NIC

— Nova Investment Club —

Newsletter

December 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, Pedro Santos Vitor, elaborates on the entanglement the European Union finds itself over recovery plans. Moreover, in our Regional View, António de Castilho Lima, examines the impact on US markets of a month of November with presidential elections and an on-going pandemic.

Our Investment Banking Division will guide you through November's M&A overall activity. Read about Marvell Technology Group to acquire Inphi Corp, S&P Global Inc acquiring IHS Markit Ltd, and Traton finalising the acquisition of Navistar. Additionally, get a detailed overview on what happened to Repsol and Mastercard, as well as consider our opinion on the upcoming Private Equity's tax reforms.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across three different asset classes: Equities, Fixed Income, and Commodities. 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 November was positive, with a cumulative return of 7.32%. A gain that can be mainly attributed to the recovery of Equities.

On the Hot Topics of this month, Fitore Zeciri, our Head of Communications, examines China's digital currency electronic payment project, while Hannes Stingel, elaborates on the RCEP trade deal and its geopolitical sign for the global economy. Lastly, on our ESG review in collaboration with Nordea, Daniele Notarnicola, our Head of Corporate Relations, writes about Transition bonds and their use for financial markets.

Macro Overview

Monthly

December 7th, 2019

Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3 622	1.23%	3.47%	12.10%
DJIA	29 639	0.16%	4.25%	3.86%
Nasdaq	12 199	2.68%	3.59%	35.96%
MSCI World	3 212	0.98%	9.36%	3.34%
MSCI EM	4 300	-0.91%	7.04%	7.50%
Russell 2000	1 820	0.08%	16.51%	9.07%
Euro Stoxx 50	3 493	0.85%	6.72%	-6.74%
FTSE 100	6 266	-1.07%	5.07%	-16.92%
Nikkei 225	26 434	3.55%	14.23%	11.74%
Hang Seng	26 341	-0.55%	4.63%	-6.56%
Dollar Index	91.87	-0.69%	-0.30%	-4.69%
EUR/USD	1.193	0.73%	-0.08%	6.37%
GBP/EUR	1.117	-0.73%	-0.28%	-5.54%
GBP/USD	1.332	0.02%	-0.35%	0.50%
USD/JPY	104.310	-0.20%	-1.51%	-3.96%
USD/CHF	0.91	-0.44%	0.58%	-5.97%
Brent Crude	47.590	3.32%	5.10%	-27.89%
Gold	1 775.7	-3.38%	-9.89%	16.58%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	0.839%	-1.5	13.4	-107.9
GER 10Y Yield	-0.571%	1.0	-17.4	-38.6
JPY 10Y Yield	0.032%	2.0	-1.9	4.3
UK 10Y Yield	0.305%	-1.3	-0.6	-51.7
PT 10Y Yield	0.034%	0.9	-38.8	-40.8

**Source: Bloomberg, as of 2020-11-30*

In Focus

November

Joe Biden preliminary wins US elections. Joe Biden will most likely become the 46th president of the United States, accomplishing his decade-long political ambition and by that, preventing Donald Trump's second legislation period. The result furthermore marked a historic milestone for Kamala Harris, the vice-president elect. She is the daughter of Jamaican and Indian immigrants and the representative of a wave of changes after four years of Trump's legislation. Additionally, Harris will be the first woman to serve as vice-president in the US.

Positive Covid-19 vaccine news. Announcements by Pfizer-BioNTech and Moderna stated that their Covid-19 vaccines showed more than 90% effective in clinical trials. The vaccines could have a lot of positive implications for the global economy. Pfizer and BioNTech have already secured agreements with several countries across the globe. The European Union has ordered the most, with 300 m doses confirmed as of the 11th of November while the US has bought 100 m.

Tesla joins the S&P500 Index. The Elon Musk-led car manufacturer is the sixth-largest company in the Nasdaq Composite Index and the largest tech company that was not yet a member of the S&P500. It was rejected in the summer due to the missing requirement of four consecutive quarters of earning profits. Now that Tesla meets this criterion, it is finally able to join the S&P 500 in December. Following the announcement, the company's shares surged 13% in after-market trading.

Christine Lagarde signals the ECB's intention to further bond-buying. At the ECB Forum on Central Banking, which was held for the first time in an online format, Christine Lagarde stated that the ECB will continue to buy bonds and to grant cheap loans to European banks as a main tool to enable favorable financing conditions. Following her announcement, Germany's 10-Year Bund price rose and consequently the yield dipped 2.5 bps.

Stellar month for Equities. On the last trading day of November, the FTSE All-World was down 1%, but the index had risen roughly 12% throughout the month, registering its best performance since 1994. Equally, the UK's FTSE 100 share index was up 12% showing its best performance since 1989. Meanwhile ,the S&P500 and Nasdaq Composite gained respectively 10.8% and 11.8% by the end of the month.

Outperformance of "small vs big". The Russell 2000 index soared 18.3% in November, the largest gain in the index' 41-year history. It measures the performance of US small-cap companies and the positive difference compared to large-cap benchmark indexes might be an indicator of investors' optimism for 2021 for small-cap companies.

Bitcoin reaches record high close to USD 20,000. The cryptocurrency traded at USD 19,510 after increasing by 75% in the last three months and rising 400% since global capital markets dropped in March this year. The previous record was set in December 2017 at USD 19,458.

Yields on Italian bonds at lowest levels since 2018. Investors see the gap between Italy's borrowing costs and those on safe-haven German debt as an indicator for political tensions not only in Italy but also in Europe. In the first half of November, the extra yield demanded by investors to hold 10-year Italian bonds compared to the German equivalent shrank to 110 bps, the lowest since April 2018.

Alessandro Astore
Financial Markets Division

Deeper Dive

European Union's Entanglement Over Recovery Plan

Pedro Santos Vitor
Investment Banking Division

"In Brussels today, they only view countries which let migrants in as those governed by the rule of law. Those who protect their borders cannot qualify as countries where rule of law prevails"

- Viktor Orbán, Prime Minister of Hungary

In the light of the new coronavirus challenge, the European Parliament and the EU Member States reached an agreement on the new seven-year budget from 2021 to 2027 and have decided to add the temporary recovery fund, Next Generation EU. This instrument is financed by new EU debt and together with the regular budget, comprises EUR 1.8 tn. The package aims to rebuild Europe after the Covid-19 shock, to the green and digital transitions, among other future challenges.

A political agreement was reached in July for Next Generation EU and it empowered the European Commission to borrow EUR 750 bn from capital markets and distribute them proportionally across member-states in greater need, in the form of grants and loans, over six years. This was a historical moment for the integration of the EU as the initial response to the pandemic was seen as creating an even larger discordance between member-states.

This month, an agreement was to be reached between member-states and the European Parliament for finalizing the EU budget and the recovery fund. However, the European Parliament decided to link future transfers of funds with a set of conditions, in which lies the adherence of rule of law. This created a standby as Poland and Hungary decided to veto the agreement. But what exactly is the mechanism of rule of law about and why would Hungary and Poland block it?

Rule of law is one of the fundamental values of the European Union and it is seen as essential to the functioning of a democratic and transparent EU. Member-states, the European Parliament and European Council work together to safeguard these values among courts and institutions across Europe. With this, several countries have been investigated under this mechanism, one of them being Hungary, after its political stances on migration and after closing a university that did not abide by Viktor Orbán's views. The other country which has refused to sign the deal with this mechanism is Poland. These two countries have leaned to illiberalism over the years, being the first in the union to stand against migration, and are seen as far-right governments by the European Commission and other member-states. Warsaw and Budapest perceive the addition of the rule of law condition, which allows the Commission to sanction countries that deviate from EU values, as a propaganda tool against their governments and ideologies.

Viktor Orbán has been the leader of a centre-right party, Fidesz, and pushed at the beginning for greater integration of Hungary on European affairs. Since he became prime minister for the second time in 2010, its government embodied more conservative and religious views, culminating in a new constitution with these views and even attempted for his party to gain direct control over the press. Over the years, Mr Orbán has changed its position towards the EU, striving to a more nationalist society, taking Russia and Turkey as examples. Since 2015, Hungary's government refused to take a mandatory quota for migrants in the wave that afflicted Europe during the Syrian Civil War and led an anti-immigrant rhetoric among several Eastern European countries. In March this year, the Hungarian parliament passed a bill giving Mr Orbán emergency power to rule by decree. This power gave him the right to suspend elections as an example of his increasing authoritarian sway.

Will the European Commission unblock this agreement through tough negotiations with countries that feel threatened by rule of law? Member-states hope so, as to not delay any further the much-needed funds that would help the economic recovery from the Covid-19 pandemic and to rebuild a new Europe ready to face new challenges.

Pedro Santos Vitor
Investment Banking Division

Regional View

Drivers of US Markets in November

António de Castilho Lima
Financial Markets Division

"The only reason people question the vaccine now is because of Donald Trump."

- Joe Biden

Given the atypical year that 2020 has been so far, the US elections outcome was characterized by two major aspects: the Elect-President himself and how he will pave the way for recovery from Covid-19. A new President and Vice-President were elected and consequently, the US are likely to move in a significantly different direction, as stated by Joe Biden: "I want everyone to know on day one, we're going to put our plan to control this virus into action". Amidst several other measures, Biden assured increased testing and contact tracing. According to press he believes that quick improvements regarding the containment of the virus can be achieved with this approach. Additionally, new research found out that about three-fourths of infected contacts need to be quarantined to prevent a spreading of the virus. Driven by these analyses and data, the soon-to-be US President pledges that all American citizens will have access to "regular, reliable, and free testing". Furthermore, he stated that Donald Trump has biased the way on how the safety of a Covid-19 vaccine is generally considered in the country by interfering with the vaccine approval process and encouraging unproven treatments.

