ECONOMY & FINANCIAL MARKETS

Trump delays his deadline for a U.S.-China trade deal amid progress in talks

Corporate Review

March 2019

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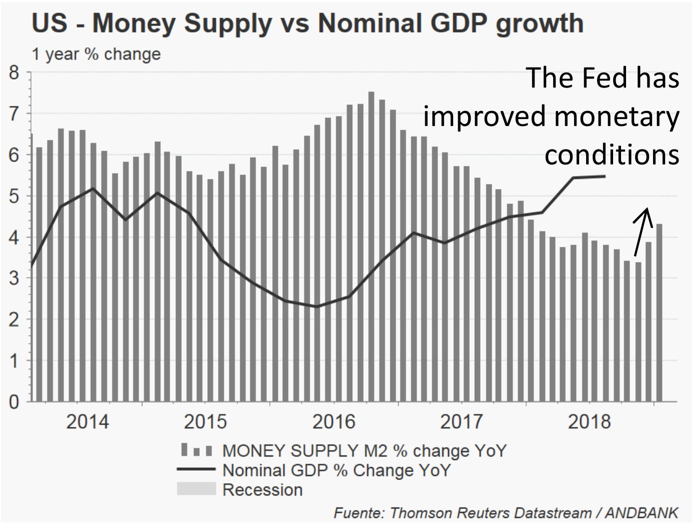
EXECUTIVE SUMMARY

CHART OF THE MONTH



EQUITIES

We think that the Fed is now likely to act as a stabilizer for equity markets. Should the S&P re-test its previous highs of around 2,900, we would not be at all surprised to see the Fed moving back in a more hawkish direction. ***S&P***: NEUTRAL**.** Central point 2,800. Exit point 3,080. ***Stoxx 600 Europe***: NEUTRAL. Central point 369. Exit point at 406. ***Ibex***: NEUTRAL-POSITIVE: Target 9,600. ***China (Shenzhen):*** NEUTRAL-POSITIVE**.** Central point 1,506. ***India (Sensex):*** POSITIVE**.** Central point 41,000. ***Mexico:*** NEUTRAL. ***Brazil:*** NEUTRAL.

FIXED INCOME

Anticipation of a slowdown in 2020 has weighed on the market's expectations component of yields. Our UST 10Y entry point remains at 3%-3.25%. In Europe, we stick to the recently changed 0.6% target for the bund yield. As for peripherals, they should benefit from the continuous support from the ECB. Despite the doubts about the Italian economy, Italy is facing no problem in funding. 10Y bond targets: 1.6% Spain; 1.9% Portugal; 2.7% Italy.

CORPORATE CREDIT

We maintain our mid-point in €IG & €HY spreads and our recommendation in general, leaning towards an improved situation in HY. Itraxx Main (negative) mid-point 92. HY Itraxx Xover (neutral/negative) mid-point 350. Outflows from € credit funds have slowed for now, suffering only marginal outflows YTD. The correlation between Equities and Credit is strongly positive. Credit fundamentals are turning less favorable but while hope of a trade compromise between the US and China continues, the market will keep the friendly sentiment in place. For USD IG credit, our target of 85 for CDX IG remains unchanged, while we still expect the CDX HY index to widen to 490.

CURRENCIES

It seems that the US dollar is not as overbought as it was last month. The net long speculative positions in the dollar against other currencies was fixed at 0.98 sigmas (in 3-year Z-score), far from being an extreme level. The long USD position is essentially financed by short positions in CAD and AUD, and to a lesser extent, EUR and GBP.

COMMODITIES

Global supply concerns (due to Venezuela) continue to push oil prices higher. Furthermore, recent reports that US shale executives may curb drilling caused hedge funds to start building long positions in oil contracts again, pushing the oil price higher during last month. Despite this, our long held scenario of structural low oil prices remains unchanged.

USA

After a rough end to 2018, markets have broken their cold streak

Easier monetary conditions will help US equities

The S&P 500 returned over 10% YTD as signs emerged that the sell-off was overblown, which led to a sharp rally. Valuations improved and earnings estimates were reset lower. The major catalyst for this rally was a dovish pivot in the Fed's language, when they signaled that they could be more flexible with monetary policy. On the positive side, more accommodative monetary policy means easier financial conditions, and equities tend to perform better against such a backdrop. Data has shown signs of bottoming out, both on the macro side and in earnings revisions. We still have some issues that give us pause, however. The trade war still represents a threat to growth, including in the form of capital expenditure which has already begun to weaken. As these events have unfolded, consumer confidence has taken a hit. Though we think the weakness in sentiment is temporary, it is a risk that we are monitoring.

We think that the Fed is now likely to act as a stabilizer for equity markets. While it is the case that the Fed's pause has helped markets recover from their December lows, should the S&P re-test its previous highs of around 2,900, we would not be at all surprised to see the Fed moving back in a more hawkish direction (in line with our view). In that sense, the Fed seems to be insuring against downside risk, although it could also be capping the upside opportunity. Earnings season is well underway. While the magnitude of bottom line beats has been somewhat underwhelming versus recent history, investor sentiment was sufficiently negative going into the results to allow stocks to move higher. Some 84.9% of the S&P 500's market cap has reported 4Q. Earnings are ahead by 3.3%, with 63% of companies exceeding their bottom-line estimates. This compares to 4.9% and 70% over the past 3 years. 4Q expectations are 15% EPS growth and EPS is on target for ~15% assuming a typical beat rate for the remainder of the season. Looking ahead we maintain our call that volatility will continue to normalize, but our fundamental price target remains unchanged at around 2,800.

US Treasury bond and corporate debt market

Anticipation of a slowdown in 2020 has weighed on the market's willingness for price hikes and thus the expectations component of yields. The integration of financial stability as the unofficial third leg of the Federal Reserve's mandate has motivated its dovish shift, but investors should not interpret "patience" as meaning the return of the "Fed put", in which "Goldilocks" reigns supreme. By putting its normalization process on pause, the Fed will probably boost growth and inflation expectations, presenting a challenge to the Fed by mid-year. With the Federal Reserve on "pause", the odds of the expected GDP slowdown in 2019 ending in a gentle, soft landing have gone up. Such a prospect has caused a steepening of the yield curve from the "belly" (intermediate five-year bonds) to the long end, at 30 years. If this "Goldilocks" pricing persists, it may serve to stimulate bank lending, especially for the housing market. While this type of backdrop is often a good omen for value and cyclical stocks, in the bond market we still want to stay short duration. As for corporate bonds, we remain comfortable with our 85bp target which is 25bp wider than the current level for USD-denominated High Grade bonds, and 490 for High Yield, which is 145bp wider from current levels.

Financial market outlook

Equities – S&P: NEUTRAL-POSITIVE. Target 2,800. Exit point 3,070

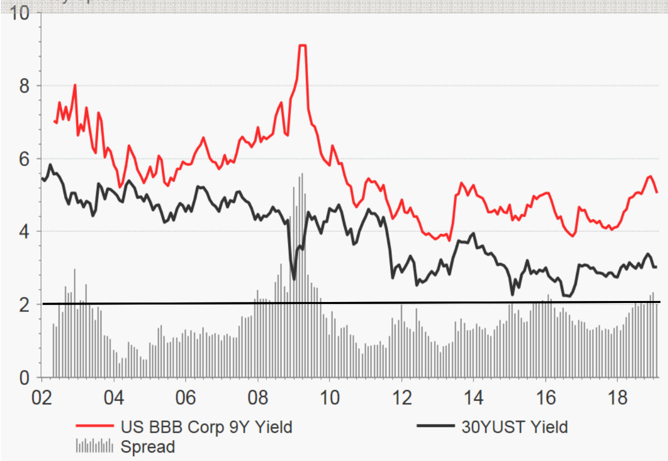
Bonds – Govies: NEGATIVE (10YUST entry point 3% - 3.25%)

CDX IG: NEUTRAL (Target Spread 85)

CDX HY: NEGATIVE (Target Spread 490)

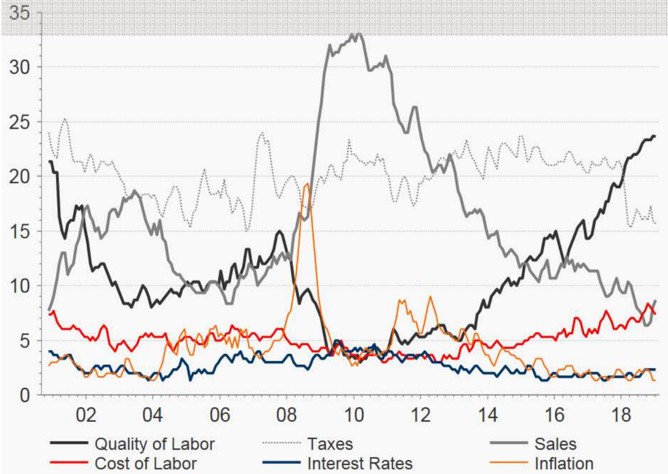
Forex – DXY index: NEUTRAL

US Corp Bond Yield Vs 30YUST Yield
Key Spread



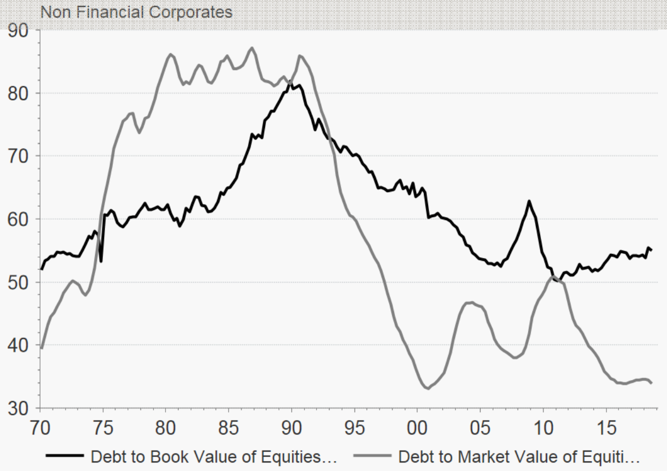
Fuente: Thomson Reuters Datastream / ANDBANK

US BUSINESES (NFIB) - SINGLE MOST IMPORTANT PROBLEM



Fuente: Thomson Reuters Datastream / ANDBANK

US Corporate Leverage Ratios
Non Financial Corporates



Fuente: Thomson Reuters Datastream / ANDBANK

EUROPE
Industrial recession

It is increasingly difficult to find "bright spots" in European macro.

