ECONOMY AND FINANCIAL MARKETS

Andbank Monthly Corporate Review

Global Strategic Outlook - October 2019

Corporate analysis

October 2019

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

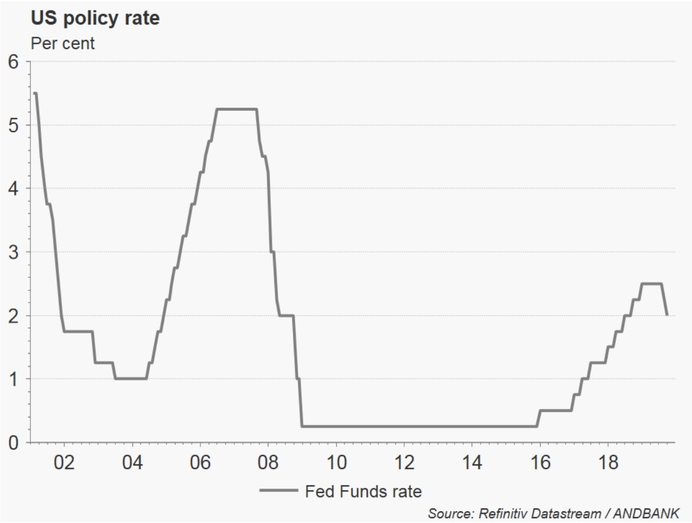
EXECUTIVE SUMMARY

REFLEXIÓN DEL MES

Could a parallel be established between the ECB and the film in which Judy Garland is dragged by a tornado into a fantasy world? The temptation is high, not so much because the ECB may have taken us to that magical world where the serious financing problems of European nations are resolved almost without effort (a problem Draghi refers to as "financial market tensions"). Parallelism may not be related to the concept of fantasy and the ECB's magical capacity to manufacture money, but with the failure of the project itself. Just remember how Victor Fleming's film, despite the remarkable use of technicolor and its extraordinary musical score, was a box office failure that did not recover the investment until after 10 years thanks to a series of re-releases on television. Hopefully, unlike the film, this fantastic project does not suffer that initial failure. There are no second chances here.

CHART OF THE MONTH

Some central banks still have ammo



EQUITIES

US corporate earnings showed EPS growth of 3.2% y/y in 2Q19, with 74% of companies exceeding expectations. In Europe, however, earnings per share are expected to fall by −2.1% y/y, with 49.8% exceeding expectations. Summary of equity market outlook. ***USA (S&P)***: NEUTRAL-UNDERWEIGHT (slightly expensive); target: 2,900; exit: 3,100. ***Europe (Stoxx 600)***: NEUTRAL; target: 387; exit: 406. ***Spain (IBEX)***: OVERWEIGHT; target: 9,425. Sell at 9,900 ***Japan (N225)***: NEUTRAL-OVERWEIGHT; target: 22,250. Sell at 22,700. ***China (Shenzhen)***: NEUTRAL; target: 1,750. ***China (Shanghai)***: NEUTRAL; target: 3,175. ***India (Sensex)***: NEUTRAL-OVERWEIGHT; target: 40,023. ***Brazil (Ibovespa)***: NEUTRAL; target: 102,600. ***Mexico (IPC)***: NEUTRAL-OVERWEIGHT; target: 43,000. ***Israel (TLV):*** NEUTRAL;

FIXED-INCOME

Fixed-income markets experienced increases in yields over the past month, but the upside movement did not last. The recent ECB action suggests that the European nations will continue to export negative yields to the rest of the world. Despite extreme valuations of debt assets, especially European bonds, ECB support will continue well into 2020. Summary of fixed income outlook: ***10-year US Treasury bond (10Y UST):*** UNDERWEIGHT; target: 1.85%). ***German bond (Bund):*** UNDERWEIGHT; target: -0.30%). ***Spanish bond:*** UNDERWEIGHT; target: 0.50%). ***Italian bond***: UNDERWEIGHT; target: 1.0%). ***Portuguese bond:*** UNDERWEIGHT; target: 0.60%). ***Irish bond:*** UNDERWEIGHT; target: 0%). ***EM Bonds (Asia):*** MIXED (preference for India, Indonesia, Malaysia, Philippines and Singapore; avoid Taiwan, Thailand and South Korea). ***EM Bonds (Latin America):*** Mexico: OVERWEIGHT in MXN, NEUTRAL in USD. Brazil: NEUTRAL in BRL, OVERWEIGHT in USD.

CORPORATE DEBT

Corporate debt in EUR. Corporate fixed income spreads, both IG and HY, widened in August, although we are now back at the levels seen in July. This widening coincided with market volatility, although after the ECB meeting and the announcement that the APP will be extended for an unlimited period, corporate fixed income will continue to be supported at current prices (especially non-financial investment grade), despite external risks (Brexit, US-China trade tension, etc.). Large volume of IG issues (EUR 457bn), especially health, telecommunications, financial and transport paper. We still prefer more defensive (non-cyclical) sectors, as they have maintained EBIT growth levels comparatively similar to those seen at the beginning of the year (4% current vs 5.7%), while cyclical companies have suffered a cut from 9.6% to a current 0.6%. Assessment: ***Corporate debt in EUR (IG) (iTraxx):*** UNDERWEIGHT; target spread: 60 bps. ***Corporate debt in EUR (HY) (Xover):*** UNDERWEIGHT; target spread: 300 bps. ***Corporate debt in USD (CDX IG):*** NEUTRAL; target spread: 50 bps. ***Corporate debt in USD (CDX HY):*** NEUTRAL-UNDERWEIGHT; target spread: 300 bps.

CURRENCY

The global positioning in the US dollar rose again last month to USD 15.4bn (well below the highs seen last year, and with a Z-score of +0.36 sigmas, suggesting there is still room to build new positions in the greenback. Preferred GBP and BRL. Avoid JPY and CHF.

COMMODITIES

Attacks on Saudi installations, a more unstable energy balance, a strike on Aramco, increased tensions with Iran, etc. are all risk factors for a crude oil spike, but our structural view for oil remains weak. New range 50-70 for the WTI.

USA

2Q19 earnings were seen as acceptable

Economic assessment: Since in December 2018, the Fed abandoned the monetary tightening, many economic segments sensitive to interest rates have rebounded considerably: Homebuilding permits, consumption of big tickets, etc. To the extent that the Fed not only keeps monetary conditions stable, but also relaxes them again, we could see bullish continuity in these same segments, and others. Over the course of the year we have seen two different stories in the American economy: on the one hand, the decline in manufacturing, which continues to reflect the impact of the uncertainty caused by the trade war, with the ISM manufacturing index falling below 50 for the first time since 2016, although we then saw a positive figure in August, with industrial output posting its biggest increase in a year (+0.6%), exceeding the expected +0.2%. On the other hand, we see fairly solid consumer spending, with retail sales continuing to beat expectations (0.4% in August), bringing cumulative year-on-year growth to 3.6% this quarter. On the inflation front, despite the surprising 0.256% increase in core CPI, the core PCE Index stands at 1.7%, still below the Fed's target. **Geopolitics:** After moving from one extreme to the other—from the breakdown of the G20 truce to the current willingness to consider a "temporary" trade agreement and the delay in imposing the new tariffs until December—the fact is the atmosphere seems to have changed since John Bolton's dismissal as national security adviser, and it seems the last of the hawks (Peter Navarro) is losing his hold on the trade agenda, which is now led by a more pragmatic group of advisers, who aim to rescue the terms of the failed agreement from early 2019.

Fed: The economic and financial situation has not changed substantially since the July meeting, so we did not expect any substantial changes in the FOMC speech, and there were none. The decision to cut another 25 bps is part of the "preventive action" strategy during a "mid-cycle adjustment". Following this move, the dot cloud shows no further rate movements in the remainder of the year, although we believe that a minority (six participants, including Powell) could support a third cut. If a final cut were made in December, we would take it to be the end of the monetary "adjustment", which we would characterize as "a moderate response to a moderate deterioration in the economy and slight inflationary pressures".

Equities: Listening to the market

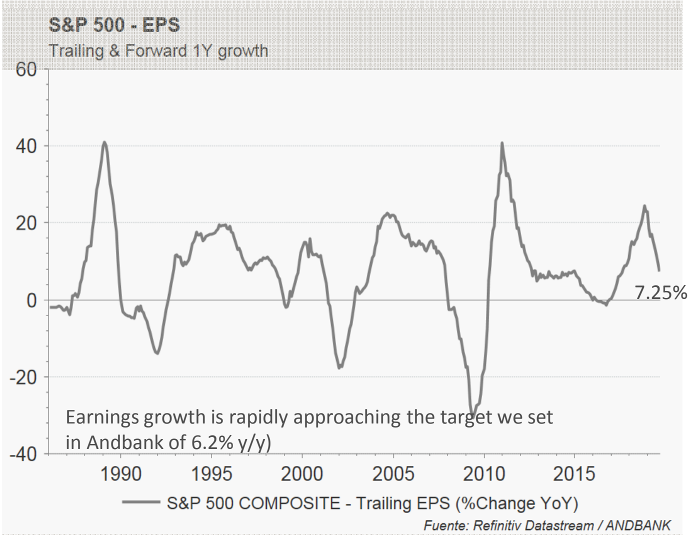
The market is trading day-to-day with an eye on Trump's Twitter account. However, and despite the president's twits, the market has risen 6% since the "ceasefire" was established at the end of the first quarter, and is 3.5% of the historical highs seen in July. If we listen to the market (and the message it is giving us today), we cannot say that investors think of a recessive cycle. By September, the instability seen in summer hads disappeared and the Vix had relaxed to 14.44. By comparison with our start-of-year model and adjusting for some changes (we expected two Fed rises, whereas now we expect two cuts), our forecast for the central point (target price) by the end of the year has increased slightly, from 2,800 to 2,900 points, leaving our multiples unchanged.

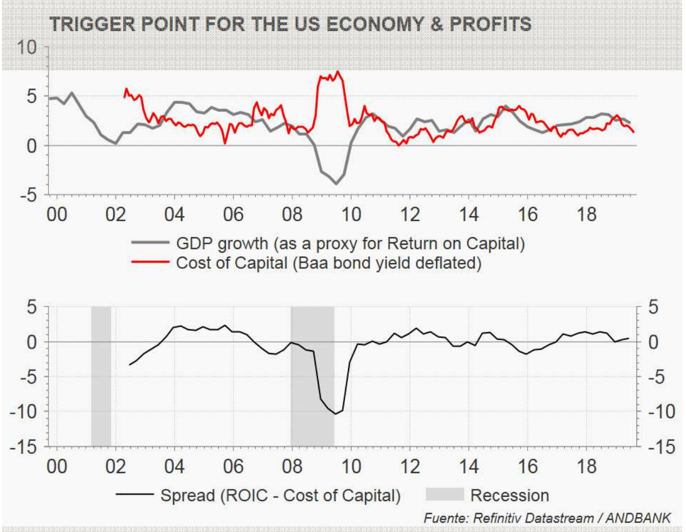
Debt market

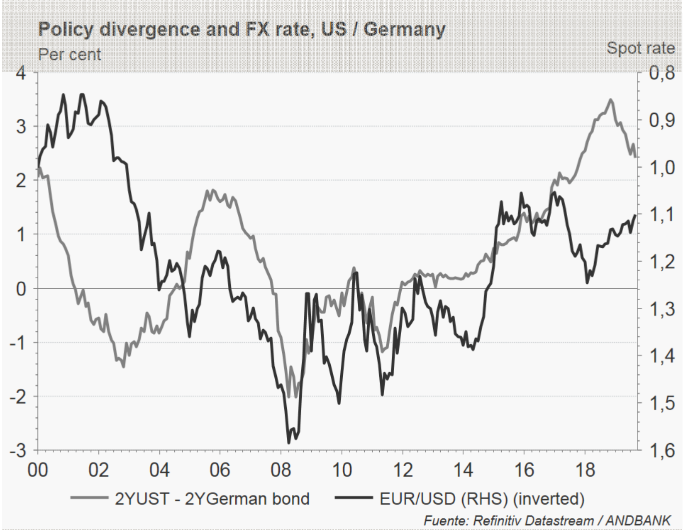
Given the vulnerability shown by the manufacturing indicators and our interest rate scenario (not only in the US, but also in the rest of the developed economies), we dropped our reasonable entry point for the UST to 1.85% (from 2.20%). Meanwhile, the credit market remains stable, despite recent volatility and high new-issue activity. This strength, which we do not expect to change, is due to the favorable yield offered by corporate bonds, compared to the USD 17trn of debt with negative yields at global level. The primary high yield market has remained fairly active, with a 25% gain in volume compared to 2018, with 68% of the volume coming from refinancing. Flows into assets have been the highest since 2012, with USD 12.25bn in active funds and USD 8.8bn in ETFs. We consider assets expensive and maintain our cautious positioning, with leverage already at 4.07x (post-crisis high of 4.57x in 2Q16) and an EBITDA that recovered only 1.4% y/y in 2Q19, after falling −4.3% y/y in 1Q19.

