GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review – Strategic Outlook 2022

Corporate Review

Strategic Outlook 2022

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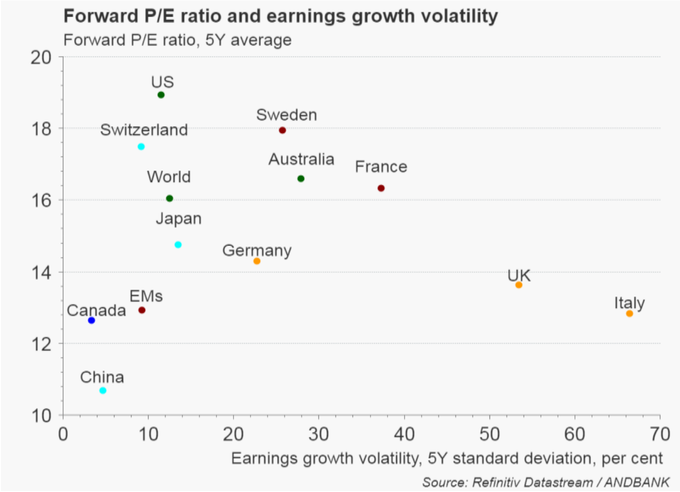
ANDBANK Private Bankers

EXECUTIVE SUMMARY

CHART OF THE MONTH



MAIN CONCLUSIONS

Global: The year 2020 was an anomaly, a rarity, and therefore a statistical deformity. As such, today's year-on-year inflation readings, which are based on 2020, are also a deformity, and therefore cannot be considered as something descriptive of a permanent reality. The first months of 2021 were also abnormal, so we must also ignore the year-on-year inflation readings up to March or April 20202.

Investor's risk appetite is likely to remain at levels that will allow asset prices to be supported. That said, it is legitimate to think that the appetite will be somewhat lower than in 2021.

Upward cycle may continue: Despite the withdrawal of stimulus, the US economy is stabilizing, and this will almost certainly cause an increase in imports, which implies an outflow of dollars to the world. Historically, this is associated with a greater capacity to finance the cycle in external markets.

USA: Inflation puts the Fed on a path to normalize, but favorable market condition could persist, with cost of capital still below return on capital. However, potential appreciation is limited for the S&P. UST at 2%. We prefer HY vs IG.

Europe: A flexible and protective ECB, together with fiscal support from governments, could maintain favorable conditions for credit, economic cycle and assets, especially equities. Negative in Govies. We prefer HY vs IG.

Japan: The stimulus will continue at full speed. The pandemic in 2022 will be much milder. Maybe our preferred market for the next 12 months.

Emerging Markets: In **China,** growth pace will fall to levels last seen in 1990. Pending defaults in the REIT sector. Still cautious in equities. **India**: The withdrawal of some key reforms has undermined our confidence in the reformist push. Neutral Indian equities. **Brazil**: Fiscal and political noise will persist, but recent corrections have made Brazilian assets attractive, especially bonds in BRL and equities.

Investment Style: We recommend to increase exposure to equities in each correction episode. It will not be a year in which the indices stand out, but rather for the investment themes to stand out. We also prefer defensive versus cyclical (especially in Europe). Value vs Growth. Small and mid vs large. UK equity market is cheap.

EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point	E[Perf] to Exit point
USA S&P 500	4.577	4.500	-1,7%	MW	4.950	8,1%
Europe - Stoxx Europe 600	467	519	11,1%	MW/OW	570	22,2%
Euro Zone - Euro Stoxx	460	502	9,1%	MW/OW	552	20,0%
Spain IBEX 35	8.292	9.510	14,7%	MW/OW	10.461	26,2%
Mexico IPC GRAL	50.927	60.000	17,8%	OW	66.000	29,6%
Brazil BOVESPA	105.571	120.000	13,7%	MW/OW	132.000	25,0%
Japan NIKKEI 225	28.030	33.250	18,6%	OW	36.575	30,5%
China SSE Comp.	3.607	3.863	7,1%	MW/UW	4.249	17,8%
China Shenzhen Comp	2.526	2.684	6,2%	MW/UW	2.952	16,9%
India SENSEX	57.696	63.411	9,9%	MW	69.752	20,9%
Vietnam VN Index	1.443	1.866	29,3%	OW	2.053	42,2%
Taiwán SE Weighted Index	17.697	19.065	7,7%	MW/OW		
MSCI EM ASIA	670	743	10,8%	OW	817	21,9%

ANDBANK ESTIMATES

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	1,42	2,00	-3,2%
	UK 10 year Gilt	0,78	1,50	-5,0%
	German 10 year BUND	-0,38	0,05	-3,8%
	Japanese 10 year Govie	0,05	0,20	-1,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,35	0,85	-3,6%
	Italy - 10yr Gov bond	0,91	1,25	-1,9%
	Portugal - 10yr Gov bond	0,27	0,85	-4,4%
	Ireland - 10yr Gov bond	0,05	0,50	-3,5%
	Greece - 10yr Gov bond	1,19	1,45	-0,9%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	56,73	60	-0,1%
	Credit EUR HY-Itraxx Xover	280,13	275	2,4%
	Credit USD IG - CDX IG	57,38	70	0,4%
	Credit USD HY - CDX HY	325,13	331	3,3%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	20,34	20,00	23,1%
	Russia - 10yr Gov bond (local)	8,39	7,50	15,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,36	5,10	16,5%
	India - 10yr Gov bond (local)	6,37	6,00	9,3%
	Philippines - 10yr Gov bond (local)	4,98	5,00	4,8%
	China - 10yr Gov bond (local)	2,89	2,40	6,8%
	Malaysia - 10yr Gov bond (local)	3,51	3,10	6,8%
	Thailand - 10yr Gov bond (local)	1,84	1,90	1,4%
	Singapore - 10yr Gov bond (local)	1,67	2,75	-7,0%
	Rep. Korea - 10yr G. bond (local)	2,13	3,40	-8,0%
	Taiwan - 10yr Gov bond (local)	0,53	1,50	-7,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	7,40	7,75	4,6%
	Mexico - 10yr Govie (USD)	3,28	3,75	-0,5%
	Brazil - 10yr Govie (Loc)	11,33	11,00	14,0%
	Brazil - 10yr Govie (USD)	4,86	5,75	-2,3%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	68,3	60,00	-12,1%
	GOLD	1.775,0	1.900	7,0%
Fx	EURUSD (price of 1 EUR)	1,132	1,12	-1,0%
	GBPUSD (price of 1 GBP)	1,33	1,39	4,7%
	EURGBP (price of 1 EUR)	0,85	0,80	-5,5%
	USDCHF (price of 1 USD)	0,92	0,93	1,4%
	EURCHF (price of 1 EUR)	1,04	1,04	0,3%
	USDJPY (price of 1 USD)	113,17	116,00	2,5%
	EURJPY (price of 1 EUR)	128,07	129,92	1,4%
	USDMXN (price of 1 USD)	21,16	21,00	-0,8%
	EURMXN (price of 1 EUR)	23,92	23,52	-1,7%
	USDBRL (price of 1 USD)	5,62	5,35	-4,7%
	EURBRL (price of 1 EUR)	6,36	5,99	-5,7%
	USDARS (price of 1 USD)	101,13	175,00	73,0%
	USDINR (price of 1 USD)	75,13	76,00	1,2%
	CNY (price of 1 USD)	6,37	6,35	-0,3%

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MACRO ECONOMY

USA

Inflation puts the Fed on a path to normalize, but favorable market condition could persist, with Cost of Capital still below Return on Capital. Potential appreciation limited.

Back to normalization. What are the implications?

We see this monetary normalization as a normal response to the evident stabilization of the US economy. The withdrawal of stimulus should, in the long run, calm inflationary tensions, and we do not believe that it will imply a blow to the price of assets, which will continue to be favorably influenced by low interest rates throughout the curve. After all, the USD is still the reserve currency and, as such, the UST receives the demand of all central banks. This specific external support will likely gain intensity in 2022, since the stabilization of the US economy means an increase in imports, which is equivalent to say an increase in exports from the rest of the world and, therefore the entry of USD into those foreign Central Banks, which in turn will be translated into UST demand. These forces by which the world economy is governed, may offset the withdrawal of the Treasuries purchase program, and the UST will continue to trade at historically low yields, which will continue to represent an explicit support for risky assets.

Inflation has been in the spotlight in the last months of the year, with the latest inflation data released in the 6.9% YoY level (the highest in the last 31 years). That said, the year 2020 was an anomaly in terms of economic activity and prices, and therefore a statistical deformity. As such, today's year-on-year inflation readings, which are based on 2020, are also a deformity, and therefore cannot be considered as something descriptive of a permanent reality. The first months of 2021 were also abnormal, so we must also ignore the year-on-year inflation readings up to March or April 2022. On the other hand, the PCE (index tracked by the Fed) is showing signs of relaxation on a sequential basis (mom), which strengthens our thesis that CPI will decline considerably in the second half of 2022.

The FED path

Given that the labor market is still tight in the USA, and the possible resignation of workers if they are forced to get vaccinated, and a certain reluctance even to work in closed and crowded places, along with the presence still of some bottlenecks in transport and the rent price increases, etc., everything indicates that the pressure on prices in the US may continue for a few months (perhaps until January-February). So the Fed should maintain its roadmap of gradually withdrawing stimulus (Tapering), or even raise interest rates once or twice.

Macro. The US economy is stabilizing, and this will lead to an increase in imports, and a better tone of the external cycle. Fiscal stimulus will help.

US economic activity is expected to grow 6% in 2021 and 5% for 2022. The unemployment rate has been reduced to approximately 4.6% and will probably reach full employment next year. The House passed a 2 trillion USD social and climate spending program that is the central pillar of President Biden's domestic agenda. The package would bolster the federal safety net, enhancing support for families with childcare subsidies, increasing housing assistance and investing heavily in combating climate change. The bill is likely to change as it moves through the evenly divided Senate. The president also passed into law the USD 1 trillion USD program, with new funds for transportation, broadband, utilities, roads and bridges. The Treasury secretary told congress that US will reach the debt celling in mid-December, urging lawmakers to increase or suspend the debt limit as soon as possible.

US Equities in 2022: Not a bad year, but limited room for appreciation

We do not really believe that 2022 has to be a bad year for US equity, as we continue to believe that favorable conditions will continue in the form of a cost of capital still below the return on capital. However, with an EPS projection of USD 225 for the S&P, and a slight contraction of the multiple PE (due to a slight rise in yields), we think that fair value for the S&P would be at 4500 points. That is, -2.1% compared to the current price. Which leaves us with a limited margin of appreciation. As we finish the earnings season, the positive surprise was 10% above analysts' expectations, this being another positive factor in helping the indices continue to rise at the end of 2021.

