NIC

— Nova Investment Club —

Newsletter

November 2023

NIC
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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, Beatriz Domingues Pereira reviews the conflict between Israel and Hamas. Moreover, in our Regional View, Alexander Knott sheds light on the interest rate landscape in the United States.

Our Investment Banking Division will guide you through October's overall M&A activity. Read about Exxon Mobil acquiring Pioneer Natural Resources, Roche purchasing Telavant, and Chevron acquiring Hess. Additionally, get a detailed overview of what happened to Stellantis and WeWork, and read expert insight and our opinion on the potential growth of Private Credit lending.

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 three major asset classes through an analysis of the past month's major market moves. The overall performance of the NIC Fund in October was negative, with a cumulative return of 4.02%.

On the Hot Topic of this month, Naomi Steiner Oliva discusses China's property market and how regulators should respond.

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Macro Overview

Monthly
November 6th, 2023

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,194	-1.27%	-8.61%	9.23%
DJIA	33,053	-0.27%	-7.05%	-0.28%
Nasdaq	12,851	-2.20%	-10.42%	22.78%
MSCI World	3,020	-0.76%	-12.66%	-1.96%
MSCI EM	3,399	0.95%	-12.66%	-8.80%
Russell 2000	1,662	-1.03%	-17.02%	-5.62%
Euro Stoxx 50	4,061	-0.10%	-9.17%	7.05%
FTSE 100	7,322	-0.92%	-4.91%	-1.74%
Nikkei 225	30,859	-0.66%	-6.97%	18.26%
Hang Seng	17,112	0.71%	-14.77%	-13.49%
Dollar Index	106.66	0.37%	4.72%	3.03%
EUR/USD	1.058	-0.14%	-3.84%	-1.21%
GBP/EUR	1.149	0.07%	-1.55%	1.73%
GBP/USD	1.215	-0.06%	-5.31%	0.58%
USD/JPY	151.680	1.18%	6.60%	15.68%
USD/CHF	0.91	1.93%	4.42%	-1.53%
Brent Crude	87.410	-0.75%	2.16%	1.75%
Gold	1,994.3	0.98%	1.21%	9.20%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	4.931%	10.8	97.2	105.6
GER 10Y Yield	2.806%	-2.2	31.4	23.5
JPY 10Y Yield	0.947%	9.6	33.5	52.5
UK 10Y Yield	4.512%	-2.7	20.3	84.0
PT 10Y Yield	3.525%	-2.4	30.1	-6.1

**Source: Bloomberg, as of 2023-10-31*

In Focus
October

European Central Bank ends record run of rate increases. The European Central Bank decided to maintain interest rates at their current level, halting a historic streak of 10 successive rate hikes, while the European currency union faces the looming threat of a recession and increasing uncertainty in the global economy.

Eurozone inflation falls more than expected. In October, the Eurozone inflation has fallen more than economists to 2.90%, the slowest annual growth in consumer prices since July 2021, after the bloc's economy started to shrink in the third quarter. The big reduction from 4.30% in September was mainly a result of falling energy prices and a drop in food inflation.

US GDP grew more than expected in third quarter. The US economy grew even faster than expected in the third quarter, buoyed by a strong consumer in spite of higher interest rates, ongoing inflation pressures, and a variety of other domestic and global headwinds. The gross domestic product, a measure of all goods and services produced in the US, rose at a seasonally adjusted 4.90% annualized pace in the July-through-September period, up from an unrevised 2.10% pace in the second quarter.

Bank of Canada holds rates steady on tepid consumption. The Bank of Canada on Wednesday left its main interest rate unchanged at 5.00%, saying steeper borrowing costs are dampening consumption, and bringing supply and demand closer to balance.

BoJ sets stage for end of bond yield controls. The Bank of Japan has taken a significant step to end its 7-Year policy of capping long-term interest rates after a sharp rise in US bond yields, setting the stage for a gradual unwinding of massive monetary easing measures as it sharply raised its inflation outlook. The BoJ's policy board announced a near-unanimous decision to allow yields on the 10-Year Japanese government bond to rise above 1%.

The S&P 500 enters a correction after sliding from its summer high. The S&P 500 stock index has fallen more than 10% from the high point it touched earlier this year, meeting the popular definition of a market "correction" as investors fret about interest rates, geopolitical risks and mediocre third-quarter company results.

Growing Gaza conflict raises concern in oil and gas markets. Oil and gas markets are set for another volatile week after Israel began its anticipated ground invasion of Gaza. The biggest risk to crude prices after the invasion remains any escalation to other regional powers. The Middle East supplies about a third of the world's oil. Over the weekend, Iran, which supports Hamas and other regional militant groups, expressed that the incursion "may force everyone to take action".

2-Year Treasury yield hits 17-Year high after strong retail sales figures. Short-term Treasury yields jumped to their highest level in 17 years on 17th of October as stronger-than-expected US retail sales data breathed new life into a global bond rout. The 2-Year Treasury yield, which moves with interest rates expectations, rose 0.09 pp to 5.20%, marking its highest level since 2006.

Microsoft closes Activision deal, overcoming regulators' objections Microsoft closed its USD 69.0 bn purchase of the video game giant Activision Blizzard, overcoming significant regulatory hurdles in the UK and the US, and signaling that the tech industry's giants are still free to use their cash hoards to get even bigger.

Afonso Domingues
Financial Markets Division

Deeper Dive

The Never-Ending Conflict: Israel and Hamas in the 21st Century

Beatriz Domingues Pereira
Investment Banking Division

"At the heart of our efforts to save innocent lives in this conflict – and every conflict, for that matter – is our core belief that every civilian life is equally valuable. A civilian is a civilian . . . – no matter his or her nationality, ethnicity, age, gender, faith."

– Anthony Blinken, United States Secretary of State

On the 7th of October 2023, Hamas dealt an historic and unprecedented blow to Israel. The Palestinian militant group launched Operation Al-Aqsa Flood, unleashing a barrage of rocket fire and sending gunmen from the Gaza Strip into southern Israel, causing the death of over 1,400 people. In this swift and strategic assault, the Hamas organization attacked military targets, took control of Israeli settlements, and captured 200 civilians and soldiers, including children and elderly citizens.

Hamas justified this operation, stating it stemmed from a long-standing anger over Israel's policies. This sentiment was driven not only by the violent incidents at the Al-Aqsa Mosque in Jerusalem but also by the concern about the treatment of Palestinians and the ongoing expansion of Israeli settlements. These settlements are residential areas inhabited by Jewish civilians in territories acquired by Israel during the 1967 Six-Day War, which are not officially under the country's sovereignty.

The conflict between Israel and Palestine stems from varied historical interpretations and territorial disputes, focusing on Israel's security in the Middle East and Palestinian aspirations for statehood. This conflict was partly triggered by the 1947 UN partition plan, resulting in Israel's formation in 1948 and signifying the Nakba for Palestinians, which represents mass displacement and the destruction of communities.

Over the last decades, there have been significant peace efforts, like the Oslo Accords in 1993 and the Arab League's 2002 peace proposal, but a comprehensive resolution remains elusive. Efforts in 2000 involving influential leaders like Clinton and Barak failed, and peace talks stalled in 2014, worsened by US policy shifts. This deadlock led to Palestinian boycotts during President Trump's tenure from 2017 to 2021, amplifying challenges in resolving the conflict.

In response to the assault on Israel, authorities immediately launched airstrikes in Gaza and sent troops and tanks into the battered enclave, resulting in the tragic loss of over 8,000 lives, many of them children. Moreover, the Israeli Defence Minister announced a "complete siege" on the territory, depriving it of essential supplies of food, water and fuel. Gaza, home to 2 million people, began facing an intensified humanitarian crisis, heightened by airstrikes and a blockade. Hospitals are lacking fuel and human rights groups are raising alarms about potential war crimes.

On the one hand, global leaders, such as President Biden and Macron, have expressed support for Israel's right to self-defence against Hamas. On the other hand, Arab nations, particularly Saudi Arabia, have urged de-escalation and a ceasefire. The UN Secretary General António Guterres and the US Secretary of State have joined the increasing calls for a humanitarian ceasefire, expressing deep concerns about the escalating conflict and inadequate humanitarian aid in Gaza. However, Benjamin Netanyahu rejected calls to halt attacks, arguing that it would strengthen Hamas.

Due to Iran's support for Hamas through the provision of arms and funding, the risk of a direct conflict between Israel and Iran looms large. This scenario would cause a significant loss of lives and worsen the existing humanitarian crisis. Furthermore, it would give rise to secondary consequences such as soaring oil prices and sparking inflation, negatively impacting global economic growth.