Financial market outlook

Equities (S&P) UNDERWEIGHT/NEUTRAL (target: 2,900; exit: 3,100)
Sovereign debt: NEUTRAL (10Y UST entry: 1.85%).
Corporate debt (CDX IG): NEUTRAL (target spread: 50)
Corporate debt (CDX HY): UNDERWEIGHT (target spread: 354)
Currencies (DXY Index): NEUTRAL







EUROPE

ECB: "Fiscal expansion must assist"

State of the economy

According to Draghi, "the probability of recession is small but it has increased." The evidence suggests, perhaps, something else. The Eurozone flash PMI for September reached a minimum of 75 months, up to 50.4 versus the previous 51.9 data. The manufacturing PMI deteriorated to 45.6 versus the previous 47.0. And the services also got worse, up to the level of 52.0 versus 53.5 above. German manufacturing activity is decreasing at the fastest pace since 2009 after falling to 41.4 versus the previous 43.4. Germany's GDP may fall in contraction in 3Q19. The update of the data in France also showed that the slowdown and is undermining resilience in the service sector. What is behind the downtrend? According to the ECB, the global trade war and Brexit. An ECB research report concluded that the factors associated with China, the United Kingdom and the USA. UU. They explained 37% of the fall in production growth while 63% were related to internal factors, which may partly reflect temporary factors related to the automotive industry in the second half of 2018. And it is that automakers from Europe warn about Brexit without agreement: "The impact of the non-agreement on the UK's exit from the EU would cause a seismic change in commercial conditions." It seems that the solution to the economic problem goes through a fiscal impulse that "accompanies" monetary policy. Will come? That seems, but for now it is limited. In Germany there is room, although small, given the limitation imposed by the "fiscal brake" set forth in the Constitution: up to 0.35% structural deficit, about 10,000 mill. € / additional in 2020, well below the 45,000 suggested by sector organizations. The Netherlands will cut taxes on individuals, France has already recognized that it will not seek further adjustments and will not meet the deficit target in 2020.

ECB: "As long as it takes"

Draghi delivered an "all-in-one" package: rate cut, change in forward guidance, QE, improved TLTRO, depo tiering, etc.). He did it in the name of the "open-ended" nature of asset purchase programs. Two important messages, beyond the measures: 1) It is no longer a monetary issue, but a fiscal one. The ECB is unanimous that fiscal policy should take the lead. The reflection here is clear: if the expansionary fiscal policy cannot be financed at market cost, the ECB will have to continue as provider of funding. The second message concerns the strong opposition Draghi faced in implementing QE, not just from Germany. That could herald difficulties in implementing further debt purchases in the future (Lagarde).

Equity market

Europe is still essentially a market of companies in mature businesses that pay high dividends. This bodes well with Investor's interest shift, from growth sectors to value and dividend sectors, a move driven by the widespread perception of a global slowdown. This change in investment criterion has persisted, placing the focus on the income-generating capacity of equity securities. This could mean that an upward "corridor" has opened for European indices (at least in relation to other indices more closely tied to the cycle, such as the US indices). The Achilles heel of Europe's stock exchanges, as always, is the banks. We maintain our target price for Stoxx Europe at 387 (sell at 406), and for Euro Stoxx at 379 (sell at 398). In both cases we stand by our recommendation of "slightly overweight".

Debt market

The ECB now appears to be willing to buy more than 40% of gross Bund issuance in 2020, but there is bad news from institutional investor flows (German insurers said this summer they were no longer buying at those bund levels). New target for bund, −0.3% (from −0.10%). Italian spread to be revised downwards after the change of government (target spread of 130 bps). Good start for the new government, with Brussels-friendly appointments.

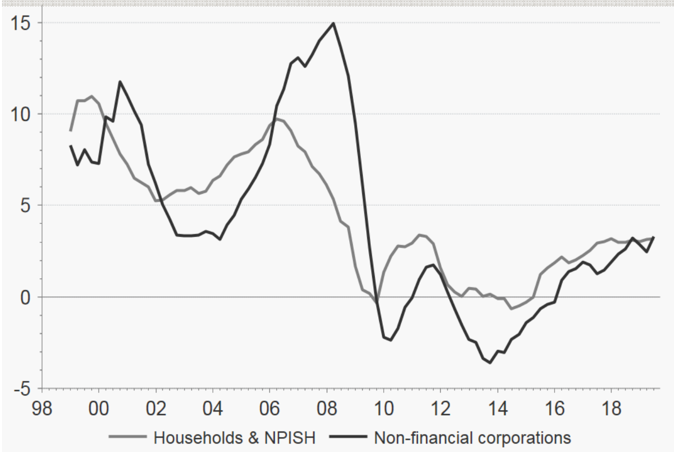
Financial market outlook

Equities (Stoxx Europe): NEUTRAL; (target: 387; exit: 406)
Equity (Euro Stoxx): NEUTRAL (target: 379; exit: 398)
Sovereign debt (Core): UNDERWEIGHT (Bund target: −0.30%).
Peripherals Debt: UNDERWEIGHT (ES 0.5%, IT 1.0%, PT 0.6%, IR 0.0%)
Corporate debt (iTraxx Europe IG): UNDERWEIGHT (target spread: 60)
Corporate debt (iTraxx Europe HY): UNDERWEIGHT (target spread: 300)
Currencies (EUR/USD): NEUTRAL (1.125)

ESCENARIO MACRO BCE

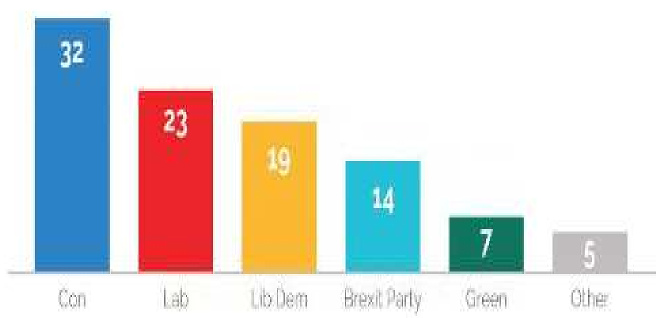
		2019E	2020E	2021E
IPC	sep-19	1,2%	1,0%	1,5%
	jun-19	1,3%	1,4%	1,6%
	jun-19	1,3%	1,4%	1,6%
	mar-19	1,2%	1,7%	1,8%
	dic-18	1,6%	1,7%	1,8%
PIB real	sep-19	1,1%	1,2%	1,4%
	jun-19	1,2%	1,4%	1,4%
	mar-19	1,1%	1,6%	1,5%
	dic-18	1,7%	1,7%	1,5%

Euro area lending by sector
Twelve-month percentage changes



Fuente: Refinitiv Datastream / ANDBANK

Westminster voting intention
If there were a general election held tomorrow, which party would you vote for? %



SPAIN

Data converge towards a eurozone slowdown. Back to the polls.

Economy: Data show convergence with eurozone countries

Perhaps most notable is that all analysts agree on projecting a mismatch for this economy, which is now estimated to end up growing around 1.9% in 2019. The manufacturing sector also comes down (dragged by Germany) while the consumer sector is It also moderates, but holds up to 1.5% yoy. It is important that Spain maintains a growth above 1.5%, since it is the level from which employment is stopped and begins to be destroyed. The good news is that the savings rate has increased, from 5.5% of disposable income at the beginning of the year to the current 8%. that is, we know where the consumption decline has gone. **Data**: Over the summer, some of the data on the Spanish economy have converged towards the slowdown shown by neighboring economies. Most important in this respect was the August employment figure, the worst in the series since August 2009. In contrast, the July consumption data remained strong, with retail sales growing at 3.1% y/y and real estate transactions expanding by 3.8% (although the increase in transactions has been accompanied by a moderation in prices). We will need to keep an eye on the end-of-quarter figures, but everything points to q/q growth of 0.4%-0.5%. Consumer surveys paint a slightly darker picture; consumer confidence, for example, was −6.2 in August, down from −4.9% in July. On the “positive” side, manufacturing industry showed signs of improvement, with the manufacturing PMI ticking up slightly to reach 48.8, after a July figure of 48.2.

Politics

Once again, the political scenario brings fresh elections (the fourth in four years). There is no denying that part of the market could perceive this as a risk, as repeat elections entail uncertainty about the possible outcome. However, we think the risk of a jump in the market risk premium on account of the new elections is low, mainly for two reasons: 1) There has been no legislature, because the far-left party did not enter a government coalition. Some market participants see this as negative. In our investment committee discussions, we continue to consider the formation of such a coalition unlikely in the future. 2) The new elections are expected to see an increase in tactical voting, which, as in 2015-2016, is likely to give more seats to the center parties (PSOE and PP). In that scenario (despite the difficulty of making political forecasts), we believe the opposition parties are more likely to eventually abstain and allow a minority government to form (assuming the results are as the surveys suggest). The last-minute offer by the Ciudadanos party to the PSOE and PP that it would abstain if there were a bottom-line agreement supports our view. Markets could look favorably on such an outcome or, at least, more favourably than they would on a coalition government with Podemos supported by peripheral parties.

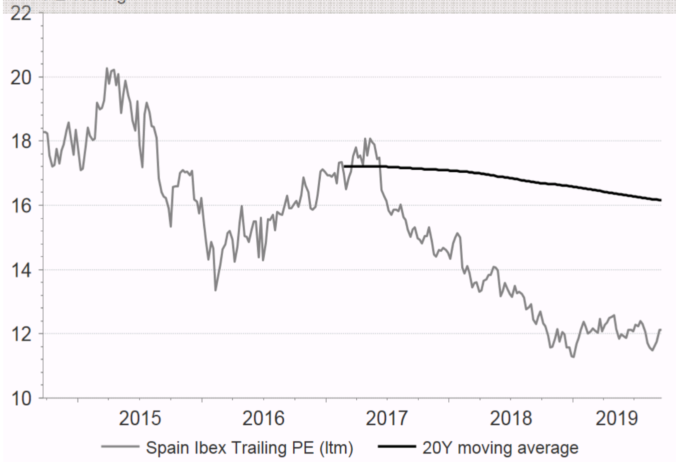
Equity market & Corporate earnings

Business results for Spanish companies in 3Q19 will show growth close to 0% (better than in Europe, where profit growth is negative). The current discount of the Spanish market is due to the fact that it still retains the peripheral seal, and the greater impact that Brexit has on this market, since many of the Spanish blue chips are highly exposed to the United Kingdom (FCC, Ferrovial, Telefónica, Iberdrola , IAG). Banks continues to carry considerable weight in the Ibex 35, accounting for 25% of the index’s capitalization. After the ECB’s latest move, with a further drop in rates but with a relief mechanism in the (negative) remuneration of the deposits held by banks at the ECB, the banking sector’s impact on the index may at least cease to be so negative, especially after the massive sales of bank shares following poor second-quarter performance. At Andbank we maintain our 2019 EPS projection for the Ibex at 754 euros (with very modest EPS growth of around 0.5% y/y). We maintain our target year-end 2019 trailing P/E (LTM) at 12.56x, which represents a significant discount compared to other European markets. We therefore maintain a target price for the Ibex, based on fundamentals, of 9.4 points, with a starting point of 9.900 points.

Financial market outlook

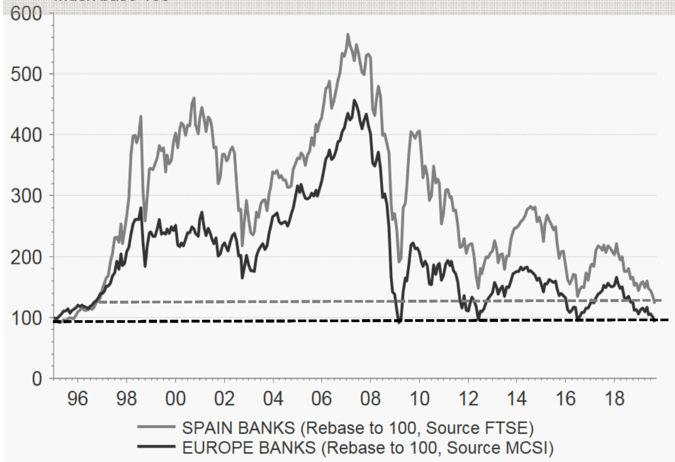
Equities (IBEX): OVERWEIGHT (target: 9,425; exit: 9,900)
Sovereign debt: UNDERWEIGHT (target spread 80 bps, yield: 0.50%).
Corporate debt (IG). UNDERWEIGHT
Corporate debt (HY): UNDERWEIGHT

SPAIN IBEX
PE Trailing



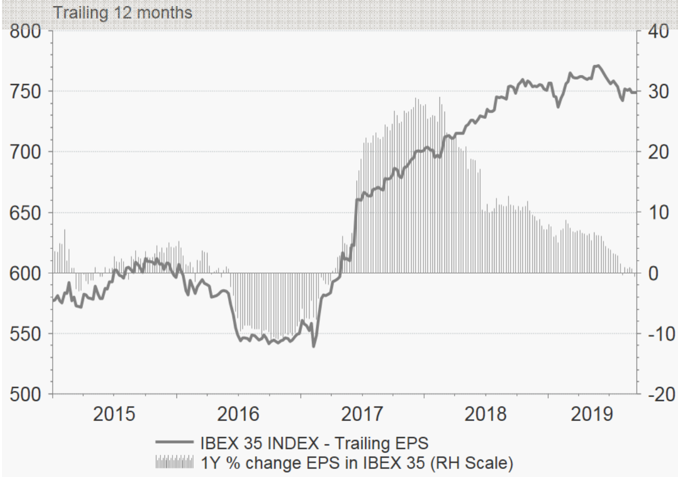
Fuente: Refinitiv Datastream / ANDBANK

BANK INDEX - Spain vs Europe
Index base 100



Fuente: Refinitiv Datastream / ANDBANK

IBEX 35 - EPS
Trailing 12 months



Fuente: Refinitiv Datastream / ANDBANK

JAPAN

Concluding a trade deal with the US

Trade deal may be signed at the end of September

The Tokyo Shimbun has reported that Japan and the United States are closer to reaching a trade agreement and that the agreement could be announced in a joint statement by Japan's Prime Minister Shinzo Abe and US President Donald Trump at a meeting in late September. Japan will reduce or abolish tariffs on US beef, pork and wheat to levels aligned with the Trans-Pacific Partnership (TPP). Under the bilateral trade agreement, Japan will also eliminate its 15% tariff on US wine imports within 5-7 years. The United States will undertake not to impose additional taxes or quotas on Japanese cars, while relaxing restrictions on beef imports. On Tuesday 17, President Trump notified Congress that the US and Japan were ready to sign "a limited agreement" that would reduce some tariffs and set terms for digital commerce. The agreement would not include any currency provision.

