ECONOMY & FINANCIAL MARKETS

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Andbank Monthly Corporate Review – February 2024

Corporate Review

February 2024

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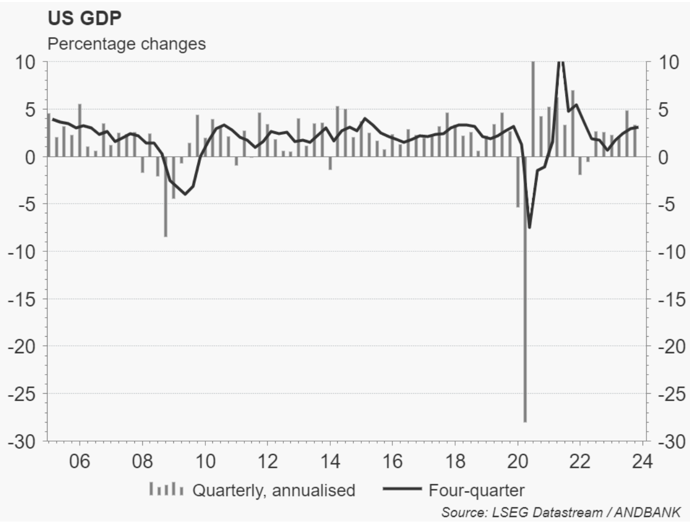
EXECUTIVE SUMMARY

CHART OF THE MONTH

The U.S. economy rebounds and stands resilient. The Fed may find itself constrained in its interest rate path.



EQUITIES

Index	INDEX CURRENT PRICE	Andbank's Target Price	E[Perf] to target Price	Recommended Strategy	Exit Point (Strong Sell)
USA S&P 500	4.891	4.625	-5,4%	MW-UW	5.088
Europe - Stoxx Eu	483	517	6,9%	OW	568
Spain IBEX 35	9.879	10.846	9,8%	OW	11.931
Mexico IPC GRAL	56.856	60.566	6,5%	MW-OW	66.623
Brazil BOVESPA	129.014	140.952	9,3%	MW-OW	155.047
Japan NIKKEI 225	36.027	38.665	7,3%	MW	42.532
China SSE Comp.	2.883	3.065	6,3%	UW	3.372
China Shenzhen C	1.637	1.896	15,8%	UW	2.085
India SENSEX	71.942	78.311	8,9%	OW	86.142
Vietnam VN Index	1.176	1.356	15,3%	OW	1.492
MSCI EM ASIA	519	585	12,8%	OW	644

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	*Indices*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
Fixed Income Core countries	US Treasury 10 year Govie	2,2%	4,12	**4,25**	3,1%
	UK 10 year Gilt	1,7%	3,94	4,50	-0,5%
	German 10 year BUND	5,1%	2,26	**2,50**	0,4%
	Japanese 10 year Govie	-2,0%	0,72	1,00	-1,6%
Fixed Income Peripheral	Spain - 10yr Gov bond	7,7%	3,16	3,50	0,4%
	Italy - 10yr Gov bond	12,4%	3,78	4,40	-1,2%
	Portugal - 10yr Gov bond	8,5%	2,96	3,10	1,8%
	Ireland - 10yr Gov bond	6,4%	2,67	2,90	0,8%
	Greece - 10yr Gov bond	15,9%	3,21	4,25	-5,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	4,3%	58,64	75	4,0%
	Credit EUR HY-Itraxx Xover	11,7%	318,95	450	3,2%
	Euribor 3m				
	Credit USD IG - CDX IG	6,9%	54,65	75	5,5%
	Credit USD HY - CDX HY	14,3%	355,66	450	6,3%
	Libor Usd 3m				

FIXED INCOME - EM

Asset Class	*Indices*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-117,5%	25,06	20,00	65,5%
	Russia - 10yr Gov bond (local)	-3,7%	12,22	25,00	-90,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	9,8%	6,61	5,75	13,5%
	India - 10yr Gov bond (local)	9,1%	7,17	6,75	10,6%
	Philippines - 10yr Gov bond (loc	12,7%	6,15	5,75	9,4%
	China - 10yr Gov bond (local)	5,8%	2,49	2,00	6,4%
	Malaysia - 10yr Gov bond (loca	6,0%	3,80	3,00	10,2%
	Thailand - 10yr Gov bond (loca	1,0%	2,63	1,75	9,7%
	Singapore - 10yr Gov bond (loc	4,3%	2,94	3,75	-3,5%
	Rep. Korea - 10yr G. bond (loc	6,3%	3,34	4,25	-3,9%
	Taiwan - 10yr Gov bond (local)	2,2%	1,19	2,25	-7,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	8,0%	9,25	9,75	5,2%
	Mexico - 10yr Govie (USD)	7,0%	5,87	6,00	4,8%
	Brazil - 10yr Govie (Loc)	31,1%	10,54	11,25	4,9%
	Brazil - 10yr Govie (USD)	8,3%	6,32	6,75	2,9%

COMMODITIES & FX

Asset Class	*Indices*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
Commodities	Oil (WTI)	-2,2%	78,5	75,00	-4,4%
	GOLD	11,4%	2.032,1	2.000	-1,6%
Fx	EURUSD (price of 1 EUR)	1,2%	1,083	1,05	-3,1%
	GBPUSD (price of 1 GBP)	5,0%	1,27	1,25	-1,6%
	EURGBP (price of 1 EUR)	-3,6%	0,85	0,84	-1,5%
	USDCHF (price of 1 USD)	-6,6%	0,86	0,95	10,1%
	EURCHF (price of 1 EUR)	-5,5%	0,94	1,00	6,7%
	USDJPY (price of 1 USD)	12,8%	147,83	140,00	-5,3%
	EURJPY (price of 1 EUR)	14,2%	160,17	147,00	-8,2%
	USDMXN (price of 1 USD)	-11,9%	17,15	18,50	7,9%
	EURMXN (price of 1 EUR)	-10,9%	18,56	19,43	4,6%
	USDBRL (price of 1 USD)	-7,0%	4,92	5,00	1,7%
	EURBRL (price of 1 EUR)	-5,8%	5,33	5,25	-1,4%
	USDARS (price of 1 USD)	365,9%	823,50	1.000	21,4%
	USDINR (price of 1 USD)	0,5%	83,12	82,60	-0,6%
	CNY (price of 1 USD)	4,1%	7,18	7,50	4,5%

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

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MACRO ECONOMY

USA

Could the market be misjudging what the Fed is going to do this year?

Federal Reserve

The Fed released its updated Fed plot showing a decrease of 50 bps for the projected fed funds rate for the end of 2024 (5.1% to 4.6%), compared with the September dot plot. Despite the above, the Fed did not give any signal about how this rate reduction could occur throughout the year.

This recalibration of expectations by Fed officials, added to inflation data that confirm the downtrend, caused the market to go quickly from the "higher for longer" mode to expect between six and seven rate cuts during 2024, with the first reduction crystallizing in the monetary policy meeting in March.

Higher-than-expected inflation in the month of December, added to the labour market data that accompanies for it, led to a realignment of expectations in recent weeks. For the March meeting the probability of a rate cut is now 50%, but five rate cuts are now expected for this year, an expectation that is close to what the Fed indicated in its last dot plot. We are inclined to expect a rate cut more in line with what the Fed is forecasting than with what the market is expecting today, which we view as overly aggressive manner given the pace of economic activity and the fact that inflation is still well above the Fed's target, especially the core price indicator, and the likelihood that the Fed will not want to reduce the rate until it is clear that lower inflation will be sustained

Inflation and economic activity

The inflation indicators for the month of December of last year were published and numbers higher than the market's expectations could be seen. The CPI rose 3.4% y/y (+3.2 y/y estimate) and +0.3% m/m (+0.3% m/m estimate). Core prices increased +3.9% y/y, falling below 4% for the first time since May 2021. It is shelter-related prices that continue to slow the pace of inflation reduction. In December these prices accounted for more than a half of the monthly increase, rising +0.5% m/m and +6.2% y/y. Although we don't find anything wildly concerning in this report, it shows that disinflation progress has been occurring slower than desired by the Fed.

As has been the case in recent months, labour market indicators continue to be quite robust. In December, US companies added 216K jobs, stronger than the 173K created in November. The unemployment rate came in unchanged at 3.7% and we now have almost two years of this indicator below 4%. Average hourly wages increased +4.1% y/y, higher than the +4.0% y/y of November, a number that has probably caught the attention of the Fed. Also, initial jobless claims for the week ended on January 13 posted their lowest print since September 2022 with 187K filings, compared with 203K for the four week moving average. It is also true that Job Openings have been decreasing lately (from 8,852K in November to 8,790K in December), a sign that the labour supply-demand imbalance is gradually easing, but it is also true that current levels are well above historical average levels.

Finally, Holiday shopping numbers were better than expected, with Retail sales increasing +4% y/y and +0.6% m/m. Clothing and Accessories and Nonstore were the categories that showed the largest monthly increases, rising 1.5% m/m.

Financial markets

Rates & Credit: After peaking at 5% in October of last year, the 10-year US bond rate closed the year at 3.88%, then increased during the first weeks of this year and today stands at 4.15%. Our impression is that both the October 5% and the December low are exaggerated for the fundamentals of the American economy at this time. Another fact worth highlighting is that the steepening of the interest curve has been reversing. We can see this reflected in the narrowing of the spread between the 2-year and 10-year interest rates, which went from -100 bps in July of last year to -20 bps at the current time.

The Investment Grade Spread, which widened above 80 bps in November, has already gone back to 55 bps, level not seen since the beginning 2022. Similar movements in High Yield spreads, which widened and closed October at levels close to 530 bps and have narrowed by almost 180 bps. The Default rate keeps rising and is now above 2.80%, though still below the historical average of 3.5%.

Equity: During the beginning of this year we have seen some profit taking after the rally recorded at the end of the year. We continue to recommend a balanced portfolio between Growth Quality and Value names, taking advantage of opportunities in sectors that underperformed last year. Earnings growth of around 10% and stable multiples is our base scenario for this year. The corporate earnings season is underway and although they surprised on the upside in the previous quarter, several companies and sectors have announced a weaker outlook for 2024.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT-UNDERWEIGHT indexed investing.

Bonds: Govies UNDERWEIGHT. 10Y UST Target 4.5%

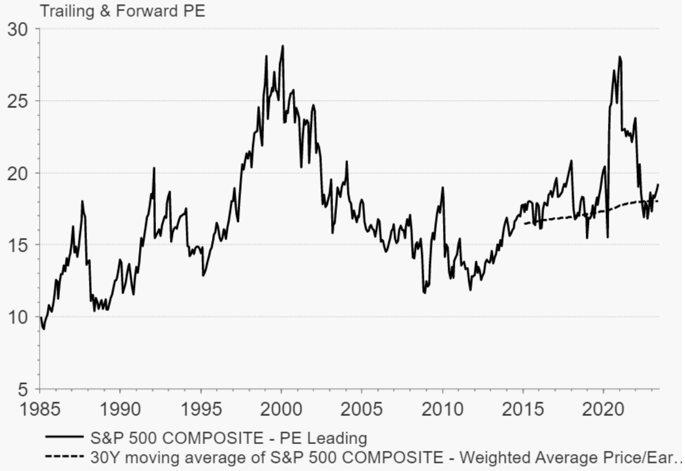
CDX IG: MARKETWEIGHT (Target Spread 75)

CDX HY: MARKETWEIGHT (Target Spread 450)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

US price-to-earning ratio

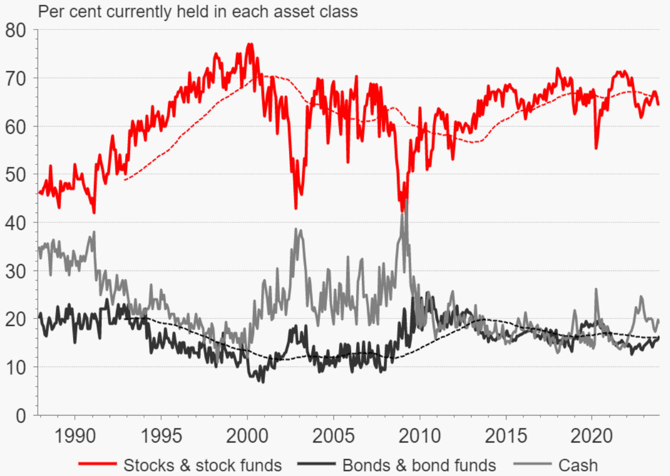
Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

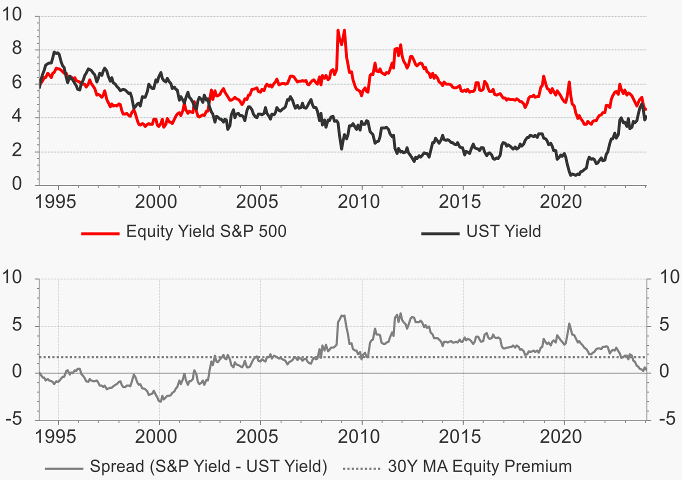
AAII US asset allocation survey

Per cent currently held in each asset class



Source: LSEG Datastream / ANDBANK

Equity Yield & UST Yield



Fuente: LSEG Datastream / ANDBANK

EUROPE

Market expectations (six rate cuts) assume a scenario that leaves no margin for error on the inflation front

Subdued activity, slow progress on inflation

The year started as expected, with sagging sentiment regarding future activity and an ongoing disinflation trend. PMIs remain in restrictive levels, suggesting a current technical recession and modest GDP growth ahead, with GDP figures hovering around 0.5% y/y in 2024, below ECB forecasts. Private consumption, absent during 2023, is expected to pick up this year, supported by positive real wages, decent savings rates and a solid labour market. Employment data show strength, with some signs of deceleration regarding new jobs creation along with tight supply and, as a result, unemployment rates remain at low levels (6.4%). On the investment side, German manufacturing orders keep sliding, a new sign of the industrial recession in this country, with the Union IG Metal calling for €500-600 bn special funds for the transformation of industry.

Disinflation finds support in the decline of inflation expectations, the core CPI descending trend and the oil and gas price behaviour (contained prices despite the geopolitical tensions). To avoid complacency, some issues need to being monitored: wage increases, "sticky" inflation in the service sector or potential supply disruptions, among others. Wage dynamics are of great importance for the ECB, with the most complete data due to be available by the end of April.

ECB: Rate cuts in Europe

Dovish ECB talk remains scarce, despite the Eurozone probably already having slid into (technical) recession, and with inflation figures meeting expectations. The start of the debate about rate cuts could take place towards mid-year, with the 2% CPI target in sight and more information on the wage trend. Current market expectations (six rate cuts) assume a scenario that leaves no margin for error on the inflation front. Disinflation could prove to be less intense or more temporary than expected. Unless a more pessimistic growth (and inflation) scenario unfolds, we could expect a slower path to end 2024 at depo levels around 3.5-3.75% (vs. the current 4%). As for the ECB´s balance sheet, another step towards policy normalization was announced in December: PEPP reinvestments will remain during 1H24 and will be reduced by 50% in 2H24.

Fiscal Policy

In the political arena, a year-end agreement on the new fiscal framework was reached. It maintains the same targets as before, with some improvements from a theoretical point of view, but with an increase in the complexity of the scheme and a lack of clarity as to non-compliance consequences. Validation is still pending from the European Parliament, which will have elections in June.

Financial Markets: Govies, Corporate Credit & Equity

Govies

Depending on the base-case scenario for both the fed fund rates and the ECB depo rates, we could contemplate a 10-year bund yield between 2.5-2.75%. We stick to our spread targets: Italy (190 bps), Spain (100 bps), Portugal (60 bps), Greece (120 bps), Ireland (40 bps).

