NIC

— Nova Investment Club —

Newsletter

January 2024

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, Niccoló Casamatta reviews the key developments of the EU's Green New Deal. Moreover, in our Regional View, Naomi Steiner Oliva sheds light on Germany's reactions following their constitutional court ruling.

Our Investment Banking Division will guide you through December's overall M&A activity. Read about KKR acquiring Greenvolt, Bristol Myers Squibb purchasing Karuna Therapeutics, and Nippon Steel Corporation acquiring US Steel Corporation. Additionally, get a detailed overview of what happened to Bayer and NIO, and read expert insight and our opinion on the past year, 2023.

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 December was positive, with a cumulative return of 3.66%.

On the Hot Topic of this month, Lorenzo Bonoli discusses Milei's "Shock Therapy" economic plan to cure Argentina's fiscal deficit addiction.

Macro Overview

Monthly

January 2nd, 2024

Deeper Dive
Exploring Key Developments of EU's Green New Deal

Regional View
How Germany is Navigating the Constitutional Court Ruling Aftermath

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4,770	0.32%	11.24%	24.23%
DJIA	37,690	0.81%	12.48%	13.70%
Nasdaq	15,011	0.12%	13.56%	43.42%
MSCI World	3,520	0.83%	10.91%	14.28%
MSCI EM	3,667	2.81%	3.60%	-1.60%
Russell 2000	2,027	-0.34%	13.56%	15.09%
Euro Stoxx 50	4,522	0.00%	8.31%	19.19%
FTSE 100	7,733	0.46%	1.65%	3.78%
Nikkei 225	33,464	0.89%	5.04%	28.24%
Hang Seng	17,047	4.33%	-4.28%	-13.82%
Dollar Index	101.33	-0.36%	-4.56%	-2.11%
EUR/USD	1.104	0.23%	4.41%	3.12%
GBP/EUR	1.154	0.02%	-0.03%	2.12%
GBP/USD	1.273	0.24%	4.36%	5.36%
USD/JPY	141.040	-0.96%	-5.58%	7.57%
USD/CHF	0.84	-1.66%	-8.07%	-8.99%
Brent Crude	77.040	-2.57%	-19.17%	-10.32%
Gold	2,071.8	0.71%	12.10%	13.45%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	3.879%	-1.6	-69.2	0.4
GER 10Y Yield	2.024%	4.5	-81.5	-54.7
JPY 10Y Yield	0.614%	-1.1	-15.1	19.2
UK 10Y Yield	3.537%	3.2	-90.0	-13.5
PT 10Y Yield	2.656%	12.4	-94.7	-93.0

**Source: Bloomberg, as of 2023-12-29*

In Focus

December

Oil prices hit a five-month low despite OPEC+ cuts

Oil prices raise concerns about OPEC+ cuts countering rising supply and declining global demand. Brent oil fell 3.8% to USD 74.30 per barrel, and West Texas Intermediate dropped 4.1% to USD 69.38 per barrel on Wednesday, marking the lowest levels since June. Specifically, the surge in oil supply from countries outside the cartel, such as the United States, has become a significant pressure leaning on global oil markets. Despite efforts to transition away from fossil fuels, American crude oil production recently hit an all-time high, contributing to approximately one in eight barrels of the world's total output.

Moody's revised the outlook on China's credit to "negative" citing the risk of a growth slowdown

Moody's downgraded China's sovereign credit outlook due to concerns about sustained lower economic growth and the lingering impact of a property sector crisis. While affirming the A1 ratings for China's debt, Moody's highlighted rising evidence, including a property sector slowdown, heavy debt burdens in some provinces, and a lack of confidence in the broader economy, as broad risks to China's fiscal, economic, and institutional strength.

BoE and ECB dampen market rally triggered by Fed rate cut forecast

The Fed kept rates unchanged at 5.25% to 5.5% but surprised with a dovish outlook. Fed Chair Powell's unexpected stance, predicting rates at 4.5% to 4.75% next year, spurred market optimism, leading to surges in both stocks and government bonds. However, the less accommodative positions taken by the BoE and ECB drained the momentum from the rally. Both Central Banks maintained steady interest rates at 5.25% and 4%, respectively.

COP 28 summit reaches agreement to transition away from fossil fuels

COP28 President Sultan al-Jaber sealed the agreement with unanimous approval from the participating nations. The unprecedented pact introduces language on fossil fuels for the first time in a final agreement, urging parties to take actions in a just, orderly, and equitable manner to meet aim of reaching net-zero emissions by 2050.

Corporate bankruptcies soar as high rates and end of Covid-19 aid take a toll

While most pronounced in the advanced economies, an increase in corporate insolvencies in nearly every country globally can be observed. Bankruptcies are surging at double-digit rates due to rising borrowing costs and the gradual withdrawal of trillions of dollars in pandemic-era business support measures by governments.

Financial row and political divide threaten war lifeline for Ukraine

Disputes within the EU over finances are putting at risk important commitments to Kyiv, coinciding with a halt in US financial assistance for Ukraine due to political divisions in Congress. The EU's failure to reach an agreement on a crucial EUR 50 bn financial aid package for Ukraine, following a veto by Hungary's Prime Minister Viktor Orbán, echoes struggles faced by the Biden administration to pass a USD 60 bn aid package in Congress.

Ethiopia misses deadline on USD 33 m interest payment

Ethiopia has failed to meet the deadline for a USD 33 m interest payment on its sole international bond, becoming the third African nation to default on debt within three years. Despite a truce to end its two-year civil war late last year, its economy is under pressure with an annual inflation rate of 28%, foreign currency shortages and growing debt repayments.

Luisa Kloth
Financial Markets Division

Deeper Dive

Exploring Key Developments of EU’s Green New Deal

Niccolò Casamatta
Investment Banking Division

“We stand ready to do more, and we know that more must be done. For example, COP28 has also been the opportunity to discuss carbon pricing with other Parties, so that more countries start to put a price on pollution. And we have also been able to lay the ground for broader financial reforms, new innovative sources of funding, and aligning all financial flows with the Paris Agreement.”

– Ursula von der Leyen, President, European Commission

The European Green New Deal stands as a strategic blueprint, designed to usher the European Union (EU) towards sustainable development. The deal seeks to address climate change, foster sustainable growth, and align the EU with global environmental objectives. As we close off the year, two key developments have significantly shaped the trajectory of this focused initiative in December of 2023.

The COP28 UN Climate Change Conference recently convened, acting as a global forum to accelerate climate action. The EU, a key participant, pledged to intensify its emission reduction targets, committing to a notable 43% reduction by 2030 and setting the world on a path to achieve net-zero emissions by 2050. This commitment underscores the EU's resolve to accelerate the transition away from fossil fuels, placing a renewed focus on renewable energy and energy efficiency.

As part of the Global Pledge on Renewables and Energy Efficiency, the EU committed to tripling renewable energy capacity and doubling the rate of energy efficiency improvements by 2030. A considerable EUR 2.3 bn from the EU budget has been earmarked to support the energy transition globally. Additionally, the EU and its Member States allocated EUR 175 m in financial support to reduce methane emissions and over EUR 400 m to activate a loss and damage fund for climate emergencies, signalling an inclusive approach to address the diverse challenges posed by climate change.

Simultaneously, December saw the EU finalize the Provisional Deal on Ecodesign Requirements, a significant step towards promoting sustainability through product design and energy efficiency, aligning with the Green New Deal's push for a circular economy. The agreement prioritizes product durability and reparability, aiming to reshape consumer preferences and foster demand for sustainable products, while also influencing global trade dynamics by incentivizing environmentally conscious production practices. This emphasis on eco-friendly production underscores environmental responsibility and creates new opportunities for sustainable investments and economic growth.

The financial landscape is poised for transformation in the wake of these developments. The increased emphasis on sustainability is expected to drive a surge in green investments, with sectors such as renewable energy and clean technologies taking centre stage. Investors are likely to recalibrate their portfolios to align with the EU's green initiatives, presenting opportunities for those striving to design policy-aligned investment strategies.

The shift towards a green economy brings both challenges and opportunities. Financial institutions must integrate the latest developments around environmental considerations into their advisory services. For instance, the drive for sustainability fosters an environment ripe for innovation, where eco-friendly practices transition from being a potential competitive advantage to a regulatory necessity. Consequently, companies may need to adjust their acquisition strategies to ensure continued success in the face of regulatory changes that could impede the attractiveness of habitual M&A activities.

