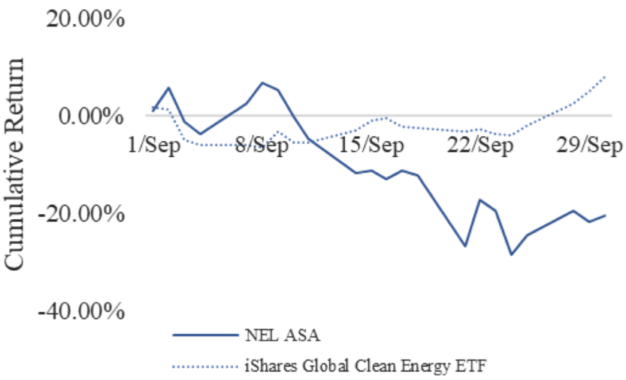
World Equities

The US markets experienced a turbulent September, with the S&P 500 hitting an all time high on the 2nd of September, yet shortly followed by a correction in the outperforming tech sector which drove the S&P down −4.71% MTD. The comparatively underperforming European markets were less affected by the correction, but rising Covid-19 cases and negative Brexit sentiment brought anxiety and sent the FTSE 100 and Euro STOXX 600 into negative, respectively returning −1.63% and −1.48%. The Nikkei 225 remained mostly unhampered by turbulent world markets and ended the month 0.20% higher, while the Shangai SE closed at −5.23% MTD, recalibrating from its substantial gains over the summer. As we move further into the US race for presidency, we expect political debates and uncertainty regarding the outcome of the election to drive market volatility in October. Flu season is expected to add more strain to national health care services in the northern hemisphere. In Europe, new Brexit woes dampen the sentiment and add another point to an increasingly long list of worries.



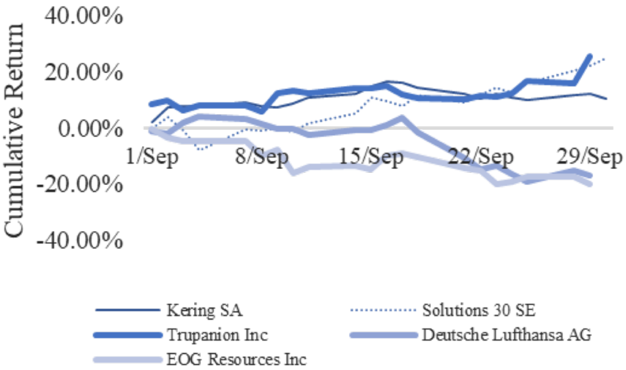
In Depth: The Future of Hydrogen

With heightened uncertainty, investors will be looking to diversify their portfolios and may jump into the Hydrogen sector which has been performing very well YTD. As the sector develops more efficient ways of producing, distributing, and storing hydrogen, several companies have begun experimenting with new solutions to fill their energy needs. Airbus announced its plan to unveil three zero emission aircraft which are expected to take to the skies in 2035. Amazon and Walmart have adopted Plug Power Inc.'s hydrogen-powered fuel cells to operate their warehouse forklift trucks. The European Union announced in August plans to derive a large portion of its energy from hydrogen by 2050. We will be keeping an eye out for the Norwegian hydrogen producer and distributor Nel ASA. Although the stock has experienced a correction this month and is behind the ICLN ETF when it comes to recovery, we believe it should continue its bullish run into October and beyond. The company is financially healthy and has recently announced positive earnings for the first time, in a sector where many companies are still unprofitable.



Our Performance

In September, the NIC Fund yielded a −1.78% return yet outperformed the SPY benchmark which lost 4.85% over the same period. Top performers were Kering, Solutions 30 SE, and Trupanion Inc which were up +8.15%, +22.09%, and +25.78% respectively. Solutions 30 provides clients with "solutions for new technologies" and is active in telecom, energy, IT and security. The firm transferred from Euronext Growth to Euronext Paris in July and joined the SBF 120 and CAC Mid 60 indices this month. On the other end of the scale, EOG Resources Inc fell −20.73%. Lufthansa, which was down −17.34%, announced further job cuts and the disposal of a portion of their fleet as the company embraces long term cost cutting measures.



