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Hugo Canelas, CEO of Sonie Siera

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NIC Undergrad Review

NIC

— Undergraduate Division —

Editor's Note.

Dear reader,

It is with great pleasure that NIC-UD presents to you another edition of the NIC Undergrad Review.

In an effort to make each edition better than the last, this current volume introduces a new type of article: a 1-page Stock Analysis aimed at providing you with quick insights in a more efficient manner. Moreover, to further improve the reading experience, articles were limited to 2 pages, which we believe strengthens the quality of the publication.

This edition features a wide variety of topics. From the usual coverage of Iberian Markets, followed by a Macroeconomic Overview focused on the Middle East, to an analysis of the heated M&A activity of the year 2025, and insights on the 2026 deal activity environment. In addition, the recently booming industry of Prediction Markets is laid out in great detail, as well as analyses of two stocks: Kraft Heinz and Rolls-Royce. Finally, given the current market conditions, two particularly relevant articles are presented: a Deep Dive on Market Cycles and an Opinion Article titled "What Comes After the Efficiency World Order?" covering mainly geopolitical and supply chain tensions.

We are sure that you will find great joy in reading and learning from this selection of articles.

Lastly, I would like to thank all the members who contributed to this edition: Arthur Canellas, Diogo Pereira, João Bueno, Maria Costa, Mateus Nascimento, Miguel Gomes, Tomás Barriga, and Tomás Tavares.

Best regards,

Yash Chauhan

Editor-in-Chief

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Quick Take on Iberian Markets



Tomás Tavares

Introduction

Following a historical year for Iberian markets in which the IBEX 35 and PSI 20 rose by over 50% and 36%, respectively, 2026 started with robust momentum. Both Spain and Portugal expanded by 0.8% in the final quarter of 2025, significantly outpacing the Eurozone average. Spain secured its position as the world's fastest-growing advanced economy with 2.8% annual growth, while simultaneously reducing unemployment to a post-2008 low of 9.9%. On the other hand, Portugal's 1.9% annual GDP boost, fiscal discipline, and debt reduction earned credit rating affirmations at A+, facilitating lower financing costs and attracting sustained institutional interest. The following developments marked the start of 2026:

Iberian M&A Value Climbs 55% to €85.7bn. Despite a 2% decline in volume with 1,631 transactions, Iberian M&A value rose 55% year-on-year to €85.7bn in 2025, indicating a shift toward a "quality over quantity" paradigm. Growth was anchored by the TMT and Real Estate sectors, with deal values totalling €28.2bn, and Private Equity deployment, which increased 89% to €49.6bn. The year's headline transaction was leading French Telecom Orange's €4.25bn all-cash acquisition of the remaining 50% of MasOrange, a major step in the company's consolidation in Spain.

Portugal's FDI drops 34.9% in 2025 to €8.51bn. Foreign Direct Investment in Portugal experienced a headline contraction of 34.9% in 2025, totalling €8.51bn. This decline was primarily driven by negative flows in debt instruments during corporate restructurings. Real Estate remained an essential anchor, growing by 10.4% to €3.91bn. Major FDI contributions originated from Luxembourg, the UK, and Germany. Despite the dip, the total stock of foreign investment reached €213.73bn, representing 70% of the national GDP.

BBVA initiates €3.96bn share buyback following failed takeover. In the wake of the failed €16.32bn hostile takeover bid for Banco Sabadell in October 2025, a second attempt in five years, BBVA pivoted toward an aggressive capital return strategy. The major bank initiated its largest ever €3.96bn share buyback program, successfully finalising the first €1.5bn tranche in early March 2026. This manoeuvre is part of a broader commitment to distribute €36bn to shareholders through 2028 via ordinary dividends and additional distributions. BBVA's CFO integrated the program into the company's commitment to "return the excess capital generated above the upper end of our capital target range of 12 percent in a disciplined and continuous manner".

U.S. Threatens Spanish Trade Embargo over Political and Military Dispute. The diplomatic rift between Spanish PM Pedro Sánchez and the U.S. Administration has intensified following Spain's refusal to grant access to the Rota and Morón bases for "illegal" operations against Iran. As Sánchez emerges as the primary European ideological adversary to Donald Trump, the latter threatened to cut off trade relations, targeting Spain's olive oil, wine, and machinery, its main exporting sectors. While the U.S. is only Spain's sixth-largest trading partner, accounting for 4.6% of its exports, well below the EU-average, and maintaining a rare $4.8bn trade surplus, Spain remains vulnerable due to its dependence on U.S. gas imports, especially given the ongoing blockage of the Strait of Hormuz.

Final Remarks

The current Iberian landscape presents a striking contrast between domestic prosperity and diplomatic fragility. Despite a robust start to 2026, escalating AI concerns, tensions in the Middle East, and high expected inflation have erased early-year market gains. The coming months will determine whether Iberia's robust internal performance can outpace an increasingly hostile global trade environment and deteriorating transatlantic relations.

Macroeconomic Overview

Tension in the Middle East and Interest Rates Outlook



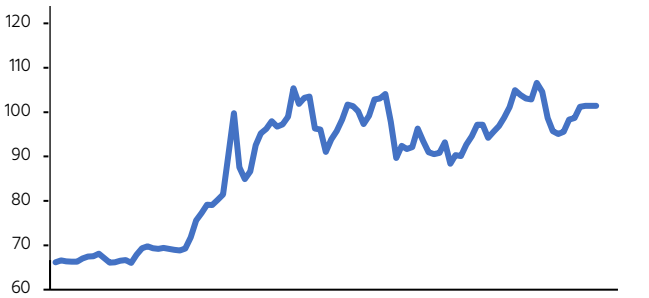
Arthur Canellas

War in Iran

On February 28th, President Donald Trump gave the order to proceed with Operation *Epic Fury*, a large-scale attack in Iranian territory alongside Israel military, whose alleged purpose was to permanently disable Iran's ability to produce nuclear weapons. In retaliation, Iran launched missiles against neighboring countries allied with the United States. The quick escalation and fears of a dragging conflict reignited geopolitical tensions and economic uncertainty in the Middle East.

