NIC

— Nova Investment Club —

Newsletter

February 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, Miguel Amaral sheds light on the upcoming United States presidential election. Moreover, in our Regional View, Luisa Kloth explicates the results and potential implications of Taiwan's 2024 elections.

Our Investment Banking Division will guide you through January's overall M&A activity. Read about BlackRock acquiring Global Infrastructure Partners, Allen Media Group acquiring Paramount, and Synopsys acquiring Ansys. Additionally, get a detailed overview of what happened to Boeing and Nvidia, and read expert insight on the implications of private equity's dividend recapitalizations on debt.

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 January was positive, with a cumulative return of 0.42%.

On the Hot Topic of this month, Leon Wagner discusses the United States' long-standing dominance in the equity market. Lastly, in our ESG Review in collaboration with Nordea, Lorenzo Bonoli elucidates the developments in the Nordic cleantech sector.

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 The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.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

—Nova Investment Club—

Macro Overview

Monthly

February 1st, 2024

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	4.925	1,16%	17,43%	3,25%
DJIA	38.467	1,75%	16,38%	2,06%
Nasdaq	15.510	0,18%	20,69%	3,32%
MSCI World	3.492	0,81%	15,62%	-0,81%
MSCI EM	3.409	-1,17%	0,31%	-7,03%
Russell 2000	1.996	1,75%	20,09%	-1,52%
Euro Stoxx 50	4.665	2,22%	14,88%	3,18%
FTSE 100	7.681	2,03%	4,90%	-0,68%
Nikkei 225	36.287	0,17%	17,59%	8,43%
Hang Seng	15.485	-2,61%	-9,51%	-9,16%
Dollar Index	103,29	0,05%	-3,16%	1,93%
EUR/USD	1,087	-0,18%	2,74%	-1,58%
GBP/EUR	1,170	0,10%	1,85%	1,46%
GBP/USD	1,272	-0,09%	4,62%	-0,13%
USD/JPY	147,390	-0,08%	-2,83%	4,50%
USD/CHF	0,86	-0,31%	-5,53%	2,22%
Brent Crude	82,280	2,80%	-5,87%	6,80%
Gold	2.040,5	1,22%	2,32%	-1,51%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	3,999%	-17,7	-93,1	12,0
GER 10Y Yield	2,221%	-12,1	-58,5	19,7
JPY 10Y Yield	0,732%	1,5	-21,5	11,8
UK 10Y Yield	3,858%	-15,2	-65,4	32,1
PT 10Y Yield	3,008%	-17,2	-51,7	35,2

**Source: Bloomberg, as of 2024-01-31*

In Focus

January

Powell to cool off investors' optimism

The Fed opted to maintain interest rates within the existing range of 5.25% to 5.5% on the 31st of January, marking the fourth consecutive meeting without a change. While indicating an openness to potential rate cuts, Fed Chair Jerome Powell tempered investor expectations by suggesting that reductions may not commence as early as March and would only be considered when there is greater confidence in inflation moving sustainably toward the 2% target. Likewise, the ECB has decided to keep rates at a record high of 4%.

Big tech earnings disappointments

Tech giants have struggled to meet investor expectations for growth. Microsoft reported its strongest revenue growth since 2022, exceeding EPS expectations (USD 2.93 vs. USD 2.78), yet the market response was somewhat muted as the strong performance was already priced in its over USD 3 tn valuation. Alphabet faced challenges due to advertising revenue of USD 65.5 bn, coming a few hundred million shy of Street estimates. Tesla's stock dropped 10% in the last week of January as the company missed earnings estimates and predicted lower-than-expected expansion.

Europe sidesteps recession

The eurozone economy unexpectedly avoided a recession in the final quarter of 2023, as the Gross Domestic Product remained stable compared to the previous three months and increased by 0.1% from the same period a year earlier. Quarterly expansions in Spain and Italy offset a contraction in Germany. Meanwhile, annual consumer price inflation showed positive signs, with the headline rate slowing to 2.8% in January from 2.9% in December. The core rate, excluding volatile components, also edged lower to 3.3%.

Oil surge amid geopolitical tensions

Commodities exhibited resilience in January, with the broad Bloomberg Commodity Index registering a 0.4% increase. Notably, oil prices rallied 6.30% amid escalating tensions in the Middle East and ongoing disruptions in shipping through the Suez Canal. The global oil market faced additional uncertainty due to drone attacks on Russian energy infrastructure.

SEC approved Spot Bitcoin ETF

On the 11th of January, a significant milestone was reached, bringing immense joy to crypto enthusiasts and discomfort to sceptics. For the first time, the US Securities and Exchange Commission approved exchange-traded funds (ETFs) directly investing in Bitcoin. Major industry players, including BlackRock Inc., Invesco Ltd., and Fidelity Investments, as well as smaller competitors like Valkyrie, received the green light to launch these ETFs. The market seems to have followed a "buy the rumours, sell the news" approach, as Bitcoin has indeed declined by about 14%.

China's GDP growth meets expectations

Facing ongoing challenges, the Chinese domestic economy struggled with subdued retail sales and a prolonged downturn in housing activity. Although the fourth-quarter GDP grew by 5.2% YoY, beating expectations of 5%, it underscored historical weaknesses. Despite the People's Bank of China implementing various stimulus measures, investors had anticipated more impactful interventions to revitalize economic activity. Both the MSCI Asia ex-Japan Index and the MSCI Emerging Markets Index, experienced declines of 5.4% and 4.6% , respectively, last month.

Lorenzo Bonoli
Financial Markets Division

Deeper Dive

The Looming United States Presidential Election

Miguel Amaral
Investment Banking Division

"As a Democrat, who has been left homeless, who is now definitely in the centre, but probably leaning increasingly right, I'm left yet again with an appreciation, despite the messenger of the message, of the Trump administration, because what those guys did was pretty incredible. So much of the work that happened in that administration turned out to have been right, and that is what is so frustrating for me"

– Chamath Palihapitiya , CEO, Social Capital

On November 5th, 2024, North Americans will take to the polls to decide who should follow Joe Biden's presidency for the next 4 years. While it is still uncertain who exactly will take part in the two-faced showdown, it is looking evermore likely we will witness a rematch of 2020's presidential election.

Elections in the United States typically pit the Democratic Party against the Republican Party. The former is known for defending liberal values, supporting a larger government role in economic issues, regulations, and social welfare programs. Additionally, and increasingly important in a world plagued by conflict, it tends to favour multilateralism in foreign policy. Opposingly, the Republican Party is seen as conservative, advocating for a smaller government role in the economy. The party traditionally advocates for lower taxes, a larger budget for the military, and often seeks to pursue national security interests unilaterally. It is undoubtedly easy to understand why the two parties enter into conflict so often.

Joe Biden, the 16th different Democratic president to take office in history, is looking to return to the White House for an additional 4 years. However, the prospect of Biden becoming president once again unsettles many voters given his 81 years of age, whereby another term would see him standing for office until his 85th birthday. Despite the inherent risk an additional presidency brings, The current president remains confident that he should be the Democratic Party nominee in hopes that he can beat Donald Trump again. In fact, Joe Biden might be the only Democrat who wishes to face Donald Trump again, as recent polling conducted by Reuters showed Trump leading Biden 40% to 34%.

Such findings likely stem from the fact that the MAGA movement in the United States remains especially strong, particularly following discontent over Joe Biden's presidency. Amongst many factors that drive this distaste, three appear key: i) the greater government intervention in international affairs as seen by the more than USD 75 bn of aid to Ukraine which could not be channelled to solving internal concerns; ii) the troublesome debt level in the country, with national debt having risen from USD 26.9 tn in 2020 to now USD 34.1 tn. Further, the US government borrowing at a rate of circa USD 10 bn per day, is particularly damaging in a period of high interest rates as the US recorded more than USD 1 tn of debt servicing costs in 2023; and iii) the high level of illegal migration into the United States, which is undoubtedly difficult to quantify but evident, accounts for approximately 3000-4000 apprehensions per day at the Texas border, reaching record numbers. This surge has sparked a dispute between the Biden Administration and Texas authorities.

Nevertheless, negative comments by the opposing party are common in any election. What may be more concerning to the Democratic Party is how Americans are reacting to apparently positive data coming out of the economy. The Biden Administration managed to cool down inflation from 9.06% in June 2022 to under 3.0% in 2023 and GDP growth for Q4 2023 surprised analysts at a 3.3% annualized rate. The US beat many developed economies in growth since Biden took office, yet consumer sentiment remains gloomy with two-thirds of respondents to a Gallup poll in November disapproving of the Presidents's handling of the economy. Such pessimism by American voters is undeniably a blow to Biden's attempt at returning to office in November.

