NIC

— Nova Investment Club —

Newsletter

December 2021

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, Rodrigo Baltazar, elaborates on the rise of “Ghost Newsletters”. Moreover, in our Regional View, Lisa-Marie Perchtold, Head of Financial Markets Division, examines the Turkish Lira crisis.

Our Investment Banking Division will guide you through November’s M&A overall activity. Read about Bouygues SA acquiring Equans SA, Royal Dutch Shell acquiring Meridian Energy, and KKR & Co acquiring Telecom Italia SpA. Additionally, get a detailed overview on what happened to ExxonMobil Corporation and Unilever, and read our opinion on GE‘s plans to form three public companies.

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 slightly negative, with a cumulative return of -1.4 %. A loss that can be mainly attributed to Equities.
On the Hot Topics of this month, Arsénio Renato Jr discusses inflation, while Sara Ivackovic, Head of Communications, elaborates on the electric vehicle “invasion”. Lastly, on our ESG review in collaboration with Nordea, João Vaz, elaborates on the importance of sustainability in the shipping industry.

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NIC
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Macro Overview

Monthly
December 8th, 2021

Market Moves

Market Moves
% change

	Last Close	-1W	-3M	YTD
S&P 500	4,567	-2.64%	0.98%	21.59%
DJIA	34,484	-3.71%	-2.48%	12.67%
Nasdaq	15,538	-1.51%	1.82%	20.56%
MSCI World	3,629	-3.86%	-4.72%	8.51%
MSCI EM	4,572	-2.55%	-5.35%	0.13%
Russell 2000	2,199	-5.54%	-3.29%	11.35%
Euro Stoxx 50	4,063	-5.15%	-3.18%	14.37%
FTSE 100	7,059	-2.85%	-0.85%	9.27%
Nikkei 225	27,822	-6.56%	-0.95%	1.38%
Hang Seng	23,475	-4.77%	-9.29%	-13.79%
Dollar Index	95.99	-0.52%	3.64%	6.73%
EUR/USD	1.134	0.80%	-3.99%	-7.19%
GBP/EUR	1.173	-1.36%	0.70%	4.88%
GBP/USD	1.330	-0.59%	-3.32%	-2.71%
USD/JPY	113.170	-1.71%	2.86%	9.61%
USD/CHF	0.92	-1.50%	0.42%	3.81%
Brent Crude	70.570	-14.26%	-3.32%	36.24%
Gold	1,773.6	-0.57%	-2.32%	-6.41%

Generic Bond Yields
change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1.444%	-22.1	13.6	53.1
GER 10Y Yield	-0.349%	-12.9	3.4	22.0
JPY 10Y Yield	0.057%	-1.8	3.2	3.6
UK 10Y Yield	0.809%	-18.8	9.5	61.2
PT 10Y Yield	0.330%	-10.9	11.9	30.0

**Source: Bloomberg, as of 2021-11-30*

In Focus
November

A new global agreement – the Glasgow Climate Pact – was reached at the COP26 summit. The conference took place from 31st of October to 12th of November 2021, with the goal of reducing the ramifications of climate change. The main points agreed upon were related to topics of emissions, coal, developing countries and fossil fuel subsidies. The agreement is not legally binding and critics state that the agreed points do not go far enough.

Germany`s new elected parties presented their coalition agreement. After weeks of negotiations, the three parties, FDP, Die Grünen and SPD, presented their coalition paper. This paper should secure that the main targets are aligned over the next four years. The partners found common ground on key policy issues, such as increasing investment in climate and digital infrastructure and refraining from raising taxes. The document presented still needs to be approved by each parties' members.

Sharp sell-off in equity markets after new COVID variant, named Omicron was classified as 'of concern'. After the World Health Organization (WHO) has declared a new coronavirus variant to be 'of concern' the major stock indices crashed as investors fear potential lockdowns and thus an economy slowdown. On 26th of November the Dow Jones lost 3.23%, the DAX fell by 5.25%. Oil prices tumbled with a daily loss of 11.38%. Experts warn that vaccines could be less effective against the new variant. Nevertheless, WHO states that it will take a few weeks to gather more data to understand the impact of the variant.

US President Joe Biden and Chinese President Xi Jinping met via a virtual summit as tensions between the two superpowers deepen. The summit did not produce any breakthroughs, but it was important as it prevented the disputes between the two countries to escalate into broader conflict and harming the worldwide economy.

U.S. inflation rate kept increasing, with a 6% annual inflation rate in October. The U.S. is currently seeing prices increase at the highest rate in more than 30 years. The country had the eight-highest annual inflation worldwide, taking into account other OECD countries. Besides rising food prices, semiconductor and natural gas prices increased significantly as supply struggles to keep up with demand, driving up the prices.

The U.S. Federal Reserve started tapering in November 2021. After the early November meeting the Fed is about to slow down its bond purchases at a pace of USD 15.0 bn a month, which will lead to an end of the bond-buying program in mid-2022. From there on the Fed would be able to begin lifting interest rates.

Joe Biden nominated Jerome Powell for a second four-year term. The fact that U.S. President Joe Biden reappointed Jerome Powell as the Federal Reserve chair is expected to give investors stability and predictability. The central bank is currently considering to further slow down the pace of its bond-buying program as inflation levels remain high.

Evergrande again dodged default in November. China Evergrande Group once again avoided defaulting on outstanding bond payments in November. The Chinese property developer paid outstanding payments of USD 148.0 m very close to a deadline. In total there are still USD 300.0 bn in liabilities outstanding and a default could trigger a collapse of the Chinese property market. The next payment of USD 255.0 m is due on 28th of December 2021.

Simon Hoffmann
Financial Markets Division

Deeper Dive

The Rise of Ghost Newspapers

Rodrigo Baltazar
Investment Banking Division

"It's important for people to understand that we actually try saving many newspapers from extinction.
We've pretty much bought all of our newspapers out of bankruptcy or near that fate."

– Heath Freeman, CEO, Alden Global Capital

Once a roaring industry, local and regional newspapers have been in decline for the vast majority of the 21st Century. Before the advent of the internet and the consequent democratization of information, local newsrooms provided a very important service to society: that of informing citizens of material city affairs. Such service was even more important for populations outside of the big cities such as New York and San Francisco. Along with such value came plenty of revenues through the sale of advertising space. Back then, newspapers were a key partner for every company aiming to reach mass markets.

The golden times did end after all. Nowadays, it is the digitally native companies like Google or Facebook that almost monopolize advertisement budgets, as firms have embraced the greater traffic in these platforms as well as a more targeted advertising. Such trends along with a very devastating 2008 global financial crisis have meant that since then, through either consolidation or bankruptcies, 1 in every 4 titles have ceased to exist and the number of people employed in the industry have declined by 22% globally.

Apart from structural industry conditions, a key engine behind this developments is the profit-seeking action of investment funds. In fact, according to the Financial Times, currently about half the newspapers in the US are owned by hedge funds, private equity or other funds. Such players, invariably employ a strategy that has been popularized by the 3G Capital – the investors behind the very successful Heinz and Kraft merger – coined zero-based budgeting. In essence, returns are achieved by challenging all expenses eliminate those not strictly necessary, even if jobs are in question.

Several hedge funds hold some interest in the industry. However, a particular fund as well as its leader stand out. Alden Global Capital and its 40-year-old president Heath Freeman is known by many in the industry as the "destroyer of newspapers". Over the last decade, the Media News Group – the vehicle used by the fund to manage its newspaper positions – has amassed roughly 10% of the countries daily publications while accordingly applying aggressive return-seeking strategies.

Alden's purchase of Denver Post in late 2019, perfectly exemplifies the modus operandi of these investors. It is about stripping the company out of their key assets – namely their newsrooms – to recoup part of the capital invested and proceed by reducing costs very aggressively. In Denver Post, all operations were relocated to reduce rent and a third of the workforce was laid off. The combination of such actions have tremendous impact on the publication, elevating it to the status of ghost papers, an expression aiming to capture their lack of importance, quality and money-making ability when compared to their own past.

Also, as several political analysts point out, the death of publications has tremendous civil implications. As widely researched, people without access to news are less likely to vote. At the same time, this lack of information particularly affects the less educated rural communities which are exactly those that need more information in the first place.

Still, hedge fund managers, namely those from Alden, seem to believe they should be seen as heroes instead of villains. According to Freeman, their action is "actually trying to save many newspapers from extinctions". In truth, as he also points out "We've pretty much bought all of our newspapers out of bankruptcy or near that fate." Whatever the interpretation, the trend is forecasted to continue, specially now that Private Equity investors - equipped with unprecedent dry powder - have entered the picture.

Rodrigo Baltazar
Investment Banking Division

Regional View

The Turkish Lira Crisis

Lisa-Marie Perchtold
Financial Markets Division

"While the weak Lira will probably support net trade it's likely to weigh heavily on domestic consumption. As inflation rises and household incomes suffer, consumption is likely to fall back."

– Jason Tuvey, Economist, Capital Economics

Lutfi Elvan announced his departure as Turkey's minister of finance, amidst a sharp plunge in the Lira. The country's currency has lost almost 40% of its value since the start of September. In November Turkey's central bank cut the benchmark interest rate for the third consecutive month. This controversial move happened despite the Lira's 20% depreciation against the US Dollar during the month of November, with exchange rates expected to fall even further. Elvan will be replaced by Nureddin Nebati, who has in the past defended president Erdogan's policy of continuously cutting interest rates despite rising inflation.

