ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review March 2018

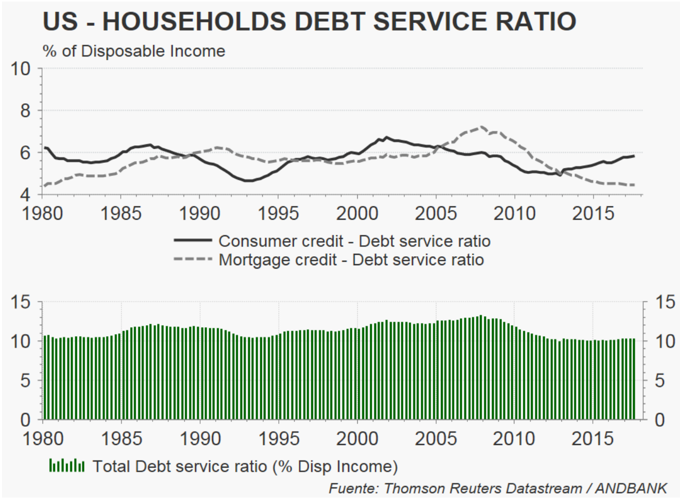
Alex Fusté
Chief Global Economist
+34 673 041 058
+376 881 248
alex.fuste@andbank.com

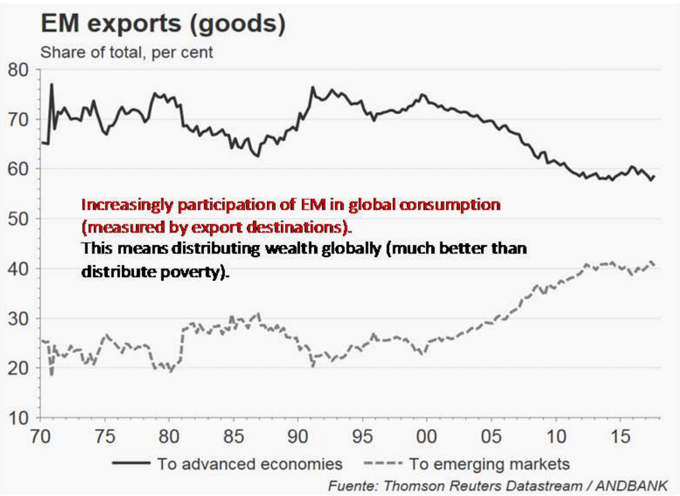
Corporate Review

March 2018

EXECUTIVE SUMMARY

CHARTS OF THE MONTH





EQUITIES

Most of the price damage is over for this correction, though we are not going to return to the same level of volatility as in the recent past (higher volatility will demand a higher risk premium). We do not expect a quick return to prior highs, but we do think higher highs for the S&P are likely ahead of us before the end of the year. We maintain our targets for the European indexes, where we still see value despite de recent turmoil in global equities. The European economy seems resilient, and salary growth remains sluggish, helping both company sales and profits. Our preferred markets continue to be Emerging Asia.

FIXED INCOME

Still negative outlook for long dated government bonds (USD and EUR). We raise our target for the UST 10 year yield to 3.25% (from 3%). We keep unchanged our targets (entry points) for European government bonds (Bund at 0.90%, Spain at 1.65%, Italy at 2.1%, Portugal at 2.2%, Ireland at 1.1% and Greece at 4.5%). We still see value in some EM government bonds, specially in Asia, where the recent rise in nominal rates has left real yields at attractive levels (>250bps). In Latin America we prefer local currency bonds (in Brazil and Mexico). We like Argentinean bonds in USD

CORPORATE CREDIT

Investment Grade bonds in USD: Neutral. Target for the CDX IG at 45-50. High Yield bonds in USD: Negative. Target for the CDX HY at 413 (today at 335). Investment Grade bonds in EUR: Negative. Target for the Itraxx Europe at 75. High Yield bonds in EUR: Negative. Target for the Xover at 300

CURRENCIES

The EURUSD faces a very important resistance at 1.26, which we believe will not be broken. After that, the EURUSD will move back into the mid-term range: first towards 1.15 (this year, according to this analysis). Our more fundamental discussion suggests that the USD offers good value at current levels.

COMMODITIES

Saudi Arabia and Russia to draft an agreement on a long-term alliance to defend oil prices by the end of the year. This resulted in record bullish bets by hedge funds. The rise in US crude production above 10.2M bpd in January means that the US has supplanted Saudi Arabia as the world's second largest oil producer. In our view, the oil price crossed the upper part of a fundamental range.

USA
We raise our GDP forecast.

Spending bill passed. The Fed should accelerate hikes.

The Congress voted to pass a spending bill to suspend the debt ceiling until 2019 and avoid a temporary government shutdown: Spending caps are raised by $300bn over two years. Given that US (and global) growth has been gaining momentum, actions such as the large tax cuts and direct government spending will probably lead to an acceleration in GDP growth, and we now expect a 40bp boost to growth in GDP (our new GDP target is +3% in 2018). More importantly, the amount of stimulus is likely to be even larger in 2019. The costs of this boost in growth? Higher deficit and a Fed accelerating the pace of rate hikes. It is still to be seen whether this could be a difficult combination for financial markets. The upshot is that we are optimistic about near-term growth & profit dynamics, but it is becoming trickier to envision the long-term outcome. **Labor market:** Around 60% of overall inflation comes from the labor market. Labor tightness has been apparent for some time but only now is the evidence of labor strength adding to price pressures, with hourly earnings picking up to 2.9%. **The Fed:** The Fed already boosted its growth outlook for 2018 and we now expect another upward revision of its forecasts (maybe at the March meeting). In light of the events (above full employment, positive output gap, tax & fiscal stimulus, etc.), the Fed should accelerate its tightening In response to a foreseeable large positive demand shock, but also because sector and region-specific factors may lift inflation further this year. Bearing all this in mind, the risk is that the Fed will end up “behind the curve”. The last time a non-economist held the post of FOMC chair was in 1978, and at that time the Fed did not respond quickly enough to the rise in prices, resulting in a spike in prices, yield curve steepening and dollar declines. That said, the large inflation misses of 2017 provide a reminder of how difficult forecasting inflation is. Our base case calls for the Fed to hike 3-4 times in 2018.

Andbank’s market sentiment

Most of the price damage is over for this correction, though we are not going to return to the same level of volatility as in the recent past (higher volatility will demand higher risk premiums –or lower PE-). We do not expect a quick return to prior highs, but we do think higher highs for the S&P are likely ahead of us before the end of the year. Earning season has been informative (guidance on tax cut effects). Taking into account this additional information, we thought it appropriate to adjust our year-end forecast for EPS (to the US$ 160 area). However, as we move closer to the end of the cycle, a change in perception around rising rates has led us to reduce our valuation (PE) targets. **We maintain our 2,713 base case year-end target, but via higher EPS and lower multiples.** Rising bond yields have been an issue for equities as bond yields approach the inflection point. Correlation analysis since 2013 suggest that it could be at 3%. The same analysis based on the TIPS yield indicates an inflection point in the 1.25% area (today at 0.75%). Additionally, the gap between nominal GDP and the UST yield needs to shift by 100bp to become a headwind for equities.

Financial markets

Equities – S&P: NEUTRAL (central point 2715). Exit point: 2985

NEW! Bonds – Govies: NEGATIVE (10Y UST target yield 3.2%)

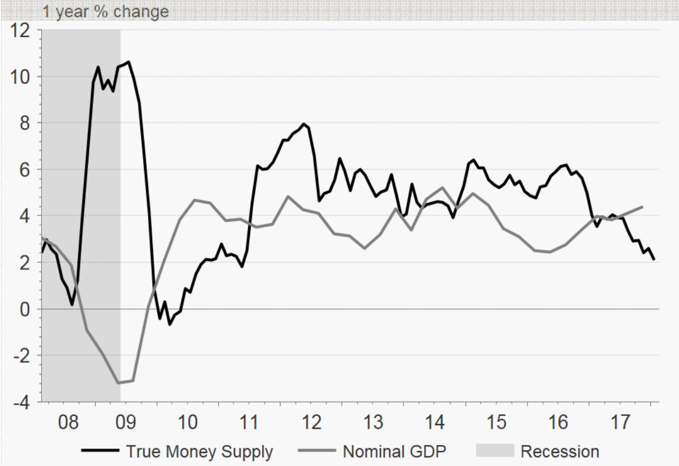
Credit – CDX IG : NEUTRAL (Target Spread 45)

NEW! Credit – ICDX HY: NEGATIVE (Target Spread 413)

Forex – CDX index: POSITIVE

US - True Money Supply vs Nominal GDP growth

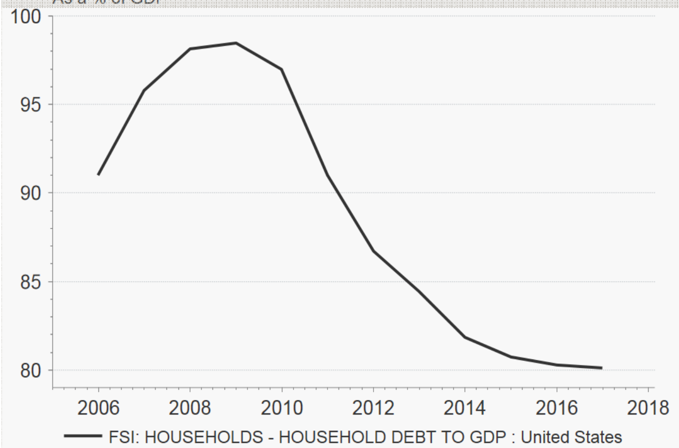
1 year % change



Fuente: Thomson Reuters Datastream / ANDBANK

US - HOUSEHOLD DEBT TO GDP

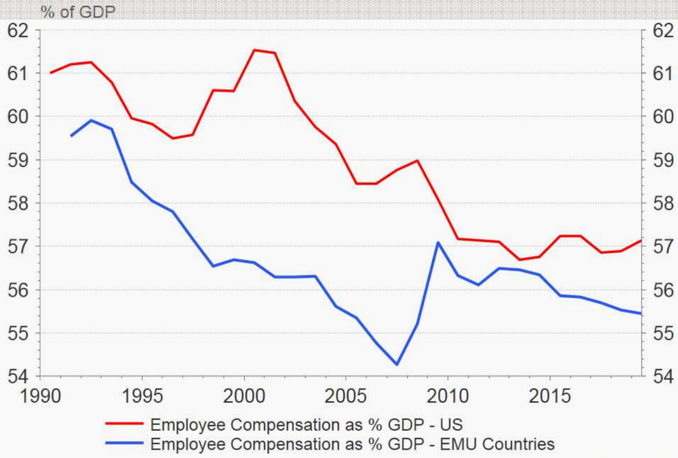
As a % of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

WAGE SHARE (US vs EURO ZONE)

% of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

EUROPE
Ready for the Italian vote

The Eurozone economy backdrop remains intact.

Optimism from surveys and data support a bright outlook in the months to come. Official and market growth estimates for 2018 have been improved and risks are tilted on the upside for further upgrades: consumer confidence close to highs, factory orders anticipating strong industrial production, etc. Even the United Kingdom has benefited from the strong cyclical momentum, with its GDP estimates being revised upwards by the BoE.

Furthermore, inflation signals are increasing: positive surprise from the most recent CPI data, final agreement with the German metal trade union pointing to a 3.5% annualized wage increase for the next 27 months, industrial prices mounting. Inflation should gradually trend higher as growth continues to pick up.

Hawkish central banks

The ECB's last meeting was focused on the QE exit sequence and euro appreciation. Draghi intended to water down the hawkishness post December Minutes but did not succeed. Changes in forward guidance could be delayed to June meeting, and September would be thus a proper date to announce next steps regarding the asset purchases program, which could be extended till the end of this year. Reinvestment policy, according to ECB sources, won't be discussed till 2019. Rate hikes are not foreseen till 2019.