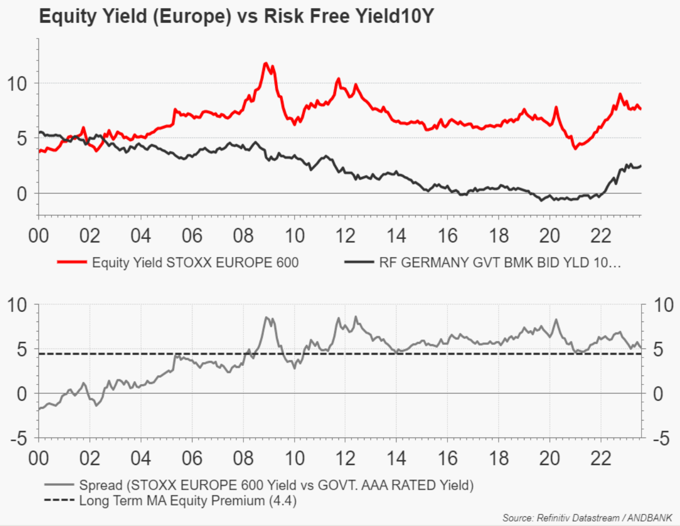
Corporate Credit

At the beginning of the year volatility returned to the markets, accompanied by a lot of activity in primary issues (which investors have taken advantage of), although we will now see a pause as we enter the earnings report season. By sector, of the €37 bn issued, €20.5 bn was by banks, €6 bn by auto manufacturers and €5.4 bn by utilities. The high amount of maturities, the lower issuance estimated for February (€30-40 bn) and the next earnings season should support the European credit markets. In terms of inflows, investment-grade companies continue to attract steady investment.

We are positioning on average durations of three years and sectors such as financials or those with the capacity to reduce their indebtedness, such as telecommunications and utilities. We maintain spread target levels for both investment grade (75 bps) and high yield (450 bps), with a recommendation of Neutral/OW for investment grade and UW/Neutral for high yield.

Equity

The main European indices are currently in an interesting position. The Stoxx 600 index of the top 600 companies in Europe is trading at a P/E ratio slightly below its historical average. We believe this is an attractive valuation, even if the discount is not significant, given the healthy financial situation of European companies. Although the average operating margin has stopped growing since it peaked in the first quarter of 2022, it is at higher levels than the average of the last 20 years. The same is true for returns on equity, while the average market debt is at historical lows. In addition, European companies are showing relatively solid nominal growth rates and sales per employee. The risk premium, which gives us an idea of how equity markets are valued in relation to the return offered on fixed income, remains at attractive levels at around 5.6%. This contrasts with the average of 5% over the last two decades. In view that the financial position of European companies is stronger than their historical levels, it would seem reasonable to value the market as a whole with a higher multiple than in the past.



ECB staff growth forecasts

%oya, % for the unemployment rate

	June projections		
	2023	2024	2025
Real GDP	0.9	1.5	1.6
Employment	1.3	0.5	0.4
Unemployement rate	6.5	6.4	6.3
HICP			
Headline	5.4	3.0	2.2
Core	5.1	3.0	2.3
Unit labour costs	5.6	3.4	2.6
Compensation per empl.	5.3	4.5	3.9
Labour productivity	-0.3	1.0	1.3

Source: ECB, J.P. Morgan

However, given the existing risks regarding wage inflation and a potential economic slowdown, we believe it is conservative to value the Stoxx 600 index using a multiple similar to that observed over the last 20 years. Even so, we see growth potential in the index, via multiple expansion and earnings growth, reflecting the undemanding valuations at which European companies trade.

The main risk for the European market is the erosion of margins (either due to cost inflation or due to a slowdown in growth against a fixed cost structure), but in times of uncertainty like the present, it is important to remember the paradox of the relationship between risk and uncertainty. When uncertainty pushes asset prices down, the risk of these assets generally decreases.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 2.50%)

Peripheral – UW IT (4.40%), SP (3.50%), PT (3.10%), IE (2.90%). GR (4.25%),

Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 75)

Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 450)

FX – EUR/USD At or below 1.10 sell $ / buy €. At or above 1.10 buy $ / sell €

SPAIN

1.5% GDP expansion in 2024. EPS growth at 4% and expansion in PE multiple to 11x. Overweight

Next milestone, 2024 Budget

The first vote in Congress has shown a new dynamic within the coalition parties, which we believe may delay the approval of the budget for the year. Still, this doesn't change our view of a fiscal balance below 4%, or the reduction path of Debt to GDP, that we expect this year will finish under 110%.

We must also highlight that the Spanish Government has passed through Congress the reforms and laws needed to receive another €10 bn from the NextGen Funds that support investments.

Macro & Economic Politics

The Spanish economy has been affected by the slowdown in the global economy in recent months and by the situation in the euro area. However, it has shown a considerable degree of resilience. The quarterly growth rate, though decreasing throughout 2023, showed an increase of +0.3% q/q in the third quarter, and the available data suggest a similar advance for the fourth quarter. In any case, at the end of the third quarter, the Spanish economy's GDP was 2.1% above its pre-pandemic level, which compares with 3% for the whole euro area.

Looking at the reason behind the recent resilience of the economic activity, on the supply side we can mention the sectoral structure of the Spanish economy, with a greater weight of tourism-related sectors and the lower impact of the increase in energy prices on industry costs. Looking on the demand side, buoyant consumer spending has been the main driver of economic dynamism. The Spanish economy has also benefited from population growth, explained entirely by net immigration inflows.

Looking ahead, according to the projections from the Bank of Spain, economic growth is expected to slow down in 2024 (going from 2.4% in 2023 to 1.6% this year) and slightly accelerate again in 2025 (+1.9%) and 2026 (1.7%). These numbers are in line with our forecast in the base-case scenario of 1.5% GDP Growth for 2024. The main support for activity will be domestic demand. Consumption will be favoured by the increase in real incomes, in a context of moderate inflation rates. The latest soft data show a better view from consumers at the end of 2023, with a consumer confidence improving again in December. The tourism industry has recovered completely from Covid; with a record 84 million foreign tourist visiting Spain during the year. The average spend per tourist was 1,294 euros, with an annual increase of 4.2%. For its part, the average daily spend grew by 4.1%, to 173 euros. All higher than the 2019 numbers. However, employment growth will moderate, in line with the evolution of activity and assuming a certain recovery in productivity, the main problem of Spanish economy, as productivity **retrace** 7.3% in this century. Inflation, on the other hand, is expected to rise slightly at the beginning of this year, as energy tax cuts are gradually phased out. That's one reason why price hikes in Spain will run above the euro area over the coming months, and then resume the downward trend in the second half of the year where we expect 2.5% by end 2024.

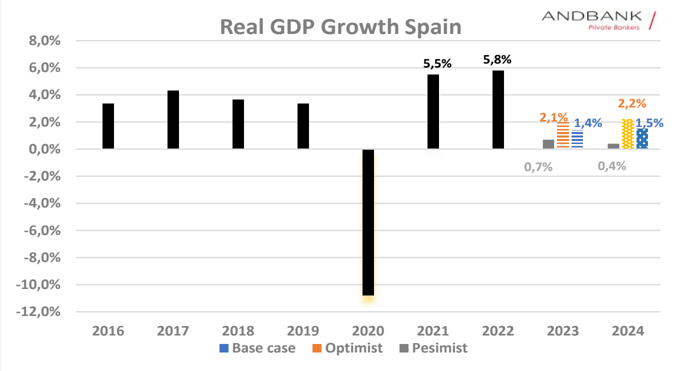
Stock Market

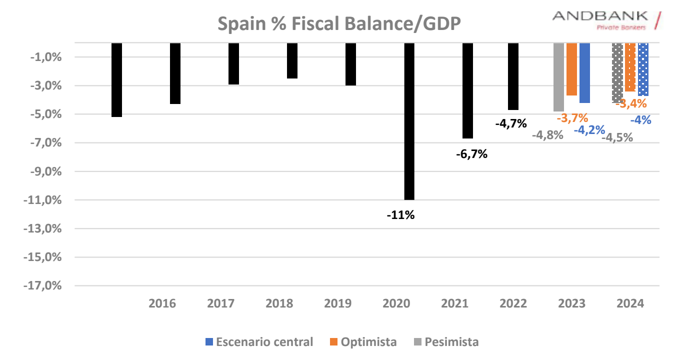
The Ibex index closed 2023 with a double-digit return and ranks as one of the best performers over the last two years. Its composition of banking (30% weight) and Inditex (13% of the Index) are the main drivers for the solid performance in 2023, while the high weight of utilities and energy (25%) were the main contributors to 2022 performance. If we look at the fundamentals there, we can see a very positive evolution in EPS, which accumulated a growth of 50% from 3Q21 to 3Q23, with a surprising evolution of the net margin, which now stands at 10.7%, the highest in the last 10 years. The large weight of the banking sector and recent inflation favours the margins of an index like the Spanish IBEX.

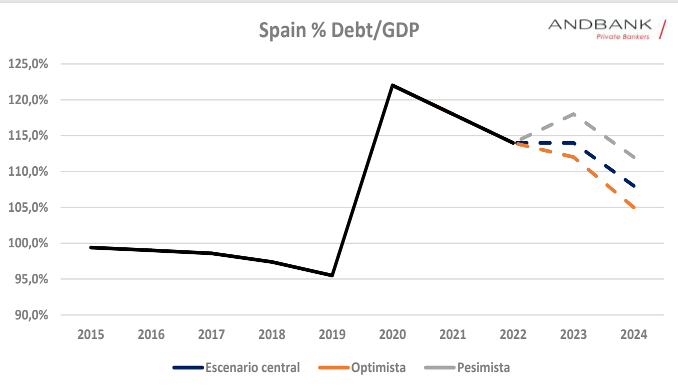
With profits rising significantly above stock prices, the P/E of the index remained at extremely low levels, compared to other developed markets, today trading at barely 10 times earnings. For this year, it would not be surprising to see the first multiple expansion since Covid, paired with higher earnings, driven by stable energy prices and high interest rates, although EPS could show a lower growth rate this year. Margins would be a headwind for an index with a bank bias, in a lower rates and increasing competitiveness scenario. We expect single-digit growth this year for EPS, but it could be boosted by ratio expansion if the economy shows no signs of recession in the coming months.

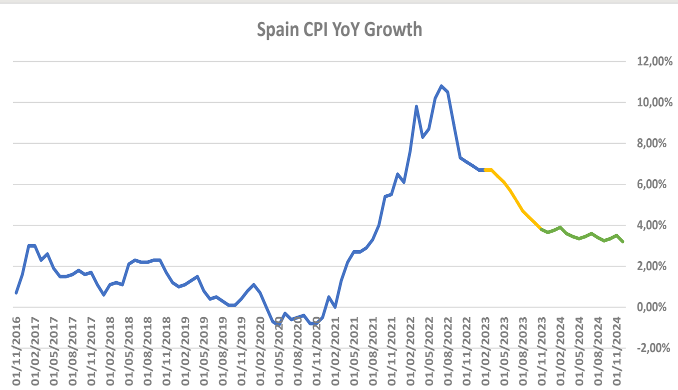
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: OVERWEIGHT









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MACRO ECONOMY

CHINA

No stimulus on the horizon. We see rebounds as tactical but with a long-term downtrend

Financial Market: China's weight in EM Index drops to record low

China's share of MSCI Emerging Markets Index dropped to 23.77% as of 31-Dec, according to Bloomberg calculations. This is the lowest since 2017, before mainland China stocks were included in the index. This reflects poor market performance, reduced investor positioning and significant capital outflows. The current weight is about 16 ppt below peak weight in 2020. Not only is there a decline in the index representation, but China's economic spillover effects to other markets are waning too, giving wings to other investors to invest in other markets, both developed and developing. Strategists also said any rebound is seen as tactical with little to arrest a long-term decline.

China’s regulator is telling some investors not to sell as the equity rout resumes. The regulator CSRC has reimposed restrictions on mutual funds and securities companies, telling them not to sell stocks, as regulators try to stabilize market. It is a sudden U-turn by regulators as they just lifted stock net-selling ban for mutual funds in late 2023, but the market rout in Chinese market in the new year added renewed pressure on the authorities. Market watchers noted the move was distorting the market and undermining confidence, adding net sales restrictions is unlikely to lift investor sentiment.

Greater China equities wobbled as PBOC kept MLF rate unchanged, dashing hopes of a rate cut

Market watchers note a lack of catalysts to drive up stocks. PBOC’s 1Y MLF rate was unchanged at 2.50% compared to expectations of a 10 bp cut. Rate cut expectations reflected ongoing calls for more policy stimulus as economic growth momentum continues to look shaky: Credit data showed new bank lending in December slowed to its slowest pace since at least 2003, adding to a flurry of economic data indicating the economy is facing weak consumer demand and business confidence, and persistent deflationary pressures.

Trading volume on the mainland fell to CNY611B (from CNY677B last week), with foreign investors being net sellers of CNY355M worth of mainland stocks.

The election in Taiwan saw DPP's William Lai win the presidency but lose his majority in the legislature. Pacific island country Nauru switched diplomatic recognition from Taipei to Beijing, which was seen as China's ploy in responding to the election results.

Economy likely to slow to 4.6% in 2024, and further down in 2025. Japanese companies established in China maintain a gloomy outlook on the economy

The Reuters survey showed economists expected China's economic growth to slow to 4.6% in 2024, and further down to 4.5% in 2025, raising the urgency for policymakers to roll out more stimulus measures amid deflationary pressures and property slump. China's economy likely grew 5.2% in 2023, meeting the government's annual growth target, buoyed by a favourable base effect. Meanwhile, Japanese firms are anticipating a gloomy outlook for China's economy in 2024. Reuters reported that approximately three-quarters of the 1,700 Japanese companies surveyed in China voiced expectations of a deterioration or stagnation in the Chinese economy for 2024. The primary reasons cited were uncertainty regarding China's economic conditions and pessimism stemming from weak demand. These factors led nearly half of the companies to either maintain their investments at current levels or reduce them in China during 2023. Meanwhile, half of the surveyed companies still regarded China among the top three in 2024.

Geopolitics: Chinese military and state-run institutions acquired Nvidia chips despite US ban. ASML has been ordered by the Dutch government to restrict shipments to China. Beijing raises concerns with US over chip curbs

Reuters reported China's military and state-run AI research institutes and universities have acquired small batches of Nvidia (NVDA) graphic processing chips over the past 12 months, despite the US export ban. Documents showed dozens of Chinese entities had bought and received those chips through third-party sources even after restrictions were imposed. Recall ASML said earlier this month that the Hague had revoked the export license covering shipment of some of its equipment to China. ASML has been ordered by the Dutch government to restrict shipment of some of its chip-making equipment to China. China's Commerce Minister raised concerns over Washington's curbs that prevent third countries from exporting chip-making equipment to China.
Baidu had denied reports its Ernie ChatGPT large language models are being used by the military to test experimental AI-related defence systems. According to the local press, researchers in the PLA are using Ernie and iFlyTek's Spark system to teach military AI how to face unpredictable human enemies. If proved correct, it could subject Baidu to fresh US sanctions.
China state-owned banks tighten curbs on Russia. At least two state-owned banks are tightening curbs on funding to Russian clients after Washington authorized secondary sanctions on overseas financial institutions that aid Russia's war in Ukraine. Chinese banks will sever ties with clients on the sanctions list and will stop providing financial services to Russian military industry. Heightened due diligence underscores extent to which China is complying with US sanctions despite its opposition to them.