In spite of the repetitive criticism, many investors considered Donald Trump as a driving force for stock markets considering the S&P 500 Index climbed 40% over the first three years of his mandate. Moreover, when markets stagnated in 2018, the US President openly pressured the Fed to lower rates which fed another rally. Historically, US elections have always brought great uncertainty about future prospects. By the time the new president was elected, the S&P 500 index was already 7.5% off its pre-election low.

Another main key driver of markets behavior within the past months is Covid-19. In February and March Nasdaq, DJIA, and S&P 500 faced their sharpest falls since the 2008 financial crisis. Additionally, due to confinement measures, there was a large decrease in oil prices as result of a radically decreasing demand, losing nearly 70% of its value. In the meantime, as seen in other crises, demand for gold increased strongly which led to a substantial climb in its price, catapulting the safe-haven metal to its 7-year high.

In November, the outbreak of the pandemic in the US escalated steeply as numbers of cases roughly doubled in October while deaths were at their highest level since April and May. Consequently, in the middle of the past month, the S&P 500 and DJIA posted losses of 5.6% and 6.5%, respectively, with big technology companies such as Twitter, Apple, Amazon, and Facebook plunging sharply.

Besides being such an up and down month, November was marked by relevant news with two major pharmaceutical players, namely the Pfizer-BioNTech partnership and Moderna, announcing that their vaccines demonstrated an efficiency between 90% and 95%. This set stocks on track of one of theirs biggest rallies towards the end of a month. These positive news marked November as a crucial month for markets, considering a climb of nearly 10.08% of DJI and 9.41% of the S&P 500. It depicted one of the best months for the S&P 500 index since its origin in 1957.

Finally, at the end of the past month, Moderna stated that the company has finally reached a vaccine that demonstrated 100% efficiency against the worst form of Covid-19. Given these news, a feasible solution becomes more likely. The next challenge now might be, how to distribute the vaccines as quickly as possible around the globe.

António de Castilho Lima
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Brexit Risk

With less than a month until the transition period ends, the OECD has downgraded UK contraction to 11.20% for this year. It states a no-deal outcome as a major downside risk, which would entail both physical and financial disruptions across sectors. The OECD predicts decreasing exports, especially in the manufacturing sector followed by the financial and insurance sectors.

US Congress Stimulus Proposal

Following Fed chairman Jerome Powell's continuous appeal for more fiscal stimulus, the US congress has responded with a USD 908 bn stimulus proposal. This proposal would allocate USD 288 bn into small business aid, USD 180 bn to unemployment benefits and provide USD 160 bn to state and local governments.

RCEP

On the **15th** of November, 15 Asia-Pacific nations signed the Regional Comprehensive Economic Partnership (RCEP), the world's largest free-trade agreement. RCEP will progressively lower tariffs and aims to counter protectionism, increase investment and allow more free movement of goods.

Central Bank Decisions

Bank of Canada Interest Rate Decision

The Bank of Canada is set to meet on the **9th** of December. Interest rates are not expected to rise, remaining at its lower bound to achieve the inflation target of 2%. Moreover, interest rates are not expected to rise until 2023. The central bank is likely to extend its quantitative easing program further.

ECB Monetary Policy Decision

On the **10th** of December, the Governing Council of the ECB will hold its monetary policy meeting. President Lagarde predicted a strong negative economic growth of the Eurozone for November. Hence, the ECB has set expectations for further bond purchases to add to the existing €1.3+ trillion that was already agreed on.

Fed Interest Rate Decision

The Federal Open Market Committee meeting will take place on the **15th and 16th** of December. It is expected that interest rates will remain low for the foreseeable future and no increases are planned until 2023. To strengthen the pressured US economy, it is likely that the Fed will introduce additional measures to support the economy.

Inflation and Deflation

UK Consumer Price Index

UK November inflation statistics will be made public on the **16th** of December. The Office for National Statistics said the CPI remained steady at 1.50% in November, which is the same level that was recorded in October.

Update on Euro Zone Inflation

On the **20th** of December, the Eurozone will announce HICP numbers for November. Inflation in the Euro area is expected to be -0.30% for November. Hence, it remains stable compared to October. Due to a second wave of lockdowns, deflation is likely to prevail for December.

Turkey's Inflation

The TCMB will publish its Q4 inflation report on the **30th** of January. A Reuters poll showed that Turkey's consumer price index will demonstrate a rise of 12.60% in November. Turkey's inflation fluctuated around the 12%-mark since the beginning of the year, despite the pressure on the economy through Covid-19.

Labour Market

US Employment Readings

On the **5th** of January, the US November unemployment data will be published. Due to the surges in Covid-19 cases, the unemployment rate is expected to experience a substantial increase compared to the previous month. Next year, the labour market might recover at a gradual pace.

Euro Zone Unemployment Data

The Euro zone unemployment rate of November will be announced on the **8th** of January. EU projections suggest an increase in the unemployment rate within the EU from 6.70% in 2019 to 7.7% in 2020.

UK Labour Market

On the **26th** of January, the UK will announce its labour market statistics for November. Given the country's extensive lockdown, the unemployment rate is projected to decrease strongly for the rest of the year.

Fitore Zeciri
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

M&A global activity in November amounted to USD 434.4 bn and was down 24% year on year relative to the same month of last year. The deal count continues to increase, with 4,636 taking place during November (the third-largest monthly deal count ever). The most active industry was Consumer Non-cyclical with USD 119.2 bn, being the main driver of this figure the USD 43.5 bn acquisition of IHS Markit Ltd by S&P Global Inc, while the second most active was the Financial industry (deal volume of USD 106.9 bn), giving special emphasis to deals in the Banking and Real Estate sector. Although the deal volume has been decreasing since September, the global M&A market still maintains a positive trend that is now grounded on the hope for the rapid distribution of the already existing Covid-19 vaccines and the increasing political stability pushed by the US. While future developments on global M&A activity will continue to be broadly correlated to the success of the vaccines that have been widely advertised, experts believe that the steep decline in M&A activity that took place in the first half of 2020 is no longer expected to repeat itself in 2021.

Selected Regions

North America

After the impressive recovery experienced by the US in Q3, the deal volume in this region has now started to decline and reached USD 192.7 bn in November (18% decline relative to the previous month). The largest deal of the month took place in this region and regards the friendly takeover of IHS Markit by S&P Global. The announced deal value amounted to USD 43.5 bn.

EMEA

In November, Europe presented a deal flow of USD 83.1 bn, which translates in a decline of 54% year-to-year. Roughly 36% of the M&A activity in Europe during this month took place in the UK, being the acquisition of RSA Insurance Group PLC by a consortium led by Intact Financial Corp the largest EMEA deal. The financial industry was the most active in the region (deal value of USD 37.6 bn).

Asia

The Asian Pacific region has remained quite active since the beginning of Q3, presenting monthly deal volumes of more than USD 100 bn since June. In November this was the only region whose year-to-year percentage change in term of M&A deal value was positive. The monthly deal count in the region was the largest in the year so far with 1,792 deals (near 17% increase year-to-year).

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
30 Nov 20	IHS Markit Ltd	S&P Global Inc	US	Information Services Provider	43,533.62	7.07%
25 Nov 20	Slack Technologies Inc	salesforce.com Inc	US	Computer Software	17,000.00	-
12 Nov 20	CK Hutchison Holdings Ltd	Cellnex Telecom SA	HK	Wireless Equipment	11,800.00	-
16 Nov 20	BBVA USA Bancshares Inc	PNC Financial Services Group Inc	US	Commercial Banking	11,600.00	-
16 Nov 20	HD Supply Holdings Inc	Home Depot Inc	US	Distribution/Wholesale	11,088.49	32.39%
18 Nov 20	RSA Insurance Group PLC	Intact Financial Corp	UK	General Insurance	9,334.66	28.41%
1 Nov 20	Astound Broadband	Stonepeak Partners LP	US	Telecom Services	8,100.00	-
4 Nov 20	Paramount Group Inc	BOW Street LLC	US	Real Estate	5,684.62	52.35%
7 Nov 20	Navistar International Corp	Traton SE	US	Automotive Industry	5,661.47	4.77%
13 Nov 20	Cia General de Electricidad SA	State Grid Corp of China	CL	Electricity Distribution	4,601.85	-

Gonçalo Marques
Investment Banking Division

M&A: Top Deals

Marvell Technology Group to Acquire Inphi Corp.

On the 29th of October Marvell Technology announced that it will acquire Inphi Corp. for approximately USD 10 bn in a cash and stock transaction. This acquisition would lead to the formation of a US semiconductor powerhouse with an EV of USD 40 bn.

Buyer vs Seller

Marvell Technology Group is a Bermuda based leader in infrastructure semiconductor solutions, founded in 1995, primarily focusing on communication, storage, and embedded semiconductor products. Inphi Corporation is a leader in high-speed data movement. J.P. Morgan served as exclusive financial advisor to Marvell and provided committed financing for the transaction. Hogan Lovells served as legal advisor, whereas Qatalyst Partners served as exclusive financial advisor to Marvell.

