NIC

— Nova Investment Club —

Newsletter

December 2023

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, Peer Lasser reviews the German Football League's third attempt to secure PE backing. Moreover, in our Regional View, Afonso Domingues sheds light on the Fed's reluctance to cut interest rate hikes in the United States.

Our Investment Banking Division will guide you through November's overall M&A activity. Read about Blackstone, TCMI, General Atlantic, and Permira Holdings acquiring Adevinta, Otemon purchasing Taisho Pharmaceutical Holdings, and Cedar Fair acquiring Six Flags Entertainment. Additionally, get a detailed overview of what happened to Tesla and Citigroup, and read expert insight and our opinion on the UAE's launch of a climate-focused investment fund.

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 November was positive, with a cumulative return of 5.75%.

On the Hot Topic of this month, Luisa Kloth discusses the credit controversy and political turmoil following the downgrade of the United States.

The following content is original and created by the Nova Investment Club, which is run by students from Nova SBE's Master's in Finance. The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.

NIC
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Macro Overview

Monthly
December 1st, 2023

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Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,568	0.25%	1.33%	18.97%
DJIA	35,951	1.92%	3.54%	8.46%
Nasdaq	14,226	-0.28%	1.36%	35.92%
MSCI World	3,305	1.08%	-0.53%	7.31%
MSCI EM	3,595	-0.45%	-0.64%	-3.51%
Russell 2000	1,809	0.75%	-4.77%	2.71%
Euro Stoxx 50	4,382	0.48%	1.99%	15.52%
FTSE 100	7,454	-0.40%	0.20%	0.03%
Nikkei 225	33,487	0.10%	2.66%	28.33%
Hang Seng	17,043	-4.85%	-7.29%	-13.84%
Dollar Index	103.50	-0.41%	-0.12%	-0.02%
EUR/USD	1.089	-0.16%	0.42%	1.71%
GBP/EUR	1.159	0.88%	-0.80%	2.65%
GBP/USD	1.262	0.72%	-0.39%	4.48%
USD/JPY	148.200	-0.91%	1.83%	13.03%
USD/CHF	0.88	-1.02%	-0.93%	-5.33%
Brent Crude	82.830	1.73%	-4.64%	-3.59%
Gold	2,038.1	2.27%	4.68%	11.60%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	4.326%	-7.8	21.8	45.2
GER 10Y Yield	2.447%	-17.2	-1.9	-12.4
JPY 10Y Yield	0.672%	-5.3	2.1	25.0
UK 10Y Yield	4.176%	-8.1	-18.4	50.4
PT 10Y Yield	3.137%	-12.8	-5.7	-44.9

**Source: Bloomberg, as of 2023-11-30*

In Focus
November

US Bonds Set for Best Month in Decades Amid Optimism on Fed Rate Cuts. US bonds are heading for their strongest month in almost four decades, driven by growing optimism about Fed interest rate cuts. The rally has boosted bond prices, lowered yields, and potentially averted a three-year losing streak for the benchmark.

Dollar Hits 3-Month Low as Fed Rate Cut Confidence Grows. Fuelled by dovish signals from Feds' member Christopher Waller, investor confidence in anticipated mid-2024 rate cuts drives down dollar performance, resulting in a 3.6% loss since the beginning of November.

Eurozone Inflation Slides to 2.4%, Igniting Hopes for ECB Rate Cuts in 2024. Eurozone inflation drops to 2.4% in November, the lower level since July 2021, fuelling hopes for possible interest rate cuts. The decline, driven by falling energy prices and lower growth in food and services prices, adds tension between investors and central bankers.

Brent Crude Hits USD 82 per Barrel, Prompting OPEC+ to Mull Deeper Production Cuts. Despite OPEC+'s decision to deepen production cuts by 900,000 bpd, bringing the total to over 2 million bpd, traders remained unenthusiastic, leading to a likely sixth consecutive weekly decline in crude oil prices.

Hong Kong Targets Middle East and Southeast Asia for Stock Market Boost. Hong Kong's liquidity task force recommends focusing on companies and investors in the Middle East and Southeast Asia for a stock market revival.

Argentina Elects Radical Libertarian Javier Milei as President, Prompting Concerns Over Economic Shock Therapy. Argentina's voters choose Javier Milei as president hoping for economic reform; Milei pledges to privatize state assets and dollarize the economy, facing immediate challenges of depleted reserves, high inflation, and a divided congress.

Global Bank Executives Slam US Basel III Proposals. Top bank leaders, including UBS Chair Colm Kelleher and HSBC CEO Noel Quinn, criticize US Basel III endgame proposals, citing liquidity risks and increased borrowing costs. Regulators may adjust rules after the comment period, potentially levelling the competitive field for US banks.

PwC Fined USD 7 m Over Exam Cheating Scandal in China and Hong Kong; PCAOB Cracks Down on Audit Firm Practices. PwC faces a USD 7 m fine as the PCAOB reveals over 1,000 of its audit staff in China and Hong Kong cheated on internal training exams for US standards, marking the first penalty on a Big Four firm in China; the regulatory crackdown also involves a USD 940,000 fine on Chinese audit firm Shandong Haoxin over audits of Nasdaq-listed Gridsum Holding.

BP Acquires Full Control of Lightsource BP in a GBP 254 m Deal. BP has agreed to acquire the remaining 50.03% of solar power developer Lightsource BP, signalling a firm commitment to diversify its energy portfolio and accelerate its transition away from traditional oil and gas.

Naomi Steiner Oliva
Financial Markets Division

Deeper Dive

German Football League (DFL) In Third Attempt To Secure PE Backing

Peer Lasser
Investment Banking Division

"The discussions (…) are two-sided, one with clubs on the long-term development, what needs to be done and what can be done in current financial terms, and the second part is if there is an agreement on the long-term development, how is that going to be financed and when can it be initiated."

– Marc Lenz, CEO, DFL Deutsche Fussball Liga GmbH

The Deutsche Fussball Liga (DFL), which is the German Football League, is gearing up for its third attempt to secure a private equity investment, eyeing a stake sale in the Bundesliga's media rights business. Previous proposals met resistance from certain clubs, however, this renewed effort proposes a lower stake, aiming to gather EUR 1 bn for a 6.00% to 9.00% share in the league's media rights unit.

Scheduled for a vote among the 36 clubs in December, the DFL aims to finalise the deal by April of next year, aligning it with the upcoming media rights sale for the 2025-2029 cycle. This move signifies another shot at attracting private equity interest after the rejection of a 12.5% stake proposal earlier in 2023, which at this time valued the potential bids at EUR 1.85 bn.

At the beginning of 2023, clubs playing in the Bundesliga as well as the second division voted on the decision of paving the way for a private equity investment. However, in May, amid high initial interest, only 20 clubs expressed a desire to continue talks, falling short of the essential two-thirds majority from the 36 clubs across both divisions. With 11 clubs voting against and five abstaining, the prospects of advancing negotiations for a potential stake in their media rights business were aborted. In addition, this opposition was not limited to the boardroom but was also strongly opposed by the fans, whose firm disapproval was demonstrated by banners unfurled in the stadiums.

The new plan outlines a new distribution strategy for the funds raised, with 60.00% designated for digitalisation projects, including a digital video platform. In addition, 30.00% will be used to offset payments to investors for at least five years, while the remaining 10.00% is intended for the promotion of the international league, possibly through overseas club matches.

Furthermore, the revised structure of the plan includes a provision that directly allocates special payments to clubs, addressing initial concerns from some teams. However, the clubs are still entitled to compensation for foregoing part of the broadcasting rights.

The DFL emphasises that the majority of the funds will flow into the long-term revenue growth of central marketing and assures that the sale is limited exclusively to licensing revenue and does not include shares in the organisation itself.

This renewed offer shows that the league wants to develop strategically without neglecting the interests of the clubs. Moreover, the proposed transaction gives DFL access to fresh capital without compromising ownership. This reflects a continuing trend in professional football for European football leagues to enter into partnerships with financial investors without relinquishing core ownership.

The upcoming vote on the 11th of December will be pivotal, reflecting clubs' willingness to forge a strategic partnership with private equity investors, marking a potential turning point in Bundesliga's financial strategy.

In summary, the German Football League's insistence on a private equity stake for its media rights represents a significant step towards modernisation and growth. The revised proposal, adapted from previous criticism, is in line with the clubs' interests and maintains a balance between financial progress and maintaining control of the league's core structure. The outcome of the upcoming vote will steer the course of the Bundesliga and potentially set the stage for a transformative partnership that will lead German football into a new era of commercial expansion and digital innovation.