The European Green New Deal positions the EU as a frontrunner in global sustainability efforts. The December 2023 developments set the stage for a transformative journey, impacting investment banking, trade, and the broader EU economy. Reflecting on these key developments underscores that the green wave is not merely a policy; it is a pivotal force reshaping the foundations of Europe's economic landscape. As we look towards 2024, the EU may be poised to further prioritize green technology, circular economy initiatives, and resilient, eco-centric financial systems.

Niccolò Casamatta
Investment Banking Division

Regional View

How Germany is Navigating the Constitutional Court Ruling Aftermath

Naomi Steiner Oliva
Financial Markets Division

"My concern is that if we describe the emergency situation for such events and do this every year, we fail to recognise that at some point a one-off emergency situation will become a deplorable and regrettable new normal"

– Christian Lindner, Germany's Federal Minister of Finance

November's constitutional court ruling in Germany has sent shockwaves. 24 hours prior to the 2024 budget approval the court ruling deemed the EUR 60 bn, meant for financing the country's transition to renewable energy, as unconstitutional. At the heart of this decision is the violation of the debt brake mechanism, a German fiscal rule designed to limit government borrowing. The aforementioned approach used to be suitable for Germany given its approach to eagerly raise public debt after the economic crisis. However, today Germany needs to catch up in infrastructure spending, especially in areas like roads, bridges, electricity, and digital infrastructure. The debt break limits the room for manoeuvre for these urgent investments.

The repercussions of this court ruling in November extend beyond government, impacting various industries that were counting on increased funding as part of Germany's push for greener energy in 2024. The governing coalition, led by Chancellor Olaf Scholz, has faced the daunting task of finding alternative funding sources to fill the EUR 17 bn gap for 2024.
In December, German lawmakers officially approved the supplementary budget for 2023 and have taken the decision to suspend the debt brake for a fourth consecutive year citing the war in Ukraine as a justification for an existing emergency situation.

Nearly a month after the court ruling in November, the government has introduced a new spending plan for 2024 that includes cuts in climate change programs but maintains the commitment to EUR 8 bn in direct military aid to Ukraine. The Climate and Transformation Fund (KTF) will see a decrease of EUR 12.7 bn in 2024 and a further reduction of EUR 45 bn by 2027. Moreover, there would be changes on the financing of the country's rail network. Deutsche Bahn, a state-owned rail operator, would benefit by privatizing one of its subsidiaries. Further changes include ending premiums for electric car purchases sooner than planned, cutting subsidies for the solar industry, introducing new levies on kerosene fuel for domestic flights and environmentally harmful plastic production, and increasing the CO2 tax on fuel, heating oil, and gas.

Additionally, the coalition outlined a plan to cover the EUR 17 bn gap in the 2024 budget. Among others, the measures include utilizing EUR 3.2 bn from special funds that are not conflicting with the court ruling, reducing expected interest expenditures by EUR 2.7 bn through recalculations and suspension of certain programs of the economic stabilization fund (ESF). Additionally, cuts of EUR 1.4 bn will be made in various ministries, including reduced expenditures on international commitments, digital and transport, education and research, and lowering the subsidy to the pension insurance scheme. Furthermore, the Federal Employment Agency will provide EUR 1.5 bn in partial compensation for the annual subsidies from the federal budget received during the Covid-19 crisis. Lastly, an expected EUR 1.4 bn will be saved as companies will have to take over the plastic levy themselves.

A key obstacle, however, remains unchanged: The debt break, while initially beneficial, once again proved to be a limiting factor with regards to addressing urgent expenses. For instance, it may restrain the well needed spending into the country's infrastructure in the upcoming years.

Although one option would be to abolish this rule, some economists argue that it should not be completely removed but revised. As mentioned, it was initially written into constitution to ensure controlled government spending. Today, even if the investment priorities of the economy may have changed, Germany could still benefit of limiting the repercussions of a possibly damaging public deficit.

Naomi Steiner Oliva
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

World Economic Forum (WEF)

The 2024 Annual Meeting of the World Economic Forum takes place from the **15th** to the **19th** of January in Davos, Switzerland. The meeting welcomes representatives from over 100 governments, all major international organizations and the Forum's 1000 partner companies.

2024 Finnish Presidential Election

Presidential elections are expected to be held in Finland on **28th** of January 2024, with a possible second round on **11th** of February 2024. Voters will elect the President of the Republic to a six-year term. Incumbent President Sauli Niinistö is term-limited and cannot run for re-election.

2024 Taiwanese Presidential Election

The 8th direct presidential elections in Taiwan are scheduled to be held on the **13th** of January 2024. Incumbent President Tsai Ing-wen of the Democratic Progressive Party (DPP) has been elected to the office of the President twice consecutively since 2016 and is therefore not eligible for the election.

Central Bank Decisions

Fed Interest Rate Decision

The next FOMC meetings will be held on **30th-31st** of January. Many experts expect the Fed to hold rates steady at a target of 5.25%-5.50%, but the FOMC has signalled several rate cuts through 2024 as inflation eases and the economy slows; nevertheless, they will proceed carefully.

BoE Interest Rate Decision

The Bank of England's first monetary policy meeting announcement of 2024 is held on the **1st** of February. Market pricing suggests investors are anticipating the BoE's initial cut in May, followed by five subsequent quarter-point reductions throughout the year.

ECB Monetary Policy Decision

The ECB's first Governing Council meeting announcement of 2024 is on the **25th** of January. Investors are betting the ECB will maintain rates unchanged in this meeting and it will cut for the first time in March, with five quarter-point cuts to follow during the year.

Inflation and Deflation

Update on Euro Zone Inflation

Inflation in the euro zone cooled to 2.4% in November from 2.9% in October, with economists expecting a reading of 2.7%. Core inflation also came in lower than expected, dropping to 3.6% from 4.2% in October. The December inflation rate will be announced on the **5th** of January.

US Inflation

The December 2023 US inflation rate will be announced on the **11th** of January. Inflation Rate in the US decreased to 3.10% in November from 3.20% in October 2023. Inflation Rate is expected to be 3.00% in December, according to analysts' expectations.

UK Consumer Price Index

UK inflation fell by more than expected to hit 3.9% in November, with economists expecting a reading of 4.4%. The Core CPI came in at an annual 5.1%. YoY figures on consumer prices in the UK for December will be made public on the **17th** of January.

Labour Market

US Employment Readings

On the **4th** of January, the US payrolls number with ADP employment change data for December and the weekly jobless claims are announced. The labour market appears to be cooling a bit and the unemployment rate is expected to rise 3.80% in December.

German Labour Market

On the **3rd** of January, Germany announces its unemployment rate. It is expected to remain unchanged at 5.90%. Germany's unemployment rate is at the highest level since 2021, signalling the impact of the weakening of Europe's biggest economy on its labour market.

Euro Zone Unemployment Data

The European Zone unemployment rate will be announced on the **9th** of January. The euro area unemployment rate stood at 6.5% in October 2023, unchanged from the prior month and matching market forecasts. For November 2024, economists estimate an increase to 6.6%.

Afonso Domingues
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

In December 2023, global M&A activity recovered compared to the rest of the fourth quarter with a total number of 2,493 deals and total volume of USD 287.2 bn. This represents a 12.50% increase in the number of transactions and a strong 78.50% increase in volume compared to November 2023. However, 14.62% fewer deals were completed compared to the previous year, which is a further indication of a slow year on the M&A market. Moreover, YoY, December shows a 42.21% higher volume, with an average premium of 174.65%. Nevertheless, being the weakest quarter of the year, the fourth is down 45.84% YoY in terms of deal count and 18.87% in volume. Ongoing geopolitical tensions and the high interest rate environment continue to impact the M&A market. Therefore, transactions were mostly strategic acquisitions as private equity is still reluctant to deploy capital. However, falling inflation and stagnating interest rates point to more activity next year. Notable transactions include the acquisition of NFP by Aon for USD 13.4 bn and the acquisition of United States Steel by Nippon for USD 13.4 bn.

Selected Regions

North America

While the number of mergers and acquisitions in North America fell by 4.29% to 893 compared to the previous month, the transaction volume increased significantly by 128.03%, reaching USD 145.5 bn. North America accounted for 50.67% of all transaction value in December, signifying its position as the core M&A market. A notable transaction is the acquisition of United States Steel by Nippon for USD 13.4 bn.

