NIC

— Nova Investment Club —

Newsletter

May 2022

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, Darryl Karberg, President, elaborates on Just Eat Takeaway exploring sale of Grubhub. Moreover, in our Regional View, Raphael Northoff, discusses whether the US will withstand inflationary pressures without an economic downturn.

Our Investment Banking Division will guide you through April's overall M&A activity. Read about AMD acquiring the networking provider Pensando, Thoma Bravo acquiring SailPoint Technologies Holding, and Blackstone to acquire American Campus Communities. Additionally, get a detailed overview on what happened to PayPal Holding Inc and Netflix Inc, and read our opinion on how innovation is critical to the sustainable development of the food industry.

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 April was slightly negative, with a cumulative return of 1.48%. A loss that can be mainly attributed to Equities.

On the Hot Topics of this month, Felix Mitterer, discusses whether there might be a ban on Russian oil in Europe, while Arsenio Renato, elaborates on cybersecurity and whether privacy and identity concerns are driving growth. Lastly, on our ESG review in collaboration with Nordea, Irina Pereira, Vice President, discusses the impact of the Russia-Ukraine conflict on Europe's climate agenda.

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Macro Overview

Monthly

May 9th, 2022

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Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4 132	-3,27%	-8,50%	-13,31%
DJIA	32 977	-2,47%	-6,13%	-9,25%
Nasdaq	12 335	-3,93%	-13,38%	-21,16%
MSCI World	3 293	-2,84%	-7,96%	-12,83%
MSCI EM	3 956	-1,62%	-10,42%	-14,92%
Russell 2000	1 864	-3,95%	-8,10%	-16,98%
Euro Stoxx 50	3 803	-0,97%	-8,90%	-11,53%
FTSE 100	7 545	0,30%	1,07%	2,17%
Nikkei 225	26 848	-0,95%	-0,57%	-6,75%
Hang Seng	21 089	2,18%	-11,40%	-9,87%
Dollar Index	102,96	1,72%	6,65%	7,62%
EUR/USD	1,055	-2,27%	-6,14%	-7,26%
GBP/EUR	1,193	0,29%	-0,38%	0,27%
GBP/USD	1,257	-2,06%	-6,49%	-7,08%
USD/JPY	129,700	0,93%	12,67%	12,70%
USD/CHF	0,97	1,49%	4,81%	6,45%
Brent Crude	109,340	2,52%	19,88%	40,58%
Gold	1 911,7	-1,00%	6,50%	4,54%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	2,934%	3,5	115,7	142,4
GER 10Y Yield	0,938%	-3,4	92,7	111,5
JPY 10Y Yield	0,230%	-2,0	5,2	15,9
UK 10Y Yield	1,905%	-5,8	60,3	93,4
PT 10Y Yield	2,017%	2,9	135,2	155,2

**Source: Bloomberg, as of 2022-04-29*

In Focus

April

US inflation hits highest rate since 1981. The inflation rate in March in the US was in line with estimates by registering an annual increase of 8.50%. Excluding food and energy from the calculation, price growth was more contained at 6.50% (vs. 6.60%).

James Bullard said he supported aggressively raising interest rates. The Chairman of the Federal Reserve suggested supporting a 50-basis point hike in May in conjunction with a balance sheet reduction. Otherwise, the central bank risks losing its credibility. “I think there is a certain fantasy in the current policy of central banks,” Bullard said. “Neutral does not put negative pressure on prices. It just stops putting positive pressure on inflation.”

US economy contracts for the first time since mid-2020, when Covid-19 lockdowns had curtailed activity. The US economy contracted unexpectedly in the first quarter (annualised 1.40% GDP drop), as a record-high trade imbalance and weaker inventory growth masked strong spending by American consumers and businesses. Biden blames it on “technical factors” and hails strong spending and investment.

Soaring dollar pushes euro to five-year low. A global rally in the USD is ripping through markets as investors bet most central banks will lag the pace of rate rises from the US Federal Reserve. “The market is convinced that the Fed will be more aggressive than the ECB under pretty much any scenario,” said Athanasios Vamvakidis, head of foreign exchange strategy at Bank of America.

After the last monetary meeting, the ECB kept the reference rates unchanged. The ECB opted to leave interest rates unchanged and the level of assets purchases at EUR 40 bn in April, EUR 30.0 bn in May and EUR 20.0 bn in June. Christine Lagarde noted that “downside risks to the growth outlook have increased substantially as a result of the war in Ukraine”. Inflation will remain high over the coming months, mainly because of rising energy costs, she added.

Markets are pricing the possibility of the ECB raising interest rates this year. Markets now bet the ECB will take its deposit rate from minus 0.5% into positive territory as soon as July and to above 1% next year. This would be the first interest rate hike in a decade. Such a shift, which analysts at Goldman Sachs and JPMorgan Chase are now forecasting, would mark a turnaround for the ECB and its president, who was insisting as recently as December that a raise in rates is “very unlikely” in 2022.

Emmanuel Macron defeats Marine Le Pen to be re-elected French president. Le Pen conceded shortly after the first projections showed Macron winning more than 58% of the Sunday’s presidential run-off and said she would fight on with her Rassemblement National party in elections for the National Assembly in June. The abstention level was the highest (28%) since 1969. Speaking to supporters in front of the Eiffel Tower in Paris, Macron acknowledged he would have to preside over a divided nation in his second term after many backed his rival or failed to vote.

German producer prices surged at their fastest pace in at least 73 years. In March, the producer price index increased 30.9% in annual terms (vs. 30%), raising concerns of a serious bout of stagflation. Costs for German industry were expected to rise sharply on the back of Russia’s invasion of Ukraine, which has sent prices of energy and other commodities soaring.

João Vaz
Financial Markets Division

Deeper Dive

Just Eat Takeaway Exploring Sale of Grubhub

Darryl Karberg
Investment Banking Division

"Home and work have been our only places for so long, that we just want a third place back"

– Mark Brandau, Group Manager, Datassential

Less than two years after acquiring US delivery service Grubhub, Just Eat Takeaway is already exploring new avenues for its American subsidiary. Shares in Just Eat Takeaway (JET) rose over 7% on news that the company is interested in selling Grubhub. The company has lost more than two-thirds of its market value in the last 12 months. As a result, the firm is facing increasing calls from prominent shareholders to divest its Grubhub division. In October, activist investor Cat Rock Capital called on Just Eat Takeaway.com to sell Grubhub and "refocus its business on Europe". Cat Rock owns about 7% of the company. Alex Captain, founder and managing partner of Cat Rock, said Just Eat Takeaway's share price had sunk significantly, making the company "vulnerable to takeover bids well below its long-term intrinsic value".

JET is not the only food delivery company to have had a tough time on the stock market recently. Delivery Hero's value has fallen by 73% in the last year, while the value of UK-based Deliveroo has fallen by 56%. At the same time, the emerging competition from reopened restaurants is weighing on the annual targets of food delivery companies. As a result, Just Eat takeaway's gross merchandise value – that is, everything that customers throw into the digital shopping basket – is no longer likely to grow as strongly as previously thought. Nevertheless, the operating loss could be somewhat lower in the current year. The management is currently examining several options, such as the partial or complete sale of Grubhub, Just Eat Takeaway announced in Amsterdam on Wednesday. The board could also imagine taking a strategic partner on board. Whether any of the options will actually be brought to the next step, however, is unclear. UBS expert Sreedhar Mahamkali considers the strategic detachment of Grubhub as good news for Just Eat Takeaway investors.

After the presentation of the Q1 2022 figures, the management had to revise its forecast: the gross volume of goods for the current year should only grow in the mid-single-digit percentage range compared to the previous year. Previously, the management had forecasted growth in the mid-teens. According to Jefferies analyst Giles Thorne, the weak outlook for gross merchandise volume is due to uncertainty about how relaxed Covid-19 measures will affect the business model. People are now flocking back to restaurants and ordering less food to take home as a result. The weaker outlook for gross merchandise volume is offset by a slightly more optimistic forecast for gross margin. That's because the company now expects adjusted loss before interest, taxes, depreciation and amortisation (EBITDA) to be 0.50% to 0.70% of gross merchandise value. Most recently, the target for the margin was minus 0.60% to 0.80%. Thus, 2022 should again see an operating loss, although less than in the previous year. In 2021, the adjusted loss was 1.20% of the gross value of goods. The fact that the company now wants to move a little faster than before towards the profit zone is likely due to market constraints. After all, the cost of capital has risen sharply in the face of the inflation trend, which has almost forced the company to behave more carefully with regard to marketing expenditure, for example. But at least the management is taking the opportunity to focus on the development of earnings.

Already in the first quarter of the current year, the competition exerted pressure on the firm's business model. With around 264 m orders, Just Eat Takeaway not only clearly missed the average expectations of analysts, but also recorded a slight decline compared to the previous year. Gross merchandise value, on the other hand, rose by 4% to EUR 7.2 bn. It remains to be seen whether a strategic detachment from Grubhub will strengthen JET's position in an evermore competitive environment.

Darryl Karberg
Investment Banking Division

Regional View

Will the US Withstand Inflationary Pressures Without an Economic Downturn?

Raphael Northoff
Financial Markets Division

"In terms of addressing inflationary concerns, the Fed is facing the biggest challenge it has faced in decades"

– Karen Dynan, economics professor at Harvard University, who previously worked at the Federal Reserve

The US is currently experiencing one of its biggest challenges of the last ten years: The country is facing the highest inflation in 40 years, not caused by demand- but rather by supply-driven inflation. While the Federal Reserve raised interest rates in its meeting in March for the first time since December 2018, the decision to lift rates might come at the expense of painful job losses in combination with an economic contraction.