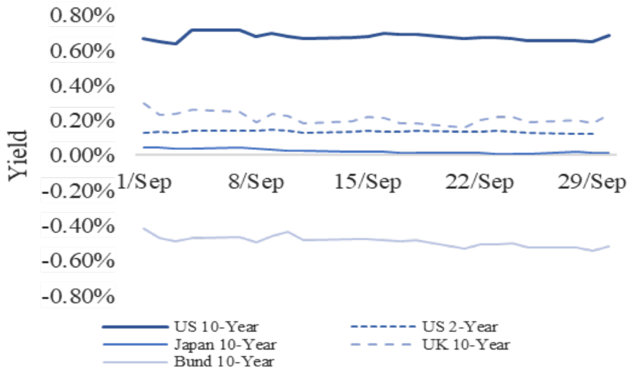
Sebastian Hartmann
Financial Markets Division

NIC Fund

Fixed Income

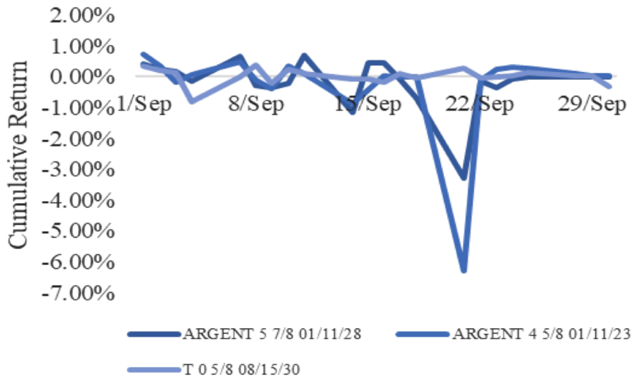
World Yields

After a rather calm August with economies recovering much faster than anticipated from Covid-19 and investors taking a deep breath, Fixed Income markets were eventful in September. The Fed conducted a shift in policy strategy and now aims to reach an average inflation of 2% over time in order to set off years of weak inflation. This might also indicate that the Fed will continue its zero-interest-rate policy for several years. After the monetary policy meeting in mid-September the ECB announced it will continue its multibillion-euro bond purchases and hinted at potential risks for the inflation due to the strong currency which had Eurozone yields drop in reaction. UK's 10-Year bond, which yielded 0.31% at the end of August decreased 26% over the month and is now at 0.23%. Although central banks' support remains strong, which allows governments to support their local economies, rising infection rates and intensified measures prevent communities from further normalization. Mounting coronavirus cases mean higher uncertainty about the rebound of economies worldwide which boosts bond prices and effectively leads to lower yields. The Bund yield was down at -0.52% at the end of the month reaching its lowest level in 7 weeks which was also fueled by Germany's inflation reports on Tuesday. US 10-Year yield was down at 0.63% in early September but was yielding 0.68% at the end of the month. With the US elections coming closer and continued uncertainty about vaccines, markets should see another exciting month ahead with investors anticipating rising volatility.



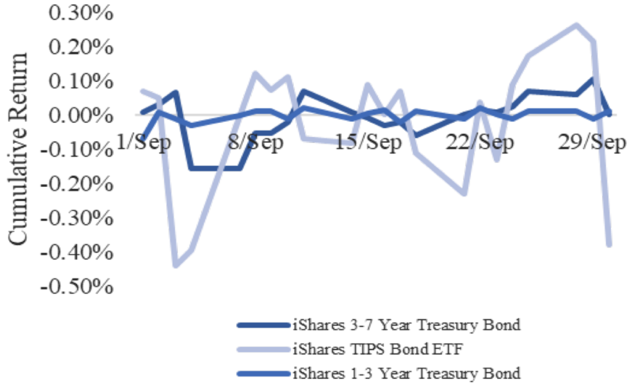
In Depth: Has Argentina's recovery plan failed already?

It has only been a few weeks since Argentina restructured its sovereign debt in order to prevent a massive default. The country suffered severely from the corona virus outbreak; the expected contraction of Argentina's economy amounts to 12% for this year. The restructuring deal, which was considered a major success for the country, does not seem to convince bondholders though. Only two weeks after the dollar bonds started trading, they were back at distressed levels with spreads of around 1,300 bp over US Treasuries. Postponed repayments and lowered interest from 7% to about 3% aimed at a total relief for the country of $38 bn over the 2020-2030 period, however experts state that it is the worst performance of a restructured emerging markets bond in the past 20 years leaving Argentina's recovery as uncertain as before.



Our Performance

There have been no significant changes to our portfolio over the summer. In September, about 45% of our assets remained invested in Fixed Income. iShares 1-3 Year Treasury Bond ETF and iShares 5-7 Year Treasury Bonds contributed 0% and 0.08% to the performance of the NIC fund. iShares TIPS Bond ETF, which comprises inflation-protected US treasury bonds, had a negative 0.38% return last month, yet it yielded 9.06% YTD.