The recent weakness across European countries is explained by an external and industrial deterioration (both connected). Some sectors (autos, chemicals) could improve soon in Germany, but the overall picture still seems "cloudy". Recession is not our central scenario, as the strength in the labor market, coupled with the fiscal (and monetary) stimulus, should help to keep domestic demand at reasonable levels. This quick and widespread downturn has led the EC to revise its growth estimates strongly downwards: from 1.9% to 1.3% for 2019. Should we witness a recovery in global trade, Europe should benefit, although there is a growing concern about whether this downturn in Europe may hide some structural elements. Official EC inflation estimates have also been cut (from 1.7% to 1.3% YoY). More worrisome is the fact that inflation expectations, measured by 5Y breakevens, keep sliding which could trigger a response from the ECB.

Politics

As for Brexit, we have been through uncountable votes, with two clear messages: 1) A no-deal Brexit should be avoided, and 2) the Irish backstop remains the main hurdle. May seems to be trying to push the EU for some leeway on the Irish backstop that could come in the form of an addendum to the withdrawal agreement, guaranteeing it as a temporary situation that could be updated by reviewing clauses or by exploring technological alternatives to a hard border. If she succeeds, it would be voted by 27 February. There are then two potential scenarios for that day: 1) May gets support from Parliament and an orderly transition period starts, or 2) May gets defeated and Parliament would probably demand an extension to Article 50. The EU's position is far from clear, but it would back the extension.

European fixed income market: Government & corporate debt

In recent months, we have seen a profound macro repricing in safe government bonds. Less growth (and greater risk) plus lower inflation and a dovish ECB have led us to soften levels for European yields. We stick to the recently changed 0.6% for the bund towards the end of the year/2020. As for peripherals, they should benefit from continuous support from the ECB. Despite doubts about the Italian economy, Italy has no problem for funding. 10Y bond targets: 1.6% Spain; 1.9% Portugal; 2.7% Italy. When it comes to corporate bonds, credit fundamentals are turning less favorable, as liquidity conditions are tightening and earnings are weakening, but as long as hope continues about a trade compromise between the US and China, the market will maintain its friendly sentiment. The good performance in credit (IG & HY) has continued into 2019. Spreads remain supported. By sector we can see that Financials have outperformed their Non-financial peers since the beginning of the year. One of the reasons is supply. January has seen €24bn in Non-financial issuance while Financials remain shy of €17bn. In Autos the question of whether the US will impose tariffs on European car imports still has to be answered. We stick to our defensive stance. We still favor non-cyclicals, although they are likely to underperform in the event of expanding trade optimism

Financial market outlook

Equities – Stoxx Europe: NEUTRAL. Central point 369. Exit 388

Equities - Euro Stoxx: NEUTRAL. Central point 359. Exit 377

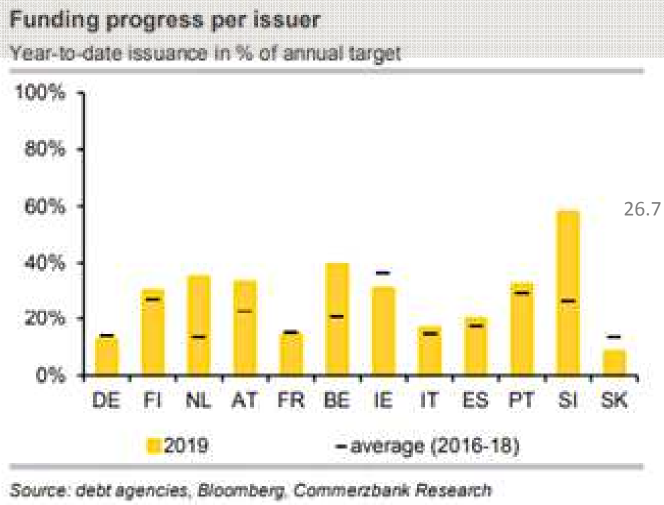
Bonds – Core governments: NEGATIVE (Bund target yield 0.60%)

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

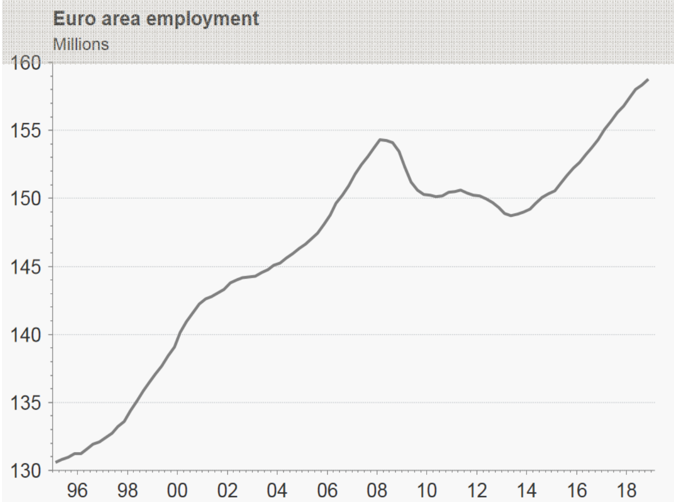
Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 92)

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

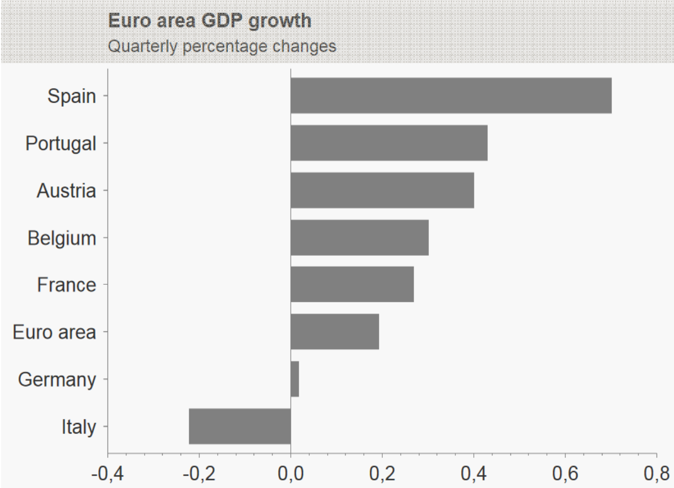
Forex – EUR/USD: NEGATIVE (1.125)



Source: debt agencies, Bloomberg, Commerzbank Research



Fuente: Thomson Reuters Datastream / ANDBANK



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN

Early elections in April. Market implications

Political stability & budget

The Spanish Parliament's failure to pass the budget has precipitated the Government to call early elections, which will be held on 28 April, just one month before local, regional and European elections. At first glance, these elections could be well received by market participants, since this could unblock the situation of legislative weakness and orientate it towards more liberal reasoning. It remains to be seen whether the polls show majorities for forming stronger governments than previous ones, which would lead investors to demand lower risk premiums for Spanish assets. No glimpse of a stable majority would return us to a 2015-2016 scenario, where we have to rerun elections.

Domestic dynamism against a sharp external slowdown

The policy is not affecting (for the moment) the dynamics of the Spanish economy. Domestic consumers continue to support growth. Preliminary figures for the fourth quarter of the year show an acceleration in the QoQ rate of national GDP. Another positive surprise in the fourth quarter is employment. Despite the seasonality of employment in Spain, the activity rate has improved substantially in recent quarters, bringing down unemployment to 14.45%, an improvement on the forecasts at the start of the year. The real estate market also continues to be very dynamic, with +10% growth in transactions in the year and price rises in almost all regions, something that was previously limited to the "prime" areas. It looks like the dynamics will be similar this year with domestic demand being responsible for higher growth than Spain's neighboring countries. With activity surveys showing strong improvements in December, we see few risks that could derail our scenario for markedly higher growth in Spain relative to the rest of Europe. After the improvement in activity in the last quarter, our growth forecast remains at 2.1%. However, our inflation target has changed from 1.7% to 1.4%

Spanish assets

We maintain our target for the Ibex index at 9,600 set just three months ago, with an estimated PE ratio of 12.5 times profit. We forecast a FY19 increase in profits of 2.3% supported by an improvement in annual sales of 3.7% and a margin of 9.3%, somewhat lower than last year. There is also a notable difference between banks in the USA and Europe - the stock market pays 35% less for 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 on the Old Continent that figure drops to 0.80 times. This means that investors are failing to recognize the value of 20% of European bank assets. Moreover, in the case of the Spanish majors, Banco Santander and BBVA, the market price to book value is even lower than the average, giving a ratio of 0.8 and 0.7 respectively.

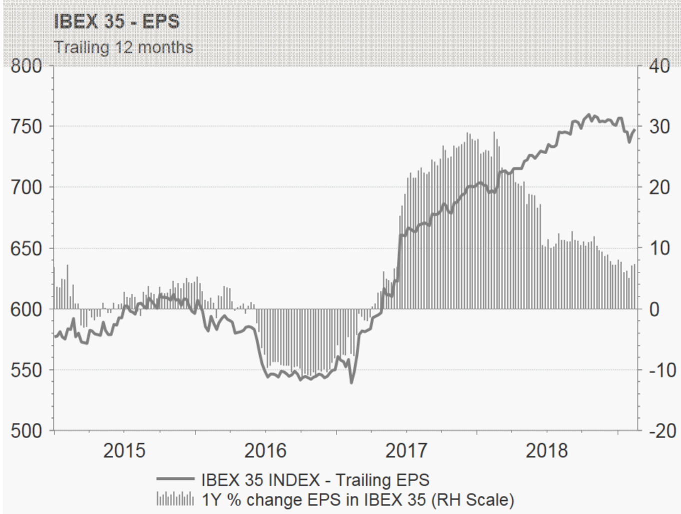
Financial market outlook

Equities – IBEX: NEUT-POSITIVE. Target 9,619. Exit point 9,619

Bonds – Government: NEGATIVE (BONO target yield 1.60%)