As the elections loom evermore closer, the Democrats have a problem on their hands. It seems likely that Donald Trump will secure the Republican nomination, and Joe Biden is likely to want to face the former president again. However, Joe Biden is the weakest he has ever been in the eyes of Americans, with 53% of respondents now disapproving of the president which is further harmed by his age. No clear alternative candidate to the Democratic candidacy has been shown, yet if they want to secure another term in the White House, they may have to find one.

Miguel Amaral
Investment Banking Division

Regional View

Taiwan's 2024 Election: Unraveling the Results and Assessing Implications

Luisa Kloth
Financial Markets Division

"At face value, the Xi speech suggests a continuation, if not intensification, of cognitive, psychological, economic, and political pressure in the form of isolating Taiwan, co-opting entities and individuals in Taiwan, placing pressure on Taiwanese businesses, disinformation, and the like."
– Ja-Ian Chong, Political Scientist, National University of Singapore

In a historic turn of events, Lai Ching-te of the Democratic Progressive Party (DPP) emerged victorious in Taiwan's 2024 presidential election, securing an unprecedented third consecutive term for the ruling party. While this triumph signifies a resounding affirmation of Taiwan's commitment to political independence, the complex aftermath reveals a nuanced landscape with far-reaching implications.

Lai Ching-te's win serves as a bold assertion of Taiwan's sovereignty, particularly in the face of China's assertive policies. The election results reflect public endorsement of the DPP's stance on maintaining Taiwan's political autonomy, as opposed to the Kuomintang (KMT) and Taiwan People's Party (TPP), both of which expressed a willingness to engage more closely with Beijing. The DPP's celebration is tempered by the loss of its majority in the legislature. This outcome presents significant challenges for President-elect Lai, as he will now need to navigate a political landscape where no single party commands enough votes to rule independently. The election results showcase a notable shift in power dynamics. The DPP lost its majority, losing ten seats, while the KMT gained 14 seats and the TPP secured three. The absence of a clear majority signals a departure from the past eight years, during which the DPP enjoyed control over both the executive and legislative branches, facilitating legislative processes and impactful policy changes.

Lai's ability to pass bills and enact reforms will now hinge on collaboration with other parties, particularly the TPP, which holds the balance of power in the legislature. This new political landscape introduces challenges of scrutiny and negotiation, potentially hindering the swift implementation of the DPP's agenda.

China's reaction to Lai's victory has been multifaceted. Diplomatically, Beijing has severed ties with Taiwan, using its influence to convince Nauru, a Pacific Island nation, to switch allegiance. This aligns with China's historical strategy of isolating Taiwan on the international stage.

However, Beijing's response has not been solely punitive. The measured statement from the Taiwan Affairs Office suggests a pragmatic acknowledgment of the election outcome. The absence of immediate military actions, despite historical precedents, indicates a cautious approach, possibly aimed at avoiding further escalation at this juncture.

The United States, while maintaining its longstanding policy of not endorsing specific candidates, remains a crucial partner for Taiwan. Lai's commitment to peace and predictability in relations with the US aligns with broader American interests in maintaining stability in the region. As Lai assumes office, the US faces the challenge of managing the increasing geopolitical tensions between Taiwan and China. China's coercive tactics and potential military provocations pose security risks, necessitating effective communication and cooperation between Taipei and Washington to navigate the challenges ahead.

China's response to Lai's presidency holds potential security risks, ranging from increased military pressure to economic sanctions. The possibility of military force against Taiwan remains a concern, especially if Beijing perceives Lai as crossing redlines. However, several factors, including internal economic challenges in China and ongoing efforts to stabilize US-China relations, may temper Beijing's decisions.

Taiwan's 2024 election results, while marking a historic milestone for the DPP, usher in a period of intricate political dynamics and strategic considerations. The balance between maintaining regional stability and addressing Taiwan's aspirations for political independence will shape the complex geopolitical landscape in East Asia and determine the trajectory of Taiwan's political future and its impact on regional dynamics. In the coming months, the international community will closely monitor the evolving dynamics, with the 20th of May, the day of Lai's inauguration, being a crucial date.

Luisa Kloth
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

US Primary Elections

The Democratic primary in South Carolina is on the **3rd** of February and in Nevada on the **6th**. On the **8th** of February is the Republican Presidential caucus in Nevada. The South Carolina Republican primary is on the **24th** of February. On the **27th** of February, both parties participate in the Michigan primary.

The Munich Security Conference

The MSC 2024 is scheduled from the **16th** to the **18th** of February in Munich. As the MSC marks its 60th anniversary, the conference will bring together senior decision-makers and thought-leaders from around the world to address pressing international security concerns.

MC13 in Abu Dhabi

The 13th Ministerial Conference of the WTO is scheduled from the **26th** to the **29th** of February in Abu Dhabi. Global ministers will convene to assess the effectiveness of the multilateral trading system and make decisions regarding the WTO's future initiatives.

Central Bank Decisions

BoE Interest Rate Decision

In the Bank of England's meeting on the **1st** of February the UK interest rates are expected to be held unchanged at 5.25%. This decision will disappoint borrowers, such as mortgage holders, that were hoping for borrowing costs to be reduced. The decision has been taken unanimously.

RBA Monetary Policy Decision

On the **6th** of February, the Reserve Bank of Australia is set to make its first policy decision of the year, widely anticipated to retain rates at a 12-Year high of 4.35%, accompanied by a hawkish stance. The bank will also release its staff's revised macroeconomic outlook.

Banxico Interest Rate Meeting

After the Mexican Central Bank's first meeting of the year, a gradual short-term interest rate cut is expected in early 2024. The board has maintained the Interbank Interest Rate at 11.25% in November. The upcoming Meeting will be on **8th** of February.

Inflation and Deflation

China's YoY CPI

The China Consumer Price Index (YoY) is scheduled for release on Thursday, the **8th** of February with a forecasted consensus of -0.5 and the last recorded deviation standing at 0.75.

US Inflation

On the **13th** of February, US Core Inflation Rate MoM and YoY, and the Inflation Rate MoM and YoY, will be published. The consensus remains unknown, however, previous indicators were at 0.3%, 3.9%, 0.3%, and 3.4%, respectively.

UK Inflation Rate YoY

On the **14th** of February, the Inflation Rate YoY will be announced. The UK is targeting a 2% inflation rate and intends to keep it there by maintaining interest rates high for long enough.

Labour Market

US Unemployment Rate

Announced on the **2nd** of February, January's forecast includes the unemployment rate anticipated to rise from 3.7% to 3.8%. Additionally, average hourly earnings are projected to decrease from 0.4% to 0.3%, while the annual wage increase is expected to remain steady at 4.1%.

Canada Unemployment Rate

The Canada Unemployment Rate is scheduled for release on the **9th** of February. The forecast for the upcoming release is currently unknown. The last deviation from the consensus was -1.34, with the most recent reported rate on the 5th of February, being 5.8%.

OECD Unemployment Rates Release

On the **15th** of February the OECD will release news on unemployment rates. This release follows the previous news in January stating a record high employment rate of 70.1% for the third quarter of 2023; with stability noted, but declines observed in 20 countries.

Naomi Steiner Oliva
Financial Markets Division

Investment Banking

M&A
Overall Activity

Global

In January 2024, global M&A activity declined with 2,423 deals totaling USD 221.8 bn, featuring a 2.81% reduction in completed deals compared to December and a 22.77% decrease in volume. Additionally, a 10.46% drop in the number of deals compared to January 2023 indicates a slower start to the year. Despite these declines, January 2024 witnessed a notable 91.42% surge in deal volume compared to the same period in 2023, signaling a robust start in capital flow, albeit with an average premium of 17.68%, marking a considerable 68.17% YoY decrease. Geopolitical tensions, a high-interest-rate environment, and uncertainty regarding rate cuts continue to influence the M&A market, with transactions believed to primarily involve strategic acquisitions as private equity and parties in joint venture deals exercise caution in sensitive markets. However, falling inflation, bullish behavior, and Federal Reserve announcements hinting at rate cuts in 2024 present positive deal environments. Noteworthy transactions in January include the acquisition of Ansys by Synopsys for USD 33.4 bn and the acquisition of Paramount Global by Allen Media Group for USD 14.3 bn.

Selected Regions

North America

M&A activity in North America witnessed a substantial 85.55% surge, reaching 1,657 deals - the highest since January 2022. Correspondingly, the transaction volume also rose by 33.26%, totaling USD 193.9 bn. Notably, North America played a pivotal role in global M&A this month, contributing 76.70% to the total transaction. A significantly large transaction was the acquisition of Ansys by Synopsys for USD 33.4 bn.