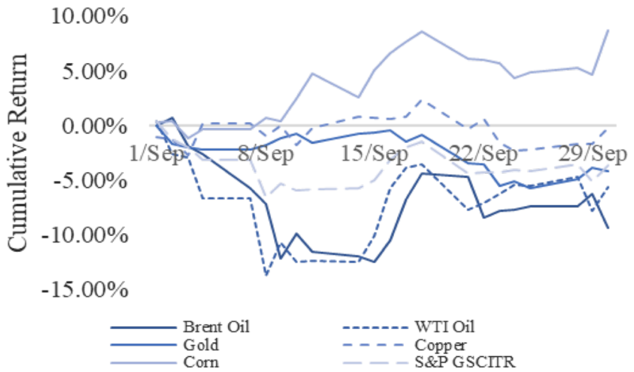
Julia Weber
Financial Markets Division

NIC Fund

Commodities

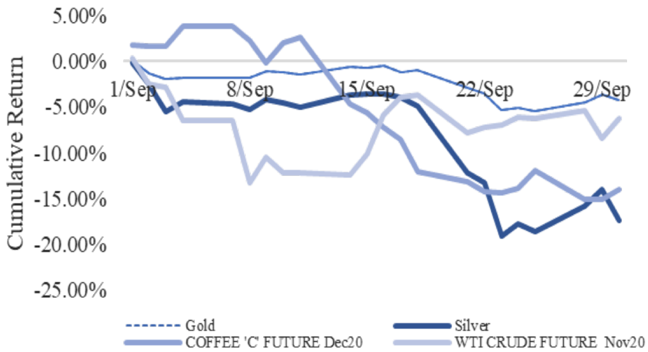
September Wrap-up

In September, the S&P GSCI Total Return index, which tracks 24 commodities lost 5.5%, down 34.4% YTD despite two consecutive months of appreciation in July and August. As European equity markets eroded demand for precious metal, especially gold, rose. After a sharp drop early in the month, crude prices recovered by mid-September yet still yielding negative return MTD. The WTI was also on the rise after EIA report of the 30th of September showed a drop of 4.4 million barrels in inventories after the decline reported in recent weeks, anyway WTI prices were also down MTD. Despite growing demand concerns about the reintroduction of blockages caused by the increase in Covid-19 cases, oil prices are trying to flatten, and it remains to be seen whether they will be able to stabilize or whether the increased downward pressure will drag them back.



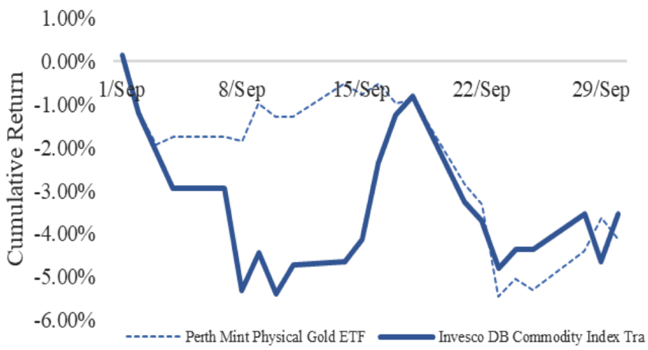
Outlook for October

In October, no economic event is expected to drastically influence oil prices. WTI oil prices have managed to bounce back after falling to a low of USD 38.40, the price is at USD 39.87 after falling more than 4% in recent days. The recent EIA oil report revealed a 2 million barrels decrease in oil reserves which should help inflating prices towards USD 40. Regarding silver, analysts at Commerzbank think silver and gold have been oversold and the positive environment for the metals has not changed. It will be hard for the dollar to sustain its gains given the fact that the Federal Reserve has pledged to stick to its expansionary monetary policy. In the analysts' opinion, it is obvious that prices of silver are more likely to be significantly higher than lower in the coming weeks of October. Coffee prices plunged last month amid oversupply concerns regarding the exceptionally good weather in Brazil. On September 14th prices fell by 8%, their largest drop in years. Concerns about oversupply remain, even though reserves are at their lowest for several years.



Our Performance

Last month, the Invesco DB Commodities Index which tracks global oil and metal prices lost 3.55% reflecting the losses in the top ETF holdings, particularly gold, gasoline, WTI Crude and Brent Crude. Similarly our holdings in Perth Mint Physical Gold ETF yielded a negative 4.13% return driven by a falling demand by mid month as gold prices neared all time highs, pushing some investors to look for cheaper alternatives.



