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URGE TO PURGE 2020 FROM MEMORY SHOULD BE RESISTED

INTRODUCTION BY ROB COX, GLOBAL EDITOR

Nearly everything that could go wrong did. The pandemic threw plans – and predictions – out the window. As the world emerges and maybe slingshots into a Roaring Twenties rebound, old appetites will return. But the divisions Covid-19 exposed in our societies can't be forgotten.

DON'T FORGET 2020

When will 2020 end? That was a familiar lament across the globe as humanity shut down almost everything to cope with a common threat. The arrival of Covid-19 threw all our plans – not to mention predictions – to the wayside. Almost nothing that markets, investors or companies anticipated one year ago proved prescient.

For 2021, at least one thing is certain: the world will be trying to emerge from this hopefully once-in-a-lifetime public health shock and return to some new version of normalcy. Old appetites and excesses will return, but the divisions the pandemic exposed in our societies can't be forgotten.

The new year is on the horizon with markets supercharged by the unprecedented pace and success of vaccine science. Billions of people need to be inoculated to ensure the virus no longer threatens vulnerable members of society or poses an existential threat to renewed economic growth. Governments around the world must figure out how to wind down their massive stimulus packages.

In the United States, the turbulent four-year presidency of Donald Trump is ending, with Joe Biden taking over. And the UK faces the real moment of Brexit, to name just one more landmark. It's for once a genuine turning point.

At Breakingviews, notwithstanding the folly of fortune telling, we are once again launching our annual effort to guide readers through the trends and events that we believe will shape behavior, economies and asset prices in the coming year.

As we embarked on this project, Breakingviews editors robustly debated the title. We looped in the marketing folks at Reuters, our parent company, to help us. Our first proposal, "Living with it", was deemed too pessimistic. "Making the best of it" had a somewhat more upbeat ring. But marketing wanted something still more positive. "The world emerges" does the trick. The runners-up serve as chapter headings, which also include the Brooklynese "Fuggedaboutit" for some mid-crisis levity.

**THE TEMPTATION AFTER ANY
ANNUS HORRIBILIS IS TO MOVE ON,
FORGOT ABOUT IT, MAKE THE BEST
OF IT AND GET BACK TO LIVING LIFE**

The temptation after any annus horribilis is to move on, forgot about it, make the best of it and get back to living life. That was the experience after the Spanish flu of 1918: the economy slingshotted into the Roaring Twenties. In a more cultured example, the Black Death that swept through Europe in the 14th century gave way to the Renaissance.



Many of Breakingviews' predictions – really more like ideas we hope our readers will find provocative – are prosaically centered in the world of business, corporate finance, mergers, economics and such.

But hopefully we, like everyone else on the planet, can draw useful lessons that will guide all of us – especially

policymakers and business leaders – in building communities that are healthier, more resilient, more equitable, and more conscious of safeguarding the planet for future generations. It will be in everyone's talking points. We shall see who walks the walk. Happy reading!

First published January 2021



CHAPTER 1

**MAKING THE
BEST OF IT**

THE FRANKEN ECONOMY

THAT WILL THRIVE POST-PANDEMIC

BY SWAHA PATTANAIK

The ideal nation to emerge from Covid-19 has South Korea's superb internet connections and technology knowhow. Like Singapore, robots are widely used in industry. And it boasts skilled workers to rival Switzerland, sells high-value exports to China, and leads on green energy.

UTOPIA

Frankenstein may have created a monster but imagine stitching together a global, post-pandemic economic version of Mary Shelley's fictional creature. This would be a country with the strengths of its global counterparts but not their weaknesses, and perfectly positioned to thrive post-Covid-19.

CHANGES TO HOW PEOPLE WORK, LIVE, AND CONSUME WILL OUTLAST 2020'S LOCKDOWNS

Changes to how people work, live, and consume will outlast 2020's lockdowns. That will drive demand for information and communications technology, benefiting leaders in this field. The ideal composite country will therefore rival South Korea, where ICT accounts for nearly 28% of total trade on United Nations Conference on Trade and Development data. Nor will it just export such knowhow. Its citizens and companies would already have superb internet connections and be in the vanguard of rolling out 5G technology at home.

Economic success will also mean embracing productivity-boosting automation. That means emulating Singapore, which has a chart-topping 918 robots installed per 10,000 employees, according to the International Federation of Robotics.



Such technology can lead to the disappearance of lower-skilled jobs. But that won't be a problem for this economic utopia, which dedicates resources to education and equips workers with new expertise. Think Switzerland, which tops the World Economic Forum's league tables on the general level of its workforce's skills, as well as the quantity and quality of education.

Trading partners also matter. Nations exporting to economies that tend to be resilient will fare better through future global downturns. China, whose policymakers manage activity more closely, is the ideal export destination on this count. It is the only major economy whose output won't have contracted in 2020, the International Monetary Fund reckons.

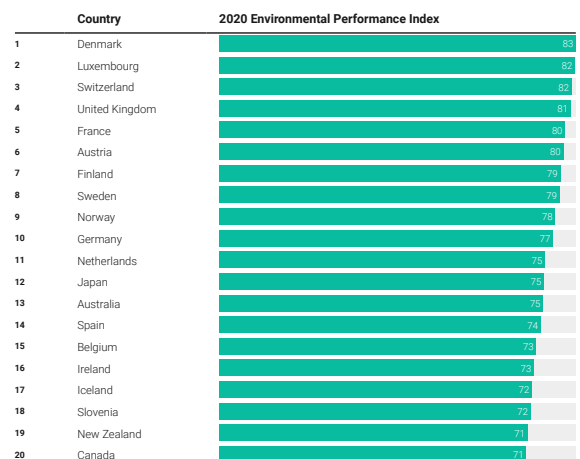
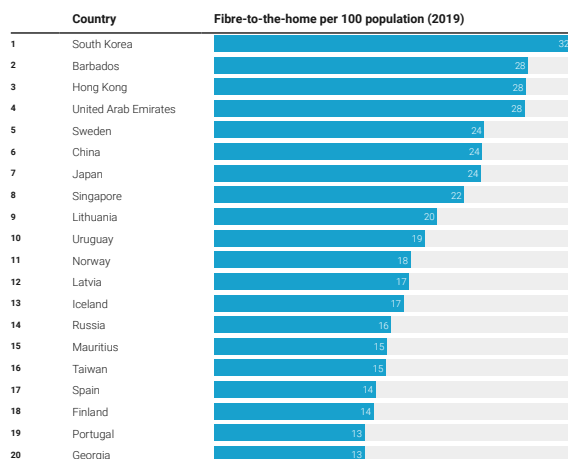
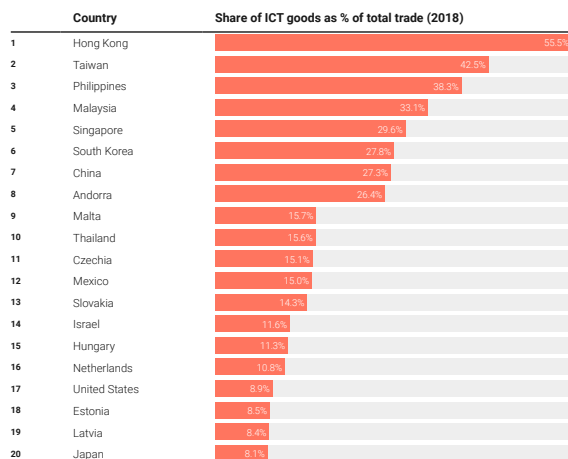
Finally, the ideal Franken-economy of the future will have a green hue, like Denmark, which has the highest score in the Environmental Performance Index ranking produced by Yale and Columbia universities. Countries that are making good progress in becoming carbon neutral are less likely to face big cliff-edge transition costs. They are also more likely to have companies well versed in green technology, like renewables, that will be in demand for today's less eco-friendly peers.

The ideal economy may be a fantasy but trying to be more like the best in each class is a realistic goal for policymakers in the coming year.

First published December 2020

THE IDEAL ECONOMY

Strengths needed to thrive post-pandemic



Source: UNCTAD, WEF, International Federation of Robotics, Environmental Performance Index produced by Yale and Columbia universities.

Swaha Pattanaik & Vincent Fiasseur | Breakingviews - Predictions 2021

GOVERNMENTS ARE THE NEW ACTIVIST INVESTOR ON THE BLOCK

BY PETER THAL LARSEN



The pandemic has freed states to roll back decades of reduced investment in business. Bailouts have bequeathed stakes in distressed companies, while security concerns are encouraging politicians to inject capital into startups. Good governance needs to be on the agenda in 2021.

REMEDY OF THE STATE

Governments are the new activist investors. Not unlike the financial crisis, the pandemic liberated states to get more involved in the private sector. Bailouts have left them holding stakes in distressed companies, while security concerns have emboldened politicians to bolster strategic companies. The vital but often missing ingredient is good governance.

THE BELIEF THAT GOVERNMENTS SHOULD GET OUT OF THE WAY OF BUSINESS WAS ALREADY OUT OF DATE BEFORE COVID-19

The belief that governments should get out of the way of business was already out of date before Covid-19. Mass privatisations of utilities and postal services often failed to deliver promised improvements in efficiency and service. Taxpayer-funded bank bailouts in 2008 ended the swagger of financial institutions.

Meanwhile, China's economic success endorsed state-led capitalism as an alternative. At the beginning of the century, state-owned enterprises controlled just 5% of the assets

of the world's 2,000 largest companies, according to the International Monetary Fund. By 2018, they owned a fifth.

The pandemic accelerated this shift. Authorities from Hong Kong to Paris have sunk public money into grounded airlines and other flailing firms. Advanced economies committed more than 10% of GDP in the form of equity, credit, and guaranteed loans, the IMF calculates. Much of that debt may convert into equity, leaving taxpayers holding stakes, probably for years.

States have also become more proactive. Britain and Germany assumed greater powers to review foreign investments, mimicking the Committee on Foreign Investment in the United States. They're investing directly in companies they deem strategic. The German government sunk 300 million euros into vaccine maker CureVac. Britain invested \$500 million in defunct satellite operator OneWeb. Cassa Depositi e Prestiti, Italy's sovereign wealth fund, in 2020 acquired investments in payments firm Nexi and exchange operator Euronext.

The biggest concern is that state shareholders will find their priorities get blurred. Political pressure to defend national security, develop new technology, or revive depressed regions runs counter to investment returns. A recent paper by the UCL Institute for Innovation and Public Purpose argues that governments should house their assets in arm's-length funds with clear instructions to maximise value for taxpayers.

Singapore's Temasek and Finland's Solidium support the case that government ownership need not be synonymous with waste or inefficiency. Whether or not other states choose the same approach when the virus has lifted remains to be seen. Whatever path they go down, governments will be the investors to watch in the new year.

First published December 2020

BLACKROCK STRETCH GOAL: REAL SHAREHOLDER DEMOCRACY

BY JOHN FOLEY

The \$8 trln asset manager votes on behalf of millions of small investors. Rather than telling companies how to handle gun safety or climate change, BlackRock might do better to pass the decision to the ultimate owners. That calls for investment in new technology, and new habits.

ROCK THE VOTE

BlackRock has a hotline to the bosses of the world's biggest companies, thanks to its role managing \$8 trillion of other people's money. Having helped bring stock ownership to millions of small investors, BlackRock could go one better and give those same people the power to wield their shares in company votes.

More than half of BlackRock's assets under management sit in index trackers and exchange-traded funds. The company run by Larry Fink buys and holds the shares, and bears the right to vote in shareholder meetings, though doesn't itself gain or lose when stock prices move. Its funds typically own around 5% of big U.S. companies, from iPhone maker Apple to Utah's Zions Bancorp.

BlackRock engages with thousands of companies on topics like sustainability. But sometimes its decisions are questionable. For example, BlackRock backed Chinese companies' proposals to enshrine the Chinese Communist Party's interests above those of investors in 2017. Expressing views on censorship, gun safety or diversity through its governance and voting policies can also make BlackRock a political target. Republican U.S. senators seized on the firm's climate change stance as a sign of its political leanings in 2020.

Fink's company is in part trying to channel what it hears from investors. Handing voting decisions to them directly would avoid misunderstandings. Doing so is far from simple, however, especially for products like ETFs, where BlackRock may have no direct link to the ultimate holder.

The Securities and Exchange Commission considered so-called pass-through voting in the 1970s and decided it was unworkable. But technology has advanced a long way since then. BlackRock's Aladdin software amasses data on a scale unthinkable when it was created two decades ago. Fink's company is buying Aperio, a technology firm that lets clients manage tailored portfolios, in a step towards giving more control to individual customers.

Introducing real shareholder democracy could be a worthy stretch project. Sure, asking most investors to vote on tens of thousands of director nominations and shareholder proposals is pointless. But giving them the option to do so, or to choose between BlackRock's recommended voting preferences or alternative tailored policies, could be a selling point. There are technological, logistical and regulatory barriers to overcome. But connecting investors more directly to the companies they own could be Fink's next contribution to finance.

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STOCK REWARDS FOR ALL

WOULD BE A VALUED VIRUS LEGACY

BY JEFFREY GOLDFARB



Woolworths pared manager bonuses so that over 100,000 employees could get a little slice of equity in the Aussie supermarket chain. More companies should follow suit. What's good for Silicon Valley and Wall Street is good for everyone, starting with frontline pandemic workers.

STOCK, LOCK AND BARREL

Sharing should be more caring in 2021. In one notable example of spreading the corporate wealth amid the Covid-19 crisis, Woolworths pared manager bonuses so that over 100,000 workers could have a little slice of equity in the Australian supermarket chain. If more companies followed suit in the coming year, it would create a lasting virus legacy.

The pandemic ought to bring the advantages of employee ownership into sharper relief. For one thing, research published a few years ago in the British Journal of Industrial Relations found links to much greater job security during downturns. That's on top of the improved loyalty, work ethic, job satisfaction, wealth creation and financial literacy often associated with staffers owning stakes in their employers.

Despite these benefits, and few significant drawbacks beyond the administrative burdens, the idea has only slowly gained traction beyond Wall Street and Silicon Valley at companies like Starbucks. The percentage of U.S. private-sector workers holding equity in their companies – whether through options, share purchase programmes, 401k retirement accounts or formalised employee stock ownership plans – has been flat at about a fifth, according to the quadrennial General Social Survey.

Woolworths used the tough year as an opportunity to be more inclusive Down Under. Instead of just the usual cash or gift-card awards, the company also doled out up to A\$750 (\$555) in shares to full- and part-time employees to recognise them for braving bushfires and Covid-19. To help cover the cost, everyone from boss Brad Banducci to deli-counter managers took a cut in their bonuses. For about \$37 million, the company in one fell swoop turned half its workforce into stockholders.

Although designed as a one-off expression of gratitude, it would be even better if Woolworths expanded the programme. There's also time for hospital operators, restaurant chains and retailers worldwide to use equity to show appreciation for workers who provided lifelines throughout the pandemic. Walmart, for one, spent \$850 million on stock-based compensation in the year to January 2020. Distributing such awards more widely should be a no-brainer.

