ECONOMY & FINANCIAL MARKETS

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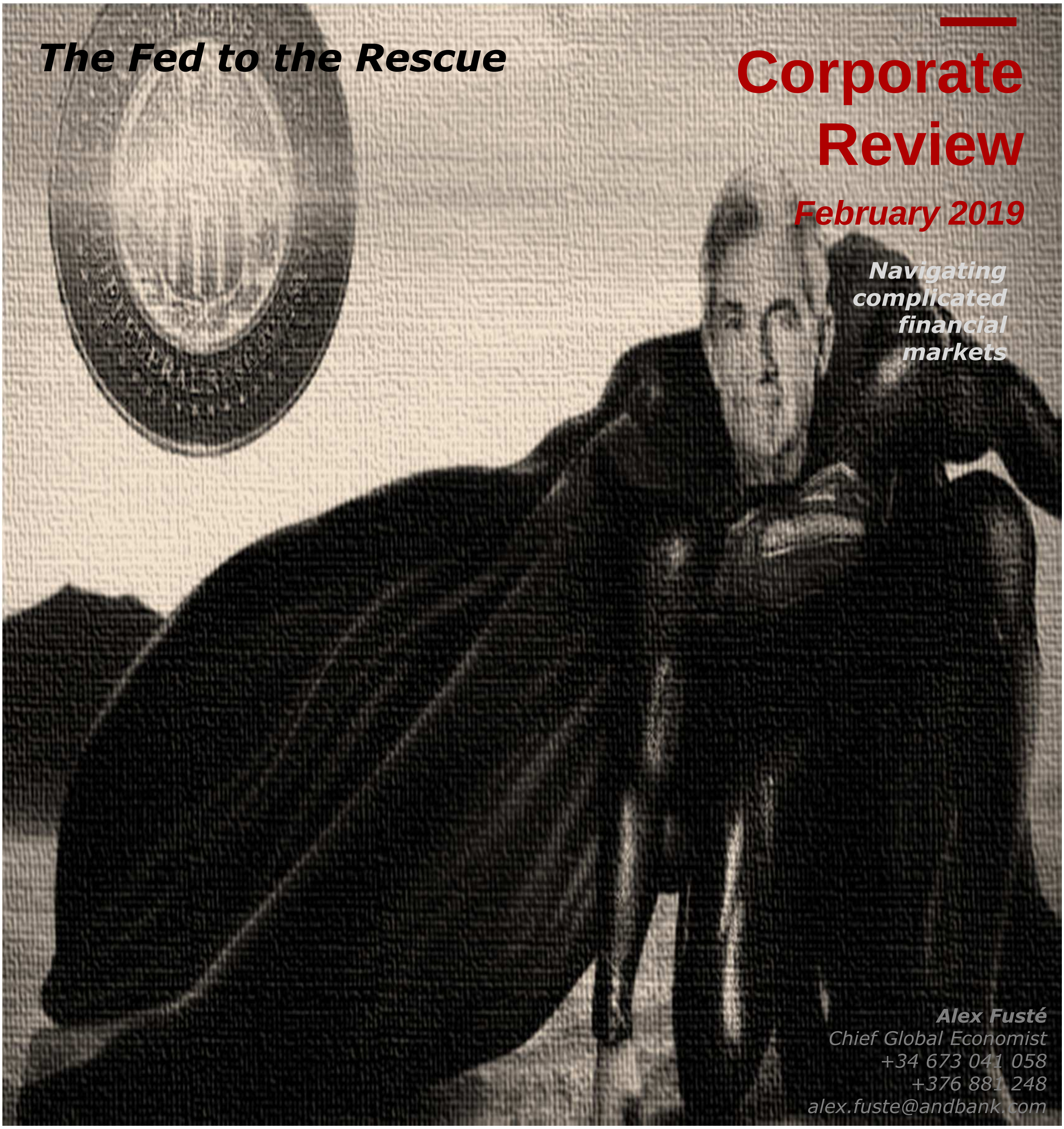
Andbank Monthly Corporate Review

Global Strategic Outlook – February 2019



The Fed to the Rescue

Corporate Review

February 2019

Navigating complicated financial markets

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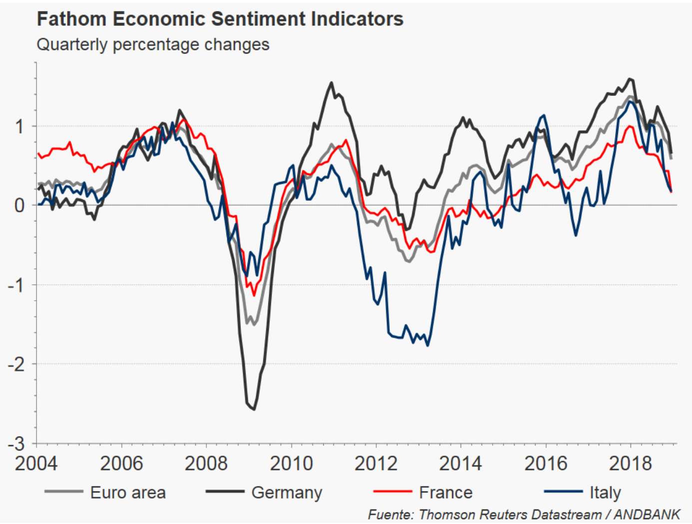
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

We remain optimistic about the global stock market in 2019. Low interest rates, low inflation and rising corporate profitability were a recipe for high returns on the equity market. However, stocks are now riskier given the potential for a reversal in this Goldilocks scenario. ***S&P***: NEUTRAL-POSITIVE. Central point 2,800. Exit point 3,080. ***Stoxx 600 Europe***: NEUTRAL. Central point 369. Exit point at 406. ***Ibex***: NEUT-POSITIVE: Central point 9,600. ***Emerging Markets:*** POSITIVE (we prefer Asia vs Latam)

FIXED INCOME

Our base case sees the Fed hiking rates twice in 2019 although Powell and other Fed officials now seem to be taking a more dovish stance stating that “the Fed was carefully listening to the markets”. UST 10Y entry point at 3.25%. In Europe, we still believe that Draghi should deliver a hike in the depo rate in 2019. Bund target at 0.9%. We remain cautious on Peripheral debt, which we consider expensive. Following 2018’s correction, we are forecasting positive returns for EM bonds.

CORPORATE CREDIT

The new year has seen good performance in corporate bonds, with HY & CDS indices having rallied in line with the recovery in equities, while EUR IG spreads lagged the move, due to accelerating supply. The credit market appears free of the perception of panic witnessed last year. As a result, we still advise proceeding with caution. We think poor risk appetite and supply pressure will continue to push spreads wider again. We expect a 20bp widening in Euro denominated IG and HY bonds. On USD IG credit, we keep our target of 85 for CDX IG, while we still expect the CDX HY index to widen by 1010bp, with target of 490.

CURRENCIES

The US dollar seems to be overbought against the rest of the world's currencies. Without being aT extreme level, it is indicative that additional increases in the dollar are more limited (which a priori is favorable for markets and risk assets). The longs in the dollar are essentially financed by short positions in G10 currencies (especially with the JPY, the AUD).

COMMODITIES

Non-OPEC producers will take 2019 global supply higher despite OPEC’s efforts to cut output. No change in global demand despite higher global supply, and the fact that the US is winning the energy war with the resumption of US crude shipments to China means that our scenario of structural low oil prices remains unchanged.

ANDBANK Private Bankers

USA

We remain optimistic about the US stock market in 2019

The Fed has changed its tune

Fed Chair Jerome Powell's post-announcement press conference seemed tone deaf to what the financial markets were saying. In a surprising walk-back, Powell and other Fed officials now seem to be taking a more dovish stance stating that "the Fed was carefully listening to the markets". Powell added, "The central bank wouldn't hesitate to rethink its balance sheet normalization approach if it was causing problems in the markets". It now looks like the Fed is in no hurry to hike rates, given that policy is much closer to neutral and inflation remains contained. The timing of rate increases will depend crucially on incoming data, but for now we expect the Fed to at least skip a Q1 hike. Our base case is for just two hikes in 2019.

No recession in 2019

While the recession is likely to happen sooner rather than later (given that the current expansion will become the longest in history by July), we do not believe a recession is right around the corner. That said, risks are rising as the economy is slowing down and it will probably be operating close to potential by year-end. The combination of tax cuts and spending increases boosted 2018 growth to nearly 3%, but these effects will fade through this year. Financial conditions have also tightened materially in recent months and the global growth picture has worsened, both of which will create headwinds. Nevertheless, our base case is for the expansion to continue at a moderate rate. Accordingly, we are revising down our US growth forecast to a new figure of 2.3% pa. Core PCE inflation is expected at a level roughly consistent with the FOMC's longer-run objective of ~2.0%.

Major domestic downside risks to our outlook are: (1) The trade war, (2) A monetary policy mistake, and (3) Political gridlock. Our baseline view on the "trade war" is for a de-escalation in trade tensions between the US and China. However, we do not think the administration will relinquish its use of tariffs as a blunt instrument for trade negotiations.

US Equities, US Treasury bond and corporate debt market

We remain optimistic about the US stock market in 2019 but are concerned that earnings expectations for some companies may be too high given the likelihood of rising costs. Low interest rates, low inflation and rising corporate profitability were a recipe for high returns in the equity market. However, stocks are now riskier given the potential for a reversal in this Goldilocks scenario. 1-3Q18 EPS growth averaged 26½%. 4Q probably grew 18% (consensus + beat). We expect 3-6% in 2019. Importantly, this deceleration reflects a return to trend levels, not an earnings recession.

We remain negative in Treasuries at current levels mainly due to two reasons: 1) Record Treasury issuance at a time when buyers are scarcer than before (falling FX reserves imply reduced demand for US government debt, while in developed markets the currency-hedged Treasury yield for portfolio investors is negative). 2) The recent rally can be traced to an unwinding of speculative short positions combined with a fall in break-even rates sparked by the fall in oil prices. Fundamentals point to higher yields. In the absence of significant trade or geopolitical conflicts, the US Treasury yield should move above the 3% level.

Financial market outlook

Equities – S&P: NEUTRAL-POSITIVE. Target 2,800. Exit point 3,080

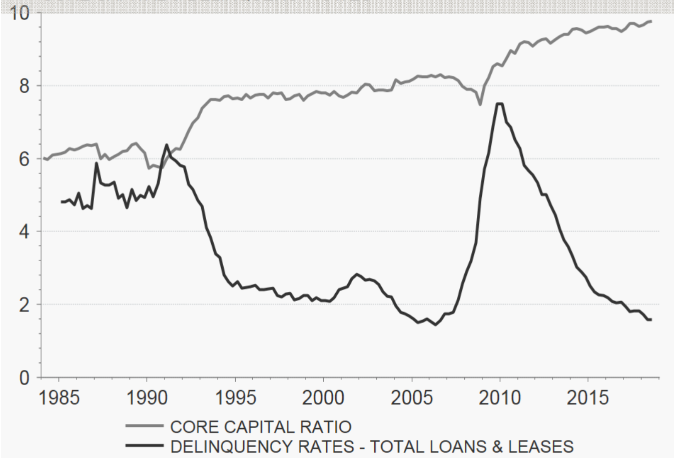
Bonds – Govies: NEGATIVE (10YUST entry point 3.25%)

CDX IG : NEUTRAL (Target Spread 85)

CDX HY: NEGATIVE (Target Spread 490)