The assassination of Supreme Leader Ali Khamenei and the number of deaths surpassing a thousand people in the first week of war deeply impacted financial markets, especially energy markets and inflation expectations.

Brent Crude Oil (US$/barrel)



(Source: Bloomberg)

The financial impact of conflicts in the Middle East is not a novelty. Although Iran is a heavily sanctioned and isolated country, it is responsible for c. 4% of total oil production and possesses the 3rd world's largest oil reserve (12% of global reserve). But, most importantly, it can control the Strait of Hormuz, a canal responsible for transporting c. 20% of international oil demand. Since the war began, Iran has shut down the passage, leaving hundreds of ships stranded and disrupting global trade.

As the conflict carries on, the hike in oil and natural gas prices and their effect on inflation become the main economic concerns.

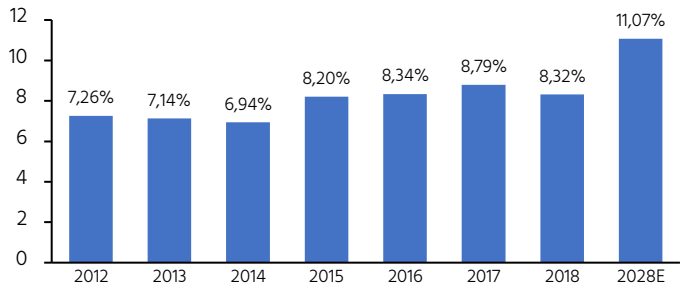
Middle East: Militarization and Tourism

For the past two decades, while tensions surrounding Iran have escalated, most economies in the Middle East have increasingly prioritized economic diversification, tourism development, and international trade integration, limiting their willingness to become directly involved in regional military escalation. Countries such as the United Arab Emirates, Saudi Arabia, and Qatar have pursued strategies focused on positioning themselves as global hubs for finance, logistics, and tourism, reducing their dependence on oil revenues.

Tourism has become a key pillar of economic growth across the Gulf. Maintaining regional stability is therefore essential for sustaining visitor flows and investment inflows. Beyond oil markets, the conflict has also introduced risks to global supply chains through rising fertilizer prices and higher maritime insurance premiums, or halting coverage at all, for vessels transiting through unsafe routes. Air travel has also been affected as several international airlines have implemented flight route restrictions and airspace bans, increasing travel times and operational costs for carriers connecting Europe and Asia.

For Gulf economies that rely heavily on aviation and tourism activity, prolonged instability could undermine passenger flows and regional trade connectivity. Despite these risks, regional governments have largely sought to avoid escalation, prioritizing stability and continued integration into global trade and tourism networks.

Middle East: Tourism as a % of GDP



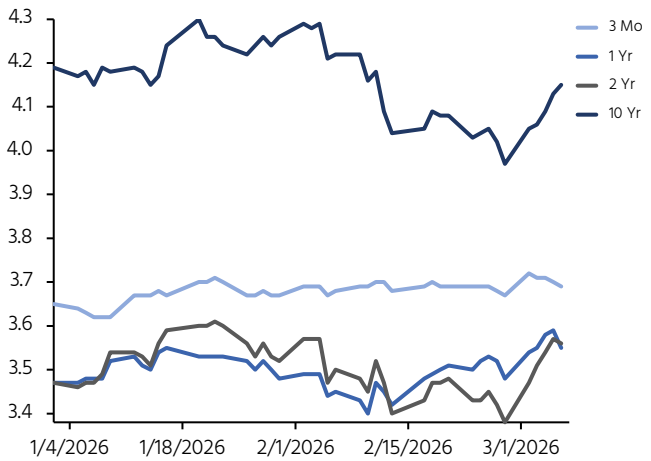
(Source: Statista, IMF)

U.S. Inflation and Interest Rate Cuts

Short-term interest rate decisions had to weigh opposing forces. The surge of oil prices above $100 per barrel and the signs of weakness that the U.S. labor market has shown, with the February employment report indicating a loss of roughly 92,000 jobs, and the unemployment rate rising to 4.4%.

This creates a clear policy dilemma for the Federal Reserve: while weaker employment data could justify interest rate cuts to support economic activity, higher energy prices risk pushing inflation higher and may force policymakers to remain cautious. As a result, government bond markets have become increasingly volatile as investors reassess the timing and magnitude of potential rate cuts.

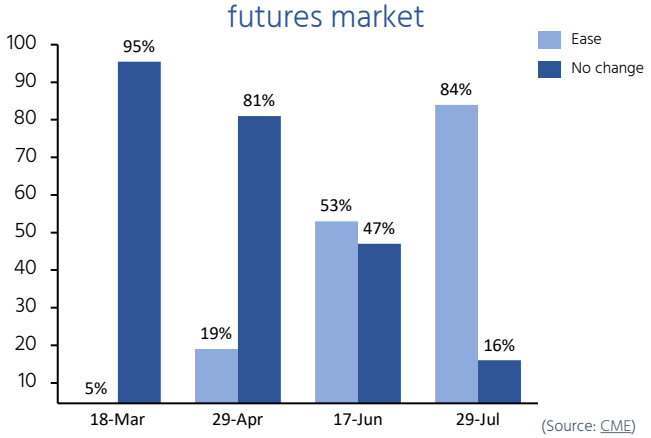
U.S. Treasury Bills YTM



(Source: Treasury)

FOMC decision probabilities evolution:

Uncertainty was already priced in the futures market



(Source: CME)

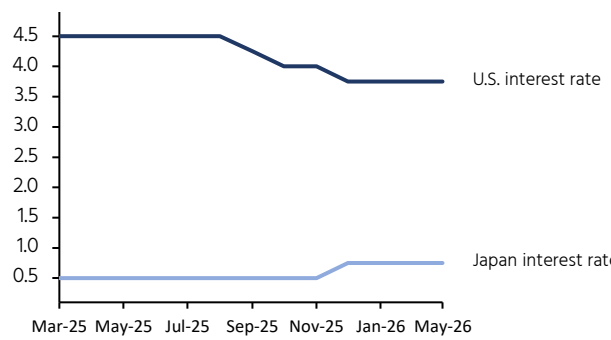
Japan political uncertainty and Yen weakness

The Japanese yen has depreciated significantly against the U.S. dollar as the interest rate differential between Japan and the United States has widened. While the Federal Reserve maintains policy rates around 3.75%, Japan's policy rate remains close to zero and long-term yields are still relatively constrained by the Bank of Japan's accommodative stance. This divergence creates strong incentives for global investors to allocate capital toward dollar-denominated assets offering higher returns. As capital flows shift abroad, demand for dollars rises while demand for yen weakens, placing downward pressure on the Japanese currency. This dynamic is reinforced through carry trades: investors borrowing cheaply in yen to invest in higher-yielding foreign assets.