DISTRIBUTING SUCH AWARDS MORE WIDELY SHOULD BE A NO-BRAINER

In October, all the new employee owners of Woolworths received their first dividends. It will pay even bigger ones for the company, and others that can see clear to giving workers the gift of stock certificates.

First published December 2020

LOOK OUT EUROPE: A SPAC CRAZE IS AROUND THE CORNER

BY CHRISTOPHER THOMPSON

Such listings have been big in America but rare across the pond, where they have a bad rap. But a dearth of typical IPOs will keep investors keen. French rainmakers Xavier Niel and Matthieu Pigasse have broken the ice. Andrea Orcel, Ivan Glasenberg and others should take note.

CARTE BLANCHE

American cultural imports are often regarded with froideur in France. Recently, telecoms mogul Xavier Niel and banker Matthieu Pigasse received a warmer reception for their U.S.-style special purpose acquisition company focused on consumer goods. Despite the product's poor track record in Europe, look for the SPAC craze to infect the continent's rainmaker class.

These vehicles, set up by financiers to raise funds for unspecified deals, are rare in Europe. Prior to December, just 19 listed over the past six years, according to Refinitiv, raising \$3.4 billion. In 2020 alone, bold-faced names on Wall Street like Pershing Square's Bill Ackman raised \$66 billion worth.

SPACs are often controversial because they hand outsized rewards to founders and allow companies to skirt listing rules when going public. In Europe similar vehicles have a sketchy past. Vallar, the London-listed shell which raised \$1.1 billion in 2010 for mining deals off banking scion Nat Rothschild's contacts, foundered amid corporate governance problems.

Iliad co-founder Niel and Centerview Partners Paris chief Pigasse have broken the drought before. They launched Mediawan in 2016, which bought European media businesses. Their new venture, 2MX Organic, comes as the volume of initial public offerings has declined for the last three years. Just \$17 billion was raised in 2020, down 20%. European investors are hungry for new ways to put capital to work.

The Frenchmen won't be alone. The continent is chock-full of dealmakers and bankers who, like their American cousins, have the track records needed to win investor backing. Consider former bank chief executives like Jean Pierre Mustier of UniCredit and Tidjane Thiam of Credit Suisse. Or ex-UBS investment bank head Andrea Orcel.

Similarly, notable M&A grandees like Erik Maris in France or Claudio Costamagna in Italy may find a role model in former Citigroup executive-turned-rainmaker Michael Klein's four U.S. SPACs. Gallic tech entrepreneur Marc Simoncini or Germany's Samwer brothers, founders of Rocket Internet, could be in the mix. Even blank-cheque mining vehicles may stage a comeback: Imagine Glencore's departing CEO Ivan Glasenberg buying his former company's coal assets.

At least 10 European SPAC deals are in the pipeline, Reuters reports, set to raise some \$3 billion. True, that's small compared to the United States. But like other cultural imports, good and bad, what happens in America eventually makes its way across the pond.

First published December 2020



DEPOSITS WILL BECOME A GROWING LIABILITY FOR BANKS

BY PETER THAL LARSEN

Converting savings into loans is the bedrock of banking. Yet near-zero interest rates and a pandemic-induced deposit surge are squeezing revenue. Some lenders will charge customers to look after their cash. Upstarts will decide regulated deposit-taking is not worth the hassle.

DEPOSIT REJECTION SCHEME

Banks will find deposits a growing liability in 2021. Turning short-term savings into long-term loans has been the bedrock of banking for centuries. Yet the pandemic threatens to strain that business model to its breaking point.

The industry was already under pressure before Covid-19. Low interest rates squeeze the margin banks earn from lending out deposits. The coronavirus crisis saw rates fall further, while customers rushed to stash spare money in the bank. U.S. deposits swelled to \$15.7 trillion by the end of September, 21% higher than a year earlier, according to the Federal Deposit Insurance Corporation. Customers of British banks had 12% more on deposit at the end of October than at the start of 2020.

The pressure on lending margins will only grow as borrowers refinance loans at cheaper rates. McKinsey reckons bank revenue will be 14% lower than its pre-crisis trajectory by 2024, wiping out \$3.7 trillion in cumulative top-line income. Though lenders can respond by cutting more costs, they will also have to take further-reaching steps. HSBC Chief Executive Noel Quinn, who oversaw customer deposits worth almost \$1.6 trillion at the end

of September, plans to beef up fee-based businesses, and may charge customers in some markets for holding their money. Rivals would probably like to do the same.

The crunch is also upending bank regulation. Authorities have long focused on deposit-taking institutions. Banks accepted cumbersome capital and liquidity requirements as a worthwhile tradeoff for privileged access to cheap, stable funds. The 2008 crisis reinforced the view that deposits are preferable to flighty funding from wholesale markets.

UPSTART FINANCIAL GROUPS HAVE BYPASSED DEPOSITS WHILE EATING INTO BANKS' REVENUE

But upstart financial groups have bypassed deposits while eating into banks' revenue. Companies like Global Payments, Adyen and Stripe have built businesses valued at more than \$50 billion each by processing electronic transactions. China's Ant lets its 700 million users make payments, borrow money, and buy investment products from their smartphone without accepting conventional bank deposits. Indeed, as deposit accounts that offer interest disappear, customers will be even more inclined to leave their cash with online firms that pay them nothing.

Banks can't easily change their business models to focus on fees, though. Lenders on average earn between 50% and 75% of revenue from interest income, McKinsey reckons. The old privilege of safeguarding customer money increasingly seems like a burden.

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CHAPTER 2

CRUSHING IT

MRNA IS A \$120 BLN BET ON PLATFORM, NOT VACCINES

BY ROBERT CYRAN

This emerging biotechnology has delivered two Covid-19 jabs with miraculous speed, pushing firms like Moderna and BioNTech to big valuations. The new year will see these companies doused with even more money, which will help efforts to treat cancer or rare diseases post-pandemic.

ARRIVING ON PLATFORM

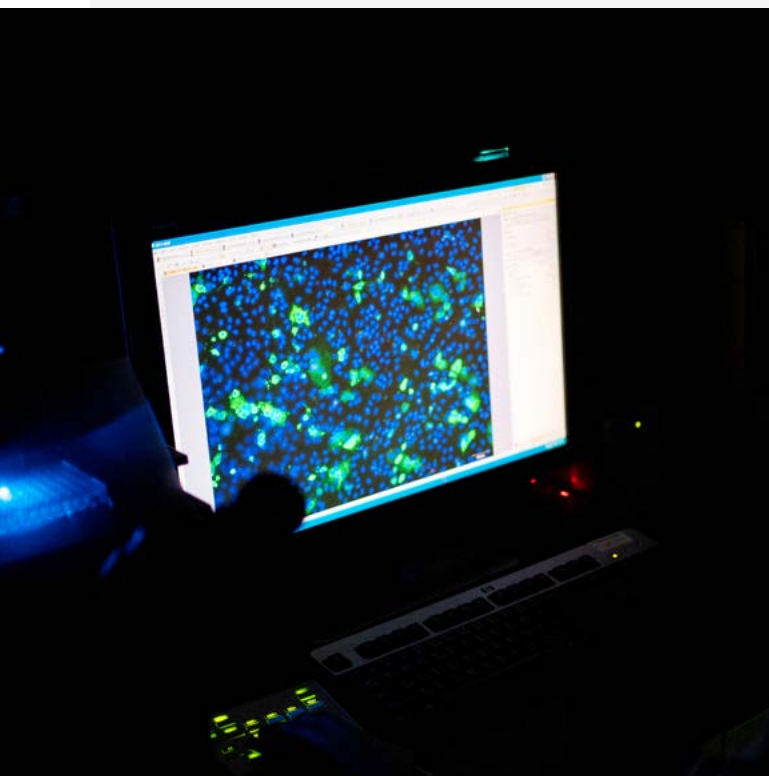
Biotech firms Moderna and BioNTech used a biotechnology known as messenger RNA, or mRNA, to produce vaccines effective against Covid-19 with miraculous speed. That has pushed the combined worth of specialists in this emerging field to more than \$120 billion. That's a glimpse of what's possible if it can be applied post-pandemic to treat cancer or rare diseases.

THE TECHNOLOGY IS THE CLOSEST THING YET TO MAKING MEDICINE DIGITAL

The technology is the closest thing yet to making medicine digital. mRNA vaccines essentially inject genetic code that instructs a recipient's cells to construct a part of the virus. The body recognizes the produced protein as foreign and mounts a future immune response when exposed. Moderna and BioNTech's vaccines show the technology works fast. Vaccines typically take a decade to develop. They took less than a year.

The total annual market for vaccinations is about \$35 billion, according to Bernstein, and dominated by firms like Pfizer and Merck. Big pharma companies are valued at 5 times revenue. Put mRNA firms on the same multiple and that implies investors believe they will capture about two-thirds of the market.

It's possible. The speed of mRNA therapeutics is a big advantage. For example, flu vaccines only reduce the risk of illness by up to 60% because makers must guess which strains will be prevalent each season.



Sometimes they're wrong. Shaving months off means better guesses, and higher efficacy.

The bigger opportunity comes from the validation of the mRNA "platform". Instructing cells to produce desired proteins could lead to multiple advances. Perhaps they can instruct the body to more vigorously attack cancerous cells or repair damaged tissue. Producing missing proteins might fight inherited diseases.

It's not a given. The body breaks mRNA down quickly, and larger doses trigger immune reactions. That can be a benefit for a vaccine, or possibly treating cancer, but it's a problem for other uses. Researchers have figured

out some tweaks – a layer of fat around mRNA vaccines keeps them circulating longer – but they'll need more.

Success against Covid-19 means these companies will be flush with cash from sales and attract partnerships and scientific talent. That should make 2021 a watershed. There's a hopeful precedent in monoclonal antibodies therapy. Sales only took off about two decades ago, but should reach \$150 billion in 2020, estimates EvaluatePharma. That's worth perhaps \$750 billion based on a multiple of five – and gives a view of what might be possible with mRNA.

First published December 2020

IMMUNE RESPONSE

Year-to-date stock price performance



Daily number of worldwide COVID-19 new cases (smoothed)





AN INDIE ESPN WILL KEEP DISNEY AHEAD OF THE GAME

BY JENNIFER SABA

The \$300 bln company is shifting its focus to Disney+. The sports network is still valuable but high programming costs from franchises like the NFL and declining subscribers due to cord cutting are looming problems. An ESPN spinoff is the way boss Bob Chapek can make his mark.

EYE ON THE BALL

Bob Chapek is coming up on his one-year anniversary in February as chief executive of Walt Disney. He has made good work of shifting the Magic Kingdom's focus on streaming video and capturing some Netflix fairy dust. In the coming year Chapek could make his mark in another way: An ESPN spinoff would keep Disney ahead of the game.

The \$300 billion entertainment conglomerate's stock has been buoyed by the eye-popping success of its direct-to-consumer service Disney+. In just over a year

it has landed 87 million subscribers, near its five-year target of 90 million customers. It now expects to gain up to 260 million customers by 2024. Netflix, by comparison, has 195 million subscribers more than a decade after its debut.

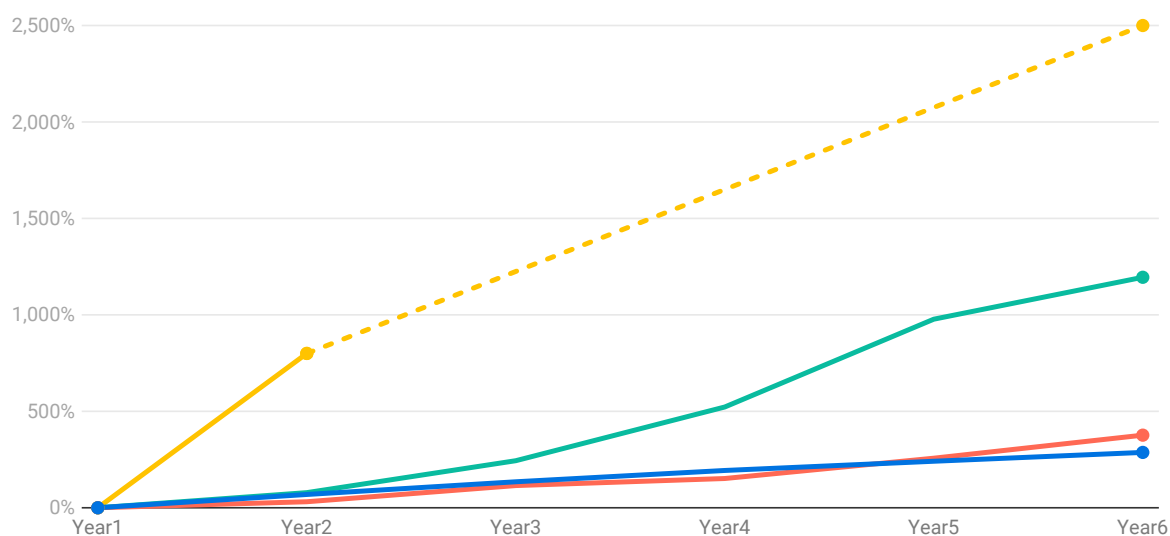
Chapek reorganized the ranks to put streaming front and center in October. Sports, TV and films are created under separate division heads but Kareem Daniel, chairman of media and entertainment distribution, has been given financial oversight over all content across the Magic Kingdom.

TO REDUCE DISNEY'S RELIANCE ON CABLE DISTRIBUTORS AND FURTHER CHANGE WITHIN THE GROUP, HE SHOULD SET ESPN FREE

To reduce Disney's reliance on cable distributors and further change within the group, he should set ESPN free. Disney doesn't own the channel's core content: It pays princely sums for the right to air sporting events, such as National Football League matchups.

MOUSE TRACKS

Walt Disney raised its forecast for Disney+ to 260 million subscribers at the top end of the range by fiscal year 2024. Here is how **Disney+** growth estimates compare with past growth of **Netflix**, **Apple**'s iPhone and **Facebook**'s monthly active users.



Source: Company reports

Jennifer Saba & Vincent Flasseur | Breakingviews - Predictions 2021

Overall, Disney is on the hook for more than \$40 billion in sports programming commitments – more than triple the amount a decade ago.

More viewers might help offset the expense, but consumers are eschewing cable and ESPN's audience is shrinking. The prime network counts over 80 million subscribers – down approximately 16% from 2010. Direct-to-consumer service ESPN+ has about 12 million customers, yet that's less than 10% of Disney's overall streaming video subscriber base including Hulu.

MoffettNathanson estimates ESPN accounts for about 60% of Disney's cable operating profit of some \$6 billion last fiscal year. But the unit's margin has been shrinking from about 39% in 2010 to an estimated 30% in 2022 according to forecasts from Barclays. Chapek could cleave ESPN into a separate company, which could be worth some \$40 billion at just under 12 times operating profit. It would be a bold play to make Disney more agile in its battle with Netflix.

First published December 2020

CHINA'S WM MOTOR WILL OVERTAKE TESLA WANNABES

BY KATRINA HAMLIN

The electric-car maker is set to list on Shanghai's Star Board. It's late to market and underhyped compared to Elon Musk's operation and local rivals like Nio or Xpeng. But having targeted the mass market, a gross profit will already be in sight when it lists.