Credit – Investment grade: NEGATIVE

Credit – High yield: NEGATIVE



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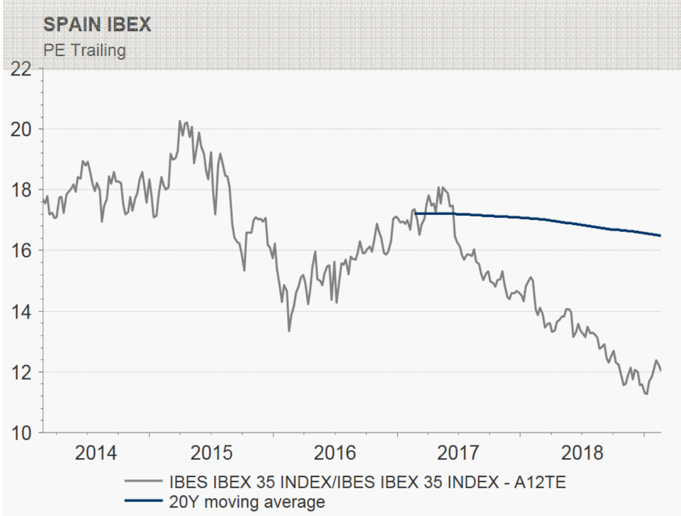

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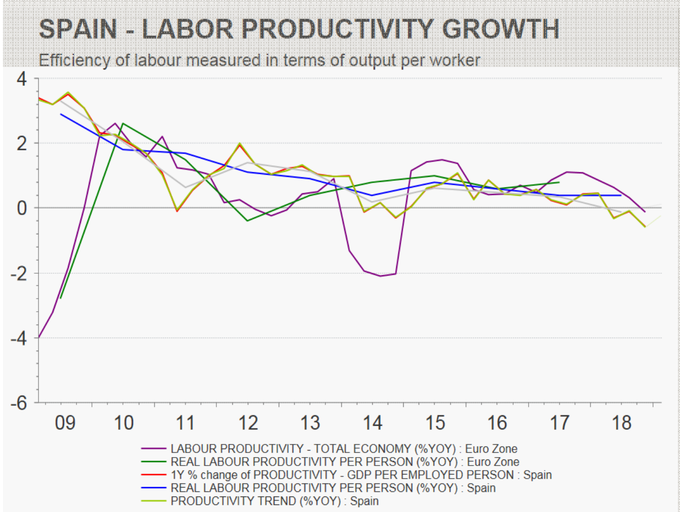


Fuente: Thomson Reuters Datastream / Fathom Consulting

JAPAN

BoJ relaxes its stance and puts JGB yields in negative territory

BoJ to favor inflation measure that includes sales tax hike effects

The Nikkei reported that the BoJ has shifted its preference towards the CPI series that includes the impact of the consumption tax hike scheduled for October. Prior focus was on the excl-tax series on the grounds that it would be a temporary factor. Now with the addition of various policy concessions to offset the tax hike (such as free school tuition), the BoJ sees fiscal factors almost offsetting each other - estimated to add a net 0.2 percentage points to the CPI at most. Meanwhile, inflation figures continue to disappoint. January CGPI was +0.6% YoY, considerably lower than the consensus of +1.1% and +1.5% the previous month. The BoJ is keeping the monetary base growing well above nominal GDP growth: January M2 money supply +2.4% YoY vs +2.4% in prior month. Loose lending sustains zombie companies: The Nikkei discussed lending growth in Japan as low rates are helping to sustain zombie companies that have little hope of repaying their debt. The story noted that total domestic loans by Japanese companies came to JPY504.4T ($4.59 trillion) at the end of 2018, the highest figure since 1997. However, interest margins have been under pressure amid fierce competition.

Data

December average wages +1.8% YoY vs +1.7% (revised from +2%) in prior month, although doubts over wage data revisions persist. The key data that showed real wages grew by 0.2% in 2018 has been omitted from official figures. The Labor Ministry did not release comparison data and a rough calculation based on some comparisons would suggest that real wages actually fell by about 0.4%. The data scandal has rankled opposition lawmakers, who have used it to question the government's success in raising wages and the effectiveness of Abenomics overall. January ***bank lending*** +2.4% YoY vs +2.4% in prior month. December ***household spending*** +0.1% YoY vs consensus +0.8% and (0.6%) in prior month.

GDP Outlook

Q4 2018 GDP grew at +0.3% QoQ (or +1.4% QoQ annualized). The figure came in above the -0.7% QoQ (or -2.6% QoQ annualized) seen in prior quarter. What next? A Nikkei poll showed the consensus forecast for Q1 GDP expects 1.3% annualized growth (slightly below the +1.4% seen in 4Q18), with growth mainly being driven by domestic demand. However, views were split on the outlook for exports - while the average estimate was +0.3%, estimates were in the range of (0.8%) to +0.9%, underscoring the threat of China's slowdown. FY19 GDP growth is estimated at 0.6%.

Corporate

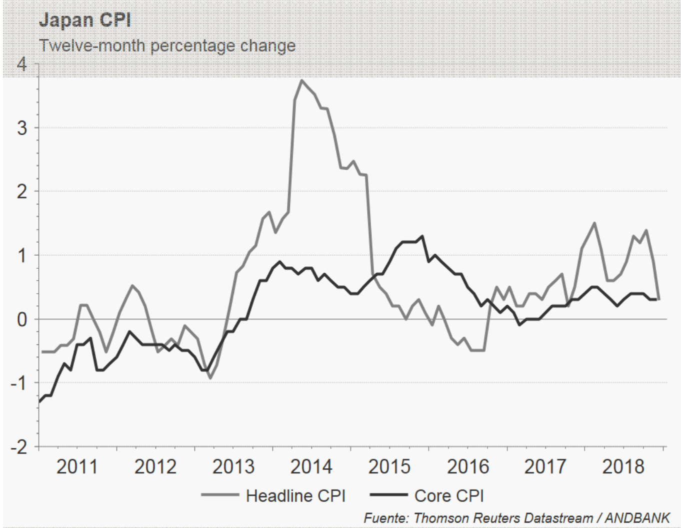
The Nikkei noted that earnings declines among Japanese multinationals with heavy exposure to China are outpacing listed companies overall. Net profit among companies in the Nikkei China Related Stock 50 index fell 8% YoY in the nine months to December, compared to a 2.9% decline for Japanese listed companies overall. Full-year profit forecasts of China-heavy companies now show a 4.9% decline, against a 0.1% drop overall.

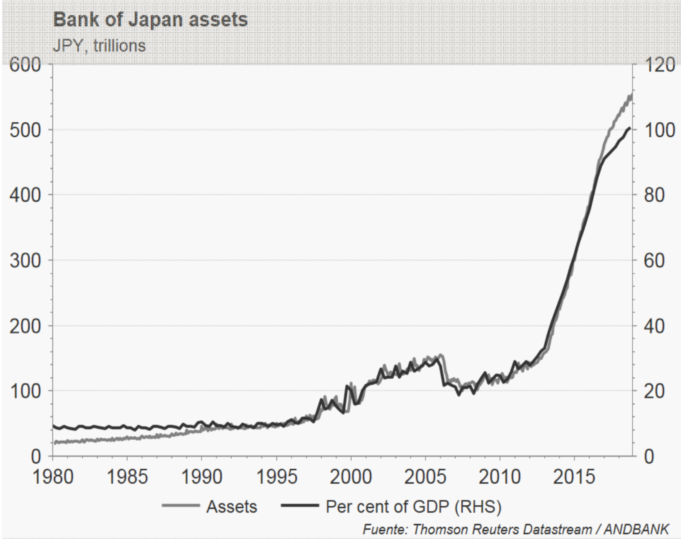
Financial market outlook

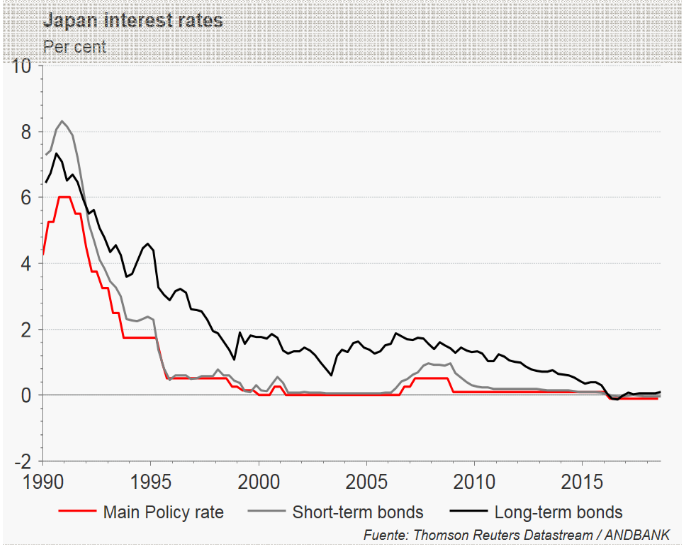
Equities – N225: CAUTIOUS. Target price 22,250 (Exit 23,300)

Bonds – Govies: NEGATIVE. Target yield 0.10%

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







ANDBANK Private Bankers

CHINA
Moving from prudence to stimulus

State Council approves bank capital-raising measures

The body expressed support for measures to allow commercial banks to replenish capital through multiple channels concurrently (perpetual bonds, preferred stocks, convertibles issuance…). Lawmakers insisted this will not lead to a flood of liquidity (but it will). The goal is to bolster capital structures to provide financial support for private and small enterprises. So what next? Local analysts consulted predict that perpetual bond issuance will accelerate, and preconditions will be eased for the issuance of preferred stocks, convertible bonds and secondary bonds. This usually leads to greater activity in markets. In general, we think this is good news for the external (global) environment.

Beijing emphasizes flexibility over prudence

The State Council committee published a guideline on strengthening financial support for private entities. According to the document, differentiated monetary and credit policies should be adopted, and financial institutions are encouraged to grant more loans to private enterprises and small and micro businesses. As a result, new lending is now surging. The forecast projects new loans approaching the record CNY2.9T seen in January last year. Total social financing (TSF) looks like it will remain around CNY3.25T per month (two-year highs).