Currently, there is a great deal of uncertainty regarding the possible escalation of the conflict of Israel-Hamas and its global repercussions. The general aspiration is for a quick and peaceful resolution to the humanitarian crisis, coupled with a timely and effective solution for the challenges faced by the affected citizens.

Beatriz Domingues Pereira
Investment Banking Division

Regional View

Surge in Interest Rates in the United States and a Cloudier Economic Picture

Alexander Knott
Financial Markets Division

"A range of uncertainties, both old and new, complicate our task of balancing the risk of tightening monetary policy too much against the risk of tightening too little"

– Jerome H. Powell, Chair of the Federal Reserve

Since March 2022, the Fed has been gradually increasing its key interest rate, which had been near zero, to approximately 5.40%. This move was aimed at curbing inflation, which had surged to a level not seen in four decades as the economy rebounded strongly from the pandemic-induced recession in 2020. The consequence of these rate hikes has been higher costs for mortgages, auto loans, and credit card debt. Fed Chair Jerome H. Powell has emphasized the central bank's commitment to a cautious approach in his speeches, while also acknowledging the possibility of further interest rate increases if economic data indicates ongoing overheating.

Just prior to the Fed's policy meeting in October, Chair Powell admitted that the central bank's mission had become even more challenging. The FOMC is set to maintain its benchmark interest rate at a 22-Year high, ranging from 5.25% to 5.50%. The prolonged pause in monetary tightening, which has been in place since the last rate hike in July, offers central bankers more time to assess not only the mixed signals regarding the health of the US economy but also how previous rate hikes by the Fed and recent tightening of credit conditions are affecting consumer and business demand.

Despite the absence of rate hikes by the Fed since July, the yield on the 10-Year Treasury note has continued to climb, reaching 4.99% on October 19th, a level not seen in 16 years. This surge in Treasury yields has pushed the average 30-Year fixed mortgage rate to 7.79% and has also raised borrowing costs for credit cards, auto loans, and various forms of business financing.

In September, officials had anticipated that one more quarter-point increase in the federal funds rate would be necessary to label the Fed's policy settings as "sufficiently restrictive." This commitment to a "higher-for-longer" policy approach contributed to a sharp bond sell-off that, according to both the Fed and other observers, helped the central bank by raising borrowing costs.

What's crucial for the Fed is that the yield on the 10-Year Treasury has continued to rise even without further rate hikes by the central bank. This implies that Treasury yields might remain unusually high, even if the Fed keeps its benchmark rate unchanged. Consequently, many business and consumer loan rates could also stay elevated, which might restrict economic growth and inflation. Wall Street traders predict a higher than 98% probability that the Fed will maintain interest rates at the upcoming meeting, with only a 24% chance of a rate hike in the following December meeting (CME FedWatch Tool).

Powell and other policymakers are aiming for what's known as a "soft landing," where they succeed in curbing inflation to 2% without triggering a severe recession. Achieving this requires Fed officials to carefully adjust the fed funds rate to ensure that, as consumer price growth moderates, the real, inflation-adjusted policy rate doesn't become excessively restrictive for the economy. Despite robust hiring, strong consumer spending, and solid economic growth, inflation has decreased from its peak, defying expectations that a recession would be necessary to achieve significant progress.

Mr. Powell stated that a range of uncertainties, both old ones and new ones, complicate the balancing act of avoiding overly loose or overly tight monetary policy. The committee is proceeding cautiously, taking into account these uncertainties and risks, as well as the progress they have made so far.

Alexander Knott
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

APEC 2023 Summit

The US will host the APEC annual summit from the **14th** to the **16th** of November in San Francisco. Political and business leaders will gather to discuss global opportunities and challenges that are shaping economic and environmental trends in the Asia-Pacific region.

OPEC+ Meeting

The 36th OPEC and non-OPEC Ministerial Meeting is set for the **26th** of November in Vienna. Participating countries will discuss market conditions and production decisions, reaffirming their commitment to a balanced and sustainable global oil sector.

United Nations Forum

The Forum, which will take place in Geneva from the **27th** to the **29th** of November, is a key global platform for discussing the implementation of the UN Guiding Principles, fostering dialogues and promoting cooperation on business and human rights issues.

Central Bank Decisions

Fed Interest Rate Decision

The two-day FOMC meeting will conclude on the **1st** of November. The Fed is anticipated to hold interest rates steady at the current range of 5.25%-5.50%, with a 98.30% probability of no changes and no imminent interest rate cuts priced in by the market.

BoE Monetary Policy Decision

On the **2nd** of November, the BoE is set to announce its latest interest rate decision. The streak of fourteen consecutive interest rate hikes concluded in September with a decision to maintain rates unchanged. The BoE is now expected to retain rates at 5.25%.

RBA Interest Rate Decision

The Reserve Bank of Australia will announce its monetary policy decision on the **6th** of November. In the past four months, the rate has been kept unchanged at 4.10%. However, as inflation exceeded expectations, uncertainties surrounding this decision arise.

Inflation and Deflation

US Inflation Rate

The US Bureau of Labour Statistics will release US October CPI data on the **14th** of November. September's annual inflation rate came in at 3.70%, in line with market forecasts and the lowest since May 2021, but still above the 2.00% YoY official target.

UK Consumer Price Index

UK CPI YoY data for October will be released on the **15th** of November. In the recent release for September, the inflation rate remained unchanged at 6.70%, slightly above the expectations and is now projected to decrease by the end of the quarter.

Update On Eurozone Inflation

In October, Eurozone inflation declined more than expected to 2.90% YoY, reaching its lowest level since July 2021. The next release, covering the entire month of October, is scheduled for the **17th** of November.

Labour Market

US Employment Readings

The US will release October's unemployment rate, non-farm payrolls, and participation rate on the **3rd** of November. Market expectations for the unemployment rate are steady at 3.80%. These data may alter the Fed's decisions in its December meeting.

Eurozone Unemployment Data

The latest Eurozone unemployment rate will be published on the **3rd** of November. The overall unemployment rate is expected to be steady at 6.40%, while in some countries unemployment is still projected to be too high.

UK Unemployment Rate

On the **14th** of November, the UK unemployment rate for September will be announced. The rate for June to August 2023 printed at 4.20%, slightly below expectations but 0.20% higher than the precedent level. The upcoming rate is anticipated to remain unchanged.

Ilenia Fiore
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Global M&A activity has exhibited a notable shift when compared to last year. In October of 2023, a total of 2,261 deals were announced, with an overall value of USD 356.3 bn. This represents a 19.77% decrease in deal count and a 78.32% increase in deal value compared to October of 2022. However, the M&A landscape has seen a considerable slowdown over the past eight months, with a 25.18% decrease in the number of deals and a 25.56% drop in deal volume. This trend can be primarily attributed to the ongoing geopolitical instability from conflicts such as the Israel-Hamas war, uncertainty surrounding interest rate hikes, and concerns about an incoming recession. Nevertheless, this month has seen a surge in deal volume, particularly in the North American energy sector. The total deal volume in this region increased by 102.6% compared to October 2022, from USD 118.4 bn to USD 240.0 bn. The financial industry has taken the lead in deal count, totaling 600 deals announced. The largest deals by value are the acquisition of Pioneer Natural Resources by Exxon Mobil and the acquisition of Hess by Chevron.

Selected Regions

North America

The M&A market in North America (NA) experienced an increase in monthly deal count by 15.18% from 929 to 1,070, while the deal volume surged by 84.67% from USD 129.9 bn to USD 240.0 bn. The NA market was responsible for 47% of all deals announced this month, with the announcement of Exxon's acquisition of Pioneer Natural Resources being the largest one so far in 2023, among other notable transactions.

EMEA

The EMEA region has seen little change in deal count this month, having decreased by 0.87%, from 578 to 573 announced deals. Deal volume in the region has increased by 27.63% from USD 42.3 bn to USD 53.9 bn, with Consumer, Non-Cyclical, and Financial being the winning segments in deal volume. Notable among these announcements is CVC's potential bid for Nexi SpA.