Industry Overview

The entire chip industry is experiencing a rigorous consolidation process. The announcement of the transaction comes at a time when other tech giants are making big deals to shoulder most of the R&D-intensive development. AMD's acquisition of Xilinx for USD 35 bn and the USD 40 bn deal between Nvidia and ARM are just two of the major transactions in the market, which together with this deal already amount to USD 85 bn.

Peers	Currency	Market Cap (CUR m)
Cirrus Logic Inc	USD	4,687.04
Semtech Corp	USD	4,427.77
Power Integrations Inc	USD	4,358.48
ON Semiconductor Corp	USD	11,915.20
MACOM Technology Solutions Hol	USD	3,046.48

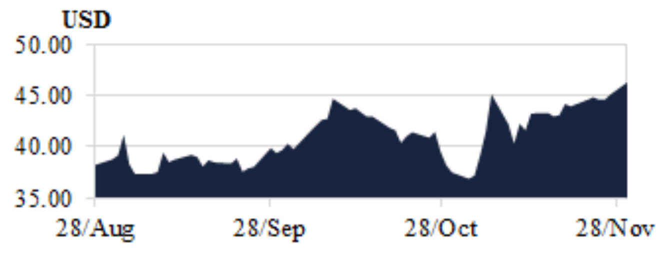
Deal Rationale

Marvell will considerably expand its market opportunity in the cloud data center and 5G end markets. In the recent years Marvell focused and transformed itself into a data infrastructure leader with its storage and compute portfolio. Combining Marvell’s storage, networking, processor, and security portfolio, with Inphi’s leading electro-optics interconnect platform now, will position the combined company for end-to-end technology leadership in data infrastructure. This highly complementary transaction expands Marvell's addressable market, strengthens its customer base and accelerates Marvell's leadership in 5G wireless infrastructure.

Market Reaction

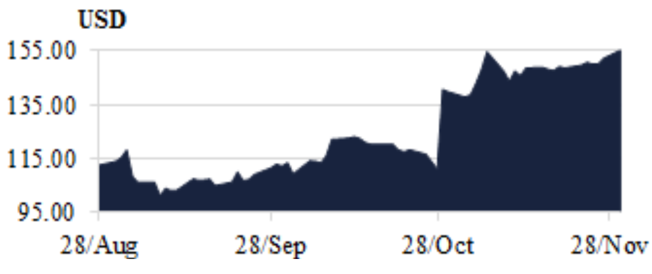
Marvell Technology Group

The stock price experienced a steady increase since a few days after the announcement after seeing a one-time effect of the announcement resulting in a steady jump.



Inphi Corp.

Inphi’s share price benefited from the announcement. After some fluctuations from August to October the merger announcement lifted the price on a new level.



Future Challenges

The transaction, which has been approved by the boards of both companies, is expected to be closed in the second half of 2021, subject to shareholder and regulatory approvals. Thus, future challenges might only concern the smooth integration of both companies forces in terms of combining the strategies and integrating technologies to create superior products and support joint market power.

Timor Domin
Investment Banking Division

M&A: Top Deals

S&P Global Inc. to acquire IHS Markit Ltd

S&P Global agreed to acquire IHS Markit in an all-stock deal resulting in a USD 44 bn valuation of IHS Markit making it the biggest deal in 2020 so far. Deal specifics includes a fixed exchange ratio of 0.2838 S&P Global shares for 1 IHS Markit share.

Buyer vs Seller

Manhattan-based S&P Global mainly focusses on essential intelligence, data & analytics provision, research & commentary, benchmarks, ESG solutions and is mostly known for its rating agency. American-British IHS Markit is a global leader in critical information, analytics and solutions for major and economy-driving industries. Goldman Sachs, Citi and Credit Suisse are the respective advisors of S&P Global, while IHS Markit is advised by Morgan Stanley, Barclays, Jefferies and J.P. Morgan Securities.

Industry Overview

The information services industry is expected to increase by a CAGR of 10% to a market size of approximately USD 287.32 bn until 2022. Main drivers of this growth are increasing internet penetration, increasing websites and mobile applications as well as technological development. Industry consolidation is present and contributes to a few big market participants controlling a substantial market share.

Peers	Currency	Market Cap (CUR m)
Clarivate PLC	USD	16,918.31
Experian PLC	GBp	24,656.13
Cerved Group SpA	EUR	1,437.22
Wolters Kluwer NV	EUR	18,405.11
RELX PLC	GBp	34,294.89

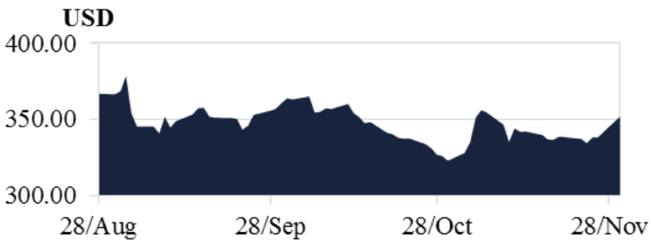
Deal Rationale

The transaction will form a data and information force able to challenge market leader Bloomberg. Strategic reasons include achieving a greater scale in core market segments as well as broaden product portfolio and customer segments while expanding to high-growth market segments and geographies. The EPS are expected to be accretive by the second full year after closing with cost synergies of approximately USD 390 m (USD 480 m in total) and a total of USD 390 m revenue synergies coming from cross-selling opportunities.

Market Reaction

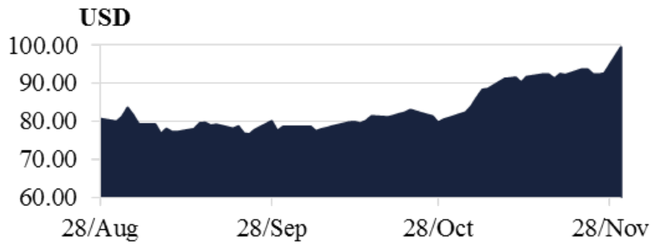
S&P Global Inc.

Since the announcement on 30th of November, the stock price increased by 3.20% to USD 352.00 and after a dip remaining on nearly the same level at the end of the day.



IHS Markit Ltd

In reaction to the announcement, the stock price rose by 9.40% to a peak of USD 101.23 but falling to USD 99.46 towards the end of the trading day.



Future Challenges

Prior to regulatory approval, the transaction is expected with high probability to be subject to revision by regulators that are worried about the rising impact of a decreasing number of companies providing data and information. In the case of the LSE/Refinitiv deal regulatory revision was intense and time-consuming indicating long processes for large transactions and possible divestitures to be forced. S&P Global expects closing in the second half of 2021.

Jan Bich
Investment Banking Division

M&A: Top Deals

Traton Finalises Navistar Acquisition Deal

Volkswagen Group's truck unit Traton SE has agreed to pay about USD 3.7 bn for the remaining stake (only held 17%) in US truck maker Navistar International, after a long period of negotiations since January. This transaction values Navistar at USD 4.4 bn.

Buyer vs Seller

Traton SE was spun off from the Volkswagen Group last year and is one of the world's largest commercial vehicle manufacturers. The company incorporates very well-known brands of the truck industry such as MAN and Scania and has a market value around USD 13 bn. Navistar is also a huge player within commercial trucks, buses and military vehicles industries, with special incidence in the North American market. Along the deal, Navistar was financially advised by J.P. Morgan and PJT Partners.

Industry Overview

Following a period of high growth, propelled by the boost in online shopping, the truck industry is expected to slow down amidst several key markets easing sales. Moreover, the fuel economy standards and the improvement in the driving experience are putting investment pressure on the sector, which has been slow to adopt the electric engines, as costs and complications arise upon moving such large trucks carrying heavy batteries.

Peers	Currency	Market Cap (CUR m)
Shyft Group Inc/The	USD	910.09
PACCAR Inc	USD	30,237.27
Wabash National Corp	USD	938.28
REV Group Inc	USD	592.87
Workhorse Group Inc	USD	3,040.95

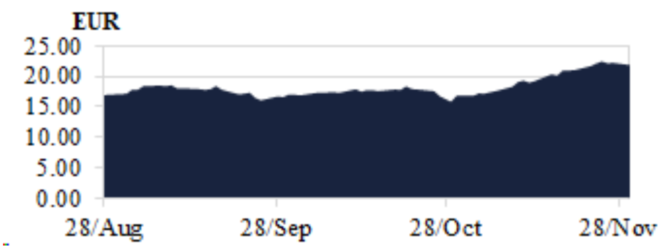
Deal Rationale

The deal marks a serious attempt from Traton to reinforce its position in the highly lucrative US truck industry, where so far the company does not have much market position, with only 2% of its sales coming from there. Traton is mainly focused in Europe and South America (especially Brazil) and has also a 25% stake in Chinese firm Sinotruk. Firstly in 2016, Traton and Navistar joined forces and now the German-Swedish company gets the full control of the American one, in a move that, if successful, would turn Traton to a heavy-duty truck player capable of competing with market leaders Daimler AG and Volvo.

Market Reaction

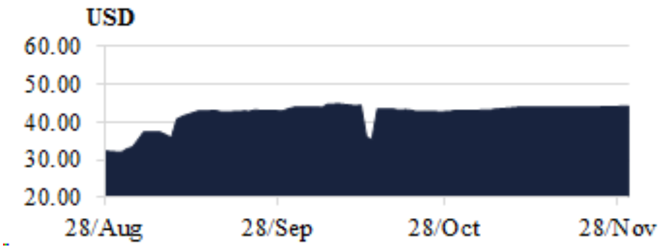
Traton SE

The news of the confirmed deal made Traton raise its share price considerably during November. The month growth was around 37.50%, reaching pre-Covid-19 levels.