Peer Lasser
Investment Banking Division

Regional View

Officials are Reluctant to Say that the Fed's Interest Rate Hikes Are Over

Afonso Domingues
Financial Markets Division

"Monetary policy is at its most economically restrictive setting in 25 years, and it will need to stay tight for quite some time"

– John Williams, New York Fed President

Federal Reserve officials are increasingly confident that they do not need to keep raising interest rates to defeat inflation. But they are not satisfied enough to declare an end to hikes — let alone to start a discussion about lowering rates. This leaves them on track to hold rates steady at their December meeting while maintaining public guidance that their next rate change is more likely to be an increase than a cut.

The Fed most recently raised its benchmark federal-funds rate in July to a range between 5.25% and 5.50%. Holding it steady at the Fed's third-consecutive policy meeting would leave it unchanged at least through January. "Monetary policy is at its most economically restrictive setting in 25 years, and it will need to stay tight for quite some time" New York Fed President John Williams said at a conference on Thursday.

Several months of subdued inflation readings have led investors to speculate that the Fed will cut rates by May or even earlier. However, officials are not ready to entertain such deliberations. More evidence is required that monthly inflation readings remain subdued or that the economy and hiring are slowing more than anticipated.
"If inflation is going to flare back up, I think you want to have the option of doing more on rates" Richmond Fed President Tom Barkin said this week.

Williams, a top lieutenant to Fed Chair Jerome Powell, dismissed questions Thursday about when officials might lower rates as a matter that concerns "something well off into the future." He added, "I'm not losing too much sleep over how markets have shifted their views." Officials are cautious for several reasons, as they do not want to hastily announce "mission accomplished" on inflation, even if they are heartened by the recent slowdown, because the economy and inflation have been very tricky to forecast over the past three years.

In 2021, inflation surged in the spring and then initially retreated that summer, giving the central bank false comfort that the pickup would be short-lived. The Fed maintained an ultra-stimulative monetary policy put in place since the Covid-19 pandemic erupted. Price increases accelerated that fall, forcing the Fed to make an abrupt policy U-turn. As a result, officials today want to see more evidence that inflation does not settle above 3%, a level unacceptably high for a central bank with a 2% target. Fed officials also do not want to encourage market rallies that could stimulate economic activity by declaring an end to rate hikes. They particularly want to avoid prompting investors to expect even more aggressive cuts than officials are willing to entertain when the economy is still growing comfortably.

Still, investors have been eager to bet on rate cuts after October inflation reports showed that price pressures have broadly cooled since June. Core prices, which exclude volatile food and energy items, ran at a 2.5% annualized pace during the six months ended in October, down from 4.5% over the previous six-month period, according to the Commerce Department. Those reports have led several Fed officials, who have most vocally called for higher rates over the past 20 months, to signal much greater comfort with leaving them where they are now. Fed governor Christopher Waller said this week he was "increasingly confident that policy is currently well positioned."

The Federal Reserve seems poised to maintain interest rates steady in December, reflecting growing confidence in controlling inflation. Despite speculation about rate cuts, officials remain cautious, seeking more evidence of sustained subdued inflation and economic trends before considering any changes. This cautious approach aims to avoid premature actions while ensuring a balance between addressing inflation concerns and supporting economic growth.

Afonso Domingues
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

COP28

The Conference of the Parties to the UN Framework Convention on Climate Change will take place in Dubai from the **30th** of November until the **12th** of December. As a result of disappointing progress at COP27, members will be under pressure to reduce carbon emissions significantly.

75th Anniversary of the UN Declaration of Human Rights

On the **10th** of December, the 75th anniversary of the UN Declaration of Human Rights will take place, a milestone celebration called Human Rights 75 (HR 75). For 75 years, the core ambition has been to infuse societies with equality, freedoms and justice.

Economic and Financial Affairs Council

On the **8th** of December, the presidency will present a progress report on the adjusted package for the next generation of own resources. The Council will seek a general approach on the proposed reform of the economic governance framework.

Central Bank Decisions

Fed Interest Rate Decision

The next FMOC meeting will take place on December **13th**. The FMOC may decide to increase, decrease or keep interest rates steady, having a tremendous effect on currency values. The Fed is expected to leave its benchmark rate unchanged for the third meeting in a row.

RBA Interest Rate Decision

On the **5th** of December, the Reserve Bank of Australia will announce its decision on interest rates. It is expected to hold rates constant at ~4.35% on Tuesday and a rate cut is now not expected until the fourth quarter of next year due to a strong housing market.

ECB Monetary Policy Decision

The Governing Council of the ECB holds its monetary policy meeting on the **14th** of December in Frankfurt. Following the ECB economic policy, the ECB President, Christine Lagarde, will give a press conference regarding the monetary policy.

Inflation and Deflation

Update on Euro Zone Inflation

Annual inflation in the euro zone cooled to 2.4% in November from 2.9% in October, well below forecasts. Core Inflation fell to 3.6% from 4.2%, providing fuel for expectations of European Central Bank rate cuts.

US Inflation

United States inflation rate will be announced on the **12th** of December for November 2023. In October, Inflation fell to 3.2%, lower than expected. For November 2023, Inflation is expected to fall to 3.1%.

UK Consumer Price Index

The Consumer Prices Index rose by 4.6% in the 12 months ending in October 2023, down from 6.7% in September. On a monthly basis, the CPI did not change in October 2023, compared with a rise of 2.0% in October 2022. The largest downward contribution to the monthly change came from housing and household services.

Labour Market

Australian Unemployment Rate

Unemployment rate in Australia increased to 3.7% percent in October from 3.6% in September 2023. On December **14th**, Australia releases its unemployment rate for November 2023. The rate is expected to remain unchanged at 3.7%.

Canadian Unemployment Rate

On the **1st** of December, Statistics Canada releases Canada's unemployment rate. The unemployment rate is expected to increase to 5.8% from 5.7% in the prior month. Tepic job creation could help the Bank of Canada to hold the steady policy rate.

Euro Zone Employment Change

The European Zone employment change will be announced on the **7th** of December. The monthly employment change is expected to remain at 0.3%, while the yearly employment change is expected to stay at 1.4%.

Alexander Knott
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

Global M&A activity has experienced a significant decline in both deal count and deal value compared to November 2022. This November, the deal count decreased 22.03% and the aggregate disclosed deal value dropped 36.18% compared to the previous year. The current month witnessed a sharp decline from October's USD 356.3 bn to USD 160.9 bn, marking the lowest deal value since January of this year. This decline is propelled by a substantial decrease in the North American M&A market. The sluggish pace of deal-making is driven by heightened financing costs from the rise in interest rates. Furthermore, increased antitrust scrutiny, a more cautious approach from lenders, and the unpredictable geopolitical situation all contribute to the deceleration in deal activity. Despite a decline in value, the number of company takeovers remained high, totalling 1,420 deals. The Financial and the Consumer Non-Cyclical sectors emerged as the top performers, accounting for 33.11% of the total global M&A market. The most noteworthy deal is the USD 14.7 bn acquisition of Adevinta ASA by a consortium led by Blackstone and Permira.

Selected Regions

North America
The North American M&A market experienced a substantial 73.41% monthly decline in deal value and a 12.80% drop in deal count. The deal value plummeted from USD 240.0 bn in October 2023 to USD 63.8 bn in the following month. Despite this significant decline, North America kept its lead, accounting for over 40.42% of the total deal value. NA secured 4 out of the top 10 largest transactions of the month.

EMEA
The EMEA region represents 32.69% of the total deal value and 27.31% of total deal count for this month. In November, the deal value decreased by 4.33% compared to the previous month. Herein, it experienced a significant drop of 44.25% when compared to November 2022. The largest deal this month was the acquisition of Adevinta by Blackstone, Permira General Atlantic and TCV, totalling USD 14.7 bn.

Asia
Asia's monthly deal value decreased 14.30% to USD 42.5 bn. Nevertheless, the number of announced deals surged from 609 to 640 compared to last month. In comparison to last year's homologous period, the deal value diminished by 14.40%. Asia accounted for 27.31% of total deal value and 29.57% of total deal count this month. A notable deal is the MBO of Taisho Pharmaceutical Holdings for USD 4.8 bn.