EMEA

The EMEA region represents 25.82% of the total deal value and 27.04% of total deal count for this month. On a monthly basis, the deal count increased by 14.04% to 674 paired with a 43.68% rise in total deal value leading to USD 74.2 bn. The largest deal this month was the acquisition of German oil and gas company Wintershall Dea GmbH by Harbour Energy PLC with a total transaction volume of USD 6.3 bn.

Asia

Asia's monthly deal value significantly increased by 53.65%, totaling USD 65.3 bn. Moreover, the total number of transactions continued to rise from 640 to 838 compared to November, equaling a strong increase of 30.94%. Globally, Asia accounted for 22.73% of total deal value and 33.61% of total deal count this month. A notable transaction in December is the acquisition of Vinda International Holdings by Royal Golden Eagle for USD 4.3 bn.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
20.12.2023	NFP Corp	Aon PLC	US	Financial Services	13,400.0	-
18.12.2023	United States Steel Corp	Nippon Steel Corp	US	Iron / Steel	13,396.1	52.82
18.12.2023	Vodafone Italia SpA	iliad SA	UK	Telecommunications	11,419.8	-
22.12.2023	Karuna Therapeutics Inc	Bristol-Myers Squibb Co	US	Biotechnology	12,700.0	53.35
11.12.2023	CrownRock LP	Occidental Petroleum Corp	US	Oil & Gas	10,800.0	-
12.12.2023	Wyndham Hotels & Resorts Inc	Choice Hotels International Inc	US	Lodging	9,213.3	10.55
22.12.2023	Andean Mining Corp Pty Ltd	Aguia Resources Ltd	AUS	Mining	8,317.7	-
21.12.2023	Wintershall Dea GmbH	Harbour Energy PLC	GER	Oil & Gas	6,255.3	-
10.12.2023	Macy's Inc	Brigade Capital Management LP, Arkhouse Partners LLC	US	Retail	5,800.0	5.13
18.12.2023	Alteryx Inc	Insight Venture Partners Clearlake Capital Group	US	Software	4,114.4	15.91

Peer Lasser
Investment Banking Division

M&A: Top Deals

Nippon Steel Corporation to Acquire US Steel Corporation

On the 18th of December Nippon Steel Corporation ("Nippon Steel") announced the acquisition of US Steel Corporation ("US Steel") for USD 55 per share, representing a 39.84% premium to 1-day prior closing price. The total consideration is USD 13.4 bn in deal value including debt. The transaction is an all-cash deal and is expected to be completed in the first half of 2024.

Buyer vs Seller

Nippon Steel is the largest steel producer in Japan and one of the top five producers globally, specializing in steel products such as steel sheets, steel plates, pipes, tubes, for industries such as automotive, construction, and energy. US Steel, an American integrated steel producer, focuses on producing slabs, strip mill plates, sheets, and tin mill products primarily serving North American customers in the automotive, container, and energy sectors.

Industry Overview

The iron and steel manufacturing industry has an estimated market size of USD 1,560 bn in 2022 and is projected to grow to USD 1,655 bn in 2023, indicating a steady expansion. The market is forecasted to reach around USD 1,929 bn by 2027, representing a CAGR of 5.45%. The growth is primarily driven by factors such as the increasing demand for residential construction, advancements in industrialization, and rapid infrastructure development in emerging markets.

Peers	Currency	Market Cap (CUR m)
Cleveland-Cliffs Inc	USD	9,430.81
Commercial Metals Co	USD	5,742.58
Universal Stainless & Alloy Pr	USD	179.13
Nucor Corp	USD	41,082.16
Steel Dynamics Inc	USD	18,286.88

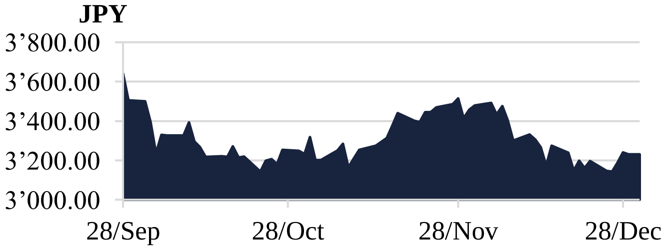
Deal Rationale

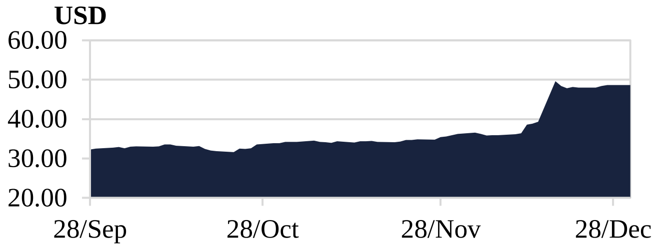
Nippon Steel's acquisition of US Steel represents a strategic move to combine two companies with rich histories in steel manufacturing. This deal provides immediate value to US Steel shareholders through the acquisition premium and unites technologies and manufacturing capabilities. Additionally, it enhances Nippon Steel's global presence, particularly in the United States, diversifying its production footprint and accelerating its strategic goal of reaching 100 m tonnes of annual crude steel capacity. Nippon Steel President Eiji Hashimoto emphasized the shared mission of building an environmentally friendly society.

Market Reaction

Nippon Steel Corporation
Nippon's stock price decreased by 4.34% following the announcement from USD 7.60 to 7.27. The stock price has since surpassed pre-announcement levels to USD 7.69.

US Steel Corporation
US Steel's stock price soared 24.46% following the announcement from USD 195.59 to USD 243.43. The stock price has since settled at USD 234.51.





Future Challenges

Nippon Steel's acquisition of US Steel faces key challenges, including the complex integration of differing Japanese and American corporate cultures and operations. Further, global economic conditions and trade tensions paired with environmental regulations to decarbonize the steel industry necessitate investment and innovation, adding complexity to the merged companies.

Fabio Schiller
Investment Banking Division

M&A: Top Deals

Bristol Myers Squibb to Acquire Karuna Therapeutics

Bristol Myers Squibb ("BMS") announced on the 22nd of December that it will acquire Karuna Therapeutics ("Karuna") for USD 330 per share, a 53.35% premium to 1-day prior closing price. This represents USD 12.7 bn in deal value net of estimated cash. The transaction is an all-cash deal and is expected to be completed in the first half of 2024.

Buyer vs Seller

Bristol Myers Squibb is a multinational pharmaceutical company discovering and manufacturing prescription medicine in several therapeutic areas, including cancer, HIV/AIDS, cardiovascular disease, diabetes, hepatitis, rheumatoid arthritis, and most relevant for this deal, psychiatric disorders. Karuna Therapeutics is a biopharmaceutical company that develops medicine using a neuroscience approach for psychiatric and neurological conditions, placing focus on treating schizophrenia and Alzheimer's.

Industry Overview

Drug therapeutics made up 26.06% of revenues in the global neuroscience market. The global drug therapy neuroscience market was estimated to be USD 159.5 bn in 2022 and is expected to grow to USD 194.4 with a CAGR of 5.47% until 2026. The main drivers of this market are increasing awareness of conditions affecting the brain, overall technological advancements originating from increasing investments in R&D, and an aging population.

Peers	Currency	Market Cap (CUR m)
Legend Biotech Corp	USD	10,861.89
United Therapeutics Corp	USD	10,722.06
Incyte Corp	USD	14,616.40
Roivant Sciences Ltd	USD	9,212.94
Sarepta Therapeutics Inc	USD	8,998.26

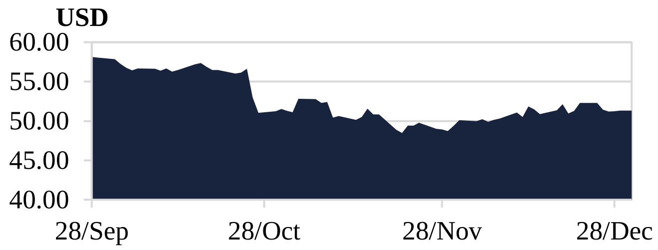
Deal Rationale

The deal is expected to be dilutive on Bristol Myers Squibb non-GAAP EPS by USD 0.3 in 2024. This is mainly due to financing costs, as the deal will be financed primarily through debt. However, Bristol Myers Squibb sees Karuna as an opportunity to become stronger and expand in the field of neuroscience. Karuna's KarXT, a potential treatment for schizophrenia and first treatment to Alzheimer's, has been accepted for review by the US FDA in September 2023. Additionally, BMS sees Karuna's early stage and pre-clinical pipeline as an opportunity to grow its client base.

