GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – June 2022

Facts do not matter until expectations are fixed

Corporate Review

June 2022

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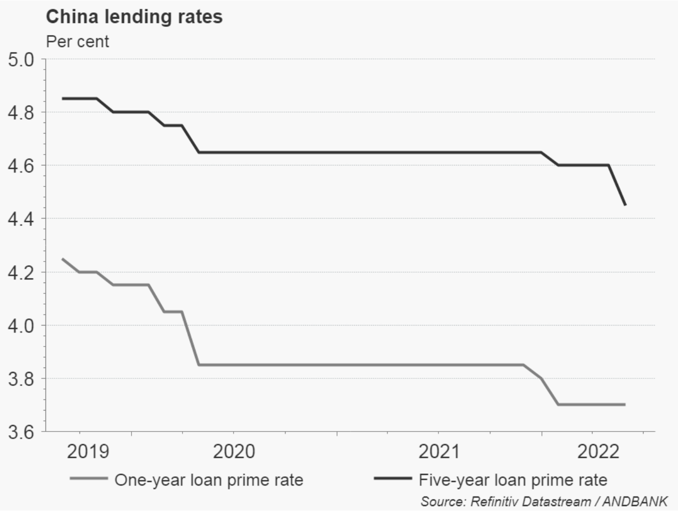
EXECUTIVE SUMMARY

CHART OF THE MONTH



Source: Refinitiv Datastream / ANDBANK

EQUITIES

Asset Class	Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Equity	USA - S&P 500	-17,7%	3.924	4.316	10,0%
	Europe - Stoxx Europe 600	-11,1%	434	472	8,9%
	Euro Zone - Euro Stoxx	-14,0%	412	459	11,3%
	SPAIN - IBEX 35	-1,0%	8.627	9.379	8,7%
	MEXICO - MXSE IPC	-3,9%	51.170	60.164	17,6%
	BRAZIL - BOVESPA	4,2%	109.263	112.500	3,0%
	JAPAN - NIKKEI 225	-6,2%	27.002	29.490	9,2%
	CHINA - SHANGHAI COMPOSITE	-15,6%	3.071	3.353	9,2%
	CHINA - SHENZEN COMPOSITE	-24,0%	1.922	2.369	23,2%
	INDIA - SENSEX	-7,2%	54.053	67.799	25,4%
	VIETNAM - VN Index	-17,9%	1.233	1.634	32,5%
	MSCI EM ASIA (in USD)	-17,1%	552	622	12,6%

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	-10,0%	2,83	3,25	-0,5%
	UK 10 year Gilt	-7,7%	1,97	1,75	3,7%
	German 10 year BUND	-9,5%	1,00	1,25	-1,0%
	Japanese 10 year Govie	-1,3%	0,23	0,25	0,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	-12,3%	2,11	2,25	1,0%
	Italy - 10yr Gov bond	-14,4%	3,02	2,85	4,3%
	Portugal - 10yr Gov bond	-12,7%	2,07	2,25	0,6%
	Ireland - 10yr Gov bond	-10,9%	1,60	1,75	0,4%
	Greece - 10yr Gov bond	-19,1%	3,70	3,45	5,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-1,5%	97,31	80	1,1%
	Credit EUR HY-Itraxx Xover	-6,2%	472,13	375	7,3%
	Credit USD IG - CDX IG	-1,3%	90,66	80	2,7%
	Credit USD HY - CDX HY	-6,0%	522,89	425	9,7%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	9,3%	22,91	20,00	46,2%
	Russia - 10yr Gov bond (local)	-11,2%	10,20	14,00	-20,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-4,1%	7,14	6,00	16,3%
	India - 10yr Gov bond (local)	-4,8%	7,36	7,00	10,2%
	Philippines - 10yr Gov bond (local)	-9,3%	6,10	5,25	12,9%
	China - 10yr Gov bond (local)	0,8%	2,79	2,40	5,9%
	Malaysia - 10yr Gov bond (local)	-3,9%	4,24	3,30	11,7%
	Thailand - 10yr Gov bond (local)	-8,3%	3,00	4,00	-5,0%
	Singapore - 10yr Gov bond (local)	-6,9%	2,58	3,40	-4,0%
	Rep. Korea - 10yr G. bond (local)	-7,0%	3,13	3,90	-3,0%
	Taiwan - 10yr Gov bond (local)	-3,3%	1,14	2,25	-7,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-5,6%	8,63	9,05	5,2%
	Mexico - 10yr Govie (USD)	-13,1%	4,94	5,00	4,4%
	Brazil - 10yr Govie (Loc)	-10,7%	12,13	12,75	7,2%
	Brazil - 10yr Govie (USD)	-10,1%	6,14	6,50	3,3%

COMMODITIES & FX

Asset Class	Indices	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Commodities	Oil (WTI)	45,0%	109,0	100,00	-8,3%
	GOLD	1,2%	1.851,1	1.800	-2,8%
Fx	EURUSD (price of 1 EUR)	-6,1%	1,067	1,05	-1,6%
	GBPUSD (price of 1 GBP)	-7,0%	1,26	1,39	10,7%
	EURGBP (price of 1 EUR)	1,0%	0,85	0,75	-11,1%
	USDCHF (price of 1 USD)	5,9%	0,97	0,93	-3,6%
	EURCHF (price of 1 EUR)	-0,6%	1,03	0,98	-5,2%
	USDJPY (price of 1 USD)	10,9%	127,63	116,00	-9,1%
	EURJPY (price of 1 EUR)	4,1%	136,22	121,80	-10,6%
	USDMXN (price of 1 USD)	-2,8%	19,92	20,75	4,2%
	EURMXN (price of 1 EUR)	-8,8%	21,24	21,79	2,6%
	USDBRL (price of 1 USD)	-13,6%	4,81	5,25	9,0%
	EURBRL (price of 1 EUR)	-18,9%	5,14	5,51	7,3%
	USDARS (price of 1 USD)	15,7%	118,82	175,00	47,3%
	USDINR (price of 1 USD)	4,2%	77,62	76,00	-2,1%
	CNY (price of 1 USD)	5,0%	6,67	6,65	-0,3%

US

The Fed combines a hawkish speech with the media and something more dovish in its decisions

Federal Reserve

The Fed confirmed a 50 bps hike in May (target range 0.75%- 1.00%) and of today the market is discounting eight more hikes (of 25 bps) from here until the end of the year, after reaching ten hikes at the end of April. Investors are now expecting a 50 bps hike again at each of the next two meetings in June and July. The Fed chairman, Jerome Powell, stated that they will not hesitate to back interest rate hikes until prices start falling down to a tolerable level. He added that a 75 bps is not something the FOMC is actively considering since the Fed will try to avoid violent movements that could damage the economy. The Federal Reserve also announced it will start winding down its balance sheet by 47.5 Bn USD a month (30 Bn USD of Treasury's and 17.5 Bn USD MBS), beginning in June and after three months will jump to 95 Bn USD.(nearly twice the pace it did in its previous QT exercise)

Inflation and economic activity

Inflation seems to be peaking as consumer prices increased 8.3% y/y in April, decreasing from the march 8.5% y/y print, but still higher than estimates (8.1% y/y). The monthly numbers also were higher than expectations (+0.3% m/m vs +0.2% m/m). One of the most worrying facts of the April numbers is that food index rose 0.9% m/m, countering the deceleration in energy prices (-2.7% m/m, -6.1% m/m for gasoline). The BLS food index rose +0.9% m/m in April, countering the deceleration in energy. Added to the previous core price index increased +0.6% m/m, up from March´s + 0.3% m/m. The consensus is that the worst in terms of inflation might be behind us but that the deceleration process could be slower than expected.

May employment report showed that the unemployment levels remains very solid at 3.6% (vs. 3.5% expected and 3.6% prior month), while 428,000 new payrolls were added, recovering more than 90% of the 22 million jobs lost since Covid began. On the other hand, Initial claims increased 21,000 to a seasonally adjusted 218,000 (week ended May 14), rising from the 53 year low of 166,000 in March of this year, which could be signaling a reversal in the downward trend. In a labor market that seems to be close to full employment, the increase in the participation rate (today in 62.2% , well below the pre-pandemic level of 63.4%) is expected to help decompress salary pressures and thus help in the fight against inflationary pressures.

For the first time since early in the pandemic, GDP decreased at an annual rate of 1.4% in the first quarter of 2022, element that contributed to the recent market decline. The odds of a U.S. recession in the next year have been steadily rising, according to a Bloomberg survey, standing at 30%, which is double the odds from three months ago.

Politics

Historically, the party that holds the White House has tended to suffer losses in the midterm elections, and this also appears to be the case for this year's election. Polls indicate that this could be a "wave election", in which the Republicans make major seat gains. President Biden also happens to be unpopular right now, with an approval rating stuck at less than 50% since last August, undermining the support for Democratic candidates. The government has also not been able to advance with its legislative agenda, with conservative Democrats blocking several major proposals, including "Build Back Better", the trillion-dollar package for social programs and climate action. A heavy defeat in the midterms will make it even harder for the president to introduce new laws.

Financial markets

Rates & Credit: Negative month for fixed income with the 10-year at 2.88% currently but having traded at levels above 3.10%. The spread between the 10-year and 2-year treasury has stabilized between 30 and 40 bps after being inverted in April. Investment Grade spreads have opened slightly wider in May and are now at 85 after touching the 90 level. Some high-quality bonds are starting to offer interesting yields, with some managers are already starting to increase their duration in the highest quality assets, the tear to date worst performers High Yield also showed a widening of spreads (touching 500 in May) but continues to outperform higher quality assets. Default rate remains low despite May pickup (lifting YTD default rate to 0.6% from 0.4%). 2022 default forecast remains at 1% despite the high level of macroeconomic uncertainty.