Investment in AI reaches record levels in half of top Japanese companies.

According to a Nikkei publication, at least 50% of leading companies in Japan have set aside record amounts for R&D to position themselves in the race against other global leaders for dominance in the field of artificial intelligence and other new technologies. The expenditure budgeted by Japanese firms for next year is reported to amount to JPY 13.2 trn (about USD 122bn).

Activity trend and high frequency data

The Tankan index of manufacturing activity fell to −7 in September (from −4 in August), marking the fourth consecutive month of decline and the worst level since March 2003. The sectors that dragged the index down were the heavy industries: refineries, chemicals and steel mills. The index is expected to recover as December approaches. Meanwhile, the Tankan index for services improved to 19 (from 13), led by wholesalers, retailers, electricity companies and transportation. This index is expected to decline over the next 10 months. In high frequency data we had industrial production, which accelerated in July to +1.3% m/m (from −3.3% the previous month). Production capacity continues to show negative readings on a year-on-year basis (−0.6% y/y). Tertiary sector +0.1% m/m (up from −0.1% the previous month).

Corporate earnings

According to the latest survey, 45% of Japanese companies have been adversely affected by the trade tensions between the US and China. Around 6% have been severely adversely affected. Only 7% claim not to have been affected. This result is worse than the previous month, when 33% said they had been affected, while 8% said they had not been affected.

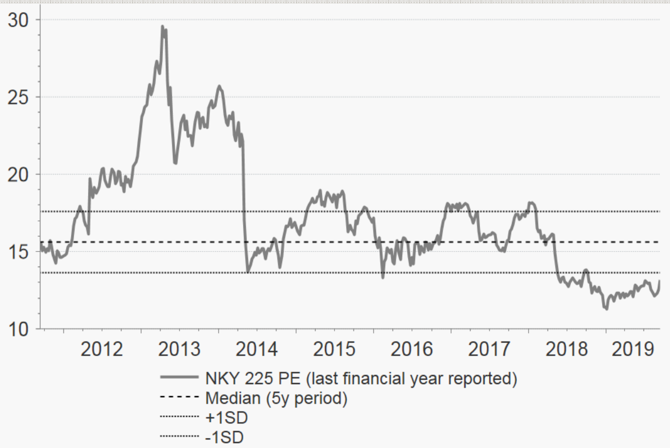
BOJ

According to local sources, BoJ members are discussing ways to move deeper into negative interest rates while minimizing the costs of such a policy. These sources suggest that any move in this direction would be aimed at avoiding an excessive flattening of the yield curve (as an excessive cut in rates at long and super-long maturities would erode bank performance). BOJ is said to be considering adopting this instrument as its main monetary policy tool in response to the slowdown and global risks.

Financial market outlook

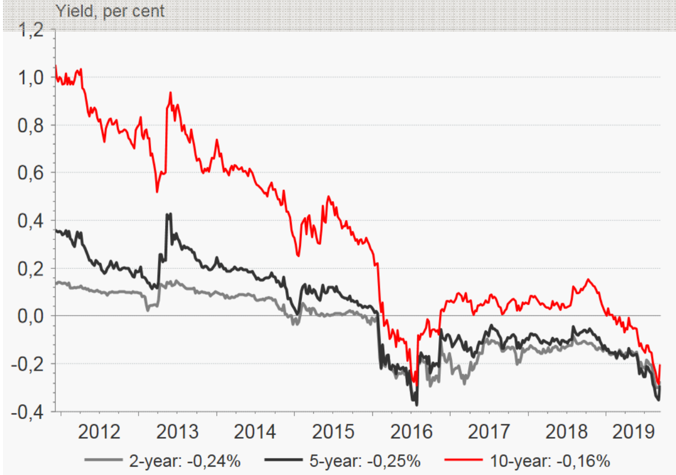
Equities (N225): NEUTRAL/OW (target: 22,250; exit: 22,700)
Sovereign debt: UNDERWEIGHT (yield target: 0.00%)
Currencies (USD/JPY): UNDERWEIGHT (medium-term target: 112)

Japan Nikkei 225 price / earnings
Ratio



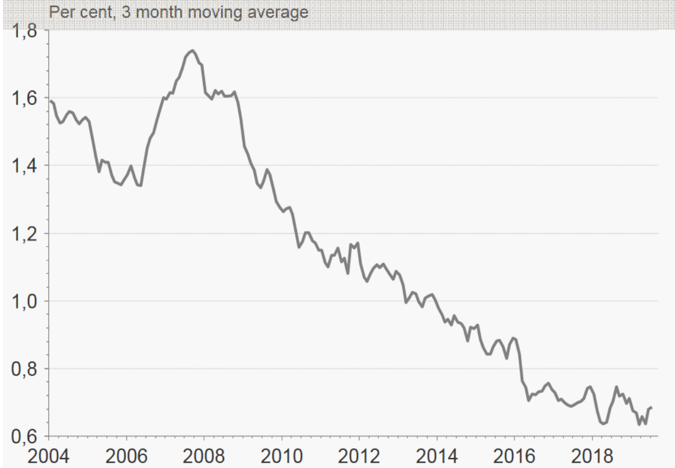
Fuente: Refinitiv Datastream / ANDBANK

Japan benchmark government bonds
Yield, per cent



Fuente: Refinitiv Datastream / ANDBANK

Japan: average prime rate on new loans
Per cent, 3 month moving average



Fuente: Refinitiv Datastream / ANDBANK

CHINA

Substantive changes in the negotiations

Trade dispute

In early September, White House trade advisor Peter Navarro lowered expectations with respect to the China-US trade negotiations, advising investors and businesses to "be patient" about resolving this dispute, which has continued for more than two years. Navarro stressed that "the tariff policy is working well" and insisted that "it is the best defense against China's economic aggression and the best way to ensure Beijing continues to negotiate in good faith." However, on Monday 16 we learned from Politico magazine that, after John Bolton's dismissal, a substantial group of advisers distant from Peter Navarro appear to have seized the reins of the trade agenda and are discussing with Trump the possibility of offering a limited trade agreement that would allow some of the tariffs imposed in the last year to be delayed (or even withdrawn) in exchange for commitments by Beijing on intellectual property and the purchase of American farm produce. It is worth noting in this respect that in the second week of September, Chinese importers made the largest purchase of soybeans of the last three months (10 shiploads, equivalent to 600 tonnes). This working group, made up of trade advisers and diplomats, are supposedly preparing a proposal for discussion in the forthcoming negotiations and are said to want to rescue the terms set out in the previous agreement, which "was 90% settled, until there was an unexpected rift". Meanwhile, the WSJ reported that China is rethinking the negotiations, putting the focus more narrowly on purely trade matters and shifting it away from national security issues, in order to move forward and end the deadlock in the negotiations, which have been stalled since the sale of US arms to Taiwan and which were exacerbated by Beijing's accusation that the US was behind the protests in Hong Kong.

Reforms: Gesture towards financial openness

In a final move to open the country's financial markets, China's State Administration of Foreign Exchange (SAFE) announced plans to abolish quotas for Qualified Foreign Institutional Investors (QFIIs). Even so, institutional investors will still have to apply for investment permits and obtain the approval of the Beijing authorities in order to operate in any of the Chinese investment schemes.

Stimuli: Local government debt issuance accelerates

Beijing has accelerated its stimulus programme to counteract the clear moderation in the pace of activity. Beijing has authorized a further 50bp cut in required reserve ratios (RRRs), with the aim of injecting CNY 800bn into the system, and a 100bp cut in RRRs for commercial banks in the city (releasing an additional CNY 100bn). At the same time, Beijing has ordered local governments to accelerate their debt issuance programmes, requiring them to have issued 100% of the quota set for the year as a whole by September 30 and to have spent 100% of those funds by October 31. By August, local governments had already issued 94% (about USD 407bn) of their quota for the year.

Data:

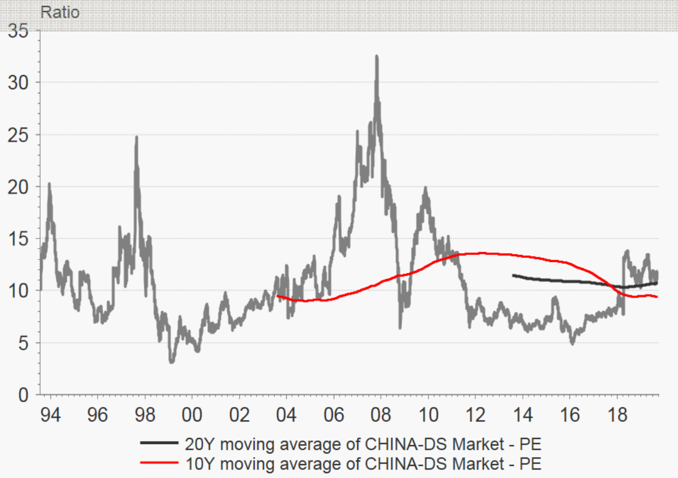
Chinese exports slumped in August (−1% y/y), falling well below the July figure (+3.3%). Imports have also plummeted, with an August reading of −5.6% y/y (maintaining the rate of decline seen in July). The general price index (CPI) remained stable in August at 2.8% y/y. Meanwhile, producer prices remain clearly deflationary, with the latest reading standing at −0.8% y/y (down from −0.3% in July)

In Hong Kong, tourist arrivals dropped 40% y/y in August (deepening the 5% y/y decline seen in July). The anti-government protests are taking a toll on the tourism and consumer sector. Hotel occupancy has plunged 50%.

Financial market outlook

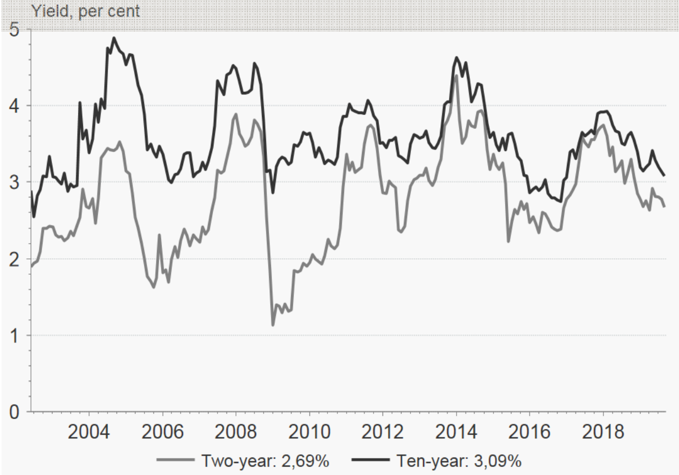
Equities (Shanghai index): NEUTRAL (target: 3,175; exit: 3,240)
Equities (Shenzhen index): NEUTRAL (target: 1,750; exit: 1,800)
Sovereign debt: NEUTRAL (yield target: 3.25%)
Currencies (CNY/USD): UNDERWEIGHT (target: 7.0)

China price/earnings, Datastream index



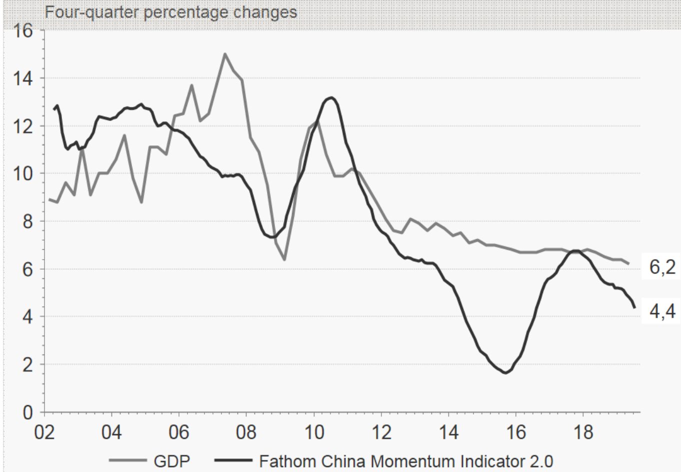
Fuente: Refinitiv Datastream / ANDBANK

China benchmark government bonds



Fuente: Refinitiv Datastream / ANDBANK

China - GDP and Activity Proxy



Fuente: Refinitiv Datastream / ANDBANK

INDIA

Modi does a U-turn and withdraws capital gains tax

The Modi government seems to have realised that there is a problem in the economy and is now trying to lift the country's mood with a raft of measures

The Modi government finally understood that some kind of monetary stimulus was needed (after the fiscal restraint it had been imposing) and allowed the central bank to inject USD 25bn of liquidity. Modi accompanied the move with the statement that he has "a plan to accelerate growth". India's GDP for the first half of 2019 was a "poor" 5% y/y. Although that still represents remarkable growth, it is the slowest rate seen in the last six years. More worrying is that it marks five successive quarters of deceleration. This level of growth is lower than would be required to create the volume of jobs needed to absorb the number of people joining the labour market (either through migration from the countryside to the city or through labor force growth for purely demographic reasons). India needs to create one million new jobs a month but is far from doing so. Half of India's 1.35 billion people are under the age of 25 and India is in danger of losing that "demographic dividend". The Finance Minister defended herself against criticisms relating to the slowdown, arguing that India is in the middle of a major banking consolidation, in which 10 public sector banks (some with long-standing problems) will merge to form four public sector mega-banks. Banking reform has limited the scope for other measures that would have accelerated growth and that now are being proposed within the framework of a growth strategy. These measures include: 1) The abolition of a tax surcharge on foreign investors. 2) An injection of INR 700bn (USD 9.7bn) of public money into state-owned banks. 3) A government-sponsored car buying programme. 4) The liberalization of investment property acquisition by foreigners.

