GLOBAL OUTLOOK

# ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – July 2022

## Corporate Review

*July 2022*


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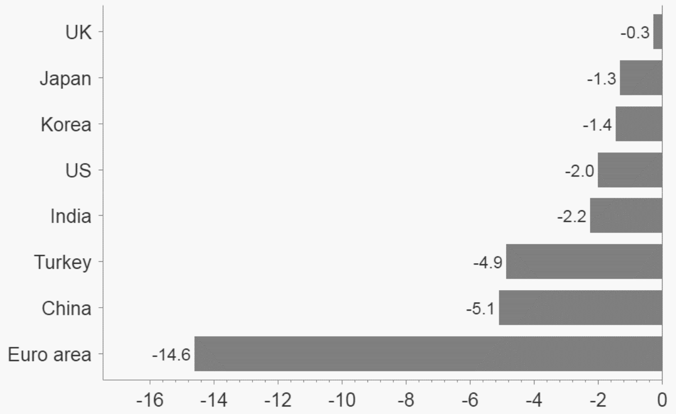
# EXECUTIVE SUMMARY

## CHART OF THE MONTH

**Trade balance with Russia, 2022 Q1**
USD, billions




*Source: Refinitiv Datastream / ANDBANK*

## EQUITIES

| Index | INDEX CURRENT PRICE | Current Fair Value (EPS 12 month fw) | E[Perf] to Fair Value | Qualitative Assessment | Exit Point |
|---|---|---|---|---|---|
| USA S&P 500 | 3.845 | 4.363 | 13,5% | MW-OW | 4.799 |
| Europe - Stoxx Europe 600 | 413 | 477 | 15,3% | OW | 524 |
| Euro Zone - Euro Stoxx | 385 | 466 | 21,0% | OW | 512 |
| Spain IBEX 35 | 8.083 | 9.532 | 17,9% | OW | 10.485 |
| Mexico IPC GRAL | 47.722 | 60.519 | 26,8% | OW | 66.571 |
| Brazil BOVESPA | 98.719 | 112.500 | 14,0% | MW | 123.750 |
| Japan NIKKEI 225 | 26.491 | 29.652 | 11,9% | MW-OW | 32.617 |
| China SSE Comp. | 3.364 | 3.430 | 2,0% | MW | 3.773 |
| China Shenzhen Comp | 2.228 | 2.432 | 9,2% | MW/OW | 2.675 |
| India SENSEX | 54.178 | 69.119 | 27,6% | OW | 76.031 |
| Vietnam VN Index | 1.166 | 1.684 | 44,3% | OW | 1.852 |
| Taiwán SE Weighted Index | 14.336 | 18.512 | 29,1% | MW/OW | 20.364 |
| MSCI EM ASIA | 536 | 631 | 17,8% | OW | 694 |

ANDBANK ESTIMATES

## FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

| *Indices* | *Current Price* | *Fair Value* | Expected Performance to Fair Value* |
|---|---|---|---|
| US Treasury 10 year Govie | 2,95 | 3,50 | -1,4% |
| UK 10 year Gilt | 2,15 | 1,75 | 5,3% |
| German 10 year BUND | 1,28 | 1,75 | -2,5% |
| Japanese 10 year Govie | 0,24 | 0,25 | 0,2% |
| Spain - 10yr Gov bond | 2,36 | 2,75 | -0,8% |
| Italy - 10yr Gov bond | 3,35 | 3,55 | 1,8% |
| Portugal - 10yr Gov bond | 2,37 | 2,75 | -0,7% |
| Ireland - 10yr Gov bond | 1,88 | 2,50 | -3,1% |
| Greece - 10yr Gov bond | 3,54 | 3,95 | 0,3% |
| Credit EUR IG-Itraxx Europe | 123,56 | 80 | 2,4% |
| Credit EUR HY-Itraxx Xover | 612,13 | 400 | 12,3% |
| Credit USD IG - CDX IG | 98,26 | 90 | 1,2% |
| Credit USD HY - CDX HY | 558,91 | 475 | 8,1% |

## FIXED INCOME EMERGING MARKETS

| *Indices* | *Current Price* | *Fair Value* | Expected Performance to Fair Value* |
|---|---|---|---|
| Turkey - 10yr Gov bond (local) | 18,10 | 20,00 | 2,9% |
| Russia - 10yr Gov bond (local) | 9,15 | 14,00 | -29,7% |
| Indonesia - 10yr Gov bond (local) | 7,21 | 6,00 | 16,9% |
| India - 10yr Gov bond (local) | 7,35 | 7,25 | 8,2% |
| Philippines - 10yr Gov bond (local) | 6,92 | 6,20 | 12,7% |
| China - 10yr Gov bond (local) | 2,83 | 2,40 | 6,3% |
| Malaysia - 10yr Gov bond (local) | 4,14 | 3,50 | 9,3% |
| Thailand - 10yr Gov bond (local) | 2,68 | 3,75 | -5,9% |
| Singapore - 10yr Gov bond (local) | 2,83 | 3,75 | -4,5% |
| Rep. Korea - 10yr G. bond (local) | 3,17 | 4,25 | -5,5% |
| Taiwan - 10yr Gov bond (local) | 1,17 | 2,25 | -7,5% |
| Mexico - 10yr Govie (Loc) | 8,96 | 9,30 | 6,2% |
| Mexico - 10yr Govie (USD) | 5,22 | 5,40 | 3,8% |
| Brazil - 10yr Govie (Loc) | 13,20 | 13,00 | 14,8% |
| Brazil - 10yr Govie (USD) | 6,77 | 6,75 | 6,9% |

## COMMODITIES & FX

| *Indices* | *Current Price* | *Fair Value* | Expected Performance to Fair Value* |
|---|---|---|---|
| Oil (WTI) | 99,2 | 100,00 | 0,8% |
| GOLD | 1.742,0 | 1.800 | 3,3% |
| EURUSD (price of 1 EUR) | 1,020 | 1,05 | 2,9% |
| GBPUSD (price of 1 GBP) | 1,20 | 1,27 | 5,4% |
| EURGBP (price of 1 EUR) | 0,85 | 0,83 | -2,3% |
| USDCHF (price of 1 USD) | 0,97 | 0,93 | -4,2% |
| EURCHF (price of 1 EUR) | 0,99 | 0,98 | -1,4% |
| USDJPY (price of 1 USD) | 135,91 | 128,00 | -5,8% |
| EURJPY (price of 1 EUR) | 138,72 | 134,40 | -3,1% |
| USDMXN (price of 1 USD) | 20,53 | 20,75 | 1,1% |
| EURMXN (price of 1 EUR) | 20,93 | 21,79 | 4,1% |
| USDBRL (price of 1 USD) | 5,43 | 5,25 | -3,3% |
| EURBRL (price of 1 EUR) | 5,54 | 5,51 | -0,5% |
| USDARS (price of 1 USD) | 126,36 | 175,00 | 38,5% |
| USDINR (price of 1 USD) | 79,09 | 76,00 | -3,9% |
| CNY (price of 1 USD) | 6,70 | 6,65 | -0,8% |

# US

## Inflation expectations dropping significantly but monthly readings give the Fed no respite

**Federal Reserve**

The Fed made its first 75bps move since 1994 as inflation continues to be more sticky than expected (target range for rates now 1.5%-1.75%). The initial market reaction was a big rise in yields during the first hand of June, and a decent temporary rebound in equities as Powell stated that 75bps hikes were not normal and he didn't expect them to become commonplace after the market had fully priced 75bps. Later, however, the Chair did not explicitly rule out hikes larger than 75bps. It's worth remembering it was not so long ago that the Chair completely ruled out 75bps for this meeting, so what may look like the modal path for rate policy today could change very quickly. Before Powell´s press conference, the statement and dots were more or less in line with what the market had been pricing in ahead of the meeting. But the Fed is now painting a central scenario that is getting much closer to a hard landing, with unemployment being revised to as high as 4.1% by year-end 2024. PCE inflation was revised almost a full percentage point higher for this year, to 5.2%, with end-2023 inflation hitting 2.6%.

In the press conference, the Chair again emphasized the Fed's commitment to bringing down inflation, and admitted the path to doing so while performing a soft landing was getting more and more difficult ("recession is not our intended outcome at all but it is certainly a possibility…"). Unemployment looks like it will need to rise in order to slow demand. Powell suggested it would also need help from a supply expansion, citing shocks such as the war, runaway oil prices, and supply chains sensitive to China's Covid lockdowns. Without this, the landing would be hard. Another key focus of the press conference was the appropriate pace of rate hikes going forward. The Chair explained the Committee broke from its overwhelming communications for a 50 bps hike in reaction to the CPI and University of Michigan inflation expectations that surprised on the upside. The path for rate hikes will be dependent on the month-over-month path for inflation, effectively making every inflation data release a 'live' event over the near-term.

**Inflation and economic activity**

This month we saw another above consensus CPI report, with y/y inflation gaining +8.6% in May versus expectations it would remain consistent with the prior month's +8.3% y/y reading. FOMC officials have consistently cited deceleration in m/m readings as necessary for finding clear and convincing evidence that inflation is stabilizing and returning to target, evidence which they didn't get from this data, as m/m inflation increased +1.0% m/m from +0.3% m/m in April, beating expectations of +0.7% m/m. On a positive note, market inflation expectations have been going down, with US breakeven 5 year rates decreasing from March peak of 3.70% to the current 2.83%.