Fiscal policy decisions have also contributed to currency weakness. Prime Minister Fumio Kishida has implemented several large fiscal stimulus packages aimed at supporting households and businesses amid rising living costs. Increased fiscal spending raises expectations of greater government borrowing and larger bond issuance, i.e., increase in yen-based assets supply and reinforcement that monetary policy will remain loose to help stabilize debt servicing costs.

Markets are therefore closely monitoring whether Japanese authorities will respond through foreign-exchange intervention, adjustments to fiscal policy, or a more decisive shift in the Bank of Japan's monetary stance. Until the gap between Japanese and U.S. interest rates narrows, structural pressures on the yen are likely to persist.

U.S. – Japan interest rate differential



(Source: Trading Economics)

M&A Analysis

Q4 2025 Confirmed the M&A Recovery Cycle Led by Large Strategic Transactions



Maria Costa

Overview

The final quarter of 2025 reinforced the recovery in global M&A activity that began in the third quarter, clarifying the structural nature of the rebound. While overall deal value increased significantly, the recovery remained highly concentrated among large strategic transactions rather than reflecting a broad resurgence in dealmaking. Global M&A value reached approximately $4.7 trillion in 2025, marking a substantial increase from 2024 levels, with the majority of the acceleration occurring in the second half of the year. At the same time, deal volumes remained relatively muted, suggesting that the rebound was driven primarily by large-cap corporates executing transformational acquisitions rather than by a widespread revival of mid-market activity. This pattern indicates that improved market confidence and capital availability benefited the largest and most strategic transactions first.

The macroeconomic backdrop in the fourth quarter was broadly supportive of renewed dealmaking. Inflation continued to moderate in major developed economies throughout 2025, allowing central banks to signal a gradual shift toward a more accommodative monetary policy after the tightening cycle of 2022–2024. Capital markets responded positively, with equity markets maintaining strong valuations and credit markets reopening for large borrowers. These conditions improved acquisition financing and reduced the valuation uncertainty that had constrained dealmaking earlier in the cycle.

Outlook for H2 2026

Looking ahead, forecasts suggest that deal activity will continue to strengthen in 2026, with corporate M&A volumes projected to rise around 11% and deal activity about 8% in the second half, indicating a continuation of the recovery rather than a full expansion cycle. The primary constraint on this outlook remains macro and geopolitical uncertainty. Persistent conflicts, regulatory scrutiny of cross-border deals, and the possibility of delayed monetary easing could increase financing costs or widen valuation gaps between buyers and sellers, slowing transaction execution.

Overall, the fourth quarter of 2025 confirmed that global M&A has entered a recovery phase, but one still characterized by selectivity rather than broad-based expansion. The resurgence in deal value reflects renewed strategic confidence among large corporates and improved access to financing, yet the limited rebound in deal volumes suggests that many potential transactions remain constrained by valuation discipline and lingering macro uncertainty.

Most relevant deals in Q4 of 2025 and H1 2026

Announced Date	Target	Buyer	Target Region	Target Industry	Value
26/02/2026	Warner Bros. Discovery	Paramount Skydance	USA	Entertainment	$110.0 billion
27/10/2025	Essential Utilities Inc.	American Water Works	USA	Utilities	$63.0 billion
02/02/2026	Coterra Energy	Devon Energy	USA	Energy	$58.0 billion
29/09/2025	Electronic Arts	PIF, Affinity and Silver Lake	USA	Entertainment	$55.0 billion
03/11/2025	Kenvue Inc.	Kimberly-Clark Corp.	USA	Consumer Health	$48.7 billion
15/10/2025	Aligned Data Centers	AIP, MGX, GIP	USA	Digital Infrastructure	$40.0 billion
02/03/2026	AES Corp.	GIP, EQT	USA	Energy and Utilities	$33.4 billion
20/11/2025	Exact Sciences Corp.	Abbott Laboratories	USA	Healthcare	$21.0 billion

Paramount Lands Warner Bros After Bidding War with Netflix

Deal Structure

On February 27, Paramount Skydance announced a definitive agreement to acquire Warner Bros. Discovery in a deal valued at $110 billion in enterprise value, including around $81 billion in equity value, marking one of the largest transactions ever in the global media industry. Under the terms of the agreement, Paramount will acquire 100% of WBD through a merger in which Paramount's subsidiary, Prince Sub Inc., will merge into Warner Bros. Discovery, leaving WBD as a wholly owned subsidiary of Paramount upon completion of the transaction. The deal will be financed through a combination of $47 billion in new equity commitments, backed primarily by the Ellison family and RedBird Capital Partners, and approximately $54 billion in committed debt financing arranged by a group of banks such as Bank of America, Citigroup, and Apollo. The transaction is expected to close in the third quarter of 2026, subject to regulatory approvals and approval by Warner Bros. Discovery shareholders. To protect investors from prolonged delays, the agreement includes a ticking fee of $0.25 per share per quarter payable to WBD shareholders if the transaction has not closed by September 30, 2026.