Assessment of these economic reforms and measures

This package may seem impressive, but while it may boost economic growth, we cannot ignore certain negative aspects. Since the package was announced, foreign investors have made withdrawals totalling USD 1bn, suggesting the measures may not have impressed the market. And although the government is proud of the banking consolidation, a merger of oversized banks is unlikely to bring much benefit if the government refuses to undertake a resizing. Meanwhile, Modi holds fast to his goal of turning India into a USD 5trn economy by 2024. That would require nominal GDP growth of 11% (compared with an average of 8% over the past five years). In recent years Modi has had to battle with major reforms that have weighed on growth (GST reform, Bankruptcy Code, etc.) and now that those reforms are complete, the time seems right for an acceleration. But in order to increase the real growth rate from 5% to 7.5% in the years ahead, Modi will have to very actively capitalize on the offshoring taking place in China. Looking back objectively, six years after the launch of his "Makee in India" campaign, Modi has so far failed in his attempt to increase domestic manufacturing as a proportion of GDP to 25% (it remains stubbornly stuck at 16%). Allowing 100% foreign capital in manufacturing projects is undoubtedly a positive step, but it needs to be backed by the removal of certain (archaic) labor restrictions and permission to purchase industrial land, if the country wants to compete on even terms with Vietnam or Bangladesh. For the time being, India's 28 states have a major say in these matters.

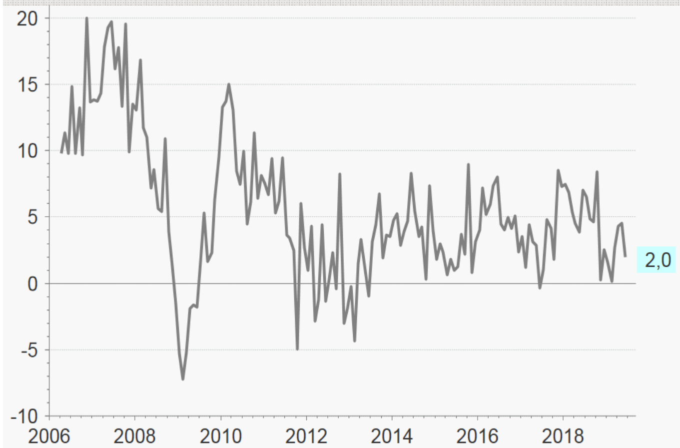
Market view

India's Sensex index lost more than half of the 10% gain achieved in the middle months of the year. We believe that the main factor behind the recent fall is the government's decision to impose a capital gains tax, which led to the withdrawal of international funds. The government recently decided to back down and withdraw that tax, in a U-turn that could help recover lost ground.

Financial market outlook

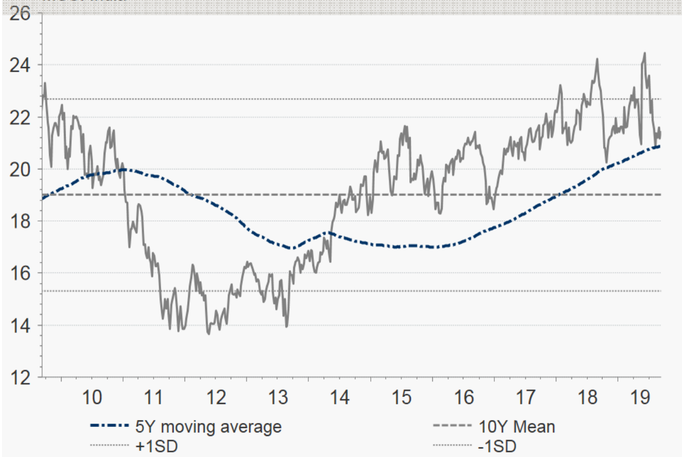
Equities (SENSEX): NEUTRAL/OW (target: 40,023; exit: 42,000)
Sovereign debt: OVERWEIGHT (target yield: 5.75%)
Corporate debt: OVERWEIGHT
Currencies (INR/USD): UNDERWEIGHT (target: 72)

India industrial production
Twelve-month percentage change



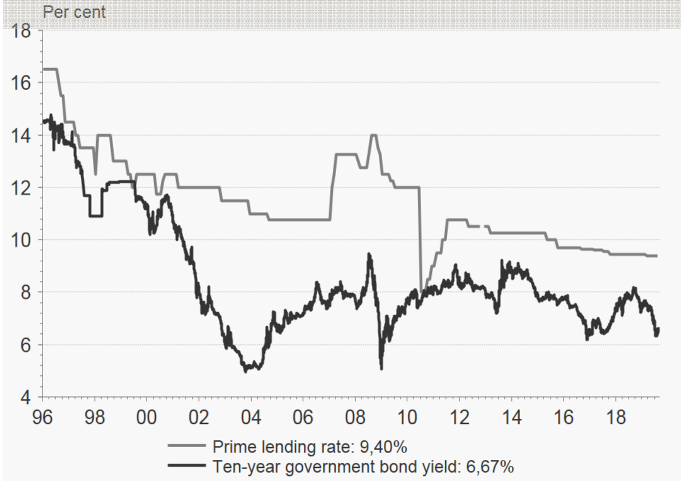
Fuente: Refinitiv Datastream / ANDBANK

PE - India
MSCI India



Fuente: Refinitiv Datastream / ANDBANK

India interest rates
Per cent



Fuente: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

ISRAEL

The equity market is at fair value. The debt market seems expensive.

Political environment and macroeconomic situation

Given the inability to form a government, the State of Israel held new elections (for the second time this year). According to the result, the relative strength of the parties remain unchanged, so that the two largest parties could have no choice but to form a "government of national unity", although this option now seems to be quite difficult, especially after the positioning of the Gantz Blue and White formation, which considers that the "essential preconditions required" are not given and that Netanyahu cannot lead a government while facing criminal charges. Traditionally, this option has resulted in a reduction in budget spending and a recovery of the budget deficit. On the economic side, the domestic data published during the summer show a positive reading overall and good economic performance. This may explain why inflation rose 0.2% in August, up from 0.1% in July. Turning to the external sector, exports totaled ILS 15.3bn in August (slightly above the July reading), suggesting that the external environment for Israeli exporters remains relatively calm. The increase in export sales was due to an increase in shipments of electronic components, but also of more traditional goods. The positive trend in GDP in the second quarter (+4.8%) is expected to continue into the third quarter. Imports, in contrast, fell more sharply, leading to a marked improvement in the external balance, which reduced financing needs by some ILS 4bn in the month. In annual terms, the external balance remains stable.

Equity market

The Israeli market also benefited from cooler rhetoric from the Chinese and American leaders, coupled with better results in most companies. From the start of the month (until 18 September), the TLV125 index rose 2.9% against the background of widespread increases in other US equity markets. The increase was driven by financial sector shares and the good performance of some leading biomed sector shares, such as Teve, Perrigo and Opko. The main theme for Israel's equity index has been the influence of the elections to the Israeli parliament, which took place on September 17. The results gave no significant victory to either of the two political blocs (the right-wing bloc led by the Likud party and the centre-left bloc led by the Blue and White party). Without a clear victory, investors' assumption is that the only alternative is to form a unity government (leaving the Orthodox parties in opposition) and take action to reduce the growing government deficit. The Israeli stock market has gained 9.7% in the year to date and appears to be trading at fair value, with a P/E ratio just above its 10-year moving average. We maintain our (neutral) market exposure recommendation and believe that the real estate and banking sectors will continue to outperform the other sectors of the market.

Fixed income market

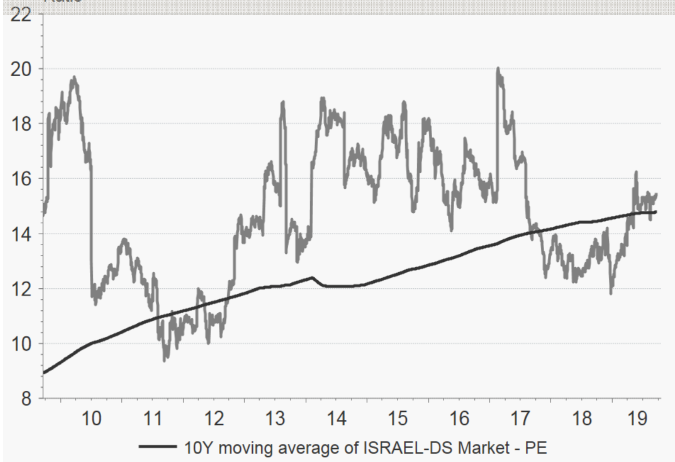
After the global decline in government yields, which drove the Israeli yield curve to a new record low in the 10-year local currency bond, which fell to a low of 0.84%, the bond yield rose sharply to 1.1%, before aggressively falling back to the current level of 0.78%. The Israeli yield curve was and remains the most pronounced yield curve of all developed countries. The 28-year bond yields around 2.3% (compared to 2.05% last month), which means that, combined with a strong Shekel, it is not a bad investment alternative, at least compared to European ultra-long sovereign debt, which trades at an almost negative yield. The credit spread on Israel's Tel-Bond 60 investment grade index widened by around 10 bps to 1.25%, while the credit spread on the Tel-Bond-Tsuot high yield index increased by about 20 bps to 2.9%. Our outlook for the Israeli bond market remains generally cautious, due to high valuations (the 10-year bond's real yield stands at 0.24%, very close to record low levels). We recommend a duration of 3-3.5, with a preference for investment grade rather than high yield corporate bonds (which we consider expensive).

Financial market outlook

Equities (TLV35 index): NEUTRAL ("at fair value")

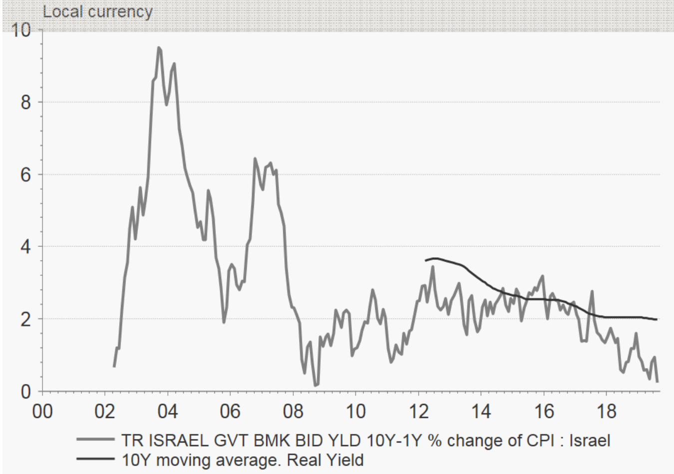
Sovereign debt (10-year USD bond): UNDERWEIGHT (real yield: 0.79%).

Israel price/earnings, Datastream index
Ratio



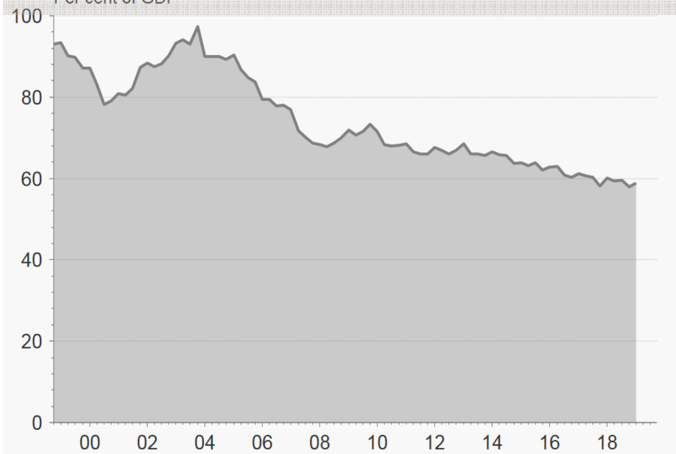
Fuente: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Fuente: Refinitiv Datastream / ANDBANK

Israel central government debt
Per cent of GDP



Fuente: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACROECONOMY

BRAZIL

Economy starts 3Q19 at slightly stronger pace. Markets fully valued

Economy:

The GDP figure for 2Q19 was better than expected, putting growth at 0.4% q/q (1.0% y/y), in the upper range of all the estimates (0.2% q/q; 0.7% y/y). Even so, the data suggest the economy is slowly moving forward. The composition of the change points to slightly stronger manufacturing (supply side) and investment (demand side), contrasting with the poor results seen in previous quarters. Investment ratios have moved upwards from depressed levels, reaching 16.2% (in the last 12 months). Although the July figure was not good (−0.3% m/m; or −2.5% y/y), still held back by weak global manufacturing momentum, high frequency data on productive investment point to a gradual recovery of industry during 3Q19.

On the services side, one day after figures showed that retail sales had seen their biggest increase of the year in July, the government statistics agency, IBGE, reported that service sector activity had increased 0.8% m/m and 1.8% y/y, in both cases well above forecasts. The official figures are an indication that Latin America's largest economy started the third quarter on a somewhat sounder footing than the previous quarter. It should be noted, however, that the surge in services (the largest sector of the Brazilian economy) follows a particularly weak June, when the rate of growth fell sharply. Even so, the July figures were much stronger than expected by economists, whose average growth forecasts were flat for the month and 0.2% for the year as a whole. Moreover, the IHS Markit purchasing managers survey showed that the services sector expanded in August for the second month in a row, although the pace of growth slowed. Confidence has been steadily improving, driven by the reform agenda, despite the worsening international environment. In light of the data, the government has slightly raised its economic growth forecast for 2019, to 0.85%, and Ministry of Economy officials say the economy has put the worst behind it.