The current focus of the Turkish government and its president appears to be growth at all costs and on the surface, it seems that the Turkish economy is indeed growing faster than many of its peers in emerging markets. The country's economy grew by 7.40% in the third quarter of 2021 compared to the same period the previous year. A combination of strong household consumption, government spending and, a boom in exports contributed to the sizable rise in GDP. Analysts forecast a GDP growth of around 9% for 2021, however, experts warn that this fast-paced expansion is unlikely to last. Analysts point to the currency's volatility and increased public discontent as dampers to future economic growth.

Since the country's last currency crisis in 2018, the proportion of foreign currency deposits has increased by 6 percentage points to 55%. Turkish consumers increasingly hold their money as foreign currency deposits, as a safeguard against inflation. Analysts worry that the proportion of foreign currency deposits could raise further creating even more pressure on the lira, or that consumers will lose trust in the currency altogether.

Earlier this month the Turkish central bank announced its decision to sell hard currency such as the US Dollar in an effort to stem Lira falls. This is despite a previous commitment not to do so and amidst limited foreign exchange reserves. The central bank's gross foreign currency reserves appear to have improved significantly over the last year, however, net reserves remain deeply negative and are estimated to be around negative USD 46.8 bn. The reason for this low number is that the Turkish central bank burned through an estimated USD 128.0 bn in an unofficial intervention that attempted to bolster the Lira between 2019 and 2020.

The sharp decline in the Lira value has negatively impacted the country's industrial sector. Certain medicines that are reliant on imports are running low because they are too expensive to purchases and shortages are expected to last until February. The petrochemical industry is also facing supply chain issues because of foreign exchange rates.

Turkey's economy is reliant on certain imports such as energy and raw materials, as such a weaker Lira quickly translates into rising prices. Consumer Price Indexes have risen around 21% year on year, the highest rate in more than three years, with food prices rising by as much as 27%. This could evolve into political problems for Erdogan, who has built much of his early political success on rising national prosperity.

President Erdogan has argued that competitive exchange rates will allow for boosts in exports, investments, and employment. However, foreign investors are unlikely to flock to Turkey as unpredictability in the markets and financial institutions of the country grows. Erdogan has relieved three central bank governors of their duties since mid-2019 and has sacked many senior central bank officials that do not agree with his policies. It remains to be seen whether the Turkish central bank will be able to hold onto its promise of low interest rates. Either way, it appears that the Turkish public will have to bear the burden of the economic decisions made by its leaders.

Lisa-Marie Perchtold
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Japan GDP Growth Q3 2021

Japan's GDP figures will be released on the **7th** of December. While the release in the previous month was bearish for the JPY, the market expects a positive GDP growth of 0.4% to be announced.

US Summit for Democracy

From the **9th** to the **10th** of December, President Biden will host the Summits for Democracy. Leaders from government, civil society and the private sector will discuss challenges and opportunities in democracies.

Great Britain's Retail Sales

The aggregate value of sales at the retail level will be released on the **21st** of December. While retail sales in GB grew by 0.8% in November, the forecast for December is 0.5%.

Central Bank Decisions

Speech of Fed Chair Powell

On **1st** of December, Federal Reserve Chair Jerome Powell will verify recent monetary policy and the economic outlook before the Joint Economic Committee. On the **15th** of December, FOMC will announce their target interest rate, which is expected to be at 0.25%.

Bank of Canada Interest Rate Decision

On the **8th** of December, the Bank of Canada will announce its interest rate decision. Rates have been at 0.25% since March 2020 and are expected to remain at this level.

ECB Monetary Policy Decision

The European Central Bank will publish its decision on where to set interest rates on the **16th** of December. Short-term interest rates are an important determinant of currency valuation and have been set at 0% over the last months.

Inflation and Deflation

UK Consumer Price Index

YoY figures on consumer prices in the UK will be made public on the **15th** of December. While inflation was at 4.2% in the previous month, it is expected to fall to 3.9% in December. In the previous month, the forecast was 0.3 percentage points higher than expected.

Canadas's Inflation

Canada's inflation rate will be announced on the **15th** of December. Since June, inflation in Canada has been rising from 0.2% to 0.6% in November. This figure is important for the Central Bank in order to maintain price stability.

Update on Euro Zone Inflation

December inflation data for the euro area will be published on the **17th** of December. Inflation in the euro area will decrease from 4.9% to 4.1%, which is expected to have a positive impact on fixed income markets.

Labour Market

US Employment Readings

On the **3rd** of December, the US Unemployment Rate for November will be released. Similarly to the previous month (4.6%), the forecast is at 4.5%. Thus, the unemployment rate is expected to be stable during December.

US Nonfarm Payrolls

The change in employment (excluding the farming industry) will be released on the **3rd** of December. It is expected that 4,000 additional jobs will be created compared to last month. As full employment is one of the Fed's goals, the release will be closely monitored.

Employment Change in Australia

The change in the number of people employed across Australia will be reported on the **15th** of December. In November, the number of citizens employed decreased by 46,300.

Frauke Lührs
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

In mid-November, the global M&A market hit an all-time record reaching USD 5.0 tn, while already being 40% ahead of 2020 deal volume. This is largely due to an active US M&A market which accounts for 45% of deal volume (USD 2.3 tn) and a flourishing cash inflow of buyout groups who are striving to deploy capital (approximately 25% of deal volume YTD). Private equity-backed transactions more than doubled in value compared to the first eleven months of 2020 (total of USD 990.0 bn). With USD 549.6 bn worth of deals, an increase of 60% YoY, November's deal activity has remained at high levels, increasing in terms of both deal volume and deal count as favourable market conditions, including low-interest rates and high dry powder, persisted. Sectors with the highest deal activity have been Financials followed by Consumer and TMT. Noteworthy transactions include the announced merger of Constellation Brands with Monster Beverage Corp for a consideration of USD 55.1 bn, which would result in the largest transaction of the year, as well as the preliminary offer by KKR to take Telekom Italia private for USD 35.4 bn.

Selected Regions

North America
November's deal volume in the United States is up 23% compared to November last year and accounts for 41% of global M&A last month. While Communications and Industrials have decreased by 24% and 12% YoY respectively, deal volume in Financials increased by 83%. The mega-merger of Monster Beverage and Constellation Brands resulted in Consumers being the sector with the highest deal volume.

EMEA
Deal activity in Europe in November has tripled compared to the same period last year totalling USD 205.9 bn. While PE only accounted for 13% of deals count, they are responsible for 29% of deal volume as sponsors have taken advantage of the buoyant markets to exit some of their flagship holdings (e.g. EQT exited VFS Global). All sectors have shown significant growth in deal volume, most notably Communications and Financials.

Asia
In November, deal volume in Asia-Pacific has increased by 10% YoY. Overall, the industrial sector led the deal activity, accounting for one-fourth of the total deal value. Fuelled by the economic boom following the pandemic, cross-border transactions almost doubled compared to October. Noteworthy is the steep increase in transactions in utilities compared to November last year.

M&A
Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
20-Nov-21	Constellation Brands Inc	Monster Beverage Corp	US	Consumer	55,125.7	-
22-Nov-21	Telecom Italia SpA/Milano	KKR & Co Inc	IT	TMT (Telecommunication)	39,839.7	53.58%
23-Nov-21	River & Mercantile Group PLC	AssetCo PLC	UK	Financial	21,423.1	-
01-Nov-21	AusNet Services Ltd	Brookfield Asset Management Inc	AU	Utilities	13,987.6	6.13%
03-Nov-21	QIAGEN NV	BioMerieux	US	Consumer	13,334.1	-
29-Nov-21	Lundin Energy AB	Potential Buyer	SE	Energy	12,251.4	-
15-Nov-21	CyrusOne Inc	KKR & Co Inc	US	Financial	11,485.7	10.65%
05-Nov-21	McAfee Corp	Consortium led by GIC Pte Ltd	US	TMT (Technology)	10,983.0	-
15-Nov-21	CoreSite Realty Corp	American Tower Corp	US	Financial	9,481.4	13.02%
03-Nov-21	Cofely Services SA	Bouygues SA	BE	Consumer	8,224.6	-

Mats Lützenkirchen
Investment Banking Division

M&A: Top Deals

Bouygues SA to Acquire Equans SA

Bouygues SA, the France-based diversified holding company with business focus on residential and infrastructural construction is to acquire Equans SA, the local provider of multi-technical services. Equans SAs' parent company Engie SA, a French utility company, is selling the business for a consideration of EUR 7.1 bn. The transaction is expected to close in H2, 2022.

Buyer vs Seller

Bouygues Energies & Services specialises in telecoms, transport, and energy infrastructure, alongside facilities management and industrial/property maintenance. Equans is a multi-technical service provider with expertise in the areas of cooling, digital and IT, and facility management that supports customers in their energy, industrial and digital transitions. Greenhill & Co and Credit Agricole CIB acted as financial advisors to Bouygues while Credit Suisse and Société Générale advised Engie on the sell side.

Industry Overview

The multi-technical services sector notably covers electrical engineering, HVAC, refrigeration, mechanical engineering, robotics, digital and facilities management. It is a strong growth potential market, forecasted to grow by between 3 and 4% over the next five years. The sector lies at the convergence of three megatrends (i) energy transition (ii) digital transition; and (iii) industrial transition. The Bouygues/Equans deal is the largest transaction in the industry this year.