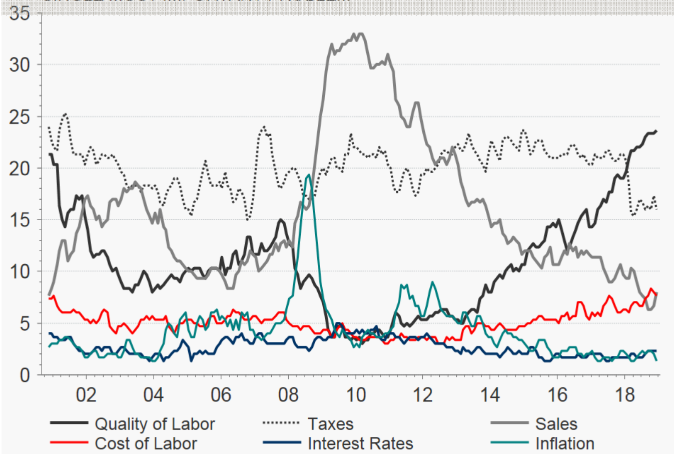
Forex – DXY index: NEUTRAL

US BANKING SECTOR
CORE CAPITAL & DELINQUENCY RATES



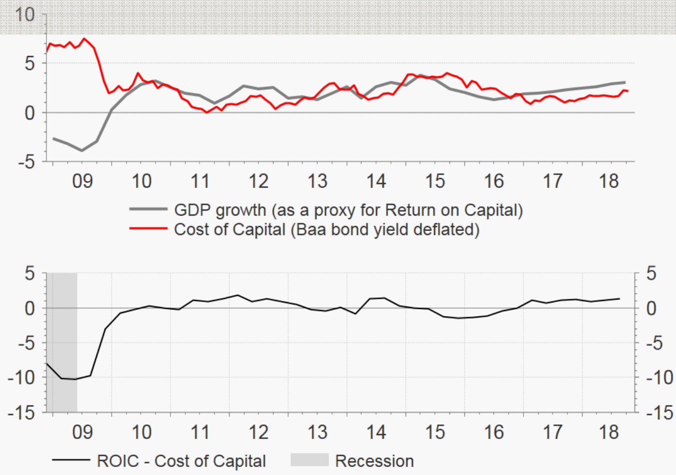
Fuente: Thomson Reuters Datastream / ANDBANK

US BUSINESES (NFIB)
SINGLE MOST IMPORTANT PROBLEM



Fuente: Thomson Reuters Datastream / ANDBANK

TRIGGER POINT FOR THE US ECONOMY & PROFITS



Fuente: Thomson Reuters Datastream / ANDBANK

EUROPE

Cautious on Fixed Income. Moderately positive in Equities

GDP growth estimates cut again

Both soft and hard data have negatively surprised investors in recent months. Despite a strong labor market, political uncertainty and social unrest are playing a negative role in different countries (e.g. "yellow vests" in France). GDP growth estimates for the Eurozone have now slipped towards 1.5% YoY. Inflation expectations have also decreased, along with the fall in the oil price, although prices still remain close to ECB projections of 1.6% YoY, limiting the ability of the ECB to normalize rates.

ECB in wait-and-see mode

Draghi "delivered" the end of QE in late December, offering a flexible reinvestment framework while acknowledging a deteriorating balance of risks. Market participants have therefore pushed back their expectations of the first depo hike to 2020. If the data remains stable, with no further deterioration, the ECB should take advantage of the "window of opportunity" and start to mildly increase depo rates in 2019. As for a new TLTRO, the odds are on the rise and it could be used as a stabilization mechanism, though we would expect a less generous scheme compared to previous facilities.

Politics

MPs in the UK did approve a proposal of Conservative MP Caroline Spelman, which seeks to rule out a no-deal Brexit. The favorable vote for this amendment will allow the Parliament to call on the government to stop a no-deal exit. The message we receive from the votes were: 1. The UK Parliament signaled that it opposes a "no deal" Brexit. 2. The Parliament is not ready to delay Brexit to rule out "no deal" entirely", which in itself means that MPs can always delay Brexit if the current strategy of negotiating a new deal does not work. In summary, this keeps the probability of a "hard Brexit" well below the 15% (according to the calculations of some banks)

European fixed income market

The new year has seen strong performance in corporate bonds, with HY & CDS indices rallying in line with the recovery in equities, while EUR IG spreads lagged the move due to accelerating supply. The credit market appears free of the perception of panic witnessed last year. As a result, we still advise proceeding with caution. We think poor risk appetite and supply pressure will continue to push spreads wider again. Avoid export-reliant cyclicals and look for non-cyclical companies. We remain cautious about the financial sector, where most CET1 ratio improvement has come from lower RWAs (not from higher CET1). The significant increase in bond issuance should ensure continued technical pressure on spreads. Primary activity has been very busy during these first few weeks of the new year (mainly in the banking sector). This trend should remain, which would continue to limit the prospects of tighter EUR IG spreads after the rally in EUR HY.

Financial market outlook

Equities – Stoxx Europe: NEUTRAL. Central point 369. Exit 406

Equities - Euro Stoxx: POSITIVE. Central point 366. Exit 403

Bonds – Core governments: NEGATIVE (Bund target yield 0.60%)

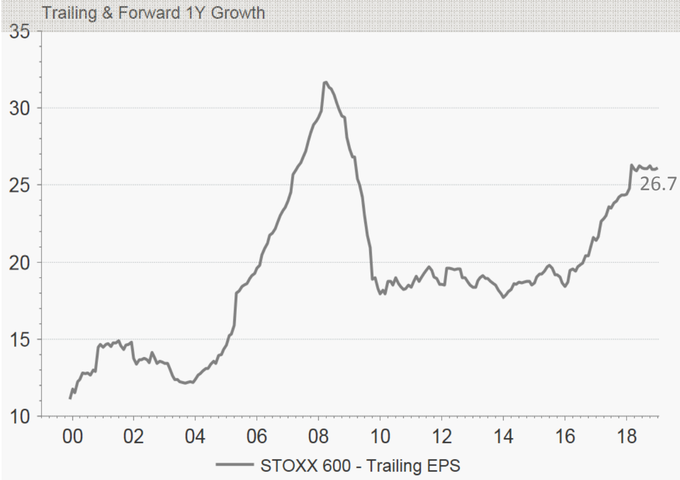
Bonds – Peripheral : NEGATIVE (SP 1.60%, IT 2.7%, PO 1.9%)

Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 92)

Credit – Itraxx Europe (HY) : NEGATIVE (Target Spread 350)

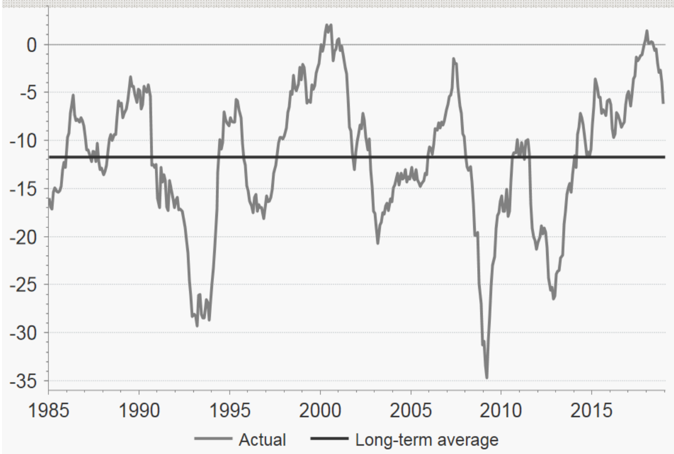
Forex – EUR/USD: NEGATIVE (1.125)

STOXX 600 - EPS
Trailing & Forward 1Y Growth



Fuente: Thomson Reuters Datastream / ANDBANK

Euro area consumer confidence
Balance



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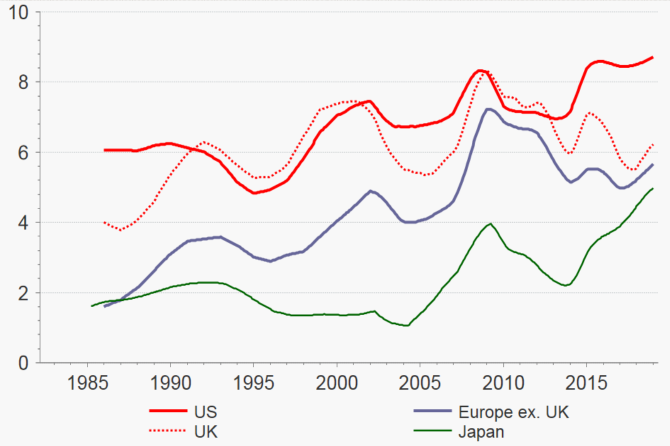
Net profit margins
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN

Banks will continue to weigh on the Ibex index

Political stability & budget

The Government is trying to minimize the impact of the first major parliamentary fiasco. However, both the Government and its junior partner, Podemos, insist that the coalition is not in danger. Given the new dynamics of political blocks in Spain following the emergence of an ultra-conservative party in Andalusia, the socialist government has re-launched the vote on the 2019 budget. The deficit target is now 1.3% as the Senate rejected the new path agreed with the EU of 1.8% for this year. We believe that this target will not be met (we forecast a gap of €10 billion, or about 2.1% of GDP). We are cautious about budget assumptions, not only about the "inflated" income, but also on the spending side. This is an election year so we anticipate higher spending across almost all items, including the latest pension and salary increases for officials. It remains to be seen if there will be an increase in Social Security contributions from the self-employed from the increase in the minimum wage. We are also cautious about the 5% charge on the dividends that companies receive from their foreign subsidiaries. Similarly, we have reasonable doubts about the effectiveness of the Tobin tax and the Google tax. These are new taxes and will probably have to be legislated separately from the budget in the Senate, which is in the hands of the PP and Cs, which have stopped more than 50 bills. These taxes cannot be retroactive. As a result, we are much less optimistic than government officials.

Banks. Why are they a problem for the Ibex Index?

There is a notable difference between banks in the USA and Europe - the stock market pays 35% less for the European ones. This is demonstrated by the price-to-book ratio, which in the case of the ten largest banks in the US sector, yields an average of 1.24 times, while in the Old Continent that figure drops to 0.80 times. This means that investors fail to recognize the value of 20% of European bank assets. In the case of the Spanish majors, Banco Santander and BBVA, the market price is even lower than the average, giving a ratio of 0.8 and 0.7 respectively. Is such a high premium justified? The answer lies in the different points of the cycle that each continent is going through. In the US, interest rates have already risen (four times last year alone), while in Europe we are about four years behind. The market has positive expectations of future profit generation by American banks, while they have little confidence in the European (and Spanish) ones. The price of money is one of the main problems for the sector in Europe and Spain, where rates remain at 0%, which directly affects margins (the difference between what banks can charge for loans and what they give for deposits). The expectation is that a rate hike is unlikely to come before early 2020, and this will continue to weigh on Spanish banks.

Spanish growth. The only one not downgraded by the IMF

The IMF has not lowered its growth expectations for Spain in January. It is forecasting FY19 growth of nearly 2%, after ending 2018 at close to 2.5% and 3.1% in 2017. Poorer performance in the foreign sector explains the downward trend, with exports having fallen by 0.8% quarterly. Domestic demand, capital goods renewals, higher disposable incomes and a healthier real estate market will sustain growth in 2019.