Equities: Before the start of earnings season, S&P 500 EPS estimates were revised lower for 1Q22 (-1.2%) while the back half of the year has been raised (3Q22: +1.5%; 4Q22: +2.6%). So far the first quarter earnings season is finishing with 5% of positive surprise in earnings. We keep our recommendation of a balanced portfolio between Value/Cyclical and Quality Growth companies. Pure growth stocks have suffered very significant declines and in some cases valuations seem to be entering more attractive territory. We are also maintaining neutral split between Large and Small Caps.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 3.25% in the s/t

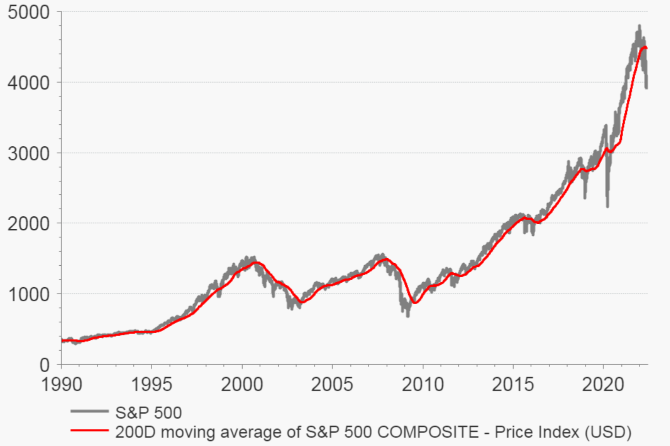
CDX: IG MARKETWEIGHT (Target Spread 80)

CDX: HY MW OVERWEIGHT (Target Spread 425)

Forex: DXY index MW OVERWEIGHT

US S&P 500 vs 200-day moving average

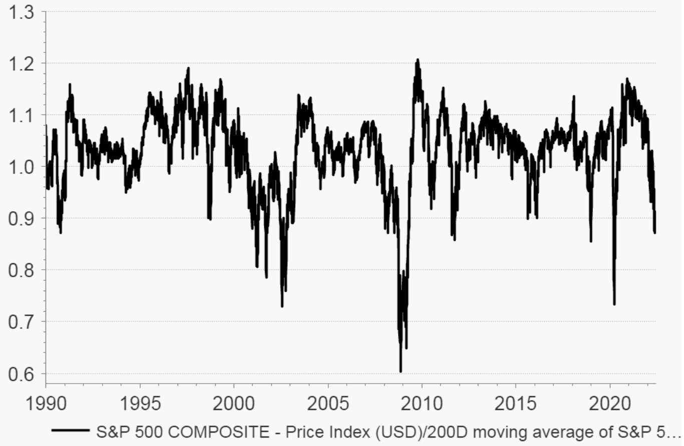
Price return index



Source: Refinitiv Datastream / ANDBANK

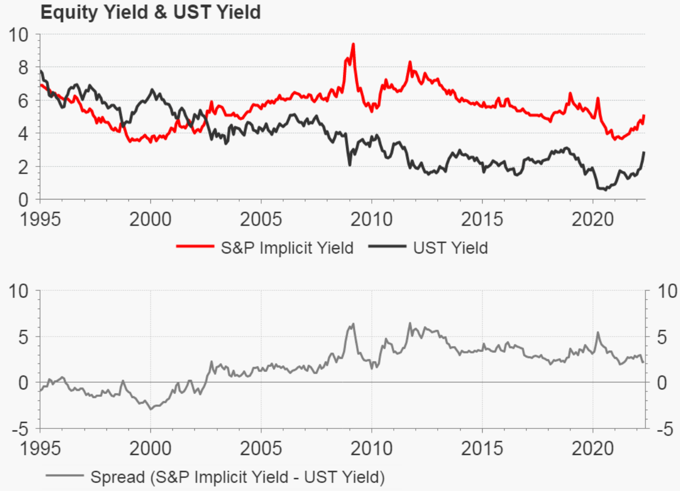
US S&P 500 divided by its 200-day moving average

S&P Relative to its MA200 sessions



Source: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

EUROPE

Adapting to the slower growth and higher inflation scenario

No surprise from the new EC estimates: GDP trimmed, HCPI boosted

Recent European Commission Spring forecasts stresses how the balance of risks remains heavily skewed to the downside. On the negative side, the possibility of upward pressure in energy markets, the stagflationary forces from further deterioration in terms of trade, or the risk to financing conditions from the inflationary pressures. On the positive one, a stronger decrease in savings rates propping up consumption, or a stronger impulse from the RRF boosting investment. Official estimates for 2022 are now aligned with consensus view on growth (2,7% y/y est.) and show a more positive view in terms of inflation (6,1% vs. 6,7% y/y Bloomberg´s mean estimate). As for growth, a sustained economic recovery is not expected before 4Q22. Domestic demand keeps growing but at a weaker pace, inflation is higher, broader and more persistent though set to decline from April on, unemployment keeps coming down and public finances are set to improve in 2022-2023. As for inflation, Brent futures are downward sloping, as are gas and electricity futures in the coming quarters. The easing of energy prices could push the inflation rate down below 2% in 2023. By contrast, the underlying upward pressure on prices will hardly diminish due to wage inflation among other factors.

June´s ECB meeting: "hot spot" in the agenda

"Time to act" has been widely voiced this month. Its translation in terms of measures is the "stick to the planned" QE end in June and a faster rate normalization, starting to raise rates very soon after APP ends. A first July rate hike has become a common place among ECB speakers. Therefore, we move to include a third rate hike in our assumptions and bring forward the lift off moment to July. As for 2023 forward guidance, "pace to natural rate of 1.5% or beyond will depend on inflation" (Holzmann).

Geoeconomics

Finland and Sweden have just applied for NATO membership, process that could be quicker than in the past (18-24 months) as both countries are so-called "Enhanced Opportunity Partners" for NATO. Most reports suggest 4-12 months, or even "overnight", as they meet all criteria. However, the question is if that will prompt Russia to nuclear deployment in the Baltics. So far, Putin has signaled to accept Finland and Sweden joining the NATO as long as no military bases are installed in either country. French legislative elections (June 12th and 19th) will determine how much room the next government will have to maneuver. Polls are led by the left coalition NUPES (*Nouvelle Union populaire écologique et sociale*) with 28% of the votes followed by Renaissance, president Macron party, with 26%.

Financial Markets: Govies, Corporate Credit & Equity

Govies: We stick to our bund current target (1.25%) that already includes investors adjusted expectations on the ECB terminal rate (traditionally: 1-2%). As for peripherals, fragmentation is not seen as an issue at the moment. The ECB has fallen short of giving verbal support discarding the possibility of a new crisis management tool, though its reinvestment programme will continue to buy additional securities of vulnerable member states

Corporates: Credit spreads negatively affected but still a long way from the levels reached at the start of the pandemic in March 2020. The last time the European IG was around 2.5% was in September 2013 (when the German 10-year was around 2% vs. the current 1%). Added to the macroeconomic and political situation the near end of the ECB´s CSPP isn't helping either. Our recommendation is to remain cautious regarding duration, but analyzing name by name opportunities that arise in order to incorporate them. We maintain the spreads targets for both IG and HY, recommending NEUTRAL-UNDERWEIGHT for IG and NEUTRAL for HY

Equity market: Forward PEs are down 30-35% on average from last year highs. The focus now is on earnings, with investor sentiment regarding earnings outlook very downbeat, but so far Q1 results have been resilient. In fact, EPS revisions have turned positive again in Eurozone. Even profit margins delivery remains better than feared. If recession doesn't come through, multiple derating is already very substantial, and given the reduced positioning and downbeat investor sentiment, equities stand to recover from here in absence of more geopolitical risks.

We maintain our overweight stance for the Ibex 35, as its suffering less the headwinds from energy prices and will be helped by the expected tourism recovery and an exposure to Latam currencies, starting from undemanding valuation ratios

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

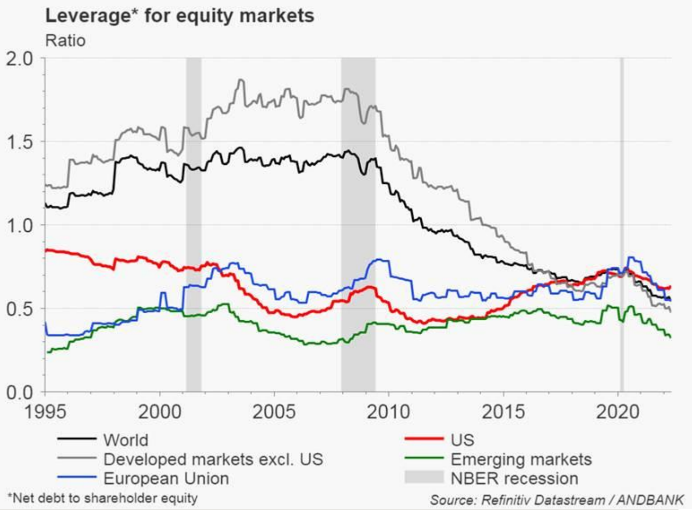
Bonds – Core governments: UNDERWEIGHT (Bund target 1.25%)

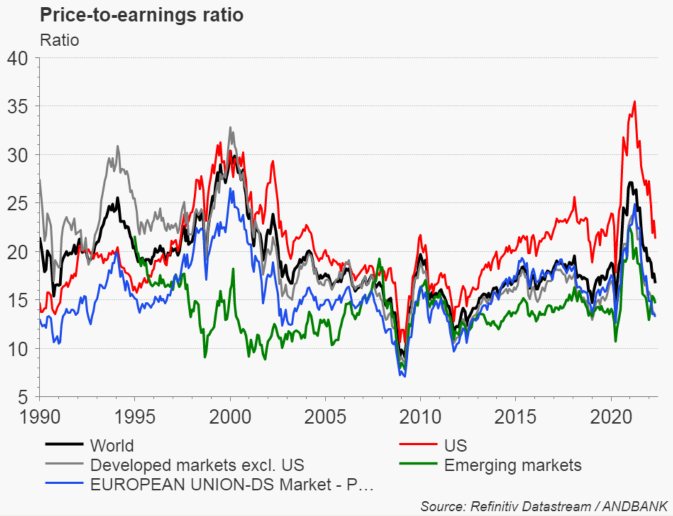
Peripheral – OW: IT (2.85%), GR (3.45%). UW: SP (2.25%), IE (1.75%), PO (2.25%).

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

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

FX – EUR/USD Target 1.05 (Buy USD at 1.07)





CHINA

Economy pays the toll for disastrous pandemic management

IMF raises yuan weighting in SDR basket

The IMF lifted the yuan's weighting in the Special Drawing Rights currency basket, prompting the PBOC to pledge to push for a further opening of its financial markets. The IMF raised the yuan's weighting to 12.28% from 10.92% in its first regular review of the SDR evaluation since the Chinese currency was included in the basket in 2016. The weighting of the US dollar rose to 43.38% from 41.73%, while those of euro, Japanese yen and British pound declined.