Fixed Income & USD

As we close 2021, it is fair to say that this year has been one with the lowest volatility for credit on record. The strong growth, coupled with an extreme level of stimulus, has resulted in very low spread ranges. We think this low volatility environment is unlikely to last and that spreads will widen at some point in 2022. Inflation, the first interest rate hikes in 2022, and the spike of Covid cases in Europe are among the main factors that have helped to strengthen the USD, which started the year at 1.23 and is currently close to 1.12. We think the USD could keep this strength in the short to medium term.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

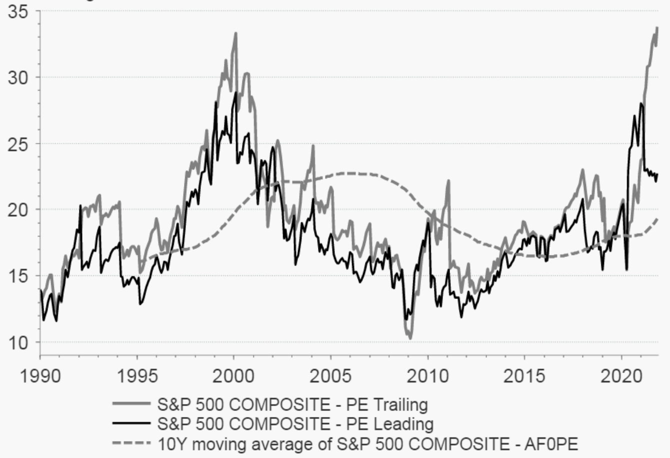
Bonds: Govies UNDERWEIGHT. 10 Y UST Target 2.00

CDX: IG MW MARKETWEIGHT (Target Spread 70)

CDX: HY MW OVERWEIGHT (Target Spread 331)

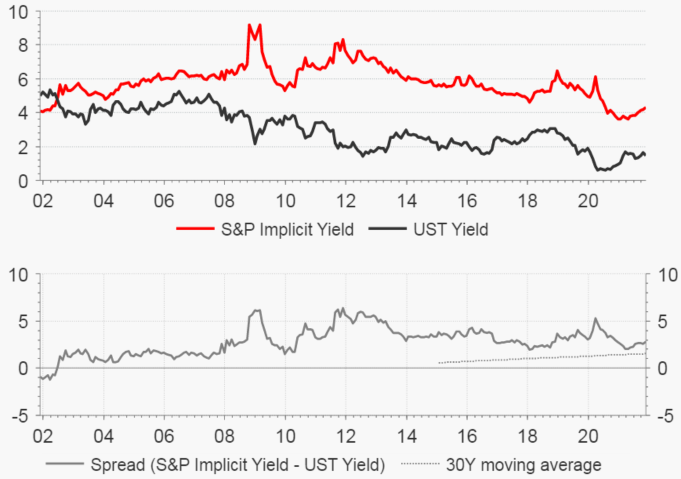
Forex: DXY index MARKETWEIGHT-UNDERWEIGHT (Target 93-97)

US price-to-earning ratio
Trailing & Forward PE



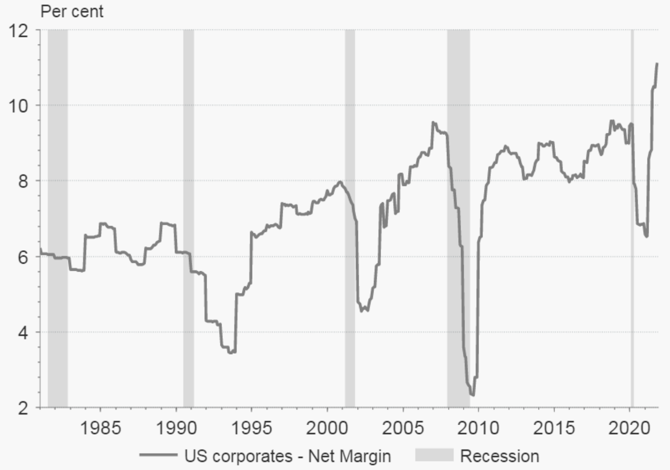
Source: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

US corporates - Net Margin
Per cent



Source: Refinitiv Datastream / ANDBANK

EUROPE

A flexible and protective ECB, together with fiscal support from governments, could maintain favorable conditions for credit, economic cycle and assets.

Activity losing momentum in 2022, though above the trend

In terms of GDP growth, 2022 is meant to be less dynamic than 2021 (4.3% YoY forecasted), but with no signs of stagnation so far, though downside risks are mounting. Tailwinds will remain from the savings rate, the ongoing employment recovery and with the NGEU fully implemented (though its impact is expected to peak in 2023-2024). Risks cannot be ignored and have to do with a fourth COVID wave just spreading in Central Europe, a potential delay in the deployment of the NGEU, the length of supply bottlenecks, and the negative impact of energy prices on disposable incomes. Regarding the latter, to mitigate the energy impact on households and business, European governments have approved support measures (fiscal transfers, price caps, reduced VAT, etc.) that should reduce the pass-through from gas and electricity prices. Along with the energy component, durable goods and high contact services prices explain to a large extent 2021's eye-popping inflation numbers. Should energy prices remain stable or recede, and under the assumption of a less vigorous demand and less supply constraints, inflation pressures are likely to wane as we move into 2022. Our base case scenario points to a descending HCIP trend from the first months of 2022 and a 2.2% reading for FY2022, which is above the ECB forecasts. On the labor front, though no strong pressures are envisaged, surveys reveal emerging pockets of labor shortages. The ECB would require a sustained acceleration in wages rather than a one-off shift to change its mind regarding rates.

PEPP comes to an end, what next?

At its December meeting the ECB is expected to announce the conclusion of PEPP by March 2022. To avoid cliff effects, transitory measures are expected to follow suit. These could come from an amplified/modified APP (+20 bill./month, retaining part of the flexibility from the PEPP), an increasingly less likely specific and transitory purchase program, and/or potential new TLTROs. A rate increase, though priced in for the end of 2022, still seems out of the cards, but should inflation not decrease in the coming six months, pressure on the ECB would mount. Patience and vigilance seem to be the "recipe". The monetary reaction function demands inflation rates at or above 2% at the end of the projection period (2024) to lift rates. ECB will try to avoid Trichet's mistake.

Politics: French elections, Draghi's role in Italy & post-Brexit tensions

France will be holding general elections on April 2022, with early polls suggesting that Macron is well positioned for a second term. As for Italy, Matarella's announcement ruling out a second term has rekindled the possibility of Draghi front running for Italy's presidency. Base scenario would be Draghi's ending his mandate in 2023. One year after Brexit agreement, hurdles continue, with no advance from the service sector negotiations in sight. Despite the recent tensions, unilateral suspension of the Irish Protocol should not be a base case scenario.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Despite less support from ECB purchases, stock effects play a key role to maintain low yields, as free floats have been trimmed significantly (to 35% vs. 61% pre-QE). Peripherals spreads may have reached their bottom. We are increasing our targets for Bunds and peripheral bonds.

Corporates: 2022 will be marked by the evolution of growth, inflation and the decisions of the ECB, which currently absorbs 20% of gross non-financial issues. We think credit will remain supported and that the ECB downsizing will not overly affect the corporate world. ESG emissions will continue rising and HY ESG may be a source of opportunities next year. We widened our spread targets for both IG (from 55 to 60) and HY (from 250 to 275), the recommendation being NEUTRAL- UNDERWEIGHT and NEUTRAL respectively.

Equity market: We are expecting a good year for Equities in Europe, driven by EPS growth >4& (at €30.5 EPS) and multiple PE keeping stable at 17. Fair value is fixed 8%-9% above current levels (519 for the Stoxx Europe 600, and 502 for the Euro Stoxx). We remain positive in cyclicals and wait for corrections in Defensive to increase our exposure. We think that the underperformance of Domestic Stocks vs Global stocks is also going to be reverted in 2022. The UK market looks attractive in terms of valuation (relative PE vs MSCI World at historical minimums).

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT-OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund Yield target 0,05%)

Peripheral – OW IT (1.25%). UW: SP (0.85%), PO (0.85%), IE (0.5%), GR (1.45%)

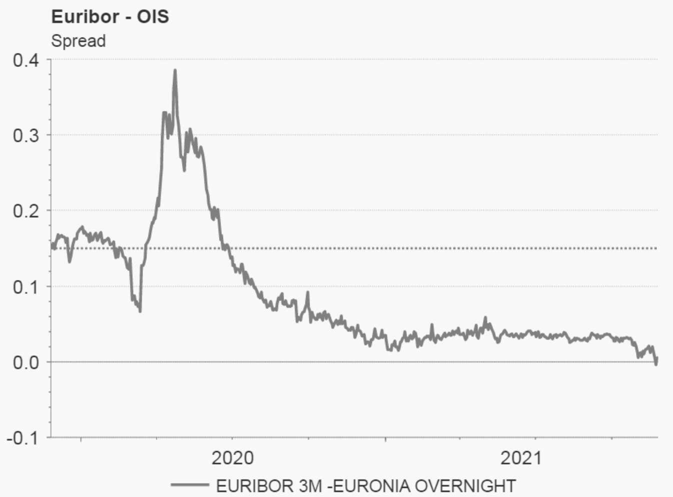
Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 60)

Credit – Itraxx Europe (HY): MARKETWEIGHT-OW (Target Spread 275)

FX – EUR/USD Target 1.12 (Buy USD at 1.14, Sell USD at 1.09)

Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

CHINA

Growth pace will fall to levels last seen in 1990. Pending defaults in the REIT sector. Still cautious in equities.

Chinese & Asia gaming stocks may jump after report suggests that Beijing is set to resume approvals on gaming licenses. All said, we remain cautious on Equity

The 21st Century Business Herald reported that Beijing may restart online game approvals. If game approvals resume, it could be a real boost to developers' revenue. The news came right after Singapore's state investor, Temasek, announced it will temporarily halt new investments in Chinese tech companies because of uncertainty over Beijing's crackdown on the sector. Temasek has decided to wait and see how China defines governing rules before making any fresh investments. All these movements come after Beijing decided to slow game approvals to enforce stricter rules earlier this year in a move that was part of Beijing's regulatory campaign against technology companies, aiming to curb gaming addiction and limit the amount of time its youth can spend on video games. If the decision to restart game approvals materializes, it could mean that the peak of the overall regulatory crackdown is behind us, improving investors' sentiment toward the entire technology sector, as well as the broader Chinese market. Despite this information, we think that the government's decision to let some REITs fall will still inject a lot of noise throughout the corporate sector, causing us to maintain our cautious view not only in the corporate debt market, but also in Chinese equities.

Beijing is likely to introduce more tax and fee reductions to target small-, medium- and micro-sized enterprises. The total scale of the tax reductions could reach CNY500B and could increase deductions associated with firms' research.

Corporate crackdown: It seems that the government's grip will remain very tight

Beijing wants to review data before Hong Kong IPOs. China's Cyberspace Administration has instructed internet platforms that process large amounts of data relating to economic development and public interests to request a cybersecurity review when implementing M&A activities, restructures, spin-offs or the launch of IPOs overseas, including Hong Kong.

Chinese Real Estate crisis threatens to drag economic growth to lows of 1990s

Beijing is taking a big risk with its property reforms. Too rapid a slowdown could spark a market freefall and social unrest, as two-thirds of the wealth of China's population is tied to property. But, at the same time, it must also be recognized that deep market reform is required. Specialized analysts are concluding that the economy was being dragged back to the slow pace of growth last seen in 1990. This is a price President Xi appears willing to pay, even if growth slows to below 5%, as forecast by several economists. China's property crunch is making it difficult for local governments to lower their $6T hidden debt pile, just as Beijing wants to further crack down on off-balance sheet lending. Land sales account for around 40% of local government revenue but have fallen sharply since August, leading some to think borrowings through LGFVs could become worse, not better. Sharp rises in bond prices are also hampering refinancing. As a result, some Chinese municipal authorities have relaxed rules for land sales after developers became reluctant to bid. City authorities in Shanghai and Nanjing eased transaction requirements by reducing deposits or refraining from requiring full payment within a month.

In relation to how the authorities are handling this crisis from the monetary side, the general trend, week after week, is that of a central bank that weekly renews liquidity programs with amounts lower than those it amortizes, leading to a net withdrawal of liquidity from the market. Neither the government nor the central bank seems to be concerned about the collateral effects of this crisis, and both continue not to inject liquidity into the system, leaving companies (public and private) to find their financing space in the market. In its November decisions on the money market, the People's Bank of China injected an amount of liquidity into the banking system through seven-day repos that accounted for half of the maturing volumes. In the MLF (Municipal Loan Facilities) market, the dynamics are somewhat less restrictive, but in no case very expansive.