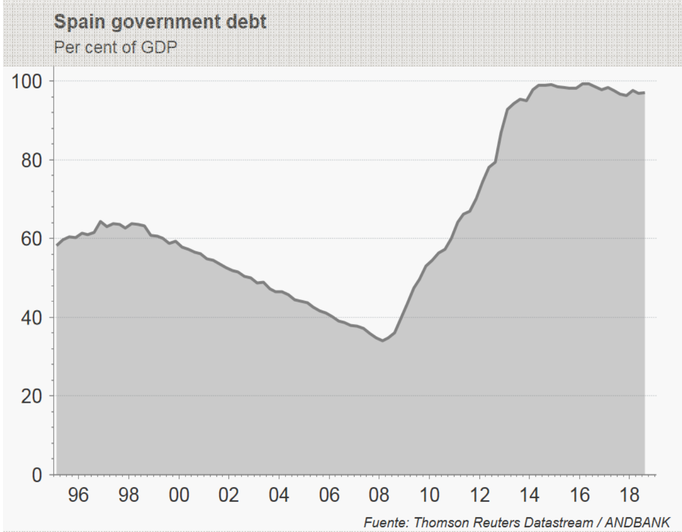
Financial market outlook

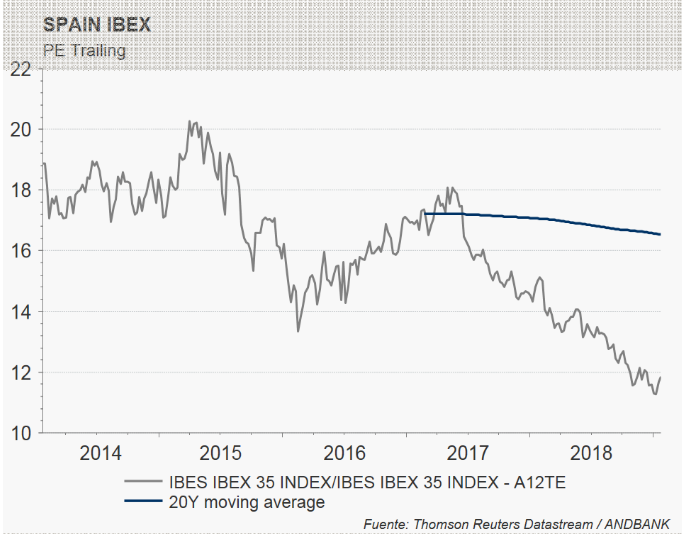
Equities – IBEX: POSITIVE. Central point 9,612. Exit point 10,570

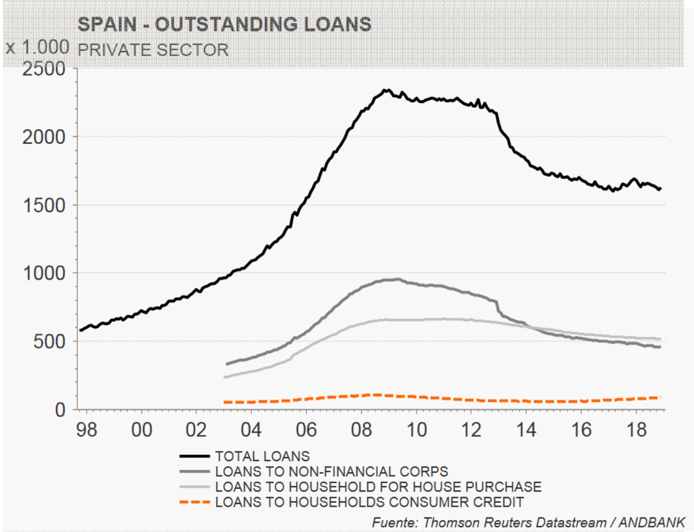
Bonds – Government: NEGATIVE (BONO target yield 1.90%)

Credit – Investment grade: NEGATIVE

Credit – High yield: NEGATIVE







JAPAN

Poor inflation dynamics will limit the BoJ's ability to normalize

Disappointing CPI dynamics

December overall CPI stood at a meagre +0.3% YoY (vs +0.8% in prior month). Some local sources point out that the BoJ is almost certain to cut its FY19 inflation forecast given the sharp fall in oil prices. The government's decision to make pre-school education free, and looming cuts to mobile phone charges, adds to the case for the downgrade. As a result, more BoJ watchers now see the central bank keeping its policy unchanged throughout this year (49 out of 50 economists surveyed), though a strong majority still says the BoJ's next move will be to tighten policy. The evident inability of the authorities to rouse inflation, together with the large number of participants that still see monetary normalization in the medium term, leads us to believe that a negative shock may be in store and monetary conditions could remain loose for longer. In fact, Kuroda noted that "the natural rate, which is consistent with potential growth rates, will decline if long-term growth rates decline together with a declining and aging population". Kuroda also acknowledged the risks that the zero lower bound problem represents for central banks, saying "We have invented various unconventional monetary policy measures to tackle this issue", suggesting that unconventional and expansive monetary policies can be used again. This leads us to remain structurally negative about JPY.

Fears of a recession have risen but it not yet the central scenario

The high frequency data confirms the slower pace of activity, putting the Japanese economy further from a sustained recovery. The Tankan sentiment index for manufacturers slipped to a two-year low, falling to 18 in January (compared to 23 in December), being dragged down by declines in sectors such as steel and automotive. This is the third straight decline and the index is expected to fall further to 17 in April. Exporters complained about the lack of demand from China and the United States (its two major trading partners). Similarly, a recent poll highlighted greater concerns among Japanese companies about the impact on capital spending plans from the US-China trade war. Although 52% of respondents say they will not change their capital spending next fiscal year versus this year, 12% said they would cut it (from 10% in the previous poll). These figures suggest that the perception that Japan could slide into a recession in FY19 has risen (as highlighted by 28 out of 38 economists polled by Reuters), although they still do not consider a recession as the most likely scenario in 2019, with FY19 growth estimated at 0.6%.

Tough limitations threaten further declines in potential growth

An analysis carried out by the Ministry of Labor has thrown up two shocking conclusions in relation to Japan's labor market: 1) Senior workers will account for 20% of the workforce in 2040, as 1 in 5 workers will be 65 or older. 2) By 2040 Japan's workforce is projected to be 20% smaller compared to 2017, due to overall population decline and if women and the elderly continue to have difficulty finding jobs. With a smaller workforce and seniors occupying a larger proportion of this workforce, non-regular workers will have to increase and technological advances will have to accommodate flexible work arrangements (to cater to an aging workforce) if a fall in potential growth is to be avoided.

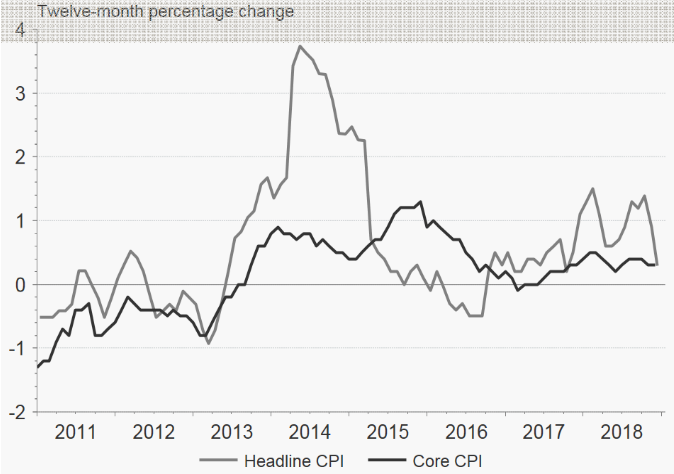
Financial market outlook

Equities – N225: CAUTIOUS. Target price 22,250

Bonds – Govies: NEGATIVE. Target yield 0.10%

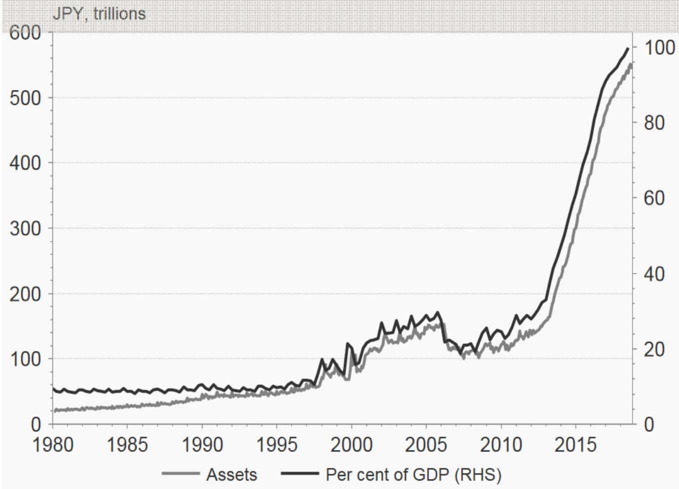
Forex – USD-JPY: NEUTRAL-NEGATIVE. Mid-term target 114

Japan CPI
Twelve-month percentage change



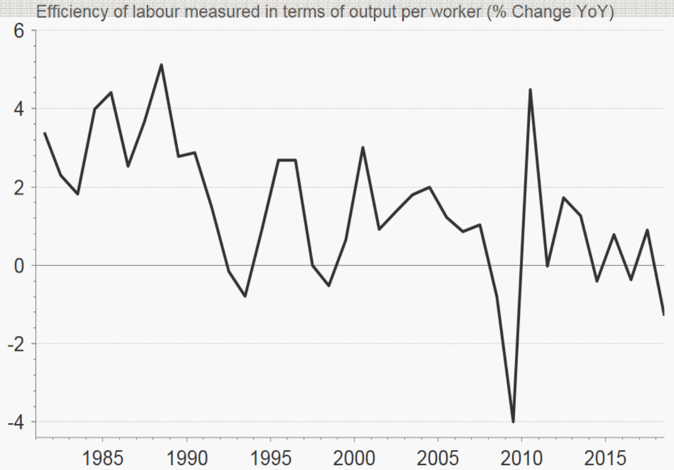
Fuente: Thomson Reuters Datastream / ANDBANK

Bank of Japan assets
JPY, trillions



Fuente: Thomson Reuters Datastream / ANDBANK

JAPAN - LABOUR PRODUCTIVITY GROWTH
Efficiency of labour measured in terms of output per worker (% Change YoY)



Fuente: Thomson Reuters Datastream / Fathom Consulting

CHINA
Still favors prudence over stimulus

Chinese authorities seem little worried about the market correction

The Shanghai index has accumulated significant losses in the last 12 months but the Chinese authorities seem little worried. Beijing continues with its Shadow Banking crackdown (notably limiting the credit of non-bank financial entities). This is restricting liquidity, which in turn results in bankruptcies of credit-dependent companies. Beijing also continues to prohibit pledging (the use of shares as collateral for new credit to purchase new shares). This is demonstrated by the continued decline in the percentage of shares currently purchased through pledging (just 9.1% of market capitalization). Unlike the market correction in 2015, Beijing is not using share suspensions (only 2% of listed securities have been suspended, well below the 25% witnessed in 2015). Also unlike 2015, Beijing is not encouraging SOEs to buy equities to defend the market. In summary, despite sharp falls, it seems that the Chinese authorities have not panicked and continue to implement its national cleanup and deleveraging program, combined with a certain rhetoric that aims to maintain "sufficient" stimulus in the form of ad-hoc financing programs from the PbOC.

What is needed for a market rally?

A rally in the Shanghai market will need the government to rebalance its stance, from a position dominated by prudence, towards a position more clearly inclined for stimulus. Some promising steps have recently taken place, which have resulted in advances in the market. We saw the announcement of a 100bp reduction in the required reserve ratios (RRR), and we have also observed a stabilization in the number of defaults (from 35 in November totaling RMB 17.5bn, to 18 in December totaling RMB 9.2bn). The volume of shares purchased through "share pledging" is now much lower and continues to fall. The debt issuance quota program for local governments has already been published, when quotas are not normally published until March. There is also some positive progress in Sino-US negotiations to reduce tensions in the trade dispute, increasing the likelihood of reaching a satisfactory agreement that could be announced at the Davos summit. The MSCI will decide in February whether to increase the weight of the Shanghai-A index in the MSCI EM (from the current 5% to 20%). We suspect that the less interventionist attitude of the Chinese government in the face of market declines (just 13 company shares have been suspended vs 203 in 2015) will surely play in favor of the MSCI deciding to increase the weight of the Chinese market in its international indices.

In short, while the economy could be sluggish during the first quarter of 2019, we believe that this will not be critical if the Chinese authorities continue to make progress in the three drivers that shape market sentiment: Political stance (more commitment to stimulus), liquidity (dynamics in bond defaults), and the trade conflict with the US.