The Fed's shaky track record in successfully engineering a slowdown without creating unintended economic harm has fuelled fears that it may struggle to lower inflation while still maintaining economic growth. According to research by Roberto Perli, head of global policy at Piper Sandler, in six of the past eight inflation-fighting campaigns since 1970, when the Fed raised interest rates to or above a "neutral" rate, a recession followed shortly after.

Already prior to the Covid-19 pandemic, the US was facing a slowdown in Gross Domestic Product. This repeated itself in 2022 as GDP dropped 1.40% on an annualized basis in the first quarter of 2022 after growing by 6.90% in Q4 of 2021. The declines were fuelled by fixed investment, defence spending, and trade imbalance. In addition, as the Russian invasion of Ukraine has pushed up commodity prices and supply chain disruptions in China are looming, the US economy is being challenged by the greatest inflation in 40 years.

In 2021, the Fed signalized a gradual scaling back of the Covid-19 stimulus it poured into the economy after concluding inflation to be "transitory" and moderate in the medium term. However, as price pressures grew and spread across a wide range of industries, the US central bank was compelled to react, signalling an increasingly aggressive policy in recent months that many economists worry will go too far.

As the US expects a CPI increase of 7.40% YoY in April, the Fed is anticipated to announce that it will raise its benchmark short-term interest rate by 50 basis points, leading to the sharpest rate hike since 2000. Additional rate hikes are expected to follow in June and July and in the months to come. Consequently, this would lead to three half-point rate increases in 2022, followed by another three quarter-point rises in 2023.

At first glance, the expected rate hikes seem intimidating due to the potential risk of harming the economy. But despite the expected fastest pace in rate hikes since 1989, leading to a rate of approximately 3.60% in mid-2023 and the unexpected 1.40% decline in US GDP, financial markets paid little attention to the report as much of the GDP decline was caused by factors that are likely to reverse later in the year.

Factors such as the deceleration in private inventory investment weighed on growth after its strong performance in 2021. Exports and government spending across state, federal and local governments and increased imports were further constraints leading to the drop in GDP. Further, defence spending cuts of 8.50% were a significant drag, wiping a third of a percentage point off the final GDP figure. While consumer spending, which represents roughly two-thirds of the US economy, performed well, increasing 2.70% as inflation put pressure on prices, trade deficits wiped out the rise when dropping by 3.20%.

As net trades were affected by a rise in imports, particularly consumer goods, the rise is not expected to persist in Q2 and Q3, which would cause the GDP to turn around again. For that to happen and to sustain US growth into 2022, supply chains may need to ease, while some resolution in Ukraine will have to follow. This could ease inflation while having positive consequences for the US economy.

Raphael Northoff
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

OPEC+ May Meeting

OPEC+ ministers will meet on the **5th** of May. It is expected to stick to its plan of increasing oil production each month by an additional 432,000 barrels per day until September. The decision comes despite market concerns on the demand side as China's economy as a result of a Covid-19 outbreak.

EU Proposes Russian Oil Ban

The European Union plans to ban imports of Russian oil over the next six months. The proposed measures would be the sixth round of sanctions on Russia since the war began and would require unanimity among the 27 members of the EU. The bloc aims to finalize the measures at the latest by the **9th** of May.

Davos 2022 Forum

The World Economic Forum will hold its annual meeting in the Swiss mountain resort of Davos from the **22nd to the 26th** of May. This year, the meeting of global business and political leaders will be centred around the theme of Working Together and Restoring Trust.

Central Bank Decisions

Fed Interest Rate Decision

The FOMC meeting will take place on the **3rd and 4th** of May. The Fed is expected to deliver its first 50 bps rate hike since 2000 and provide detail on its plans to reduce its balance sheet. Further insights as to the Fed's stance will be provided in the meeting's minutes, which will be released on the **25th** of May.

BOE Interest Rate Decision

After convening for the third time this year, the Bank of England (BoE) is expected to publish its interest rate decision on the **5th** of May. The market currently expects the BoE to raise interest rates by 25 bps. This would mark its fourth consecutive rate hike since December 2021.

Turkey Interest Rate Decision

The Central Bank of the Republic of Turkey (CBRT) will hold its next rate-setting meeting on the **26th** of May. Despite inflation which is expected to rise to 68% in April, the CBRT has left its interest rate unchanged at 14% throughout 2022 after aggressive rate cuts towards the end of 2021.

Inflation and Deflation

Update on US Inflation

April inflation data for the US will be announced on the **11th** of May. Inflation of 8.50% was recorded in April, versus an expected 8.40%. However, the market is expecting inflation to fall over the next two years to a rate of 4.20%.

India Inflation Rate

India will release its inflation data for April on the **12th** of May. The figure is expected to come in at 6.40%, lower than the previous month's 7%. However, in an unexpected move, the Reserve Bank of India increased interest rates by 40 bps on the **6th** of April in what was a move away from its more dovish prior stance.

Japan's Inflation

Japan will report its inflation rate for the month of April on the **19th** of May. The Bank of Japan has been struggling for several years to increase its inflation rate to its 2% target. Despite the high levels of inflation globally, the inflation rate for March was 1.20%. Excluding fresh foods and energy, however, the country is still experiencing deflation of 0.70%.

Labour Market

US Employment Readings

The US Labour Department is set to release its monthly payrolls report on the **6th** of May. Economists surveyed by Reuters expect the unemployment rate to come in at 3.50%, marking a return to the levels seen before the pandemic in 2020.

United Kingdom Labour Market

On the **17th** of May, the Office for National Statistics will announce the UK's unemployment rate. The last unemployment figure reported in April came in at 3.80% and is the lowest that it has been since the early 1970s.

France Unemployment Data

France's unemployment rate will be announced on the **17th** of May. The country's unemployment rate is currently at 7.40%, its lowest level in 13 years. The decrease is at least partially the result of a series of pro-business policies implemented by the French president.

Nicolas Gomez
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Compared to 2021's record level of deal activity, the first quarter of 2022 has registered a slight dip in global M&A. From January through April of 2022, global M&A, when measured by both volume metrics and deal value, is down relative to the same period last year. In Q1 2022, there have been 9,207 deals globally reaching a value of USD 725.0 bn, compared to 9,618 deals reaching a value of USD 964.0 bn during Q1 2021. The total value of pending and completed deals announced in Q1 2022 is the lowest since the second quarter of 2020. Most sectors recorded a drop in terms of M&A deal value, except for the packaging sector, which witnessed a growth of 32% in Q1 2022, from Q1 2021. M&A activity is influenced by a host of complex factors, ranging from inflation to interest rates uncertainty, liquidity factors, and global conflicts such as Russia's invasion of Ukraine which impacts supply chains and energy costs. Nonetheless, some major deals have been announced in April, notably Blackstone's acquisition of American Campus Communities and Elon Musk's acquisition of Twitter.

Selected Regions

North America

M&A activity was mostly around North American target companies. North America saw the largest proportion of deals in terms of both volume and value. Nine of the top ten biggest deals of the quarter happened in the US. The United States market was primarily driven by the acquisition of Activision Blizzard by Microsoft for USD 68.7 bn, and most recently, in April, Elon Musk's acquisition of Twitter for USD 44.0 bn.

EMEA

Deal-making activity in Europe ranked second after the US, in terms of both volume and value, with USD 140 bn in transaction value and 2,780 deals. The only mega-deal involving a European company in Q1 was Blackstone Inc.'s announcement of its acquisition of Dutch logistics real estate company Mileway BV. The announcement took place nearly a week before Russia's invasion of Ukraine.

Asia

After a boom in 2021, M&A slowed down in Asia this year. APAC (excluding China) ranked third and China itself in fourth place in Q1 2022. High-tech acquisitions in the APAC, totaled USD 27.6 bn in Q1 2022, a YoY decline of 41.70%. Samsung Biologics' acquisition of Samsung Bioepis, along with the sale of Axicom to Australia Tower Network, with total transaction values of USD 2.3 bn and USD 2.7 bn, represented the largest deals in the region in April.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
14 Apr 22	Twitter	Elon Musk	US	Telecommunication	44,000	20.29%
19 Apr 22	American Campus Communities	Blackstone Property Partners	US	Real Estate	12,800	15.95%
07 Apr 22	CDK Global	Brookfield Business Partners	US	Technology & Softwares	8,300	14.18%
11 Apr 22	SailPoint Technologies	Thoma Bravo	US	Identity Technology	6,900	34.43%
11 Apr 22	Datto	Kaseya	US	Security Softwares	6,200	35.25%
21 Apr 22	Kindred at Home	Clayton, Dubilier & Rice	US	Hospitals	2,800	
01 Apr 22	Axicom	Australia Tower Network	AU	Telecom	2,680	
01 Apr 22	Brewin Dolphin	Royal Bank of Canada	CA	Wealth management	2,600	72.15%
01 Apr 22	Samsung Bioepis	Samsung Biologics	KO	Pharmaceuticals	2,300	
06 Apr 22	Tivity Health	Stone Point Capital	US	Fitness (health)	2,000	

Margaux Richard de Foucaud
Investment Banking Division

M&A: Top Deals

AMD to acquire networking provider Pensando

On 4th of April, American semiconductor company Advanced Micro Devices Inc. (NASDAQ: AMD) proposed its bid for US networking firm Pensando for USD 1.9 bn before working capital. The acquisition adds distributed service capabilities to AMD's existing CPU and GPU portfolio in an attempt to keep pace with the competition. The deal is expected to be closed in Q2 2020.