SLOW AND STEADY

China's WM Motor will start pulling ahead of Tesla wannabes. The Shanghai-based upstart chose a different path to Elon Musk and compatriots such as Nio and Xpeng, opting to list at home instead of New York, and choosing the mass market over luxury. As a result, WM Motor will be close to gross profitability by the time it lists early in 2021.

Although its last funding round raised a record 10 billion yuan (\$1.5 billion), the company's family-friendly models have not generated the hype that drove Nio shares to a quadruple-digit rally in 2020. That outfit reported

a 1 billion yuan net loss in the third quarter but still trades at a price-to-sales multiple higher than Tesla's, itself already worth over \$570 billion in mid-December.

FOUNDER FREEMAN SHEN IS NO LESS DARING THAN MUSK OR NIO'S WILLIAM LI

Founder Freeman Shen is no less daring than Musk or Nio's William Li, however. Tesla started out targeting the premium sector before building more affordable mass-produced models, as Musk explained in his 2006 strategy. Nio followed him, rolling out fancy sports cars to generate headlines and establish engineering and design cred. But WM is going straight to the mass market. If it works, it could end up ahead of its more exuberantly valued peers.

Shen believes Chinese consumers are ready for battery-powered rides that are not status symbols. Its flagship plug-in sports utility vehicle, the EX5-Z, retails for about half the Tesla Model 3's price. WM sales were close to 20,000 in the first 11 months of 2020, putting it on track for a 30% increase in deliveries compared to a year earlier. At that rate annual unit sales will be higher than Nio, Li Auto or Xpeng's respective total sales at the time of their listings.

It is also better able to control costs via economies of scale. Nio and Xpeng have outsourced much of their manufacturing to contractors. WM has in-house research and production in place, including factories with a current capacity of 250,000 units per year, and space to double output. With the potential to rev up margins, the newest electric-vehicle stock on the block could one day outshine flashier peers and compete with giants such as Nissan and Geely Automobile.

First published December 2020



PANDEMIC PET BOOM KEEPS RUNNING FOR NEW TOP DOGS

BY ANNA SZYMANSKI



Locked-down humans adopted more four-legged friends in 2020 and upped spending on pet supplies and medicine, causing the stock prices of firms like Chewy and Zoetis to rally. Old-school pet chains also benefited, but as nimble e-retailers take more sales, the pack may thin.

MAN CHASES DOG

The pandemic pet boom has some bark left in it. Locked-down humans adopted four-legged friends at a rapid pace during the lockdowns. This pushed global pet product sales up to \$125 billion, according to Packaged Facts. But Fido will require food, treats and medicine after the vaccine arrives, and spending on services like grooming could rise. Companies that have lapped up sales still have room to run.

FIDO WILL REQUIRE FOOD, TREATS AND MEDICINE AFTER THE VACCINE ARRIVES

Chewy was best in show. The pet online retailer run by Amazon.com alumnus Sumit Singh saw its share price leap 160% through mid-December, with a 46% surge in net sales in the first three quarters of its fiscal year. It added 150% more active users in the first three quarters than in all of 2019 – bringing the total to near 18 million. Subscription sales may make customers sticky,

and increased focus on private-label products and healthcare services should fatten margins.

It wasn't the only winner. Zoetis, the animal medicine developer led by Kristin Peck, had a more modest 20% share price bump in 2020. In November it raised its full-year revenue guidance to \$6.6 billion. Pet pain medicine sales could juice growth in 2021, offsetting weakness in the former Pfizer division's livestock segment.

But bricks-and-mortar pet supply chains are a bigger question mark. PetSmart, which leveraged itself to buy Chewy for over \$3 billion in 2017, said in October that the two would split. But investors balked at the refinancing, prompting S&P Global to downgrade PetSmart's credit rating. Meanwhile, Petco is looking to go public and reduce debt. While higher same-store sales may provide a tailwind, both firms will struggle to compete with more nimble competitors that can afford to keep losing money, and may need to shift further into high-margin services.

All in, the post-pandemic pet industry will be bigger, but also become more concentrated, especially as many mom-and-pop outlets may not weather the lockdowns. So Chewy trading at just under 6 times sales in mid-December, roughly double its pre-virus multiple, is justifiable. True, a shift in investor sentiment away from pandemic darlings would knock high-flying stocks like Chewy temporarily, even if their underlying businesses remain strong. But, long-term, the leaders of the pack are likely to pull away.

First published December 2020

TEA BUBBLE IS SET TO INFLATE IN CHINA

BY YAWEN CHEN

Coffee has been all the rage across the country as McDonald's and the local KFC owner challenge Starbucks. On the rise, however, are bubble tea chains Heytea and Nayuki, which are angling for IPOs. Exuberance for consumer companies will have investors gulping down their shares.

TEA TIME

Get ready for a tea comeback in China. The drink so closely associated with the country's history has been supplanted of late in the zeitgeist and financial markets as a bitter battle for coffee dominance rages. In 2021, however, investors will be gulping down the latest craze in steeped leaves.

Despite recent pandemic-related setbacks, Starbucks and its giant roasteries have made a caffeinated splash

in Shanghai and beyond. Its success is inviting fresh challengers. The spectacular floundering of local wannabe Luckin Coffee left a competitive gap being filled by McDonald's, local KFC owner Yum China and others.

As java overflows, bubble tea has been quickly brewing. Since the concept of dropping chewy tapioca balls – or boba – into black tea was introduced from Taiwan in 1997, China's consumption has reached five times that of coffee, according to analysts at China Merchants Securities. They reckon the number of shops pouring fresh-brewed product registered 74% growth in 2018.

There are low barriers to entry, but only a few stars have emerged. Heytea was valued at \$2.5 billion after raising over \$95 million, most recently from Hillhouse Capital and Coatue Management. Founded by Nie Yunchen eight years ago, it operates nearly 600 stores in China. Nayuki, a younger rival with around 350 locations, secured some \$100 million in its latest funding round. Smaller Guming is another emerging favourite.

Unlike coffee, which has become a status symbol for China's white-collar elite, bubble tea attracts a younger generation. They're willing to pay 20 to 40 yuan (\$3 to \$6) for a cup that may include cheese topping or fruits.

That Generation Z appeal should help make bubble tea purveyors popular with the mom-and-pop Chinese investors who dominate the public markets. Other eateries have fared well. For example, hot-pot chain Haidilao International's share price had tripled by mid-December since going public in 2018. That bodes well for Heytea and its peers, which could easily command a similar valuation as Starbucks, at 30 times expected earnings.

Things are so hot in tea, in fact, that brewers are eyeing the market for espressos and cappuccinos. By the end of 2021, the coffee makers could be competing back, fully inflating a bubble-tea bubble.

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GRAB CEO WILL STEP INTO 2021'S TECH LIMELIGHT

BY ROBYN MAK

Anthony Tan has steered his \$15 bln super-app through the pandemic. With growth in digital payments booming across Southeast Asia, Grab is now charging into wealth management and digital banking. A mooted merger with rival Gojek will only cement Tan's rising star status.

SUPERSTAR

Anthony Tan will cement his star status in the year ahead. The chief executive and co-founder of Grab has deftly steered the \$15 billion Southeast Asian all-in-one app through economic turmoil. Even as lockdowns pummelled the company's main ride-hailing business, the pain has been largely offset by surging demand for food delivery and groceries. Overall revenue has bounced back to pre-virus levels, the company says. With such momentum, a new push into financial services will put Tan firmly in the tech limelight.

The digital finance opportunity is huge. A joint survey from Alphabet-owned Google, Temasek and Bain & Company found that over a third of e-commerce consumers in the region's top six economies only started to use online services because of the pandemic and over 90% plan to stick with their new habit. The same report forecast online payment transactions will rise 15% to \$1.2 trillion by 2025, up from \$620 billion in 2020.

Grab already has payments, insurance and small business loans in most of those markets. In August, the company unveiled a suite of new offerings, including a wealth management product in Singapore that allows users to invest as little as \$1, as well as "buy-now-pay-later" plans in multiple countries. Recently, Grab's venture with mobile carrier Singtel won one of Singapore's first digital bank licenses – a potential precursor to similar moves into Malaysia and the Philippines, as they prise open their banking sectors.

Deep penetration in a rich country like Singapore may prove an advantage. Higher-margin fees and commissions that Grab can secure on its home turf in retail banking and other services will support its bottom line as the company continues its regional expansion. Top rival Gojek, backed by Facebook and PayPal, dominates in Indonesia which is a much larger but poorer market.

The ultimate prize could come from a long-anticipated merger between Grab and Gojek. The two loss-making arch-rivals may decide to become allies as video-games colossus Sea Limited fast becomes a serious contender in mobile wallets. If antitrust regulators allow any such deal, the Singaporean group is likely to lead the consolidation — and Tan will be centre stage.

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U.S. IS PROMISED LAND FOR ONLINE GAMBLING

BY KATRINA HAMLIN

Wagers will be a welcome source of tax dollars across Covid-scarred America, where the potential market for web-based sports betting could be worth up to \$23 bln. As watchdogs ease rules in 2021, sites such as Flutter's FanDuel and casino groups like Caesars and MGM will get lucky.

WINDFALL

U.S. online gambling is one of 2021's better bets. After a painful pandemic, wagers will become a welcome source of tax dollars across America. The potential market for internet sports betting could be worth up to \$23 billion, twice the annual gaming revenue of Nevada casinos, according to company estimates compiled by Bernstein. Websites and old-school casino companies are set to pocket winnings.

Online betting shops have faced tricky odds in the United States. A 2018 Supreme Court ruling allowed states to legalise sports bets. But the federal Wire Act still complicates some ventures by limiting gambling across state lines. Only a handful of states have taken a chance on an online sports book, with much of the action in New Jersey, Pennsylvania and Delaware.

Those few are enjoying a windfall. New Jersey's sports wagers totalled \$4.1 billion through October 2020, with virtual gambling accounting for more than 90% of October's bets, according to PlayNJ analysts. Like other home entertainment, digital sports betting had a captive

audience when Covid-19 struck and is on track to rise by around a fifth globally in 2020, Fitch Ratings estimated in November. There is scope for further growth. New habits may stick, and legal options could displace illegal ones.

LIKE OTHER HOME ENTERTAINMENT, DIGITAL SPORTS BETTING HAD A CAPTIVE AUDIENCE WHEN COVID-19 STRUCK

More states are likely to take the plunge, too. With typical tax rates on internet gambling in the mid-teens or higher and growth accelerating, it's an opportunity to top up their coffers. And while online casinos come with a stigma, a nation of football, basketball and baseball fans may find sports betting more palatable. Massachusetts is debating the inclusion of online sports betting in its economic development bill. Ohio and New York are also looking at the idea.

Dublin-based betting behemoth Flutter Entertainment just committed \$4.2 billion to increase its stake in U.S.-based sports betting site FanDuel, hailing easing American rules as "the single biggest market opportunity" today. A fellow investor, media group Fox, secured the option to raise its own stake. Meanwhile, casino operators are overcoming fears of cannibalizing their in-person business: MGM Resorts International and Caesars Entertainment are building up online, and Wynn Resorts started offering online sports betting in the third quarter. After the tax collectors get their cut, shareholders can divvy up the jackpot.

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CHAPTER 3

IT IS WHAT IT IS



DATA CENTRES WILL BECOME GREEN ACTIVISTS' TARGET

BY ROBYN MAK

Server farms and networks each use around 1% of the world's electricity – more, for now, than electric vehicles. That could hit double-digits by 2030 thanks to 5G and other trends, making related emissions a problem. Poor disclosures put Amazon and peers in ESG investors' sights.

NETFLIX AND EMIT

Technology firms are due a green shake-up. Data centres and networks each use around 1% of the world's electricity, according to the International Energy Agency – more, for now, than electric vehicles. That could hit double-digits by 2030, making related emissions a problem.

The infrastructure behind video conferencing and binge-watching "The Crown" on Netflix comprises mainly two parts: buildings that house tens of thousands of servers and the networks that connect servers to smartphones, PCs and other devices. Both require huge amounts of electricity. Data centres use roughly 200 terawatt-hours a year, according to a 2018 study led by Eric Masanet, an engineer at Northwestern University in the United States. That's in the same ballpark as Australia's annual consumption.

The good news is that figure has barely increased over the past decade. Even as data volumes have multiplied, networks and server farms, particularly so-called hyperscale centres operated by Amazon.com, Microsoft, and Alphabet-owned Google, have become extremely energy efficient.

But that trajectory looks unsustainable. Even without the isolation of the pandemic, widespread adoption of next-generation 5G wireless technology, autonomous driving and the internet of things will dramatically boost internet traffic. Moreover, chips that power servers are reaching technological limits, making efficiency gains harder to come by.

Estimates for how much energy consumption will rise vary. But for some countries, data may suck up a double-digit percentage. Ireland's power operator, for instance, in 2018 estimated the country's data centres may account for nearly 30% of electricity demand by 2028. The Irish Academy of Engineering reckons that will add at least 1.5 million tonnes of carbon emissions, 13% of the electricity sector's current total.

Giant technology companies are among the world's largest buyers of renewable energy. But that won't be enough to spare them the attention of environmental, social and governance-oriented investors. At the top of the agenda will be pushing for better disclosure about energy use and emissions, perhaps even attributing them to specific bulk customers like Netflix and Zoom Video Communications.

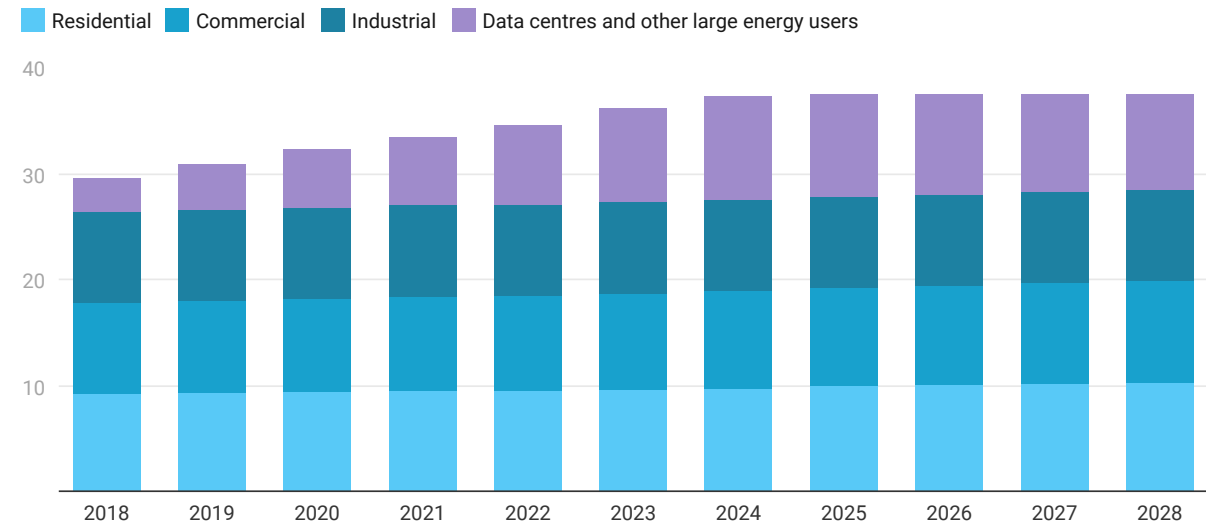
AT THE TOP OF THE AGENDA WILL BE PUSHING FOR BETTER DISCLOSURE ABOUT ENERGY USE AND EMISSIONS

In January 2020, Microsoft unveiled a tool to help enterprise clients analyse their cloud service-related emissions. That's a step in the right direction, but ESG investors may demand much more in 2021.