Market Reaction

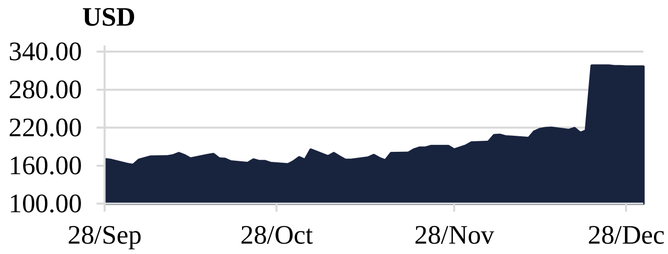
Bristol Myers Squibb

BMS stock price decreased 2.13% following the announcement from USD 52.27 to 51.18. The stock price has not yet returned to pre-announcement levels.



Karuna Therapeutics

Karuna's stock price soared 47.76% following the announcement from USD 215.09 to USD 317.46. The stock price has not returned to previous levels since.



Future Challenges

Bristol Myers Squibb's potential acquisition of Karuna could face potential challenges, such as the buyer facing potential financial difficulties through its debt issuance, and the potential EPS dilution possibly concerning current investors. Finally, Karuna's therapeutical drug portfolio might not meet Bristol Myers Squibb's expectations through revenue synergies.

Benedita Velozo
Investment Banking Division

M&A: Top Deals

KKR to Acquire Greenvolt

A unit of PE fund KKR is looking to take over and delist Portuguese renewable energy company Greenvolt for USD 1.3 bn. On the 21st of December, Gamma Lux fund offered to acquire all Greenvolt shares for EUR 8.30 per share, representing an 11% premium on the previous day closing price. The fund expects the deal to close after the 31st of May, pending regulatory approvals.

Buyer vs Seller

KKR is a global investment firm, known to engage in large-scale leveraged buyouts and has USD 479 bn of total AuM. The Luxembourg-based Gamma Lux is an affiliate of investment funds advised by KKR. Greenvolt, which made its market debut in July 2021, is a Portuguese renewables company. It produces energy and develops biomass, wind and solar projects in Portugal, 15 European markets and the U.S. In January 2023, Greenvolt issued EUR 200 m bond convertible in a deal with KKR.

Industry Overview

The ongoing wars in oil-producing countries and regulations have intensified the need to guarantee European energy independence. In 2022 and for the first time, solar and wind electricity generation in Europe (22% of the total) surpassed that of fossil fuels (20%). The renewables market is expected to continue growing, projecting a CAGR of 9.92% (2024-2028). In order to pursue strategy energy transition objectives, many investors are directing capital into M&A opportunities.

Peers	Currency	Market Cap (CUR m)
Alerion Cleanpower SpA	EUR	1,439.79
Audax Renovables SA	EUR	582.06
MVV Energie AG	EUR	2,207.88
Aventron AG	CHF	546.61
Neoen SA	EUR	4,432.85

Deal Rationale

KKR has launched a voluntary public offer to acquire Greenvolt in an attempt to expand its presence in the renewable energy sector as the industry is becoming increasingly attractive. This move comes amid heightened global efforts to reduce the dependence on fossil fuels and mitigate the impacts on climate change. KKR's EUR 200 m convertible bond investment in Greenvolt in 2023 has already played an important role in increasing the firm's footprint in renewables. Both the previous deal and the recent public offer are set to enhance and support Greenvolt's continuous expansion initiatives.

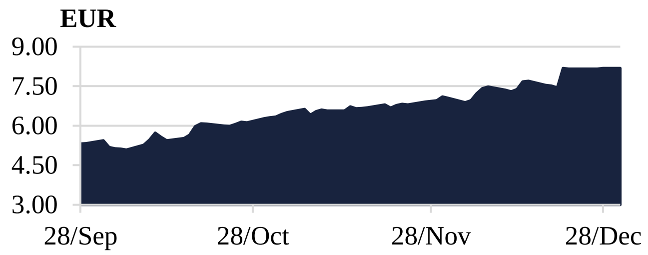
Market Reaction

KKR

In a filing with the Portuguese Securities Market Commission (CMVM), the infrastructure investment fund Gamma Lux said that a consortium of seven major shareholders of the company, including Actium Capital SA and Caderno Azul SA, has agreed to divest a cumulative stake of 60.86% in the Portugal-based renewable energy company. Gamma Lux plans to delist Greenvolt from the Lisbon stock market should it acquire over 90% of the company's voting rights. Moreover, KKR's stock fluctuated between USD 81.59 and USD 82.41 over the first six days since the announcement.

Greenvolt

After a brief trading suspension, Greenvolt shares soared 11% to EUR 8.28 on Euronext Lisbon. Currently, the gains are at a 9.3% increase, with the current value standing at EUR 8.15.



Future Challenges

Luxembourg-based Gamma Lux foresees the conclusion of the acquisition process after the 31st of May 2024. The completion is contingent upon receiving approval from regulatory bodies, including the Portuguese Competition Authority, as well as counterparts in Romania, Ireland, Britain, and Germany.

Beatriz Domingues Pereira
Investment Banking Division

What Happened To

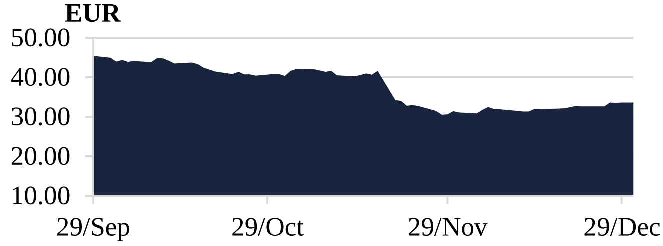
Bayer AG

Bayer AG, a corporation based in Leverkusen, Germany, operates as a prominent force in pharmaceuticals, consumer healthcare, agricultural chemicals, and biotechnology. Renowned for its global presence and innovation, Bayer AG stands as a key constituent of the EURO STOXX 50 and DAX40 stock market indices. The group employs circa 100,873 people globally.

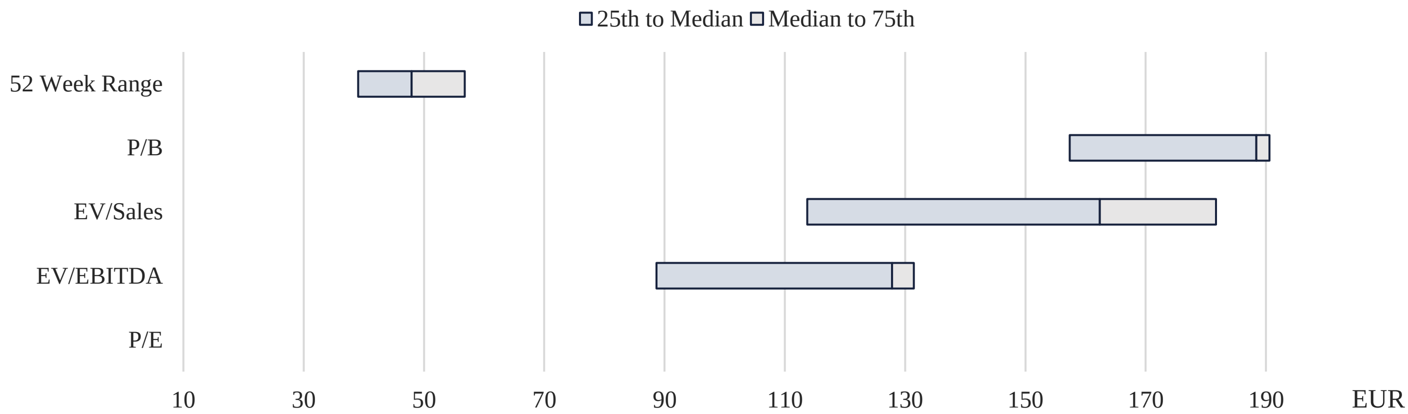
Corporate News

Bayer AG's stock price underwent an unparalleled decline, facing a loss of around USD 8.3 bn in market cap in November 2023. The company faced substantial challenges in legal disputes and pharmaceutical research, accentuating the urgency for its new leadership to outline a robust and holistic recovery plan. Five years ago, Bayer AG completed the acquisition of Monsanto for USD 63 bn. However, ongoing litigation surrounding Monsanto's weedkiller "Roundup" remains unresolved, following a court verdict that heightened the potential of Bayer AG having to set aside over USD 16 bn for associated lawsuits. The funds were reserved to manage over 100,000 legal cases linking "Roundup" to cancer allegations. Additionally, Bayer AG's experimental drug "Asundexian", meant to drive growth post-patent expirations of the current best-selling medicines "Xarelto" and "Eylea", proved ineffective in preventing strokes in atrial fibrillation.