Buyer vs Seller

AMD is a global semiconductor company specializing in computing and graphics. Its portfolio comprises microprocessors, chipsets, graphic processing units (GPUs), and data center and professional units (CPUs). Founded in 2017, Pensando is an operator of a distributed services platform designed to provide holistic services for cloud computing, networking, storage, and cloud security. As of 2021, the firm employs approximately 525 staff and generates revenues of USD 100.0 m.

Industry Overview

Since 2000, the semiconductor segment has grown to a USD 556.0 bn industry while increasingly concentrating on major players, such as AMD, NVIDIA, and Intel Corp. Besides a record growth in 2021 of 26.20%, further market consolidation involving smaller companies continues. The market development reveals a clear pattern with big players acquiring specialized teams and their capabilities in the form of M&A while subsequently scaling up in grand style.

Peers	Currency	Market Cap (CUR m)
NVIDIA Corp.	USD	495,344.10
Broadcom Inc.	USD	236,370.30
Intel Corp.	USD	191,514.50
Qualcomm Inc.	USD	165,972.80
Texas Instruments Inc.	USD	162,157.20

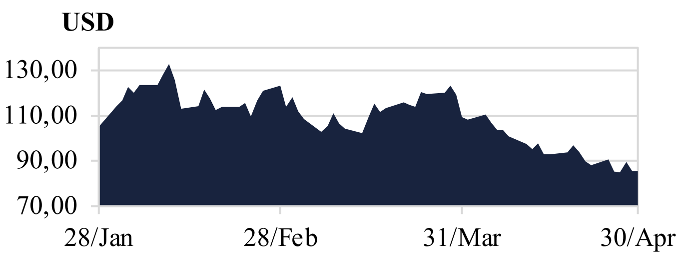
Deal Rationale

The transaction has a clear strategic perspective that aims at adding dedicated cloud, enterprise, and computing power to AMD's high-scale platform. With an established customer base comprising Goldman Sachs, IBM Cloud, and Oracle Cloud, Pensando enlarges AMD's service portfolio with data-center solutions ensuring networking, security, and processing power. By enabling customers to order optional computing power around the globe, the startup makes AMD more competitive in cloud-computing and data-center applications. The deal was announced shortly after AMD completed its USD 50.0 bn acquisition of Xilinx.

Market Reaction

Advanced Micro Devices Inc.

Commencing the announced deal on 04/04/2022, shares in acquirer AMD surged and closed the day with a 2.16% gain.



Pensando

Pensando, a developer of edge service and scalable computing power for enterprises and cloud computing, was founded in 2017. Until its acquisition this month, the firm had several funding rounds up to a later-stage Series C1 funding in August 2021. Total funding adds up to USD 313.0 m from a prominent investor base comprising Qualcomm Ventures, Hewlett Packard Enterprise, Lightspeed Venture Partners, and Goldman Sachs. Emerging from the startup community, the cloud and communication infrastructure is one of the most sought-after segments of the tech world. Besides successful listings including Snowflake, Atlassian, and Okta, Pensando was among the tech companies deemed "growth starts" and expected to be a likely candidate for a public float.

Future Challenges

Besides the deal's strategic perspective and expected revenues of USD 5.0 bn, a deal volume of USD 1.9 bn seems costly. However, the deal comes at a time when competitors exploit every opportunity to enlarge their data-center capabilities without compromising on security. The deal closing is subject to individual conditions and regulatory approval.

Roman Bauer
Investment Banking Division

M&A: Top Deals

Thoma Bravo to Acquire SailPoint Technologies Holding

U.S Private Equity giant, Thoma Bravo has acquired cybersecurity business SailPoint Technologies for a total cash consideration of USD 6.9 bn. The purchase price for the transaction was USD 62.50, a premium of 34% over its average trading price of 90 days. The acquisition is set to be completed by December 2022.

Buyer vs Seller

SailPoint is a Texas-based business which provides enterprise identity governance solutions while specialising in identification and access management. Thoma Bravo manages USD 103.0 bn in assets and focusses on enterprise software investments and completed the largest deal in the enterprise software industry with its acquisition of ProofPoint for USD 12.3 bn back in 2021. Morgan Stanley advised SailPoint as the target in this transaction.

Industry Overview

Cybersecurity has been an attractive sector for buyouts since the Covid-19 pandemic was a catalyst for remote working. Industry revenues are projected to reach USD 146.3bn in 2022, with an annual growth rate of 10% by 2026. The software is valued at a P/E ratio of 35.1x and EV/EBITDA totals 24.4x in Q1 2022. Deal volume in the segment is up 70%, compared to the same time last year. Remote working and data privacy shall remain at the centre of the industry's growth.

Peers	Currency	Market Cap (CUR m)
Elastic NV	USD	6,092.31
Coupa Software Inc	USD	5,740.92
Gitlab Inc	USD	6,254.32
Datto Holding Corp	USD	5,662.25
CCC Intelligent Solutions Hold	USD	5,632.55

Deal Rationale

The deal will help SailPoint to accelerate its transition towards Software-as-a-Service (SaaS) without the scrutiny of being a public company. It also intends to expand to other markets whilst accelerating innovation by leveraging Thoma Bravo's deep expertise in the sector and its proven strategic and operational capabilities. The CEO of SailPoint, affirmed that the transaction delivers significant immediate cash value to stockholders, maximising the value of their shares. Thoma Bravo stated that the acquisition would allow the acquired to capitalise on the large and growing demand for robust identity security solutions.

Market Reaction

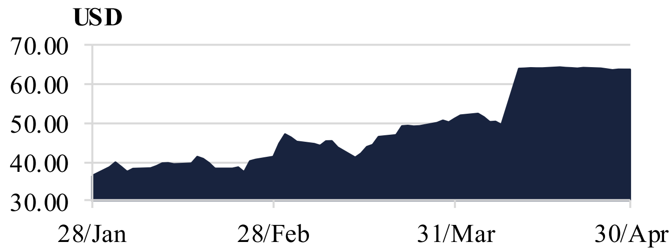
Thoma Bravo

Thoma Bravo has become a well-known private equity brand within the enterprise software segment, as it aims to become the leader in the sector's dealmaking. Only back in March, it announced the acquisition of Anaplan for a total cash consideration of USD 10.0 bn.

As of April, it announced a fundraise of USD 3.3 bn for its second credit fund, an acquisition of Temenos AG. Additionally, it closed several strategic investments in businesses such as IAC's Vivian Health and Circle Cardiovascular Imaging. It is indeed expected that the fund will continue capitalising on opportunities in the segment.

SailPoint Technologies

The stock is up by nearly 32% YTD. After the announcement, the share price of SailPoint increased to USD 65.0, which is equivalent to a 34% premium.



Future Challenges

The transaction comes with a 30-day go-shop period within which SailPoint may search for another potential bidder that is willing to pay a higher price per share for the acquisition thereby posing a risk to the acquirer in case a second buyer enters the bidding war.

Arsénio Renato Jr
Investment Banking Division

M&A: Top Deals

Blackstone to acquire American Campus Communities

Blackstone (BX) has announced to acquire American Campus Communities (ACC) through an all-cash offer for USD 65.50 per share, a 14% premium to the last closing price on 18th of April. Adjusted for net cash, BX is buying the business for USD 12.8 bn resulting in a valuation of around 27.7x EV/ LTM EBITDA. The accretive transaction is expected to close by September 2022.

Buyer vs Seller

BX is an investment company focusing on real estate, hedge funds, private equity, leveraged lending, senior debts, and rescue financing. ACC is the largest developer, owner, and manager of high-quality student housing communities in the US. ACC's portfolio comprises 166 owned properties in 71 leading university markets. BofA Securities and Key Blanc Capital Markets acted as financial advisors to BX, while JP Morgan Securities, TSB Capital Advisors, and Wells Fargo Securities advised ACC.

Industry Overview

The global real estate market is valued at USD 3.7 tr in 2021 and is expected to grow by 10% CAGR until 2026, thus reaching USD 5.4 bn. Main drivers include the easing of Covid-19 restrictions, which acted as a massive restraint on the real estate market and the increased dry powder leading to a towering necessity among large investors to deploy capital efficiently. As per last year's strong M&A activity, the strong appetite for large portfolio deals is here to stay.

Peers	Currency	Market Cap (CUR m)
Essex Property Trust Inc	USD	20,477.33
American Homes 4 Rent	USD	13,029.64
Equity LifeStyle Properties In	USD	13,621.62
Camden Property Trust	USD	15,851.37
UDR Inc	USD	15,935.98

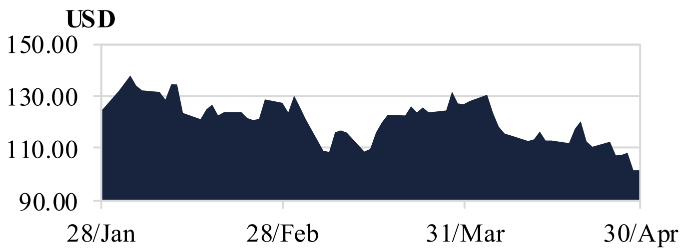
Deal Rationale

The acquisition of American Campus Communities intends to strengthen BX portfolio while building connectivity and profiting from potential synergies across its portfolio. BX is the largest owner of commercial real estate globally, and ACC has a best-in-class portfolio and platform built on longstanding relationships with some of the most distinguished and fastest-growing universities in the country. BX's capital, combined with ACC's strong portfolio will enable ACC to invest in its existing assets and create much-needed new housing in university markets.