Once De Guindos has been picked as VP in the ECB, the chances of a future German ECB President increase.

BOE message was clear: "rates will increase at a faster pace and earlier than estimated in November", moving the rate hike expectation to 2018.

Italian elections on the radar

The message from the polls remains unchanged: the center-right lead (although still unlikely to deliver an outright majority in Parliament), with Five Stars and center-left neck to neck. The most likely outcomes are: a large grand coalition or a center-right minority government. Frictions within the parties are becoming more prominent in the media than cross-party dialectics.

Groko coalition in Germany: Though the approval of the definitive agreement by the SPD's delegates is still pending, concessions made by Merkel on social spending and the new Cabinet set soften the road for a Yes. General implications: More public spending (particularly on the social front, while lower infrastructure vs. estimated) and lower taxes. All in all, a surplus reduction close to €67 bn. Despite Schulz having resigned, positive tailwinds remain for further European integration as the agreement text includes turning the ESM mechanism into a EMF (European Monetary Fund), a starting point for the Euro-Zone budget.

Financial markets

Equities – Stoxx Europe: POSIT (central point 411). Exit 439

Equities - Euro Stoxx: POSIT (central point 413). Exit 454

Bonds – Core governments: NEGATIVE (Bund target yield 0.90%)

Bonds – Peripheral : NEGATIVE (SP 1.65%, IT 2.1%, PO 2.2%)

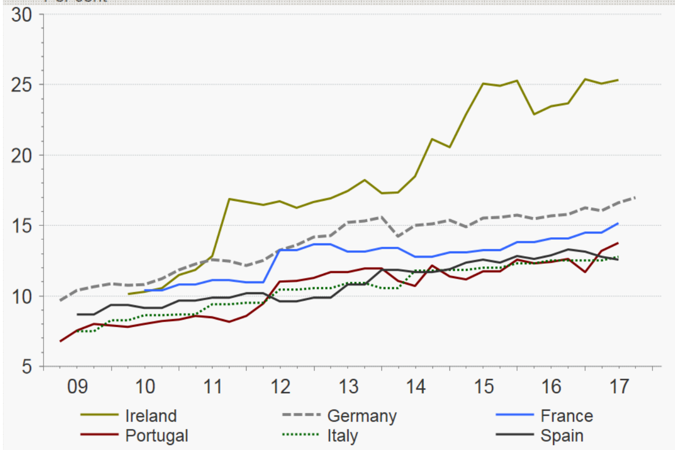
Credit – Itraxx Europe (IG) : NEGATIVE (Target Spread 75)

Credit – Itraxx Europe (HY : NEUT-NEGAT (Target Spread 300)

Forex – EUR/USD: Short-Term POSIT (1.26). LT NEGAT (1.15)

Euro area banks tier 1 capital ratio

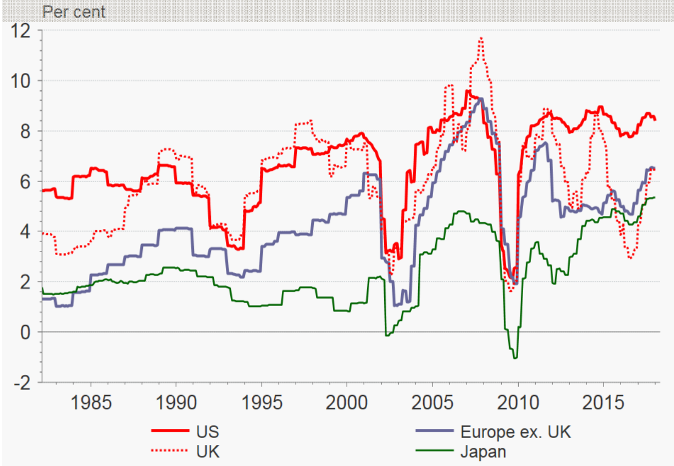
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Net profit margins

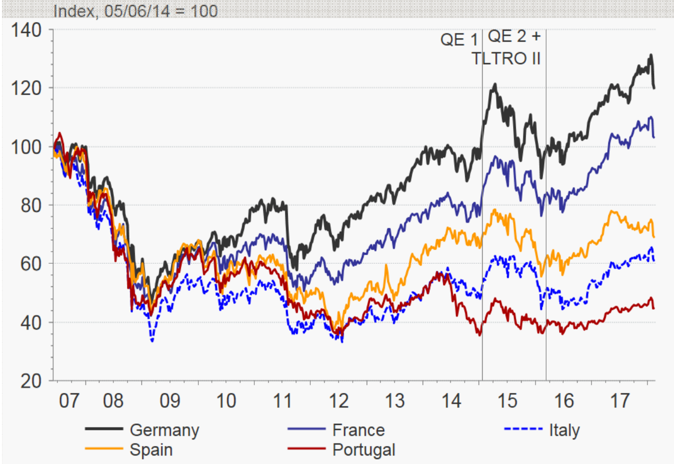
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Euro area equities

Index, 05/06/14 = 100



Fuente: Thomson Reuters Datastream / ANDBANK

MACROECONOMY

SPAIN
Rating agencies dismiss political risks

Economy & Banking outlook

December's hard data confirms the apparent resilience of the Spanish economy, with most figures improving from November's readings. Industrial and external sectors took the lead. External data posed the biggest surprise, with both Current Account and Trade Balance improving. The Real Estate sector showed quite impressive figures, with housing transactions reaching 464,423 in the year (+15.5%). According to INE, housing prices were up by 6.7% yoy by 3Q 2017. Recovery in housing transactions is spreading through all regions. "The Spanish banking sector's overall credit fundamentals have steadily improved over the last two years" (Fitch). Since 2015, banking sector debt has fallen 25 percentage points to 159.9 percent of GDP. NPLs were fixed at €103bn (-12.5%) yoy, decreasing to a rate of "just" 8.22% (-104bps yoy). NPL trends and real estate sector dynamics (mid-single digit growth in housing prices and double digit growth in housing transactions) remain very supportive for asset quality and impairments. YTD housing transactions reached 432,212 +16.0% yoy.

Fiscal Policy & Political Affairs

Not only does the Central government need the support of the Basque Nationalist Party to push ahead with its budget, but the new political scenario after the Catalonian elections, where Ciudadanos is improving in all surveys, puts Mr. Rajoy's PP in a more challenging position. Meanwhile, we are still waiting for the new Catalonian Government to be formed, after Parliament was convened last month. We assume that the worst in this political issue is behind us and do not expect additional economic impact, at least not for the foreseeable future. Nevertheless, new elections cannot be ruled out.

Market indicators

We maintain our target for the Ibex index at 11,154 despite de recent turmoil in global equities. The economy seems resilient and salary growth remains sluggish, helping both company sales and profits. In fact, earnings releases so far confirm the healthy situation for companies. This good set of earnings has caused almost all of the recent drop in stock prices to weigh on P/E multiples, leaving the Spanish Stock Market certainly cheaper than at the start of the year. Banks have posted one of the positive surprises in this Q4 earnings season, with NII + fee recovery, despite loans slightly down in 2017, driven by positive business mix, falling funding costs, strong cost control as banks continued reducing their networks and digitalizing processes. Impairments came in below expectations and we expect further declines in 2018, along with the macro recovery. This recovery in macro data, particularly in housing transactions and prices, suggests, in our view, that banks will continue to have a positive outlook for real estate disposals and collateral valuations, which should help them further reduce impairments on real estate in 2018.

Financial Market Outlook

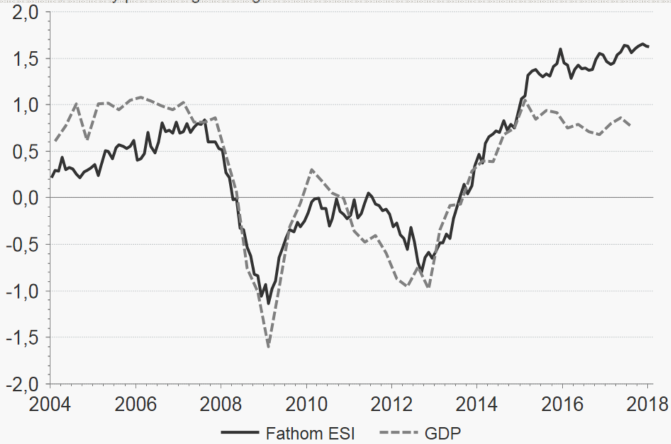
Equities – IBEX: POSITIVE (central point 11,154).

Bonds – Governments: NEGATIVE (BONO target yield 1.65%)

Credit – Invest. grade: NEGATIVE // High yield: NEGATIVE

Spain GDP & Economic Sentiment Indicator

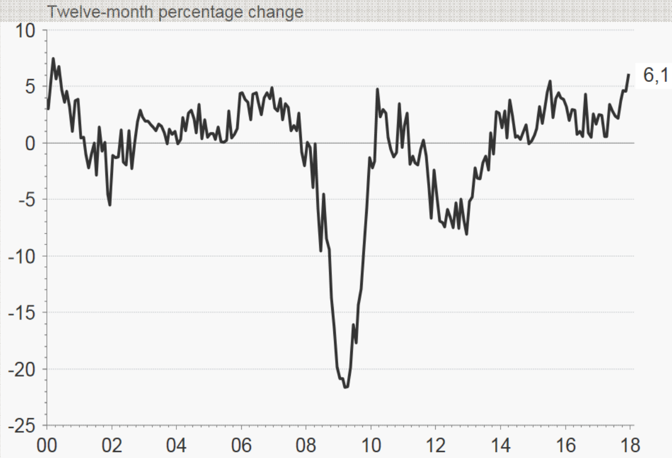
Quarterly percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

Spain industrial production

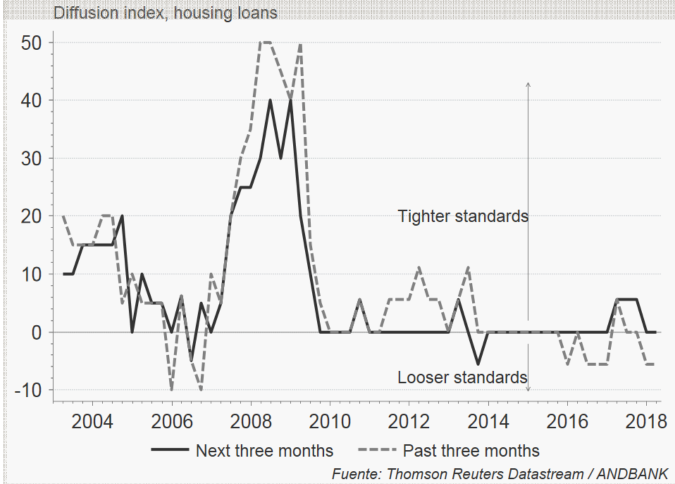
Twelve-month percentage change



Fuente: Thomson Reuters Datastream / ANDBANK

ECB BLS - Spain credit standards

Diffusion index, housing loans



Fuente: Thomson Reuters Datastream / ANDBANK

JAPAN

Kuroda dismisses stimulus exit talks

Japan investors waiting for Powell before returning to Treasuries

Bloomberg discussed strategies among Japanese investors related to US Treasuries, saying that investors will be reluctant to take new positions until Fed Chairman Jerome Powell's testimony 28-Feb. A number of market participants said the 10-year Treasury yield probably needs to hit at least 3% to spur the appetite of Japanese funds.

Japan's cheap money addiction set to deepen under Kuroda's second term

A Nikkei report discussed how the Japanese government is growing more dependent on the central bank's colossal monetary easing. According to the report, the government's nomination of Kuroda to another five-year term on Friday signals that his stimulus campaign will continue for the time being. Kuroda said that when the time comes, the BoJ will communicate its intentions appropriately to ensure it doesn't unsettle markets.