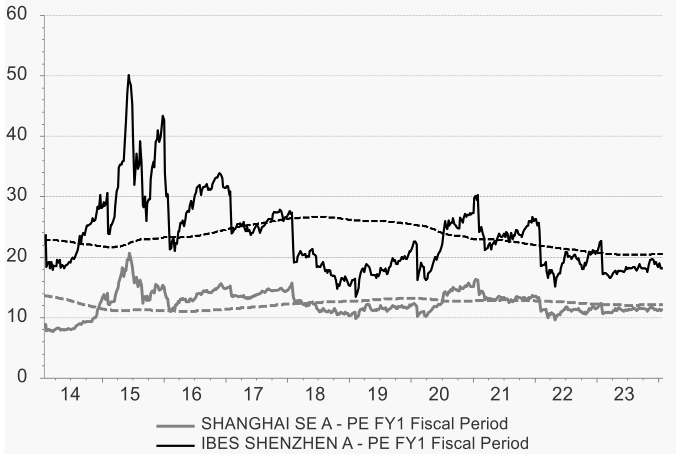
Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: UW /// SHENZHEN Idx: UW

Bonds – Govies: MARKETWEIGHT (10Y Yield target 2.0%)

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio
PE forward

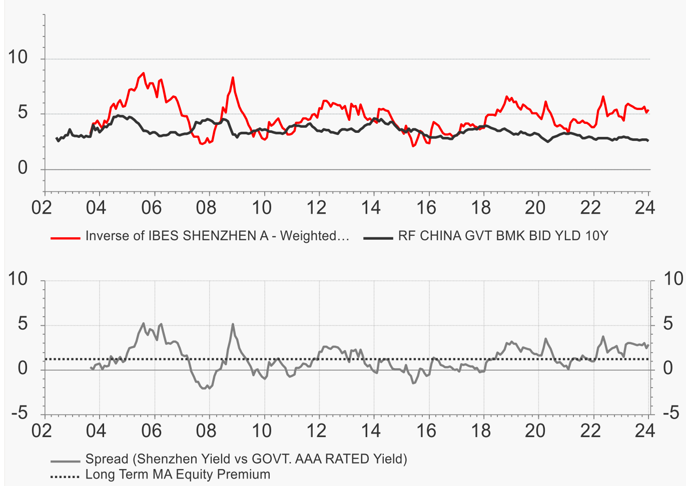


Fuente: LSEG Datastream / ANDBANK

Chinese Equities Undeperforms World & US indices
MSCI China vs MSCI Global and MSCI USA

Source: Refinitiv Datastream / ANDBANK

Equity Yield (China Zhenzhen) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

JAPAN

The TSE accelerates with its shareholder optimization reform.

The TSE stepped up pressure on CEOs to meet its request to improve capital efficiency metrics and stock price

About 47% of companies in Japan's broad benchmark Topix index still trade below book value, compared with 18.4% in Europe and 4.8% in the US, according to Jefferies. The gap suggests that Japanese companies tend to keep excess cash and other assets, such as shares in other companies, rather than use them to boost profits or their stock price.

The TSE is promoting a mandatory reform by which companies are forced to become aware of this problem of low P/BV ratios, and to do so it urges companies to publish the causes of their low ratios (mostly related to excessively complex and inefficient capital structures), as well as the measures to be taken to improve the share price. With this, the TSE intends for companies to show investors that the company identifies and is aware of the problem. The TSE's move is the latest in a series of reform measures aimed at further increasing the attractiveness of the stock market for investors. Companies have started to respond to TSE's reform measures, with share buybacks hitting a record high last May. Some companies, such as Toyota Motor, announced that they would sell off cross-shareholdings. The TSE released its first list of companies responding to a request to improve capital efficiency and stock price. The list included 660 (or 40%) out of 1,656 firms in TSE Prime section. Another 155 names (9%) are considering action. This compares with July tallies of 20% and 11% respectively. Three hundred of 1,1649 (19%) have either announced or are considering measures. The TSE will update the list every month and plans to promote good examples of corporate disclosures by early February.

This step of announcing the list of companies is not only important from a company perspective, but also for investors, who will now know which companies are serious about making changes. This will continue to provide support to the market, as the lists underscore that more companies are paying closer attention to shareholder interests. The TSE's initiative doesn't end today. It will be updated every month, which means more companies are expected to take action.

Stock valuations normalizing, prompting debate over further upside

Nikkei discussed 1H January's Japan equity rally that lifted PE ratios back to historical averages. The momentum was largely attributed to optimism about NISA program enhancements. In our view, the broad strength started to correct the undervaluation that has marred the market for some time. The forward PE ratio of TSE Prime Market constituents rose to nearly 15.9 from 15.1 at 2023-end, close to the former TSE First Section 10-year average of 16.2

Economy: GDP growth expectations little changed. Low growth and inflation to moderate below BOJ target in 1Q26

GDP likely expanded 1.15% q/q annualized in Q4, following the surprising 2.9% contraction in the previous quarter. Quarterly projections were little changed from December, which saw 1.19% expansion in Q4. Forecast period was extended through FY25, where the GDP growth trajectory remained stable in the 0.8% range.

Core CPI projections were similarly little changed, though the quarterly trajectory was seen moderating below the BOJ's 2% target through 1Q26.

Market Sentiment

Successive bullish closes have taken Japanese indexes to 33-year highs. Now discussions are about high options settlements and a range of negative technical indicators (candlestick charts, deviation from 25-day moving average, and elevated toraku ratio pointing to overbought conditions). Still, underlying sentiment is supported by the TSE's reform and the list of companies complying with capital efficiency improvement requests. The Yen remains mostly on the firm side, with gains in December, from 151 JPY per USD to 141, though it lost some ground in the second week of January.

BOJ economic forecast updates to remain conducive for policy normalization

An ex-BOJ official has said that wage gains of 4% will pave way for a rate hike, and another former board member is saying that the BOJ is fully prepared to end NIRP. However, rate hikes should be modest as long as bankruptcies continue rising. Bankruptcies surged in 2023, with those of companies with debts of at least ¥10M ($68M) jumping 35.2% in 2023 to 8,690 cases, marking the second straight annual rise. Higher labour costs due to workforce shortages, particularly in the construction industry, and surges in the price of raw materials and energy among the main reasons. The service sector is logging the most at 2,940 cases, up 41.7%.

Additionally, the FY24 core inflation projection is seen likely to be revised down from the current 2.8% to the 2% target, due to lower crude oil prices, underscoring optimism about steady progress in sustainably achieving the target level, despite the NIRP policy. Ex-fresh food & energy inflation estimates currently at 1.9% in FY24 and FY25 are unlikely to be revised significantly. The FY23 GDP forecast of 2.0% is also likely to be downgraded after the sharp contraction in Q3.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 1.00%)

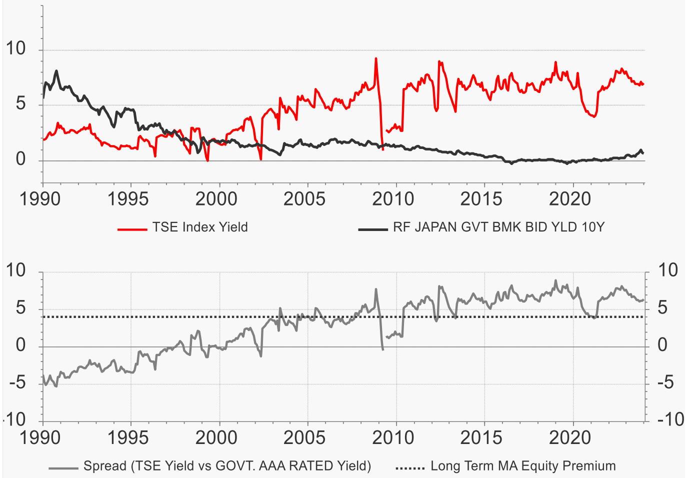
Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 140)

Japan Nikkei 225 price / earnings

Ratio

Fuente: LSEG Datastream / ANDBANK

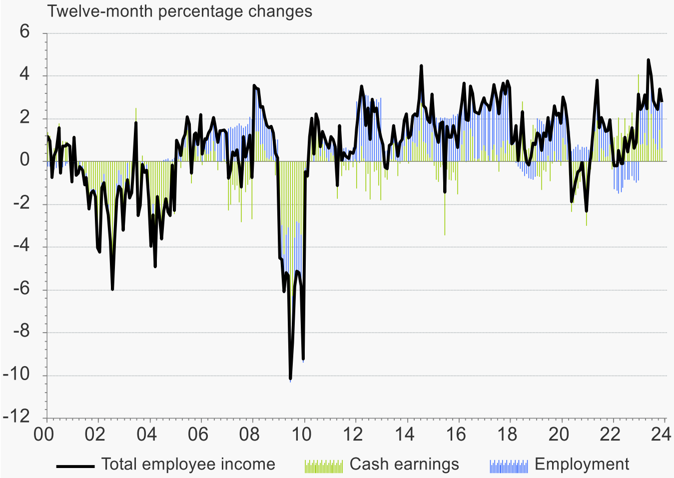
Equity Yield (Japan) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

Japan - Total employee income growth

Twelve-month percentage changes



Fuente: LSEG Datastream / ANDBANK

INDIA

Significant boost in the state elections for market friendly BJP, ahead of central government elections

The results of the state elections were more favourable for the BJP than anticipated, indicating a stronger pre-election position

The BJP secured a decisive victory in three out of four states (Madhya Pradesh, Rajasthan and Chhattisgarh), while the Congress party emerged victorious in Telangana. These state election results provide significant momentum for the BJP before the central government elections scheduled for April-May 2024. With the BJP's strong position in key states such as Madhya Pradesh, Rajasthan, Gujarat and Uttar Pradesh, an improvement in the market's mood is expected, supported by continuity in policies, the reform agenda, development and economic growth. The BJP can now focus more on welfare plans ahead of the state elections.

Economy: India's economic strengths are evident from various key indicators

Real GDP growth was 7.7% in the first half of fiscal year 2024, driven by robust dynamics in manufacturing and investment sectors, partly due to impressive corporate profits of the Nifty in 1HFY2024. Industrial production in India (IIP) climbed to 10.3% y/y in Aug 2023, the highest since June last year, as compared to 6.0% rise in Jul 2023. Production in the manufacturing industry increased by 9.3%, in mining by 12.3% and in electricity by 15.3%. Positive trends continued in the latter part of 2023, as seen in high-frequency data such as GST collections, automobile sales, energy demand, and PMI figures. Globally, favourable conditions, such as stabilized interest rates, Brent crude oil prices and steady bond yields, further support India's economic outlook. The Manufacturing Purchasing Managers' Index growth slowed in Oct 2023 to 55.5 (from 57.5 in Sep 2023), reflecting a slower increase in total new orders, but still at a reasonable expansionary level. Meanwhile, Services PMI also fell but remains at an impressive 58.4 in Oct. According to the government data, the combined Index of Eight Core Industries increased by 8.1% in Sep 2023 as compared to 8.3% in Sep 2022. The production of all Eight Core Industries recorded positive growth except crude oil which contracted by 0.4% in Sep 2023.

CPI-based inflation dropped to 5.02% in Sep 2023, compared to 6.83% in Aug 2023. The rate fell within the RBI's upper tolerance level and reflected significant slowdown in food inflation.

Equity market momentum to continue positive until elections

The profits for the first half of fiscal year 2024 (which began in April) were impressive, showing a year-on-year increase of 30%. We anticipate that the growth rate will stabilize at 20% year-on-year in the second half. Looking ahead to the next twelve months, and with a slight expansion in the PE multiple (from 20x to 21x) due to the inclusion of expectations for a political victory of the BJP and continuation of its pro-market agenda, we believe that the Sensex India index should trade between 78,000-80,000 points in the coming 12 months (today at 73,000). Also, the clarity in US interest rates and strong second-quarter GDP data for India (with updated GDP forecasts for fiscal year 2024) have resulted in a positive outlook for Indian stocks. The peaking of global interest rates is also expected to positively impact foreign investor flows into India. Since the financial results were announced on December 3rd, markets have already risen by 8-9% (as of 15 January 2024), and we believe that market momentum could continue to be positive until the general elections in April-May 2024. How to invest? Medium and small-cap companies have significantly outperformed large-cap companies over the past year. Small & mid-caps returned 24% and 30%, respectively, compared to ~4.5% for large companies over the past year. This superior performance is attributed to attractive valuations during the pandemic and expectations that medium and small-sized companies stand to benefit the most from strong economic growth. While valuations in small and mid-caps may be deemed expensive by some, we consider the country's reality vastly different from that of 10 years ago, and thus, those historical analyses should be given less weight. That being said, the current valuation of the mid-cap index is 21.8x, compared to its long-term average valuation of 15.8x, representing a premium of ~38%. Similarly, the current valuation of the small-cap index is 18.4x, compared to its long-term average valuation of 14.1x, a premium of ~30%. All said, the long-term growth potential for medium and small-cap companies still remains strong, though admittedly, the margin of safety has been reduced due to higher valuations. Short-term returns may be moderate in these sectors. It seems that now is the time to shift the investment portfolio in India towards larger capitalization positions. We will identify the vehicle that aligns with this objective to expose ourselves to this market in our discretionary mandates

Central Bank: RBI keeps policy repo rate unchanged at 6.50%

The Monetary Policy Committee (MPC) in its fourth bi-monthly monetary policy review of FY24 kept key policy repo rate unchanged at 6.50% for the fourth consecutive time. All six members unanimously voted to keep the policy repo rate unchanged. The MPC also remained focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. This seems to highlight the importance of now shifting the investment portfolio in India towards larger capitalization positions.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.5%)

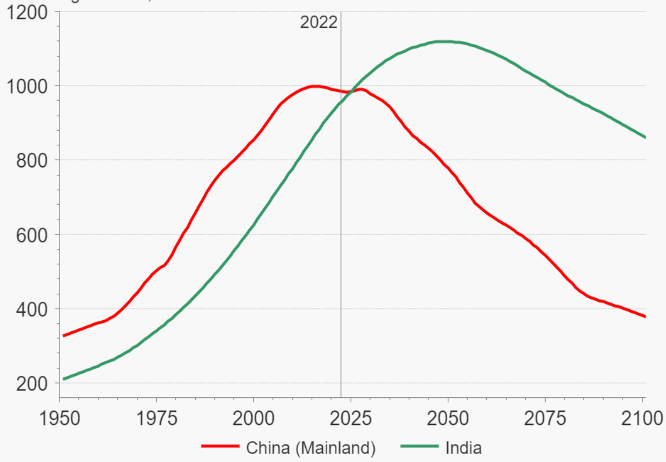
Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 82)

India Datastream index Price Earnings Ratio
Ratio

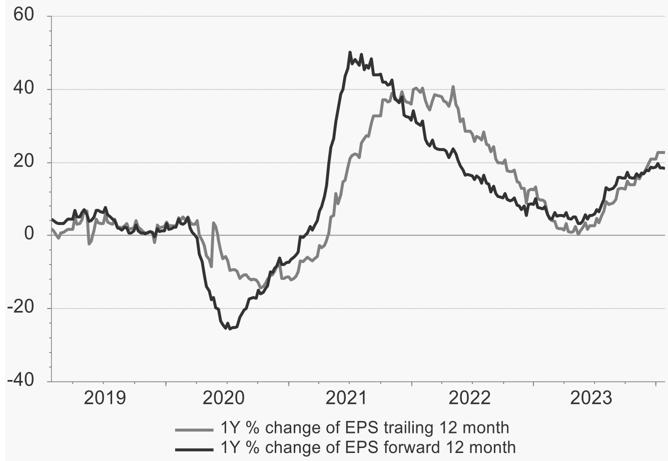
Fuente: LSEG Datastream / ANDBANK

China vs India: Working-age population
Aged 15-64, millions



Source: LSEG Datastream / ANDBANK

EPS (Trailing & Forward)
MSCI India



Fuente: LSEG Datastream / ANDBANK

VIETNAM

FDI surged to double the five-year average. The stock market offers a good entry opportunity

Trade is a key driver, suggesting a high level of industrial competitiveness

Trade was a bright spot in recent months, especially in October, as Vietnam's economy continued to recover. Exports escalated to $32.3bn, up 5.3% y/y, while imports increased to $29.3bn, up 2.9% y/y. Thanks to outstanding performance from exporting electronic components and agricultural items, the trade surplus reached $24.6bn YTD ($3bn in October), which is equivalent to a surplus of 8.74% of GDP in just 10 months (10.5% of GDP in annualized terms). The strong foundation for this trade performance is industrial production, increasing 5.5% m/m and 4.1% y/y. Services flourished, with retail sales up 1.5% m/m and 7.0% y/y as inbound visitors neared 10 million in 10M23, 4.2 times higher than 10M22.

FDI growing 100% vs the 5-year average. The Central Bank will not follow its peers in the region in raising rates. Favourable monetary environment for equity

Inflation rose modestly by 0.1% m/m and 3.6% y/y, posing no immediate alarm, with the uptick in rice and fuel prices being offset by a decrease in food (pork) prices. Capital inflows to Vietnam have been resilient in trade, remittances and investment, especially after President Biden's state visit. Committed FDI investment in October surged to $5.5bn, twice the five-year average. We maintain the viewpoint that the VND is fundamentally solid and the SBV will continue its commitment to prioritizing growth while securing major economic stabilities.