Sales, margins and corporate profits

We foresee sales growth in SSE Composite companies close to 8% in 2019, accompanied by a modest expansion in margins to 9.3%, mainly due to gains in productivity (+4.5%) partially constrained by the increase in labor costs and financing conditions. This could translate into EPS growth of 12%. We do not expect a significant rise in the PE ratio (we are forecasting 10.5x) resulting in a target price for this index of 2,900 points (+14%).

Financial market outlook

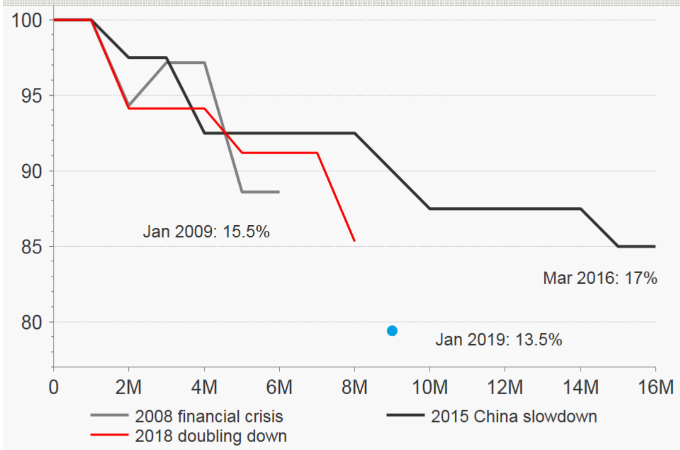
Equities – SHANGHAI index: NEUTRAL-POSITIVE (central point 2,907)

Equities – SHENZHEN Index: POSITIVE (central point 1,506)

Bonds – Govies: NEUTRAL-POSITIVE (target yield 3.10%)

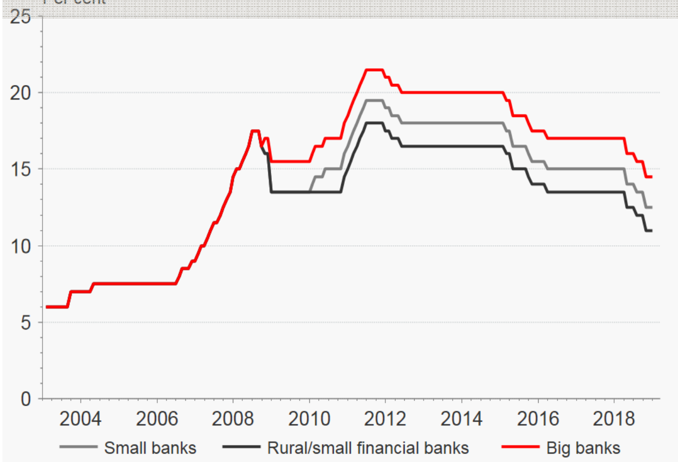
Forex – CNY/USD: NEUTRAL-POSITIVE (target 6.70)

China reserve requirement ratio for big banks
Index = 100, 1M = beginning of loosening cycle



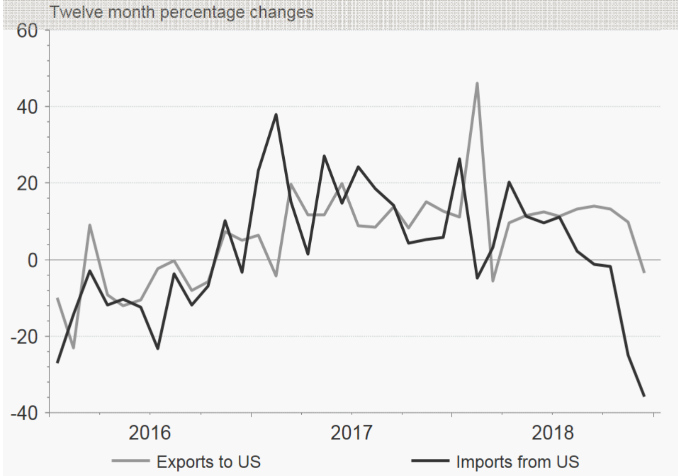
Fuente: Thomson Reuters Datastream / ANDBANK

China reserve requirement ratios
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

China exports to US and imports from US
Twelve month percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

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INDIA

The RBI-government standoff no longer remains a source of risk

Two positive recent outcomes

Two events can change investor calculations for the Indian equity market (despite having been the second best market in 2018 in local terms, the Rupee negatively impacted its performance measured in hard currency). First of all, the poor result by Modi's party in the recent local elections will prompt the prime minister to accelerate spending and investment programs to try and win the presidential elections in 2019. Second, the resignation of RBI's Governor (Urjit Patel), and the appointment of a more collaborative replacement will unblock the distribution of the surplus accumulated by the RBI, which will be channeled to the ministry. This will provide the necessary funding for those public programs that Modi's party (BJP) can use to improve its re-election prospects .

A more dovish stance from the new RBI governor is supportive

Indian bonds reacted extremely favorably after the appointment of the new RBI governor (clearly showing a more dovish bias). Furthermore, following the most benign inflation readings, it is now highly likely that, despite the "calibrated tightening" stance held by the RBI, the central bank's next move will probably be a cut in rates, which in turn would favorably affect the equity market (by reducing the cash flow discount rate). It is unclear whether a more dovish position by the RBI will cause a depreciation in the currency (in the same way that the ultra-hawkish positioning of the former governor did not contribute favorably to the currency). The INR is currently cheap in REER terms against USD, so we do not foresee significant depreciation.

Corporate results set for higher growth

Corporate results in 2019 could be brighter than 2018. A total of 11 companies have posted results for the last quarter of the year. Here are the results for their net profits (YoY): TVS Motors +15.6%, Kotak Bank +22.6%, HDFC Bank +20%, Federal Bank +28%, IndusInd Bank +5.2%, Union Bank +100%, Asian Pants +14.6%, Reliance Industries +9%, Hindustan Unilever +9%, Tata Consulting +11.6% saar, Infosys -12%. We still expect sales growth of 10.1% for the components of the Sensex Index, with margins coming in around 11% (thanks to productivity that is expanding above the 5% growth rate). This should result in FY19 EPS growth around 15-16%. If the PE multiple remains stable at 20x, the Indian equity market could potentially appreciate by around 16%.

Political risk will weigh on the index in 2019

Modi, until recently India's dominant political force, looks vulnerable. Modi supporters (international investors among them) are finding plenty of reasons to worry. The BJP was trounced in a series of state elections late last year across the country's northern heartland. The opposition Congress party emerged victorious in a trio of contests. Modi has since tried to wrestle back control in starkly populist fashion (extending India's controversial affirmative action system of quotas for government jobs -- originally designed to assist the lower castes-- to include poorer members of India's upper castes). A Pew poll found that 56% of Indians thought their economy was headed in the right direction, down from 83% in 2018. The good news is that regional parties are divided and fractious, and the BJP also retains a formidable funding and organizational advantage.

Financial market outlook

Equities – SENSEX Index: POSITIVE (central point 40,850)

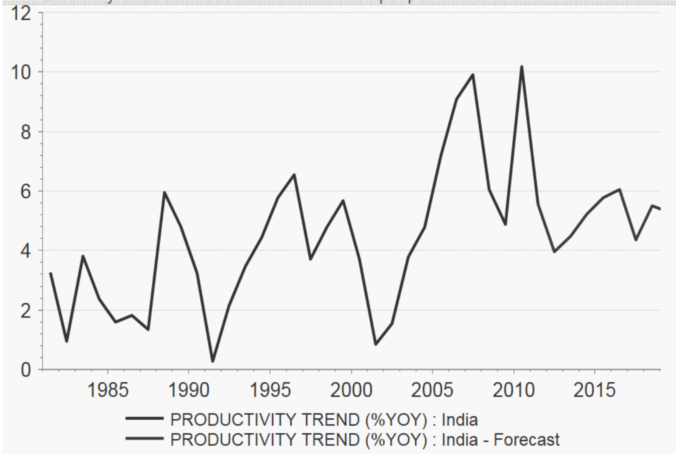
Bonds – Govies: POSITIVE (target yield 6.80%)

Bonds – Corporates: POSITIVE

Forex – INR/USD: STABLE (target 72)

INDIA - LABOR PRODUCTIVITY GROWTH

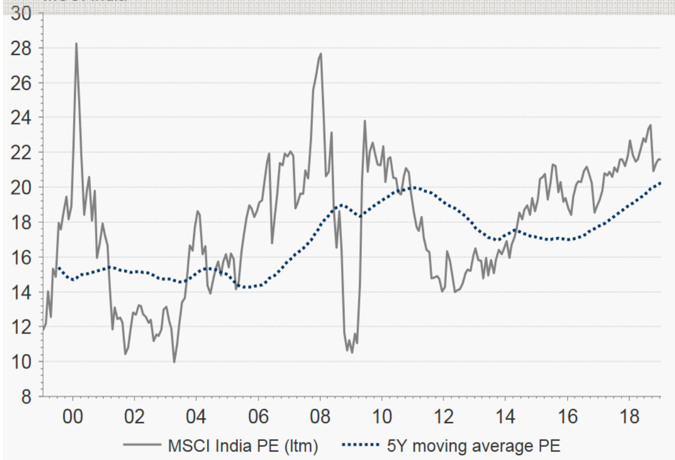
Efficiency of labour measured in terms of output per worker



Fuente: Thomson Reuters Datastream / Fathom Consulting

PE - India

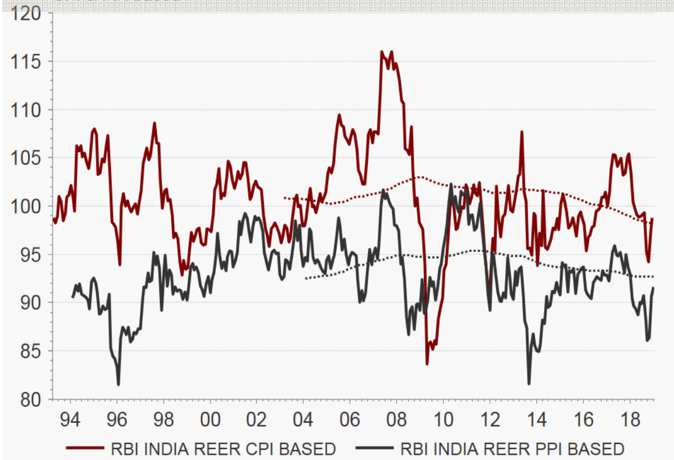
MSCI India



Fuente: Thomson Reuters Datastream / ANDBANK

Indian Rupee REER vs 6 currencies

CPI & PPI based



Fuente: Thomson Reuters Datastream / ANDBANK

MEXICO

Banxico will maintain more favorable conditions. Politics will weigh

Central Bank could keep more favorable monetary conditions

Banxico increased its reference rate by 25 bp in December to 8.25%. The bank continues to see higher upward risks for inflation and lower risks for growth. The members of the monetary policy committee still perceive the recent implementation of the new government's economic policy as a risk. After the change in perspective on the future decisions of the Fed, the prospect of Banxico continuing to raise its rate has decreased. Following the hike in December, Mexico's one-day real rate is the highest in emerging markets. Meanwhile, inflation reached a level of 4.83% at the end of 2018, again above Banxico's long-term target. The outlook for FY2019 CPI is that prices will grow at close to 4%.

Politics

In reforms related to improving the rule of law, someone very close to AMLO was recently appointed as Mexico's Attorney General, which may damage the perception of institutional independence as well as the credibility of the President. Secondly, in spite of having promised in his campaign to withdrawal the army from the streets, AMLO finally created a National Guard under military command to cover local police tasks.