The market has been focusing on the real estate market looking for signs of a possible future recession. In May we saw weak data both in housing starts (-14.4% m/m) and building permits (-7% m/m), falling more than expected, while the 30-year fixed mortgage rate rose to 5.8% (peaking at 6%), compared to 3.25% at the start of the year, the highest level since November 2008. Higher mortgage payments coupled with higher prices and wage increases below inflation is starting to hurt saving rates (4.4% in April, lowest rate since the Great Recession). The Conference Board Leading Economic indicator fell by 0.4% m/m in May (following a 0.4% m/m decrease in April), suggesting sluggish growth ahead, while Atlanta Fed GDP nowcast shows the economy on course for 0% growth in 2Q2022 with the trend from the data suggesting that the economy could contract for the second quarter in a row.

**Financial markets**

Rates & Credit: The 10 year yield reached 3.5% after the rate decision, dropping to 3.15% in the following days. The yield curve (2y-10y spread) inverted again (in April it was inverted for three days) but just for one day (now 10 bps spread).

Investment Grade spreads continued to increase in June and are now at 100 bps, with some high quality bonds offering yields between 4%-5% with limited duration. High Yield also widened reaching 575 bps, almost 100 bps higher than last month. Fitch has increased its U.S. high yield default forecast by 25 bps to 1.25%-1.75% for YE 2023 while 2022 forecast at 1% is unchanged (YTD default rate stands at 0.6%).

Equities: Value strategies are expected to outperform if this inflationary scenario continues, but the significant drop in prices in some growth companies is also providing some interesting opportunities. We maintain our recommendation of a balanced portfolio between Value/Cyclical and Quality Growth companies. We are also maintaining a neutral split between Large and Small Caps.

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

Equities: S&P MARKETWEIGHT-OVERWEIGHT

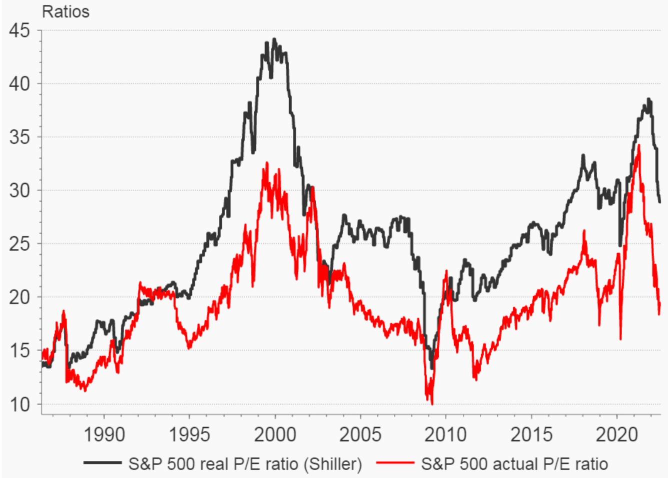
Bonds: Govies UNDERWEIGHT. 10Y UST Target 3.5%

CDX IG: MARKETWEIGHT (Target Spread 90)

CDX HY: MW OVERWEIGHT (Target Spread 475)

Forex: DXY index MARKETWEIGHT

**US measures of price / earnings**

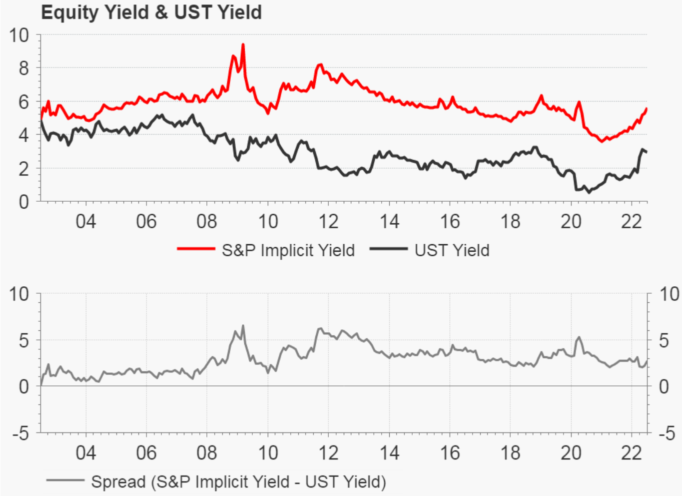



*Source: Refinitiv Datastream / ANDBANK*

**UST 10Y YIELD**


*Source: Refinitiv Datastream / ANDBANK*

**Equity Yield & UST Yield**




*Source: Refinitiv Datastream / ANDBANK*

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# EUROPE

## ECB fighting not only inflation but also fragmentation across the Eurozone

**Slowflation rather than stagflation?**

The latest ECB macro framework follows the European Commission's spring forecasts trend: higher inflation and lower growth. Prices have continued to surprise on the upside, both in terms of general and core readings (8,2% y/y and 4% y/y as of May), showing little respite on the horizon. Moreover, inflation is becoming more widespread (75% of the basket's components have increased) and is far from limited to imported items. The ECB´s goal of 2% has thus been pushed back from 2023 to 2024. As for 2022, peak levels are now not foreseen before October. Risks on labor prices, so far contained, should not be overlooked. GDP growth, still above potential, has been slashed and remains uneven. On the supportive side we have the lifting of COVID restrictions, the strength of labor markets, excess savings and fiscal support. Meanwhile, the short-term view is negatively affected by plummeting consumer confidence along with higher inflation and supply constraints. Under the assumption of disruption to the Russian gas supply, the Eurozone would face recession, but gauging the exact impact is difficult.

**Hawkish ECB: a "whatever it takes" inflation approach**

"Optionality, flexibility, gradualness and data dependency" will be the ECB's guides on the normalization journey. As expected, APP will end in June, while reinvestments will remain at least until the end of 2024. Liquidity conditions will, from now on, be favorable instead of ample. Forward guidance on rates was the biggest surprise: the ECB will hike 25 bps in July, followed by a higher movement (+50 bps) in September if the inflation outlook persists or worsens and after that the ECB will be data-dependent, but higher rates were considered necessary. The new scenario should now include hikes in every single meeting for the rest of 2022: 25 bps in July, October and December, plus +50 bps in September. All in all, 125 bps in 2022 and more to come in 2023, "rate hike-frontloading" being the risk. Fragmentation on the rise forced an emergency meeting of the ECB. Along with ample verbal commitment from the vast majority of members (positive but insufficient), the market demanded a specific plan, different to the existing ones and the already known support from the PEPP flexible reinvestments. Some color on a potential Anti-fragmentation Purchases Plan is emerging: low conditionality and the possibility of sterilization (buying peripheral plus selling core/semicore).

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

Govies: We revise up our bund target from 1.25% to 1.75%, valid into 1H2023, closer to the upper part of what could be considered the ECB terminal rate (traditionally: 1-2%). A flattening of the curve should be expected as rates start to increase. As for peripherals, though the ECB's change of stance, with a new potential backstop has so far contained the spreads, we adjust the Italian premium slightly to 180 bps reflecting the political risk as we approach 2023 elections

Corporates: At the emergency meeting of the ECB, we verified that among the new tools corporate bonds would not play a fundamental role. For this reason, it is difficult to say at this point that we will see new purchases by the ECB. In one month we have gone from a 2.5% to 3.5% yield for European senior IG (levels not seen since 2012). We will be keeping an eye on the release of corporate results for the second quarter, to see if fears about growth are unfounded or if companies are managing to "weather the storm". In any case, our recommendation is the same, to remain cautious but perhaps analyzing specific opportunities that could arise in order to incorporate them in portfolios (especially in HY).

Equity market:. All the multiple expansion seen in 2021 disappeared with every major market trading at a lower forward P/E than in January 2020. Meanwhile we have seen strong upgrades to European EPS estimates with consensus FY22 forecasts for MSCI Europe up 8% since January (UK largest contributor with estimates +16%). If recession doesn't materialize (our base scenario for this year) maybe it´s time to increase exposure to cyclical names in our portfolios for coming months. In terms of valuation, the multiples are attractive with the sector trading at 7x PE and 0.7x PBV for a 10% ROE. In the Eurozone, autos, industrials, retailing, tourism and even banks would be the most favored industries in this scenario

UK remains our top country pick in Europe at this time. The FTSE100 still trading on a T12M PE of just 10.5 (relative to ACWI-ex-US close to a 20Y low), coupled with its high exposure to commodity and defensive sectors, explain our overweight. Spanish equities are another way to play a catch-up by cyclical segments during the coming months. With mobility in Europe recovering, and the ECB becoming more peripheral sensitive, it could be one of the most favored markets.

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

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: OVERWEIGHT

Equities – Spain's Ibex: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 1.75%)

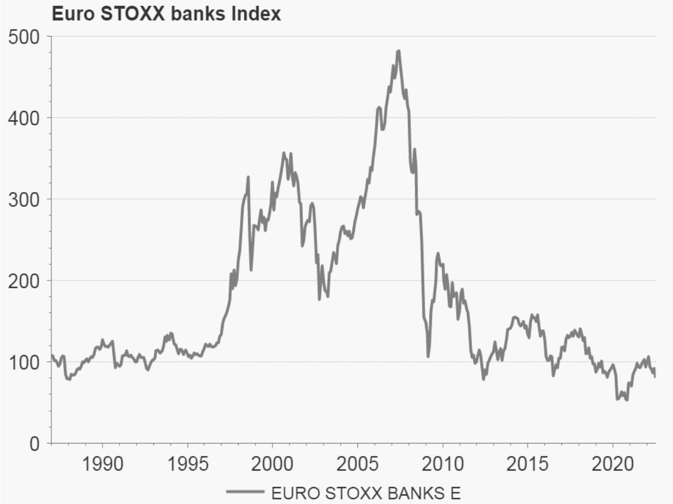
Peripheral – OW: IT (3.55%), MW: SP (2.75%), PO (2.75%), GR (4%). UW: IE (2.75%),

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

Credit – Itraxx Europe (HY): OVERWEIGHT (Target Spread 400)

FX – EUR/USD Target 1.05 (Buy USD at 1.07, Sell USD at 1,02)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK

# CHINA

## Markets showing a better tone with indices outperforming regional peers

**Chinese indices: Growth better than value stocks. Energy stocks also losing luster but REITs notably outperforming**

Greater China markets show a better tone as a string of supportive fiscal measures are put in place. Growth assets show a better trend, while value assets show worse behavior in what seems like a change of roles compared to previous months. We have also seen a recent drag from mainland oil & gas stocks while properties notably outperformed. The onshore and offshore yuan are also strengthening. Currency traders bought the yuan after the PBOC decided to hold its LPR rate steady, seeing it as a vote of confidence Beijing is not looking to devalue the currency on fears of provoking fund outflow. All in all, it seems as if Greater China stocks are outperforming, following a pattern that has been repeated since mid-March as investors bet Beijing's wave of fiscal stimulus programs will pay dividends without the intervention of monetary loosening.

