GLOBAL OUTLOOK

# ECONOMY & FINANCIAL MARKETS

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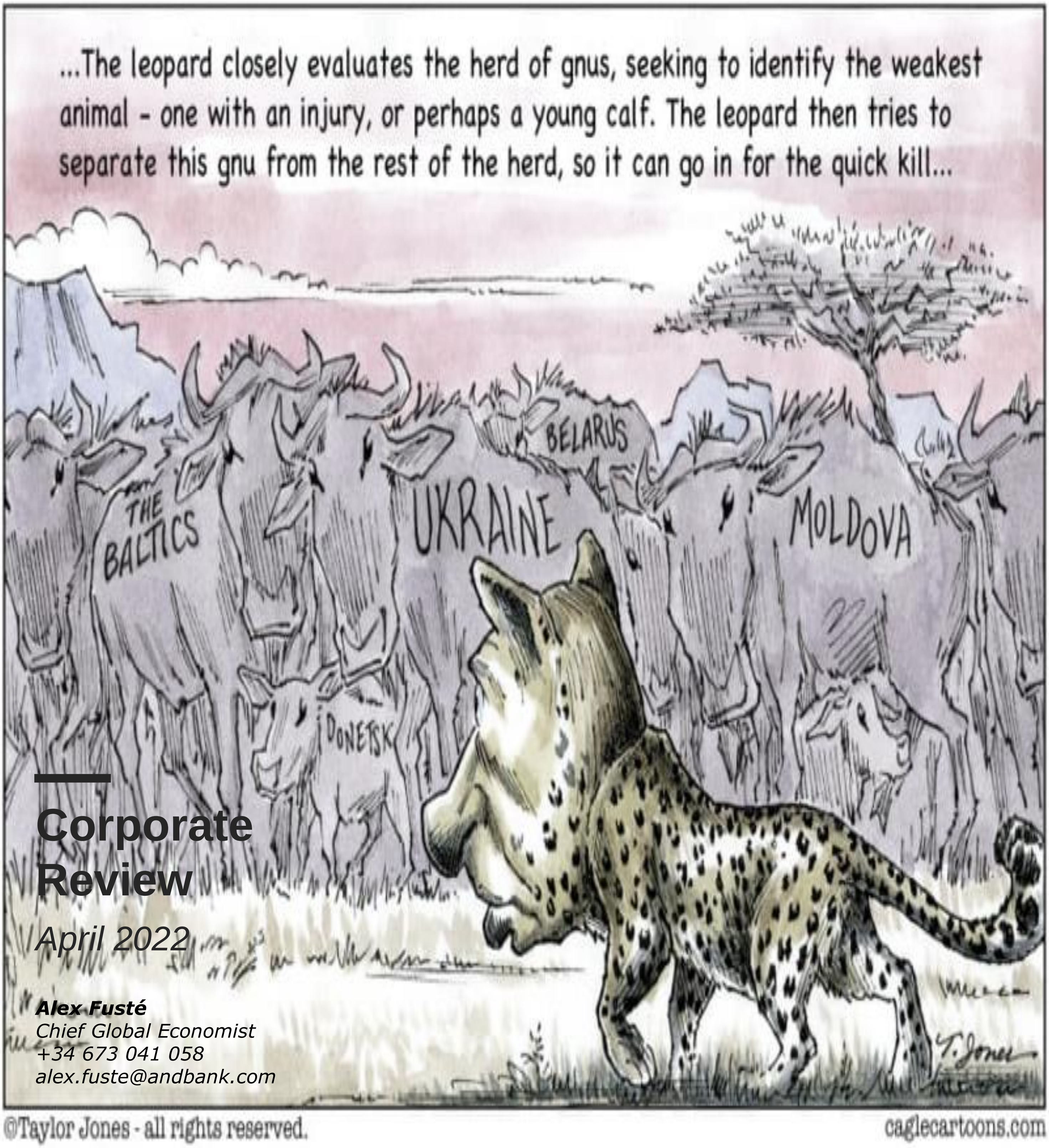
Private Bankers

Andbank Monthly Corporate Review – April 2022




## Corporate Review

*April 2022*

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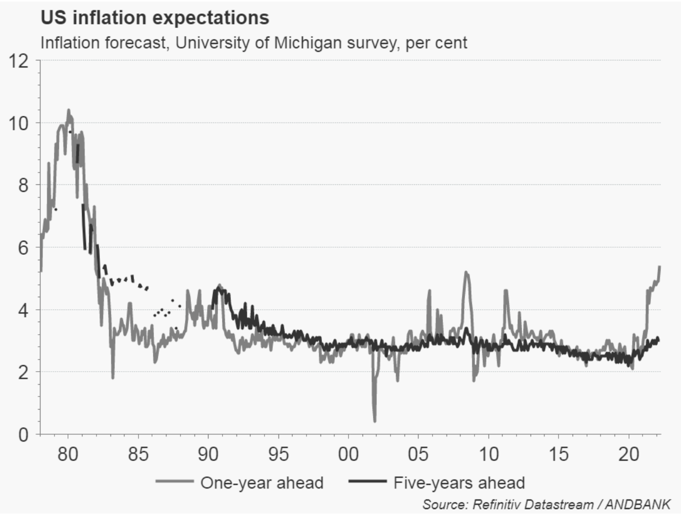
# EXECUTIVE SUMMARY

## CHART OF THE MONTH






## 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 | 4.532 | 4.600 | 1,5% | MW | 5.060 | 11,7% |
| Europe - Stoxx Europe 600 | 455 | 466 | 2,5% | MW-UW | 513 | 12,7% |
| Euro Zone - Euro Stoxx | 434 | 449 | 3,6% | MW-UW | 494 | 13,9% |
| Spain IBEX 35 | 8.366 | 8.876 | 6,1% | MW-UW | 9.764 | 16,7% |
| Mexico IPC GRAL | 55.672 | 60.715 | 9,1% | OW | 66.787 | 20,0% |
| Brazil BOVESPA | 118.602 | 112.500 | -5,1% | UW | 123.750 | 4,3% |
| Japan NIKKEI 225 | 27.944 | 27.688 | -0,9% | MW | 30.457 | 9,0% |
| China SSE Comp. | 3.215 | 3.641 | 13,3% | MW/OW | 4.005 | 24,6% |
| China Shenzhen Comp | 2.097 | 2.338 | 11,5% | MW/OW | 2.572 | 22,7% |
| India SENSEX | 57.593 | 58.854 | 2,2% | MW | 64.740 | 12,4% |
| Vietnam VN Index | 1.483 | 1.794 | 20,9% | OW | 1.973 | 33,0% |
| Taiwán SE Weighted Index | 17.520 | 17.749 | 1,3% | MW/OW | 19.524 | 11,4% |
| MSCI EM ASIA | 597 | 609 | 2,0% | OW | 670 | 12,2% |

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 | 2,50 | 2,75 | 0,5% |
| | UK 10 year Gilt | 1,71 | 1,75 | 1,4% |
| | German 10 year BUND | 0,59 | 0,60 | 0,5% |
| | Japanese 10 year Govie | 0,25 | 0,25 | 0,2% |
| Fixed Income Peripheral | Spain - 10yr Gov bond | 1,45 | 1,60 | 0,2% |
| | Italy - 10yr Gov bond | 2,09 | 2,20 | 1,2% |
| | Portugal - 10yr Gov bond | 1,33 | 1,60 | -0,8% |
| | Ireland - 10yr Gov bond | 1,16 | 1,10 | 1,6% |
| | Greece - 10yr Gov bond | 2,79 | 2,80 | 2,7% |
| Fixed Income Credit | Credit EUR IG-Itraxx Europe | 80,12 | 80 | 0,3% |
| | Credit EUR HY-Itraxx Xover | 358,48 | 375 | 2,6% |
| | Credit USD IG - CDX IG | 72,08 | 80 | 1,5% |
| | Credit USD HY - CDX HY | 367,84 | 375 | 4,4% |

## 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) | 25,07 | 20,00 | 65,6% |
| | Russia - 10yr Gov bond (local) | 13,56 | 14,00 | 10,0% |
| Fixed Income Asia (Local curncy) | Indonesia - 10yr Gov bond (local) | 6,68 | 5,60 | 15,3% |
| | India - 10yr Gov bond (local) | 6,83 | 6,80 | 7,1% |
| | Philippines - 10yr Gov bond (local) | 5,55 | 4,80 | 11,6% |
| | China - 10yr Gov bond (local) | 2,80 | 2,30 | 6,8% |
| | Malaysia - 10yr Gov bond (local) | 3,85 | 3,30 | 8,2% |
| | Thailand - 10yr Gov bond (local) | 2,03 | 3,00 | -5,7% |
| | Singapore - 10yr Gov bond (local) | 2,40 | 3,40 | -5,6% |
| | Rep. Korea - 10yr G. bond (local) | 2,92 | 3,90 | -4,9% |
| | Taiwan - 10yr Gov bond (local) | 0,92 | 1,90 | -6,9% |
| Fixed Income Latam | Mexico - 10yr Govie (Loc) | 8,61 | 8,55 | 9,0% |
| | Mexico - 10yr Govie (USD) | 4,12 | 4,50 | 1,0% |
| | Brazil - 10yr Govie (Loc) | 11,38 | 11,25 | 12,4% |
| | Brazil - 10yr Govie (USD) | 5,49 | 6,00 | 1,4% |

## COMMODITIES & FX

| Asset Class | Indices | Current Price | Fair Value | Expected Performance to Fair Value* |
|---|---|---|---|---|
| Commodities | Oil (WTI) | 109,5 | 100,00 | -8,7% |
| | GOLD | 1.932,4 | 1.800 | -6,9% |
| Fx | EURUSD (price of 1 EUR) | 1,095 | 1,12 | 2,2% |
| | GBPUSD (price of 1 GBP) | 1,32 | 1,39 | 5,9% |
| | EURGBP (price of 1 EUR) | 0,83 | 0,80 | -3,4% |
| | USDCHF (price of 1 USD) | 0,93 | 0,93 | -0,4% |
| | EURCHF (price of 1 EUR) | 1,02 | 1,04 | 1,8% |
| | USDJPY (price of 1 USD) | 123,72 | 116,00 | -6,2% |
| | EURJPY (price of 1 EUR) | 135,55 | 129,92 | -4,2% |
| | USDMXN (price of 1 USD) | 20,06 | 21,50 | 7,2% |
| | EURMXN (price of 1 EUR) | 21,97 | 24,08 | 9,6% |
| | USDBRL (price of 1 USD) | 4,74 | 5,50 | 16,0% |
| | EURBRL (price of 1 EUR) | 5,19 | 6,16 | 18,6% |
| | USDARS (price of 1 USD) | 110,38 | 175,00 | 58,5% |
| | USDINR (price of 1 USD) | 76,23 | 76,00 | -0,3% |
| | CNY (price of 1 USD) | 6,37 | 6,35 | -0,3% |

# US

## No surprises from the FED. Dot plot more hawkish than expected

**Fed: The day has arrived**

The Federal Reserve raised short-term interest rates for the first time since 2018, with an expected 25 bps hike (target range of between 0.25% and 0.50%). The decision was nearly unanimous, with James Bullard as the sole dissenter (voted for a 50 bps hike). The signal coming from the projections released by the FOMC (known as the dot plot) is hawkish, indicating that the Fed could hike up to seven more times this year. The central bank now projects prices to rise by 4.3% over the course of 2022, well above the 2.6% pace it had projected in December. According to the FOMC the economy is very strong and the labor market is extremely tight, predicting that wages will continue to rise, as employers are having difficulty filling job openings. Nevertheless, the Fed noted that the economic outlook remains "highly uncertain" in the face of the war in Ukraine. Another tool the Fed may likely deploy soon: a reduction in its massive $9 trillion balance sheet (known as Quantitative Tapering or QT). Purchases ended this month and Powell indicated that the FOMC moved the discussion forward in this week's meeting. Although no announcements were made, the FOMC expects the reduction to begin at a coming meeting (scheduled for May 3-4), and for it to be "faster than the last time".