The policy was applied in response to the theft of fuel and led to gasoline shortages in some regions of the country. It changed the way that fuel is transported, from the use of pipelines (from which the fuel was being stolen by "huachicoleos") to the use of tanker trucks (known as "pipas"). The good news is that there was no increase in prices and supply has started to normalize in Mexico City. Surprisingly, the decision to stop using pipelines for transport has coincided with higher levels of political acceptance for AMLO

The economy will continue to struggle in 2019

Our outlook for FY19 GDP is growth of 2%. Lower public and private investment remains a domestic risk, in addition to the negative effects of poor public spending implementation, especially at the beginning of the year.

Investor mood for Mexican assets

Equities: Internal and external risks exist for the local capital market, in particular the possible economic slowdown; fiscal policy execution by the AMLO administration; and the possibility of a review of the USMCA, which requires a permanent selection of defensive stocks. *Fixed Income*: The 10Y Mbono is trading close to 600bp. If the spread can be maintained and given a context of a flattening treasury bond curve, the Mexican bond in local currency should trade at levels around 8.75%. For the Mexican bond in dollars, our target for spread versus the UST remains unchanged at around 175bp. This means that we are setting a yield target for this bond of 5%. *Forex:* The peso has seen a strong appreciation (although it would be more appropriate to talk about a reversal of the dollar against all emerging currencies). We do not rule out periods of volatility caused by the outlook for weak growth combined with the aforementioned risks. Our target for MXN/USD is 20.

Financial market outlook

Equities – Mex IPC: NEGATIVE (Target 44,000). Exit 48,400

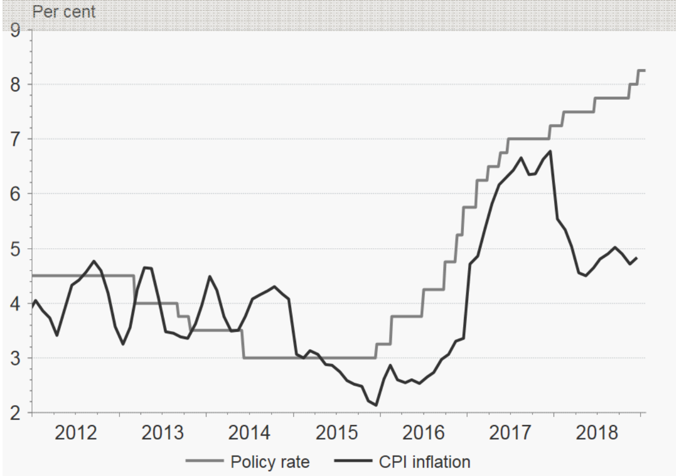
Bonds – Govies Local: NEUT-POSIT (target spread 550, yield 8.75%)

Bonds – Govies USD: NEUTRAL (target spread 175, yield 5%)

FX – MXN/USD: NEUTRAL (Mid-term target 20.00)

Mexico inflation and exchange, policy rates

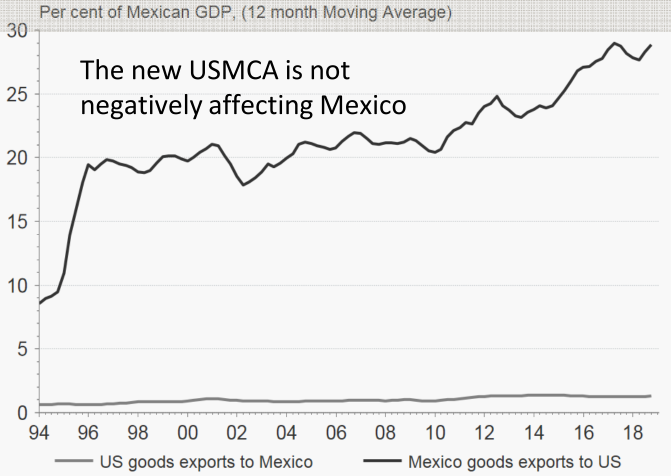
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

US trade relationship with Mexico

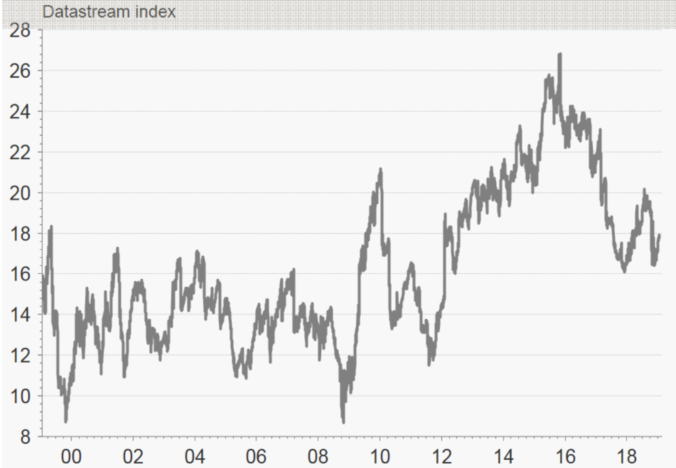
Per cent of Mexican GDP, (12 month Moving Average)



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico equities price/earnings ratio

Datastream index



Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL
Leading indicators show that GDP could accelerate this year

High expectations on the new government, which recently took office

The local market has taken a positive view of the initial moves by the new administration. Despite some noise about tax hikes, the shape of the new economic team has been approved and well received by market participants. Paulo Guedes, the Finance Minister, has been allowed to nominate a team of his own, with little interference from the president. Sergio Moro, the Justice Minister, enjoys great popularity, which boosts Bolsonaro's political capital and ultimately helps with the negotiation in Congress. There are therefore clear signs that this administration will pursue a liberal economic agenda (though concrete measures must still be taken). Progress regarding the main reform to be implemented this year (pension plans) has been little disclosed so far. The new Congress takes place in early February and only then will the government take firmer action. It's also important to highlight that Paulo Guedes signaled that they will take advantage of Michel Temer's reform, which might shorten the time needed to vote on it, though will probably make it harder. The first leaked figures from this reform are BRL 1.0 trillion in savings over the next 10 years (compared to a final BRL 400 billion in savings from Temer's reform). The government also signaled that the pension system could incorporate a capitalization method, in which workers save into their own individual accounts. The big challenge ahead will be Congress and how it reacts to the proposed reform.

Economics: favorable cyclical position for GDP growth

The IBC-Br index stood at +0.29% in November, slightly above the median expectation of +0.20%. The stronger readings came in retail sales (Black Friday effect), with services and industrial production still slow. Leading indicators show that GDP could accelerate this year. Median expectation is 2.5% growth. The cyclical position of the Brazilian economy is very favorable. Banks, which had reduced their loan portfolios in the last few years digesting the effects of the recession on their balance sheets, are ready to lend again. After the severe recession of 2015-2016, companies have reduced costs significantly and deleveraged, positioning their earnings to benefit strongly from an economic recovery through operational and financial leverage. This bodes well for the stock market. Unlike other EM countries, Brazil has maintained a very low external vulnerability with a low current and projected current account deficit, large FDI inflows and foreign exchange reserves and negative net external public debt. Inflation, as measured by the IPCA index, ended 2018 at a reasonable +3.75%, well below the central target of 4.5%. The number is considered low, taking into account that the truck drivers' strike has temporarily increased non-core prices (such as energy and food). The expectation for 2019 is a slightly higher IPCA of 4.00%, still below the new central target of 4.25%. On monetary policy, Ilan Goldfajn's successful administration as head of the Central Bank comes to an end, leaving inflation expectations well anchored, and a Selic rate that is set to stay at its minimal level (6.5%) for a while yet, possibly throughout the year, given the low inflation outlook.

Financial market outlook

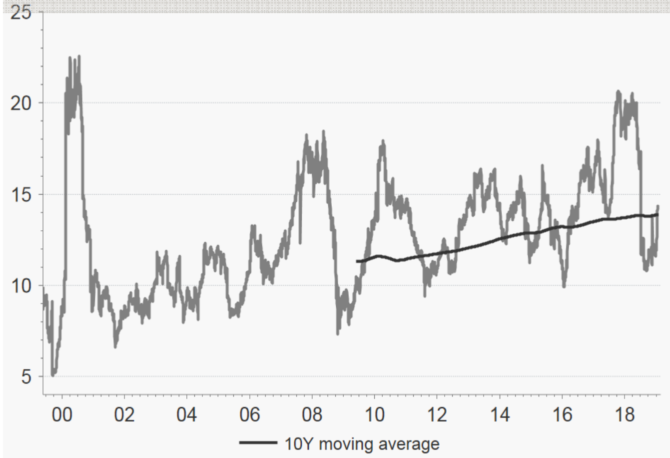
Equities – IBOVESPA: NEUTRAL (Target 94,200). Exit 103,600

Bonds – Gov. Local: POSITIVE (Target spread 625bp. Yield 9.25%)

Bonds – Gov. USD: POSITIVE (Target spread 230bp. Yield 5.55%)

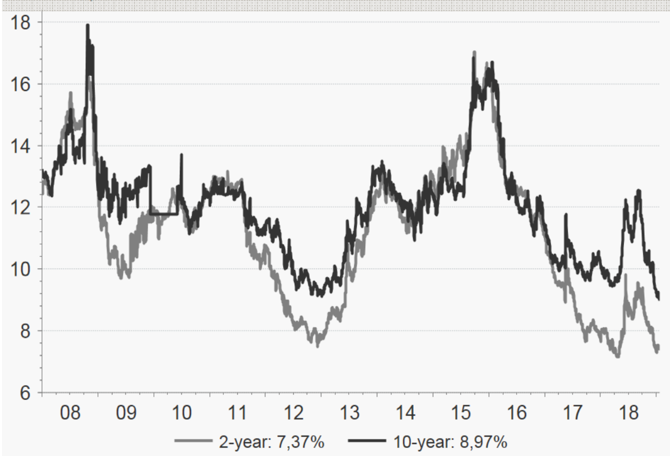
FX – BRL/USD: POSITIVE (mid-term target 3.75)

Brazil price/earnings, Datastream index



Fuente: Thomson Reuters Datastream / ANDBANK

Brazil benchmark government bonds



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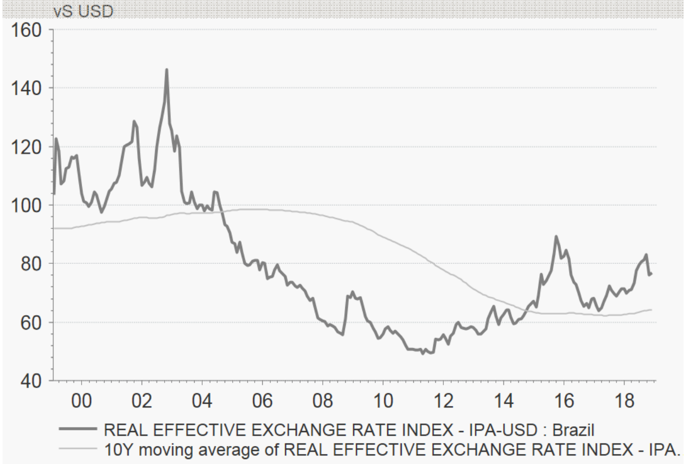
BRAZILIAN REAL - REER



Fuente: Thomson Reuters Datastream / Fathom Consulting

ANDBANK Private Bankers

ARGENTINA
Fine-tuning to balance the government's objectives

After a severe FX correction, combined with an economy in recession, Argentina has finally started to show signs of normalization in its external accounts and a shrinking country credit spread (now at 616 in the CDS5Y), after breaking the 800 threshold in December). Last Friday Minister Dujovne presented the fiscal result for 2018 showing a primary deficit of 2.4% of GDP, 1.4% below 2017. The government has therefore met the IMF's primary deficit target of 2.7% for the year. Primary revenues increased 30.2%, which is 7.8% above the 22.4% growth in primary spending. By December, Argentina had accumulated 17 consecutive months of fiscal revenues outpacing expenditure growth. Nevertheless, going forward the government needs to find a way of normalizing its monetary policy to boost the economic recovery while keeping FX volatility under control. Remember that after reaching a maximum of 73%+ in October the LELIQ rate has fallen to nearly 57% – a downward trend but still an extremely high level.