The recent upshift in Japan's CPI, if sustained, is likely to prompt the central bank to consider raising its 0% target for the 10-year bond yield, possibly around the end of December. Wage rises should help push underlying inflation toward 1% but according to a Reuters poll, the majority of Japan firms do not plan a base pay rise this year (52% of firms do not plan to raise base wages in this year's wage talks), coming as a setback for the prime minister, who called for wage rises of 3%. 76% of the remainder that are planning pay hikes plan a 2% increase. Additionally, the yen's recent advance could make policy normalization even more remote, with many analysts quoting currency markets as a problem for the BOJ. Official voices are increasingly noting that BOJ's prolonged large-scale monetary stimulus is causing a "serious" drag on profit margins for lenders and making the BOJ's eventual exit from aggressive easing more difficult.

Japan's growth outlook

Despite recent weak 4QGDP figures (growth declined to +0.5% q/q annualized, vs consensus of 0.9% and +2.2% in prior quarter), private economists from 16 firms believe on average that Japan's real GDP will end up growing by 1.7% during fiscal 2017, which ends in March. The average projection for fiscal 2018 is a meagre 1.3%. The Tankan sentiment index for manufacturers fell to 29 in February from the previous month's 11-year high of 35.

Corporate profits up 35% y-o-y in Apr-Dec.

According to data compiled by the Nikkei, listed Japanese companies logged aggregate net profits of ¥23.63T ($222B) in Apr-Dec, up 35% on the year. This marked the fifth straight record for the corresponding period. The story noted strength was broadly based, with 27 out of 32 nonfinancial industries posting profit growth. The biggest driver was the electrical machinery sector, which saw 150% growth, accounting for nearly 30% of the aggregate. Automakers registered growth of 51%.

Financial markets

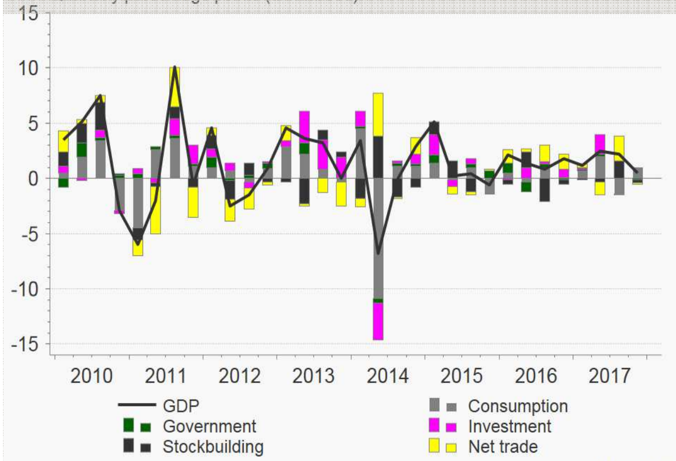
Equities – Nikkei 225: POSITIVE. (central point 23.718)

Bonds – Govies: NEGATIVE

Forex new!– USDJPY: NEGATIVE. Mid-term target 111.2

Contributions to Japanese GDP growth

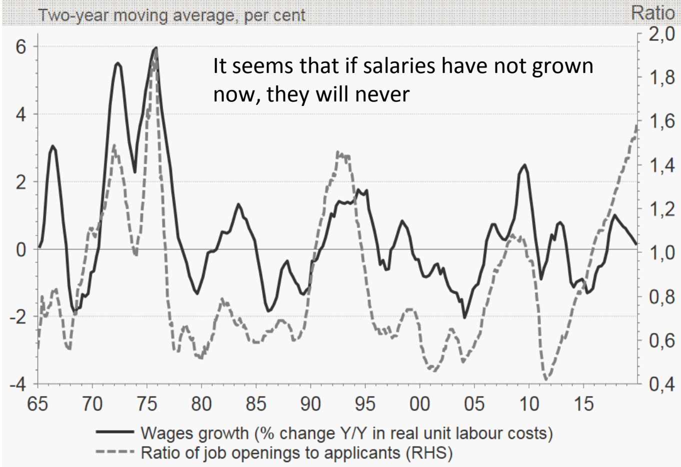
Quarterly percentage points (annualised)



Fuente: Thomson Reuters Datastream / ANDBANK

Japan labour market tightness & wages

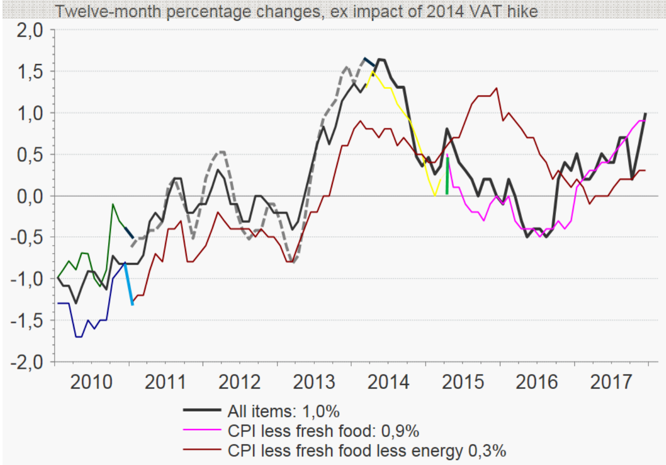
Two-year moving average, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Japan CPI

Twelve-month percentage changes, ex impact of 2014 VAT hike



Fuente: Thomson Reuters Datastream / ANDBANK

CHINA

Regulatory action has hit Chinese equities again. Positive outlook.

US market sell-off was not the trigger for the Chinese market meltdown

When global equity markets sold off in early February, Chinese stocks did not escape the rout. The global sell-off did not help but it was not the trigger for the Chinese market meltdown. Local investors' anxieties were due to Beijing's latest crackdown on leveraged buying (regulators cracked down on share pledging – the practice by which investors post shares as collateral in order to borrow funds from brokerages, and use those funds to buy more stock). We see this reform as positive, since the value of pledged shares in the last three years rose from 6.1% of total market capitalization to 10.3%, while the number of listed companies with pledged shares in excess of 25% of their market cap has risen from 666 to 923). Of course, "when stock prices began to fall, leveraged investors got hit and being unable to pledge additional shares to raise funds, they were forced to liquidate positions, prompting stock suspensions by companies with high pledge ratios, thus self-reinforcing the feedback loop" (Gatley & Cuy). Another important point is that, this time, there was little sign of buying from the state institutions, which in previous episodes stepped in to stabilize the market. The upshot is that concerns were building in Chinese markets well before the steep falls in the US market, when Chinese regulators published multiple rounds of new rules targeting commercial banks (which have now an 18-24 month grace period to comply with the new regulations). The anxiety was fueled by fears that the regulatory process could involve a significant withdrawal of liquidity. Additionally, it is expected that authorities will release a raft of new rules affecting the asset management industry.

Outlook & Market sentiment

Regulatory action has hit Chinese equities in the past. In April last year, The SSE fell -7% in a regulatory windstorm (when the CBRC instructed banks to clean up their unsafe practices and arbitrage activities). Subsequently, the SSE jumped by 13%. Also in November, the draft asset management regulations triggered a -5% fall in the SSE. This was followed by a +9% gain. Once regulatory pressures are assimilated, which is likely to be in the coming weeks, benign fundamentals should come to the fore again, as happened in the past. While the regulator's actions cause anxiety in investors, the point is that rule-tightening effectively limits the risks that the financial markets pose to the real economy. What's more, policy makers specifically want equity markets to be strong this year, in order to allow the issuance of new stock that fits with the government's deleveraging agenda (emphasized by premier Li Keqiang). Last but not least, Chinese onshore and offshore stock markets typically have a very low correlation with international indexes (averaging just 0.16-0.18, respectively, since 2012).

Exports & PMIs remain solid. Housing inventories still support construction. The CPI fell in January to 1.5%. A benign set of conditions that looks set to continue.

Financial markets

Equities – SHANGHAI index: POSITIVE (central point 3.672)

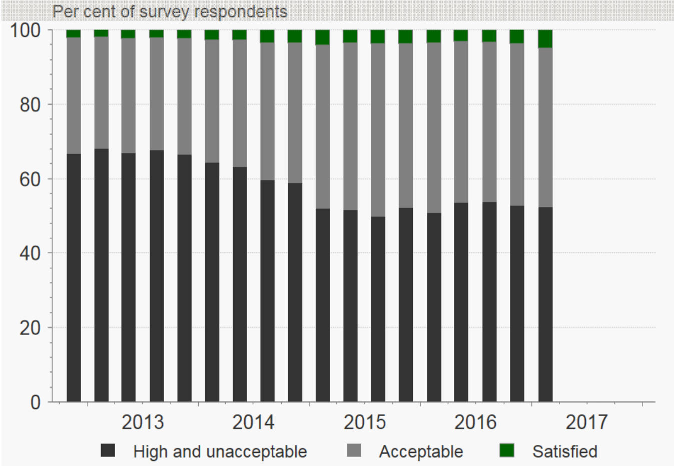
Equities NEW– SHENZHEN Index: POSITIVE (central point 1.930)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: NEUTRAL (mid-term target 6.40)

China satisfaction of house prices

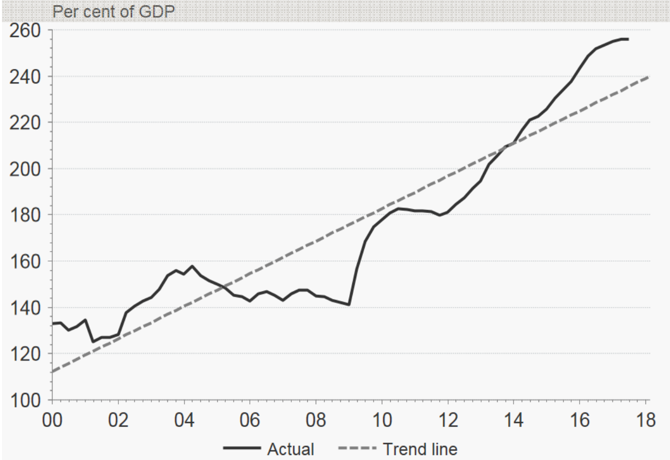
Per cent of survey respondents



Fuente: Thomson Reuters Datastream / ANDBANK

China credit to nonfinancial sector

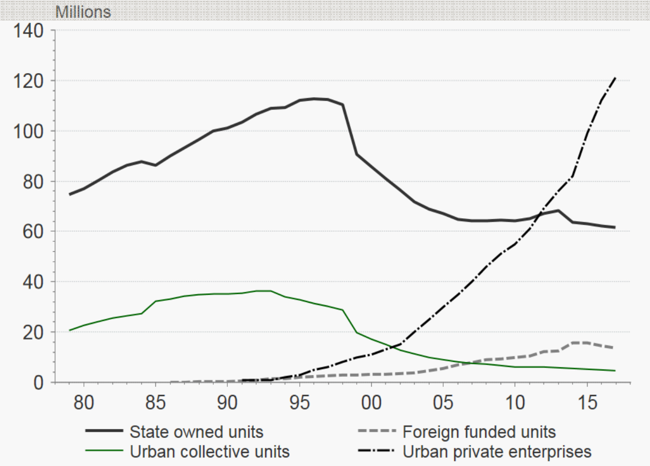
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

China employment

Millions



Fuente: Thomson Reuters Datastream / ANDBANK

INDIA

GDP growth to accelerate to 7.5% but tax on capital gains will weigh

Fiscal deficit targets are relaxed, but still a cut in deficit is planned: "Modicare" to attract votes.