Price (31 Dec 23, EUR)	**34.33**
Target Price (EUR)	45.00
3M Performance	-24.50%
Market Cap (EUR m)	33,726.62
Enterprise Value (EUR m)	72,011.62
**Target Price is for 12 months*	



Valuation Analysis



Bill Anderson, the former CEO of Genentech and leader of Roche's global pharmaceutical division, is now tasked with steering the company out of its crisis, having suffered a nearly 50% loss in market value over five years. The American executive intends to drastically reduce hierarchical levels, management positions, and bureaucracy while openly discussing a significant headcount reduction. Activist hedge funds and other investors anticipate a corporate demerger and partial sales of the company's segments.

Facing legal risks from the "Roundup" issue in agriculture and a lack of growth in the pharmaceutical division following a major setback, attention now turns to the stable Consumer Health division, valued at USD 16 to 22 bn. Anderson must navigate competing interests amid hedge fund pressures, investor strategies, and resistance to considerable internal change.

Peers	**Currency**	**Market Cap** (Cur m)
GSK PLC	GBp	60,894.44
Roche Holding AG	CHF	199,665.61
Novartis AG	CHF	193,289.54
Sanofi SA	EUR	114,956.87
AstraZeneca PLC	GBp	167,206.04

Jakub Jarzęczka
Investment Banking Division

What Happened To

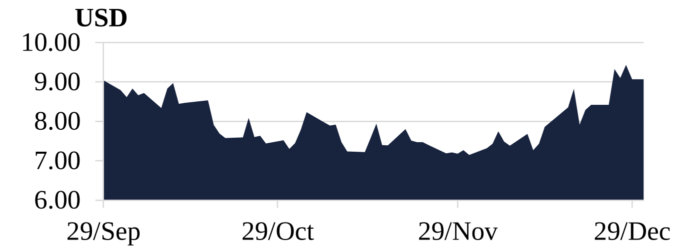
NIO Inc.

Established in 2014, NIO Inc. (“NIO”) is a leader in China's booming electric vehicle industry, known for its cutting-edge technology and strong commitment to sustainable mobility. The company's innovative battery-swapping stations and user-friendly designs have positioned NIO as a key competitor in the global EV market, appealing to a growing base of environmentally conscious consumers.

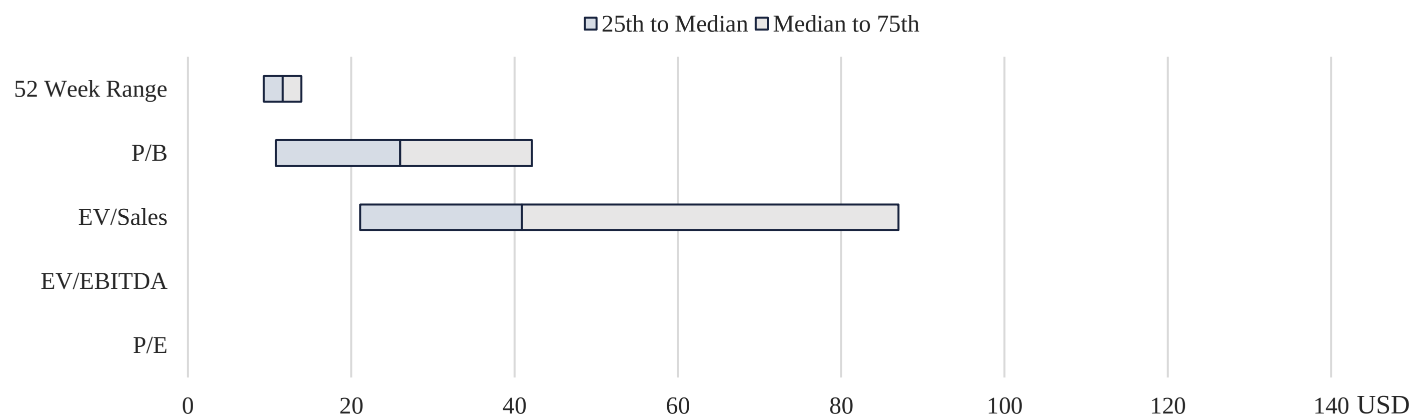
Corporate News

NIO, a leading car manufacturer in the electric vehicle sector, recently made significant strides with two major announcements: the launch of its flagship sedan, the ET9, and the introduction of its own autonomous driving chip, the Shenji NX9031. The ET9, targeting luxury segments dominated by brands like BMW and Mercedes-Benz, signifies NIO's ambitious move to upscale its product line. The sedan is equipped with advanced technologies such as the new 5-nm automotive processor, which competes with NVIDIA Drive-Orin chips in computational power. This development marks NIO's effort to reduce dependency on external chip providers and enhance its self-reliance in technology. With its impressive array of features, also including the Aquila 2.0 system, 900V ultra-high-voltage charging platform, and high-energy 46105 cells, the recently announced model represents a leap in EV technology.

Price (31 Dec 23, USD)	**8.50**
Target Price (USD)	10.60
3M Performance	-5.97%
Market Cap (USD m)	17,617.15
Enterprise Value (USD m)	123,122.35
**Target Price is for 12 months*	



Valuation Analysis



The announcement of these developments had a noticeable impact on NIO's stock, with shares climbing nearly 11%. This surge reflects the market's positive reception to NIO's strategic direction and technological advancements. The Bank of America's renewed recommendation, setting a target price of USD 11.00, further underscores investor confidence in NIO's growth potential. The price movement also indicates a strong market belief in NIO's capability to innovate and compete in the high-end EV market.

The mentioned advancements, along with shorter charging times offering significant mileage, strengthen NIO‘s market position in China and abroad. Additionally, NIO's initiative to expand its network of battery swap stations, capable of serving a large number of vehicles daily, showcases the company's commitment to improving customer experience and service efficiency. This comprehensive approach to technology, infrastructure, and customer service positions NIO for continued success and growth in the competitive EV market.

Peers	**Currency**	**Market Cap** (Cur m)
XPeng Inc	USD	13,287.91
Leapmotor	HKD	37,996.93
Li Auto Inc	USD	36,939.07
DongFeng Automobile Co Ltd	CNY	11,660.00
Guangzhou Automobile Group	HKD	81,561.08

Leon A. Wolff
Investment Banking Division

NIC's View On

The Troubling Yet Surprising Year of 2023, and What Lies Ahead

Miguel Amaral
Investment Banking Division

"ChatGPT is the AI heard around the world. A new computing platform has been invented. The iPhone moment of AI has started."

– Jensen Huang, CEO, Nvidia

2023 was an eventful year for the world of business, economics, and politics. It is undeniably hard to take notice of all that has happened in mere 12 months.

Business-wise, 2023 was positive for most firms in the world. Herein, some companies undoubtedly take the joint crown. Notice the performance of the Magnificent Seven, a group that comprises the seven largest companies by market cap in the United States stock market: Amazon, Apple, Alphabet, Meta, Microsoft, NVIDIA, and Tesla. This small group of companies is responsible for 76% of the S&P 500's 2023 gain of more than 20%. Indeed, removing these companies from the index would earn investors a near-flat performance YTD.

Amongst many other factors, a key contributor to this outperformance boils down to developments in AI. Indeed, many would, in my opinion rightly, argue that AI defined 2023. OpenAI saw ChatGPT setting records for fastest-growing user base in January, achieving 100 m monthly active users 2 months after launch. And OpenAI did not stop there as it later launched GPT-4 next to DALL·E 3. Many other businesses followed suit with their own Large-Language Models in an attempt to fight back against the tremendous success of ChatGPT. Expect 2024 to continue to bring developments in this field.