Market Reaction

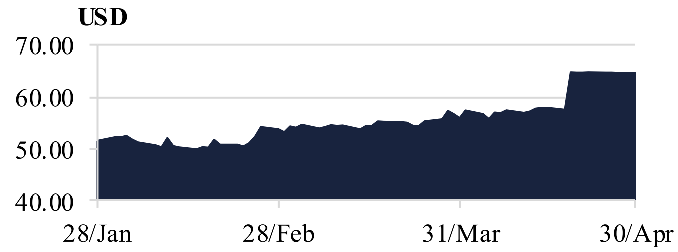
Blackstone Inc

After the official announcement of the transaction on 18th of April, BX's share price slightly rose 4.90%, however, decreased due to declining Q1 earnings.



American Campus Communities

ACC's shares surged 12.54% on the trading day prior to the announcement and have remained relatively stable post-announcement.



Future Challenges

Although ACC's board unanimously approved the transaction of directors and the independent special committee of ACC's board, the deal is subject to ACC's shareholders' approval and other customary closing conditions. Moreover, ACC has a 'Cut-Off' time until May 28, 2022, during which it can enter into a definitive agreement with other interested parties.

David Silva
Investment Banking Division

What Happened To

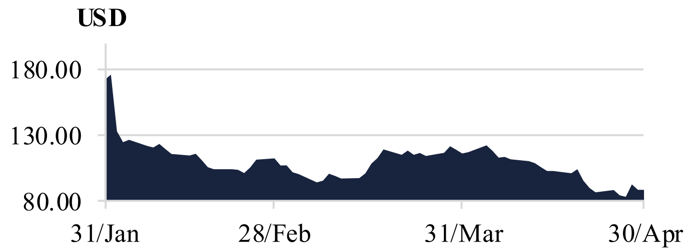
PayPal Holding Inc.

PayPal (PYLP) is a leading technology platform and digital payments company that enables individuals and merchants to electronically transfer money via numerous methods, with payments originating from a customer's bank or PayPal account. PayPal has approximately 392 m active accounts and about 34 m merchant accounts across more than 200 markets.

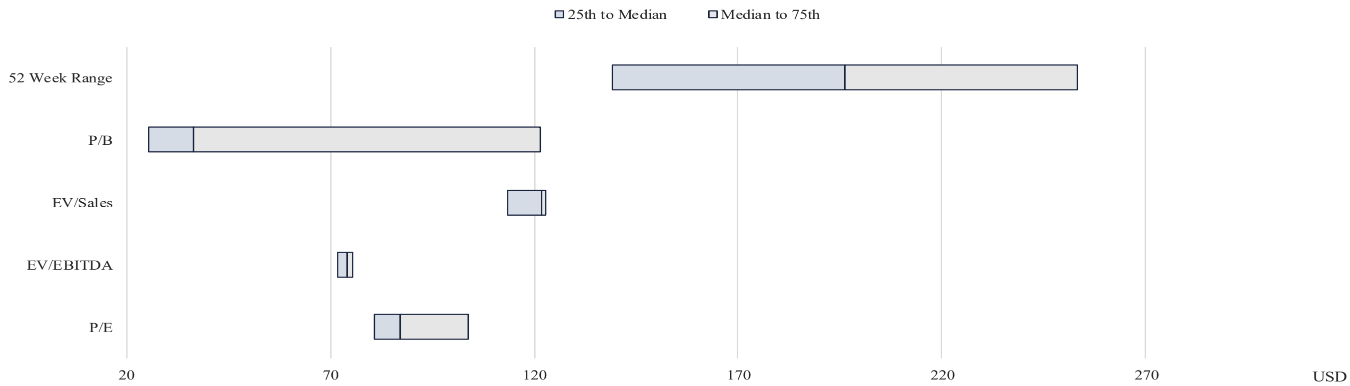
Corporate News

After plunging 25% in February, PayPal is, as of 30th of April 2022, trading at USD 90.71, just above the 52-week low of USD 82.12. All in all, the stock is down 70% year to date. The drop is driven by a slowdown in growth and profitability due to poor macroeconomic conditions and the lost business from eBay. To justify disappointing results of 7% revenue growth and 28% earnings drop, management pointed to difficult supply chain conditions and inflation that disproportionally affected digital transactions. The loss of eBay's business was also a drag on the bottom line, having been punished by investors. One should note that controlling for eBay - whose impact should fade away soon - revenues grew 18% while earnings only dropped 11%. Plus, 2021 Q1 was very strong, thus, in the current market environment, YoY comparisons are inherently taxing for the firm. Additionally, most growth stocks dropped substantially, thus the drop is not company-specific.

Price (30 Apr 22, USD)	**90.71**
Target Price (USD)	120.00
3M Performance	-47.24%
Market Cap (USD m)	105,045.80
Enterprise Value (USD m)	106,108.80
**Target Price is for 12 months*	



Valuation Analysis



Relative valuation indicates that PayPal was overvalued compared to peers and is now seeing its valuation converge. No multiple valuations exceed the USD 120.0 mark significantly, yet the stock has been trading well above that threshold for most of the last 52 weeks. Also, the analyst consensus for the target price is USD 120.0 Still, the firm is now trading at USD 90.71, seeming undervalued. Accordingly, both P/E and EV/Sales multiples point to a buy decision on the stock.

While growth investors had tremendous gains in 2021, 2022 brought inflation to unsustainable levels. As a response, the Fed spiked rates, leading to a repricing of risky assets. As a result, growth stocks have been the most punished, and PayPal is no exception. The firm, however, should be able to maintain its superior market position while benefiting from secular trends around digital wallets and e-commerce expansion.

Peers	**Currency**	**Market Cap** (Cur m)
Fiserv Inc	USD	64,277.43
Fidelity National Information	USD	60,851.14
Block Inc	USD	59,391.51
Global Payments Inc	USD	36,056.78
FleetCor Technologies Inc	USD	19,245.49

Rodrigo Baltazar
Investment Banking Division

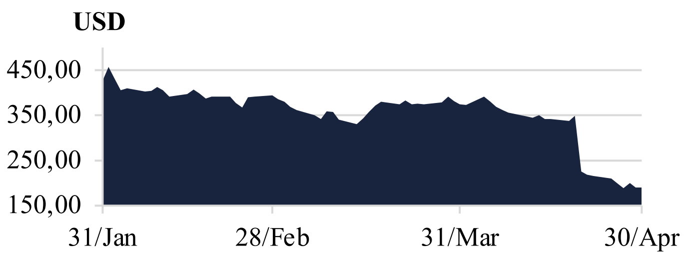
What Happened To
Netflix Inc.

Netflix Inc. (NFLX) is one of the world's leading entertainment service providers with approx. 222 m paid subscribers spread across 190+ countries. It provides TV series, documentaries, movies and mobile games across different genres and languages. In FY2021 it generated USD 29.7 bn revenues and had 11,300 employees located in 60+ countries.

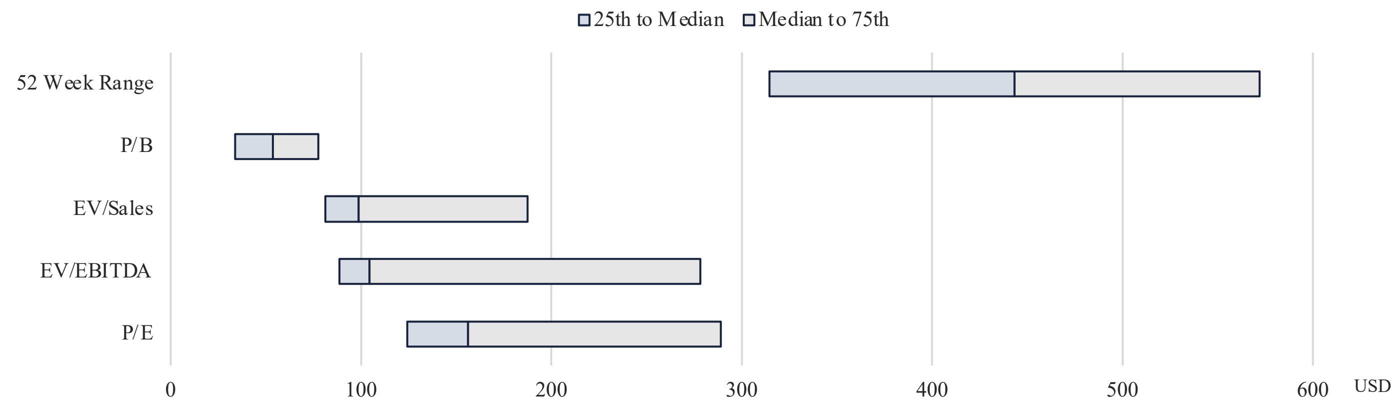
Corporate News

NFLX's shares are down 66.14% YTD and 72.84% compared to the 52-week high thereby losing roughly two-thirds in market value. This drop in share price is primarily driven by five factors: 1) rising NFLX churn while similarly decreasing sign-ups indicating increased customer acquisition costs, 2) primarily operating in saturated markets such as the US where more than 50% are paying for three or more streaming services, 3) decline in content production even though the company has invested USD 55 bn into TV shows and movies from 2018 to 2021, 4) fierce competition, where competitors also offer complementary services such as live sports and news, and 5) limited headroom for expansion in high ARPU countries like the US as people are already paying much for streaming services in general. In addition, Bill Ackman has sold his USD 1.1 bn stake in NFLX with a loss of 40% of its market value citing uncertainty and the light of recent events.

Price (30 Apr 22, USD)	**204.01**
Target Price (USD)	300.00
3M Performance	-52.24%
Market Cap (USD m)	90,636.31
Enterprise Value (USD m)	101,926.94
**Target Price is for 12 months*	



Valuation Analysis



On April 30th, of 2022, NFLX was trading at USD 204.0. As its revenue growth has declined significantly over the past five quarters the trend is not expected to change sometime soon. With growth rates not exceeding 20% YoY growth anymore, NFLX can no longer be considered a growth stock, thus implying significant multiple compression as visible in the chart. Particularly EV/EBITDA and P/E ratio are in line with current market calculation while EV/Sales and P/B still indicate slight overvaluation.

