GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – April 2024

Corporate Review

April 2024

Politics is also on the side of the market

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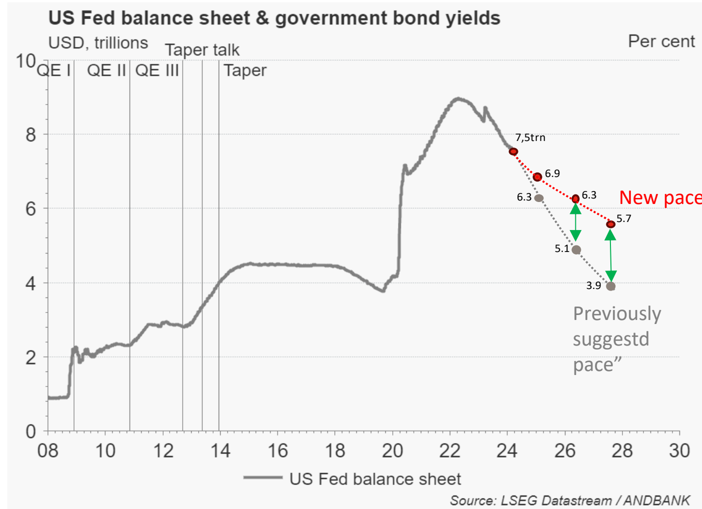
EXECUTIVE SUMMARY

CHART OF THE MONTH

"We will taper (slow) the pace of Quantitative Tightening fairly soon"



Source: LSEG Datastream / ANDBANK

This implies that the pace of monetary supply contraction will soon moderate. Since March 2023, liquidity has been reduced at a rate of USD 100 billion per month. Now, the goal has been uniquely set to move banking reserves from "abundant" to "ample." Our interpretation is that the Fed is going to ease the pace of QT (from 100bn/m to perhaps 50bn/m). The goal is to decrease reserves and excess liquidity but at a slower pace, maintaining these reserves as "ample" (from "abundant"), and ensuring that there is never a need to reverse course on the new policy. It means the Fed has just given us a gift in the form of new marginal dollars we hadn't accounted for, which will serve to fuel further extensions in the equity trajectory. A present amounting to ~$0.7 trillion over 12 months, ~$1.2 trillion over 24 months, ~$1.8 trillion over 36 months. This is a FAVORABLE development for the liquidity outlook. Markets have reason to celebrate, but we also have to remember that a slower QT implies also a longer QT.

EQUITIES

Indices	Performance Last month	Performance YTD	Current Price 02/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
USA - S&P 500	2,2%	9,9%	5.244	5.112	-2,5%
Europe - Stoxx Europe 600	3,1%	7,0%	513	513	0,2%
Euro Zone - Euro Stoxx	3,8%	9,8%	521	534	2,5%
SPAIN - IBEX 35	9,6%	9,2%	11.037	10.846	-1,7%
MEXICO - MXSE IPC	3,9%	0,5%	57.653	58.323	1,2%
BRAZIL - BOVESPA	-1,1%	-5,4%	126.990	140.952	11,0%
JAPAN - NIKKEI 225	-0,7%	19,0%	39.839	42.180	5,9%
CHINA - SHANGHAI COMPOSITE	1,2%	3,4%	3.075	3.065	-0,3%
CHINA - SHENZEN COMPOSITE	3,0%	-3,2%	1.780	1.702	-4,3%
INDIA - SENSEX	0,0%	2,4%	73.904	77.306	4,6%
VIETNAM - VN Index	2,0%	13,9%	1.287	1.356	5,4%
MSCI EM ASIA (in USD)	1,6%	3,1%	559	585	4,6%

FIXED INCOME GOVIES CORE, PERIHERAL & CREDIT (DM)

Indices	Performance Last month	Performance YTD	Current Price 02/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
US Treasury 10 year Govie	-0,9%	-3,0%	4,37	**4,25**	5,3%
UK 10 year Gilt	0,8%	-3,3%	4,06	4,50	0,5%
German 10 year BUND	0,2%	2,0%	2,39	**2,50**	1,5%
Japanese 10 year Govie	-0,2%	-2,6%	0,74	1,00	-1,3%
Spain - 10yr Gov bond	0,5%	-1,4%	3,24	3,50	1,1%
Italy - 10yr Gov bond	0,6%	0,3%	3,77	4,10	1,1%
Portugal - 10yr Gov bond	-0,2%	-1,8%	3,06	3,10	2,7%
Ireland - 10yr Gov bond	-0,2%	-3,4%	2,83	2,90	2,2%
Greece - 10yr Gov bond	0,0%	-1,6%	3,30	4,25	-4,3%
Credit EUR IG-Itraxx Europe	0,3%	1,3%	54,80	75	3,8%
Credit EUR HY-Itraxx Xover	0,6%	2,3%	298,01	450	2,3%
Credit USD IG - CDX IG	0,5%	1,7%	52,12	75	5,4%
Credit USD HY - CDX HY	0,9%	3,1%	330,88	450	5,3%

FIXED INCOME - EM

Indices	Performance Last month	Performance YTD	Current Price 02/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
Turkey - 10yr Gov bond (local)	14,2%	-2,2%	24,64	25,00	21,8%
Russia - 10yr Gov bond (local)	-7,3%	-11,2%	14,06	25,00	-73,5%
Indonesia - 10yr Gov bond (loc	0,2%	-0,2%	6,66	5,75	14,0%
India - 10yr Gov bond (local)	0,1%	2,3%	7,12	6,60	11,2%
Philippines - 10yr Gov bond (lo	0,7%	-0,5%	6,23	5,50	12,0%
China - 10yr Gov bond (local)	0,7%	2,9%	2,29	1,75	6,6%
Malaysia - 10yr Gov bond (loca	0,1%	-0,2%	3,87	3,00	10,8%
Thailand - 10yr Gov bond (loca	0,6%	1,9%	2,50	1,75	8,5%
Singapore - 10yr Gov bond (loc	-0,4%	-2,9%	3,13	4,00	-3,8%
Rep. Korea - 10yr G. bond (loc	0,3%	-1,2%	3,33	3,50	2,0%
Taiwan - 10yr Gov bond (local)	-1,9%	-1,7%	1,43	2,25	-5,1%
Mexico - 10yr Govie (Loc)	-0,4%	-1,6%	9,36	9,50	8,2%
Mexico - 10yr Govie (USD)	0,3%	-1,7%	5,93	6,00	5,3%
Brazil - 10yr Govie (Loc)	-1,8%	-3,9%	11,06	11,25	9,5%
Brazil - 10yr Govie (USD)	0,0%	-2,1%	6,34	6,75	3,1%

COMMODITIES & FX

Indices	Performance Last month	Performance YTD	Current Price 02/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
Oil (WTI)	8,0%	18,7%	85,0	80,00	-5,9%
GOLD	6,8%	9,5%	2.258,5	2.100	-7,0%
EURUSD (price of 1 EUR)	-1,0%	-2,6%	1,075	1,05	-2,3%
GBPUSD (price of 1 GBP)	-0,9%	-1,2%	1,26	1,29	2,5%
EURGBP (price of 1 EUR)	0,0%	-1,4%	0,86	0,81	-4,7%
USDCHF (price of 1 USD)	2,7%	7,9%	0,91	0,87	-4,2%
EURCHF (price of 1 EUR)	1,6%	5,1%	0,98	0,91	-6,4%
USDJPY (price of 1 USD)	0,8%	7,5%	151,64	140,00	-7,7%
EURJPY (price of 1 EUR)	-0,2%	4,7%	163,00	147,00	-9,8%
USDMXN (price of 1 USD)	-2,1%	-2,0%	16,61	18,50	11,4%
EURMXN (price of 1 EUR)	-3,0%	-4,5%	17,84	19,43	8,9%
USDBRL (price of 1 USD)	1,8%	3,8%	5,04	5,00	-0,7%
EURBRL (price of 1 EUR)	0,8%	1,1%	5,41	5,25	-3,0%
USDARS (price of 1 USD)	1,6%	6,1%	857,50	1.000	16,6%
USDINR (price of 1 USD)	0,6%	0,2%	83,39	82	-1,3%
CNY (price of 1 USD)	0,5%	1,9%	7,24	7,50	3,7%

MACRO ECONOMY

USA

Following Chairman Powell's announcement of a slowdown in QT, which implies less liquidity withdrawal, we can now raise PE ratio and S&P target price.