The Rationale

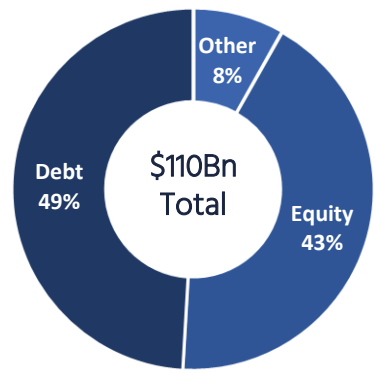
Paramount's film, television, and streaming businesses operate across a broad distribution ecosystem, while Warner Bros. Discovery brings one of the largest premium content libraries in the entertainment industry and the globally recognized HBO brand. The merger would unite franchises such as *Harry Potter*, *Game of Thrones*, *DC Comics*, *Mission: Impossible*, and *Star Trek*, creating one of the deepest intellectual-property portfolios in the media sector. Strategically, the transaction is primarily a scale play in the global streaming market, where companies increasingly require large content libraries and global distribution to compete effectively with platforms such as Netflix and Disney.

the companies aim to build a larger direct-to-consumer ecosystem that spans subscription streaming, advertising-supported streaming, theatrical releases, and traditional television distribution. Paramount has stated that the transaction is expected to generate more than $6 billion in annual synergies, mainly through technology integration, consolidated marketing and distribution, procurement savings, and the elimination of overlapping corporate functions. With both companies generating tens of billions in annual revenue, the combined entity would become one of the largest entertainment groups globally, giving Paramount greater scale in streaming, advertising, and content production.

Market Reaction

Paramount shares rose sharply following the announcement of the Warner Bros. Discovery acquisition, reflecting investor approval of the strategic scale the transaction would bring to the company's business. WBD's stock also moved higher as the deal offered shareholders a $31 per share all-cash exit, representing a premium to the company's pre-announcement trading levels. At the same time, some analysts noted that the market reaction remained cautious given the size of the transaction and the substantial debt financing required to complete it.

Deal Financial Structure Breakdown in $Bn



(Source: Financial Times)

Industry Overview

Inside the Rise and Financial Evolution of Prediction Markets



Miguel Gomes

Sector Contextualization

Turning Uncertainty into Tradable Assets

Prediction markets emerge as financial exchanges in which participants trade contracts whose payoff depends on the outcome of future events. These instruments are commonly referred to as Event Contracts, i.e., a type of swap structured with a binary outcome of "yes" or "no", paying a fixed amount if a specified event occurs and zero otherwise. These (discrete real-world) events typically hold commercial, financial, and economic consequences. As a result, event contract prices can be interpreted as the market-implied probability of an outcome materializing. In fact, the aggregated prediction market holds a Brier Score, i.e., the mean squared difference between predicted probabilities and actual outcomes, of 0.09, implying high accuracy.

From Academia to Regulated Exchanges

Empirical credibility was attained with the launch of the Iowa Electronic Markets (1988), a small-scale research platform designed to forecast political outcomes using trading. Over election cycles, the platform demonstrated that market-based forecasts could match or outperform traditional polling methods. The early 2000s marked the transition toward regulated financial structures, notably with NADEX, which framed event contracts as derivative instruments rather than gambling products. The most significant structural shift occurred with the emergence of blockchain-based prediction markets, introducing decentralized architectures that enhanced global participation, transparent settlement, and liquidity availability.

Probability as the Pricing Mechanism

The economic foundation of the pricing mechanism lies in information aggregation, i.e., participants with superior information trade against mispriced probabilities, pushing market prices toward accurate forecasts. Prices function as as contracts resolve to a fixed payoff contingent on an outcome, the traded price directly represents the market's implied likelihood / collective expectations of that event occurring.

As a result, prediction markets (contract) prices, generally ranging between $0 and $1, can be interpreted as a Bernoulli random variable, i.e., the expected value of an outcome materializing.

$$Price = P(event) \times 1 + (1 - P(event)) \times 0$$

A contract trading at $0.70, for example, reflects a market-implied probability of 70%. Unlike traditional derivatives, this structure simplifies payoff profiles while enabling exposure to risks that are otherwise difficult to hedge through conventional financial instruments.

A Distinct Market Structure: Not Betting, Not Polling

Although misplaced in the sports betting and opinion polling baskets, the prediction markets' economic structure largely outweighs superficial similarities.

In sportsbooks, prices are set by a bookmaker incorporating a margin against participants, whereas prediction markets operate as exchanges where prices emerge from participant interaction rather than operator profit. Compared with polling or expert forecasting, prediction markets incorporate financial incentives that encourage participants to accurately discover probabilities, rather than stating opinions. Traders risk capital when expressing views, which reduces biases commonly observed in surveys, creating an incentive-based mechanism. From a financial perspective, prediction markets also differ from traditional derivatives. The latter market allows hedging of continuous financial exposures, while prediction markets enable exposure to often "unhedgeable" risks through direct positioning on discrete events.

Market Size and Growth Dynamics

Volume Analysis: Liquidity Expansion and Structural Formation

The evolution of prediction market notional volumes, i.e., total dollar value of outcome contracts traded, has been revealed to be expanding at exponential speed. Over the period from April 2024 to December 2025, monthly volume increased from below $100 million to more than $13 billion, an approximate 130x upscale. However, while this headline expansion suggests uninterrupted exponential growth, the underlying dynamics were shaped by distinct cycles of acceleration and consolidation.

The first major acceleration phase occurred between April and October 2024, when monthly volumes grew at a c.112% CMGR up to values of $4.5 Bn. This surge was closely linked to the U.S. presidential election cycle, which transformed prediction markets into highly visible venues for probabilistic positioning. During this period, the financialization of events became evident: electoral results, policy shifts, and macroeconomic releases generated robust liquidity growth.

Following the election peak, volumes retraced and entered a consolidation phase extending into mid-2025, reflected in a compounded monthly contraction of roughly 9%. This phase coincided with steady institutionalization, as regulated exchanges gained broader recognition. This normalization, primarily driven by digestion of excess volatility, did not signal structural weakness, stabilizing at levels materially above early-2024 baselines.

In Q3 2025, activity entered a renewed growth regime, with volumes compounding again at c.52% per month, supported by less concentration around a single catalyst and increasing diversification across macroeconomic, technological, and social event categories. At the same time, advances in Onchain integration: improved contract infrastructure, compatibility with digital asset ecosystems, and transparent settlement mechanisms reduced friction and expanded global participation. This culminated in an aggregate notional value of c.$44 Bn in 2025.