**Inflation and Macro data**

High inflation is still here (jumped to +7.9% YoY in February vs 7.5% YoY in January) and the Ukraine conflict will contribute to keep it at high levels, but we think that most of last year's main contributors (rental cars, transportation, hotels, new vehicles, etc.) should get softer in the medium term. The sectors with most weight in the CPI (food, housing, clothing, medical care and education) have consistently shown below-average price increases. By 4Q21, the various Covid relief packages enacted since 2020 had boosted US GDP by just under 6%. Without these stimulus measures in place the economy is expected to grow 2% in 2022. The ISM manufacturing PMI was 58.6 in February versus 58 expected and previous 57.6. The ISM non-manufacturing PMI was 56.5 versus 61 expected and previous 59.9, and strong employment numbers were published, with unemployment down 3.8% from 4% the previous month.

**Politics**

Regarding the Ukraine war, extended economic sanctions have been applied to Russia, including restrictions on access to technology, prohibition of transactions with the Central Bank of Russia, ban on Russian aircraft and airlines entering US airspace, financial sanctions on oligarchs, and ban on imports of Russian oil, LNG and coal. On the other hand, shipments of American weapons have recently arrived as part of the USD 350 MM package Biden signed in an expedited attempt to boost Ukraine's defenses. Turning to domestic politics, although the USD1T infrastructure legislation was a bright spot in his first year, Biden's broader agenda remains stalled. Republicans are poised to retake control of Congress.

**Financial markets**

Rates & Credit: Another negative month for fixed income, with the 10-year Treasury yield breaking 2.10% after receding to 1.74% with the invasion of Ukraine. The yield curve continued to flatten, with the spread between the 10-year and 2-year Treasury narrowing to 20 bps, after starting the year around 80 bps, indicating that an overly aggressive Fed could further complicate the economy. The investment grade spread has continued to widen by about 10 bps since the last review and is around 80 bps. Higher quality bonds continue to underperform in 2022, as a result of higher rates and the longer duration of the index. High yield also showed a widening of spreads, with a record above 400 bps. Despite falling, HY continues to outperform compared to IG. Even with the higher spread we haven't seen a widening of spreads between BB and B, normally seen in the face of credit events. We raised our targets for both credit categories (80 for IG and 375 for HY). Neutral IG, MW-OW in HY.

Equities: 4Q21 earnings surprised to the upside by 9.5% (vs. 18.9% on avg. through past 4Qs), with revenue growth around 15.6% YoY and net income growth at 30.1% YoY. EPS estimates have been revised lower for 1Q22 (-1.2%), while the back half of the year has been raised (3Q22: +1.5%; 4Q22: +2.6%). The largest growth in earnings was in the Energy sector, while Utilities was the only one with negative growth. As in past months, we maintain our recommendation of a balanced portfolio between Value/Cyclical and Growth styles ('Quality Growth' companies). We also maintain our neutral for Large Caps vs Small Caps. Due to earnings growth and falling prices, the Price to Earnings of the S&P500 has adjusted by more than 12%. Going forward, the US market is offsetting the negative impact of possible higher costs and lower margins. Overall we are neutral with an overweight tilt.

**Market outlook – Recommendations & Targets from fundamental analysis**

Equities: S&P MARKETWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 2.75%

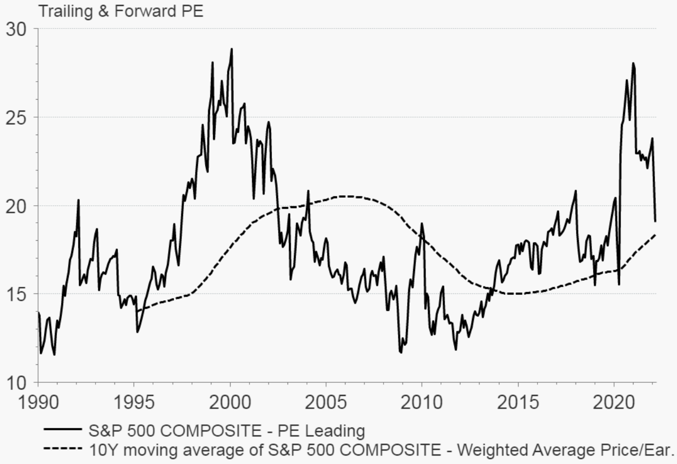
CDX: IG MARKETWEIGHT (Target Spread 80)

CDX: HY MW OVERWEIGHT (Target Spread 375)

Forex: DXY index MW-OVERWEIGHT

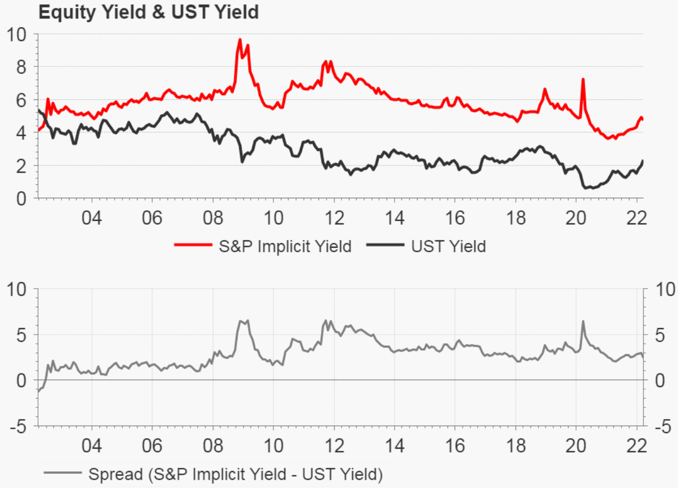
**US price-to-earning ratio**

Trailing & Forward PE




*Source: Refinitiv Datastream / ANDBANK*

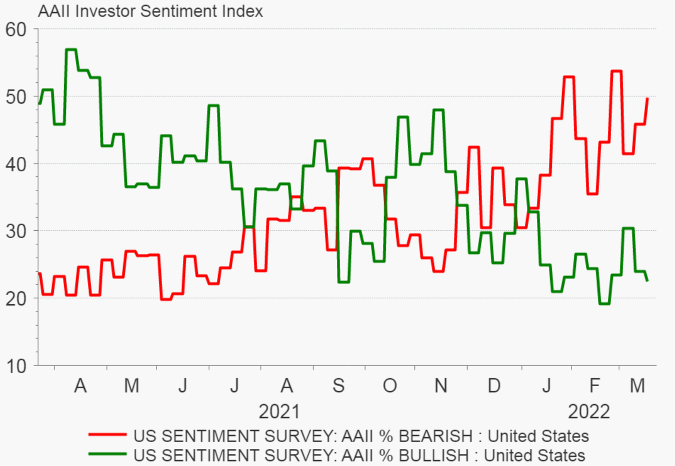
**Equity Yield & UST Yield**




*Source: Refinitiv Datastream / ANDBANK*

**US RETAIL INVESTOR SENTIMENT**

AAII Investor Sentiment Index




*Source: Refinitiv Datastream / ANDBANK*

# EUROPE

## How much is the Ukraine war going to hurt the economy?

**European growth and inflation estimates**

Europe, as expected, is going to be the region most affected by the conflict. For economic activity the baseline case is a negative impact of around 0.5-1% in 2022 GDP (growth down from 4.2% to 3.2-3.7% YoY), while inflation could be boosted by an additional 2% (from 3.3% to 5.2% YoY). Lack of visibility linked to the war in Ukraine makes projections harder and less reliable. Other less favorable scenarios have been outlined by the ECB, with additional impact on growth (2022 growth 2.3-2.5% YoY) and inflation (in a range of 5.9-7% YoY). The most adverse shock would happen if Russia ceased its gas supply to Europe. This would entail a bearable loss for Putin compared with the freezing of assets abroad (USD 55 bn vs USD 350 bn) but would lead Germany, and Europe, into recession, as some 40% of our gas imports come from Russia. European leaders have outlined a plan to reduce dependence on that front (RePower EU intended to phase out our dependence on Russian fuels by 2027), with more fiscal leeway expected, even though a mutualized debt program has not been approved so far.

**ECB flexibility and optionality to address the new scenario**

On the QE front, apart from the expected ending of the PEPP program, the ECB drew a new and accelerated APP monthly path: €40 bn in April, €30 bn in May and €20 bn in June. The asset purchases during Q3 will be data dependent. It thus seems that the intention is to end APP by Q3 unless a change of scenario materializes.

We are seeing a faster normalization compared with the December announcement, with an ECB pressed by inflation and its mandate. From a lift-off expected shortly after the end of QE, the new wording allows more time: rates will be lifted gradually some time after QE ends. Despite moving into a different scenario, inflation pressures lead us to maintain our previous view: APP purchases will be brought to an end by the summer. We expect the ECB's first hike to come in 4Q22 and at least another 25 bps movement in 2022, as the preconditions for a rate hike can be considered already met. Implicit rates are already pricing in a 40 bps hike this year, starting around September. Normalization is on its way, with a more flexible approach.

**Financial Markets: Govies, Corporate Credit & Equity**

Govies: Less monetary support (from asset purchases and rate hikes) was already expected. Along with that we will now be facing higher financial needs in the years to come to meet the energy and humanitarian crisis in Europe and increased military spending. On the positive side, the crisis will serve, once more, as a catalyst to deepen EU integration, with permanent joint EU debt capacity becoming more likely. We stick to our targets for German bund and peripheral spreads.

Corporates: The volatility and tension due to the Russia-Ukraine conflict and concern about the rise in the price of raw materials have been felt in the evolution of the European credit market. Despite having limited visibility regarding the conflict, we believe that much of the negativity is included in prices, with some spreads pricing in default ratios of 4%, when the market would think of doubling from 1% to 2% at most. Corporate fundamentals look stable and strong, but we should take into consideration the impact of higher energy costs on corporate earnings, especially in the high yield segment. By sector, we have seen the best performance in O&G (no changes in spreads since the start of the war) and the health sector (with an increase of 5 bps). In contrast, the most affected have been retail, travel & leisure and chemicals. We have modified the target spreads for both IG (from 65 to 80) and HY (from 300 to 375), recommending Neutral-Underweight for both.

Equity market: As we have entered a new scenario in which the conflict and the sanctions are accelerating, we expect some downward earnings revisions in the weeks ahead. Market prices reflect this change in earnings expectations, with valuations that could turn out to be exaggerated if the conflict is solved more quickly than expected right now.

We see that now is a good time to relax the cyclical tick of the portfolios and be more neutral in sectors like Basic Materials and Energy that have been quoting raw materials prices that will be difficult to maintain without hurting the economy. We stick to our recommendation of defensive names and sectors. We maintain our overweight in UK and Spain vs Core Euro indexes, even after the bounce. Despite previously being more cautious than consensus, we set our targets with 0% earnings growth.

**Market outlook – Recommendations & Targets from fundamental analysis**

Equities – Stoxx Europe: MARKETWEIGHT-UW

Equities – Euro Stoxx: MARKETWEIGHT-UW

Equities – Spain's Ibex: MARKETWEIGHT-UW

Bonds – Core governments: MARKETWEIGHT-UW (Bund target 0.60%)

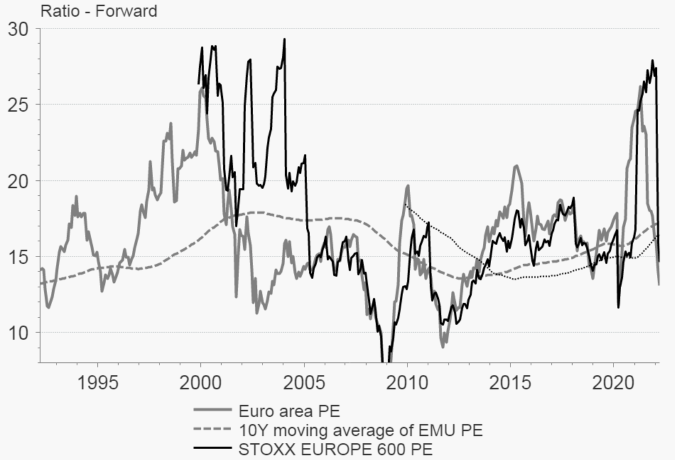
Peripheral – OW: IT(2.20%), GR(2.80%). MW: SP(1.60%), IE(1.10%). UW: PO (1.60%).

Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 80)

Credit – Itraxx Europe (HY): MARKETWEIGHT-UW (Target Spread 375)

FX – EUR/USD Target range: 1,08-1,15 (Buy USD at 1.15, Sell USD at 1.08)

**Euro area & EU price-to-earnings**
Ratio - Forward

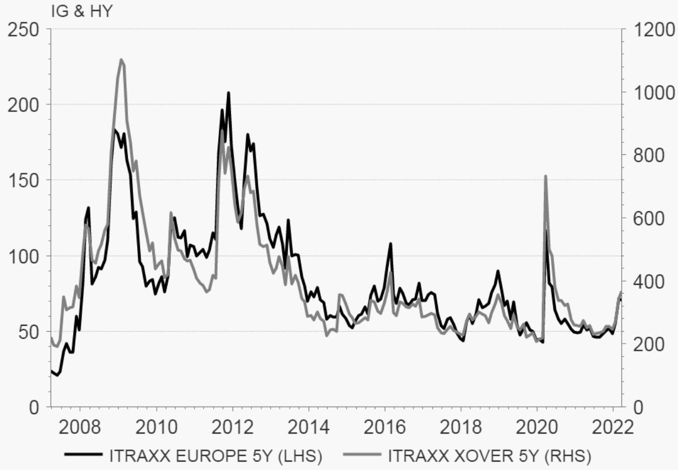



*Source: Refinitiv Datastream / ANDBANK*

**Euro STOXX banks Index**


*Source: Refinitiv Datastream / ANDBANK*

**EUR Corporate Bond Market**
IG & HY




*Source: Refinitiv Datastream / ANDBANK*

# CHINA

## Stocks fell sharply amid fears of US sanctions, surging Covid cases and PBOC easing pause

**Covid-19: China locks down more than 45M people.**

The sell-off that started on Monday gathered pace Tuesday afternoon despite the release of strong economic data earlier in the day. Later on Monday, authorities placed Jilin province in lockdown. Also, the southern city of Shenzhen was placed under lockdown for at least a week late on Sunday. The restrictions will last until at least 20-Mar and include halting of bus and subway services in the city, a work-from-home order, and shutting of factories including the city's important tech hub, prompting manufacturers such as Apple suppliers Foxconn and Unimicron Technology Corp to halt operations. The financial hub of Shanghai locked down some office compounds. "China's economy could be severely hit again," said Nomura analysts in a note. "With the much-worsening pandemic and Beijing's resolution in maintaining its zero-COVID strategy, we believe China's 'around 5.5%' GDP growth target this year is becoming increasingly unrealistic." The visible economic cost could be near 1% of GDP.

**Rates & liquidity: Why the PBOC kept the key rate unchanged.**

PBOC decided to keep its one-year medium-term lending facility rates unchanged at 2.85%, defying expectations of a cut. The market selling came despite data showing China's economy perked up in the first two months of the 2022, with key indicators all exceeding analysts' expectations. The data shows the government's supportive policies have started to help the economy. On the liquidity side, the PBOC opened liquidity gates as headwinds to growth strengthen. The central bank injected CNY100B into the financial system Tuesday morning, saying it comes just as Covid cases and lockdowns rise, and the property market slump shows no sign of abating. The injection was higher than consensus and came after the PBOC kept rates steady at 2.85% versus expectations of a 5-10 bp cut. Looking ahead, an influential economist says PBOC will cut rates to stabilize economy. China Securities Journal carried an article saying the PBOC will cut rates to stabilize the economy, downplaying concerns that a narrowing China-US yield spread would be an obstacle.

**Economy: Jan-Feb industrial output, retail sales and investments beat forecasts.**

January-February industrial production +7.5% y/y vs consensus +3.9% and +4.3% in prior month. Retail sales +6.7% y/y vs consensus +3.0% and +1.7% in prior month. Fixed asset investment (YTD) +12.2% vs consensus +5.0% y/y vs +4.9% in prior month. On the negative side, real estate sector growth continued to decelerate to 3.7% from 4.4%, with total sales dropping 19.3% and construction starts in all three major segments falling by double digits. Trucking operations across China continue to be delayed by more stringent testing requirements for drivers, leading to a significant reduction in the operational efficiency of trucking services at major port cities. Shipper AP Moller-Maersk noted even inland ports would be affected.

**Politics: Beijing says it wants to avoid US sanctions over Russia's war**.

China's foreign minister, Wang Yi, said China wants to avoid being impacted by US sanctions over Russia's war. Beijing is likely to encourage its larger banks to abide by US sanctions and "tread carefully" in helping Moscow, so long as the US can credibly threaten secondary sanctions. US national security advisor Sullivan and top China diplomat Yang Jiechi held a seven-hour long meeting the US described as "intense". Sullivan warned Beijing of the isolation it would face if it supported Russia. A day earlier, US officials said they believed Moscow had asked Beijing for military equipment to support its invasion of Ukraine, as there were indications Russia was running out of certain kinds of weapons and suggested that "China was preparing to help". The Chinese embassy in Washington said it was unaware of any requests for help. Some Beijing-backed news outlets had repeated claims that the US is trying to spread pathogens via a Ukrainian bio-lab.

**Regulations: Tech sector crackdown and US delistings of Chinese firms**

The Cyberspace Administration of China has said companies engaged in online gaming, livestreaming, audio and video should set up a "youth mode" to protect minors. Platforms should also cap the daily spending amount for minors and conduct regular assessments on protection to provide a "clean environment" on the internet. JPMorgan Chase & Co. downgraded 28 Chinese stocks listed in the United States and Hong Kong on Monday, sending the Nasdaq Golden Dragon China Index down nearly 12% overnight. "We find China Internet unattractive on a 6-12 month view with an unpredictable share price outlook, depending on the market perception of China's geopolitical risks, macro recovery and Internet regulation risk". The Hang Seng Tech Index has lost roughly 17% since last Friday, as the SEC identified Chinese companies that will be delisted if they do not provide access to audit documents.

**Market outlook – Recommendations & Targets from fundamental analysis**

Equities – SHANGHAI Idx: MW-OVERWEIGHT

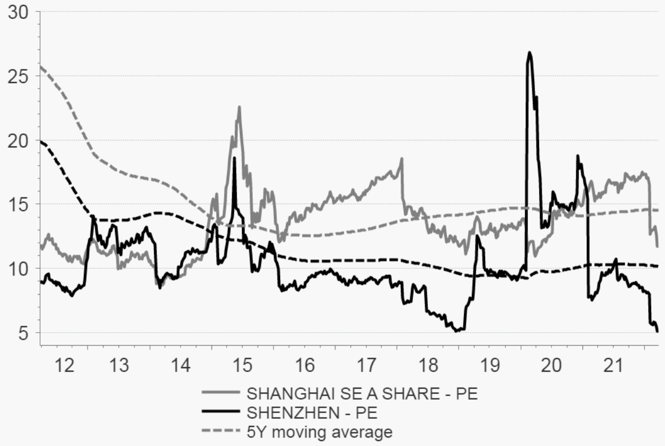
Equities – SHENZHEN Idx: MW- OVERWEIGHT

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

Forex – CNY/USD: MW (Target 6.35)

**CHINA SSE & SHENZHEN Index - PE Ratio**

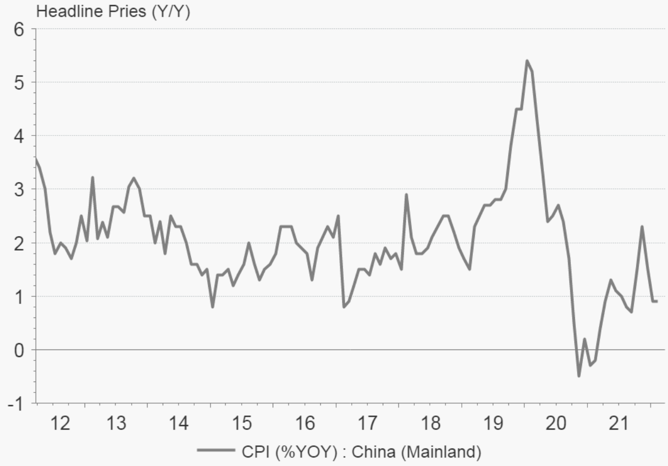
PE LTM




*Source: Refinitiv Datastream / ANDBANK*

**CHINA - CPI**

Headline Pries (Y/Y)




*Source: Refinitiv Datastream / ANDBANK*

**China benchmark government bonds**

Yield, per cent


*Source: Refinitiv Datastream / ANDBANK*

ANDBANK Private Bankers



# JAPAN

## Despite inflationary pressures policymakers focused on risks of renewed economic weakness

**Covid-19: Quasi-emergency measures may be lifted next week**

The government is considering lifting the COVID-19 quasi-state of emergency for 18 prefectures upon its expiration next week as the number of infections in those areas has been decreasing. The assessment criteria were eased last week, citing an increase in the number of vaccinated people, the low risk posed by the Omicron variant of causing severe illness and the need for fully resuming economic activities to boost the economy. Japan is preparing to offer a fourth COVID-19 vaccine dose to adults as early as summer

**Economy: 4Q GDP revised lower & Long-term jobless rate spikes**

Q4 revised GDP +4.6% q/q annualized vs consensus 5.6% and preliminary +5.4%. On a q/q basis, 4QGDP growth was +1.1% q/q vs consensus +1.4% and preliminary +1.3%. January leading economic index slowed to 103.7 (vs 104.7 in prior month). February Economy Watchers Survey points current conditions index remains stable (37.7 vs 37.9 in prior month) but Outlook index improves to 44.4 (vs 42.5 in prior month).

Nikkei cited official data indicating the pandemic has dealt a heavy blow to Japan's labor market, with people without a job for at least a year surging to the highest levels since the global financial crisis triggered by the collapse of Lehman Brothers more than a decade ago. Long-term unemployment reached 640,000 in 4Q21, jumping 31% from before the pandemic. The labor ministry estimates that the government's job retention subsidies for employers helped lower the unemployment rate by 2.6 pp, although it translated into an increase in furloughed workers.

Nikkei discussed changes in the midcareer job market, with an increasing number of workers trading secure jobs at large companies for new opportunities at startups. Ambi, a job placement website, shows that the number of workers moving to startups from well-established businesses rose more than sevenfold in the three years since H1 of FY18, far surpassing the overall job-hopping increase of 3.8 times. These midcareer changes accounted for 21.4% of all job switches made through the Ambi website, up about 13 points from three years earlier.

**Inflation: CGPI rises but Nationwide CPI remains extremely low**

February CGPI (Corporate Goods Price Index) rose to +9.3% y/y vs consensus +8.6% and revised +8.9% in prior month. CPI Overall Nationwide remains at +0.5% Y/Y, while CPI Excl Food & Energy Y/Y remains at a low -1.9% in January. Imported wheat price to hit 14-yr high amid Ukraine crisis.

**Central Bank: Ukraine crisis forces BoJ to maintain a more dovish stance despite inflationary pressures.**

Senior BOJ official says Japan likely to avert stagflation. BOJ's head of monetary affairs Seiichi Shimizu in comments to parliament said that "Japan is unlikely to slide into stagflation" despite the certainty of inflation accelerating from sharp rises in commodity prices. Shimizu reiterated the BOJ's view that the economy will recover as the hit to service consumption from the pandemic eases. The Ukraine crisis is posing growth risks for the Japanese economy, forcing the BOJ to maintain a more dovish stance on monetary policy despite rising inflationary pressures. Even with inflation set to approach or even exceed its 2% target in coming months, policymakers are said to be focusing on risks of renewed economic weakness.