Stable currency. Little exposed country

The strengthening dollar triggered capital outflows from Asia in general, injecting some volatility into the FX market. In Vietnam, the VND lost 1.1% m/m in October, but remained relatively stable YTD with a 3% depreciation. Post the Fed's recent rate pause, the Fed funds rate remains at 5.25-5.50%, in contrast with a YTD reduction in VND lending rates of 2.0–2.2%. Reassuringly, Vietnam's Fx exposure is relatively low at just 35% of GDP. However, local companies will require prudent cash flow management and debt refinancing, finding an optimal balance of domestic vs. foreign leverage.

The National Assembly in Hanoi set the socio-economic objectives. It defined new regulations in key matters with a marked pro-growth bias

The National Assembly's ongoing session in Hanoi, setting the socio-economic objectives for 2024, included a GDP growth rate target of 6.0-6.5%. This translates into GDP per capita of between $4,700 and $4,730, while maintaining the State budget deficit under 4% of GDP. Average inflation is set to be kept below 4.0-4.5%, with credit growth at 15+%. Significant regulatory enhancements are also on the docket, with the Land Law, Housing Law and Real Estate Law poised for substantial amendments, acting as crucial levers in propelling Vietnam towards its 2024 economic growth objectives.

Market Review. The VNI index is now oversold and offers a good buy opportunity

October saw the VNI continue to fall from September, dropping 10% in this 2-month period, the worst two-month decline since September 2022. However, Vietnam was not singular in its negative performance, with most regional peers and Western indices also falling in double digits. Concerns that dampened sentiment in September and October, such as the money management operations in the form of SBV continuing issuing bills and rising interbank rates, misinterpreted as policy tightening, continued to spook investor sentiment throughout October. During the latter half of October, however, $4.5bn of the bills expired with new issuances of $2bn, representing a relative net injection of $2.5bn. The spectre of rising DXY and Fed rate concerns continued to overshadow performance.

In a more structural analysis, the trailing P/B of the total VNI is ~1.5x, levels not seen since Covid. In light of easing monetary policy, we believe the VNI is now oversold, evidenced by the switch from foreign net selling to net buying of $15.9m from 30 October to 7 November, as investors are seeing it as a good re-entry point. The VNI Index found support at the 1,085-1,100 level, still managing to outperform most EM markets, but on 26 October a large volume of sell orders in VHM (Vinhome), the biggest developer in the country, hit the market after parent company Vingroup issued 5-year exchangeable bonds with the option to convert into Vinhomes shares. This triggered another round of panic selling on the VNI index in October.

All 80 Companies in the coverage universe have now reported Q3 earnings, and the aggregated growth for NPAT remains flat at +0.5% y/y. Encouragingly, both revenue and EBIT growth are on the rise, with revenue increasing by approximately 5% y/y and EBIT by nearly 9% y/y. There are two main reasons why NPAT is not taking off, but could in the near future: 1) Following the currency depreciation since June, P&L was affected by increased loan provisions from some large cap stocks with USD denominated debt. 2) Financials, particularly the banking sector, continue to be significant contributors to earnings. Results, however, are behind quarterly forecasts, partially from the impact of earnings sacrifice from state-owned commercial banks to support economic recovery with preferential rates. Meanwhile, IT, energy, metals and industrials are showing robust results, while consumer, conglomerates, chemicals and utilities are underperforming. The property sector is in line with expectations.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

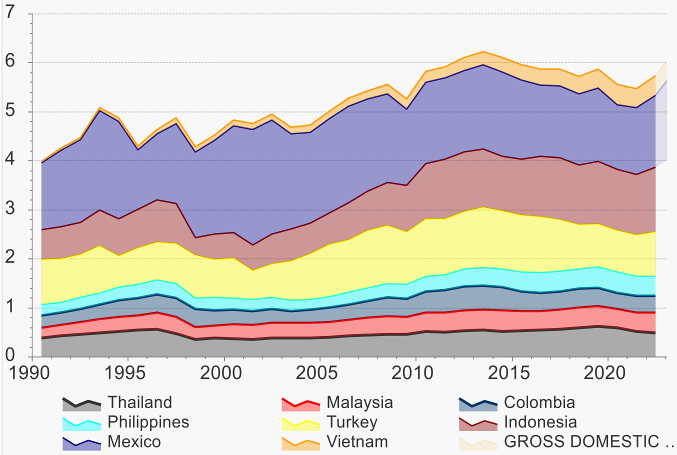
VIETNAM - Datastream index Price Earnings Ratio

Ratio

Fuente: LSEG Datastream / ANDBANK

Other EMs share of world GDP

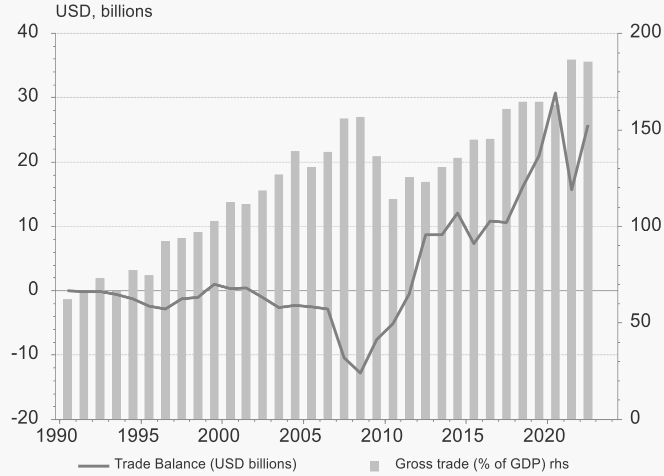
Per cent



Fuente: LSEG Datastream / ANDBANK

Vietnam Gross Trade & Trade Balance

USD, billions



Fuente: LSEG Datastream / ANDBANK

ISRAEL

Entering final phase of the war. Expecting tighter fiscal policy

Politics

The intensity of the war has indeed decreased, but estimates from official sources predict that warfare will continue throughout 2024. It is expected that during the year the military activity will gradually decrease, characterized by specific forays and not the type of broad, powerful military operation seen since the beginning of October. At the same time, many reserve forces have recently been released, which is helping the economy to gradually return to a normal activity.

There are already several economic indicators that indicate that a recovery is underway. A survey of trends in business for the month of December indicates significant improvement in industrials, retail trade and services alongside (still) negative data in the construction and hotel industries. The Chief Economist at the Ministry of Finance, Shmuel Abramzon, estimates the Israel Economy will grow 1.6% in 2024 in its base-case scenario of the war lasting until May of this year, but could fall as much as 1.5% if the war drags on until the end of this year.

Fiscal & Monetary policy

The war, of course, has far-reaching economic consequences whose effects will be felt for many years to come. Currently, the total cost of the war is estimated at over NIS 200 billion (approximately USD 54bn). This includes not only the direct cost of the war, but also the rebuilding of cities and settlements that were damaged during the murderous attack by Hamas. Israel ended 2023 with a 4.2% fiscal deficit.

In addition, the war revealed many deficiencies in the army and the lack of proper preparation in terms of military equipment and in the size of the force required to defend the country. Considering this, it seems that the defence budget will be significantly increased in the coming years. The army's estimates are that it will require a budget increase of about NIS 220 billion (USD 59bn) over the next four years, an increase of about 60% compared with the current budget. This will force the government to make difficult decisions, i.e., implement a tighter fiscal policy. The government must approve the 2024 budget before the February 19th deadline. Failure to approve the budget by that date will automatically cause the government to fall (although there is a high probability that the government will not survive much longer either).

The governor of the Bank of Israel, Prof. Yaron expressed his opinion regarding the steps that the government is required to decisively take. If the government does not make the difficult decisions, the Bank of Israel will not reduce the interest rate even though the market expects it to do so. The Bank of Israel did cut interest rates in December by 25 bps and published an updated forecast in which it expect interest rates to drop by between 50 bps and 75 bps during the year. However, further rate reductions will depend on the fiscal measures taken by the government.

The evolution of prices is giving the Central Bank a break, with inflation returning to the target range (1 to 3%) in December, with a +3% y/y print (+0.1% m/m), down from the +3.3% y/y number in November, with core prices showing a more limited increase of 2% to bring it to centre of the target range. Considering all the previous points, and that the yield curve has fallen sharply in the last two and a half months, we believe that the potential for further declines in yields is extremely low. Therefore, we are not suggesting any changes to the sovereign debt positioning.

Stocks

The Israeli stock market continued to perform well, with the Tel Aviv 125 index increasing by 1.7%, while the small-cap index outperformed with a rise of nearly 15%, after its underperformance throughout 2023. Despite the impressive recovery since November (15% approx), the stock market is still trading at attractive valuations compared to the recent past and to other stock markets in the developed world. However, considering the high level of uncertainty on the Israeli border, we prefer to wait for developments before recommending an overweight investment in the Israeli market.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

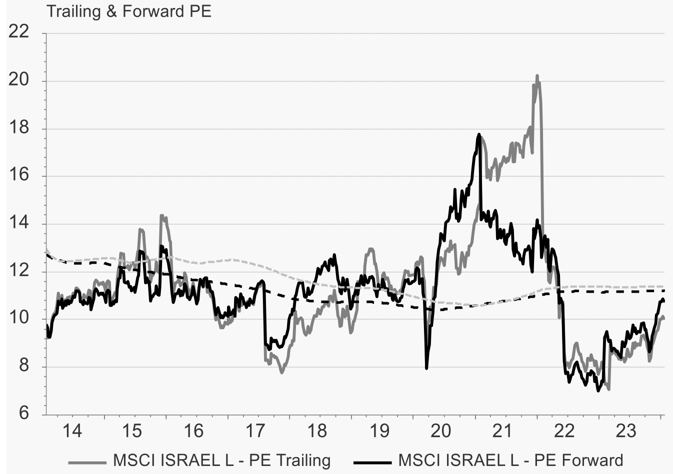
Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: OVERWEIGHT

Israel price-to-earning ratio

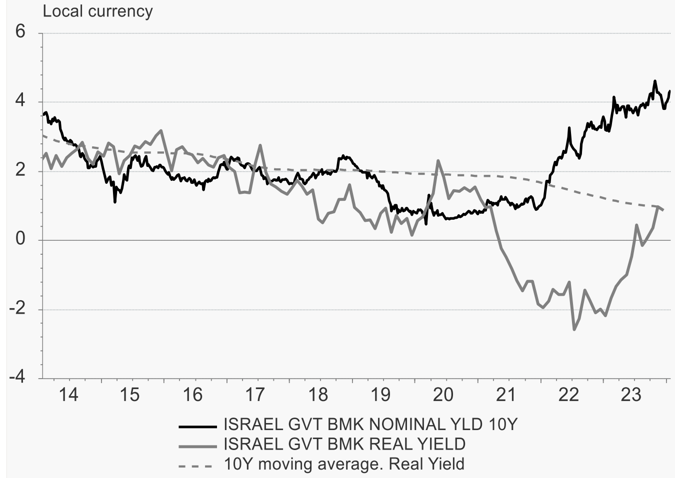
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y

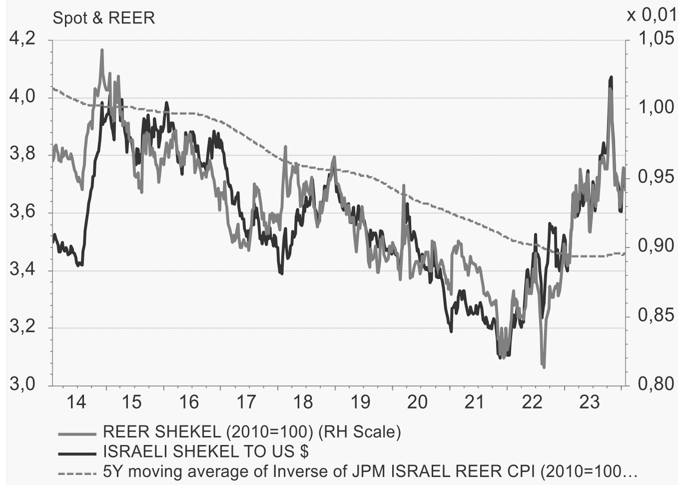
Local currency



Fuente: LSEG Datastream / ANDBANK

Israel Shekel

Spot & REER



Fuente: LSEG Datastream / ANDBANK

BRAZIL

The year started with a mix of good and bad news

Good news first

The latest Focus Report, the BCB market survey of more than a hundred research institutions in Brazil, showed general improvement in market projections for the economy in 2024. Survey participants expect Inflation to end the year at 3.9%, getting closer to the centre of the target range of 3.0%, and lower from the upper boundary of 4.5%. This would be better than 2023, when inflation ended at 4.62%, just shy of the 4.75% upper boundary (target: 3.25%).

Growth expectations remained somewhat unchanged, with the average projection for 2024 GDP around 1.6%. After surprising growth of around 3.0% for 2023 (as of this writing, the official number has not yet been published), many analysts are discussing the possibility that previous years' reforms have improved potential GDP, which had been falling consistently over the past decade. That would be great news but has yet to be confirmed.

The Focus Report also shows that participants expect the Brazilian real to breach the psychological threshold of BRL 5.00, most probably due to the recent changed stance of the FED. As Powell, and the dots, hint that the rate hikes are over, the next step would be to go into rate-cutting mode, which would weaken the dollar.

The survey participants also expect Brazil to run a trade surplus of at least USD 75bn in 2024, below the record-breaking surplus of 2023, that ended close to USD 100bn. The difference is due to expected lower demand from China, Brazil's main trade partner.

And some bad news

The fiscal situation for 2024 will be very challenging, as Haddad's fiscal framework has set a zero-deficit target for the year. In November, the 12-month primary deficit reached BRL 131 billion, or 1.2% of GDP, of which 90% is at the federal level. In other words, Lula and his cabinet have to find a way to save more than a BRL 100 billion this year.

In order to achieve such savings, the government would have to implement tough fiscal restraint measures, such as revising some mandatory expenses, regulation of the tax reform and possibly the re-taxation of some sectors. However, these measures could have negative impacts on economic growth, inflation and employment right in an election year. In 2024, the 5,568 cities in Brazil will elect mayors, vice mayors and city councillors, totalling some 70,000 offices in a single electoral round.

Lula has given a number of indications that it's essential for his party, *Partido dos Trabalhadores* (PT), and their allies who helped elect him in 2022, to have full government support to elect the largest number of mayors as possible. This means more, not less, fiscal spending, for the deputies that represent the party in each region.

The market is aware of all this, and is waiting for the fiscal revision that was scheduled for March of this year. The government is expected to revise the 2024 fiscal target to a 0.5% deficit. Analysts believe that the new target is feasible and, most importantly, conducive to a path of surpluses in the years ahead. However, as mentioned before, achieving that target is important for demonstrating a fiscally responsible attitude, something which Lula has, thus far, failed to deliver. Therefore, for President Lula, Brazil's fiscal situation poses a trade-off between short and long-term goals.

Asset Allocation

The continued easing of monetary policy (policy rate expected to decrease from current 11.75% to 9% at end of 2024), should lead to a good year for risk taking in Brazil. Historically, interest rate cutting cycles correlate strongly with above-CDI (*Certificado de Deposito Interbancario*) returns for both fixed income and stocks.