**Economy: Beijing and Shanghai economies plummet in May**

Beijing's regional economy was affected in May by its Covid lockdown, with retail sales falling 26% y/y, worse than any other province except Shanghai, which fell 37%. Industrial production dropped 40% in Beijing and 28% in Shanghai. Fixed-asset investment saw a 21.2% YTD contraction in Shanghai.

**US sanctions helped spur development of home grown semiconductor industry**

19 of the world's fastest-growing chip industry firms over the past four quarters come from China. This contrasts with just eight at the same time last year. Behind the growth was Beijing's drive for self-sufficiency while Chinese customers had to turn to domestic suppliers to ensure smooth operations.

**PBOC and Monetary Policy: LPRs unchanged as expected**

PBOC left its LPRs (Lending Policy Rate) unchanged with 1Y at 3.70% and 5Y at 4.45%, as expected. Policymakers are said to be wary of risks to yuan depreciation and capital outflows if they embark on further monetary easing at a time when other major economies are tightening policies.

**Geopolitics: US reviews China tariffs. Yellen said some serve no strategic purpose**

The White House is reviewing the removal of some Chinese tariffs as part of its battle against inflation. US treasury secretary Yellen said several tariffs on Chinese products inherited from former President Trump served "no strategic purpose". The US Treasury Department is penalizing several Hong Kong and Chinese firms that aided in exporting petrochemicals from Iran. The Treasury under secretary said "the US will continue to limit Iranian petroleum exports through sanctions if there continues to be no agreement after the US withdrew from the Iran nuclear deal".

**Zero-Covid policy prompts US and European companies to review China operations**

The FT reported around a quarter of European companies operating in China are re-examining their operations amid plummeting business confidence. A survey by the European Union Chamber of Commerce in China showed 23% were considering shifting current or planned investments to outside of China. For the US, the US ambassador to China expects Chinese zero-Covid strategy to run until early 2023, and that "there was reluctance among US firms to invest in China before restrictions were eased".

**Beijing announces initial victory against Covid as national cases drop. However, Macau authorities find local Covid cluster.**

Shanghai found just two cases outside quarantine in weekend mass testing, quelling fears the city could be sent back into lockdown again. Beijing found five new cases Sunday, the fewest in three months. Shenzhen reported single-digit new cases over the weekend, prompting a round of mass testing that was ongoing on Monday.

On the other hand, Macau began its second day of mass-testing (of 650K residents) on Monday 20th after closing public schools and government services but allowing casinos to stay open. As many as 31 locally transmitted cases were discovered over the weekend to become the city's largest outbreak for eight months. Casino revenues for next week likely to be close to zero.

**Energy: Oil imports in May from Russia soar to record level but massive oil refining capacity in China lies idle.**

Chinese oil imports from Russia surpassed those from Saudi Arabia in May for the first time in 19 months, rising 55% y/y to 8.42M tonnes. Saudi Arabian crude volumes were still up 9% y/y but down on a m/m basis. On the other hand, an estimated 33% of China's oil refining capacity is lying idle with domestic demand still in a post-pandemic/lockdown slump.

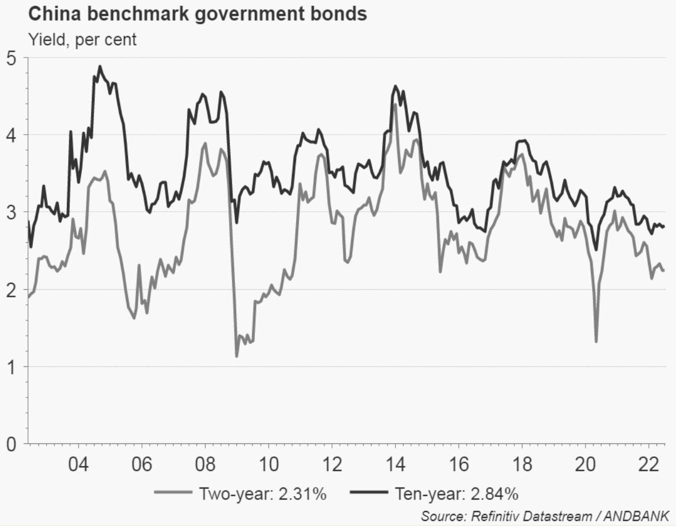
**Market outlook – Recommendations & Targets from fundamental analysis**

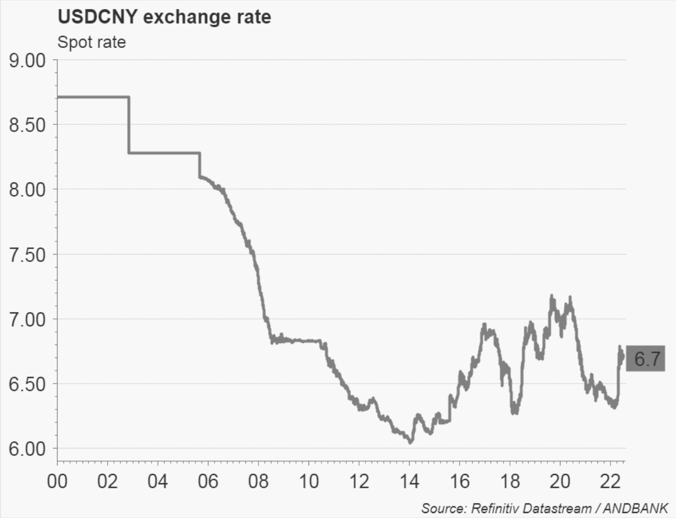
Equities – SHANGHAI Idx: MARKETWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT- OVERWEIGHT

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

Forex – CNY/USD: MW (Target 6.65)

# JAPAN

## BOJ reaffirmed its intention to conduct fixed-rate JGB purchase operations. Low risk of recession.

**Investors' current mood on Japanese equity market remains vulnerable**

Sentiment is generally still leaning toward risk aversion amid concerns that Fed-led aggressive tightening will threaten economic growth. Yen was mostly softer, ranging back into the 135 territory, though USD weakness alleviated that pressure. JGB yields were mostly higher on the back of ongoing concerns about the direction of US yields.

**Inflation concerns continue to grow**

The Nikkei/TV Tokyo opinion poll showed the approval rating for Prime Minister Fumio Kishida's cabinet sank to 60%, from 66% during the previous survey in May. Yet this rating remains higher than the 59% figure for the cabinet when it debuted in October. 64% of respondents cannot tolerate Japan's recent inflation, caused by rising commodity prices and the cheaper yen, while 46% want the BOJ's ultra easing to end.

**Politics: No change in sight with LDP popularity at highest pre-election level**

Kyodo's poll showed the LDP has the highest support rate prior to the House of Councilors election set for 10-Jul, pulling well ahead of opposition parties. 27.3% of respondents said they will vote for the LDP. In second place is the Japan Innovation Party with 7.7% and the Constitutional Democratic Party of Japan with 7.0%. However, 34.2% still remain undecided on which party to vote for, before the official campaigning begins Wednesday.

**Monetary Policy: PM Kishida advocates for maintaining BOJ's ultra easy policy**

In an online debate of party leaders held ahead of the upper house election, Kishida said that monetary policy should be decided "comprehensively," not just to address the yen's recent slide. The comment signals the premier's support for the BOJ's decision Friday to maintain its ultra-easy monetary policy. Constitutional Democratic Party of Japan leader Kenta Izumi said the central bank should change the policy to keep the Japanese currency from falling further. Meanwhile, the BOJ decided to kept its short and long term rate targets unchanged, matching expectations, despite heightened speculation about the possibility that yen weakness would prompt some sort of response (even if only verbal). There was no specific mention of FX apart from a brief reference on risks to the outlook. The BOJ reaffirmed its intention to conduct fixed-rate JGB purchase operations at 0.25% every business day. Guidance also maintained an easing bias. In fact, the BOJ ramped up bond buying operations on 14th June, and also offered to increase purchases across the JGB curve, underscoring its resolve to keep a lid on yields after the 10Y rate breached the 0.25% upper limit of yield curve control.

**Mood of Japanese investors, still weak**

Domestic investors were net sellers of ¥138.2B in foreign equities (vs net purchases of ¥742.2B in the previous week), and net sellers of ¥867.2B in foreign long-term debt (vs net sales of ¥830.7B in the previous week).

**Macro data: Risk of recession remains low**

Good news from the core machinery orders in April, at +10.8% m/m vs FactSet consensus at -1.2% and +7.1% in prior month. April tertiary sector activity index grew +0.7% m/m (vs +1.7% in prior month). More recently, June's Tankan manufacturers' sentiment index rose to +9 vs +5 in prior month, with service sector sub-index remaining flat at a high +13. 2Q large non-manufacturing index was +3.4 vs -7.4 in prior quarter and large all-industry index improved to -0.9 vs -7.5 in prior quarter.