US-China

US-China trade talks ended with little visible progress. The NY Times reported that high-level talks between American and Chinese officials ended in Beijing on Friday afternoon with no immediate announcement from either side, although USTR Robert Lighthizer and Treasury Secretary Steven Mnuchin keep their agenda of meetings with China President Xi Jinping. White House economic adviser Larry Kudlow said that there has been no decision to extend a 1st March US deadline for a deal. Kudlow described the mood as positive, contrasting with other sources, who indicated progress has been difficult on the thorniest issues involving US demands that China make sweeping changes to curb forced technology transfers and to enforce intellectual property rights. The WSJ reported that China is counting on promises of big purchases of US semiconductors and other goods to ease trade tensions and persuade President Trump to extend a tariff truce. Additionally, Reuters cited three people familiar with the US-China trade talks, who said that China has pledged to end market-distorting subsidies for its domestic industries, though offered no details on how this would be achieved. The lack of detail prolongs US negotiators' skepticism of China's promise to bring all subsidy programs into WTO compliance.

The current situation can be described as one where the US and China have failed to narrow the gap around key reforms to China's economy, even as both seek to avoid an increase in tariffs after 1st March. According to people briefed on the negotiations, both sides were scrambling to at least produce a "memorandum of understanding" by the end of Friday that could help pave the way for a meeting between the two presidents next month.

Financial market outlook

Equities – SHANGHAI Idx: NEUTRAL . Target price 2,907. Exit 3,200

Equities – SHENZHEN Idx: POSITIVE . Target price 1,506. Exit 1,650

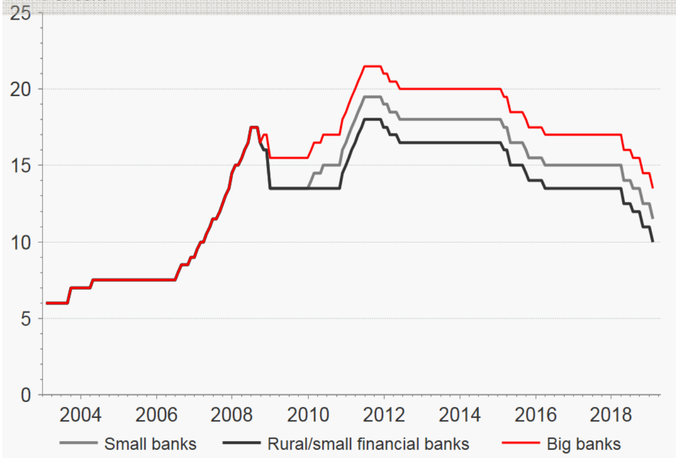
Bonds – Govies: NEUTRAL-POSITIVE (target yield 2.75%)

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

China price/earnings, Datastream index
Ratio

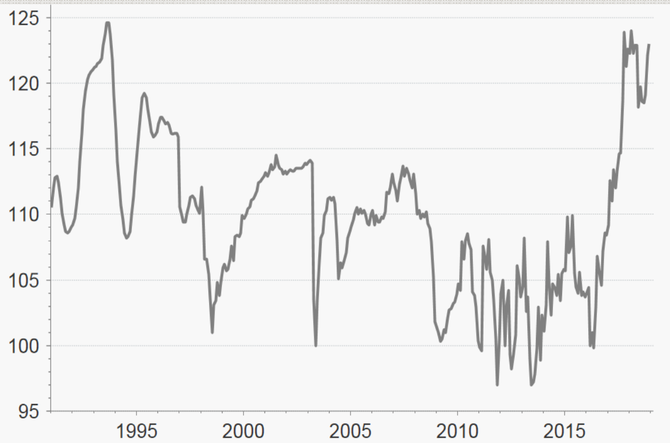
Fuente: Thomson Reuters Datastream / ANDBANK

China reserve requirement ratios
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

China NBS consumer confidence index
Index, 100 = balanced view



Fuente: Thomson Reuters Datastream / ANDBANK

INDIA
Lack of buyers & lack of triggers

Micro economy is gaining momentum but sentiment continues to be dragged by elections and idiosyncratic issues

Credit growth is picking up and liquidity also shows an improving trend, with Indian banks' loans rising 14.5% in the two weeks to 1st February from one year earlier. Deposits rose 9.6%. Consumption shows a healthy trend with strong emphasis on rural areas. Discretionary consumer demand is robust. Auto sales have hit a speed bump. The Indian government had no outstanding loans with the central bank in the week ended 8 Feb. The outlook for exports is mixed; while the commentary in the IT sector is positive, trends in pharma are mixed. In summary, with the economy at a crucial juncture, an generally optimistic mood regarding the economy and the fact that corporate performance seems to have decoupled from election cycles, the situation bodes well for a bottom-up recovery. Nevertheless sentiment continues to be dragged down by market heavyweights such as Tata Consultancy Services or Reliance Industries, or Yes Bank Ltd's stock coming under selling pressure after it was pulled up by the central bank for disclosing information as part of the Risk Assessment Report (RAR) for breaching confidentiality and violating regulatory guidelines. The key factors to monitor going ahead are how quickly the banking sector returns to normality and the new government's policies.

Political risk will weigh on the index in 2019

Modi faces a tough race. The government released its interim budget in response to the Congress Party's leftist populism while presenting a fiscal plan designed not to spook the markets. One of the Modi government's achievements has been to cut consumer price inflation from 10% to 3%, but this was achieved through a government driven shift that favored urban consumers at the expense of farmers, resulting in economic stress in the countryside, which the opposition leftist party (Congress) is capitalizing on. Rahul Gandhi offered a waiver on farm loans in the state elections and is promising to extend the scheme nationally. Gandhi also offered a minimum-income guarantee for the most vulnerable. Modi's government unveiled a less generous package for the poor, but with important concessions for the lower and middle social strata: 1) He pledged direct income support of US$85 a year for 120 million small farmers. 2) Further funds for a rural employment program. 3) A new contributory pension scheme for 100 million workers in the informal sector. 4) A US$2.6bn tax giveaway for the salaried middle class, by increasing the level at which income tax kicks in to US$7,000. Once tax deductible savings and insurance schemes are factored in, no one will have to pay income tax until they earn over US$9,000. All in all, the budget delivered enough largesse to keep the political forces at bay. As it is, the deficit for the year to 31 March is projected to come in at 3.4% of GDP (above the target of 3.3%). The deficit for 2019-20 was pegged at 3.4%, (also above the previous target of 3.1%). For now, markets seem willing to accept this fiscal slippage as the inevitable price of Indian democracy.

The general consensus about the Indian market

The general consensus is that even though stock market volatility may persist owing to election uncertainty, the business models of the corporates are much more robust than before and able to withstand any transient volatility. If the BJP looks to be lagging, asset prices are likely to take a hit. Yet despite this, the key reforms undertaken in recent years are here to stay, and with the benefits of these efforts just coming through, India's growth story will not be derailed. A politically inspired sell-off in the coming months should represent an opportunity to enter the market.

Financial market outlook

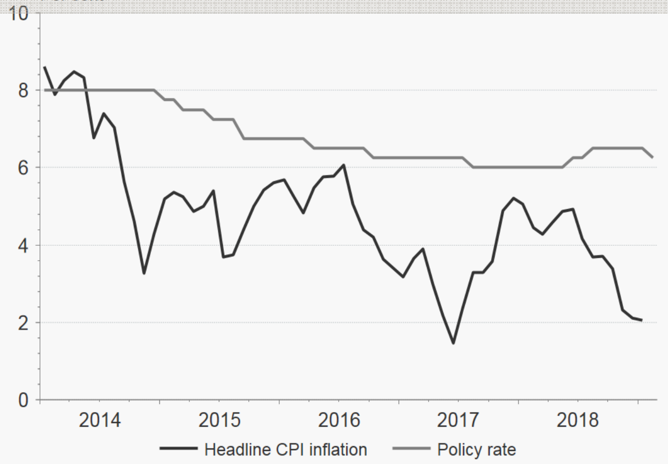
Equities – SENSEX Index: POSITIVE. Target price 40,850. Exit 42,800

Bonds – Govies: POSITIVE (target yield 6.80%)

Bonds – Corporates: POSITIVE

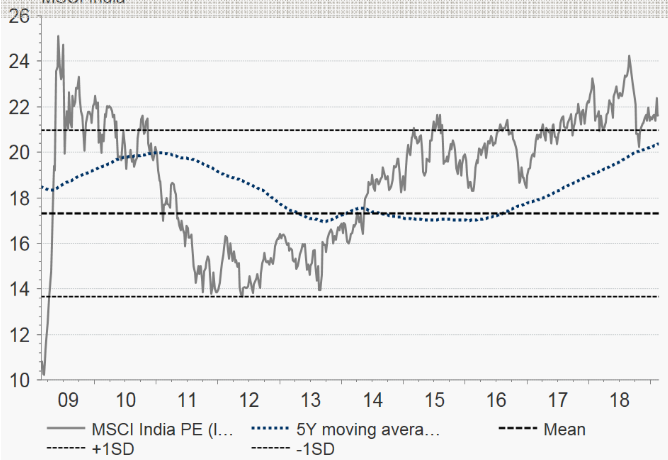
Forex – INR/USD: STABLE (target 72)

India CPI and policy rate
Per cent



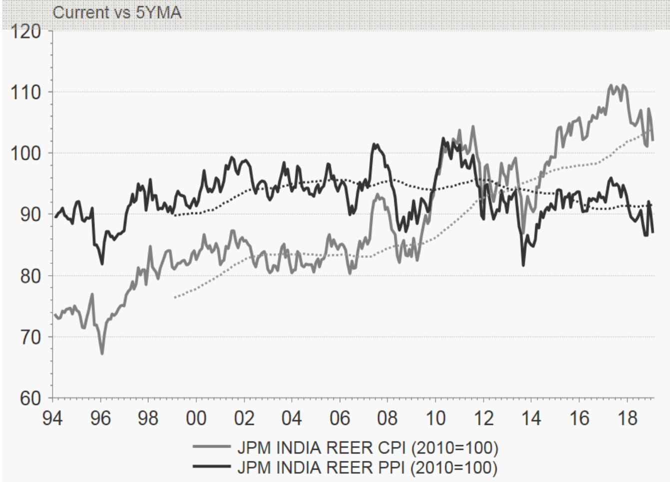
Fuente: Thomson Reuters Datastream / ANDBANK

PE - India
MSCI India



Fuente: Thomson Reuters Datastream / ANDBANK

Indian Rupee REER (CPI & PPI based)
Current vs 5YMA



Fuente: Thomson Reuters Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

MEXICO

AMLO continues to inject plenty of uncertainty among market operators

Politics

AMLO continues to inject plenty of uncertainty among market operators. In March he will propose an amendment to the law to convert popular consultations into law, with which he plans to make many fiscal decisions and implement the results. Indeed he even intends to hold a referendum about whether the last three presidents should be subject to political trial (something that would undoubtedly give rise to powerful political conflict). The business community continues to be uneasy, with businesses consistently rebutting many AMLO decisions; while some entrepreneurs are shelving their investments.