The overall pattern, despite recent, suggests a transition from reactive spikes to structurally sustained liquidity, with progressively higher volume baselines indicating deeper and more durable adoption.

Diversification of Market Exposure

In 2025, prediction market volume remains concentrated but increasingly diversified. Sports contracts account for approximately 45–50% of total notional turnover, reflecting their recurring structure and high-frequency event flow. Politics-related markets represent roughly a 25–30% share, continuing to provide episodic liquidity surges appealing to participants. Beyond the dominant categories, crypto-linked contracts contribute an estimated 10–15% of volume, while macroeconomic markets are emerging topics, along with culture, technology, and social themes.

Taken together, while category favourites remain the dominant liquidity anchors, the measurable expansion toward multi-domain exposure reinforces robust liquidity adherence.

Competitive Landscape

Revenue Model: Monetizing Liquidity

Prediction market platforms operate primarily as exchanges, generating revenue through transaction-based mechanisms rather than directional exposure to outcomes. The core revenue driver is market-making/trading activity, typically monetized via execution fees applied to notional volume or embedded within bid-ask spreads. In this structure, higher volatility translates into greater trading frequency, reinforcing the correlation between events and revenue acceleration. Besides revenue cyclicality, the model exhibits strong operating leverage: matching engines and settlement infrastructure scale digitally, implying low marginal costs per additional trade.

Liquidity Leadership: Market Share and Activity Metrics

In the absence of publicly disclosed financial

statements, competitive positioning in prediction markets can be assessed through liquidity-based indicators that provide a practical proxy for platform capital commitment and user engagement. Based on 2025 aggregate trading data, liquidity remains highly concentrated between two platforms. Polymarket accounts for c.49.4% of total notional volume, marginally ahead of Kalshi at 38.4%, while other platforms collectively represent a limited share of market activity, from which we highlight Opinion at a c.11.5% share.

Transaction-level data reveal a slightly different competitive structure: Kalshi represents c.49.6% of total transactions, compared with 48.0% for Polymarket, indicating a more balanced bipolar distribution of trading activity. While Polymarket leads in capital turnover, Kalshi processes a comparable share of trades, suggesting stronger participation frequency or smaller average trade sizes.

Taken together, the two indicators point to a duopolistic market structure, where liquidity and activity are concentrated between the two leading platforms, with remaining competitors accounting for only a marginal fraction of overall trading volume. This dynamic suggests clear effects of first-mover advantages in a recent sector, enabling market leaders to quickly absorb existing demand and scale the respective business model.

Regulation: The Structural Constraint

Regulation remains the defining constraint for prediction markets: in the US, event contracts fall under the Commodity Exchange Act and are overseen by the Commodities Futures Trading Commission. The Act includes provisions allowing the prohibition of contracts deemed contrary to the public interest, including those classified as “gambling”.

The distinction between event contracts as financial derivatives and gambling instruments carries implications for licensing, taxation, brokerage integration, and institutional participation. Regulatory scrutiny can therefore directly introduce uncertainty and affect liquidity and platform access.

Additionally, market integrity considerations also intensify. Because contracts trade on forward-looking outcomes, surveillance mechanisms addressing insider trading become progressively relevant for institutional legitimacy.

Strategic Outlook

Prediction markets are gaining traction as institutionalized financial products that sustain robust liquidity. While growth remains sensitive to regulatory clarity, the expansion in volume and thematic breadth suggests progressive integration within the broader financial ecosystem.

Stock Analysis: Kraft-Heinz

(NASDAQ: KHC)
Market Cap: $28.68bn
Current Share Price: $24.18



Tomás Barriga

Investment Thesis

Kraft Heinz represents a compelling turnaround opportunity under the strategic guidance of its new CEO. The company's competitive moat is anchored by the near-monopolistic brand equity of its global Taste Elevation portfolio, coupled with a highly resilient CPG business model that reliably generates the massive operating cash flow needed to fund its $600M investment in marketing and R&D. KHC is positioned to stabilize its revenue, gain market share among younger generations, and create new products to captivate health-conscious consumers, while also expanding its market share in emerging markets and Away-From-Home (AFH) foodservices. Finally, investors can benefit from a dividend yield higher than the industry average (6.5%) while they wait for the stock price to rebound.

Business Overview

The Kraft Heinz Company (KHC) is a major packaged food, condiment, and beverage company, with a portfolio containing notable brands like Kraft, Heinz, and Philadelphia. KHC is divided into 2 segments. Global Taste Elevation, a high-growth engine, consisting of flavor-enhancing products, and North America Grocery, a stable cash generating business consisting of grocery staples.

Industry Overview

The Consumer-Packaged Goods (CPG) industry is stable and non-cyclical, valued at $3.45T in 2025 and expected to grow to $4.23T by 2030 (~5% CAGR). The industry expansion is mainly fueled by rapid e-commerce growth in emerging markets. Rising trends in the industry are: increasing consumer demand for convenience, health-conscious products, eco-friendly packaging. Also, 47% of consumers prefer value over brand loyalty.

Financial Performance and Relative Valuation

Even though KHC has experienced a decline in revenues, it continues to increase its operating cash flow over the years ($4.5 billion in 2025, up 6.6% YoY) and has $3.7 billion in free cash flow. Besides, the newly appointed CEO, Steve Cahillane, has a track record of recovering companies in a similar state to KHC, as seen with Kellogg in 2023.

KHC has a cost advantage, getting wholesale discounts bigger than the market average due to its size, contributing to its operating margin of 18.9%, higher than the industry average of 10%.

Facing increasing competition in traditional retail businesses, KHC is pivoting to be present in restaurants and hotels, which is a high-growth industry, presenting a key volume driver for KHC, both in mature and emerging markets.