The ruling BJP need to shore up its core support by postponing India's fiscal deficit targets. The government will miss its 3.2% central deficit target in the 2017-18 fiscal year by 0.3%. Next year's target has been revised to 3.3% (from 3%), while the long awaited 3% target is now delayed till 2020. The Government will plow more public resources into agriculture, education and health. Modi will require companies and individuals to pay an additional 1% levy on their existing tax liability, and will charge a 10% capital gains tax on stocks and bonds sold after a one-year holding period. While these policies are sure to delight Prime Minister Modi's voter base, it is not clear whether this budget will be greeted as favorably by investors. Another important aspect of Jaitley's plans is the establishment of a basic National Health Protection Scheme, designed to insure 100mn poor households (500mn people), providing coverage for each family of US$8,000 per year. This was immediately dubbed "Modicare". The new fiscal targets do not amount to a dangerous blowout since the budget still plans to cut the deficit and has recommitted itself to reducing overall debt levels.

Economic growth is accelerating and is expected to accelerate further. This will add to inflationary pressures

After the temporary shock induced by demonetization and the introduction of the GST reform, manufacturing, exports and consumption all show renewed vigor. Now, higher government spending will probably boost aggregate demand ahead of a pick-up in private investment. This will add to inflationary pressures (now above 5%, approaching the RBI's upper threshold of 6%, meaning that interest rate cuts are out of the question.

Outlook

The new capital gains tax is sure to put off some foreign investors, which could lead to a correction in the index. Nevertheless, there are reasons for optimism: (1) India's GDP will grow 7.5% this year, (2) forecasts are for exports to grow at 15%, (3) with the credit cycle also showing green shoots. (4) The ongoing bank clean-up and recapitalization continues, increasing the likelihood that the investment cycle will begin by the end of the fiscal year (maybe too late to generate many jobs ahead of the national elections in 2019, although Modi remains on course to win a second term). These aspects will help India to regain its crown from China as the fastest-growing large economy.

Banking nightmare

India's SENSEX index has been hit recently by worries about impact from Punjab National Bank's (PNBK.NS) disclosure of a $1.77bn fraud. At the moment, PNB has assured all its customers of "enough arrangements" for their banking transactions to continue without any inconvenience, and that it has sufficient assets to meet any liability. Market reaction could already be overdone.

Financial markets

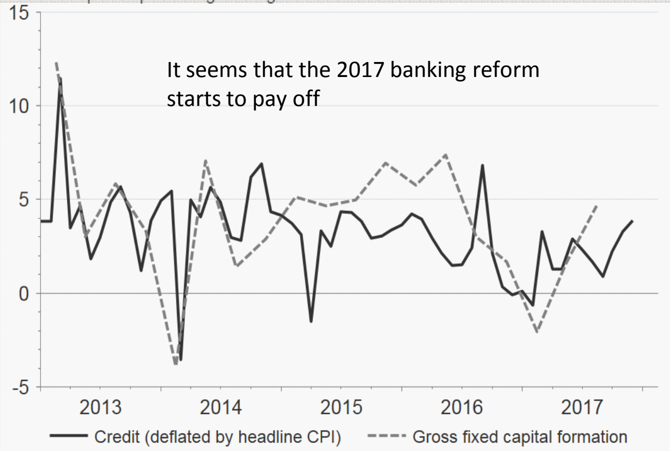
Equities – SENSEX Index: POSITIVE (central point 37,608)

Bonds – Govies: POSITIVE (target yield 5.90%)

Bonds – Corporates: POSITIVE

India real credit and GFCF

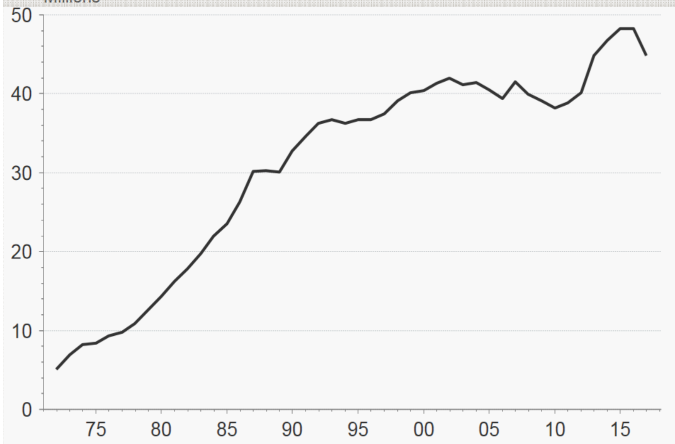
Four-quarter percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

India job seekers

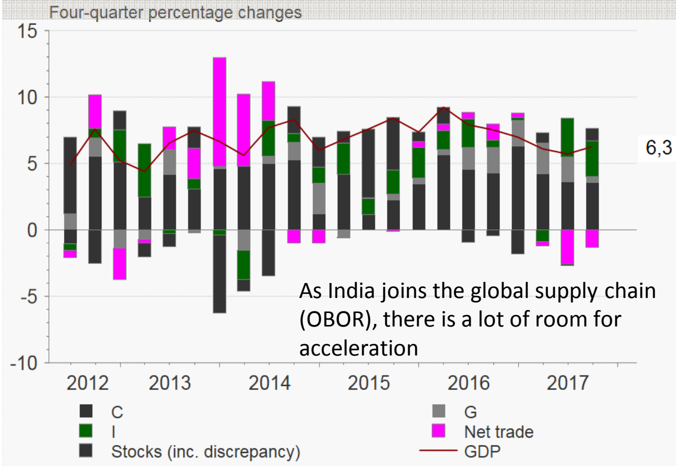
Millions



Fuente: Thomson Reuters Datastream / ANDBANK

India contributions to GDP growth

Four-quarter percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

MEXICO
Politics & NAFTA still weigh

Central Bank policy and GDP forecasts

The Mexican central bank still predicts an uncertain economic context due to NAFTA renegotiation and presidential elections. Our projections are for 2.2% GDP growth in 2018. Banxico hiked rates again at the February meeting to 7.50%. Banxico's statement showed that the monetary policy committee took a hawkish stance, which is why a further hike in April or May has been discounted by the local markets. For 2018, Banxico expects a downward path in prices and forecasts that the CPI will close 2018 at around 4%-4.5%, approaching its long run target (3% +/-1%) in 2019.

Politics, NAFTA and Fiscal developments

The latest polls put leftist candidate Lopez Obrador 10 points ahead of his closest competitor, Anaya (PAN-PRD, coalition). President Peña Nieto's party candidate fell dramatically to around 20% of the preferences. On late February took place the 7th round of NAFTA negotiations. The news that the presidents of Mexico and the United States postponed a next meeting after holding a telephone call last week, added to the uncertainty about the future of the trade agreement. It is worth noting that there has been less pessimism lately around US departure from the trade agreement, as Trump has said that NAFTA probably will stay alive in 2018. Public finances stayed on their consolidation path in 2017. For the first time in 10 years they showed a surplus (1.4%) and a reduction in the Debt/GDP ratio from 50% to 46%.

Andbank's market sentiment

Equities: Consensus stay UW in Mexican equities. Lack of acceleration in GDP (the lowest in Latam), Nafta negotiations and the electoral process are weighing on investor sentiment and leading to MXN volatility. Our moderate valuations (expected PE fw 12m in the 17 area) and realistic earnings forecasts (5.7% EPS growth) lead us to place our target range for the IPC Gral Index in the 46,000-53,000 range. Central point –fair value – at 49,000. Key drivers during 2018 will be: (i) Fiscal reforms and political developments; (ii) global liquidity evolution, (iii) the pace of Fed rates adjustments; and (iv) LatAm GDP growth acceleration. ***Fixed Income:*** We still expect some pressure as a result of the political context and the FED's normalization path. Now we are expecting at least one more rate hike from Banxico before the elections, although after the recent behavior of the local yield curve, it is not clear whether that movement will put pressure on long-term yields, as we continue to see a bear flattener. Then there is some probability of a rate cut in the second part of the year or at least a long pause in Banxico's rate movements and a rate cut cycle for 2019. We expect the spread in local bonds (vs UST) to stay around the upper side of our 2017 range, 480 pb. For the USD Mexican bonds the spread could also be around 130-150 bp and if there's an overshoot, it could go towards 180-200 bp If the NAFTA negotiations fail, both spreads would be higher, affected by economic expectations and a possible sovereign rating downgrade.

Financial markets

Equities – Mex IPC: CAUTIOUS (central point 49,000) . Exit 52,167

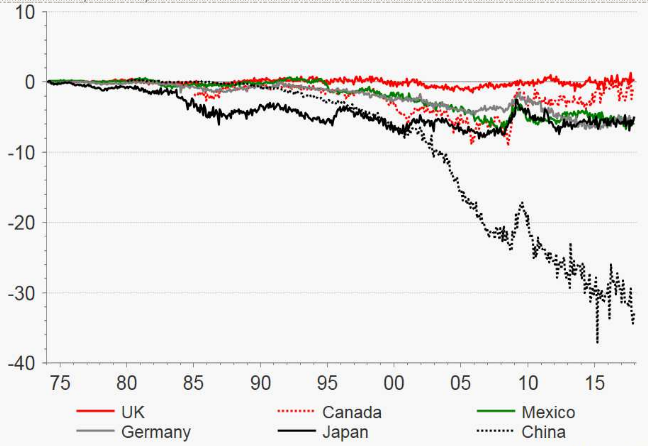
Bonds – Govies Local: NEUTRAL (target spread 475, yield 8.0%)

Bonds - Govies USD: NEGATIVE (target spread 180, yield 5.25%)

Fx – MXN/USD: NEUTRAL (mid-term target 18.80)

US visible trade balances by country

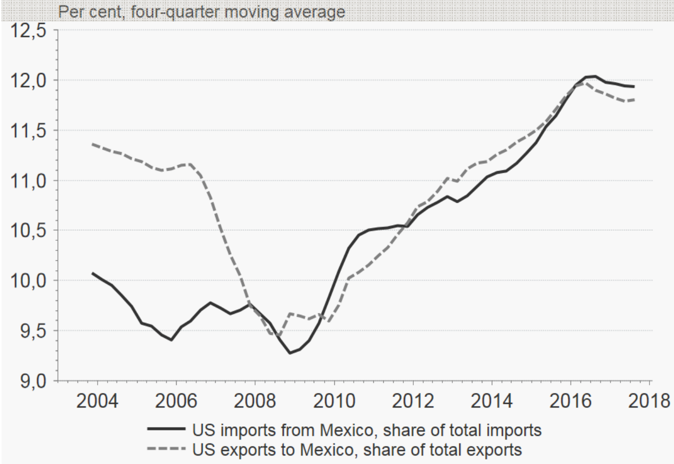
USD, billions, DS SA



Fuente: Thomson Reuters Datastream / ANDBANK

US trade with Mexico

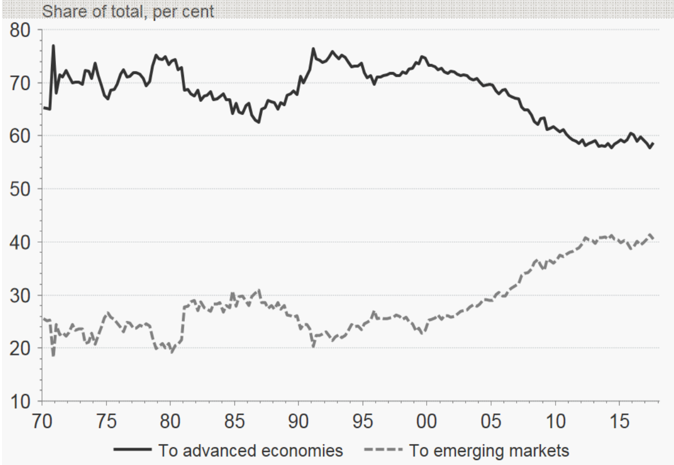
Per cent, four-quarter moving average



Fuente: Thomson Reuters Datastream / ANDBANK

EM exports (goods)

Share of total, per cent



Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL

Latin America's voteathon

Elections: Further developments

The most relevant political event in the past month was the trial of former president Lula at the Fourth Regional Federal Court (TRF-4) on charges of passive corruption and money laundering, in the context of the Car Wash Probe. Lula has been unanimously convicted, by the three judges, to about 12 years in jail. Although his conviction was expected, the fact that it was unanimous complicates Lula's situation further, since his defense can't question the conviction decision itself but can only delay it for a few weeks. Lula's candidature isn't completely discarded yet, but the probability that he will actually run is very low now. This represents one less tail risk for investors, since Lula was openly promoting loose fiscal policies, as well as reversal of the reforms approved by the current administration. The group of effective candidates, however, is still very unclear, as are the odds of victory for each one.