Federal Reserve

In his March 20th appearance, Powell delivered a "Dovish Guidance" which resonated positively across financial markets. Equities, bonds, gold, and cryptocurrencies all experienced rallies. The Fed's guidance covered four main areas: interest rates, balance sheet policy, Emergency Loan Facilities (including Discount Windows & Repo Facilities), and Banking Regulation. Regarding interest rates, Powell addressed whether a strong labor market might deter him from cutting rates, stating "no, so long as inflation keeps moderating." This suggests that for the Fed, the issue isn't too much employment but rather too much inflation. Powell indicated that despite recent CPI upticks, the Fed is not panicking, maintaining that "rate cuts are justified" with dot plots showing 75bps of cuts by December. This stance can be interpreted in two ways: first, that two "hot inflation" readings do not make a trend and might be a temporary blip rather than the start of an upward trend in inflation, implying a potential Fed pivot if this trend continues; second, that Powell is not committed to the 2% inflation target, possibly allowing higher inflation levels to persist, prioritizing growth, public finance, and political motives, suggesting positioning for Fed rate cuts and a potential unanchoring of long-term rates. In any case, we do not want to fail to mention that the number of voices that assign a greater probability to a scenario where the Fed is forced to maintain rates at the current level for a long time has been increasing. At the moment we assign low probability to this scenario (let's say 10%), our central scenario (unchanged since December) being three cuts in the Fed fund rates throughout the second half of the year. Remember that the number of cuts expected by the market has been progressively decreasing throughout the year, after having started the year with an expectation of cuts between 6 and 7 times.

As for balance sheet and liquidity policy, Powell announced a significant shift, stating the pace of Quantitative Tightening (QT) would soon slow, indicating a moderation in the contraction of the money supply, which has been ongoing at a rate of USD100bn per month since March 2023. The Fed aims to transition bank reserves from "abundant" to merely "ample." This suggests a relaxation in the pace of QT, potentially halving the reduction to perhaps 50bn per month, which effectively gifts the market approximately $0.7 trillion over 12 months, $1.2 trillion over 24 months, and $1.8 trillion over 36 months. This development is favorable for liquidity outlooks, giving markets reason to celebrate; however, a slower QT pace implies a more prolonged QT period.

Inflation and economic activity

February CPI increased +3.2% y/y, slightly above last month's print and market expectations (+3.1% y/y both). Monthly increase was +0.4% m/m. Core prices were up +3.8% y/y (forecast: +3.9% y/y). Energy (+2.3% m/m with Gasoline +3.8% m/m) and shelter (+0.4% m/m) explained more than 60% of the monthly gain. On the other hand, the growth rate has been adjusting upwards, with the Atlanta Fed's GDPNow tracker indicating 2.5% growth for 1Q24. In line with this, labor data continues to show resilience, 275K jobs were added in February (200K expected), hourly wages increased +4.3% y/y and jobless claims remain at very low levels. The evolution of prices and the expansion of economic activity leads us to believe that it will be very difficult for the Fed to justify a rate cut in this first half of the year and that we should expect moves closer to 2H24.

Financial markets

Rates & Credit: At the time of writing, the 10-year rate is 4.3%, similar to last month, after having been below 4.10% in mid-March. The spread between the 10-year and the 2-year debt remained stable at -35 bps, a level still far from the peak of last year, when the spread reached 100 bps. We maintain our 4.5% level for the 10yr bond to move to a neutral stance in terms of duration. We also keep our credit spread targets unchanged at Neutral for Investment Grade and Underweight for High yield.

Equity: The 4Q2024 earnings season concluded with increases in both revenue and earnings per share (EPS), marking the second consecutive quarter of year-over-year growth. Results significantly exceeded initial expectations, with EPS growing by 1.5% yoy. Companies in communication and technology services continued to outperform, although the variation in returns has begun to narrow recently. The gap between the S&P 500 and the Nasdaq is no longer expanding. We continue to recommend a balanced approach to investing styles and seizing opportunities in underperforming sectors, such as small-cap stocks. Following Chairman Powell's announcement, which can be seen as a "gift" due to a moderation in QT that implies less liquidity withdrawal from the market over the next two years, our outlook on North American stocks for the medium to long term has become more positive. Consequently, we have raised the price-to-earnings (PE) ratio projection from 19 to 20/21, setting a fair value for the S&P 500 at 5,100. This suggests that as long as the index remains around this value, there should be no cause for concern.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT-SLIGHTLY UNDERWEIGHT

Bonds: Govies UNDERWEIGHT. 10Y UST Target 4.25%

CDX IG: MARKETWEIGHT (Target Spread 75)

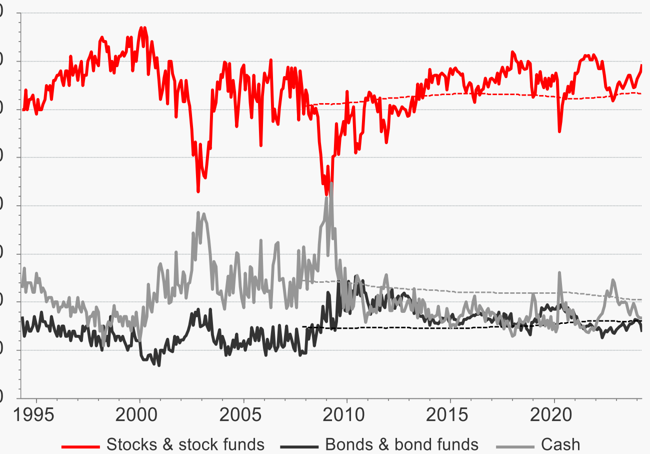
CDX HY: UNDERWEIGHT (Target Spread 450)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

US price-to-earning ratio
S&P 500

Fuente: LSEG Datastream / ANDBANK

US asset allocation: Equity, Bonds & Cash
Current percent held in each asset class vs 20Y moving average (AAII Survey)



Fuente: LSEG Datastream / ANDBANK

Equity Yield & UST Yield

Fuente: LSEG Datastream / ANDBANK

EUROPE

ECB: From laggard in rate hikes to leader in cuts?

Confidence on the rise

New forward-looking survey indicators have added to the early recovery signs pointed out last month, setting the ground for a pick-up in activity towards the last part of 2024. Not a strong rebound but some degree of stabilization could be expected. Short-term growth remains feeble, with the German manufacturing sector still weak and the lack of support, so far, from the consumption front. These expectations have been reflected in the ECB's revised forecasts, downgrading 2024 GDP growth while maintaining a more constructive view for the following years. As for prices, the ECB's new estimates have brought forward to 2025 the achievement of the 2% goal for the HCPI, along with a controlled core CPI. Underlying inflation has fallen significantly, with domestic and services components proving stickier, but some positive signals might be coming from the labor markets and the corporate profits side. In Philip Lane's words: "there are signs that growth in wages is starting to moderate, and, in addition, profits are absorbing part of the rising labor costs". Progress has been made regarding price stability, thus opening the door for dialing back the current monetary policy stance.

European Central Bank

"Around summer" is the new ECB mantra, with an ample majority of voices claiming that the June meeting could be "the one" to start cutting rates. Not only doves but also hawks in that group are acknowledging that inflation risks have receded substantially. We stick to our two rate cut estimates for this year (depo levels at 3.5% by year end), with the first cut by June, unless a more inflationary scenario driven by wage growth (new and comprehensive data to be published in April) unfolds. A third rate cut cannot be fully ruled out.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Italian bonds have outperformed since last year, in a movement hard to explain from a fundamental point of view (fiscal deficit on the rise), and that may have more to do with flows (searching for yield & increasing retail investor base) or short-term reasons (better growth numbers). We maintain our bund and most spread targets and suggest a tighter Italian risk premium for 2024, as short-term tailwinds could persist: 10Y bund yield at 2.5%; Italy (from 190 bps to 160 bps), Spain (100 bps), Portugal (60 bps), Greece (120 bps), Ireland (40 bps).

Corporate Credit: Markets continue very positive in all risk assets, including corporate credit. High issuance levels, particularly in the IG universe, and the continuously narrowing junk-rated debt shows how positive the current market mood is. We are positioning on average durations of 3-4 years, among defensive and anti cyclical names, to limit our losses in a scenario of widening spreads. We maintain our spread target levels for both investment grade (75 bps) and high yield (450 bps), with a recommendation of Neutral for investment grade and UW for high yield.