Asia

Asia's deal count decreased 12.50% this month, from 696 to 609, mirroring trends in other regions. However, overall deal volume surged 33.96%, from USD 37.0 bn to USD 49.6 bn. Notably, Hong Kong experienced a significant increase in deal volume, from USD 932.0 m to USD 5.00 bn. A noteworthy development is the announced acquisition of Walt Disney's India Operations by Reliance for USD 10.0 bn.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
11 Oct 23	Pioneer Natural Resources Co	Exxon Mobil Corp	US	Oil & Gas	65,260.9	2.85
23 Oct 23	Hess Corp	Chevron Corp	US	Oil & Gas	59,677.5	4.90
10 Oct 23	Truist Insurance Holdings Inc	Stone Point Capital LLC	US	Insurance	10,000.0	-
23 Oct 23	Disney Star business/Walt Disney Co	Reliance Industries Ltd	India	Entertainment	10,000.0	-
30 Oct 23	Spirit Realty Capital Inc	Realty Income Corp	US	REITS	9,013.8	0.75
23 Oct 23	Telavant Inc	Roche Holding AG	US	Retail	7,100.0	-
22 Oct 23	Textainer Group Holdings Ltd	Stonepeak Partners LP	China	Commercial Services	7,047.3	1.98
17 Oct 23	Nexi SpA	CVC Advisers Ltd	Italy	Commercial Services	5,562.8	-
20 Oct 23	Vodafone Espana SA	RRJ Capital	US	Telecommunications	5,295.0	-
30 Oct 23	Physicians Realty Trust	Healthpeak Properties Inc	US	REITS	4,631.6	-2.69

Benedita Velozo
Investment Banking Division

M&A: Top Deals

Exxon Mobil to Acquire Pioneer Natural Resources

On the 11th of October 2023, Exxon Mobil announced the acquisition of Pioneer Natural Resources in an all-stock transaction valued at USD 59.5 bn, or USD 253 per share, based on Exxon Mobil's closing price on October 5th, 2023. The implied total enterprise value of the transaction, including debt, is USD 65.3 bn. The transaction is expected to close in the first half of 2024.

Buyer vs Seller

Exxon Mobil is a US-based integrated oil and gas company engaged in the exploration, production, and distribution of crude oil and natural gas, as well as the production of automotive lubricants and petrochemicals. Pioneer Natural Resources is a US-based energy company primarily focused on oil and gas exploration, production, and further processing. Further, Pioneer extensively operates in the Permian Basin and has a strong track record in extracting hydrocarbons, a key step in the production of fuels.

Industry Overview

Both companies are active in the global oil and gas industry which is currently valued at USD 7.3 tn and is expected to grow to USD 8.7 tn in 2027 at a CAGR of 4.3%. The industry showcases steady growth, although the Russia-Ukraine war disrupts the recovery from the Covid-19 pandemic. Therein, the current oil price volatility negatively impacts consumer spending. Lastly, envisioning the impact of the clean energy transition on this industry is truly compelling.

Peers	Currency	Market Cap (CUR m)
Royal Dutch Shell	USD	218,256.28
BP plc	USD	103,474.73
Diamondback Energy Inc	USD	28,830.89
Vital Energy Inc	USD	1,157.48
Chevron Corporation	USD	278,348.54

Deal Rationale

The acquisition of Pioneer Natural Resources by Exxon Mobil expands Exxon Mobil's footprint in the Permian Basin, establishing an industry-leading unconventional resource reservoir in the US. The consolidated firms aim to double returns by enhancing resource recovery with lower environmental impact. By merging Pioneer's extensive acreage with Exxon Mobil's financial robustness and technology, Pioneer's net zero emissions target in the Permian Basin is set to be fast-tracked from 2050 to 2035. Additionally, this merger bolsters the US economy and energy security while signalling a commitment to sustainability.

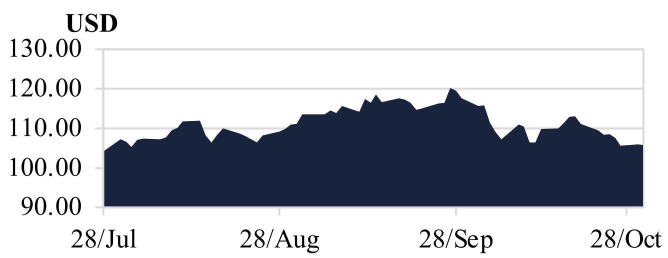
Market Reaction

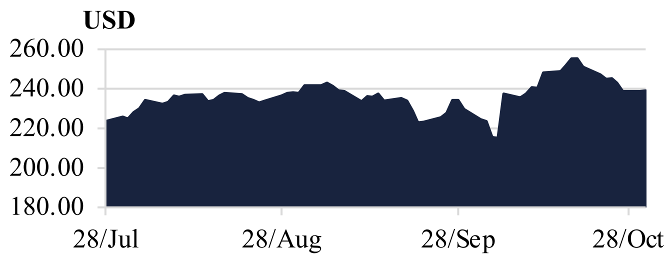
Exxon Mobil

ExxonMobil's stock dropped from USD 110.45 to USD 106.47 following the announcement. Currently the stock is down an additional 0.86% to USD 105.55.

Pioneer Natural Resources

Pioneer's stock climbed by 8.32% from USD 235.62 to USD 255.23 one week after the merger announcement. Since then, the stock has dropped back down to USD 238.60.





Future Challenges

The completion of the Exxon Mobil and Pioneer Natural Resources deal is contingent on the approval of Pioneer shareholders and customary regulatory reviews. The integration of two industry-leading companies will be challenging; however, the deal can offer significant environmental benefits through a combined technology use towards the clean energy transition.

Fabio Schiller
Investment Banking Division

M&A: Top Deals

Chevron to Acquire Hess

On the 23rd of October 2023, Chevron announced its acquisition of Hess for a total consideration of USD 59.7 bn. This acquisition is structured as a share deal, with the planned acquisition price set at USD 171.00 per share, representing a 4.9% premium relative to Hess' closing price one day prior to the announcement. The deal is set to be closed during the second quarter of 2024.

Buyer vs Seller

Both Chevron and Hess are prominent US-based multinational energy corporations specializing in the exploration, production, and marketing of crude oil and natural gas. While Chevron is actively expanding its lower carbon business, Hess is renowned for its industry-leading environmental performance. Morgan Stanley served as the primary financial advisor to Chevron, while Goldman Sachs led the financial advisory for Hess.

Industry Overview

In recent developments, the leading oil and gas companies are reaping substantial profits from thriving operations, resulting in significant cash reserves. Using these reserves for acquisitions, a consolidation in the global energy sector is anticipated, with small and mid-sized companies being the targets of major oil companies. Furthermore, this trend could exert downward pressure on oil prices in the long run by concentrating the competition among the largest players.

Peers	Currency	Market Cap (CUR m)
Marathon Oil Corp	USD	15,661.22
Murphy Oil Corp	USD	6,971.37
Kosmos Energy Ltd	USD	3,280.72
ConocoPhilips	USD	141,016.57
Exxon Mobil Corp	USD	425,731.78

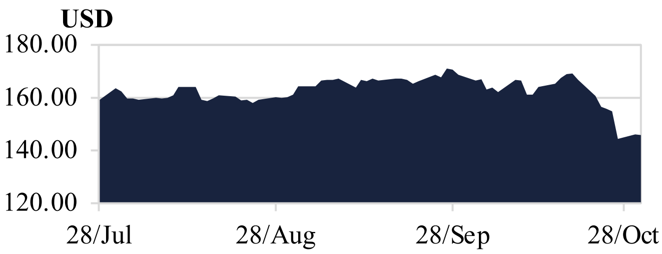
Deal Rationale

The acquisition of Hess strengthens and diversifies Chevron's robust portfolio. Hess' interest in the Guyana oilfield provides Chevron with a strategic position in one of the largest oilfield discoveries in recent years. The field is an exceptional asset with top-tier profitability, paired with a minimal environmental footprint, and is expected to drive increased production over the coming decade. Furthermore, Hess' Bakken assets align with Chevron's strong positions in the Denver-Julesburg and Permian basins, further enhancing domestic energy security. Synergies are expected to result in accretion to cash flow per share in 2025.

Market Reaction

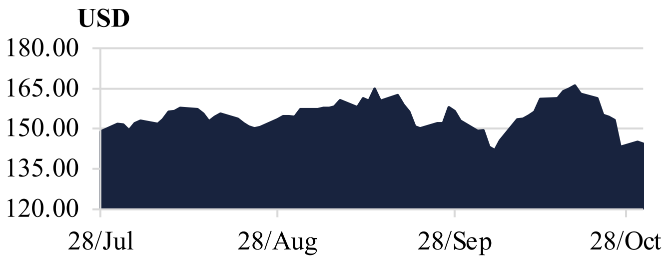
Chevron

Chevron's stock dropped from USD 160.68 to USD 156.65 following the announcement. As of the 31st of October, the share price dropped roughly 9.30% since the announcement.