The new government is not predictable. AMLO hosts a daily 1-hour radio show, in which he talks about many (too many) things, turning the relevant into irrelevant, and vice versa.

On the other hand, AMLO is reviewing many of the contracts that energy companies signed as part of the reform, which is why the government is making it very difficult to make progress with activities in this key sector, and which does not allow positive announcements regarding production capacities, reserves, etc.

The only positive aspect would be that the presented budget is keeping fiscal imbalances at bay, with a goal of a primary surplus based on an outlook of reasonable tax income. The risk has focused on the finances of the state company Pemex and the rating agency Fitch cut its rating by 2 notches (BBB-) leaving it on the cusp of losing its investment grade status. The government announced capitalization plans for the company that include higher deductions, monetization of labor liabilities, and a larger budget totaling 3.6 billion dollars in 2019, in addition to strengthening corporate governance. The measures were considered insufficient by local markets. It was reported that any additional transfer would be used for investment projects like the new refinery. Little is known about the returns on these projects and their profitability is very long-term. AMLO has launched an important campaign against the regulatory bodies, specifically in the energy sector, which received fewer resources and was also affected by the cuts in personnel as part of the new austerity policies.

In summary. The environment and the perception of professionals in the market is generally very cautious, signaling that nothing is clear about the economic future. In fact, FY19 GDP projections have already been cut to 1.5% (from 2% in December).

Investor mood for Mexican assets

Fixed Income: We maintain a neutral-to-positive outlook in bonds taking into account the downward movement in yields thanks to the entry of portfolio capital, attracted by carry trade initiatives. The M10 operates above 500 spread points on the UST10, but we expect levels below 500. This said, we are aware that the transfer of risk from issues such as Pemex to the sovereign government remains dormant, which could put pressure on both the Mexican debt market and the corporate curve. We expect the USD spread level for local debt to remain unchanged.

Financial market outlook

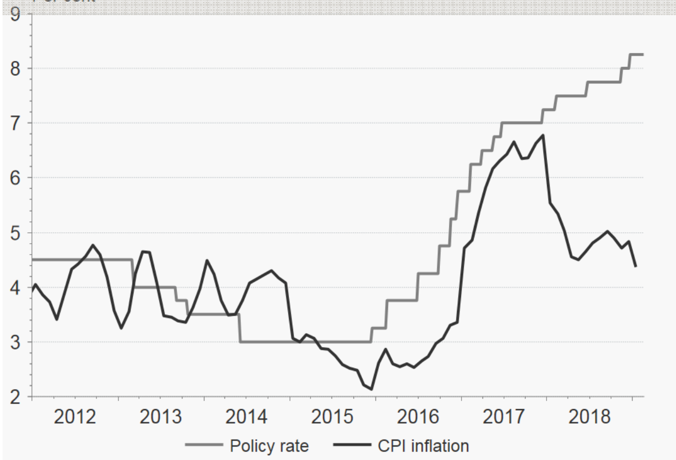
Equities – Mex IPC: NEGATIVE .Target 44,000. Exit 46,200

Bonds – Govies Local: NEUT-POSIT (target spread 475, yield 8.00%)

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

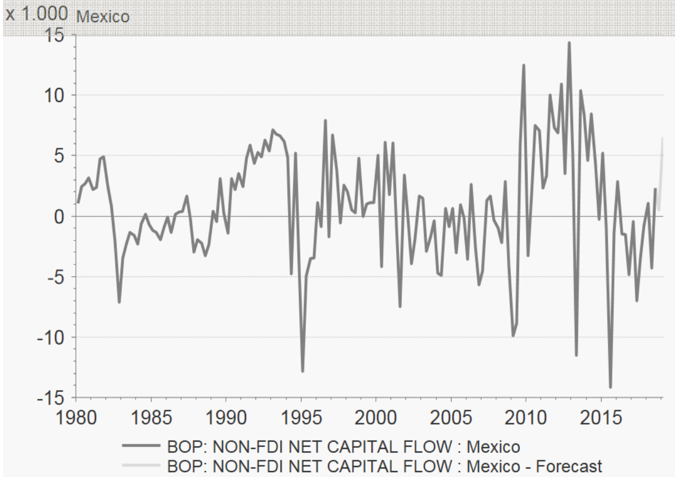
FX – MXN/USD: NEUTRAL (Mid-term target 20.00)

Mexico inflation and exchange, policy rates
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

PORTFOLIO INFLOW
x 1.000 Mexico



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico equities price/earnings ratio
Datastream index

Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL
First points of pension reform are disclosed

Politics: All eyes on the pension reform

Details about the pension reform began to be disclosed by the economic team, immediately after Bolsonaro was discharged from hospital due to the stabbing incident during his presidential campaign. The main points disclosed so far are the minimum retirement ages (65 for men and 62 for women), with a 12-year transition period. Another relevant point relates to the structural model of the pension system, introducing a transition to an individual capitalization system. This proposal is tougher than the one presented by Michel Temer and is still subject to Congressional scrutiny and possible dilution. However, we believe that the outcome of this proposal will be better in terms of fiscal savings. The president is expected to deliver the proposal to Congress himself, which is seen as a sign of commitment towards the congressmen.

On the political side, the news cycle continues to be negative. Gustavo Bebianno, a central figure in Bolsonaro's presidential campaign and a first tier government member, has been fired this week, following a corruption complaint about misuse of electoral funds involving the PSL (Bolsonaro's party). The friction between Bebianno and Carlos Bolsonaro (one of the president´s sons) generated discomfort among government members and Bolsonaro's closest allies. The general perception is that the president's sons are causing unnecessary damage and should be more distant going forward. Despite the noise, we don't believe that these episodes change the outlook for pension reform approval.

Economics: favorable cyclical position for GDP growth persists, awaiting reforms

The IBC-Br index stood at +0.21% MoM in December, above market expectations regarding stability, but still representing a slow economic recovery in 2018. The YoY reading stood at 1.15%. In short, the later activity readings in 2018 showed a slower than expected economy. Leading indicators show that GDP could accelerate this year, with median expectations at 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. Unlike other EM countries, Brazil has maintained 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, stood at +0.32% in January, below an average expectation of +0.38%. The expectation for 2019 IPCA has fallen to 3.87%. On monetary policy, we had the last COPOM meeting under Ilan Goldfajn's administration. The committee decided to hold the Selic rate at its current level of 6.50% p.a, with a hawkish bias in the statement. Inflation expectations continue to be well anchored.

Financial market outlook

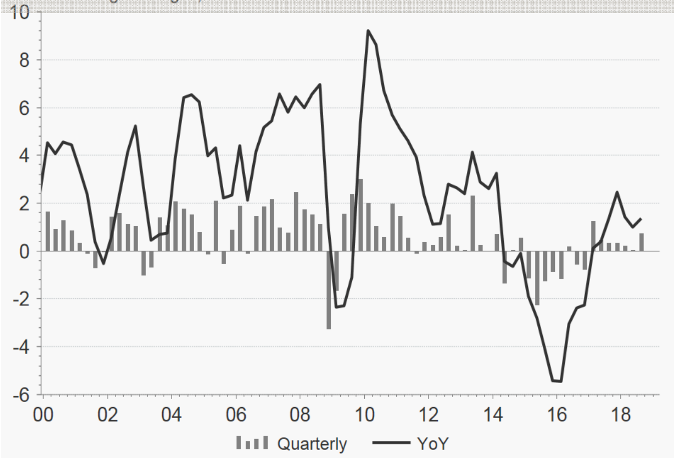
Equities – IBOVESPA: NEUTRAL .Target 94,200. Exit 103,600

Bonds – Gov. Local: POSITIVE (Target spread 550bp. Yield 8.75%)

Bonds – Gov. USD: POSITIVE (Target spread 150bp. Yield 4.75%)

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

Brazil GDP
Percentage changes, SA

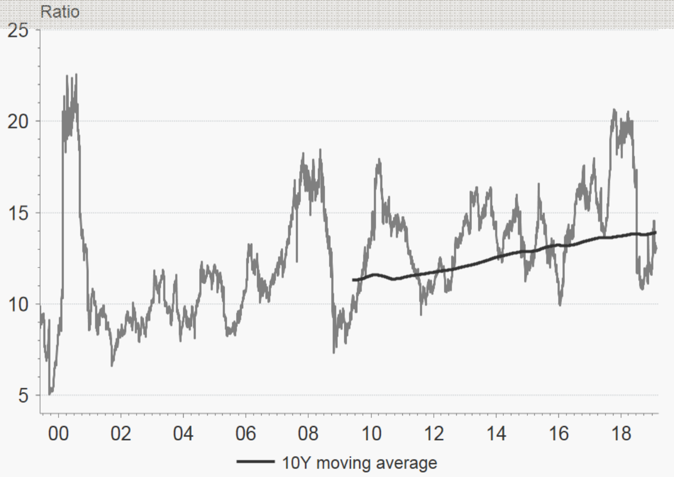


Fuente: Thomson Reuters Datastream / ANDBANK

BRAZILIAN REAL - REER
vS USD

Fuente: Thomson Reuters Datastream / Fathom Consulting

Brazil price/earnings, Datastream index
Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA
Finally, some stability on the monetary front

Argentine assets started 2019 in a very good place, with the Merval index up +23% YTD and the 5Y CDS falling from almost 800 at the beginning of 2019 to 645 at present. International factors, such as a more dovish Fed and moderation in the US-China trade war, were the main drivers behind this. The impact of Argentina's government adjustment will start weighing more and more as we get closer to clearing the electoral cycle.