Equity: Looking at the historical CAPE Ratio versus the subsequent stock market performance for the MSCI Europe, there is a clear inverse relationship. Historically, lower CAPE ratios have been followed by stronger stock market performances. Currently, the Shiller P/E for Europe shows an attractive valuation, suggesting that future returns may be poised for a positive trend, as past patterns have indicated. Combined with the fact that Eurozone stocks are relatively inexpensive compared to other markets—even with the US excluded—indicates that European equities may offer a value proposition that is hard to overlook. The UK market stands out, as it has de-rated significantly post-Brexit, presenting valuations that appear highly attractive relative to historical norms. Even when adjusting for sector biases by excluding Banks and Energy, the forward P/E levels suggest that UK equities are trading at near three-decade lows. Investor positioning further bolsters this narrative. A significant skew towards the US markets is evident, as investors have largely steered clear of the Eurozone and Japan. On the other hand, recent increases in bond yields and stock prices have placed the risk premium for the STOXX Europe 600 below its historical average. We believe this reflects investors' view (or hope) that the latest economic data points towards stabilization in economic activity.

From a fiscal perspective, European governments are committed to maintaining a loose stance, with budgets for 2024 projecting continued or increased spending in energy independence, defense, and infrastructure—all critical areas for sustained economic growth. Meanwhile, Eurozone countries display a more favorable fiscal position compared to their global counterparts. The main risk in our view remains a deterioration of profit margins. Consensus forecasts indicate a re-acceleration of EPS growth in 2H24 and into 2025 but weakening pricing power could prove to be a headwind for earnings growth. In summary, the European investment landscape presents a mixed picture: low valuations and fiscal support, coupled with earnings headwinds and inadequate market internals, suggest a need for strategic selectivity.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT

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

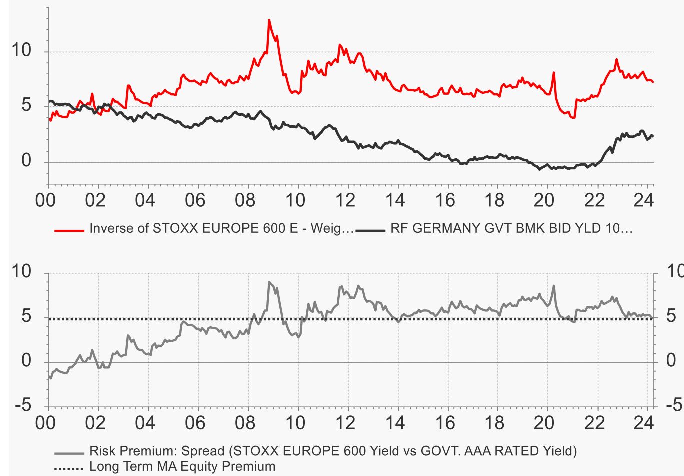
Peripheral – UW IT (4.10%), SP (3.50%), PT (3.10%), IE (2.90%). GR (4.25%),

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 €

Equity Yield (Europe) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

Euro area price-to-earnings

Europe Stoxx 600

Fuente: LSEG Datastream / ANDBANK

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SPAIN

Election time… once again

Macro & Economic Politics

Another twist of the screw in Spanish politics. Spain's Catalonia region will hold early elections on May 12, after the regional parliament rejected the separatist minority government's budget proposal. The election announcement came on the eve of a lower house vote in Madrid on an amnesty bill for pro-independence activists and officials involved in Catalonia's separatist movement during the last decade. The elections in Catalonia also have implications for national politics. Prime Minister Pedro Sánchez's government relies on Catalan separatist parties to pass legislation in Spain's parliament, so the outcome of the Catalan election may affect the stability of this incumbent coalition. In fact, the same day the Catalan elections were announced, the Minister of Finance withdrew from the Budget negotiations. This lack of a budget will prevent the government from pushing through the reforms the coalition believes are necessary to continue reducing the Fiscal Deficit and the Public Debt. For example, on the revenue side, the reform of temporary taxes on banks and energy companies, which were due to expire this year, is on hold. Last year, revenue from these taxes amounted to €2.9 billion. On the expenditure side, there are aids coming from the impact of wars on food and energy prices that cannot be adjusted. However, in the case of energy, a change in tax policies has already been introduced, where the VAT on electricity will be 10% as long as the price per MWh remains below the Government's thresholds, as has been the case in February, with VAT on March bills reverting to 21%.

Regarding economic activity, the country continues to perform better than its peers, despite the political uncertainty. Inflation declined to +2.8% y/y, down six tenths compared to one month earlier, and the core CPI decreased by one tenth to +3.5% y/y. We have to be aware that the reduction in inflation was influenced by base effects, but, in contrast to other European countries, the collective bargaining agreements signed in February reflected a +3.4% increase for 2024, with the agreed wage increase for all agreements with effect in 2024 slowing to +2.8% (from +3.4% in 2023), which suggests this will not be an inflationary issue this year.

Other activity data also confirm the buoyancy of the Spanish economy. Cement consumption recorded higher than usual monthly growth, while the Industrial Production Index (IPI) grew a seasonally adjusted +0.4% m/m in January. Meanwhile, the service sector recorded a positive performance in February, with both activity and new business rising and the best prints since May 2023. Optimism about the future also improved noticeably to its highest level in two years. The Services PMI Business Activity Index remained above the crucial 50.0 no-change mark in February for the sixth month in a row, rising to 54.7, from 52.1 in January, which is the strongest growth recorded by the survey since May 2023.

Regarding forecasts, both the Bank of Spain and the *Funcas Panel* revised their 2024 growth forecast upwards by three tenths to 1.9%, as a result of the favorable data from the 4Q2023 Quarterly National Accounts. Both institutions place their forecast at the same level as the Government.

This improvement in economic activity and inflation is also reflected in the credit agencies' vision of the Spanish economy. Moody's changed its outlook for Spain to positive, underpinned by a more balanced growth model that could lead to higher and less volatile growth than what Moody's currently assumes. The country's economic resiliency is supported by sound policy effectiveness, reflecting efforts to strengthen the economy's shock-absorption capacity. Lower private sector debt, a robust banking sector, a current account surplus and a stronger labor market compared to the last decade: these are all signs of the improvements the Spanish economy has experienced in recent years.

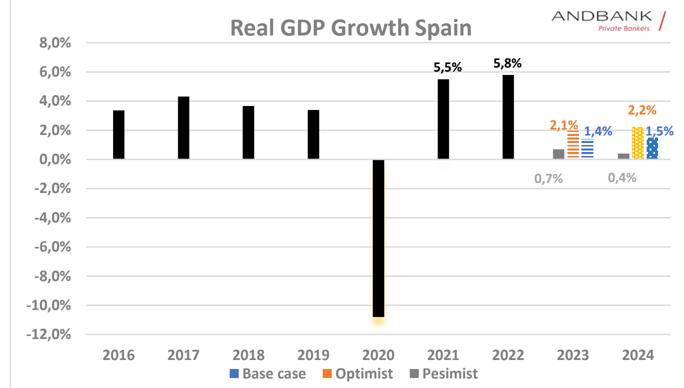
Stock Market

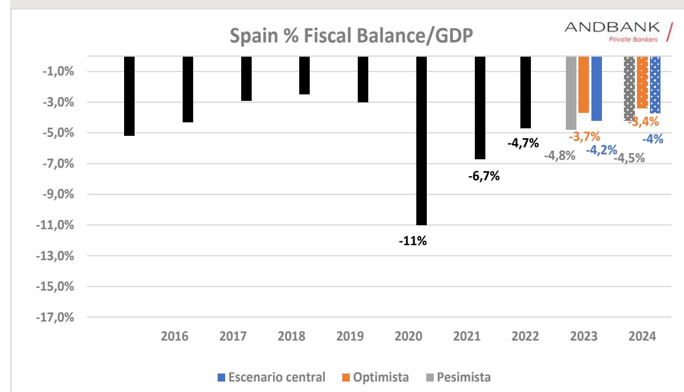
The Ibex 35 ended 2023 with 11.2% EPS growth (807 to 897 EPS). The good set of results from banks (all of them growing above double digits), and heavy weighted Ibex names such as Inditex, Amadeus and Repsol outweighed the weak results from utilities and Telefonica. The good performance of the Spanish economy and the earnings results from the last quarter of 2023 are prompting a more constructive vision on the part of the market. The consensus for this year is now slightly more positive than our numbers. We still maintain our forecast of 986 EPS for the next twelve months, with a slight multiple expansion from the current 10.6X to 11x.

