Financial Newsletter

April 2020
Vol. 18

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Summary

In our 18th newsletter, we found ourselves in the middle of an economic and health crisis (due to covid-19) of proportions that we are still unable to measure with sufficient accuracy. Nevertheless, we know that it will deeply affect economies and peoples' lives. There's no perfect solution so far, the big question is whether policymakers will give more weight to the economical or humanitarian side of the problem?

As the pandemic kept growing, countries started to implement mandatory quarantine and social distancing measures to avoid the spread of the coronavirus. But as businesses where running out of cash and people couldn't pay their cost of living, plans to soften these measures and bring back economic activity started to surge as the spread was slowing. Also, to increase liquidity and aggregate demand, various stimulus where implemented – such as lay-off schemes, tax flexibility, subsidized loans and others.

Economic indicators such as unemployment and consumer confidence are clearly worsening, but on the positive side Asian economies are already showing signs of improvement. Investors seem to be already pricing this hope for improvement, as major financial indexes showed some historical performances. On the other side, demand for German 10Y government bonds increased, reflecting the ongoing concerns of unpredictability. Another major event of the month was the fact that WTI oil reached negative values for the first time, which is deeply explained in our hot topic of the month.

In our IB section, we cover the synergies and risks taken by Verizon, in acquiring BlueJeans, as a way to enter in the hot market of video conferencing and event platforms. And for our stock pitch, we'll analyse Boeing, a major enterprise in a fundamentally damaged industry.

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Macroeconomic Overview

After the tumble that was March's world economic performance, the projected scenario in the following month looked dim for almost every open economy, with the results at hand we can see that most pessimistic predictions weren't so far off after all.

The most liberal economies, by attributing a smaller role of public institutions in the life of its citizens, are also the ones whose markets have had more exposure to the effects of the increment in restrictive measures of social isolation making them that more volatile. With that in mind trying to post-pone a mandatory quarantine and the seeming effects on employment rates, investment and consumer sentiment, asset value and government spending would be the best course of action if only by doing so it wouldn't worsen and prolong the crises, both sanitary and economic.

This leads us to the point that economic sentiment in the second half of March was already caving the path-way to this month's economic developments reflecting firstly the economic impacts of the economies that already went into shut down and the increased likelihood that the effects would prolong themselves much longer after the confinement. This is shown in sharp decline in consumer confidence indexes, home loans conceded, home builder confidence indexes, employer expectancies, vehicles and durable goods purchases, investment summaries and the list goes on. To say that institutions and families' expectancies are playing a considerable role in the development of this crisis and the one to come is nothing but putting it shy of what it really is.

There were two main words that have entered every country's economic policy debate this month: liquidity and aggregate demand stimuli. On one hand, economic policy designers were heavily concerned about what have been persistent low firm and family savings could do in months to come therefore many bills were passed with urgency world-wide to concede short-term credit to firms with low amortization and interest conditions. With a highlight in the pattern of big firms in sectors of national interest or are lobbying intensive and small and medium enterprises that look promising on keeping employees. This also brings us to other types of measures implemented in western economies that are aiming at getting money to people's pockets as well as job security, or at least give them that idea. The idea here is that through publicizing lay-off, the furthering of tax seasons, the role of automatic stabilizers and other stimulus the perceived aggregate demand stabilizes and use that as a base to rebuild jobs.

There's also a space that should be dedicated to monetary policy management throughout the crisis this month with a focus on the materialization of a drop in interest rates by more than 1 p.p. and the issuing of funds to subsidize municipal and federal expense by the Federal Reserve. On the other side of the Atlantic Ocean, Christine Laggard opted for a more vocal strategy as through the final month she has forced social and fiscal policies to be delivered by member countries by clearly stating that lowering interest rates was out of negotiation despite being open to a fresh program of quantitative easing for the most affected member states and a selection of bonds. As issuing of common members state debt, in what form it may take, is looking ever further from being consensual in the Euro group we remain to see if the newest ECB president will taint her reputation in the financial markets this early on in her mandate.

On a less dim note Asian economies are starting to resume normal economic activity putting less weight global chain values as well as a more spacious room for external demand in developed economies. Overall, Europe is still expecting to suffer the full economic backlash of the severity of the outbreak but countries such as Hong Kong, Macau, Taiwan, Portugal and Czech Republic are concrete evidence, in variant degree, that relying on heavily restrictive measures early on might increase prospects of a country to resume normal economic activity much sooner and in very different conditions.

Author(s): Bruno Borges

Sources: OECD; FRED; Eurostat; Investing; Bloomberg

Economic Calendar

Economic and political events

As worldwide nations are looking to restart the global economy, April reflects the challenges that the economy will suffer, especially in nations with higher exposure to tourism.

As a result of the pandemic, the global economy is projected to contract sharply by 3% in 2020, much worse than during the 2008 financial crisis.

In April, Portugal's consumer confidence recorded the largest monthly reduction since September 2014, since it tumbled to -21 from -9.9 in March.

On April 24, S&P Global Ratings revised the outlook for Portugal from ‘positive’ to ‘stable’ and the rating agency also says the Portuguese GDP will sink by 7.7% this year.

Furthermore, the number of homes sold fell 5% in the Q1 compared with the last quarter of 2019, knowing that one-third of sales happened in the Metropolitan Area of Lisbon.

Moving over, Germany's economy is not expected to recover from the effects of the coronavirus crisis until the end of 2021, according to the Institute for Economic Research (Ifo).

Ifo has also predicted that the German economy will contract by 6.6% this year. This is due to the decline in business activity across Germany, especially in business related to tourism and travel agencies.

The UK’s 2020 outlook sits between a contraction of 5% to 12%. In the first week of lockdown, the number of new prospective tenants registering in London and the Home Counties fell 77% compared to the same week in 2019. In the week ending 18 April, the decline had narrowed to 46%.

Additionally, projections from the UK’s Office of Budget Responsibility indicate that their GDP may decline by 35% during Q2.

On the other side, the USA’s consumer confidence index fell to 71.8 in April from 89.1 in March.