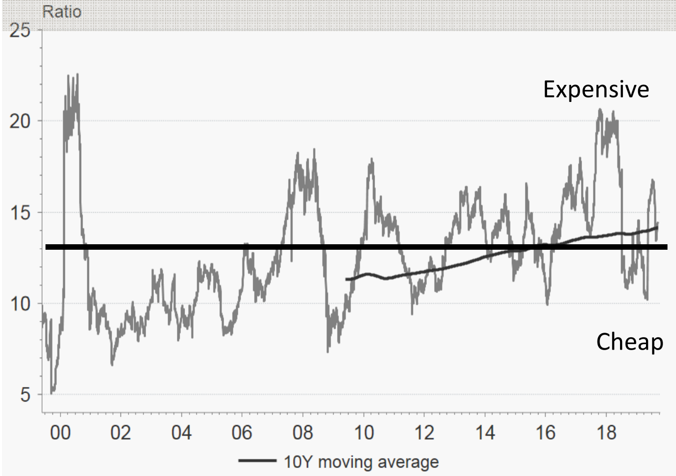
Markets remain buoyant with the pension reform under way. Now, delay in the tax reform may hold the economy back

Brazilian assets have surfed the challenging August financial wave relatively well. Appetite for Brazilian assets revived recently, partly thanks to an easing in the international environment. The Ibovespa index has risen 8.241% since August 26 (as of the date of this report), while the 10Y local currency bond has made up all the ground lost in August (with the yield falling from 7.6% to 7.30%), with the help of data that still show no acceleration, but above all thanks to inflation, which remains very well anchored. These data encourage the idea that the BCB could make further interest rate cuts this year (in fact, at the time of writing, the BCB announced a 50bp cut in the Selic rate, to 5.50%). At Andbank we believe there may be further cuts to bring the Selic rate to 5%. The reason for this opinion is that we continue to see a very benign inflation environment in the Brazilian economy, especially after the August HICP, with prices rising a mere 0.11% m/m. Average expectations for underlying inflation are below 3.25% saar (well below the BCB's own target). On the not-so-positive side, the leader of the government in the Senate said on September 12 that tax reform is likely to be delayed and may not be approved until the second half of 2020, despite the broad consensus that tax regulations need to be simplified. The reason given is a delay in the submission of the draft by the ministry itself, as well as differences between the two chambers. We believe this could hurt Brazilian assets, though not very severely. In forex, the BCB will continue to intervene in a very moderate way, having resumed spot sales of dollars after a 10-year gap.

Financial market outlook

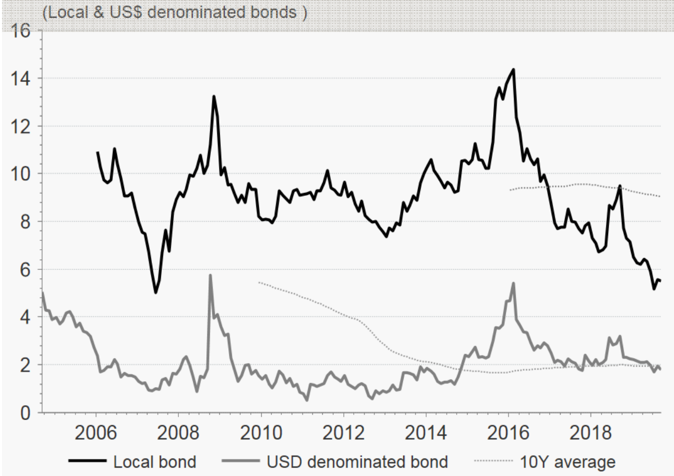
Equities (IBOVESPA): NEUTRAL (target: 102,600)
BRL sovereign debt (10Y): UNDERWEIGHT (target spread: 600bps)
USD sovereign debt (10Y): NEUTRAL (target spread: 200bps)
Currencies (BRL/USD): OVERWEIGHT (medium-term target: 3.75)

Brazil price/earnings, Datastream index
Ratio



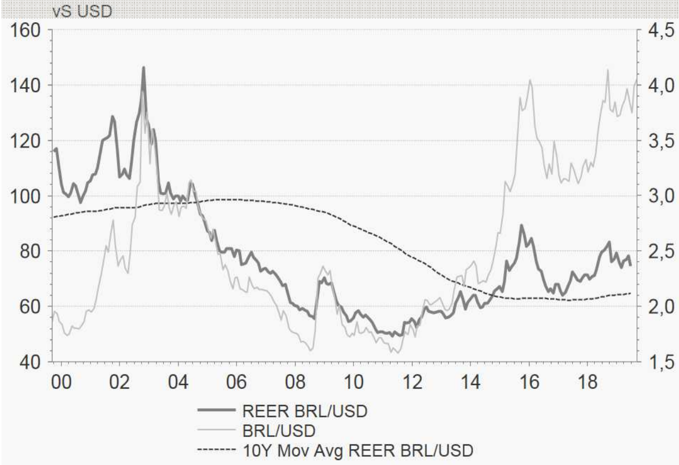
Fuente: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST
(Local & US$ denominated bonds)



Fuente: Refinitiv Datastream / ANDBANK

BRAZILIAN REAL - REER
vS USD



Fuente: Refinitiv Datastream / Fathom Consulting

ANDBANK Private Bankers

MEXICO

Investors welcome Pemex bailout

Central bank

The central bank reduced its benchmark rate by 25 bps in a split decision, with one committee member voting to hold the rate at 8.25%. The decision was made in an environment in which Banxico cut its growth projections but acknowledged that underlying inflation has not yielded. The current trend of interest rate cuts at global level weighed heavily in the decision. The odds on a further rate cut (ahead of the September 26 meeting) have remained at 50/50. It could depend entirely on the decision of the US Fed.

Economic data and inflation

The growth outlook for 2019 continues to shrink, as international agencies such as the IMF, Banxico, and now the federal government (through the budget) cut their forecasts. The median is 0.5% for 2019 and 1.3% for 2020. May inflation in Mexico fell to 3.29% on an annualized basis. Most of the downward effect is the result of the decline in non-underlying items, in particular agricultural goods and gasoline.

Political risk and public finances

2020 budget: Although the GDP estimate for 2019 has been cut, the budget projection for 2020 is still well above the median (2.0% vs 1.3%e), with fairly substantial expected growth in oil production (1.95 mdbd 2020 vs 1.6 mdbd today), as a result of Pemex's Business Plan, and the rest coming from private sources. Congress will be asked to breach the Budget Responsibility Act by 0.3% to reach a deficit of 2.7% in 2020 in the public sector borrowing requirement. The expected primary surplus has been cut from 1.3 to 0.7 percent. The final figure could be worse, as the revenue estimates look optimistic (tax revenue +3.7%). Lower spending, particularly on infrastructure. The government subsidies portion, which is where government projects are concentrated, fell 5.4%

Equity market (IPC stock index)

After corrections eliminated the double-digit stock market gains, the index recovered between the end of August and the first weeks of September in response to the perception of lower risks in relation to domestic policy and the international context. Internal and external risks are still recognised, especially the economic slowdown, which requires focusing management of this index on a selection of defensive issuers. Latent risks remain regarding the implementation of economic policy by the AMLO administration and possible rating action by the agencies, particularly on account of spending decisions relating to Pemex. We maintain our reasonable fundamental range for the IPC index (42,000-46,500),

Mexican fixed income (sovereign bonds)

During August, after Banxico's recent reference rate cut, the curve fell by 30 to 40 basis points across all yields. The prospect of further cuts by the central bank, bearing in mind that any such decision is likely to follow a rate cut by the Fed, could maintain the spread and thus the attractiveness of peso-denominated bonds. The duration gains in debt portfolios increased in August to take advantage of the downward shifts in the curve, which remains inverted. The targets for the 10-year bond in pesos and in dollars remain unchanged. We maintain a target spread for Mexican vs. US Treasury bonds of 500bps for the peso-denominated bond and 175bps for the USD-denominated bond.

Financial market outlook

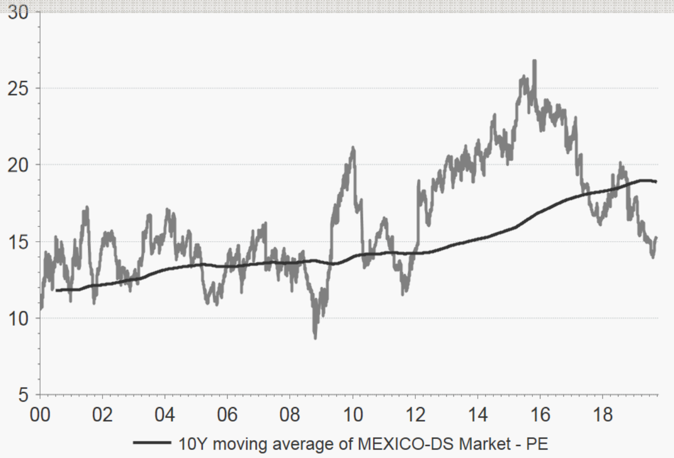
Equities (IPC Mexico): NEUTRAL-OVERWEIGHT (target: 43,000; exit: 45,400)

Sovereign debt in MXN: OVERWEIGHT (target spread: 500 or 7.0% yield)

Sovereign debt in USD: NEUTRAL (target spread: 175 or 3.5% yield)

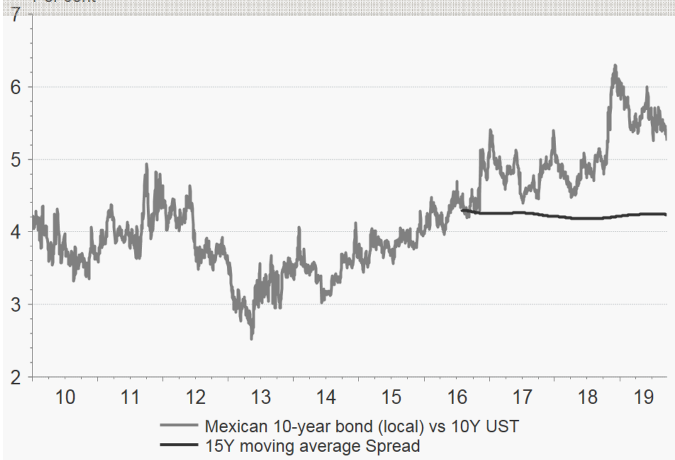
Currencies (MXN/USD): Neutral (medium-term target: 20.00)

Mexico equities price/earnings ratio
Datastream index



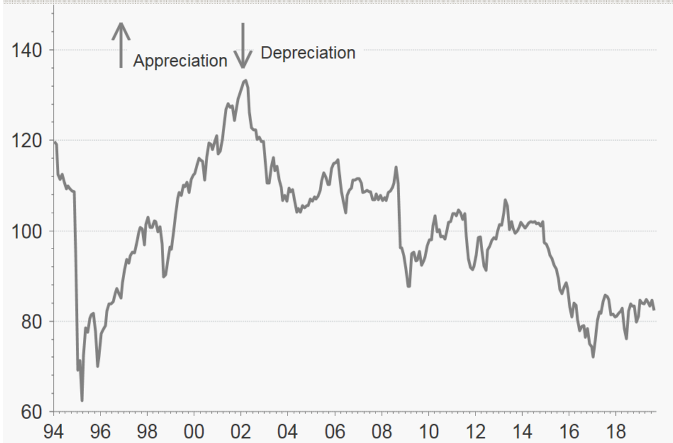
Source: Refinitiv Datastream / ANDBANK

Mexico Spread vs UST
Per cent



Source: Refinitiv Datastream / ANDBANK

Mexico real broad effective exchange rate
Index



Source: Refinitiv Datastream / ANDBANK

ARGENTINA
Absolute uncertainty

Political risk has cut short the favorable developments observed previously

Contrary to the predictions of all political consultants, Macri's candidacy was soundly defeated in the PASO primaries, with the Peronist Fernández-Fernández ticket winning by 47.78% vs. Macri's 31.79%. Only a month has gone by since the primaries, but it seems an eternity. The government's monumental defeat left the chances of re-election close to zero. The fear that "Kirchnerism" might return to power led to one of the fastest and most extensive destructions of wealth in recent decades, with falls of close to 40% for bonds and with the value of shares halving in just one day. Added to the electoral result was the lack of cooperation on both sides to calm the markets, with Fernández giving mixed signals as to the policies and decisions he might adopt with respect to the debt and with the government acting erratically. The government was forced to take a number of steps to avoid collapse: (i) a rescheduling of short-term debt; (ii) the announcement of a willingness to extend sovereign debt maturities under local (via Congress) and foreign (via CACs) legislation and the IMF; (iii) the introduction of exchange rate and capital controls; iv) a price freeze (90 days for fuel); and v) tax cuts (0% VAT on a basic basket). The dollar exchange rate was stabilized but, as expected, the exchange rate gap between the official dollar and the parallel dollar (the exchange rate implicit in the price of locally quoted shares and ADRs) abruptly widened, reaching nearly 24%. At the moment, the bill to extend debt maturities under local legislation has collapsed, while international creditors seem more focused on listening to Fernández than to the current government. Lastly, the IMF disbursement (USD 5.4bn), scheduled for mid-September, is unlikely to materialize before the final elections, which will further complicate the government's liquidity management.

The dollar surge started to be transferred to prices, with an abrupt, uncontrolled increase

Inflation jumped again in August (+4% m/m, 54.5% y/y), as a result of the devaluation after the primaries, putting an end to the downward trend of the last four months, in which inflation hit a low of 2.2% m/m in July. The items with the highest increases in the August CPI were food and non-alcoholic beverages (4.5%), despite the VAT deduction on the products in the basic basket. September inflation is expected to come in above 6%.