Hess

Hess' stock dropped from USD 161.30 to USD 155.22 after the announcement. As of the 31st of October, Hess' stock dropped circa 11.81% from the closing price prior to the announcement.



Future Challenges

The acquisition is subject to Hess shareholders and regulatory approvals. Recent oil deals highlight the financial strength of US oil and gas companies, which maintain their investments in fossil fuels while European counterparts pivot toward clean energy. This reflects US companies' confidence in the continued demand for fossils, highlighting the challenges toward renewables.

Jakub Jarzęczka
Investment Banking Division

M&A: Top Deals

Roche to Acquire Telavant

On the 23rd of October 2023, Roche Holding AG announced that it has agreed to buy Telavant Holdings Inc. for USD 7.1 bn. The total consideration was USD 7.25 bn, which consists of USD 7.1 bn paid in cash and USD 150 m paid in earnout. The transaction is expected to close between Q3 of 2023 and Q1 of 2024.

Buyer vs Seller

Roche is a Swiss healthcare company specializing in pharmaceuticals and diagnostics. Telavant is a biotech firm focusing on innovative therapies for inflammatory and fibrotic diseases, The firm is currently owned by Roivant (75%) and Pfizer (25%). Roche boasts a strong product portfolio and a robust pipeline of new drugs, while Telavant is developing a novel therapy for inflammatory bowel disease (IBD), RVT-3101. Citi was the sole disclosed financial advisor for Roche.

Industry Overview

The IBD treatment market was worth USD 20.3 bn in 2022 and is expected to grow at 3.6% CAGR until 2030. The market is driven by the rising prevalence of IBD, the availability of novel biologics, and a strong pipeline of new drugs. However, the market faces challenges such as the high cost of treatment, the adverse effects of some drugs, and the lack of awareness and access in some regions. Recent M&A activities include the acquisitions of Allergan by AbbVie and TiGenix by Takeda.

Peers	Currency	Market Cap (CUR m)
Eli Lilly & Co	USD	562,379.10
AbbVie Inc	USD	250,494.45
Pfizer Inc	USD	175,448.19
Johnson & Johnson	USD	365,713.77
Takeda Pharmaceutical Co Ltd	USD	43,610.54

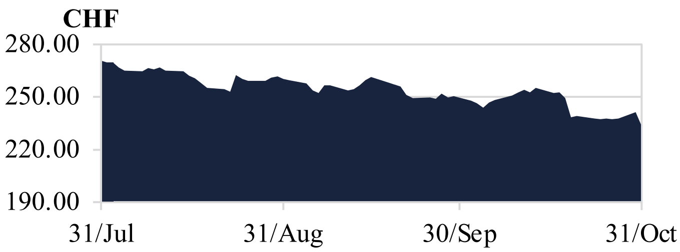
Deal Rationale

The deal is expected to be accretive to Roche's EPS. The parties believe that the deal will create value by leveraging the revenue synergies, cost synergies, and market power of the combined entity. Revenue synergies are expected from the potential of RVT-3101 to become a blockbuster drug for IBD. Cost synergies will result from the integration of Telavant's R&D and manufacturing capabilities with Roche's global infrastructure and expertise. Market power will be enhanced by the combination of Roche's strong presence and reputation in the biopharmaceutical industry with Telavant's differentiated approach to IBD treatment.

Market Reaction

Roche Holding AG

Shares of Roche fell by 0.61% on the date of the announcement. Consequently, the share price further declined by a total of 2.45% by the 31st of October 2023.



Telavant Holdings Inc.

The company attracted interest from several large drug companies wanting to purchase a mid-stage drug in the potentially lucrative immunology treatment area. However, Roche was the first to make a definitive offer and secure the deal. With the acquisition, Roche will gain the rights to develop, manufacture, and commercialize RVT-3101 in the US and Japan. Further, as part of the deal, Roche also obtained an option to collaborate with Pfizer on another IBD drug, PF-06826647, which is currently in phase 2 trials. It is a subcutaneous injection that inhibits tyrosine kinase 2 (TYK2), another mediator of inflammation in IBD.

Future Challenges

The completion of the deal is contingent on approvals from the relevant regulatory authorities. Roche's existing IBD drugs, such as Xeljanz and Entyvio, may lose sales to RVT-3101, as they target similar patient segments. The company may also have to share some of its revenues with Pfizer, as Pfizer has the commercial rights to RVT-3101 outside the US and Japan.

Leon A. Wolff
Investment Banking Division

What Happened To

Stellantis N.V.

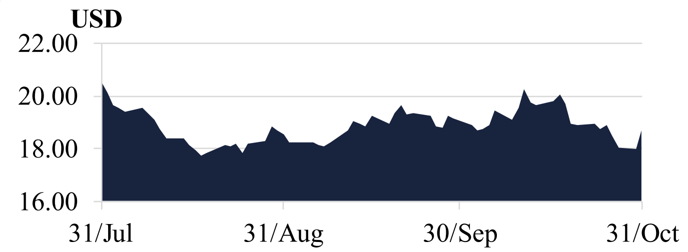
Stellantis is a leading Dutch multinational automotive corporation, renowned for its innovative approach in designing and manufacturing cutting-edge vehicles, placing a strong emphasis on sustainable mobility solutions. The company is committed to addressing clients' evolving transportation needs, minimizing its environmental footprint, and delivering top-quality automobiles.

Corporate News

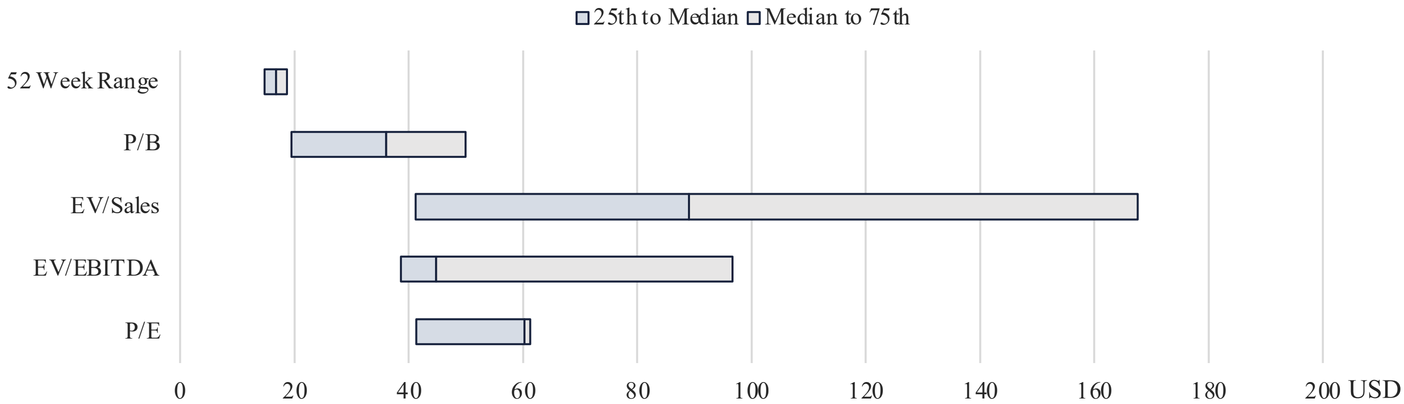
On the 23rd of October 2023, the US automotive industry witnessed a significant development as the United Auto Workers (UAW) union orchestrated a major strike at Stellantis' bustling truck plant in Michigan, US. The surprise move was a strategic maneuver by the union to exert intensified pressure on Detroit's leading automakers, aiming to secure additional concessions in the ongoing strike. The targeted plant, a production hub for the popular Ram 1500 pickup trucks, stood at the forefront of this labor disruption, with approximately 6,800 union members walking out. Consequently, the total number of striking employees reached 14,750, echoing the broader concerns resonating across the automotive industry. The strike-induced production slowdowns raised concerns among investors, leading to fluctuations in stock prices for both Stellantis and its competitors, thus underscoring the impact of automotive workers on corporate outlooks and valuations.

Price (31 Oct 23, USD)	**18.68**
Target Price (USD)	24.50
3M Performance	-9.10%
Market Cap (USD m)	57,422.32
Enterprise Value (USD m)	36,710.70

**Target Price is for 12 months*



Valuation Analysis



The UAW's decision to escalate the strikes at Stellantis was driven by their dissatisfaction with the firm's response to employee demands. Stellantis faced criticism for falling behind competitors like Ford and General Motors in addressing key issues such as wage progression, temporary worker pay, and cost-of-living adjustments. Despite Stellantis' attempts to improve their offer, including a 23% wage increase and a 50% rise in retirement contributions, the UAW demanded a further 25% raise in base wages.