China Evergrande resumed work on 63 projects in the Pearl River Delta spanning 15 sites. The company will "speed up and conquer difficulties" in the next stage, to ensure the projects are delivered on time and in line with standards of quality, according to the company.

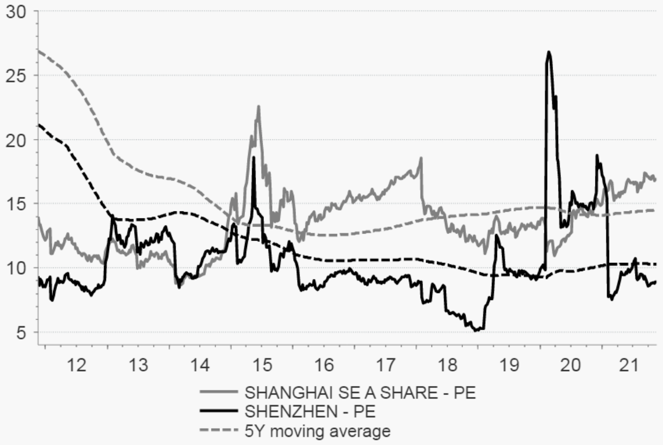
PBOC advisor warns on "quasi-stagflation" risk

Bloomberg reported on comments from Liu Shijin, an advisor to the PBOC, who warned the Chinese economy could enter a period of "quasi-stagflation" with slow growth and excessively high producer-price inflation. He said it will need to be addressed if demand remains weak, producer prices stay high, and corporate profits are squeezed.

Chinese & Geopolitics: US - China

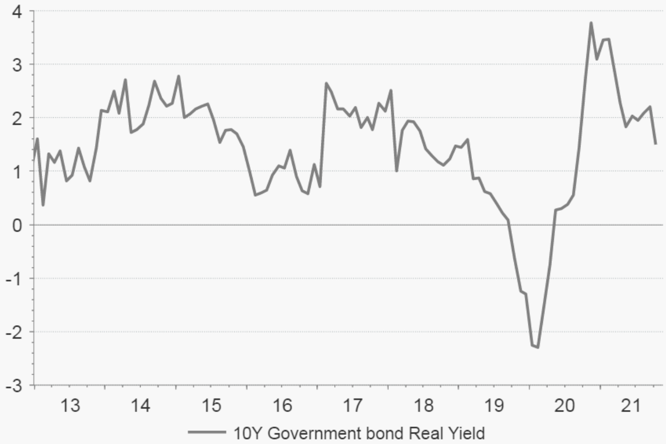
Treasury Secretary Janet Yellen said the US government is mulling reducing Trump-era tariffs on Chinese goods, as doing so would "make some difference" in taming US inflation. She also reiterated that the US is revisiting the phase one trade deal between the US and China. Meanwhile, a report from the US-China Economic and Security Review Commission has recommended the US take more aggressive steps to dial back commercial ties with China. The US Senate majority leader Chuck Schumer confirmed suggestions that a bill designed to boost US competitiveness with China would be considered in November and will now be "paperclipped" to a large defense bill. It called for imposing restrictions on US investment in China and limiting investors' ability to buy US-listed Chinese stocks.

CHINA SSE & SHENZHEN Index - PE Ratio
PE LTM



Source: Refinitiv Datastream / ANDBANK

China - 10Y Government Bond Real Yield
Per cent



Source: Refinitiv Datastream / ANDBANK

Taiwan: In the virtual meeting between Presidents Xi and Biden on Monday 15th November, Xi was expected to warn the US to step back on Taiwan, conveying the idea that Beijing is resolved to "realize national reunification" in the foreseeable future no matter the cost, according to a Reuters report. US-based military experts say the AUKUS alliance is likely to be met with more intimidation, more rhetoric and more weapons. US military experts at the Centre for Strategic and Budgetary Assessments think-tank have said Beijing's core strategy in the South China Sea is to raise the cost of defending Taiwan by consolidating its grip on South China Sea islands. Any new response from the West is likely to be met with more weapons build-up and more rhetoric. Meanwhile, Beijing has downgraded ties with Lithuania to the level of 'chargé d'affaires' and is prepared to end diplomatic ties completely if Lithuania pursues "further destructive action" on Taiwan. This comes a week after Taipei opened a diplomatic office there last week. Meanwhile, the EU has postponed a plan due to be announced Friday that would have upgraded its ties with Taiwan, due to fears that relations with Beijing could plunge further. China's nuclear and military capabilities build-up is being described as "one of the largest shifts in geostrategic power ever" and has set off alarm bells in Washington. Mark Milley, chairman of the joint chiefs of staff, described it as one of the largest shifts in geostrategic power ever, taking place alongside a fundamental change in the character of war. "We have to act now, he said, or condemn future generations to failure."

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: MARKETWEIGHT-UNDERWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT-UNDERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.4%)

Forex – CNY/USD: MW (Target 6.35)

JAPAN

The stimulus will continue at full speed. The pandemic in 2022 will be much milder. Bullish in equities.

Fiscal policy will continue being supportive, with record stimulus

The Cabinet approved an economic stimulus package with a record ¥55.7T ($490B) in fiscal spending. Prime Minister Kishida said the stimulus measures are estimated to boost GDP by around 5.6%. The government is expected to submit a ¥31.9T supplementary budget plan for the fiscal year through next March during an extraordinary parliamentary session to be convened by year-end.

BoJ: With the recent macro data, and the latest BoJ decisions, it seems that the stimulus will not be withdrawn in 2022

October nationwide overall CPI at +0.1% y/y (vs consensus +0.2% and +0.2% in prior month). Core CPI was fixed at +0.1% y/y (vs consensus +0.1% and +0.1% in prior month). CPI excl. fresh food & energy was -0.7% y/y (vs -0.5% in prior month). Q3 GDP (3.0%) q/q annualized vs consensus (0.7%) and revised +1.5% in prior quarter. September final industrial production (5.4%) m/m vs preliminary (5.4%) and (3.6%) in prior month.

A new BOJ scheme was introduced to support smaller lenders hurt by its ultra-low interest rates, but the program perversely pushed up short-term borrowing costs. The program pays 0.1% interest on deposits by regional banks that consolidate or cut costs. That prompted smaller banks to aggressively tap funds from the money market to shift into BOJ accounts, pushing up the benchmark rate close to 0% in defiance of the central bank's policy to guide short-term rates around -0.1%. In an unprecedented move, the BOJ decided on Tuesday to tweak rules, placing limitations on deposits eligible for the preferential rate.

Geopolitics: Gestures to ease tensions between China and Japan, though they are likely to continue.

Japanese Foreign Minister Hayashi said his Chinese counterpart Wang Yi invited him for an official visit during a recent phone conversation, but arrangements are not in progress. Hayashi and Wang agreed on the need to stabilize relations between their countries but remained apart on territorial and human rights issues. Previously, Japan stressed the importance of Taiwan peace. Foreign Minister Hayashi spoke by phone Thursday with his Chinese counterpart Wang, telling him that peace and stability in the Taiwan Strait are important. Hayashi also voiced "serious concern" over human rights issues in Hong Kong and the Xinjiang region. Wang urged Japan not to "cross the red line" on Taiwan, while emphasizing the necessity of building Sino-Japanese stable relations.

Japan will introduce a new screening process for defense procurement that will increase scrutiny on supply chains for missiles, ships and other equipment, to safeguard against leaks of sensitive information. The aim is to begin the screening mandate in FY23 and the move is expected to restrict the use of Chinese-made equipment while leading to greater demand for domestic suppliers and cooperation with the US on weapons programs. Huawei is among the suppliers likely to face barriers on economic security grounds.

Coronavirus in 2022: Government further eases social restrictions

The government formally decided to remove an existing cap on attendance at large-scale events as well as ease rules on eating and drinking establishments as new coronavirus infections and serious cases have fallen sharply. In parallel, Japan will establish a system to allow vaccines and drugs to be granted approval in emergency situations once their safety has been verified, further shortening the screening process.

Corporate Newsroom

Japan to double EV subsidies to as much as USD7,000 and subsidize charging infrastructure as Tokyo looks to catch up with other major advanced economies. The government intends to earmark ¥37.5B ($329M) for the subsidies in a supplementary budget for FY21, allocating ¥25B for purchase incentives for environmentally friendly autos. The program also will cover plug-in hybrids and fuel cell vehicles, while other hybrids remain excluded.

Nissan Motor is redesigning its cars to use more generic chips, a move that companies in other industries are also making. Auto and appliance makers have so far dealt with a prolonged global semiconductor shortage by building up inventories. Looking further ahead, Nissan Motor aims to reduce its reliance on custom-made chips. As many as 400 to 500 chips are used in today's cars.

An assessment for the Equity market in 2022

Based on the aforementioned information, in relation to the continuity of fiscal and monetary stimulus, but also the relaxation of pandemic measures after the improvement in infection data, we think that a reasonable multiple PE for the Nikkei could be around 19 times; and estimating an EPS 2022 for the index close to ¥1750 (+ 6.8% growth), we could establish a fair value for the index at 33,250 (+12% potential compared to current levels)

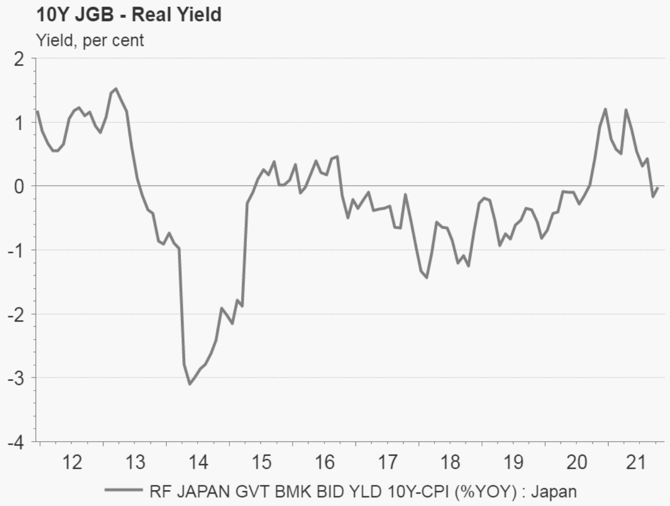
Market outlook – Recommendations & Targets from fundamental analysis

NEW!! Equities – N225: OVERWEIGHT

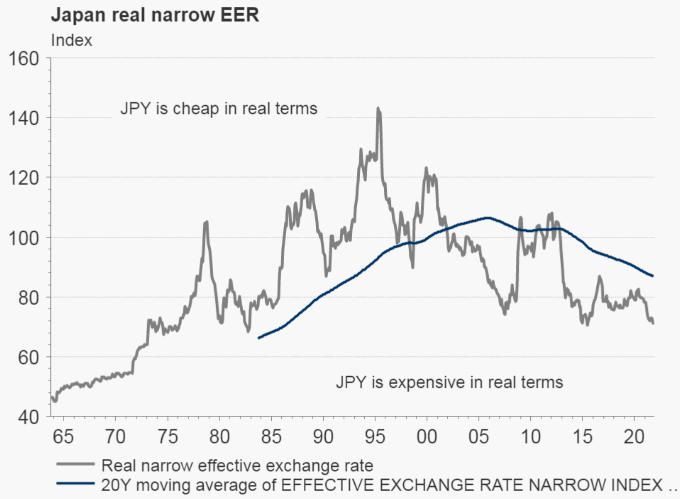
NEW!! Bonds – Govies: UNDERWEIGHT (Target yield 0.20%)

NEW!! Forex – USD-JPY: MARKETWEIGH. JPY (Mid-term target 116)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

INDIA

With no elections in sight, the reform agenda can continue, but the withdrawal of some reforms has undermined our confidence in the reformist push. Neutral Indian equities.