**Ukraine crisis: Japan hesitant to join US in banning Russian oil imports**

Kyodo cited Prime Minister Kishida saying Japan will coordinate closely with G7 nations and weigh the need to ensure a stable supply of energy and national security before taking punitive steps against Russia, following a US ban on Russian oil and other energy imports. According to Kishida, President Joe Biden understands other allied nations cannot simply join the US in imposing a similar ban to punish Russia for its invasion of Ukraine.

**Corporates**

Foxconn to enlist 100 Japanese companies in EV drive: Nikkei reported that about 100 Japanese companies are expected to participate in the joint development of electric vehicles being spearheaded by Foxconn, including suppliers close to Toyota Motor, suggesting that the project will have a significant impact on the broader auto industry. Since the program was launched in April last year, the total number of participating companies globally has increased by 70%, while the number of Japanese companies has increased fivefold.

**Market outlook – Recommendations & Targets from fundamental analysis**

Equities – N225: MARKETWEIGHT

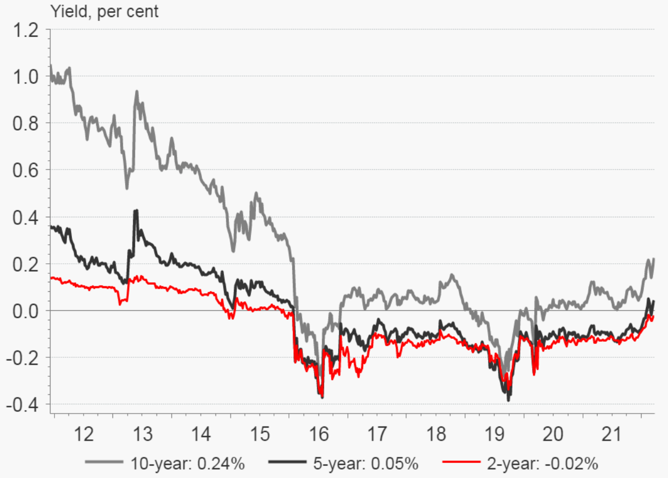
Bonds – Govies: MARKETWEIGHT (Target yield 0.25%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 116)

**Japan Nikkei 225 price / earnings**

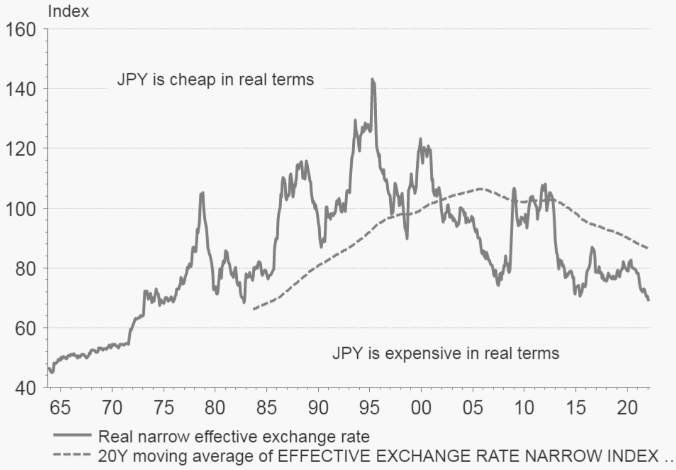

Source: Refinitiv Datastream / ANDBANK

**Japan benchmark government bonds**




Source: Refinitiv Datastream / ANDBANK

**Japan real narrow EER**




Source: Refinitiv Datastream / ANDBANK

# INDIA

## Future looks bright in the short term, but we see clouds in the long term

**What factors drove the strong growth seen in 2021?**

As the government has withdrawn monetary support and easy conditions (pressed by global inflation), it has increased public investment. This, of course, will have undesirable long-term effects. The budget announcements unsettled bond markets, pushing bond yields higher (to levels not seen since July 2019). Such fiscal strategy can be understood from the perspective that it is understandable to prioritize growth, since too much fiscal consolidation at this early stage of the recovery would be counterproductive.

**Is this growth strategy sustainable? No. It may boost investor appetite in the short term but must be redefined to be sustainable in the long term**

While the spending targets set for this year are consistent with the budget presented by Finance Minister Nirmala Sitharaman when she unveiled the five-year plan for deficit-led growth, the fact is that the projected deficit for this year is dangerously high again (6.4% of GDP) and is especially striking as it follows a (past) year in which we have come from a 6.9% deficit (largely due to expenses related to the pandemic). Looking ahead, the government is not considering any significant reduction of the deficit at least until 2025, when it plans to reduce it to 4.5% (a figure that is still very high). It can be said that the days of the country seeking a legally mandated 3% budget deficit ceiling are over. Perhaps the only positive aspect of the entire fiscal issue, and the current growth model, is that the government wants to change the structure of spending, shifting it from payments for transfers and subsidies towards productive investment, especially in transport infrastructure. India is budgeting INR7.5trn on capital expenditure in FY23 (an increase of INR1.5trn, or 25%, over the capital spending seen in FY22). Considering that the total increase in general public spending is INR1.75trn (+5% yoy), a capital spending increase of INR1.5trn represents 85% of the increase in public spending. The bulk of new spending will thus be devoted to projects like expressways, trains, cargo terminals and affordable housing. Meanwhile, the subsidy bill is being slashed to INR3.2trn, a fall of -25%. This, of course, can generate a boost in the economy and the equity market in the short and medium term, but only if it previously does not generate tensions in the cost of funding due to the deterioration of the fiscal profile, which it will if the country continues down this fiscal path.

**Fiscal difficulties could arise due to a growth model based on capital-intensive public spending**

Gross market borrowing, needed both to finance the fiscal deficit and debt repayments, is expected to rise 30% to INR15trn (US$200bn). That could prove challenging in an environment of diminishing liquidity, both at home and abroad. How is the government going to finance this? The government is also budgeting a 10% increase in tax revenue to INR27.6 trillion. Fiscal revenue will also depend on progress in the privatization of state assets. The government finally managed to sell the airline Air India and hopes to bring Life Insurance Corporation of India to market on March 31. Still, it expects to raise only INR0.8trn in FY22 (half of what was budgeted) and around INR0.7trn from privatizations.

A combination of generous spending, high borrowing and moderate revenues presents a worrying outlook for bond investors. With the 6.4% deficit target in FY23, the 10-year benchmark bond yield surged to 6.85% (the highest level since July 2019) and looks certain to break through 7% in coming months. Markets were also disappointed by Sitharaman's failure to attempt to include the Indian bond market in global debt indices (which would have attracted some US$40bn of foreign capital, followed by annual inflows of around US$20bn).

**The government is gambling everything on one card with its grow-first approach**

The government evidently believes spending more to boost growth is the best way to bring debt under control. The debt-to-GDP ratio jumped to 90% during the pandemic, up nearly 20pp. But high nominal GDP growth means the ratio is now falling, despite high fiscal deficits. Equity markets reacted favorably to the growth-first approach.

The government forecasts real GDP growth of 8-8.5% in FY23, and the economy is now well placed to enjoy 6-8% growth for the next two years.

GDP recently surpassed its pre-Covid level, but GDP per head is lower than it was pre-pandemic, with fewer people in work (as it is still happening in most countries). The government is betting that pouring vast funds into public investment will generate jobs, reignite private investment and boost weak household consumption. If it does not, India's comeback story will prove short-lived.

**Market outlook – Recommendations & Targets from fundamental analysis**

Equities – SENSEX: MARKETWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.8%)

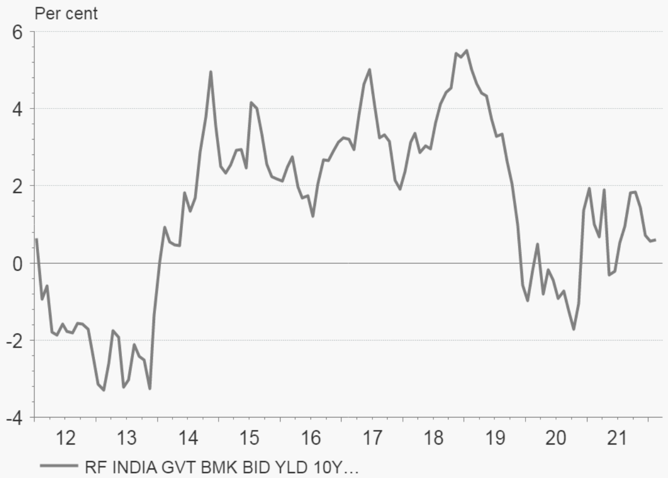
Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: MARKETWEIGHT (Target 76)

**India Datastream index price / earnings**

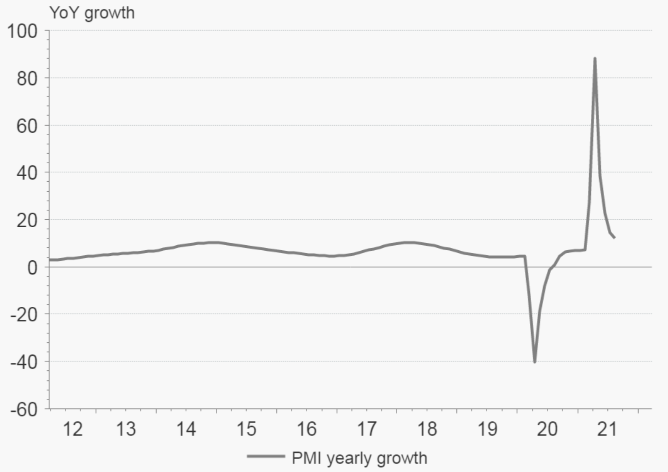

*Source: Refinitiv Datastream / ANDBANK*

**India - 10Y government bond Real Yield**




*Source: Refinitiv Datastream / ANDBANK*

**India composite leading indicator**




*Source: Refinitiv Datastream / ANDBANK*

# ISRAEL

## Economy doing fine. Effects of the war are expected to be limited

**The economy and inflation**

Final reports of Israel's national accounts showed higher growth than previously estimated. GDP rose in 2021 by 8.1%, beating growth estimates of 7%. Two main elements should be emphasized. The first is the personal consumption, which rose by 11.7%. The impressive increase in personal consumption can be partially attributed to the recovery from COVID. The main contributor to the rise in personal consumption was the strength of the Israeli consumer, benefiting from a good economic environment due to high employment, increasing real wages and a flourishing technology sector. In addition, an increase of 10.9% in fixed investment lays the ground for future growth. Two items that are part of fixed investment should be noted. The first is investment in machinery, which rose by 11.3%, and the second is investment in information technology and communications, which leaped by 21.9%. The impressive growth of these two items lays the ground for further growth in the future. For the current year a healthy growth rate of approximately 5% is expected.

Inflation rose to 3.5% YoY in February, exceeding expectations (+3.3% YoY BBG) and standing above the central bank target (1% to 3%) for the second consecutive month. The main contributors where fresh fruits and vegetables (+5.3% YoY), transportation, and apartment maintenance. The Bank of Israel has said it expects price gains to begin to fall in the coming months, dropping to around 2% during the second quarter

**Monetary policy**

The probability of rate hikes has increased significantly, as the forward market now expects the interest rate to rise to 1.25% in the next twelve months. It should be noted that the consensus at the beginning of the year was for no hikes until the end of the year. As in most of the world's bond markets, yields have gone up, but the steepness is little changed. It is assumed that the Bank of Israel will wait until the Fed hikes its rate to at least 0.5% before hiking, in order to avoid appreciation of the Shekel. In the February central bank meeting, all six members of the monetary policy committee voted to maintain the reference interest rate at 0.1%.

Although the Israeli curve is one of the steepest in Western markets, we have changed our view and take a cautious stance, remaining at a short-medium duration, in view of the possible inflation implications of the war in eastern Europe. Spreads on corporate bonds have increased slightly, but we do not expect a major widening, if at all, given the financial strength of the business sector.