Increased competitors from its peers, on the other hand, inspired NFLX to introduce lower-priced ad-driven tier offerings, added sports and/or news as a category as well as bundled products to mitigate churn, monetise password sharing and improve movie and TV content e.g., with live sports and news – alternatively to get involved in M&A processes, similar to NFLX's gaming deal to ultimately regain traction in different sectors.

Peers	**Currency**	**Market Cap** (Cur m)
Walt Disney Co/The	USD	211,539.40
Paramount Global	USD	19,686.73
Fox Corp	USD	20,190.17
Warner Bros Discovery Inc	USD	47,711.76

Mats Lützenkirchen
Investment Banking Division

NIC's View On

ESG: Food Industry Innovation Critical to Sustainable Development

David Silva
Investment Banking Division

"What is special about Nordea is that we have the ability to finance early-stage growth companies, which is not something other financial service providers can necessarily do. This enables startups to start growing their businesses and employ staff."

– Jani Pelkonen, Relationship Manager, Nordea Bank

In 1987, the Brundtland Commission (United Nations) defined sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own need." While this definition and conceptualization remain generally valid today, an uneven focus has been placed on economic sustainability during the previous 30 years. Moreover, the social aspect of sustainability has gained importance and relevance since then. In fact, in 2015, the United Nations adopted the Sustainable Development Goals (SDGs) for the next 15 years.

According to a survey performed by PwC, while only a third of the general population was aware of the SDGs, knowledge within the corporate community was 92%. In contrast with the relative lack of awareness within the general population, there is an increased interest in sustainable and ethically sourced food and drink products, and producers are coming up with new ways to keep up with the demand. According to Emma Schofield, global food science analyst at Mintel, the latter is driven by the widespread belief that organically grown products are superior, and awareness of the disproportionately high CO2 emissions from the livestock sector, as mentioned by the director of the Sustainable Food Trust, Patrick Holden.

The food business is experiencing a considerable transition, with food tech entrepreneurs disrupting this industry. Unlike current food trends, which focus on the sugar and fat content of foods and the production of lactose-free alternatives, food technology aims to delve deeper into the origins of food and give technical solutions to food creation items. A prime example of the latter is Mö Foods Oy, an oat-based dairy food brand These founding sisters are contributing to an increasingly sustainable food industry by providing new alternatives while displaying how consumers can make sustainable choices. "For us to make it in a highly competitive field as a fairly small company, we need to offer consumers something innovative, new, and different. This is how we can make sure that our business has a future in this industry. We work together with some of the bigger brands to develop a more sustainable food business as well as guide and encourage people to make more sustainable choices," Annamari Jukkola says. The latter would not be possible without financial services that offer financing solutions with the ability to finance early-stage growth companies. For Mö Foods case, Nordea's Startup & Growth unit in Finland helped the owners to launch this business. As mentioned by Jani Pelkonen, Nordea's Startup & Growth Relationship Manager, "We work with fast-growing companies on a daily basis and have a great understanding of this stage they are at. They need our support with financing but also look to us for general advice. We go through the companies' business plans with a fine-tooth comb and look at the financing options they have. We talk to each entrepreneur about how sustainability is integrated into their operations and how they work with sustainability in a systematic way as part of their business development".

In recent years, the food sector has made tremendous strides toward greater sustainability. However, the current improvement has been mostly driven by forward-thinking producers that see the long-term financial value of environmental and social responsibility. Given that the global population expects to reach 9 billion by 2050, resulting in a 60% increase in demand for food, there is a need to stimulate more radical, accelerated action through new business models and financial solutions that enable this industry to overcome the current hindrances.

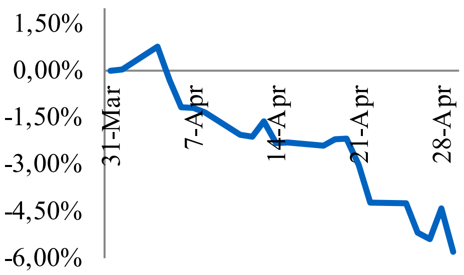
David Silva
Investment Banking Division

NIC Fund

NIC Fund

Portfolio Overview

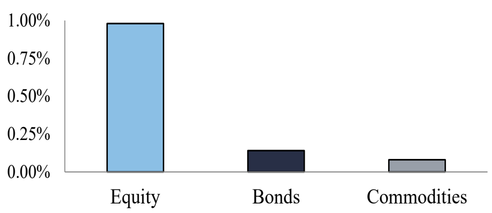
NIC Fund Cumulative Return



Portfolio Statistics	
Cumulative Return	-5.84%
Annualized Return	-70.07%
Daily St. Dev	0.71%
Period St. Dev	3.26%
Annualized St. Dev	11.30%
Info Sharpe	-6.20
Skew (Daily)	0.05
Kurtosis (Daily)	-0.82

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%

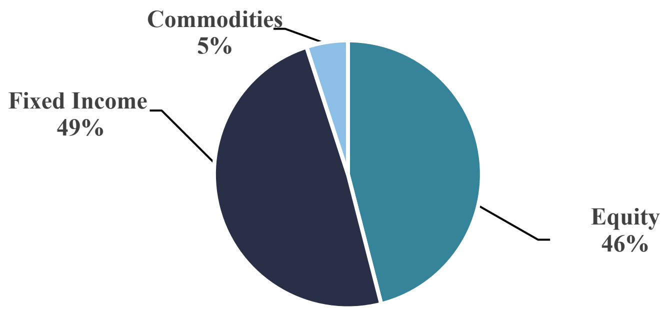
Individual VaR



Portfolio Snapshot

During April, the NIC Fund remained invested in Equities, Fixed Income and Commodities. Overall, 46% of the investments in the NIC fund were devoted to Equities, 49% to Fixed Income and 5% to Commodities. In comparison to the benchmark, the portfolio is overweight in Equities by 6% and underweight in Fixed Income and Commodities by 1% and 5%, respectively.

April was a volatile month across financial markets due to the impact of the on-going conflict in Ukraine and the supply chain disruptions caused by the rise in Covid-19 cases in China. In addition, investors were worried about the Federal Reserve's upcoming interest rate hikes.



Return Metrics

The overall performance of the portfolio for the month of April was negative, with a cumulative return of -5.84%. The best asset class performer was Commodities, contributing a positive return of 0.05%, while Fixed Income contributed negatively to the portfolio with a loss of -0.67%. In terms of the worst asset contributor, April was not a good month for Equities, which contributed with a -5.10% return to the portfolio.

In terms of Equities, besides holding a position in the S&P500, 21.70% of the overall portfolio was allocated to thirty-three specific stocks from nine different industries. With a negative 1.48% return MoM, the Energy sector was the best-performing sector of our portfolio, as EOG Resources was the only energy stock of the fund. The Communication Services sector performed the worst with a return of -21.59% MoM, mainly attributed to the -49.18% that Netflix experienced this past month. Besides the streaming service company, Nvidia was the second worst performer, with a contribution of -32.03%.

Risk Metrics

In terms of risk, the NIC fund portfolio registered a relatively low daily VaR of 0.71%, taking into consideration the benefits of diversification. This metric remained significantly below the maximum established threshold of 2.50%.

Equities were the asset class with the highest individual VaR, which was around 0.98%. On the other hand, Bonds and Commodities had considerably lower VaRs of 0.14% and 0.08%, respectively.

Yan Afonso Souza
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**ZNGA**	Zynga, the American developer running social video game services, returned -10.50% during the month of April. The negative return is associated with the fact that growth stocks have been hit hard across the first four months of the year. Although the company experienced negative returns, when compared to the return of the tech-heavy Nasdaq Index, Zynga outperformed other growth stocks.
US Equity	**NFLX**	Shares of Netflix recorded a return of -49.18% in April. In their latest earnings release, Netflix announced that it has not only failed to meet their target growth rates, but that its subscribers had actually decreased in the first quarter of 2022. Additionally, Netflix's executives hinted that the company had saturated the market in North America.
EU Equity	**AMZN**	Amazon shares plunged after its most recent earnings release. The company reported a net loss of USD 3.8 bn for the first quarter of the year, mainly attributed to its large investment loss on the electric automaker Rivian Automotive. Furthermore, Amazon announced that its revenue growth is also expected to slow down in the next quarter. The company saw its shares drop -23.75% during the month.
EU Equity	**CMG**	Following a sharp increase in Chipotle's stock during the month of March, the company's shares decreased 7.99%, in April. The decrease in value can be explained by persistent supply chain constraints, increasing tariffs on imported goods and the effects of the war in Ukraine. Thus, the company's expenses increased more than forecasted.
US Equity	**V**	Visa, the American multinational financial services corporation, returned -3.90% during April. Before releasing its earnings, the company was experiencing a decline of -11.36% on its shares as investors feared that inflation would affect consumer behaviour. Thus, it would be detrimental to the company's bottom line. However, the company reported a 25% increase in sales, helping the stock recover some of the losses experienced earlier.
US Equity	**DIS**	Shares of Disney recorded a return of -18.61% MoM, continuing its negative trend from the previous month. Investors rushed to sell the company's shares following the disappointing outlook for the streaming services business, highlighted by Disney+'s main competitor, Netflix. Disney's shares are now trading at the same price as they were before launching the video on-demand subscription.
US Equity	**NVDA**	Nvidia Corp., the American multinational technology company, returned -32.03% MTD in April. Chip makers across the industry experienced a major sell-off after Intel announced that demand for computers was weakening. Additionally, with the most recent Covid-19 lockdowns in Shanghai, supply chain risk, and thus inflationary pressures, are negatively impacting the industry.
US Treasury Bonds	**SHY ETF**	Our benchmark bond index, IEI, invests in treasuries with maturities from 3-7 years. As bond prices are negatively impacted by the Fed's tapering and increasing of interest rates, the ETF has contributed -1.97% MoM to the funds return.
Commodity	**AAAU**	AAAU seeks to reflect the performance of the price of gold less the expenses of the Trust's operations. After gaining nearly 8% in the past two months, gold had a negative performance during the month of April. Due to increasing inflation and interest rate hikes in the US, the ETF returned -2.05% in the previous month.
Commodity	**DBC ETF**	Our primary commodities index, DBC, tracks a basket of 14 commodities. The ETF had positive performance over the month of April, mainly driven by increasing oil prices due to the ongoing Ukraine conflict. The ETF returned 5.64% during the month of April.