Macro. The economy pays the toll for disastrous pandemic management

April industrial production (2.9%) y/y vs consensus +0.5% and +5.0% in previous month. Retail sales (11.1%) y/y vs consensus (6.6%) and (3.5%) in previous month. Fixed asset investment (YTD) +6.8% vs consensus +7.0% y/y vs +9.3% in previous month. Unemployment rate 6.1% vs consensus 6.0% and 5.8% in previous month.

PBOC

The PBOC kept the rate on its one-year medium-term lending facility unchanged at 2.85% on Monday. Economists had been split on the decision, with 12 of the 25 expecting a reduction between 5 bps and 15 bps. On the other hand, the PBOC rolled over the maturing CNY100B ($15B) of medium-term lending facility loans without providing additional liquidity. The PBOC also announced that it was guiding retail mortgage rates lower. Yet, portfolio flows were a negative sign as foreigners were large net sellers of mainland equities via Hong Kong Stock Connect.

COVID: Shanghai targets 1-Jun return to normal. Beijing extends lockdowns.

Shanghai set out plans for the return of more normal life from 1-Jun. In the clearest timetable yet, Deputy Mayor Zong Ming said Shanghai's reopening would be carried out in stages. In contrast, Beijing has been finding dozens of new cases almost every day since late April, and recently extended guidance to work from home in four districts. Problems at Sony and Tesla plants show how Shanghai's restart programme is faltering. despite authorities in Shanghai saying business is returning to normal with over 70% of 1,800 industrial companies having resumed work, hundreds of manufacturers in the city are not operating at anywhere near full capacity due to shortages in supply chains.

Tech crackdown: China tech bosses meet officials amid talk of crackdown easing

Senior Chinese officials are due to meet with leading technology executives during late May amid signs Beijing may be turning a page on its crackdown on the sector as economic growth slows. Digital security will be among the topics discussed but businesspeople are most keen to hear whether Beijing will be relaxing the intense pressure it has put on the industry over the past year and a half. The sell off in China's dollar bond market has left some investors eying attractive prices, especially among tech-sector companies. The spreads on the notes have started to widen again, leaving them high and attractive, according to analysts, with many tech companies still cash-rich and lightly leveraged. Meanwhile, Chinese regulators told the nation's securities industry to avoid handing out "excessive" short-term incentives to employees and smooth out the pace of pay disbursements, in their latest effort to rein in risks and promote "common prosperity." According to the Securities Association of China, incentives and short-term rewards that are too big will trigger compliance risks. Pay of bankers shouldn't be directly linked to the revenue they bring in for underwriting deals, while senior executives must be held accountable financially if they violate regulations or cause excessive risk exposure.

Signs of stress in Hong Kong's market growing as outflows quicken

Signs of financial stress in Hong Kong are growing even if the city still holds $466B in foreign reserves and has plentiful interbank liquidity still at hand. Home prices are falling and capital flight is accelerating after portfolio outflows last year reached $100B for only the second time since 1997. The HK Monetary Authority bought (its third intervention) HK$2.865B on Friday to prevent it from breaking its trading band of HK$7.75-7.85.

FX: Banking regulator says yuan depreciation will not continue in the long run

China Banking and Insurance Regulatory Commission sources saying depreciation of the yuan will not continue on a unilateral or long-term basis. The sources warned investors not to hedge bets on the unilateral depreciation or appreciation of the yuan, adding it considered the yuan to be within a reasonable range.

Corporates. Sunac misses bond coupon payment at end of grace period

Sunac China's (1918.HK) bondholders had not received coupon payments on a $750M October 2023 offshore bond due on Wednesday, the final day of a grace period. $29.5M in interest payments were due, and if missed would be the first default by Sunac, and could trigger cross-default provisions on all of the company's $7.7B offshore bonds.

Market outlook – Recommendations & Targets from fundamental analysis

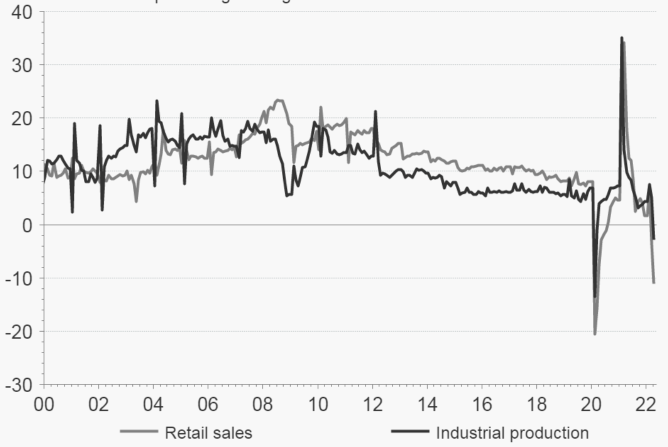
Equities – SHANGHAI Idx: MARKETWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT- OVERWEIGHT

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

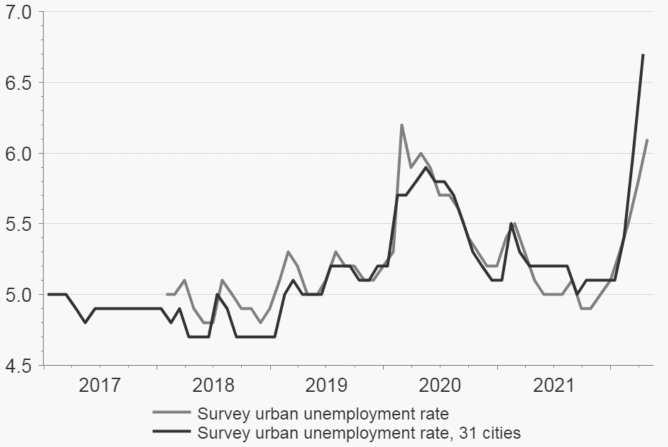
Forex – CNY/USD: MW (Target 6.65)

China economic activity
Twelve-month percentage changes



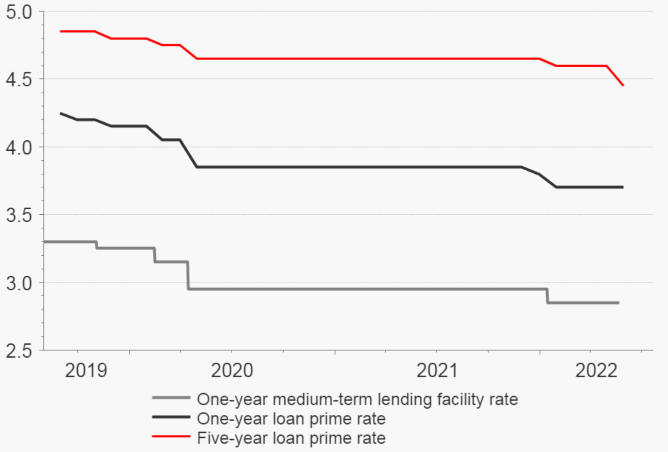
Source: Refinitiv Datastream / ANDBANK

China unemployment rate
Per cent



Source: Refinitiv Datastream / ANDBANK

China lending rates
Per cent



Source: Refinitiv Datastream / ANDBANK

JAPAN

BOJs maintains its dovish stance. Japan will not abandon energy projects with Russia

Investors current mood on Japanese equity market remains relatively healthy

Topix and Nikkei indices stands out as one of the best performers indices (Topix -6%YTD and Nikkei -7% YTD). Nikkei VIX has declined recently, touching lowest levels since mid-April. Most sectors have advanced since then, led by an outsized rally in mining, marine transportation (driven by Yen weakness), and oil & coal due to high international prices. Tech-related sectors and pharma also gained in recent sessions. Among the decliners are transportation equipment, Food and banks (the biggest decliners).

Perceptions of oversold conditions provided some support, but investors are now more selective as sentiment has diminished with the Nikkei above 26,000K. Overall conviction is lacking amid ongoing event risk from US data releases and JGB yields also climbing, with curve steepening. Looking ahead, a recent rebound in Chinese equities could feed risk appetite in Japanese equities.

Corporate profits. Japan firms' Jan-Mar net profit falls 41.3% q/q on cost hikes, but rose 31.8% y/y on Yen weakness

SMBC Nikko Securities analysis showed total net profit of listed companies in Japan dropped 41.3% to ¥4.94T ($38.34B) in the January to March period from the previous quarter, reflecting the surge in raw material costs prompted by the Ukraine crisis. In the year that ended in March, overall net profit rose 31.8% to ¥28.53T due to the yen's depreciation against the US dollars.

BOJ. Kuroda says aggressive easing needs to remain

In a speech, BOJ Kuroda reiterated assessment that aggressive easing policy needs to stay, continuing to emphasize the contrast in growth momentum between Japan and western economies. Also repeated the observation that elevated short-term inflation expectations will be temporary, and has not permeated to medium to longer term expectations. Repetition of the phrase "broad-based" inflation underscored the point that current pressures are imported, and localized mostly to energy costs.

BOJ's Board members see 2% inflation as temporary. A summary of opinions for the BoJ's April meeting contained several comments acknowledging the likelihood of core inflation accelerating to around the 2% target, though unanimously concurred that such an upshift would be temporary. Expectations were that increases in energy prices would wane, while also noting that underlying inflation outside of energy remains extremely low, which is a function of the negative output gap.

Stimulus: Cabinet to approve extra budget to cushion rising energy and food prices

Kyodo reported Cabinet is set to approve Tuesday a ¥2.7T ($21B) draft extra budget for FY22 to ease the pain of surging energy, food and other prices stemming from Russia's invasion of Ukraine. Once it clears parliament, the supplementary budget for the year that started in April will be used to finance part of a ¥6.2T relief package compiled in late April. About ¥1.5T of the extra budget will be spent to replenish reserve funds which the government is using to implement some of the measures in the relief package such as subsidies for oil wholesalers to bring down retail gasoline prices and cash handouts of ¥50,000 per child for low-income households.