Primary equilibrium in an electoral year?

The 0% primary deficit target for FY19 looks feasible but some high execution risks persist. In particular, the cut in energy subsidies and the revenue resulting from the draw down of FGS assets don't seem achievable. As a result, a 0.3-0.5% deviation in GDP is expected though this shouldn't pose a threat to the IMF agreement.

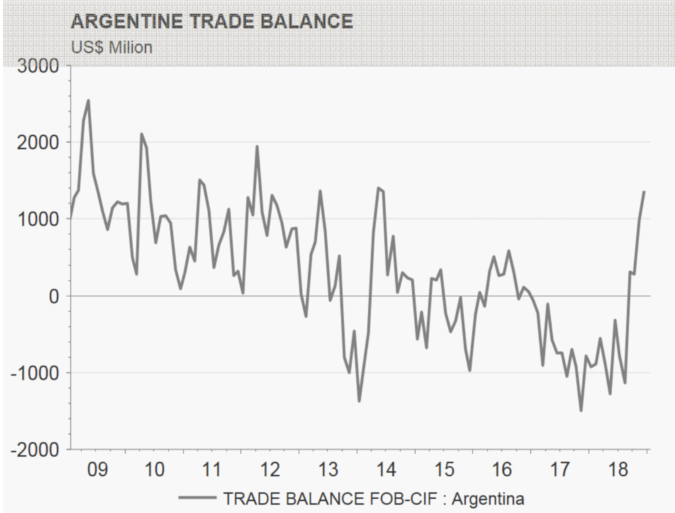
Political environment

The most relevant events in the electoral agenda are the mandatory and simultaneous open primaries (PASO) in August and the general elections in October (a ballotage is scheduled for November, which will almost certainly be needed). While these still feel distant, some discussions are getting a lot of attention, as is the debate about the Province of Buenos Aires elections. Some Cambiemos' representatives think that having the elections separated from the national elections is the best way for Governor María Eugenia Vidal to be reelected and then support Macri's candidacy from a stronger position. On the other hand, some believe that having Vidal participating only in the general elections on the same ballot with Macri, gives him the best chances of being reelected as President. The announcement of the Province of BA's elections being held before the presidential could send a good message to investors showing strong government confidence. Meanwhile CFK's best strategy is to take advantage of any failures in the current macro-environment. The more chances the public thinks CFK has of winning, the more they would look for safe assets (selling pesos) leading to higher FX volatility which in turn would boost the probabilities of recession. It is worth noting that Cambiemos voters will be the first ones to feel the effects of a recovery (those in agricultural areas and those related to export sectors), while areas with larger concentrations of public employees and those related to mass consumption (Province of BA for instance, where CFK has its strongest support) will be the last ones to feel the economic boost, thus adding an additional obstacle to Macri's attraction of new voters. Inflation is showing the first signs of deceleration, which together with an improvement in payrolls seem the best ways for this government to seek reelection.

Financial market outlook

Bonds –10YGovUSD: POSITIVE (Target spread 550bp. Yield 8.75%)

FX – USDARS: NEGATIVE (Year-end target 44)



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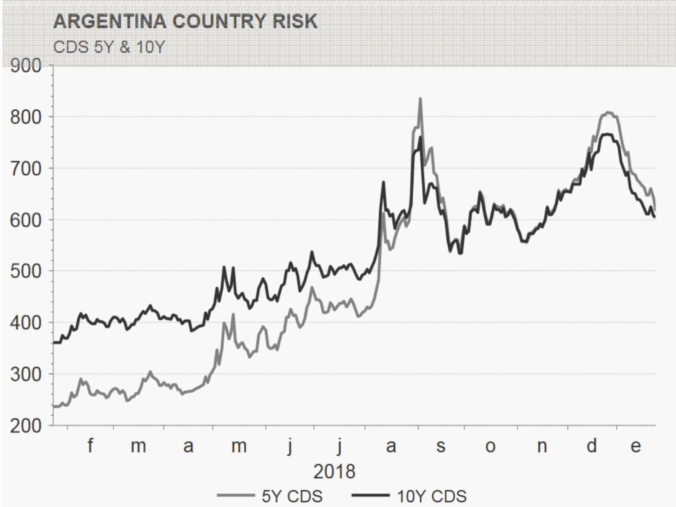

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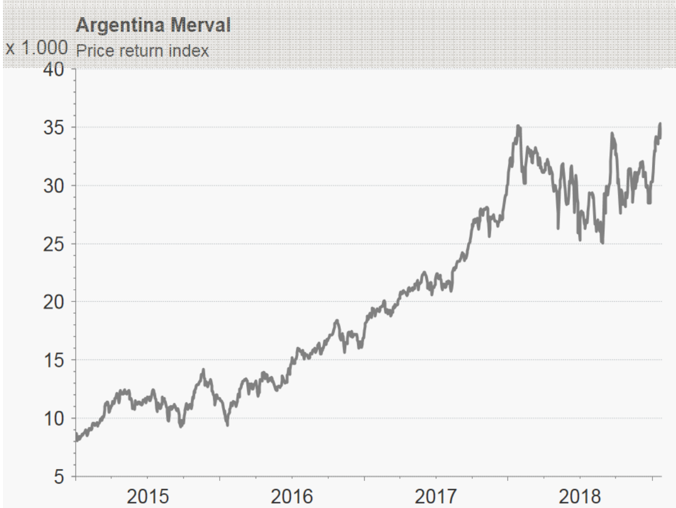


Fuente: Thomson Reuters Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Andbank's Sales growth 2019	Sales per Share 2019	Projected Net Margin 2019	EPS 2019	EPS Growth 2019	Current PE ltm EPS 2018	Dec 2019 PE ltm EPS 2019	INDEX CURRENT PRICE	2019 Central Point (Fundam range)	2019 E[Perf] to Centr. Point	2018 Exit Point
USA S&P 500	5,5%	1.419	11,9%	168,3	2,7%	16,50	16,60	2.704	2.794	**3,3%**	3.073
Europe - Stoxx Europe 600	5,4%	322	8,3%	26,9	3,2%	13,82	13,73	360	369	**2,5%**	406
Euro Zone - Euro Stoxx	5,4%	360	7,5%	27,0	4,3%	13,50	13,55	350	366	**4,7%**	403
Spain IBEX 35	3,6%	8.252	9,3%	769	2,2%	12,01	12,50	9.036	9.612	**6,4%**	10.573
Mexico IPC GRAL	6,7%	37.453	7,9%	2.975	1,0%	14,94	14,80	43.988	44.035	**0,1%**	48.438
Brazil BOVESPA	7,1%	66.644	10,6%	7.080	8,1%	14,87	13,30	97.394	94.167	**-3,3%**	103.583
Japan NIKKEI 225	5,6%	22.928	6,3%	1.445	3,1%	14,83	15,40	20.773	22.250	**7,1%**	24.475
China SSE Comp.	8,0%	2.972	9,3%	277	12,2%	10,61	10,50	2.618	2.907	**11,0%**	3.197
China Shenzhen Comp	8,2%	1.603	6,3%	100	14,6%	14,95	15,00	1.310	1.506	**15,0%**	1.657
Hong Kong HANG SENG	3,0%	12.535	15,2%	1.905	5,4%	15,46	14,50	27.931	27.624	**-1,1%**	30.386
India SENSEX	10,1%	18.808	10,9%	2.042	16,6%	20,77	20,00	36.382	40.843	**12,3%**	44.927
Vietnam VN Index	8,4%	690	9,0%	62	10,8%	16,17	17,00	909	1.059	**16,5%**	1.165
MSCI EM ASIA	7,3%	488	9,7%	47	12,6%	12,40	11,60	521	548	**5,3%**	603

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

TECHNICAL ANALYSIS

Trending scenario.
Supports & resistances (1 month)

S&P: SIDEWAYS-BULLISH
Support at 2,322. Resistance at 2,815

STOXX600: SIDEWAYS-BULLISH
Support at 327. Resistance at 369

EUROSTOXX50: SIDEWAYS-BULLISH
Support at 2,892. Resistance at 3,263

IBEX: SIDEWAYS-BULLISH
Support at 8,286. Resistance at 9,262

EURUSD: SIDEWAYS
Support at 1.121. Resistance at 1.162

Oil (WTI): SIDEWAYS-BULLISH
Support at 42.2. Resistance at 58

Gold: SIDEWAYS-BEARISH
Support at 1,255. Resistance at 1,309

US Treasury: SIDEWAYS
Support at 2.54%. Resistance at 2.95%.

POSITIONING, FLOW & SENTIMENT

Andbank's Assessment

Nature of Index	Index Name	Andbank's Assessment
Positioning	Asset Allocators - Equity	0
Flow	ETF's Flows (Hot money) - Global Asset Class	-0,5
Sentiment	Breadth - Companies over their 200 ma level	0,5
	Investor Intellgence Bull/Bear Ratio	0,5
	AAII Bull & Bears	0
	NAAIM Active Managers	-1
	NDR Crowd Composite Sentiment	0
	FGA's Composite Sentiment	-0,5

Andbank's Market Assessment (from -8 to +8) ***-1,00***
The lower the figure, the less attractive is the market

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.45%. Fair value 3.2%. Ceiling 4.4%

Swap spread: The swap spread downticked to +6.9 bp (from +7 bp last month). For this spread to normalize at +5 bp, with the swap rate anchored in the 2.5% area (inflation expectation), the 10Y UST yield would have to move towards 2.45%.

Slope: The slope of the US yield curve fell to 15bp (from 21). With the short end normalizing towards 2.75% (today at 2.71%), to reach the 10Y average slope (of 165 bp) the 10Y UST yield would have to move to 4.4%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2%-2.25%, the UST yield would have to rise to 3.25% to become a "BUY".

GER Bund: Floor 1.1%. Fair value 1.30%. Ceiling 2.7%

Swap spread: The swap spread up ticked to 59 bp (from 57 bp last month). For the swap spread to normalize at 36 bp, with the swap rate anchored in the 1.50% area (today at 0.80%), the Bund yield would have to move towards 1.14% (entry point).

Slope: The slope of the EUR curve fell to 78 bp (from 96 bp last month). If the short end "normalizes" in the 0% area (today at -0.60%), to reach the 10Y average yield curve slope (130 bp) the Bund yield would have to move to 1.30%.

Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.7%, the Bund yield would have to rise to 2.7% to become a "BUY".

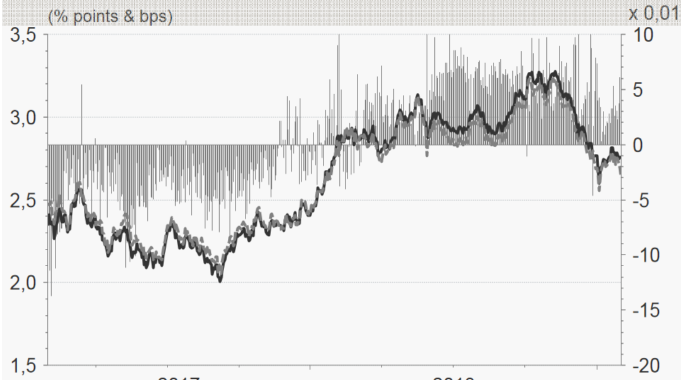
UK Gilt: Fair value 1.9%. Ceiling 3.2%

Swap spread: The swap spread rose to 24 bp (from 18 bp last month). For the swap spread to normalize at 12 bp, with the swap rate anchored in the 2% area (today at 1.51%), the 10Y UK Gilt would have to shift to 1.88%.

Slope: With 2Y normalized at 1.5%, to reach the average slope at 1.65%, the 10Y Gilt would have to move to 3.15%.