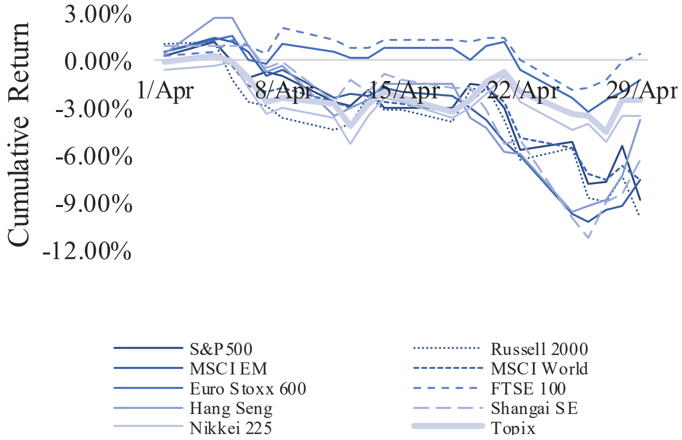
Yan Afonso Souza
Financial Markets Division

NIC Fund

Equities

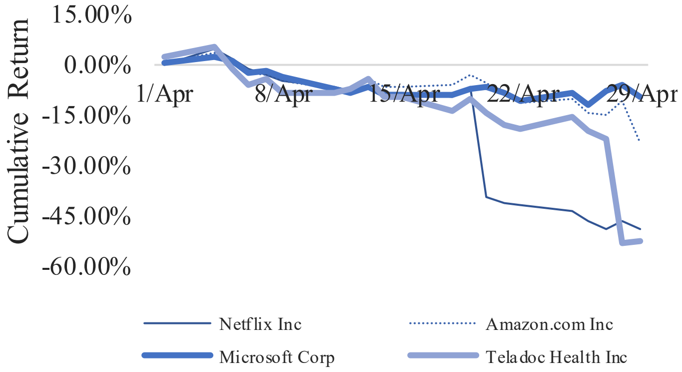
World Equities

As the war in Ukraine continues, global equities did not perform well in the month of April. Despite 77% of the S&P 500 firms having beaten their earnings expectations, the S&P 500 depreciated by 8.80% this month. This is a drastic decline when compared to its average return. Since the 1930s, the S&P averaged a return of 1.41% in the month of April. It was not an exciting month for current NASDAQ investors either. The index decreased by 13.30% in April, its worst monthly return since October 2008. While the Dow Jones was not hit quite as hard, it saw its worst monthly performance since March 2020, declining by 4.90% in April. The stock market is experiencing a sustained level of volatility as the Volatility Index (VIX) has appreciated 60.67%. It is normal for this "fear gauge" index to move in the opposite direction from S&P 500 as it is calculated based on the price of options of the S&P. Thus, when the market crashes, investors rush to hedge their position. In April, both growth and value stocks depreciated by 10.26% and 1.69%, respectively. In April, the best performing sector was Energy with -0.65%, while the worst performing sector was Communication Services with -14.15% returns.



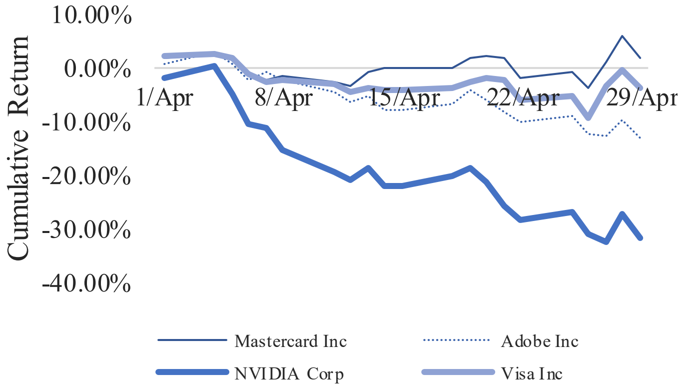
In-Depth: Turmoil in Tech-Stocks

April was an especially turbulent month for the technology sector. Netflix's stock tumbled by 49.18% after the company announced its quarter results, as well as Amazon, which posted a net loss of USD 3.8 bn. In addition, Amazon announced that revenue growth is projected to decrease in the upcoming quarter. Shares of the pandemic hyped stock, TeleDoc, fell 46%, after the company announced an impairment charge of USD 6.5 bn in goodwill. Spotify also experienced a decline in its share price after the company reported that it fell short on subscribers' growth by 1 m compared to estimates. On the other hand, Microsoft dispelled macroeconomic worries hanging over the tech sector with a bullish forecast on its revenue growth, adding nearly USD 100.0 bn to its stock value. Lastly, the EU released groundbreaking rules to regulate Big tech platforms by making the platforms responsible for their algorithms and leading to investor concerns across the sector.



Our Performance

In April, equities' contribution to the overall portfolio performance was negative, with a -2.70% cumulative return. Uncertainty regarding the war in Ukraine continued to impact the stocks' performance this month. The best performing stock was Mastercard with a 1.82% monthly return while Netflix was the worst-performing stock with a -48.18% monthly return.



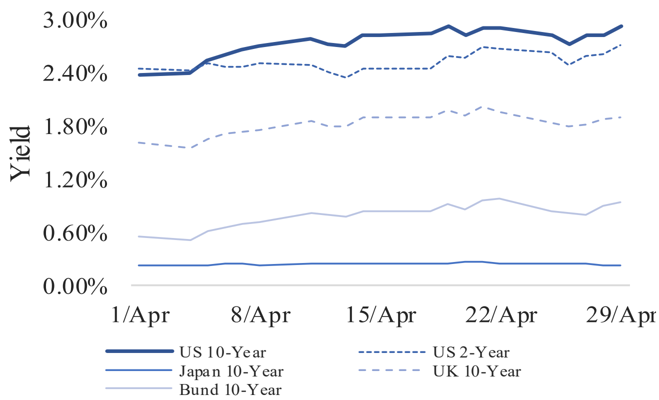
Sara Ivackovic
Financial Markets Division

NIC Fund

Fixed Income

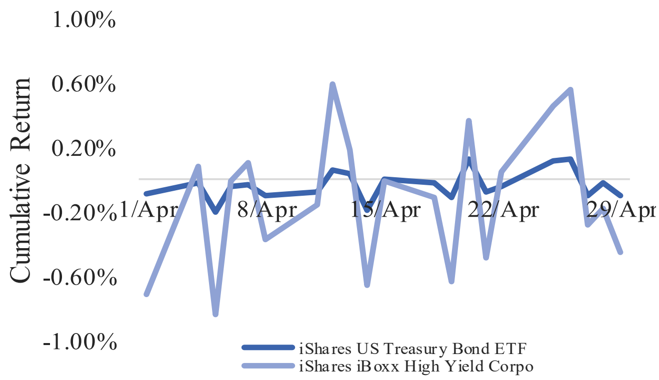
World Yields

In light of rising interest rates in the US, the country's 10-year rates continued to rally from 2.46% at the beginning of April to 2.94% at the end of April. This increase contributed to the negative performance of US equities. The biggest fear in the market is that the Fed will increase the interest rates even faster than expected. Analysts anticipate a hike of 50 bps in the next meeting on the 4th of May. The Fed is facing difficult decisions as inflation is on a 40-year high and projections show a potential slowdown in economy over the coming months. The probability of an interest rate hike in June increased to 91% on the CME FedWatch tool. The Bank of Japan (BoJ) strengthened its earlier commitment to stick to its ultra-low interest rates by buying unlimited amounts of bonds on a daily basis. This triggered government bonds rally and a sell-off in the Japanese Yen. The BoJ has a different strategy compared to other major economies, which are shifting toward a tighter monetary policy. Although Japan is also facing inflation due to a raw material costs push, the inflation level with around 2% is substantially lower compared to the levels observed in other economies.