Economics-wise, resilience is the word characterising 2023. Following multi-decade high inflation recorded in many countries in 2022, central banks acted swiftly by raising rates at the fastest pace in history. Naturally, in the beginning of 2023, many feared that a recession was bound to hit economies soon. Indeed, such a severe tightening of monetary policy showed cracks in the financial sector, with Silicon Valley Bank collapsing in March, First Republic Bank being rescued by J.P. Morgan, and Credit Suisse being acquired by UBS to prevent a global crisis. Nevertheless, and with the benefit of hindsight, we can state that fears of a recession in 2023 did not materialize as economies worldwide recorded an average growth of 3.1%. Still, there is fear that we are not out of the woods yet. 2024 might provide a definite answer.

Politics-wise, 2023 was marked by the horrific Hamas attack in early October and Israel's devastating response. The conflict is likely to persist for long, while fears amount that it can lead to a widespread regional conflict as the Hezbollah militant group raises concerns that it will join the fight. In Europe, the Wagner Group staged a rebellion against Vladimir Putin in June after dissatisfaction with the Kremlin's support in Ukraine, but it fell short after an agreement that would see the Group withdrawing in exchange for a guarantee of their safety. Still, it was clear that the Wagner Group's days were numbered: in August, a jet carrying Wagner Group's leader Yevgeny Prigozhin and some members suspiciously crashed.

2024 will be a defining year. Most importantly, the world tensely follows what will likely be a rematch between Donald Trump and Joe Biden. As financial support for Ukraine wanes, the Middle East threatens a larger regional conflict, and China grows its influence, the next US president will face mounting challenges.

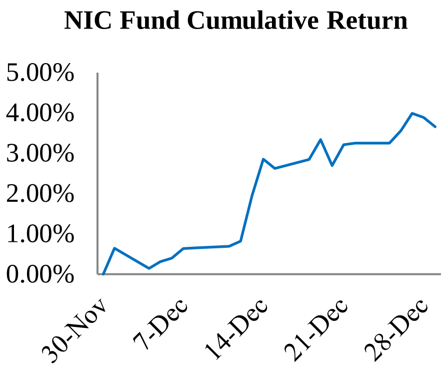
Date	Most Impactful News
02 Feb 23	ChatGPT sets record for fastest-growing user base ***Source:*** *reuters.com*
14 Mar 23	Silicon Valley Bank collapses after run on deposits ***Source:*** *nytimes.com*
12 Jul 23	US inflation slows to 3% as interest rate rises bite ***Source:*** *ft.com*
07 Oct 23	Hamas surprise attack out of Gaza stuns Israel and leaves hundreds dead in fighting ***Source:*** *apnews.com*

Miguel Amaral
Investment Banking Division

NIC Fund

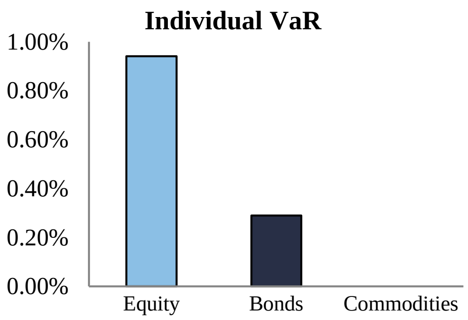
NIC Fund

Portfolio Overview



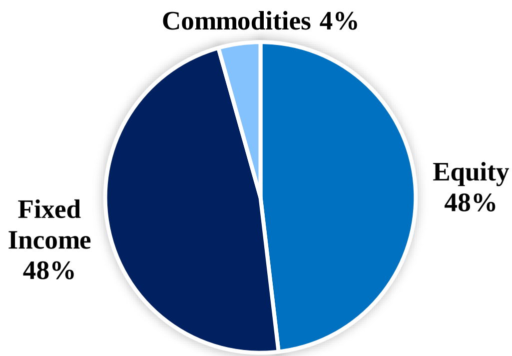
Portfolio Statistics	
Cumulative Return	3.66%
Annualized Return	43.88%
Daily St. Dev	0.42%
Period St. Dev	1.93%
Annualized St. Dev	6.68%
Info Sharpe	6.57
Skew (Daily)	0.38
Kurtosis (Daily)	-0.13

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, 48% of our fund remained devoted to Equities, 48% to Fixed Income and 4% Commodities.
However, 53% 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 positive, with a cumulative return of 3.66%. Equities and bonds were the best performers, contributing with returns of 1.30% and 1.26%, respectively. Commodities did achieve a slightly negative return this month of -0.03%.
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 AMD and Tapestry with returns of 21.67% and 17.46%, respectively, while Ferrari had the poorest performance, with a return of -6.50%. The best-performing ETFs were the iShares S&P 500 Value ETF and the iShares MSCI World ETF, with returns of 5.56% and 4.97%, respectively.

Risk Metrics

In terms of risk, our portfolio registered a relatively high daily VaR of 1.23%. As a result, 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 clearly lower VaRs of 0.29% and 0.00% respectively.

Alexander Knott
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**AMD**	Our investment in Advanced Micro Devices, the global semiconductor company based in the United States, yielded a return of 21.67% last month, driven by the company's announcement to launch new chips that aim to challenge Nvidia's dominance in artificial intelligence computing.
US Equity	**TPR**	Tapestry provides luxury accessories and branded lifestyle products in the United States, Japan, Greater China, and internationally. The stock saw a 17.46% increase in December 2023, marking the second-highest increase for our portfolio.
EU Equity	**RACE**	In the month of December, Ferrari shares exhibited a decrease of 6.50%. This has lagged the Auto-Tires-Trucks sector's gain of 3.74% and the S&P 500's gain of 4.42% in that time. The investment community will be paying close attention to the earnings performance of Ferrari in its upcoming release.
US Equity	**NVDA**	Nvidia has been building its legacy for the past two decades with the stock returning an eye-catching 25,342.71% over the last 20 years. The stock surged 239.02% in 2023 driven by an artificial intelligence (AI) rush that boosted demand for chips. In December 2023, the stock saw an uplift of 5.89%.
US Equity	**PYPL**	In December 2023, Paypal stocks saw a slight uptick of 6.60%. Concerns about increasing competition like Apple Pay brought the stock down 80.10% from their August 2021 high of USD 308. The competition is expected to become less intense, leading to expected increases for Paypal's stock in 2024.
EU Equity	**SON**	Sonae's stock price decreased by -1.34% in December, finishing a moderate year with a stock increase of 5.72% in 2023. The company announced the acquisition of Musti in December 2023, valued at EUR 868 m. Sonae explains that pet product retail is a rapidly growing segment, benefiting from trends in adoption and premium care. Musti is the market leader in the retail of pet products in the Nordic countries.
US Equity	**GS**	Goldman Sachs continued its recovery with an increase of 12.95% in December, following gains of 13.40% in November after a previous downturn. Positive news by the Fed and following post-Fed optimism boosted financials and other stocks. Goldman Sachs finishes 2023 with a stock increase of 15.91%.
EU Equity	**BAYN**	Bayer's stock recovered with an uplift of 8.61% after it plummeted by 20.39% in November, which marked its lowest point in 18 years. This drastic decline followed 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.
US Equity	**V**	Visa Inc., the United States-based payment technology company saw a moderate stock increase of 1.43% in December 2023. The global digital payments processing company's shares have soared 26.31% in 2023 boosted by rising travel demand in the fourth quarter, which exceeded expectations. With the constant shift toward seamless cashless transactions, Visa is expected to be on track for solid growth.
US Equity	**AMZN**	Amazon's stock increased by a moderate 4.00% in December, finishing off a strong year for tech giants in general. In 2023, Amazon stocks saw a remarkable increase of 80.88%, having the best year since 2015. Tech giants in general benefited from increasing awareness of and investments in artificial intelligence. Andy Jassy sees great potential in the web service arm AWS, as many customers are expected to switch from local data processing to the cloud.