Deposit withdrawals do not appear to point to a risk in the banking system

The stock of deposits reached USD 22,526m (12/09), a drop of 30.6% (-10,570m) if we take as reference the value on the day before the PASO primaries (32,499m). Factors in Argentina's favor include the banks' currently high liquidity reserves and the fact that the remaining dollars were used to extend short-term loans to export firms.

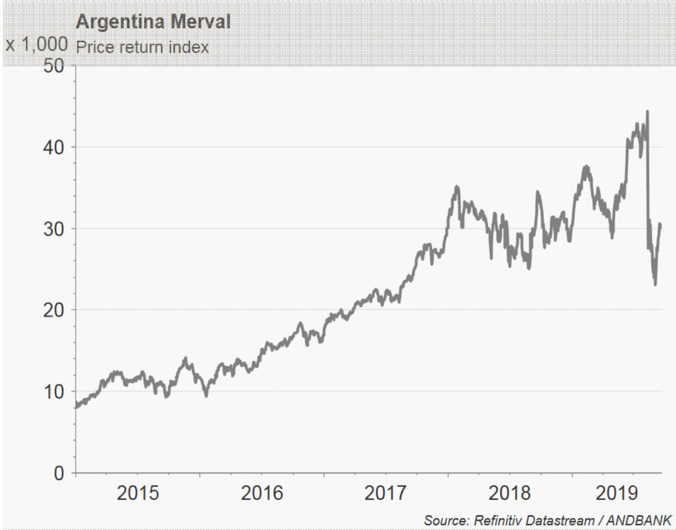
Forecast

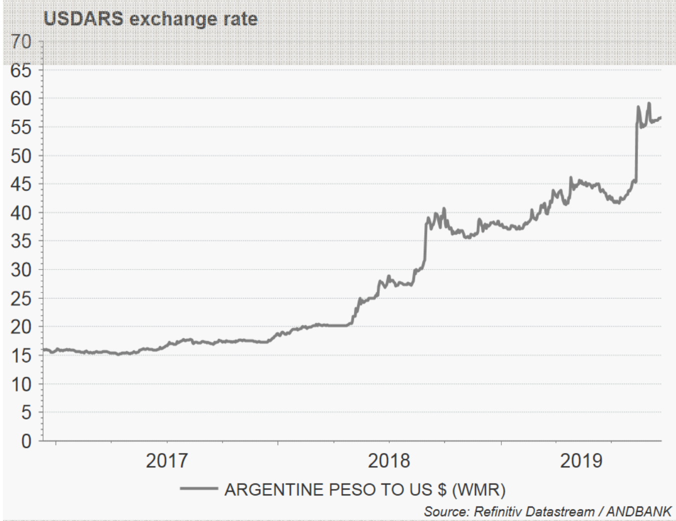
We foresee a renegotiation of the loan with the IMF (aimed at converting it from a Standby to an Extended Facility), so as to extend payment terms by 7-10 years. According to IMF sources, despite the chaos, the new president who takes office on 10 December will find the country in better fiscal and macroeconomic shape, albeit very "noisy". The current situation seems to bear little resemblance to the tragedy of 2001 (14% decline in GDP). The current problems may be due partly to Argentina's having taken too long to rebalance its public finances and then having gone to the IMF too late, all this coupled with a terrible drought in 2018, which drastically reduced agricultural volumes and the amount of dollars flowing into the economy. Already in 2019, after reforms were implemented, we have seen the first signs of containment of inflation and stabilization of the economy and the markets, although the result of the PASO primaries has stoked investors' fears of a new Peronist government and the consequent suspension of fiscal and monetary rationalization policies.

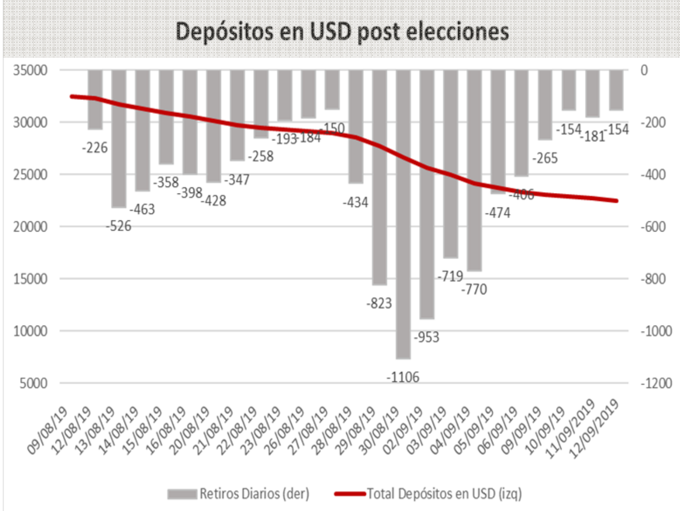
Financial market outlook

Sovereign debt (10-year USD bond): HOLD

Currencies (USD/ARS): UNDERWEIGHT (target for year-end 2019: 70)







GLOBAL EQUITY INDICES

Fundamental analysis

Index	Andbank's Sales growth 2019	Sales per Share 2019	Projected Net Margin 2019	EPS 2019	EPS Growth 2019	Current PE fw EPS 2019	Dec 2019 PE ltm EPS 2019	INDEX CURRENT PRICE	2019 Central Point (Fundam range)	2019 E[Perf] to Centr. Point	2019 Exit Point
USA S&P 500	5,5%	1.419	12,3%	174	6,2%	16,78	16,67	2.919	2.900	-0,7%	3.100
Europe - Stoxx Europe 600	5,3%	322	8,2%	26	1,1%	14,43	14,70	380	387	1,9%	406
Euro Zone - Euro Stoxx	3,4%	354	7,4%	26	1,0%	14,28	14,50	374	379	1,5%	398
Spain IBEX 35	3,5%	8.075	9,3%	754	0,4%	11,96	12,50	9.016	9.423	4,5%	9.895
Mexico IPC GRAL	6,7%	37.453	7,8%	2.921	-0,8%	14,55	14,80	42.502	43.236	1,7%	46.478
Brazil BOVESPA	7,1%	66.644	10,6%	7.080	8,1%	14,30	14,50	101.249	102.663	1,4%	112.929
Japan NIKKEI 225	5,6%	22.928	6,3%	1.445	3,1%	15,24	15,40	22.020	22.250	1,0%	22.695
China SSE Comp.	7,7%	2.965	9,3%	276	11,9%	10,67	11,50	2.948	3.176	7,7%	3.240
China Shenzhen Comp	8,2%	1.603	6,3%	100	14,6%	16,25	17,50	1.632	1.757	7,7%	1.792
India SENSEX	9,4%	18.689	10,7%	2.001	14,2%	18,93	20,00	37.880	40.023	5,7%	42.024
Vietnam VN Index	8,4%	690	9,0%	62	10,8%	15,85	16,50	987	1.028	4,1%	1.079
MSCI EM ASIA	7,3%	488	9,7%	47	12,6%	10,62	11,60	502	548	9,2%	576

UPWARD REVISION DOWNWARD REVISION ANDBANK ESTIMATES

INTERNATIONAL FLOWS (monthly)

By asset class and by region

FLOWS BY ASSET TYPE - AS OF 08/31/2019

1D 1W 1M 1Y

NORTH AMERICA

Asset Type	Flow $B
Money Market	81.81
Bond	22.95
Mixed Assets	-2.31
Other	-2.57
Equity	-41.15

EUROPE

Asset Type	Flow $B
Money Market	44.88
Bond	32.14
Mixed Assets	-0.21
Other	-0.84
Equity	-25.55

ASIA

Asset Type	Flow $B
Equity	6.78
Mixed Assets	1.2
Other	1
Bond	0.93
Money Market	-4.73

GLOBAL

Asset Type	Flow $B
Money Market	122.81
Bond	61.62
Mixed Assets	36.03
Other	-2.1
Equity	-53.72

ANALYSIS OF POSITIONS, FLOWS AND CONFIDENCE

Assessment: Neutral.
Final: 0.5 (in a range of ±7)

Positioning (Small short bias): Asset allocation in equity is in the neutral area, combined with a negative signal on the put-call ratio, which indicates that investors keep hedging their portfolios but at a low level (contrarian). Skew in neutral territory indicates that investors do not expect a violent downside movement.

Flows (positive): Important flows towards US equity indicate a bullish momentum in equity markets on reduced tensions with China, which also had some inflows (to a much lower extent). There were small positive flows toward Europe and the UK as a consequence of Brexit developments and ECB announcements.

Sentiment (neutral): Neutral stance from investors.

In aggregate, most of the indicators remain in a neutral stance, suggesting there is no stress situation in global equity markets (not overbought).

.

TECHNICAL ANALYSIS

Trending scenario.
Supports and resistances (1 month)

S&P: LATERAL
Support: 2,822. Resistance: 3,028

STOXX600 BULLISH
Support: 369. Resistance: 395

EUROSTOXX: BULLISH
Support: 358. Resistance: 387

IBEX: SIDEWAYS-BEARISH
Support: 8,592. Resistance: 9,453

EUR-USD: BEARISH
Support: 1.08. Resistance: 1.12

Oil (WTI): SIDEWAYS-BULLISH
Support: 52.8. Resistance: 66.6

US Treasury bonds: SIDEWAYS
Support: 1.4%). Resistance: 2.15%
(from a yield perspective).

DEVELOPED MARKETS

Fundamental analysis

USA Treasury: floor 1.75%; fair value 3.0%; ceiling 3.25%

Swap spread: The swap spread narrowed to −10bps (from −5bps last month). For the spread to normalize at +4bps (10Y average), with the swap rate anchored in the 1.75% area (in line with our inflation expectation of 1.75%-2%), the 10Y UST yield would have to move to 1.75%-1.95%.

Slope: The slope of the 10Y UST yield curve flattened to 4bps (from 20bps last month), with the short end normalizing towards 1.75% (current value: 1.71%). To reach the long-term average slope (150bps), the 10Y UST yield would have to move to 3.25%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 1.75%-2%, the UST yield would have to reach 2.75%-3% to become a "BUY".

German Bund: floor 0.60%; fair value 1.25%; ceiling 2%

Swap spread: The swap spread narrowed to −33bps (from −43bps last month). For the swap spread to normalize at +37bps, with the swap rate anchored in the 1.00% area (today at 0.06%), the Bund yield would have to move towards 0.63% (entry point).

Slope: The slope of the EUR curve flattened to 25bps (from 39bps last month). If the short end of the yield curve normalizes in the 0% area (today at −0.71%), to reach the 10Y average yield curve slope (124bps) the Bund yield would have to move to 1.24%.

Real yield: A good entry point in the Bund would be when the real yield hits 1%. Given that our CPI forecast is 1.0%, the Bund yield would have to rise to 2.0% to become a "BUY".

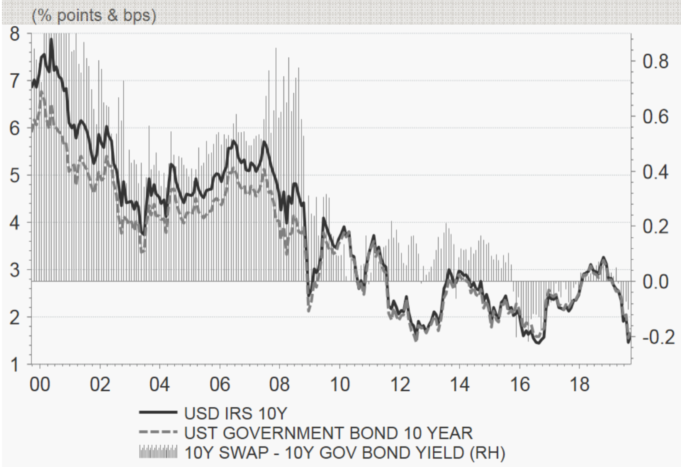
UK Gilt: floor 1.9%; fair value 2.5%; ceiling 3.0%

Swap spread: The swap spread narrowed to −33bps (from −43bps last month). For this swap spread to normalize at +11 bps, with the swap rate anchored in the 2% area (today at 0.80%), the 10-year UK Gilt yield would have to move towards 0.63% (entry point).

Slope: If the short end of the yield curve normalizes in the 1% area (today at 0.33%), to reach the 10Y average yield curve slope (150bps) the Gilt yield would have to move to 2.5%.

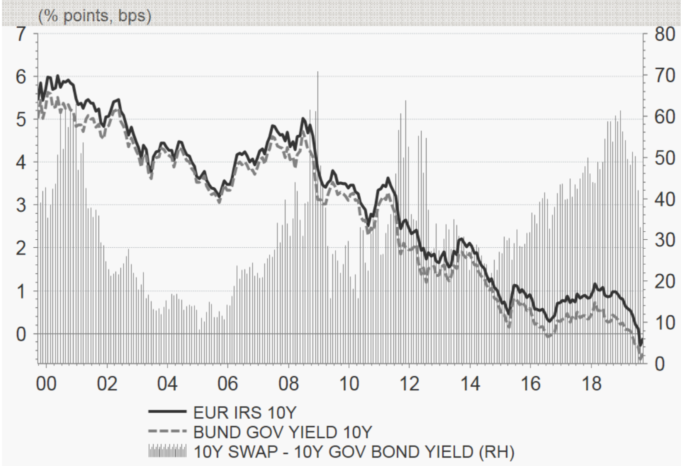
Real yield: Inflation is expected to ease to 2.0% in 2019. A real yield of 1% means the 10Y Gilt yield should move to 3.0%.

SWAP SPREAD USD



Source: Refinitiv Datastream / Fathom Consulting

SWAP SPREAD EUR



Source: Refinitiv Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets: 10Y yields

Spanish bond: Target yield: 0.50%

Italian bond BTPI: Target yield: 1.0%

Portuguese govt. bond Target yield: 0.6%

Irish govt. bond Target yield: 0.00%

Greek govt. bond Target yield: 2.45%

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 1.50% above the UST real yield.