The equity market seems to expect the best version in India. We remain constructive in the long term, but with less intensity.

Indeed, India has outperformed both the major indices in developed markets and the indices of emerging markets. We think there are reasons to think this good performance may continue: 1) There is a base of direct investors that is now much higher than in the past. Specifically, double that at the beginning of 2020. 2) Foreign investment capital has meant an inflow of more than USD24bn, which has been channeled to the domestic equity market. 3) This market is now much less vulnerable to a Tapering scenario or any external shock. This is demonstrated by a level of international reserves that have grown very strongly, from USD300bn 10 years ago to USD560bn today. This important position in RBI reserves offers the country a great capacity to defend its currency and, at the same time, generate confidence in external investors. This relative strength shows signs of being persistent, as suggested by the favorable situation (surplus) of the current account balance. India seems to have sufficient mechanisms to confront a capital exodus with guarantees, unlike in 2013.

The reformist agenda has continuity, but it wouldn't be so wide anymore.

There are no general elections until 2024, so there are no headwinds, in the form of electoral pressure, that impede the continuity of economic reforms. There are certainly elections in some key states and PM Modi's BJP Party is up against strong regional parties in the upcoming elections in Punjab, Uttarakhand and Uttar Pradesh (which send the largest number of delegates to the national parliament). And given the weakness of the opposition, the government will likely retain power in most of these states, resulting in a continuity of economic policy in the government and the national parliament.

PM Narendra Modi repealed controversial agricultural reform.

The announcement marks a major U-turn, as the government had not taken any initiative to talk to farmers in recent months, Mr Modi's ministers have been steadfastly insisting that the laws were good for farmers and there was no question of taking them back. Farm unions are seeing this as a huge victory. But experts say the upcoming state elections in Punjab and Uttar Pradesh - both have a huge base of farmers - may have forced the decision. Mr Modi said the farm laws were meant to strengthen the small farmers, "but despite several attempts to explain the benefits to the farmers, we have failed, and the government has decided to repeal the three farm laws". The new agricultural laws loosened rules around the sale, pricing and storage of farm produce - rules that according the demonstrators have protected India's farmers from the free market for decades. One of the biggest changes that the reform promoted was that farmers were allowed to sell their produce at a market price directly to private players. Most Indian farmers currently sell the majority of their produce at government-controlled wholesale markets or mandis at assured floor prices (known as minimum support price or MSP). The laws also allowed private buyers to hoard food like rice, wheat and pulses for future sales, which only government-authorized agents could do earlier. The reforms gave farmers the option of selling outside of this so-called "mandi system". But the protesters said the laws would weaken the farmers and allow private players to dictate prices and control their fate. The government argued that it was time to make farming profitable and the new laws were going to achieve that. Opposition parties welcomed the decision, with Congress party leader Rahul Gandhi calling it "a win against injustice". Some farm leaders and economists who saw merit in the laws have expressed disappointment over their repeal and called this as an "unfortunate" decision driven by political considerations. BJP members said the decision to repeal the laws had nothing to do with the polls and the decision was taken to end the protest. The truth is, however, that the government knows that angry farmers would hurt the BJP's chances of winning the crucial polls in some states in 2022. They did not say if there were plans to bring back the laws in another form later.

India remains the fastest growing economy among the big economies

The recovery of the Indian economy continues to develop at full speed, showing a variation in GDP in the second quarter of 20% y/y (the highest among large economies). Although it is true that in sequential data (compared to the previous quarter) there has been a contraction, analysts agree that the worst of the pandemic crisis has been left behind. Among the factors that explain the expansion, we have important domestic drivers, such as consumption, which is expanding strongly again, reaching rates not seen since 2017. Even bank credit is expanding again (+7% yoy), which shows confidence in the financial sector in the future performance of the economy. We think the foreign sector will also contribute, providing an important lever for growth, as evidenced by the impressive expansion of exports, which in the first nine months of the year grew by 40% (compared to the same period last year).

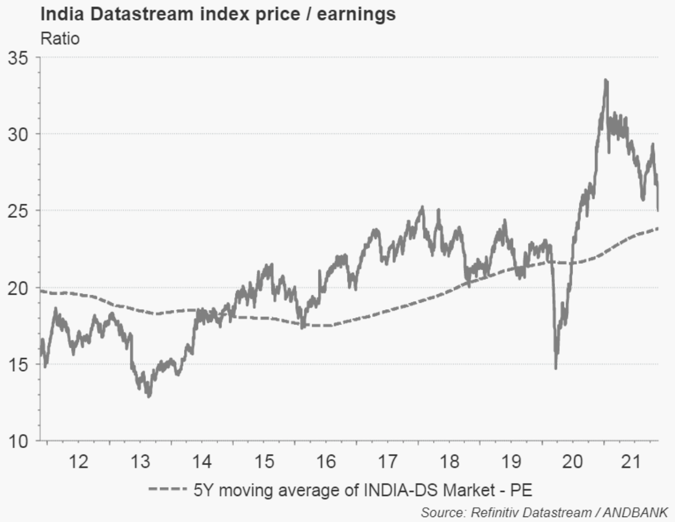
Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: MARKETWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.0%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: MARKETWEIGHT (Target 76)



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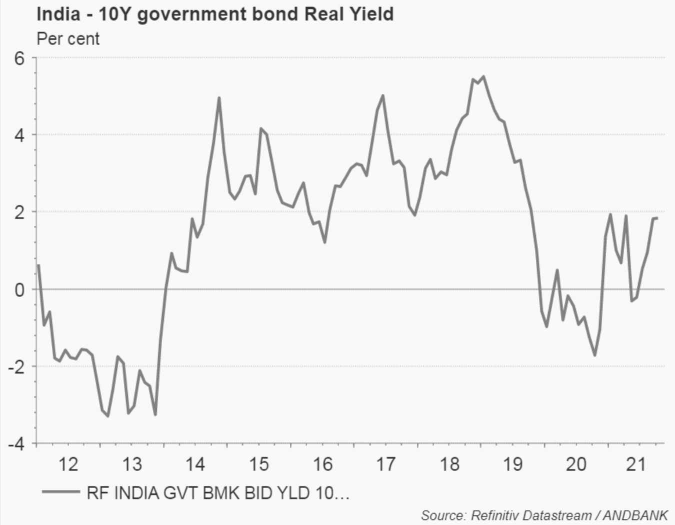

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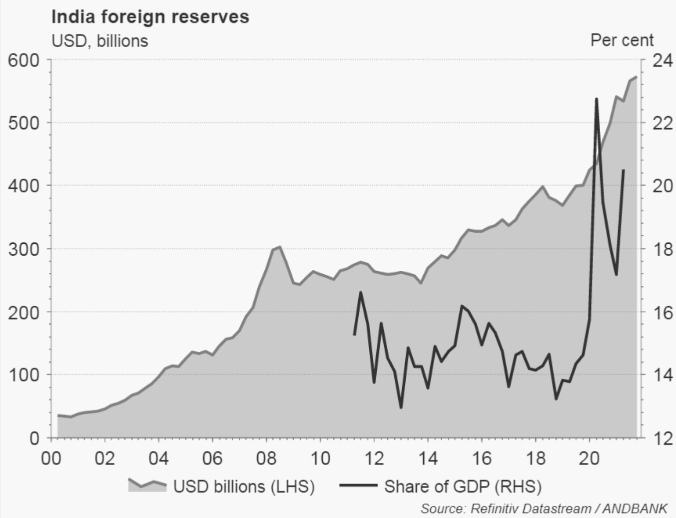


Source: Refinitiv Datastream / ANDBANK

ISRAEL

The best is yet to come?

Fiscal policy and macro

The budget for 2022 was finally approved by the Knesset (Israeli parliament), the first in nearly three years, which reduces political uncertainty. The budget also includes several important reforms. The reforms present major changes and improvements in public transport, removal of import barriers, government and housing regulations. Implementation of these measures is supposed to reduce the cost of living and increase the efficiency of the business sector in the coming years. In addition to the approval of the budget, other positive developments on the macro side added to the overall optimism. The budget sets a deficit ceiling of 6.8% of GDP for 2021 and 3.9% in 2022.

Activity in the economy has accelerated (GDP will grow 7.1% in 2021, according to Finance Ministry), led by the technology and real estate sectors. Tax revenue in October increased by 18% YoY, benefiting the budget deficit, which shrank to 5.5% as a percentage of GDP (compared to 7.2% in September). Business survey for October showed broad-based optimism among managers with regard to growth in 2022 and even to inflation next year (1.5%). We forecast growth in 2022 to be around 5%. We assume that the developments described above create a very favorable environment for the Israeli economy (led by private consumption) as well as the Israeli markets.

Monetary policy and bond markets

Despite the rise in inflation (+2.3% YoY in October), we do not expect a change in interest rate until the end of the year (the bank held its benchmark rate at 0.1% for a 13th meeting). Note that economists' inflation expectations for the next twelve months range from 2% to 2.5%, whereas the market is forecasting 2.9%. We think the market premium for inflation is overextended, and long-range durations look attractive today, as we believe expectations in that part of the curve will decline in the coming months. Today, Israel's long part of the curve offers one of the highest real rates in OECD countries. On the other hand, we remain underweight in corporate bonds.

The bank of Israel is currently between a rock and a hard place, where the interest rate is not appropriate to the current situation, but the Bank finds difficult to raise rates, as this will increase pressure on the shekel (the shekel was the world's strongest currency last month). Even if the central bank raises the rate "symbolically", loose monetary conditions will still prevail, supporting risk assets. Governor Amir Yarom stated that the Bank is in no rush to raise rates, as inflation remains under control (target range 1-3%)

Stock markets

The Israeli stock markets maintained their good performance in the last month, outperforming all the developed markets this year (+28.5%), with the Tel Aviv 35 increasing +2.9% and the Tel Aviv 90 (Mid cap) adding +7.8%. The "usual stars", namely the financial sector and real estate stocks, led the market, rising by 4.9% and 8.9%, respectively. Looking forward to 2022, we think that the Israeli market presents one of the best risk/reward opportunities among the developed countries. Most companies have emerged from the Corona crisis more efficient, as they now generate more revenue with smaller outlays. The overall revenue of the companies comprising the major indices rose 6% above pre-Covid levels, whereas their outlays declined by the same proportion. If the Israeli economy performs as expected in 2022 (growth of 5%), we think that mid and small caps will outperform large caps next year. Among the the biggest beneficiaries are retail and trade firms, alternative energy and cyber companies. We think that Real Estate demand will remain high, benefiting builders and mortgage banks. Banks and insurance companies will do well also, helped by higher growth. Regarding tech companies, we are market weight, as valuations look stretched today, with few investment opportunities.