Energy. Japan will not abandon energy projects with Russia

Japan says Sakhalin energy projects do not contradict Russia sanctions. Deputy Chief Cabinet Secretary Seiji Kihara said on an NHK television that Japan has no plan to pull out of two major energy projects off the Russian island of Sakhalin and the policy does not contradict the sanctions it placed on Moscow over its invasion of Ukraine. He argued that giving up stakes in the projects would threaten to further increase energy import costs for Japan in the long term. He also said if those stakes are obtained by other countries, there is a possibility that those countries not imposing sanctions against Russia will benefit.

FX. Japan warns again about sharp yen moves

BOJ Governor Haruhiko Kuroda's said in parliament that recent sharp yen moves were undesirable, echoing comments by Finance Minister Shunichi Suzuki. Kuroda said the yen's drop would affect households and firms in different ways, refraining from repeating his past comments that a weak yen was generally good for Japan's economy.

Corporate moves. Renault to discuss EV venture with Nissan and Mitsubishi

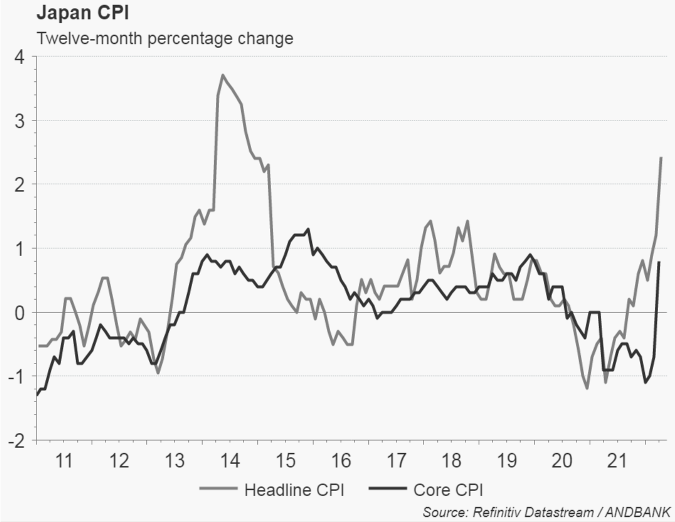
Renault CEO Luca de Meo told Nikkei that the company will discuss forming a new electric vehicle company with alliance partners Nissan Motor (7201.JP) and Mitsubishi Motors (7211.JP). Renault first revealed in February it was considering spinning off its EV unit into an independent company. Renault will likely propose that Nissan and Mitsubishi invest in that unit. The three companies are due to hold meetings in Japan starting Sunday. Renault's EV company is expected to be a main topic of discussion

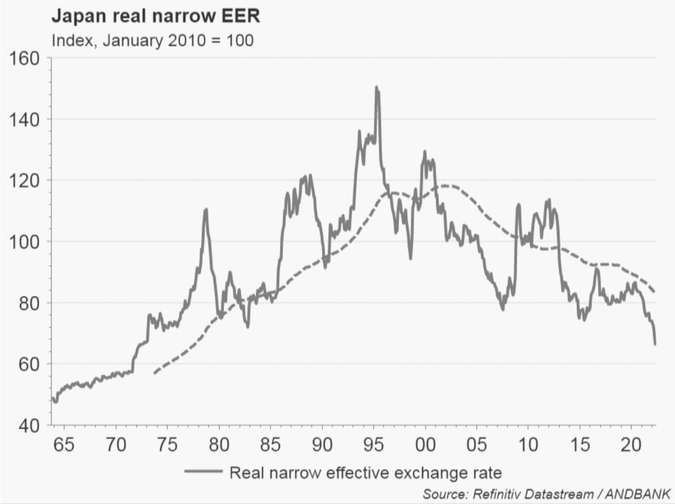
Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: MARKETWEIGHT-UNDERWEIGHT (Target yield 0.25%)

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





INDIA

Short-term future looks bright, 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). This 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 again dangerously high (6.4% of GDP) and especially striking, as it follows a (past) year in which we have come from a 6.9% deficit (largely due to pandemic-related expenses). 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). The days when the country sought a legally mandated 3% budget deficit ceiling can be said to be 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, may 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 will happen eventually if this fiscal route continues.

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 the 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).

With its grow-first approach, the government is betting everything on one card

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 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-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 7.0%)

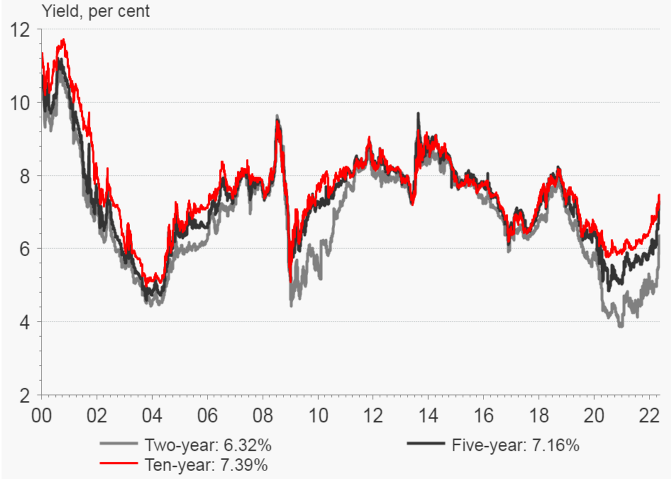
Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 76)

India Datastream index price / earnings

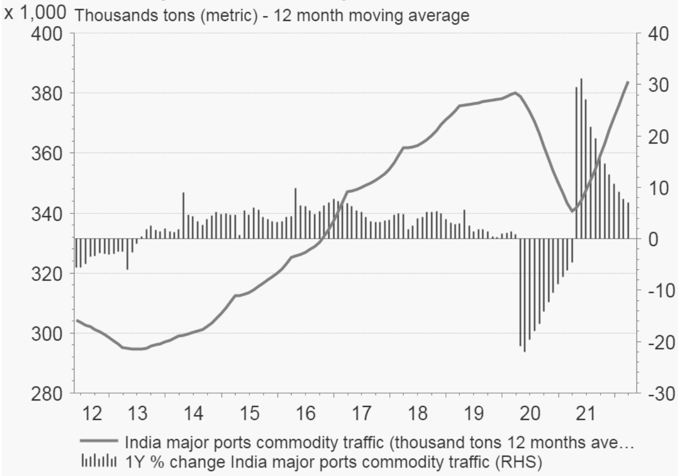
Source: Refinitiv Datastream / ANDBANK

India benchmark government bonds



Source: Refinitiv Datastream / ANDBANK

India - Major Ports Commodity Traffic



Source: Refinitiv Datastream / ANDBANK

ISRAEL

Negative reading of GDP doesn't change our constructive position

Economy and Politics

First reading of GDP growth for the first quarter surprised negatively as it dropped by 1.6% compared to expectations of growth of 1.8%. However, it should be noted that the economy grew in the previous quarter by 15.6% so we think it is too early to declare that the local economy is contracting. The main contributor for the negative reading is the large trade deficit as export dropped by 11% and import rose by 17.3%, due to significant increase in tourism services and high prices paid for commodities.

We are also watching closely the Nasdaq market behavior as Tech export comprise about half of the country's GDP. As of now, we expect minor implications from the meltdown in tech stocks. One positive implication is that we expect the end of the spiral rise in wages paid by tech companies that grew dramatically in the last two years. Finally, return to normal is expected on this front. In addition, we expect that the enormous influx of foreign investment towards startups to slow down. A survey of major trends in businesses published recently reveals an optimistic picture in general. Orders for the local market are on the rise as well as export of services (mainly tech) and industrial products.

Budget deficit for the 12 month period ending in April was limited (0.6% of GDP vs 1,3% at the end of March) due to lower government expenses, mainly due to a decline of Covid-19 related spending. We expect that government layout will increase for the rest of the year, supporting the economy. In addition, small budget deficit allows the treasury to reduce bond issues, good news for the bond market.

On the political front, the governing coalition averted a deeper political crisis as the Ra'am party, which represents Israeli Arabs, announced it would end the freeze on its membership to the incumbent coalition and resume its backing. This occurs after having reached an agreement for the improvement of the Arab residents, as a response to recent increase in violence.

Monetary policy and inflation

CPI for April rose by 0.8% m/m, slightly below expectation, and 4% compared with April last year (vs 3.5% y/y in March), being the third consecutive month with a yearly increase above the government target range (1-3%). The monthly reading was impacted by seasonal prices, with fresh vegetables category showing a +5.5% m/m print. The analysts are expecting that inflation will rise by 3.5% y/y. however, inflation expectations in the market dropped below 3% y/y the day after the CPI was published. Quite an astonishing move considering that only two weeks ago expectations were at 4.25%. We forecast inflation to moderate towards an annual level of 3% in the coming months.

The bank of Israel raised interest rate for the first time in three years by 25 bps, from 0.1% to 0.35%. According to the central bank the Israeli economy has registered strong financial activity and the job market has recovered (unemployment rate reached 3.1%, lowest figure since the end of the 70s), leading to the decision to gradually raise rates. On the other hand, weak GDP data may lead to some of the monetary committee members to be more cautious regarding the size of the rate increase. The market adopts the bank's prediction that interest will rise to 1.5% in coming twelve months.

Stock and credit market

TA 125 "finally" joined its colleagues overseas and dropped by 7.3% in the last month. The "major star" of the market, real estate, lost over 10%, while bank stocks shed only 3%. We currently avoiding commercial property stocks as we think that higher level of interest rate is not yet fully priced. Forward P/E for TA 125 is 13.9 at this moment and considering growth expectations for the economy (5% for 2022), we think recent drop presents good entry point.

High grade corporate bonds lost over 6% from the beginning of the year. Tel Bond 60, comprising the largest issues in the market is currently trade at a spread of 1.6%, well above in its last year range of 1.1% to 1.3%. The last time spreads were at this level was two years ago, as the market began to "digest" the effects of Covid. We consider all members of Tel Bond index to be of a high quality and we recommend increasing position at these levels.