Peers	Currency	Market Cap (CUR m)
E.ON SE	EUR	29,318.64
REN - Redes Energeticas Nacion	EUR	1,681.32
National Grid PLC	GBp	37,140.33
Federal Grid Co Unified Energy	RUB	210,829.64
ROSSETI PJSC	RUB	245,671.71

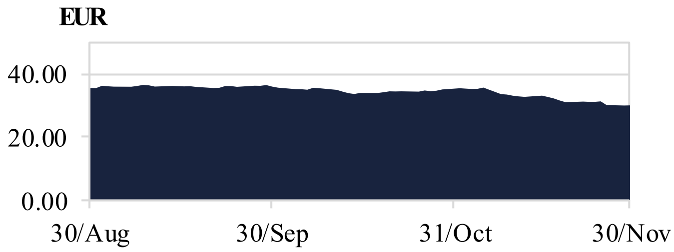
Deal Rationale

The deal will help Bouygues, that had almost EUR 35.0 bn in revenue last year, reinforce its own under-performing energy and services unit. For Engie, the sale will quicken the transition to cleaner energy, including renewable power generation and infrastructure such as car-charging networks. The deal will be "significantly accretive" for Bouygues' earnings per share in year one as the new entity aims for a mid-term current operating margin of over 5%. The deal's potential for synergies is estimated between EUR 120.0 m and EUR 200.0 m per year.

Market Reaction

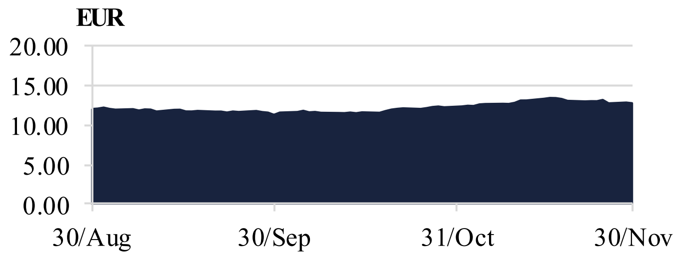
Bouygues SA

In reaction to the announcement of the transaction, Bouygues share price dropped by 5.82% opening at EUR 33.4 per share on the 8th of November.



Engie SA

The announcement of the sale of Equans caused a slight upward movement of Engie's stock, opening at EUR 12.8 on the 8th of November.



Future Challenges

The sale has been politically sensitive for Engie and the French government, ahead of next Aprils' presidential election, as Equans employs more than a third of its 74,000 workers in the country. The completion of the deal will be subject to regulatory approval and to the finalisation of the constitution of Equans' business scope.

Darryl Karberg
Investment Banking Division

M&A: Top Deals

Royal Dutch Shell to Acquire Meridian Energy

Royal Dutch Shell and Infrastructure Capital Group teamed up to acquire Meridian Energy's Australian electricity business for a consideration of AUD 729 m. The split of acquisition cost between Shell and ICG is not disclosed. The deal is set to be completed by early 2022.

Buyer vs Seller

Shell is a global oil and gas giant. ICG is a specialist infrastructure investor with over AUD 2.8 bn under management. Meridian Energy is an Australian electricity and gas retail business, ranking 10th largest electricity retailer in Australia. Shell and ICG started working together 10 years ago in Australia when taking stakes in a gas power station. Azure Capital advised the buyers, while Lazard ran the auction for the renewable electricity provider.

Industry Overview

With a CAGR of 8.4%, the global renewable energy market was valued at USD 881.7 bn in 2020. It is projected to reach USD 1,977.6 bn by 2030, which is primarily driven by the energy transition and active engagement to fight global warming. In 2019, Shell bought Australia's second-biggest electricity retailer to commercial and industrial clients. Iberdola, Enel and Shell were the finalists in the purchase proposal of Meridian Energy.

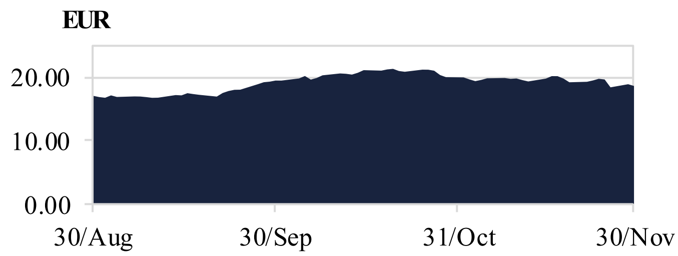
Peers	Currency	Market Cap (CUR m)
Contact Energy Ltd	NZD	6,123.91
China Everbright Environment G	HKD	32,742.06
RENOVA Inc	JPY	403,031.27
Infratil Ltd	NZD	5,819.77
West Holdings Corp	JPY	291,814.27

Deal Rationale

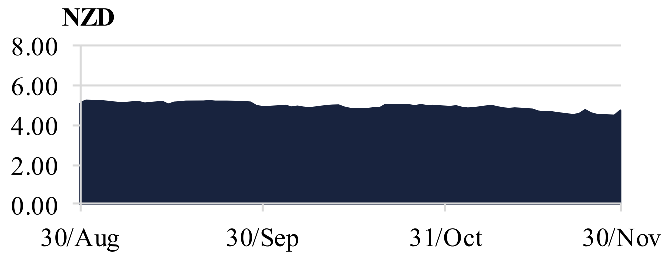
This acquisition broadens Shell's customer portfolio in Australia to include households and is aligned with its commitment to cut its absolute emissions in half by 2030 and achieving net-zero emissions by 2050. The deal aligns with Shell's plans to double the amount of power it sells globally by 2030. ICG will acquire Meridian's 300 megawatts of Australian power assets. Shell has signed offtake agreements with ICG to buy electricity from the hydro and wind assets to supply customers in Australia. The deal expands ICG's renewable generation capacity under management by more than 50% to 875 MW.

Market Reaction

Royal Dutch Shell
Since the announcement on the 21st of November 2021, the stock rose by 2.80% to close at 19.24. This is one more acquisition to strengthen Shell's power market in Australia.



Meridian Energy
Since the announcement on the 21st of November 2021, the stock added 1.33% to close at NZ 4.77. The deal was well-received by investors.



Future Challenges

Shell's acquisition of Meridian Energy's Australian electricity business arises shortly after the big news that Shell is considering moving its headquarters to the UK. Shell is facing protests over its takeover of green energy retailers. Some customers plan to switch to other green energy providers. The deal depends on foreign investment approval from the Australian government.

Margaux Richard de Foucaud
Investment Banking Division

M&A: Top Deals

KKR & Co to Acquire Telecom Italia SpA

KKR & Co proposed to acquire Telecom Italia SpA (TIM), the largest telecommunication company in Italy, estimating an enterprise value of EUR 33.0 bn deal. KKR offered EUR 0.505 a share in cash, a 54% premium on the company's closing price on the 19th of November, which would result in an equity value of EUR 10.7 bn, as it carries a net debt of roughly EUR 22.5 bn.

Buyer vs Seller

TIM is the leading group in Italy and Brazil in the ICT sector. It is the market leader in Italy's fixed network and it ranks second among mobile providers. TIM plays a central role in the rollout of fibre optic and 5G network. Its largest stakeholders include the Italian government (which used to control the company and still has veto power over the deal) and the French media group Vivendi, which holds 24% of TIM shares since 2015. KKR is being advised by JP Morgan.

Industry Overview

The ICT sector in Europe is considered to be well-consolidated, in which typically national players dominate. ICT-related innovation represents between 17% and 26% of total innovative output in the EU. In terms of Italian policy, pandemic-related EU support will translate into EUR 4.0 bn to flow into the development of a national cloud alone, from which Telecom Italia will benefit. Funding is also being provided for the modernization of broadband networks.

Peers	Currency	Market Cap (CUR m)
Swisscom AG	CHF	26,439.71
BT Group PLC	GBp	17,210.01
Hellenic Telecommunications Or	EUR	7,122.85
Telia Co AB	SEK	145,386.41
Elisa Oyj	EUR	8,935.69

Deal Rationale

Telecom Italia's recent investments have been having a lacklustre performance. Within the past five years, TIM's sales have shrunk by a fifth, and the company has accumulated liabilities of EUR 29.0 billion. Moreover, in the past four months, two profit warnings have been issued. In addition, the purchase of the broadcasting rights to the Serie A soccer league through a cooperation with the streaming service Dazn, proved to be disappointing to the shareholders of the company. In fact, Vivendi had already been very vocal about a management change – which is occurring now with the resignation of the CEO of TIM, Luigi Gubitosi.

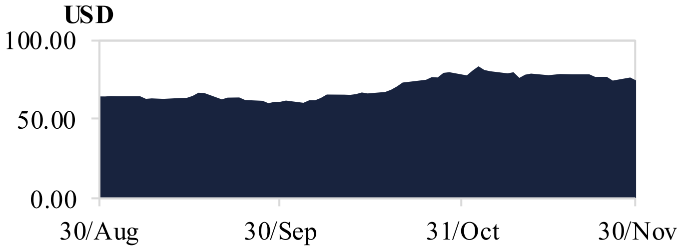
Market Reaction

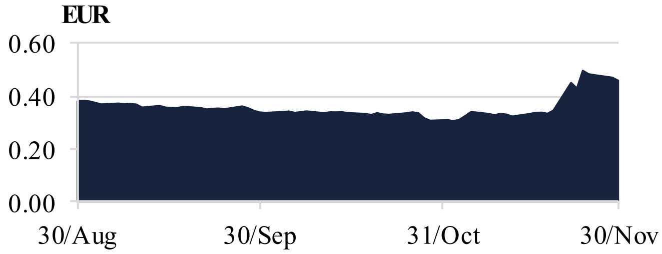
KKR & Co

The announcement of the offer was received in a positive light. There have been considerations to create a joint offer with CVC Capital Partners.