Market outlook – Recommendations & Targets from fundamental analysis

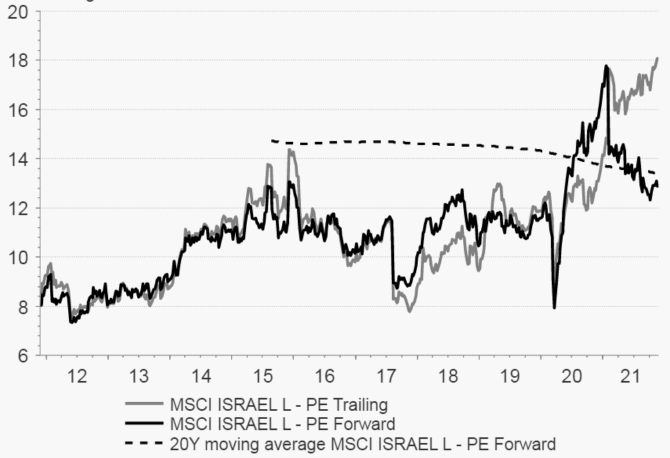
Equities – TLV35 Index: OVERWEIGHT

Bonds – Government–10Y Gov: OVERWEIGHT

Bonds – Corporates: UNDERWEIGHT

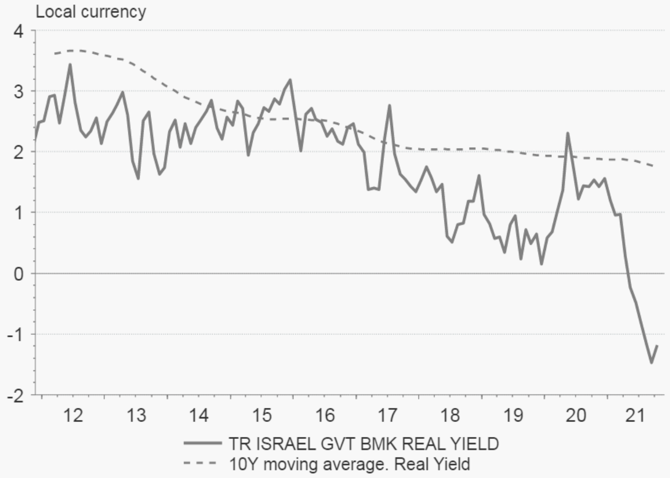
FX – ISL vs USD: Expensive in REER

Israel price-to-earning ratio
Trailing & Forward PE



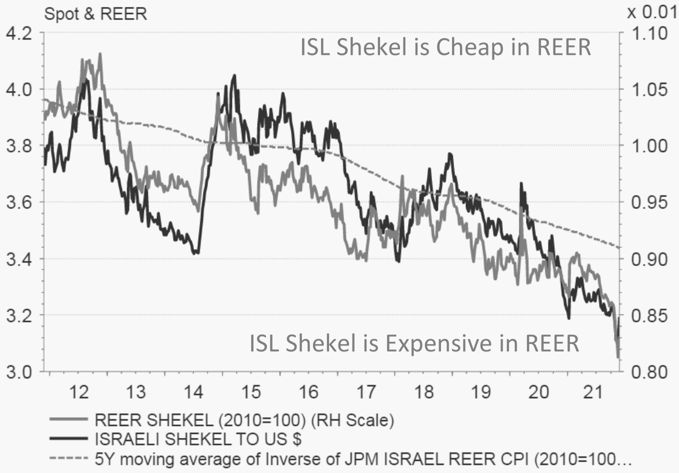
Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Fiscal and political noise will persist, but recent corrections have made Brazilian assets attractive

Debt ceiling is crumbling and that injects nervousness into assets

The Brazilian debt ceiling implemented as recently as 2016 is about to suffer its first change, even though that was not supposed to happen until 2026, as the government's own bill clearly states. The 2022 budget discussion has escalated to a discussion about the debt ceiling itself, with the government insisting that the *precatórios* (judicial payment orders) should be excluded from the self-imposed limit and going even further by changing the calculation period of the inflation index used for setting the limit, so as to accommodate more spending in what is expected to be hotly disputed election year. In the eyes of investors and in view of the country's financial credibility, this political strategy of the Bolsonaro and Guedes government is complete nonsense.

The choice is between accommodating a court mandated payment that has very little electoral impact versus providing a bigger check for the poor, which is extremely important in the wake of the COVID pandemic and could also have a very noticeable electoral effect. The *precatorios* are expected to be in the order of BRL 89 billion for 2022, double last year's number. Based on current expectations, the government will have just BRL 98.6 Billion for discretionary expenses in 2022. In other words, there would not be any money left for any other expenditures. Yet the revamping of the Bolsa Familia Program into Auxilio Brasil (200 to 400 Reais), which is Bolsonaro's own welfare program, will demand an additional space in the budget of around BRL 50 billion, totaling BRL 95 billion.

The lack of political willingness to resume fiscal consolidation increases the degree of uncertainty regarding the sustainability of debt, FX and inflation. The general feeling is that if the government was willing to flex the debt ceiling rules in this instance, why would it not do it again next year? The debt ceiling rule was an important landmark in establishing credibility for the government's promises of maintaining a primary surplus. Since 2014, Brazil has presented primary deficits every year, but since the implementation of the debt ceiling in 2016, it was converging to zero deficit, when it was caught by the Covid-19 pandemic.

Central Bank & Politics

Given the possibility of losing this important fiscal anchor, the BCB (Brazilian Central Bank) has had to step up and send a stronger hawkish signal to counterbalance inflationary expectations. In its last COPOM meeting, the BCB raised rates by 150 bps and stated that a similar move will happen in the last meeting of the year, so that market participants now expect a return to two-digit rates in 2022 (11% target). Despite the aggressive stance of the Central bank, inflation as of mid-November stood at 10.73% YoY (+1.17% MoM).

Central Bank & Politics

Next year we have presidential elections, which will be a source of volatility, especially if Lula is positioned as the candidate with the highest likelihood of winning the presidency. The former president and Bolsonaro continue to lead the polls but within a very polarized scenario. Besides the two leaders we still have more than 10 candidates (including former judge Sergio Moro) who seek to form the *tercera via* (third way); but to succeed they need to unite if they want to contest the presidency.

Rainy season has started, and this is good news. Covid Vaccination

A little bit of good news came with the start of the rainy season. Both the south and southwest regions of Brazil, where most of the country's industrial production and hydroelectric plants are located, had their worst drought in the last 90 years. However, especially during October, the average rainfall was much higher than anticipated, and most water reservoirs have moved away from red status levels. So, for now, the crisis seems to have been averted.

Brazil has 60% of its population fully vaccinated and 75.9% with at least one dose. Like other countries, Brazil has started a campaign to boost shots. A total of 12 million people (elderly and health professionals only) have been vaccinated since the program started. As of mid-November, the Health Ministry has approved booster shots for the entire adult population from its current inventory. Additionally, the Health Ministry has said that it is already planning a new vaccination cycle for 2022.

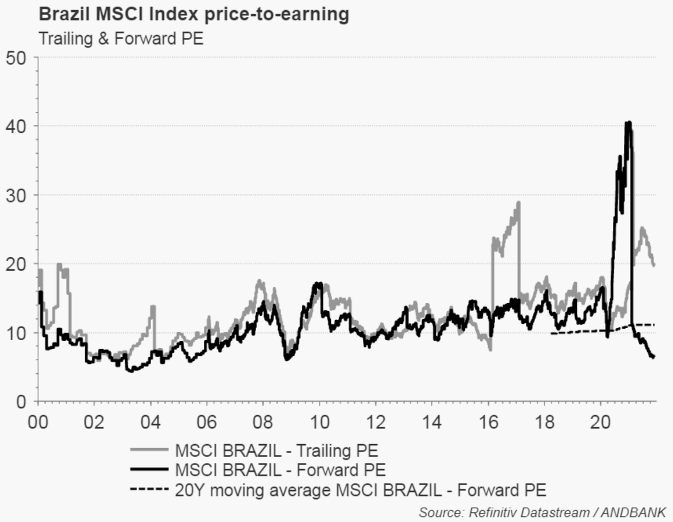
Market outlook – Recommendations & Targets from fundamental analysis

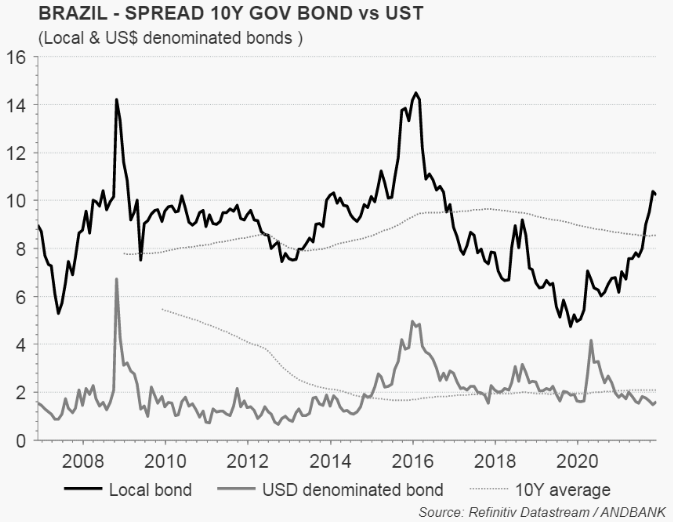
Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 11.0%. Spread 900)

Bonds – Govies USD: MARKETWEIGHT (Target yield 5.75%. Spread 375)

FX – BRL/USD: OVERWEIGHT (Mid-term target 5.35)





MEXICO

Activity still weak but lower political uncertainty will help. We remain positive in equities.

Central Bank and Inflation

The last policy decision of the Central bank was more dovish than expected, with a 25 bps rate increase (4-1 decision), rather than the 50 bps forecasted by market participants, which now also expect a 25 bps hike in the next meeting (December 16th), closing the year at 5.25%.

Lopez Obrador changed the nomination for the central bank governor from former Finance Minister Arturo Herrera to Victoria Rodriguez, a finance ministry official with little experience in the monetary field, fueling concerns about a possible interference of the government in central bank independence. Rodriguez declared that she is committed to combating inflation, not touching international reserves and upholding Central Bank autonomy.

Inflation is on the rise, increasing at the highest level in 20 years (+7.05%), driven mainly by non-core inflation, which reached 11.68% YoY (core inflation stood at 5.53%), putting more pressure on the central bank. According to Banxico, inflation is going to close at 7% in 2021.

Fiscal policy and activity

Fiscal deficit remains low compared with other comparable countries, and Debt to GDP, at slightly above 50%, is also at a healthy level. On a positive note, credit agencies Moody's (A-) and Fitch (BBB-) affirmed the rating of local sovereign debt, with Fitch improving its outlook from negative to stable.

Revenues increased 5.5% YoY in real terms, with increases in oil revenues (+66.4%) and a decrease in non-oil income (-1.1%). Also worth noting are a significant expansion in VAT collection (+13.5%), a marginal increase in income tax (+0.3%) and a decrease in IEPS (-12.3%). Net budgetary spending increased 5.6% YoY in real terms, 24 billion pesos above what was programmed, with major increases in the administrative branches (+14.3%), as well as in Pemex (+22.3%) and CFE (+13%).

GDP fell 0.4% QoQ (more than its preliminary -0.2% QoQ) and grew 4.5% from one year ago, showing a halt in the economic recovery and putting pressure on the government to deviate from the fiscal discipline shown during the pandemic by increasing public spending. We estimate that growth for 2021 is going to be between 5.7% and 6% and for 2022 we expect growth of between 3.5% and 4%.

Politics

The government has been pushing for the modification of the energy sector (amending constitutional articles 25, 27 and 28), so as to increase state control in the industry. The latest news is that discussion has been moved to the first quarter of next year. We still believe that the probability that these amendments will be approved in their current form is very low, with significant changes needed to get support, dispelling one of the main uncertainties affecting Mexican assets recently.

In recent years, policy uncertainty under the Lopez Obrador presidency has weighed on the market and slowed new investments. We are now at the midpoint of his term, and our view is that a weakening of Lopez Obrador's position in the Congress after mid-term elections will bring lower political noise in the second half of his tenure.