It has been so in 2023, when rates were cut by 200 bps (13.75% to 11.75%) and *Ibovespa* returned +22.3%, the IMA-B Index (Inflation Linked Government Debt) returned +16.1% and the IRF-M Index (Fixed Rate Government Debt) +16.5%, compared with CDI (the main portfolio benchmark in Brazil) of +13.0%. The only underperformers in 2023 were the "*multi-Mercado*" funds, which had one of their worst years (-2.9% below CDI) in a decade. Most managers entered 2023 very pessimistic with Brazil and failed to generate enough gains in international markets to offset the reduced exposure to Brazil local assets.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: OVERWEIGHT

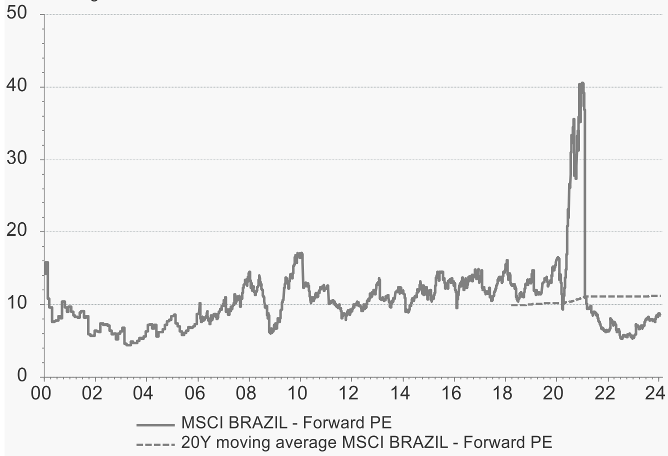
Bonds – Govies Local: UNDERWEIGHT (Target Spread 700 => Target yield 11.2%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 250 => Target yield 6.75%)

FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.00)

Brazil MSCI Index price-to-earning

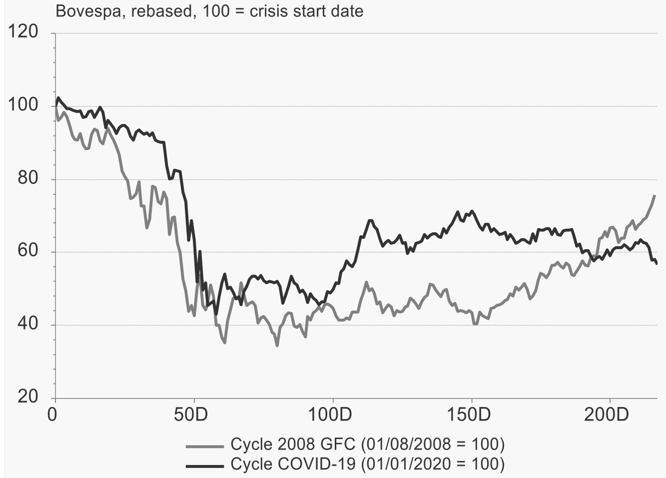
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

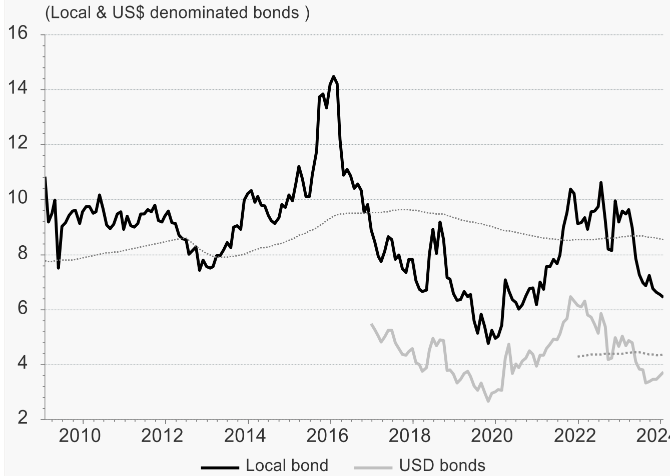
Bovespa, rebased, 100 = crisis start date



Fuente: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: LSEG Datastream / ANDBANK

MEXICO

The new year begins with brisk economic activity, rebellious inflation and uncertainty on the fiscal front

Central Bank

Banxico closed the year maintaining its monetary policy rate at 11.25% and in the minutes of the last meeting we can see how the institution's governing board continues to welcome a cut soon in 2024, arguing that with the restrictive cycle implemented the real ex ante rate, considering both inflation expectations and underlying inflation, provides room for the Bank of Mexico to begin the process of lowering rates. Today, the market estimates that this reduction will be between 175 and 200 bps this year. The central bank increased its forecasts for underlying inflation for all quarters of the period between 4Q2023 and 4Q2024, maintaining its forecast that this inflation measure will converge to its long-term goal by 2H2025.

Inflation and activity

Economic activity continues to maintain a higher-than-expected growth trend. During the third quarter of 2023, activity expanded by +3.3% compared to the same period of the previous year, and increased +1.1% compared to the second quarter of 2023, achieving eight consecutive quarters of growth. Indicators published for the last quarter of the year, such as industrial production, trade balance and consumption, allow us to infer that this trend continued in the last months of the year.

On the other hand, inflation ended the year above the central bank's estimates, reaching a 12-month level of 4.66% in December (+0.71% m/m), after having reached a two-year low in October, when a +4.26% y/y increase was recorded. The rebound in the headline CPI was driven by the most volatile prices such as agricultural products and regulated utilities, which with more limited increases in previous months had allowed the government to keep inflation contained. Core CPI closed the year at +5.09% y/y, well above the central bank target.

Fiscal policy and Politics

We close 2023 with balanced public finances, where increases in spending on infrastructure projects or spending on public assistance programs have been financed by higher revenues, increasing tax incomes. As a result, the primary fiscal balance remained close to 0% of GDP. For this new year, it is important to remember that the budget proposal has been approved without major changes, as the Revenue and Expenditure Law was voted in the plenary session of Congress, a proposal that includes an increase in the main public deficit measures.

As we already mentioned in our previous review, we have official candidates for the 2024 presidential elections. For the incumbent party, *Morena*, the former head of government of the City of Mexico, Claudia Sheinbaum, is going to be the candidate and today she is the one who has the greatest probability of winning the presidency. The main opposition force (an alliance of several parties among which the PRI and PAN stand out), will field Senator Xochitl Gálvez as its candidate, while the *Movimiento Ciudadano* party, today the third party in the polls, will be represented by the current governor of the state of Nuevo León, Samuel García.

Financial markets

Equity: We maintain a favourable perspective on exposure to equities due to the cyclically adjusted valuation compared to historical metrics and their lower valuation (12.6x fwd PE) relative to other stock markets. However, we must point out several risks to our thesis: i) a possible recession in the US; ii) a deterioration of the fiscal situation; iii) high for longer real rates. We have a target of 58,800 for the end of 2024.

Fixed Income & FX: We are holding to the idea that a decline in inflation will materialize during 2024, but it will be slow, especially for core prices. Mexican bonds look overvalued, mainly the medium-term maturities (5 to 10 years) with a spread over US Treasuries (500 bps) lower than the 12-month average (517 bps). We maintain our 12-month estimate at 550 bps, due to the effect of the risk of the increase in the fiscal deficit, the probability of an economic recession in 2024 and the start of the electoral process for next year's presidential election. Regarding the bond in dollars, the spread has been around 160 bps, below our expected level for the next 12 months (175 bps), but we anticipate higher volatility for the same risk reasons as for the bond in pesos.

The peso strengthening sharply in the last part of the year, reaching 16.80 USDMXN. At the beginning of 2024, we have seen a depreciation towards 17.20 pesos. We maintain our outlook for a level of 18.50 for the next 12 months.

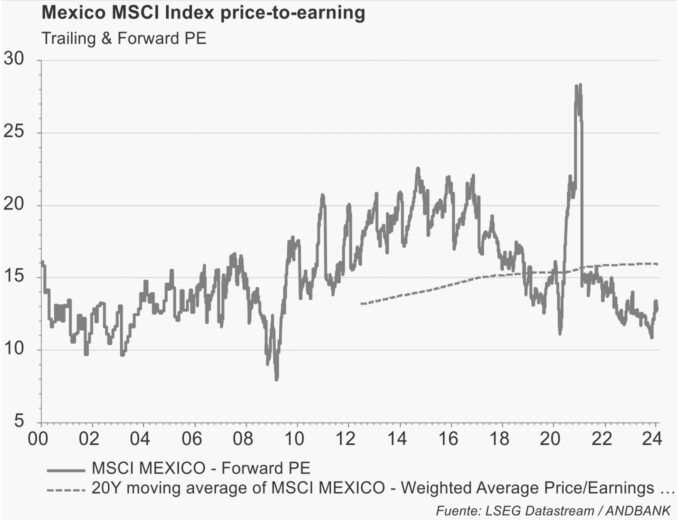
Market outlook – Recommendations & Targets from fundamental analysis

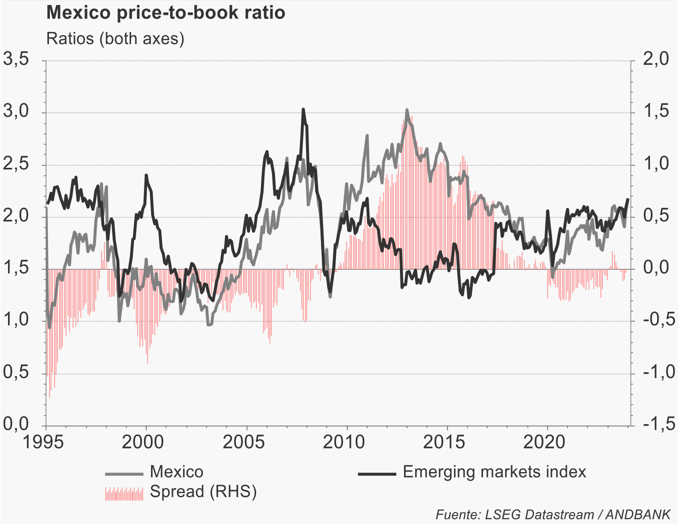
Equities – Mex IPC: OVERWEIGHT

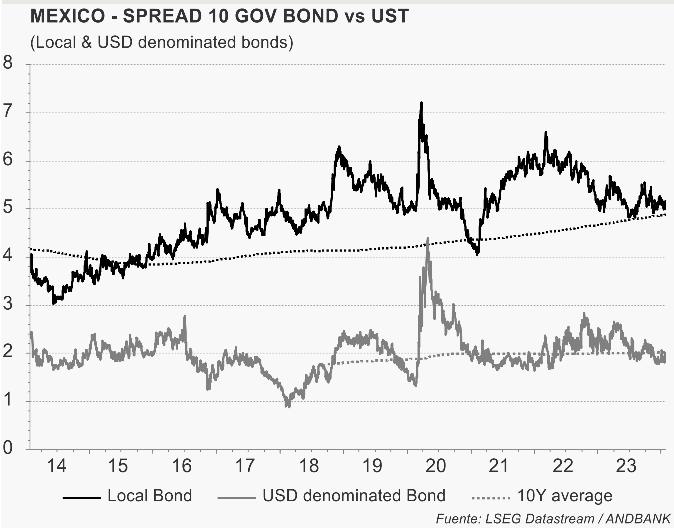
Bonds – Govies Local: MARKETWEIGHT (Target Spread 550 => Target yield 9.75%)

Bonds – Govies USD: MARKETWEIGHT (Target Spread 175 => Target yield 6.00%)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 18.50)







ARGENTINA

Bumpy road ahead

Politics: The reforms announced are extensive and ambitious

Javier Milei's first month as President was anything but uneventful. Three major packages of measures stand out from his first days in office. First, only two days after the presidential inauguration, the Minister of Economy, Luis Caputo, announced a set of fiscal, monetary and exchange rate measures that included a devaluation of more than 50% from the official exchange rate (from 366 USDARS to 800 USDARS), the non-renewal of state labour contracts of less than one year, the reduction to a minimum of discretionary transfers to provinces and the halt of public works (approved bids whose development has not begun will be cancelled). The government estimates that considering both the spending cuts and the new revenue sources included in these measures (for instance, reverting the recent income tax modification), the fiscal result will improve by 5% of GDP, going from a 3% GDP primary deficit to a 2% surplus.

A few days later, in a national broadcast, Milei presented a Presidential Decree of Necessity and Urgency (DNU), called "Bases for the Reconstruction of the Argentine Economy", which contains 366 articles that contemplate several reforms with wide-ranging consequences. The DNU includes a major overhaul of the labour market including flexibilization of severance payments, reduced litigation, the extension of new-employee trial periods (taking it from 3 to 8 months), to name just a few of the exhaustive set of measures. The DNU also scraps several Bills that provided the legal framework for the growing price control mechanisms to which Argentina has become accustomed in recent years. Here we can include the rent control law that has caused a considerable reduction in the supply of rental housing in recent years. In order for the DNU to remain in force, it must be ratified by at least one chamber of Congress and at the same time be immune from various courts after several organizations (such as the main Central Workers' Union) lodge several appeals alleging unconstitutionality, as they claim that several of the initiative require Congressional approval.

The Third block of measures are included in the Omnibus Law sent to Congress, called "Bases and Starting Points for the Freedom of Argentines". This initiative of 664 articles contemplates the privatization of public companies (includes a list of 41 SOEs that may be privatized), changes in the Criminal Code, modifications to the electoral system, tax reforms and the suspension of the current pension mobility formula, among other points. The measures promoted by Milei in his first days as President undoubtedly go in the right direction, seeking an economy with less state intervention and promoting private sector entrepreneurship. Although Argentine assets have reacted positively of late, we believe that prices today do not reflect a scenario where all of the reforms remain in place. This is due to the weakness of the ruling coalition in Congress.

IMF: Seeking to put the old agreement back on track. Should we expect a new agreement in the short term?

The International Monetary Fund (IMF) and Argentina have reached a staff-level agreement to unlock access to SDR 3.5bn (USD4.7 bn), with disbursement upon completion of the review, that would be used to pay for the December, January, and April maturities with the Fund. The agreement aims to bring the current program back on track after the previous administration missed several goals, with preliminary data suggesting that the end-year targets were missed by a large margin. Luis Caputo stated that reviving this agreement required a greater commitment to compensate for the loss of credibility that occurred in the past. The deal includes a tightening of the country's fiscal goal — a target 2% GDP surplus instead of a 0.9% deficit, which would imply greater austerity measures than previously envisioned. The IMF supported the administration's "ambitious stabilization plan" and "strong policy efforts". Minister Caputo said that the IMF left the door open for a possible new agreement. It is probable that the government will seek to finance the maturities in 2024 and the following years and may possibly try to obtain additional financing.