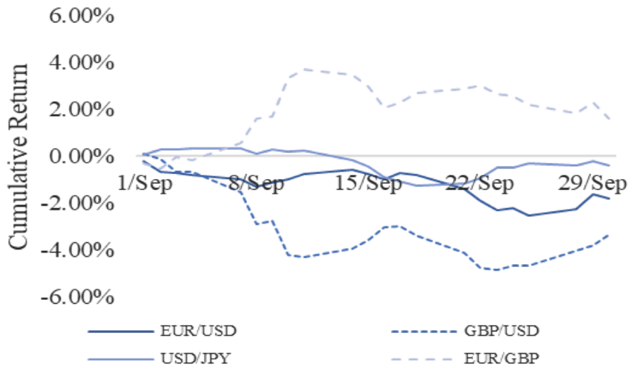
Alessandro Astore
Financial Markets Division

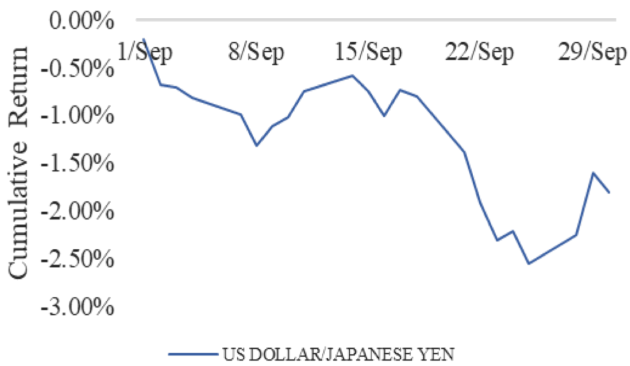
NIC Fund

Currencies

World Currencies

In September, macro events namely, central bank announcements, the resurgence of an increase in Covid-19 cases and turbulences around the Brexit deal drove FX volatility. The US dollar performance was highly marked by the risk-averse attitude of the investors, due to the increasing concern with coronavirus, as the threat of new pandemic-related lockdowns in the UK and other countries in Europe, prompted concerns about global recovery. US elections debate also contributed to a greenback appreciation at month end resulting in the euro dollar parity reaching 1.17, its highest level since July 24th. The British pound was strongly affected by the legal action launched by EU against UK over breach of Brexit deal, sending GBP back to March lows, losing 4% against the Euro and the US dollar earlier in the past month. Despite all this situation, the British pound began to rise last month, driven by a growing hope of a deal, hitting a one-week high of USD 1.2878. Allied with this, the possibility of a negative interest rate being implemented, as a way to aid recovery, put more pressure on this currency by causing a loss of around 0.6% and 0.5% against dollar and euro, respectively. In addition, despite last week's rate increase, the Turkish lira skidded to record lows against EUR, GBP and USD amid concerns that Turkey might get involved in a rapidly escalating conflict in Caucasus. As a result the lira is now among the worst performing currencies this year, trading respectively against euro, sterling and the dollar at TRY 9.1416, 10.0974 and 7.8325.





In Depth: Japanese yen as a Safe-Haven

As historically observed during uncertain times JPY emerged as a safe-haven. Nevertheless, this safety status was threatened due to coronavirus and its consequences regarding the collapse in global interest rates. In the middle of the pandemic in March, US equities fell 9% and 15% in successive weeks and yen followed the same direction, contributing to a substantial change on how investors look at the Japanese currency. While its safe-haven status was recently challenged, the yen climbed to a seven-week high against the US dollar due to a gathering of generally weak US data and overall uncertainty about the economic outlook. Therefore, we expect JPY to follow the same trend in the coming weeks, strengthening against the greenback. Although March proved that JPY's safe haven status could be challenged, some analysts forecast a surging yen till year end.

Our Performance

We currently hold no currency related assets in our portfolio.

António de Castilho Lima
Financial Markets Division

Extras

Hot Topic

Tesla's Battery Day and Impact on the Electric Vehicle Market

Ruben Pratapsinh
Financial Markets Division

"About 3 years from now, we're confident we can make a very compelling USD 25,000 electric vehicle that's also fully autonomous,"

– Elon Musk, CEO of Tesla

On the 22nd of September, Tesla held its 2020 Annual Shareholder meeting, followed by the much-anticipated Annual Battery day. The latter was previously scheduled for June but had to be postponed due to the Covid-19 pandemic. Given the recent market rally in Tesla's stock, this year's event represented a great opportunity for the company to justify its recent exuberant valuations, with the release of disrupting innovations and technologies. The stakes were high for the world's most valuable automaker, which saw its share price soaring over 400% since the beginning of 2020.