Although large firms are facing terrible downturns, American smaller firms are not only being hit the hardest but also reporting the highest job losses.

Along with the western world, Japan's economy has been in an increasingly severe situation.

Exports from Japan slumped 11.7% in March 2020 and with the tremendous impact of the spread of the pandemic the employment has shown some weakness, reporting an increase to 2.5% in March compared with 2.4% in February.

On top of that, private consumption has decreased significantly, showing that the consumer confidence fell from 30.9 in March to 21.6 in April, the lowest level since April 2004.

To sum up, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to accommodate and support affected households and businesses.

Inflation

On April 10th, the United States of America Bureau of Labor Statistics revealed their Core Consumer Price Index (CPI) of March. The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.4% in March on a seasonally adjusted basis, the largest monthly decline since January 2015. A sharp decline in the gasoline index was a major cause of the monthly decrease in the seasonally adjusted all items index, with decreases in the indexes for airline fares, lodging away from home, etc.

The energy index fell 5.8% as the gasoline index decreased 10.5%. The food index rose in March, increasing 0.3% as the food at home index rose 0.5%. The index for all items less food and energy fell 0.1% in March, its first monthly decline since January 2010.

Indexes that increased in March include medical care, used cars and trucks, motor vehicle insurance, and education.

On April 30th, Eurostat reported a Euro area annual inflation decrease of 0.4%. A month marked by COVID-19 containment measures in all euro area countries, euro area annual inflation is expected to be 0.4%, down from 0.7% in March, according to a flash estimate.

Looking at the main components of euro area inflation, food, alcohol and tobacco are expected to have the highest annual rate in April (3.6%, compared with 2.4% in March), followed by services (1.2%, compared with 1.3% in March), non-energy industrial goods (0.3%, compared with 0.5% in March) and energy (-9.6%, compared with -4.5% in March).

Labour Market

According to the U.S. Department of Labor, unemployment rate soars past 20%, meaning that the U.S. has now lost 26.5 million jobs. Another 4.4 million Americans filed initial unemployment claims in the week ending April 18. That is down from 5.2 million the week prior, however it marks the fifth consecutive week over 3 million.

Prior to this five-week, initial jobless claims were already at 7.1 million unemployed Americans as of March 13. When the figures are combined, it would equal more than 33 million unemployed, or a real unemployment rate of 20.6%, which represents the highest rate since 1934.

The changes in these measures reflect the effects of the coronavirus (COVID-19) and efforts to contain it, due to the shutdown of the economy and forced quarantine.

In addition, CNBC and The Balance estimate that by the end of this year US unemployment rate will reach 32.1%, overcoming the highest rate ever registered of 25%, in the Great Depression of the 1930s.

On April 30th, Eurostat, the statistical office of the European Union, reported an unemployment rate of the Euro area of 7.4%, compared to 6.6% of the prior month. The same organism estimates that 14.141 million men and women in the EU, of whom 12.156 million in the euro area, were unemployed in March 2020. Compared with February 2020, the number of persons unemployed increased by 241.000 in the EU and by 197.000 in the euro area.

Central Bank Decision

The continuing of the devaluation in all main squares and asset classes like in previous month shows the reduction in perceived net value of individuals and institutions. In most national members' housing markets, we are seeing a decline in housing prices accompanied by a consensus in homebuilder confidence indexes and new home loans conceded. ECB also devotes a huge part of their attention keeping track of commodities such as oil and as the recent crash in WTI passed on to the BRENT index there are no underlying pressures for this good to add inflationist pressures.

As consumer and employer confidence indexes in the Eurozone are taking huge dives the probability of contraction in employment is aggravated estimating it well below the NAWRU for this same area. April emphasize that there was a political choice to force many firms to seize their activity and therefore a significant productivity shift may have happened reflecting itself on the reduction of actual production capacity. Despite this, the shift hasn't compensated for the reduction in consumption intentions and it constitutes the only aspect that could add inflationist pressures.

Crucial to note that as total aggregate demand is seeing a tumble, the ECB is with hands tied regarding reference interest rates as there isn't much that traditional monetary policy can achieve on its own without forcing excess liquidity in the monetary market. Nevertheless, enlarging open market operations to other bonds and a new public debt repurchase program is very likely to take place.

Overall, probability of deflation is very high for the month of April and the beginning of May, knowing that the monthly inflation rate in March stayed at 0,7% with the southerner countries (Italy, Portugal, Cyprus and Spain) having an insignificant price growth.

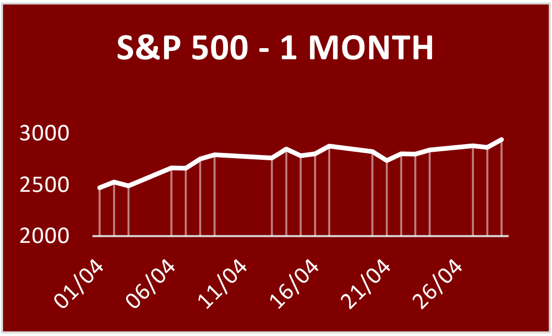
Author(s): Tânia Caria; Tiago Teixeira; Bruno Borges

Sources: IMF; PMI; CNBC; Trading Economics; Eurostat & Bureau of Labor Statistics; ECB; Eurostat

Financial Markets

Indexes

S&P 500



In the last two months, the S&P 500 had different trends. First, in March and due to major concerns with Coronavirus (COVID-19), it´s value decreased 16% closing the month at $2584. During this month, it registered the lowest value since December 2016 ($2237). During March, nearly 90% (450 companies) of the stocks in the S&P 500 fell and of those, 139 lost a quarter or more of their value.

COVID-19 has been a big impact on the economy particularly in unemployment. March's unemployment rate was announced to be at 4.4% at the end of March contrasting with the previous value of 3.5% and the forecast of 3.8%. In April, the initial jobless claims also rose more than expected presenting, on average, more than 5000 weekly new individuals filing for unemployment insurance. However, US Core Durable goods orders from March had a value of -0.2% contrasting with the -5.8%.