Telecom Italia SpA

Following the announcement of the offer, Telecom Italia's stock jumped 26%, to a value of EUR 0.4373 in the Italian Stock Exchange, on the 22nd of November.





Future Challenges

The terms of the deal are expected to change as the negotiations evolve. As Vivendi paid more than EUR 1 per share back in 2015, it is very likely that the current valuation mismatches their expectations, despite the recent performance of the company. Given the state ties of TIM, the government will surely impose targets, and job guarantees for the deal to be approved.

Irina Pereira
Investment Banking Division

What Happened To

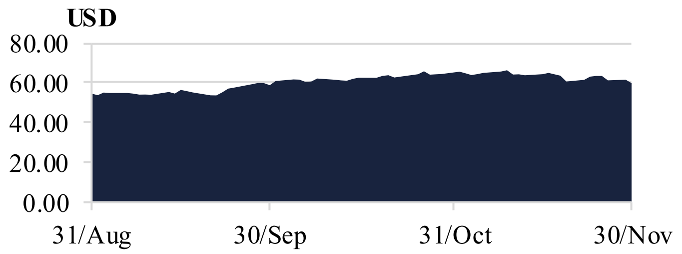
ExxonMobil Corporation

Exxon Mobil Corporation, incorporated in the State of New Jersey, is the world's largest publicly traded oil and gas company. The group provides operations including exploration and production of oil and gas, electric power generation, and coal and minerals operations. Its vast portfolio holds more than 22.0 bn barrels of oil in proved reserves, spread across six continents.

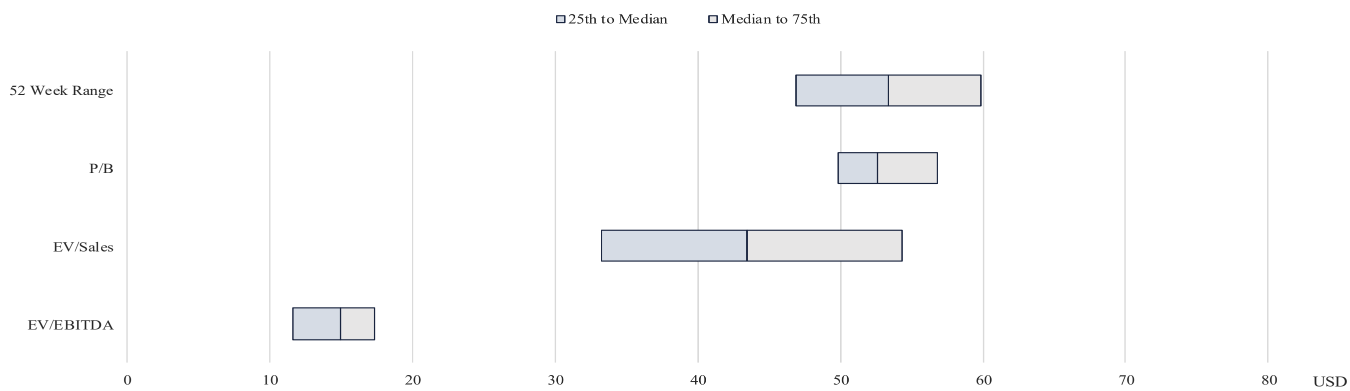
Corporate News

Exxon Mobil shares are up 47.95% YTD and 60.14% for the last 52 weeks, together with a considerable sales increase of 63.19% in the third quarter compared to the previous year's period. This year's growth is because the price for one barrel of West Texas Intermediate has been increasing over the past months topping USD 75.0 a barrel this September, after a run of five weekly gains. Increased oil prices come in the wake of an energy supply shortage, particularly of natural gas and coal, as well as low oil production prospects. Moreover, the strong performance is caused by Exxon Mobil's recent environmental, social, and governance efforts. Indeed, Exxon Mobil announced its intention to spend USD 15.0 bn over the next six years on projects associated with reducing greenhouse gas emissions. The integrated energy major boasts that it is on track to meet its 2025 plan of reducing greenhouse gas emissions already this year.

Price (30 Nov 21, USD)	61.58
Target Price (USD)	71.00
3M Performance	12.95%
Market Cap (USD m)	260,703.05
Enterprise Value (USD m)	319,457.05
**Target Price is for 12 months*	



Valuation Analysis



On the 30th of November 2021, Exxon Mobil was trading at USD 61.3 on the NYSE. The company has a current enterprise value of USD 317.7 bn. By taking a closer look at the football field above, Exxon Mobil's market price seems fair if we consider the 52-week range, the EV/Sales, and the EV/EBITDA. However, from a Price-to-book standpoint, the company is slightly undervalued, although there is a small price range. This could indicate an overstatement of Exxon Mobil's asset value.

ExxonMobil is one of the six Big Oil supermajor firms. Due to the trade war and a massive slump in demand in 2020, the price of crude oil fell, and many wells became unprofitable. This year revenues have started to recover, but practices have adapted to a lower oil price. Oil and gas companies are looking to reinvent themselves through smart goals for the energy transition while coming to terms with additional ESG requirements.

Peers	Currency	Market Cap (Cur m)
Imperial Oil Ltd	CAD	30,537.06
Chevron Corp	USD	223,997.10
Suncor Energy Inc	CAD	46,133.58
Cenovus Energy Inc	CAD	31,635.03

David Silva
Investment Banking Division

What Happened To

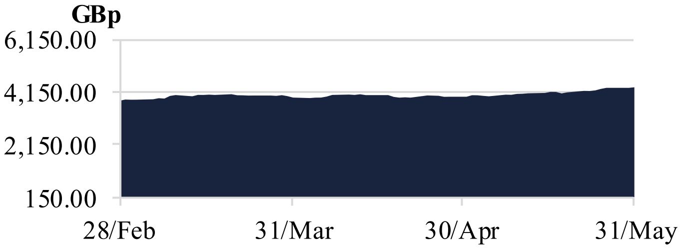
Unilever

Unilever is a conglomerate that manufactures personal care products. The company also offers a wide variety of consumer products such as food, detergents, fragrances, and home products. The company owns more than 400 brands in the food and refreshment sector which sells ice-cream, savoury, and tea. While it is based in London, it has operations in over 190 countries.

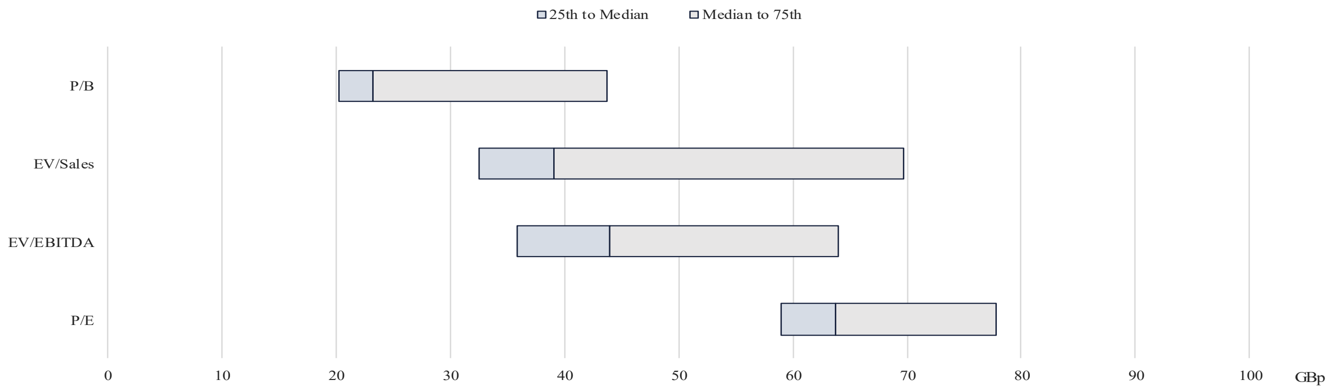
Corporate News

Recently, the private equity group CVC Capital Partners agreed to purchase Unilever's tea-making division after surpassing bidders such as Carlyle and Advent. The division is responsible for the manufacturing of famous tea brands such as Lipton. Although the division is the largest tea maker in the world it has been a deterrent for Unilever's growth as its stock price decreased by 10.72% YTD. Unilever is supposed to receive around EUR 4.5 bn from the sale on a "cash-free debt-free basis" which entails that CVC as an acquirer will not assume any debt on the seller's balance sheet and also not keep any excess cash outstanding after net-working capital requirements. Unilever will only retain a minority stake in the tea division that generates around EUR 1.0 bn sales, including businesses in India and Indonesia where the consumption of tea is on the rise. The stock price has remained relatively stable over the past three months with a market cap of GBP 98.5 bn.

Price (31 May 17, GBp)	**3947.50**
Target Price (GBp)	4600.00
3M Performance	3.36%
Market Cap (GBp m)	101,094.15
Enterprise Value (GBp m)	143,930.87
**Target Price is for 12 months*	



Valuation Analysis



Unilever's stock trades significantly above its competitors when taking into account the 52-week range. In addition, the company also retains a high EV/Sales multiple which might imply that the manufacture of trending consumer products can drive its valuation in the future. Unilever's revenue is highly diversified with the U.S representing 20% of sales whilst the U.K and other geographies accounting for both 15% and 65%.

Unilever's large presence globally plays a crucial role in its value compared to its competitors. Precisely, the company has a much bigger scale than some of its competitors as the French L'Oreal although it does not possess as much specialisation and reputation in personal care goods as the latter. The geographical footprint of Unilever is key to maintaining its superior position as the second larger consumer goods business in the world.