Exciting news regarding the future of electric vehicles and energy storage came out of the big event. Elon Musk unveiled a new battery design that will open doors for longer range capacities and cheaper production costs. This new design is expected to increase the range of the company's current cars by 16%, while reducing battery manufacturing costs by close to 14%. Additionally, this new battery design will allow a decrease in the environmental impact during its production.

However, as expectations were extremely high, the lack of effective breakthroughs in terms of design and batteries left investors fairly disappointed, resulting in a 7% share price drop in the aftermath of the event.

Elon Musk, Tesla's CEO, has publicly expressed his disappointment with the media coverage of the event and the general lack of appreciation for manufacturing. In fact, the innovations presented by Musk will put pressure on the competitors and the industry, which witnessed many new players enter the market recently.

In the European market, Volkswagen just released its new full-electric model, the ID.3. By September, close to 2,000 units of the ID.3 had already been sold in Norway, enough to make it the best-selling model in one the most important markets for EVs.

Competition in China is also fierce, with the likes of BYD, the Warren Buffet backed company currently holding the market lead in the country. The Chinese manufacturer released its new sedan model in August, made to compete with Tesla's Model 3. Later in August, Chinese Xpeng increased its pre-IPO valuation to USD 1.5 bn, as investors increasingly look for companies promoting cleaner technologies. Auto sales in China, the world's largest car market, are down 9.70% YoY for the first eight months of the year. Yet, monthly August sales are up 11.60%, compared to 2019. During this same period, pure electric vehicles saw a sales increase of 25.60% YoY. These figures give a positive outlook regarding the recovery of the auto market, with sales picking up fast.

The rapid development of alternative energy sources, like hydrogen, could represent a big threat for the electric vehicle market. Companies such as Hyundai and Toyota are already quite advanced on the topic, and will look to rival with Tesla for market share.

The decrease in battery prices and the longer vehicle's range, will increase the demand for EV's. Considering the big appetite for ESG-friendly technologies and the entrance of new players in the EV market, it will be a challenging road ahead for Tesla. What role the company will play in the future market remains to be seen, with Elon Musk promising to launch a USD 25,000 full self-driving Tesla available within 3 years time.

Ruben Pratapsinh
Financial Markets Division

Extras

Hot Topic

The Biggest Software IPO in History: Snowflake

Gonçalo Marques
Investment Banking Division

"This is just a hot deal, and we will have to live with the consequences of that […] The worst thing about volatility is that when the price goes down people feel that they lost something even though they never had it in the first place […] as a leadership team we should focus on the work, not on the stock price"

– Frank Slootman, CEO and Chairman of Snowflake

On the 16th of September 2020, Snowflake raised USD 3.4 bn by selling 28 million of its shares in the biggest software IPO ever. With an initial expected price per share ranging from USD 75-85, the actual opening price was set at USD 120. This value quickly escalated to more than USD 300 on the first day of the cloud-based data-warehousing company on the New York Stock Exchange. This enabled Snowflake to reach a market capitalization of more than USD 70 bn, an impressive value for a firm that was valued at only USD 12.5 bn earlier this year.

Taking a closer look at Snowflake's business model, one can understand the various factors that attract investors to the company. The product offered is essentially different from those of competitors, as it allows users to store and analyse data that is warehoused in the cloud. By making the data queryable, it becomes easier for users to gather insights from the stored data.

In addition, the growth Snowflake has shown in recent years partially explains the valuation investors attribute to the firm. Snowflake's revenues increased from USD 96.7 m in 2018 to USD 264.7 m in 2019, amounting to USD 242.0 m in the six months ended in July 31st of 2020. The company is growing not only in volume, but also through its original customer base. Its net revenue retention rate of 158% in the first half of 2020 indicates that Snowflake's clients are satisfied as they keep coming and spending more each time. From a more extrinsic perspective, the market dynamics are also in favour of the software company, with the volume of revenues from the data warehousing market being expected to nearly double until 2025. On top of these figures, Snowflake is led by a true industry expert, Frank Slootman, who has more than 25 years of experience as an executive in the software industry and has successfully managed ServiceNow and Data Domain before.