Activity indicators are starting to show green shoots

GDP's proxy EMAE dropped -2.3% MoM on a SA basis and -7.5% YoY in November (vs +0.6% MoM and -4.2% YoY in October) and the industry capacity utilization dropped to 56.6% in December (vs 63.3% registered in November). However, if we take a close look at the Construya index that measures the evolution of sales of construction supplies, we see that even though the index dropped -20.1% YoY in January, it rose +3.29% MoM, cutting a 5-month streak of consecutive falls. In the January REM analysts kept their GDP growth projections at -1.2% and +2.5% for 2019 and 2020, respectively. Going forward a bill aimed at boosting job creation and reducing informal labor is expected to be presented in March. The bill would also include tax incentives for small and medium businesses as well as incentives to enhance credit facilities.

Inflation above estimates and FX still stable

January's CPI posted a +2.9% MoM increase driven by the increase in regulated prices. The figure was above the +2.5% estimated and the +2.6% of December. Inflation is expected to moderate by 2Q19 when the activity contraction of these past months fully impacts aggregate demand and the policy of increasing regulated prices ends. Inflation is still a major concern for the BCRA that ratified "a strict control over monetary aggregates" in its last monthly statement. January's REM estimate for 2019's inflation increased from the 28.7% in December to 29%, while it dropped for 2020 from 19.9% to 19.5%.

Monetary policy normalization

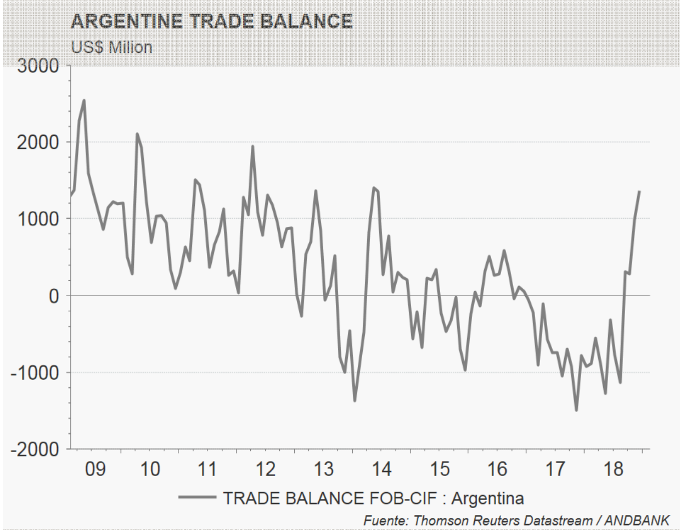
The BCRA announced a limit commercial banks' daily net position of Leliqs to avoid the volatility of financial flows seeking the return of carry trade. By the end of April it is estimated that banks will have to reduce their Leliq holdings by close to USD 1,300 million (close to 5% of the monetary base that will eventually have to be absorbed). This could curb the normalization in monetary policy. The Leliq rate has fallen a cumulative 15bps to the current rate of 44%. In this context the estimate for the end of 2019 is 37%, and 25% by the end of 2020.

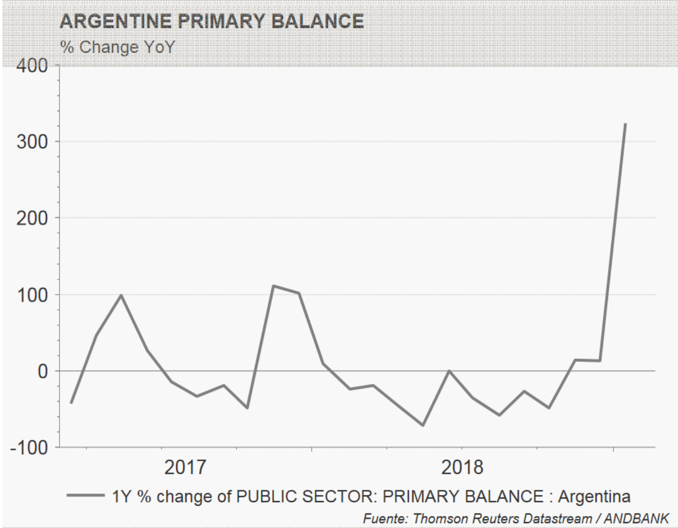
IMF revision and upcoming disbursement

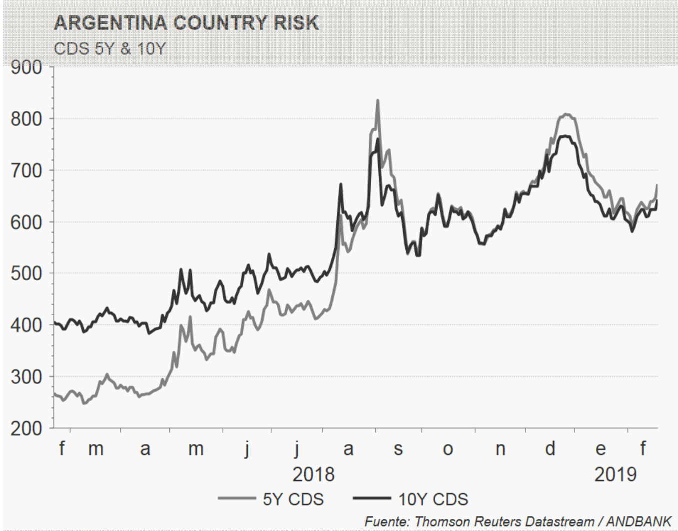
The current IMF review of the fiscal accounts is expected to finish this week and fulfillment of the fiscal targets will result in a new disbursement of USD10.7bn in March. The IMF meetings included figures such as the opposition candidate Juan Manuel Urtubey (current Salta Governor), which demonstrated his commitment towards the IMF agreement. In the political environment we saw confirmation that the Buenos Aires Provincial elections will be held together with the Presidential elections so it seems likely that CFK will run for President rather than Governor.

Financial market outlook

NEW! Bonds – 10YGov USD: POSITIVE. Target yield 8.75%.
FX – USD-ARS: NEGATIVE (2019 year-end target 44)







GLOBAL EQUITY INDICES

Fundamental assessment

Index	Andbank's Sales growth 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%	11,9%	168	2,7%	17,04	16,60	2.792	2.794	**0,1%**	3.073
Europe - Stoxx Europe 600	5,3%	8,3%	27	3,1%	14,25	13,75	371	369	**-0,5%**	388
Euro Zone - Euro Stoxx	**3,4%**	7,5%	27	2,3%	13,92	13,55	360	359	**-0,4%**	377
Spain IBEX 35	**3,7%**	9,3%	770	2,3%	12,19	12,50	9.169	9.619	**4,9%**	9.619
Mexico IPC GRAL	6,7%	7,9%	2.975	1,0%	14,71	14,80	43.311	44.035	**1,7%**	46.237
Brazil BOVESPA	7,1%	10,6%	7.080	8,1%	14,86	13,30	97.307	94.167	**-3,2%**	103.583
Japan NIKKEI 225	5,6%	6,3%	1.445	3,1%	15,39	15,40	21.557	22.250	**3,2%**	23.362
China SSE Comp.	8,0%	9,3%	277	12,2%	11,92	10,50	2.941	2.907	**-1,2%**	3.197
China Shenzhen Comp	8,2%	6,3%	100	14,6%	17,64	15,00	1.546	1.506	**-2,6%**	1.657
Hong Kong HANG SENG	3,0%	15,2%	1.905	5,4%	15,85	15,00	28.633	28.576	**-0,2%**	31.434
India SENSEX	10,1%	10,9%	2.042	16,6%	20,47	20,00	35.856	40.843	**13,9%**	42.885
Vietnam VN Index	8,4%	9,0%	62	10,8%	17,18	17,00	965	1.059	**9,7%**	1.112
MSCI EM ASIA	7,3%	9,7%	47	12,6%	12,72	11,60	534	548	**2,7%**	576

UPWARD REVISION DOWNWARD REVISION *ANDBANK ESTIMATES*

GLOBAL FLOWS

By Asset Type & Region

FLOWS BY ASSET TYPE - AS OF 12/31/2018

1D 1W 1M 1Y

NORTH AMERICA

Asset Type	Flow $B
Money Market	191.56
Bond	118.69
Equity	4.91
Other	-25.11
Mixed Assets	-54.33

EUROPE

Asset Type	Flow $B
Money Market	51.47
Other	26.51
Equity	16.12
Mixed Assets	16.12
Bond	-101.25

ASIA

Asset Type	Flow $B
Equity	148.95
Money Market	106.06
Other	5.18
Bond	-20.57
Mixed Assets	-48.54

GLOBAL

Asset Type	Flow $B
Money Market	363.11
Equity	217.49
Mixed Assets	54.23
Other	12.83
Bond	11.42

TECHNICAL ANALYSIS

Trending scenario.
Supports & resistances (1 month)

S&P: SIDEWAYS
Support at 2,603. Resistance at 2,815

STOXX600: SIDEWAYS
Support at 348, Resistance at 371

EUROSTOXX: SIDEWAYS
Support at 341. Resistance at 364

IBEX: SIDEWAYS
Support at 8,286. Resistance at 9,327

EUR-USD: SIDEWAYS-BULLISH
Support at 1.121. Resistance at 1.157

Oil (WTI): SIDEWAYS-BULLISH
Support at 49.42. Resistance at 58

Gold: BULLISH
Support at 1,276. Resistance at 1,365

US Treasury: SIDEWAYS
Support at 2.50%. Resistance at 2.80%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.45%. Fair value 3.2%. Ceiling 3.65%

Swap spread: The swap decreased to -1.6bp (from +6.9bp 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 up ticked to 13bp (from 15). With the short end normalizing towards 2% (today at 2.52%), to reach the 10Y average slope (of 165 bp) the 10Y UST yield would have to move to 3.65%.

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 2.4%

Swap spread: The swap spread down ticked to 54bp (from 59 bp last month). For the swap spread to normalize at 36 bp, with the swap rate anchored in the 1.50% area (today at 0.64%), the Bund yield would have to move towards 1.14% (entry point).

Slope: The slope of the EUR curve fell to 68bp (from 78 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 1.4%, the Bund yield would have to rise to 2.4% to become a "BUY".