**FX: Nearly half of Japan firms see weak yen as bad for business**

A Tokyo Shoko Research survey found that 46.7% of companies polled see the weak yen as bad for their business. About 21.7% said the weak yen had both positive and negative effects, while 28.5% said it had no impact. Just 3% said the yen's fall was good for their business. The story noted that many market players expect the yen's decline to continue as investors focus on policy divergence between the BOJ and Fed.

**Tech: Japan seeks to produce cutting-edge 2-nm chips as soon as 2025**

Nikkei reported that Japan will work with the US to launch a domestic manufacturing base for 2-nanometer semiconductors as early as FY25. Tokyo and Washington will provide support under a bilateral chip technology partnership. Private companies from the two countries will pursue research on design and mass production. Joint research and mass production center will be formed between FY25 and FY27.

**COVID and reopening of borders**

Japan reopened borders to foreign tourists, taking the first step toward increasing inbound tourism to help turn around its economy as worries about the COVID-19 pandemic wane. The government is initially limiting eligible tourism arrivals to guided tours from 98 countries and regions deemed as having the lowest risk of infection. The easing of entry restrictions follows a step to double its cap on daily arrivals and allow them to forgo testing

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

Equities – N225: MARKETWEIGHT-OVERWEIGHT

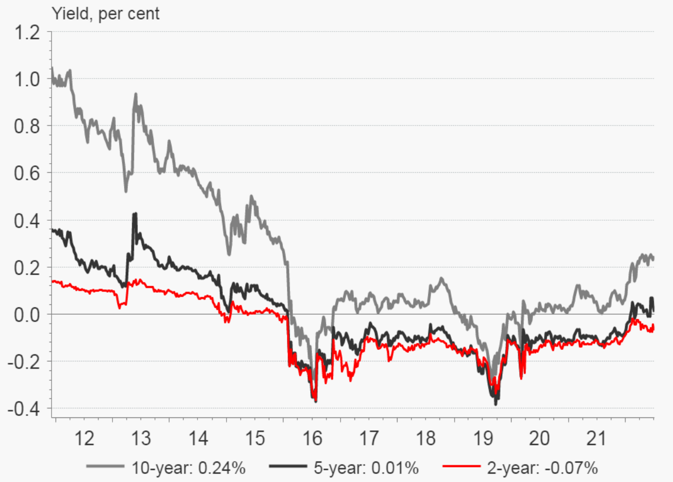
Bonds – Govies: MARKETWEIGHT (Target yield 0.25%)

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 LIBOR-OIS spread**


Source: Refinitiv Datastream / ANDBANK

# 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 (under pressure from 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 boost 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 growth-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: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 7.25%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 76)

**India Datastream index price / earnings**

Ratio


*Source: Refinitiv Datastream / ANDBANK*

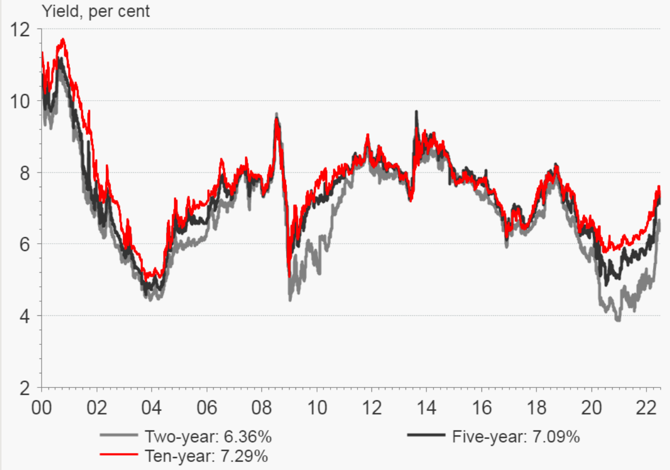
**EPS (Trailing & Forward)**

MSCI India


*Source: Refinitiv Datastream / ANDBANK*

**India benchmark government bonds**

Yield, per cent




*Source: Refinitiv Datastream / ANDBANK*

# ISRAEL

## Heading to the polls…again!

**Economy and Politics**

The one year old coalition, lead by Naftali Bennett, collapsed after losing its majority in the Knesset (parliament) and as a result Israel will go to the polls in September for the fifth time in four years. Five-time prime minister Benjamin Netanyahu is the front runner in opinion polls but there is uncertainty regarding the possibility that the Likud party can secure the majority in parliament to form a new government (as the party standalone is expected to get approximately 35 of the 61 seats required for a majority).

We don't expect the recent turmoil to affect the markets, as past experience shows investors are indifferent regarding politics. Recent polls shows that no major change is expected after the election, thereby explaining the indifference of the public that treat political events as no more than "power games". Although the delay of some reforms is expected (specially those related to cost of living reduction), we do not foresee these events as an obstacle for the continuation of the positive trend of the economy. In the past Israel's institutional system made it possible for the economy to function correctly during election campaigns, growing under conditions of uncertainty.

**Monetary policy and inflation**

So far, none of the major bodies and institutions has changed their growth forecast for 2022 which remains at approximately 5% (4.8% according to the latest forecast from the OECD). We think that the Israeli economy will not be able to avoid negative consequences from the recent turmoil in the world economy. Although we are unable to determine the extent of these effects at this stage, we would not be surprised if growth estimates were downgraded by 100 basis points in the following months.

Inflation in May marked 4.1% y/y, above the upper bound of the target range (1%-3%) for the fourth consecutive month, but still well below median inflation in the OECD (7.5%). Monthly print was 0.6% m/m (+0.7% m/m estimate), below the April number (0.8% m/m) explained mainly by a 13.8% m/m in fresh fruit and 2.2% in clothing and footwear.

Fixed income markets are not waiting for the official institutions to adjust their estimates as yield curves began flattening considerably in recent weeks. The slope of the curve between 2-5 years dropped to 0.85% from 1.1%, and the 2-10 year slope dropped to 0.7% from over 1%. We hold the opinion that these moves are a reflection of a probable scenario of lower growth rate expectations for the local economy. We think the recent move in the slope fully reflects the expected growth rate downgrade and recommend extending duration (to 3.5 – 4 years).

The Bank of Israel raised interest in May by 0.4%, from 0.35% to 0.75%, in a decision backed by all six rate setters. The hike was expected but most analysts were forecasting a smaller increase. The bank's statement emphasized the strength of the economy, the tight labor market close to full employment and its commitment to achieve stability goals as well growth goals, thereby forecasting a gradual increase of rates.

The market currently expects interest rate to reach 2.6% in the next twelve months. We estimate that the tightening cycle will end earlier and we do not see interest getting to over 2%. Inflation expectations derived from capital markets have dropped considerably in the last few months (from 3.8% to 3.1%) and if our projection for inflation to drop at the beginning of 2023 is proved correct, the tightening cycle will probably end earlier than current expectations.

**Stock and credit market**

The Tel Aviv 125 has dropped by 3.2% in recent months, led mainly by the real estate sector (and its sub sectors) that lost nearly 6%. The real estate sector is one of the worst performers among all sectors, losing 22% since the beginning of the year. The recent surge in yields accelerated the sector's downtrend. In addition to the rise in yields, new limits imposed by the Bank of Israel on real estate lending added to stress on the sector.

We still hold the view that the Israeli market is fairly valued. Forward P/E is 12 and the risk premium is 4.9%, one of the lowest for developed countries. We recommend holding companies that operate locally (retail, services, banks), as we think the strengthening of the average Israeli consumer will be supportive for their business.

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

Equities – TLV35 Index: MARKETWEIGHT-OVERWEIGHT

Bonds – Government–10Y Gov: MARKETWEIGHT-UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT-OVERWEIGHT

FX – ISL vs USD: Expensive in REER

**Israel price-to-earning ratio**

Trailing & Forward PE


*Source: Refinitiv Datastream / ANDBANK*

**ISRAEL GOVERNMENT BMK YIELD 10Y**

Local currency


*Source: Refinitiv Datastream / ANDBANK*

**Israel domestic credit to the private sector**

Twelve-month percentage change


*Source: Refinitiv Datastream / ANDBANK*

# BRAZIL

## Why is everybody so afraid of a little inflation in Brazil?

**Brazil and global Inflation**

Global inflation has dominated most investment discussions not only internationally, but also locally. We continue to see higher inflation globally and several countries raising interest rates to contain that inflation. In Brazil specifically, we are already at the end of the interest rate hiking process, that saw a very aggressive central bank that took interest rates to a level that was not expected at the beginning of the process, going from 2.0% to 13.25% in 15 months (+ 50 bps in the last meeting). As would be expected after such an aggressive policy, the latest inflation figures released show that inflation may have already peaked (+0.47 m/m in May vs +1.06% m/m in April). Nonetheless, international markets are still a concern and inflation is still a long way from the Central Bank target (3.5%), so we can expect one or two smaller hikes in the next meetings (75 bps more forecasted). The context of high interest rates greatly helps the performance of the Real, in addition to its having had a very bad performance in previous years. Today, it is very costly to bet against the Real.

Despite global equities entering a bear market, and an overall negative environment for stock markets, Brazil has shown good performance for the Ibovespa compared to other emerging markets and the flow of foreign capital remains very positive in the year. Using equity analysis metrics, such as P/E, stocks are at attractive prices for those with a medium-term view, while obviously showing greater risk and volatility for the short term.