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IRELAND’S CHANGING ELECTRICITY DEMAND

Projected electricity demand in Ireland, by sector (TWH)



Source: International Energy Agency
Robyn Mak & Vincent Flasseur | Breakingviews – Predictions 2021



IMAGE: A staff member is seen at Alibaba's data centre in Zhangbei, Hebei province, China, Sept. 11, 2016. China Daily/via REUTERS

FACE-TO-FACE BUSINESS HABITS WILL DIE HARD

BY JEFFREY GOLDFARB



Zoom and its ilk have helped virtual deals and roadshows cost less in cash and jetlag. Going digital also should expand the pool of board directors and make shareholder meetings more inclusive. Even so, plenty of work that moved online in 2020 will revert to the real world.

GET REAL

The new virtues of conducting business virtually will be up against old realities in 2021. Zoom Video Communications and its ilk have changed corporate behavior, often for the better. Yet the gravitational pull of meeting in person is a powerful force.

Some perks of the digital working world outweigh the screen fatigue. Executives providing advice and professional services, for example, relish living on the ground instead of on an airplane. Ken Moelis is allowing investment bankers at his eponymous boutique to relocate far from the New York headquarters if they want.

Employers and clients also appreciate the related savings. HSBC was on track to spend less than \$100 million on travel and entertainment in 2020, down from \$400 million a year earlier, Chief Financial Officer Ewen Stevenson said in November. He expects a “modest snapback” in 2021.

As for mergers, there may be fewer mid-transaction flights involved, but it will take only one deal lost to a rival who pitched in person for throngs of M&A bankers to jump back into their business-class seats.

And while far more efficient digital roadshows should continue post-pandemic for many initial public offerings, some investors will want trust-building live interactions. Smaller stock issuers may struggle to drum up interest without pounding the pavement.

Online corporate get-togethers have cons as well as pros, too. Broadridge Financial Solutions, which supplies technological plumbing for funds and others, said it hosted about 2,000 virtual shareholder meetings in 2020, up from 300 in 2019. What’s more, it reported voting participation of 71%, higher than for the offline cohort. Although digital attendance prevents the decades-old trick of dodging investors by holding annual gatherings in faraway places, there is instead the risk of companies cherry-picking which shareholder questions to answer. Nor are internet links yet 100% reliable. Home Depot and others are aiming for an in-person format in 2021.

Many board directors also may want to sit around the same actual table again, for at least some meetings. Virtual sessions can be shorter while expanding the range of potential director candidates, but a survey co-led by the Governance Institute of Australia discovered some resistance. Missed body language and informal interactions were among the complaints. Fewer than half the respondents said they would keep convening by video conference “frequently.” Face-to-face business habits will die hard.

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BIG OIL

WILL CASH IN ON SUN AND WIND

BY GEORGE HAY



IMAGE: The silhouette of a child walking at New Brighton beach is seen with the Burbo Bank wind farm behind before sunset in New Brighton, Britain, May 5, 2020. REUTERS/Phil Noble

Covid-19 and ESG have crushed the stock prices of companies like Total and BP. Listing their growing renewables businesses would help capitalise on inflated valuations. There's a hedge of sorts: if the spinoffs don't work they can be bought back on the cheap, Iberdrola-style.

WINDS OF CHANGE

The sun will come out tomorrow for oil titans. Even as stock markets rallied broadly from pandemic-induced 33% dives in March, share prices for BP, Royal Dutch Shell and others failed to recover. Some artful corporate finance could help in 2021.

Cratering oil demand is one reason Big Oil has struggled. Fund managers are also heeding the call to scrutinise environmental, social and governance factors. Carbon-heavy investments are out; pure-play renewable energy is in.

Take Orsted. In early December, the Danish wind generator was trading at more than 40 times expected 2021 earnings, against BP's 15 times. The Orsted valuation implies all its 15 gigawatts of projects through 2025 will be delivered without a hitch, with cash flows discounted at a lowball 1% cost of capital, Credit Suisse analysts reckon. The 25-fold increase in wind power generation envisaged by the European Union

by 2050 could mean such lofty valuations eventually come good, but for now they reflect exuberance.

That makes it a good time to capitalise. BP and Total expect to own about 20 GW of wind turbines and solar panels by 2025. Spinning off these operations into separately managed entities, and selling one-third stakes, would allow them to maintain operational control while raising cash.

Orsted, including net debt, was worth \$75 billion in early December, implying \$5 billion per gigawatt for its targeted 2025 capacity. Total's focus on lower-margin solar power deserves nearer \$1 billion per gigawatt, Bank of America analysts estimate. Even then, it suggests a hearty \$25 billion valuation, or over a fifth of the French company's market capitalisation.

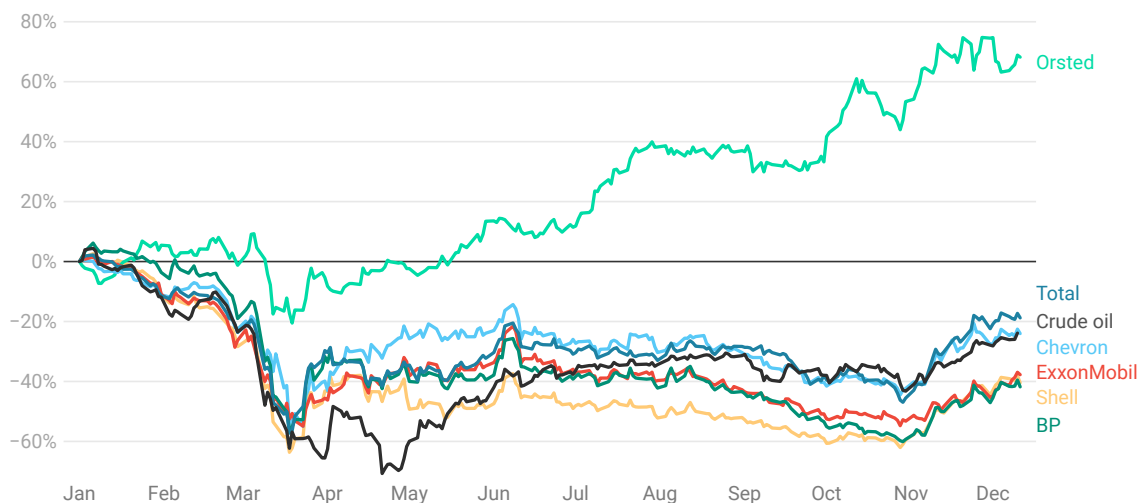
In theory, investors should already be factoring this in. Their ESG-era distaste for fossil fuels, however, means they probably aren't. Spinning off the businesses should therefore bring higher valuations. Total, for one, could use the proceeds to grow renewables capacity and pay special dividends. Separately listed shares also would provide a currency for future consolidation.

There's even a hedge of sorts. European utility Iberdrola listed its renewables businesses just before the 2008 financial crisis, before buying it back later when values dipped. Depending on how the green investment winds blow, Total and others could follow suit.

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TOTAL ECLIPSE

Year-to-date change in \$ price



Source: Refinitiv Datastream

Vincent Flasseur | Breakingviews - Predictions 2021

5G WILL ZOOM FROM MYTH TO MASS-MARKET REALITY

BY ED CROPLEY

The mobile technology is much debated and little used. But falling prices mean most handsets sold in 2021 will work on new networks. Post-pandemic consumers may happily pay for extra reliability and speedier downloads. Commercial uses remain vague, but phone envy will kick in.

G-FORCE

5G has had an inauspicious start to life. Though politicians have spent years debating security risks associated with suppliers of the high-speed mobile technology, few people have used it. Conspiracy theorists blamed it for Covid-19. And with mass gatherings like concerts and sports events cancelled, telecommunication bosses had few chances to show off their latest toy. The stage is set for a dramatic coming-out party.

WITH MASS GATHERINGS LIKE CONCERTS AND SPORTS EVENTS CANCELLED, TELECOMMUNICATION BOSSES HAD FEW CHANCES TO SHOW OFF THEIR LATEST TOY

The biggest factor in 5G's favour is the availability of cheaper handsets. Apple's new iPhone 12 retails at \$799 in the United States, only marginally more than the company's closest non-5G models. Handsets from rivals like Samsung Electronics or Huawei Technologies can cost as little as \$250. Except for the most obdurate Luddites, anybody who upgrades their phone in 2021 will get one that works on new 5G networks.

For telecom companies which have spent billions of dollars buying wireless spectrum and installing kit, having consumers using the service rather than just hearing about it is a relief. In South Korea, historically an early tech adopter, the rollout of 5G since April 2019 has helped arrest a steady decline in the revenue operators extract from each user. SK Telecom, which claimed nearly half of South Korea's 9.25 million 5G subscribers as of September, reported a nearly 4% year-on-year rise in quarterly sales in November. UK rival Vodafone, whose revenue is likely to fall 3% in its financial year ending March 2021, is watching with interest.

The pandemic offers further cause for optimism. In late 2018, research by consultancy PwC suggested consumers might pay \$5 a month more for 5G networks' improved reliability and ultra-high-speed downloads. After months in which housebound users have been forced to rely on intermittent home broadband connections, that premium will only have gone up. And word of 5G's superior performance will spread quickly as users return to socialising and comparing gadgets.

The real benefits of 5G lie in commercial applications like smart factories, real-time voice translation, and enhanced-reality gaming. Promised applications such as enabling driverless cars or remote surgery in hard-to-reach locations remain distant prospects. Even so, the power of phone envy means 5G will finally make its mark in 2021.

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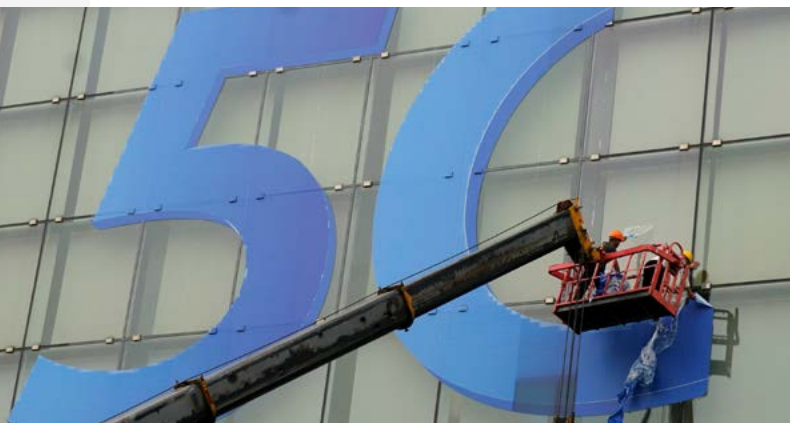


IMAGE: A 5G sign is seen in Pudong district in Shanghai, China, April 25, 2019. REUTERS/Aly Song



TRADE FEUDS WILL TAKE ON A NEW, GREEN HUE

BY SWAHA PATTANAIAK

Slapping tariffs on countries out of the blue isn't Joe Biden's style. But the U.S. president-elect may place more emphasis on environmental standards in commerce negotiations. While that would rile Beijing, America will have European backers if Biden chooses to take a stand.

NEW BATTLE LINES

Trade feuds will take on a different hue after the departure of Donald Trump. Slapping tariffs on countries out of the blue isn't U.S. President-elect Joe Biden's style. But his determination to fight climate change could emerge as a new source of commerce tensions.

Biden wants the United States to rejoin the 2015 Paris Agreement to curb global emissions and reach net-zero emissions by 2050. But his focus isn't just domestic. The Democrat's election pledges included a plan to apply a carbon adjustment fee against countries that fail to meet climate and environmental obligations. He also said he would push for labour provisions in any commerce deal that his administration negotiates.

Meeting these promises could set the stage for new tensions with China, which accounted for just over 14% of the \$3 trillion worth of combined imports and exports reported by the United States in the year to October. Granted, President Xi Jinping is on board with the need to combat climate change. In September, he called for a green revolution

and for the first time set a target date by which the world's biggest emitter of carbon dioxide would achieve carbon neutrality. But what Biden views as pro-green, labour-friendly policies, Xi could see as unreasonable hurdles that will hurt Chinese exporters.

WHAT BIDEN VIEWS AS PRO-GREEN, LABOUR-FRIENDLY POLICIES, XI COULD SEE AS UNREASONABLE HURDLES

Global trade agreements typically leave the door open to differing interpretations and disputes. Countries can take measures to protect the environment, human health, and animal or plant life as long as unnecessary trade barriers aren't thrown up, according to World Trade Organization rules. And America isn't the only country that can play the green card.

China said in November that some imported coal had failed to meet environmental standards. For Australia, whose coal exporters find their shipments stuck in Chinese ports, this was one of a series of punitive trade measures that Beijing has taken since Canberra called for an independent inquiry into the origins of the coronavirus.

Trump was as apt to rile traditional allies such as Europe and Canada as he was long-term rivals like China. But America's partners in the West would probably back any push by Biden to promote environmental standards, especially ones they think they already meet. A fight that pits developed countries against emerging ones could be as ugly as the ones the outgoing president unleashed on the world.

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GENERATIONAL WEALTH GAP WARRANTS POST-COVID RESET

BY LIAM PROUD

Young people had a shrinking share of housing and equity riches even before the pandemic, which hurt them further by boosting unemployment and state debt. Shifting the tax burden to wealth, rather than income, would help. So would the radical option of millennial cash handouts.

FOR THE AGES

Covid-19 predominantly attacks the lungs, but with young people it goes straight for the wallet. The pandemic accentuates a wealth divide between millennials and the old, making a policy reset necessary.

Younger people already had a dwindling share of the West's riches. In America, under-40s held 8.6% of the country's assets in 2019, compared with 16.9% in 1990. In 2019, Brits in their early 30s had 20% less wealth than those born in the 1970s did at the same age, the Institute for Fiscal Studies said. Soaring real-estate prices have stopped young people getting on the property ladder. A decade of loose monetary policy has pumped up equities, mostly owned by oldies.

The pandemic twists the knife. Lockdowns decimated industries with mostly young staff, like hospitality and retail. That dents youths' longer-term employment prospects and makes wealth accumulation impossible. In mid-2020, the percentage of 15 to 24-year-old Americans and Canadians in employment fell to around 40% – lower than after the last financial crisis, according to the Organisation for Economic Co-operation and Development. European data is flattered by job-retention schemes, but they'll end.

Second, debt has ballooned. General government gross borrowings will on average be 124% of GDP in advanced economies in 2020, compared with 76% in 2005, using International Monetary Fund figures. Spending big is the right response to Covid-19, but debt-shy governments might then hike income taxes, hitting today's young throughout their lives.