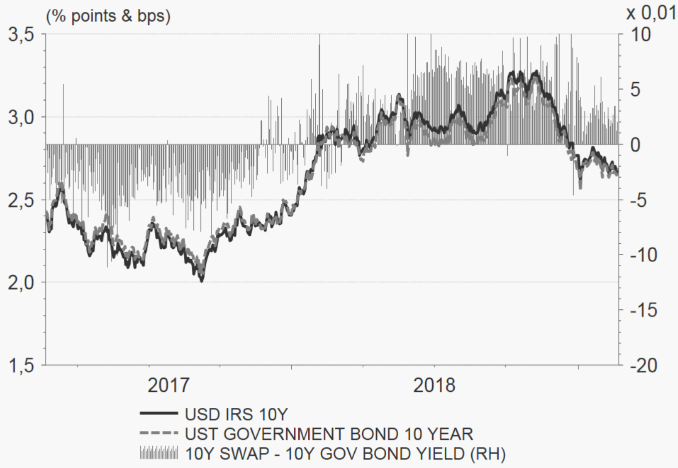
UK Gilt: Fair value 1.9%. Ceiling 3.1%

Swap spread: The swap spread fell to 16bp (from 24bp last month). For the swap spread to normalize at 12 bp, with the swap rate anchored in the 2% area (today at 1.4%), the 10Y UK Gilt would have to shift to 1.88%.

Slope: With 2Y normalized at 1.5%, to reach the average slope at 1.6%, the 10Y Gilt would have to move to 3.1%.

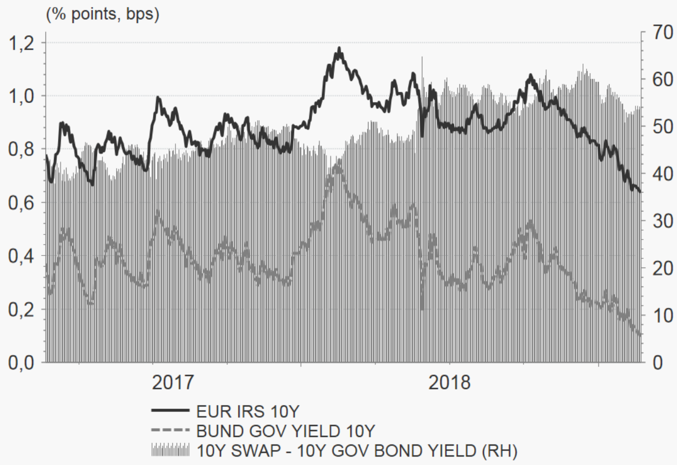
Real yield: Expectations are for FY19 inflation to ease to 2.2%. A 1% real yield means the 10Y gilt should be at 3.2%.

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	7,92%	2,82%	5,10%	-1,00%	6,92%
	India	7,57%	2,00%	5,57%	-1,00%	6,57%
	Philippines	6,37%	4,40%	1,97%	-0,50%	5,87%
	China	3,12%	1,70%	1,42%	-0,50%	2,62%
	Malaysia	3,89%	-0,70%	4,58%	-1,00%	2,89%
	Thailand	2,44%	0,30%	2,14%	-0,75%	1,69%
	Singapore	2,14%	0,46%	1,69%	-0,50%	1,64%
	South Korea	1,94%	0,83%	1,11%	-0,50%	1,44%
	Taiwan	0,82%	0,16%	0,65%	0,00%	0,82%
EME	Turkey	14,75%	20,35%	-5,60%	1,00%	15,75%
	Russian Fed	8,39%	5,00%	3,39%	-1,00%	7,39%
LATAM	Brazil	8,97%	3,57%	5,40%	-1,00%	7,97%
	Mexico	8,33%	4,42%	3,91%	-1,00%	7,33%
	Colombia	6,66%	3,11%	3,56%	-1,00%	5,66%
	Peru	5,76%	1,93%	3,83%	-1,00%	4,76%

ENERGY – OIL

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

Buy < USD45; Sell >65

Short-term drivers

(Price Positive) – Global supply concerns (due to Venezuela) continue to push oil prices higher. Venezuela's PDVSA will have 370K bpd of crude oil for export that has been left without a market due to US sanctions, which is increasingly bullish for oil in the short-term. Elliott Abrams, the US envoy for Venezuela, forecast that Venezuela's crude production would fall to 500K bpd by the end of the year if Maduro stays in office. Abrams also said he believes the "current political and economic environment is unsustainable and [Maduro] will not be able to weather it much longer." Venezuela's production has fallen from 3M to 1M bpd amid the country's economic collapse. Yesterday's DOE weekly showed imports from Venezuela plunging to 117K bpd, the lowest in at least 10 years. On the other hand, Russian Energy Minister Novak also said the country's output is down 80-90K from October levels, and down 140K from December. Positive headlines from the US and China trade negotiations have also boosted prices.

(Price Positive) – US lawmakers are still deciding which sanctions could be imposed on Russia, stemming from a State Department report that said Moscow violated a 1991 chemical and biological weapons law. The penalties could include blocking Russian petroleum imports, banning US bank loans to Russia or restricting Russia's access to international debt, which could hamper the country's export capabilities and deliver a hit to its economy. The government of Russia could compensate for these negative effects by increasing international oil prices.

(Price Positive) – Recent reports said US shale executives may curb drilling. US shale producers may curb output until transportation bottlenecks ease and investors stop punishing companies that increase capital spending. Actually, companies have cut back on their exploration budgets. Pioneer Natural Resources said this week it will cut capex by 11% in 2019, slowing production growth from recent years. Executives also said that cutbacks will continue until three pipelines from West Texas to the Gulf Coast are completed over the next 18 months. Executives also complained that investors have insisted on free cash flows and dividends, and that stock prices have not benefited from growing reserves or production.

(Price Positive) – As a result of this supportive oil price news, hedge funds have been building long positions in oil contracts, pushing oil prices higher. Oil traders expect global conditions to tighten this year as a full-blown US and China trade war is likely to be averted, production slows across OPEC and due to Venezuela sanctions. Although oil demand is likely to be slow compared to rapid increases seen between 2014 and 2017, they believe oil prices should still be supported by the better trade and tariff outlook. Saudi Arabia's willingness to act as a swing producer has offset a lack of compliance by other OPEC members. Hedge funds and other managers have become more bullish on Brent recently, with overall bullish positions rising by 100M barrels over the last nine weeks. However, positioning remains near the lowest level for the last three years.

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$1,201 (from US$1,163 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 rose to 83.79x (from 82.77x last month) but still remains well above its 20-year average of 63x, 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$1000/oz.

Gold to Oil: This ratio fell during the month to 23.37x (from 24.89x 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 212k (from 182k last month). Short contracts fell to 112k (from 106k). Thus, the net position rose to +99k contracts during the month (from +75k the previous month), suggesting that speculators' recent appetite for gold have continued.

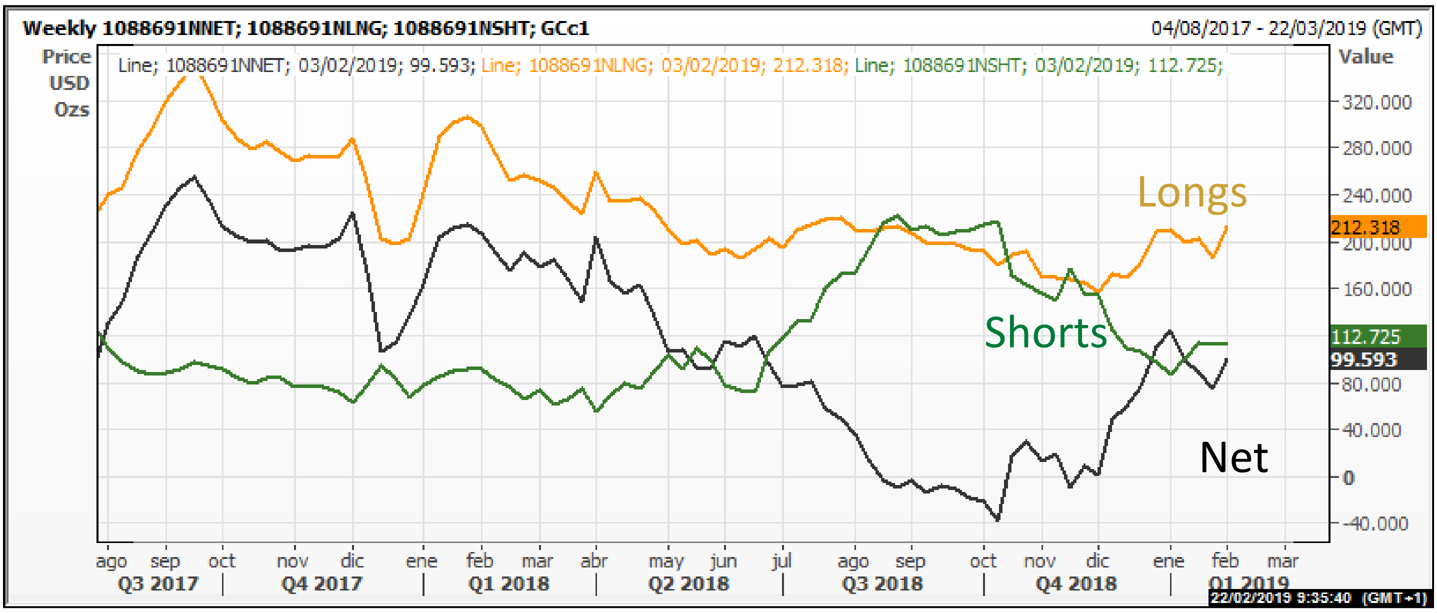
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio fell to 0.48x (from 0.49x last month) but is still well below its LT average of 0.599x. Given our target price for the S&P of US$2,800, the price of gold must approach US$1,677 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

Flow analysis & Fundamental targets

EUR-USD: Fundamental mid-term target 1.125 // Support at 1.12 // Resistance at 1.157

Flows: It seems that the US dollar is not as overbought as it was last month. In the derivatives market, the net long speculative positions are still long in the dollar against the other currencies but with a lower intensity relative to January (0.98 *sigmas* currently versus 1.57 *sigmas* in January). Thus, global positioning in USD is far from being at an extreme level. This indicates that there is now more room for further increases in the global positioning on the dollar (which a priori is less favorable for EM and risky assets). Looking at the bar chart in detail, we can see how the long USD position is essentially financed by short positions in G10 currencies (especially with CAD and AUD, and to a lesser extent EUR and GBP). 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. A fact that we would take advantage of 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 1.157.