**Bolsonaro has a lot to deal with before the campaign starts**

As we approach the election, and the start of the official campaign, Bolsonaro is having to deal with a lot of bad press locally. Petrobras is in the middle of a tsunami of accusations regarding a lack of patriotism. The state owned company, like many other global companies, adjusts its prices according to the fluctuation of international oil prices, so as the prices went up with the Ukrainian war, it did what it was supposed to do. However, inflation is a direct consequence of that action which is bad for any government trying to get re-elected. Given that Petrobras is majority owned by the Brazilian Government, Bolsonaro has been trying to get the company to revise its price policy to allow for some sort of buffer against international fluctuations. The CEO, Jose Mauro Coelho, resigned after only 40 days on the job amid political pressures and will be replaced by Caio Paes de Andrade (the fourth under the Bolsonaro presidency), who according to Bolsonaro will change the board of Directors and study the fuel pricing policy. Many different ideas have been aired. There are those that impact the profitability of the company, which creates a problem with private shareholders generating a ripple effect into the stock market in general, while there are those that impact the fiscal situation of the country, like lowering and/or cutting taxes on oil products, which creates issues for inflation, rates and the currency.

In another unlucky break, just after Bolsonaro defended, at the Summit of Americas, how well his government has been protecting Amazonia, news came out that an English reporter and a Brazilian indigenous activist had disappeared in the forest, only to be found dead 10 days later. The area where they went missing is a well-known spot for drug trafficking and illegal mining operations. Investigators are still assessing whether their deaths are related to either of these activities, but the whole story created a lot of commotion in Brazil and is definitely a dent in Bolsonaro´s talk about protecting the forest.

Last but not least, the Auxilio Brasil Program, which was Bolsonaro´s rebranding of Lula's Bolsa Familia Program, that was supposed to be a silver bullet in getting the lower classes to change their vote to Bolsonaro is not working so well. At the program launch (November 2021), 3.2 million families that were waiting for the benefit were envisaged which was seen as a victory for the government. However, as of April 2022, there are already another 2.8 million families in line; a scenario which had not been anticipated by the government. Even though none of these issues is exclusively Bolsonaro´s fault, for a president seeking re-election these situations, on top of rampant inflation, will make it very difficult for a campaign focused on accomplishments. Given that Lula left government with a population approval rate close to 80%, people´s memory of how hey lived under Lula and how they are living under Bolsonaro might decide the election

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

Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 13%. Spread 950)

Bonds – Govies USD: UNDERWEIGHT (Target yield 6.75%. Spread 325)

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

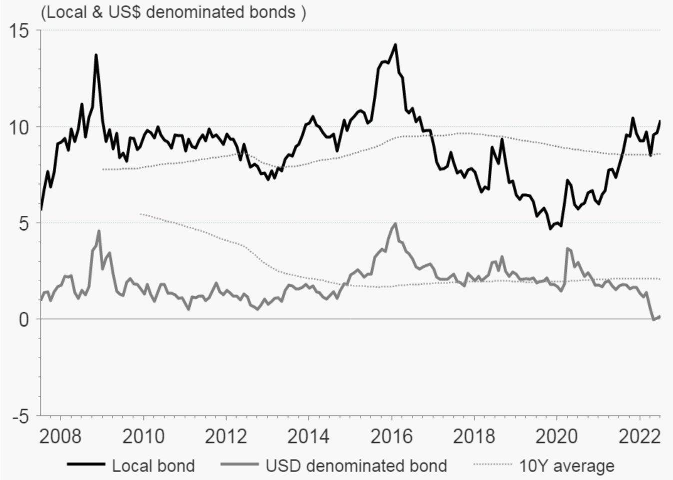
**Brazil MSCI Index price-to-earning**

Trailing & Forward PE


*Source: Refinitiv Datastream / ANDBANK*

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

(Local & US$ denominated bonds )




*Source: Refinitiv Datastream / ANDBANK*

**Brazil CPI**

Twelve-month percentage changes


*Source: Refinitiv Datastream / ANDBANK*

# MEXICO

## Orthodox and heterodox policies to control inflation

### Central Bank

In its last meeting, the central bank accelerated the pace of its interest rate increases by hiking its target rate by 75 bps to bring the monetary policy rate to 7.75% (a unanimous decision in line with estimates), trying to build a stronger reputation and contain long term expectations. Since then a more hawkish monetary policy from the central bank is expected (10.25% level for the end of the year implied in market prices and 9% according to analyst surveys), with increases of 75 bps expected at September and November meetings. Regarding the Central bank outlook for inflation, the authority is forecasting a level above the long-term goal (3% plus or minus one percentage point) for 2022 (7.5% y/y) and 2023, with inflation not reaching the 3% target until the first semester of 2024.

### Inflation and activity

Long-term inflationary perspectives have increased after reaching a level of 7.88% (above forecasts) in the first half of June. More concerning, core inflation maintained its upward bias and is more than 447 bps above the central bank's long-term target (7.47% y/y), with food and beverages rising 11.7% y/y. The estimated level for 2022 has been increased both by the central bank and private analysts, forecasting that core inflation will reach 7.5% y/y at the end of the year (previously 6.40% y/y). President López Obrador confirmed that the government is working on a new strategy to reduce food prices to support the recent price control scheme of 24 products in the basic basket negotiated with the main companies of the food sector.

Growth prospects have moved drastically downwards, on average for the consensus of analysts the estimate is located at 1.8%. On a positive note, in April activity expanded 1.1% m/m (+1.3% y/y), above estimates (0.8% m/m) and the previous month's print (0.4% m/m). If the trend continues in the following months, we could see a readjustment of expectations.

### Fiscal policy

Public revenues grew 6% at the end of April, as a result of a 43% rise in oil revenues and a marginal increase (+0.1%) in non-oil revenues Despite the decrease in revenues related to the fuel tax, tax revenues grew 4.5%, due to the collection of Income Tax during the corresponding month. The policy of subsidizing gasoline prices represents 12 pesos per liter of low-octane gasoline, equivalent to 36% of the price without subsidies, and has generated a 46% decrease in the collection of the special tax charged to it (also helping to keep inflation in check). Expenses have remained below budget and have decreased in annual terms (0.2%) in 2022, resulting in a primary deficit off 0% and Debt to GDP of 48.5% (100 bps below the level of 2021)

### Financial markets

Equity: Positive outlook due to higher remittances and greater mobility, which has favored the tourism sector. Consumption, services and exports stand out, with growing consumer confidence. The current valuation of the local index also favors positive expectations on the asset ((P/E 12.5 vs 12-month average of 13.8). As a counterweight there is the pressure on emerging markets as a result of the Fed's restrictive monetary policy and the recent volatility in global financial markets, which also increases the risks of a global economic slowdown or recession. We have a target price of 62,000 for next 12 months (current 47,800 points).

Fixed Income & FX: the spread between bonds in pesos and US treasuries (10 yrs) fell from 600 to 590 bps, while the curve flattened again. We maintain an estimated level for the spread in a range with a midpoint of 580 basics, so in the short term it could have limited value. With the same logic, with respect to the bond in dollars, the spread returned to a level above 200 bps. Recessionary risks have had a greater impact on the dollar bond and this pressure could continue for the rest of the year, so we adjusted the spread target to 190 bps from the previous 180 bps.

The volatility in the exchange rate increased between May and June, although the Mexican currency continues to show strength and has been one of the best performers in the year, despite the appreciation of the USD. It went from 19.50 at the end of May to 20 at mid-June, currently trading at around 20. We expect a closing level of 21 pesos.

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

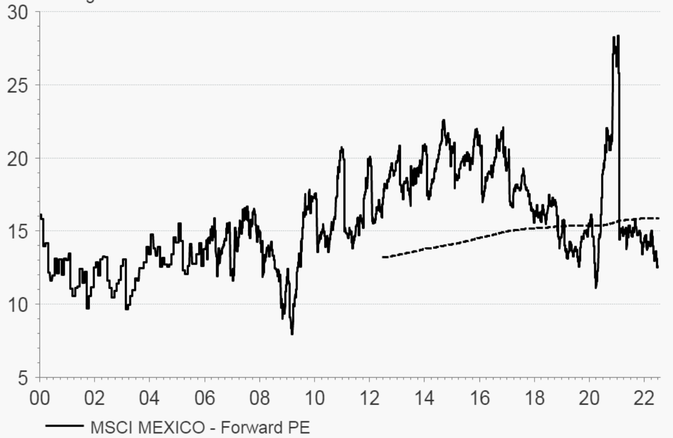
Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Spread 580 bps)

Bonds – Govies USD: MARKETWEIGHT (Spread 190 bps)

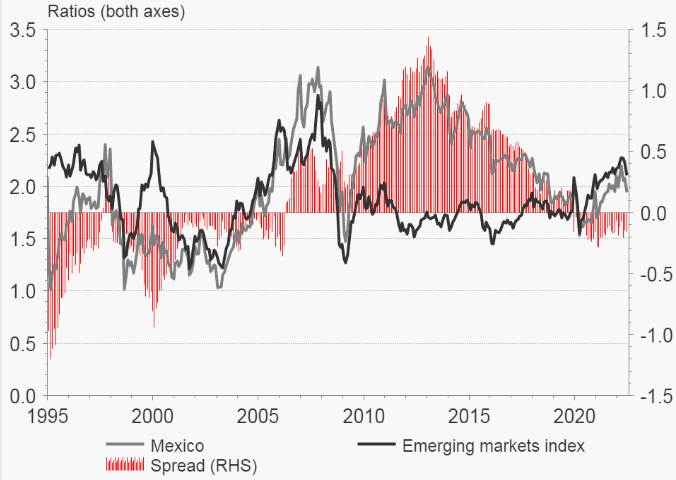
FX – MXN/USD: MARKETWEIGHT (Mid-term target 20,75)