Stellantis criticized the UAW's strike escalation, highlighting the detrimental effects on the automotive industry, local economies, and its profitability. The company stressed potential consequences, including reduced market share and limited investment capacity, jeopardizing generous profit-sharing payments for employees. This standoff highlights the delicate balance between labor demands and corporate viability in the automotive industry.

Peers	**Currency**	**Market Cap** (Cur m)
Porsche Automobil Holding SE	EUR	13,664.88
Volvo Car AB	SEK	122,100.90
Polestar Automotive Holding UK	USD	4,705.63
Piaggio & C SpA	EUR	950.41
Aston Martin Lagonda Global Ho	GBp	1,686.06

Niccolò Casamatta
Investment Banking Division

What Happened To

WeWork Companies, Inc.

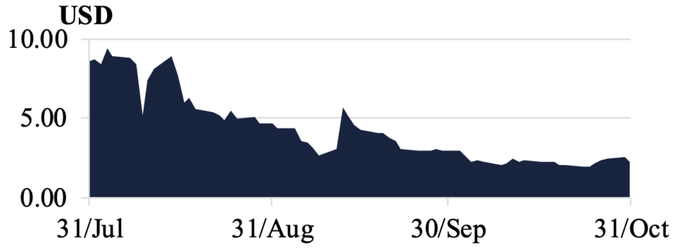
WeWork is a New York-based provider of physical and virtual coworking spaces, boasting more than 750 locations across 39 countries. The company rents buildings from property owners and offers these spaces to clients at a premium through a user-friendly process. WeWork became public in 2021 through a SPAC merger with BowX Acquisition Corp.

Corporate News

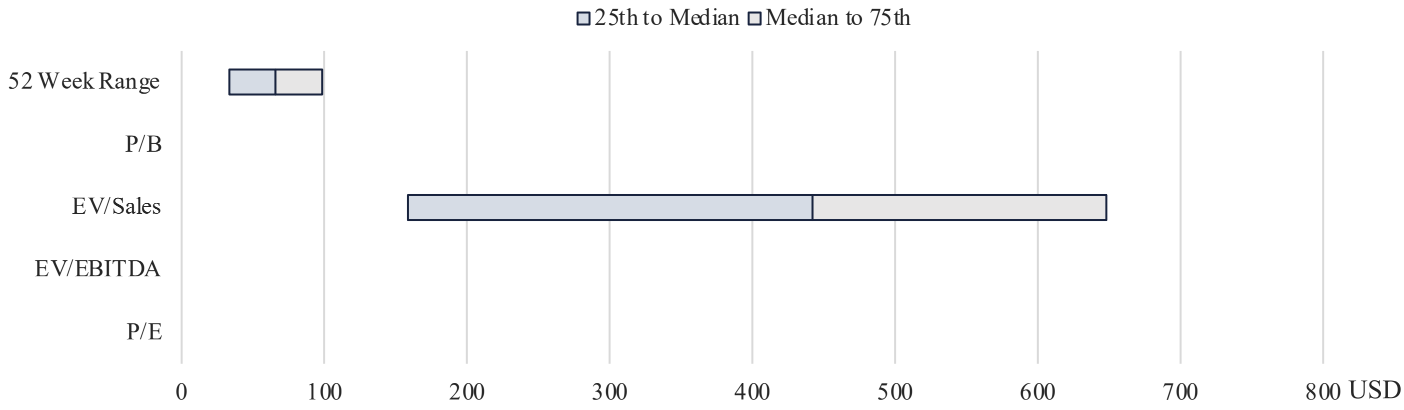
On the 31st of October 2023, sources familiar with the matter claimed WeWork would be preparing to file for Chapter 11 bankruptcy as soon as the first week of November, allowing the firm to stay in business and restructure its obligations. This came as no surprise, as the company had already shown previous signs of a crumbling business. The Covid-19 pandemic lead to a surge in remote work and business lease exits. Coupled with the subsequent economic slowdown, the situation left WeWork with significant debt and cash flow challenges. In June, the firm had a net long-term debt of USD 2.9 bn and long-term leases exceeding USD 13.0 bn, overshadowing its total liquidity of USD 680.0 m, of which only USD 205.0 m was in cash and equivalents. As borrowing costs increased amid economic pressures, WeWork expressed "substantial doubt" about its ability to sustain operations as losses persisted, raising concerns about its viability.

Price (31 Oct 23, USD)	**1.08**
Target Price (USD)	2.50
3M Performance	-87.59%
Market Cap (USD m)	78.15
Enterprise Value (USD m)	17,095.15

**Target Price is for 12 months*



Valuation Analysis



In early September, however, WeWork stated that it was looking to renegotiate nearly all its leases as lease costs made up more than two-thirds of its operating liabilities. One month later, it said it would not make two sets of interest payments totalling USD 95.0 m. This move aimed to start negotiations with its lenders in hopes of securing more attractive terms, and interim chief executive David Tolley mentioned that any decision to file for bankruptcy would have to wait for the outcome of these talks.

After such troublesome months, the Chapter 11 rumours only further augmented the negative performance of WeWork's stock price during 2023. The stock currently sits at USD 1.08, having plunged 98.1% this year alone and registering a 99.8% decline from its all-time high of USD 519.77 in October 2021. Even though WeWork declined to comment on the bankruptcy rumours, all signs indicate there is truthfulness to them.

Peers	Currency	Market Cap (Cur m)
Orion Office REIT Inc	USD	306.16
Eastnine AB	SEK	3,462.92
Keihanshin Building Co Ltd	JPY	68,797.67
CA Immobilien Anlagen AG	EUR	3,509.06
PSP Swiss Property AG	CHF	5,123.44

Miguel Amaral
Investment Banking Division

NIC's View On

Private Credit Boom: The Golden Age of Private Credit?

Peer Lasser
Investment Banking Division

"We see a "golden moment" today for private credit. Higher-for-longer interest rates, turbulence in the banking sector and resulting regulatory pressures are poised to weigh on the cost and availability of credit. Private lenders can play a critical role supporting businesses when others are constrained in this tighter environment."

– Stephen Schwarzman, CEO, Blackstone

The last few years, and especially 2023, posed major challenges for the financing market. High inflation, rising interest rates, and macroeconomic uncertainty affected investment opportunities. However, one asset class continued to gain market share among professional investors.

As of June 2023, the private credit market has burgeoned to a monumental USD 1.5 tn, reflecting its resilience and adaptability in the face of challenging economic shifts. Moreover, BlackRock estimates the private credit market to grow up to USD 3.5 tn in 2028.

Stephen Schwarzman, CEO of Blackstone, the world's largest alternative asset manager, spoke of a "golden moment" for private credit considering the banking crisis sparked by the collapse of Silicon Valley Bank earlier this year.

In addition to the current benefits of rising interest rates, he particularly emphasized the stability of private credit. According to Schwarzman, private credit proved to be far more resilient than the liquid credit and bank-based financing markets during both Covid-19 and the global financial crisis.

On the other side, private credit is of great benefit to limited partners as the variety of strategies in this space allows investors to pursue different options across the risk-return spectrum. Senior credit strategies offer more safety while opportunistic strategies allow investors to access more junior positions of a company's capital structure through subordinated instruments offering attractive risk-adjusted returns. By adding specialized strategies such as distressed or stressed credit, general partners can generate returns for limited partners throughout the complete economic cycle.

The shift towards private debt is highly noticeable throughout the alternative investment market as world-leading alternative asset managers are shifting towards credit strategies. Most famously, Apollo Global Management, one of the most successful private equity firms shifted its investment strategy primarily towards private credit (USD 450 bn AuM allocated to private credit strategies while USD 105 bn AuM allocated to private equity).

In addition, large asset managers are growing private debt capabilities through acquisitions. This consolidation is being driven by both alternative as well as traditional asset managers. Excerpts of this are the takeover of Angelo Gordon from private equity firm TPG or Nuveen's takeover of Arcmont Asset Management in 2022. Hedge funds are also positioning themselves in the private debt market, e.g., MAN Group acquired a majority stake in Varagon Capital Partners.