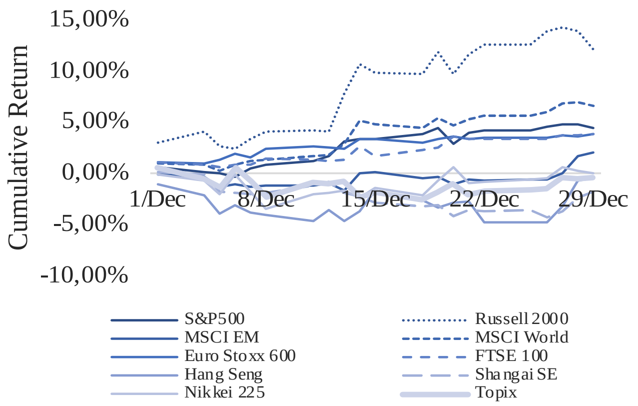
Alexander Knott
Financial Markets Division

NIC Fund

Equities

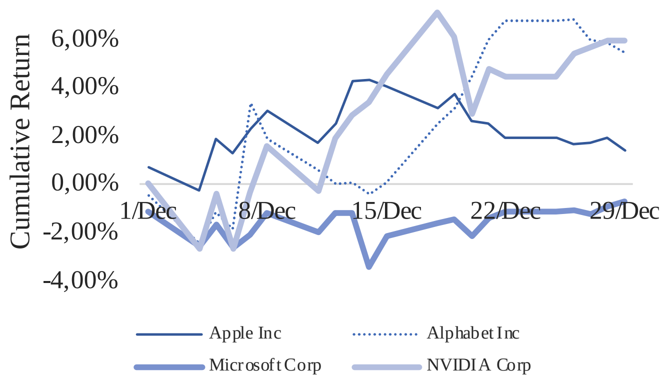
World Equities

Global equities have closed the year of gains, with a positive monthly return of 6.50% for MSCI ACWI (All Country World Index) in December. The S&P500 concluded 2023 with a marginal decline on the last trading day but closed the year with a 4.42% MoM, as investors optimism was fueled by easing inflation, a resilient economy, and the prospect of lower interest rates in 2024. After hitting a low in October, small-cap stocks experienced a significant rally in the latter part of 2023, with the Russell 2000 Index advancing by 12.05% in December. The STOXX Europe 600 Index and the UK's FTSE 100 Index edged up by 3.77% and 3.75% MoM, respectively, as markets rallied in the last two months, driven by a retreat in bond yields amid hopes of the ECB and BoE implementing rate cuts in the following months. Asian markets grapple with uncertainty as China stocks close the year down, signaling an uneven economic recovery and subdued business confidence, resulting in a 1.81% decrease MoM for the Shanghai SE index.



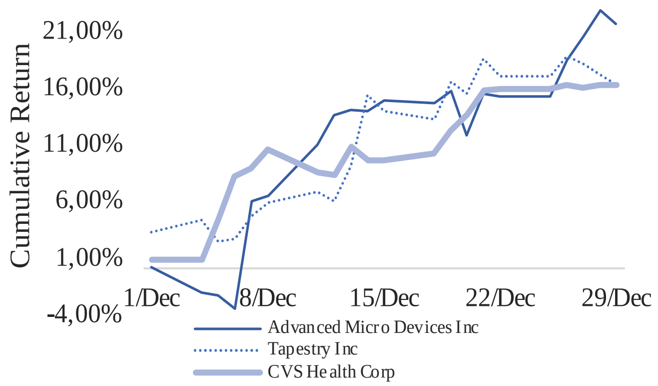
In Depth: Tech Giants

The technology sector experienced a remarkable year with a resurgence in tech stocks driven by favourable macroeconomic conditions, significant advancements in AI and the promising potential for innovation in the sector. Looking ahead to 2024, the performance of the tech sector is expected to be influenced by macroeconomic factors, while the focus remains on trends such as AI development, ongoing digitization, and the shift to cloud services, which have the potential to fuel sector growth for years. The “Magnificent 7” stocks, including Nvidia, that stood out with shares more than tripling in value since the start of last year, Google, Apple and Microsoft, could continue their upward trajectory as they leverage ongoing and future AI projects, maintaining their leadership in the tech field. With Apple poised for a profitable year, driven by the success of the iPhone 15, and Google’s Alphabet showcasing AI-related advancements, these market leaders are anticipated to see sustained gains.



Our Performance

In December, equities made a positive contribution to the overall portfolio performance, yielding a cumulative return of 1.30%. Advanced Micro Devices led with the best performance at 21.67%, following the company's announcement of new chips designed to power faster AI training. The American healthcare company CVS Health Corp. gained 16.20% last month, driven by plans to enhance its pharmacy business. Additionally, the luxury fashion holding company Tapestry Inc. concluded the year with a 17.46% MoM return.



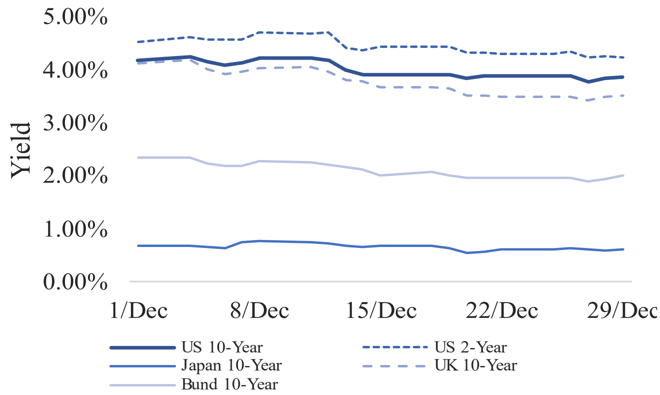
Ilenia Fiore
Financial Markets Division

NIC Fund

Fixed Income

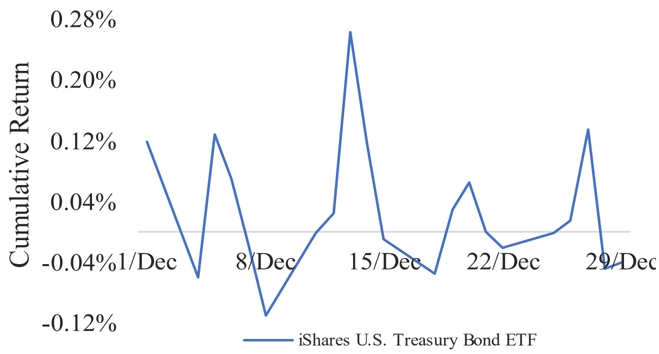
World Yields

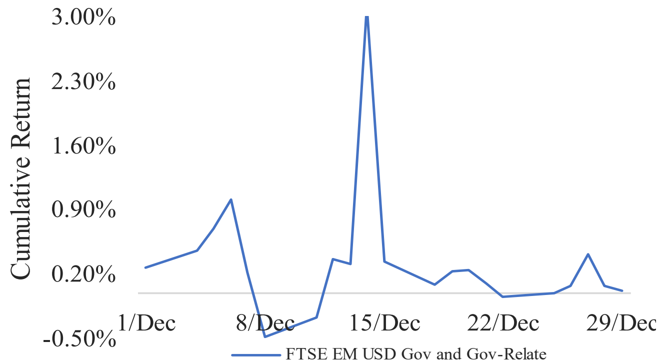
December was an interesting month for the bond market as the US 10-year rates decreased from 4.35% to 3.79% and hit the lowest level in about five months. The market became more confident in the belief that the Federal Reserve had completed its series of interest rate hikes following remarks from Patrick Harker, indicating that the Fed had concluded its rate-raising activities. As implied by CME Group's FedWatch tool, there is an expectation in the markets for the first interest rate cut to take place during the Federal Reserve's March meeting, the second meeting of the year for the central bank.
On the other hand, the UK 10-year Gilt has reached its lowest point since early April, dropping below 3.50%. Recent data indicating softer inflationary pressures and economic slowdown, coupled with the looming risk of a UK recession, have led central bankers to reconsider rate hikes.
Japan's 10-year government bond yield fell below 0.60% after the Bank of Japan's December meeting, during which board members discussed the potential timing of exiting the central bank's stimulus, with several members indicating there is no rush to make such a move. BOJ Governor Kazuo Ueda mentioned that while the likelihood of Japan's economy overcoming the low-inflation environment is gradually rising, achieving the 2% inflation target is not yet sufficiently high to change monetary policy.



In Depth: US Fintechs' Moves In Fixed Income Trading

Amid increasing retail investor interest in bonds and attractive yields, US fintech firms like Public, Wealthfront, and Apex Fintech Solutions are launching new products to make investing in fixed-income assets more accessible.
While there is uncertainty about whether bonds will generate the same level of enthusiasm as stocks, fintechs see an opportunity to transform retail bond investing by offering low-cost products, financial education tools, easy-to-use apps, and fractionalized shares. Public, for example, plans to allow customers to invest in USD 100 slices of Treasury and corporate bonds, with plans to add municipal bonds and eventually lower the minimum investment to USD 10. Apex is also introducing a product allowing retail investors to buy portions of corporate bonds and treasuries. Wealthfront has introduced automated portfolios that personalize a mix of bond ETFs based on a customer's individual tax situation. However, experts note that retail investors' interest in fixed income may be challanged if interest rates fall and yields become less attractive.