**Stock market**

Tel Aviv stock indices (TLV35 & TLV125) dropped last month by 1%, continuing to outperform compared to most markets in the world. The financial reports for 2021 published by banks last week showed an impressive performance, with returns on equity ranging from 12% to 16%. The results were positively affected by a rise in economic activity and a release of reserves. Despite the results, bank stocks dropped by 7.5%, making them slightly more attractive after a 70% run in 2021.

In our opinion there are two sectors that may benefit from the war in Europe. The first is defense. Elbit systems (ESLT), which develops electronic and electro-optic systems used mainly for aircraft, will probably be one of the main beneficiaries of the increase in defense budgets around the world. Another company worth noting is Rada (RADA), which develops and manufactures radar systems for aircraft.

Alternative energy companies should also benefit from the new stance in the western world of avoiding buying fossil energy products from countries ruled by a totalitarian regime. Companies such as Solgreen, Energix and the like are expected to flourish in the new environment. Solaredge (SEDG), a leading provider of solar system inverters, is also worth mentioning. To the two sectors mentioned previously we can add Cybersecurity companies, like Check point (CHKP) and Palo Alto (PANW), which could also benefit.

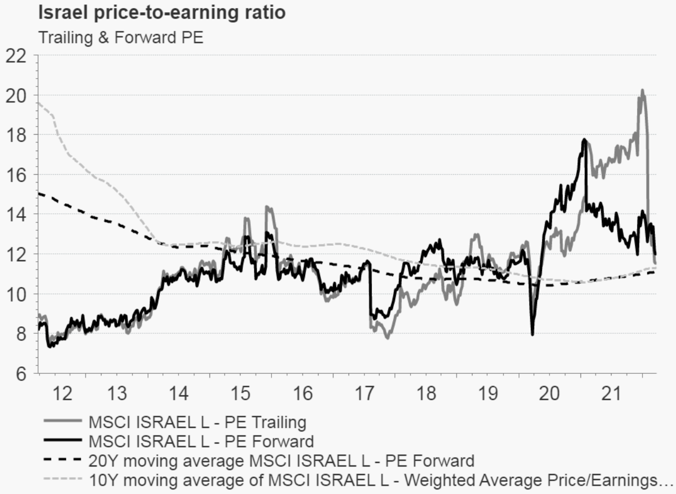
**Market outlook – Recommendations & Targets from fundamental analysis**

Equities – TLV35 Index: MARKETWEIGHT

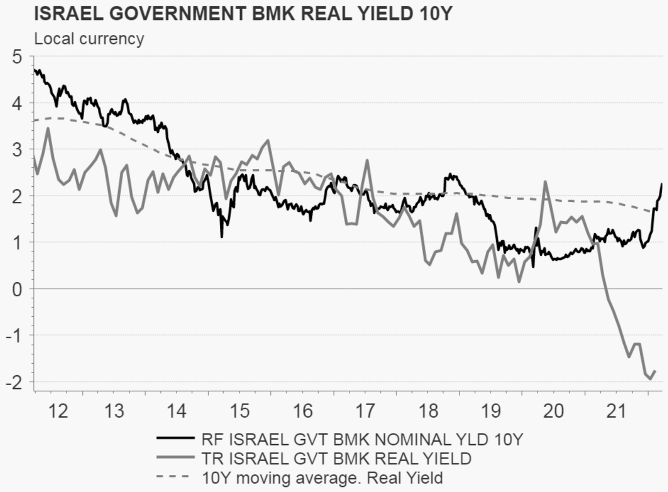
Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: UNDERWEIGHT

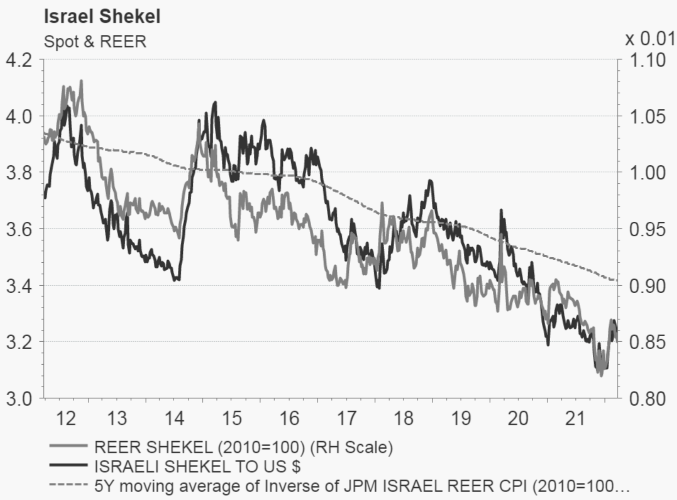
FX – ISL vs USD: Expensive in REER




Source: Refinitiv Datastream / ANDBANK




Source: Refinitiv Datastream / ANDBANK




Source: Refinitiv Datastream / ANDBANK

# BRAZIL

## Russia-Ukraine conflict: opportunity or challenge?

**Short-term impact of the Russia/Ukraine conflict**

If the world's biggest concern before the Russian invasion of Ukraine was inflation and tighter monetary policies, the "Russian special operation" has only made things worse. Although the inflation brought by the pandemic recovery and its effects on supply chain dynamics were expected to subside, the recent surge in commodity prices seems to have pushed those expectations well into the future.

Short-term, it will hurt everyone without distinction. Brazil is already suffering its effects, as oil soars in the international markets and local gasoline and diesel prices hit all-time highs. Both the government and Petrobras, the state-owned oil company, are trying to deal with the problem, each in its own way. Petrobras is in a tough spot: as it's a listed company with 36% private ownership, those shareholders have a legitimate interest in the company's passing any price increases on to consumers, while the government, which owns the other 64%, has other interests, which include keeping inflation, and ultimately public opinion, under control. The company announced significant increases in gasoline (+18.8%) and diesel prices (+24.9%). President Bolsonaro criticized the price hikes, saying that Petrobras had reported an "absurd" amount of profit, but also said that he would not interfere in the company's pricing policy. The central government is pushing for Congress to pass legislation to bring fuel prices down. All sorts of ideas have been aired in the media, from price freezing to direct subsidies, and even zeroing taxes. All in order to provide some relief to local inflation, with the last reading (February) showing a monthly increase of +1.01% and +10.54% compared with last year.

As Bolsonaro has seen slightly better news coming from recent polls, where Lula's numbers have stabilized and his own are showing signs of improvement, Bolsonaro is not willing to let rampant inflation be a concern in electors' minds right before the presidential campaign. The little bit of good news comes from soft commodities. As Brazil is one of the world's largest agricultural producers, the increase in grain prices is good news for Brazilian exports. The biggest concern for agribusiness in Brazil was the hopes for rain last year, but as extensively covered here, those hopes never materialized. The other concern is the effect of lower Russian fertilizer production. However, Brazil has already secured the fertilizers needed for the winter and spring crops. The summer crops will not be planted until October, which other fertilizer producers believe will give them enough time to bump their production.

**In the long term, is Brazil a viable alternative to Russia as an investment destination?**

It seems that Putin has driven Russia, and the oligarchs who support him, into a corner with the complexity of foreign government sanctions against the country. On top of that, the amount of "corporate sanctions" he has brought upon the Russian population is unheard-of. For the foreseeable future, no government or corporation will be doing business in Russia, which means they will need to do business with someone else, and that is where Brazil comes in.

There are some stark differences between Brazil and Russia, but from a global investor perspective they are both part of the BRICS, both have huge territories, both are big commodity producers and exporters, and both are in the top 10 largest populations (read, consumers) of the world. It seems reasonable that Brazil might be considered such an alternative. It may be too early to confirm that, but as previously mentioned, Brazil has drawn a lot of attention lately, as foreign investor inflows continue to hit recent years' highs.

**Local political noise is bound to increase**

The 30-day window when members of Congress can change parties without suffering heavy penalties will close April 1. After that, it should be clear what sort of political arrangements are taking shape. It is generally considered the beginning of the election race. It is almost certain that Gerardo Alckmin, center-left former governor of Sao Paulo, will complete Lula da Silva's ticket as vice-president

**Market outlook – Recommendations & Targets from fundamental analysis**

Equities – iBovespa: UNDERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 11.25%. Spread 850)

Bonds – Govies USD: UNDERWEIGHT (Target yield 6.00%. Spread 325)

FX – BRL/USD: UNDERWEIGHT (Mid-term target 5.50)

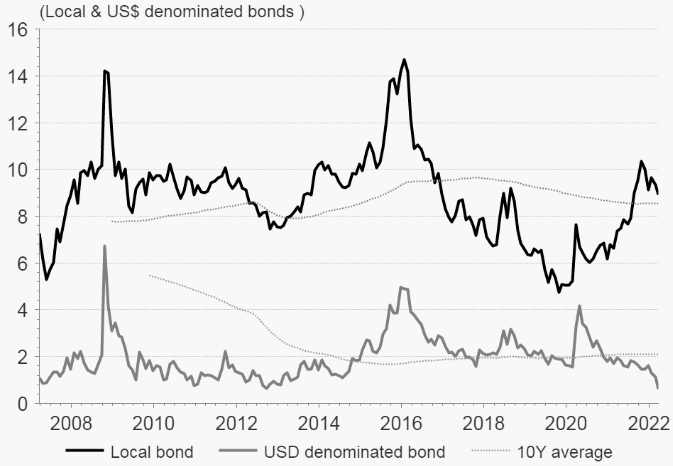
**Brazil MSCI Index price-to-earning**

Trailing & Forward PE


*Source: Refinitiv Datastream / ANDBANK*

**BRAZIL - SPREAD 10Y GOV BOND vs UST**

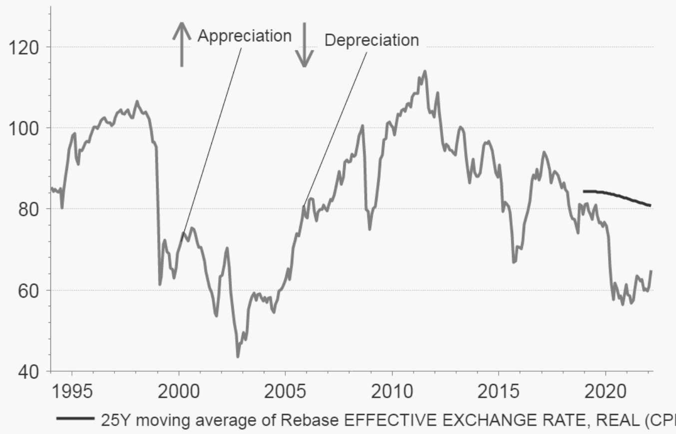
(Local & US$ denominated bonds )




*Source: Refinitiv Datastream / ANDBANK*

**Brazil real broad effective exchange rate**

Index, January 2010 = 100




*Source: Refinitiv Datastream / ANDBANK*

# MEXICO

## Ukraine conflict pushing revenues up but also increasing energy subsidies

**Central Bank**

The first meeting of the year ended with a 50 bps hike, bringing the monetary policy rate to 6%. The vote was again split, with one member (pro-government) voting for an increase of only a quarter point. The risks of high inflation and slack economic growth remain the main observations of the central bank's monetary policy committee. After the decision, the uncertainty regarding the bias of the new governor was put aside for the moment by voting in line with the most pessimistic view of the inflation level. The TIIE (Interbank Equilibrium Rate) forward rates anticipate additional increases of up to 300 bps, reacting to the rate hike scenario in other central banks and the increase in inflationary pressures. Analysts' expectations are for an increase of between 150 and 200 bps in the rest of the year.