Peers	**Currency**	**Market Cap** (Cur m)
Reckitt Benckiser Group PLC	GBp	43,862.06
Beiersdorf AG	EUR	22,765.68
Essity AB	SEK	203,939.65
L'Oreal SA	EUR	235,867.52
Ontex Group NV	EUR	631.19

Arsénio Renato Jr
Investment Banking Division

NIC's View On

GE Plans to Form Three Public Companies

Roman Bauer
Investment Banking Division

"We have a responsibility to move with speed to shape the future of flight, advance precision health and lead the energy transition"

– Lawrence Culp, Chairman and Chief Executive, General Electric

General Electric ("GE" or the "Company") is an American multinational conglomerate headquartered in Boston. Since its foundation 125 years ago, GE invented the future of the industry. Today, GE is best known for its work in the Power, Renewable Energy, Aviation, and Healthcare industries. It offers infrastructure and financial services worldwide and operates in various segments, including power and water, oil and gas, energy management, aviation, and healthcare. As of 2020, GE employs over 200,000 staff worldwide and records a revenue of c. USD 80.0 bn.

On the 9th of November, Lawrence Culp, the Company's Chairman and Chief Executive announced that the Company plans to split into three separate, publicly-traded companies. The Company will spin-off GE Healthcare in early 2023, with the parent company expecting to retain around 20% stake in the unit. In addition, GE renewable, GE Power, and GE Digital will be merged under a united business focusing on energy management. The remaining part of the conglomerate, covering the Company's core business, will maintain the name General Electric and mainly focus on aviation. The market reaction following the announcement revealed a negative sentiment about the spin-off plans of the conglomerate. One month after the news, the Company's share price recorded a decrease of over 8% with no rapid recovery in sight.

The idea of a rigorous spin-off did not emerge from an ongoing trend of corporate restructurings and repositioning but aims at a target the Company bears in mind for a longer time: reducing leverage. Beginning of November, the Company announced the merger of its GE Capital Aviation Service business with AerCap Holdings, a global leader in the aircraft leasing space. The proceeds of the transaction were used to repay debt. Furthermore, the Company lately restated its goal of reducing its current debt burden of USD 75.0 bn by the end of 2021. In an effort to achieve its significant deleveraging, the latest restructuring announcement marks the final stage towards this goal. Culp states that "After years of debt reduction, restructuring and implementation of a decentralized business model, these businesses are ready to stand on their own with the expectations of more consistent result [in the future]."

We consider the restructuring and spin-off as a sophisticated strategic step towards reducing debt for GE. However, one must ponder multiple factors that come with the spin-off, since the resilient and profitable healthcare unit offset the suffering of the aviation business during COVID-19. Hence, the spin-off of the profitable division would trigger rating companies to put GE on credit watch. However, the individual companies could benefit from strong market positions and large-scale operations. Besides the risk a spin-off can bring, the independently operating companies can be better positioned to deliver long-term growth and create value for customers and investors due to deeper operational focus, accountability, and agility in adapting to a fast-changing world.

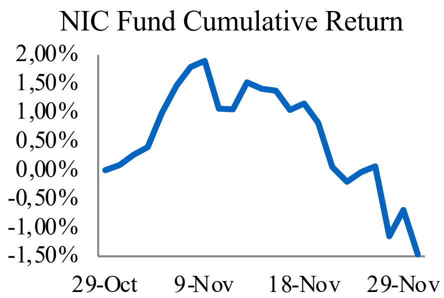
Date	Recent News
01 Dec 21	Since announcement GE stock´s price record 12% decline wiping out USD 15.0 bn in market value. ***Source:*** *finance.yahoo.com*
22 Nov 21	Announcement to achieve USD 80.0 bn gross debt reduction between 2018 and end of 2021. ***Source:*** *maerskoil.com*
09 Nov 21	Announcement of restructuring and spin-off of GE healthcare division until 2023. ***Source:*** *maerskoil.com*
01 Nov 21	AerCap acquisition of GE Capital Services business. ***Source:*** *ge.com*

Roman Bauer
Investment Banking Division

NIC Fund

NIC Fund

Portfolio Overview



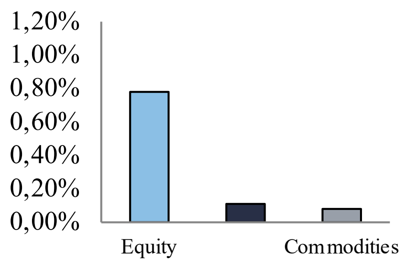
Portfolio Statistics

Cumulative Return	-1.47%
Annualized Return	-17.59%
Daily St. Dev	0.49%
Period St. Dev	2.25%
Annualized St. Dev	7.81%
Info Sharpe	-2.25
Skew (Daily)	-0.79
Kurtosis (Daily)	-0.35

Benchmark

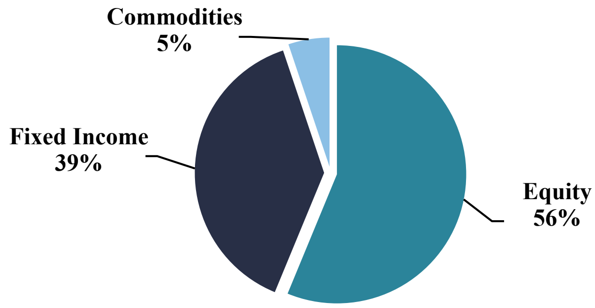
iShares 3-7 Year Treasury Bonds	40%
SPDR S&P 500 ETF Trust	40%
Powershares DB Commodity Index	10%
Ishares JP Morgan USD EM Bonds	10%

Individual VaR



Portfolio Snapshot

During the month of November, 56% of our fund was composed of Equities, 39% of Fixed Income, and 5% of Commodities. In comparison to our benchmark, the portfolio is overweight on Equities by 16%, while being underweight on Fixed Income and Commodities by 1% and 5% respectively. The market reacted negatively to a newfound Covid-19 variant at the end of the month, after having reached highs in the earlier weeks of November.



Return Metrics

Caused by a high uncertainty in the market, our overall portfolio fell by -1.47% in November. While Equities plummeted by -1.11% MTD and Commodities fell by -0.20%, Bonds were the only asset class with a positive return of 0.12% MTD.

In terms of Equities, besides holding a position in the S&P500, the portfolio is also invested in specific stocks from nine different sectors. With a negative 6.25% return MTD, the Consumer Discretionary sector was the worst-performing sector of our portfolio, while Information Technology performed the best with a return of 13.15% MTD.

The S&P 500 is down by -3.25% MTD due to fears of a new Covid-19 variant, rising inflation, and potential tapering of the Fed.

Due to a sharp sell-off in oil and gold, Commodities suffered, with the Invesco DB Commodity Index achieving a negative return of -8.76% MTD. Finally, the best performing asset class in our portfolio this month was Fixed Income, with a return of 0.12% MTD. The strongest performer of this asset class was the Ishares Tips Bond ETF with a return of 0.87% MTD.

Risk Metrics

Considering the risk of our portfolio, it registered a comparatively low daily VaR of 0.82%, reaping the benefits of diversification. This metric is significantly below the maximum established threshold of 2.5%.

Equities possessed the highest individual VaR of every asset class, equating to 0.78%. On the other hand, Bonds and Commodities exhibited slightly lower VaRs of 0.11% and 0.08%, respectively.

Felix Mitterer
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**SPY**	Our benchmark equities index, SPY tracks the S&P 500. Despite the valuations at historical highs, on a Cyclically Adjusted Price to Earnings (CAPE) basis, we believe that markets have remained confident in equities and therefore we maintain our long position.
US Equity	**Tesla**	Our long position in Tesla, taken in the beginning of April, has returned us with a return of nearly 15%. Tesla has spent heavily on R&D and looks poised to finally begin capitalizing on this work in the form of revenue growth. Also, the latest earnings release evinced a better-than expected start for 2017.
US Equity	**PKW ETF**	Our long position in the PKW buy-back ETF is one of our only remaining “Trump Trades” as it looks to benefit from large-scale corporate tax reform. The fund is poised to capitalize on any tax code change which incentivizes corporations to repatriate funds and repurchase shares. However, recently there have been more concerns over whether Mr Trump will succeed in passing a tax reform. Despite this, the ETF had a positive return for the period.
US Equity	**KBWB ETF**	On the 26th of April we chose to sell our position in the KBWB ETF. This Index was purchased with the intention of capitalizing on positive bank earnings and increased interest rates, both of which we saw during the first quarter. However, the earnings season was mixed and the ETF did not produce a positive return for the months of April and May.
EU Equity	**AF.PA**	Air France, also purchased during the April 26th Investment Committee would benefit strongly from an Emmanuel Macron victory in the second round of the French Elections. The partially state-owned airline depends on pro-EU policies for much of its business. As expected, Macron won and this stock saw an appreciation of nearly 31% over the past month.
US Equity	**PEP**	Purchased at our April 26th Investment Committee Meeting, PepsiCo looks poised for growth as the soft-drink and snack manufacturer has diversified its holdings and aims to be the leader in multiple snack-food categories. Q1 earnings were slightly off the mark, but the company announced a higher dividend than expected, continuing to show dividend growth for 45 consecutive years.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had negative performance over the last month, mainly driven by a slump in oil prices as production in the US and Canada continued to increase.
US Treasury Bonds	**IEI ETF**	Our benchmark bond index, IEI invests in treasuries with maturities from 3-7 years. Despite early signs that inflation may have been picking up and expectations for three rate hikes in 2017, the yield curve has flattened lately. We will continue to monitor these changes.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had negative performance over the last month, mainly driven by a slump in oil prices as production in the US and Canada continued to increase.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had negative performance over the last month, mainly driven by a slump in oil prices as production in the US and Canada continued to increase. OPEC members agreed to extend their deal, which was somewhat ignored by the markets. US producers seem to start becoming one of the most important catalysts for oil prices.