EMEA

The EMEA region constituted 14.74% of the overall deal value and contributed to 20.35% of the total deal count for the current month. In a monthly comparison, there was a 13.80% decrease in the deal count, amounting to 581 deals, accompanied by a significant 49.74% decline in the total deal value, totaling USD 37.3 bn. Notably, among the largest deals of the month was the acquisition of LXI REIT by LondonMetric Property, with a transaction volume of USD 3.7 bn.

Asia

The monthly deal value in Asia witnessed a 66.86% decrease, amounting to USD 21.6 bn. Concurrently, the total number of transactions saw a decline of 26.37%, dropping from 838 to 617 compared to December. Globally, Asia constituted 8.56% of the total deal value and 21.61% of the total deal count for the month. Among the largest transactions was that of multiple entities under PNC Infrastructure by Highways Infrastructure Trust for USD 1.1 bn.

M&A
Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
05/01/2024	Ansys Inc	Synopsys Inc	US	Software	33,390.2	19.86
31/01/2024	Paramount Global	Allen Media Group	US	Media	14,300.0	57.00
09/01/2024	Juniper Networks Inc	Hewlett Packard Enterprise Co	US	Telecommunications	13,056.8	35.66
12/01/2024	Global Infrastructure Management LLC	BlackRock Inc	US	Investment Companies	12,578.5	-
11/01/2024	Southwestern Energy Co	Chesapeake Energy Corp	US	Oil & Gas	11,597.2	1.89
22/01/2024	NuStar Energy LP	Sunoco LP	US	Pipelines	6,481.9	28.65
04/01/2024	Callon Petroleum Co	APA Corp	US	Oil & Gas	4,454.5	15.21
18/01/2024	MDC Holdings Inc	Sekisui House Ltd	US	Home Builders	4,409.4	16.22
11/01/2024	LXI REIT Plc	LondonMetric Property PLC	UK	REITs	3,737.9	2.81
29/01/2024	McGrath RentCorp	WillScot Mobile Mini Holdings Corp	US	Real Estate	3,677.9	9.11

Niccolò Casamatta
Investment Banking Division

M&A: Top Deals

Synopsys to Acquire Ansys

On the 16th of January, Synopsys announced the acquisition of Ansys for USD 390.19 per share, a 29% premium to the 21st of December closing price. This represents a deal value of USD 33.4 bn, and the transaction will be financed through a combination of cash, debt and Synopsys shares. It is expected to be completed in the first half of 2025.

Buyer vs Seller

Synopsys is an American multinational company specializing in electronic design automation (EDA) solutions within the semiconductor industry. Ansys, also based in the United States, is a multinational company dedicated to developing and bringing to market engineering simulation software for product design, testing, and operation in the realm of computer-aided engineering. Renowned for their expertise, both companies stand as leaders in the field of design technology and semiconductor analysis.

Industry Overview

The electronic design automation software market was valued at USD 11.1 bn in 2022 and is expected to grow to USD 22.2 bn at a CAGR of 9.1%. Ansys operates in the Computer-aided Engineering segment which accounts for 30% of the EDA market, being the largest share. Key drivers in the segment are the increasing need for integrated software solutions as to reduce prototyping and product recalls, and a shift towards cloud computing.

Peers	Currency	Market Cap (CUR m)
PTC Inc	USD	21,190.66
Cadence Design Systems Inc	USD	80,056.96
Synopsys Inc	USD	83,610.51
Dassault Systemes SE	EUR	56,225.94
Autodesk Inc	USD	54,371.93

Deal Rationale

The deal combines leaders in the field of design and analysis solutions for semiconductors, strengthening Synopsys' position in the market and overall technological capabilities. Semiconductors are placed in platforms to have functionality, and these require increased integration. The acquisition will enable Synopsys to advance particularly in its Silicon to Systems strategy as well as enter growing areas within and adjacent to the EDA market. The companies have been partnered together for 7 years, making such an acquisition more intuitive, and it is expected to improve Synopsys' revenues streams.

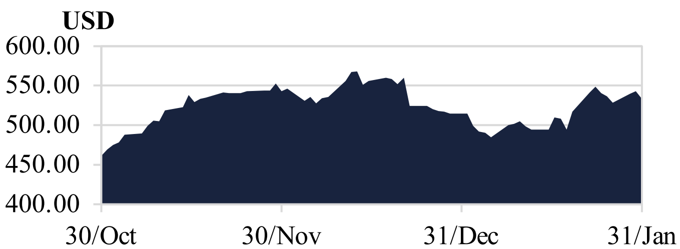
Market Reaction

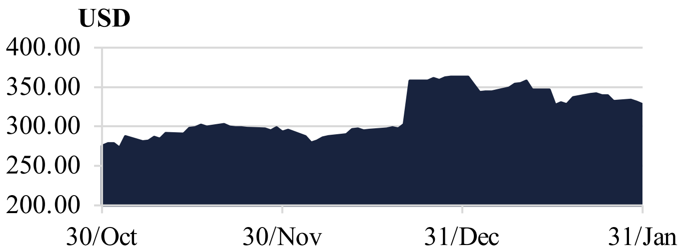
Synopsys

The stock price rose from news relating to the acquisition in December. Following the press release on the 16th of January the stock declined 6.34% from USD 559.95 to USD 524.46.

Ansys

Ansys' stock price rose 18.08% from USD 303.16 to USD 356.98 following the news release in December and increased 0.86% following the formal acquisition announcement.





Future Challenges

The Synopsys acquisition of Ansys may face challenges in aligning corporate cultures, integrating intricate engineering simulation software, and ensuring a seamless transition for customers. Efficient collaboration between previously independent teams and optimizing synergies for continued innovation may also be key hurdles.

Benedita Velozo
Investment Banking Division

M&A: Top Deals

Allen Media Group To Acquire Paramount

Billionaire media mogul Byron Allen is attempting a takeover with his company Allen Media Group to acquire Paramount Global, for USD 14.3 bn. Allen is offering USD 28.58 per share of Paramount, representing a 50% premium to recent trading, and USD 21.53 for each nonvoting share. Considering both debt and equity, the overall value of the consideration to about USD 30 bn.

Buyer vs Seller

Allen Media Group, formerly Entertainment Studios, is an American media and entertainment company based in Los Angeles, with a portfolio that comprises television networks, digital media assets and film production. Paramount Global is a multinational media conglomerate and the leading distributor of premium content across several media platforms worldwide. Paramount's brands include CBS Television Network, Showtime Networks, Paramount Pictures, Nickelodeon, MTV and Comedy Central.

Industry Overview

The Media & Entertainment Market is expected to rise from USD 27.72 in 2023 to USD 40.36 bn in 2028, representing a CAGR of 7.80%. Over the past decade, the industry has experienced disruption due to digitalization and the surge of social media. This led to the simplification of content production, distribution, and consumption and prompted traditional players to transition towards subscription-based platforms.

Peers	Currency	Market Cap (CUR m)
Walt Disney Co/The	USD	177,650.46
Warner Bros Discovery Inc	USD	25,507.40
Fox Corp	USD	15,108.31
Netflix Inc	USD	245,595.39
Live Nation Entertainment Inc	USD	20,265.97

Deal Rationale

Under the control of the Redstone family, Paramount has been in discussions for months about a buyout of their shares that began last year. Byron Allen has expressed his interest in acquiring Paramount's CBS broadcast network, as well as its sports and news operations and local stations. These potential acquisitions would further expand Allen Media Group's television portfolio, complementing its existing 28 network-affiliated stations across 21 markets and cable holdings. It is reported that Allen intends to divest significant assets, including the Los Angeles studio lot and iconic franchises such as "Top Gun" and "The Godfather".

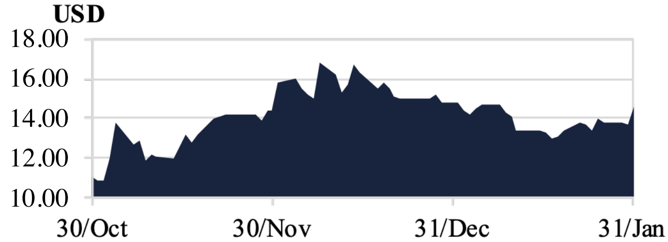
Market Reaction

Allen Media Group

Founded in 1993, Allen Media Group's mission is to entertain, inform and connect with audiences through their multiple platforms. In April of last year, Allen made an initial bid for the firm that was rejected because the board "believed there was a pathway to a higher price". Nevertheless, the shares have experienced a 37% decline in value since that time. Byron Allen stated that he has a better chance of acquiring media assets than other potential bidders, pointing out that he has already obtained regulatory approval for TV station ownership.

Paramount

Paramount's Class A shares, the voting stock, rose by 29% to USD 24.74 in New York, remaining below the offered price. The Class B shares gained 15%, reaching USD 15.70.