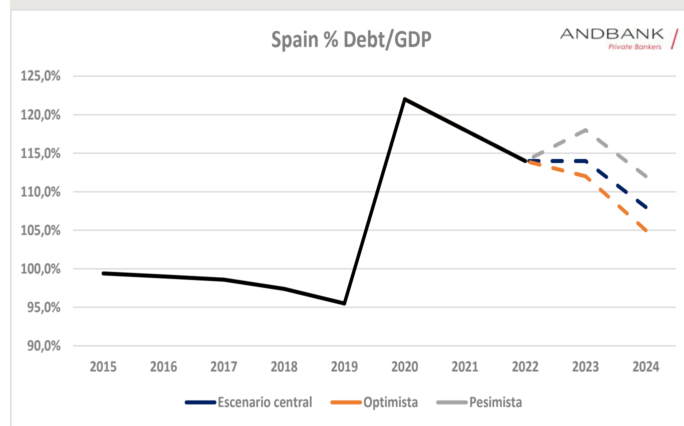
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: MARKETWEIGHT

Bonds: Govies UNDERWEIGHT (10 year target 3.50%)







CHINA

The national team of public banks is ordered to buy equity ETFs to support market prices

China's Biggest ETF Reaches $28 Billion on National Team Buying

Recent state-fund buying of Chinese equities in a bid to bolster market confidence has helped lift the value of the nation's largest onshore stock exchange-traded fund to a record of 200 billion yuan ($28 billion).While the Huatai-Pinebridge CSI 300 ETF has long been the heftiest mainland ETF, buying by sovereign wealth fund Central Huijin Investment Ltd. has been an added boon. Purchases of the ETF by the so-called "national team" are estimated to have totaled 50 billion yuan between October and last week, according to data compiled by Bloomberg Intelligence.

Geopolitical tensions

Huang Yiping, a prominent economist and adviser to Beijing's top policymakers, said China needs to adjust industrial policy amid geopolitical tensions. More exactly, he suggested a change to counter growing criticism of overcapacity from Washington and Brussels. Huang's comments represent rare admissions among government advisers of external challenges facing President Xi's economic strategy as he warned protectionist wave against Chinese manufactured goods would be detrimental to its development and innovation. Meanwhile, Hong Kong published a draft of new national security law with tougher punishment for treason and insurrection. The draft includes new clauses encompassing treason, espionage and external interference. Document also broadened what could be considered sedition and state secrets with tougher punishment, which some fear would further dent freedoms in the financial hub. Several members of legislative council said they expected the bill to be passed into law before mid-April. EU had conveyed "grave concerns" over far-reaching provisions in the bill on "external interference" and its extra-territorial reach.

US-China tensions back into spotlight as US Commerce Secretary says "Washington constantly thinking to expand export control of chips to China". The Biden administration is constantly assessing need to expand scope of its export controls to prevent China from receiving sophisticated chips and manufacturing equipment that could be used to advance its military. Meanwhile, Raimondo reiterated Washington has no intention to "de-couple" from Chinese economy. Biden administration also weighs sanctions on CXMT to block China's semiconductor progress. The US Commerce Department is weighing placing ChangXin Memory and five other Chinese firms on so-called Entity List, which would block them from receiving advanced technological components from US suppliers. Move is seen as fresh bid from Biden administration to curb China's pursuit of advanced semiconductors

Trump wants to raise tariffs to get China to build cars in US if elected. In a CNBC interview, Donald Trump indicated he is likely to reinstate tariffs on foreign goods should he win a second term. He called out Chinese auto industry specifically for future targeting, saying he would seek tariffs to try to get China to build more of its cars in US using American workers.

iPhone sales in China are slowing. Despite this, Apple said it will expand an existing lab in Shanghai and open a new one in Shenzhen, where it will focus on researching and testing products including iPhones and Vision Pro headsets. Apple is also to open new store in Shanghai. Its eighth store in this city.

Nissan, Honda to slash China auto production amid ongoing struggles to compete in the EV market against Chinese peers. Nissan is said to slash local capacity by up to 30%, equivalent to 550K units annually. Honda plans to cut capacity by 20% to ~1.2M. The backdrop is of a shift in the Chinese auto market skewing to Evs, dominated by locals.

Real Estate crisis: China housing minister pledges 'reasonable' aid for distressed developers, but no bailouts

Housing minister Ni Hong spoke at a press conference, pledging to support property developers in distress with "reasonable financing," but not those facing insolvency, which "should be declared bankrupt or under restricting". Ni disclosed that over CNY200B ($28B) in financial assistance had been approved by Chinese commercial banks by end-February for over 6,000 property projects, with private companies accounting for about 82%. Ni cited the mantra that "housing is for living, not for speculation", which was not mentioned in Premier Li Qiang's Government Work Report.

Central Bank: PBOC adds gold reserves for 16th straight month and gold price hits record high.

PBOC increased holdings of gold to its reserves for 16th straight month in February, adding 390K troy ounces last month to a total of 72.58M troy ounces, as country seeks to diversify foreign reserves beyond US Treasuries. Demand from global central banks has partly fueled gold's recent rally, with Singapore and Poland also stepping up purchases. Prices have also been boosted by growing bets on Fed rate cuts later this year, geopolitical tensions and China's economic woes.

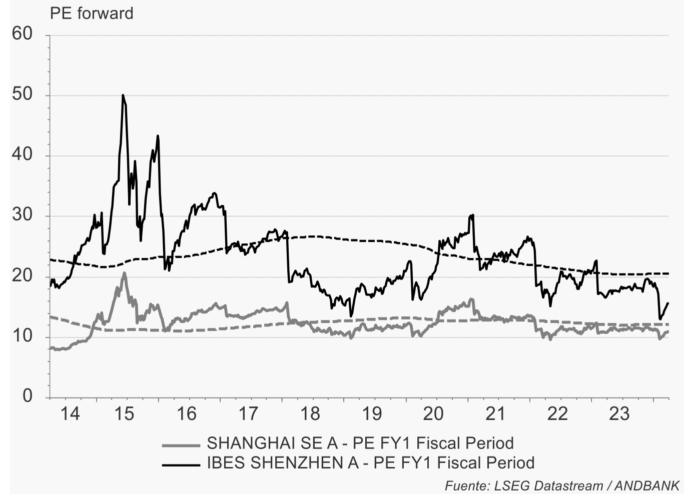
Market outlook – Recommendations & Targets from fundamental analysis

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

Bonds – Govies: MARKETWEIGHT (10Y Yield target 1.75%)

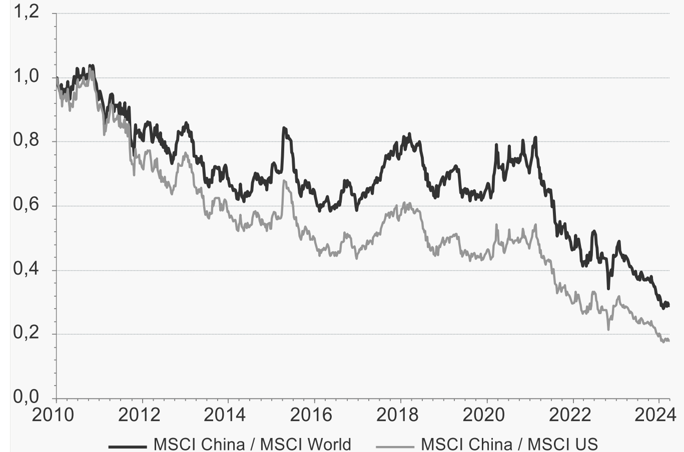
Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio



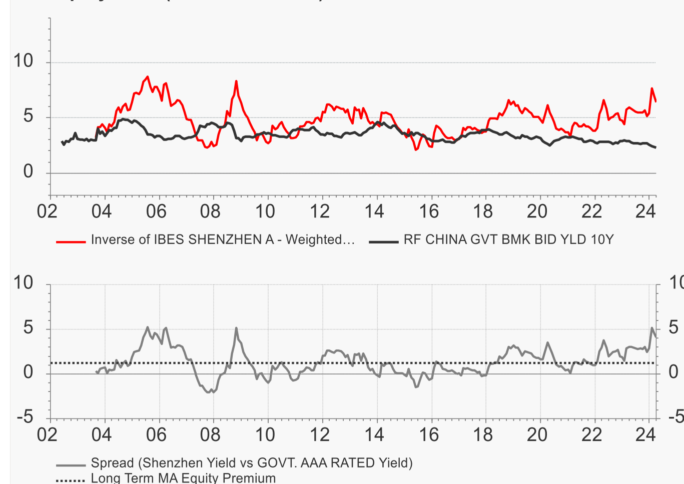
Chinese Equities Undeperforms World & US indices

MSCI China vs MSCI Global and MSCI USA



Fuente: LSEG Datastream / ANDBANK

Equity Yield (China Zhenzhen) vs Risk Free Yield10Y



MACRO ECONOMY

JAPAN

Imminent appreciation of the Yen? A burden for equity investors or an extra source of profitability?