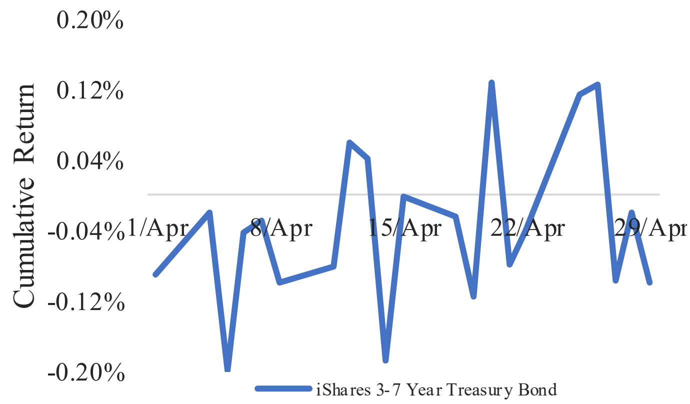
In Depth: European Markets

Following the interest rate hikes in the US, European Central Bank policymakers are planning to end their bond purchasing program in the near future. As soon as in July the ECB will likely raise interest rates by approximately 25 bps. The consumer price inflation rose to 7.50% in April, which marks the highest since the European Union started to keep records 25 years ago. Consequently, the 10-Year government bond yields of Portugal, France, Greece and Germany rose drastically, 2.09%, 1.50%, 3.35% and 0.90%, respectively. The turnaround shows how difficult it is for the ECB policymakers to decide on a tighter monetary policy as long-term forecasts show inflation declining from its current high to the targeted 2%. New estimates shared with policymakers in April show a 2024 inflation over the 2% target. Markets are pricing in around 85 bps of hikes for 2022, which would mean either more than 2 hikes or faster hikes than expected by analysts earlier this year. In case inflation does not stop increasing, central banks will likely continue increasing interest rates, putting upward pressure on the government yield in the upcoming months.



Our Performance

Notice that IEI ETF, tracking 3-7-year US Treasury Bonds, our benchmark fund for fixed income, performed negatively during April, earning a cumulative return of -1.97%. Fixed income overall contributed with a return of -1.36% in our portfolio.



Simon Hoffmann
Financial Markets Division

NIC Fund

Commodities

April Round-Up

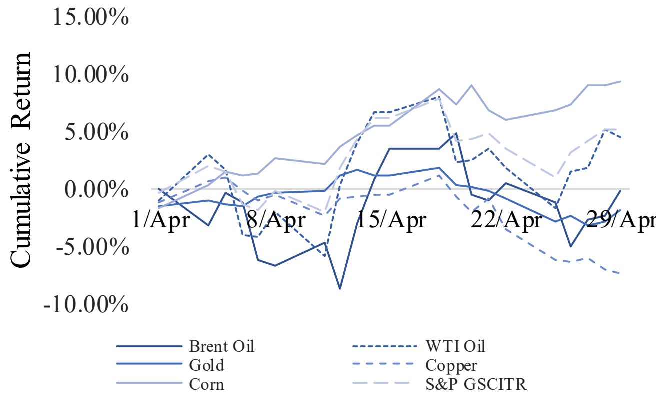
For April, the S&P GSCI Total Return index, which tracks 24 commodities, was up by 4.50%, continuing the upward trend of the previous month. After announcements by the US and other members of the International Energy Agency that significant amounts of oil would be released from strategic storages, the Brent Crude Oil prices declined. Meanwhile, inventories of some of the most important industrial metals such as aluminum, copper, nickel, and zinc have declined by as much as 70% compared to 2021. High energy prices have led producers of these metals to halt production of loss-making products, meaning these companies have been relying on stock from warehouses to meet their contractual obligations. This could lead to higher prices at the LME as traders and producers seek to close short positions. The gold market has seen a consistent sell-off in the past weeks as investors bet on aggressive tightening by the Fed. Fertilizer producers meanwhile are posting their best quarterly results in 14 years, as Russia is a key supplier of some of the most commonly used fertilizers in nutrient production. The Suez canal recorded its highest monthly revenue to date in April, 13.60% above last year's figures, indicating that the traffic has recovered from the impacts of the Covid-19 pandemic. The total number of ships passing through the canal increased by 6.30% YoY.

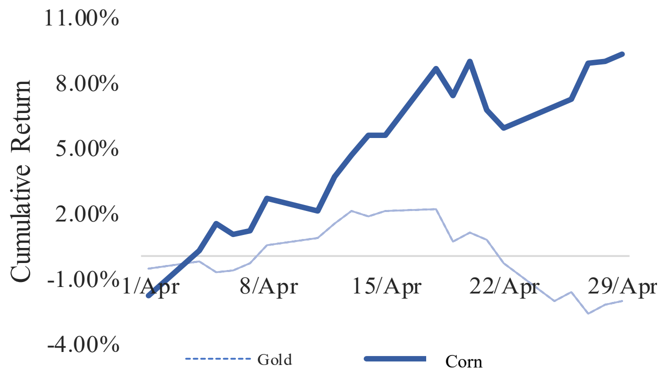
Outlook for May

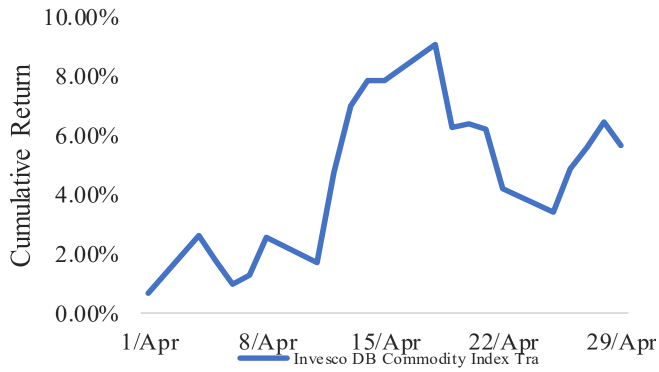
Commodity markets, especially in areas where Russia and Ukraine are important exporters, such as energy, fertilizers, wheat, and some metals, have experienced a major price surge in recent months. A trend that is unlikely to reverse any time soon. Global commodity markets are affected by the Russia-Ukraine conflict as well as demand surges in the wake of the Covid-19 recovery. While the demand for commodities has increased sharply, the supply has been slow to catch up. This is mostly caused by supply chain issues during the first quarter of 2022 as well as underinvestment in new production capacities in the last years. The ongoing conflict in Ukraine is likely to affect the country's crop production in the next season. Under normal circumstances April and May would be used to plant spring crops, however, lack of workers, fertilizers, and safety concerns will likely result in decreased wheat output for the next season.

Our Performance

During April, the Powershares DB Commodity Index returned 5.64% while the Goldman Sachs Physical Gold ETF returned -2.05%. The overall contribution of commodities to our portfolio was 0.05%.







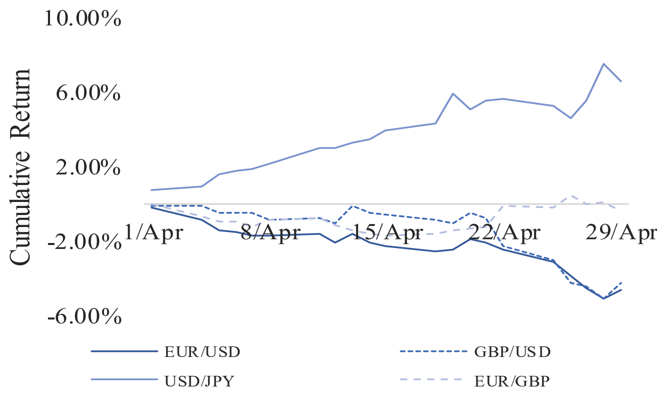
Lisa-Marie Perchtold
Financial Markets Division

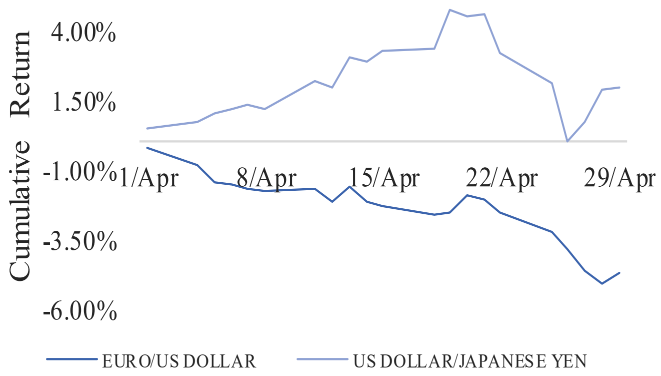
NIC Fund

Currencies

World Currencies

During April, the US Dollar surged to its highest level in two decades, as markets priced in three interest rate hikes despite an economic slowdown. The USD has gained more than 8% so far this year. The move was preceded by the BoJ's declaration that they intend to keep bond rates close to zero. Investors' uncertainty regarding the ability of the BoE and the ECB to rise interest rates this year, pushed the USD further. The GBP fell to its weakest level in almost two years, amid concerns about consumer confidence and business activity. The weak economic data has added to the continuing pressure over inflation that the BoE is facing. The rising USD has pushed the EUR to a five-year low, as investors bet that other central banks will lag the Feds interest rate rises. The EUR has fared better against other leading currencies and is up against the JPY, the GBP, and the SEK. The BoJ's decision to keep interest rates close to zero resulted in a multi-decade low for the JPY. This decision will lead to an even larger divergence in global yields. The BoJ believes that Japan's underlying economy is too fragile to sustain a tightening in monetary policy. However, the weak yen is expected to raise prices on imported goods, risking upset politicians and the public. An increasing number of Japanese companies in a variety of industries is beginning to see the weak Yen as negative. The Chinese Yuan meanwhile has fallen 4.20% against the US Dollar in April, resulting in the currency's steepest monthly fall on record.





In Depth

Severe Covid-19 lockdowns, the war in Ukraine, and the Fed's tighter monetary policy have resulted in a steep fall of the CHY against the dollar. The continued lockdowns have led to a in a slowdown in the Chinese economy, with analysts expecting up to a 10% decrease in manufacturing and 18% reduction in steel production. This has ramifications across emerging market economies that have benefited from the Chinese demand for metals earlier in the year. The Chinese government has announced infrastructure packages that are intended to offset the damage caused by lockdowns and help meet the country's ambitious 5.50% growth target for 2022. The IMF has predicted a GDP growth of 4.40% for the time period, with analysts expecting even worse outcomes. The announcement boosted demand for Chinese stocks but did little for the country's currency. Foreign investors' selling of Chinese assets in exchange for US ones has further exhilarated the CHY's fall. Historically yields on bonds denominated in CHY have driven inflows to Chinas debt markets, however, recent developments have led to yields of USD debt surpassing those on CHY denominated bonds for the first time in 12 years. A weak currency has positive connotations for export-based economies which could help to explain why the PBoC has not taken measures to stabilize the market yet.