Future Challenges

Allen's bid for Paramount has the potential to reshape the media landscape. The acquisition of Paramount would not only bolster Allen Group's competitiveness in the industry but also intensify competition among media conglomerates. Other challenges in integrating and leveraging Paramount's assets include economic uncertainties and shifts in advertising revenue streams.

Beatriz Domingues Pereira
Investment Banking Division

M&A: Top Deals

BlackRock to Acquire Global Infrastructure Partners

BlackRock, the world's largest asset manager, has announced the acquisition of Global Infrastructure Partners, the largest independent infrastructure investor, for USD 12.6 bn. The consideration is structured as a cash and stock deal with a USD 3 bn cash payment and the remaining amount in ca. 12 m shares. The transaction is expected to close in the third quarter of 2024.

Buyer vs Seller

BlackRock is the world's largest asset manager with more than USD 9 trillion AuM. Prior to the transaction, BlackRock already managed approximately USD 50 bn in infrastructure investments. Global Infrastructure Partners is a global investment firm that manages funds that invest in infrastructure along the capital structure in the energy, transportation, digital, water, and waste sectors. The firm has more than USD 100 bn AuM, which makes it the largest independent infrastructure investor in the world.

Industry Overview

The global infrastructure market is currently estimated at around USD 2.3 trillion with an expected CAGR of 6.30% until 2029. The ongoing need for investment to support structural change in areas as digital and logistical infrastructure makes it one of the fastest growing segments of private market investing. Currently, several private equity firms are shifting into infrastructure due to slow activity in the traditional buy-out business, e.g., Bridgepoint with its acquisition of CP.

Peers	Currency	AuM (ca. CUR m)
Allianz Global Investors	EUR	516,000.00
Brookfield Asset Management	USD	850,000.00
CPP Investments	USD	576,000.00
CDPQ	USD	424,000.00
Macquarie Asset Management	AD	892,000.00

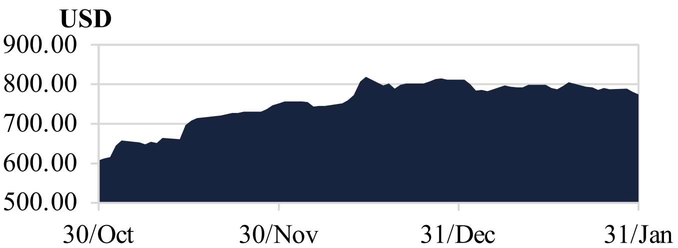
Deal Rationale

The combination of BlackRock and Global Infrastructure Partners enables BlackRock to offer a comprehensive global infrastructure business with combined assets under management of more than USD 150 bn. The rationale of the transaction was the optimization of its market position and expansion of the infrastructure business through inorganic growth. The acquisition of the world's largest independent infrastructure investor gives BlackRock an immediate market-leading position in a fast-growing market. BlackRock sees particular synergies in deal sourcing and relationship management due to the size of the two platforms.

Market Reaction

BlackRock

The market reacted moderately to BlackRock's announcement of the transaction. The share price fell slightly on the day of the announcement, with the share now trading at USD 774.31



Global Infrastructure Partners

Global Infrastructure Partners, a leading independent infrastructure investor, strategically invests across the capital structure in major projects since its inception. With approximately USD 60 bn AuM in the equity strategy and a parallel debt strategy supporting infrastructure companies, the firm's portfolio generates over USD 80 bn, employing more than 100,000 people. The acquisition by BlackRock reflects a commitment to leadership continuity and alignment with BlackRock’s stockholders, emphasizing a substantial majority of the consideration to be paid in the acquirer’s stock.

Future Challenges

The transaction is expected to close in the third quarter of 2024, subject to customary regulatory approvals and other closing conditions. In addition to potential pre-closing challenges due to regulatory concerns, there could be difficulties in integrating the independent investor Global Infrastructure Partners into BlackRock's investment platform.

Peer Lasser
Investment Banking Division

What Happened To

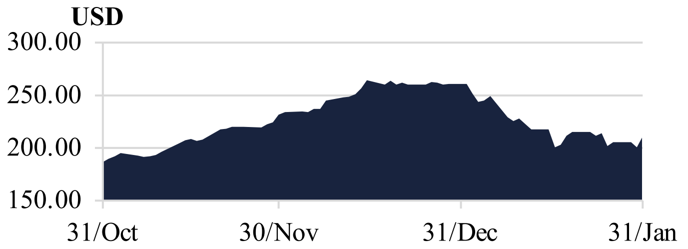
The Boeing Company

The Boeing Company ("Boeing"), headquartered in Chicago, Illinois, is a leading player in the aerospace and defence industry. Established as a multinational corporation, Boeing has made significant contributions to aviation, space exploration, and military defence. The company operates globally, is traded on the New York Stock Exchange, and employed ca. 156,000 people in 2022.

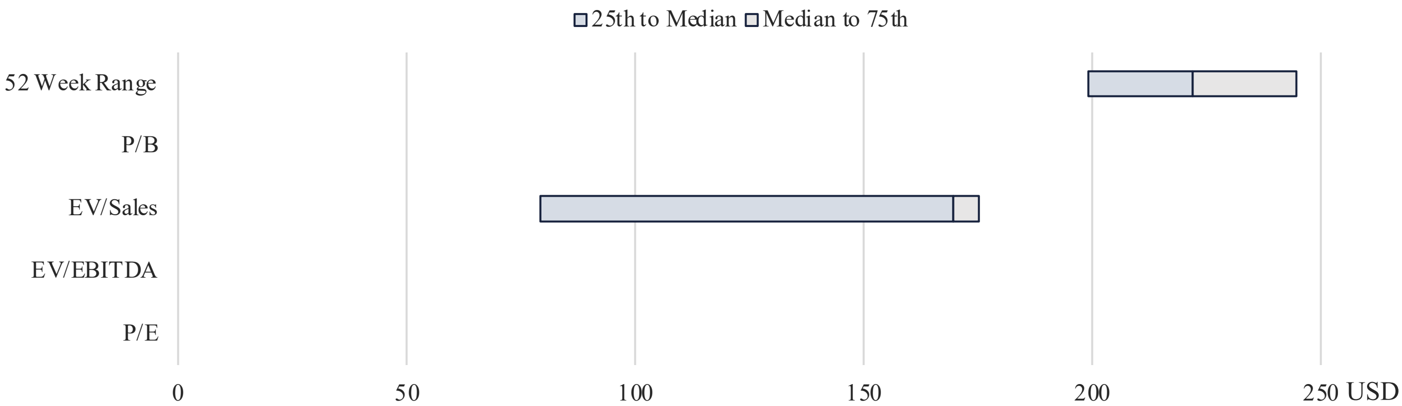
Corporate News

Boeing's stock has suffered a decline of 16.17% this past month, amounting to a loss of USD 24.8 bn in market cap. This is due to the backlash the company faced earlier this month, after a safety incident on one of its aircraft. An Alaska Airlines flight carrying 177 passengers experienced an emergency landing shortly after departing. The incident occurred when a section of the wall of a 737 Max 9 aircraft, which was only a few weeks old, detached, resulting in a significant hole in the plane's side. Following the event, the Federal Aviation Administration issued a temporary grounding order for most Boeing 737 Max 9 aircrafts. This directive affected approximately 171 planes globally and Boeing launched an investigation into the cause of the incident. Fortunately, no fatalities or serious injuries were recorded. Boeing withheld its financial guidance for the coming year and vowed to focus on the safety and quality of its operations.

Price (31 Jan 24, USD)	**211.92**
Target Price (USD)	261.00
3M Performance	13.44%
Market Cap (USD m)	129,299.85
Enterprise Value (USD m)	167,460.85
**Target Price is for 12 months*	



Valuation Analysis



In a note to employees, CEO Dave Calhoun acknowledged the company's accountability for the incident and emphasized the need for improvement. The incident has heightened scrutiny of Boeing's management and supply chain processes, particularly with key supplier Spirit AeroSystems. Boeing did not disclose the financial impact of the incident, or the production rate limit imposed by the FAA on the 737 Max. Calhoun stated that production would remain until unchanged regulatory satisfaction is achieved.

Despite the crisis, Boeing reported generating USD 4.4 bn in free cash flow in 2023, aligning with its forecasted range of USD 3 bn to USD 5 bn. Boeing expressed confidence in its goals set for 2025-2026 but acknowledged the possibility of a longer timeframe than initially anticipated. With the company withholding its financial guidance for now, the future holds to show if Boeing will reach its long-term targets.