Major repatriation of capital and a potential boom in JPY if BOJ decides to raise rates?

A Markets Live Pulse Survey showed about 40% of 273 domestic investors said a BOJ rate hike will prompt them to sell foreign assets and repatriate the proceeds, although the US-Japan yield gap is set to remain wide for a long period (even a hike in BoJ's rate to 0.5% would still leave the rate about 400 bps lower than the US equivalent based on OIS).

But what volume are we talking about and what is the potential appreciation of the JPY? The Financial Services Agency is monitoring personal money movements and an FSA official noted that "the flow to foreign stock investment funds was more than expected." The Agency showed that since the start of the new small amount non-taxable investment system (NISA) in January, a net total of more than one trillion yen per month (~US$20bn) has flowed into investment funds, with eighty percent of these funds going to funds that invest in foreign stocks. This has suddenly increased the risk of yen appreciation. If the yen appreciates, the prospect for performance of foreign stock investment funds will worsen. This mere prospect could cause domestic investors to sell their positions in these funds (causing them to have to repurchase the JPY to liquidate to outgoing participants). The Financial Services Agency has begun instructing financial institutions to thoroughly explain the risk of yen appreciation.

But it is not just the purchases of JPY domestic investors may make when repatriating their capital abroad. What worries us most is what international investors, who borrowed in Yen at 0% (or negative), may do with their positions abroad, selling them to eventually buy Yen to settle their loans in this currency. Not that this should cause a decline in the Japanese equity market. Quite the opposite. Some foreign investors (not leveraged) could position themselves in Japanese equity in the run-up to what could be a currency rally.

BOJ is expected to end negative rates this week

Nikkei top story said BOJ is expected to end NIRP this week. BOJ began preparations last Friday, with the leading plan to raise short-term rate, currently at -0.1%, by more than 10 bp to a range of 0%~0.1%. The move would follow a substantial wage hike agreement among large firms, where Rengo's first tallies showed an average increase of 5.28%, while small firms averaged 4.42%. Base pay was also lifted by 3.7%. A BOJ source suggested this year's wage hikes cleared a level that would be accepted by even cautious reflationists. The BOJ seems to think that economic conditions are conducive now for maintaining stable 2% inflation.

BOJ operations are under the microscope, which suggests that the market is alert for any indication of the beginning of monetary tightening. In that regard, the BOJ conducted a gensaki (reverse repo, or RRP, with JGB collateral) operation Monday 18. When a central bank wants to withdraw liquidity (i.e. money in circulation) from the banking system, it can do so by carrying out reverse repo operations. By purchasing securities from commercial banks with a commitment to sell them again later, the central bank withdraws cash from the banking system and reduces the amount of money available to lend and invest, which can help control inflation and moderate economic growth. BoJ's RRP size was ¥3T ($20B).

There were broad upward pressures on rates in Japan, amid heightening expectations of an imminent BOJ rate hike, leading traders to conclude the RRP measure was meant to prepare for market reactions.

February core CPI seen accelerating. This raises the chances of a policy shift at the BOJ

Inflation in Japan is expected to have accelerated further in February as the effects of government fuel subsidies faded. Consensus expects nationwide core CPI to have risen 2.8% y/y in February, following 2.0% the previous month, which would be the fastest pace since October. The expected pickup is largely attributed to waning effects of government energy subsidies. With inflation exceeding the BOJ's 2% target for well over a year and prospects for sustained wage gains heightening, many market players expect the central bank to end its negative interest rate policy this month or in April.

Finance Minister Suzuki says Japan no longer in deflation and wage hike trend strong, also raising the chances of a policy shift from the BoJ

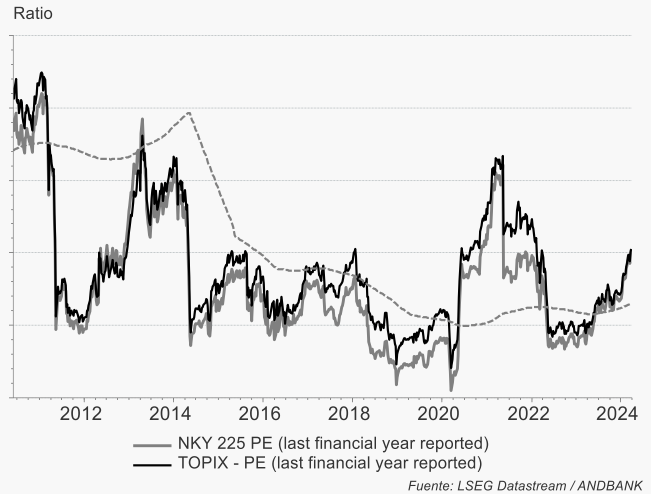
Prime Minister Fumio Kishida and Finance Minister Suzuki have repeatedly said in recent days that the country was not yet in a position to be able to declare a solid exit from deflation, emphasizing that "the government will mobilize all available policy steps to continue the positive momentum on wages" (this is to say they advocate for low rates). However, during the second week of March, the finance minister stated that "Japan's economy is no longer in deflation, and a strong trend of wage hikes is taking place", suggesting that they now think it is no longer necessary to maintain negative rates.

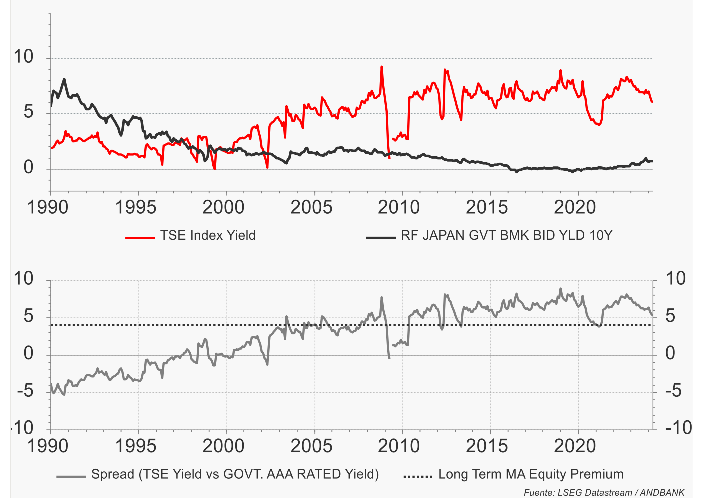
Market outlook – Recommendations & Targets from fundamental analysis

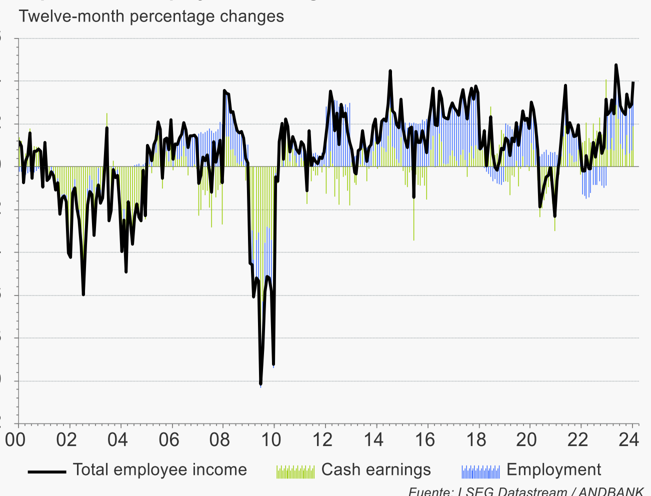
Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 1.00%)

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







ANDBANK
Private Bankers

INDIA

Micro approach shaping our vision. Connectivity, retail and infrastructure suggests a favorable outlook.