Financial markets

Equity: Our scenario of less political uncertainty, the recovery of the US economy and a healthy fiscal stance will be positive for Mexican assets in the near future. We think that there is upside for the equity market with the index at current levels (49K)

Fixed Income: The spread between peso bonds and US Treasury bonds (10Y) trades slightly above our target (600bps vs 575 bps). Regarding USD-denominated Mexican bonds, the spread versus the UST remains near the level we set as a fair value (170 bps range vs 175 bps).

Fx: The central bank governor nomination and higher inflation has led to a weakening of the peso. We now expect a slightly weaker exchange rate (USDMXN 21).

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Spread 575bp)

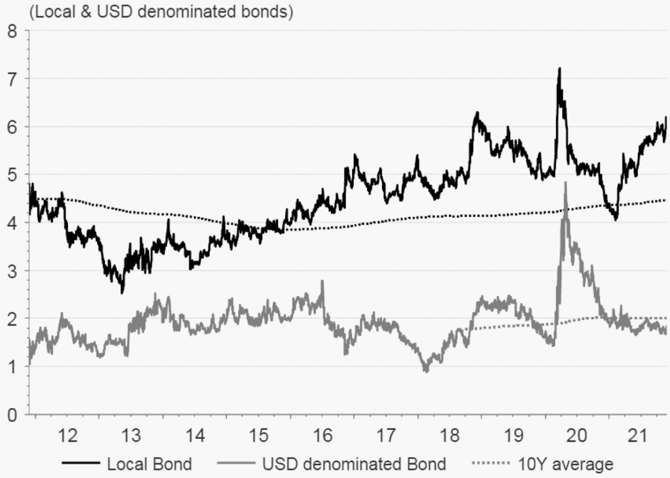
Bonds – Govies USD: UNDERWEIGHT (Spread 175bp)

FX – MXN/USD: OVERWEIGHT-MARKETWEIGHT (Mid-term target 21)

Mexico MSCI Index price-to-earning
Trailing & Forward PE

Source: Refinitiv Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST
(Local & USD denominated bonds)



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate

Source: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

ARGENTINA

IMF deal: Necessary but not sufficient condition

The government was the clear loser in the mid-term Congress elections (half of deputies and a third of the Senate was at stake), being defeated in 16 of the 24 Lower house races and in 6 of the 8 provinces where Upper house seats were renewed. At a national level it trailed the opposition by almost 9pp. The Peronist Party loses the Senate quorum (majority) for the first time since 1983 (35 seats, two short of quorum of 37). The government can still reach a quorum by negotiating with the four non-aligned senators, but the political distance has increased lately. To pass laws, the government will need to negotiate more than in the past, which limits the possibility of a radicalization of the agenda.

IMF: Not a game changer

President Alberto Fernandez announced that he would send a draft bill to the Congress by the first week of December, with an economic program that will include the best understandings reached with the IMF, and that he will call the main opposition parties to start talks to get the broadest political support. The timeline looks ambitious at best, given that there is no clear indication that there has been significant progress in the negotiations with IMF staff. The Fernandez administration continues pushing (with the support of the G-20) for a modification of the surcharge policy, but even with the possibility of a positive outcome, this would take more time than Argentina has available, as it would require the approval of the IMF board.

Argentina needs to strike a deal with the IMF before March 22 for four reasons: i) First, Argentina cannot pay the IMF commitments (19 bn. USD in 2022) with its current reserves; ii) the agreement is a necessary condition if the government wants to anchor expectations; iii) last but not least, Argentina agreed with the Paris Club that it has to strike a deal with the IMF before the end of March in order to renegotiate the debt; iv) last but not least, falling into arrears with the IMF would lead other multilateral creditors (probably the only healthy funding source available today) to cut credit for Argentina**.**

One of the main problems the government needs to tackle in the near future (probably the hardest one) is how to solve the external situation. With the gap between the official FX and the parallel USD above 100%, the government probably will try to accelerate the pace of devaluation (today running well below inflation) within the current crawling peg framework. The appreciation of the real exchange rate in the last couple of months has been significant and, with the government running out of reserves despite the record inflows of USD (given the higher commodities prices), has made the current scheme unsustainable. A substantial compression of the FX gap is needed if the Central Bank wants to rebuild its reserves (one of the key variables in any future program).

We expect that the government and the IMF will choose the middle-ground scenario. Argentina will reach an agreement with the IMF in 1Q22, but it is going to be a light one. For sure it is going to include a gradual correction of the fiscal deficit over the next few years. The IMF in recent programs has been laxer on the fiscal front, with less demanding fiscal corrections in the first years of the program, which naturally increases the chances of reaching an agreement, given the lower political cost to the government.

The problem is that the program is not going to tackle any of the root causes that explain Argentina's lackluster performance in recent decades, with no structural reforms to bring about an increase in private investment or sustainable growth. Even with a light program, the division inside the ruling coalitions is likely to lead to complex and suboptimal execution of the program.

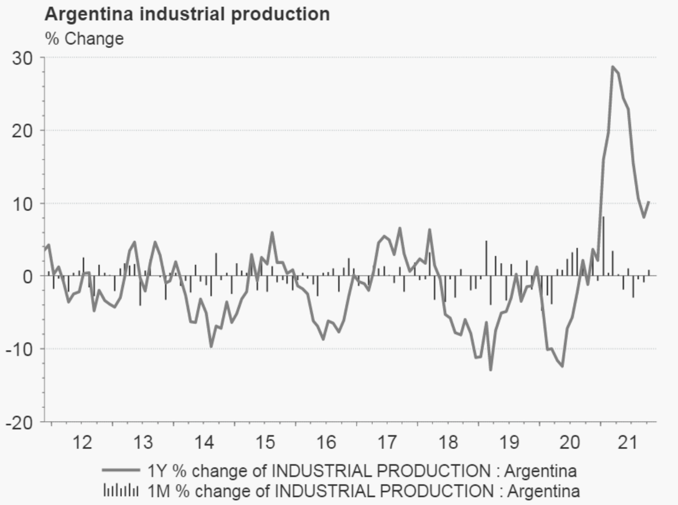
Inflation: No deceleration expected for next year

Our view is that inflation next year is going to be higher than in 2021 (52.1% YoY in October) and market expectations (48.9% YoY according to the BCRA survey), taking into consideration the following factors: i) higher depreciation will increase inflationary pressures; ii) monetary financing of the fiscal deficit will continue to be significant in 2022 (80% in 2021). The interest rate should be higher, making it less negative in real terms, but it would hurt the already weak Central bank balance sheet; iii) utility price adjustments are going to be one of the IMF prerequisites to sign a deal, given the current deterioration of the fiscal balance because of growing subsidies (probably implemented through a price segmentation scheme in order to limit the political cost).

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2022 year-end target: Official 175; Blue 250)



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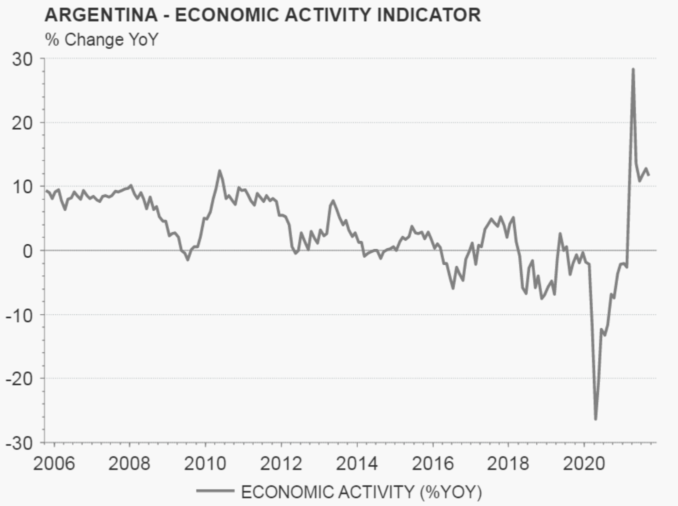

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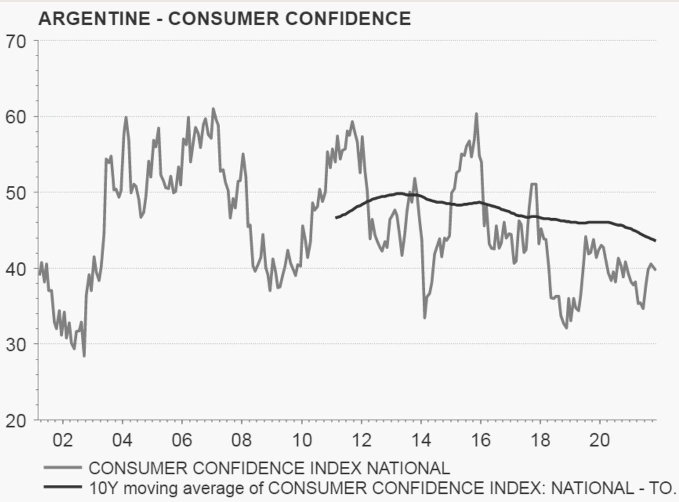

Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	EPS 2021	Projected EPS 2022	EPS Growth 2022	PE ltm EPS 2021	E[PE] ltm Year end 2022	Spread PE trailing vs fw	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point	E[Perf] to Exit point
USA S&P 500	209,0	225,0	7,7%	21,90	20,00	0,91	4.577	4.500	-1,7%	MW	4.950	8,1%
Europe - Stoxx Europe 600	29,3	30,5	4,3%	15,97	17,00	1,06	467	519	11,0%	MW/OW	570	22,1%
Euro Zone - Euro Stoxx	28,3	29,5	4,3%	16,28	17,00	1,04	461	502	9,0%	MW/OW	552	19,9%
Spain IBEX 35	623,0	634,0	1,8%	13,34	15,00	1,12	8.310	9.510	14,4%	MW/OW	10.461	25,9%
Mexico IPC GRAL	3.618,0	4.000	10,6%	14,08	15,00	1,07	50.927	60.000	17,8%	OW	66.000	29,6%
Brazil BOVESPA	14.407	15.000	4,1%	7,30	8,00	1,10	105.214	120.000	14,1%	MW/OW	132.000	25,5%
Japan NIKKEI 225	1.639,0	1.750,0	6,8%	17,10	19,00	1,11	28.030	33.250	18,6%	OW	36.575	30,5%
China SSE Comp.	272,0	309,0	13,6%	13,26	12,50	0,94	3.607	3.863	7,1%	MW/UW	4.249	17,8%
China Shenzhen Comp	97,0	122,0	25,8%	26,05	22,00	0,84	2.526	2.684	6,2%	MW/UW	2.952	16,9%
India SENSEX	2.345,0	2.757,0	17,6%	24,60	23,00	0,93	57.696	63.411	9,9%	MW	69.752	20,9%
Vietnam VN Index	85,9	109,8	27,9%	16,81	17,00	1,01	1.443	1.866	29,3%	OW	2.053	42,2%
Taiwán SE Weighted Index	1.306,0	1.271,0	-2,7%	13,55	15,00	1,11	17.697	19.065	7,7%	MW/OW		
MSCI EM ASIA	46,0	49,5	7,7%	14,58	15,00	1,03	670	743	10,8%	OW	817	21,9%

ANDBANK ESTIMATES

POSITIONING, FLOW & SENTIMENT ANALYSIS

Risk Outlook: Andbank's Assessment: -1.5 (in a −7/+7 range)

Aggregate (MW-UW): We remain cautious overall, although we don't expect markets to move significantly until next year without any major announcement from central banks.