M&A
Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
21 Nov 23	Adevinta ASA	Blackstone Inc, TCMI Inc, General Atlantic LP, Permira Holdings LLP	NO	Internet	14,675.94	12.84%
14 Nov 23	Elk Valley Resources Ltd	Glencore PLC	CA	Coal	6,930.00	-
6 Nov 23	Guidehouse LLP	Bain Capital Private Equity LP	US	Commercial Services	5,300.00	-
24 Nov 23	Taisho Pharmaceutical Holdings Co Ltd	Otemon KK	JP	Pharmaceuticals	4,776.60	49.83%
1 Nov 23	Six Flags Entertainment Corp	Cedar Fair LP	US	Entertainment	4,202.08	0.32%
29 Nov 23	Global Atlantic Financial Group Ltd	KKR & Co Inc	US	Insurance	2,700.00	-
29 Nov 23	AMC business/Open Text Corp	Rocket Software Inc	US	Software	2,275.00	-
13 Nov 23	ATC India Tower Corp Pvt Ltd	Private Investor, I Squared Capital Advisors US LLC	US	Telecommunications	2,200.00	-
17 Nov 23	Electricity North West Ltd	Iberdrola SA	UK	Electric	1,975.82	-
17 Nov 23	Enerfin Sociedad de Energia SL	Kingdom of Norway	ES	Electric	1,960.20	-

Beatriz Domingues Pereira
Investment Banking Division

M&A: Top Deals

Blackstone and Permira-led Consortium to Acquire Adevinta

On the 21st of November, a consortium consisting of Blackrock, Permira, General Atlantic, and TCV announced the acquisition of Adevinta for a consideration of USD 14.67 bn. The cash deal has an acquisition price set at NOK 115.00 per share, representing a 12.84% premium compared to the day before the announcement. The deal is expected to be closed in the second quarter of 2024.

Buyer vs Seller

Blackstone and Permira, together with the other acquirers, represent a few of the largest Private Equity firms worldwide managing a combined USD 1 tn of assets, across all sectors. Adevinta is a leading marketplace and digital classifieds company connecting buyers and sellers across various categories such as real estate, jobs, and general merchandise. It focuses on connecting buyers seeking goods or services with a large base of sellers. For the sale, the ladder was advised by JP Morgan, Citi and BNP Paribas.

Industry Overview

The global marketplace sales were estimated at USD 3.5 tn in 2020. By 2025, analysts predict the revenue to grow at a 20% CAGR to more than USD 8.8 tn. Driving the growth are the dominance of online giants such as Amazon, and Alibaba as well as niche-focused platforms such as Etsy catering to personalized shopping. The Covid-19 outbreak has accelerated e-commerce adoption, as evidenced by Walmart's classified expansion in "Walmart's marketplace".

Peers	Currency	Market Cap (CUR m)
Opera Ltd	USD	998.15
Delivery Hero SE	EUR	8,500.09
Rightmove PLC	GBp	4,519.73
Scout24 SE	EUR	4,753.50
Deliveroo PLC	GBp	2,252.96

Deal Rationale

Behind the proposed buyout of Adevinta by the consortium lies the potential to unlock greater value than reflected in the company's current stock price. The offer at a premium, signifies confidence in Adevinta's prospects. According to Permira, since their 2021 investment, they have seen first-hand the strength of Adevinta's brands, market position, and management team, as well as the growth opportunities. The consortium envisions revenue synergies, especially given Adevinta's strategic position after merging with eBay's classifieds business in 2020, creating the world's largest online classified advertising business.

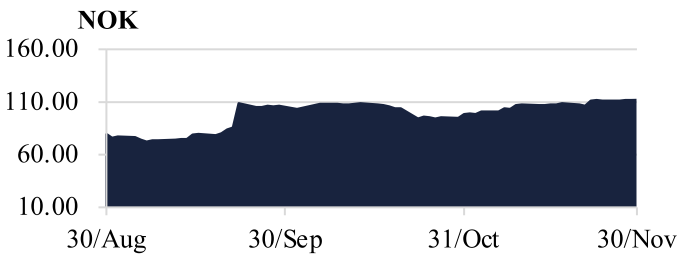
Market Reaction

Blackstone and Permira led consortium

On the 21st of September 2023, Adevinta, the Norway-based company, received a non-binding proposal from Blackstone and Permira's consortium for a potential offer. By the 3rd of October, a special committee and advisors were appointed. On 22nd of October, Blackstone and Permira reconsidered the buyout. On the 21st of November, a consortium, including Permira, Blackstone, General Atlantic, and TCV, made a USD 15.3 bn offer to acquire Adevinta from eBay and Schibsted.

Adevinta

Adevinta's stock rose from NOK 106.10 to NOK 111.20 after the announcement. As of the 31st of November, the share price increased roughly 5.01% since the announcement.



Future Challenges

Taking Adevinta private could pose challenges for the consortium. Integrating diverse online classifieds platforms, managing potential resistance from Adevinta's existing leadership, and aligning strategic visions can be challenging for the acquirers. Further, navigating regulatory approvals and addressing concerns related to the market power may also pose obstacles.

Fabio Schiller
Investment Banking Division

M&A: Top Deals

Otemon KK to Acquire Taisho Pharmaceutical Holdings

On the 24th of November 2023, Otemon KK ("Otemon") made an offer to take private Taisho Pharmaceutical Holdings for JPY 8,620 per share, representing a 56.30% premium from the 1-day closing price. This yields an estimated deal value of USD 4.8 bn, making it Japan's largest management buyout ever. The transaction is expected to close until January 31st 2024.

Buyer vs Seller

Otemon is an entity owned by the Executive Vice President of Taisho Pharmaceutical Holdings, Mr Shigeru Uehara, established for the purpose of acquiring all of Taisho Pharmaceutical Holdings' outstanding shares. Taisho Pharmaceutical Holdings is Japan's largest multinational pharmaceutical company that produces over-the-counter medicine. Taisho's main product offerings include energy drinks, cough medicine, pain killers and hair growth supplements.

Industry Overview

The global market for over-the-counter medicine is expected to grow from USD 121.1 bn in 2022 to USD 187.7 bn by 2030, with a CAGR of 5.6%. This growth is being driven by an overall shift from prescription medicine to over-the-counter solutions, especially since the start of Covid-19, and increased demand from consumers for self-health solutions. Japan has historically seen similar growth levels, which have not been significant enough to drive sales in the company.

Peers	Currency	Market Cap (CUR m)
Santen Pharmaceutical Co Ltd	JPY	525,988.12
Nippon Shinyaku Co Ltd	JPY	214,717.08
Tsumura & Co	JPY	214,731.52
Sumitomo Pharma Co Ltd	JPY	185,819.37
Kyowa Kirin Co Ltd	JPY	1,313,010.00

Deal Rationale

Privatizing Taisho allows the company to escape public market pressures, enabling management to focus on strategic decisions. With anticipated challenges such as a projected 45% Net Profit drop in FY2023, demands from the Tokyo Stock Exchange for higher P/B ratios, and from shareholders expecting enhanced returns, sustaining becomes harder. This reflects a trend of management buyouts (MBO) that is occurring in Japan. Additionally, the company wants to make strategic changes such as improving its online sales and expanding its brand portfolio. Taking Taisho private can facilitate making such strategic changes.

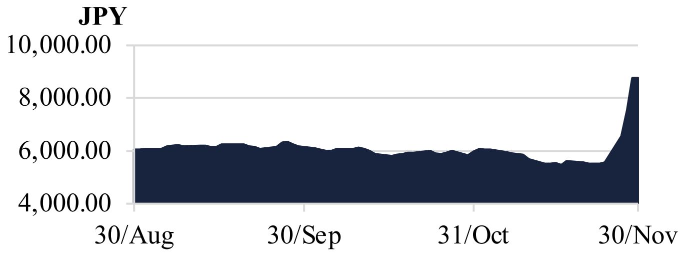
Market Reaction

Otemon

Mr. Shigeru Uehara is a member of the Uehara family which is the largest shareholder of Taisho Pharmaceutical Holdings, holding approximately a 40% of outstanding share combined. Upon completion of the deal, it is expected that current shareholders from the Uehara family and affiliated entities will reinvest their gains from the sale into Otemon, and that current management will remain unchanged. This would be the largest management buyout in Japan if it successfully goes through. Overall, the company believes that delisting Taisho Pharmaceutical Holdings will bring more opportunities to create value.