One solution is to tax wealth rather than labour, easing the pain for working millennials compared with wealthy older people. Equalising capital-gains and income tax rates, as proposed by U.S. President-elect Joe Biden, would be a start. Introducing a temporary 1% wealth tax could raise 260 billion pounds (\$350 billion) in Britain, according to the London School of Economics' Wealth Commission. Another radical move would be to just give young people money. Britain's Resolution Foundation think-tank once floated the idea of a 10,000 pound 25th birthday present, funded by higher estate taxes.

It's a fairer policy than forgiving student debt, which only helps college-educated millennials. And funding it with higher inheritance taxes should cancel out the benefit for youths with rich families, meaning the cash flows where it's needed. The gray vote might want to attach some strings to the money. Fair enough. The Resolution Foundation recommended that it should only be used for housing, education, pension investing or starting a business. That should ensure the cash handouts lift young people out of their financial predicament, rather than helping them drown their sorrows at the bar.

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A BIDEN-XI REBOOT WILL BE FROSTY BUT MOSTLY HONEST

BY PETE SWEENEY



The two leaders have scant tinder with which to warm frozen ties in 2021. China-bashing is a bipartisan sport in America. Xi let nationalist trolls capture his diplomatic corps. But with status quo delusions stripped away, stabilising the economic relationship is within reach.

ABSENCE OF A NEGATIVE

President-elect Joe Biden and Chinese President Xi Jinping won't warm frozen ties immediately in 2021. China-bashing has become a bipartisan sport in America. Xi has let nationalist trolls take over his diplomatic corps. But with delusions about the status quo stripped away, both sides can renegotiate their \$600 billion trade relationship with some semblance of economic realism.

President Donald Trump's tenure was so irascible, Biden can calm troubled waters by simply declining to escalate. But only so far. Xi's willingness to deploy economic coercion to advance the interests of China Inc, combined with ham-fisted crackdowns in Hong Kong and Xinjiang, has dashed hopes that patience alone might curb the Communist Party's worst instincts. Under Xi the party has been reconfigured into a conservative political force at home, and a disruptive influence abroad.

To many Chinese, however, Washington's reaction looks like a desperate attempt by rich, jaded colonialists to preserve their privilege by containing an emerging power. The turn to protectionism through tariffs has not only made American

politicians look hypocritical, it has retroactively justified China's employment of trade-distorting measures.

However, out of conflict comes clarity. Supply chain dependencies between China and the United States are deeper than many realised. Similarly, financial dependencies between Chinese banks and foreign financial systems make U.S. dollar sanctions double-edged. In the standoff over Hong Kong, Washington appeared to blink. Trade wars are hard to win.

Even so, from Beijing's perspective a hostile Uncle Sam caused trouble via other channels. The White House has starved telecoms champions like Huawei and Semiconductor Manufacturing International of components, forced asset sales, named and shamed officials, and rallied international opinion against China. And for all the improvements to domestic equities markets, locking Chinese listings out of New York would sting too.

BOTH GOVERNMENTS CAN STOP BEING GRATUITOUSLY HORRID

Concessions seem unlikely, but both governments can stop being gratuitously horrid. It's not in U.S. interests to indulge bigotry, for example, much less discourage the People's Republic from exporting its best and brightest to U.S. research institutions. Beijing would do well to mute "wolf warrior" diplomats like Foreign Ministry spokesman Zhao Lijian, whose Twitter account is dedicated to torching Western goodwill. The two sides may have nothing nice to say. The best start is saying nothing at all.

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A person wearing a white protective suit, goggles, and a respirator mask stands in a blue-lit corridor. They are holding a red folder. A small tag on their chest reads "ПРОВЕРКА 14.07.". The background shows a blue cylindrical object and a doorway.

CHAPTER 4

LIVING WITH IT

DEFAULT WAVE WILL HIT THE LITTLE GUY HARDEST

BY NEIL UNMACK

Covid-19 has saddled companies with debts. Big groups with reserves and access to capital now look like they can ride it out. Smaller outfits won't stay afloat so easily: think local coffee shops vs. Starbucks. Governments need to get creative to help the worst-hit businesses.

SIZE MATTERS

The pandemic has saddled companies in most of the world with debts. Big enterprises with reserves and access to capital now look like they can ride it out. Smaller outfits are at much greater risk of default.

Looking at the bond market, the coronavirus crisis was a short-lived affair. Lockdowns caused company revenue to collapse and debt levels to shoot up. The average leverage of U.S. junk-rated companies in the leisure sector, for example, doubled to around 12 times EBITDA in the six months to June, according to ING. Around that same time Moody's Investors Service reckoned default rates globally could, in a pessimistic scenario, hit 16% in the coming year.

Some defaults came, including U.S. retailers Neiman Marcus and J.C. Penney. CreditSights analysts put the U.S.

12-month default rate in November at just over 7%. But the crunch eased thanks to bailouts, reopening economies, and companies raising fresh debt and equity. Federal Reserve Chair Jerome Powell and other central bankers slashed rates to zero and snapped up bonds, forcing investors to pile into riskier debt just to earn a return above inflation. The year 2020 has seen the second-biggest flow of funds into junk debt on record, Deutsche Bank analysts reckon. Their peers at Citigroup expect the U.S. high-yield default rate to fall back to just 3.4% in 2021, below 2019's roughly 4% level, according to Moody's.

AWAY FROM BIG-TICKET CAPITAL MARKETS, THINGS ARE LESS ROSY

Away from big-ticket capital markets, things are less rosy. Smaller companies typically have less diverse revenue and rely on banks for finance rather than bond investors. Even as high-yield borrowers pay less in interest, the proportion of U.S. banks tightening credit standards is near its highest level since 2009, according to the Federal Reserve Senior Loan Officer survey. Around a tenth of small and medium-sized companies across Europe may collapse in the next six months, McKinsey said in a November report.

Governments have helped by granting companies tax relief and guaranteeing debt. But in the UK, for instance, as much as 23 billion pounds of a potential 74 billion pounds of state-backed debt may be unsustainable, according to a report by CityUK.

The small-company crisis matters. Bigger, more financially robust groups may simply crowd out struggling competitors. Starbucks, for example, is among other moves raising wages, potentially making life even tougher for rival local coffee shops. To avoid continuing attrition, governments may need to extend cheap debt programs for longer or even forgive loans. Another option might be offering tax breaks to spur investment. With government debt also ballooning, that may require tough fiscal choices in 2021 and beyond.

First published December 2020



AFRICA'S DEBT CHICKENS RETURN TO RESTIVE ROOST

BY ED CROPLEY



Even before Covid-19, the continent faced a reckoning. Low commodity prices remove a major growth pillar, while mounting leverage rules out more foreign borrowing. With budgets and citizens under pressure from Angola to Zimbabwe, Africa Rising looks more like Africa Uprising.

AFRICAAAAGH

Africa Rising may fast become Africa Uprising. After a decade of debt-fuelled growth, the poorest continent always risked a difficult moment of reckoning. Depressed commodity prices and more circumspect foreign lenders will mean tighter budgets and unhappier citizens from Angola to Zimbabwe in the coming year. That's a recipe for political instability, conflict and migration.

Even before Covid-19, warning lights were flashing. In 2019, Sudanese telecoms tycoon Mo Ibrahim's eponymous Index of African Governance turned negative for the first time in its 10-year history. South Africa, the most developed economy south of the Sahara, kicked off 2020 by slipping into recession. When the pandemic struck, social, economic and political cracks papered over by years of cheap credit and bountiful mining receipts were torn open: soldiers seized power in Mali, Zambia defaulted on its obligations, and ethnic civil war broke out in Ethiopia.

With global banks like Morgan Stanley predicting only marginal increases in world oil prices, to around \$55 by

next December, there's little external respite in store for crude producers like Nigeria and Angola, which rely on hydrocarbons for three-quarters or more of government revenue. Nor can struggling citizens expect much sympathy from the state. Dozens of Nigerians were killed in October in a crackdown on protests against police brutality.

Finance, too, will be harder to come by. Even though rock-bottom rich-country interest rates should bolster debt sales by high-yielding frontier sovereigns, Zambia's default will have made many investors reassess the continent's credit metrics. They're not reassuring.

From 2011 to 2019, sub-Saharan Africa's outstanding debt nearly doubled to \$625 billion, according to the World Bank, going from 23% of the region's GDP to 38%. Meanwhile China, which has lent an estimated \$150 billion since 2000, will temper its largesse as it shifts from Belt and Road-based lending. Countries like Ethiopia, Angola and Kenya running into repayment difficulties will only accelerate Beijing's pivot.

EVEN THE STICKING PLASTER OF CHARITY WILL BE IN SHORT SUPPLY

Even the sticking plaster of charity will be in short supply. Britain is cutting its generous overseas aid budget to save money on the home front. And developed nations bulk-buying Covid-19 vaccine for their own citizens means 1.2 billion Africans will be relegated to the back of the inoculation queue. Suddenly, Africa Rising looks a very long way off.

First published December 2020

LANDLORDS' POST-VIRUS REFIT WILL LEAVE SCARS

BY AIMEE DONNELLAN

Remote working and a boom in e-commerce will force property owners to embrace a makeover. If Amazon and co buy defunct malls and offices become flats, asset values in the \$33 trln market could recover. But even post-revamp they will be worth less than five years ago.

DOWNSIZING

Sprucing up a run-down property is a quick way to add value. That's what landlords are banking on in 2021, as Amazon.com buys defunct malls and offices become flats. It could boost valuations in the \$33 trillion global commercial property market. Even so, assets will still be worth less than five years ago.

DEMAND FOR OFFICE SPACE HAS PLUMMETED TO A RECORD LOW

Demand for office space has plummeted to a record low, according to London's Great Portland Estates. The landlord's stock declined 25% since the beginning of 2020 as companies from Twitter to BP and PwC embrace a future where working from home is the norm. Shopping malls are in a worse predicament. Retail titans like Arcadia, owner of Britain's Topshop, and J.C. Penney in the United States have collapsed amid the pandemic. The e-commerce boom that has eviscerated the high street is only likely to intensify – Moody's reckons the proportion of online sales will leap to 25% by 2025 from around 15%.

Luckily, Amazon is crying out for warehouse space. The \$1.6 trillion retail giant could aim for 50% of U.S. online sales in 2021, according to investment bank Needham. Refurbishment costs are minimal as shopping malls have enough headspace to accommodate delivery trucks.

Landlords will still get burned, though. Five years ago, the typical yield on UK shopping malls was 4%. Asset value slumps in 2020 mean this is now more like 7%, according to estate agent Savills. For a building with 1 million pounds of annual rent this sort of yield shift is the difference between a property being worth 25 million pounds and 14 million pounds – a 44% drop. Prevailing yields on warehouses are 6.5% – not enough to get values back where they were.

Repurposing offices is also tricky. Turning BP's recently flogged headquarters in central London into posh apartments is an obvious move. But a shortage of affordable housing means councils may not grant planning permission for luxury flat conversions. Cheap apartments may attract as little as 2 pounds a square foot in rent, according to Knight Frank – a far cry from the 100 pounds a square foot level for top-tier offices. Real estate kings should prepare for lasting scars.

First published December 2020





LATIN AMERICA DEBT WILL HIT POST-CRISIS SWEET SPOT

BY ANNA SZYMANSKI

Corporate defaults in the region have jumped during the pandemic and political concerns persist. But ultra-low global interest rates and expectations that richer countries could spend more on infrastructure will be enough to entice yield-hungry investors to these markets.

DANCE OF THE BILLIONS

Latin America's luck will change. Pandemic lockdowns caused more regional corporations to default between early May and June. But yield-starved investors will ignore some of these risks.

There's a lot of bad news to ignore. The International Monetary Fund expects Latin American and Caribbean economies to contract by more than 8% in 2020, the most of any region, with only a 3.6% improvement in 2021. And non-financial companies with foreign debt have seen revenue dented by a combined \$200 billion due to the pandemic, Fitch Ratings estimates. The credit ratings company expects sales to rebound by less than half that amount in 2021.

But there are green shoots. The largest economies regained some lost ground in the third quarter. U.S. appetite for manufactured products helped Mexico report seasonally adjusted quarter-on-quarter growth of 12%, and local stimulus contributed to record-breaking expansion of almost 8% in Brazil, led by President Jair Bolsonaro.

More fiscal stimulus in developed countries, especially spending on infrastructure, could further boost commodity prices. That would be good for some of the region's largest companies by revenue, including Petrobras, Pemex and Vale. Meanwhile, regional companies' cash piles have grown to around 2.4 times short-term debt in 2020 from less than 2 times in 2019, Moody's Investors Service calculates. And with a few exceptions, most companies no longer have significant mismatches between dollar debt and dollar revenues.

Country-specific risks remain. For example, Chile is getting a new constitution, and Peru saw two presidents leave office within a week in November. Also, around half of the region's countries are on Fitch Ratings' negative watch list for credit ratings downgrades. That will weigh on corporates with close links to states, like Colombia's Ecopetrol.

THE RETURNS ON OFFER IN THE REGION MAY BE TOO ALLURING FOR INVESTORS TO PASS UP

But the returns on offer in the region may be too alluring for investors to pass up given low U.S. and European yields. The yield gap between Latin American corporate bonds and U.S. government debt has fallen by almost three-fifths since March, to around 370 basis points by mid-December, according to an ICE Bank of America index. Even so, average spreads remain among the widest in emerging markets. That sort of reward may be enough for investors to take on the risks.

First published December 2020

CHINA'S ECONOMIC TRIUMPHALISM GETS HARDER TO TAKE

BY PETE SWEENEY

Quick Covid containment let the People's Republic restart factories ahead of other countries. That helped its companies grab export share at others' expense. A resurgence of overseas M&A could come next, and struggling economies will find it harder to resist Beijing's capital.

XIEXIE SIR MAY I HAVE ANOTHER

China's speedy recovery from the pandemic will get harder for the world to take in 2021. Rapid containment of Covid-19 after it emerged in Wuhan let President Xi Jinping restart factories quickly, helping companies seize record export market share. With the renminbi strong, a resurgence of overseas M&A will come next. Struggling governments, especially in the developing world, will find China's cash difficult to resist.

It's unsurprising that China has outperformed. First into recession, draconian measures helped the country leap out first too. But even as it sealed off the viral epicentre in Hubei, flights from China kept landing in overseas airports, helping to set off a pandemic that will have shrunk the global economy by 5% in 2020.

EUROPEANS AND AMERICANS MAY FIND CHINA'S RECENT TRADE PERFORMANCE GALLING

That's why Europeans and Americans may find China's recent trade performance galling. By July, China's share of global exports reached a record 14%, a share not

enjoyed by any country since the United States in 1981. Exports by value expanded 3% year-on-year that month to \$158 billion, even as rich-country exports shrank 7%. In short, overseas demand did far more to support China's recovery than the other way around.

The deficit spike is due in part to China's dominance of medical equipment, and frozen offshore tourism, both of which will revert. Even so, Chinese manufacturers are exploiting the discombobulation of foreign rivals. Zoomlion, a rival to Caterpillar, boasted in its first-half earnings report that it finally managed to break the "long-term monopoly" of Western competitors in Malaysia.