Navistar

Prior to the announcement on the 16th of October, the firm dropped 25.52% from the 13th to the 15th of October due to the offer deadline set by Traton.



Future Challenges

The upserge of more electric trucks is likely throughout the next years, as zero-emission mobility solutions (for instance the company Arrival that is about to go public in a SPAC deal) are gaining force and started being implemented already in some countries. Therefore, Traton will need to tackle such a vital issue which will require a very demanding investment while at the same time from the acquisition of Navistar it will have to leverage its role as a key player in the US market.

Francisco Costa Guimarães
Investment Banking Division

What Happened To

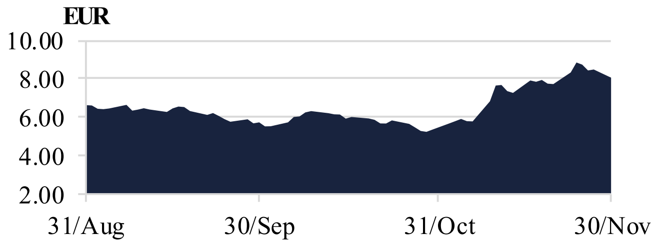
Repsol

Repsol is a multinational fossil fuel company headquartered in Madrid, Spain. The firm was founded in 1987 and it is currently employing over 24,506 workers around the globe. The company operates in different areas of the oil and gas industry such as production, refining, distribution and power generation.

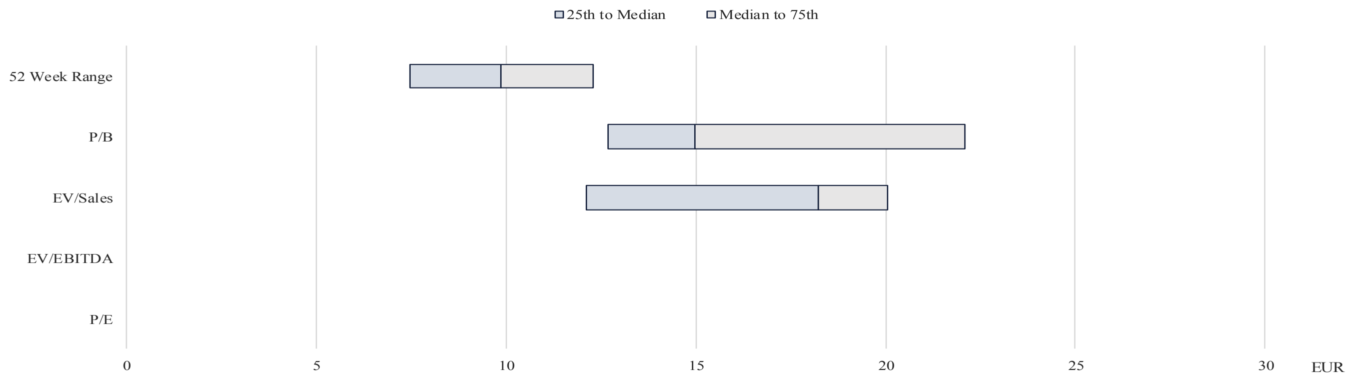
Corporate News

Repsol's shares are down 42.73% YTD and 41.01% over the last 52 weeks. Similarly to the industry peers, the company has been facing a significant hit in its market capitalization in the current year, although, this month the stock rose from EUR 5.50 to EUR 8.06 showing positive recovery tendencies. Recently, the Spanish group has announced a slash in its dividends by 40%. It will now pay EUR 0.60 a share instead of the initial EUR 1. Even though the dividend cut was majorly anticipated, the shares fell 4%.
Repsol's CEO, Josu Jon Imaz, stated that the company plans to reinstate part of the dividend over time. Besides, also announced that the Madrid-based firm intents to allocate 30% of a planned EUR 18.5 bn investment to its lower-carbon ventures, such as renewables and biofuels. This strategy comes aligned with the fact that Repsol has been an early mover in the industry to cut or offset its carbon emissions by-product it extracts.

Price (30 Nov 20, EUR)	**8.06**
Target Price (EUR)	9.50
3M Performance	21.69%
Market Cap (EUR m)	12,307.76
Enterprise Value (EUR m)	23,305.76
**Target Price is for 12 months*	



Valuation Analysis



On the 30th of November, Repsol closed at EUR 8.06 in the Spanish stock exchange, which is currently trading in the lower bound of its 52–week range. The firm is showing an impressive 3M performance, rallying a total of 21.69% in that period. The Spanish multinational has a total enterprise value of EUR 23,305 m and by analysing the football field above the company seems to be overvalued when taking into consideration both the EV/Sales and the P/B.

Even though the oil and gas industry is going through critical challenges due to the decrease in global demand in the past months, oil prices have risen in November as vaccine hopes raise the expectation of oil demand recovery. The company has a market capitalization of EUR 12,307.76 m which shows that Repsol is quite behind in this aspect. The industry is currently looking to reduce the invested capital in the upstream business and turning its focus into the low-carbon businesses.

Peers	**Currency**	**Market Cap** (Cur m)
Royal Dutch Shell PLC	GBp	103,100.73
BP PLC	GBp	53,405.15
Equinor ASA	NOK	468,292.61
Galp Energia SGPS SA	EUR	7,877.88
MOL Hungarian Oil & Gas PLC	HUF	1,679,830.39

Gonçalo Pina Santos
Investment Banking Division

What Happened To

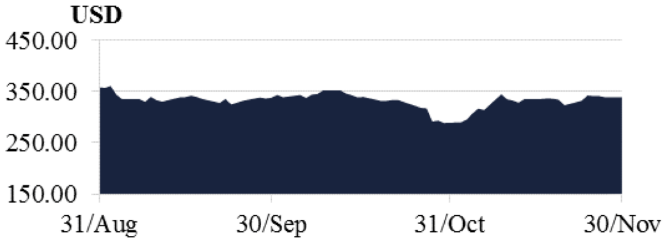
Mastercard Inc.

The American company Mastercard was founded in 1966 and is headquartered in New York. It is a provider of financial transactions of processing services with core business activities consisting of administering payment processing services for credit and debit cards, electronic cash, automated paymaster machines and travellers checks. The company provides services worldwide.

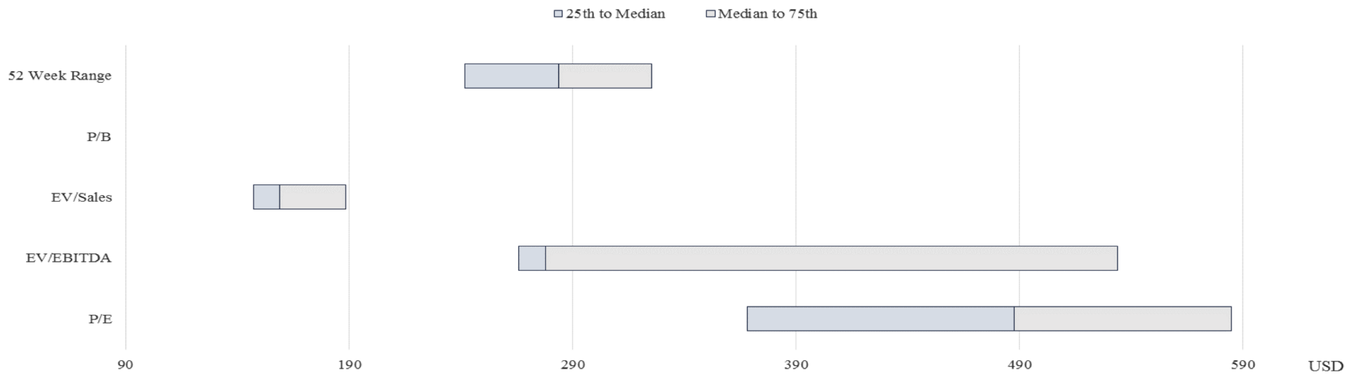
Corporate News

Mastercard's revenues fell by approximately 14% on a year-over-year basis, amounting USD 3.84 bn. These values represent negative prospects when compared to analysts forecasts. However, the company is well viewed by the market as an enterprise with growth potential. The stock advanced 16% in the past 52 weeks and the transaction processing services subsector gained 25%. In the past 30 days, the stock has risen almost 17%, being currently traded at 53x its estimated earnings per share for the upcoming year. Free cash flows of the company have been growing steadily since 2016, except for this year given the negative shock of the pandemic. The company's latest move has been observed with the launch of a new B2B payments platform called Master Track Business Payment Service. Since the end of March, the price has been up and reached an all-year high on the 28th of September with a share price of USD 366.12.

Price (30 Nov 20, USD)	**339.07**
Target Price (USD)	350.00
3M Performance	-5.34%
Market Cap (USD m)	338,027.48
Enterprise Value (USD m)	340,061.48
**Target Price is for 12 months*	



Valuation Analysis



On the day this piece was written, 30th of November, Mastercard was trading at USD 337.80. The football field reveals a large spread of enterprise valuation given the different multiples and benchmarks. By relying on the comparables graph, Mastercard's market price seems fair according to EV/EBITDA ratio. Conversely, P/E places Mastercard on an undervalued position and both EV/Sales and, even more robustly, the benchmark of the 52-week range classifies the company as over its market price.

Mastercard's main competitor is Visa. Currently, Mastercard has a market cap equivalent to USD 338,027.48 m, slightly lower than Visa Inc. Concerning the P/E ratio Mastercard bears a value equal to 49.61, representatively lower than the industry's average, nevertheless higher than it's main competitor. The ROE of the company is extremely interesting to highlight since the median prevails at 7.57% against 126.57% of Mastercard.