What is behind the recent instability in small & mid cap indices in India?

The Securities and Exchange Board of India has been concerned about large flows into small- and mid-cap stocks over the past year. The regulator asked investment funds to take measures, such as carrying out stress tests to determine the difficulty of these funds in liquidating positions. India's fund houses started disclosing the results of the stress tests on Thursday, March 14. These funds would need one to 17 days to exit a quarter of their mid-cap portfolio and between two to 30 days to exit a quarter of their small-cap portfolio. This required time would postpone the return of funds to investors beyond what they currently expect (within two or three days, based on current industry practice). When the results were known, this caused the sale of positions in funds by some participants, which caused a fall in the Nifty small cap index (-5.9%) and the Nifty Mid-cap index (-4.8%) following the regulator's warning. Fourteen of the 45 mutual fund houses investing in small & midcaps had published stress test results or sent them to investors by midday on Friday, and the rest would reveal them by the end of the day. Which is an excellent exercise in transparency. These numbers will act as a clear indicator for managers whether they should opt for a soft closure of these funds by stopping inflows. The reality is that fund houses have been fairly quick in liquidating their mid-cap holdings, with only 2 funds taking more than 10 days to return cash to investors.

Cyient Ltd (Connectivity). Good outlook for business growth in India

We have been able to learn about the expectations of the management of an important company in India, Cyient Ltd, a global digital engineering and technology company based in India. Management has a positive outlook for India's macroeconomic and business performance. Their forecasts include interesting revenue growth projections for the next two years. Sales revenue 2024: 71.4bn INR, 2025: 80.9bn (or +13% y/y), 2026: 92.3% (+14%). EBIT 2024: 10.2bn INR, 2025: 12bn (or +18%), and 2026: 13.8bn (or +15%). Management expects all 4 growth engines to fire. Sustainability and Transport are already strong and, while the other two areas are still having challenges, management thinks they will gain traction this year going forward. In Transport, air travel is growing, with global passenger volume likely to cross 2019 levels in 2024. MRO (Maintenance, Repair and Operations) and manufacturing production rates to grow significantly in the next 2 years. In Connectivity, govt spending programs like RDOF have started, while BEAD programs are yet to kick off. 4Q will see a recovery for this segment which will continue into next year. Fiber expansion, wireless-based premium customer experience remain in focus. In Sustainability, management expects multi-year growth to come from this segment on the back of demand momentum from alternative energy sources like hydrogen, ammonia, carbon capture and nuclear. In New growth areas, growth momentum continues from auto and high performance computing. Gen AI to revive semiconductors in H2 CY2. In short, all the reflections from Cyient management suggest that the outlook for business growth in India is good.

Varun Beverages: Bottles Manufacturer and Beverages distributor

VBL is experiencing strong revenue growth momentum (revenue volume CAGR of ~22% over CY19-23). This growth has been driven by factors such as a large distribution network within the country, diversification of product portfolio, strong traction for new products and a favorable demand environment (in-home penetration of cold beverages increased to ~47% by May'23 as compared to ~38% in CY19). The company has adopted a multi-pronged strategy for CY24, wherein it will focus on expansion of its manufacturing capability, strengthening of its distribution network, and improving its geographical reach (domestically as well as internationally). Regarding the expansion of its manufacturing capabilities, VBL has commissioned two new facilities in Rajasthan and Madhya Pradesh and has further expanded its capacity at six existing locations for a cumulative capex of INR16.5b. Subsequently, it started production in the Maharashtra facility in Jan'24 and expects to complete its ongoing expansion projects before the summer. On a blended basis, VBL is increasing its capacity by ~45% compared to CY22 manufacturing capacity, with the capacity for value-added dairy products and juices to triple. This company's actions, investments, and sales likewise augur an excellent future for consumption.

Cintra (subsidiary of Ferrovial), has finalized agreements to acquire a 24% stake in IRB Infrastructure Trust (IRBIT) and a 24% stake in MMK Toll Road Pvt. Ltd (MMK)

IRB Infrastructure Developers Limited is an Indian road construction company that is benefiting from the growing EPC (Engineering, Procurement and Construction) and O&M order book. With a robust tender pipeline of projects to be awarded by NHAI (National Highway Authority India) and a healthy order book, infrastructure companies like IRB are expected to register a ~12% revenue CAGR over FY24-26E, with sustained margins. Figures from companies in the infrastructure sector, together with the entry of foreign conglomerates, indicate favorable winds for this economy.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

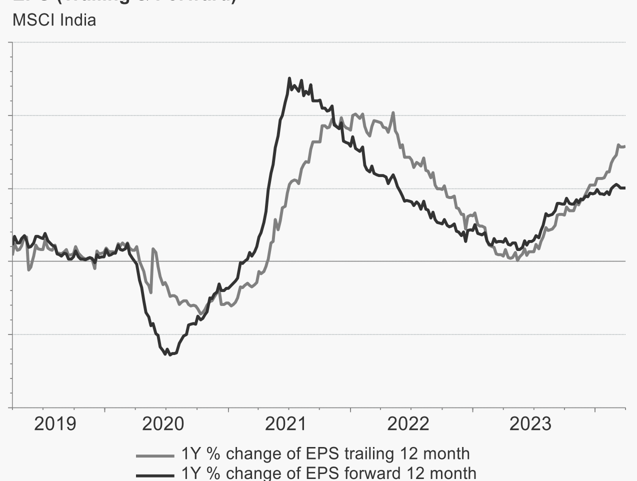
Bonds – Govies: OVERWEIGHT (Target yield 6.6%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 82)

Fuente: LSEG Datastream / ANDBANK

Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

VIETNAM

Growth set to outshine ASEAN peers this year, and foreseeably in the near future, as it did in 2022 & 2023

Vietnam Outpaces ASEAN Economies in 2024

With a projected 6.5% growth rate, Vietnam is set to outshine its ASEAN peers in 2024. Improved industrial production, rising exports, large global goods demand, especially in global electronics, and substantial FDI inflows are driving this performance. Consensus is for GDP in ASEAN countries to rise 4.5% in 2024, higher than last year's 4%, on stronger tourism activity, lower inflation, lower interest rates, and the rebound of the global tech sector. On the other hand, FocusEconomics predicted that Vietnam will be ASEAN's fastest-growing large economy in 2024, with a growth rate of 6.5%, higher than the last year's 5%. This is important because, compared to other ASEAN countries, Vietnam's 2022 and 2023 growth was also on the high side, which suggests continuity in better performance. With global economic growth expected to continue slowing in 2024, the 6.5% GDP growth target for 2024 also suggests the enormous appeal this country has for global manufacturing companies and is indicative that Vietnam is one of the great beneficiaries of reshoring. The predictions are already materializing in the early stages of the year. Looking at available data, merchandise exports and industrial output both surged in January, and based on this high frequency data we expect GDP growth, already the fastest among ASEAN's main economies, to pick up considerably in 1Q24 from Q4 2023. Vietnam's General Statistics Office reported over a week ago that the country's industrial production index is estimated to have climbed 5.7% in the first two months of this year (much higher than the 2.9% seen in the same period last year). Dissecting the data, we clearly see that the main drivers of this growth are sectors with high added value, with exports of electronics, computers, and spare parts hitting $9.54 billion, up 34 per cent on-year. We expect Vietnam to continue receiving sustained inflows of foreign direct investment, which will spur capital investment and employment. As of February 20, the total newly registered capital, additional capital, and capital contributions and share purchases by foreign investors in Vietnam hit $4.29 billion, up 38.6 per cent on-year. The nation had over 39,500 valid foreign-invested projects, registered at $473.1 billion. Nearly $300 billion has been disbursed so far. Just to give you a slight idea of the scale of this investment, the country's GDP was barely US$ 380bn in 2023.