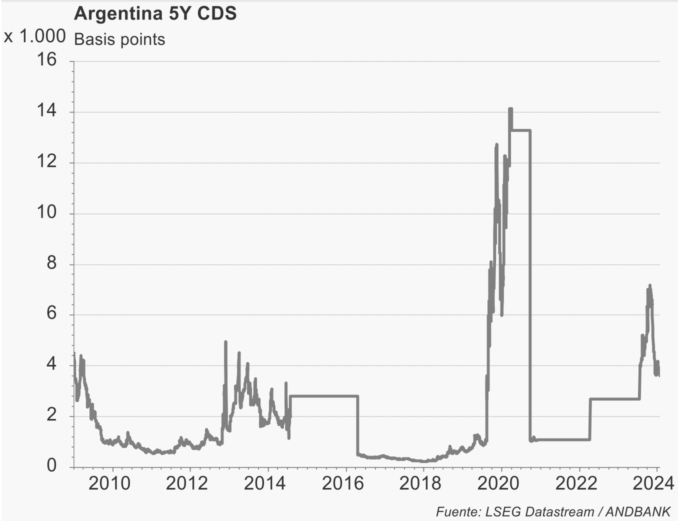
Inflation: Lower than expected pass-through

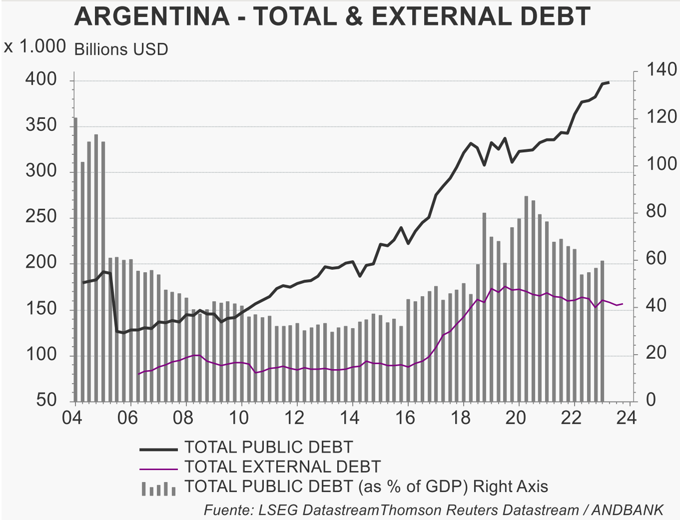
After the sharp devaluation of the official exchange rate and the beginning of a process to normalize regulated prices, a high inflation reading for the month of December was expected (+25.5% m/m, +211.4% y/y), although it was lower than what was predicted by private analysts who expected a monthly inflation rate closer to 30% m/m. January already shows signs of a slowdown in price increases but increases in regulated prices, which have already been announced by the government, are still to be processed and will put upward pressure on this component of the index. The government bets that inflation will begin to decline starting in the 2Q24. For the time being, the main anchor that the government is using to stabilize inflationary expectations is the fiscal surplus target, so the perception of market agents on how committed the government is to achieving the fiscal target will be key. The result of this year's grain harvest, which is expected to be very good, will also be very important (the Rosario Stock Exchange forecasts a record corn production of 60 mn/ton) in order to continue with the process of strengthening reserves. The central bank has built up almost USD 4bn in reserves since Milei took office

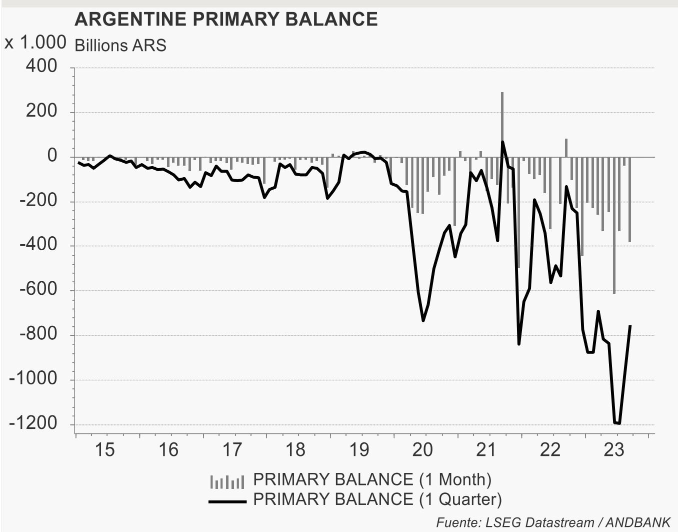
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2024 year-end target 1600)







GLOBAL EQUITY INDICES

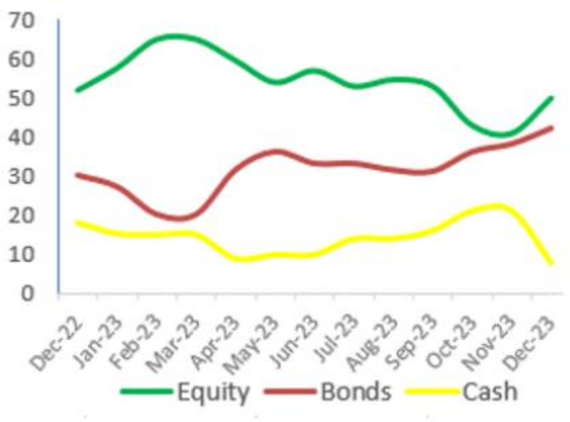
Fundamental assessment

Index	Projected EPS 2024	Projected EPS Growth 2024	PE (fw)	Current Equity Yied	Current Risk Premium	Reasonable PE	Implied Equity Yied at Reasonable PE	Implied Risk Premium at Reasonable PE	INDEX CURRENT PRICE	Andbank's Target Price	E[Perf] to target Price	Recommended Strategy	Exit Point (Strong Sell)
USA S&P 500	243,4	9,92%	20,09	4,98%	0,86%	19,00	5,26%	1,14%	4.891	4.625	-5,4%	MW-UW	5.088
Europe - Stoxx Eu	36,9	5,25%	13,10	7,63%	5,37%	14,00	7,14%	4,88%	484	517	6,8%	OW	568
Spain IBEX 35	986,0	4,01%	10,02	9,98%	6,82%	11,00	9,09%	5,93%	9.884	10.846	9,7%	OW	11.931
Mexico IPC GRAL	4.486	10,18%	12,67	7,89%	-1,36%	13,50	7,41%	-1,84%	56.856	60.566	6,5%	MW-OW	66.623
Brazil BOVESPA	15.489	12,03%	8,32	12,01%	1,47%	9,10	10,99%	0,45%	128.944	140.952	9,3%	MW-OW	155.047
Japan NIKKEI 225	1.758	25,56%	20,50	4,88%	4,16%	22,00	4,55%	3,83%	36.027	38.665	7,3%	MW	42.532
China SSE Comp.	306,5	14,56%	9,41	10,63%	8,14%	10,00	10,00%	7,51%	2.883	3.065	6,3%	UW	3.372
China Shenzhen C	126,4	30,16%	12,96	7,72%	5,23%	15,00	6,67%	4,18%	1.637	1.896	15,8%	UW	2.085
India SENSEX	3.750	26,07%	19,29	5,18%	-1,99%	21,00	4,76%	-2,41%	71.942	78.311	8,9%	OW	86.142
Vietnam VN Index	123,3	30,47%	9,54	10,49%		11,00	9,09%		1.176	1.356	15,3%	OW	1.492
MSCI EM ASIA	43,4	22,32%	11,97	8,35%		13,50	7,41%		519	585	12,8%	OW	644

ANDBANK ESTIMATES

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

Dynamic Asset Allocation per Ned Davis Research

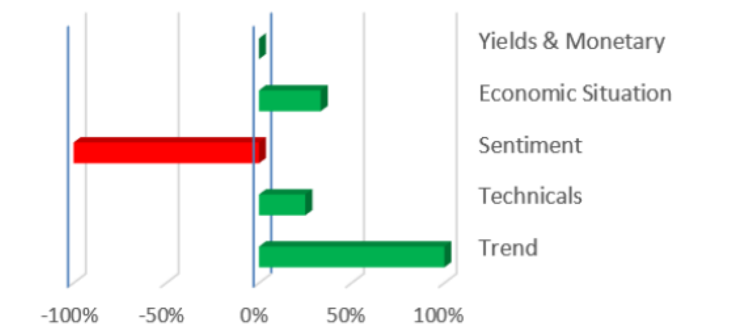


Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	67%	61,8%
Europe ex. U.K.	13%	12,5%
Emerging Markets	10%	10,7%
Japan	5%	5,5%
U.K.	2%	3,7%
Canada	2%	2,9%
Pacific ex. Japan	1%	2,9%

Current Relative Strength (Equities vs Bonds) Ned Davis Research

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



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

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q4 2023 Earnings Dashboard

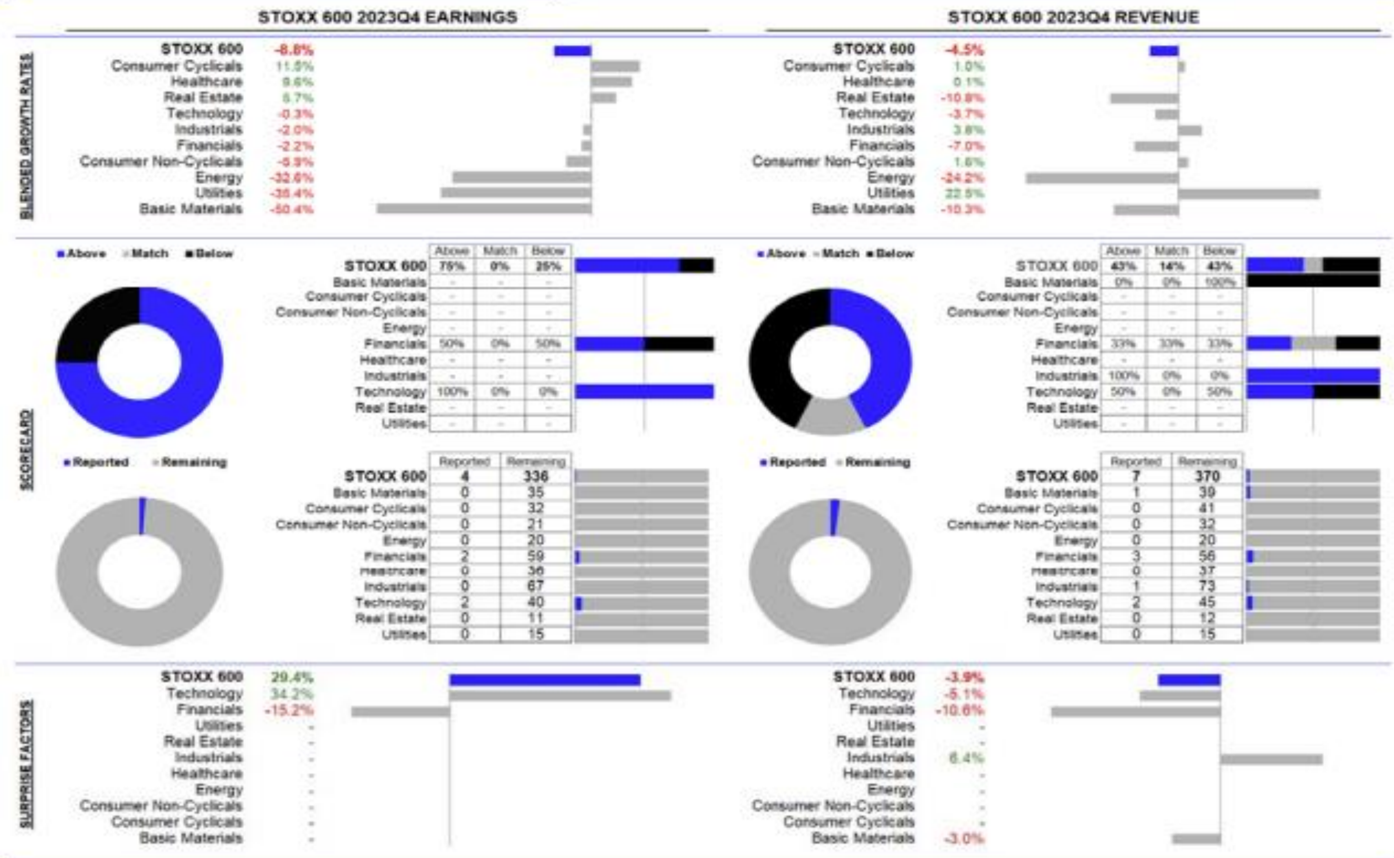
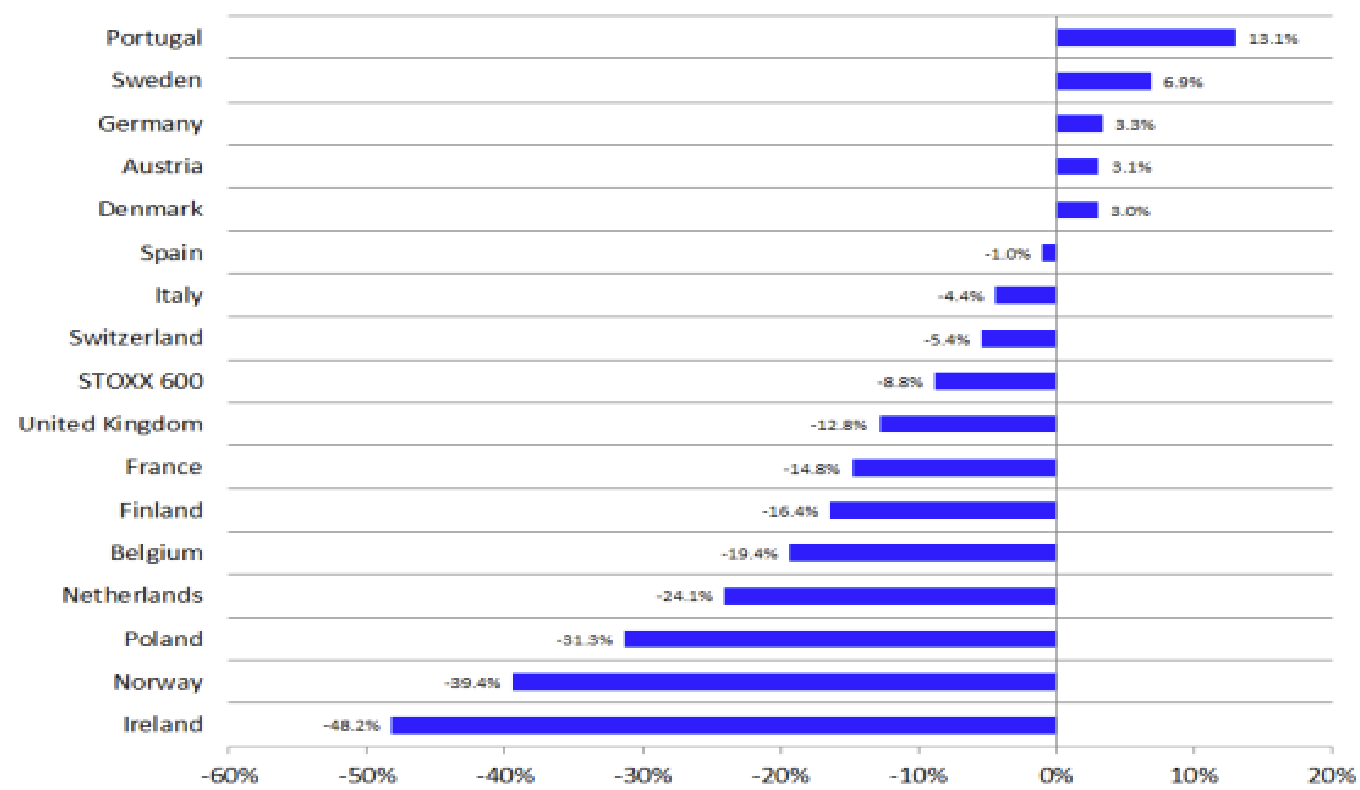


Exhibit 12A. STOXX 600: Q4 2023 Earnings Growth Rate Estimates by Country

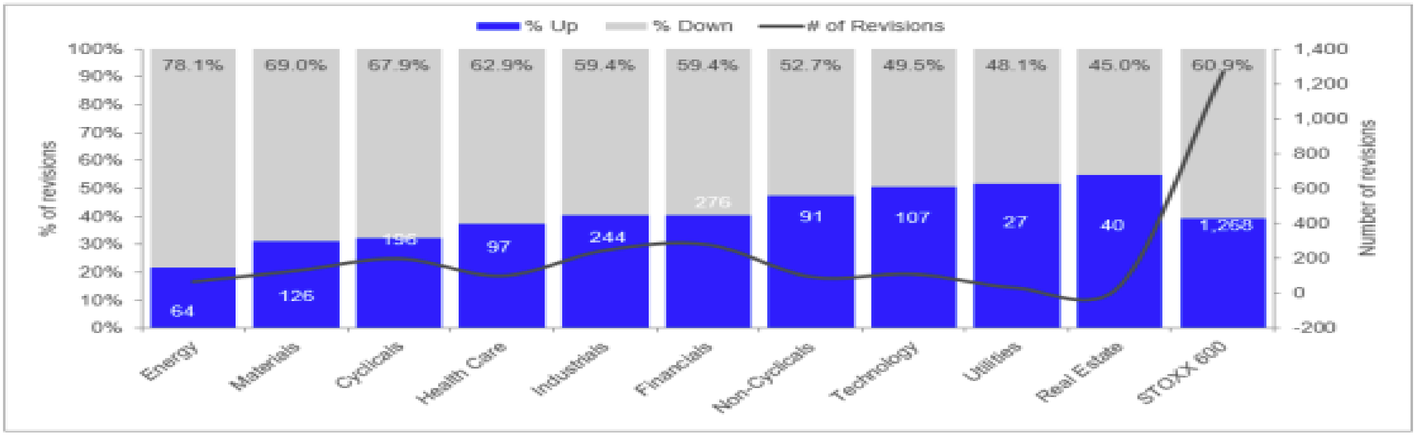


Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 16A. STOXX 600: Weekly Earnings Estimate Revisions by Sector