Peers	**Currency**	**Market Cap** (Cur m)
Howmet Aerospace Inc	USD	24,329.97
Leonardo SpA	EUR	9,545.26
Lockheed Martin Corp	USD	103,930.79
Hanwha Aerospace Co Ltd	KRW	6,824,924.00
Singapore Technologies Engineering	SGD	11,705.52

Fabio Schiller
Investment Banking Division

What Happened To

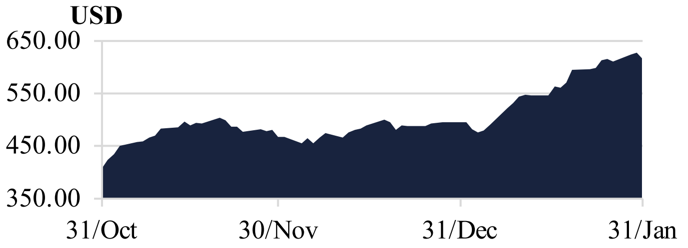
Nvidia Corporation

Nvidia Corporation ("Nvidia") stands as a prominent figure in the development of graphics processors and chipsets for personal computers, servers, and gaming consoles. Headquartered in Santa Clara, California, US., Nvidia is a fabless company, meaning that it does not own the manufacturing facilities, and it employs ca. 26,196 people across 35 countries.

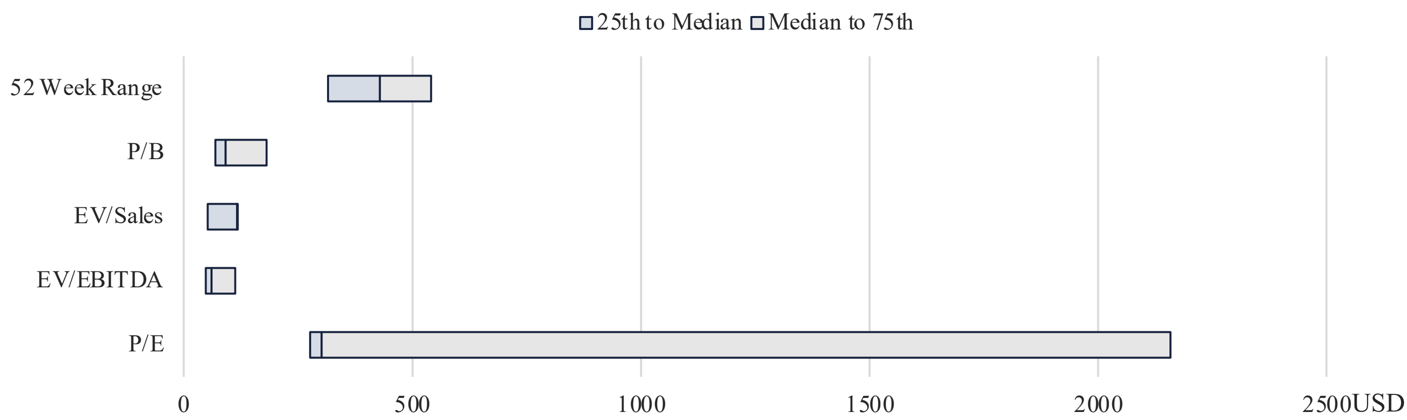
Corporate News

In the fiscal year 2023, the expansion of the NVIDIA HGX platform, leveraging the advanced Hopper Tensor Core Graphics Processing Unit architecture, and incorporating InfiniBand end-to-end networking played a pivotal role in attaining record-breaking revenue for the organization. This strategic advancement significantly contributed to the unprecedented financial success of the company, consistently bolstering its stock performance throughout the year. Supported by robust progress in generative artificial intelligence, the company is poised to achieve a milestone with record-breaking revenue projected to surpass USD 59 bn in fiscal year 2024. Moreover, Nvidia's CEO, J. Huang, predicts a global trend toward technological independence, leading to the growth of entirely new markets. This phenomenon is expected as nations across the globe strive to fortify their tech sectors by investments in artificial intelligence.

Price (31 Jan 24, USD)	**652.98**
Target Price (USD)	650.00
3M Performance	60.12%
Market Cap (USD m)	1,612,859.86
Enterprise Value (USD m)	1,605,605.86
**Target Price is for 12 months*	



Valuation Analysis



Nvidia's stock experienced a remarkable surge of approximately 233.46% in 2023, largely attributed to robust demand for its computing platform. Towards the end of 2023, doubt arose regarding potential overvaluation of Nvidia. However, as 2024 commenced, the stock opened at USD 495.22 and by the end of January, the stock had risen to USD 630.27, reflecting a notable 30.32% increase from the beginning of the year. The stock was the top performer in the Nasdaq 100 in January.

The sustained upward trajectory of the stocks can be attributed significantly to the prevailing optimism surrounding the future of artificial intelligence. Analysts express a positive outlook, foreseeing substantial upside in the upcoming months and designating it as a top pick for 2024. The prevailing theme for the year centres around robust growth driven by artificial intelligence, as companies actively pursue avenues to capitalize on their strategies around the new mega-trend.

Peers	**Currency**	**Market Cap** (Cur m)
Advanced Micro Devices Inc	USD	287,125.32
Intel Corp	USD	179,203.78
Broadcom Inc	USD	571,246.19
QUALCOMM Inc	USD	156,351.60
Lattice Semiconductor Corp	USD	8,386.60

Jakub Jarzęczka
Investment Banking Division

NIC's View On

Private Equity's Dividend Recaps: A Debt-Fuelled Dilemma

Leon A. Wolff
Investment Banking Division

"I think there's a lot of pent-up demand by sponsors to have market access. (. . .) Sponsors are under a lot of pressure to return capital to investors."

– Kevin Loome, US high-yield portfolio manager, T. Rowe Price

The private equity sector has increasingly resorted to leveraging companies within their portfolios to distribute dividends to their Limited Partners, a method known as dividend recapitalization. It involves private equity firms loading their owned companies with new debt obligations, using the proceeds to pay out dividends, effectively rewarding the investors while potentially compromising the financial health of the underlying businesses. This financial strategy, while not new, gained momentum during the initial phase of the Covid-19 pandemic, spurred by the US Federal Reserve's decision to lower interest rates to nearly zero. However, this trend saw a decline in 2022 and into early 2023 as the cost of borrowing increased. Recently, notable companies engaging in such transactions include IntraFi Network, supported by Warburg Pincus and Blackstone, and Univar Solutions, under Apollo's backing.

Dividend recapitalizations can provide a significant liquidity event for the private equity owners, but also impose additional financial obligations on the company, such as increased debt levels and greater interest expenses. These obligations can consume resources that might otherwise be used for innovation, workforce development, and expansion, leading critics to argue that the strategy prioritizes short-term financial gains over sustainable growth and operational efficiency.

In January 2024, the loan issuance to fund investor payouts increased from less than USD 2 bn to more than USD 8 bn, representing a rise of over 400%. This surge raises several concerns. For the companies involved, the immediate influx of cash comes with increased leverage ratios, higher interest obligations, and a potentially weakened position to navigate market downturns. For the broader economy, the practice underscores a tension between the pursuit of short-term returns by private equity and the long-term health of the business ecosystem. Critics point to the risk of job losses, diminished R&D investment, and an erosion of corporate resilience against economic shocks. Proponents, however, argue that dividend recaps can be part of a balanced financial strategy, rewarding investors without selling shares or jeopardizing the companies' futures.

The future of dividend recapitalizations in private equity is likely to be shaped by several factors, including regulatory changes, market conditions, and evolving norms around corporate governance and responsibility. As awareness grows and stakeholders (from regulators to the general public) become more vocal, there may be a push towards more sustainable financial practices. This could involve stricter lending criteria, enhanced transparency around the use of proceeds from debt issuance, and a greater emphasis on the long-term strategic goals of portfolio companies.

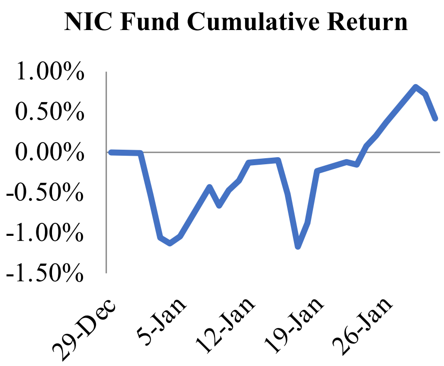
In conclusion, while dividend recaps offer a pathway for private equity firms to realize significant returns, they also present an array of challenges for portfolio businesses and the wider economy. As we move forward, balancing these interests will be crucial in ensuring that the pursuit of short-term gains does not undermine the foundations of long-term success and stability.