Market Positioning (MW-UW): Asset allocation in equity is still high in portfolios, with investors trying to benefit from a potential year-end rally. The Put call ratio indicates a high hedging level of portfolios. Finally, Skew at 148 level reflects that the fear of a violent downside movement remains well present (the level has been quite high for some time now).

Flow Analysis (MW): Net inflows in US equity indicate a positive trend in equities to catch a potential last year-end performance. We notice positive flows in China, targeting electronic and Internet companies. Japan suffered outflows.

Surveys & Sentiment Analysis (UW): Sentiment from investors is stretched again, mostly pushed by retail investors, as institutional investors tend to be more cautious at current levels.

TECHNICAL ANALYSIS

Trending Scenario. Supports & Resistances

	Name	Refinitiv Ticker	View 1 month	Principal Support	Principal Resistance	Support 1 month	Resistance 1 month	Target (TA) 12M	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Bullish	434,67	Sub. Libre	444,19	Sub. Libre	597,76	486,19	22,95%
INDICES	Euro Stoxx 600	.STOXX	Bullish	430,32	Sub. Libre	447,54	Sub. Libre	578,11	487,70	18,54%
INDICES	Ibex	.IBEX	Lateral	8.000,00	10.100,00	8.551,20	9.310,80	10.000,00	8.903,20	12,32%
INDICES	S&P	.SPX	Lateral	3.600,00	Sub. Libre	4.278,94	Sub. Libre	5.309,04	4.704,54	12,85%
INDICES	Japón	.N225E	Lightly bullish	26.361,00	30.795,00	28.472,55	30.795,00		29.745,87	
INDICES	China	.SZSC	Lightly bullish	2.119,79	2.523,24	2.330,85	2.511,97		2.490,27	
INDICES	India	.BSESN	Lightly bearish	52.949,00	Sub. Libre	53.290,00	Sub. Libre	68.900,93	59.636,01	15,54%
INDICES	Brasil	.BVSP	Lightly bearish	90.147,00	131.190,30	93.386,00	Sub. Libre		102.426,00	
INDICES	México	.MXX	Lightly bearish	42.576,42	Sub. Libre	48.598,00	53.400,27	52.714,31	50.831,95	3,70%
OTROS	Oil West Texas	WTCLc1	Lightly bullish	57,26	112,22	69,41	85,41	96,70	78,98	22,44%
OTROS	Gold	XAU=	Lateral	1.659,00	2.072,49	1.720,49	1.916,40	2.083,00	1.858,46	12,08%
OTROS	Treasury 10Y USA	US10YT=RR	Lightly bullish	0,9590%	1,9730%	1,3790%	1,7050%	2,000%	1,586%	26,076%
OTROS	Bund 10Y Germany	DE10YT=RR	Lightly bullish	-0,6710%	-0,0740%	-0,3700%	-0,0740%	0,000%	-0,284%	100,000%

Bullish -> +3.5%; Lateral bullish -> (+1.5%, +3.5%); Lateral -> (−1.5%, +1.5%); Lateral bearish -> (−3.5%, −1.5%); Bearish <−3.5%

ENERGY – OIL

Fundamental view (WTI): Target range USD70-80bbl

Buy < USD70; Sell >USD80

Short-term drivers

(Price Positive) **– Is the energy crisis, and the consequent rally in energy prices, a short-term matter? Is Covid behind the energy crisis?:** Much of the increase in inflation is explained by the jump in the price of electricity, which in turn is motivated by the jump in the price of gas and oil. One question we must ask ourselves is whether Covid is behind this crisis and, therefore, whether it is a matter of time before it is resolved. We are very afraid that behind the current energy crisis there is something more structural than Covid, and it has to do with the lack of capital formation and divestments in the conventional energy sector. If we add the 50 largest energy companies in the US and take a look at their investment plans, we can see how those plans have been cut, and the projection is for growth of 0% in the coming years. This is explained by the growing push of ESG policies, as well as an insistent decarbonization rhetoric for the next 15 years. This ESG trend, necessary in many ways, also has undesirable aspects if it is not accompanied by a compensation plan for energy sources. The first effect is a jump in the cost of capital (Coc) for companies involved in generating energy from fossil sources. When the cost of capital rises above the return on capital, the result is a divestment process and, at the extreme, a cessation of activity which entails, de facto, a net destruction of capital. In the medium term, this general trend will not change.

(Price Positive) **– The OPEC+ countries are not even delivering on committed production and continue to throttle supply. This will not change in 2022.** Whether the global oil market is about to swing into a supply surplus depends on whether leading producer countries collectively produce as much as they are supposed to, which they have failed to do in recent months. November's EIA forecasts suggest that OPEC production will run well below its target level through 2022. Data through October suggest OPEC production was up by only 136K barrels m/m, less than a fifth of the jump assumed in the forecast presented to ministers in late October. If the EIA forecast is correct for 2022, the forecast Q1 surplus is wiped out, while global inventory builds will not exceed 1M bpd for the rest of the year, compared to the 3M bpd increase in Q4 based on OPEC targets.

(Price Neutral) **– Heavy investment in the past favors a relaxation in energy prices. This could be an important force** that could help to stabilize the price of energy, as we begin to see how many unconventional wells in the US begin to increase production with the oil price around USD80pbl. Permian output was nearing pre-pandemic record levels last month, as reported in the EIA Drilling Productivity Report. Forecasts for total US shale output in November rose to 8,219M bpd, extending the growth seen since October. Permian production is expected to increase to 4,888M bpd after a significant rise in October (the record was set in March 2020, with 4,913M bpd). Bakken production for November also is expected to grow. There is room for production in the US to continue growing, as a result of this past investment. The Permian has low breakeven production costs and high rates of productivity and is the US region best positioned to recover. Additionally, other shale plays have shown a slow recovery, with Bakken expected to still be 26% short of its historical high and Eagle Ford 37% below its peak.

(Price Negative) **– US drilling likely to rise next year as producers add extra rigs, and Gulf drilling auction saw most leases sold since 2014:** US shale producers have added extra rigs much more slowly during this recovery than in previous recoveries, but the number of active rigs and total production are likely to climb next. The active rig count of 454 is still well below the 683 immediately before the pandemic in Mar-20, though producers have conserved cash by completing previously drilled but uncompleted wells (DUCs) instead of drilling new ones. The number of DUCs is approaching multi-year lows, which will force producers to increase new drilling supply. On the other hand, a government auction for drilling rights in the Gulf of Mexico saw $191.7M in sales, with 317 bids for 308 tracts. That was the most leases sold at a single Gulf auction since 2014, when WTI was priced at $80 a barrel. However, the average bid fell to ~$622K per lease, reflecting a downward trend that may reflect oil industry unease amid a shifting climate and ESG backdrop. The auction was paused after Biden ordered a halt to new leases so the Interior Department could complete a comprehensive review of activity. A Louisiana-based federal court ruled against the moratorium. It is unclear when there will be another auction, as an Obama-era leasing program expires next year, while any futures sales may come with less generous terms.

(Price Neutral) **– Recent weakness in oil price, driven by the potential coordinated reserve release by oil-consuming countries, could continue:** Japan was reported to begin preparing for a crude release from its national stockpiles following a US request in an international effort to dampen oil prices. Private stockpiles of oil can also start to be released, though laws may have to be changed for a broader release. Japanese companies hold about 175M barrels of crude and oil products. Japan PM Kishida confirmed the push. Meanwhile, China signaled that it was working on a sale from its inventories. Analysts at Citi said that a combined global reserve release could total over 120M barrels.

(Price Neutral) **– Iraq plans to double output by 2027 to more than 8M bpd, though many doubt feasibility of plan:** Platts reported plans from Iraq to nearly double its crude output capacity by 2027, though that plan may be upended by outside investment during a time when oil companies are seeking to de-risk their portfolios. Many analysts don't believe the 8M bpd target is achievable given the historically difficult fiscal terms Iraq has offered companies, as well as the investment needed to reduce the level of associated gas flaring that has made it one of the most polluting oil producing countries. The Kurdish region also faces chronic cash flow shortages and budget disputes, making it an obstacle to growing its oil sector. Iraq's production in October was 4.17M bpd, with Platts estimating total capacity of 4.72M bpd in 2027.

Long-term drivers

(Price Negative) **–** Alternative energies picking up the baton: Conventional 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' interest to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(Price Negative) **–** Growing environmental problems will gradually tighten legislation on 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, which 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.

(Price Negative) **–** 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 rapid increase in shale oil production.

PRECIOUS METALS - GOLD

Fundamental view (Gold): Target range USD1,700 – 1,900 /oz

Buy < USD1,700; Sell >USD1,900

Positive drivers for gold

Gold as the new anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always carry out the exercise of deciding which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets, demand or supply shocks, or a collapse in real rates (due to inflation shocks). The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold & US Treasuries or other Tier 1 Govies) is likely to perform better in the future. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will better display its quality as an anti-fragile asset in the face of a shock. In this respect, we are very clear that the supply of US Treasury bonds will be almost unlimited, whereas the supply of gold will remain very limited over the next decade.

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 (>US$13tn of face value is yielding negative rates).

Gold is cheap relative to palladium: The Gold/Palladium ratio fell to 0.89, well below its 20-year average of 1.85x, suggesting that gold is deeply cheap relative to palladium, or palladium is even more expensive than gold.

Negative drivers for gold

Gold expensive relative to silver. The Gold/Silver ratio rose to 77.93 but is still above its 20-year average of 66.52x, suggesting that gold is expensive 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$1,535/oz.

Gold to oil: This ratio rose to 22.95, still well above its 20-year average of 18.17x. Considering our fundamental fair value for WTI oil at US$70 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,271 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.1956), the price of gold in real terms (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,504. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,049. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,254.

The three identified threats that could end the gold rally no longer seem so distant. What are these threats? The 1976-80 rally ended when US short rates were jacked up to break inflation, causing a rise in the USD. The 1985-88 rally ended when Germany pulled out of the Accord Plaza deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw the gold price skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers. This ended in 2011, when the USD started to strengthen. Therefore, the only four threats to the gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. 4) A loss of momentum. But how real and dangerous is each of these risks in bringing an abrupt end to the gold rally?

Looking at this history and knowing that a gold bull market usually feeds on its own momentum for quite a while and only ends when facing higher nominal rates or a stronger USD or a rise in real rates, it seems reasonable to me to give a small alarm signal that **we could be close to a turn in the trend of gold (down),** since gold has totally lost its momentum, and also because the possibility of an increase in interest rates has become more visible with the imminent start of Tapering by the Fed.

Risk #1. Higher nominal rates (MEDIUM RISK): Although a few months ago it seemed impossible to think of rate hikes by the monetary authorities, this is a possibility that is gaining ground with each passing day.

Risk #2. Stronger USD (MEDIUM RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price (negative for gold). With a longer-term view, we do not foresee a jump in the US current account balance that will boost the USD dramatically. Rather, the balance (deficit) could remain stable at around 2% of GDP and keep the USD well supported but stable, far from a strong rebound that could end gold's bull market. However, a more determined FED in its exit strategy (Tapering) could cause a certain shortage of the USD, which would have a very negative effect on the price of gold.

Risk #3. A rise in real rates (LOW RISK): Even if nominal rates rise, the only way OECD countries could experience surging real rates would be through the inflation rate collapsing. But how? Such a deflationary outcome could be triggered by a permanent collapse in the price of energy, a collapse in real estate, or even a collapse in the Renminbi. There are few signs of such shocks unfolding right now. With this in mind, it seems that a surge in real rates is not an immediate threat.