Peers	**Currency**	**Market Cap (Cur m)**
PayPal Holdings Inc	USD	247,683.93
Visa Inc	USD	466,036.19
Square Inc	USD	95,833.09
Fidelity National Information	USD	92,009.05
Fiserv Inc	USD	77,455.69

Madalena Azevedo
Investment Banking Division

NIC's View On

Upcoming Private Equity's Tax Reforms

Daniele Notarnicola
Investment Banking Division

"Carried interest is currently taxed as capital gains rather than ordinary income. In the UK, the rate is 28% rather than the 45% top rate of income tax. In the US, such capital gains are taxed at just 20%. In some parts of Europe, rates are even lower. The result has been to foster a generation of buyout billionaires who have paid lower tax rates than their cleaners."

– Financial Times

Private equity funds fundamentally yield returns by exploiting leverage and tax perks. In this sense, raising debt is likely to continue to be a cornerstone of the private equity strategy given the incredibly low-interest rates on the markets due to the accommodating monetary policy of both the Federal Reserve and the European Central Bank.

Conversely, the favourable tax treatment of the profit delivered by PE funds seems to be destined to vanish as governments of many developed countries - first of all, the United Kingdom and the United States - are taking steps to reform their taxation system. The expected private equity's tax reforms are part of a more comprehensive tax reform plan that Governments everywhere are developing to increase revenues that will be used to recover from the economic damage caused by the pandemic.

The focal point of private equity fiscal issues is the treatment of the "carried interest". The "carried interest" is a share of the private equity's profits that its General Partners (GPs) receive as compensation (besides the management fees). It is a performance fee that aims at incentivizing the GPs to look for the best investment opportunities since it is charged when certain return thresholds are met.

The "carried interest" represents the primary source of income for GPs, however, it is considered a return on investment and, thus, it is currently taxed as a capital gain rather than as ordinary income. In almost every developed country, the taxes on capital gains are much lower than the top rate of income tax. The comparison is made with the top bracket of income tax since the GPs of PE funds are a caste of businessmen (also called "buyout barons") with a high net worth. Currently, in the UK the tax rate on capital gains is 28% and in the US is just 20%, while the top rate of income tax in those countries stands at 45% and 37%, respectively.
But things are going to change.

In the UK, the Chancellor of the Exchequer, Rishi Sunak, has commissioned a review of capital gains tax proposing to aligning them more closely with the income tax rates.
In the US, the newly elected President Joe Biden has announced a massive tax reform plan. The leading measure under Biden's plan is that both capital gains and income will be taxed at the same rate of nearly 40% for individuals with an income of over USD 1 m a year. This provision would eat away the hefty compensation of PE funds' GPs due to the doubling on the taxes applicable to the "carried interest". Problems for GPs do not end there, as major shareholders of companies that the GPs may want to acquire will be affected by higher capital gains taxes, then they might be less willing to sell, resulting in higher asking prices.

The risk of such fiscal measure is to depress the PE industry, which activity is of paramount importance to foster entrepreneurship and start-ups. Being in the midst of a pandemic makes the matter more delicate. Because of this, the announced raises in taxes are likely to be put in place only after the economy has recovered from the Covid-19 crisis.

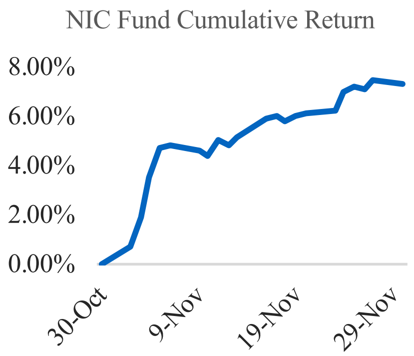
Date	Recent News
15 Nov 20	Taxing of private equity needs a rethink ***Source:*** *ft.com*
11 Nov 20	Overhaul of UK capital gains tax urged in review ***Source:*** *ft.com*
26 Oct 20	Joe Biden is private equity's tax boogeyman ***Source:*** *reuters.com*
03 Aug 20	Carried Interest Rules Prompt Investment Funds to Rethink Plans ***Source:*** *bloombergtax.com*

Daniele Notarnicola
Investment Banking Division

NIC Fund

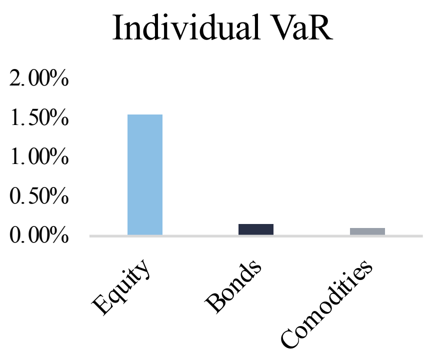
NIC Fund

Portfolio Overview



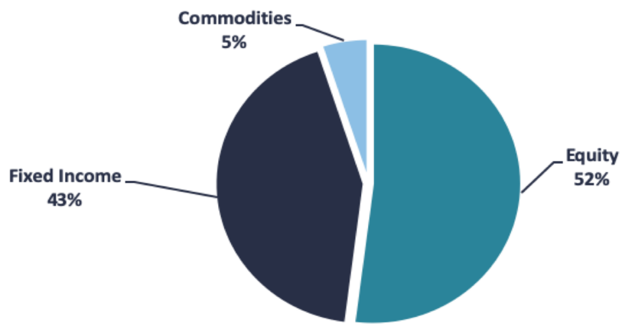
Portfolio Statistics	
Cumulative Return	7.32%
Annualized Return	87.84%
Daily St. Dev	0.52%
Period St. Dev	2.40%
Annualized St. Dev	8.32%
Info Sharpe	11.32
Skew (Daily)	0.80
Kurtosis (Daily)	-0.34

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 November, our assets remained invested across three main asset classes: Equities (52%), Fixed Income (43%), and Commodities (5%). In the future, when looking back on the Covid-19 crisis, November may be labeled as the turning point. The announcement of three effective vaccines and clarity post-US election, both of which outweighed concerns about the near-term economic outlook, drove risk-on sentiment among investors. Equities were up globally, while within Fixed Income, riskier high-yield and emerging market bonds outperformed their higher-quality counterparts.



Return Metrics

Our portfolio returned a positive 7.32% this month, as markets celebrated a possible light at the end of the tunnel. Each asset class in our portfolio contributed positively this month: Equities 16.59%, Fixed Income 0.16%, and Commodities 0.02%

Even though Equities performed well across the board, a few hand-picked stocks stood out. The best performers were BNP Paribas (BNP), Trupanion Inc. (TRUP), and EOG Resources Inc. (EOG) with a performance of 47.82%, 41.71%, and 36.92% respectively. Additionally, due to sector rotation, the Financials and Industrials sectors saw the largest gains of 32.84% and 34.40%. Only one holding had negative returns, as Zynga Inc (ZNGA) delivered the worst performance, returning -8.23%.

Overall, an end to the Covid-19 crisis is in sight, but uncertainty remains surrounding how governments will control the virus as they wait for the approval and distribution of vaccines. With new lockdowns emerging worldwide once again, high-frequency activity data shows the negative impact that these restrictions have already had on economies across Europe. Regardless, despite these recent developments, markets continue to be buoyed by better times on the horizon.

Risk Metrics

In terms of risk, our portfolio registered a high daily VaR of 1.60%, taking into consideration the benefits of diversification. On the other hand, this is significantly below the maximum established threshold of 2.5%. Equities were the asset class with the highest individual VaR, which was around 1.55%. Bonds and Commodities presented lower individual VaR values of 0.15% and 0.10%, respectively.

Emily Rushforth
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
FR Equity	**BNP**	BNP Paribas skyrocketed in November, returning 47.82% during the month, as diversification has served France's biggest bank quite well during the pandemic. When the bank reported strong earnings, not only did they see a 32% jump in trading revenue, which beat its peers, but provisions for bad loans were also lower than expected, meaning the bank is set to cut costs by USD 1 bn this year. This, combined with the fact that BNP announced it would set aside 50% of profits for dividends in the case European lawmakers allow shareholders to be rewarded once again, saw the stock soar.
US Equity	**TRUP**	Trupanion Inc. has been outperforming all year, with MTD returns of 41.71% and YTD returns of 212.23%. Boosting consistent double-digit sales growth YoY and the title of the fastest-growing provider of medical insurance for pets in the United States, Trupanion is expected to deliver double-digit growth for years to come. On top of this, Trupanion uses a subscription business model, which typically implies stickiness for customers and high-margin, predictable, and transparent revenues for investors. Even though being added to the S&P SmallCap 600 Index in August had no impact on the fundamentals of the business, it created upward momentum in the stock that shows no signs of slowing.
US Equity	**EOG**	Against a backdrop of a horrible year for the Energy sector, EOG Resources, Inc. was a bright spot last month, delivering 36.92%. Although oil prices are at lower levels than at the beginning of the year, they have improved materially recently due to the markets' hope that effective vaccine trials will lead to an increase in fuel demand. As EOG boasts a strong presence in prolific shale plays like the Permian Basin and Eagle Ford, it is well-positioned to make the most of this favorable pricing scenario.
US Equity	**ZNGA**	Zynga is the only holding in our equity portfolio to perform negatively this month, down 8.23% after its poor third-quarter update this month. The mobile game developer reported lower than expected revenues from two acquisitions, Peak and Rollic, which cost the company nearly USD 2 bn to purchase. They also had a substantially lower net increase in deferred revenue YoY than expected, USD 125 m versus an expected USD 175 m. Not to mention, as a stay-at-home stock, sector rotation after the positive vaccine news contributed to the negative sentiment this month.
EM Bonds	**EMUSD**	Aided by a depreciating dollar, emerging market debt gave us our highest returns, 4.14%, within fixed income. For most of 2020, emerging markets underperformed developed markets due to the high levels of uncertainty among investors, but they have been catching up as of late. News that the vaccine may be low cost and easy to distribute worldwide boosted confidence further, creating a similarly positive environment for risk assets. More risk appetite due to the improved economic outlook, as well as the Federal Reserve flooding the markets with liquidity, will likely keep driving the dollar down and lead to a continued rally in emerging markets.
Commodity	**AAUU**	The ETF dropped -5.45% in November, meaning it was one of our two negatively-returning holdings. Over the last 18 months, gold had a stark rally and has been one of the best-performing asset classes. However, November was the worst month for gold in the last four years, as it was a safe-haven asset competing against the best month for equities in history. Factors that contributed to this fall include the economic economy that is underway, Biden's victory bringing stability to geopolitics, positive vaccine news, and central banks around the world introducing trillions into the markets to maintain liquidity.