There might be another irritant in the offing. The yuan rallied over 6% against the dollar in 2020, positioning China Inc to restart overseas dealmaking, which dropped after foreign governments began blocking transactions and Beijing grew concerned about overstretched balance sheets.

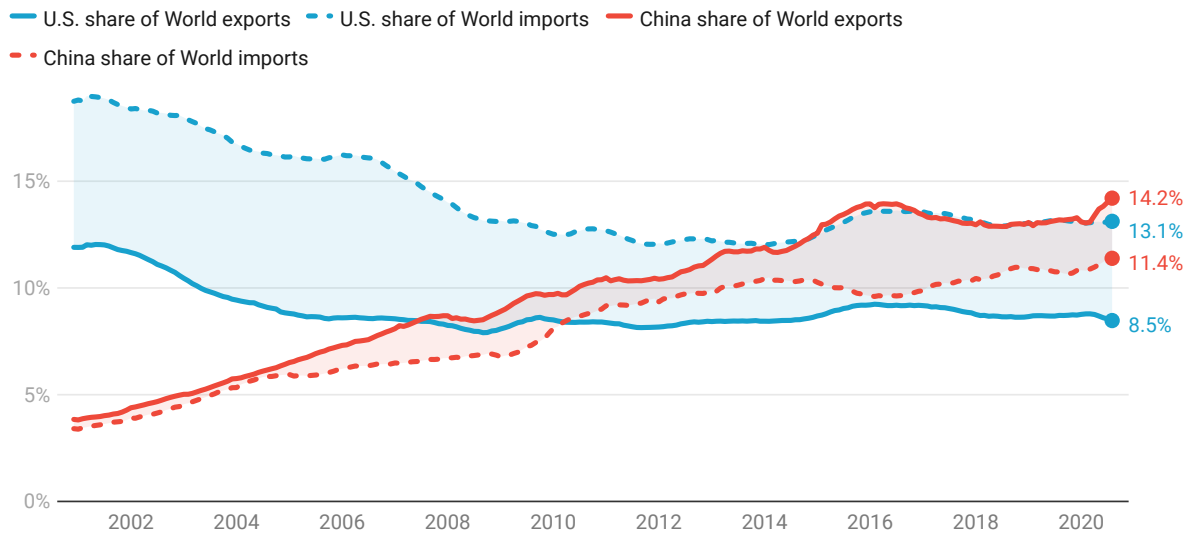
The currency's newfound strength has Beijing encouraging outward investment to offset speculative inflows. While diplomatic tensions may keep barriers up in Western markets, poorer nations like Turkey, where the yuan had appreciated 29% against the lira by mid-December, may be happy to let Chinese buyers save struggling local employers. State-owned giants are already snapping up assets in Latin America.

For politicians who were trying to contain China before Covid-19 wrecked their economies, watching it snap up distressed assets may be a bitter pill to swallow. They might have to choke it down anyway.

First published December 2020

CHINA SHARE OF WORLD TRADE

Rolling 12 months



Source: Refinitiv Datastream

Vincent Flasseur | Breakingviews – Predictions 2021



IMAGE: Employees work on a production at a factory in Hangzhou, Zhejiang province, China, April 30, 2020. China Daily via REUTERS

ONLINE EDUCATION WILL WEED OUT STRAGGLERS

BY SHARON LAM

Covid-19 rang the bell for virtual-school investment. Outfits like Byju's in India and China's Yuanfudao are raising money while Citi reckons edtech spending may double to \$360 bln by 2024. Fierce competition should spark consolidation in 2021, leaving only the best in class.

LEARNING CURVE

Online education is about to get an economics lesson. Covid-19 lockdowns rang the bell worldwide for virtual-school financiers, who ploughed money into the burgeoning business from the United States to China. Stragglers should start getting weeded out in 2021.

Kids crammed into video-powered classrooms and supplementary instruction sessions as the pandemic shuttered schools for long stretches. That roused fresh interest in the technological side of education, which in 2019 accounted for only about 2.5% of the \$6 trillion invested by schools worldwide, according to Citigroup research. All the fresh interest should help that figure more than double to about \$360 billion by 2024.

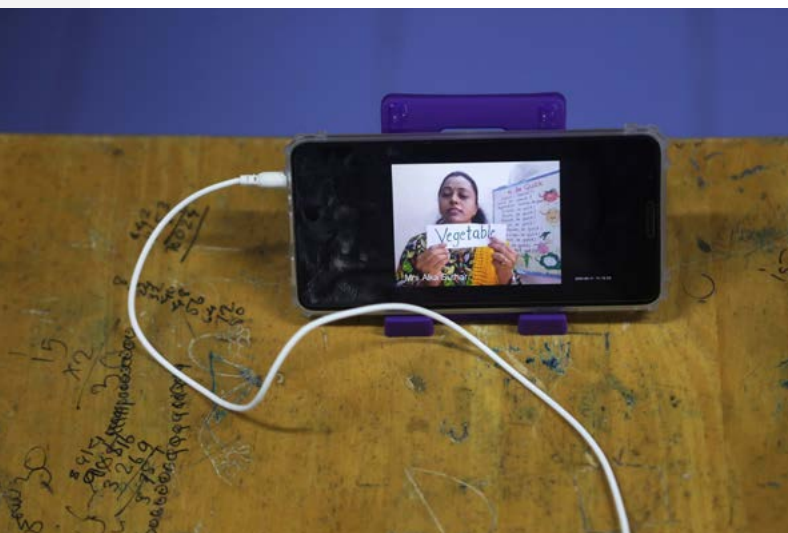
The math is working for established companies. Pearson, for example, experienced 14% year-on-year growth in its online division in the first nine months of 2020. Koolearn Technology said K-12 enrollments increased by nearly 225% to about 1.9 million for the financial year ended in May. Tutoring apps also attracted fresh funding that quickly inflated valuations. Capital injections put Byju's in India at about \$12 billion and China's Yuanfudao at \$16 billion, according to media reports.

Enthusiasm for educational technology has been so strong, in fact, that stocks such as GSX Techedu's have overcome short-selling attacks alleging fraud. The exuberance is bound to wane, however, as students suffer screen fatigue and return to school in person. Investors and parents are also likely to be more discerning, intensifying competition. Chinese online teaching companies robustly grew revenue a few years ago while scaling back their sales and marketing expenses, according to CLSA analysts. The price of growth is now quickly on the rise, even if operating profit margins should eventually outpace offline peers saddled with rent and other fixed costs.

THE EXUBERANCE IS BOUND TO WANE, HOWEVER, AS STUDENTS SUFFER SCREEN FATIGUE AND RETURN TO SCHOOL

The sector's sprawl also should lead to some consolidation straight out of the financial textbook. Deep-pocketed Alibaba might use its DingTalk app as the basis for expansion. Dutch technology titan Prosus also is emphasising education. Alphabet's Google, whose operating system runs on many students' Chromebook laptops, could graduate to other parts of the online teaching market. There can be little doubt that virtual education is here to stay in some capacity, but 2021 will determine which providers are best in class.

First published December 2020



CHAPTER 5

ITS TIME HAS COME



DAIMLER COULD BE ELON MUSK'S TIME WARNER

BY CHRISTOPHER THOMPSON



AOL merged with the media group back in 2000, parlaying its bubblicious share price into an old-line business. Electric-car maker Tesla, worth an eye-popping \$540 billion despite a puny 0.8% global market share, could do something similar. The Mercedes owner is the best fit.

BURN RUBBER

Electric-car maker Tesla is worth an eye-popping \$540 billion despite a puny 0.8% global market share. It's an opportunity for boss Elon Musk to use the company's hyped-up stock to merge with an old-line business, just as AOL did with media titan Time Warner 20 years ago amid the dot-com bubble. Mercedes-Benz maker Daimler is the best fit.

Analysts' earnings projections for Tesla in 2021 have fallen by nearly one-fifth since their peak in August 2018, according to JPMorgan. Yet the company's shares surged almost sevenfold in 2020 alone, most recently boosted by its coming addition to the S&P 500 Index. Musk's company is worth more than the next four most valuable global automakers combined, led by Toyota Motor, while producing only around 500,000 vehicles annually against more than 10 million in 2019 at Toyota and Volkswagen.

Speaking at a conference in December, Musk himself seemed open to the idea of a deal with another carmaker. Tesla's existing aspirational customer base might best suit a luxury marque. And one with a low-voltage electric-vehicle strategy could allow Musk to add most value.

U.S. rivals Ford Motor and General Motors hardly fit the former criterion. Europe's VW, meanwhile, is all-in on EVs. BMW might be Tesla's most obvious fossil-fuelled counterpart, but family ownership probably rules out a takeover.

History shows the difficulty of buying any big Japanese company, while a supercar producer like Lamborghini, which VW may soon offload, would be too niche. One name remaining is \$74 billion Daimler, the world's biggest-selling luxury carmaker, whose shares have trailed the benchmark STOXX Europe 600 Auto index over the past 5 years.

Tacking on a largely combustion-engine business would dilute Tesla's pure-play EV credentials. And Musk would have to grapple with the constraints of a German governance structure. But adding Daimler could increase Tesla's global car output around fourfold. And the German group's deep foundations in Europe and China, the two biggest battery-vehicle markets, would reinforce Musk's electric offensive. Daimler even had a small stake in Tesla for a time.

There's a kicker, too. Under U.S. stock-exchange rules, Tesla would only need shareholder approval if it increased its outstanding shares by 20%. At Tesla's equity value, Musk could theoretically snap up a target worth \$100 billion or more. With a luxurious 40% premium, he could buy the Benz empire without even asking permission.

First published Dec. 3, 2020

"BIG FOUR"

U.S. AIRLINES WILL GO DOWN TO THREE

BY LAUREN SILVA LAUGHLIN

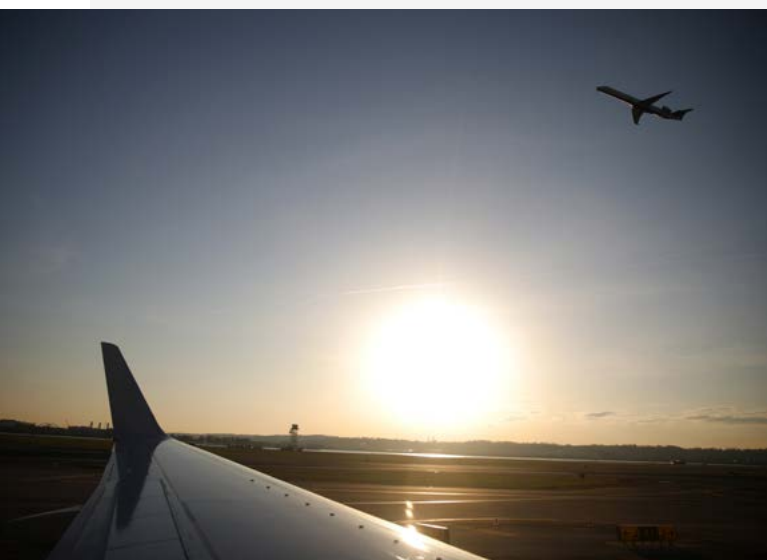
Stricken travel is worsening carriers' positions. They've already slimmed staff, and restructuring is next. But U.S. taxpayers are invested in them succeeding, and have already benefitted from a long descent in ticket prices. A merger stamped by the government is on the horizon.

FLYING DIRECT

U.S. airlines need more than a little help. The "Big Four" – Delta Air Lines, American Airlines, United Airlines and Southwest Airlines – have been pleading for additional bailouts as Covid-19 continues to crimp travel. More cheap money is an option. But consolidation would also help, and probably leave taxpayers – if not consumers – better off. In 2021, the big carriers will shrink from four to three.

Airline mergers aren't easy. Unionized workforces that rank pilots based on seniority, for example, make it hard to mash companies together. And competition regulators don't like it when too much power ends up in the hands of too few players, though U.S. antitrust authorities have permitted some industries, such as mobile telephone operators, to concentrate to just three players.

But consolidating makes financial sense. Most other countries have a single flag carrier implicitly or explicitly backed by the state. America doesn't, but pandemic bailouts have made the Big Four quasi-government-owned, giving the public a stake in their future. And merging hasn't worked out too badly for consumers so far. Ticket prices adjusted for inflation have halved since 1995, when America's skies were awash with carriers, according to the Bureau of Transportation Statistics.



American, which has lapped up \$13.5 billion in taxpayer cash, is in the worst position. The Texas-based carrier has \$25 billion of net debt, roughly 6 times its forecast EBITDA for 2022, according to Refinitiv estimates that assume three-quarters of sales return in two years. United is next but with debt levels only half as daunting.

Yet 2022 is a long way off. If revenue rebounds only 70% while costs remain stable, American's EBITDA plunges to just \$335 million – not a crazy assumption given the expected long-term impact on corporate travel and airlines' outsize operating leverage. That jeopardizes interest payments.

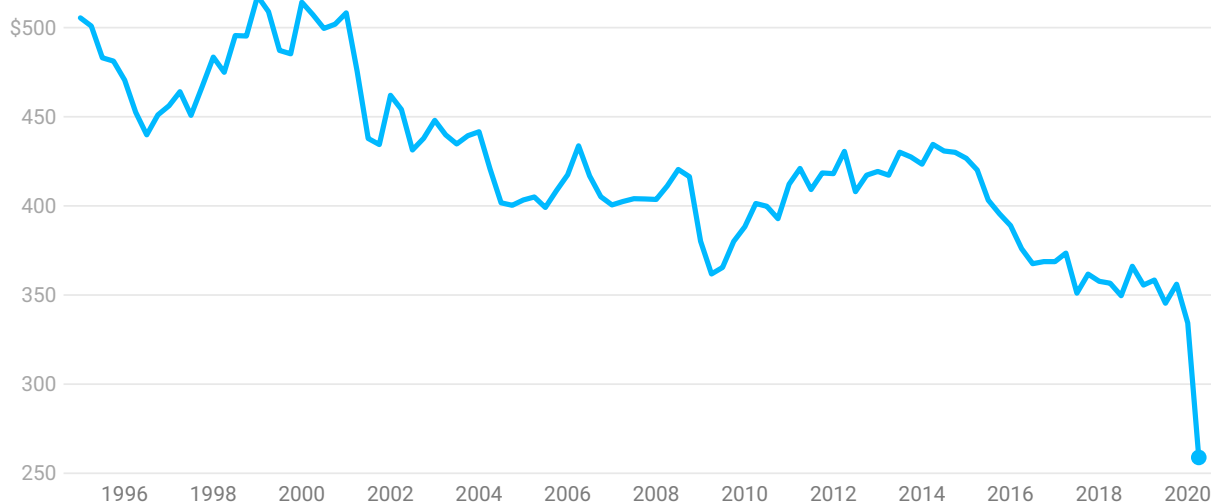
A deal may be better for taxpayers than restructuring. One between American and a rival might mean ditching routes. Shareholders of the healthier partner may balk at taking on added problems. But cheap government funding could help.