	Kraft Heinz	Industry Mean
P/FCF	7.90x	12.20x
EV/EBITDA	8.33x	10.01x
EV/Revenue	1.88x	1.43x
FCF yield (%)	12.7%	8.2%
Net Debt/EBITDA	3.05x	1.56x
Dividend Yield (%)	6.50%	5.43%

Metric/Year	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	20,042	26,485	26,64	25,846	24,942
YoY growth	-0.50%	1.70%	0.60%	-0,03	-3.50%
Gross margin	35.20%	30.70%	33.50%	34.70%	33.30%
Net margin	3.90%	8.90%	10.70%	10.60%	-23.40%
OCF	5,364	2,469	3,976	4,184	4,462
CapEx	905	916	1,013	1,024	801
FCF	4,459	1,553	2,963	3,16	3,661
YoY growth (FCF)	2.90%	-65.20%	90.80%	6.60%	15.90%

(Million USD)

Catalysts

- Continued growth in emerging markets
- AFH growth reducing dependency on traditional retail
- $600M investment success, streamlining KHC's brand portfolio and product range

Risks

- Consumers prioritizing healthier food
- Increased private label competition as consumers switch to a value-seeker mindset
- Debt load and credit downgrades

Stock Analysis: Rolls-Royce

(OTCPK: RYCEY)
Market Cap: $157.92bn
Current Share Price: $18.96



Mateus Nascimento

Investment Thesis

Rolls-Royce Holdings represents a compelling transformation opportunity as management converts a historic engineering champion into a higher-return cash compounder. The company's competitive moat is anchored by its installed base of civil aerospace engines, whose long-term service agreements generate recurring, high-margin cash flows as large engine flying hours recover beyond 2019 levels. Rolls-Royce is positioned to benefit from sustained defence spending growth, with NATO rearmament and geopolitical tensions supporting demand, while Power Systems gains share from structural data-centre demand for MTU backup solutions. Finally, investors can benefit from meaningful SMR optionality and a valuation discount to peers while they wait for further margin expansion and re-rating upside.

Business Overview

Rolls-Royce operates across three core divisions. Civil Aerospace manufactures the Trent engine family (Airbus A350, Boeing 787) and earns through long-term service agreements (LTSAs) tied to flying hours. Defence covers military propulsion and nuclear reactors for UK submarines. Power Systems (MTU) provides engines for data centres, naval vessels and land defence. RR SMR was selected as the UK's sole SMR provider in 2025. FY2025: Civil Aerospace ~£10.1bn (58%), Defence ~£3.1bn (18%), Power Systems ~£4.0bn (23%).

Industry Overview

Civil Aerospace: Flying hours exceed 2019 levels. Asia-Pacific demand drives fleet expansion, engine utilisation and LTSA income. Each flying hour generates recurring service revenue at high margins.

Defence: Russia's invasion of Ukraine and Middle East instability have shifted NATO spending beyond 2% of GDP, driving sustained demand for RR military propulsion and submarine nuclear systems.

Power Systems: Surging AI investment has created unprecedented backup power demand. High NATO defence activity simultaneously drives land and naval power systems, creating two durable growth drivers.

Competitive Advantages

(i) **Switching Costs:** Engine switching requires full recertification, a prohibitive cost that locks Rolls-Royce into each airframe for 20–25 years

(iii) **Technological Differentiation:** The Trent family and UltraFan support superior fuel efficiency and performance, sustaining pricing power

(iv) **Defence Nuclear Monopoly**: Sole supplier of nuclear propulsion for UK submarines, with no credible near- to medium-term alternative.

Financial Performance and Relative Valuation

	RR	Industry Mean
P/E	18.57x	25.64x
EV/EBITDA	25.86x	24.43x
EBITDA Mg%	20.6%	15.49%
FCF yield (%)	3.46%	3.14%

Year	Revenue	Gross Profit	EBITDA Mg%	FCF	Net Debt (Cash)
FY2022	13.5	2.657	13.4%	0.9	(3.3)
FY2023	16.5	3.620	10.2%	1.9	(2.0)
FY2024	18.9	4.221	17.7%	3.1	0.5
FY2025	21.2	6.175	20.5%	3.8	1.9
FY2026E	21.7	5.751	21.5%	3.6	-
CAGR	**16%**	-	-	**87%**	--

(Million USD)

Key Risks and Catalysts

Risks: (i) Execution challenges within the Civil Aerospace margin transformation; (ii) cyclicality and demand shocks impacting flying hours; (iii) policy and regulatory exposure in defense and nuclear; and (iv) valuation compression if growth decelerates. **Catalysts:** (i) Further margin upgrades driven by aftermarket economics; (ii) accelerated NATO defense spending; (iii) sustained Power Systems growth via data center demand; and (iv) R&D on next-generation engines paired with government support.

Deep Dive, Market Cycles:

Risk is not static, it shifts with markets, creating moments of bargains and excess valuations

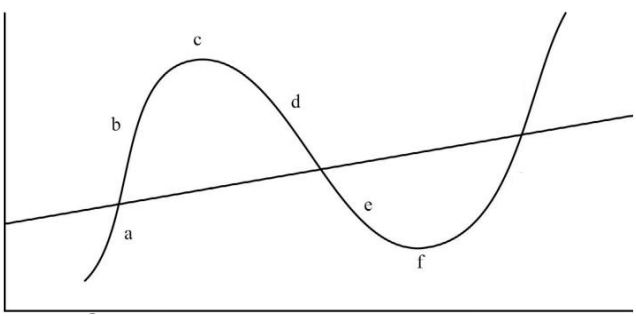


João Bueno

Definition of Market Cycles

A market cycle is a recurring pattern of economic and financial oscillations characterized by a causal chain of events. These cycles are structurally formed by the intersection of objective fundamentals, such as corporate profitability and capital availability, and subjective investor psychology, which fluctuates between extremes, namely greed and fear. While cycles technically oscillate around a rational "midpoint" or secular trend, human momentum often causes them to overshoot into highs or lows.