Emily Rushforth
Financial Markets Division

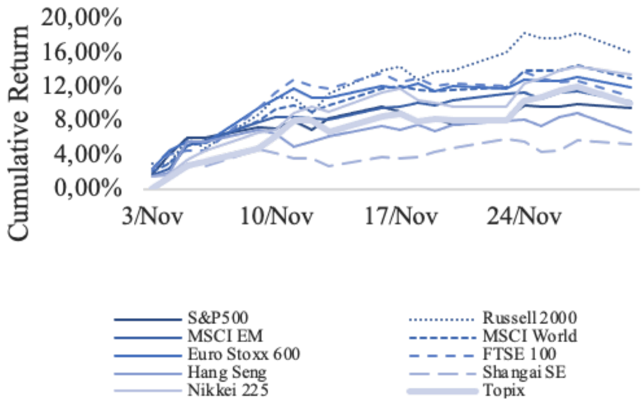
NIC Fund

Equities

World Equities

Global equities experienced an outstanding month in November. After a very volatile October, uncertainty cleared out of the markets, with the outcome of the US elections and the announcement of several positive Covid-19 vaccine trials. Early in the month, the VIX dropped below 30 and remained in the low 20s throughout the month.

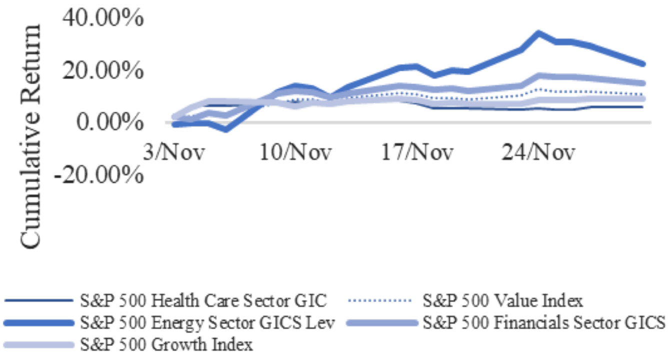
Globally, Asia continued its path to recovery, led by Japan, with the Nikkei 225 posting a 13.47% return this month. The picture was also very bullish in the US and all across Europe, with all the major equity indices marching higher. The FTSE 100 (10.81%), recovered from its pandemic lows while the Euro Stoxx 600 grew 11.93%. The S&P 500 (9.41%) also posted its best monthly performance since April. We maintain our positive outlook on small caps, which historically have outperformed during periods of economic recovery.



In Depth: Sector Analysis and Outlook for the Next Month

The past month was extremely interesting regarding the outperformance of some sectors that have been off-the-radar since the beginning of the pandemic. We saw cyclical sectors lead the market rally in November, positively impacted by the vaccine news. Pfizer and BioNTech, Moderna and AstraZeneca all announced their vaccine trials had a high level of efficacy, bringing optimism to the markets. Energy, which had been the worst performing sector of 2020, surged 26%. Other beaten down sectors, such as Financials, Industrials and Materials, all surged at least 12%. Healthcare recovered, after the announcement of positive vaccine trials helped the sector. In the past month we also observed a big rotation into value stocks, with investors looking for alternatives to growth stocks.

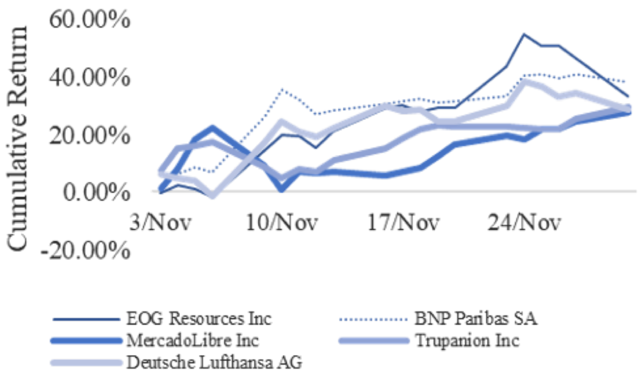
In the next month there will be relevant economic announcements. Firstly, the deadline for the Brexit trade deal is the 31st of December. Additionally, the ECB and Federal Reserve will have meetings on the 10th and 16th of December, respectively. These events could bring some uncertainty to the markets, with investors seemingly expecting a last-minute Brexit deal and with fiscal policy in the US being a potential driver for higher volatility.



Our Performance

In November, the NIC fund grew 7.32%. Equities surged 16.59% over the period, outperforming the S&P 500 benchmark (9.41%) by a staggering 6.68%. This resulted in a 4.48% impact on the returns of the portfolio. During the month, our portfolio benefited majorly from the rotation from growth into value stocks seen in the markets. Some of our stock picks, which had been severely hit by the pandemic and the imposed lockdowns, surged with the positive vaccine news. This was the case for the German airline Lufthansa, which jumped 34.40% during the month, and the energy stock EOG Resources Inc, that spiked 36.92% during the period.

The Financial Markets Division will continue considering the different performances across sectors for future investment decisions, in search of more effective ways to capitalize on current equity market conditions.



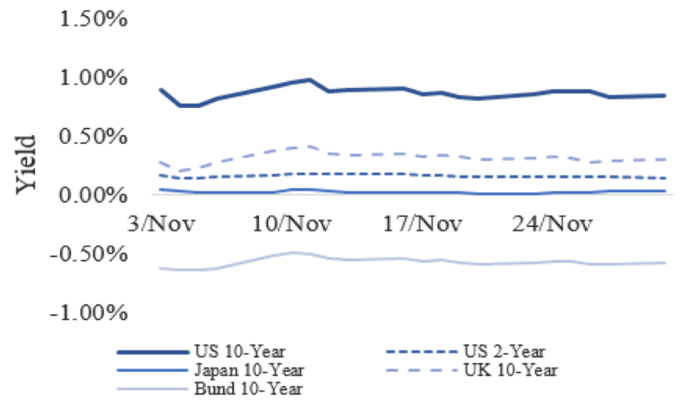
Ruben Pratapsinh
Financial Markets Division

NIC Fund

Fixed Income

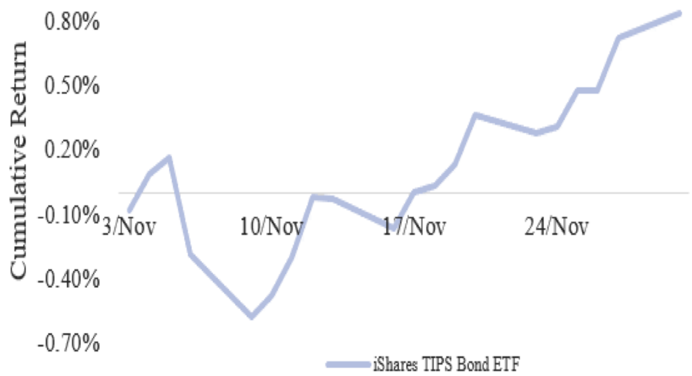
World Yields

Throughout the month of November, a positive feeling surrounded the markets following good news regarding Covid-19 vaccine searches. With the idea in mind that a post-Covid-19 world could be a reality sooner than later, investors have been less risk-averse this month and bond yields have been staying fairly stable and even showing some rising potential in consequence. In Europe, yields were driven upwards as the 10-Year German Bund ended the month 7 bps higher at -0.57% while the UK 10-Year Guilt rose 9 bps to 0.31%. Meanwhile, in the US, both the 2-Year and the 10-Year yields remained relatively stable throughout the period only moving down by 1bps to 0.15% and 0.83%. In Asia, the Japanese 10-Year yield decreased by 1bps as well to 0.03%.