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



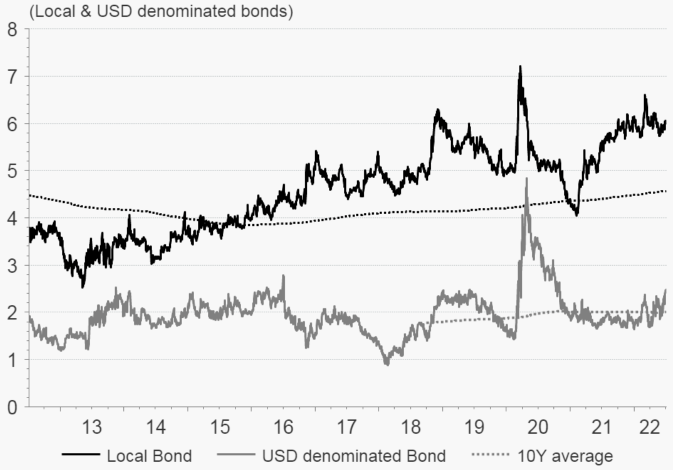

Source: Refinitiv Datastream / ANDBANK

**Mexico price-to-book ratio**
Ratios (both axes)




Source: Refinitiv Datastream / ANDBANK

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




Source: Refinitiv Datastream / ANDBANK

MACRO ECONOMY



# ARGENTINA

## Fiscal Deficit: The “original sin”

**Local Debt: Pressure on CPI linked debt**

In the last couple of weeks developments in the CER bonds (inflation adjusted) market have been in the spotlight. The bonds in the middle and backend of the curve fell more than 20% in a few days with some securities that went from having slightly positive real rates to double-digit rates, due to growing uncertainty over the sustainability of the debt burden. At one point the Central bank intervened buying bonds and thus helping to stabilize prices. In the last year, the CER debt has been the main source of financing for the Argentine government.

The Minister of Economy, Martin Guzman, repeated in several interviews that the government will honor its local debt. In the program agreed with the International Monetary Fund (IMF), Argentina commits to reducing the monetary financing of the deficit, for which a fluid access to the local denominated debt (due to the lack of will to return to the international markets) is required. The big problem, as in most of recent history in Argentina, is that the expansion of the fiscal deficit does nothing more than increase doubts about the government's ability to ensure that the situation does not degenerate into greater monetary issuance and, as a result, a new inflationary push.

Given the higher inflation and the price dynamics in the CER market the Central bank was forced to increase its monetary policy rate by 300 bps to 52%. The effective annualized rate is now 66.5%, with real rates in positive territory if we compare with trailing 12M inflation (60.7%) but negative if we look at the December 2022 expectations (72.6%).

**IMF: First review approved**

The fund reported that all the quantitative targets of the program for the first quarter of the year had been met. After this first review (of a total of ten for the 30 month program) Argentina is receiving 4 bn USD to serve its debt. The IMF and the Government agreed that all annual objectives of the arrangement will remain unchanged: primary fiscal deficit (2.5% of GDP), monetary financing (no more than 1% of GDP), and net international reserves accumulation (5.8 bn USD net increase). But, in order to take into account the impact of external shocks and seasonal patterns on expenditure and imports, a modification of the quarterly targets is required. The new targets haven’t been disclosed yet.

The probability that the government meets the annual goals seems almost nil. On the fiscal side, lower economic growth and higher energy prices (and as a consequence higher subsidies) will lead to an above target primary result , which will also put pressure on the monetary financing goal. Minister Guzman is pushing for an “extraordinary profits” taxation bill but it is unlikely to be approved by Congress. Regarding reserves accumulation, despite having enjoyed terms of trade at historical highs, net purchases has been limited, which will probably cause greater restrictions for importers.

**Politics: Kulfas resignation a hard blow for the President**

The Productive Development Minister, Matias Kulfas, was forced to resign as a result of a succession of cross accusations between the Minister and the Vice President, Cristina Fernandez de Kirchner, in a new round of infighting between the two factions of the ruling coalition.

Kulfas alleged there was corruption in a tender (designed by officials close to the VP) to supply steel pipes for the construction of a pipeline between Vaca Muerta formation (Neuquén) and the Province of Buenos Aires, a much needed project for the development of gas production. Kulfas was probably the minister closest to Alberto Fernandez.

**Inflation: Lower monthly print but upward pressure remains**

CPI in May advanced 5.1% MoM, below estimates (+5.2 MoM) and, as expected, lower than previous month print (6.0% MoM). With the May print, the yearly inflation reached 60.7% YoY and 29.3% YTD (21.5% in 2021). Core inflation fell to 5.2%, down from 6.7% in April. Regulated prices were the ones that advanced the most during the month (+5.7% MoM vs 3.9% MoM in April) due to increases in private health insurance and fuels. Seasonal prices partially compensated as they grew only 3.3% MoM. As we mentioned previously, higher fiscal needs and lower debt rollover rates may lead to higher monetary issuance in the rest of the year putting more pressure on prices.

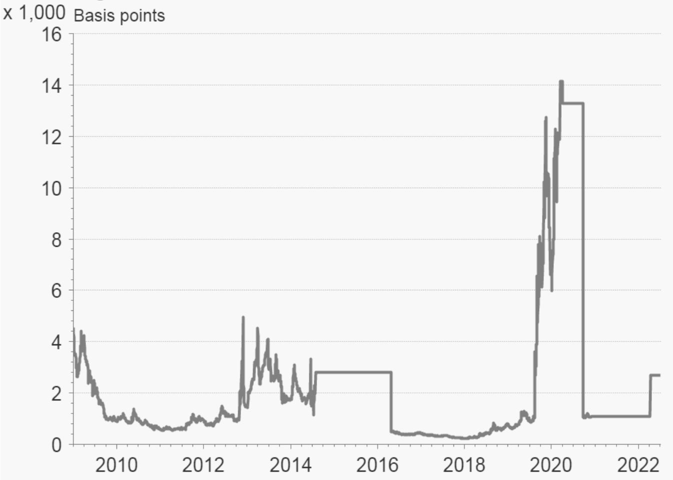
**Market outlook – Recommendations & Targets from fundamental analysis**

Bonds – 10YGov USD: NEUTRAL

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

**Argentina 5Y CDS**

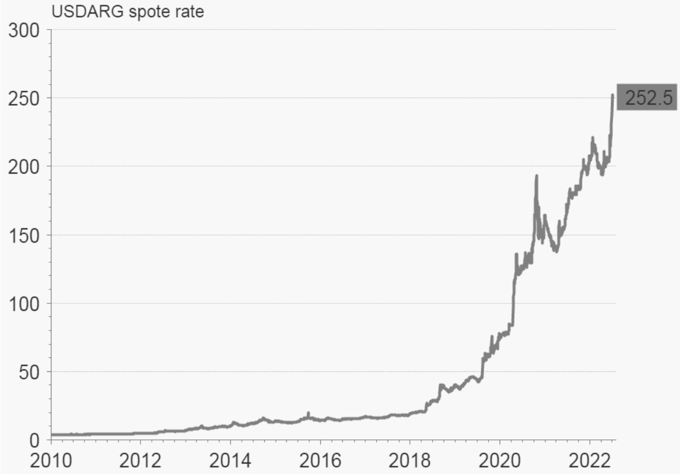
Basis points




*Source: Refinitiv Datastream / ANDBANK*

**Argentine peso to USD exchange rate**

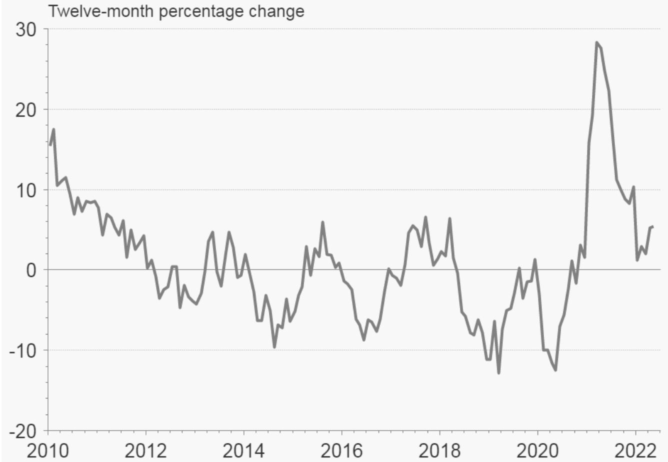
USDARG spote rate




*Source: Refinitiv Datastream / ANDBANK*

**Argentina industrial production**

Twelve-month percentage change




*Source: Refinitiv Datastream / ANDBANK*

ANDBANK
Private Bankers



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 | 236 | 7,7% | 18,50 | 3.845 | 4.363 | 13,5% | MW-OW | 4.799 |
| Europe - Stoxx Europe 600 | 30,5 | 33,0 | 31,8 | 4,3% | 15,00 | 413 | 477 | 15,5% | OW | 524 |
| Euro Zone - Euro Stoxx | 29,0 | 33,0 | 31,1 | 2,5% | 15,00 | 385 | 466 | 21,1% | OW | 512 |
| Spain IBEX 35 | 634,0 | 725,0 | 681 | 1,8% | 14,00 | 8.071 | 9.532 | 18,1% | OW | 10.485 |
| Mexico IPC GRAL | 4.000 | 4.200 | 4.103 | 10,6% | 14,75 | 47.722 | 60.519 | 26,8% | OW | 66.571 |
| Brazil BOVESPA | 15.000 | 15.000 | 15.000 | 4,1% | 8,00 | 98.719 | 112.500 | 14,0% | MW | 123.750 |
| Japan NIKKEI 225 | 1.810 | 1.894 | 1.853 | 3,7% | 16,00 | 26.491 | 29.652 | 11,9% | MW-OW | 32.617 |
| China SSE Comp. | 310,2 | 374,0 | 343 | 32,5% | 10,00 | 3.364 | 3.430 | 2,0% | MW | 3.773 |
| China Shenzhen Comp | 120,3 | 149,0 | 135 | 24,0% | 18,00 | 2.228 | 2.432 | 9,2% | MW/OW | 2.675 |
| India SENSEX | 2.760 | 3.236 | 3.005 | 18,8% | 23,00 | 54.178 | 69.119 | 27,6% | OW | 76.031 |
| Vietnam VN Index | 105,1 | 134,6 | 120 | 19,5% | 14,00 | 1.166 | 1.684 | 44,3% | OW | 1.852 |
| Taiwán SE Weighted Index | 1.423 | 1.425 | 1.424 | 12,3% | 13,00 | 14.336 | 18.512 | 29,1% | MW/OW | 20.364 |
| MSCI EM ASIA | 47,2 | 53,6 | 50 | 8,3% | 12,50 | 536 | 631 | 17,8% | OW | 694 |