Taisho Pharmaceutical Holdings

Taisho's stock price jumped 57% after the announcement of the MBO, from JPY 5,545 to JPY 8,753. The stock price has not stabilised yet since the announcement.



Future Challenges

Navigating shareholder buyouts, ensuring adequate funding for the transition, and managing the shift in operational focus from public to private may pose immediate challenges. Additionally, maintaining transparency and investor confidence without public disclosures, and establishing effective governance structures within the company could be ongoing hurdles.

Benedita Velozo
Investment Banking Division

M&A: Top Deals

Cedar Fair LP to Acquire Six Flags Entertainment Corp

On November 2nd, 2023, Cedar Fair LP ("Cedar Fair") acquired Six Flags Entertainment Corp ("Six Flags") for USD 4.2 bn via a share deal at USD 21.76 per share, representing a 3.47% premium over Six Flags' prior day's closing price and 4.43% one week prior to the announcement. The anticipated closing date of the acquisition is scheduled for the second quarter of 2024.

Buyer vs Seller

Both Six Flags Entertainment Corp and Cedar Fair are prominent US-based multinational operators in the amusement park and entertainment industry. Six Flags Entertainment Corp operates 27 parks, 24 of which are located in the US, two in Mexico, and one in Canada. Meanwhile, Cedar Fair operates 17 parks in the US and Canada. Perella Weinberg Partners served as the primary financial advisor to Cedar Fair, while Goldman Sachs led the financial advisory for Six Flags.

Industry Overview

The anticipated growth of the global amusement parks industry, expected to attain a projected value of USD 91.31 bn by 2030 at a CAGR of 6.2% from 2023 to 2030, has witnessed corporate dynamics including prior discussions between Six Flags and Cedar Fair regarding an acquisition offer in 2019, which was declined. Additionally, SeaWorld's bid to acquire Cedar Fair in the previous year was unsuccessful, showcasing previous failed attempts to consolidate the market.

Peers	Currency	Market Cap (CUR m)
SeaWorld Entertainment Inc	USD	3,199.76
Six Flags Entertainment	USD	2,057.64
Cedar Fair LP	USD	1,998.78
dave & Buster's Entertainment	USD	1,797.66
Sphere Entertainment Co	USD	1,064.55

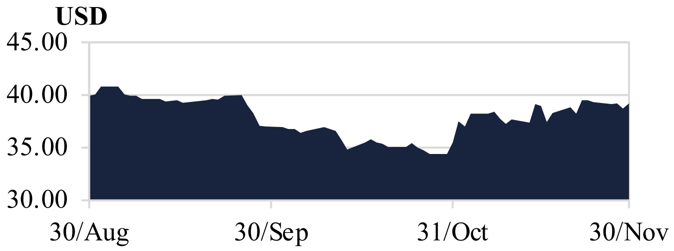
Deal Rationale

In the United States' amusement parks sector, showcases a substantial market share concentration where the top four companies, namely Disney Parks and Resorts, Universal Parks and Resorts, Cedar Fair, and Six Flags, collectively generate more than 70% of the industry's total revenue. After the pandemic, amusement parks saw increases in revenue but faced challenges in attracting visitors. A potential partnership between major players aims to reduce operational costs. Six Flags and Cedar Fair expect to achieve savings of USD 120 m in two years following the completion of the agreement.

Market Reaction

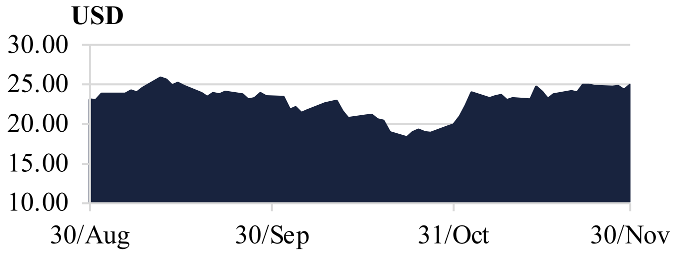
Cedar Fair LP

Cedar Fair's stock rose from USD 37.00 to USD 38.25 after the announcement. As of the 30st of November, the share price increased 6.00% since the announcement.



Six Flags Entertainment Corp

Six Flag's stock increased from USD 22.36 to USD 23.99 following the announcement. However, both stocks have surged approx. 9% since the merger rumours surfaced.



Future Challenges

The merger seeks to boost cash flow for investing in technology and attractions. However, competing against industry leaders like Walt Disney and Universal Parks remains a challenge despite expected cash flow enhancements. Furthermore, Cedar Point fans show strong disapproval toward the idea of a 'Six Flags Cedar Point' branding, causing a challenge in market positioning.

Jakub Jarzęczka
Investment Banking Division

What Happened To

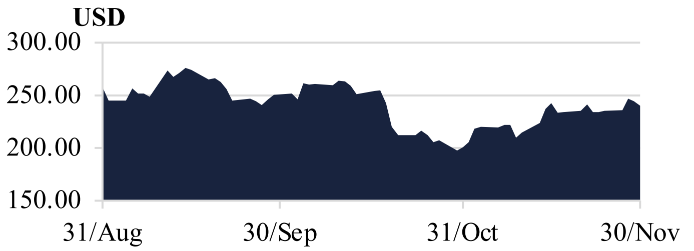
Tesla, Inc.

Tesla, Inc. known for its innovative electric vehicles and clean energy products, has carved out a significant niche in the automotive sector since its inception in 2003. From their high-performance electric vehicles (EVs) to their pioneering work in battery technology and energy storage, Tesla has consistently challenged traditional automotive norms.

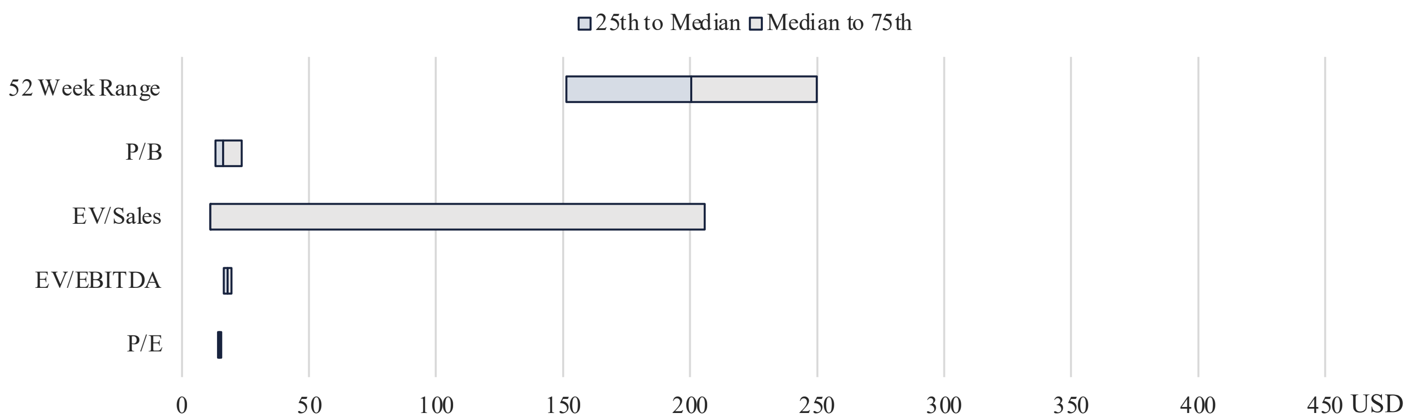
Corporate News

The delivery of Tesla's Cybertrucks, a futuristic pick-up truck, finally started on November 30th, 2023. However, the event held for the launch did not significantly boost Tesla's stock, as the truck's price, starting at USD 60,990, was notably higher than the initially announced USD 39,900. This pricing discrepancy raised concerns about the Cybertruck's market demand, especially since top models could cost nearly USD 100,000. Elon Musk acknowledged the production and design challenges of the Cybertruck, stating that it targeted a specific niche customer base. Analysts anticipate that the Cybertruck's impact on Tesla's finances in the coming year will be minimal. Around 250 deliveries are projected for this year and 75,000 for the next, though these figures may be considered potentially as optimistic. Meanwhile, Elon Musk has projected that Tesla could achieve an annual production rate of approximately 250,000 Cybertrucks by 2025.