To contradict the fall of the economy, on March 3rd FED approved a 1/2 percentage point decrease in the primary credit rate to 1.25 percent. On March 15th this rate decreased 1 percentage point sitting in 0.25 percent. At the end of the month, on March 23rd another statement was released regarding a continuous "purchase [of] Treasury securities and agency mortgage-backed securities in the amounts needed to support smooth market functioning".

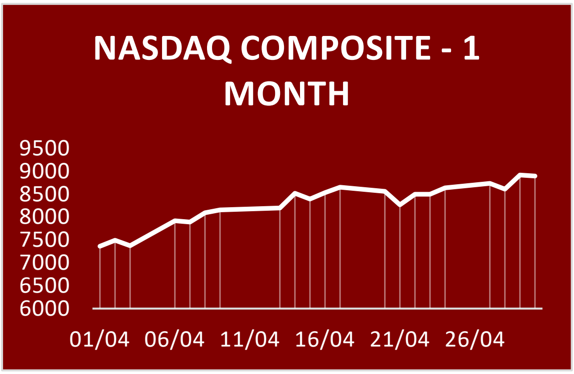
The new economic and monetary policy adopted by the FED was crucial to help the economy and therefore, April brought a different market trend with S&P 500's value rising 12.7% (opened at 2470.5 and closed at 2912.43) and recovering from part of the March's fall. It was the best monthly performance since 1987. In April, the lowest value (2470.5) was attained on the first day of the month and the highest (2939.51) was reached on the 29th. This fact goes along with the positive trend demonstrated by the index.

The 3 top gainers in this index (considering a 1-month time span) are Apache Corporation (+225.37%), Marathon Oil Corporation (+96.15%), and Hologic Inc. (+53.21%). The losers' top 3 is not complete since in period just two companies decreased their stock value and they were General Electric Company (-3.41%) and Southwest Airlines Company (-2.47%). Comparing April with March we can easily see that the second was much better and almost all the companies recovered from the losses (or part of it) of March.

Author(s): João Reis

Sources: Investing; Federal Reserve; Finscreener.com; Yahoo Finance; CNBC

NASDAQ Composite



Nasdaq Composite, alongside S&P 500 decreased his value in March and it hit his month low of $6860.67 which represents the lowest since January 2019, on the 23rd. The total depreciation of March was 10%, closing the month at $7700. In April, and following the FED's new economic and monetary policy, the Nasdaq Composite followed the same path of the S&P 500 and recovered some of the losses that occurred in March. These changes led, in April, to a monthly growth of 15.45% (opening at 7360.58 and closing at 8889.55). The high and lows were registered on the same days of S&P. Accordingly, the month's low was 7360.68 on the first day of April and the highest value registered was 8914.71 which was attained on the 29th.

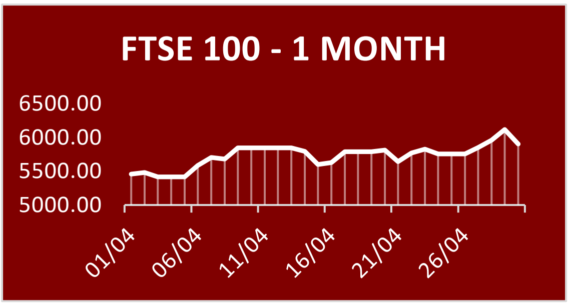
The companies that contributed the most to this trend were Ebay Inc (+38.39%), Incyte Corporation (+31.65%), and Amazon.com Inc. (+29.68%). All the 100 companies figuring in the Nasdaq Composite saw their prices going up. The worst cases in April which we cannot call losers were Baidu Inc (+3.32%), Citrix Systems Inc. (+4.22%), and Mondelez International Inc. (+5.67%).

With this worldwide pandemic, the best-performing companies, either in a 1-month or 3-month period, are mostly pharmaceutical, online-based companies or technology companies. The increase in online commerce to prevent physical shopping resulted in good performances of companies such as Ebay Inc, Amazon.com Inc., and, in a certain way, Alphabet Inc. is also included. The extra spare time subsequent to the isolation to prevent the disease's spread resulted in good performances from Netflix Inc., Electronic Arts Inc., and Facebook Inc. between others. The pharmaceutical companies are, in this pandemic period, the ones that have their workflow enhanced with, not just the new research for the COVID-19 vaccine but also with the higher needs and demand for medical and pharmaceutical equipment world-wide.

Author(s): João Reis

Sources: Investing; Federal Reserve; Finscreener.com; Yahoo Finance

FTSE 100



Although the United Kingdom is currently the 4th most affected country by the new virus we are seeing signs of a recovery. The index grew 12% since the 20th of March on the 20th of April, from 5190.78£ to 5812.83£. Reminding that in the past month it had had a fall of around 30.2%, during the period of February 20th and March 20th.

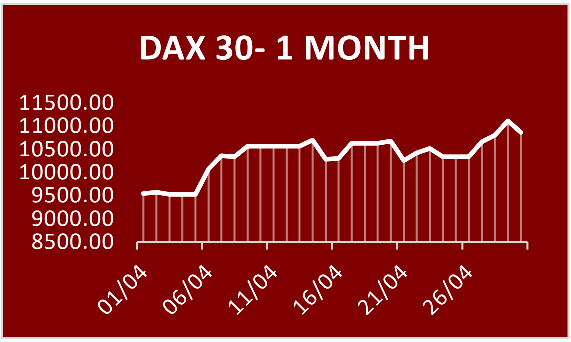
This growth was mostly due to the measures that the government took to help the companies survive during this time such as compensating in monetary terms the companies who sent their workers home, and also due to the companies starting to adjust themselves to this new situation turning more to the online selling and home delivery strands.

During this month the FTSE had a growing trend, registering the highest value on the 29th of April, 6115.25£, and the lowest value on the 3rd of April, 5415.50£. The top 3 gainers of this month were Carnival, with a growth of 63.14%, Taylor Wimpey, with a growth of 47.19%, and Flutter Entertainment, with a growth of 42.69%. The top 3 losers of this month were Royal Dutch Shell (A), with a growth of -16.27%, Royal Dutch Shell (B), with a growth of -15.40%, and Bp, with a growth of 11.40%. These results might be a consequence of the coupons issued by traveling companies to minimize the current losses, the growing number of bets since people staying at home encourages more sports betting, and the fact that due to the Covid-19 people now travel less and some companies have suspended their activities, which resulted in a drastic decrease in terms of demand for oil that made the prices decrease to historic numbers, thus bringing along great losses for the companies in this sector.