**Inflation and activity**

Inflationary perspectives continue to rise after another acceleration in consumer prices in February (7.34% YoY vs 7.01% in January). Core inflation maintained its upward bias and is more than 350 bps above the central bank's long-term target. The central bank's estimated level for 2022 was increased to 4% at the end of the year, converging to the central bank's long-term goal (3%) at the end of 2023 or the beginning of 2024. Growth prospects have moved drastically downwards. On average, for the consensus of analysts, the estimate went from 3% to 2% between December and March, while Banxico lowered its central GDP forecast to 2.4% from 3.2%. A positive boost to exports is expected from the recovery in the US, but public and private investment plus consumption will act as constraints on economic activity.

**Politics & Fiscal policy**

With the increase in global oil and gasoline prices to multi-year highs, significant deviations from budget are expected: (1) Revenues will expand due to higher oil exports. The budget was designed with a barrel price of USD 55, whereas the average so far this year has been USD 86.5, which would lead to an increase of 460 and 500 bn pesos (USD 22 to 24 bn) in tax revenues; (2) higher expenses, reflecting the increase in the acquisition cost of finished products (e.g. gasoline, LPG); and (3) fiscal stimulus for gasoline and diesel in order to limit excessive increases in final consumer prices. Currently (week of March 14), low-octane gasoline has a subsidy (special tax on products and services) of 5.50 pesos per liter, and an additional stimulus of 3.90 pesos per liter has been granted. So the higher income from oil exports could be offset by higher subsidies. In April, the General Criteria for Economic Policy will be updated, which may bring greater clarity on this front.

Regarding the bill to modify the constitution articles relating to the energy sector (seeking to place the CFE as the center of the electricity industry), we maintain our view that the original project is very unlikely to be passed as it stands, but we don't rule out the possibility that a "light" reform could be endorsed if the most controversial articles are removed. The uncertainty surrounding this project has put investment in renewable energies on hold.

**Financial markets**

Equity: Year-to-date returns remain in positive territory, resulting in outperformance compared to most equity markets. As mentioned previously, the good performance of the American economy and lower political uncertainty are pushing the index higher, while reduction of growth forecasts and tighter monetary policy are the main counterweights at the moment. We remain constructive at this level (12-month target price: 60,000).

Fixed Income & FX: The spread between bonds in pesos and (10-year) Treasury bonds rose to maximum levels of 650 bps, while the curve has continued to flatten. Regarding the bond in dollars, the spread rose again between February and March, reaching 194 bps, above our target level for the end of the year. For local debt we acknowledge that now it could be trading at attractive levels, but we are still not inclined to increase duration, given the prospect of a more restrictive monetary policy in the near term.

The exchange rate has shown volatility throughout the year but always in a range between 20.50 and 21.50 pesos per dollar. We expect a dollar in the middle of the range at the end of the year

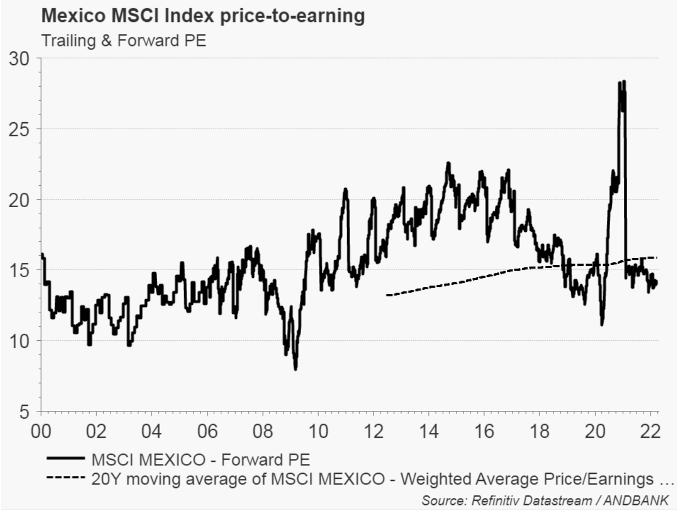
**Market outlook – Recommendations & Targets from fundamental analysis**

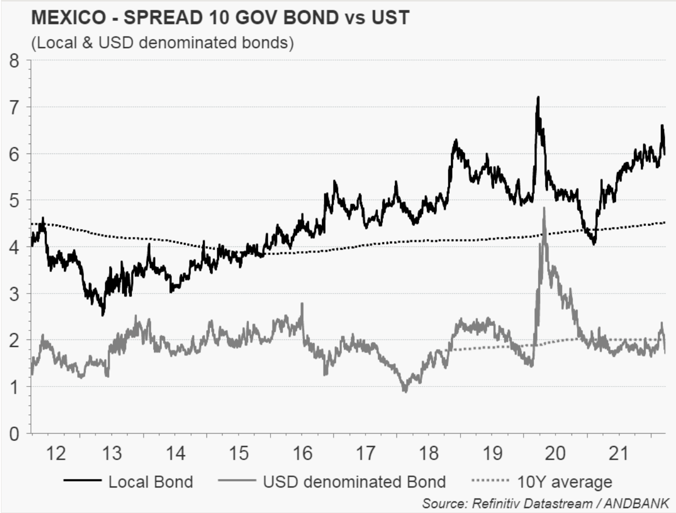
Equities – Mex IPC: OVERWEIGHT

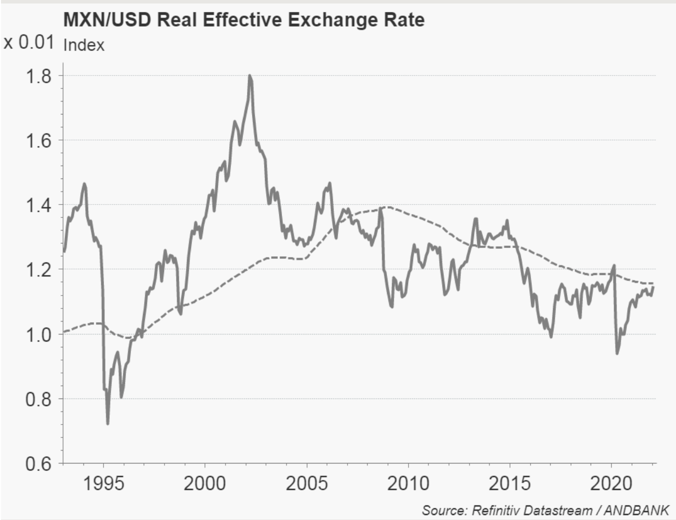
Bonds – Govies Local: OVERWEIGHT (Spread 580 bps)

Bonds – Govies USD: UNDERWEIGHT (Spread 175 bps)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 21,5)



# ARGENTINA

## Opposition to the rescue

**IMF deal: Last minute agreement with the opposition**

The ruling party succeeded in approving the agreement with the IMF in Congress with the support of the opposition coalition (*Juntos por el Cambio*), which was needed in order to pass the bill, as a significant share of the incumbent coalition voted against the initiative. To get the opposition support the government had to re-write the bill, limiting it to a single article approving the financing part, excluding the economic plan.

What are the most salient points of the agreement? i) The primary fiscal deficit path agreed between Argentina and the IMF is the following: 2021: 3%, 2022: 2.5%, 2023: 1.9%, 2024: 0.9%, 2025: fiscal balance in 2025. This is back-loaded fiscal consolidation, leaving most of the heavy lifting to the next administration; ii) Gradual reduction of the BCRA's monetary assistance to the Treasury (2021: 3.7% GDP, 2022: 1%, GDP, 2023: 0.6% GDP, 2024: close to 0%). A target of positive real interest rates was agreed to incentivize demand for local currency papers; iii) The agreement establishes that the rate of daily devaluations will continue and rules out a discreet jump in the exchange rate, keeping the real effective exchange rate in 2022 broadly unchanged relative to 2021 levels. A reserve accumulation target is proposed, with a USD 5 bn goal for 2022; iv) No structural (labor or social security) reforms will be needed; v) Covers a period of two and a half years, in which the IMF will make disbursements to Argentina (and will repay the previous commitments already canceled), so that it can meet the maturities of the original schedule of the 2018 stand-by agreement and the pending payments are canceled (between 2022 and 2024). This scheme includes 10 quarterly reviews, in which the IMF will assess progress towards meeting the agreement's performance criteria. Successful reviews will unlock the program's disbursements. The first will be when the program is approved (SDR 7 bn, today approximately USD 10.4 bn). 2022 would end with SDR 2.3 bn in net IMF financing; vi) This is an Extended Fund facility, so the term of the program is 10 years, beginning to pay within four and a half years (2026) and ending in 2034. One of the main weaknesses of the program is that it relies on economic growth projections that seem overly optimistic to consolidate the fiscal accounts.

The agreement must go to the IMF Board (made up of 24 directors and headed by IMF director Kristalina Georgieva) for final approval. Here the support of the main powers, and of the United States in particular, will be key, as the US has the most weight within the organization and has veto power. It will be very challenging to finalize the deal before the March 22 deadline.

**Energy prices: The heart of the fiscal adjustment**

The main spending measure is centered on reducing economic subsidies. In 2021, energy subsidies represented an amount equivalent to 2.3% of GDP (around USD 11 bn). Residential gas and electricity rates will be segmented into three large groups: i) The 10% of users with the highest purchasing power will no longer receive subsidies for energy consumption (+200% hike); ii) The beneficiaries of the social rate will have an increase equivalent to 40% of the previous year's Salary Variation Coefficient (CVS); iii) For the rest of the users, the increase will be equivalent to 80% of the previous year's CVS.

In 2021 the CVS was 53.4%. Therefore, for the beneficiaries of the social tariff, the increase will be 21.4% and for the rest it will be 42.72%, while the 10% with the highest purchasing power will face a substantially greater increase. According to the government, this will reduce energy subsidies by 0.6% of GDP in 2022. There are two major risks: i) With LNG at current prices, the proposed strategy may quickly fall short of the desired target; ii) The Peso may depreciate more than expected, as a significant part of generation has dollar-linked remuneration and natural gas prices are also set in dollars.

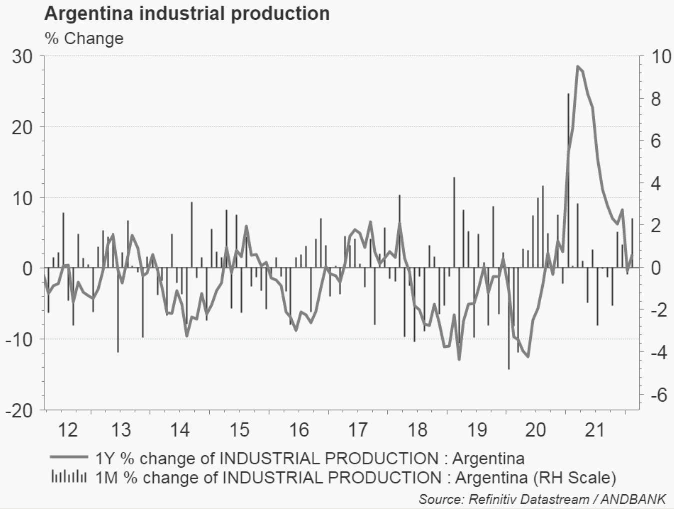
**Inflation: Unanchored prices**

Argentina's inflation accelerated in February (+4.7% MoM vs +3.9% MoM in January), well above the median estimate (+3.9% MoM BCRA REM), increasing +52.3% YoY. If we look at the different components of the CPI, the most worrying fact is the +7.5% MoM increase in Food & Beverages, explained in part by a sharp increase in Vegetable prices (+20% MoM), driving seasonal prices up by +8.4% MoM. Prices are expected to continue advancing in a similar way to this month on the back of regulatory price increases (fuels, electricity and gas tariffs, prepaid medical services and education).