Our Performance

We currently hold no currency related assets in our portfolio.

Lisa-Marie Perchtold
Financial Markets Division

Extras

Hot Topic

A ban on Russian Oil in Europe?

Felix Mitterer
Financial Markets Division

"We maximise pressure on Russia, while at the same time minimising collateral damage to us and our partners around the globe."

– Jen Psaki, press secretary, White House

On Wednesday, Brussels proposed a phased-in ban on imports of all Russian Oil as EU member states try to agree on the sixth package of punitive measures against Moscow for its invasion of Ukraine. "The ban will cover all Russian Oil, seaborne and pipeline, crude and refined," European Commission President Ursula von der Leyen said. She pledged to phase out the supplies in an "orderly fashion" to reign in the economic consequences of this move for the member states of the Union. Crude Oil would thus be hit within six months and refined products by the end of the year.

The momentum behind such an oil ban grew in recent weeks as Europe's economic powerhouse Germany made it clear that they were making progress in reducing their reliance on Russian Oil and gas. A full-on ban on Russian Oil and refined products could significantly hurt Russia's economy as the country derives more income from selling Oil than it does from gas exports. However, in the case of a full-on ban, the European Commission needs to strike a delicate balance between exerting pressure on the Kremlin while limiting negative economic consequences on the EU's side.

The Brent soared by 2.50% to a high of USD 107.58 per barrel after the news broke, showing the potential significance of the announced measure. As a result of soaring Oil prices, European consumers should brace for a significant economic hit and higher Energy prices, Berlin warned in response to the announcement. Germany is convinced that Europe will also be negatively impacted by the economic consequences of said measures but prepares to bear the strain of cutting its use of Russian crude. This view is also supported by Poland and Bulgaria, who have already been cut off Russian supplies due to their failure to comply with demanded payments in Roubles. The two countries even go as far as to advocate for an immediate severing of ties on gas payments with Russia. This could be partially attributed to their low reliance on Russian supplies, with Polish storage facilities being filled to 80% of their capacity.

Other EU member states, mainly those with a higher reliance on Russian supplies, are more reluctant adopt this undertaking. Hungary says it would block it, while Slovakia and the Czech Republic voice doubts. This could become a problem in ratifying the sanctions package, as it needs unanimous support from all member states to be passed as policy. Hungary stated it wants assurances of guaranteed Oil supplies from other EU states before supporting the initiative. Currently, the country still heavily relies on Russian Oil supplies for two-thirds of its energy mix, compared with a third overall in the European Union. Slovakia and the Czech Republic similarly wish for clearer guidance before abandoning Russian supplies.

To conclude, it still remains to be seen if the EU will unite around the Ukrainian cause and follow through with banning Russian Oil supplies. Figuratively speaking, turning the switch that allows access to the European Market for Russian Oil is undoubtedly a powerful action, which comes with its economic cost. Another consideration European decision makers have to take into account when making this decision, is the possibility of Russia selling off its excess Oil supply to third countries at a steep discount. Today, there are already reports of China's independent refiners buying up large quantities of excess Russian Oil at high discounts, making them profit economically. Brussel has not made a final decision on further steps yet, but once an agreement is made, it is expected to have far reached consequences (either way).

Felix Mitterer
Financial Markets Division

Extras

Hot Topic

Cybersecurity: Are Privacy and Identity Concerns Driving Growth?

Arsénio Renato Jr
Investment Banking Division

"We are thrilled to officially embark on our partnership with Proofpoint and begin supporting Proofpoint's mission of protecting organisations from the ever-increasing threat of cyberattacks"

– Seth Boro, Managing Partner, Thoma Bravo

The past two years created challenges for several businesses, which were pressured to switch their operating models towards increased digitisation and the use of advanced technology to accommodate the ever-changing nature of the market. As a result, the extended use of technology generated concerns around the process of managing and mitigating the potential risk of cyberattacks.

Inevitably, with the rise of remote working, threats to the safety of employees and organisations' digital presence were exploited. As an example, *Deloitte* reported that 47% of individuals were a victim of phishing scams whilst working from home and most of these came in the form of stolen credentials. One of the most pressing issues is related to identity protection, "credential-stuffing", which is a technique where hackers use previously stolen combinations of username and password to gain access to other accounts. This specifically happens in organisations, as hackers attempt to use employees' information to access their company's data. For these reasons, the industry is expanding with revenues projected to reach USD 146.3 bn in 2022 and expected to grow at 10% for the next 5 years.

Investors' and organisations' perception is that there is a need to stay ahead of the curve in addressing data privacy issues and cyberattacks. March 2022, for example, saw an increase of over 880% in M&A deals with a global value of USD 6.0 bn in cybersecurity compared with February which had only USD 610.0 m. On average, the segment deals are up 101% over the past 12 months. Additionally, global cybersecurity spending in 2021 reached USD 77.5 bn which was 300% above the spending made in 2020.

Strategically, Google has made its largest acquisition in more than a decade by acquiring Mandiant for a total consideration of USD 5.4 bn, a 19% premium over the business pre-announcement share price. On the other hand, Thoma Bravo, a private equity giant back in 2021 completed its largest leveraged buyout in the enterprise software space by Proofpoint for USD 12.3 bn emphasizing the growth prospects of the sector.
The stock market has also shown some appetite for cybersecurity trends. As the war in Ukraine intensified, there was a concern that Western organisations in Europe and the U.S, would become a target of cyberattacks. As a result, there was a surge in stock prices of names such as Palo Alto Networks (PANW), Fortinet Inc (FTNT) and CrowdStrike Holding (CRWD). As an example, Fortinet Inc had a 119% return over the past 12-months. CrowdStrike Holding, on the other hand, was responsible for uncovering Russian hackers inside Democratic National Committee back in 2016.

Equally, venture capital investors also remained bullish towards start-up investments. In 2021, VC backed investments in cybersecurity neared almost USD 30.0 bn and more than 30 start-ups achieved more than USD 1.0 bn in valuations.

With a political push by the U.S government to enforce companies to report when they face a cyberattack, the industry has been very efficient and positioned itself to tackle the drawbacks of increased digitisation and remote working. The path to address increasing cyberattacks may be paved with a lot of deal activity, high valuations and an increasing presence of private investors, including private equity and venture capital funds in the latest unicorns.

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ESG Review

The Impact of the Russia-Ukraine Conflict on Europe’s Climate Agenda

Irina Pereira
Investment Banking Division

“Sustainability is an integrated part of our value proposition to customers, how we run the bank, organise our internal operations and manage our risks.”

– Frank Vang-Jensen, CEO, Nordea Bank

Less than a year ago, the COP26 climate summit resulted in net-zero commitments from 197 countries, covering 90% of the global economy. It also induced a sense of cautious optimism, and understanding that significantly more remains required to prevent the aggravation of the climate situation.

In light of the Russia-Ukraine conflict, however, this optimism became fragile. Europe witnessed rapid rises in the prices of coal, oil, and gas as governments are looking to replace Russian energy sources. At the same time, aggressive defence budgets foretell accelerated non-renewable material consumption and increased emissions, which pressures the progress made in the expenditure plans on energy security, trade, and deep decarbonization. These short-term adjustments were described by the UN Secretary-General, António Guterres, as “madness” and as a severe threat to Paris climate goals.

On the other hand, European leaders are hungry to accelerate the green energy transition plans in response to the war, determined to limit Russia’s money flows. Christian Lindner, the finance minister of Germany, highlighted that green energy should be considered the “energy of freedom”, and stressed the country’s plan to cut its dependence on Russian energy imports by accelerating renewables and reaching 100% clean power by 2035.

The role of the asset management industry is crucial in the energy transition and in determining whether the war in Ukraine is a decarbonization driver or decelerator. In particular, a key action mobilizer is the Net Zero Asset Managers Initiative (NZAM), which leads the drive for the climate transition and delivering on the ambitious alignment of investment strategies that will be necessary to achieve the net-zero goal. As of 31st of December 2021, the NZAM included 235 signatures with over USD 57.5 tr AUM. Nordea Asset Management (NAM) was a founding signatory of the initiative and is committed to the climate agenda with the establishment of short-term goals for 2025, mid-term goals for 2030, and ultimately reaching the net-zero emissions by 2050.

NAM’s short-term goals are in alignment with the Paris decarbonization plans with the intent to, firstly, engage with companies in critical sectors and secondly, phase-out investments in coal-related companies that demonstrate no plan into an exit coal strategy by 2040.
In the mid-term, the goal is to increase investments in climate solutions, through thematic equity funds (investments in companies providing solutions to ESG issues in line with relevant investment themes). Additionally, NAM intends to reduce the weighted average carbon intensity of its investments by 50% by 2030 through: firstly, top-down targets (setting fund-level carbon reduction targets) and secondly, bottom-up targets (engaging with the top-200 emitting companies on their net-zero transition plans).

Such measures are in line with a long-term commitment to an active ownership strategy. Additionally, these install the sense of urgency in the green transition discussion.

Despite many fears that the current conflict will postpone the climate agenda, there is a silver lining – many countries are starting to see the dependence on fossil fuels as a national security risk, giving a far greater mobilising force than it used to.

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Thank you!

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

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