*ANDBANK ESTIMATES*

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

| GLOBAL FIXED INCOME ALLOCATION | Recommended Allocation | Benchmark |
|---|---|---|
| U.S. | 45% | 54,6% |
| Europe | 25% | 25,3% |
| Japan | 20% | 14,9% |
| U.K. | 10% | 5,2% |

| | Value | Weight |
|---|---|---|
| Bond Duration (%) | 90 | Under |
| 10-2 Yield Curve (bp) | 8 | Flattening |

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

| | Stock/Bond Indicators | jun-22 | may-22 | abr-22 |
|---|---|---|---|---|
| TREND | Stock/Bond Ratio Trend Model | Stocks | Stocks | Stocks |
| | 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 | Bonds | Neutral |
| | 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. | 62% | 60,5% |
| Europe ex. U.K. | 9% | 12,5% |
| Emerging Markets | 9% | 11,7% |
| Japan | 8% | 5,7% |
| Canada | 6% | 3% |
| U.K. | 4% | 3,7% |
| Pacific ex. Japan | 2% | 2,9% |
| Utilities | 4% | 2,5% |
| Energy | 5% | 3,1% |
| Materials | 4% | 2,5% |
| Consumer Staples | 6% | 6,5% |
| Health Care | 14% | 13,2% |
| Financials | 9% | 10,8% |
| Information Technology | 27% | 27,6% |
| Communication Services | 10% | 10,4% |
| Real Estate | 3% | 2,6% |
| Industrials | 8% | 8% |
| Consumer Discretionary | 10% | 12,8% |

ENERGY – OIL

# Fundamental view (WTI): Target range USD90-110bbl

## Buy < USD90; Sell >USD110

### *Short-term drivers*

**(Bearish price factor) – China continues to ramp up Russian oil purchases in what represents a de facto global reconfiguration of energy providers.** This leaves more crude available from Arab exporters, who could divert their crude to Europe. In any reconfiguration of energy sources and suppliers, there is usually a price war, which could drive down the cost of energy. China imports from Russia jumped 29% m/m in May (and 55% yoy) to a record 8.42M tons (~2M bpd), with a total value of $5.8B, more than double the value from a year prior. S&P Global Market Intelligence analysts said that Russia's seaborne shipments of crude oil to China were also up for a fourth-straight month in May, with volumes seen pacing higher again in June. The update also comes after Bloomberg reported recently that Beijing was in talks with Moscow to buy additional oil to resupply its strategic inventories.

**(Bearish price factor) – Russian seaborne exports hit three-year high in June:** Platts reported that Russian seaborne crude exports were the highest since May-19 into the first half of June, up 576K bpd from January and February levels, to 3.88M bpd. China and Russia have increased their share of Russian shipped crude to almost 30% for a combined growth of more than 1M bpd to pre-war levels. Russia output was up 600K bpd in May. The deficit of production stands at 300K bpd (much lower than the 1.1M bpd deficit in previous months). Energy minister Novak said that the prerequisites are there for further production increases in July.

**(Bearish price factor) – Saudi Arabia exports hit highest level in nearly two years, inventories rise:** Platts reported that Saudi Arabia exported 7.382M bpd in April, up from 7.235M bpd in March and the highest since the 10.237M in Apr-20. Saudi Arabia's oil inventories also rose by over 4M barrels in the month, aided by a slowdown in refinery intake, in what could be an important source of pressure to place oil abroad, and thus moderate international prices.

**(Bearish price factor) – European imports of Russian oil starting to climb again:** Europe and Turkey collectively took 1.84M bpd from Russia during the week of June 13 to 19, a third-straight increase and the highest in nearly two months. The increase was attributed to Litasco, a trading unit of Russia's largest producer, taking barrels to the company's refineries, while Turkey also ramped up purchases. At the same time, Russian seaborne shipments to China and India have continued to rise, though Russia has not yet found any other significant buyers in Asia.

**(Bearish price factor) – Treasury Secretary Yellen says talks ongoing on how to cap price of Russian oil exports:** Treasury Secretary Yellen said that conversations with allies on how to further restrict energy revenues to Russia while preventing spillover effects into the global economy continue. The conversations center around price caps or a price exception on top of the measures already taken by the US, the EU, and the UK. Yellen also rejected reinstating the KeystoneXL pipeline, arguing it wouldn't solve short-term energy issues.

**(Bearish price factor) – Although not very important in isolation, Petro's win in Colombia's presidential election, and his promise to phase out oil and coal, is representative of what is happening globally with many other countries, which puts increasing pressure on countries that produce fossil energy, which sooner or later will be tempted to monetize their reserves** as much as possible and put a lot of product on the market, causing an oversupply and a drop in price. Petro ran on a platform that included phasing out oil and coal and immediately halting oil exploration but continuing to produce crude that is already being drilled, fixing a 12-year time frame to manage the transition. Colombia currently produces 700K bpd.

**(Bullish price factor) – OPEC+ compliance with planned cuts jumped to 256% in May, causing a severe underproduction.** OPEC+ countries produced 2.695M bpd below target in May, pushing compliance of cuts up to 256% from 220% in April. Russian production showed the greatest underproduction (with nearly 1.3M bpd below its quota), although output is starting to rebound, with Russia's crude output rising to 9.273 mln bpd in May (from 9.159 mln bpd in April). OPEC+ said that the reasons for the underproduction were Russian sanctions and production issues across several members. June output is likely to remain pressured after the latest blockade of Libyan oil, though Libya remains exempt from its quota. U.S. president Joe Biden's administration has pushed OPEC+ to boost production so as not to impair the global economic recovery. But many OPEC+ producers lack the capacity to pump more crude following insufficient investment, a trend accelerated by the pandemic.

### *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 rose to 0.93, still 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 other 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, with the QT in full swing, we no longer see unlimited supply of UST; instead, after learning of 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 in bonds 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 90.85 but is still above its 20-year average of 66.99x, 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$1,282/oz.

**Gold to oil:** This ratio fell to 17.31, still well above its 20-year average of 18.37x. Considering our mid-term fundamental fair value for WTI oil at US$100 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,837 for this ratio to remain near its LT average.

**Gold in real terms:** Given the global deflator (now at 1.24073), 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$1,547. 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$1,337.

**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, held back by a China engrossed in a kind of nihilistic 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-UW 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. Sell at 1.02) // Z-Score Analysis: Neutral to favorable to the EUR in the ST

**USD-JPY:** Fundamental Target 128; **EUR-JPY**: Target 134 // Z-Score Analysis: Slightly Negative to the JPY vs the USD

**GBP-USD:** Fundamental Target 1.27; **EUR-GBP**: Target 0.83 // Z-Score Analysis: Slightly Favorable view on the GBP vs the USD

**USD-CHF:** Fundamental Target 0.93; **EUR-CHF:** Target 0.98 // Z-Score Analysis: Slightly Negative 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 21.8 // 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 6.60. Neutral on the CNY

**RUB:** Neutral-favorable view on the RUB vs USD

**AUD:** Neutral-favorable view on the AUD vs USD

**CAD:** Neutral 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 | 3,2 | 0,69 |
| USD vs G10 | 13,98 | -1,95 | 32,7 | -25,4 | 6,1 | 0,46 |
| EM | 0,00 | 0,00 | 3,9 | -0,8 | 1,5 | -0,44 |
| EUR | -1,39 | -8,41 | 23,4 | -8,6 | 7,6 | -0,98 |
| JPY | -4,83 | 4,35 | 0,6 | -15,0 | -8,4 | 0,87 |
| GBP | -4,04 | 1,79 | 4,3 | -6,5 | -1,9 | -0,75 |
| CHF | -1,12 | 1,54 | 0,2 | -6,0 | -2,4 | 0,79 |
| BRL | 0,70 | -0,26 | 1,0 | -0,8 | 0,0 | 1,20 |
| MXN | -0,35 | -1,25 | 3,3 | -0,7 | 1,2 | -1,43 |
| RUB | 0,00 | 0,00 | 1,2 | -0,3 | 0,4 | -0,51 |
| AUD | -2,97 | 0,52 | 6,1 | -6,6 | -1,2 | -0,51 |
| CAD | 0,71 | 1,26 | 6,1 | -5,0 | 0,4 | 0,12 |