Macro developments

The economy is on a path to cyclical recovery. GDP is expected to increase around 2.50% in 2018 but we are more optimistic and fix the GDP growth rate at 3.0%, with inflation under control (around 4.00%) and healthy external accounts.

The IBC-Br index, a measure of economic activity from the Central Bank, grew by 1.41% in December, ending 2017 with a 1.04% increase. Industrial production, retail sales and services grew in the month, pushing the index forward.

Fiscal & Monetary: Social security reform delayed

The fiscal side is the variable of greatest concern, The primary deficit has been set at BRL 159bn for next year, repeating the 2017 figure. Congress is back from recess and the first signs regarding support for the social security reform were negative. President Temer made appearances on public TV, trying to get closer to the people and influence public opinion. In the end, the votes to pass the bill didn't come. Therefore, as of now, the social security reform is likely not on the cards in 2018. The Central Bank has cut the policy rate by 25bps, to 6.75 % per annum. In the meeting minutes, some committee members favored a clearer view to end the current monetary easing cycle, while others indicated that it was best to maintain freedom of action. This indicates a more dovish view and, in a way, leaves the door open to another cut in the next meeting, subject to positive surprises in both the inflation outlook and the reform agenda.

Andbank's market sentiment

Equities: Our target for the Ibovespa is 82,000 points. Exit point at 86,100. The economic recovery and the lower interest rates should boost companies' results. However, a lot of that is already priced in by the equity market. *Government Bonds*: NEGATIVE. The public debt dynamic will be harmed by the lack of a meaningful social security reform. Adding to the S&P downgrade, Moody's is likely to downgrade Brazil's debt rating in the coming months.

Financial markets

Equities – IBOVESPA: SELL (central point 82,000) . Exit 86100

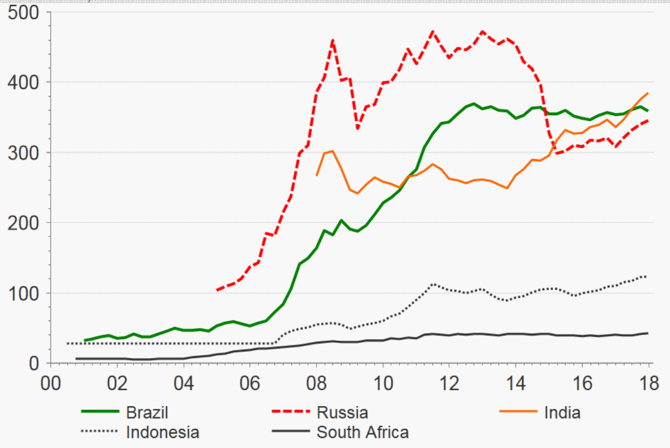
Bonds – Gov. Local: POSIT (target yield 9.50% - real yield 4.55%)

Bonds – Gov. USD: NEGATIVE (target yield 5.35%. Spread 210bp)

Fx – BRL/USD: NEUTRAL (mid-term target 3.20)

Emerging market official reserves

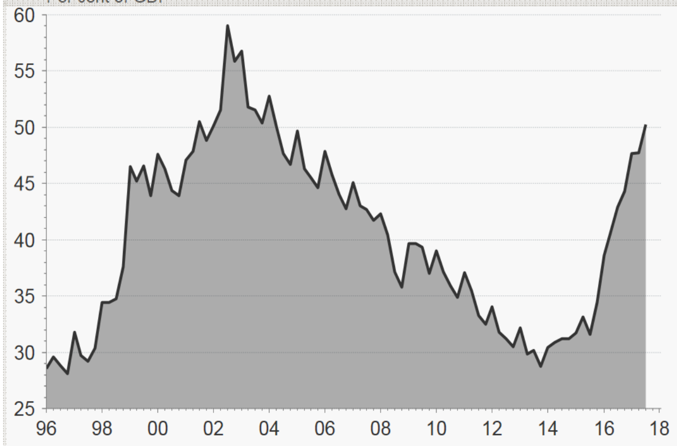
USD, billions



Fuente: Thomson Reuters Datastream / ANDBANK

Brazil government debt

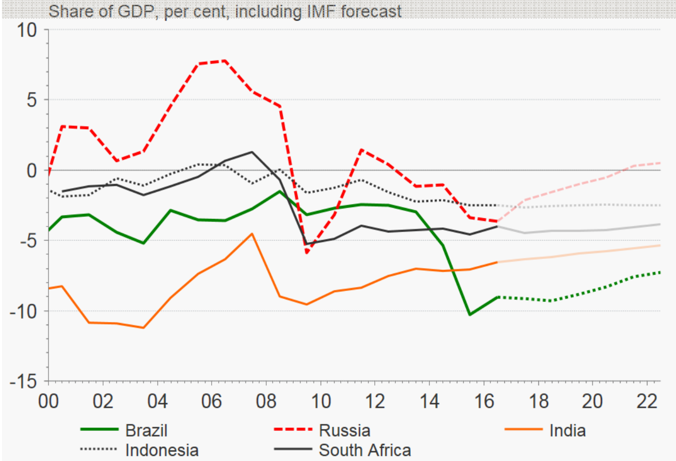
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

Emerging market government budget balances

Share of GDP, per cent, including IMF forecast



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA
Changing targets, bad for markets

Latest news: Funding program, wage negotiations, etc.

Change in inflation targets, though announced in late December, had a big effect on all Argentinean Markets and still adds uncertainty as to how the Central Bank will act going forward. Next policy decision is on 27th February. *Financing Program*: In just 2 months the government managed to cover 42% of its 2018 financing needs. This seems to have been a good move in light of what we are witnessing on the international debt markets. Moreover, regarding the government's budget, 75% of USD issuances are already covered. *Wage negotiations*: The next few weeks will be key, as wage negotiations with several unions are taking place. Usually, these start-of-the-year negotiations are the anchor for inflation expectations for the rest of the year.

Macro & Fiscal: We keep our 3.1% GDP growth target

Economic Activity: The Argentine economy grew 0.4% MoM in November, according to the EMAE proxy for GDP growth. 2017 real GDP is expected to close at 2.9%. Economic growth kept expanding across sectors, with 12 over 15 posting YoY growth. We hold our 2018 target at 3.1% real GDP growth.

Primary fiscal deficit closed 2017 at 3.9% (better than the 4.2% official target and 4.3% posted in 2016). If we add financial costs, the overall Fiscal Deficit for 2017 reached 6.1%. For the first time since 2003 Tax Income grew at a higher rate than Tax Expenditures, this is a big change in Argentina's fiscal trajectory. Looking to 2018, due to the outperformance in 2017, the government pre-paid the energy bill for Q1 2018 in order to alleviate this year's efforts to reach the target. Considering the measures already announced by the government (further cuts to subsidies, pension adjustments, etc.), we think the 3.2% primary fiscal deficit target for 2018 will be met.

Inflation & Monetary Policy: Inflation closed 2017 at 24.80%, almost 10% over the official target (15%), despite a restrictive monetary policy. On Dec 28th the government decided to change its inflation targets for 2018, moving this year's target from 10% to 15%. This change caught the whole market by surprise and resulted in a big shock in both fixed income and FX markets in Argentina. After this announcement, CB relaxed its monetary policy, cutting rates twice, from 28.75 to 27.25%. We change our inflation target from 16% to 22%.

Andbank's general assessment

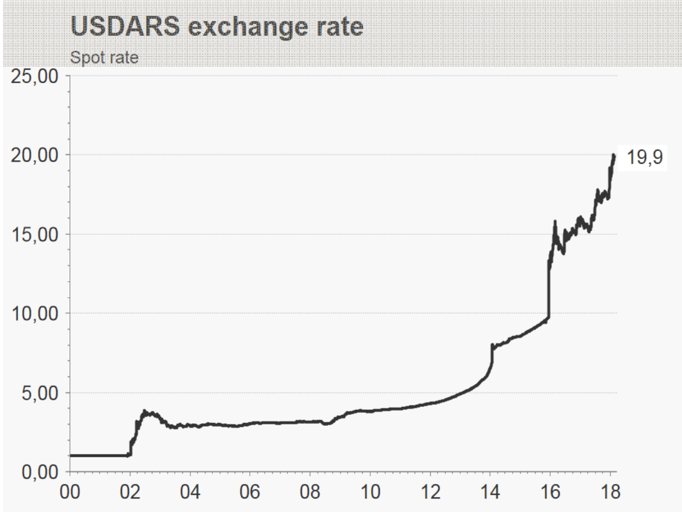
Bonds: Tough start of the year for Argentinean bonds (+50bp of rates increase in sympathy with the UST and +43bp in spread) due to big issuance in USD, stalled reforms and government change of targets. Three factors make us to think that this underperformance should change course: (1) Fiscal consolidation is slowly easing off. (2) 3 out of 5 reforms are already approved. (3) Big start-of-year issuance alleviates funding pressure.

FX: ARS suffered continuous depreciation since mid-December due to the uncertainty about reforms (finally approved) and the announcement of a change in inflation targets. Our 2018 target was almost met on Feb 9th, but going forward, partly due to the unexpected changes in the government, we have decided to increase our target to 22 ARS/USD.

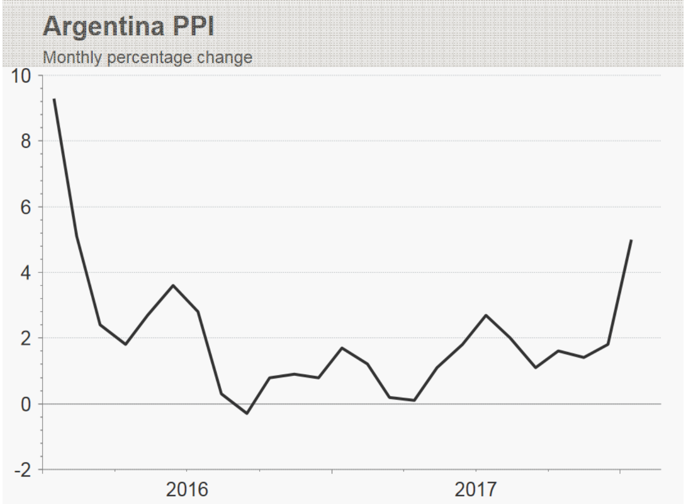
Financial Markets' Targets

New! Bonds – 10YGov USD: POSIT. target yield 6.25%, spread 300

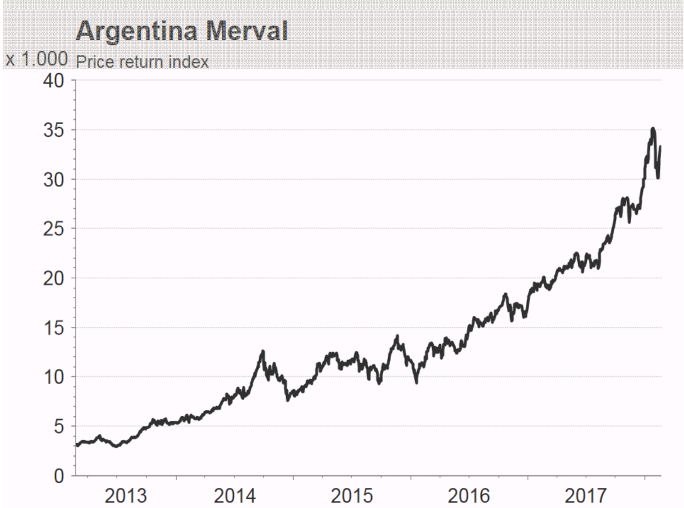
New! Fx –USD-ARS: NEGATIVE (mid-term target 22)