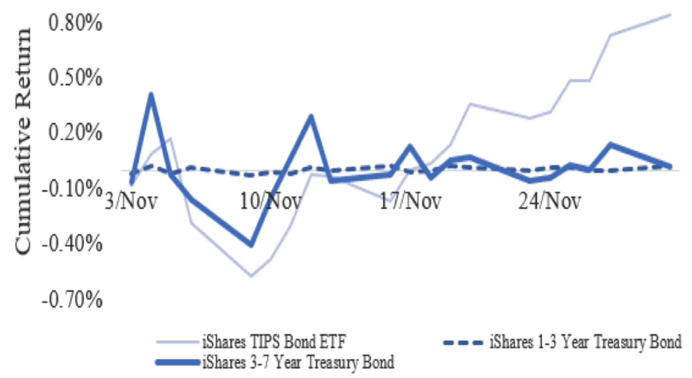
In Depth: The Fed as driver of the US Economy

As we start projecting ourselves into 2021, the US economy will likely get a boost from more fiscal relief packages, and the likelihood of vaccination becoming widely available mid-year. These events will allow sectors that were hit hard by the pandemic to get back on their feet and rejuvenate the economy. In terms of yield levels, the 10-Year treasury bond is expected to rise to a 1%-1.6% range driven by a strong second half of the year. In the meantime, the Fed is likely to maintain short-term interest rates to zero and the difference between long and short term yields could steepen. Moreover, in line with their new 2% inflation policy, the Fed will be unlikely to put in place any major changes as the economy will need time to get back to its pre-pandemic levels in terms of growth. Therefore, with such an outlook, what should investors focus on? Firstly, keeping average duration low still seems to be a good idea for now. As yields move upwards, it will then be interesting to add some longer-term bonds to aim for extra income. Secondly, the hunt for high coupons should be a priority as, in this low interest rate environment, this is where income will mostly come from. Thirdly, as the economy recovers, inflation is likely going to increase and considering inflation-indexed bonds such as TIPS (Treasury Inflation Protected Securities) could be a great idea. Finally, it could be interesting to diversify geographically. Indeed, the Fed's policies along the past year have created a weaker dollar. Given the Fed's fairly loose monetary policy combined with the large amounts of US trade and budget deficits are likely to widen, it will be easier to attract foreign capital.



Our Performance

In November, 43% of our fund was invested in Fixed Income products. Their contribution to our returns were fairly low (0.16%) as we were primarily invested in US Treasury bonds, through the iShares 1-3 Year and 3-7 Year bonds. They respectively yielded 0.02% and 0.14% over the period. The bright note was the iShares TIPS bond ETF that returned 1.21% MTD.



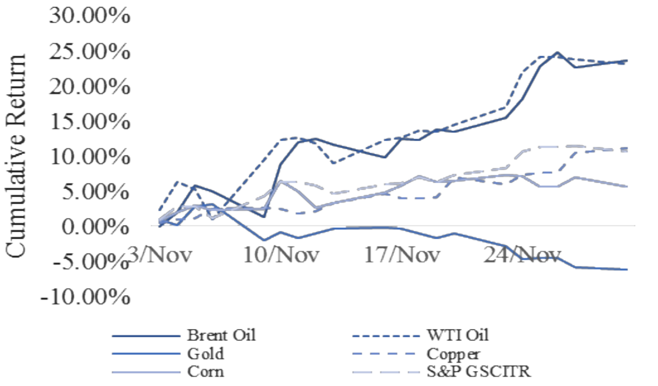
Vincent Sardinha Marques
Financial Markets Division

NIC Fund

Commodities

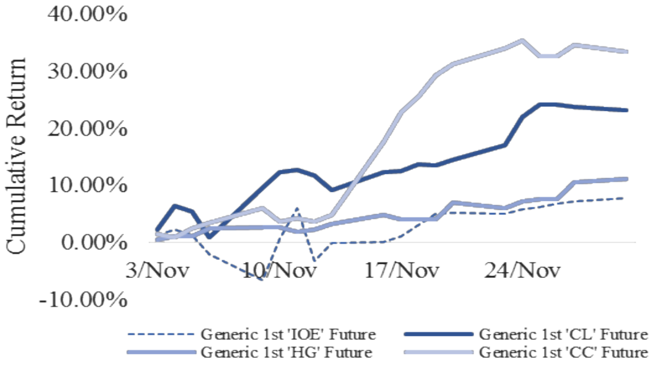
November Round-Up

Commodities have seen a very strong month of November, with the S&P GSCI Total Return Index, which tracks 24 commodities, up 10.67% by the end of the month. This was driven by the strong rebound in economic activity in China and hopes of similar rebounds elsewhere as news of several effective Covid-19 vaccines spread. Brent Oil prices rose by 22.12%, also based on the hopes of an agreement to extend current production cuts in an OPEC meeting held on November 30th and December 3rd. Producers agreed to a cautious increase in output, which satisfied expectations. Vaccine optimism caused many investors to drop safe-haven assets and reinvest in commodities which are likely to gain from the reopening and rebounding of economies. Gold prices slid by −6.17% as a result, while industry commodities such as Iron Ore and Copper recorded substantial gains this month, jumping 10.59% and 11.16% respectively. Both commodities have faired very well YTD with Copper up 23.83% and Iron Ore up by 41.85%, boasting multi-year highs. Agricultural commodities also faired well, with Corn up by 5.6% MTD. Cacao prices have surged by 33.27% in the month of November, as several large chocolate companies scooped up futures to bypass high premiums set by west African farmers, who produce around 60% of world's supply, in response to waning demand during the Covid-19 pandemic.



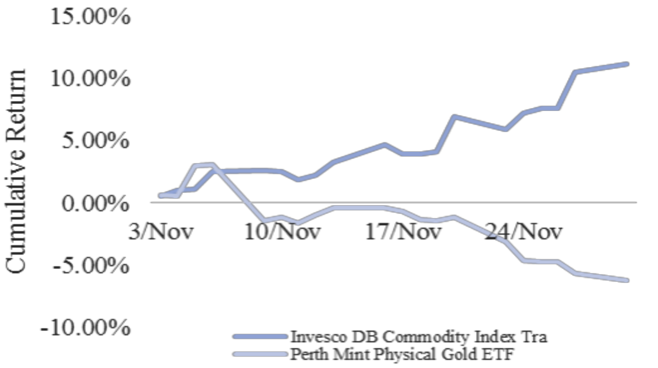
Outlook for December

Going into the last month of the year, Oil futures prices could see further gains as OPEC members have come to an agreement about a cautious easing of production to avoid oversupply. Should the vaccine rollout additionally appear unproblematic, and the effect of the holiday season on the remaining course of the pandemic inconsequential, Oil could expect even larger rebounds as it recovers from the shocks caused by the pandemic. The vaccine optimism, however, is likely to drive Gold prices lower. Keep an eye out for developments in Copper, Iron Ore and Cocoa. The first two are riding the strong economic recovery being experienced in China, with Copper additionally benefitting from expectations of a stronger push into renewables by the Biden administration. Iron Ore may experience more volatility as a trade dispute between China and Australia may cause complications in the supply of Coal, the other ingredient necessary to produce Steel. Cacao may also experience higher volatility as solutions are needed to resolve the supply chain issues in western Africa.



Our Performance

We maintained an allocation of 5% in Commodities for the month of November. The Invesco DB Commodity Index, which represents 1.76% of the weight within the NIC fund, returned 10.2% MTD and yields −12.6% YTD, recovering some if its losses during the pandemic. The Perth Mint Physical Gold ETF has a weight of 2.9% and dropped by −5.45% MTD, while yielding 12.46% YTD. Commodities attributed 0.02% to our portfolio performance for the month due to the higher weight in Gold.



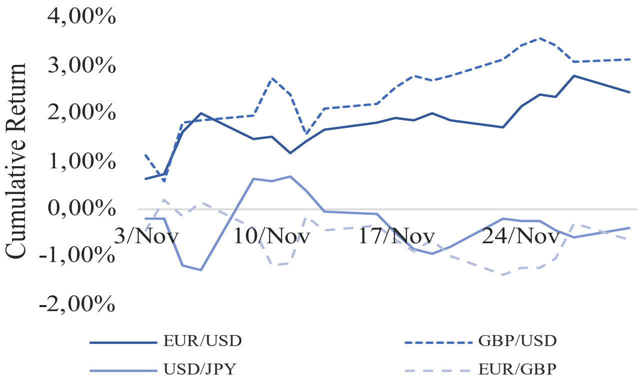
Sebastian Hartmann
Financial Markets Division

NIC Fund

Currencies

World Currencies

November was an exciting month for global markets. With Joe Biden emerging as a preliminary winner of the US presidential elections and Covid-19 vaccine breakthroughs by Pfizer-BioNTech, Moderna, and AstraZeneca, optimism spread, and stock markets rallied. With investors being more eager to invest in risky assets, the US Dollar, which is considered a less risky currency in times of market stress, weakened in November and reached its lowest level in almost three months. The Euro appreciated about 2.46% against the US Dollar while GBP/USD reached nearly 1.34, a price change of 3.14%. Furthermore, the US Dollar lost ground against the New Zealand Dollar and the Australian Dollar. Both currencies are supported by Australia's and New Zealand's expedient handling of the pandemic. Australia for example never reported more than 600 new infections per day, not even during the winter months of July and August. The cumulative monthly return of AUD/USD yields 4.10% and 5.81% for NZD/USD. Over the month, the Euro declined against the British Pound as positive news regarding a wrap-up of Brexit trade deal negotiations was expected towards the end of November. Since no agreements have been reached yet, Michel Barnier, EU Head of Task Force for Relations with the United Kingdom, left for London on the last weekend of the month to resume face-to-face talks, the deadline at the end of December coming closer. On the 10th of December, the ECB's Governing Council's monetary policy meeting will take place, which might leave the Euro sensitive in the upcoming weeks about the next policy announcements.