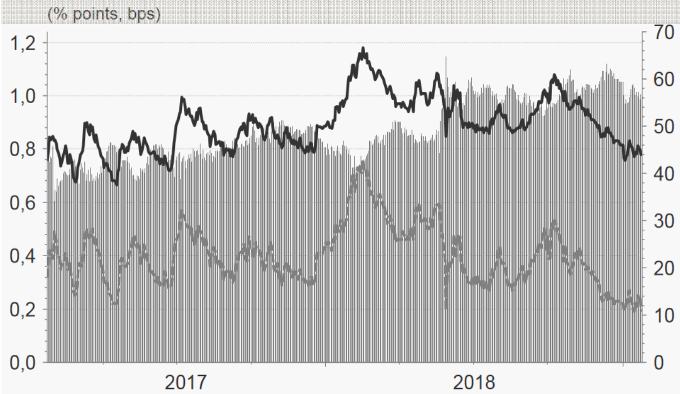
Real yield: Expectations are for FY19 inflation to ease to 2.2%. A 1% real yield means the 10Y gilt should be at 3.2%.

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 1.60%
Italian bond BTPI: Target yield at 2.70%
Portuguese Gov bond: Target yield at 1.90%
Ireland Gov bond: Target yield at 0.90%
Greece Gov bond: Target yield at 4.20%

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. The markets (and their government bonds) that meet such requirements are shaded grey.

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,89%	3,13%	4,76%	-1,00%	6,89%
EM ASIA	India	7,58%	2,20%	5,38%	-1,00%	6,58%
EM ASIA	Philippines	6,39%	5,10%	1,29%	-0,50%	5,89%
EM ASIA	China	3,07%	1,90%	1,17%	-0,50%	2,57%
EM ASIA	Malaysia	4,06%	0,25%	3,81%	-1,00%	3,06%
EM ASIA	Thailand	2,34%	0,37%	1,97%	-0,50%	1,84%
EM ASIA	Singapore	2,12%	0,46%	1,67%	-0,50%	1,62%
EM ASIA	South Korea	1,91%	1,33%	0,59%	0,00%	1,91%
EM ASIA	Taiwan	0,85%	0,01%	0,85%	0,00%	0,85%
EME	Turkey	13,81%	20,30%	-6,49%	1,00%	14,81%
EME	Russian Fed	8,14%	4,30%	3,84%	-1,00%	7,14%
LATAM	Brazil	8,83%	3,43%	5,40%	-1,00%	7,83%
LATAM	Mexico	8,47%	4,85%	3,62%	-1,00%	7,47%
LATAM	Colombia	6,82%	3,22%	3,60%	-1,00%	5,82%
LATAM	Peru	5,94%	2,22%	3,72%	-1,00%	4,94%

ENERGY – OIL

Fundamental view (WTI): Target range USD45-65/bbl.

Buy < USD45; Sell >65

Short-term drivers

(Price Negative) – Non-Opec producers will push global supply in 2019 higher despite OPEC efforts to cut output: The IEA's monthly report raised its projection for 2019 non-OPEC supply growth, led by US production. The IEA noted that by mid-year, US crude output will be higher than the production capacities of Russia and Saudi Arabia. The report also questioned Russia's commitment to implementing the supply cuts it agreed to last month, noting Russia increased crude production in December to a new record of 11.5M bpd. OPEC's success in cutting output depends on Russia's continued cooperation, and the Kremlin has continued to caution against the alliance. For their part, the OPEC countries continue with the strategy to cut production and managed to cut global output in December (by 751k bpd) with Saudi Arabia accounting for the majority of the decline. Despite this, the IEA maintained its estimate for 2019 OPEC production at 31.6M bpd.

(Price Negative) – No higher global demand despite higher global supply: The IEA recently left its demand growth figure for 2019 unchanged, saying a weakening economy is likely to offset any increase in oil demand caused by lower prices.

(Price Negative) – Sanctions to Venezuelan imports, but not to Venezuelan oil exports. The Trump administration has sanctioned PDVSA, but has avoided implementing direct sanctions on Venezuelan oil flows out on concern that oil prices could rise, and that sanctions could worsen the country's humanitarian crisis. Venezuela's crude production of 1.2M bpd in December was near the lowest since 2003, when volume fell as a result of a general strike. Venezuelan production is expected to continue falling, though at a slower rate of decline. With a longer-term view, Venezuelan bonds have rallied in recent days as the country's opposition has mounted a legislative challenge to Maduro. The Trump administration is considering recognizing National Assembly President Juan Guaido as the legitimate Venezuelan leader. The opposition party calls Maduro's presidency illegitimate, arguing the country's constitution says a presidential vacancy can be filled by the National Assembly president. Any structural change in Venezuela's political landscape could mean an increase in crude production capacity worldwide of between 1M-2M bpd in the medium term. Something that should put considerable downward pressure on oil prices.

(Price Negative) – The US is winning the energy war. Shipments of US crude to China have resumed: Three cargoes of US crude are headed to China, representing the first departures since the 90-day pause in the trade war was announced. China had been the top buyer of US crude in recent years, and imported 325K bpd before the conflict escalated in September. According to some analysts, these purchases are a follow through of statements by the Chinese government that it would begin purchasing commodities from the United States again. Bad omens then for OPEC exporters, who will have to lower their prices to increase their sales in other parts of the world.

(Price Neutral) – Alberta's OPEC-style decision to cut crude production has pushed prices higher, but has also shifted investment capital elsewhere. Alberta cut production by 325K bpd starting this month, helping shrink the discount on Canadian heavy oil. However, executives said they shifted capital to other provinces (suggesting that output cuts are not sustainable).

(Price Positive) –Mexico most likely unable to replace supply gap for Venezuelan heavy crude: Platts said that US refiners will not be able to rely on Mexico to replace heavy Venezuelan crude, given the country's declining production and Pemex sales being made on a contractual basis. The ban on Venezuelan exports created a 500K bpd supply gap in heavycrude. However, the article noted that the US and Mexico could do a light-for-heavy crude swap, helping increase the efficiency of Pemex's simple configuration refineries. ***Iran will try again to sell crude*** on its domestic energy exchange: Platts reported that Iran will offer 1M barrels at auction starting Monday. Just recall that the bourse allows private parties to buy Iranian crude to resell it in the international market, but buyers have mostly shied away from the domestic exchange purchases for fear they could still be subject to the sanctions.

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 they can pump before alternative energies render oil obsolete. In order to push back this deadline as far as possible, it is in producers' interests to keep oil prices 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 a lot of pressure on the market for fossil fuels over the coming decades, OPEC'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 they can.

(-) Are OPEC producers able to structurally fix prices? While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well in achieving a considerable increase in the price of oil, this has been at the cost of a loss of market share, meaning that OPEC producers are no longer able to easily fix prices without bearing costs. Back in the 1970s and the early 2000s, the exporters cartel agreed to cut output and the approach worked well, as the principal competition was among conventional 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 should therefore easily be offset (in theory) by a quick increase in shale oil production.

PRECIOUS METALS - GOLD

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$1,163 (from US$1,100 last month). In real terms, gold continues to trade well above its 20-year average of US$891. Given the global deflator (now at 1.10793), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$987.

Gold to Silver (Preference for store of value over productive assets): This ratio fell to 82.77x (from 85.99x last month) but still remains well above its 20-year average of 62.84x, suggesting that gold is expensive (at least relative to silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$976/oz.

Gold to Oil: This ratio rose during the month to 24.89x (from 24.01x last month), still well above its 20-year average of 14.97x. Considering our fundamental long-term target for oil of US$50pb (our central target for the long term) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$750 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Longs are now fixed at 182k (from 156k last month). Short contracts fell to 106k (from 154k). Thus, the net position rose to +75k contracts during the month (from +1.9k the previous month), suggesting that speculators' appetite for gold have increased recently.

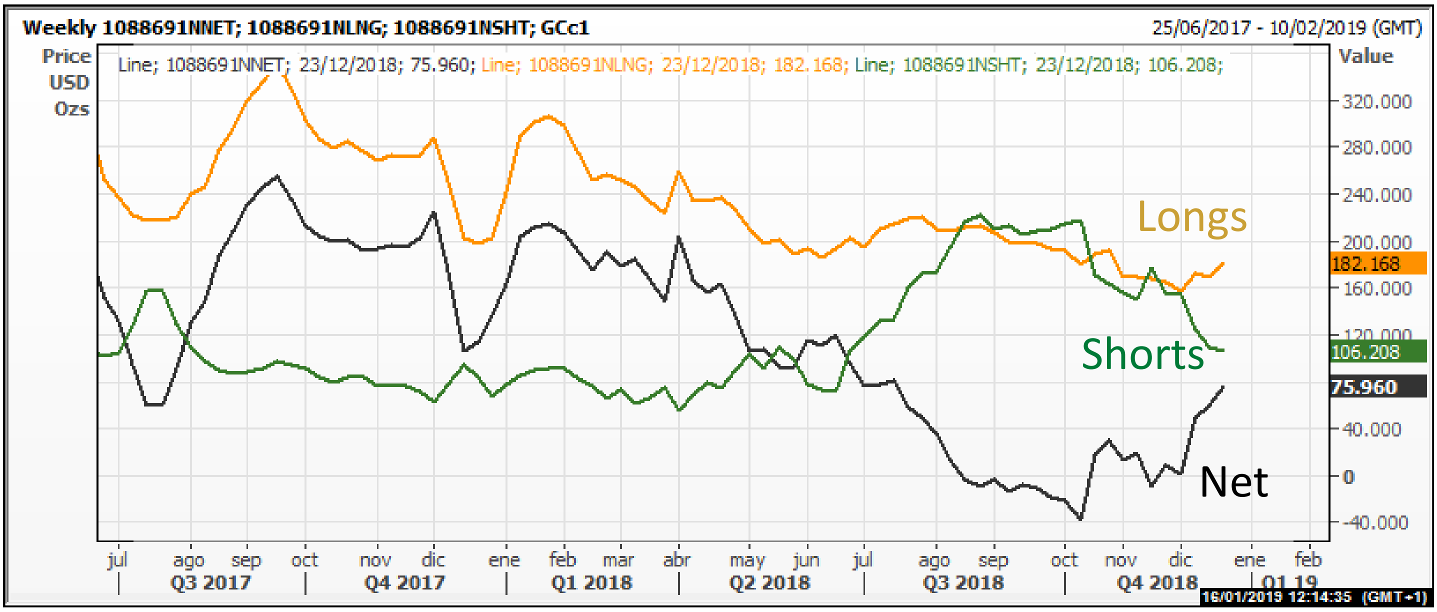
Financial liberalization in China. Higher “quotas” each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio rose to 0.494x (from 0. 442x last month) but is still well below its LT average of 0.598x. Given our target price for the S&P of US$2,800, the price of gold must approach US$1,674 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: Fundamental mid-term target 1.125 // Support at 1.11 // Resistance at 1.162

Flows: The US dollar seems to be overbought against the rest of the world's currencies. In the derivatives market, the speculative positions are long in the dollar against the rest, in an intensity of 1.57 *sigmas*. Without being an extreme level, it is indicative that additional increases in the dollar are more limited (which a priori is favorable for markets and risk assets). Looking at the bar chart in detail, we see how the long position of the dollar is essentially financed by short positions in G10 currencies (especially with the JPY, the AUD, and to a lesser extent, the EUR). Our more **fundamental discussion** sticks with our structural bearish view on the Euro with a mid-term target at 1.125, without ruling out increases in the European currency due to a reversal of speculative flows. Fact that we would take advantage to sell euros. Our **technical analysis** within the Investment Committee indicated a sideways-bearish view. EUR-USD is now facing a key support at 1.12, with resistance at 1.162.