Author(s): Ana Ratão

Sources: Bloomberg; The Guardian; Worlddometers.info; London Stock Exchange; Investing

DAX



During the current global situation, Germany is classified as the world's 6th most affected country, this has greatly impacted its economy. In the last months we have seen a big fall from a value of 13664€, on the 20th of February, to 8928.95€, on the 20th of March, which in percentage terms represents a fall of 34.7%.

Even though Germany is one of the most affected by the virus the economy shows signs of a big effort to return to its "ordinary" state with a growth of 19.6% from the 20th of March to the 20th of April, going from a value of 8928.95€ to a value of 10765.90€. This might be a direct consequence of the measures the government took to help the businesses, such as measures to provide liquidity for the companies, that do not have a maximum volume, which is a big difference in comparison to other countries. Companies also started to adapt more to the new way of doing business.

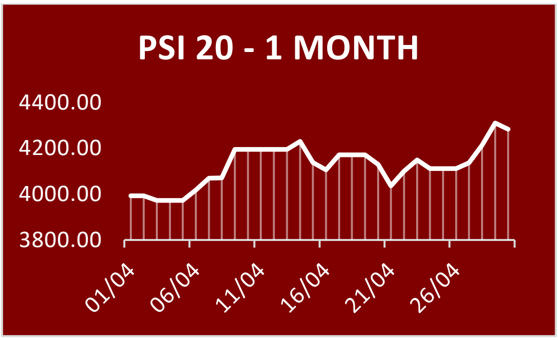
This month had a growing trend for the DAX, having its lowest value on the 3rd of April, with a value of 9525.77€, and its highest value on the 29th of April, with a value of 11107.74€. The top 3 gainers of this month were Infineon, with a growth of 26.21%, Volskwagen Vz., with a growth of 21.05%, and Continental, with a growth of 18.89%. The top 3 losers of this month were Wirecard, with a growth of -13.62%, MTU Aero Engines, with a growth of -6.79%, and Lufthansa, with a growth of -5.23%.

These results could be related to the fact that the borders have been closed due to the virus, and since people are at home due to the Covid-19 they tend to consume less.

Author(s): Ana Ratão

Sources: Bloomberg; KPMG; Insider: Borse.de

PSI 20



Since last month the Psi20 has shown us the consequences of the Covid-19 for an economy. The index had a major decrease of 32,2% from February to March, the value for the 20th of February was around 5411€ and decreased to 3670 € on the 20th of March.

However, we can now see signs of a return of the economy since in the 20th of the present month this index registered a growth of 12,5%. This might be a consequence of the effort that companies did in order to keep on working making their employees work from home, the effort that many companies did in order to reach their consumers through home delivery methods and the adaptation into the digital platforms.

During this month the Psi20 had a growing trend, registering the highest value on the 29th of April with a value of 4310.88€ and the lowest on the 3rd of April with a value of 3972.71€. The top 3 gainers of this month were Altri, with a growth of 32.20%, Cortiçeira Amorim, with a growth of 19.06%, and Sonae, with a growth of 18.94%. The top 3 losers of this month were Ibersol, with a growth of -12.83%, Jerónimo Martins,SGPS, with a growth of -4.25%, and Ctt Correios de Portugal, with a growth of -2.71%.

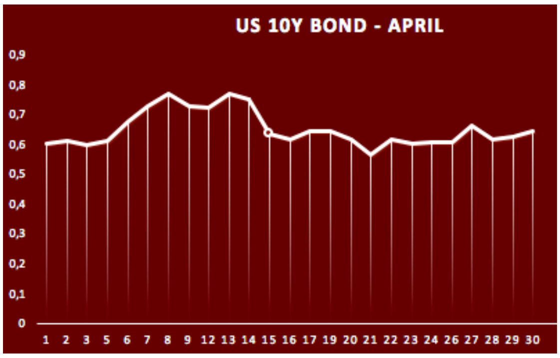
These results were perhaps a consequence of the growing usage of e-commerce and technology-related services that have been a preference for the Portuguese people ever since they were sent home due to the Covid-19, the companies that do not provide such services were the ones that ended up losing more as well as the restaurant industry, that suffered a big loss due to the virus.

Author(s): Ana Ratão

Sources: Bloomberg; Investing.com; RTP; Euronext

Fixed Income

US 10Y Bond Yield



As for the previous month, April showed that due to the public health crisis the world is facing, United States bond market volatility remains very high.

The fourth month of the year opened with a bond yield of 0.62, showing a small decrease when compared to the previous one. During the month, we witnessed an irregular fluctuation on the 10Y bond prices. The maximum bond value of 0.77 was registered on the 8th of April and a minimum of 0.58 in the last week of the month, on the 21st.

It's important to notice that during April, the USA became the country with the highest number of people infected with coronavirus and the country with more deaths caused by the virus.

One of the first big measures that President Donald Trump took to fight the health crisis was to partially close the airports and to cancel flights from several countries in the world, namely China. This measure affected many US and US based industries as they saw their logistic routes interrupted, which in some cases led to production cuts. Also, with the implementation of the national emergency regime, many workplaces were forced to shut, and people were advised not to leave their houses. This all contributed to an economic slow-down as there was almost no money circulating on a regular basis.

As a reference, the IHS Market flash purchasing managers index for the service sector fell to a record low in April, while the manufacturing PMI weakened to the lowest level in 11 years, as business activity has slumped due to the lockdowns to combat the coronavirus pandemic. The flash services PMI fell to 27 from 39.8 in March while the manufacturing PMI dropped to 36.9 from 48.5. Any reading below 50 indicates worsening conditions. So, these drops show how bad the economy currently is.