Fuente: Thomson Reuters Datastream / ANDBANK



Fuente: Thomson Reuters Datastream / ANDBANK



Fuente: Thomson Reuters Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Sales per Share 2017	Net Margin 2017	Andbank's Sales growth 2018	Andbank's Net Margin 2018	EPS 2018	EPS Growth 2018	Current PE with EPS 2017	Current PE Fw EPS 2018	PE estimate at Dec 18 EPS 2018	INDEX CURRENT PRICE	2018 Central Point Fundam range	2018 E[Perf] to Centr. Point	2018 Exit Point	E[Perf] to Exit point
USA S&P 500	1.232	10,8%	5,6%	12,17%	158	18,8%	20,70	17,43	17,15	2.759	2.715	-1,6%	2.987	8,2%
Europe - Stoxx Europe 6	298	8,1%	5,2%	8,19%	25,7	6,6%	15,90	14,91	16,00	383	411	7,3%	439	14,8%
Euro Zone - Euro Stoxx	349	7,1%	5,2%	7,15%	26,2	6,4%	15,59	14,66	15,75	384	413	7,5%	454	18,2%
Spain IBEX 35	7.713	9,2%	4,9%	9,19%	744	4,4%	13,85	13,27	15,00	9.867	11.154	13,0%	12.270	24,4%
Mexico IPC GRAL	33.496	8,1%	7,2%	8,03%	2.881	5,7%	17,74	16,78	17,00	48.361	48.983	1,3%	52.167	7,9%
Brazil BOVESPA	52.724	9,9%	7,2%	10,26%	5.798	11,6%	16,86	15,12	14,15	87.636	82.008	-6,4%	86.108	-1,7%
Japan NIKKEI 225	20.076	5,8%	5,1%	5,92%	1.248	6,6%	18,92	17,75	19,00	22.154	23.718	7,1%	26.089	17,8%
China SSE Comp.	2.642	8,7%	7,1%	8,77%	248	7,5%	14,42	13,42	14,80	3.330	3.672	10,3%	4.039	21,3%
China Shenzhen Comp	902	8,5%	7,3%	8,67%	84	9,3%	23,65	21,63	23,00	1.815	1.930	6,3%	2.123	16,9%
India SENSEX	14.218	10,8%	9,2%	11,06%	1.717	12,1%	22,49	20,06	21,90	34.446	37.608	9,2%	41.369	20,1%
MSCI EM ASIA (MXMS)	425	9,4%	6,8%	9,59%	44	8,8%	15,19	13,96	14,40	608	627	3,1%	690	13,4%

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY

Tactical assessment

Andbank GEM Composite Indicator: We remain in an area of neutrality with a sell bias.
Our broad index has moved from -3.8 last month to -3.6 (in a -10/+10 range), settling in an area that suggests that the equity market remains overbought, though the risk of a sustained risk-off still seems moderate.

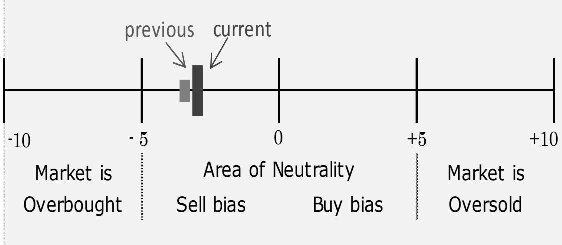
Flows: 1) It is expected more than $1Tr in corporate buybacks thanks to the influx of cash from tax cuts now in hands of the companies which could help boost stock prices. 2) US equity ETFs, which have been at the core of the fund outflows over past month, lost more than $25Bn so far. This is more than half of the $40Bn that were channeled into these instruments in January. The fact that not all inflows have been withdrawn already, helps to maintain a positive assessment. Moreover difference between flows into Equity and Bond funds did not dipped beyond -1 StDev, suggesting that recent moves have not been out of the ordinary. 3) Macro discretionary hedge funds' rolling equity beta S&P500 adopted a coupled of stances throughout February month: A sharp de-risk mode and a moderate rise risk appetite afterwards

Sentiment: 1) The forward 12m P/E ratio of SPX moved from 18.47 to 17.17, still above its 10 Yrs average (14.1) but its 4 weeks percentage change tumbled down dramatically. 2) JP Morgan's option skew monitor on S&P500 (difference between the implied volatility of out-of-the-money call options and put options) exhibits a disproportionate negative skew due to the massive demand for hedging (protective put implementation) caused by a herd bearish behavior. Given that this figure moved toward the extreme territory it might envisage a misleading risk perception.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	3	3
Positive Bias	1	1
Neutral	3	5
Negative Bias	5	2
Sell signals	9	10
FINAL VALUATION	**-3,8**	**-3,6**

Risk Composite Indicator (Breakdown)



TECHNICAL ANALISYS

Trending scenario (1month). Supports & resistances (1 & 3 months)

S&P: SIDEWAYS-BULLISH
Supports 1&3 month at 2,532. Resistance 1&3 month at 2,872/3,000.

STOXX600: SIDEWAYS-BULLISH
Supports 1&3 month 365. Resistance 1&3 month at 409/415

IBEX: SIDEWAYS
Supports 1&3 month at 9,360/9,236. Resistance 1&3 month at 10,643

€/$: SIDEWAYS-BEARISH
Supports 1&3 month at 1.20/1,17. Resistance 1&3 month at 1,26/1,266

Oil: BULLISH
Supports 1&3 month at 55.82. Resistance 1&3 month at 67.2/74.9

Gold: SIDEWAYS-BULLISH
Supports 1&3 month at 1,295/1,257. Resistance 1&3 months at 1,374/1,391

US Treasury : BEARISH (price perspective)
Supports 1&3 month at 2.65%. Resist. 1&3 months at 3.02%

FI **FIXED INCOME - GOVERNMENTS**

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.07%. Fair value 3.25%. Ceiling 4%

Swap spread: The swap spread fell to -3bps (from +4bps last month). For this spread to normalize at +13bps, with the swap rate anchored in the 2.2% area, the 10Y UST yield would have to move towards 2.07%.

Slope: The slope of the US yield curve steepened to 70bps (from 55bps). With the short end normalizing towards 2.25% (today at 2.25%), to reach the 10Y average slope (of 177bps), the 10Y UST yield should move to 4%.

Real yield: A good entry point in the 10Y UST would be when real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a "BUY".

GER Bund: Floor 0.80%. Fair value 1.05%. Ceiling 2.4%

Swap spread: The swap spread ticked up to 48bps (from 46bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area, the Bund yield would have to move towards 1.05% (entry point).

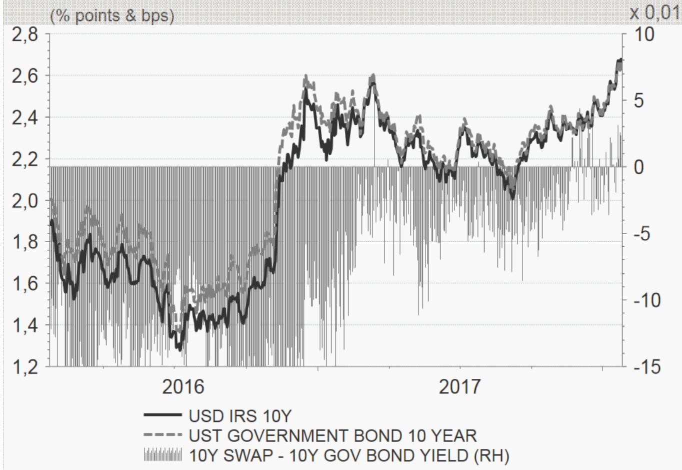
Slope: The slope of the EUR curve increased to 125bps (from 112bps). If the short end "normalizes" in the -0.50% area (today at -0.57%), to reach the 10Y average yield curve slope (130bps), the Bund yield would have to move to 0.80%.

Real yield: A good entry point in the German Bund would be when real yield hits 1%. Given our CPI forecast of 1.4%, the Bund yield would have to rise to 2.4% to become a "BUY".

UK Gilt: Fair value 2.3%. Ceiling 3.6%

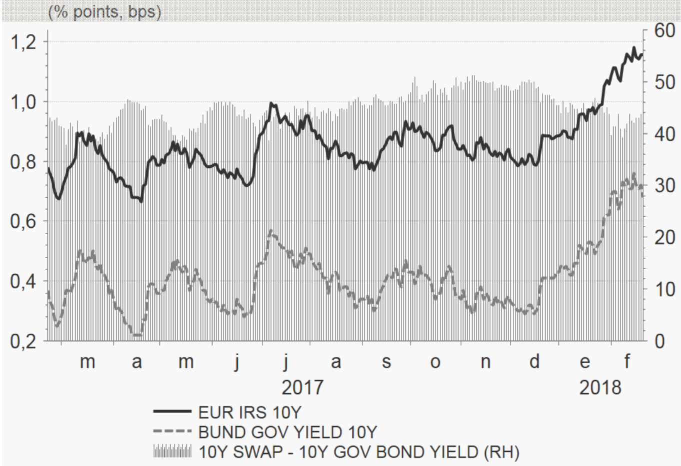
Swap spread: We expect the swap rate to reach 2.5% and swap spread to normalize at 15bps. 10Y UK Gilt should go to 2.35%
Slope: With 2Yr normalized at 1%, to reach the average slope at 1.61%, the 10Yr Gilt should go to 2.61%%
Real Yield: A 1% real yield means that 10Y gilt should be at 3.6%

SWAP SPREAD USD



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.65% (from 1.75%)
Italian bond BTPI: Target yield at 2.10%
Portuguese Gov bond: Target yield at 2.20%
Ireland Gov bond: Target yield at 1.10%
Greece Gov bond: Target yield at 4.50%

EMERGING MARKET BONDS

Fundamental targets

To date, our rule of thumb for EM bonds has been "buy" when the following two conditions are met: 1) the US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	6,43%	3,25%	3,18%	-1,00%	5,43%
EM ASIA	India	7,69%	5,27%	2,42%	-0,75%	6,94%
EM ASIA	Philippines	5,84%	4,00%	1,84%	-0,50%	5,34%
EM ASIA	China	3,84%	1,80%	2,04%	-0,75%	3,09%
EM ASIA	Malaysia	4,05%	3,48%	0,57%	0,00%	4,05%
EM ASIA	Thailand	2,35%	0,72%	1,63%	-0,50%	1,85%
EM ASIA	Singapore	2,36%	0,36%	2,00%	-0,50%	1,86%
EM ASIA	South Korea	2,67%	1,03%	1,64%	-0,50%	2,17%
EM ASIA	Taiwan	1,04%	1,18%	-0,14%	1,00%	2,04%
EME	Turkey	11,54%	10,35%	1,19%	-0,50%	11,04%
EME	Russian Fed	7,00%	2,50%	4,50%	-1,00%	6,00%
LATAM	Brazil	9,62%	2,07%	7,55%	-1,00%	8,62%
LATAM	Mexico	7,62%	6,76%	0,86%	0,00%	7,62%
LATAM	Colombia	6,50%	3,68%	2,82%	-0,75%	5,75%
LATAM	Peru	5,19%	1,25%	3,94%	-1,00%	4,19%

ENERGY – OIL: US Crude production over the 10M bpd mark

Fundamental price for the WTI at US$45pb. Sell above US$60. Buy below US$35

Short-term drivers

(Price Supportive) –Saudi Arabia and Russia to draft an agreement on a long-term alliance by the end of the year (according to UAE energy minister al-Mazroui). Ironically, Mazroui pointed out that OPEC is urging members to build oil capacity in order to buffer against upswings in price due to a weak USD this year.