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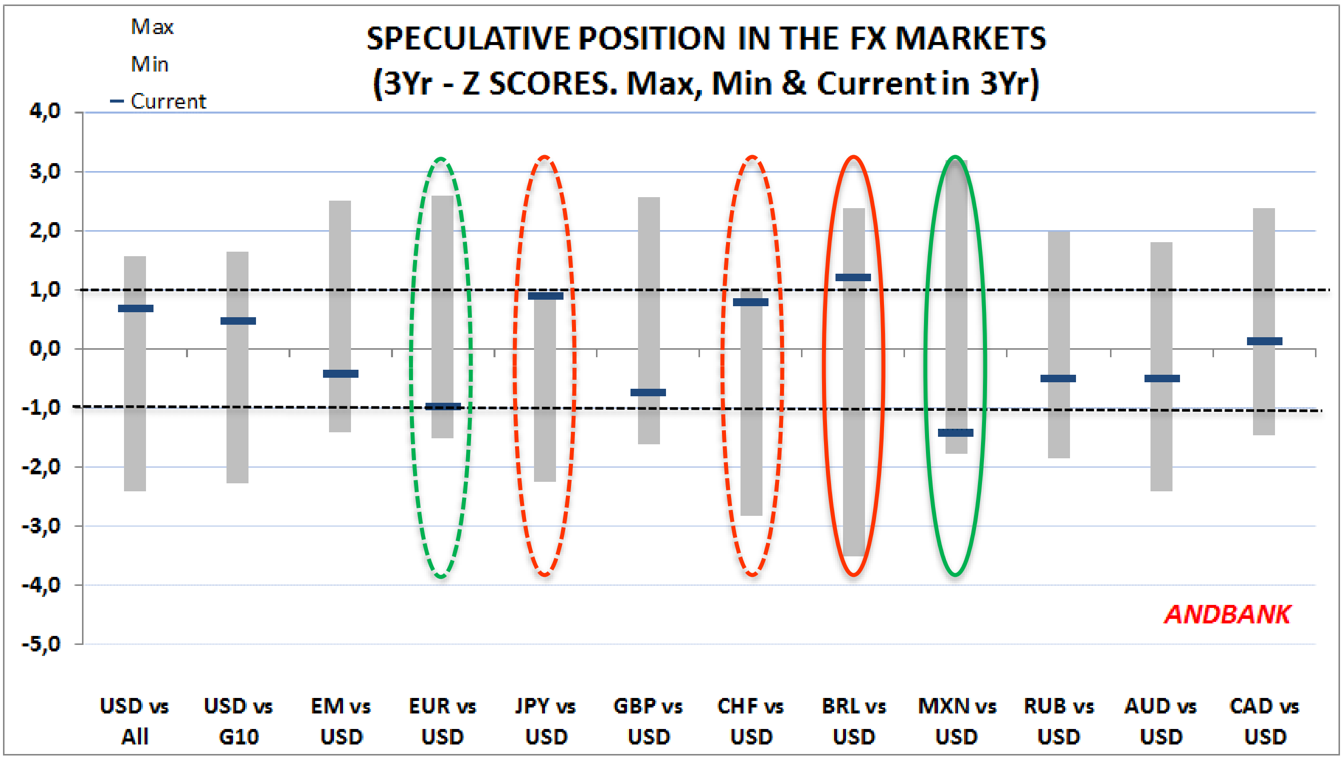
Positive
Neutral-Positive
Neutral-Negative
Negative




*The currencies we technically favor are circled in green*

ANDBANK Private Bankers

## SUMMARY TABLE OF EXPECTED RETURNS



| *Indices* | *Performance Last month* | *Performance YTD* | *Current Price* | *Fair Value* | Expected Performance to Fair Value* |
|---|---|---|---|---|---|
| USA - S&P 500 | -7,6% | -19,3% | 3.845 | 4.363 | 13,5% |
| Europe - Stoxx Europe 600 | -6,7% | -15,3% | 413 | 477 | 15,4% |
| Euro Zone - Euro Stoxx | -9,3% | -19,6% | 385 | 466 | 21,1% |
| SPAIN - IBEX 35 | -8,7% | -7,3% | 8.075 | 9.532 | 18,0% |
| MEXICO - MXSE IPC | -4,8% | -10,5% | 47.722 | 60.519 | 26,8% |
| BRAZIL - BOVESPA | -10,3% | -5,8% | 98.719 | 112.500 | 14,0% |
| JAPAN - NIKKEI 225 | -5,2% | -8,0% | 26.491 | 29.652 | 11,9% |
| CHINA - SHANGHAI COMPOSITE | 3,8% | -7,6% | 3.364 | 3.430 | 2,0% |
| CHINA - SHENZEN COMPOSITE | 7,5% | -12,0% | 2.228 | 2.432 | 9,2% |
| INDIA - SENSEX | -1,7% | -7,0% | 54.178 | 69.119 | 27,6% |
| VIETNAM - VN Index | -9,7% | -21,5% | 1.166 | 1.684 | 44,3% |
| MSCI EM ASIA (in USD) | -6,1% | -19,6% | 536 | 631 | 17,8% |
| US Treasury 10 year Govie | 0,4% | -10,8% | 2,95 | **3,50** | -1,4% |
| UK 10 year Gilt | 0,7% | -9,0% | 2,15 | 1,75 | 5,3% |
| German 10 year BUND | 0,1% | -11,8% | 1,28 | **1,75** | -2,5% |
| Japanese 10 year Govie | 0,0% | -1,4% | 0,24 | 0,25 | 0,2% |
| Spain - 10yr Gov bond | 0,5% | -14,3% | 2,36 | 2,75 | -0,8% |
| Italy - 10yr Gov bond | 0,6% | -17,0% | 3,35 | **3,55** | 1,8% |
| Portugal - 10yr Gov bond | 0,7% | -15,1% | 2,37 | 2,75 | -0,7% |
| Ireland - 10yr Gov bond | 0,0% | -13,1% | 1,88 | 2,50 | -3,1% |
| Greece - 10yr Gov bond | 1,9% | -17,7% | 3,54 | 3,95 | 0,3% |
| Credit EUR IG-Itraxx Europe | -0,9% | -2,3% | 123,56 | 80 | 2,4% |
| Credit EUR HY-Itraxx Xover | -4,7% | -10,1% | 612,13 | **400** | 12,3% |
| Credit USD IG - CDX IG | -0,3% | -1,5% | 98,26 | **90** | 1,2% |
| Credit USD HY - CDX HY | -2,0% | -6,8% | 558,91 | **475** | 8,1% |
| Turkey - 10yr Gov bond (local) | 37,0% | 50,5% | 18,10 | 20,00 | 2,9% |
| Russia - 10yr Gov bond (local) | -0,6% | -1,8% | 9,15 | 14,00 | -29,7% |
| Indonesia - 10yr Gov bond (local) | -1,5% | -3,9% | 7,21 | 6,00 | 16,9% |
| India - 10yr Gov bond (local) | 1,9% | -3,9% | 7,35 | 7,25 | 8,2% |
| Philippines - 10yr Gov bond (local) | -1,2% | -15,2% | 6,92 | 6,20 | 12,7% |
| China - 10yr Gov bond (local) | 0,0% | 0,8% | 2,83 | 2,40 | 6,3% |
| Malaysia - 10yr Gov bond (local) | 0,7% | -2,8% | 4,14 | 3,50 | 9,3% |
| Thailand - 10yr Gov bond (local) | 0,9% | -5,5% | 2,68 | 3,75 | -5,9% |
| Singapore - 10yr Gov bond (local) | 0,6% | -8,7% | 2,83 | 3,75 | -4,5% |
| Rep. Korea - 10yr G. bond (local) | 2,5% | -7,0% | 3,17 | 4,25 | -5,5% |
| Taiwan - 10yr Gov bond (local) | 0,7% | -3,5% | 1,17 | 2,25 | -7,5% |
| Mexico - 10yr Govie (Loc) | 0,4% | -7,3% | 8,96 | 9,30 | 6,2% |
| Mexico - 10yr Govie (USD) | -2,1% | -14,9% | 5,22 | 5,40 | 3,8% |
| Brazil - 10yr Govie (Loc) | -1,4% | -18,0% | 13,20 | 13,00 | 14,8% |
| Brazil - 10yr Govie (USD) | -4,0% | -14,6% | 6,77 | 6,75 | 6,9% |
| Oil (WTI) | -16,9% | 32,0% | 99,2 | 100,00 | 0,8% |
| GOLD | -5,9% | -4,7% | 1.742,0 | 1.800 | 3,3% |
| EURUSD (price of 1 EUR) | -4,6% | -10,2% | 1,020 | 1,05 | 2,9% |
| GBPUSD (price of 1 GBP) | -4,6% | -11,2% | 1,20 | **1,27** | 5,4% |
| EURGBP (price of 1 EUR) | -0,1% | 1,2% | 0,85 | 0,83 | -2,3% |
| USDCHF (price of 1 USD) | -0,1% | 6,5% | 0,97 | 0,93 | -4,2% |
| EURCHF (price of 1 EUR) | -4,8% | -4,4% | 0,99 | 0,98 | -1,4% |
| USDJPY (price of 1 USD) | 2,5% | 18,1% | 135,91 | **128,00** | -5,8% |
| EURJPY (price of 1 EUR) | -2,3% | 6,0% | 138,72 | 134,40 | -3,1% |
| USDMXN (price of 1 USD) | 4,8% | 0,2% | 20,53 | 20,75 | 1,1% |
| EURMXN (price of 1 EUR) | -0,1% | -10,1% | 20,93 | 21,79 | 4,1% |
| USDBRL (price of 1 USD) | 11,5% | -2,5% | 5,43 | 5,25 | -3,3% |
| EURBRL (price of 1 EUR) | 6,3% | -12,5% | 5,54 | 5,51 | -0,5% |
| USDARS (price of 1 USD) | 4,2% | 23,1% | 126,36 | 175,00 | 38,5% |
| USDINR (price of 1 USD) | 1,9% | 6,2% | 79,09 | 76,00 | -3,9% |
| CNY (price of 1 USD) | 0,5% | 5,5% | 6,70 | 6,65 | -0,8% |

*struments, the expected performance refers to a 12 month period*

DOWNWARD REVISION

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