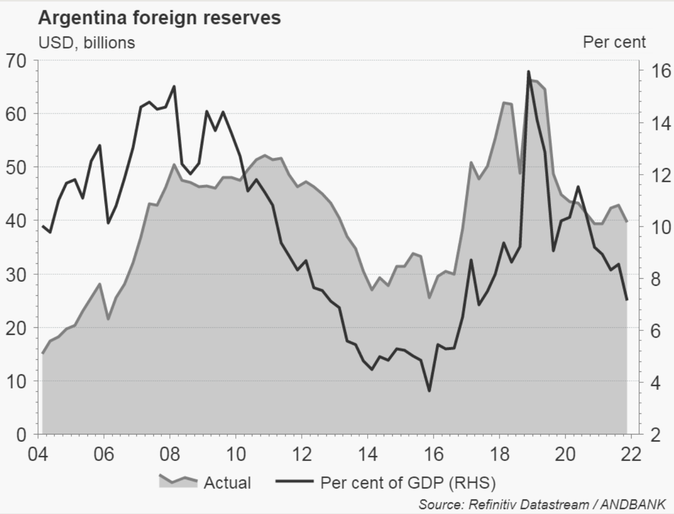
**Market outlook – Recommendations & Targets from fundamental analysis**

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2022 year-end target 175)







GLOBAL EQUITY INDICES

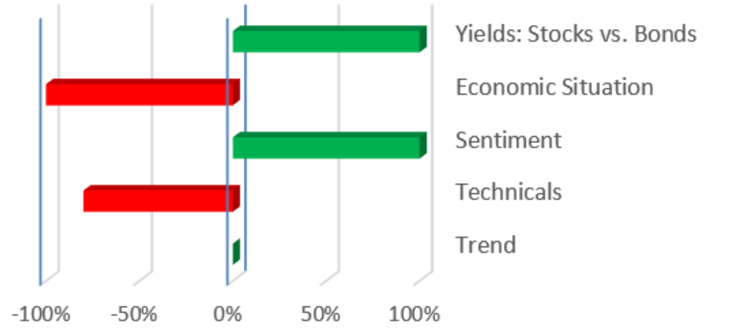
## Fundamental assessment

| Index | EPS Fw 12 months | EPS Growth 2022 | PE ltm EPS 2021 | E [PE] ltm Year End | 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 | 230 | 7,7% | 21,68 | 20,00 | 4.531 | 4.600 | 1,5% | MW | 5.060 | 11,7% |
| Europe - Stoxx Europe 600 | 31,1 | 4,3% | 15,56 | 15,00 | 455 | 466 | 2,5% | MW-UW | 513 | 12,7% |
| Euro Zone - Euro Stoxx | 30,0 | 2,5% | 15,33 | 15,00 | 434 | 449 | 3,6% | MW-UW | 494 | 13,9% |
| Spain IBEX 35 | 634 | 1,8% | 13,43 | 14,00 | 8.366 | 8.876 | 6,1% | MW-UW | 9.764 | 16,7% |
| Mexico IPC GRAL | 4.048 | 10,6% | 15,39 | 15,00 | 55.668 | 60.715 | 9,1% | OW | 66.787 | 20,0% |
| Brazil BOVESPA | 15.000 | 4,1% | 8,23 | 8,00 | 118.585 | 112.500 | -5,1% | UW | 123.750 | 4,4% |
| Japan NIKKEI 225 | 1.731 | -2,6% | 16,00 | 16,00 | 27.944 | 27.688 | -0,9% | MW | 30.457 | 9,0% |
| China SSE Comp. | 364 | 53,8% | 13,74 | 10,00 | 3.215 | 3.641 | 13,3% | MW/OW | 4.005 | 24,6% |
| China Shenzhen Comp | 130 | 26,8% | 21,61 | 18,00 | 2.097 | 2.338 | 11,5% | MW/OW | 2.572 | 22,7% |
| India SENSEX | 2.559 | 7,6% | 24,79 | 23,00 | 57.593 | 58.854 | 2,2% | MW | 64.740 | 12,4% |
| Vietnam VN Index | 112 | 19,5% | 16,87 | 16,00 | 1.483 | 1.794 | 20,9% | OW | 1.973 | 33,0% |
| Taiwán SE Weighted Index | 1.365 | 7,0% | 13,83 | 13,00 | 17.520 | 17.749 | 1,3% | MW/OW | 19.524 | 11,4% |
| MSCI EM ASIA | 49 | 8,3% | 13,70 | 12,50 | 597 | 609 | 2,0% | OW | 670 | 12,2% |

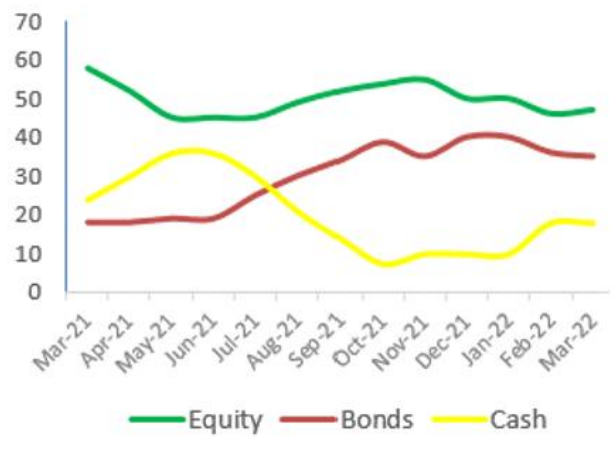
*ANDBANK ESTIMATES*

## NED DAVIS MODEL – Implicit Asset Allocation

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators




red (bond & cash preference) green (equity preference)




| GLOBAL EQUITY ALLOCATION | Recommended Allocation | Benchmark |
|---|---|---|
| U.S. | 54% | 59,8% |
| Europe ex. U.K. | 16% | 12,7% |
| Emerging Markets | 13% | 12,1% |
| Japan | 6% | 5,9% |
| Canada | 6% | 2,9% |
| U.K. | 4% | 3,7% |
| Pacific ex. Japan | 1% | 2,9% |

| | | |
|---|---|---|
| Health Care | 16% | 12,9% |
| Utilities | 4% | 2,4% |
| Consumer Staples | 9% | 6,4% |
| Energy | 5% | 2,8% |
| Materials | 4% | 2,5% |
| Financials | 10% | 10,9% |
| Real Estate | 3% | 2,5% |
| Industrials | 8% | 8,2% |
| Information Technology | 23% | 27,4% |
| Communication Services | 8% | 10,9% |
| Consumer Discretionary | 10% | 13,1% |

ENERGY – OIL

## Fundamental view (WTI): Target range USD90-120bbl

Buy < USD90; Sell >USD120

### *Short-term drivers*

**(Bearish price factor) – The oil market seems to be responding to the hopes for a diplomatic solution to the conflict in Ukraine,** with ceasefire talks continuing after yesterday's "technical pause." Discussions are moving ahead despite ongoing reports of Russian forces shelling residential neighborhoods in Kyiv (FT). A Ukrainian official has also suggested Russia will agree to a peace deal by May at the latest, as it begins to run out of resources (Reuters).

**(Bearish price factor) – Spreading Covid lockdowns putting downward pressure on oil product demand:** Covid in China has sparked lockdowns in several industrial areas and is raising fears of economic slowdown, which is weighing on crude oil prices. Analysts are moving their estimates for China's March product demand lower amid Omicron-related lockdowns in multiple sites, including the manufacturing hubs of Shenzhen and Dongguan. Some analysts see a ~4% cut in oil production demand, after projecting a ~9% rise based on normalization of activity following the Winter Olympics.

**(Bearish price factor) – Platts reports that Asia's top crude importers (including India, South Korea, and Japan) have been relatively insulated from the disruptions around Russian crude**, with their reliance on the producer being relatively low. However, the article notes that, at the same time, major regional refiners are suggesting that OPEC+ increase the pace of its monthly output increases to help consumer sentiment and allow regional inventories to recover.

**(Bearish price factor) – Latest weekly data shows large investors cutting bullish bets.** Reuters reports that data for the week through 8-Mar show hedge funds and other money managers were selling the equivalent of 142M barrels in the six most important futures and options contracts, with the action dominated by the closure of existing bullish long positions rather than the initiation of new bearish short ones. Rising volatility has been a factor, with both bullish and bearish investors less willing to take on new exposures.

**(Bearish price factor) – Russian crude may generate few bids, but still receives one-on-one offers:** While most banks, shipping firms, and refiners are not making public bids for Russian crude in the current sanctions environment, a two-tier system is being developed where one-on-one deals are made under the radar, using less-visible payment methods (such as open credit schemes and prepayments). Energy analyst cargoes may wind up being parked in tankers anchored off Singapore or at the Malaysian port of Sungai Linggi, an area known for ship-to-ship transfers (this is a method often used to mask the origin of a particular crude shipment). There is also speculation that Chinese buyers may be tempted to purchase highly discounted Russian crude.

**(Bullish price factor) – It will be challenging for the US to take on the role of "swing producer":** Platts reported how White House officials have pushed back against the notion of hampering production, although it also highlighted that logistical and geological challenges (as well as permit timing) make it unlikely that current efforts will result in immediate production. The article adds that shale CEOs are also reticent about returning to the days of unlimited capex spending and production growth, with the market in past years looking unfavorably at impulsive strategy shifts.

**(Bullish price factor) – US backing off Venezuela outreach after political blowback**: The Biden administration has been recasting its diplomatic overture to Caracas in the wakes of some furious political backlash about dealing with an authoritarian regime. Following up on State Department statements last week that there was no quid pro quo about Venezuela releasing two political prisoners, National Security Advisor Sullivan said Sunday that any sanctions relief for Venezuela has to be tied to concrete steps by the Maduro regime. Sullivan said there remain more US citizens in Venezuela and administration officials continue to work to free them.

**(Bullish price factor) – EU formally approves new sanctions against Russia's energy industry:** The European Union officially approved a ban on new investments across the Russian energy sector, though EU members will still be able to buy oil from Russian oil majors. The EU also agreed to strip Russia of its most-favored-nation trade status, which opens the door to punitive tariffs on Russian goods as well as outright import bans.

### *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

**Negative yields still make gold attractive, but less and less:** The disadvantage of gold compared to fixed income instruments (gold does not offer a coupon) is neutralized with low (or even negative) yields in a large number of global bonds (>US$3.7tn of face value is yielding negative rates).

**Gold is cheap relative to palladium:** The Gold/Palladium ratio fell dramatically to 0.66, and remains 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 and is still above its 20-year average of 66.75x, 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$1,698/oz.

**Gold to oil:** This ratio fell to 16.97, now below its 20-year average of 18.29x. Considering our fundamental fair value for WTI oil at US$90 and assuming that the utility function of the two commodities will remain unchanged, the price of gold must approach US$1,646 for this ratio to remain near its LT average.

**Gold in real terms:** Given the global deflator (now at 1.2166), 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$1,610. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,064. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,294.

**UST 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 can no longer say that the UST supply will be unlimited, and therefore the it could gain prominence vs. gold, as an anti-fragile asset.

**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). The 2001-11 rally (which saw the gold price skyrocket from $300 to $1,800/oz, as President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers) 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. 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 us to send out 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 is becoming more visible with the imminent start of tapering by the Fed.

**Risk #1. Higher nominal rates (HIGH RISK):** The possibility of sharp rate hikes by the monetary authorities is gaining ground with each passing day.

**Risk #2. Stronger USD (MEDIUM RISK):**. After the war in Ukraine, and Europe's turn to the US for energy supplies, we do foresee an improvement in the US current account balance (from the current -4% deficit to a -2%), should not cause the typical process of dollar scarcity, and the corresponding increase in its price, since it would not be caused by a drop in US imports. 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 was created in the US (by people with scant interest in gold), while EM growth was 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.