(Price Negative) – Surging supply in the US should put further downward pressure on oil prices in the coming months. The rise in US crude production above 10.2M bpd in January (a much bigger increase than the market had anticipated) means that the US has supplanted Saudi Arabia as the world's second largest oil producer, right behind Russia. The >10M mark helps lead America toward President Trump's goal of energy dominance.

(Price Negative) – We expect global supply to grow more rapidly than demand this year and next, pushing the oil market back into surplus. This should (at least theoretically) weigh on prices. IEA estimates non-OPEC supply growth in 2018 to 1.7M bpd, noting "explosive growth" in US oil output as prices remain elevated. Estimates for demand growth remain at 1.3M bpd this year. WSJ noted that U.S. production growth has made up for 60% of OPEC's cuts.

(Price Negative) – Speculative activity played an important role in the latest surge in oil prices. Speculators have started to reduce their net long positions (coinciding with the global meltdown in equity markets).

(Price Negative) **–**China's oil demand growth is set to slow to 4.2% in 2018, from 5.5% in 2017, on total demand of 11.77M bpd (Platts). The slowdown will be driven by weaker GDP growth, since the new focus of the Chinese government is shifting from economic growth to the environment. Another aspect that will cap energy consumption is efficiency improvement and environmental controls that are currently being tightened.

(Price Negative) **–** A survey by DNV (a technical advisor to the energy industry) found that most global oil and gas firms expect to increase capital spending this year as confidence picks up. It notes that 66% of the 813 senior executives polled said their firms would increase or maintain capital spending this year, compared to just 39% last year. It adds that confidence in industry growth rose to 63% this year vs 32% in last year's report.

Long-term drivers

(-) Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is dictated by the amount of time for which they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers' interests to keep the oil price low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(-) Growing environmental problems will gradually tighten legislation and production levels: The value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems that will likely continue to put big pressure on the market for fossil fuels over the coming decades, Riyadh's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers, therefore have a powerful incentive to monetize as much of their reserves as soon as possible.

(-) The re-entry of Iran is a game changer, equivalent to a structural change in the global energy market.

(-) OPEC producers are no longer able to fix prices: Back in the 1970s or the early 2000s, the exporters' cartel agreed to cut output and the approach worked well, as the principal competition was among oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil will easily be offset by a quick increase in shale oil production, meaning that OPEC producers are no longer able to fix prices.

(-) Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

New!: Fundamental price for gold at US$1,100/oz. Sell above US$1,300

Negative drivers

Gold in real terms. In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) rose to US$1,161 (from US$1,117 last month). In real terms, gold continues to trade well above its 20-year average of US$820. Given the global deflator (now at 1.1442), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$940.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio has ticked up to 80.04x (from 77.4x last month) and remains well above its 20-year average of 61.66, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming that silver is well priced, then the gold price should go to US$1,024 oz.

Gold to Oil: This ratio rose to 21.54x (from 20.71x last month) still well above its 20-year average of 15.03. Considering our fundamental long-term target for oil of US$45pb (our central target) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$676 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) fell to 18.65x (from 19.41x last month), now below its LT average of 20.04x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,247 for this ratio to remain near its LT average.

Speculative positioning: CFTC-CEI 100oz Active Future non-commercial contracts: Longs declined sharply to 251k (from 301k). Shorts also fell, to 76.3 (from 90k) => The net position therefore decreased to +175k during the month (from +211k), suggesting that gold is still relatively expensive.

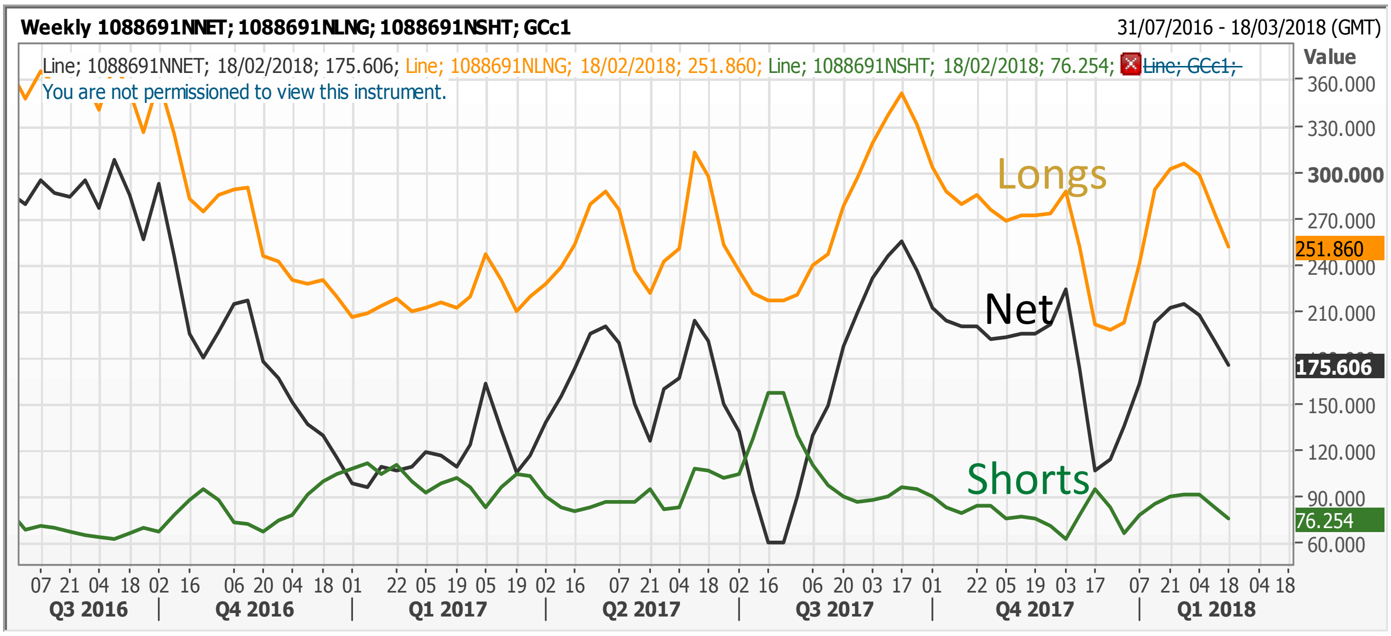
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio rose to 0.492x (from 0.479x last month), but is still well below its LT average of 0.59x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,601 for this ratio to remain near its LT average.

Negative yields still make gold attractive. The disadvantage of gold compared to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

Relative share of gold: The total value of gold in the world is circa US$6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around US$173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EUR-USD: Technical Short-Term Target 1.26 // Fundamental mid-term target 1.15

Flows: From the 30 Jan last print before equity markets initially started selling off, average absolute positioning (long or short) has declined on average by a third in terms of number of net contracts, meaning that broad FX positioning de-risking continued into the third week following the early February correction in equity markets. Net notional USD shorts declined by 34% since 30-January to -$11.6bn from -17.5bn. The largest decline in G10 longs was in GBP, followed by EUR. Said this, important short positions in USD (to fund long positions in EUR) persist and this short USD market positioning is statistically significant (-1.41 sigmas below the average seen in the last 3 years) which makes the "USD Short" still the most crowded position globally. Current positioning contrasts with the +US$28.7bn net longs seen in September 2016. This figure suggests that USD could be oversold. Meanwhile, the EUR positioning represents the counterpart of what is seen in the USD, with a net long position of US$+19.45bn. This EUR positioning represents a +1.9 sigma overweight on a three-year z-score basis, suggesting that the EUR is overbought compared to historical standards.

Outlook: Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR / USD faces a very important resistance at 1.26. (2) This resistance level should work well (as it did in the past). We therefore believe that the EUR will not cross this resistance. (3) After that, the EUR/USD will move back into the mid-term range; first towards 1.15 (this year, according to this analysis) and then towards lower levels. Our more **fundamental discussion** resulted in a broad conclusion: The USD offers value at current levels.

NEW! USD-JPY: Target 111.2**; EUR-JPY**: Target 127.8

Smart Estimates (those forecasters that historically have shown better results) fix the 2018 target for the USDJPY at 1109 (above our forecast of 111.2). In our view, despite being cheap in REER vs the USD, several aspects suggest that JPY should not appreciate much further: (1) Political shocks in Europe now seem allayed, meaning that safehaven flows into Japan are less likely now. (2) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0%, there is little prospect that Japanese real yields will rise; (3) We downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short-term); (4) meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (5) the prospect of the Fed shrinking its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

GBP-USD: Target 1.35; EUR-GBP: Target ~0.85

USD-CHF: Target 0.99; **EUR-CHF:** Target 1.14

USD-MXN: Target 18.8; **EUR-MXN:** Target 21.6

USD-BRL: Target 3.20; **EUR-BRL:** Target 3.68

NEW! USD-ARS: Target 22

RUB: NEGATIVE

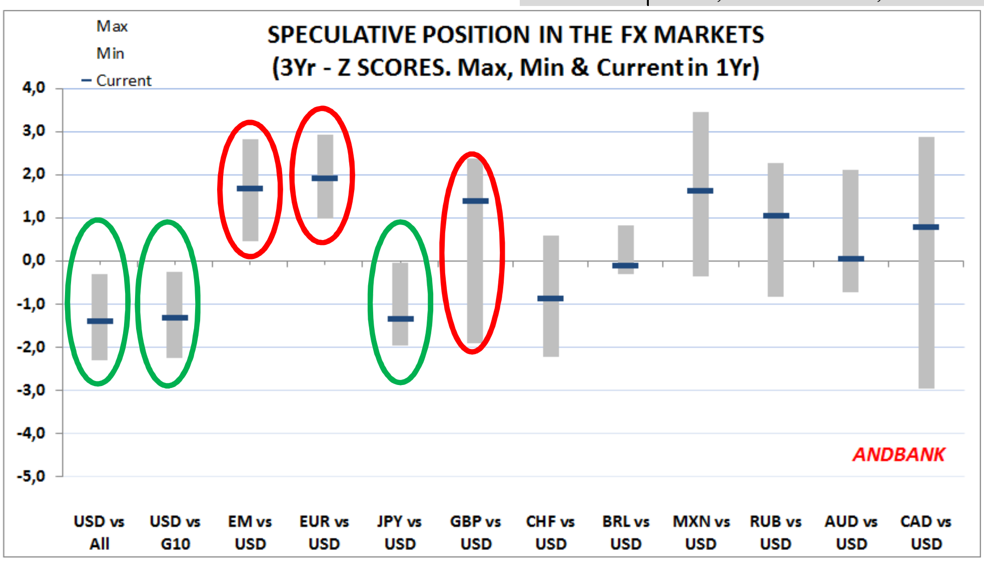
AUD: NEUTRAL

CAD: NEUTRAL-NEGATIVE

CNY: Target 6.40

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last week in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	-11,62	0,41	18,1	-21,1	-3,5	**-1,41**
USD vs G10	-8,24	0,11	19,3	-17,9	-1,0	**-1,33**
EM	3,38	-0,30	3,9	0,2	2,5	**1,68**
EUR	19,45	-0,20	23,1	-7,9	10,2	**1,90**
JPY	-12,62	0,77	-3,0	-15,0	-9,4	**-1,35**
GBP	0,68	-0,62	2,9	-8,4	-2,0	**1,37**
CHF	-2,11	0,56	0,2	-3,8	-1,6	**-0,87**
BRL	0,07	-0,24	0,7	-0,1	0,3	**-0,13**
MXN	2,54	-0,06	3,3	-1,1	1,7	**1,63**
RUB	0,77	0,00	1,2	-0,3	0,5	**1,04**
AUD	0,94	0,22	6,1	-1,6	2,9	**0,03**
CAD	1,83	-0,76	6,1	-7,3	0,8	**0,77**