USD-JPY: Target 114; **EUR-JPY**: Target 128.25

We continue to see some stress in the dollar, especially against JPY and the AUD, in our view, several aspects suggest that JPY should not appreciate versus the USD: (1) Although the Fed hints that it will relax the reduction of its balance sheet, the truth is that, although at a lower rate, it will continue to do so, while the BoJ will probably continue to expand its balance sheet, and the money supply, making the USD more attractive (or the JPY less appealing). (2) We downplay the tapering option after the BoJ 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) ; (3) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0.10% there is little prospect that Japanese real yields will rise.

GBP-USD: Target 1.37; **EUR-GBP**: Target 0.82

USD-CHF: Target 0.98; **EUR-CHF:** Target 1.10

USD-MXN: Target 20; **EUR-MXN:** Target 22.50

USD-BRL: Target 3.75; **EUR-BRL:** Target 4.22

USD-ARS: Target 44

USD-INR: Target 72

CNY: Target 6.7

RUB: NEUTRAL-NEGATIVE

AUD: POSITIVE

CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month 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	28,77	-0,21	32,1	-28,2	5,5	**1,46**
USD vs G10	29,49	-0,31	30,9	-25,4	5,9	**1,57**
EM	0,72	-0,10	3,8	-0,8	1,3	**-0,14**
EUR	-7,54	-0,83	23,4	-8,0	8,6	**-0,77**
JPY	-11,42	-0,32	0,6	-13,9	-6,9	**-1,07**
GBP	-4,80	-1,33	4,3	-6,5	-1,2	**-0,55**
CHF	-2,89	-0,42	0,0	-6,0	-3,1	**-0,69**
BRL	0,01	-0,10	0,4	-0,8	-0,3	**-0,20**
MXN	-0,02	-0,37	2,8	-0,5	1,2	**-0,26**
RUB	0,73	0,36	1,2	-0,2	0,5	**0,79**
AUD	-2,52	1,75	1,4	-5,2	-2,0	**-1,18**
CAD	-0,55	-0,08	3,2	-4,0	-0,8	**-0,17**

Positive
Neutral-Positive
Neutral-Negative
Negative

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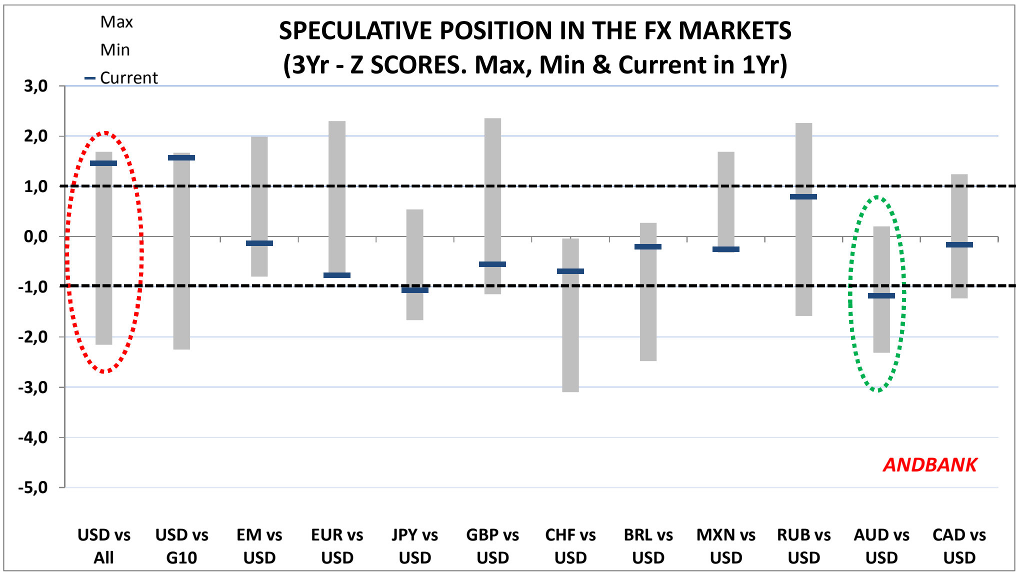

The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fundamental Central Point 2019	Expected Performance 2019
Equity	USA - S&P 500	6,8%	7,9%	2.704	2794	3,3%
	Europe - Stoxx Europe 600	4,8%	6,2%	360	369	2,5%
	Euro Zone - Euro Stoxx	4,9%	6,1%	350	366	4,7%
	SPAIN - IBEX 35	3,5%	6,1%	9.040	9.612	6,3%
	MEXICO - MXSE IPC	3,6%	5,6%	43.988	44.035	0,1%
	BRAZIL - BOVESPA	6,0%	10,8%	97.394	94167	-3,3%
	JAPAN - NIKKEI 225	3,8%	3,9%	20.773	22250	7,1%
	CHINA - SHANGHAI COMPOSITE	4,1%	3,6%	2.618	2907	11,0%
	CHINA - SHENZEN COMPOSITE	2,4%	3,3%	1.310	1506	15,0%
	INDIA - SENSEX	1,9%	0,5%	36.375	40.843	12,3%
	MSCI EM ASIA (in USD)	9,1%	7,3%	521	548	5,3%
Fixed Income Core countries	US Treasury 10 year Govie	0,5%	0,8%	2,63	3,25	-2,6%
	UK 10 year Gilt	0,4%	1,0%	1,22	2,00	-5,1%
	German 10 year BUND	0,4%	2,6%	0,15	**0,60**	-3,4%
	Japanese 10 year Govie	-0,3%	0,4%	-0,01	0,10	-0,8%
Fixed Income Peripheral	Spain - 10yr Gov bond	2,3%	4,5%	1,19	**1,60**	-2,2%
	Italy - 10yr Gov bond	2,6%	-2,5%	2,58	**2,70**	1,4%
	Portugal - 10yr Gov bond	1,7%	4,4%	1,60	**1,90**	-1,0%
	Ireland - 10yr Gov bond	0,3%	-1,0%	0,86	**0,90**	0,5%
	Greece - 10yr Gov bond	4,2%	6,0%	3,85	**4,20**	0,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,7%	-0,5%	71,76	92	-1,6%
	Credit EUR HY-Itraxx Xover	1,7%	-0,2%	303,18	350	-0,3%
	Credit USD IG - CDX IG	0,8%	2,4%	66,10	85	0,4%
	Credit USD HY - CDX HY	2,8%	4,3%	353,04	490	-0,5%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	18,9%	-6,9%	13,79	16,00	-3,9%
	Russia - 10yr Gov bond	5,1%	4,0%	8,11	7,70	11,4%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	0,9%	-7,0%	7,99	7,25	13,9%
	India - 10yr Gov bond	0,3%	6,8%	7,48	6,80	12,9%
	Philippines - 10yr Gov bond	4,2%	-4,5%	6,39	7,00	1,5%
	China - 10yr Gov bond	0,7%	10,3%	3,08	3,10	2,9%
	Malaysia - 10yr Gov bond	0,3%	3,1%	4,06	3,25	10,5%
	Thailand - 10yr Gov bond	0,3%	1,8%	2,36	2,00	5,2%
	Singapore - 10yr Gov bond	0,0%	1,0%	2,13	2,00	3,1%
	South Korea - 10yr Gov bond	0,0%	6,2%	1,93	2,25	-0,6%
	Taiwan - 10yr Gov bond	0,0%	1,7%	0,85	1,75	-6,4%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,6%	2,3%	8,47	8,75	6,2%
	Mexico - 10yr Govie (USD)	2,0%	-3,9%	4,64	5,00	1,7%
	Brazil - 10yr Govie (Loc)	2,9%	22,5%	8,83	**9,50**	3,5%
	Brazil - 10yr Govie (USD)	3,2%	3,1%	5,01	5,55	0,7%
	Argentina - 10yr Govie (USD)	6,7%	-25,3%	9,74	8,75	17,6%
Commodities	Oil (WTI)	12,2%	-11,0%	53,8	50,00	-7,0%
	GOLD	2,8%	1,4%	1.320,6	1.100	-16,7%
Fx	EURUSD (price of 1 EUR)	0,4%	-4,6%	1,144	1,125	-1,7%
	GBPUSD (price of 1 GBP)	2,9%	-3,0%	1,31	1,37	4,6%
	EURGBP (price of 1 EUR)	-2,5%	-1,7%	0,87	0,82	-5,9%
	USDCHF (price of 1 USD)	0,8%	2,0%	0,99	0,98	-1,7%
	EURCHF (price of 1 EUR)	1,2%	-2,7%	1,14	1,10	-3,4%
	USDJPY (price of 1 USD)	0,3%	-3,4%	108,87	114,00	4,7%
	EURJPY (price of 1 EUR)	0,7%	-7,8%	124,62	128,25	2,9%
	USDMXN (price of 1 USD)	-1,6%	-2,8%	19,11	**20,00**	4,7%
	EURMXN (price of 1 EUR)	-1,2%	-7,2%	21,86	22,50	2,9%
	USDBRL (price of 1 USD)	-1,9%	10,0%	3,64	3,75	2,9%
	EURBRL (price of 1 EUR)	-1,5%	5,0%	4,17	4,22	1,1%
	USDARS (price of 1 USD)	-0,2%	100,4%	37,27	44,00	18,1%
	USDINR (price of 1 USD)	2,0%	11,2%	70,95	72,00	1,5%
	CNY (price of 1 USD)	-2,5%	2,9%	6,70	6,70	0,1%

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

UPWARD REVISION DOWNWARD REVISION

ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Cash	**15,0**	**22,3**	**10,0**	**16,1**	**5,0**	**10,0**	**5,0**	**4,8**
Short-Term debt & MM instrument	**25,0**	**32,7**	**15,0**	**21,2**	**5,0**	**8,8**	**0,0**	**2,4**
Fixed Income Long-Term - OECD	**30,0**	**21,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
US Gov & Municipals & Agencies		16,8		11,2		8,4		2,8
EU Gov & Municipals & Agencies		1,1		0,7		0,5		0,2
European Peripheral Risk		3,2		2,1		1,6		0,5
Credit (OECD)	**20,0**	**14,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
Investment Grade USD		7,0		7,0		5,3		1,8
High Yield Grade USD		3,5		3,5		2,6		0,9
Investment Grade EUR		1,4		1,4		1,1		0,4
High Yield Grade EUR		2,1		2,1		1,6		0,5
Fixed Income Emerging Markets	**5,0**	**5,0**	**7,5**	**7,5**	**10,0**	**10,0**	**15,0**	**15,0**
Latam Sovereign		1,5		2,3		3,0		4,5
Latam Credit		1,0		1,5		2,0		3,0
Asia Sovereign		1,5		2,3		3,0		4,5
Asia Credit		1,0		1,5		2,0		3,0
Equity OECD	**5,0**	**5,0**	**20,0**	**20,0**	**32,5**	**32,5**	**50,0**	**50,0**
US Equity		2,5		10,0		16,3		25,0
European Equity		2,3		9,0		14,6		22,5
Japan Equity		0,3		1,0		1,6		2,5
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,5**	**10,0**	**11,0**	**10,0**	**11,0**
Asian Equity		0,0		3,6		7,2		7,2
Latam Equity		0,0		1,9		3,9		3,9
Commodities	**0,0**	**0,0**	**2,5**	**1,8**	**5,0**	**3,5**	**5,0**	**3,5**
Energy		0,0		0,4		0,9		0,9
Minerals & Metals		0,0		0,4		0,9		0,9
Precious		0,0		0,6		1,2		1,2
Agriculture		0,0		0,3		0,5		0,5
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,1**	**5,0**	**6,3**
REITs		0,0		0,0		0,8		1,6
Alt.Energy (wind, solar, etc)		0,0		0,0		0,8		1,6
Market Neutral		0,0		0,0		0,9		1,9
Volatility		0,0		0,0		0,6		1,3
Currency Exposure (European investor perspective)								
EUR		96,0		91,4		87,4		82,8
USD		4,0		8,6		12,6		17,2

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.

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