Price (30 Nov 23, USD)	**238.83**
Target Price (USD)	252.50
3M Performance	-7.46%
Market Cap (USD m)	759,221.80
Enterprise Value (USD m)	742,360.80
**Target Price is for 12 months*	



Valuation Analysis



Before and after the launch, investor reactions were mixed due to concerns over the vehicle's pricing and production scale. Tesla's ability to navigate these market fluctuations and investor expectations continues to be a critical aspect of its financial narrative. Shares of Tesla dropped by up to 3.40% on Friday, although they later regained some ground, following the delivery of the first Cybertruck units by the automaker the previous day.

Despite the mixed reactions to the Cybertruck, analysts suggest that its sales might not be the primary growth driver for Tesla's stock. Instead, the focus is likely to shift towards Tesla's autonomous driving technology and software capabilities. With only about 10% of growth projected from car and truck sales and 90% from autonomy-related ventures, Tesla continues to position itself as a leader in innovative automotive technology.

Peers	Currency	Market Cap (Cur m)
Stellantis	EUR	63,674.54
Volkswagen	EUR	57,110.23
General Motors Co	USD	44,316.41
Ford Motor Co	USD	42,351.26
Lucid Group Inc	USD	9,913.23

Leon A. Wolff
Investment Banking Division

What Happened To

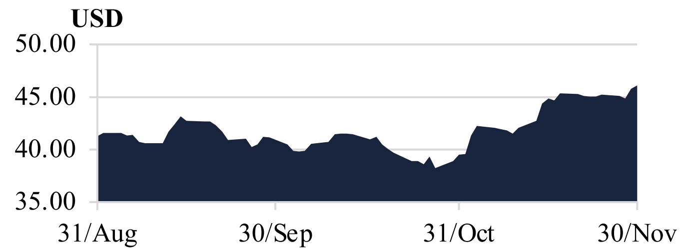
Citigroup Inc.

Citigroup ("Citi") is an American multinational investment bank and financial services corporation founded in 1998. It is one of the Big Four banking institutions in the United States, considered a systematically important bank by the Financial Stability Board. Citi has an on-the-ground presence in more than 90 countries and employed more than 240,000 up until recently.

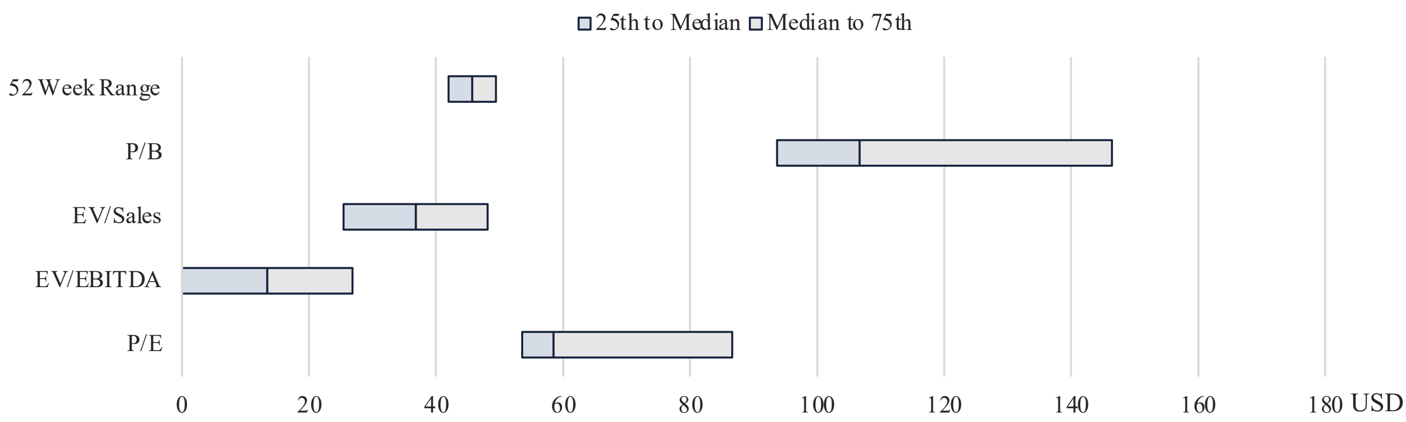
Corporate News

Citigroup chief executive Jane Fraser joined the bank in March 2021, having launched a multi-year strategy to increase Citi's profitability and improve the bank's positioning for the digital age. To achieve this, Citi would undertake a massive reorganisation, with multiple job cuts rumoured to be taking place and thousands of positions being erased. However, until November the market's reaction had been negative, with Citi's share price having dropped more than 40% since CEO Jane Fraser took office. Much of this performance comes down to the lengthy reorganisation process, with the public first speaking about large job losses in August while Citi announced their plan only in September. However, only a few concrete details were known until November. This process has led rivals to comment that they find Citi's workforce to be distracted, with rumours pointing to the morale in some parts of the bank having been described as "terrible".

Price (30 Nov 23, USD)	**47.25**
Target Price (USD)	48.00
3M Performance	14.42%
Market Cap (USD m)	90,421.35
Enterprise Value (USD m)	285,171.35
**Target Price is for 12 months*	



Valuation Analysis



On the 20th of November, Citi announced layoffs for 300 senior manager roles, constituting circa 10% of all workers at that level. As many expected, layoffs are not estimated to stop here. Individuals close to the matter have revealed that the bank is carrying out a top-down review of its organisational structure, having only worked through about 1% of the bank's positions. It is therefore not surprising to hear CEO Jane Fraser state that she expects the restructuring to finalised by March of 2024.

Naturally, Citi's employees have had mixed reactions to the restructuring. Some have welcomed it, agreeing with Jane Fraser's comments, saying that the entire operation needs to finally reshuffle its "matrix" management structure, where employees report to multiple bosses rather than one. On the other hand, some have complained about the pace of the process, also showing distaste for the lack of information on the specific cost reduction goals and total job cuts to expect.

Peers	**Currency**	**Market Cap** (Cur m)
Goldman Sachs Group Inc/The	USD	117,902.27
Morgan Stanley	USD	133,381.19
Bank of America Corp	USD	243,799.92
JPMorgan Chase & Co	USD	455,969.84
Deutsche Bank AG	EUR	23,470.96

Miguel Amaral
Investment Banking Division

NIC's View On

UAE To Launch USD 30 bn Climate-Related Investment Fund at COP28

Niccolò Casamatta
Investment Banking Division

"Record global heating should send shivers down the spines of world leaders. And it should trigger them to act."

– António Guterres, Secretary-General, United Nations

The host of COP28 announced the launch of a USD 30 bn climate-related investment fund with BlackRock, TPG and Brookfield. This strategic move aligns with the ambitious goals set forth at COP28 to reduce fossil fuel usage and triple the adoption of renewable energy sources.

Last year, the decision to host global climate negotiations in the world's largest oil and gas producer faced public scrutiny, questioning the host's motives. The situation was further complicated by the dual role of Al Jaber, the CEO of UAE's state-owned oil giant, Adnoc, who also served as the President of COP28. The recent launch of the fund is seen as a proactive step to enhance the UAE's climate credentials.

The challenge of allocating capital to climate projects, particularly in emerging markets, is a hurdle for many economies striving to raise living standards. The support from developed nations, exemplified by the UAE's commitment, is crucial for emerging economies to transition from reliance on cheap fossil fuels to sustainable alternatives.

Overseeing the USD 30 bn fund is Lunate Capital, a new Abu Dhabi-based asset manager with USD 50 bn in assets. Initially, over USD 5 bn will be allocated to Global South countries, focusing the fund's impact.

Broadly, discussions about restructuring global development institutions to allocate more funds to climate change initiatives have gained momentum. The new fund complements these efforts by encouraging and collaborating with for-profit institutions to invest in green projects.

The fund's launch follows a UN warning about the dangers of expansion plans by fossil fuel producers, which could double the planet's carbon budget. Specifically, 96% of companies exploring or developing new oil and gas fields continue unabated, with the industry spending USD 170 bn on exploration since 2021. Despite clear scientific evidence, the fossil fuel industry plans to produce double the amount of oil, gas, and coal that is permitted to keep under the agreed-upon global warming limits.

Recent research by the Financial Times revealed that the UAE has already set aside a multibillion-dollar investment pot, linking the country to nearly USD 200 bn in green energy investments this year alone. This underscores the nation's commitment to climate initiatives and aligns with the sovereign push for greener alternatives.

Addressing the climate challenge, COP28 President Al Jaber highlighted UAE oil companies' commitment to net-zero targets by 2050. However, it was noted that the efforts of the private sector are insufficient, and fulfilling climate targets requires a focused and long-term commitment to greener energy sources.