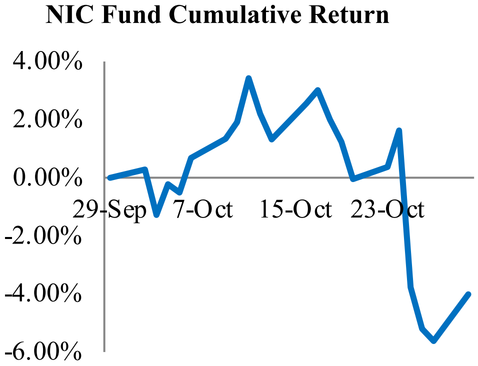
The private credit is benefiting strongly from the current market environment and continues to establish itself as a key asset class for all types of asset managers. Furthermore, fundraising is benefiting from the current difficulties in private equity. Lower valuations and potential disruption in financial performance are making it considerably more difficult for funds to exit portfolio companies. As limited partners need to continue to deploy their dry powder, private debt represents a viable opportunity to invest in a more stable asset class in uncertain times.

Date	Recent News
06 Jul 23	The private credit golden moment. ***Source:*** *ft.com*
15 May 23	TPG to Acquire Angelo Gordon. ***Source:*** *angelogordon.com*
09 May 23	Marathon CEO Sees 'Golden Time' in Private Credit Market Boom. ***Source:*** *bloomberg.com*

Peer Lasser
Investment Banking Division

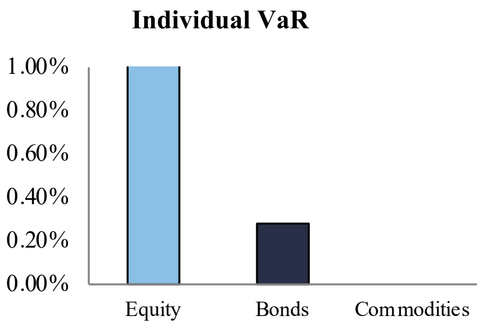
NIC Fund

NIC Fund
Portfolio Overview



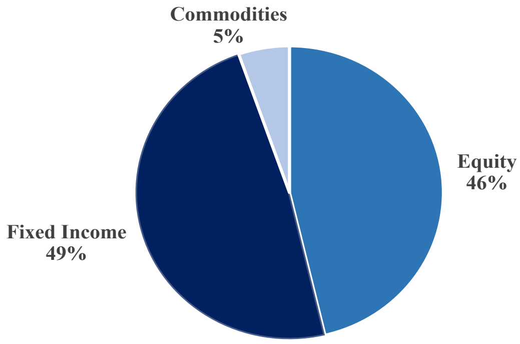
Portfolio Statistics	
Cumulative Return	-4.02%
Annualized Return	-48.27%
Daily St. Dev	0.56%
Period St. Dev	2.55%
Annualized St. Dev	8.85%
Info Sharpe	-5.45
Skew (Daily)	-0.39
Kurtosis (Daily)	-1.26

Benchmark	
iShares 3-7 Year Treasury Bonds	40%
SPDR S&P 500 ETF Trust	40%
Invesco DB Commodity Index	10%
iShares JP Morgan USD Emerging Markets Bond Index ETF	10%



Portfolio Snapshot

During the last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities. Specifically, 46% of our fund remained devoted to Equities, 49% to Fixed Income and 5% to Commodities.
However, 70% of the equities were distributed among various funds, with the remainder allocated to individual stocks using an equally weighted approach.



Return Metrics

The overall performance of the portfolio was negative, with a cumulative return of -4.02%. The best performer was commodities, contributing with a positive return of 0.29%. On the contrary, equities and bonds contributed negatively to the portfolio, with a loss of 1.05% and 0.20% respectively.
The equity holdings included not just the MSCI World index fund and other ETFs but also 27 individual stocks like Nvidia Corp. (NVDA), BNP Paribas (BNP.PA), Novartis AG-Reg (NVS), Northrop Grumman Corporation (NOC), and HDFC Bank Limited (HDB).
The top-performing stocks were Netflix and Northrop Grumman Corporation with returns of 9.03% and 7.10%, respectively, while McPhy Energy had the poorest performance, with a return of -33.24%. The best- performing ETFs were the Goldman Sachs Physical ETF and the iShares 1-3 Year Treasury Bond ETF, with returns of 7.40% and 0.33%, respectively.

Risk Metrics

In terms of risk, our portfolio registered a relatively high daily VaR of 1.06%. As a result, this metric remained significantly below the maximum established threshold of 2.5%. Equities were the asset class with the highest individual VaR, which was around 1.01%. On the other hand, Bonds and Commodities had clearly lower VaRs of 0.28% and 0.00% respectively.

Johanna Linden
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
Commodity	**AAAU ETF**	We have invested in the Goldman Sachs Physical Gold ETF, an AAAU trust primarily holding London Bars and Physical Gold without numismatic value. The positive monthly return of 7.40% is attributed to the conflict in the Middle East, as investors seek safe-haven investments during crises.
US Equity	**NOC**	Northrop Grumman Corporation is a global aerospace and defence company. Its stock yielded the third-highest return in our portfolio at 7.10%, attributed to the conflict in the Middle East. Investors often retain defence exposure as a hedge against geopolitical shocks.
US Equity	**NFLX**	In October, Netflix's stock experienced a 9.03% return, attributed to the removal of the basic ad-free subscription tier and the introduction of a more affordable ad-supported option. This move led to a nearly quadruple increase in subscriber numbers in the previous quarter. Overall, expectations are optimistic.
US Equity	**CMG**	In October, the stock of Chipotle Mexican Grill, a US fast-food chain, had a positive return of 6.03%. This was due to the management's decision to implement further price hikes after a one-year hiatus from increases. Fast-food chains are considered winners during inflationary periods, as they can easily pass price hikes onto customers.
EU Equity	**BNP.PA**	In October, BNP's stock declined by 10.30%. During the third quarter, BNP Paribas reported a decrease in trading revenues, which balanced out the positive performance in its corporate and investment banking sector. Despite the negative news, BNP, like many of its European rivals, has started to benefit from increasing interest rates.
US Equity	**MCPHY.PA**	With a performance of -33.24 % in October, McPhy is the stock with the lowest performance in our portfolio. McPhy is specialized in hydrogen production and distribution equipment and provides solutions for energy transition.
US Equity	**PYPL**	Paypal’s stock lost 11.39% in October. The main cause of this decline stems from the challenging economic conditions experienced by consumers, directly impacting PayPal's revenue. Due to PayPal's operation of one of the most extensive online payment networks, the stock is predominantly evaluated positively on Wall Street.
EU Equity	**KER.PA**	Luxury conglomerate Kering reported a 11.41% drop in total revenue to nearly EUR 4.5 bn for the three months ending September, attributing the decline to weakening global demand for high-end clothing and accessories. The stock lost 11.27% last month.
EU Equity	**BAYRY**	In October, Bayer suffered a loss of around 10.67%. After winning nine consecutive cases, Bayer faced its second unfavourable verdict in Philadelphia, where a jury awarded a plaintiff USD 25 m in compensatory damages and set punitive damages at USD 150 m due to glyphosate use, although the actual payment is uncertain.
US Equity	**GS**	We hold a long position in Goldman Sachs shares. The investment bank’s shares had lost 6.17% over the past month. The firm achieved a RoE of 7.6% for the first nine months of 2023, falling significantly below its annual target of 14% to 16%. We remain invested in the stock, hoping for a recovery in the next months.

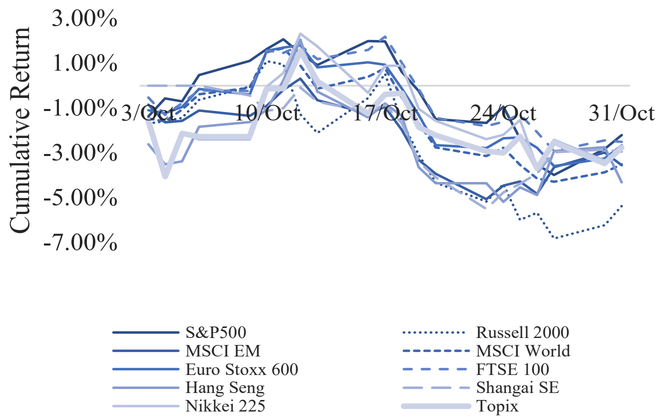
Johanna Linden
Financial Markets Division