EXCHANGE RATES

# Flow analysis & Fundamental targets

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

**EM Currencies:** Z-Score Analysis: Neutral view for the EM currencies in the short-term vs the USD.

**EUR-USD:** Fundamental Target 1.12 (Buy USD at 1.15, Sell USD at 1.08) // Z-Score Analysis: Neutral to Favorable to the EUR

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

**GBP-USD:** Fundamental Target 1.39; **EUR-GBP**: Target 0.80 // Z-Score Analysis: Slightly Favorable view on the GBP vs the USD

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

**USD-BRL:** Fundamental Target 5.50; **EUR-BRL:** Target 6.16 // Z-Score Analysis: Deeply Negative view on the BRL vs the USD

**USD-MXN:** Fundamental Target 21,5; **EUR-MXN:** Target 24.1 // 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:** Slightly Favorable view

**AUD:** Slightly Favorable view

**CAD:** Neutral view

| 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 | 0,00 | -5,06 | 32,1 | -28,2 | 5,5 | **0,02** |
| USD vs G10 | 13,09 | 6,52 | 32,7 | -25,4 | 6,6 | **0,37** |
| EM | 0,00 | -1,52 | 3,9 | -1,2 | 1,4 | **0,14** |
| EUR | 3,29 | -5,11 | 23,4 | -8,6 | 7,0 | **-0,39** |
| JPY | -8,12 | -1,26 | 0,6 | -15,0 | -8,4 | **0,06** |
| GBP | -3,09 | -2,59 | 4,3 | -6,5 | -1,5 | **-0,59** |
| CHF | -1,13 | 0,36 | 0,2 | -6,0 | -2,4 | **0,79** |
| BRL | 0,85 | 0,36 | 1,0 | -0,8 | -0,1 | **2,12** |
| MXN | -0,45 | -0,86 | 3,3 | -1,5 | 1,0 | **-1,18** |
| RUB | 0,00 | -0,62 | 1,2 | -0,3 | 0,4 | **-0,73** |
| AUD | -3,82 | 2,25 | 6,1 | -6,6 | -1,6 | **-0,60** |
| CAD | -0,39 | -1,12 | 6,1 | -5,0 | 0,2 | **-0,24** |

Positive
Neutral-Positive
Neutral-Negative
Negative

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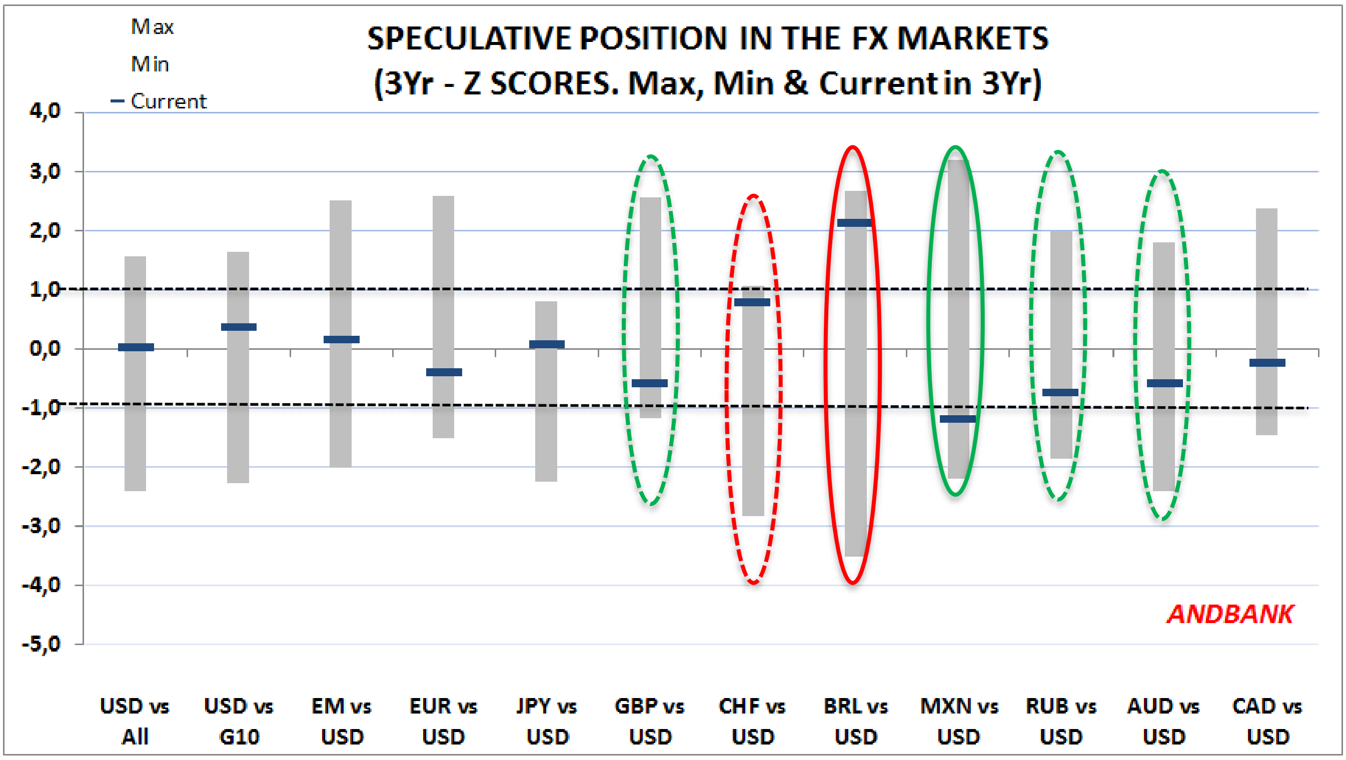


*The currencies we technically favor are circled in green*

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## 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 | 3,1% | -5,1% | 4.522 | 4.600 | 1,7% |
| | Europe - Stoxx Europe 600 | 0,1% | -6,9% | 454 | 466 | 2,7% |
| | Euro Zone - Euro Stoxx | -1,7% | -9,7% | 433 | 449 | 3,9% |
| | SPAIN - IBEX 35 | -1,4% | -4,0% | 8.366 | 8.876 | 6,1% |
| | MEXICO - MXSE IPC | 5,8% | 4,4% | 55.628 | 60.715 | 9,1% |
| | BRAZIL - BOVESPA | 4,6% | 12,9% | 118.350 | 112.500 | -4,9% |
| | JAPAN - NIKKEI 225 | 5,5% | -2,9% | 27.944 | 27.688 | -0,9% |
| | CHINA - SHANGHAI COMPOSITE | -6,9% | -11,7% | 3.215 | 3.641 | 13,3% |
| | CHINA - SHENZEN COMPOSITE | -9,2% | -17,1% | 2.097 | 2.338 | 11,5% |
| | INDIA - SENSEX | 3,1% | -1,1% | 57.593 | 58.854 | 2,2% |
| | VIETNAM - VN Index | -1,0% | -1,0% | 1.483 | 1.794 | 20,9% |
| | MSCI EM ASIA (in USD) | -4,4% | -10,3% | 597 | 609 | 2,0% |
| **Fixed Income Core countries** | US Treasury 10 year Govie | -4,1% | -7,6% | 2,50 | **2,75** | 0,5% |
| | UK 10 year Gilt | -1,9% | -5,7% | 1,71 | 1,75 | 1,4% |
| | German 10 year BUND | -2,9% | -6,2% | 0,59 | **0,60** | 0,5% |
| | Japanese 10 year Govie | -0,3% | -1,4% | 0,25 | 0,25 | 0,2% |
| **Fixed Income Peripheral** | Spain - 10yr Gov bond | -1,9% | -7,1% | 1,45 | 1,60 | 0,2% |
| | Italy - 10yr Gov bond | -1,9% | -7,3% | 2,09 | 2,20 | 1,2% |
| | Portugal - 10yr Gov bond | -1,8% | -6,9% | 1,33 | 1,60 | -0,8% |
| | Ireland - 10yr Gov bond | -2,5% | -7,4% | 1,16 | 1,10 | 1,6% |
| | Greece - 10yr Gov bond | -2,1% | -12,1% | 2,79 | 2,80 | 2,7% |
| **Fixed Income Credit** | Credit EUR IG-Itraxx Europe | -0,3% | -0,9% | 80,12 | **80** | 0,3% |
| | Credit EUR HY-Itraxx Xover | 0,0% | -3,0% | 358,48 | **375** | 2,6% |
| | Credit USD IG - CDX IG | -0,1% | -0,7% | 72,08 | **80** | 1,5% |
| | Credit USD HY - CDX HY | 0,1% | -1,7% | 367,84 | **375** | 4,4% |
| **Fixed Income EM Europe (Loc)** | Turkey - 10yr Gov bond (local) | -19,1% | -11,6% | 25,07 | 20,00 | 65,6% |
| | Russia - 10yr Gov bond (local) | -7,8% | -39,4% | 13,56 | 14,00 | 10,0% |
| **Fixed Income Asia** (Local curncy) | Indonesia - 10yr Gov bond (local) | -1,0% | -1,4% | 6,68 | 5,60 | 15,3% |
| | India - 10yr Gov bond (local) | -0,1% | -1,5% | 6,83 | 6,80 | 7,1% |
| | Philippines - 10yr Gov bond (local) | -2,4% | -5,6% | 5,55 | 4,80 | 11,6% |
| | China - 10yr Gov bond (local) | 0,0% | 0,3% | 2,80 | 2,30 | 6,8% |
| | Malaysia - 10yr Gov bond (local) | -1,2% | -1,4% | 3,85 | 3,30 | 8,2% |
| | Thailand - 10yr Gov bond (local) | 1,0% | -0,8% | 2,03 | 3,00 | -5,7% |
| | Singapore - 10yr Gov bond (local) | -3,9% | -5,7% | 2,40 | 3,40 | -5,6% |
| | Rep. Korea - 10yr G. bond (local) | -2,6% | -5,7% | 2,92 | 3,90 | -4,9% |
| | Taiwan - 10yr Gov bond (local) | -1,8% | -1,7% | 0,92 | 1,90 | -6,9% |
| **Fixed Income Latam** | Mexico - 10yr Govie (Loc) | -5,1% | -6,6% | 8,61 | 8,55 | 9,0% |
| | Mexico - 10yr Govie (USD) | -0,4% | -7,0% | 4,12 | 4,50 | 1,0% |
| | Brazil - 10yr Govie (Loc) | 0,3% | -6,3% | 11,38 | 11,25 | 12,4% |
| | Brazil - 10yr Govie (USD) | -1,3% | -5,6% | 5,49 | 6,00 | 1,4% |
| **Commodities** | Oil (WTI) | 19,6% | 45,6% | 109,5 | 100,00 | -8,7% |
| | GOLD | 2,4% | 5,7% | 1.932,4 | 1.800 | -6,9% |
| **Fx** | EURUSD (price of 1 EUR) | -2,8% | -3,6% | 1,095 | 1,12 | 2,2% |
| | GBPUSD (price of 1 GBP) | -1,9% | -2,8% | 1,32 | 1,39 | 5,9% |
| | EURGBP (price of 1 EUR) | -0,9% | -0,9% | 0,83 | 0,80 | -3,4% |
| | USDCHF (price of 1 USD) | 1,0% | 2,4% | 0,93 | 0,93 | -0,4% |
| | EURCHF (price of 1 EUR) | -1,8% | -1,3% | 1,02 | 1,04 | 1,8% |
| | USDJPY (price of 1 USD) | 7,1% | 7,5% | 123,72 | 116,00 | -6,2% |
| | EURJPY (price of 1 EUR) | 4,1% | 3,6% | 135,55 | 129,92 | -4,2% |
| | USDMXN (price of 1 USD) | -1,3% | -2,1% | 20,06 | 21,50 | 7,2% |
| | EURMXN (price of 1 EUR) | -4,1% | -5,7% | 21,97 | 24,08 | 9,6% |
| | USDBRL (price of 1 USD) | -8,1% | -14,9% | 4,74 | 5,50 | 16,0% |
| | EURBRL (price of 1 EUR) | -10,7% | -18,0% | 5,19 | 6,16 | 18,6% |
| | USDARS (price of 1 USD) | 2,7% | 7,5% | 110,38 | 175,00 | 58,5% |
| | USDINR (price of 1 USD) | 1,6% | 2,4% | 76,23 | 76,00 | -0,3% |
| | CNY (price of 1 USD) | 0,9% | 0,3% | 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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