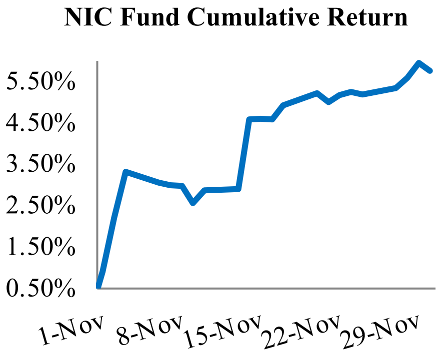
Indeed, UN and IEA research stresses the need for USD 125 tn in climate investment by 2050, requiring an annual commitment of USD 4.5 tn for clean energy alone by the early 2030s to achieve the Paris Agreement goals. The UAE, with assets totaling around USD 2.5 tn across its sovereign wealth fund, pension funds, and central bank, holds significant resources and influence. This positions the UAE as a key player in promoting and allocating substantial capital inflows into climate investments.

Date	Recent News
29 Nov 23	The UAE has big plans for a 'success story' at the COP28 climate talks ***Source:*** *washingtonpost.com*
30 Nov 23	Cop28: key funding deal to help poorer nations cope with impact of climate crisis agreed ***Source:*** *theguardian.com*
30 Nov 23	UAE to launch $30bn investment fund at COP28 ***Source:*** *ft.com*

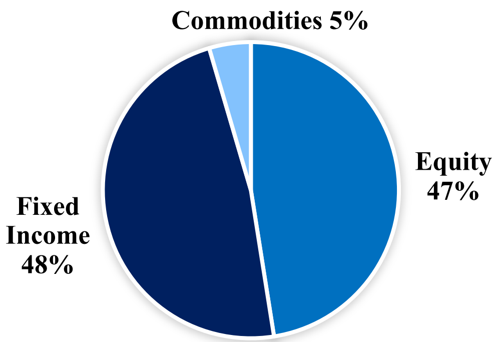
Niccolò Casamatta
Investment Banking Division

NIC Fund

NIC Fund
Portfolio Overview



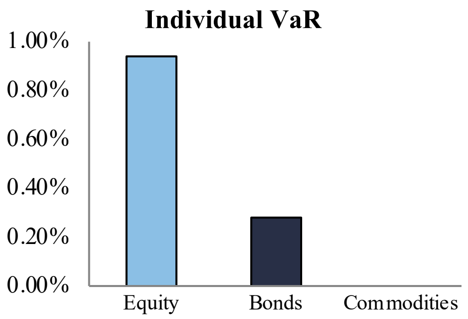
Portfolio Snapshot
During the last month, the NIC Fund remained invested in Equities, Fixed Income and Commodities. Specifically, 47% of our fund remained devoted to Equities, 48% to Fixed Income and 5% to Commodities. Around 70% of the equities were distributed among various funds, with the remainder allocated to individual stocks using an equally weighted approach.



Portfolio Statistics	
Cumulative Return	5.75%
Annualized Return	69.05%
Daily St. Dev	0.56%
Period St. Dev	2.38%
Annualized St. Dev	8.26%
Info Sharpe	8.36
Skew (Daily)	1.29
Kurtosis (Daily)	0.77

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%

Return Metrics
The overall performance of the portfolio was positive , with a cumulative return of 5.75%. Equities and commodities were the best performers, contributing with returns of 1.96% and 1.55%, respectively. Also, bonds achieved a slightly positive return this month of 0.02%
The equity holdings included not only the MSCI World index fund and other ETFs but also 29 individual stocks such as Nvidia Corp. (NVDA US), BNP Paribas (BNP.PA), Novartis AG-Reg (NVS), Northrop Grumman Corporation (NOC) and Ferrari NV (RACE).
The top-performing stocks were Mercado Libre and Advanced Micro Devices with returns of 30.60% and 23.01%, respectively, while Bayer had the poorest performance, with a return of -20.39%. The best-performing ETFs were the Global X Data Center REITs & Digital Infrastructure ETF and the iShares S&P 500 Value ETF, with returns of 15.56% and 9.57%, respectively.



Risk Metrics
In terms of risk, our portfolio registered a relatively high daily VaR of 1.22%. 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 0.94%. On the other hand, Bonds and Commodities possess clearly lower VaRs of 0.28% and 0.00% respectively.

Ilenia Fiore
Financial Markets Division

NIC Fund
Assets in Brief

Asset Class	Symbol	Comments
US Equity	**MELI**	The fund's investment in Mercado Libre Inc., an e-commerce platform headquartered in Uruguay, yielded a return of 30.60% last month, driven by the company's strategic advantage in navigating reduced cross-border e-commerce threats in Brazil and leveraging regulatory changes to establish expanded, direct relationships, and improve logistical practices among South American countries.
US Equity	**AMD**	Advanced Micro Devices is a global semiconductor company. Within the NIC fund, its stocks yielded the second-highest return in November at 23.01%, attributed on expectations for continued market share gains in processors for PCs and servers.
EU Equity	**RACE**	In the month of November, Ferrari shares exhibited a positive return of 19.52%. Within the Auto Manufacturers industry, RACE confirmed itself as the world's most valuable Auto Components brand for the 6th consecutive year. Overall, Ferrari has an average recommendation of 'Buy'.
Commodities	**AAAU ETF**	The fund is invested in the Goldman Sachs Physical Gold ETF, which primarily holds London Bars and Physical Gold without numismatic value within the AAAU trust. This month, the asset has affirmed a positive return of 2.54%, albeit slightly lower, with the subdued performance being ascribed to the Middle East conflict, as investors are turning to safer investments amid the ongoing crisis in the region.
EU Equity	**KER**	November 2023 saw a slight uptick of 6.05% in the stock price of luxury conglomerate Kering, defying market challenges. Despite this, the stock is anticipated to decline in the coming months due to weakened global demand for high-end fashion, aligning with overarching concerns about economic pressures in the luxury sector.
US Equity	**VPN**	Global X Data Center REITs & Digital Infrastructure ETF, experiencing a remarkable 15.54% return in November, aligns with the surge in digital infrastructure breakthroughs, notably 5G and AI. As the demand for seamless digital experiences grows, companies like Nvidia and Advanced Micro Devices, central to data center operations, position the ETF for substantial gains.
US Equity	**GS**	Goldman Sachs stock shows signs of recovery, with a 13.40% gain this month after a previous downturn. The US investment bank's Q3 results exceeded expectations, fueled by strong bond trading. Although being down from last year's levels, we anticipate a positive trend in the stock for the next months.
EU Equity	**BAYN**	Bayer's stock plummeted by 20.39% in November, marking its lowest point in 18 years and resulting in the poorest performance among equities in our portfolio. This drastic decline follows the premature halt of the Phase III OCEANIC-AF trial for the anti-coagulant drug 'asundexian', due to its observed inferior efficacy compared to the control arm.
EU Equity	**MOWI**	Mowi ASA, a Norway-based salmon producer, records a robust 10.77% return last month. With its recent dividend announcement of $0.14 per share, investors anticipate not just a thriving stock performance but also consider the company's dividend history, yield, and growth rates as crucial factors influencing the positive trend.
US Equity	**AMZN**	Amazon's stock bounces back with a remarkable 9.77% return in November, propelled by improved operating margins and a strategic shift towards higher-margin services like third-party seller services, advertising, and Amazon Web Services. CEO Andy Jassy's efficiency drive showcases promise, setting the stage for a dynamic trajectory under his leadership.

Ilenia Fiore
Financial Markets Division

NIC Fund

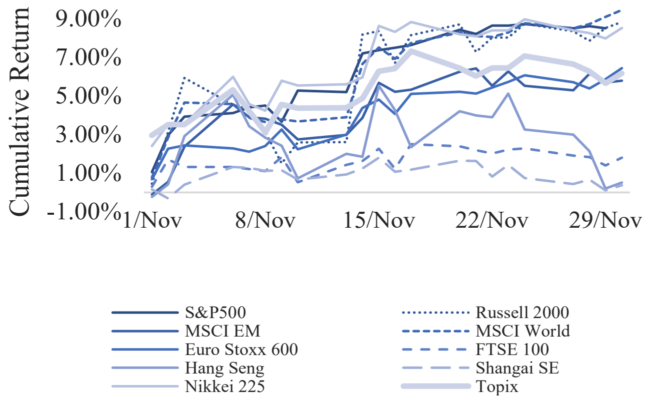
Equities

World Equities

Global equities have closed the year of gains, with a positive monthly return of around 9% for MSCI ACWI (All Country World Index) in November, their best month since November 2020. US-stocks surged after the announcement of the Fed to hold interest rates steady for the second consecutive time in their meeting on the 31st of October. The market's optimism was further fueled by lower-than-expected inflation of 3.20% in October, leading to the highest one-day jump of the S&P500 of 1.90% since April.