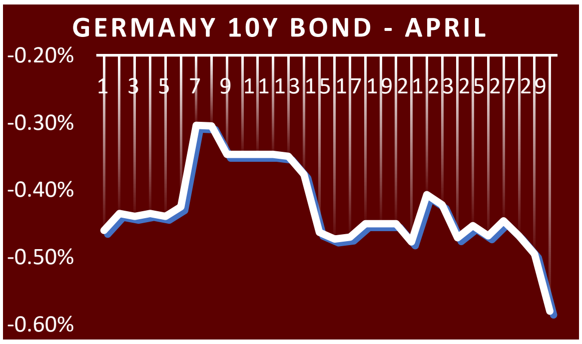
The ongoing public health crisis is expected to weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. This is then definitely reflected on the low prices of the US bonds, especially due to uncertainty of how the economy will recover and more important, how long it will take.

Even though some countries are starting to lift restrictions and the economy slowly starts to recover, expectations are that during the next month bond prices will continue to fluctuate as uncertainty remains, especially for long term bonds.

Author(s): Inês Lourenço

Sources: Bloomberg; Investing.com

German 10Y Bond Yield



March ended on a positive note, while February was characterized by a constant decline in the 10Y German bond yield, the following month opened hopes for a return in investors' confidence. After the first few weeks of march, there was a steadily increase on the bond yield topping up at -0.19%, the highest value since January. Breaking the downward trend that was in place since then.

Throughout April the German bond yield had a continuous decline after the first week. At the start of April, the return peaked at -0.304% on the 7th, a sign of investors' confidence building back and looking out for other options and securities. On the 7th it was observed an increase of 0.16% after the month opened at -0.46%.

That build up in confidence rapidly went away as countries kept on with lockdown measures. Even though there were positive signs for a slowdown in the COVID-19 global pandemic, Europe remained fighting one of its hardest battles. The most affected countries are European and the decision for economic measures by the European Union has been followed by a lot of opposition. Netherlands position on a joint debt bond and, the lack of strategic decisions on an European level led to the distrust in the European Union capacity to help its members fight the shutdown of the economy, which was represented in the decrease of the German bond.

The state of the pandemic in France, Italy and Spain has shown the severity of the disease and revealed how close these countries are to have a crisis in their respective health systems. The new coronavirus forced most countries to a complete shutdown. In Germany, the HIS

Markit Germany Manufactory Index fell to 34,4 the lowest reading since March 2009. The decrease in output reported declined bellow the expectations of 39, being the sharpest decrease in 11 years.

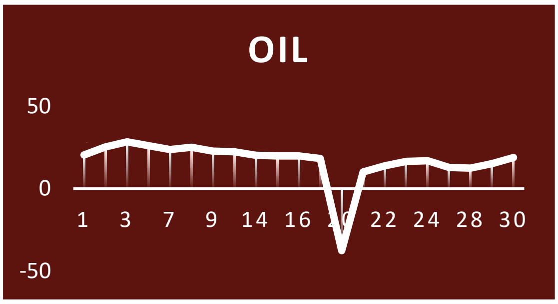
These factors allied with the overall global progression of financial markets led to the rapid decrease in the bond yield returning to -0.463%, a week later, on the 15th. This trend maintained till the end of the month were the rate closed at -0.58%.

Author(s): Nuno Cardoso

Sources: Investing.com; Marketwatch; Bloomberg

Commodities

Oil



WTI Oil started the month at 20.48 dollars per barrel, following an overall downward tendency registered in previous months and closed the month at 15.06. Reaching its lowest value in a drastic downfall in 20th of April with a value of -37.63 and its highest value in 3rd of April registering 28.34.

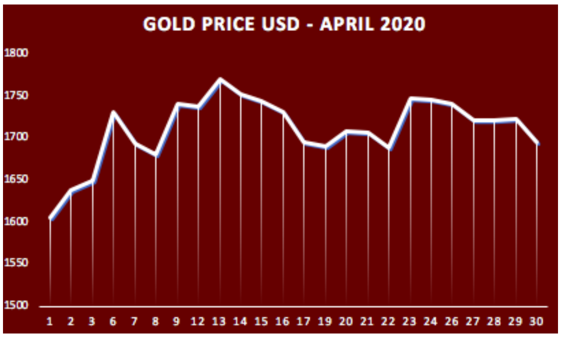
To better understand this behavior, it is important to mention some events, such as the Russia and Saudi Arabia oil price war. Which marked its beginning in March, however had major consequences in the price of oil. Due to a disagreement in OPEC negotiations, in which Russia refused to lower its oil production, Saudi Arabia backfired by reducing its selling price and even started producing more oil to force a Russian agreement. However, it disrupted the market causing a slump of the black gold. Adding to this demand continued to reduce drastically as an effect of the covid-19 pandemic feeding even more this downward tendency.

Now focusing more in the month of April, in the beginning of the month there was hope for an agreement between Russia and Saudi Arabia. Which led to an increase in 40% of its price in the first 3 days of the month. In the following days oil price started decreasing and a deal was reached in 9th April, OPEC agreed to cut 10 million barrels in oil production. A historical cut however this agreement came in late since a storage crisis was inevitable, subsequently the oil price plumbed into a surreal -37.63 dollars per barrel one of the lowest values ever registered. The price soon rebounded on the following days however it is only covering up a “broken” market. Reminiscing the oil crisis of 1980 when supply completely outsized demand. The future of oil is now more than ever deeply dependent on the normalization of demand.

Author(s): Diogo Leonardo

Sources: Reuters; CNBC; BBC News; Market Insider

Gold



Gold started at its minimum level for the month, with a price of $1605.2 and closed at $1695.4. Over the course of the month it compounded a growth of 6.47% and reached its peak on the 13th day, at $1769.4.

Starting late February, the daily volumes of gold traded began to rose. Exactly at this time, the general public began to acknowledge the severity of Covid-19. The pandemic induced the expectancy of severe consequences on the economy and volatility in the financial markets. That is why over the past couple of months the gold price and volumes traded rose. During times of uncertainty investors search for a safe haven in gold.