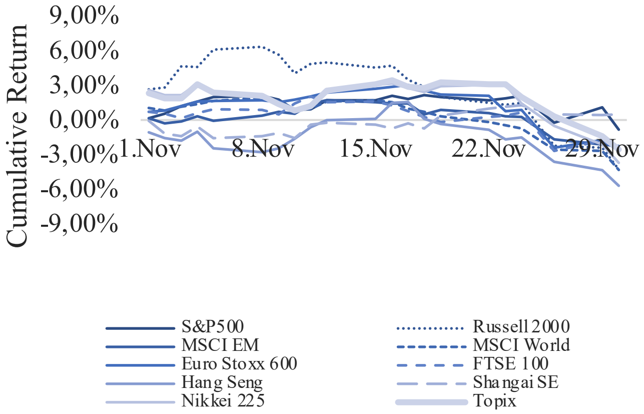
Felix Mitterer
Investment Banking Division

NIC Fund

Equities

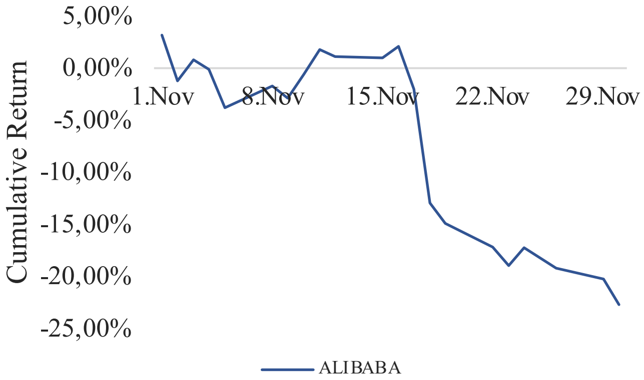
World Equities

With more than 80% of companies in the S&P 500 reporting third-quarter results above estimates, US stocks kicked off November with fresh all-time highs. Moreover, in the beginning of the month, stocks gained as investors digested a key monetary policy decision from the Federal Reserve, which included a formal announcement of the central bank's start of tapering its pandemic-era asset purchases. This led to another session of record highs for the S&P 500, Dow and Nasdaq. However, US equities slid at the end of the month as concerns about the Covid-19 Omicron variant and hawkish comments from the Federal Reserve chair weighed on global financial markets, throwing S&P 500 returns to -3.25% MTD. In Europe and Asia, markets followed the sell-off on Wall Street, with Europe's benchmark Euro Stoxx 600 index, Japan's benchmark Topix index and Hong Kong's Hang Seng down by -2.64%, -2.55% and -5.69% MTD, respectively. Nevertheless, China's benchmark Shangai SE index rose by 0.47% as investors embraced positive signs in talks between U.S. President Joe Biden and Chinese leader Xi Jinping. It was the only index to register positive returns for the month of November. This new Covid-19 variant, contributed to an increase in the already high level of uncertainty in equity markets, and traders should now turn to stocks with stronger financials, ideally benefiting from tighter monetary policy.



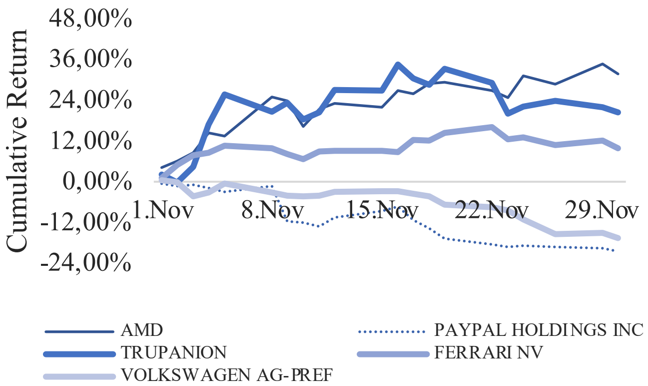
In Depth: Alibaba

Alibaba Group is a group of companies, headquartered in Hangzhou, China, whose businesses are based on e-commerce. Its business model revolves around the advertising services it provides to merchants, including pay for performance (P4P) marketing, individual advertising campaigns through the display of photos, graphics, videos, and livestreaming. The price it charges merchants, known as the take rate, is much lower than many of its peers, allowing Alibaba's market share over the last few years to remain stable at roughly 50%. The Chinese tech giant still has a lot of room to grow, for example, in rural areas, where Alibaba only established a 45% penetration in terms of annual active customers (compared to around 90% in developed areas). The prolonged dip of this stock is largely due to the Chinese tech crackdown, which could be overrated by investors, implying an underpriced stock, and thus a favorable long-term investment.



Our Performance

In November, the contribution of equities to the overall portfolio performance was negative, with -1.11% MTD. Two of the main drivers of our portfolio's equities' performance were Volkswagen AG-PREF (-18.83%) and PayPal Holdings (-20.51%). Nonetheless, some stocks extended their positive performance from October, such as AMD (31.72%), Trupanion (20.43%) and Ferrari NV (9.99%).



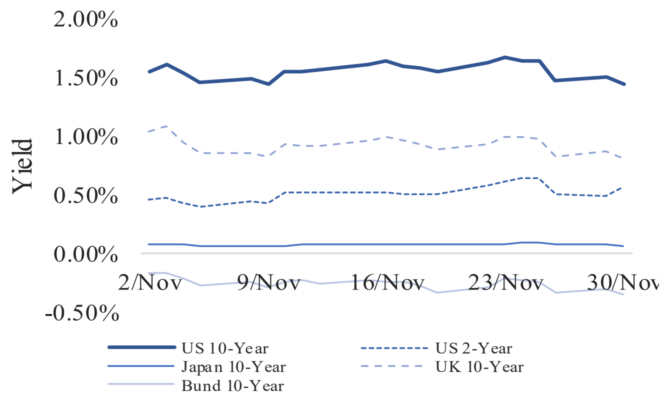
João Vaz
Financial Markets Division

NIC Fund

Fixed Income

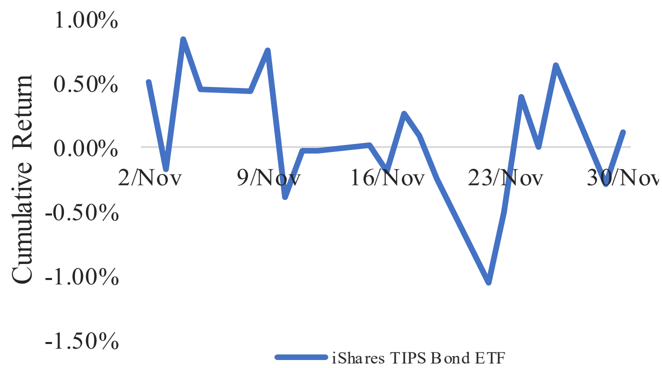
World Yields

The bond market was once again heavily affected by the decisions of central banks. Another driver of the fixed income market was the new Covid-19 Omicron variant, significantly increasing uncertainty in the bond market. After a volatile month and flattening yield curves, the Fed announced its plans to accelerate tapering of bond purchases, the 10-Year US Treasury Yield closed at 1.44% on 30th of November, slipping 7.16% MoM. In contrast, the 2-Year US Treasury yield rose 13.18% during the month. Federal Reserve Chair, Jerome Powell, indicated in his post-meeting press conference that the Federal Open Market Committee (FOMC) will begin to cut the pace of its asset purchases. The tapering is expected to start in December 2021 as Powell emphasized the FOMC will reduce monthly purchases of Treasury securities by at least USD 10.0 bn and Agency securities by USD 5.0 bn. As the pace of the economic recovery has been stronger than previously expected, yields had the potential to rise. The market, however, saw a reverse course at the end of the month and fell to a two-month low caused by fears over the resistance of the Covid-19 Omicron variant. This caused the UK 10-Year government yield to close the month at 0.81%, falling from 0.99% a week earlier. Similarly, the German 10-Year yield took a hit, decreasing from -0.23% to -0.35% within one week.



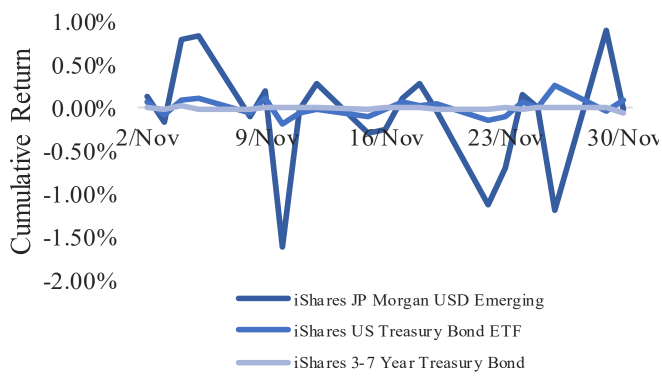
In Depth: Flattening yield curve a concern?