Date	Recent News
08 Jan 24	Majority of LPs require further education on NAV financing – Capstone survey ***Source:*** *Private Equity International*
18 Aug 23	Private Equity Firms Return – Tentatively – to Debt-Fueled Payouts ***Source:*** *Wall Street Journal*

Leon A. Wolff
Investment Banking Division

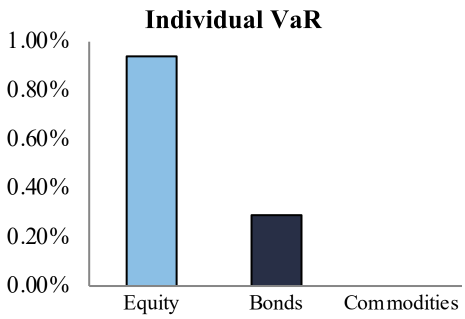
NIC Fund

NIC Fund
Portfolio Overview



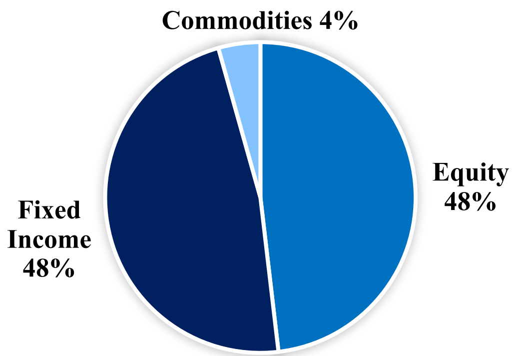
Portfolio Statistics	
Cumulative Return	0.42%
Annualized Return	4.99%
Daily St. Dev	0.35%
Period St. Dev	1.61%
Annualized St. Dev	5.57%
Info Sharpe	0.90
Skew (Daily)	-0.18
Kurtosis (Daily)	-0.63

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% to Commodities.
Specifically, 52% 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 0.42%. Equities were the best performers, contributing with returns of 0.44% and Bonds the worst ones with returns of -0.03%. Commodities did achieve a slightly negative return this month of -0.01%.
The equity holdings included of 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), McPhy Energy (MCPHY) and Ferrari NV (RACE).
The top-performing stocks were Nvidia and Netflix with returns of 24.24% and 15.86%, respectively, while McPhy Energy had the poorest performance, with a return of -19.75%. The best-performing ETFs were the Invesco DB Commodity Index ETF and the iShares MSCI World ETF, with returns of 1.32% and 0.89%, respectively.

Risk Metrics

In terms of risk, our portfolio registered a daily VaR of 1.22%. Evidently, 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 0.92%. On the other hand, Bonds and Commodities clearly exhibited lower VaRs of 0.30% and 0.00%, respectively.

Afonso Domingues
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 13.67% last month, largely driven by bullish analyst projections and cemented by strong fourth-quarter results.
US Equity	**NFLX**	Netflix shares saw a 15.86% increase in January 2024, marking the second-highest increase for our portfolio. The streaming giant surprised Wall Street by reporting its second-best quarterly subscriber additions ever (13 million) and unveiling a 10-year, USD 5 bn deal for WWE flagship show Raw.
EU Equity	**RACE**	Shares in Ferrari raced 13% ahead to a new all-time on the 1st of February after the iconic Italian luxury car maker topped analysts' fourth quarter estimates and said its order book remained strong. News that seven-time Formula 1 world champion Lewis Hamilton will move to Ferrari from Mercedes in 2025 on a multi-year contract also gave the shares an extra boost.
US Equity	**NVDA**	Nvidia won over Wall Street last year, illustrated by its more than 210% stock growth since January 2023. The company's years of dominance in graphics processing units (GPUs) perfectly positioned it to profit significantly from a boom in artificial intelligence (AI) as demand for the chips skyrocketed. In January 2024, the stock saw an uplift of 24.24%.
EU Equity	**VOW3**	In January 2024, Volkswagen stocks saw a slight uptick of 5.37% after call with analysts fuelled bets that the German car maker might unveil fourth-quarter sales above current market expectations when it discloses results in March.
IN Equity	**HDFCBANK**	HDFC Bank Ltd.'s shares tumbled 14.26% in January after India's largest private sector lender reported earnings that signalled a slowdown in growth. Fiscal third-quarter results from the lender disappointed investors on liquidity and deposit metrics despite net income beating consensus expectations.
EU Equity	**NOVN**	The stock increased 3.34% in January, as the swiss drugmaker Novartis is in the lead to acquire Cytokinetics in a deal that could value the drug developer at well over USD 10 bn. Novartis is poised to prevail in the auction for Cytokinetics, ahead of other bidders that include AstraZeneca and Johnson & Johnson.
EU Equity	**BAYN**	Bayer's stock price decreased by 15.52% in January. The embattled German company was ordered to pay USD 2.25 bn in damages, the highest amount yet in its ongoing litigation linked to an alleged carcinogenic effect of its Roundup weedkiller.
US Equity	**MA**	Mastercard Inc., the United States-based payment technology company saw a moderate stock increase of 5.49% in January 2024. Mastercard beat Wall Street estimates for fourth-quarter profit, as the payments processor benefited from resilient consumer spending during the holiday shopping season. The report capped a robust year for the company as hopes of a "soft landing" for the economy and bets of interest rate cuts by the US Federal Reserve encouraged big-ticket purchases and more travel.
Commodity	**DBC ETF**	Our primary commodities index, the DB Commodity Index, tracks a basket of 14 commodities. The ETF had positive performance over the last month, mainly driven by an increase in oil prices. The precious commodity posted the first monthly gain since September as the US and Iran stand on the brink of a more direct confrontation in the Middle East. US crude and the global benchmark Brent rose 5.86% and 6.06% in January.

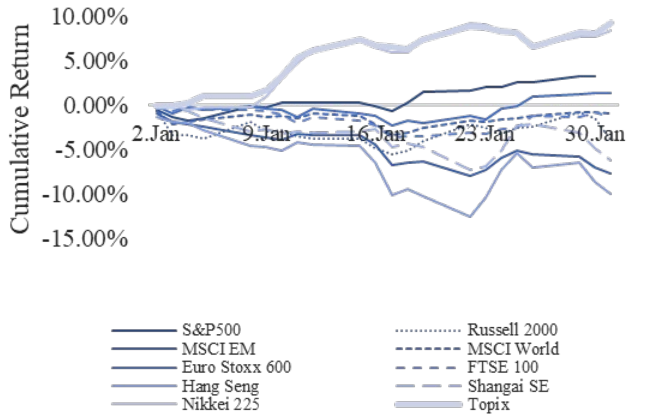
Afonso Domingues
Financial Markets Division

NIC Fund

Equities

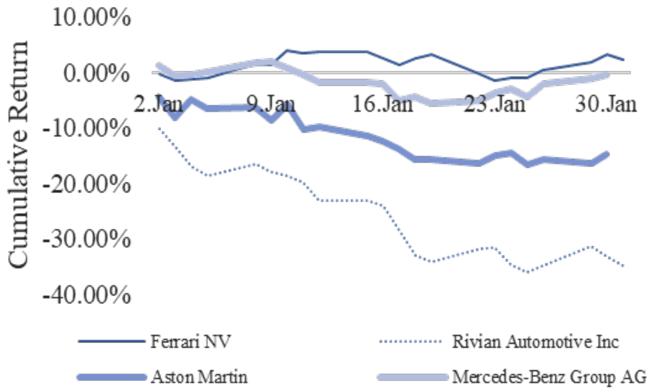
World Equities

Global equities have closed the first month of the year with slight losses of -1.00% for MSCI ACWI (All Country World Index) in January. The Federal Reserve announced it will hold interest rates steady for the fourth time in a row and indicated that it is not ready to start cutting rates soon. The key rate is targeted in a range between 5.25% to 5.50%, the highest in nearly 23 years. The S&P 500 started the year with a positive monthly return of 1.59%, standing at 4,845.65 points at the end of January. Meanwhile, the Russell 2000 exhibited monthly losses of -3.93%, coming down from its rally at the end of 2023. Tech-heavy NASDAQ Composite closed January at 15,164.01 points, showing an 1.02% increase, as investors keep their eyes on the upcoming earnings announcements. Japanese markets kicked the year off with a positive return. The NIKKEI 225 closed at 36,286.71 points, representing an 8.43% increase in January.