In Europe, with Eurozone inflation in November falling well below the forecast to 2.40%, the STOXX Europe 600 Index increased by 7.07%.

In the Asian market index, the NIKKEI 225, is up 7.77%, also the most since November 2020, as stocks got a boost from a robust corporate earnings season in the beginning of the month.

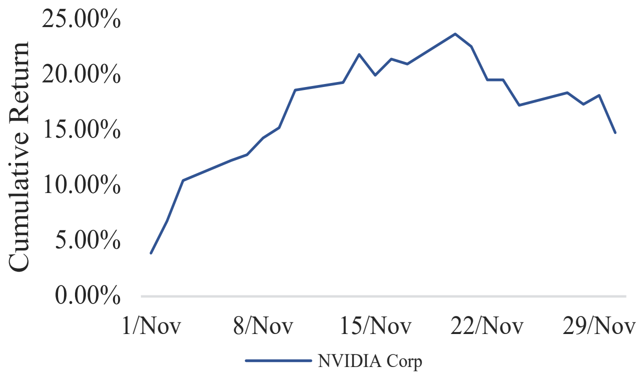


In Depth: Nvidia

Nvidia's stock rose 14.69% in November. The company, one of the world's most valuable AI chipmakers, recently reported its third-quarter financial results, revealing a record revenue of USD 18.12 bn, a 34% increase from the previous quarter and a remarkable 206% surge.

To face the challenges in the ongoing trade dispute between the US and China that lead to a recent slower stock performance, Nvidia plans to navigate export restrictions by introducing AI chips specifically designed for the Chinese market. The company has delayed the launch of these high-performance H20 chips to the first quarter of 2024 due to integration issues with server manufacturers.

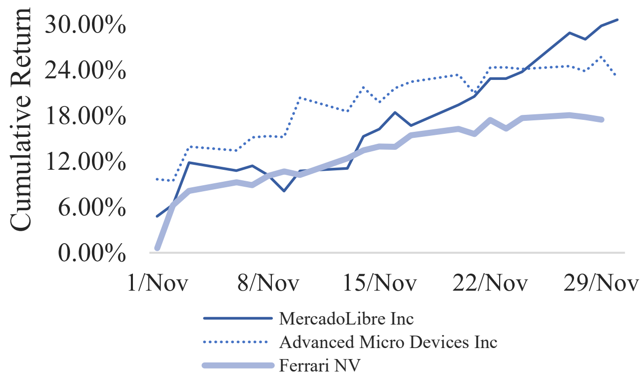
Nevertheless, Wall Street anticipates a significant financial boost for Nvidia, with revenue and earnings forecasts soaring due to increasing demand for the company's chips, projecting approximately USD 89 bn on sales for the next fiscal year, more than double its revenue over the past 12 months. With increasing demand for Nvidia's chips and its strategic initiatives, the company emerges as a promising long-term investment in the dynamic landscape of AI.



Our Performance

In November, equities' contribution to the overall portfolio performance was positive, with 1.96% cumulative return.

Mercado Libre had the best performance with 30.60% after reducing cross-border e-commerce threats in Brazil. Advanced Micro Devices also performed well with a return of 23.01% with market expectations for processors for PCs and servers being positive. The third best performing stock was Ferrari. The stock rose 19.53% in November.



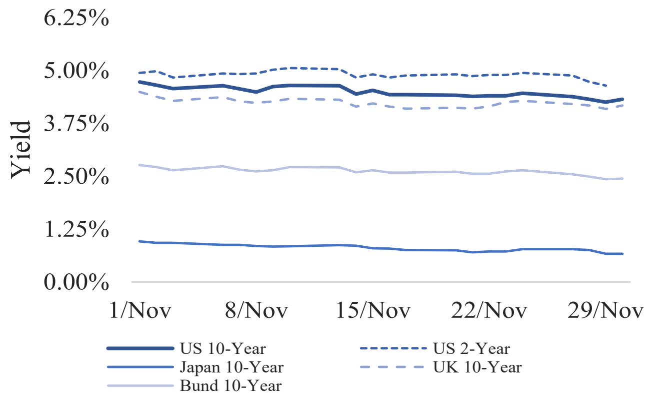
Johanna Linden
Financial Markets Division

NIC Fund

Fixed Income

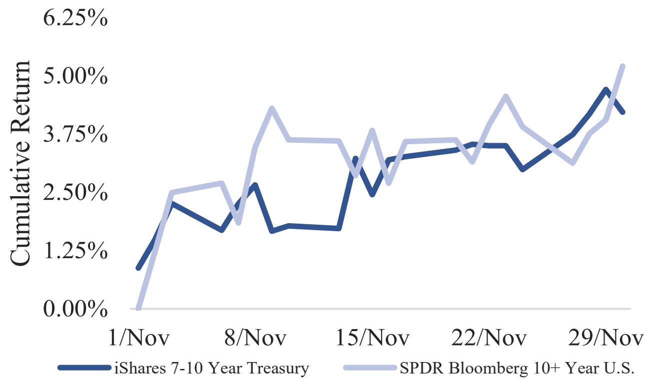
World Yields

November was an interesting month for the bond market as the US 10-Year rates decreased from 4.93% to a 2-month low of 4.33%, mostly due to low inflation indicating easing pressures on central banks. The market is also clearly reacting to recent dovish comments from one of the FEDs most hawkish policymaker, FED governor Christopher Waller, who stated at a recent think-tank event that, if prices continue their disinflation, regulators could then "…start lowering the policy rate just because inflation is lower." and it has "…nothing to do with trying to save the economy.". Most major global treasuries tracked this US treasury weakness throughout November. The 10-Year Gilt yield decreased from 4.51% to 4.18%. The two biggest events with a negative impact on the 10-Year Gilt yields were the US CPI data on the 14/11/2023 and significantly higher than expected GB retail-sales three days later. Nonetheless, the Gilt experienced two rebounds towards the end of November due to hawkish remarks from UK policymakers. Japan's 10-Year treasury yields also fell to an almost 3-month low at 0.67%, coming from a roughly 11.5-Year high at the beginning of November due to adjustments in its yield curve control policy.



In Depth: Fixed Income ETFs and Their Prospects

Despite a broader bond sell-off and the anticipation of prolonged higher interest rates, fixed income ETFs have seen a surge in investor interest. In the first three quarters of this year, these ETFs in the US and Europe experienced a record USD 235.0 bn net inflow, up from USD 169.0 bn in the same period last year. Although rising yields led to losses for investors holding long-dated maturity bonds, fixed income ETFs, especially those focusing on sovereign debt with high credit ratings, remain popular. The investment rationale stems from the inverse relationship between treasury yields and bond prices. Since recently, as treasury yields decrease and markets price no further rate hikes, existing bonds with higher yields become more attractive, leading to capital appreciation for bondholders. Investing in bond ETFs, particularly those tracking long-maturity bonds, proves advantageous in locking in higher interest rates for an extended period, providing a hedge against potential future rate declines. The slower rolling basis for bond replacement in long-term ETFs ensures that higher-yielding bonds remain longer in the portfolio, offering investors a sustained period of advantageous returns amid decreasing treasury yields. Therefore, choosing long-maturity bond ETFs emerges as a prudent investment strategy in the current economic climate. ETFs to watch are the iShares 7-10 Year Treasury Bond ETF (IEF) or the SPDR Bloomberg 10+ U.S. Treasury Bond ETF (SPPX:THH).



Our Performance

Fixed Income contribution to our portfolio's return added up to 1.55%. The positive performance was driven by decreasing treasury yields among various treasuries and maturities.