Market outlook – Recommendations & Targets from fundamental analysis

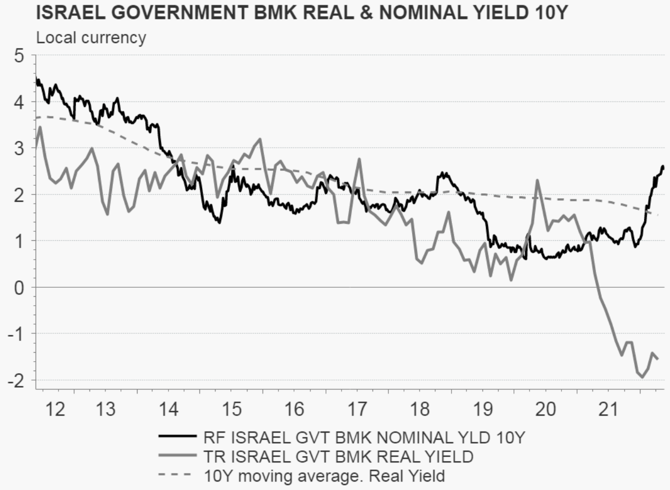
Equities – TLV35 Index: MARKETWEIGHT-OVERWEIGHT

Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT-OVERWEIGHT

FX – ISL vs USD: Expensive in REER

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK

BRAZIL

Trying to resume growth , but the rest of the world in not helping

Second quarter will be much harder than the First

It was a short-lived rally. During April, Ibovespa, the main equity index in Brazil, fell 10.1%, with a net outflow of BRL 7.6 Billion of foreign investors' money. By mid-May, another BRL 12.6 Billion was leaving the local stock exchange in a clear sign that foreign investors were satisfied with the double digit returns they got from the rally of stocks and appreciation of the Brazilian Real at the first months of the year.

Furthermore, some sectors, like commodities that did extremely well in the beginning of the year, were directly impacted by the prospects of a lower GDP for China. The zero Covid policy, that requires the imposition of city-wide lockdowns in case of rise in contagion cases, has pretty much brought China to a holt for the first quarter. And as China slows, so does the commodity complex around the world.

But it´s not all bad news, activity has been picking up lately. Many local economists are revising their numbers upward for the year, as exports, due to the increase in commodity prices, and services, due to easing of pandemic related measures, are gaining traction. Numbers referring to March showed that Services Volumes had a hefty 11.2% y/y increase, beating analysts' expectations of 8.5%. GDP growth expectations have increased from 0.5% earlier in the year, to close to 1.5% currently.

More growth and more inflation translate into better fiscal results. Latest numbers how that Brazil is keeping a primary surplus of 1.4% of GDP. Despite analysts predicting a dire future, Debt over GDP is expected to remain through the end of this year around 78%.The fiscal situation of Brazil seems to be a lot dependent on the election results. It is well known that fiscal policy may change from one mandate to another, however, the two leading candidates do not have a fiscally responsible speech at this moment, which makes the financial markets jittery.

Inflation and Monetary policy

Despite the significant correction in April (3.8%), the Brazilian Real remains one of the best performing currencies this year, due to a combination of the strong inflows over the last few months, but also because of the magnitude of the rate rising cycle that began March/2021, with SELIC target interest rates today at 12.75% after the 10th straight hike (100 bps in the last meeting) with another 75 to 100 bps increase is expected between the next two meetings. The bank said it expected another hike in the June meeting but of a smaller magnitude.

Brazil's target rate is clearly in contractionary territory, but as in many other countries, inflation has not given the Central Bank a break. April's IPCA (headline inflation) was the highest for the month since 1996 (+1.06% m/m, with food increasing 2.06% m/m), and accumulates a painful 12.1% over the past 12 months (vs. 11.3% in March). High frequency indicators as the IPC-S, the weekly inflation index, is showing weaker readings, but it hasn't materialized in a trend yet.

Time for the "alternative" candidate is running out

As the election slowly approaches, Lula and Bolsonaro are consolidating their very polarized lead in the race (with Bolsonaro closing the gap in polls but still with Lula maintaining a comfortable lead). That is bad news for the remaining candidates that are still fighting among themselves to be the "alternative". Running against two former presidents is extremely hard on its own, just because of their recall – the number of people that know who they are. All of the remaining candidates have only regional force and Brazil is a very large country. Getting someone known nation-wide, and proving that he or she is a better alternative than the incumbents, in only two or three months, is a very difficult proposition.

On top of that, Lula and Bolsonaro are both defending that they can win the election in the first term. For that, a candidate must have 50% + 1 of the valid votes in the first round, which has happened twice before, but very long time ago, with Fernando Henrique Cardoso in 1994 and 1998. We don´t believe it will be that easy to get a majority in the first term, thus the most probable scenario is that both Lula and Bolsonaro are going to face each other in second round run-off. The alternative candidate will have to perform something close to a miracle to get one of them out of the race.

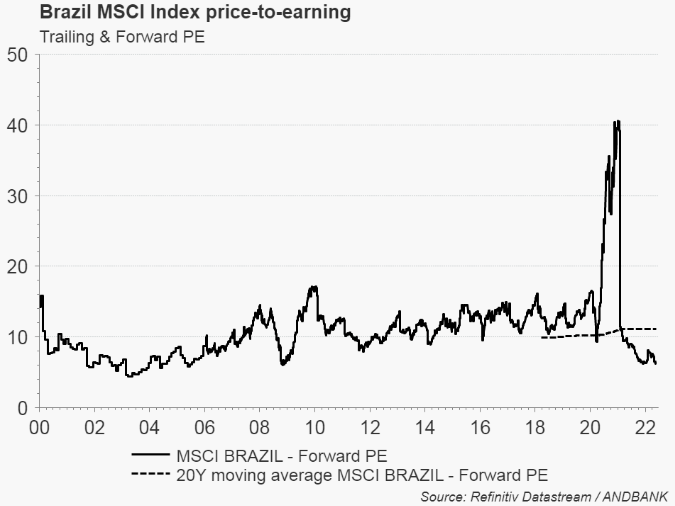
Market outlook – Recommendations & Targets from fundamental analysis

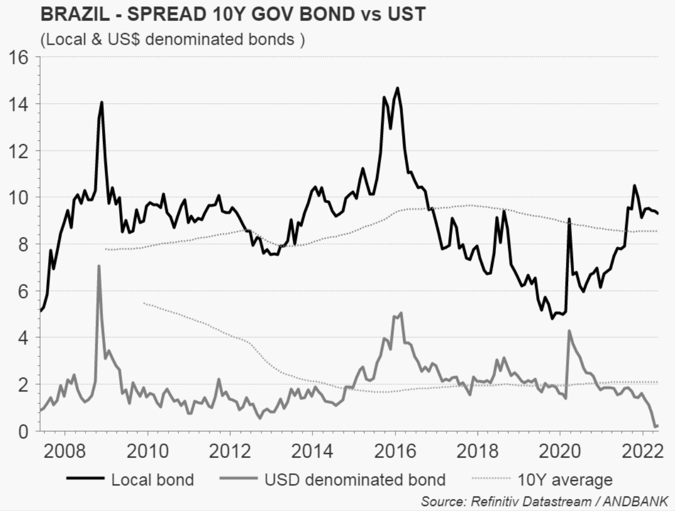
Equities – iBovespa: UNDERWEIGHT

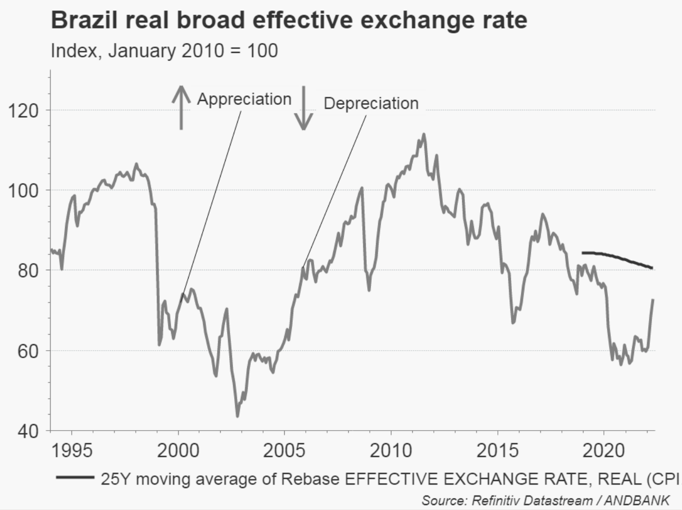
Bonds – Govies Local: OVERWEIGHT (Target yield 12.75%. Spread 950)

Bonds – Govies USD: UNDERWEIGHT (Target yield 6.50%. Spread 325)

FX – BRL/USD: UNDERWEIGHT (Mid-term target 5.25)







ANDBANK Private Bankers

MACRO ECONOMY

MEXICO

Central Bank hike in line with expectations but governors sounding more hawkish

Central Bank

The central bank board decided to increase its target rate by 50 basic points to bring the monetary policy rate to 7.00% (up from 4% at the start of the tightening cycle). The decision was split with one of the five members (Irene Espinosa) voting for a 75 basic points increase. The Central bank governor, Victoria Rodriguez, said that Banxico is ready to tighten by a higher magnitude if needed.

As has been done since the end of last year, the expectation on general and core inflation for the following quarters was published, where a level above the long-term goal (3% plus or minus one percent) is expected for 2022 (6.40% y/y) and 2023 and a convergence towards its target in the first quarter of 2024. Central bank deputy governor, Jonathan Heat, expressed that inflation will peak sometime in the 2Q of this year but the downward trajectory after that will be difficult and prolonged

The forward rates of TIIE (Interbank Equilibrium Rate) anticipate up to 250 basic points additional increases, given the scenario of rate hikes in other central banks and the increase in inflationary perspectives. Analysts are expecting a cumulative hike over 150 basis points of rise in the rest of the year.

Inflation and activity

Inflation in April reached 7.68% y/y (+0.54% m/m, slight below expectations), the fastest print since January 2001. Core inflation stood at 7.22%, not much slower than headline rate, a sign that the increase in prices is not only explained by non recurring events. Private Analysts are expecting a 6.75% y]/y level at the end of this year Looking to address rising food costs, the government made a pact with a major firms to limit price increases (no caps included) of 24 key goods over the next six months

Regarding economic activity, growth prospects for this year have moved drastically downwards, and on average for the consensus of analysts estimate is now below 1.72%. The economy expanded 0.9% q/q in the first quarter of the year (+1.6% y/y) and it Is expected to reach the pre pandemic level in the third quarter of the year.