Long-term view, local authorities will play an important role in supporting the economy though prudent macroeconomic stability resulting from proactive monetary and fiscal policies. But this alone would not be enough, and a continuity from 2023, in terms of the implementation of transformational public investment and infrastructure projects, is needed. Luckily, this is feasible since the Vietnamese government has also made big breakthroughs in institutional reform, especially in improving policy frameworks for digital economy and circular economy, and regional connectivity, and has also boosted economic diplomacy to expand export markets and look for new resources for national development. Thanks to this, Vietnam has effectively dealt with negative impacts from the world market to ensure its macroeconomic stability and major balances, continuing to maintain and strengthen the confidence of both domestic and international investors.

VN-AUS-NZ: Strategic Partnership Drives Investment and Cooperation

Vietnam and Australia have taken their 50-year diplomatic relationship to new heights by establishing a Comprehensive Strategic Partnership, based on growing cooperation across political, economic, security, and judicial sectors. Focus areas include advancing economic engagement and promoting high-quality investment. The two nations hope to "increase shared prosperity and stability in the Indo-Pacific". This type of agreement between economies so different in size, but so close geographically, can be very favorable for the junior partner (in this case, Vietnam, with a GDP of $0.38trn, versus Australia's GDP of $1.6trn). Vietnam and New Zealand are also strengthening their strategic partnership through investments and joint projects. New Zealand is investing NZ$6.24 million to boost Vietnam's fruit exports, while both countries pilot electronic certificates to streamline agro-fisheries trade. Long-term visa considerations for Vietnamese citizens are also on the table. Aiming to increase bilateral trade to $3 billion by 2026, the relationship is expanding into green economy and high-tech agriculture.

Leading US Firms Explore Investment Opportunities

Fifty top US companies across a diverse range of sectors are set to visit Vietnam, exploring investment avenues in an event organized by the US-ASEAN Business Council. Following the elevation of Vietnam-US ties to a comprehensive strategic partnership, this visit comes as American interest in the Vietnamese market continues to grow, auguring well for future growth in bilateral trade and investment.

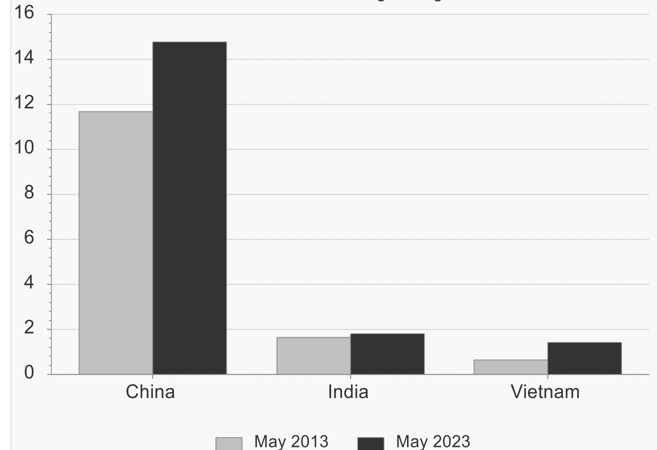
Vietnam Airlines Expand Reach

Vietnam Airlines launches direct flights to Munich and upgrades Delhi service with A350s, improving connections to Germany and India. Turkmenistan Airlines is starting weekly Ho Chi Minh City flights, opening new routes. Vietjet's growth has boosted accessibility and global connectivity. However, engine recalls may reduce some airlines' capacities, with the CAAV urging contingency plans to maintain service and avoid fare hikes.

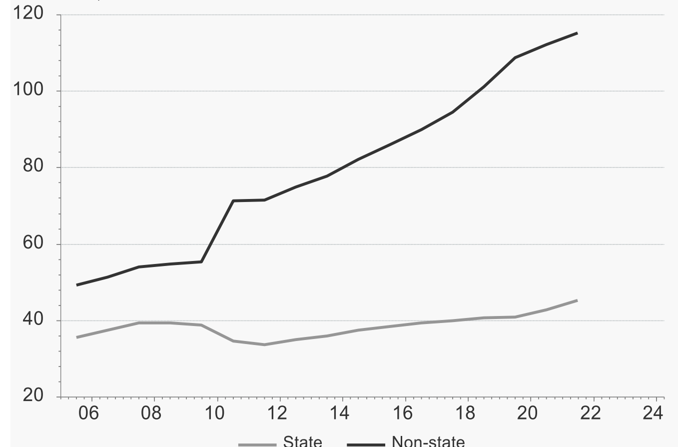
Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

ISRAEL

The situation calls for prudence due to the government's expansionary fiscal policy

Macro, fiscal & monetary policy

After quite a few bumps, the state budget for 2024 was approved last week in Congress (62 votes in favor and 55 against). Naturally, it was not a "normal" budget due to the war situation Israel is in. In the previous reviews, we talked about a sharp increase in the budget deficit, while at the same time we noted that the country entered the war with a solid economic situation, as reflected in the low debt-to-GDP ratio, which provides the government flexibility to maneuver. The assumption was that the economy has a high capacity for recovery after security conflicts in recent years. Under the previous budget, government spending was to increase by 4.8%, but due to the war, spending is now expected to grow at a considerable 13.7% rate this year. Actual expenditures increased in January and February by 15.7% and 15.9%, respectively, significantly higher than the updated budget proposal. The fiscal deficit reached 5.6% of GDP in the last twelve months, widening by 80 bps if we compare it with the 4.8% deficit at the end of January. To construct the new budget, the government is working with a fiscal deficit of 6.6% of GDP for this year, the second largest deficit for developed countries after the US.

The trend in prices continues to be favorable for the monetary authority, with consumer prices in February increasing +2.5% y/y, after a +2.6% y/y gain in the previous month (matching market forecasts). The monthly CPI rose +0.4% m/m, also in line with market expectations. With the February print we have the sixth straight month of inflation deceleration and the second month in which inflation is within the range set by the Central Bank of Israel as its target (1-3%). Part of this decline is explained by the lower economic activity after the start of the war against Hamas, so it is not clear whether the Central Bank is likely to cut its reference rate at the next meeting, on April 8, having already cut it from 4.75% to 4.50% in January.

Simultaneously with the publication of the state's income and expenditures, the Israeli government issued 8 billion USD worth of debt in foreign markets. The issue received impressive demand, which caused the Minister of Finance to state that it was "proud of an achievement that indicates confidence in the Israeli economy", which in our view is not accurate as the government had to pay a very high interest rate. Even though Israel's rating is (still) -AA, the Treasury had to finance itself at an interest rate higher than that of countries with a BBB credit rating.

To Israel's credit is the fact that it has always kept its commitments, even in the most challenging times. If the government does not take decisive steps soon to deal with the increase in the deficit, it is likely that the Government will have to finance itself at even higher rates in subsequent issues. Considering the above, we are recommending a risk reduction in fixed income, with sovereign duration at three years, and a defensive position in corporate debt too, for the above reasons but also because of the sharp contraction of spreads seen in recent months

Stocks

Despite the very challenging geopolitical environment, the Israeli stock market continues to surprise, with a quite impressive performance. The Tel Aviv 125 index rose by more than 3% in the last month and by 4.5% since the beginning of the year. Bank shares led the gains, adding over 5% to their value after the financial results for 2023 were published recently, indicating a rather minor dent to their business activities. Real estate stocks also contributed their share to the market gains, rising by 4.5%.

Most construction companies still face many challenges in their day-to-day operations, as they find it difficult to hire workers and also have to deal with high interest rates. Recent weeks have seen the first signs of a recovery in activity. In January 8,053 homes were sold, 33% above the monthly average in 2023. This is a result of increased levels of perceived security on the part of Israeli citizens but also of the more beneficial financing conditions being offered by developers. Despite the above, we think it is too early to announce a "return to normal" in the residential real estate industry, which we estimate will only happen in a few months' time.

Although our view is that the Israeli stock market is still trading at attractive prices, we recommend caution at this moment, as we cannot rule out an escalation on the northern front, which could derail the recovery of local stocks in recent months.