Bond markets are sending warning signal over the outlook for global growth as inflation fears and the spread of the new Covid-19 variant spark a shift in investor expectations. While short-term securities have been hit by the prospect of tighter monetary policy, longer-dated bonds have rallied as the prospect of another wave of Covid-19 infections exacerbates concerns about the trajectory of the global economy. This made the gap between 10-Year and 2-Year US government bond yields shrink to 0.82 percentage points during the month, representing its narrowest gap since January 2021. The yield curve in the UK has been flattening even more dramatically, with the gap between 2-Year and 10-Year yields shrinking to 0.28 percentage points. Parts of the yield curve are now inverted, indicating expectations of an economic slowdown. The fluctuation is also driven by fears of investors that the Fed may be about to raise rates too aggressively, slowing the economy and eventually forcing it to cut rates again.



Our Performance

Our portfolio is currently holding 39% in fixed income securities. During the month of November, our portfolio holdings gained 0.12% overall. In comparison, our benchmark fund for fixed income securities, IEI ETF, tracking 3 to 7-Year US Treasury Bonds, returned 0.29% MTD, mainly affected by a highly volatile financial market.



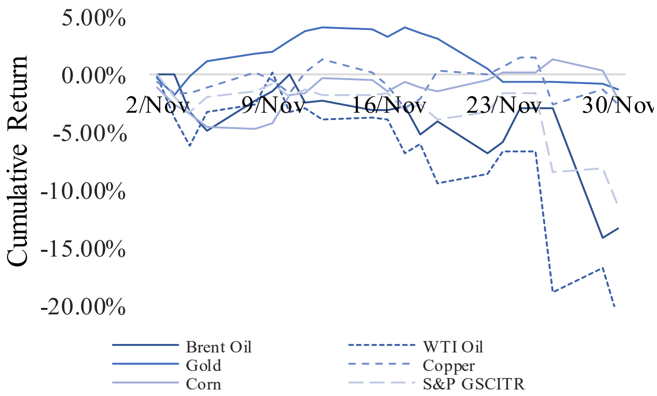
Raphael Northoff
Financial Markets Division

NIC Fund

Commodities

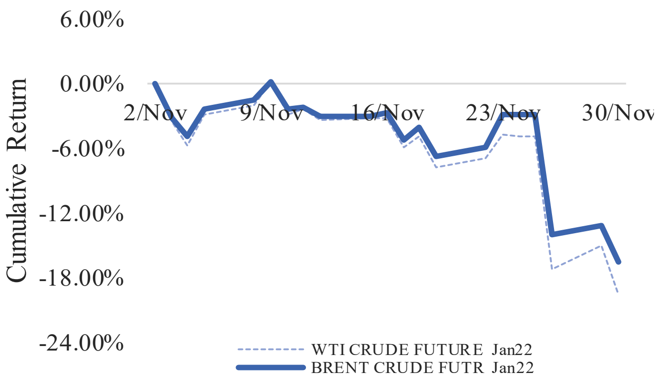
November Round-Up

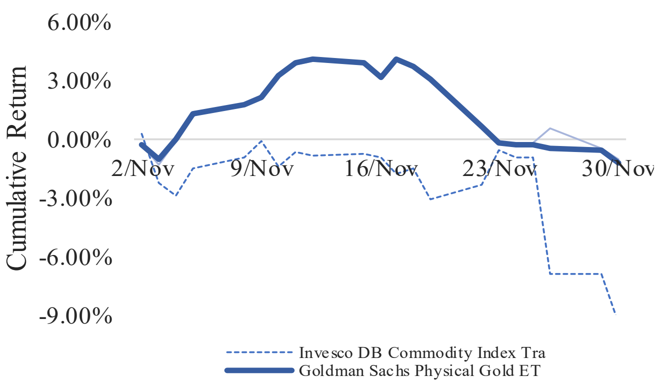
The GSCI Index fell by 10.82% in November. This marks a reversal in the strong performance in commodities over the past year as global economic activity recovered from its pandemic lows. The decrease was largely driven by a late-month collapse in oil prices spurred by the emergence of the new Covid-19 Omicron variant. Brent and WTI prices were sent crashing by 12% and 13% on the 27th of November alone. The price of copper decreased by 2.06% MoM and remains 10.47% below its peak in May, due to signs of manufacturing weakness in China, one of the main sources of demand for the commodity. The price of corn fell by 0.22% in November. Poor performance earlier in the month due to a strong harvest season in the US was partially offset by higher-than-expected export sales, primarily to Mexico and Canada. Gold – whose demand is to a greater degree a function of investor speculation rather than its utility as a good – saw a modest decline in November, with a -0.58% MoM return.



Outlook for December

Brent crude prices ended November at USD 70.57 per barrel after having tumbled from their 3-year high in October. News of a new Covid-19 variant, which is expected to be more transmissible and resistant to current vaccines, are expected to subdue the fast recovery in global demand which had reached its pre-pandemic levels of 99.3 MMb/d in October. This, together with an upcoming OPEC meeting on the 1st and 2nd of December which will set forth the bloc's output plans, has created a lot of uncertainty around the short-term supply/demand dynamics of oil. However, analysts believe the market has overreacted. Goldman Sachs estimates the fall to imply a 7-million-barrel slump in global oil demand, equivalent to a cease in global air travel for 3 months or half the decrease in demand seen in Q2 2020. Moreover, the long-term prospects for the oil market remain bright. The upstream oil & gas industry has experienced several years of underinvestment due to ESG pressures and poor industry performance. Global upstream CapEx averaged USD 320-USD 350.0 bn in 2020 and 2021, a level that Energy Aspects, an oil & gas research consultant, estimates is 25% short of what is needed to hold production steady at 100 MMb/d. Although long lead times between investment and production mean the effects of underinvestment have yet to manifest themselves in production levels. Furthermore, US shale players are now more focused on shareholder returns than they were a decade ago, when a policy of growth-at-any-cost destroyed much capital.





Our Performance

Commodities had a -0.20% contribution to the performance of the NIC Fund MoM, mainly due to our position in Invesco DB Commodity Index Tracking Fund, which was down 8.76% for the month, and contributed -0.18% to the fund's performance.

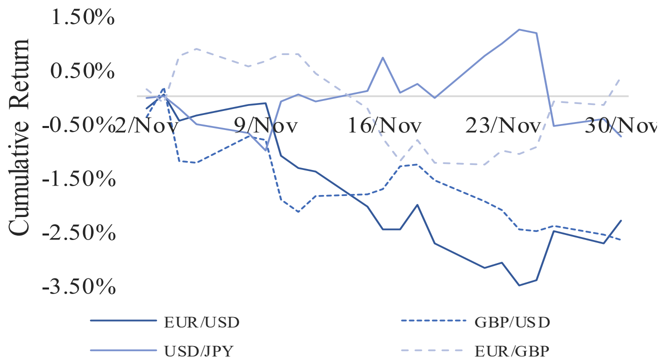
Nicolas Gomez
Financial Markets Division

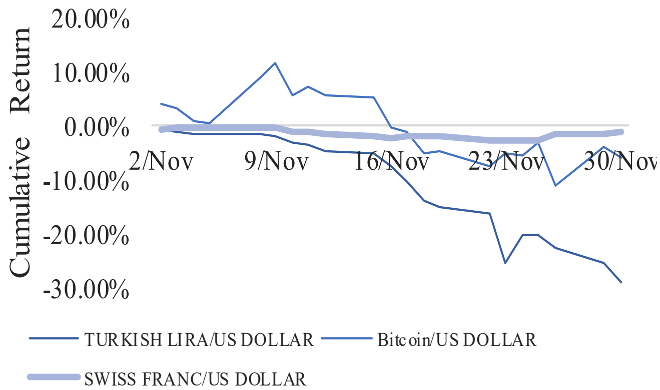
NIC Fund

Currencies

World Currencies

The month of November was very volatile for currencies. In the latest ECB and Fed policy meetings, officials in Europe agreed that the generous monetary policy support to the economy would need to be reassessed at some point in the future. Additionally, European officials reiterated that the uptick in inflation was seen as temporary, while the Fed signaled it was ready to raise interest rates if inflation continued to run high. Subsequently, investors are expecting that the Fed will tighten monetary policy faster than other major central banks. In addition, Europe is already imposing new restrictions and lockdowns amid growing concern over the new Covid-19 variant. Therefore, the Euro experienced a depreciation of 2.31% compared to the US Dollar, while the US currency appreciated nearly 1% compared to the Swiss Franc over the last month. The British Pound also depreciated and closed the month at USD 1.33 per GBP. On the other hand, over the same period, the US Dollar registered a 0.5% depreciation against the Japanese Yen, and the Chinese Yuan closed the month of November at 6.37 per US Dollar, marking a 6-month high. The appreciation of the Chinese currency was supported mainly by strong corporate demand as Chinese firms continued to sell Dollars and buy Yuan to make payments. Analysts remained confident that Chinese authorities will do little to curb the Yuan's strength for now. Meanwhile, China's FX regulatory body is launching a pilot program for Yuan futures trading, intended to improve hedging against currency risks in a market where the recent trend of Yuan appreciation has been fueled by a "herd effect".





In Depth

In Turkey, the Lira is in the throes of a currency crisis. The Turkish Lira has lost more than 40% of its value against the United States Dollar this year, making it the worst-performing of all currencies. In November alone, the Lira lost 29.18% of its value against the Dollar – landing it well into currency crash territory. The reason behind the Lira's depreciation was that fact that President Erdogan doubled down on the central bank's recent rate cut, stating that he will never defend rate hikes nor compromise on economic issues. Despite widespread criticism and inflation coming at nearly 20% in October, the president defended low rates 5 times during the last 2 weeks of November, alluding to low borrowing costs as the road to victory in Turkey's "economic war of independence". In addition, November was very volatile for cryptocurrency investors. As central banks around the world are in talks to hike interest rates, cryptocurrencies experienced a major sell-off, showing that these digital currencies may not be a good hedge against inflation. Year to date, bitcoin has experienced a positive 96.68% return against the US Dollar. However, over the past month bitcoin holders suffered a negative return of 9.86% on the asset.