“What is happening here is that the FED is expanding its balance sheet and all the other Central Banks are doing the same thing” - said Hans Goetti, in an interview to Bloomberg. Long-term currency debasement is expected and that is the fundamental reason gold price went up. He also forecasts that in the next few months the price of gold will reach the maximum of 2011, which was an all-time high of $1917.9.

The fiat currency pressure due to the inflationary monetary policies will strengthen not only gold, but also the case for other alternative currencies like bitcoin.

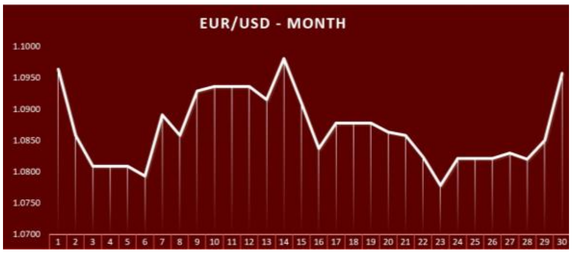
Later into the month, the easing of lockdowns got investors assuming a V-shaped recovery, becoming less fearful and consequently reducing their positions on gold, slowing down the rise of gold price.

Author(s): Gabriel Zancu

Sources: Yahoo Finance; Bloomberg; Jornal de Negócios

Forex

EUR|USD



The EUR/USD started the month on a decline, falling from 1.0961 at the start of the month to 1.0785 on April 6th. This fall was a result of a trend started on March 27th where the US approved the largest bailout in its history, worth $2.2tn.

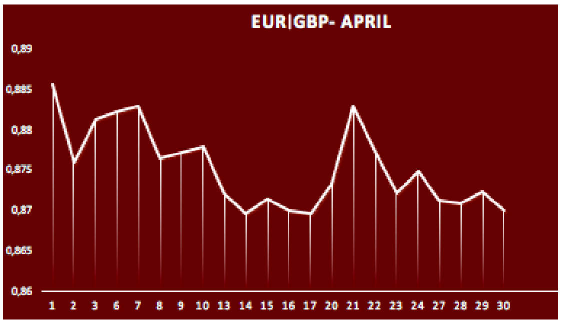
In the Euro Zone, manufacturing PMI fell from 44.8 to 44.5, missing the forecast by 0.2. In the US, it fell from 50.7 to 48.5, being unable to beat the market forecast stablished at 49.2. These values show that the economy is contracting more than expected in both countries, however the biggest difference between the prediction and the real value of the manufacturing PMI in the US suggested that the USD would face more damages than the EUR. This situation combined with a growing optimism in Europe due to the decrease on deaths registered in Spain, Italy and France on April 6th, led the pair to an increase in value reaching 1.0987 on April 14th, the pick value of the month. Since then, the value of the pair started decreasing again.

On April 20th, a disagreement between Russia and the OPEC started a price war over oil that combined with a decrease in demand all over the world for this commodity, brought the prices down to unprecedented levels. This situation led to a sharp fall of the pair, reaching a value of 1.0778 on April 23rd, the minimum value of the month. Since then, with WTI price increasing and the European economy reopening soon, the value of the pair has been increasing. Ending the month at 1.0957.

Author(s): Samuel Cavaco

Sources: Bloomberg; The Guardian; Investing.com

EUR|GDP



With the pandemic reaching Great Britain and the trials, in beginning of march, for Covid-19 showed it had no effect, the trigger was pulled for a considerable outflow of foreign investor capital from the UK, events that made the pair reach the peak on 18th of march at 0.9427.

However, the next days followed the opposite trend, the EUR/GBP felt a bearish drop opening April at 0.8882, the month's highest point. The widespread of Coronavirus in Euro countries and the core nations such as Netherlands being understood to stay strongly against a joint bond that would be issued to finance the recovery of the economy may explain the drop until the 2nd of April.

In the beginning of the month, the pair started to growth since the 2nd to the 7th, in the heart of this movement was the focus on the Eurogroup meeting to see if solidarity among the nations would prevail and if they can emerge on the demanded measures to reduce the impact of Coronavirus outbreak on the EU territory. The IHS Markit/CIPS UK Manufacturing PMI fell to 32.9 in April from the 47.8 in the previous month, and below the market forecast of 42, being an important index that helps explaining the growth of the pair. The pair started falling in the next days, with just one day rise, on the 10th due to the agreement among the 19 EU finance ministers to a deal on a plan response worth more than €500 billion. Nevertheless, the discomfort among the core nations on these pandemic measures remains, making the pair touch its lowest point on 14th and 17th, at 0.8698.

With the Covid-19 pandemic installed, the deal between UK and EU becomes a minor problem to solve. The non-extension deadline starts to agonize the markets, the EU's chief negotiator Michael Barnier has accused the UK of dragging its feet over post-brexit negotiations and he also added "more than ever, the clock is ticking", warning for a possible non-deal. The Canada style deal seems to be more difficult to reach than initially anticipated and with the continuous crash on global oil the pair had a bullish growth until 21st at 0.8831.

In the last days of April the Commission Union has announced that the Consumer Confidence Index in Euro Area sank to minus 22.7 missing the analysts' estimation, furthermore the IHS Germany Manufacturing PMI crashed to 34.4 this month, below the expectations of 39, regarding these indicators the Euro has depreciated against the Pound Sterling. The pair closed the month at 0.8700.

Author(s): José Maria Duarte

Sources: Bloomberg; Reuters; Investing.com; Trading Economics;

Investment Banking

M&A Deal of the Month

verizon BlueJeans

On April 16th, 2020, Verizon Communications Inc. announced that it had entered into a final agreement to acquire BlueJeans Network, a trusted enterprise-grade video conferencing and event platform. While the financial terms of the deal were not disclosed, the acquisition cost was estimated to be $400 million, as reported by CNBC, and the transaction is expected to close in the second quarter of the year, with the founders, management and employees of BlueJeans joining the company as part of the acquisition.