Market volatility can often be explained through the phases of the cycle. Prices start recovering from the last recession (a) until it reaches its true value at the midpoint. Continuing the growth trend and swinging past the midpoint, expansion takes place (b) until a new high is achieved (c). Investors, at some point, perceive that assets are overvalued and a correction pulls prices to the midpoint (d). Persistent price declines create a contraction (e), overshooting the midpoint and falling until a new low is reached (f). In this phase, it is possible to observe a historical movement of symmetry. The more overvalued the market becomes in phase “c”, the stronger the pressure that pushes prices toward lower levels.



It is known that the historical performance of the S&P500 is usually around 10% year-on-year. However, by analysing the 47 years of his activity in the market (1970-2016), economist Howard Marks noticed that annual S&P500 returns swung from -37% to 37%. The co-founder of Oaktree Capital Management further noticed that the market hit the average (8%-12%) only 3 times during this period. Nevertheless, extreme volatility of 20 percentage points away from the mean was observed 13 times during the 47 years analysed.

The rationality behind the extreme returns is the investor psychology and the inability of markets to remain in a happy medium.

Investor Psychology

While financial theory assumes intrinsic objectiveness and the absence of emotion in Men, that is not what happens empirically. The pendulum of emotion oscillates back and forth between euphoria and depression, greed to fear, or risk tolerance to risk aversion.

During expansionary periods, euphoria and greed dominate market sentiment. The fear of missing out and observing others achieve high returns encourages companies and individuals to accept riskier investments in order not to be left out of the gains.

In contraction periods, investor sentiment is filled with fear and skepticism. Recent negative events are the cause of pessimistic market perception. Investors stop worrying about missed opportunities and start fixating on the fear of losing money.

How to Identify Cycle Phases

Current cycle phases can be understood with the interpretation of current investment sentiment and via quantitative metrics. When analysing a company with relative valuation, investors compare multiples and decide which business is the best in its respective segment. If the purpose of the analysis is to understand the contemporary phase of a cycle, the comparison of multiples should be done using historical values. Long-term data indicates that metrics such as P/E, P/B, and ERP are always extremely inflated moments before recessions and deflated before expansions.

Multitude of Cycles

In the real world, numerous cycles happen at the same time. The oscillations in various industries do not operate in isolation as they are interconnected and create a complex system of cycles. For example:

- **Credit Cycle** operates as a window of opportunities for the companies, being wide open or slammed shut depending on the market phase. After a recession, lenders that have recently recognized defaults become risk-averse, and the credit window closes. In contrast, when expansion takes place, risk aversion disappears, and credit can be obtained with ease and weaker deal structures. This dynamic emerges to increase profits and win market share during bull markets.
- **Government Cycle** feeds most of the cycles by the central bank's monetary policy, having a direct impact on market activity. Interest rates are defined taking into consideration inflation levels and economic excesses. Basically, the decisions taken by these institutions are highly connected with the amount of capital expenditure in the market, or the availability of credit. At the same time, changing the interest rates impacts lending activity.
- **Earnings cycle** is highly volatile when compared to actual market oscillations. While developed countries' GDP usually oscillates between -2% and 5%, corporate profits can soar or plummet way more drastically.

Industry's Performance During Cycles

During recessions, businesses that require high CAPEX, own a high quantity of debt, or rely on non-essential goods/services consumption are usually affected the most. Industrials, Technology, and Consumer Discretionary had huge decreases in price over the last crisis. In contrast, enterprises that rely on essential goods/services consumption, such as Consumer Staples and HealthCare, tend to contract less in difficult times.

Over the course of expansion, the exact opposite was reflected. The availability of credit creates positive returns for industries with high CAPEX and non-essential consumption, and less attractive projections for essential consumption.

.Risk

Risk can be split primarily into two forms: The likelihood of capital loss and the likelihood of missing out on potential gains.

Practical Use

Studying market cycles enables an improvement in portfolio allocation techniques. Understanding which industries or assets thrive during bull markets and which are resilient or antifragile during recessions creates opportunities for asymmetrical results relative to markets and benchmark indices. The aggressiveness and defensiveness of the investors should be allocated to the times when risks are lower and higher, respectively.

	Vibrant Economy	Sluggish Economy
Lenders	Positive	Negative
Capital Markets	Loose	Tight
Capital	Plentiful	Scarce
Terms	Easy	Restrictive
Yield Spread	Narrow	Wide
Investors	Optimistic	Pessimistic
Buyers	Eager	Uninterested
Asset Owners	Happy to Hold	Rushing for Exits
Sellers	Few	Many
Markets	Crowded	Neglected
Funds	Restricted	Open
Fundraising	Frequent	Selective
Asset Prices	High	Low
Prospective Returns	Low	High
Risk	High	Low
Common Practices	Aggressiveness	Caution
Right Practices	Caution	Aggressiveness
Common Mistakes	Over Buying	Under Buying
	Risk-seeking	Risk-avoiding

Opinion Article:

What Comes After the Efficiency World Order?



Diogo Simões Pereira

Introduction

2025 may come to be seen as the moment when the post-Cold War economic order finally gave way to something else. For three decades, globalisation ran on a simple logic: expand trade, limit geopolitical rivalry, and organise supply chains for efficiency. That logic is now eroding. Strategic competition between the United States and China has moved from the margins of the global economy to its centre, reshaping trade, investment, and industrial policy. This change is not the end of globalisation, but its reorganisation around a different set of priorities, namely resilience instead of efficiency. And contrary to popular belief, Trump's return to the White House did not create this, but made it explicit. Policies once seen as exceptional, such as tariffs, industrial subsidies, and export controls, are becoming structural features of the economy.

The Efficiency Era

After the Cold War, the world economy ran on one principle: efficiency. Production went where it was cheapest, supply chains stretched across continents, and capital crossed borders freely in search of the highest returns. The World Trade Organization (WTO) and a wave of trade agreements locked this model in. Between 1990 and the 2008 financial crisis, world trade grew far faster than global output, and China's entry into the WTO in 2001 deepened global commerce even further. Companies stopped asking where things should be made and started asking only where they could be made cheapest: a product designed in California, assembled in China, shipped from Vietnam. Geopolitics was an afterthought.