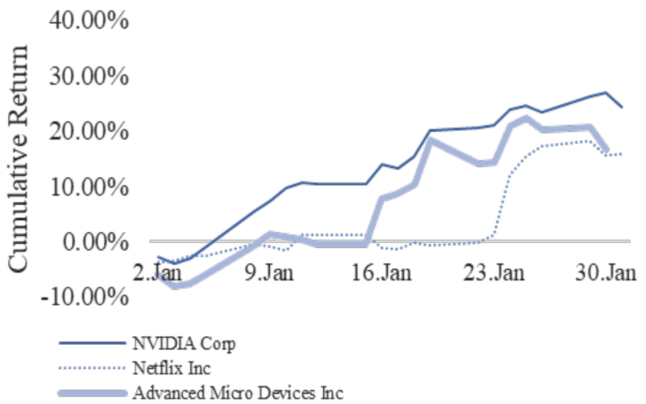
In Depth: Ferrari to Beat Expectations and Sign Hamilton

On the 1st of February, Ferrari stock surged to unprecedented levels following its surpassing of Q4 earnings projections. Simultaneously, Formula 1 fans were ecstatic about reports that Lewis Hamilton would join Ferrari's F1 team from 2025 onwards. Ferrari posted adjusted earnings of 1.62 EUR per share in Q4, marking a notable 33% rise from the previous year. The net revenues for the quarter experienced an 11% uptick, reaching EUR 1.52 bn. Despite a 2% dip in delivering 1,493 cars to the EMEA market during the quarter, Ferrari's full-year shipments saw an 3% increase to 13,663 vehicles. The company's annual revenue surged by 17% to EUR 5.97 bn, primarily fuelled by a 19% growth in cars and spare part sales. In a surprising turn of events, seven-time F1 World Drivers' Championship winner Lewis Hamilton is set to join Ferrari for the 2025 season. Hamilton is poised to team up with Charles Leclerc at Ferrari. The announcement propelled Ferrari's stock to new heights, surging by 12.60% on the back of robust earnings and the Hamilton signing.



Our Performance

In January, equities' contribution to the overall portfolio performance was positive, with a 1.30% cumulative return. Nvidia's stock showed the best performance in our portfolio, increasing by 24.24% in January, driven by heightened optimism around artificial intelligence, positive analyst projections, and the company's announcement of expanded AI offerings. Netflix contributed to our portfolio with an increase of 15.86% in January. Extending the positive sentiment from December, Advanced Micro Devices stocks surged 13.76% in January, after rising 21.67% in December.



Alexander Knott
Financial Markets Division

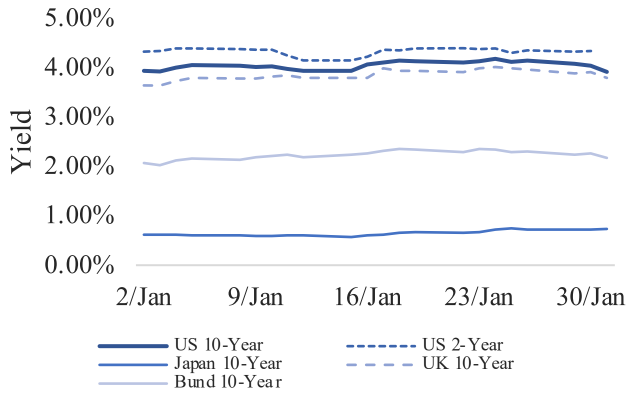
NIC Fund

Fixed Income

World Yields

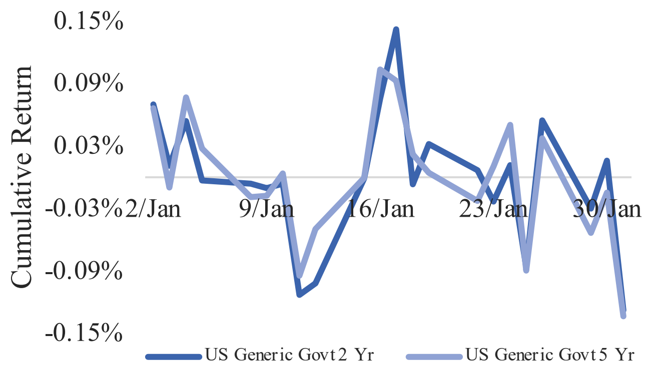
January was an interesting month for the bond market as the US 10-Year yields slightly increased from 3.88% to 3.91%, while the US 2-Year rates dropped by 1.02%. The market is still confident that the Federal Reserve has completed its series of interest rate hikes but the first meeting of the year, at the end of last month, made it clear that it is not ready to start cutting interest rates in the next months until inflation has been brought under control.

The UK 10-Year gilt is rebounding from its recent low point, with its yield climbing to 3.79% following a global bond sell-off spurred by a robust US jobs report, which tempered expectations for an imminent rate cut by the Fed and prompted traders to revise down anticipated rate reductions by the Bank of England. The 10-Year bunds also reflected the change in expectations, resulting in a 7.01% increase in the yield. Despite Bank of Japan (BoJ) governor Kazuo Ueda's remarks about the increasing likelihood of sustainably achieving the 2% inflation target through wage rises and the possibility of reexamining the stimulus program, the BoJ upheld its ultra-loose monetary policy during its first meeting this year; nonetheless, the 10-Year Japanese government bond yield rose from 0.61% to 0.73%.



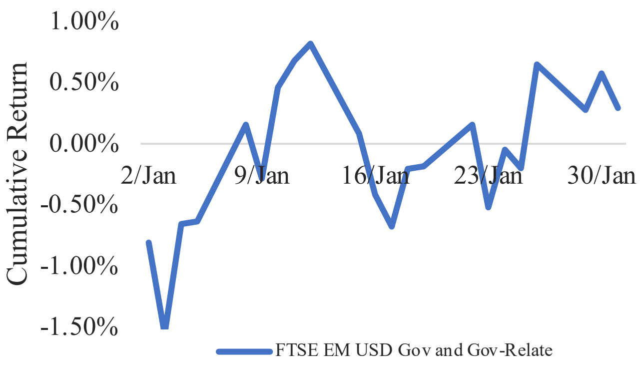
In Depth: US Largest-Ever Bond Auctions

The US Treasury is set to conduct some of its largest-ever debt auctions in the next three months to address the widening federal budget deficit. This decision follows an increase in borrowing over recent quarters due to the growing gap between government spending and tax revenue, resulting in a federal deficit of USD 1.7 tn last year. While the Treasury plans to raise auction sizes for 2-Year and 5-Year notes by USD 3 bn per month to meet borrowing needs, it anticipates this to be the last increase in auction sizes for the foreseeable future. The market is expected to respond positively to the news, and 5-Year yields went down by 0.35% after this announcement. Despite concerns over supply dynamics, investors welcomed the prospect of stabilized issuance after facing three consecutive quarters of increases. The Treasury's announcement coincides with the Federal Reserve's policy meeting, where officials may discuss the possibility of ending the quantitative tightening program to alleviate pressure on Treasury market investors amid high levels of debt.



Our Performance

Fixed Income contribution to our portfolio's return in January was slightly negative, with a return of -0.03%. The Emerging Markets US Dollar Government Bond Index in our portfolio had the worst negative monthly return among fixed income assets with -1.39%.



Ilenia Fiore
Financial Markets Division

NIC Fund

Commodities

January Round-Up

For the month of January, the S&P GSCI Total Return Index, which tracks 24 commodities, increased by 4.47% after falling 3.62% in December and 3.67% in November.

US natural gas futures dropped below 2.10 USD/MMBtu, hitting a 9-Month low, as government data revealed a larger-than-expected withdrawal of 197 billion cubic feet from storage last week, with reserves 5.10% above the seasonal norm.

Brent oil experienced a 6.06% increase in prices last month.

According to a survey by Reuters, OPEC witnessed the most significant monthly decline in oil output in January since July. This decrease was attributed to the adoption of additional voluntary production cuts by various OPEC members, in alignment with the broader OPEC+ alliance, and disruptions in Libyan output caused by riots.

The determination of oil production levels by OPEC+ for April and beyond is expected to take place in the upcoming weeks, with the specific meeting date yet to be determined.

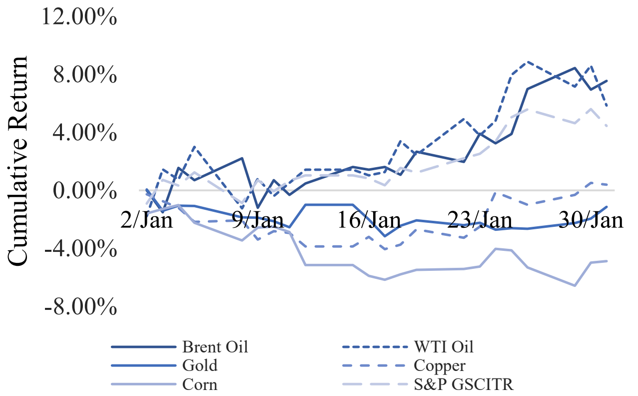
Gold prices experienced a reversal in January, declining by 1.13% amid Federal Reserve Chair Jerome Powell's strong stance against expectations of a US rate cut by March.