ANDBANK



ANDBANK
Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance MTD	Performance YTD	Current Price 26/02/2018	Central Point (Fundam range)	Exp. Perf. To Central Point
Equity	USA - S&P 500	-2,7%	2,8%	2.759	2715	-1,6%
	Europe - Stoxx Europe 600	-3,6%	-2,1%	383	411	7,3%
	Euro Zone - Euro Stoxx	-3,8%	-0,7%	384	413	7,5%
	SPAIN - IBEX 35	-6,0%	-2,2%	9.867	11154	13,0%
	MEXICO - MXSE IPC	-3,6%	-1,4%	48.361	48983	1,3%
	BRAZIL - BOVESPA	2,8%	14,3%	87.636	82008	-6,4%
	JAPAN - NIKKEI 225	-4,1%	-2,7%	22.154	23718	7,1%
	CHINA - SHANGHAI COMPOSITE	-4,3%	0,7%	3.330	3672	10,3%
	CHINA - SHENZEN COMPOSITE	-3,3%	-4,4%	1.815	1930	6,3%
	INDIA - SENSEX	-4,2%	1,1%	34.446	37608	9,2%
	MSCI EM ASIA (in USD)	-4,1%	3,6%	608	627	3,1%
Fixed Income Core countries	US Treasury 10 year Govie	-0,9%	-3,1%	2,84	3,25	-0,9%
	UK 10 year Guilt	-0,3%	-2,4%	1,51	2,00	-2,7%
	German 10 year BUND	0,4%	-1,7%	0,64	0,90	-1,5%
	Japanese 10 year Govie	0,3%	0,0%	0,04	0,10	-0,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	-1,0%	0,2%	1,55	1,65	0,5%
	Italy - 10yr Gov bond	-0,5%	-0,6%	2,11	2,10	1,8%
	Portugal - 10yr Gov bond	-0,3%	-0,4%	1,98	2,20	-0,1%
	Ireland - 10yr Gov bond	0,1%	-3,5%	1,09	1,10	0,9%
	Greece - 10yr Gov bond	-5,8%	-1,6%	4,32	4,50	2,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,3%	-0,1%	51,45	75	-1,0%
	Credit EUR HY-Itraxx Xover	-0,3%	-0,6%	255,29	300	0,1%
	Credit USD IG - CDX IG	-0,2%	0,2%	55,35	45	1,7%
	Credit USD HY - CDX HY	-0,9%	0,1%	329,39	413	1,2%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	1,7%	0,5%	11,54	13,50	-4,1%
	Russia - 10yr Gov bond	3,8%	5,8%	7,00	6,67	9,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-1,8%	-0,4%	6,43	5,30	15,5%
	India - 10yr Gov bond	-1,4%	-1,8%	7,69	6,75	15,2%
	Philippines - 10yr Gov bond	-5,8%	-4,9%	5,84	5,25	10,6%
	China - 10yr Gov bond	0,8%	0,6%	3,84	3,25	8,6%
	Malaysia - 10yr Gov bond	-0,9%	-0,4%	4,05	4,00	4,4%
	Thailand - 10yr Gov bond	-0,1%	-0,2%	2,35	1,85	6,4%
	Singapore - 10yr Gov bond	-1,4%	-2,7%	2,36	1,57	8,7%
	South Korea - 10yr Gov bond	0,1%	-1,9%	2,67	2,00	8,0%
	Taiwan - 10yr Gov bond	0,1%	-0,6%	1,04	1,50	-2,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,4%	1,9%	7,62	8,00	4,6%
	Mexico - 10yr Govie (usd)	-1,8%	-2,7%	4,07	5,25	-5,4%
	Brazil - 10yr Govie (Loc)	1,9%	6,6%	9,62	9,55	10,2%
	Brazil - 10yr Govie (usd)	-1,4%	-1,4%	5,03	5,35	2,4%
	Argentina - 10yr Govie (usd)	-3,9%	-7,1%	6,48	6,25	8,3%
Commodities	Oil (WTI)	-3,1%	5,1%	63,5	50,00	-21,3%
	GOLD	-0,5%	2,3%	1.333,0	1.100	-17,5%
Fx	EURUSD (price of 1 EUR)	-0,7%	2,5%	1,229	1,15	-6,4%
	GBPUSD (price of 1 GBP)	-0,9%	3,2%	1,39	1,35	-3,2%
	EURGBP (price of 1 EUR)	0,2%	-0,8%	0,88	0,85	-3,4%
	USDCHF (price of 1 USD)	0,1%	-3,7%	0,94	0,99	5,4%
	EURCHF (price of 1 EUR)	-0,7%	-1,4%	1,15	1,14	-1,4%
	USDJPY (price of 1 USD)	-1,9%	-5,1%	106,90	111,20	4,0%
	EURJPY (price of 1 EUR)	-2,6%	-2,8%	131,41	127,88	-2,7%
	USDMXN (price of 1 USD)	0,3%	-5,1%	18,65	18,80	0,8%
	EURMXN (price of 1 EUR)	-0,4%	-2,7%	22,93	21,62	-5,7%
	USDBRL (price of 1 USD)	2,6%	-2,3%	3,24	3,20	-1,1%
	EURBRL (price of 1 EUR)	1,8%	0,1%	3,98	3,68	-7,5%
	USDARS (price of 1 USD)	2,3%	7,6%	20,01	22,00	9,9%
	CNY (price of 1 USD)	-0,3%	-3,0%	6,31	6,40	1,4%

** For Fixed Income instruments, the expected performance refers to a 12 month period*

UPWARD REVISION DOWNWARD REVISION

STRATEGIC ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Money Market	**15,0**	**23,1**	**10,0**	**16,7**	**5,0**	**11,3**	**5,0**	**7,3**
Fixed Income Short-Term	**25,0**	**32,9**	**15,0**	**21,5**	**5,0**	**9,7**	**0,0**	**3,7**
Fixed Income (L.T) OECD	**30,0**	**18,0**	**20,0**	**12,0**	**15,0**	**9,0**	**5,0**	**3,0**
US Gov & Municipals & Agencies		9,0		6,0		4,5		1,5
EU Gov & Municipals & Agencies		1,8		1,2		0,9		0,3
European Peripheral Risk		7,2		4,8		3,6		1,2
Credit (OCDE)	**20,0**	**16,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
Investment Grade USD		8,0		8,0		6,0		2,0
High Yield Grade USD		3,2		3,2		2,4		0,8
Investment Grade EUR		3,2		3,2		2,4		0,8
High Yield Grade EUR		1,6		1,6		1,2		0,4
Fixed Income Emerging Markets	**5,0**	**5,5**	**7,5**	**8,3**	**10,0**	**11,0**	**15,0**	**16,5**
Latam Sovereign		1,4		2,1		2,8		4,1
Latam Credit		1,4		2,1		2,8		4,1
Asia Sovereign		1,4		2,1		2,8		4,1
Asia Credit		1,4		2,1		2,8		4,1
Equity OECD	**5,0**	**4,5**	**20,0**	**18,0**	**32,5**	**29,3**	**50,0**	**45,0**
US Equity		1,4		5,4		8,8		13,5
European Equity		2,3		9,0		14,6		22,5
Japan Equity		0,9		3,6		5,9		9,0
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,5**	**10,0**	**11,0**	**10,0**	**11,0**
Asian Equity		0,0		3,9		7,7		7,7
Latam Equity		0,0		1,7		3,3		3,3
Commodities	**0,0**	**0,0**	**2,5**	**2,0**	**5,0**	**4,0**	**5,0**	**4,0**
Energy		0,0		0,4		0,8		0,8
Minerals & Metals		0,0		0,5		1,0		1,0
Precious		0,0		0,9		1,8		1,8
Agriculture		0,0		0,2		0,4		0,4
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,8**	**5,0**	**5,5**
REITs		0,0		0,0		0,6		1,1
Alt.Energy (wind, solar, etc)		0,0		0,0		0,4		0,8
Market Neutral		0,0		0,0		1,1		2,2
Volatility		0,0		0,0		0,7		1,4

Currency Exposure (European investor perspective)	Conservative	Moderate	Balanced	Growth
EUR	90,8	83,9	77,3	70,6
USD	9,2	16,1	22,7	29,4

Strategic and tactical asset allocation are investment strategies that aim to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

Giuseppe Mazzeo
US Rates & Equity.
+1 786 471 2426

J.A Cerdan
Europe Equity Strategist
+376 874 363

Eduardo Anton
US Corporate Credit IG & HY
+1 305 702 0601

Renzo Nuzzachi, CFA
Argentina Rates & FX
+5982-626-2333

Jonathan Zuloaga
Mexico Rates, Equity & Fx
+52 55 53772810

Gabriel Lopes
Brazil Bonds and Equity
+55 11 3095 7075

Alejandro Sabariego
Global Volatility & Risk Assessment
+352 26 19 39 25

Marian Fernández
Europe Macro, ECB & Gov. bonds.
+34 639 30 43 61

Andrés Pomar
Global Flow & Positioning
+352 26193925

Andrés Davila
Central America & Venezuela
+507 2975800

David Tomas
Spain Macro, Politics & Equity
+34 647 44 10 07

Carlos Hernández
Global Technical Analysis
+376 873 381

Alicia Arriero
Europe Corporate Credit IG & HY
+34 91 153 41 17

Alex Fusté
EM Asia & Japan: Bonds, Equities &FX
Commodities: Energy & Precious
+34 673 041 058

LEGAL DISCLAIMER

All notes and sections in this document have been prepared by the team of financial analysts at ANDBANK. The opinions stated herein are based on a combined assessment of studies and reports drawn up by third parties. These reports contain technical and subjective assessments of data and relevant economic and sociopolitical factors, from which ANDBANK analysts extract, evaluate and summarize the most objective information, agree on a consensual basis and produce reasonable opinions on the questions analyzed herein.

The opinions and estimates contained herein are based on market events and conditions occurring up until the date of the document's publication and cannot therefore be decisive in evaluating events after the document's publication date.

ANDBANK may hold views and opinions on financial assets that may differ partially or totally from the market consensus. The market indices have been selected according to those unique and exclusive criteria that ANDBANK considers to be most suitable.

ANDBANK does not guarantee in any way that the forecasts and facts contained herein will be confirmed and expressly warns that past performance is no guide to future performance, that investments analyzed could be unsuitable for all investors, that investments can vary over time regarding their value and price, and that changes in the interest rate or forex rate are factors which could alter the accuracy of the opinions expressed herein.

This document cannot be considered in any way as a selling proposition or offer of the products or financial assets mentioned herein, and all the information included is provided for illustrative purposes only and cannot be considered as the only factor in the decision to make a certain investment.

There are also additional major factors influencing this decision that are not analyzed in this document, including the investor's risk profile, financial expertise and experience, financial situation, investment time horizon and the liquidity of the investment.

As a consequence, the investor is responsible for seeking and obtaining the appropriate financial advice to help him assess the risks, costs and other characteristics of the investment that he is willing to undertake.

ANDBANK expressly disclaims any liability for the accuracy and completeness of the evaluations mentioned herein or for any mistakes or omissions which might occur during the publishing process of this document. Neither ANDBANK nor the author of this document shall be responsible for any losses that investors may incur, either directly or indirectly, arising from any investment made based on information contained herein.

The information and opinions contained herein are subject to change without notice.