And regulators also have a history of turning blind eyes to competition concerns during a crisis, such as in 2008 when JPMorgan bought Bear Stearns and Bank of America scooped up Merrill Lynch. If the alternative is bankruptcy, a merger stamped by the government can't be ruled out.

First published January 2021

FLY-BY

Average U.S. domestic air fare, inflation-adjusted



Source: Bureau of Transportation Statistics

Vincent Flasseur | Breakingviews – Predictions 2021

DEUTSCHE CEO WILL DUST OFF COMMERZ MERGER IN 2021

BY LIAM PROUD



Despite a 2020 trading boom, boss Christian Sewing will soon have to scrap his 2022 profit target. Since further cost cuts are tricky, reviving a 2019 aborted union with Commerzbank is the logical Plan B. It helps that his bank is now healthier, and regulators more forgiving.

NEEDLE AND THREAD

Christian Sewing has had a surprisingly good year, but 2021 will be harder. The chief executive of 17 billion euro Deutsche Bank will most likely have to abandon his medium-term profitability target. Reviving a merger with rival Commerzbank is the most logical Plan B.

A pandemic-fuelled trading boom, relatively low loan losses and heavy cost cuts have helped Sewing in 2020. Deutsche's shares are up 17% in 2020, while the Euro STOXX Banks Index is down 45%.

In 2021, however, it will become clear that Sewing's targeted 8% return on tangible equity for 2022 is out of reach. It would require Deutsche to generate 24.5 billion euros of revenue, according to Breakingviews calculations based on Sewing's own cost targets and analysts' estimates for loan losses. Even if investment banking income holds steady – which is unlikely as volatility fades – the rest of Deutsche would have to grow at a 1.1% average annual rate. Analysts expect the top line to shrink instead.

Sewing's alternatives are limited. There will be little fat left to cut by 2022, since he has pledged to reduce costs by one-quarter from 2018's level, and exited businesses such as equities trading.

Dusting off the aborted 2019 Commerzbank deal would help. A merger could generate 2.9 billion euros in annual savings, based on the 12% of combined expenses targeted in the recent Caixabank and Bankia merger. Add that to the two banks' forecast net income, and the new group's ROTE would reach 7% in 2022, according to Breakingviews calculations based on Refinitiv data. A solo Deutsche would churn out just a 3.1% return that year, analysts reckon.

SEWING'S CLEANUP MAKES HIS BANK A MORE APPEALING PARTNER THAN IN 2019

Sewing's cleanup makes his bank a more appealing partner than in 2019, when the lenders called off talks citing execution risks and capital requirements. Deutsche has shed 27 billion euros of risk-weighted assets through its bad bank and should finally generate a profit in 2021. European regulators have also made it clear they won't necessarily raise capital requirements after mergers.

Finally, Commerzbank's equity value has slumped since early 2019. Assuming a 30% acquisition premium, Deutsche shareholders would own 70% of the new bank, versus 60% in early 2019, giving them more of the upside. Sewing's revamp might not deliver the hoped-for returns. But at least it's making Deutsche fit for a deal.

First published Oct. 28, 2020

PICTURE THIS:

NETFLIX AND AMAZON BUY CINEMA CHAINS

BY KAREN KWOK

The tech giants' streaming services have become more powerful with people cooped up at home. But competition has intensified, and theatres remain an important marketing channel. To extend their leads, bundling box office access with a subscription serves as a key differentiator.

QUEEN'S GAMBIT

Nothing makes a blockbuster like superheroes improbably matching up on-screen to take on teams of baddies. The same dynamic could apply to the real-life movie business. If Iron Man and Thor can lock arms, why not a cinema chain with a streaming giant like Netflix, Walt Disney or Amazon.com? Bundling subscriptions with theatre access might serve as a key differentiator.

Cinemas have been reeling from forced closures during the pandemic, delays of big movies, and the threat of online entertainment providers. Shares of AMC Entertainment,

Cineworld and Cinemark, the three biggest chains, tanked in 2020. AMC's woes meant it had to agree to let movies go from theatres to online much sooner.

The streaming giants are engaged in trench warfare as Walt Disney, Apple and AT&T aim for a slice of Netflix's dominant market share. Consequently, Reed Hastings' company is expected to see revenue growth slow to 18% in the next fiscal year, down from 24%, analysts polled by Refinitiv estimate. In the latest example of rising competition, AT&T's Warner Bros will release its 2021 slate simultaneously in both theatres and on HBO Max, its subscription service.

Taking over a cinema chain could aid marketing efforts by offering an extra avenue beyond the couch for the increasingly original content Netflix and others are championing. Upselling subscribers to premium prices with theatre access can also be a lever to dislodge shared plan accounts. Amazon can even use theatres to reinforce other e-commerce services like lockers for pickups, and to test innovations like virtual reality.

It would come at a steal. Cinemas are worth half of what they were at the start of 2020: AMC and Cineworld together own over 1,770 theatres, and in mid-December were valued at \$450 million and \$1.2 billion, respectively, while the top U.S. chain, Cinemark, with 533 locations, was worth \$1.9 billion. They're rounding errors next to \$1.6 trillion Amazon or \$2.2 trillion Apple.

Hollywood arguably will need physical theatres more than ever as it prepares a post-pandemic rollout of its stockpiled big-ticket films. More than half of Americans surveyed by EY said they were more likely to stream movies that had been released in cinemas. That's a validation of box office power that should whet the M&A whistles of the streaming giants.

First published December 2020



HSBC BREAKUP WILL TURBOCHARGE CEO'S ASIAN PIVOT

BY LIAM PROUD AND JENNIFER HUGHES

Noel Quinn's plan to cut costs and shift assets away from America and Europe has failed to boost the bank's shares. In 2021 he'll have to opt for more radical moves, like selling the U.S. retail network and spinning off HSBC's \$15 bln UK arm. A higher valuation should follow.

CLUTCHING AT PEARL RIVER

HSBC Chief Executive Noel Quinn has the right idea, but he's going about it too slowly. In 2021, a lagging share price may force him to turbocharge his pivot towards the more lucrative Asian business. Selling the bank's U.S. retail network and spinning off its ring-fenced UK unit would help.

LIKE HIS PREDECESSORS, QUINN IS FREEING UP CAPITAL TO INVEST IN ASIA BY CUTTING ELSEWHERE

Like his predecessors, Quinn is freeing up capital to invest in Asia by cutting elsewhere – specifically HSBC's U.S. operations and European investment-banking business.

Yet between him taking charge in August 2019 and mid-December 2020, the bank's shares had fallen by a third; rival Standard Chartered was down a quarter over the same period. At a multiple of 0.7 times expected tangible book value, HSBC was trading at a 16% discount to global rival Citigroup in mid-December. It was valued at a premium when Quinn stepped up.

Time to accelerate the strategy. Though HSBC is already cutting roughly a third of its U.S. retail branches, offloading the unit would be cleaner. The division's \$21 billion in consumer loans implies a tangible book value of \$1.6 billion, based on the capital typically carried by other U.S. retail banks. Citigroup would be a logical buyer, if regulators approved.

A more radical move would be to spin off HSBC's UK retail and commercial unit. Local ring-fencing rules mean that its roughly \$300 billion of deposits are effectively trapped in the country, where they mostly fund local mortgages and business loans. Handing shares in the business to HSBC investors would create a stand-alone unit which could participate in any future bank consolidation in Britain. On the same multiple of tangible book value as UK rival Lloyds Banking Group it would be worth \$15 billion.

Jettisoning American and British businesses acquired during HSBC's westward expansion in the 1980s and 1990s would focus investors' attention on its operations in Asia, which in 2019 generated an adjusted return on tangible equity of 15.8%. The region would then account for more than half of HSBC's risk-weighted assets, compared with around two-fifths in June. In theory, a higher valuation should follow: regional peers like DBS trade at a premium to tangible book value. Quinn's pivot to Asia needs a shot in the arm. The best way for him to achieve that will be to lop one off.

First published December 2020



BIG TECH'S GAMING GAMBLE WILL CALL FOR M&A

BY OLIVER TASLIC

Google and Amazon want to do to video games what Netflix has done to television. Their cloud-based gaming services face technical challenges, but the bigger test is luring gamers from established platforms like Microsoft's Xbox. Acquisitions are the fastest way to the next level.

IF YOU BUILD IT

Big Tech will go shopping for computer games in 2021. Alphabet-owned Google and Amazon.com are trying to muscle into the \$175 billion industry by letting people play games on any screen for a monthly fee, much like Netflix did for television. But as the streaming giant showed, success depends on exclusive content. Acquisitions will be the fastest way for the tech giants to reach the next level.

Amazon's Luna gaming service and Google's Stadia let the companies' vast data centres do the technological heavy lifting involved in running a game. That allows internet-connected players to stream high-end titles on low-end hardware, dispensing with pricey consoles like Sony's PlayStation and Microsoft's Xbox. Broadband speed is still a major issue: at its highest resolution, Stadia's recommended network speed excludes about a quarter of British households. But improving infrastructure and the arrival of super-fast 5G connections should help.

THE BIGGER QUESTION IS WHAT SUBSCRIBERS WILL PLAY

The bigger question is what subscribers will play. Microsoft has not been afraid to splash out to improve its subscription service, dropping \$7.5 billion on "Fallout" publisher ZeniMax Media in September. Sony, meanwhile, recently spent over \$200 million on "Spider-Man" developer Insomniac Games. The more content Sony and Microsoft add to their subscription services, the more likely gamers are to stick around. Global gaming M&A reached \$11.1 billion in the first nine months of 2020, according to PitchBook data, more than in the whole of the previous year.

Google and Amazon have yet to make any major purchases, preferring to fill their services with third-party games that are available elsewhere. With combined cash reserves of almost \$140 billion, they could in theory afford any target, including industry heavyweights like Electronic Arts and Take-Two Interactive, valued at \$40 billion and \$22 billion respectively in mid-December. However, it would make little financial sense to limit established games like EA's "FIFA" soccer series to a single platform. A more realistic target might be a publisher with a history of developing compelling single-player games, like \$7 billion Square Enix, maker of the "Final Fantasy" series. Buying individual studios rather than sprawling publishing houses would also make sense.

Any major acquisition by a Big Tech company would likely draw regulatory scrutiny. If Netflix is any guide, though, buying engaging content will be vital to being crowned gaming king.

First published December 2020

INSTEAD OF TIKTOK, MICROSOFT CAN STRIKE A DISCORD

BY GINA CHON

The software giant lost out on a deal for the viral video app. But a better fit is gaming chat service Discord, valued at about \$7 bln. User growth has jumped amid Covid and it's expanding into education and other areas. That complements Microsoft as its rivals also turn to M&A.

GAME ON

Microsoft still has a shot at going viral without TikTok. The software giant lost out on the chance to buy the video app after its Chinese owner was forced to sell on national security grounds. But a better fit may be gaming chat service Discord, valued at about \$7 billion according to TechCrunch. It's a cheaper, and less politically fraught, way for Microsoft to chase new users.

By trying to acquire the U.S. assets of TikTok, Chief Executive Satya Nadella showed where his firm's ambitions lie. TikTok would have given the

\$1.6 trillion Microsoft a social network of younger-skewing adherents. Owner ByteDance decided to instead sell a 20% stake to Oracle and Walmart in a deal that values TikTok at around \$60 billion. In September, Microsoft bought ZeniMax Media, owner of popular game "Doom," for \$7.5 billion.

Discord offers some of what Microsoft missed out on. Its users chat in topic-based channels – called servers – by text, voice, video and pictures, all of which can be public or private. In June, the network co-founded by former game developer Jason Citron had over 100 million monthly aficionados, twice the number it had a year earlier. That's around one-seventh of TikTok's global users, but roughly the same as Microsoft's Xbox Live gaming service.

There's more overlap than with TikTok too. As well as gaming, Discord is gaining ground in education, where teachers and students use it for remote learning and study groups. Discord arguably looks like a consumer-facing version of Microsoft's Teams messaging service. It also makes money through subscriptions rather than advertisements, which puts it closer to Microsoft's own model. With \$138 billion in cash, Microsoft can easily afford Discord.

Not that it needs a deal. Analysts already expect the software giant to grow revenue more than 10% for the next three years according to Refinitiv. And chasing consumers brings its own perils. Discord had to do damage control after white supremacists used its platform to plan a rally in Charlottesville, Virginia, in 2017. Social networking isn't for the faint hearted. If that's where Nadella's desires lie, though, Discord may not be a bad way to gratify them.

First published Dec. 9, 2020



NEXT HONG KONG BOURSE BOSS SHOULD RESIST DEAL URGE

BY JENNIFER HUGHES

Stock exchanges are buying each other and data giants like \$27 bln Refinitiv, activity that tempted outgoing HKEX chief Charles Li. Providing a gateway to China, however, is the company's special sauce. Capital and attention are best focused on the rising threat from Shanghai.

HOME STRETCH

Most chief executives like to think big and Charles Li has been no exception. The outgoing boss of the Hong Kong Stock Exchange built a link with mainland China that handles large trading volumes every day and tried and failed to buy his London rival for \$39 billion. That legacy and a spate of recent deals across the industry might tempt his replacement. It would be better to resist any such urges and focus on shoring up the company's strengths.

In the decade under Li, Hong Kong Exchanges & Clearing solidified its position as a gateway to the People's Republic. With a \$63 billion market value in

mid-December, it was jockeying with CME to be the world's most valuable trading hub. Competition is rising for HKEX, however, as Shanghai and Shenzhen lure the sorts of startups that traditionally considered heading southward to sell their shares. The danger is that the next Tencent doesn't reach Victoria Harbour.

SIZEABLE ACQUISITIONS WILL BE TOUGH AND FINANCIALLY ILL-ADVISED FOR HKEX, THOUGH

Sizeable acquisitions will be tough and financially ill-advised for HKEX, though. Even as Nasdaq branches into regulatory technology with its \$2.8 billion deal for Verafin and the London Stock Exchange aims to wrap up its \$27 billion takeover of data provider Refinitiv, the Hong Kong bourse could be stymied from any similar M&A efforts because of its board's close ties to Hong Kong's Beijing-backed government.

A new chief would do well to devote energy and capital to fixing the outdated HKEX technology while also expanding further beyond equities into bond trading and derivatives. A focus on improving creaky systems, including the one that registers shares, and tackling its relatively high trading costs would carry significant expense. Its rival-beating 74% pre-tax profit margin will be squandered, however, if competitors woo more issuers and investors.

HKEX cannot escape its geography or the politics that cloud Hong Kong's future. But those aspects are also what differentiate it from most of its peers. And the city's position as a financial hub is riding to a large degree on the exchange's success. The bold choice for the next CEO will be to resist the appeal of empire-building and instead doing what it does best, only better.

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CHAPTER 6

FUGGEDABOUTIT

NEXT LONDON, NEW YORK MAYORS CAN BREATHE EASIER

BY RICHARD BEALES

Fuggedaboutit. That's what the world's two top finance centers would love to do with Covid-19. With budgetary, property and transport wounds to heal, it won't be so easy as 2021 arrives. But after mayoral polls respectively in May and November, urban buzz should start returning.

WHAT VIRUS?

Fuggedaboutit. That's what London and New York would love to do with Covid-19. It won't be easy in the new year. But the two financial capitals should start to see urban buzz return.