BlueJeans Network Inc comes in as a more secure and safe alternative to its rivals, such as Zoom Video Communications, providing a wide variety of cloud-based video services. Unlike its competitors, which offer free versions, they are exclusively a B2B company. It counts with about 15000 enterprise clients, which go from small organizations to major companies such as Facebook Inc, LinkedIn Corp, The Walt Disney Co, among others. During the current work-from-home surge due to the novel coronavirus, the company has played an important role regarding their client's operations. Throughout the fiscal year that ended in January 2019, Blue Jeans exceeded $100 million in annual recurring revenue, however the company's Co-Founder and Executive Chairman declared that they have not yet been able to reinforce its sales and marketing due to lack of capital.

Whilst the acquisition of a video-conferencing company catering to B2B customers may seem like a purposeful move on Verizon's part, that comes as the COVID-19 crisis has changed the way millions of people work, the first discussions of the deal began mid-2019, after BlueJeans started working with Verizon as an authorized reseller. Nonetheless, video conferencing apps have seen explosive growth since the start of the pandemic, which increased the need for real-time, two-way transmission of audio and video content to maintain businesses operations. By 2019, the global video conferencing market was valued at $3.85 billion, with a forecasted CAGR of

9.2% from 2020 to 2025 and reaching the estimate of $6.7 billion by 2025. On the other hand, Verizon Communications Inc. is a holding company which, through its subsidiaries, provides communications, information and entertainment products and services to consumers, businesses and governmental agencies, holding brands such as Yahoo, TechCrunch and HuffPost. The company is currently divided into Consumer and Business segments. As reported by Reuters, the company has also raised its full-year capital expenditure to accelerate its transition to 5G network.

As such, Verizon has reported to be planning on integrating BlueJeans with its Business segment, focusing on segments such as telemedicine, remote learning and field service work, combining the recent acquisition and the company's emerging 5G technology to achieve substantially more advanced video-conferencing scenarios. Furthermore, by being acquired by Verizon, the video conferencing company is making a strategic move to obtain and optimize resources, and fulling its need for capital to bolster their sales and marketing, as well as expanding their client's portfolio due to Verizon's extensive network of enterprises.

While this is an overall solid acquisition, in which both companies complement each other, there are nonetheless some associated risks and uncertain outcomes. Since this acquisition involves a very large company purchasing a much smaller one, there is always a risk of the smaller company becoming adrift in the sudden corporate bureaucracies. Additionally, even though the video conferencing market has shown a substantial boost, as a result of the rapidly growing demand caused by the COVID-19 outbreak, this temporary influence may also delay the market growth, regarding hardware component segments and technological developments such as 5G technology.

Author(s): Inês Pires; Carolina Marques

Sources: Bloomberg; Reuters; CNBC

Stock Pitch

Boeing

In million $	31/12/2018	31/12/2019	30/04/2020
Market Cap	181 964	183 804	80 256
Shares Outstanding (million)	564.23	564.23	564.23
Last Price	322.50	325.76	141.02
Price to Earnings (P/E)	18.07	-290.86	-82.95
Earnings per Share (EPS)	17.85	-1.12	-1.70
Return on Investment (ROI)	101.37%	-5.12%	-
Return of Assets (ROA)	8.91%	-0.48%	-2.27%
Return of Equity (ROE)	2104.63%	7.66%	6.63%
Current Ratio	1.08	1.05	1.08
Quick Ratio	0.31	0.26	0.31
Debt/Equity	25.99	-2.4	-3.31
EBIT	12 056	-1 913	-1 353
EBIT Margin	11.85%	-2.50%	-8.00%

Company Background

Boeing Co. (BA) was founded in 1916 by William E. Boeing in Seattle, Washington. Nowadays, it is based in Chicago, Illinois, its CEO and President is Dave Calhoun and it counts with 161,100 fulltime employees.

The Boeing Company, together with its subsidiaries, designs, develops, manufactures, sales, services, and supports commercial jetliners, military aircraft, satellites, missile defense, human space flight and launch systems, and services worldwide. The company operates through four segments: Commercial Airplanes; Defense, Space & Security; Global Services; and Boeing Capital.

The Commercial Airplanes segment provides commercial jet aircraft for passenger and cargo requirements, as well as fleet support services. The Defense, Space & Security segment engages in the research, development, production, and modification of military aircraft and weapons systems, strategic defense and intelligence systems. The Global Services segment includes supply chain and logistics management, engineering, maintenance and modifications, upgrades and conversions, spare parts, pilot and maintenance training systems and services, technical and maintenance documents, and data analytics and digital services to commercial and defense customers. The Boeing Capital segment offers financing services and manages financing exposure for a portfolio of equipment, assets held for sale or re-lease, and investments.

It is interesting to refer that, at this moment, Boeing Co. manufactures the 737, 747, 767, 777 and 787 families of airplanes and the Boeing Business Jet range. New product development efforts include the Boeing 787-10 Dreamliner, the 737 MAX, and the 777X. Moreover, there are more than 10,000 Boeing-made commercial jetliners in service worldwide, which is almost half of the total number of airplanes. Also, about 90 percent of the world's cargo is transported on Boeing planes.

Catalysts and Strengths

Considering the fact that Boeing has been around since 1916, it is safe to say that this company has very strong knowledge pertaining to the things they specialize in with the amount of experience they possess and being very well established in this industry.

As said in the company background, Boeing does not only work on commercial airplanes but as well as defense aircrafts, space flight and others. This is a very strong strength that the company has being able to specialize and work on different sectors in this industry as this allows for them to be quite diverse within in it allowing for multiple sources of income from different major streams which can be re-invested into the company and as well as paid to shareholders in the form of dividends.

It is also important to note that Boeing is one out of the two companies in the world that major manufactures large passenger aircrafts to be commercially used. With this in mind, Boeing has a very strong market position in the industry which allows for easier access to economies of scale.

Also, Boeing has a very strong focus in their research and development activities as this is very essential for a company in this type of industry as things such as safety is a big concern which is important for Boeing to research and develop constantly in an ever-changing environment. Although with this, Boeing focuses on innovation as well which is essential and makes it an attractive company long term.