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

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 USD more attractive (or 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

AUD: POSITIVE

CAD: POSITIVE

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	21,76	-7,09	32,1	-28,2	7,7	**0,98**
USD vs G10	23,63	-5,90	32,7	-25,4	8,0	**1,13**
EM	1,88	1,19	3,8	-0,8	1,2	**0,58**
EUR	-5,80	2,16	23,4	-8,4	7,0	**-0,62**
JPY	-4,49	6,27	0,6	-13,9	-6,5	**-0,06**
GBP	-4,20	-0,89	4,3	-6,5	-1,6	**-0,35**
CHF	-2,04	0,26	0,0	-6,0	-3,1	**-0,20**
BRL	0,00	0,00	0,4	-0,8	-0,4	**-0,21**
MXN	1,65	1,37	2,8	-0,5	1,2	**0,75**
RUB	0,22	-0,18	1,2	-0,2	0,4	**-0,63**
AUD	-2,56	0,72	1,4	-5,2	-2,1	**-1,17**
CAD	-4,24	-3,37	3,2	-5,0	-1,1	**-1,47**

Positive
Neutral-Positive
Neutral-Negative
Negative

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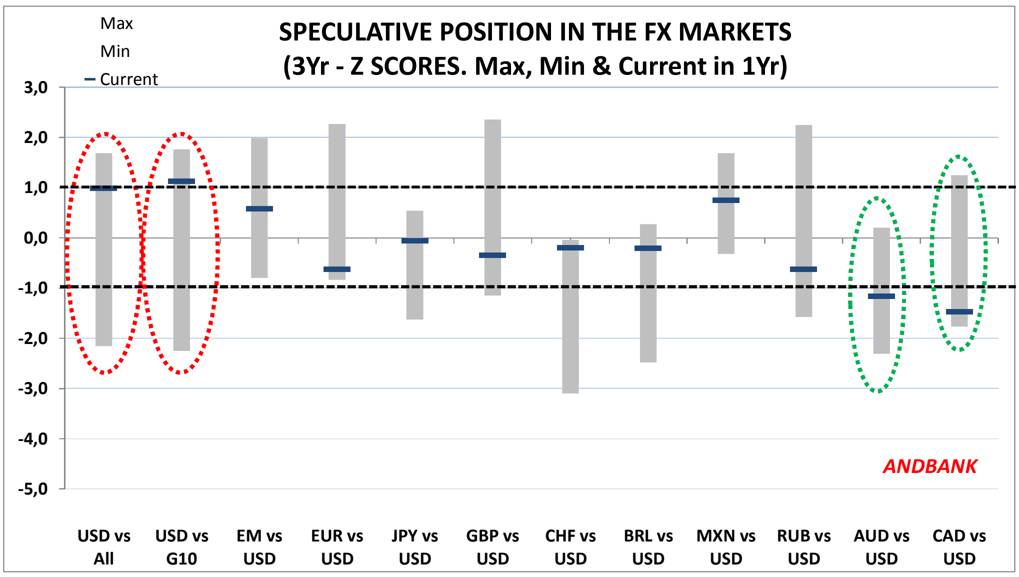

The currencies we technically favor are circled in green

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	5,8%	11,4%	2.792	2794	0,1%
	Europe - Stoxx Europe 600	3,9%	10,3%	371	369	-0,5%
	Euro Zone - Euro Stoxx	3,5%	9,8%	360	359	-0,4%
	SPAIN - IBEX 35	0,5%	7,9%	9.169	9.619	4,9%
	MEXICO - MXSE IPC	-0,9%	4,0%	43.311	44.035	1,7%
	BRAZIL - BOVESPA	1,7%	10,7%	97.307	94167	-3,2%
	JAPAN - NIKKEI 225	4,4%	6,8%	21.557	22250	3,2%
	CHINA - SHANGHAI COMPOSITE	13,4%	17,9%	2.941	2907	-1,2%
	CHINA - SHENZEN COMPOSITE	18,9%	22,0%	1.546	1506	-2,6%
	INDIA - SENSEX	0,8%	-0,5%	35.874	40.843	13,9%
	MSCI EM ASIA (in USD)	4,4%	10,0%	534	548	2,7%
Fixed Income Core countries	US Treasury 10 year Govie	0,5%	0,5%	2,67	3,25	-2,4%
	UK 10 year Gilt	0,1%	0,2%	1,26	2,00	-4,8%
	German 10 year BUND	0,4%	0,8%	0,15	0,60	-3,5%
	Japanese 10 year Govie	0,2%	0,2%	-0,03	0,10	-1,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,7%	2,3%	1,16	1,60	-2,6%
	Italy - 10yr Gov bond	-1,0%	0,0%	2,78	2,70	2,9%
	Portugal - 10yr Gov bond	1,7%	2,3%	1,45	1,90	-2,4%
	Ireland - 10yr Gov bond	1,1%	0,9%	0,80	0,90	-0,2%
	Greece - 10yr Gov bond	2,1%	5,8%	3,67	4,20	-1,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,5%	0,9%	62,38	92	-2,0%
	Credit EUR HY-Itraxx Xover	2,0%	2,9%	275,99	350	-1,5%
	Credit USD IG - CDX IG	0,6%	0,9%	59,75	85	0,1%
	Credit USD HY - CDX HY	1,5%	3,9%	343,38	490	-1,2%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	2,4%	13,7%	14,46	**15,00**	10,1%
	Russia - 10yr Gov bond	-0,4%	3,2%	8,45	7,70	14,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	3,3%	2,2%	7,77	7,25	11,9%
	India - 10yr Gov bond	-0,4%	-1,0%	7,64	6,80	14,4%
	Philippines - 10yr Gov bond	1,1%	6,4%	6,38	**6,00**	9,4%
	China - 10yr Gov bond	0,1%	0,7%	3,13	**2,75**	6,2%
	Malaysia - 10yr Gov bond	1,7%	2,2%	3,89	3,25	9,0%
	Thailand - 10yr Gov bond	-0,3%	-0,1%	2,43	2,00	5,9%
	Singapore - 10yr Gov bond	-0,1%	-1,4%	2,23	2,00	4,1%
	South Korea - 10yr Gov bond	0,5%	0,1%	1,92	2,25	-0,7%
	Taiwan - 10yr Gov bond	0,5%	0,5%	0,81	1,75	-6,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	3,1%	5,6%	8,10	**8,00**	8,9%
	Mexico - 10yr Govie (USD)	1,5%	3,4%	4,58	5,00	1,2%
	Brazil - 10yr Govie (Loc)	1,2%	3,6%	8,94	**8,75**	10,5%
	Brazil - 10yr Govie (USD)	1,6%	4,7%	4,98	5,00	4,8%
	Argentina - 10yr Govie (USD)	1,6%	14,3%	9,94	8,75	19,4%
Commodities	Oil (WTI)	6,6%	25,1%	56,8	50,00	-12,0%
	GOLD	0,9%	3,2%	1.323,4	1.100	-16,9%
Fx	EURUSD (price of 1 EUR)	-0,4%	-0,8%	1,138	1,125	-1,2%
	GBPUSD (price of 1 GBP)	1,8%	4,3%	1,33	1,37	3,0%
	EURGBP (price of 1 EUR)	-2,2%	-4,8%	0,86	0,82	-4,0%
	USDCHF (price of 1 USD)	0,3%	1,6%	1,00	0,98	-2,0%
	EURCHF (price of 1 EUR)	-0,2%	0,8%	1,13	1,10	-3,1%
	USDJPY (price of 1 USD)	1,3%	1,1%	110,79	114,00	2,9%
	EURJPY (price of 1 EUR)	0,9%	0,3%	126,11	128,25	1,7%
	USDMXN (price of 1 USD)	1,0%	-2,4%	19,17	20,00	4,3%
	EURMXN (price of 1 EUR)	0,5%	-3,1%	21,82	22,50	3,1%
	USDBRL (price of 1 USD)	0,2%	-3,9%	3,73	3,75	0,6%
	EURBRL (price of 1 EUR)	-0,2%	-4,6%	4,24	4,22	-0,6%
	USDARS (price of 1 USD)	3,0%	3,0%	38,74	44,00	13,6%
	USDINR (price of 1 USD)	-0,4%	2,2%	71,07	72,00	1,3%
	CNY (price of 1 USD)	-0,7%	-2,8%	6,69	6,70	0,2%

** 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**	**21,3**	**10,0**	**14,9**	**5,0**	**8,7**	**5,0**	**3,2**
Short-Term debt & MM instrument	**25,0**	**33,2**	**15,0**	**20,9**	**5,0**	**8,1**	**0,0**	**1,6**
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		2,8		2,8		2,1		0,7
Investment Grade EUR		2,8		2,8		2,1		0,7
High Yield Grade EUR		1,4		1,4		1,1		0,4
Fixed Income Emerging Markets	**5,0**	**5,5**	**7,5**	**8,3**	**10,0**	**11,0**	**15,0**	**16,5**
Latam Sovereign		1,7		2,5		3,3		5,0
Latam Credit		1,4		2,1		2,8		4,1
Asia Sovereign		1,7		2,5		3,3		5,0
Asia Credit		0,8		1,2		1,7		2,5
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		2,0		8,0		13,0		20,0
Japan Equity		0,5		2,0		3,3		5,0
Equity Emerging	**0,0**	**0,0**	**5,0**	**6,0**	**10,0**	**12,0**	**10,0**	**12,0**
Asian Equity		0,0		4,2		8,4		8,4
Latam Equity		0,0		1,8		3,6		3,6
Commodities	**0,0**	**0,0**	**2,5**	**1,9**	**5,0**	**3,8**	**5,0**	**3,8**
Energy		0,0		0,3		0,6		0,6
Minerals & Metals		0,0		0,4		0,8		0,8
Precious		0,0		0,8		1,7		1,7
Agriculture		0,0		0,4		0,8		0,8
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,0**	**5,0**	**6,0**
REITs		0,0		0,0		0,8		1,5
Alt.Energy (wind, solar, etc)		0,0		0,0		0,8		1,5
Market Neutral		0,0		0,0		1,1		2,1
Volatility		0,0		0,0		0,5		0,9
Currency Exposure (European investor perspective)								
EUR		92,0		91,5		87,8		84,0
USD		8,0		8,5		12,2		16,0

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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