It is irrefutable that the potential of Snowflake speaks for itself. However, there are other aspects pointing out to the possibility of overvaluation. Snowflake was strategic in choosing the timing for its IPO as the market has been particularly favourable towards software companies since March and by going public before the US presidential elections the firm was able to avoid a greater degree of uncertainty. Moreover, Warren Buffet's involvement as a pre-IPO investor has certainly created a greater exposure to this stock through his globally recognized talent as investor.

Besides these particularities that might have had a positive influence on the share price of Snowflake, there are two main factors that can also be referred to as sources of overvaluation. The first regards the current results of Snowflake. Even though the revenue growth is outstanding, the firm is yet to become profitable as it presented a net loss amounting to USD 171.3 m in the six months ended in July 31st of 2020. And secondly, many argue that the only thing separating Snowflake from firms like Amazon, Microsoft or Google is its first-mover advantage, which in fact becomes increasingly important if we remember that the current success of Snowflake is highly dependent on its partnerships with these companies.

Gonçalo Marques
Investment Banking Division

Extras

ESG Review

Sustainable Investing: The Rise of ESG in Fixed Income

Madalena Azevedo
Investment Banking Division

"On the financing side we used to have green bonds. Now we have sustainability bonds, green corporate loans, sustainability linked corporate loans, green mortgages and green car loans"

– Anders Langworth, Head of Sustainable Finance at Nordea

ESG moved into the mainstream in financial markets in 2014. From there we have observed massive growth in sustainable investment which started from a study that indicated positive correlation between good corporate sustainability and good financial performance. In December 2016, after the 2016 Paris Agreement Poland became the first sovereign to issue a green bond. From there on, a rise in ESG fixed income investment was seen. Countries like Sweden, Denmark, and Germany began a process towards developing the concept, and are also set to release this new type of sovereign bonds as soon as it may be possible.

ESG is now significantly growing its share of the fixed income market. In part, this reflects the wider range of available assets that investors can own: "On the financing side we used to have green bonds. Now we have sustainability bonds, green corporate loans, sustainability linked corporate loans, green mortgages and green car loans" says Anders Langworth, Head of Sustainable Finance at Nordea. ESG inclusion into the fixed income market is expanding as investors are realizing that including ESG considerations appears to reduce downside risk factors.

This growth in ESG fixed income is expected to attract investors to ESG bond indexes, as well as into ESG equity solutions. These ESG bond strategies can be integrated into investor's portfolios, culminating in a "greener" portfolio overall. Just as is true in equities, if a corporate bond issuer appropriately addresses its ESG issues, it will reduce some of its risk factors, while at the same time making a more positive impact on society. MSCI data highlights the evolution of the returns on ESG corporate bonds, which have been growing faster than the traditional ones. The size of the bond market – compared to global equity markets – underscores the considerable potential growth available within the ESG framework.

The evidence that arises from observing countries like Nigeria, the first African nation to issue sovereign green bonds - Climate Bonds Certified sovereign bonds -, highlights how much ESG is penetrating the markets. "The minimum level is constantly being raised through new regulations and customer demands" – states Cecilia Fryklöf, ESG expert & Implementation driver at Nordea, discussing the dual impact of fundamental shifts in individuals' attitudes and the broad adoption of national measures around the globe. This will unavoidably make corporations "suffer" social pressure to behave correctly and follow the new sustainable trend of investment decisions.

According to Nordea, since 2016, the amount of global green, social and sustainable bond supply has moved from around USD 90 bn equivalents to USD 270 bn at the end of 2019. Expectations are for this number to continue its growth trajectory. As for the rest of the fixed income spectrum, enormous developments in ESG are predicted since currently the ESG strategies only cover about 45% of all the fixed income assets available.

Madalena Azevedo
Investment Banking Division

Thank you!

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

Our team:

Investment Banking Division

Timor Domin
Francisco Costa Guimarães
Hannes Stingel
Gonçalo Pina dos Santos
Daniele Notarnicola
Madalena Azevedo
Jan Bich
Pedro Vitor
Gonçalo Marques

Financial Markets Division

Julia Weber
Vincent Sardinha Marques
Ruben Pratapsinh
Alessandro Astore
Fitore Zeciri
Emily Rushforth
Sebastian Hartmann
António de Castilho Lima

Corporate Partners:

Academic Partners:

Nova SBE
Career Services

Email us at:
nic@novainvestmentclub.com

—
Design by: Carmo Cunha e Sá