Our Performance

Fixed income contribution to our portfolio's return added up to 1.26% in December. The Emerging Markets USD Government Bond Index in our portfolio had the highest positive monthly return among fixed income assets with 5.24% in December.

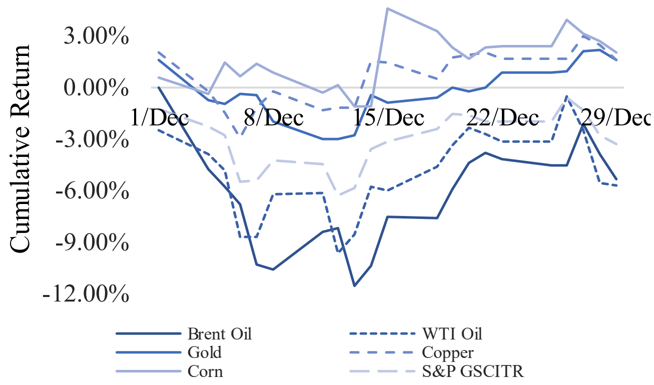
Johanna Linden
Financial Markets Division

NIC Fund

Commodities

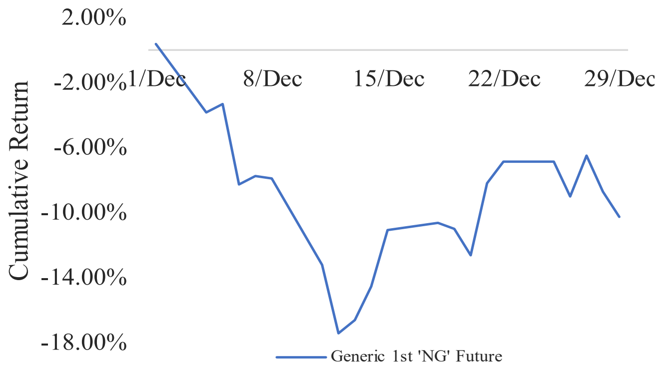
December Round-Up

In December, the S&P GSCI Total Return Index declined by 3.62%, following a similar fall of 3.67% in November, closing the year at a level of 3,344.33 index points. Notably, natural gas prices dropped by 13.06% due to remaining record-high storage levels, minimized by increased seasonal demand and a surge in exports which led to a rebound mid-December. Natural Gas prices in the US declined by 39.2% in 2023. Brent oil experienced a 6.31% decline last month, with a selloff in risk assets taking precedence over concerns about increased geopolitical tensions in the Middle East. OPEC+ plans to hold their next meeting in early February, though an exact date has not been decided. Gold remained stable above USD 2,030 an ounce for the second half of December as investors awaited Federal Reserve meeting minutes for monetary policy insights. Mid-December, Gold saw a dip as the dollar strengthened, and traders adjusted expectations for interest rate cuts, reducing the likelihood of a March cut to around 70%. Gold found support amid a broader risk asset selloff and heightened Middle East tensions and its price increased by 1.11% in December.



Gas outlook in the context of Ukraine's gas storage

Looking ahead, Ukraine's gas sector stands at a critical juncture, redefining its role in the evolving European energy landscape. Geopolitical shifts, marked by the ongoing war and the decline in Russian hydrocarbon transit, are reshaping the country's traditional dynamics. The vast underground gas storage capacities, ranking among the world's largest, emerge as a strategic asset. While the transit fee model faces uncertainties, Ukraine's ambition to transform into a natural gas exporter gains momentum. The untapped potential of its reserves, notably one trillion cubic meters, aligns with the country's commitment to energy self-sufficiency and export capabilities. Geopolitical considerations, including the EU's transition to low-carbon energies, will significantly influence these aspirations. Collaboration with European nations, evident in the "customs warehouse" regime and the potential resale of stored gas, underscores Ukraine's integral role in regional energy security. The flexibility offered by Ukraine's storage capacities positions it as a valuable asset for the EU, especially amid concerns about diminishing Russian pipeline gas imports and the unpredictability of weather conditions.
In summary, Ukraine's gas outlook pivots on adaptation and strategic positioning. The country's storage capacities, combined with ambitions for energy independence and export, present opportunities amidst geopolitical challenges. As Europe seeks diverse and resilient energy sources, Ukraine's gas sector holds promise in contributing to the continent's energy transition and ensuring security in the face of evolving geopolitical complexities.



Our Performance

During December, the DB Commodity Index returned -7.82% while the London Gold Fixed Price Index returned 1.34%, leading to an overall return of -0.03%.

Leon Wagner
Financial Markets Division

Extras

Hot Topic

Milei “Shock Therapy” to Cure Argentina’s Fiscal Deficit Addiction

Lorenzo Bonoli
Financial Markets Division

“IMF staff welcome the measures announced by Argentina’s new Economy Minister, Luis Caputo. These bold initial actions aim to significantly improve public finances in a manner that protects the most vulnerable in society and strengthen the foreign exchange regime.”

– Julie Kozack, Director of Communications, IMF

Javier Milei, from the political party La Libertad Avanza (LLA), has won the presidential runoff in Argentina with 55.7% of the vote, surfing a wave of fury over decades of consistent economic mismanagement. Argentina's challenges stem from the government's long-standing issue of consistent overspending. Over the last two decades, the state's size has nearly doubled, marked by the expansion of the public sector payroll - the period between 2011 and 2022 witnessed a substantial 34% rise in public sector employment - and generous allocations for fuel and electricity subsidies, which in 2022 alone cost the government around USD 12.5 bn, 2% of Argentina’s GDP. Unsurprisingly, Argentina has been running a fiscal deficit for the last 13 years, even with tax levels well surpassing the Latin American average. Since its ninth sovereign default in 2020, Argentina has been unable to access global borrowing markets and the past Peronist governments have resorted to printing money to fund the deficit, causing a substantial increase in the money supply, sharp depreciation of the peso and sky-high stubborn inflation, which is expected to exceed 200% this year. Argentina's cumulative sovereign debt surpasses USD 400 bn, with approximately USD 110 bn owed to both the International Monetary Fund and holders of restructured, privately-held Eurobonds. Given the central bank reserves' deficit exceeding USD 10 bn and limited access to the market, the nation faces impending debt payments of around USD 16 bn next year.

Reviving Argentina's economy might appear to be a daunting task, but a handful of investors maintain cautious optimism, daring to imagine that the newly elected libertarian president could achieve success where others fell short. Javier Milei launched his “shock therapy” economic plan, starting with a 54% devaluation of the peso’s official exchange rate to 800 pesos per dollar. In an attempt to reduce the primary deficit to zero in the upcoming year, the rapid devaluation of the peso, which will continue at a monthly rate of 2%, is part of a broader set of measures including slashing energy and transport subsidies, downsizing the government, temporary suspension of public works tenders and tax reversals.

The government reckons these cuts amount to almost 3% of GDP.

Unveiled on the 20th of December through a far-reaching emergency decree, Milei initiated the initial phase of deregulation. Within this decree, 300 reforms were delineated, including the elimination of export restrictions, a relaxation of regulations, and plans for the privatization of state-owned enterprises. A mere week later, Milei presented an extensive bill on state reform to Congress. The bill has 664 articles and spans a wide spectrum, endorsing the privatization of 41 public entities, abolishing the presidential primary vote, and introducing a comprehensive 15% tax on most exports as part of the austerity agenda. Additionally, the government proposed an increase in export taxes for soy and its derivatives, elevating the rate from 31% to 33%. Exports of soy play a vital role as a key contributor to the central bank's foreign currency reserves, essential for funding imports and servicing debts.

Milei's greatest challenge will now be in Congress. With just 15% of seats in the lower house and 10% in the Senate, LLA is in a minority position. This has sparked doubts about the new President’s governance capabilities and suggested some kind of concessions from the ruling coalition will be deemed necessary. In the heat of his campaign, Milei boldly declared intentions to shutter the central bank and institute USD as the national currency. Post-election triumph, however, it seems like he stepped back from both pledges.

Lorenzo Bonoli
Financial Markets Division

Thank you!

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

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