When Interdependence Became a Weapon

Yet the very interdependence that once seemed to guarantee stability is increasingly being reinterpreted through the lens of national security. Dependence on foreign distributors, supply bottlenecks, technologies, or financial systems can quickly go from an economic advantage into a geopolitical vulnerability.

One sign of this shift is what scholars call weaponised interdependence: the ability of states to exploit crucial positions within global networks to exert political pressure. For instance, financial sanctions imposed on Russia after its invasion of Ukraine illustrated this mechanism clearly, as cutting access to dollar-based financial infrastructure overnight turned an economic dependency into a geopolitical weapon. US export controls on advanced semiconductors to China showed the same logic applied to technology.

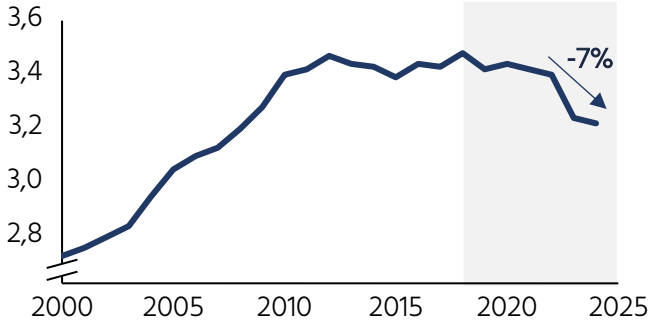
During the COVID-19 pandemic, when supply chains snapped and shortages of semiconductors and medical equipment appeared, it showed that the need for efficiency had come at the cost of resilience. The policy response, namely tariffs, subsidies, and industrial policies like the CHIPS Act and the Inflation Reduction Act, signalled something deeper: governments had decided to start shaping where production happens, not just taxing it. The implications of this new ruling principle, resilience, reach into the geography of trade, the architecture of global finance, and the race for the technology that may ultimately determine which bloc wins.

Trading in Blocs

The result, then, is a global economy increasingly organised around blocs rather than markets. Trade is not collapsing, but it is being rerouted. The relevant question is no longer only where production is cheapest, but whose supply chain it belongs to. McKinsey's 2025 data captures this directly: geographic distance in trade has increased over the last five years, while geopolitical distance has decreased. With China, Germany, and the US leading the divergence, economies at opposite ends of the geopolitical spectrum are trading less with one another, while inside the major blocs, trade is intensifying.

Geopolitical distance travelled by trade,

0-10 scale (Source: McKinsey)



Thus, a group of countries is emerging as the unexpected winners. India, Vietnam, Mexico, and Indonesia share something important: they are large enough to absorb manufacturing at scale, geographically close enough to one bloc to be useful, and politically uncommitted enough to trade with both. They are picking up production that neither the US nor China wants the other to control, while keeping their doors open to both sides. But that dynamic only holds for countries with enough weight to play both sides. Everyone else is worse off, as the IMF estimates severe fragmentation could cost the world up to 7% of GDP, falling hardest on those without the industrial base or political power to absorb it.

The Dollar Under Pressure

Beneath this trade reorganisation lies a more fundamental contest, the architecture of the international monetary system. The sanctions on Russia delivered an unintended lesson to every government watching: dependence on the dollar is a sovereign risk. And the strikes on Iran suggest the US will go further still to protect it, having watched an Iran-Russia-China energy axis quietly taking shape outside dollar systems. The response has been gradual but with a clear direction. Trade agreements denominated in local currencies are expanding. The BRICS have intensified discussions around alternative payment systems. Central bank digital currencies are being developed, in part, as instruments of monetary sovereignty. However, none of this displaces the dollar in the near term. Its structural advantages, the oil industry, deep Treasury markets, liquidity, legal reliability, and the network effects of global finance remain formidable.

But the incentive to reduce the dollar dependency has never been stronger, and the alternatives are being constructed in real time. If that process accelerates, the power of America's financial system may gradually erode, especially as the independence of the new Federal Reserve Chair is increasingly questioned.

The Race That Changes All Others

Cutting across all of these dynamics is the race for Artificial Intelligence leadership. Advances in machine learning, data infrastructure, and computing power are now crucial areas of economic and strategic competition. Current systems remain narrow tools, but the direction of travel is clear. Artificial General Intelligence, systems capable of matching human performance across complex cognitive tasks, from scientific research to engineering, is now being actively pursued by the largest companies and governments. If achieved, it would be a compounding structural advantage: accelerated military capability, autonomous economic productivity, basically the ability to outpace rivals across many dimensions simultaneously. Moreover, this race also depends on the physical infrastructure of computing, such as semiconductors and data centers. Control over these inputs is therefore becoming a central objective of industrial policy, which brings the analysis to Taiwan. The island produces approximately 90% of the world's most advanced semiconductors through TSMC. Every argument made about reshoring, technological sovereignty, and strategic autonomy rests implicitly on the assumption that Taiwan remains accessible.

Who is Ready?

What is happening is not the end of globalisation, but its reorganisation, from efficiency to security and resilience. The real beneficiaries are countries in between that capture manufacturing, while the losers are those too small to matter. AI accelerates this, not by resolving competition, but by making every advantage provisional, as any current lead in semiconductors, models, or talent could be obsolete within a decade. The world is reorganising around resilience, but even that may not be enough.

Message from the Co-presidents.

Dear reader,

We are delighted to present the latest edition of the NIC Undergrad Review. At NIC-UD, we remain committed to continuously improving the NUR, both in the quality of our research and in the way we share it with our readers.

With this objective in mind, this edition introduces a two-page limit per article, encouraging more concise and focused analysis aiming at improving the reading experience. We have also rethought our editorial structure, introducing new formats such as the Stock Pitch Deep Dive, which allows you to explore the well-founded and researched investment theses of our writers.

These changes reflect our ambition to make the NUR increasingly insightful, accessible and engaging, while preserving the analytical rigour that defines our work at NIC-UD.

We would like to thank all our analysts for their curiosity, dedication and contribution to this edition, and our readers for their continued interest in our work.

We hope you enjoy reading this edition as much as we enjoyed putting it together.

Warm regards,

Francisca Mora & Lucas Faísca

Co-Presidents at NIC-UD



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