The cities remain atop the Global Financial Centres Index. Both nonetheless face big challenges, from budget shortfalls to difficult property markets and cash-strapped transport systems. They will also both elect mayors in 2021.

London, also vulnerable to Brexit, saw its housing market dry up during coronavirus restrictions. Partly thanks to tax breaks, though, prices have so far held up on year-on-year comparisons, the UK House Price Index shows.

Housing transactions in the Big Apple have also slowed dramatically, though median sale prices in the third quarter were flat or up compared with a year earlier in Manhattan, Brooklyn and Queens, according to Douglas Elliman. Rents are down but may have found a floor: New Manhattan leases rose 30% in November on the year.

Commercial property vacancies are up and rents and investment transactions down since before the pandemic on both sides of the pond. Subway ridership in New York remains down about 70% from a year ago. Even bridge-and-tunnel road use is still off by around a fifth, according to Metropolitan Transportation Authority figures. Two-thirds fewer people took the London Underground in October, Transport for London says.

Transportation is one of few London features over which Mayor Sadiq Khan – favorite to win re-election in May – has greater influence than New York counterpart Bill de Blasio, who will leave in 2021 because of term limits. Khan negotiated a bailout of TfL with the UK government. The MTA is the responsibility of New York State.

Khan's job is more about corralling central government and individual boroughs on behalf of London's residents and businesses. De Blasio, in contrast, has a near-\$100 billion operating budget and needs to replace tax income lost in the pandemic. New York is, for example, asking bond investors for some \$1.5 billion of cash in mid-December. A week before the offering, Fitch Ratings downgraded the city's credit, saying Covid-19 damage could linger.

New York had doubters after Sept. 11, to cite just one instance, and London so far hasn't succumbed to worst-case Brexit scenarios. Both have shown over centuries that they can bounce back from the Black Death, storms and other disasters. With vaccines offering hope of subduing the coronavirus, the cities' next mayors should see that start to happen.

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WHEN BONUSES ARE PAID, CUE THE GREAT TRADER EXODUS

BY ROB COX

Wall Street's desk-bound buyers and sellers had a bumper year, powering the bottom lines of commercial and investment banks amid the pandemic. They've also gotten a taste of life off the floor. Watch many of them take the money and run, surf, climb, or whatever.

TAKE THE MONEY

For many on Wall Street, the pandemic delivered a rare taste of life off the trading floor. Once desk-bound buyers and sellers had a bumper year, with their fixed-income, currencies, commodities and equities trading machines powering bank bottom lines. Many also had quality-of-life epiphanies working from home or vacation abodes, not commuting, and seeing their families.

SOME BANK BOSSES ARE GIRDING FOR A MINI EXODUS WHEN BONUSES ARE PAID

That's why some bank bosses are girding for a mini exodus when bonuses are paid. It's a time-honored tradition for traders or investment bankers to move around Wall Street or the City of London when merit compensation arrives. But 2021's game of musical chairs may play to a different tune. Instead of bolting for competitors, look for many financiers deciding to spend more time with their families, or to surf, climb mountains, or whatever.

It has been a good pandemic for finance. Trading revenue grew by nearly a quarter at Morgan Stanley in the first nine months of 2020. What Goldman Sachs calls market making surged by 63% to \$12.8 billion, accounting for 43% of non-interest revenue. Barclays' corporate and investment bank saw a 64% spike in income from fixed income trading, powering a 24% boom at the division Chief Executive Jes Staley has defended against skeptical shareholders.

Consequently, expectations for juicier bonuses are high. Using the accrued compensation and benefits for the nine months through September 2020 at Goldman and Morgan Stanley, bonuses could be 16% and 13% higher, respectively. Similar figures at Barclays and UBS suggest bumps of 5% and 12%. Even if the final numbers are lower after the fourth quarter, the statement of intent is positive.

Not all that money will flow to traders, naturally. Trading businesses got lucky as central banks pumped liquidity into markets, and governments did the same with fiscal stimulus, much of it financed by borrowing the banks underwrote. It could be argued that windfall profits should be distributed more widely.

But bonus disappointment could just reinforce a growing feeling that the daily grind is a distant nightmare, not a prescription for future happiness. Whether it's life in the slower lane, the daily walk with the dog or coaching the kids' soccer team, 2021 will be a good year to take the money and run.

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CHINA INC WILL RECYCLE USED WHITE GUYS

BY LAUREN SILVA LAUGHLIN

American firms are pushing to make rosters more inclusive. That, plus downsizing, will shove skilled – if Caucasian – older male managers and experts into the job market. Chinese firms seeking IP and insight into U.S. markets will scoop them up. It could work better than M&A.

PINK SLIPS

American company men may find a savior in China Inc. As corporations try to make their ranks more ethnically representative, many experienced – if white and older – males will find themselves without a job. Chinese companies, deterred from acquiring U.S. firms with valuable intellectual property, can recruit their discarded human capital instead.

Some of the largest U.S. companies are moving quickly to rebalance their headcount. At Apple, for example, women made up 38% of workers under 30 in 2018 versus just 31% four years earlier. The share of under-represented minorities in that group rose 10 percentage points to 35%. Meantime the employment-to-population ratio of white men fell from 76% in 1972 to 67% in 2018.

The coming year should be a banner one for diversity. California has rolled out quotas for boards; Nasdaq is considering requirements for listings. Companies from Wells Fargo to Google to Delta Air Lines have diversity hiring goals in place.

The goal is to reach new customers and positively transform corporate cultures. In the immediate term that may translate into net layoffs of older, more expensive, Caucasian men.

Some of those hitting the streets, resumé in hand, will have value for the right employer. Economic research firm Sonecon put the price of intellectual capital of U.S. companies at \$9.2 trillion in 2011. Acquiring that by buying companies will be difficult under President-elect Joe Biden, who is expected to continue the crackdown on Chinese acquisitions. Poaching talent is easier and, in some cases, may be more efficient.

POACHING TALENT IS EASIER AND, IN SOME CASES, MAY BE MORE EFFICIENT

In the past some technology companies from the People's Republic had reputations for poaching American experts, extracting trade secrets, then tossing them back. But those with expertise in artificial intelligence or international communications are keepers. And with Chinese retail traders starting to play U.S. stocks, American financial experience is becoming valuable too. Webull Financial, a Chinese-owned trading app that competes with Robinhood Markets, hired a white American dude as chief executive.

Chinese companies that have bounced back from the pandemic might even be able to offer more competitive pay packages. It may be a less direct way to get at American intellectual assets, but then companies are made by people, not patents.

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STARS ALIGN

FOR LUXURY CIRCULAR ECONOMY

BY LISA JUCCA

The pandemic and a desire to save the planet will prompt shoppers to buy pre-owned apparel. Luxury items' lasting charm may unlock a \$600 bln market for old Gucci, Hermès and other high-end brands. Even manufacturers could get in on the act, marrying financial and ESG goals.

GREEN AWAKENING

The circular economy will take off in style. A propensity for thrift instilled by the pandemic hit and a growing desire to curb pollution will prompt shoppers to swoop on pre-owned high-end clothing and accessories. That's a boon for resellers of high-quality old Gucci bags or Prada frocks that can last a generation or more. The luxury houses themselves could even get involved.

Old goods are the new new goods. Denim maker Levi Strauss in October launched a buyback platform. Weeks later furniture giant Ikea opened its first shop for repaired furniture, and Amazon.com has been offering refurbished

electronics since 2015. The durability and charm of a Louis Vuitton Speedy bag, first launched in the 1930s, allow it to retain much of its monetary value as it gets handed along. Because of scarcity, Hermès International's used leather items tend to cost 10% more than the retail price.

Before the pandemic, second-hand luxury goods sales were already growing three times faster than the primary market and were expected to double to 41 billion euros between 2018 and 2023, says UBS. But the potential stock of goods is much larger. About 60% of a woman's wardrobe sits idle in her closet, says U.S. reseller ThredUp. Based on the \$1.4 trillion of high-end shoes, bags and clothes sold over the past 10 years, according to Breakingviews calculations based on Bain & Co estimates, and applying a 30% discount to the original price, that's around \$600 billion of goods waiting to come back into circulation.

For online players like The RealReal and Vestiaire Collective, which sell fancy items from multiple brands, that means tapping into a potential revenue stream of \$120 billion, when applying a typical 20% commission. Or higher, if the same item is repeatedly passed on.

Online marketplaces are already on the case. But reselling such items could also tempt plush players like Kering's Gucci or Burberry, which have already conducted pilot projects. Margins would probably be lower than for their new products. After all, pre-loved apparel has to be vetted and, if necessary, buffed up.

Still, it's worth it. Up until the pandemic struck, the fashion industry was responsible for 10% of annual global carbon emissions and was the second-largest consumer of water, according to the World Economic Forum. Given that poor record, investors and customers alike may develop a new regard for brands that choose to embrace the virtuous circle.

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EUROPEAN SOCCER WILL TRY ON AMERICAN- STYLE PAY CAP

BY CHRISTOPHER THOMPSON

Empty stadia wiped out nearly \$4 bln in sales, pushing even rich clubs like Manchester United and Barcelona into the red. A partial return for fans barely eases the pain. To save itself, the beautiful game will have to import the U.S. National Football League's limit on salaries.

CRYING FOUL

In soccer, sudden death occurs when the result comes down to a single penalty kick. Europe's professional clubs face a similar nail-biting outcome as mostly empty seats leave them facing financial relegation. To return to health, the beautiful game will have to import an idea from American sports.

Vacating stadia due to Covid-19 cost clubs in Europe's top tier some 3.2 billion euros in collective revenue last season, according to the European Club Association. The loss of an estimated 15% of sales compared with pre-pandemic projections may seem modest compared to other poleaxed

industries. But exorbitant player salaries, which already absorbed 60% of total revenue during the 2018-19 season, have pushed even rich clubs such as Manchester United and FC Barcelona into the red.

Even with a vaccine, fans are unlikely to refill arenas soon. The ECA, headed by Italian business magnate and Juventus Chair Andrea Agnelli, reckons grounds will be at just 20% of capacity from the beginning of 2021, resulting in a nasty 3.1 billion euro tackle to this season's top line. As a result, stars like Paris Saint-Germain's Brazilian forward Neymar could on average pocket an eye-watering 76 cents of every euro of revenue.

Putting a cap on player largesse would avoid such economic own goals. America's basketball, ice hockey and football leagues all place a limit what their stars can earn. In the National Football League, players' share of revenue stands at 48%.

Fitting a cap won't be easy. American wages are dictated by collective agreements between heavily unionised players and a single national league. Any attempt at salary control would probably violate European labour laws, meaning the European Commission would have to intervene. Besides, spending limits which fail to address how TV money is divided could entrench national differences. In England's Premier League, for example, a more equitable division of media income means champions Liverpool collect a smaller share of television cash than Real Madrid does in Spain.

THE PROSPECT OF MOSTLY EMPTY STADIUMS WILL PUSH CLUBS DEEPER INTO FINANCIAL EXTRA TIME

Yet the prospect of mostly empty stadiums will push clubs deeper into financial extra time. To avoid future sudden-death outcomes, players will need to tighten their belts.

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CHINA'S GRAVY TRAIN WILL BYPASS WALL STREET

BY JENNIFER HUGHES

Foreign banks pocketed about a third of the \$6.5 bln in fees paid by Chinese companies to sell shares in 2020. U.S. animosity will lead to fewer New York listings, however. And even as Goldman and others push further onto the mainland, the work there is tougher and reaps less.

NEXT STOP, SHANGHAI

Investment bankers will have a great chance in 2021 to apply their well-honed skills at talking up opportunities and downplaying league tables. The easiest money from selling Chinese shares in New York is destined to fade. And profitably pushing further onto the mainland will be hard work.

Goldman Sachs delighted in December at being the first to strike a deal to own 100% of its Chinese onshore operations. Others are also building on their 51% stakes just as many local companies seek fresh capital. More than 800 of them are queued up to go public, KPMG reports, while others are selling additional shares to beef up balance sheets. It can be no coincidence that Beijing has widened access just as it encourages greater use of markets and less dependence on bank loans.

The most lucrative work, however, is in New York, where fees average about 5% of the amount raised. Those opportunities are increasingly threatened by Washington's hostility, including efforts to delist Chinese companies that don't allow American regulators to scrutinise audits. The new geopolitical order has helped make Shanghai's STAR

board the fastest-growing equity market. Initial public offerings there, however, require sponsors to back their clients financially – an extra layer of risk that makes U.S. and European firms blanch.

**OPPORTUNITIES ARE INCREASINGLY
THREATENED BY WASHINGTON'S
HOSTILITY, INCLUDING EFFORTS
TO DELIST CHINESE COMPANIES**

Banks generated some \$6.5 billion in 2020 by selling shares for Chinese companies like financial technology outfit Lufax, according to Refinitiv. Foreign ones collected roughly a third of the sum, Breakingviews estimates. Despite dominating in Manhattan and competing in Hong Kong, they only claim about 5% of the mainland China market. Morgan Stanley's joint venture worked on the \$7.7 billion Shanghai listing of chipmaker Semiconductor Manufacturing International, but that was only enough for the bank to take 13th place in preliminary year-end domestic equity rankings to lead its overseas peers.

One of the old big ideas about expanding into China was to use their international networks to help companies find acquisition targets abroad. Such work is becoming increasingly constrained because of protectionist governments. That means finding fresh ways to crack the market. For the time being, it will be a harder slog for less money as the China gravy train makes fewer stops on Wall Street.

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ABOUT US

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COVER IMAGE

A doctor collects a swab sample from a man to be tested for Covid-19 outside Clinic Ajwa in Shah Alam, Malaysia, Dec. 10, 2020. REUTERS/Lim Huey Teng

CHAPTER TITLE IMAGES

MAKING THE BEST OF IT

Drones with LED lights create a word reading “hope” as a tribute to people who have died of Covid-19, during a show in Madrid, Spain, June 26, 2020. REUTERS/Sergio Perez

CRUSHING IT

A medical worker wearing personal protective equipment passes by a frontliner mural outside a clinic, amid the Covid-19 outbreak in Kuala Lumpur, Malaysia, Oct. 27, 2020. REUTERS/Lim Huey Teng

IT IS WHAT IT IS

A man wearing a face mask looks through a window while outside demonstrators take part in a protest against the lack of personal protective equipment during the Covid-19 outbreak, at the Tide Setubal public hospital in Sao Paulo, Brazil, April 17, 2020. REUTERS/Rahel Patrasso

LIVING WITH IT

A medical specialist wearing personal protective equipment walks through a disinfection chamber at a hospital in Moscow, Russia, May 25, 2020. REUTERS/Maxim Shemetov

ITS TIME HAS COME

A woman wears a protective face shield as she roller-skates at Moja museum amid the Covid-19 outbreak in Jakarta, Indonesia, Aug. 11, 2020. REUTERS/Ajeng Dinar Ulfiana

FUGGEDABOUTIT

An abandoned mask is seen on the ground in front of the U.S. Capitol building in Washington, United States, amid the global outbreak of Covid-19, Nov. 11, 2020. REUTERS/Leah Millis