Risk #4 Momentum – (MEDIUM RISK) Gold bull markets usually feed on their own momentum for quite a while. The price of gold has lost traction and momentum for some time, and with it, a self-reinforcing momentum. A constructive view could be that perhaps the emerging world could recreate a gold-prone cycle, such as the one experienced in 2001-2011. In the 2001-2011 period, it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. In contrast, in the 2011-2020 decade, most of the world's wealth has been created in the US (by people with scant interest in gold), and with EM growth having been much more moderate. If EMs thrive again, led by Asia, this could be a tailwind for gold. But at the moment we do not have a clear opinion about Asia, dragged by a China engrossed in a kind of nihilism existence.

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EXCHANGE RATES

Flow analysis & Fundamental targets

USD vs All: Z-Score Analysis: Unfavorable view for the US dollar in the short-term.

EM Currencies: Z-Score Analysis: Favorable view for the US dollar in the short-term.

EUR-USD: Fundamental Target (Buy USD at 1.14, Sell USD at 1.09) // Z-Score Analysis: Favorable to the EUR in the ST

USD-JPY: Fundamental Target 116; **EUR-JPY**: Target 130 // Z-Score Analysis: Slightly favorable to the JPY vs the USD

GBP-USD: Fundamental Target 1.39; **EUR-GBP**: Target 0.80 // Z-Score Analysis: Slightly favorable to the GBP vs the USD

USD-CHF: Fundamental Target 0.93; **EUR-CHF:** Target 1.04 // Z-Score Analysis: Neutral view on the GBP vs the USD

USD-BRL: Fundamental Target 5.35; **EUR-BRL:** Target 5.99 // Z-Score Analysis: Neutral view on the BRL vs the USD

USD-MXN: Fundamental Target 21; **EUR-MXN:** Target 23,52 // Z-Score Analysis: Favorable to the MXN vs the USD

USD-ARS: Target 175, Negative on the ARS

USD-INR: Target 76, Neutral on the INR

CNY: Target 6.35. Neutral on the CNY

RUB: Negative view on the RUB vs USD

AUD: Favorable view on the RUB vs USD

CAD: Neutral view on the RUB vs USD

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	22,18	0,66	32,1	-28,2	3,2	1,00
USD vs G10	21,26	-0,08	32,7	-25,4	4,1	0,96
EM	-0,92	-0,74	3,9	-0,9	1,3	-1,61
EUR	-2,31	-0,55	23,4	-8,6	7,9	-1,08
JPY	-10,56	0,67	0,6	-15,0	-8,3	-0,55
GBP	-2,89	-3,03	4,3	-6,5	-1,1	-0,67
CHF	-1,52	0,86	1,8	-6,0	-2,1	0,27
BRL	-0,27	-0,25	0,7	-0,8	-0,1	-0,48
MXN	-1,17	-0,22	3,3	-1,2	1,0	-1,66
RUB	0,61	-0,18	1,2	-0,3	0,4	0,51
AUD	-4,57	1,11	6,1	-6,6	-1,2	-0,98
CAD	-0,25	0,64	6,1	-5,0	0,4	-0,24

Positive
Neutral-Positive
Neutral-Negative
Negative

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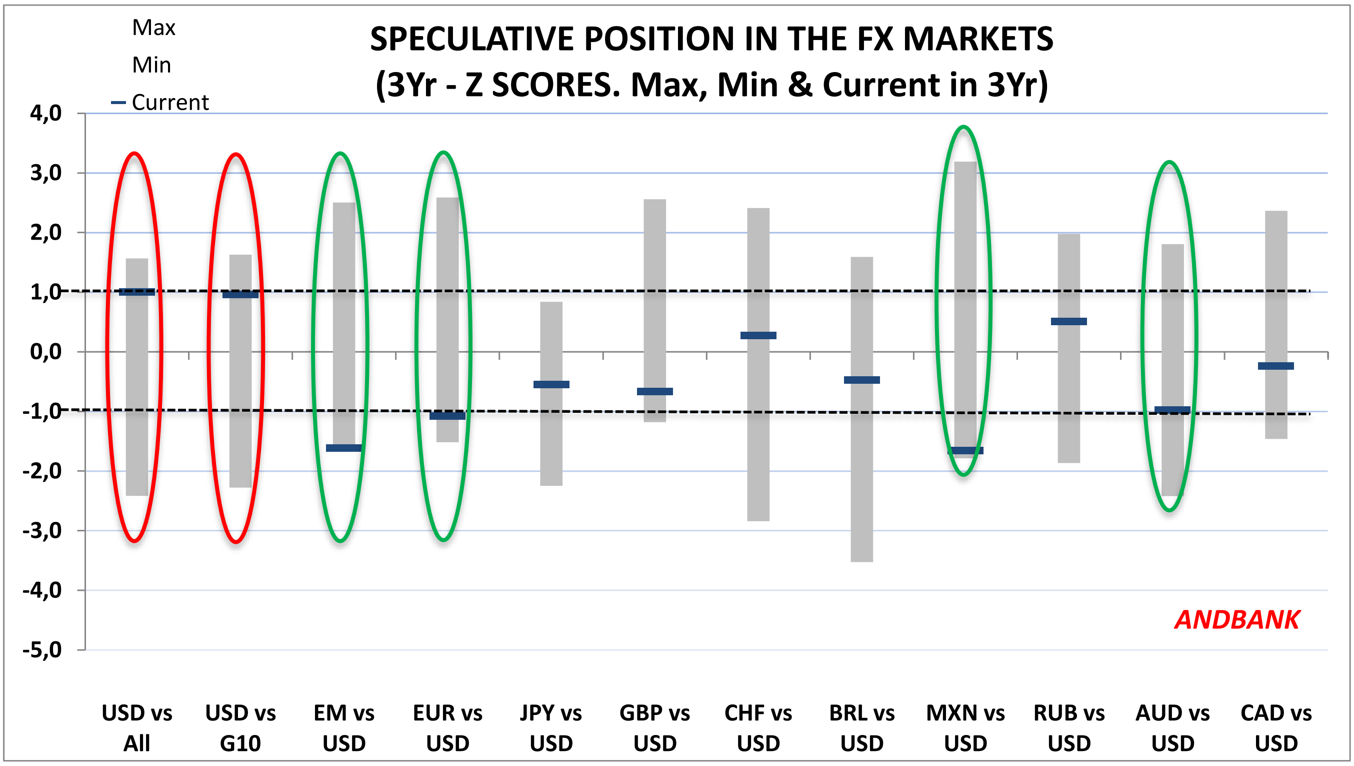

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Equity	USA - S&P 500	-1,8%	21,9%	4.577	4.500	-1,7%
	Europe - Stoxx Europe 600	-2,9%	16,6%	467	519	11,0%
	Euro Zone - Euro Stoxx	-3,9%	15,5%	461	502	9,0%
	SPAIN - IBEX 35	-8,0%	2,8%	8.310	9.510	14,4%
	MEXICO - MXSE IPC	-1,8%	15,6%	50.927	60.000	17,8%
	BRAZIL - BOVESPA	-0,1%	-12,2%	105.469	120.000	13,8%
	JAPAN - NIKKEI 225	#N/A	2,1%	28.030	33.250	18,6%
	CHINA - SHANGHAI COMPOSITE	3,1%	3,9%	3.607	3.863	7,1%
	CHINA - SHENZEN COMPOSITE	5,5%	8,5%	2.526	2.684	6,2%
	INDIA - SENSEX	-3,5%	22,4%	57.696	63.411	9,9%
	VIETNAM - VN Index	-0,1%	30,8%	1.443	1.866	29,3%
	MSCI EM ASIA (in USD)	-1,4%	-6,0%	670	743	10,8%
Fixed Income Core countries	US Treasury 10 year Govie	1,6%	-3,2%	1,42	2,00	-3,2%
	UK 10 year Gilt	2,4%	-4,5%	0,78	1,50	-5,0%
	German 10 year BUND	1,6%	-2,1%	-0,38	0,05	-3,8%
	Japanese 10 year Govie	0,3%	-0,2%	0,05	0,20	-1,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,3%	-2,5%	0,35	0,85	-3,6%
	Italy - 10yr Gov bond	1,1%	-2,7%	0,91	1,25	-1,9%
	Portugal - 10yr Gov bond	1,2%	-2,3%	0,27	0,85	-4,4%
	Ireland - 10yr Gov bond	1,2%	-3,3%	0,05	0,50	-3,5%
	Greece - 10yr Gov bond	-0,3%	-4,0%	1,19	1,45	-0,9%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,2%	-0,3%	56,73	60	-0,1%
	Credit EUR HY-Itraxx Xover	-0,2%	0,6%	280,13	275	2,4%
	Credit USD IG - CDX IG	-0,1%	-0,3%	57,38	70	0,4%
	Credit USD HY - CDX HY	-0,6%	1,3%	325,13	331	3,3%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-10,3%	-51,0%	20,34	20,00	23,1%
	Russia - 10yr Gov bond (local)	-0,2%	-14,6%	8,39	7,50	15,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,8%	1,3%	6,36	5,10	16,5%
	India - 10yr Gov bond (local)	0,4%	1,6%	6,37	6,00	9,3%
	Philippines - 10yr Gov bond (local)	-2,2%	-13,4%	4,98	5,00	4,8%
	China - 10yr Gov bond (local)	0,5%	5,0%	2,89	2,40	6,8%
	Malaysia - 10yr Gov bond (local)	1,0%	-4,4%	3,51	3,10	6,8%
	Thailand - 10yr Gov bond (local)	0,4%	-5,0%	1,84	1,90	1,4%
	Singapore - 10yr Gov bond (local)	1,1%	-6,0%	1,67	2,75	-7,0%
	Rep. Korea - 10yr G. bond (local)	2,1%	-2,6%	2,13	3,40	-8,0%
	Taiwan - 10yr Gov bond (local)	-0,1%	-1,8%	0,53	1,50	-7,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,7%	-12,4%	7,40	7,75	4,6%
	Mexico - 10yr Govie (USD)	0,1%	-3,0%	3,28	3,75	-0,5%
	Brazil - 10yr Govie (Loc)	5,3%	-28,9%	11,33	11,00	14,0%
	Brazil - 10yr Govie (USD)	1,6%	-8,2%	4,86	5,75	-2,3%
Commodities	Oil (WTI)	-15,5%	40,7%	68,3	60,00	-12,1%
	GOLD	0,3%	-6,4%	1.775,0	1.900	7,0%
Fx	EURUSD (price of 1 EUR)	-2,5%	-7,4%	1,132	1,12	-1,0%
	GBPUSD (price of 1 GBP)	-2,9%	-2,8%	1,33	1,39	4,7%
	EURGBP (price of 1 EUR)	0,3%	-4,8%	0,85	0,80	-5,5%
	USDCHF (price of 1 USD)	0,7%	3,8%	0,92	0,93	1,4%
	EURCHF (price of 1 EUR)	-1,8%	-3,8%	1,04	1,04	0,3%
	USDJPY (price of 1 USD)	-0,7%	9,6%	113,17	116,00	2,5%
	EURJPY (price of 1 EUR)	-3,2%	1,5%	128,07	129,92	1,4%
	USDMXN (price of 1 USD)	3,1%	6,5%	21,16	21,00	-0,8%
	EURMXN (price of 1 EUR)	0,4%	-1,3%	23,92	23,52	-1,7%
	USDBRL (price of 1 USD)	1,2%	8,1%	5,62	5,35	-4,7%
	EURBRL (price of 1 EUR)	-1,4%	0,2%	6,36	5,99	-5,7%
	USDARS (price of 1 USD)	1,3%	20,3%	101,13	175,00	73,0%
	USDINR (price of 1 USD)	0,9%	2,9%	75,13	76,00	1,2%
	CNY (price of 1 USD)	-0,6%	-2,4%	6,37	6,35	-0,3%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
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