Source: LSEG I/B/E/S

Exhibit 17A. STOXX 600: 12-month Forward Price/Earnings Ratio

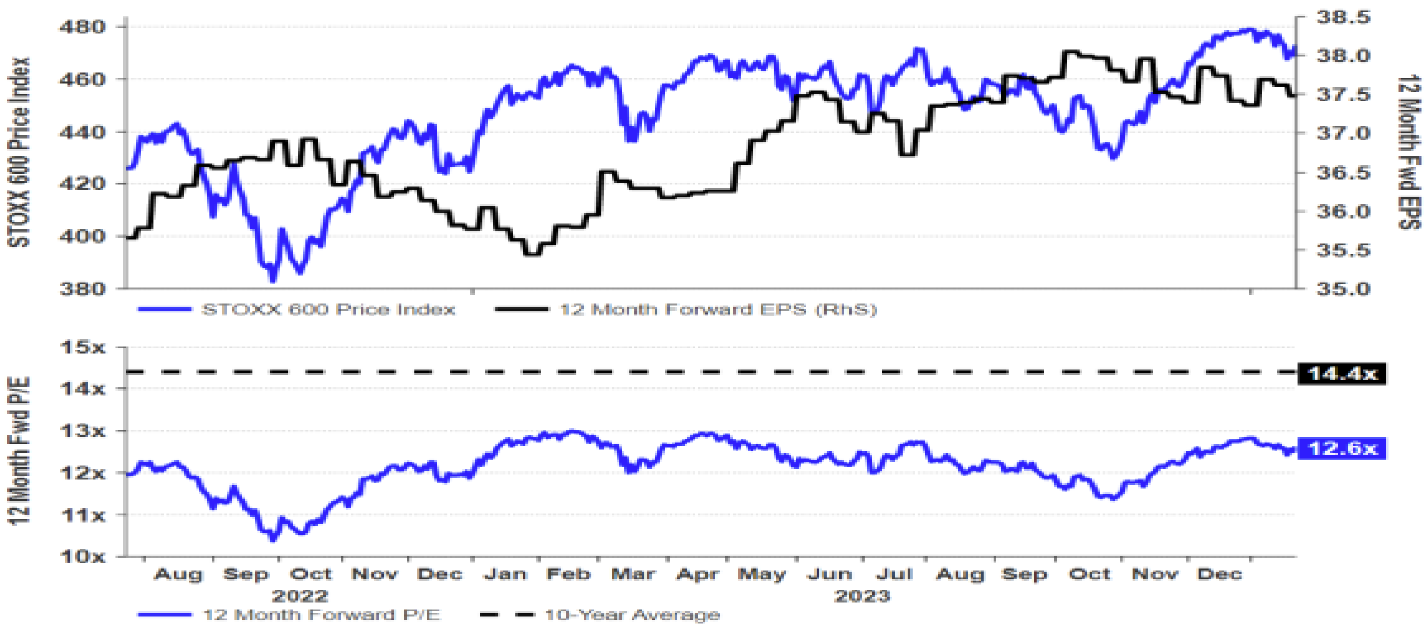
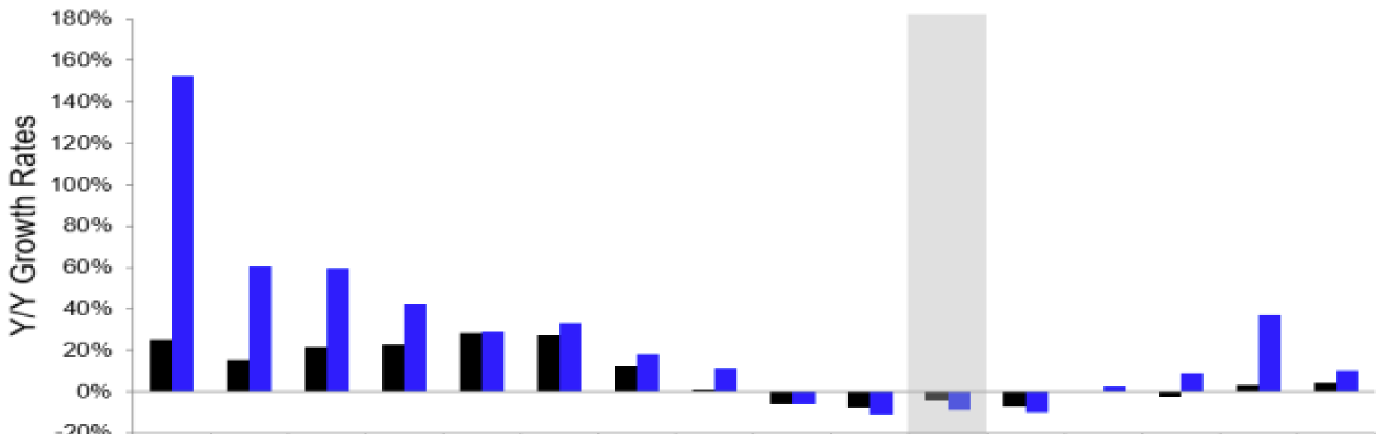


Exhibit 3A. STOXX 600 YoY Growth Rates



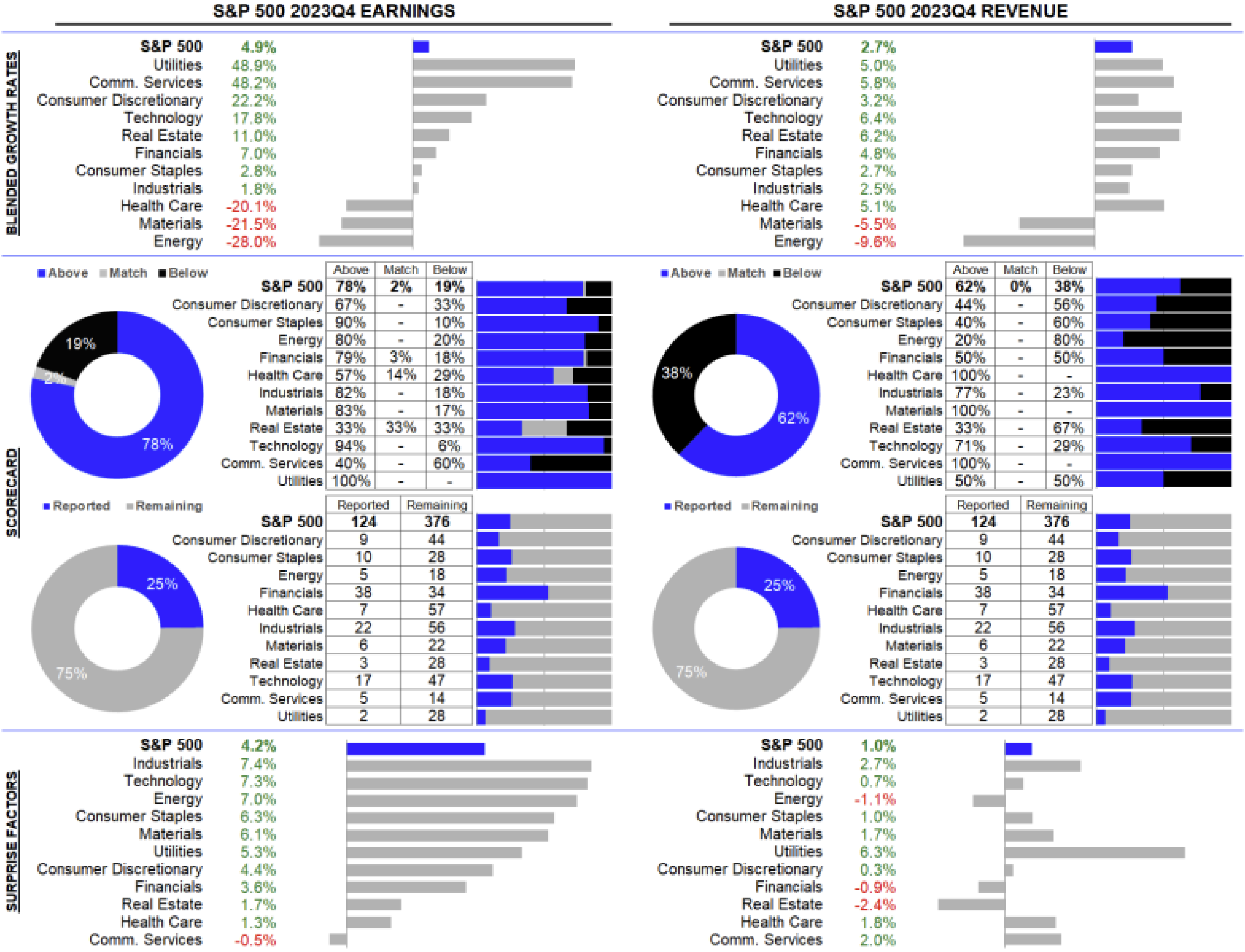
	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1
Revenue	25.2%	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-4.5%	-7.4%	-0.1%	-2.6%	3.2%	4.1%
Earnings	152.6%	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-8.8%	-9.9%	2.4%	8.7%	36.9%	10.3%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

Earnings Dashboard - US

Exhibit 1. 2023Q4 S&P 500 Earnings Dashboard



Blended Growth Rates

	Earnings		Revenue
S&P 500	4.9%	S&P 500	2.7%
Utilities	48.9%	Utilities	5.0%
Comm. Services	48.2%	Comm. Services	5.8%
Consumer Discretionary	22.2%	Consumer Discretionary	3.2%
Technology	17.8%	Technology	6.4%
Real Estate	11.0%	Real Estate	6.2%
Financials	7.0%	Financials	4.8%
Consumer Staples	2.8%	Consumer Staples	2.7%
Industrials	1.8%	Industrials	2.5%
Health Care	-20.1%	Health Care	5.1%
Materials	-21.5%	Materials	-5.5%
Energy	-28.0%	Energy	-9.6%

Scorecard – Earnings

	Above	Match	Below
S&P 500	78%	2%	19%
Consumer Discretionary	67%	-	33%
Consumer Staples	90%	-	10%
Energy	80%	-	20%
Financials	79%	3%	18%
Health Care	57%	14%	29%
Industrials	82%	-	18%
Materials	83%	-	17%
Real Estate	33%	33%	33%
Technology	94%	-	6%
Comm. Services	40%	-	60%
Utilities	100%	-	-

Scorecard – Revenue

	Above	Match	Below
S&P 500	62%	0%	38%
Consumer Discretionary	44%	-	56%
Consumer Staples	40%	-	60%
Energy	20%	-	80%
Financials	50%	-	50%
Health Care	100%	-	-
Industrials	77%	-	23%
Materials	100%	-	-
Real Estate	33%	-	67%
Technology	71%	-	29%
Comm. Services	100%	-	-
Utilities	50%	-	50%

Reported / Remaining (Earnings)

	Reported	Remaining
S&P 500	124	376
Consumer Discretionary	9	44
Consumer Staples	10	28
Energy	5	18
Financials	38	34
Health Care	7	57
Industrials	22	56
Materials	6	22
Real Estate	3	28
Technology	17	47
Comm. Services	5	14
Utilities	2	28

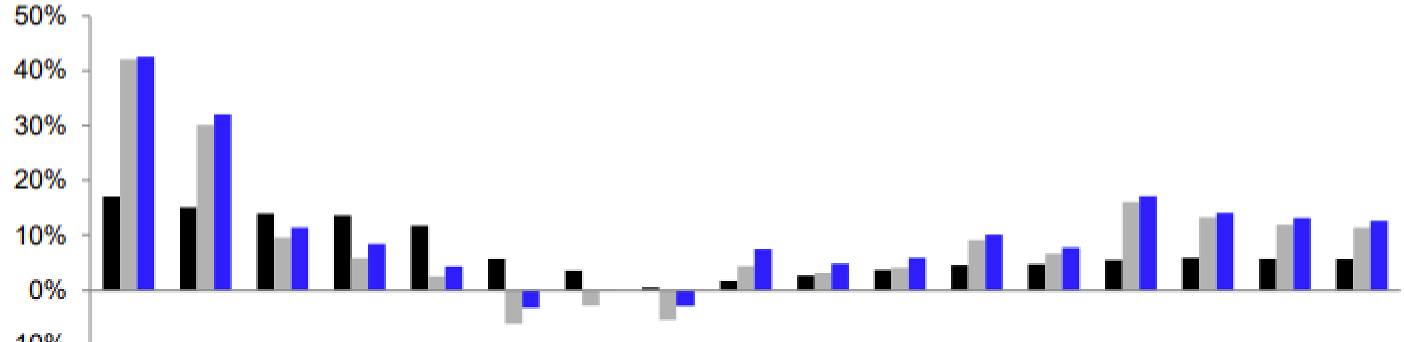
Reported / Remaining (Revenue)

	Reported	Remaining
S&P 500	124	376
Consumer Discretionary	9	44
Consumer Staples	10	28
Energy	5	18
Financials	38	34
Health Care	7	57
Industrials	22	56
Materials	6	22
Real Estate	3	28
Technology	17	47
Comm. Services	5	14
Utilities	2	28

Surprise Factors

	Earnings		Revenue
S&P 500	4.2%	S&P 500	1.0%
Industrials	7.4%	Industrials	2.7%
Technology	7.3%	Technology	0.7%
Energy	7.0%	Energy	-1.1%
Consumer Staples	6.3%	Consumer Staples	1.0%
Materials	6.1%	Materials	1.7%
Utilities	5.3%	Utilities	6.3%
Consumer Discretionary	4.4%	Consumer Discretionary	0.3%
Financials	3.6%	Financials	-0.9%
Real Estate	1.7%	Real Estate	-2.4%
Health Care	1.3%	Health Care	1.8%
Comm. Services	-0.5%	Comm. Services	2.0%

Exhibit 5. S&P 500 YoY Growth Rates



	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4E	24Q1E	24Q2E	24Q3E	24Q4E	25Q1E	25Q2E	25Q3E
Revenue	17.0%	15.1%	14.0%	13.6%	11.7%	5.8%	3.6%	0.5%	1.7%	2.7%	3.7%	4.6%	4.8%	5.5%	5.9%	5.7%	5.7%
Net Income	42.1%	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	3.2%	4.1%	9.1%	6.7%	16.1%	13.3%	11.9%	11.4%
Earnings	42.6%	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	4.9%	5.9%	10.1%	7.7%	17.1%	14.1%	13.1%	12.6%

Source: LSEG I/B/E/S

ENERGY – OIL

Fundamental view (WTI): Target range USD75-100bbl

Buy < USD70; Sell >USD90

Short-term drivers

(Bullish price factor) – US to Asia ships at risk: Reuters reported the Houthis announced they will now expand targeting to include US ships as well as Israeli ships in the Red Sea. Reuters reported higher freight costs have now made shipping oil from the Gulf of Mexico to Asia almost completely financially unviable. Shippers are expecting to have a tumultuous 2024 driven by severe weather events, drought, the Red Sea crisis, and possibly spiralling tensions between China and Taiwan

(Bullish price factor) – US oil and gas production growth starts to decelerate: Oil production from the Lower US 48 states excluding Alaska and federal waters in the Gulf of Mexico rose to a record 10.9 million barrels per day (b/d) in October, according to the U.S. Energy Information Administration. Production had increased by 0.7 million b/d compared with the same month in 2022, but growth had slowed some 1.1 million b/d earlier in 2023. The slowdown was a delayed response to the sharp retreat in prices, after the spike in the middle of 2022. The number of rigs drilling for oil was down by 122 (-20%) in October 2023 from the peak in December 2022. Production held up more strongly than usual in 2023, setting a string of new records in the third quarter and the start of the fourth despite the $14 fall in oil price in Q1 and Q2. This was because drilling has continued to become more efficient with longer horizontal sections making contact with more reservoir rock and capturing more oil from each well. Also, some temporary spikes in prices in the third quarter encouraged producers to squeeze out as many extra barrels as possible in the short term. But if prices remain at current levels, or perhaps fall another $10 per barrel, U.S. oil production growth is likely to halt and restore some of the OPEC^{+} market power. That is important, as U.S. production growth seized market share from Saudi Arabia and its OPEC^{+} allies and made it harder for them to lift oil prices.