Our Performance

We currently hold no currency related assets in our portfolio.

Yan Afonso Souza
Financial Markets Division

Extras

Hot Topic

Electric Vehicles Invasion: Racing Ahead

Sara Ivackovic
Financial Markets Division

"We cannot change what we are not aware of, and once we are aware, we cannot help but change."

– Sheryl Sandberg, CEO, Meta Platforms Inc.

Following last month's Climate Change Conference (COP26), November has seen increasing enthusiasm about electric vehicles markets coming from both investors and policymakers. Global car manufacturing leaders gathered in Glasgow to discuss production of zero emission vehicles, six of them signing the pledge to end the sale of polluting cars anywhere in the world by 2040. The increasing climate awareness among vehicle buyers coupled with policymakers' push for EV sales has certainly helped the sector. The choice of electric vehicles available to customers has broadened as well, with new entrants showing remarkable results. Investors are getting excited about the electric automotive sector, hoping that new entrants could emulate the success of Tesla, and causing the run up in share prices of EV companies.

Much of the policymakers' focus has been on developing the infrastructure to accompany the transition to battery-powered vehicles and reducing the so called range anxiety, the idea that electric vehicles are not able to undertake long journeys due to insufficient battery capacity. Biden's administration announced a goal to build half a million new EV chargers in the US by using USD 7.5 bn from the infrastructure package signed this month. As a part of the "Build Back Better" Act, President Biden has set new tax credits for American-made electric vehicles in an effort to encourage Americans to buy more electric cars made in the US. Authorities in the UK seem to align their goals with the US, passing a regulation stating that all new homes in the UK are required to have charging points for electric vehicles. Prime Minister Boris Johnson has announced that 145 k new charging points will be installed as a result of this regulation.

November was also an exciting month for IPOs in the EV sector. American electric - vehicle start-up, Rivian, went public in one of the biggest stock market debuts since Facebook. With an opening market value of more than USD 100.0 bn, the company is now worth more than Ford or General Motors. The market's reaction reflects high expectation for Rivian that has delivered only 150 trucks so far. Following its initial public offering, the company announced that it will boost production to 1 m vehicles per year within a decade and roll out an electric SUV as soon as next month. Rivian also has powerful support as, Amazon, which owns 20% of the company, has already pre-ordered over 100k electric vans.

Other major players are sharpening efforts to add more battery-powered vehicles to the market. General Motor announced its entrance into the electric boat business, in addition to already producing electric planes, trains, and delivery trucks. Ford is set to increase its production capacity of electric vehicles to 600k units globally by 2023, led by its upcoming F-150 Lighting electric pick-up truck. Pressured by investors' increasing demand that companies cut on emission, even US rental companies have been embracing green technology. Hertz Global Holding announced it will buy 100k electric cars from Tesla, signaling a broad shift to EV's for rental car companies. Although big players have been rapidly increasing the production of EV's, none of them are expected to come close to rivalling Tesla any time soon, forecasts suggest.

Electrical vehicles are a niche but growing product and the EV market has yet to take off. According to the newest report, drivers around the world will buy around 6 m electric vehicles this year, which represents 8% of all vehicles sales. Perhaps it will take years before electric vehicles outsell their gas-powered siblings, but one fact is certain: the race has started.

Sara Ivackovic
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Extras

Hot Topic

Inflation: From Transitory to a Persistent Concern of Central Bankers?

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"I think it is probably a good time to retire the word 'transitory' and try to explain more clearly what we mean."

– Jerome Powell,
Chairman, Federal Reserve

Since the pandemic began in 2020, central banks such as the European Central Bank and the Federal Reserve took several steps to address the lack of liquidity in financial markets. In particular, the European Central Bank implemented bond purchases with a value of around EUR 1.8 tr. The Federal Reserve directed USD 700.0 bn towards bonds and USD 200.0 bn for mortgage-backed securities. Although these measures prevented markets from decreasing liquidity, they became a concern for wider investing due to inflation risks.

In 2021, when central bank officials were questioned about the overall rise in prices in the market they were quick to label these changes as "transitory". For instance, the Federal Reserve decided several times to maintain interest rates at zero because the price increases were temporary and the bank was aiming at achieving its full-employment target. Likewise, the European Central Bank President, Christine Lagarde stated that the inflation in Europe was largely transitory, although prices rose by 3.4%, the highest in 13 years. Therefore, inflation has become more concerning for markets as it crossed the 2% bound set by the majority of developed economies' central banks.

The initial price increase in the first half of the year came as a result of the increased demand for goods as economies opened up and vaccine rollout took place. The inability to increase the supply of goods across sectors as well as labour shortage significantly contributed to a price increase. By then, central bankers attributed the term transitory as they believed it was all a matter of time until the situation settles, which, unfortunately, did not happen yet. Euro-Area inflation rose an annual of 5%, the highest since the launch of the Euro, with energy prices leading the hike (+27%).

Therefore, can inflation still be taken as transitory? Events from the Euro-Area indicate this might not support this case. The Irish Central bank for example made its first reserve gold purchase in 2009, a tool used by central banks to hedge against inflation. Furthermore, in Germany Spain and Baltic region, the cost of living rose by 6% and above YTD. In the US, FED Chair Jerome Powell decided the drop the transitory label given to inflation over the last few months. Particular reasons include a smaller labour force than prior to the pandemic. The strong demand for labour led employers to raise overall wages, particularly in the low-wage industries. Hence, average wages increased by almost 25% YoY for US employees in November, which will add to broad inflationary pressures in 2022. As labour costs are a sticky cost factor, it is very likely that companies either automate more processes or pay higher wages and pass the additional costs to consumers.

Central banks have tried to abstain from worrying the public and the markets regarding the uncertain path of inflation. However, it has become apparent that they will need to be more precise regarding the actions they plan to undertake in the near future. To top it all off, the current situation is worsened by the discovery of the new Covid-19 Omicorn variant. The risk of lockdowns puts pressure on the markets and could lead to propel inflation.

Currently, both the Federal Reserve and the European Central Bank are in the process of decreasing their bond purchase programs which were started at the beginning of the pandemic.

It remains to be seen how central banks will handle the effects of a continuing pandemic amongst rapidly rising inflation.

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ESG Review

Shipping Charts Course for Sustainable Future

João Vaz
Financial Markets Division

"While often-ignored shipping space has recently hit headlines, it has long been an industry ESG investors have watched intently."

– Eric Pedersen, Head of Responsible Investments at Nordea Asset Management

Shipping is the backbone of international trade and its ability to offer economic and efficient long distance transport puts it at the centre of the world economy. It involves the delivery of products from the start to the end of a supply chain. As a matter of fact, 11 billion tons of goods are transported by ship each year, equivalent to USD 14 tn. This represents more than 80% of current global trade activity and is still growing.

This cost-effective mode of transport has typically flown under the radar, but has reached prominence recently as disruptions have forced consumers to recognise the importance of global shipping. The current Covid-19 crisis has highlighted this issue, as many high-volume shipping ports in China were forced to close in recent months outbreaks in Malaysia and Vietnam cut labour and pulled workers out of key container ports. Another eye opener that caused a series of cascading delays was the accidental grounding of the container ship Ever Given in the Suez Canal, which blocked shipping through the key artery for six days in March, leading to thousands of cargo containers being left dormant for days and weeks at major ports. The stranded container ship was holding up an estimated USD 9.6 bn of trade along the waterway each day.

ESG is becoming an increasingly important topic for investors across all industries. It is imperative that companies understand the environmental and social consequences of their operations. The maritime industry is no different and it faces a variety of ESG challenges, in areas such as safety of life at sea, protection of the marine environment, as well as the provision of decent working and living conditions for seafarers. Thus, Nordea's ESG experts evaluate this sector in many different dimensions, including greenhouse emissions, employees health and safety, accident management, and corporate governance.

It is of major importance to note that nowadays, despite being one of the least emission-intensive modes of transporting goods (as compared to trucking and aviation, for instance), this sector is still a strong carbon emitter, accounting for 2.5% of global CO_2 emissions. Moreover, many scientists have projected that maritime shipping could account for 17% of total annual CO_2 emissions by 2050, if things are left unchecked.

However, unlike many other industries, a shift to electrification is not an obvious solution here due to the large quantities of energy required over extended time periods. Fortunately, advances in green hydrogen and ammonia are already being made by firms such as Yara International, Aker Carbon Capture and Aker Clean Hydrogen, which will be vital to the shipping industry. Shipping groups can also take action to make their operations more efficient, with obvious implications for their carbon emissions . One good example is the Norwegian vessel owner Klaveness Combination Carriers that designed vessels able to operate as both bulk ships and product tankers, virtually eliminating repositioning of its vessels between journeys.

ESG concerns in this industry such as ship recycling, crew and yard workers rights, cargo safety, and the obvious environmental concerns should be closely followed by asset managers around the world. According to Eric Pederson, Head of Responsible Investments, Nordea is pleased to remain side by side with companies such as Klaveness and many others in the shipping industry, that are committed to progress in terms of sustainability. Moreover, Pederson believes that "ESG investors can chart to promote environmental and societal advances in this crucial global industry".

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Thank you!

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