Politics & Fiscal policy

The Mexican government is providing support to mitigate the impact of higher prices on household incomes, mainly through gasoline subsidies which has generated a 60% decrease in the collection of the special tax charged to that good (IEPS).

Public revenues grew 2.2% y/y, in real terms, at the end of the first quarter, as a result of a 31.7% y/y rise in oil revenues. Expenses have remained below budget in a for most of items, including Pemex, resulting in a balanced primary result and a Debt to GDP at 48% (100 bps below 2021 level).

Financial markets

Equity: Positive stance due higher to remittances, greater mobility, better than estimated quarterly corporate results, lower political uncertainty .and good fiscal numbers. On the negative side, restrictive monetary policy due to inflationary pressures and the recent volatility in global financial markets, could affect the performance. The current valuation of the local index with a PE of 14.46, significantly below the five year average of 20.17, seems to signal an attractive point of entry. We are keeping the 12-month target price of 60,000 points

Fixed Income & FX: Fitch reaffirmed Mexico´s sovereign rating BBB- (the lowest between the three rating agencies) with a stable outlook, explained by a prudent macroeconomic management, stable external numbers and debt level below the BBB median. As negative factors Fitch highlighted the moderate long term growth expectations, ongoing political interventions affecting private investments and Pemex contingent liabilities.

The spread between local and treasury bonds (10 years) has dropped to 600 bps and as we maintain our target at 600 bps, in the short term we see limited value. Regarding the USD debt, the spread was once again above 200 bps, surpassing our target of 180 bps.

The volatility in the exchange rate continues to decrease despite the appreciation that the USD has observed, to operate in a range around 20 USDMXN. We expect a depreciation of the currency from here to the end of the year with a target FX of 21 USDMXN

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Spread 580 bps)

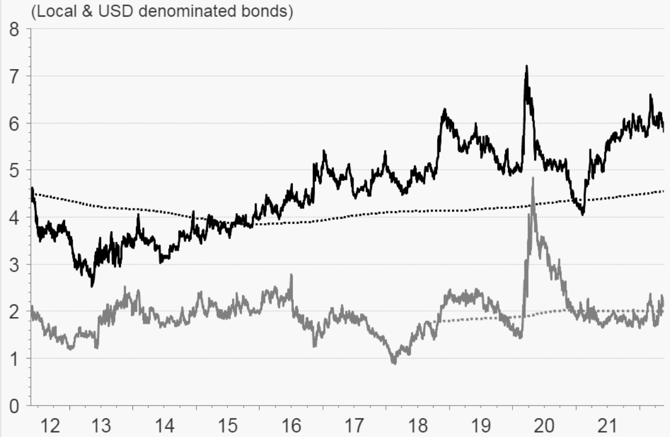
Bonds – Govies USD: MARKETWEIGHT (Spread 175 bps)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 20.75)

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
x 0.01 Index

Source: Refinitiv Datastream / ANDBANK

ARGENTINA

Government coalition fragmentation continues to rise

Politics: Internal disputes becoming increasingly public

What used to be indirect and off-the-record criticism by *Kirchnerism* (a sector that responds to VP Cristina Fernandez de Kirchner) has now been transformed in an open opposition to the Alberto Fernandez administration. The Veep stated that there is no fight but rather a debate of ideas, but after that launched a harsh series of criticism expressing that inflation isn't stopping and that Argentines don't have enough to make it till the end of the month. Even more critical was the Minister of Social Affairs of the Province of Buenos Aires, (close to Maximo Kirchner), Andres Larroque, who accused Minister Martin Guzman of "having no votes" and that the President's inner circle is completely detached from reality.

When asked about the statements made by CFK and other Kirchnerist officials, Guzman said that there will always be differences within all political fronts but there are certain areas where the country needs to reach a certain consensus. The minister warned that short-term measures end up generating crisis and that the country needs to embrace common sense and put aside "fairy tales." He also showed his support for tariff updates (one of the main fronts of dispute between the two factions) according to income segmentation and questioned the current level of energy subsidies: "In which country do energy subsidies of 4% of GDP work?... In what country in the world is there a deficit financed with a currency that people no longer want?"

Last but not least, President Alberto Fernandez, during an interview for the Spaniard broadcasting service, said that he will seek reelection during the 2023 presidential elections

Energy: new tariffs under discussion

The national government is holding public hearings to define the new prices that will be in force as of June 1 for natural gas, electricity generation, and the tariff segmentation with the aim of reducing the weight of energy subsidies. For the first four months of the year energy subsidies increased 174% in nominal terms and 78% in real terms, representing almost 11% of the total primary expenditure for the same period.

Another relevant news was the adjudication of nine shipments of liquefied natural gas (LNG) for 657.8 MM USD with an average price of 28,729 USD per million BTU, 27.6% less than the previous tender (8 boats with an average of 39,666 USD) but still much higher than the average price paid in the year 2021 (8.33 USD). It is estimated that to cover the winter season it is necessary to import 40 more shipments. The evolution of payments made for gas imports will be the main determining factor of the Argentine trade balance, and therefore the accumulation of reserves, as well as in the level of subsidies for residential and industrial gas rates.

Inflation: Headline declining but Core showing no mercy

April inflation prints at +6% m/m (+58% y/y & +23.1% ytd), below the March number (+6.7% m/m) but higher than market expectations (+5.6% m/m). The most worrying thing about the April figure is the behavior of Core prices with an increase of 6.7% m/m (+6.4% m/m in March) well above the monthly average, which was pushed down by regulated (+3.9% m/m) and seasonal prices (+5.4% m/m), in the latter case thanks to slower Foods & Beverage price hikes (no external shock theory explaining April reading). As in previous months this year, the item of garments and footwear (sector with a vey high protection) was the one with the highest increase (+9.9% m/m).

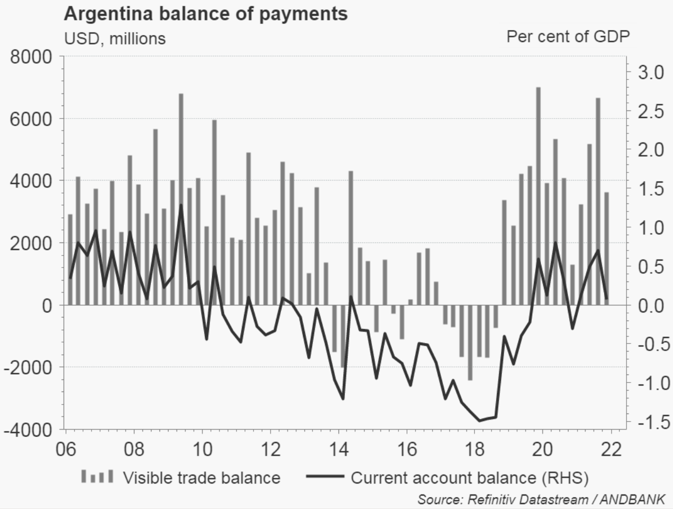
The April BCRA survey forecast an inflation of +65.1% y/y at the end of 2022, but it looks it might get short as risks remain skewed to the upside (utility tariff price adjustments, wage pressures and further fuel price increases).

The Central Bank, to keep up with rising inflation, raised its monetary policy interest rate for the fifth time this year, with an increase of 200 bps (47% to 49%) leaving the effective annualized equivalent of 61.8% (58.7% previously), reaching a positive real rate, one of the goals of the program with the IMF to increase the demand for ARS securities, easing the Treasury's reliance on monetary financing. The strategy is under pressure from both sides, with Kirchnerism questioning the constraints it imposes on economic policy and the opposition arguing that the growing ARS debt burden will tie up the hands of the next Administration.

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

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



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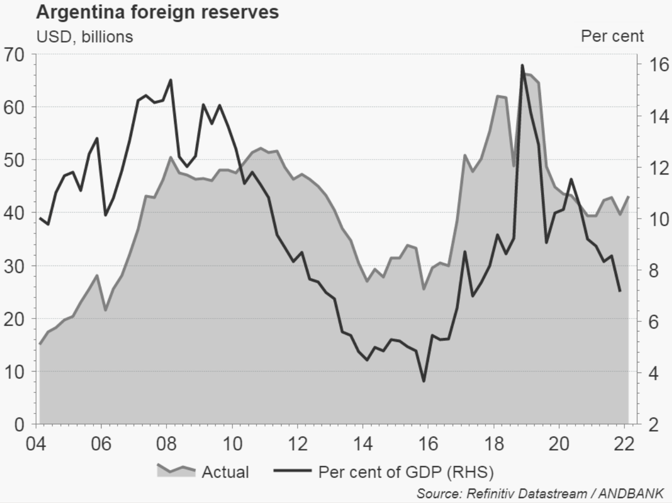

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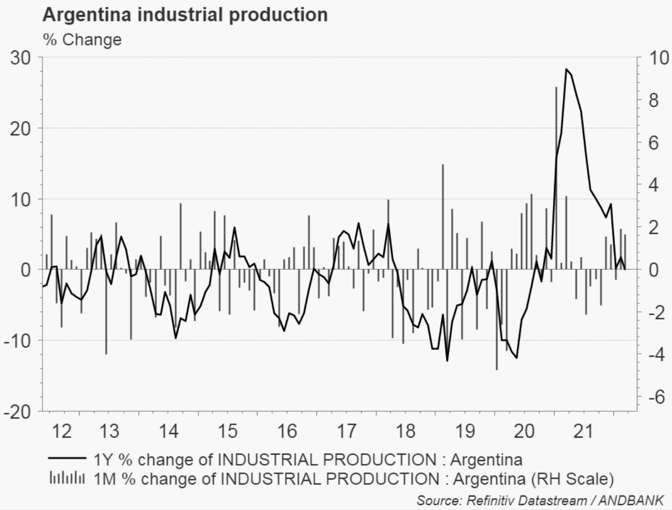