Assuming that the first condition is met, we should buy only those EM bonds that offer a real yield of 2.50% or more. Markets (and government bonds) that meet these requirements are shown with a grey background.

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	7,24%	3,39%	3,85%	-1,00%	6,24%
EM ASIA	India	6,68%	3,20%	3,48%	-1,00%	5,68%
EM ASIA	Philippines	4,67%	0,90%	3,77%	-1,00%	3,67%
EM ASIA	China	3,10%	2,80%	0,30%	0,00%	3,10%
EM ASIA	Malaysia	3,38%	1,54%	1,84%	-0,50%	2,88%
EM ASIA	Thailand	1,46%	0,34%	1,11%	-0,50%	0,96%
EM ASIA	Singapore	1,64%	0,48%	1,15%	-0,50%	1,14%
EM ASIA	South Korea	1,37%	-0,42%	1,80%	-0,50%	0,87%
EM ASIA	Taiwan	0,68%	0,44%	0,24%	0,00%	0,68%
EME	Turkey	14,15%	9,26%	4,89%	-1,00%	13,15%
EME	Russian Fed	6,69%	4,00%	2,69%	-0,75%	5,94%
LATAM	Brazil	6,89%	2,92%	3,97%	-1,00%	5,89%
LATAM	Mexico	6,71%	3,03%	3,68%	-1,00%	5,71%
LATAM	Colombia	5,76%	3,75%	2,00%	-0,75%	5,01%
LATAM	Peru	4,66%	1,85%	2,81%	-0,75%	3,91%

ENERGY – OIL

Fundamental opinion (WTI): Target band: USD 50-70/barrel.

Buy below USD 50; sell above USD 70.

Short-term drivers

(Price-negative) – The historic agreement between China and Iran will put a large amount of Iranian crude oil on the market. Under the agreement, Tehran will sell cheap oil to China in unlimited quantities. Through this agreement, China has made it clear that it could soon buy up to 2.2 mbpd of Iranian crude oil (a giant leap from the 0.2 mbpd it has been buying until now). In return, Tehran will receive USD 80bn worth of Chinese investment over five years to modernize Iran's energy infrastructure. To secure its investments, China will deploy some 5,000 people in the field. The international price of oil could come under severe pressure, due to the increase in the supply in the global market (from Iran) and the significant discount on that new supply.

(Price-negative) – The agreement between China and Iran poses the clearest challenge yet by any nation to international sanctions regime and would complicate the resolution of the trade dispute. In response to this agreement, the US could increase pressure on Huawei and the Chinese technology sector as a whole, or even further increase tariffs, which in turn would weigh heavily on global growth and inflation expectations, thus driving crude oil prices down. We may be inclined to think that Beijing will have accepted by now that a trade agreement is virtually impossible, and that now is the time for the counterproductive policy of "we'll be better off taking the least bad option". Which is still a bad option.

(Price-positive) – Could this agreement between Beijing and Tehran break the trade deadlock? Through this agreement, Beijing could be seeking the "card" it needs for the negotiations. In every negotiation it is important to have a card up one's sleeve and Beijing can now offer to scrap the Iran agreement when negotiating a trade deal with the US.

(Price-positive) - Saudi Arabia dismisses oil minister Al-Falih. Seeing the implications of the agreement between Beijing and Tehran, Riyadh reacted quickly by firing the "all-powerful" oil minister, Al-Falih, who was appointed in 2016 precisely to coordinate the strategy with OPEC and other countries such as Russia with a view to raising the international oil price, solve the country's chronic deficits and at the same time facilitate the sale of the energy company Aramco. In his place, the Saudis have appointed a relative of Prince Mohamed bin Salman (who is clearly pursuing policies that will boost the crude oil price), although we do not believe those policies can counteract the downward effects of the energy agreement between China and Iran. Why? The new minister, Abdulaziz bin Salman, has already said that the kingdom will continue to participate in the OPEC+ agreement to cut global oil output and that the agreement "is here to stay". However, although OPEC+ countries have succeeded in taking some 100 million barrels off the market in the last three months, this has been offset by increases in production in countries such as the US and Iraq, while global demand for crude oil has fallen sharply (as consumption during the January-May period was the lowest in a decade).

(Price-positive) - Attacks on Saudi facilities: More unstable energy balance, blow to Aramco, increased tensions with Iran. The attacks on Saudi installations remind us all that the kingdom's war with Yemen is far from over and, like it or not, has now moved closer to Saudi Arabia and its key production centers. This fosters the idea that the energy balance is less stable than it used to be. At the same time, Aramco is now a much less attractive project (because it is more dangerous), which will undoubtedly make selling it much more difficult (an IPO that fails to materialize). This represents a severe blow to the interests of Prince Mohamed bin Salman, who needs the funds urgently to balance the kingdom's budget, modernize the country's facilities and contribute to the SoftBank Vision fund to finance his "Saudi 2030" plan. All those aims require a stable crude oil price at around USD 80/barrel. This setback with Aramco will likely prompt Saudi Arabia to accelerate its energy policy aimed at pushing up the international price through the OPEC+ pact. The most important consequence may be that this weekend's attacks may erode Saudi Arabia's defense agreement with the US. This agreement dates back to 1945 and was sealed between Roosevelt and King Ibn Saud. It is easy to imagine some of the terms of the contract: a flow of cheap oil to the US in exchange for arms purchases and a strong strategic alliance involving defense. Why do I say this relationship may be eroded? Very simple. When a person buys protection, they expect protection, and what just happened this weekend is that a group of "Yemeni rebels entered American airspace". This could explain why Secretary of State Mike Pompeo was quick to point a finger at the Iranians, in a move that unquestionably signals a challenge and has raised the temperature (considerably). Why? If Pompeo says that, the Saudis (under their protection agreement) can demand action from Washington against Tehran. And that is truly serious.

Long-term drivers

(-) Alternative energies taking over: Conventional producers must bear in mind that the value of their reserves is dictated by how long they can keep pumping before alternative energies make oil obsolete. To put that moment off for as long as possible, it is in the producers' interest to keep oil prices low for as long as possible (thus keeping the opportunity cost of alternative energy sources as high as possible). The head of the latest consortium set up to produce cellulosic ethanol from farm waste on a large scale says that the outlook is once again promising but that "the technology can be competitive with oil at USD 70/barrel".

(-) Growing environmental problems will lead to further tightening of legislation on production levels. The value of producer countries' reserves depends on how long they can pump at current levels before tougher environmental regulation is introduced. With growing environmental problems likely to continue to put great pressure on the market for fossil fuels over the coming decades, the biggest risk for OPEC is of sitting on large "stranded reserves" it can no longer extract and sell. Producers therefore have a powerful incentive to monetize their reserves as soon as possible.

(-) Are OPEC producers able to structurally fix prices? Although the agreement between the Saudis and Russia to strangle the global energy market has served them well, bringing about 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 set prices without bearing costs. In the 1970s and early 2000s, the export cartel agreed to cut output and the approach worked well, as the main competition was between conventional oil producers (especially between OPEC and non-OPEC producers). Today, however, the greatest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. In theory, lower energy production from conventional oil could be easily offset by a rapid increase in shale oil production.

PRECIOUS METALS - GOLD

Target price of gold at USD 1,200/oz. Sell above USD 1,300/oz.

Negative drivers

Gold in real terms. In real terms, the price of gold (calculated as its effective nominal price divided by the US Implicit Price Deflator-Domestic Final Sales, as an approximation for the global deflator) soared to USD 1,358/oz (from USD 1,270/oz the previous month). In real terms, gold continues to trade well above its 20-year average of USD 920/oz. Given the value of the global deflator (now at 1.1123), for the price of gold to stay around its historical average in real terms, the nominal (or equilibrium) price must remain around USD 1,033/oz.

Gold to Silver (preference for store of value over productive assets): This ratio fell to 82.2 (from 87 last month) and remains well above its 20-year average of 64x, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming silver is priced more reasonably than gold (as is most likely the case), the gold price would have to go to USD 1,188/oz.

Gold to Oil. This ratio increased in the month, to 26.05x (from 25.48x last month), still well above its 20-year average of 15.22x. Considering our long-term fundamental target for oil of USD 55/barrel (our LT central target) and that the utility of oil relative to gold will remain unchanged, the price of gold should approach USD 837/oz for that ratio to stay close to its long-term average.

Speculative positioning. Monthly change in open positions in non-commercial futures contracts (100oz) in CFTC: longs rose to 341,511 contracts (from 309k last month); shorts held stable at 59k (from 64k contracts). The net position therefore increased sharply, to 282k contracts (compared to 184k last month), marking a high last seen in September 2017.

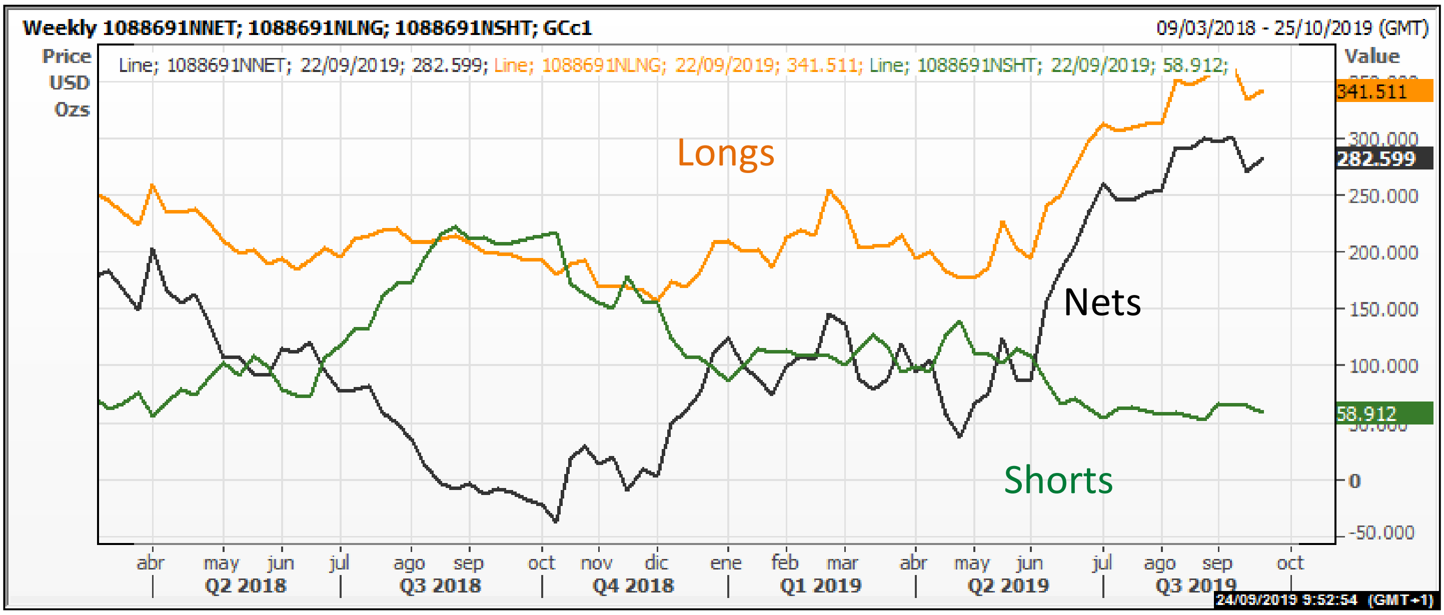
De-monetization in India. Demonetization forced millions of Indian households to use formal banking services for the first time, thus bringing them into the formal economy. This measure has helped mobilize billions of dollars of savings held in unproductive physical assets such as gold.

Positive drivers

Gold to the S&P500. This ratio rose to 0.51 this month (from 0.47 last month) but is still well below its long-term average of 0.60. Given our target price for the S&P of USD 2,890, the price of gold should approach USD 1,740/oz for this ratio to remain close to its long-term average.

Negative yields make gold very attractive. Gold’s disadvantage compared to fixed-income instruments (the fact that gold does not pay coupons) is now offset by the negative yields of many global debt securities (the par value of bonds with negative yields exceeds USD 17trn).

World gold market (relative percentage). The total value of commercial gold stocks in the world is around USD 6.9trn, which represents a small percentage (3.2%) of the total value of the global money market (USD 212trn). The daily trading volume on the LBMA and other gold markets is around USD 173bn (equivalent to barely 0.08% of the total traded in the financial markets).



EXCHANGE RATES

Analysis of flows and fundamental targets

EUR-USD: Fundamental year-end 2019 target of USD 1.10 per euro

The global positioning in USD rose last month to USD 15.4bn, up from USD 11.5bn the previous month, bringing the deviation from the three-year average (z-score) to 0.36 sigmas (up from 0.09 sigmas the previous month). This means that there is no positioning stress, as the positioning is within +/- 1 standard deviation. The currencies most adversely affected by this trend have been the EUR and some emerging currencies, including the BRL, the MXN and the RUB. Net long positions in the USD are still well below the USD 35bn of longs in the greenback seen last year. This, coupled with a typical positioning deviation that shows an absence of stress, indicates that there is still room to build new positions in the greenback. In a more global perspective, the still long positions in emerging market currencies (three-year z-score of +0.41) indicate that these currencies are no longer overvalued and that investors think both the US economy and the emerging market economies will perform well in the coming months. We reaffirm our **fundamental analysis**, based on structural considerations, in a bullish view on the USD vs. the EUR. And as anticipated in our previous report, in which we announced a possible cut in the EUR/USD exchange rate, this month we follow up that adjustment, setting the 2019 target at USD 1.10 per euro. Our **technical analysis** in the Investment Committee sets a new support at 1.08 and a resistance at 1.12, with a bearish view on the EUR.