NIC Fund

Equities

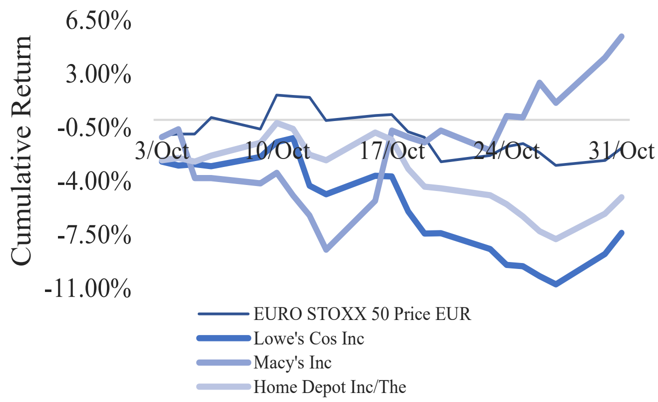
World Equities

Global equities started the month with a surge across most major indices following dovish comments from the US Fed and a robust earnings season. Nevertheless, a decline ensued due to nervous trading against the backdrop of the Israel-Hamas conflict, coupled with sustained high-interest rates in Europe and the US, which led to a 16-year peak in US Treasury yields. This resulted in a negative return of -2.62% for the MSCI ACWI in October. The US stock market, particularly the S&P 500 (-2.83%) and NASDAQ Composite (-3.43%), continued its persistent downturn since its all-time high in August, resulting in the longest losing streak since Covid-19. Despite this, US stocks closed the last days of October positively, with major indices rising nearly 1%, buoyed by, among others, a robust earnings season. Asian equities initially rose but reversed their gains despite the BoJ bond yield control ending, also influenced by geopolitical tensions in the Middle East. The Hang Seng Index closed the month with a decrease of 4.32% followed by the NIKKEI 225 decreasing 2.84%. European equity markets faced similar trading behaviors and impacts, leading the STOXX Europe 600 Index to a 2.68% decrease and losses of 2.52% in the FTSE 100.



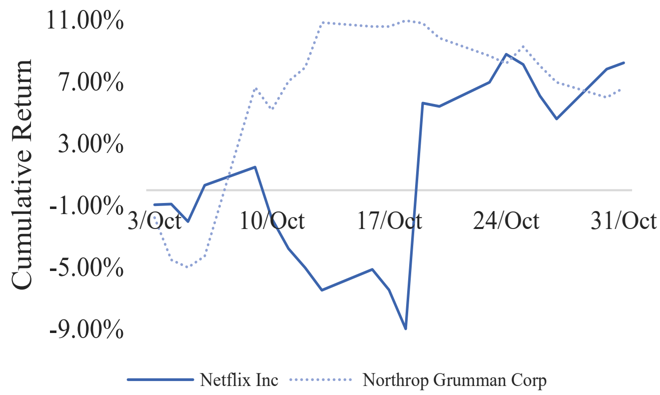
In Depth: The Very Opposite Of A Recession

Janet Yellen has a simple explanation for the rising 10-year yield: "...it is a reflection of the resilience in the US economy". GDP data and earnings reports can confirm this: real growth near 5% for Q3 and and almost four in five companies beat earning expectations. Robert Armstrong finds a nice way to tell the story of this US consumer resilience: unchanged sales volume of Coca-Cola. The price of Coke in the US rose nearly 25% in the past 3 years, yet americans drink just as much of it now as they did then. This is also reflected by strong Q3 earnings. Roughly half of the S&P 500 companies have reported their results so far, with more than 77.7% exceeding results. Hereby, mostly consumer discretionary companies surprise and beat their earnings-per-share estimates by 19% on average. Some good examples of consumer discretionary companies which are set to report their earnings in November are Lowe´s Companies (LOW), Macys (M) or Home Depot (HD). All of them can benfit from the consumer resilience, but also from a general hot economy and rising real consumer spending, backed by solid private sector economic fundamentals, and are hence worth a watch.



Our Performance

In October, equities' contribution to the overall portfolio performance was negative, with -1.05% cumulative return. After its largest gain since January 2021, and after posting its best quarter of subscriber growth in years due to its crackdown in password sharing, Netflix Inc was one of the main drivers of equities' performance by appreciating 9.03% alongside with the security system provider Northrop Grumman Corporation, which gained 7.10%.



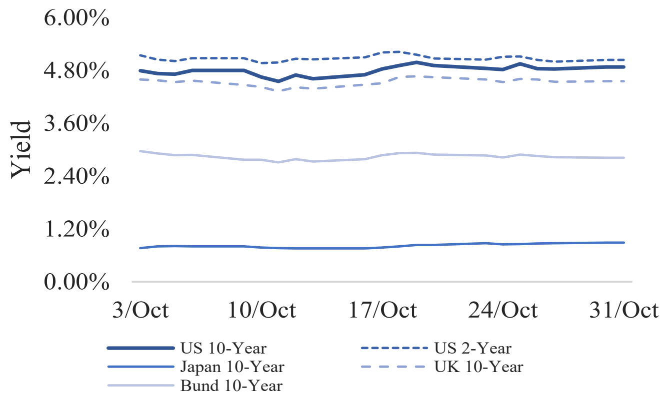
Leon Wagner
Financial Markets Division

NIC Fund

Fixed Income

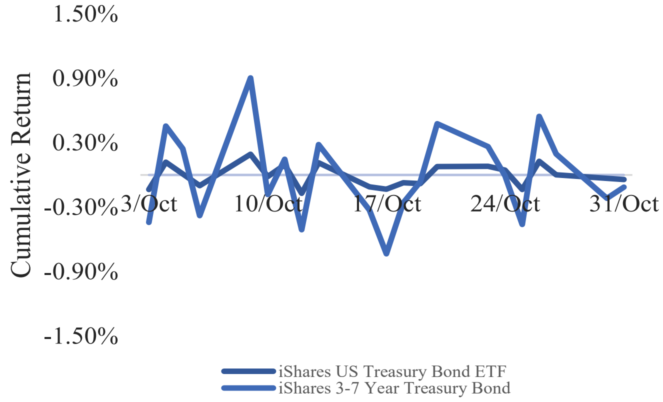
World Yields

October was an interesting month for the bond market as the US 10-Year rates increased from 4.68% to 4.93%, reaching levels above 5% on the 23rd of October, its highest level since July 2007, after Fed Chair Jerome Powell stated he was ready to keep tightening policy in case of persistent economic growth and labour shortage. US 2-Year yield rose as well to a 17-Year high 5.22% in the first half of the month as strong US consumer resilience prompted a renewed bond sell-off, followed by a 14-bps decline to 5.08% in the past 2 weeks. Japan's 10-Year rate climbed from 0.77% to 0.95%, approaching the 1% ceiling. The BoJ's recent decision to further tweak its Yield Curve Control policy, allowing 10-Year government bonds to rise above 1.00%, was deemed as necessary to deal with the Yen's depreciation, upward pressure on US bond yields, and sticky inflation. Yields on 10-Year UK government bonds surged to 4.66% in the third week of October, reaching their highest level since August, driven by hotter-than-expected inflation data in the UK, which held steady in September at an annual rate of 6.7%. 10-Year gilt closed the month at 4.51%, as the market was expecting the BoE to keep rates unchanged at 5.25% in early-November meeting.



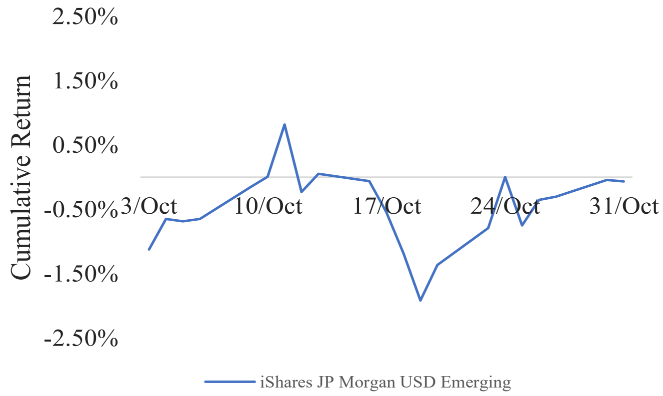
In Depth: Turmoil in the US Treasury Market

Market sentiment experienced continual shifts throughout the year, transitioning from initial worries about a possible economic downturn and interest rate reductions to a more positive outlook during the summer, anticipating a soft landing scenario. Recently, investors have caught on with the Fed's «higher for longer» narrative on rates, particularly after resilient economic data, like the monthly jobs report data which nearly doubled the expectations at the beginning of October. As always, it is a matter of demand and supply. The growing deficit of the US government has led to an increase in bond issuance, which is not expected to stop anytime soon. On the other hand, due to its quantitative tightening policy, the Fed keeps reducing its Treasury holdings. Demand has been partially backed up by Hedge Funds involved in basis trades, in which they actively enter long positions on cash Treasuries. Moreover, several leading asset managers are turning tactical neutral/overweight on long-maturity US government bonds, looking for attractive yields and opportunities for capital appreciation as soon as economic growth slows and rates will eventually go down. Nonetheless, the market has been calling a recession for the past year and has repeatedly been proved wrong. The present query is, are they catching a falling knife?