Risks

As of recently, it has become very apparent that the COVID-19 pandemic has been having a very big effect in the airline industry which has been having a negative impact on Boeing. This is stated because of the facts that many countries have placed temporary flight restrictions in and out of their countries and on top of this, majority of people are in fear to travel at this time which has led to the company's stock price to fall sharply by about 70% within the span of a month and a half. Also, as a result of this the company has been forced to cut roughly 15,000 jobs and decrease their production of aircrafts as a way to cut costs and survive this sudden drop in worldwide demand.

Moreover, the Boeing 737 Max (airplane archetype) has been under investigation as it is said that the complex Maneuvering Characteristics Augmentation System were faulty and had caused the Lion Air crash in 2018 and the Ethiopian Air crash in 2019, resulting in 346 casualties from both crashes. This has led to a big negative impact on Boeing's image and the reliability of their aircrafts as many airlines began to ban this certain archetype due to the safety concerns.

Valuation and Financials

By analyzing some of the key ratios, it is seen that overall, Boeing's performance on most of the valuation indicators have been decreasing from 2018 up until now (1stquarter of 2020). In 2018, the price to earnings (PE) was at +18.07 and has been on the decline ever since going to -290.86 in 2019, and still with a negative PE of – 82.95, in the 1stquarter of 2020. Also, the ROA declined from 2018 (+8.91%) to 2019 (-0.48%) and further declined in the 1stquarter of 2020 (-2.27%), remaining at a negative value which is below the Industries current value of +4.77%. ROE on the other hand has remained at a positive value although it has also been on the decrease going from +2104.63% in 2018 to +7.66% in 2019, and lastly +6.63% in the 1st quarter of 2020, operating below the Industries overall current average value of +26.40%.

Regarding liquidity, Boeing's current and quick ratios have both been particularly stable from 2018-2020 (1st quarter). With a current ratio of +1.08 in 2018, +1.05 in 2019, and +1.08 in the 1st quarter of 2020. However, still operating under the Industries current value of +2.19%. Quick Ratios have also been under the industries (+1.68%), going from +0.31% in 2018, +0.26% in 2019, and +0.31% in the 1st quarter of 2020. On top of this, the Debt to equity ratio decreased from 25.99 (2018) to -2.40 (2019), reaching -3.31 in the 1st quarter of 2020. Since the debt cannot be negative, the negative D/E is caused by the negative equity caused by the losses that occurred in the past. The WACC currently is at 8.5% which is above the industry's current value of 6.77%.

The stock price in 2018 closed at 322.50 and increased slightly in 2019 to 325.76 but significantly decreased more than 50% in the 1st quarter of 2020 to 142.55. Although, fair value is at 267.90 with the higher estimation being at 336.91 and the lower at 207.58. With these estimations the present stock price presents a possible upside of about 87%.

With all this in mind, Boeing possesses quite a bit risk with decreases in indicators such as ROA and Debt to Equity, which are both operating at negative at the moment. Therefore, there is not a solid recommendation as to if one should necessarily buy or sell as of now, although one should continue to HOLD because according to MarketWatch, a group of analysts estimates that the fair value of Boeing will reach 250 which is more than an 80% upside.

Author(s): João Reis: Fernando Rangel

Sources: Marketwatch; Yahoo Finance; Macrotrends; CNBC; Business Insider; Guru Focus; Investors; FinBox; Boeing Company

Hot Topic

The collapse of the US oil futures

Since the start of 2020 that the U.S. oil futures (WTI) has been losing value, its price suffered a loss of more than 70% from the first day of the year until the last day of April. On April 20th, the world stopped when the price of WTI was trading at negative values for the first time in history. Reasons such as OPEC soft cut in the number of barrels produced by day, oil storage around the world is filling up, the sharp reduction in the oil demand and many other reasons have taken oil to reach negative prices. Why's that the price of oil futures can be negative? What are the consequences of such event?

On March 8th of 2020, Saudi Arabia initialized a price war with Russia, facilitating a fall in the price of oil. In the first weeks of March, the WTI price plunged around 34%. The conflict started when Russia proposed that oil production rates remained unchanged despite of the coronavirus pandemic, taking a stance that is not as clear as it should be, leading to a refusion by Saudi Arabia in regard to that stance, at the OPEC meeting. After this situation occurred, Trump and its administration decided to impose sanctions to the biggest Russian oil company, Rosneft. Nevertheless, this war between Russia and Saudi Arabia is now solved.

The pandemic COVID-19 shutdown the economy and it caused a big reduction in the oil demand. The oil buyers were forced to complete the buy contracts which provoked a big problem which was the oil storage. On the March 8th, was the end of the multiple buy contracts and many traders around the world are very concerned with the contracts that will end in May, June, July and so on. This end contract caused a storage problem to the buyers that do not have enough storage capacity and were forced to pay for the storage of the oil. This process turned the price of oil negative and forced buyers to sell the oil for free, once there is no demand and for that reason oil has no value, and pay the fixed costs associated to the process. This process includes that the oil stays completely stopped in gigantic ships at the middle of the ocean for days, waiting for orders to proceed the delivery.

Saudi Arabia has moved fast against the oil demand crisis, they park the ships full of oil in Egypt to supply markets in the north of Europe. This way, the Saudi Arabia can guarantee the position against the U.S. shale oil players which are likely to struggle as there is insufficient built capacity. The storage of oil can run out at mid of May which can provoke negative prices again.

This whole problem can origin, for the first time in U.S.A. history, negative interest rates. The WTI price and interest rates are normally interrelated once the production of oil in U.S.A. is very important for the economy, employing millions of people directly and indirectly. If many oil companies close because of the low price of WTI, the unemployment rate will rise, the households will lose purchasing power which will make inflation rate drop and consequently interest rates end up falling. The attractivity for WTI and other financial products, such as shares and bonds, are very low in this financial market phase and this problem positioned investors to be willing to pay for their money security, utilizing tools such as safe deposits with negative interest rate.

Finally, the WTI price returned to the positive field in less than 24 hours, and its price is currently trading around the 20 dollars a barrel and continues very unstable and volatile.

Author(s): António Pereira

Sources: Bloomberg; The Guardian; NY Times; CNBC; BBC; Financial Times