Source: Refinitiv Datastream / ANDBANK

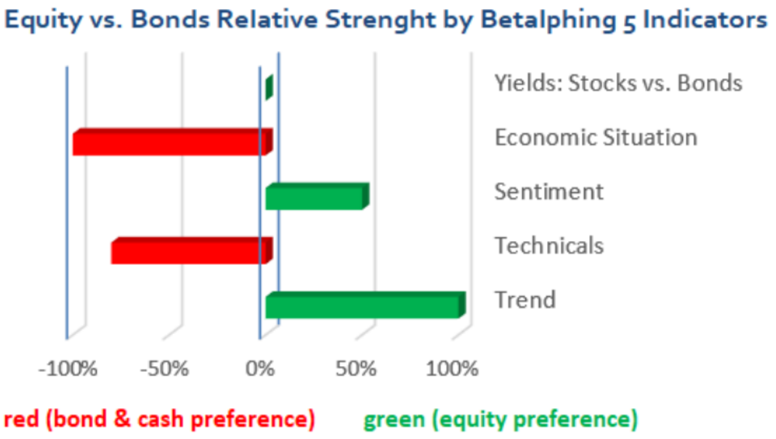
GLOBAL EQUITY INDICES

Fundamental assessment

Index	Projected EPS 2022	Projected EPS 2023	EPS Fw 12 months	EPS Growth 2022	E [PE] ltm Year End	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point
USA S&P 500	225,0	246,0	233	7,7%	18,50	3.974	4.316	8,6%	MW	4.747
Europe - Stoxx Europe 600	30,5	33,0	31,5	4,3%	15,00	434	472	8,8%	MW	520
Euro Zone - Euro Stoxx	29,0	33,0	30,6	2,5%	15,00	413	459	11,1%	MW	505
Spain IBEX 35	634,0	725,0	670	1,8%	14,00	8.634	9.379	8,6%	MW-OW	10.316
Mexico IPC GRAL	4.000	4.200	4.079	10,6%	14,75	51.377	60.164	17,1%	OW	66.180
Brazil BOVESPA	15.000	15.000	15.000	4,1%	8,00	109.488	112.500	2,8%	UW	123.750
Japan NIKKEI 225	1.810	1.894	1.843	3,7%	16,00	27.002	29.490	9,2%	OW	32.439
China SSE Comp.	310,2	374,0	335	32,5%	10,00	3.071	3.353	9,2%	MW	3.689
China Shenzhen Comp	120,3	149,0	132	24,0%	18,00	1.922	2.369	23,2%	MW-OW	2.606
India SENSEX	2.760	3.236	2.948	18,8%	23,00	54.053	67.799	25,4%	MW-OW	74.579
Vietnam VN Index	105,1	134,6	117	19,5%	14,00	1.233	1.634	32,5%	OW	1.797
Taiwán SE Weighted Index	1.423	1.425	1.424	12,3%	13,00	15.964	18.509	15,9%	MW/OW	20.360
MSCI EM ASIA	47,2	53,6	50	8,3%	12,50	552	622	12,6%	OW	684

ANDBANK ESTIMATES

NED DAVIS – 13 Indicators to decide whether to invest in Equities or Bonds, and decide on geographic and sectoral exposure.



13 Indicators to choose between Stocks or Bonds (or Neutral):

	Stock/Bond Indicators	may-22	apr-22	mar-22
TREND	Stock/Bond Ratio Trend Model	Stocks	Stocks	Bonds
	Stock/Bond Ratio Trend	Stocks	Stocks	Stocks
TECHNICALS	Stock/Bond Overbought/Oversold Indicator	Neutral	Neutral	Neutral
	% Of Stocks Above 10Wk & 40Wk Moving Averages	Bonds	Bonds	Bonds
	% Markets Above 10Wk & 40Wk Moving Averages	Bonds	Bonds	Bonds
	Stock Momentum	Bonds	Bonds	Bonds
	Bond Momentum	Bonds	Bonds	Bonds
YIELDS	Corp. Bond Yield - Stock Earnings Yield	Bonds	Neutral	Stocks [1]
	Yield Curve	Stocks	Stocks	Stocks
SENTIMENT	NDR Global Consumer Sentiment Composite	Stocks	Stocks	Stocks
	NDR Global Business Sentiment Composite	Neutral	Neutral	Neutral
ECONOMY	OECD G7 Leading Indicator Index	Bonds	Bonds	Bonds
	Crude Oil Momentum	Bonds	Bonds	Bonds

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 USD90-110bbl

Buy < USD90; Sell >USD110

Short-term drivers

(Bullish price factor) – EU continues to work toward sanctions on Russian oil: The EU is meeting (on May 16th) to continue to discuss details of a sixth round of sanctions on Russia. The proposed package continues to include a ban on Russian oil imports, which continues to be stalled by Hungary as it seeks guarantees over its own energy supplies. The EU officials have to publicly pressure Hungary on its position, while targeting a May 30-31 summit as the moment for agreement on a phase ban on Russian oil. Germany plans to stop importing Russian oil by year-end even if the EU fails to agree to a ban. German officials say deals with alternative suppliers are progressing (the EU is receiving shipments of oil from the US Strategic Petroleum Reserve (SPR), with two tankers of high-sulfur SPR crude heading to Italy and the Netherlands, while another shipment of SPR crude was delivered to the Netherlands on 26-Apr.). German officials believe they can solve the remaining logistical problems in the next six or seven months. Russia still makes up around 12% of German oil consumption, though that's already down from 25% from before the war.

(Bullish price factor) – Crude processing in China falls to two-year low but this is about to change: China's crude processing fell to 12.66M bpd in April, the lowest since Mar-20. The decline was driven by the latest round of lockdowns as part of the country's zero Covid policy, though independent refiners are set to boost rates as restrictions are loosened.

(Bearish price factor) – Iran can double oil exports if there's sufficient demand: An official from Iran's National Iranian Oil Co said that the country has capacity to double oil exports if there's sufficient demand and said that Iran will exert maximum effort to recoup its crude oil market share and revive its customers. Iran is believed to sell as much as 1M bpd abroad, while the government's budget forecasts sales of 1.4M bpd through Mar-23. The comments also come amid the latest talks over the nuclear deal, with recent negotiations between EU and Iranian officials going better than expected. To this regard, tThe EU's Foreign Minister Josep Borrell said that his team's talks with Iranian officials were "positive enough" to warrant reopening talks with Tehran about its returning to the 2015 nuclear deal. Negotiations, which had developed the broad outlines of a deal, have been on hold for some time following some last-minute Russian demands and the thorny issue of the terrorist designation for Iran's Revolutionary Guard Corps. It adds, however, that Western officials remain skeptical that the US will agree to remove the terrorist label from the IRGC.

(Bearish price factor) – Venezuela sets a goal of tripling its crude oil production this year: Iranian shipments to Venezuela are already 48% higher than the full-year 2021 figure as Caracas works to blend its thick crude for export. Venezuela pumped 697K bpd in March, but officials are targeting a return to ~2M bpd this year. Although this seems optimistic, it will depend on the political attitude of Venezuela and the West.

(Bearish price factor) – Saudi Arabia and Iraq plan to grow capacity over coming years: Platts reported that Saudi Arabia said its output is set to reach up to 13.4M bpd by the end of 2026 or early 2027, up from current capacity of 12M bpd (though is producing only 10.4M bpd), as it looks to ramp up work in the neutral zone fields with Kuwait. Reuters also reported that Iran's oil minister said today that the country plans to increase its production to 6M bpd by the end of 2027, up from the latest estimates of 4.46M bpd. The lack of OPEC+ spare capacity has been a key dynamic in global oil markets in recent months as the group has struggled to keep up with its increasing quotas, though in the near-term, the group has continued to widen its expectations for supply to outpace demand this year.

(Bearish price factor) – US shale volumes could return to pre-pandemic levels by October: Energy analysts believe utilization levels for pipelines from the Permian Basin to the Gulf Coast is expected to hit its pre-pandemic level of 77% by October and ~80% by year's end (vs 70% in April) as Permian production climbs toward a predicted 5.7M bpd next year. Oil rig counts in the Permian are up ~14% so far this year, and notes that more energy firms have discussed capital-raise plans to add more rigs and boost production.

(Bearish price factor) – The EU is preparing to loosen its environmental standards as it moves away from Russian oil: FT reports that under an emerging plan sparked by the need for the bloc to move away from Russian oil, the EU would allow companies to build wind and solar projects without the need for an environmental impact assessment.

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 is cheap relative to palladium: The Gold/Palladium ratio fell to 0.843, 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.

Neutral drivers for gold

Gold will no longer be the only 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 another Tier 1 Govies) is likely to perform better in such a disruptive scenario. 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 regard, we must say that until now we saw the supply of UST as unlimited, which favored gold as the quintessential anti-fragile asset. However, we no longer see unlimited supply of UST; instead, after learning the Fed's intentions, we foresee a very limited supply in relation to the strong demand that there may be for UST (typical demand of external central banks in an environment of expansion and economic recovery). That is why the UST can once again dethrone gold as an anti-fragile asset and take command. This is bad news for gold; however, it should be said that the supply of gold will also remain very limited over the next decade.

Negative drivers for gold

The massive negative returns have disappeared and no longer make gold attractive: The disadvantage of gold compared to fixed income instruments (gold does not offer a coupon) was neutralized with negative yields in a large number of global bonds. But this circumstance has now disappeared, with most of the bonds in the USD universe offering positive returns and making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield.

Gold expensive relative to silver. The Gold/Silver ratio rose to 85.12 but is still above its 20-year average of 66.87x, 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$1,453/oz.

Gold to oil: This ratio fell to 16.4, still well above its 20-year average of 18.35x. Considering our mid-term fundamental fair value for WTI oil at US$80-90pbl and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,559 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.24009), 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$1,495. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,078. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,333.

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 was created in the US (by people with scant interest in gold), and with much more moderate EM growth. 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

Outlook (of the respective currency against the USD) according to the analysis by Altman's Z. Fundamental objectives.

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.