Our Performance

Fixed Income contribution to our portfolio's return in October added up to -0.28%. Notice that the negative performance was mainly driven by poor emerging markets bonds returns, as the USD EM ETF and the USD EM Gov & Gov-related ETF cumulatively lost -1.18% and -1.55%, respectively.



Lorenzo Bonoli
Financial Markets Division

NIC Fund

Commodities

October Round-Up

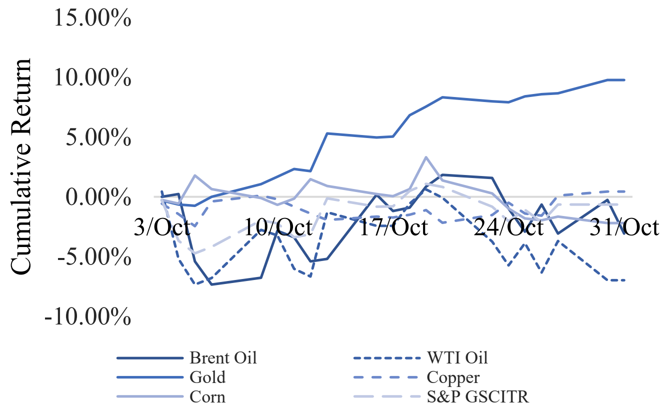
In the month of October, the S&P GSCI Total Return Index, which monitors 24 commodities, experienced a decline of 4.18%, following a robust 2.78% increase in September and a more modest 0.87% rise in August. Year-to-date, the index has shown a gain of 5.26%. Prominent gainers for the month include Silver, Gold, and Natural Gas, whereas Industrial Metals, Energy and Crude Oil contributed to the index's losses. Recent developments in the Middle East, particularly the attack on Israel by the militant group Hamas, which incited a regional conflict, have once again riveted global attention on oil. In the aftermath of the October 7th attack, prices rose over the coming days, bringing Brent prices in above USD 90. However, the conflict premium faded quickly, even as Israel intensifies its operations in Gaza. This trend is generally attributed to concerns about the health of the global economy and downward pressure from slowing economic growth. Considerably more stable since March, Natural Gas exhibited much volatility following Russia's invasion of Ukraine in 2022. Gas prices have exhibited volatility since Russia's invasion of Ukraine in 2022. Recent concerns about further pipeline disruptions and conflicts in the Middle East have propelled prices in Europe to their highest levels since March. Simultaneously, growing demand for safe-haven assets positioned gold as a significant beneficiary, with prices climbing by over 8.52% over the month of October. Regardless of minor downwards correction, gold prices maintained levels not witnessed since May.

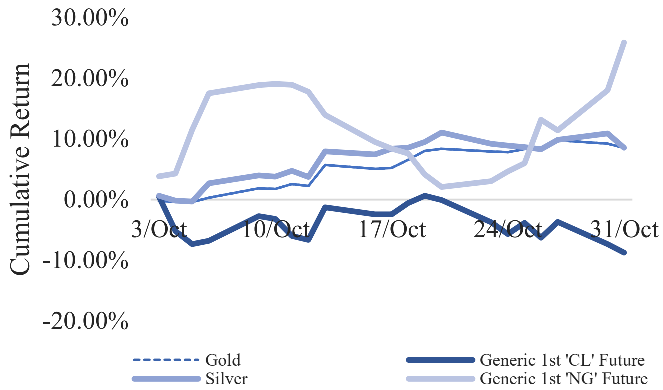
Outlook for November

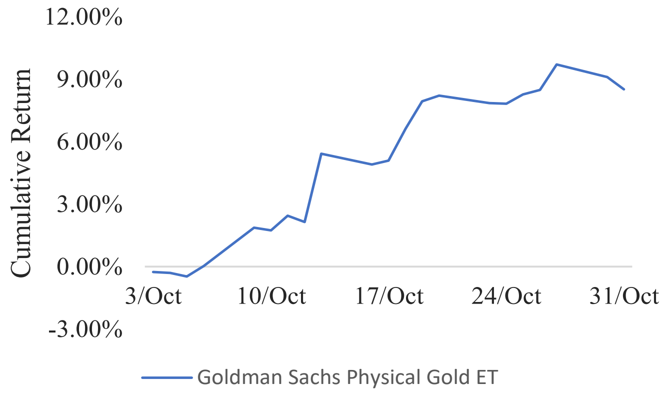
Global commodity markets stand to navigate uncharted territory in response to what can best be characterized as a dual shock reverberating through the global energy landscape. Following the Russian invasion of Ukraine, the risk of regional escalation in the Middle East is elevated and immediate. While supply concerns currently keep a floor on oil prices, preliminary indicators suggest that the long-term effects on commodity markets are limited if the conflict does not widen. In the event of escalation, however, supply disruptions of varying degrees are likely to drive up oil prices significantly, particularly should key crude oil producers, such as Iran, become actively embroiled. As Central Banks worldwide grapple with inflation, a sustained elevation of oil prices would present highly problematic. Traditionally, elevated oil prices have swiftly precipitated increases in food prices, compounding the challenges faced by regions currently contending with shortages of staple products like rice. As the year comes to an end, the market will need to respond to both tight export restrictions and decreased production following extreme weather events.

Our Performance

During October, the Invesco DB Commodity Index ETF returned -1.80% while the Goldman Sachs Physical Gold ETF returned 7.40%, leading to an overall return of 0.16%.







Luisa Ann-Marie Kloth
Financial Markets Division

Extras

Hot Topic

China's Property Sector Woes: How Will the Regulators Respond?

Naomi Steiner Oliva
Financial Markets Division

"It's simply very difficult to suddenly shift growth model and try to reallocate resources away from property . . . particularly when it has massive asset linkages to household and to local governments, and to the entire financial system."

– Rory Green, Chief China Economist at TS Lombard

Another developer has missed the deadline on an offshore bond payment. Evergrande's default already shed light on the dimensions of the problem China was facing. Now, the biggest private residential property developer in China, Country Garden, has failed to pay back debt. Initially the USD 500 m bond was due mid-September. However, the 30-Day grace period expired last week. Concerns are rising as missing payments are a recurring scenario for Chinese developers.

The property sector has been the motor of China's economic growth for the past decades, making up for one fourth of the country's gross domestic product. It all began with migration of the Chinese rural population into larger cities in 1998. To accommodate all the migrators, banks started issuing mortgage and development loans to property companies. This migration led to China's economic boom. It was Evergrande's founder Hui Ka Yan who uncovered the potential of the property sector in China. The market conditions were ideal as developers were allowed to borrow heavily to fund their operations.

However, the predictions on long-term property demand were strongly miscalculated. In 2020, the growth rate of the urban population in China decreased to 2.1%, marking its lowest rate in decades. Moreover, the ratio of empty apartments has ranged up to 50% in certain small cities in China.

By summer 2020, policymakers realized that they could not allow the growth of developers to continue while being mainly debt-funded. The turning point was in August of the same year, when the government introduced the "three red lines" rule. Simultaneously, the government advised banks to slow down the number of mortgages issued. This two-sided shortage was the trigger that set the crisis free.

In 2021, 30 major developers did not comply with the "three red lines" rule. By January 2023, the ongoing lack of compliance and poor property sales resulted in a relaxation of the rule.

The question remains on how the Chinese government is planning to tackle this crisis. The reason why developer giants such as Country Garden or Evergrande have not yet stopped operations is the Chinese government. It is not in their interest to let such developers disappear due to their impact on the economy. Furthermore, reallocating resources away from property and changing the country's growth model cannot be done easily as it has been the country's main economic growth engine for the past decades. A collapse would leave Chinese banks with large amounts of debt and homebuyers without housing that has already been paid for.

Developers must rely now on internal resources, as foreign investors do not further trust any Chinese companies that issue bonds offshore. Concerns also relate to the possibility of having this crisis spill over the entire Chinese and even global economy.

Currently the survival of developers depends on bank lending and commercial paper issuance. To boost property demand, in August, the PBoC and the NAFR (National Administration of Financial Regulation) announced a reduction in interest rates for existing mortgages and standardized down payment ratios. In addition, cities such as Guangzhou and Shenzhen moved to expand the eligibility of benefits for first-home buyers. Even though regulators are already imposing measures, the Chinese property market is still far away from overcoming the current crisis.

Naomi Steiner Oliva
Financial Markets Division

Thank you!

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

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