(Bearish price factor) – Indian state-owned refiners join private refiners and have started negotiations to boost import volumes of Venezuelan crude over the coming months. Oil ministry officials said state-run ONGC Videsh is awaiting formal dates to lift crude oil from Venezuela to offset dividend dues of $600 million accrued for its investment in an upstream project in Venezuela. Rising interest in Venezuelan crude by Indian companies is setting the stage for increased competition with China, where independent refiners have traditionally been the most active buyers of the South American crude. OVL, the overseas arm of Indian state-run explorer ONGC, picked up a 40% stake in the San Cristobal Field in Venezuela in 2008. Venezuelan state-owned PDVSA holds the remaining 60% stake in the project. Venezuelan authorities have agreed to give crude oil to India against OVL's accrued dividend. India was an active buyer of Venezuelan crude (some 300k b/d) until the US sanctions were imposed, at which time it stopped buying crude oil from Venezuela. However, China's independent refiners have continued buying those crudes even during the sanction's era. In late-October last year, the US Department of the Treasury eased oil, trade and financial sanctions on Venezuela for a six-month period, which could be renewed if the Nicolás Maduro government follows through on its political and electoral commitments. With Venezuelan crude available in the market and some Indian refiners expressing interest in purchasing discounted Venezuelan crude to diversify their imports and capitalize on refining margins at the expense of some sour Middle Eastern grades, India's crude import strategy is at a crucial and intriguing phase. Russia emerged as the biggest crude supplier to India in 2023, contributing over 35% of India's total crude imports in 2023, amounting to 1.7 million b/d. However, already in December, Indian imports of Russian crude oil averaged 1.43 million b/d, reflecting a decrease of 150,000 b/d compared with November and a significant drop of 620,000 b/d from the peak in May.

(Bearish price factor) – Venezuela's oil exports increased 12% last year to almost 700,000 bpd as US eased sanctions.

(Bearish price factor) – India-Saudi: Refiners in India are seeking to boost imports from Saudi Arabia after the Kingdom cut its official oil selling prices by more than expected.

(Bearish price factor) – Canadian production: Alberta's oil production rose above 4M bpd for the first time in November.

(Bearish price factor) – Russian price-cap: US Treasury said enforcement of the G7's price cap on Russian oil is hitting the price Russia can get for its oil. Russian proceeds from oil and gas sales fell by about 24% last year due weaker oil prices and reduced gas sales to Europe.

(Bearish price factor) – Bulgaria-Russia: Reuters reported Bulgaria is replacing Russian oil imports with crude from Kazakhstan, Iraq and Tunisia as the country works to decrease dependence on Russia.

(Bearish price factor) – Asian demand for Saudi oil stagnated: Reuters reported Asian demand for Saudi oil has not seen a significant boost despite recent Saudi price cuts.

(Bearish price factor) – Norway exploration: Norwegian companies will drill more exploration wells this year as the country seeks to maintain its status as a key European supplier

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 into play. 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): Short-Term Target range USD1,800 – 2,000 /oz

Buy < USD1,800; Sell >USD2,000

Positive drivers for gold

Gold could be the best anti-fragile asset in 2023: Gold, like the US Treasury bond, is considered an anti-fragile asset. Investors should always decide which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets. The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold and US Treasuries) 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 best act as an anti-fragile asset in the face of a shock. **In the short term** and for as long as QT continues (whereby the Fed puts a large amount of UST on the market), gold could continue to overperform the UST bond. **With a longer-term view**, once QT has ended, we no longer see the supply of UST as unlimited, but rather as quite limited. This should be positive for U.S. Treasuries in terms of reclaiming their role as a safe-haven asset, outperforming gold. Gold is expected to take a back seat and exhibit underperformance.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.2347), 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$1,633. In real terms gold continues to trade well above its 20-year average of US$1,256oz. For the gold price to stay near its historical average in real terms, the nominal price must remain near US$1,550.

Gold in terms of silver: The Gold/Silver ratio rose to 88.45, still above its 20-year average of 67.9x, suggesting that gold is expensive relative to silver (or silver is cheap relative to gold). 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$1,548/oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 1.97x, marking the first time since November 2016 that this ratio has surpassed its 20-year average of 1.82x. This implies that gold is currently expensive compared to palladium. To bring this ratio to its long-term average, assuming that palladium is well valued, then the price of gold should reach $1,784 per ounce.

Gold to oil ratio: This ratio is at 25.70x, still well above its 20-year average of 19.31x. Considering our mid-term outlook for WTI oil at US$80 (right in the middle of our new range of $70-90 for oil) and assuming that the utility function of both commodities will remain unchanged, the price of gold must approach US$1,544 for this ratio to remain near its LT average.

Within the four-quadrants framework, We are proposing a quadrant for 2024 where low (but positive) growth would be combined with inflation on the path of moderation. Such a scenario suggests a mediocre performance for the price of gold as displaces the feared scenario of stagflation (or recession with inflation) which is more favorable for gold. Of course, the price of gold will also be determined by the decision of the Western central banks in their management of the monetary mass, and the Asian central banks, in their decision to displace the USD in their strategic reserves.

The massive negative returns in bonds have disappeared: During the 2010-2017 and 2020-2022 periods, Gold's disadvantage against fixed income instruments (gold does not offer a coupon) was neutralized by nominal negative yields in a large number of global bonds, leading to strong arguments for the purchase of gold. But this is no longer the case, with most of the bonds in the USD universe offering positive returns, making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield. From this perspective, gold would once again exhibit its historical disadvantage and should underperform compared to U.S. Treasuries.

The four threats that could end the gold rally no longer seem so distant. What are those threats? The 1976-80 rally of gold ended when US short rates were jacked up to break inflation, causing the USD to rise. The 1985-88 gold rally ended when Germany pulled out of the Plaza Accord deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw gold prices 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 threats to the gold bull market seem to be: 1) Higher nominal rates. 2) A rise in real rates. 3) Stronger USD, and 4) A loss of momentum from EM buyers. How real is each of these risks for 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 sound a mild alarm that **a downward turn in gold could be close,** since gold has totally lost its momentum since August 2020, but also because interest rates increases became a reality.

Risk #1. Higher nominal rates (HIGH RISK): Although two years ago rate hikes by monetary authorities seemed unthinkable, this is now a reality and positive rates are going to stick around for a while.

Risk #2. Stronger USD (HIGH RISK): The US current account balance has continued to gradually improve throughout 2023, continuing the improvement seen in 2022, moving from -4.53% of GDP in 1Q22 to -3.1% in 2Q23. This leads to a relative shortage of dollars and consequently a potential rise in its price. If this trend in the US CA balance continues, it could keep the price of gold capped. Our outlook is for the US current account balance to continue improving towards a historical average level of -3% of GDP. This should keep the USD well supported but stable, far from the strong rebound in the USD that could lead gold to a precipice. If trade relations between the USA and China continue to deteriorate, US Current Account could even reach -2% of GDP. In such a scenario, the flow of USD from the US to the world would be half that of other periods, which could keep the price of the USD well supported, and the price of gold limited above. Also, a more determined tightening strategy from the Fed could cause some USD shortages, 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 for some time since August 2020, and with it, some 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 that period, it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. If EMs thrive again, led by Asia, this could be a tailwind for gold but, for the time being, it's not clear whether a resurgence in wealth generated in Asia can be initiated in the short term.

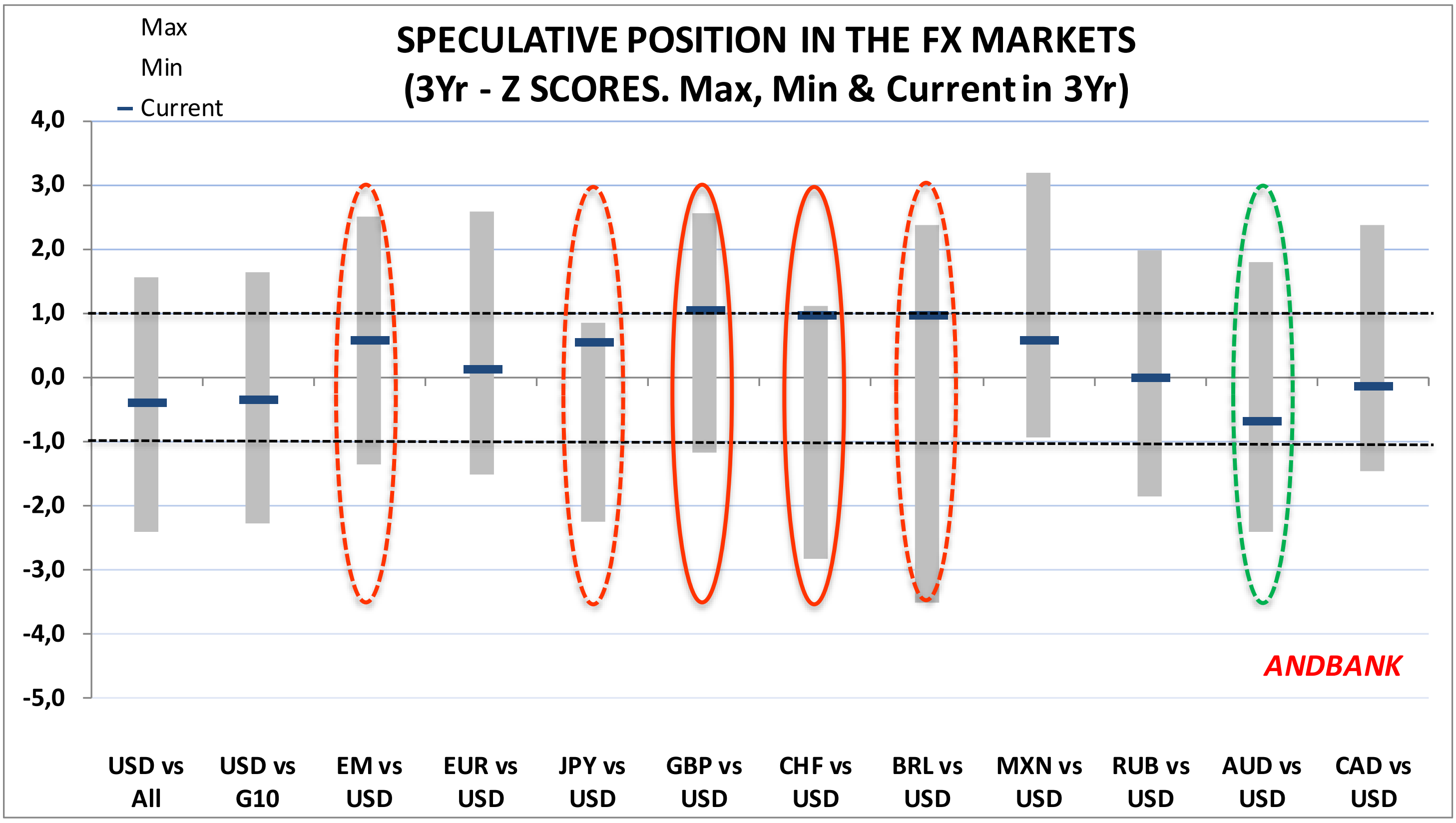
EXCHANGE RATES

Flow analysis & Short-term view

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	-6,13	2,95	32,1	-28,2	0,9	**-0,38**
USD vs G10	-3,48	2,09	32,7	-25,4	2,4	**-0,34**
EM	2,65	-0,85	3,9	-0,8	1,9	**0,57**
EUR	11,98	-4,22	24,5	-8,6	10,6	**0,15**
JPY	-5,95	-1,07	0,6	-15,0	-8,3	**0,56**
GBP	2,49	1,37	4,8	-6,5	-0,7	**1,05**
CHF	-0,74	-0,24	0,2	-6,0	-2,3	**0,98**
BRL	0,48	-0,44	1,0	-0,8	0,0	**0,98**
MXN	2,17	-0,42	3,3	-0,5	1,6	**0,58**
RUB	0,00	0,00	1,2	-0,3	0,3	**0,00**
AUD	-3,56	-0,06	6,1	-6,3	-1,2	**-0,67**
CAD	-0,63	2,00	6,1	-5,1	-0,3	**-0,11**

ANDBANK

Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Equity	USA - S&P 500	2,5%	4.891	4.017	-17,9%
	Europe - Stoxx Europe 600	0,9%	484	517	6,8%
	Euro Zone - Euro Stoxx	1,3%	480	535	11,4%
	SPAIN - IBEX 35	-2,2%	9.879	11.093	12,3%
	MEXICO - MXSE IPC	-0,9%	56.856	54.734	-3,7%
	BRAZIL - BOVESPA	-3,9%	128.980	164.185	27,3%
	JAPAN - NIKKEI 225	38,1%	36.027	37.787	4,9%
	CHINA - SHANGHAI COMPOSIT	-3,1%	2.883	4.138	43,5%
	CHINA - SHENZEN COMPOSITE	0,0%	1.637	3.286	100,7%
	INDIA - SENSEX	-0,4%	71.942	78.311	8,9%
	VIETNAM - VN Index	16,7%	1.176	1.356	15,3%
	MSCI EM ASIA (in USD)	-4,4%	519	585	12,8%
Fixed Income Core countries	US Treasury 10 year Govie	2,2%	4,12	**4,25**	3,1%
	UK 10 year Gilt	1,7%	3,94	4,50	-0,5%
	German 10 year BUND	5,1%	2,26	**2,50**	0,4%
	Japanese 10 year Govie	-2,0%	0,72	1,00	-1,6%
Fixed Income Peripheral	Spain - 10yr Gov bond	7,7%	3,16	3,50	0,4%
	Italy - 10yr Gov bond	12,4%	3,78	4,40	-1,2%
	Portugal - 10yr Gov bond	8,5%	2,96	3,10	1,8%
	Ireland - 10yr Gov bond	6,4%	2,67	2,90	0,8%
	Greece - 10yr Gov bond	15,9%	3,21	4,25	-5,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	4,3%	58,64	75	4,0%
	Credit EUR HY-Itraxx Xover	11,7%	318,95	450	3,2%
	Euribor 3m				
	Credit USD IG - CDX IG	6,9%	54,65	75	5,5%
	Credit USD HY - CDX HY	14,3%	355,66	450	6,3%
	Libor Usd 3m				
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-117,5%	25,06	20,00	65,5%
	Russia - 10yr Gov bond (local)	-3,7%	12,22	25,00	-90,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	9,8%	6,61	5,75	13,5%
	India - 10yr Gov bond (local)	9,1%	7,17	6,75	10,6%
	Philippines - 10yr Gov bond (lo	12,7%	6,15	5,75	9,4%
	China - 10yr Gov bond (local)	5,8%	2,49	2,00	6,4%
	Malaysia - 10yr Gov bond (loca	6,0%	3,80	3,00	10,2%
	Thailand - 10yr Gov bond (loca	1,0%	2,63	1,75	9,7%
	Singapore - 10yr Gov bond (loc	4,3%	2,94	3,75	-3,5%
	Rep. Korea - 10yr G. bond (loc	6,3%	3,34	4,25	-3,9%
	Taiwan - 10yr Gov bond (local)	2,2%	1,19	2,25	-7,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	8,0%	9,25	9,75	5,2%
	Mexico - 10yr Govie (USD)	7,0%	5,87	6,00	4,8%
	Brazil - 10yr Govie (Loc)	31,1%	10,54	11,25	4,9%
	Brazil - 10yr Govie (USD)	8,3%	6,32	6,75	2,9%
Commodities	Oil (WTI)	-2,2%	78,5	75,00	-4,4%
	GOLD	11,4%	2.032,1	2.000	-1,6%
Fx	EURUSD (price of 1 EUR)	1,2%	1,083	1,05	-3,1%
	GBPUSD (price of 1 GBP)	5,0%	1,27	1,25	-1,6%
	EURGBP (price of 1 EUR)	-3,6%	0,85	0,84	-1,5%
	USDCHF (price of 1 USD)	-6,6%	0,86	0,95	10,1%
	EURCHF (price of 1 EUR)	-5,5%	0,94	1,00	6,7%
	USDJPY (price of 1 USD)	12,8%	147,83	140,00	-5,3%
	EURJPY (price of 1 EUR)	14,2%	160,17	147,00	-8,2%
	USDMXN (price of 1 USD)	-11,9%	17,15	18,50	7,9%
	EURMXN (price of 1 EUR)	-10,9%	18,56	19,43	4,6%
	USDBRL (price of 1 USD)	-7,0%	4,92	5,00	1,7%
	EURBRL (price of 1 EUR)	-5,8%	5,33	5,25	-1,4%
	USDARS (price of 1 USD)	365,9%	823,50	1.000	21,4%
	USDINR (price of 1 USD)	0,5%	83,12	82,60	-0,6%
	CNY (price of 1 USD)	4,1%	7,18	7,50	4,5%

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

UPWARD REVISION DOWNWARD REVISION

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Together
Everyone
Achieves
More

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