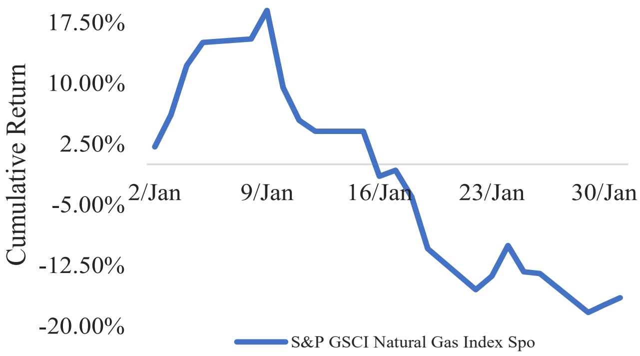
Global Gas Demand Outlook for 2024

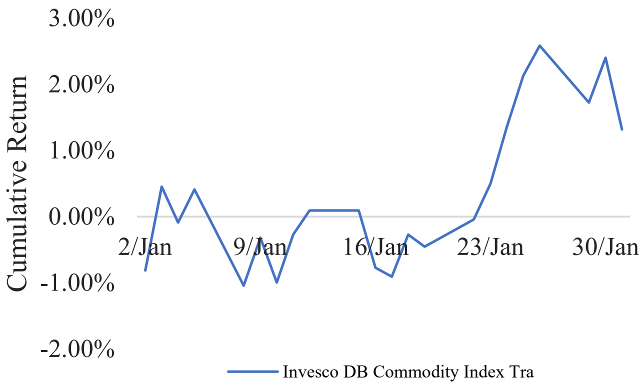
The IEA's Gas Market Report indicates that global gas demand is expected to increase by 2.50% in 2024, driven by colder weather and lower prices, especially in emerging economies. In 2023, demand rose by only 0.50%, with China leading as the largest LNG importer and Europe experiencing a 7.00% decline due to expanded renewables and nuclear power. The forecasted growth in 2024 is attributed to anticipated colder weather, increased demand for space heating, and a sharp decline in natural gas prices since 2022. However, the report warns of tight supply conditions in 2024, limiting the growth in global LNG output and potentially contributing to price fluctuations. Geopolitical uncertainties pose the main risk factor for 2024, with events like Russia's invasion of Ukraine potentially impacting market volatility. The report also emphasizes the strengthening political momentum behind low-emission gases, particularly hydrogen, biogas, and biomethane, to support countries in achieving energy and climate goals.

Our Performance

During December, the Powershares DB Commodity Index ETF which tracks a basket of 14 different commodity futures, increased 1.32% MoM, while the Goldman Sachs Physical Gold ETF declined 1.42%, leading to an overall decline of 0.03%.







Johanna Linden
Financial Markets Division

Extras

Hot Topic

Dancing with Dollars: Unraveling the US Stock Dominance Puzzle

Leon Wagner
Financial Markets Division

"Emerging risks aren't what they used to be, and emerging markets have the highest expected return over the next five to 10 years."

– Dan Villalon, Global Co-Head, AQR Capital Management

In reviewing my personal stock portfolio, which consists exclusively of index products, I must acknowledge that it is currently comprised of 75% US equities. Ideally, I would prefer it to be entirely composed of US equities, a preference reinforced by the exceptional outperformance of American stocks over the past decade. Looking back, my inclination towards international diversification a decade ago seemed prudent; however, subsequent events have significantly diminished that confidence.

The undeniable supremacy of US stocks has led to a substantial valuation gap when compared to the rest of the world. Examining the forward P/E ratios of the S&P 500 against the MSCI world ex-US and MSCI emerging market indices paints a vivid picture of this disparity. It is a trend that has sparked the annual January refrain from brokers and fund managers predicting that "This is the year that international stocks catch up with the US".

However, Goldman Sachs Wealth Management (GSWM) stands as a contrarian voice, urging investors not to hastily reduce their US allocation despite acknowledging the apparent overvaluation relative to other geographies and historical benchmarks. Their argument, in essence, boils down to a pragmatic "pricey, but worth it" stance. The US boasts a unique blend of factors, such as high GDP per capita, robust capital markets, a massive internal market, favourable demographics, leading technological prowess, and more.

GSWM contends that while US stocks may seem expensive, a closer examination reveals a more nuanced reality. By excluding the impact of major tech stocks like the Magnificent Seven and Netflix, P/E multiples appear less inflated. Moreover, adjusting the multiples of global indices for sector mix, considering the US' overweight position in technology stocks, further diminishes the seeming valuation difference.

On the flip side of the debate, AQR, a prominent factor-investing fund, advocates for a different perspective. They argue that emerging market equities, in particular, are better positioned for long-term outperformance compared to their US counterparts. According to Dan Villalon, head of AQR's portfolio solutions group, emerging markets have the highest expected return in the next years. AQR backs its claim with a detailed analysis, emphasizing that the exceptional performance of US stocks over the past decade is unlikely to repeat. They break down the outstanding returns into real earnings growth, dividend yield, and valuation expansion, suggesting that forecasting a repeat performance requires unrealistic assumptions about earnings growth and valuation levels.

While the efficient markets hypothesis might suggest that advantages enjoyed by the US should be already reflected in prices, the debate persists. The question of whether US valuations are sustainable given the country's inherent strengths, or if emerging markets offer a more promising outlook due to their improved fundamentals and low valuations, remains open.

In deliberating whether to rebalance my investment away from US stocks, I hesitate. Despite anticipating a return to the mean across my portfolio, geographic diversification has been disappointing. The increasing global instability, along with the appeal of the US rule of law, and its deep, open capital markets further complicates the decision-making process. It appears that the global influx of capital into US stocks may continue to intensify, even amidst uncertainties originating from the US itself.

Leon Wagner
Financial Markets Division

NIC
—Nova Investment Club—

ESG Review

In Collaboration with Nordea Asset Management

Nordic Cleantech: Reaching Safe Harbour

Lorenzo Bonoli
Financial Markets Division

"We see the main headwinds behind the cleantech downturn either receding or turning into tailwinds. This should provide a more positive backdrop for this segment during 2024"

– Marco Kisic, Head of ESG Research, Nordea Asset Management

The Nordic cleantech sector, dedicated to advancing technologies for environmental sustainability, faced considerable hurdles in recent years, particularly impacting small-cap and micro-cap firms. Despite growing calls for an accelerated global shift to clean energy, stocks in the sector are vastly underperforming the broader market. Over the past 12 months, global cleantech stocks lagged behind the market by approximately 40%, reflecting sector struggle. Within the cleantech sector, several technologies faced challenges, including batteries, carbon capture storage and hydrogen solutions, while cables and energy efficiency exhibited more resilience. After navigating this challenging period, however, there are promising signs that the Nordic cleantech sector is gearing up for a noteworthy comeback. A recent report from Nordea's ESG Research team indicates that past setbacks might be evolving into opportunities for growth.

Marco Kisic, Head of ESG Research at Nordea, identifies four key reasons for past underperformance, asserting that these challenges are now either diminishing or shifting.

Firstly, Cleantech companies, sensitive to changes in interest rates due to their cash flow and growth profiles, felt the impact of central banks rapidly raising interest rates to combat inflation. Kisic anticipates that the normalization of interest rates will significantly benefit these companies, especially those in the Nordic region, which showcase cash flow durations about 20% longer than the market average.

Secondly, higher inflation, driven by increased input costs, has affected cleantech companies, particularly in industries like wind energy. Consumer preferences shifted away from premium products in an inflationary environment. Relief is expected for Cleantechs with the prospect of falling inflation.

Thirdly, Cleantechs grappled with policy challenges alongside higher interest rates. Kisic highlights perceived policy "mistakes" in 2023, creating doubts about policymakers' commitment to the transition. An illustrative instance of such policy missteps occurred during the UK's fifth offshore wind auction, which failed to attract any bids as developers argued that the government's offered prices were too low. The key policy mistake was the failure to adjust the contract prices to reflect inflation, despite rising costs in the wake of the coronavirus pandemic and geopolitical events. The absence of indexation to inflation left developers dissatisfied, leading to a lack of participation and ultimately no bids in the auction. This policy misstep raised doubts about the government's commitment to the transition to offshore wind and prompted calls for adjustments in future auctions to better align with market realities.

With some policy U-turns in the right direction, the Nordea ESG team sees positive policy momentum in certain segments, such as wind power.

Lastly, operational issues, particularly in the wind industry, hindered cleantech companies. These problems, including equipment issues, delays, and quality concerns, are expected to diminish as technologies mature. Kisic anticipates a normalization in 2024 regarding these operational challenges.

As the Nordic cleantech sector looks ahead, these shifting dynamics signal a new chapter of opportunities and growth. The global clean energy sector is seeing a flurry of investment, supportive policies boosting new projects, and hype around sustainable ventures as a warming planet drives calls for less reliance on fossil fuels. In the coming year, the sector may find itself on a trajectory toward normalization and positive momentum.

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Thank you!

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