USD-JPY: Target: 112; **EUR-JPY**: Target: 123.2

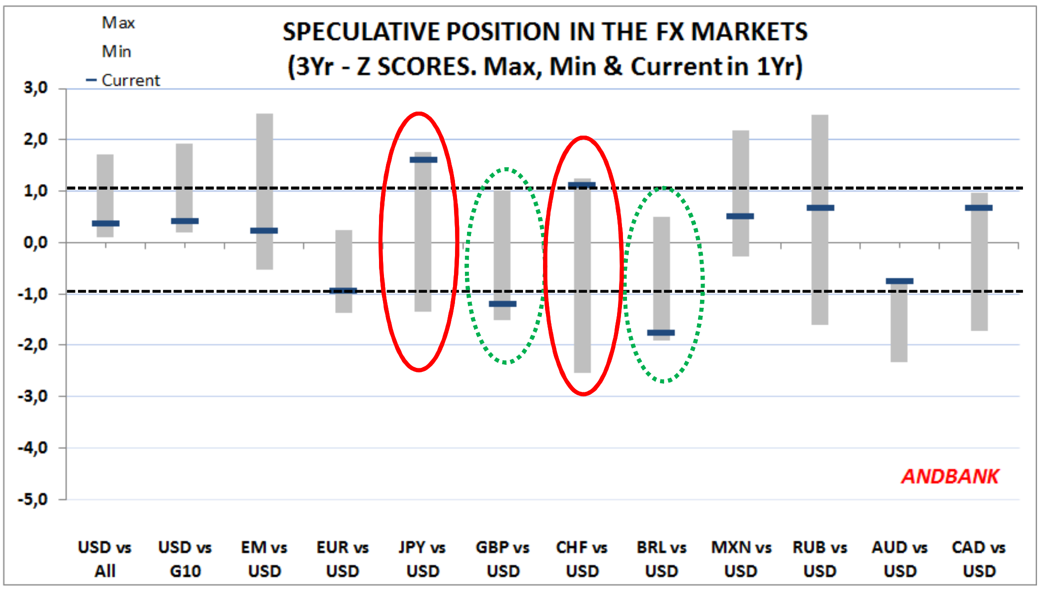
In our view, several things suggest that the JPY is unlikely to appreciate any further against the USD. Let's see. (1) While the Federal Reserve has stopped shrinking its balance sheet, the BoJ continues to expand its balance sheet, thus expanding the money supply, which makes the USD more attractive (or the JPY less so). (2) We downplay the tapering option in Japan since the BoJ has reiterated its intention to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unattainable in the short term). (3) Real yields are lower on Japanese government bonds (JGBs) and, with the 10-year JGB yield set by the monetary authority at close to 0%, any increase in real yields is highly unlikely.

GBP-USD: Target: 1.32; **EUR-GBP**: Target: 0.83
USD-CHF: Target: 0.98; **EUR-CHF:** Target: 1.07
USD-MXN: Target: 20; **EUR-MXN:** Target: 22
USD-BRL: Target: 3.75; **EUR-BRL:** Target: 4.13
USD-ARS: Target: 70
USD-INR: Target: 72
CNY: Target: 7.00
RUB: Neutral-Negative
AUD: Neutral-Positive
CAD: Neutral-Negative

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	15,40	4,50	34,9	0,0	24,1	**0,36**
USD vs G10	17,58	3,08	39,6	0,0	25,7	**0,41**
EM	2,18	-1,42	5,0	-0,2	2,2	**0,22**
EUR	-9,49	-4,22	1,6	-14,8	-6,8	**-0,94**
JPY	2,76	-0,91	4,0	-12,8	-6,1	**1,61**
GBP	-6,73	0,30	0,1	-7,8	-4,4	**-1,19**
CHF	-0,57	0,85	-0,4	-6,0	-2,9	**1,13**
BRL	-0,84	-0,63	0,2	-0,9	-0,3	**-1,76**
MXN	2,11	-0,68	4,1	0,0	2,0	**0,52**
RUB	0,91	-0,11	1,4	-0,2	0,7	**0,67**
AUD	-2,75	1,50	-1,9	-5,2	-3,9	**-0,75**
CAD	1,50	0,52	2,3	-5,0	-1,4	**0,68**

Positive
Neutral-Positive
Neutral-Negative
Negative

ANDBANK



In green circles, the currencies we favor for technical reasons.

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	-2,0%	16,5%	2.919	2.900	-0,7%
	Europe - Stoxx Europe 600	-1,8%	12,6%	380	387	1,9%
	Euro Zone - Euro Stoxx	-1,4%	13,8%	373	379	1,6%
	SPAIN - IBEX 35	-0,7%	5,3%	9.011	9.423	4,6%
	MEXICO - MXSE IPC	-0,2%	2,1%	42.502	43.236	1,7%
	BRAZIL - BOVESPA	-1,7%	15,2%	101.249	102.663	1,4%
	JAPAN - NIKKEI 225	8,7%	7,7%	22.020	22.250	1,0%
	CHINA - SHANGHAI COMPOSITE	-2,4%	18,2%	2.948	3.176	7,7%
	CHINA - SHENZEN COMPOSITE	-3,3%	28,7%	1.632	1.757	7,7%
	INDIA - SENSEX	2,0%	5,8%	37.880	40.023	5,7%
	VIETNAM - VN Index	1,8%	10,6%	987	1.028	4,1%
	MSCI EM ASIA (in USD)	-1,1%	3,4%	502	548	9,2%
Fixed Income Core countries	US Treasury 10 year Govie	1,4%	10,8%	1,59	1,85	-1,7%
	UK 10 year Gilt	1,2%	7,2%	0,49	0,80	-2,3%
	German 10 year BUND	-0,3%	6,3%	-0,52	-0,30	-1,9%
	Japanese 10 year Govie	-0,1%	1,7%	-0,22	0,00	-1,8%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,6%	11,0%	0,17	0,50	-2,6%
	Italy - 10yr Gov bond	0,3%	15,9%	0,99	1,00	0,2%
	Portugal - 10yr Gov bond	1,0%	13,8%	0,14	0,60	-3,7%
	Ireland - 10yr Gov bond	-0,1%	7,5%	0,03	0,00	0,3%
	Greece - 10yr Gov bond	1,6%	26,5%	1,41	2,45	-8,0%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,3%	1,4%	57,75	60	-0,8%
	Credit EUR HY-Itraxx Xover	-0,2%	5,6%	252,75	300	-1,7%
	Credit USD IG - CDX IG	-0,1%	1,2%	61,61	50	0,0%
	Credit USD HY - CDX HY	-0,7%	5,9%	363,42	449	-2,2%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	8,9%	25,9%	14,15	14,00	15,4%
	Russia - 10yr Gov bond	3,2%	22,6%	6,69	6,75	6,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	0,3%	11,3%	7,24	6,50	13,1%
	India - 10yr Gov bond	-0,4%	11,2%	6,68	5,75	14,1%
	Philippines - 10yr Gov bond	-0,2%	24,4%	4,67	4,25	8,0%
	China - 10yr Gov bond	-0,4%	2,9%	3,10	3,25	1,9%
	Malaysia - 10yr Gov bond	0,0%	8,7%	3,38	2,75	8,4%
	Thailand - 10yr Gov bond	1,3%	9,2%	1,46	1,50	1,1%
	Singapore - 10yr Gov bond	0,7%	4,6%	1,64	1,50	2,7%
	South Korea - 10yr Gov bond	-0,5%	5,6%	1,37	1,50	0,4%
	Taiwan - 10yr Gov bond	0,0%	2,1%	0,68	1,70	-7,5%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	3,5%	22,0%	6,71	6,85	5,6%
	Mexico - 10yr Govie (USD)	0,9%	15,8%	3,41	3,60	1,9%
	Brazil - 10yr Govie (Loc)	3,9%	25,6%	6,89	7,85	-0,8%
	Brazil - 10yr Govie (USD)	-0,8%	13,9%	4,25	3,85	7,5%
	Argentina - 10yr Govie (USD)	9,7%	-93,3%	24,27	20,00	58,4%
Commodities	Oil (WTI)	-8,4%	15,7%	52,6	50,00	-4,9%
	GOLD	1,5%	17,6%	1.507,9	1.200	-20,4%
Fx	EURUSD (price of 1 EUR)	-0,1%	-3,8%	1,103	1,100	-0,3%
	GBPUSD (price of 1 GBP)	-0,8%	-4,0%	1,22	1,32	7,8%
	EURGBP (price of 1 EUR)	0,7%	0,2%	0,90	0,83	-7,4%
	USDCHF (price of 1 USD)	0,0%	1,1%	0,99	0,98	-1,5%
	EURCHF (price of 1 EUR)	-0,1%	-2,8%	1,09	1,07	-1,8%
	USDJPY (price of 1 USD)	-0,1%	-2,0%	107,41	112,00	4,3%
	EURJPY (price of 1 EUR)	-0,2%	-5,8%	118,46	123,20	4,0%
	USDMXN (price of 1 USD)	0,3%	-0,5%	19,54	20,00	2,3%
	EURMXN (price of 1 EUR)	0,1%	-4,3%	21,55	22,00	2,1%
	USDBRL (price of 1 USD)	0,7%	5,9%	4,11	3,75	-8,7%
	EURBRL (price of 1 EUR)	0,6%	1,8%	4,53	4,13	-9,0%
	USDARS (price of 1 USD)	0,3%	48,9%	56,00	70,00	25,0%
	USDINR (price of 1 USD)	-1,1%	2,2%	71,08	72,00	1,3%
	CNY (price of 1 USD)	0,1%	3,6%	7,12	7,00	-1,7%

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

UPWARD REVISION DOWNWARD REVISION

ASSET ALLOCATION AND RISK TOLERANCE

Monthly asset and currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Cash	**15,0**	**21,0**	**10,0**	**15,6**	**5,0**	**10,9**	**5,0**	**7,8**
Short-Term debt & MM instrument	**25,0**	**33,0**	**15,0**	**22,0**	**5,0**	**10,3**	**0,0**	**3,9**
Fixed Income Long-Term - OECD	**30,0**	**19,5**	**20,0**	**13,0**	**15,0**	**9,8**	**5,0**	**3,3**
US Gov & Municipals & Agencies		17,6		11,7		8,8		2,9
EU Gov & Municipals & Agencies		0,0		0,0		0,0		0,0
European Peripheral Risk		2,0		1,3		1,0		0,3
Credit (OECD)	**20,0**	**16,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
Investment Grade USD		8,8		8,8		6,6		2,2
High Yield Grade USD		2,4		2,4		1,8		0,6
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**	**6,3**	**7,5**	**9,4**	**10,0**	**12,5**	**15,0**	**18,8**
Latam Sovereign		1,9		2,8		3,8		5,6
Latam Credit		1,6		2,3		3,1		4,7
Asia Sovereign		1,6		2,3		3,1		4,7
Asia Credit		1,3		1,9		2,5		3,8
Equity OECD	**5,0**	**4,3**	**20,0**	**17,0**	**32,5**	**27,6**	**50,0**	**42,5**
US Equity		1,7		6,8		11,1		17,0
European Equity		1,7		6,8		11,1		17,0
Japan Equity		0,9		3,4		5,5		8,5
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,0**	**10,0**	**10,0**	**10,0**	**10,0**
Asian Equity		0,0		3,0		6,0		6,0
Latam Equity		0,0		2,0		4,0		4,0
Commodities	**0,0**	**0,0**	**2,5**	**2,0**	**5,0**	**4,0**	**5,0**	**4,0**
Energy		0,0		0,5		1,0		1,0
Minerals & Metals		0,0		0,3		0,6		0,6
Precious		0,0		0,8		1,6		1,6
Agriculture		0,0		0,4		0,8		0,8
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,9**	**5,0**	**5,8**
REITs		0,0		0,0		0,7		1,4
Alt.Energy (wind, solar, etc)		0,0		0,0		0,9		1,7
Market Neutral		0,0		0,0		1,0		2,0
Volatility		0,0		0,0		0,3		0,6
Currency Exposure (European investor perspective)								
EUR		90,8		86,0		81,2		76,0
USD		9,2		14,0		18,8		24,0

Strategic and tactical asset allocations are investment strategies aimed at balancing risk and reward by allocating a portfolio's assets according to a person's risk tolerance, the investment horizon and our own projections for each asset class. This recommended asset allocation table has been prepared by Andbank's investment committee, made up of managers from the portfolio management departments in each of the jurisdictions in which we operate.

MAIN CONTRIBUTORS

Together
Everyone
Achieves
More

Eduardo Anton
US: Equity, Bonds & Corporates
+1 305 702 0601

David Tomas
Spain & Europe: Equity
+34 647 44 10 07

Jonathan Zuloaga
Mexico: Rates, Equity & FX
+52 55 53772810

Yair Shani
Israel: Rates & Equity market
+972 3 6138218

Marian Fernández
Europe: Rates, Macro & ECB
+34 639 30 43 61

Sofiane Benzarti
Luxembourg: Global Flows & positioning
+352 26 19 39 21

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

Alex Fusté
EM Asia & Japan: Bonds, Equities & FX
Brazil: Bonds, Equity, Fx.
Commodities: Energy & Precious Metals
+34 673 041 058

Victoria Gonzalez
Argentina: Bonds, FX, Macro & Politics,
+598 2626 2333

Carlos Hernández
Global Technical Analysis
+376 873 381

LEGAL NOTICE

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. Those reports contain technical and subjective assessments of data and relevant economic and socio-political 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 differ partially or totally from the market consensus. The market indices have been selected according to the 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 other important factors affecting such a decision that are not analyzed in this document, including the investor's risk profile, financial expertise and experience and financial situation, the investment time horizon and the liquidity of the investment.

The investor is therefore 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 assessments 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.