Leon Wagner
Financial Markets Division

NIC Fund

Commodities

November Round-Up

In November, the S&P GSCI Total Return Index declined by 3.64%, following a robust 4.18% increase in October, resulting in a YTD decrease of 0.99%. Notably, Natural Gas dropped by an impressive 21.62% due to record-high storage levels in Europe and forecasts of mild weather early in the heating season. Brent oil fell by 5.24% MoM, mainly attributed to OPEC+'s decision to delay their 26th of November meeting to the 30th of November. The meeting aimed to address production targets and counter the fall in demand due to low US and China PMI readings, higher-than-expected US oil stockpiles, and eased tensions in the Middle East, causing Brent to dip below $80.0 for the first time since July. Eventually, OPEC+ members agreed to voluntarily cut oil production by 2.2 million barrels per day in Q1 2024.

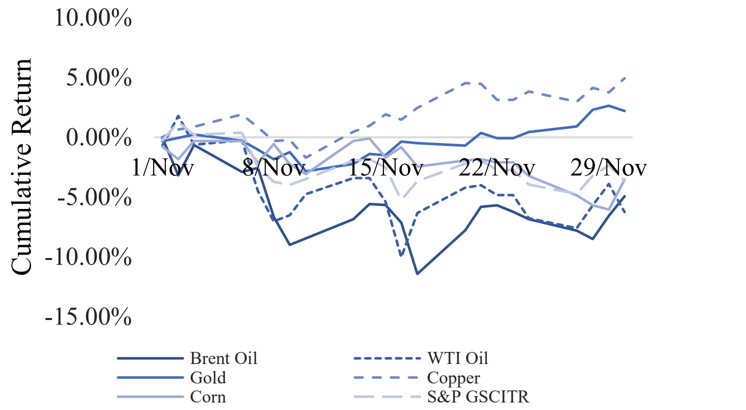
In contrast, precious metals experienced a surge in November. Silver rose by 10.62%, and Gold reached a six-month high with a 2.20% increase, driven by expectations of a more accommodative stance from the Federal Reserve and a weaker dollar. Copper also surged by 4.93% MoM, reaching a three-month high following the closure of a significant mine in Panama. Conversely, the price of corn sharply declined to a 3-Year low due to increased supplies from the US and Brazil, coupled with stagnant demand. While this trend alleviated food price inflation, it simultaneously exerted significant pressure on farmers.

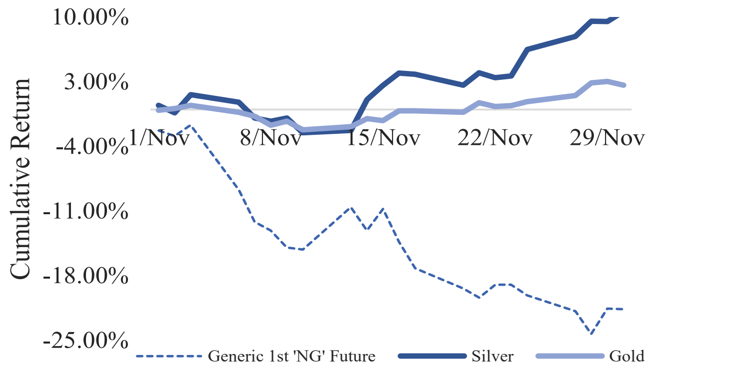
Gold Outlook for the Next Month

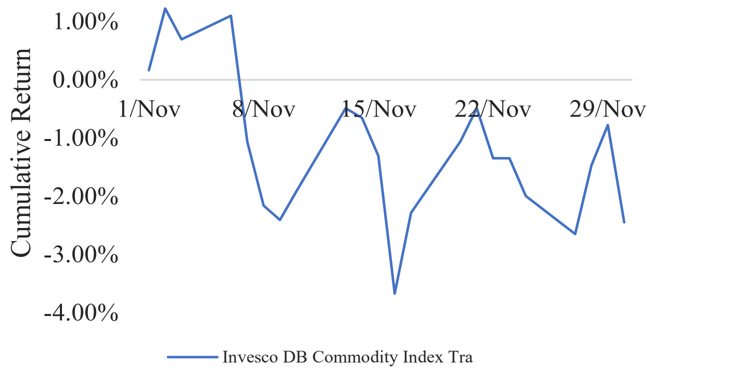
The combination of peaking interest rates and escalating geopolitical turmoil has energized gold enthusiasts globally. Despite a potentially softer landing for the US economy, the appeal of the precious metal remains robust. As we approach a new month and the Christmas season, there is speculation that gold may reach its all-time high of nearly $2,075 per ounce by the end of 2023. Over the past five years, gold has consistently exhibited a 'Santa Rally'-like phenomenon, demonstrating a monthly gain of at least 3% each respective December. If this trend continues this December, there is a possibility that gold could surpass its 2020 record. Demand driven by central banks persists, with a record 1,136 tonnes of gold purchased last year and an additional 800 tonnes in the first three quarters of 2023, as reported by the World Gold Council. The People's Bank of China has been a frontrunner this year, acquiring 181 tonnes, and still has room to increase gold holdings, currently representing just 4% of its total reserves. Moreover, ongoing property deleveraging in China, impacting the country's economy and domestic assets, may lead Chinese households to consider gold as a preferred store of wealth.

Our Performance

During November, the Invesco DB Commodity Index ETF, which tracks an Index which holds a basket of 14 different commodity futures, declined 2.45% MoM, while the Goldman Sachs Physical Gold ETF returned 2.54%, leading to an overall return of 0.02%.







Lorenzo Bonoli
Financial Markets Division

Extras

Hot Topic

Downgrading America: Credit Controversy Amidst Deficits and Political Turmoil

Luisa Kloth
Financial Markets Division

“While the statement by Moody’s maintains the United States’ AAA rating, we disagree with the shift to a negative outlook. The American economy remains strong, and Treasury securities are the world’s pre-eminent safe and liquid asset.”
– Wally Adeyemo, Deputy Treasury Secretary

Over the decades, many have argued that the US is on an unsustainable fiscal trajectory. As early as 1992, Ross Perot ran for president and gained numerous votes by calling for policy changes to address the mounting debt. In 2011, Standard & Poor shocked the market with a credit rating downgrade. The United States is now one step closer to losing its last perfect credit rating after Moody’s adjusted the outlook from stable to negative, underscoring growing concerns about the country’s fiscal health. Following the August downgrade by Fitch Ratings, shifting from AAA to AA+, the downward correction delivers a dual blow to the nation's economic confidence and perceived creditworthiness.

Given the established extent of the matter, why does 2023 mark a tipping point? Earlier this year, gross national debt surpassed USD 33 tn. For long, the actual financing burden of debt has been relatively modest due to the financial crisis and the pandemic. Both events prompted the FED to lower interest rates, meaning that, even though the stock of debt increased, the opportunity cost of servicing remained insubstantial. However, recent efforts to fight inflation brought about interest rate normalization and a drastic rise in treasury yields, applying pressure on the ability to service debt affordably. The backdrop is a widening budget deficit, which surged to USD 1.7 tn in the last fiscal year.

On the 10th of November 2023, Moody's quoted significant challenges posed by escalating fiscal deficits and deepening political polarization as critical to their assessment. Like Fitch, Moody's points to recent events, including repeated debt-limit political standoffs, near-default situations, and a looming government shutdown as indicative of heightened tension and political division.

While Moody´s maintains the US’s AAA rating, the shifting has drawn criticism from the Biden administration. Deputy Treasury Secretary Wally Adeyemo asserted that the American economy remains robust, with Treasury securities retaining their status as the world's premier safe and liquid assets. Particularly, exceptional economic strength and recent positive growth strengthen the government’s argumentation and are expected to slow the deterioration in debt affordability.

Despite positive messaging, recent focus points to the potentially severe economic ramifications and long-term consequences. Concerns revolve around the impact on Americans' investment portfolios, borrowing costs, stability of the US dollar, and the government's ability to manage its debts.
One prevailing worry regards the US's ability to manoeuvre events of future crises. Purely looking at this from an investing point of view, it is worrying enough, as the current interest burden makes up about 3/4 of overall government spending excluding defence expenditure. However, the fact that servicing expenditure is likely heading higher as more debt rolls over, makes it a substantial threat. As debt grows to meet debt financing obligations, simple economics points to a crowding-out effect. After years of the government jumping to the rescue, checkbook in hand, the outlined environment constraints fiscal manoeuvres.

The US´ exorbitant privilege contributed to keeping the mounting challenge under control. However, unaddressed, the path followed is not without consequences and likely to provoke further action by rating agencies. Currently, the nation stands at a critical juncture, where decisions made in the upcoming year will be pivotal in shaping economic resilience and the ability to face future uncertainties.

Luisa Kloth
Financial Markets Division

Thank you!

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

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