In Depth: Chinese Renminbi thriving in 2020

Renminbi, the official term for China's currency which is often referred to as Chinese Yuan, appreciated for six months in a row against the US Dollar. The currency dropped below 0.14 per USD in May after China had been the center of the pandemic at the beginning of the year but has been strengthening ever since and yields at 0.1519 per USD at the end of November, an increase of more than 6% YTD. China contained the virus quite early and demonstrated strong economic recovery from Covid-19. Renminbi-denominated bonds and stocks had rallied in the last weeks and the demand for Chinese assets has generally been rising, which resulted in an increased demand for the currency from investors who want to buy those assets. This was additionally driven by the outcome of the US elections, considering that Joe Biden is not expected to continue the impulsive and volatile tariff policy of departing President Donald Trump and thus, pressure on export tariffs is likely to decrease in the future. Although investors expect higher volatility in the currency given the rapid pace of appreciation, analysts say that stars might be lining up for further strengthening of the currency and strong economic growth. Amidst the overall well performing global stock markets in the last weeks due to positive vaccine news, China is at a much better starting point for a continued recovery in 2021.

Our Performance

We currently hold no currency related assets in our portfolio.

Julia Weber
Financial Markets Division

Extras

Hot Topic

China's Digital Currency Electronic Payment Project

Fitore Zeciri
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"China is […] ready for the full launch of its digital currency very soon"

– Charles d'Haussy, Director at ConsenSys

Since the inception of cryptocurrencies, China has been a vocal opponent of these securities, as they consider them beyond institutional control. China has implemented a series of regulatory measures in order to limit activities related to cryptocurrencies, hence protecting investors and preventing financial risk. These measures included declaring initial coin offerings as illegal, restricting the primary business of cryptocurrency trading platforms, and discouraging Bitcoin mining.

Nevertheless, China has emerged as a key player in this industry in two ways. Firstly, a substantial amount of hashing power is situated in China, producing nearly two-thirds of the world's hashing power at the end of 2019. Bitcoin mining is growing rapidly since China offers quick turnaround time, low labor costs, low lead time, low production costs, and low electricity costs in the form of hydropower.

Secondly, China is at the forefront of launching the world's first Central Bank Digital Currency (CBDG). This type of currency uses a blockchain-based token to represent the digital form of a Chinese fiat currency. It is centralized and issued as well as regulated by the People's Bank of China (PBOC). China's digital currency program, Digital Currency Electronic Payment (DCEP), has rolled out one of the largest trials in several cities over the last months, while the US and European central bank are still exploring the idea of a digital currency.

In April of 2020, the PBOC permitted the roll out in the following locations: Xiong'an, Shenzhen, Suzhou, and Chengdu. The Chinese news agency Caixin reported that Shanghai, Changsha, Hainan, Qingdao, Dalian, and Xi'an will be the next testing regions. The most impressive trial was conducted in form of a lottery in Shenzhen. In October, RMB 10 m of the digital currency was distributed among 50,000 randomly selected citizens through lucky draws on the currency's wallet app. The winners received DCEP amounting to a face value of RMB 200 and were able to spent it at over 3,000 merchants in the city. On the 12th of December, a lottery of similar size will follow in Suzhou. It is expected that additional technology features will be tested.

It is still unclear when the project will become reality and to what extent it will replace operating digital payment providers. China is already transforming into a cashless country. In 2019, mobile transactions amounted to RMB 347 tn, covering four out of five payments. Most of China's payment services are provided by Alibaba and Tencent, the country's largest tech companies. Yi Gang, the PBOC's governor stated last month that the digital yuan would only replace a portion of the cash in circulation. However, the central bank has not yet commented on this.

The rollout of the digital Yuan is seen by many as a response to Facebook's cryptocurrency launch announcement. However, while Facebook has been losing key corporate partners and faces regulatory hurdles, China is one step closer to its goal of becoming independent from foreign currencies. Additionally, the digital currency launch will help in fighting crime since digital cash circulation can be tracked, preventing money laundering, tax evasion, and terrorist financing. However, the digital Yuan would also raise privacy concerns as the government would obtain huge amounts of information on how its citizens spend their money. In the future, it will be interesting to see if other central banks will follow suit after China started establishing itself as a pioneer in this field.

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Hot Topic

RCEP Trade Deal: East-Asia’s Geopolitical Sign for the Global Economy

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“RCEP is an important development but also a very important signal to global markets that even as we fight the challenge of (the coronavirus pandemic), the public health care challenge as well as the economic challenge, we need to continue to build bridges and economic integration.”

– S. Iswaran, Minister for Communications and Information of Singapore

After eight years of patient negotiations, the most powerful nations of the Asian-Pacific region have signed the Regional Comprehensive Economic Partnership (RCEP) on the 15th of November, becoming one of the largest free trade deals in history. “This is a major step forward for our region” said Lee Hsien Loong, Singaporean prime minister, after the deal was closed on Sunday.

15 countries are part of the new agreement, including the most powerful nations of the Asian-Pacific region such as China, Japan and South Korea. In total, the RCEP covers around 2.2 bn people. The deal would have been even larger, but India decided to leave the negotiations in late 2019. In challenging times, indicated by the current Covid-19 pandemic and political tensions between China and the US, RCEP aims to strengthen the relationship between the Asia-Pacific nations.

RCEP’s huge economic impact will cover about 30% of the global GDP. According to analysts’ expectations, the agreement could add almost USD 209 bn annually to the global income and around USD 500 bn to world trade by 2030. Given the fact that RCEP makes up almost one-third of the world’s population, the agreement generates a new free trade bloc that is bigger than United States–Mexico–Canada Agreement and the European Union together. Apart from that, RCEP connects large capital streams among important economic actors as well as further thrives Asian innovations, supported by an extensive exchange of technological knowledge. Furthermore, as the Asian success story tends to continue, RCEP will attract foreign investments that will provide the region with liquidity.

RCEP aims to reduce tariffs and red tape on industrial and agricultural products. According to China’s finance ministry, some tariffs could be eliminated immediately. Apart from reducing tariffs, RCEP further supports international supply chains and trade within the region. However, labour unions, environmental protection, or government subsidies are not part of the agreement.

From a geopolitical perspective, the agreement plays an important role as it strengthens the relationship between Asian-Pacific countries. Especially large nations such as China will benefit from RCEP as it cements its economic partnerships with Southeast Asia, Japan and Korea.

As China’s exponential growth puts pressure on the US, its role as the world’s leading economy is crumbling. After Trump has already scuttled the Trans-Pacific Partnership (TPP), the US has no influence on two trade groups that include the fastest-growing region on earth. After the presidential election, it is still unclear if Joe Biden will coordinate the US back to TPP. Although Joe Biden proactively propelled the TPP during his time as a vice president under the Obama-Administration, the new US government will most likely focus on combating the current epidemic in the US. “I'm not sure that there will be much focus on trade generally, including efforts to re-join.“ said Charles Freeman, senior vice president for Asia at the US Chamber of Commerce.

The agreement will be adopted as soon as it has been ratified by at least six ASEAN and three non-ASEAN signatories. According to the Indonesian trade minister, it will take around two years to get approval.

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ESG Review

Transition Bonds: Does the market need them?

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"We are better off, as a market, to give sustainability-linked bonds our full attention instead of diverting it to a label that is not fully understood and which may call into question the validity of the overall labelled bond market."

– Jacob Michaelsen, Head of Sustainable Finance Advisory at Nordea

Does the market need transition bonds? This question is dividing sustainable finance professionals into two opposite factions: those who support the introduction of transition bonds and those who are against it.

The label "transition bond" indicates a new class of debt instruments designed for companies to help them in their shift towards "greener" business activities by allowing them to raise funds from investors who want their money to have a positive impact on the environment.
The main question here will focus on companies such as major oil players which all have the relevant assets allowing them to issue green bonds such as wind mill and solar cell parks. Having the ability to do both, a legitimate question arises: will these firms be better positioned to issue green or transitions bonds?

When trying to answer this question, we quickly encounter the main difficulty here: the lack of any defined set of principles for transition bonds. This grey area therefore leaves lots of room to interpretation. However, as a general rule, transitions bonds can be seen as mainly "use-of-proceeds" focused.

We can now dive into the discussion about the usefulness of these new transition bonds for the sustainable finance market. Proponents of transition bonds argue that the definition of green bonds is too precise and narrow. Therefore, a new asset class could be a necessary way to support those firms that do not qualify to issue green bonds but that are taking steps to implement more sustainable operations and take part of this global transition.

Opponents of transition bonds, instead, assert that since there are no clear and well-agreed-upon principles for "relevant transition", these instruments could provide cover for companies not fully committed to moving quickly away from their non-green practices. Indeed, in the absence of agreed standards, transition bonds could lead to an increased the risk of greenwashing, which is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound. In line with this view, Jacob Michaelsen, the Head of Sustainable Finance Advisory at Nordea, shares this opinion: "Transition Bonds carry more potential downside risk than we can hope to gain from them."

Moreover, sustainability-linked bonds (SLBs), which are forward-looking performance-based instruments, could offer a more transparent option to deal with transitioning than transition bonds, making the role of transition bonds redundant. In addition, for the SLBs there exist common standards defined in the Sustainability-Linked Bond Principles (SLBPs) published by the International Capital Market Association (ICMA). However, the SLBPs are only recommendations and the adherence to the principles is voluntary, as it is for green bonds.

The real problem behind that division of opinions across the industry seems to be the absence of commonly accepted principles defining climate transition finance. The result is a lot of confusion in the market since each institution uses its own taxonomy and criteria, and often the same nomenclature is used for different instruments by different institutions.

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