EUR-USD: Fundamental Target 1.05 (Buy USD at 1.07) // Z-Score Analysis: Neutral view on the EUR in the ST

USD-JPY: Fundamental Target 116; **EUR-JPY**: Target 122 // Z-Score Analysis: Neutral view on the JPY vs the USD

GBP-USD: Fundamental Target 1.39; **EUR-GBP**: Target 0.75 // Z-Score Analysis: Favorable view on the GBP vs the USD

USD-CHF: Fundamental Target 0.93; **EUR-CHF:** Target 0.98 // Z-Score Analysis: Neutral view on the CHF vs the USD

USD-BRL: Fundamental Target 5.25; **EUR-BRL:** Target 5.51 // Z-Score Analysis: Negative view on the BRL vs the USD

USD-MXN: Fundamental Target 20.75; **EUR-MXN:** Target 21.79 // Z-Score Analysis: Neutral view on the MXN vs the USD

USD-ARS: Target 175, Negative on the ARS

USD-INR: Target 76, Neutral on the INR

CNY: Target 6.65. Neutral on the CNY

RUB: Neutral view on the RUB vs USD

AUD: Neutral view on the AUD vs USD

CAD: Neutral-Negative view on the CAD 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	0,00	0,00	32,1	-28,2	4,3	**0,66**
USD vs G10	20,88	7,99	32,7	-25,4	6,3	**0,84**
EM	0,00	0,00	3,9	-1,2	1,4	**-0,04**
EUR	2,68	-1,54	23,4	-8,6	7,4	**-0,50**
JPY	-9,88	0,51	0,6	-15,0	-8,4	**-0,37**
GBP	-6,19	-1,40	4,3	-6,5	-1,8	**-1,56**
CHF	-2,09	-0,58	0,2	-6,0	-2,4	**0,17**
BRL	0,77	-0,18	1,0	-0,8	0,0	**1,53**
MXN	0,71	0,17	3,3	-1,5	1,1	**-0,39**
RUB	0,00	0,00	1,2	-0,3	0,4	**-0,49**
AUD	-3,14	-1,01	6,1	-6,6	-1,4	**-0,49**
CAD	-1,13	-2,81	6,1	-5,0	0,3	**-0,55**

Positive
Neutral-Positive
Neutral-Negative
Negative

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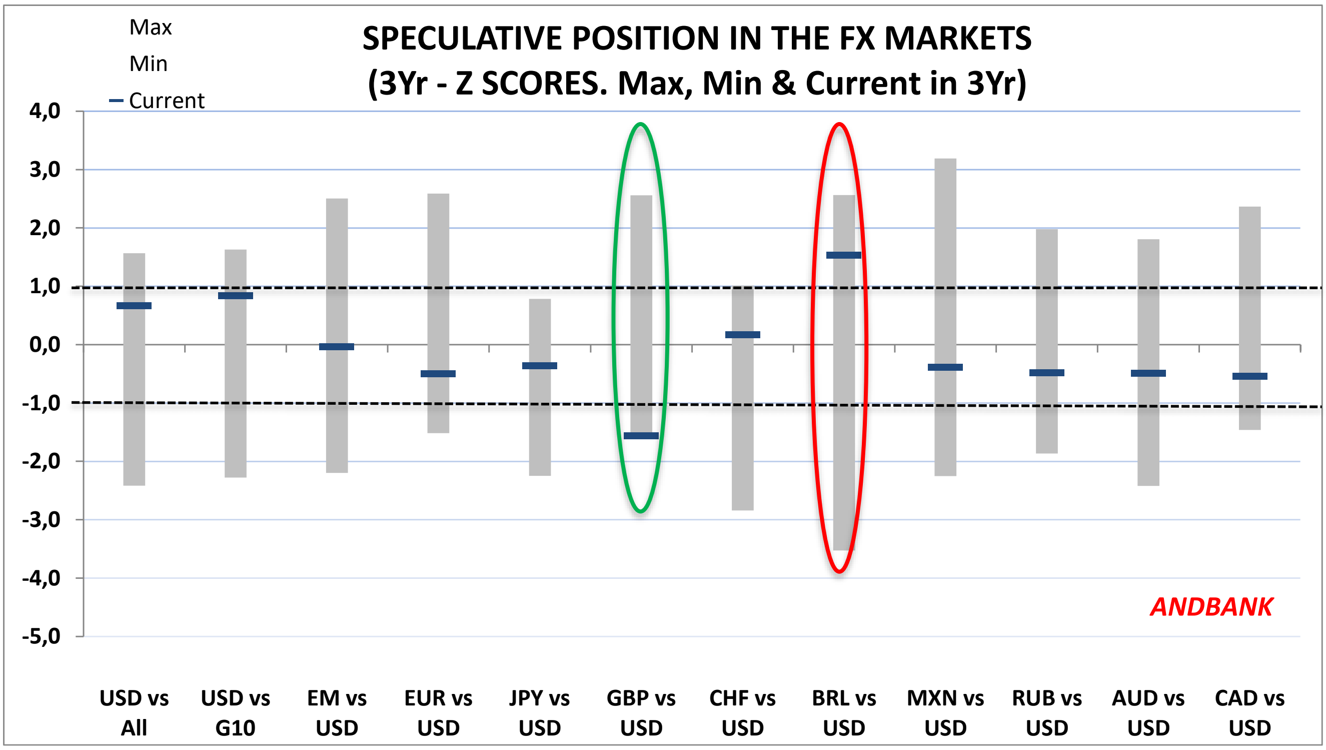

The currencies we technically favor are circled in green

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	-7,5%	-16,6%	3.974	4.316	8,6%
	Europe - Stoxx Europe 600	-2,4%	-11,0%	434	472	8,8%
	Euro Zone - Euro Stoxx	-2,1%	-13,8%	413	459	11,1%
	SPAIN - IBEX 35	0,7%	-0,9%	8.632	9.379	8,7%
	MEXICO - MXSE IPC	-2,4%	-3,6%	51.377	60.164	17,1%
	BRAZIL - BOVESPA	-1,0%	4,5%	109.539	112.500	2,7%
	JAPAN - NIKKEI 225	1,5%	-6,2%	27.002	29.490	9,2%
	CHINA - SHANGHAI COMPOSITE	4,9%	-15,6%	3.071	3.353	9,2%
	CHINA - SHENZEN COMPOSITE	7,4%	-24,0%	1.922	2.369	23,2%
	INDIA - SENSEX	-4,5%	-7,2%	54.053	67.799	25,4%
	VIETNAM - VN Index	-5,9%	-17,9%	1.233	1.634	32,5%
	MSCI EM ASIA (in USD)	-0,4%	-17,1%	552	622	12,6%
Fixed Income Core countries	US Treasury 10 year Govie	0,1%	-10,0%	2,83	3,25	-0,5%
	UK 10 year Gilt	-0,9%	-7,7%	1,97	1,75	3,7%
	German 10 year BUND	-1,2%	-9,5%	1,00	1,25	-1,0%
	Japanese 10 year Govie	0,1%	-1,3%	0,23	0,25	0,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	-2,3%	-12,3%	2,11	2,25	1,0%
	Italy - 10yr Gov bond	-3,3%	-14,4%	3,02	2,85	4,3%
	Portugal - 10yr Gov bond	-1,6%	-12,7%	2,07	2,25	0,6%
	Ireland - 10yr Gov bond	-1,0%	-10,9%	1,60	1,75	0,4%
	Greece - 10yr Gov bond	-6,3%	-19,1%	3,70	3,45	5,7%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,4%	-1,5%	97,31	80	1,1%
	Credit EUR HY-Itraxx Xover	-2,1%	-6,2%	472,13	375	7,3%
	Credit USD IG - CDX IG	-0,3%	-1,3%	90,66	80	2,7%
	Credit USD HY - CDX HY	-2,5%	-6,0%	522,89	425	9,7%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-16,3%	9,3%	22,91	20,00	46,2%
	Russia - 10yr Gov bond (local)	-0,2%	-11,2%	10,20	14,00	-20,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-0,7%	-4,1%	7,14	6,00	16,3%
	India - 10yr Gov bond (local)	-2,0%	-4,8%	7,36	7,00	10,2%
	Philippines - 10yr Gov bond (local)	-0,7%	-9,3%	6,10	5,25	12,9%
	China - 10yr Gov bond (local)	0,4%	0,8%	2,79	2,40	5,9%
	Malaysia - 10yr Gov bond (local)	0,6%	-3,9%	4,24	3,30	11,7%
	Thailand - 10yr Gov bond (local)	-2,3%	-8,3%	3,00	4,00	-5,0%
	Singapore - 10yr Gov bond (local)	-0,4%	-6,9%	2,58	3,40	-4,0%
	Rep. Korea - 10yr G. bond (local)	0,2%	-7,0%	3,13	3,90	-3,0%
	Taiwan - 10yr Gov bond (local)	-1,1%	-3,3%	1,14	2,25	-7,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	2,7%	-5,6%	8,63	9,05	5,2%
	Mexico - 10yr Govie (USD)	-0,4%	-13,1%	4,94	5,00	4,4%
	Brazil - 10yr Govie (Loc)	2,3%	-10,7%	12,13	12,75	7,2%
	Brazil - 10yr Govie (USD)	-2,3%	-10,1%	6,14	6,50	3,3%
Commodities	Oil (WTI)	10,6%	45,0%	109,0	100,00	-8,3%
	GOLD	-2,5%	1,2%	1.851,1	1.800	-2,8%
Fx	EURUSD (price of 1 EUR)	-0,4%	-6,1%	1,067	1,05	-1,6%
	GBPUSD (price of 1 GBP)	-1,2%	-7,0%	1,26	1,39	10,7%
	EURGBP (price of 1 EUR)	0,9%	1,0%	0,85	0,75	-11,1%
	USDCHF (price of 1 USD)	0,6%	5,9%	0,97	0,93	-3,6%
	EURCHF (price of 1 EUR)	0,3%	-0,6%	1,03	0,98	-5,2%
	USDJPY (price of 1 USD)	-0,4%	10,9%	127,63	116,00	-9,1%
	EURJPY (price of 1 EUR)	-0,7%	4,1%	136,22	121,80	-10,6%
	USDMXN (price of 1 USD)	-1,4%	-2,8%	19,92	20,75	4,2%
	EURMXN (price of 1 EUR)	-1,8%	-8,8%	21,24	21,79	2,6%
	USDBRL (price of 1 USD)	-1,3%	-13,6%	4,81	5,25	9,0%
	EURBRL (price of 1 EUR)	-1,6%	-18,9%	5,14	5,51	7,3%
	USDARS (price of 1 USD)	3,6%	15,7%	118,82	175,00	47,3%
	USDINR (price of 1 USD)	1,2%	4,2%	77,62	76,00	-2,1%
	CNY (price of 1 USD)	1,7%	5,0%	6,67	6,65	-0,3%

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

UPWARD REVISION DOWNWARD REVISION

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