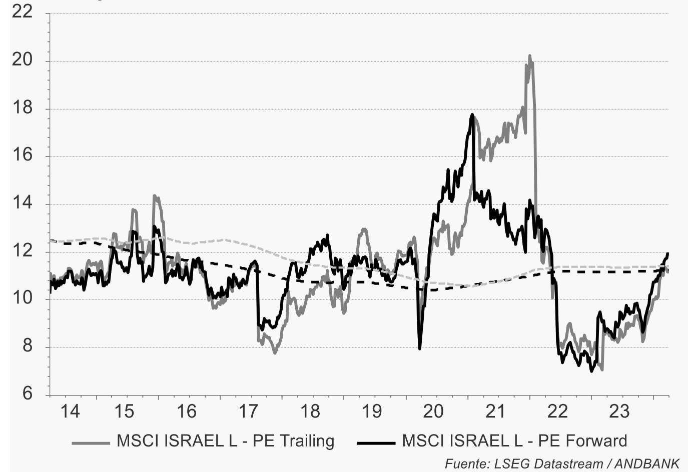
Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

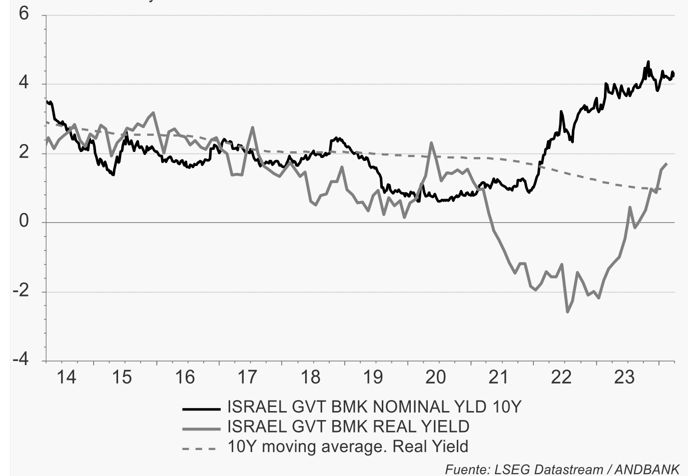
Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

Fuente: LSEG Datastream / ANDBANK

BRAZIL

The "federalized" municipal election is coming. Still constructive in Brazilian equities.

While everybody waits for the FED…

Inflation in Brazil picked up in February. Headline CPI increased +0.83% m/m, driven mainly by school tuition fees, food costs and fuel. Education costs climbed +4.98% m/m, adding 29 bps to the index all on their own. Fuel and Food prices also raised living costs, pushing the IPCA up 0.15 bps and 0.20 bps, respectively. The increase in fuel prices was sparked by the decision of some state governments to raise taxes by 12.5%, reverting tax cuts made by Jair Bolsonaro's administration and, at the same time, preparing the field for the implementation of the local VAT rate created in the latest federal tax reform. The increase in food prices is considered to be the result of the adverse effects of *El Niño* on food production, disrupting rainfall patterns and agricultural output across several regions of the country. With the prospect of *El Niño* persisting until June and a potential *La Niña* following thereafter, Brazil's agricultural sector may face a tough second half, which could potentially impact future inflation expectations. The issue here is that Lula's approval ratings have already been declining, and food inflation hits low-income families – Lula's electoral base – disproportionately in an important election year. The municipal elections in October will measure the strength of *Lulism* versus *Bolsonarism*, prior to the 2026 national elections.

However, Bolsonaro has his own problems

The clear progress of investigations regarding the *coup d'état* attempt on January 8, 2022, with the release of testimonies from former Navy and Army commanders, triggered a kind of chain reaction in politics, the Judiciary, and former President Bolsonaro's Liberal party (PL). Even the most skeptical in the Judiciary system acknowledge that Bolsonaro's legal situation is weak, the facts are serious, and it will be very difficult to avoid a charge from the Attorney General's Office. The only remaining question is: what will be the timing, given that we are approaching election?

This certainty that, legally, the situation will not go unnoticed has led to an increase in contacts between PL party leaders and Supreme Court members, a clear attempt to rebuild the bridges that Bolsonaro burned during his tenure. Valdemar da Costa Neto, PL's president, for example, met with a court minister. He used the conversation to make comments about the investigation and to complain about the prohibition on speaking with Bolsonaro, since both are being investigated in the case. The practical impact of the conversation is zero, but it shows that the PL party is trying, in some way, to regain dialogue with the Supreme Court. The prohibition on speaking with Bolsonaro worries Valdemar because he wants to use the former president to campaign for mayors across Brazil. "Bolsonaro is a better campaigner than a candidate," *Centrão* leaders repeat. Meanwhile, for Bolsonaro it is an opportunity to offer his most loyal supporters a speech that softens the colors of the almost explicit coup attempt. The former president, who previously claimed never to have seen the coup plan, now says that he did discuss "related topics" and that he sees no crime in it. According to investigations, and as confirmed by the former military commanders, the plan was to close the Electoral Court, arrest the Supreme Federal Court minister Alexandre de Moraes, and impose a state of exception in the country using the Armed Forces.

But that does not mean that *Centrão* is out of the game

The government achieved significant victories by passing a wide-ranging tax reform, a new fiscal framework, imposing taxes on investment funds for the super-rich, and regulating sports betting. These moves were only possible due to extensive political maneuvering, including district-focused funding. However, there has been a decline in bills sponsored by the president, and more provisional decrees have failed to be confirmed by Congress, highlighting tensions between the Executive and Legislative branches. This tension is expected, given the election of a center-left president alongside a very conservative Congress, particularly with the far-right Liberal Party holding the majority of seats. The consequences of these dynamics are already affecting policymaking, as seen in the Liberal Party's gaining control over key committees, allowing them to influence the legislative agenda. These committees play a crucial role in shaping legislation in Brazil. The government has mechanisms for navigating conflicts within committees, including fast-tracking bills with the support of the House speaker, Arthur Lira; but this strategy has not worked well for previous governments and Lula knows how important the municipal elections will be in reshaping the balance of power in Congress. Apparently, politics in Brazil has more moves than a game of chess.

Market outlook – Recommendations & Targets from fundamental analysis

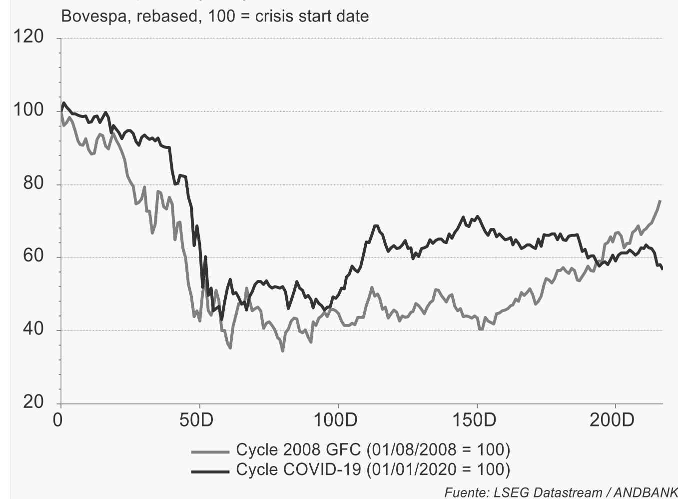
Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

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

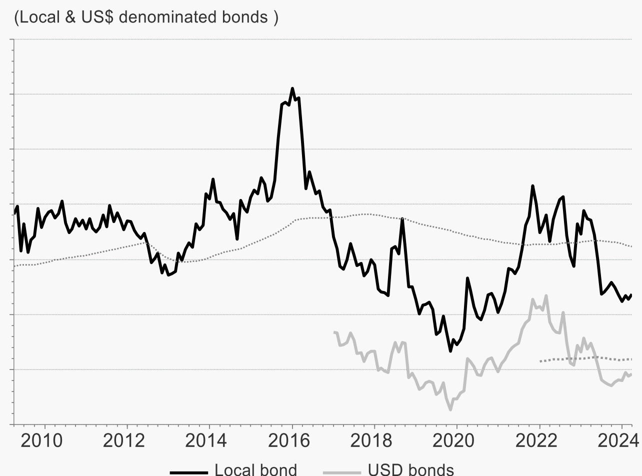
Bonds – Govies USD: UNDERWEIGHT (Target Spread 250 => Target yield 6.75%)

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

Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

MEXICO

Banxico kicks off the rate cut cycle

Central Bank

Banxico cut its reference rate by 25 bps (11.25% to 11%), a decision made with a vote of four of the five members, after keeping the reference rate unchanged for almost a year. In their message they said that the current conditions will continue to be restrictive in the near future and did not give details of when another rate movement could be expected. Regarding the inflation outlook, there was a decrease in the estimate for 1Q24, but at the same time there was a slight increase in the estimated value for the rest of the year, while the expectation for next year remained stable, with inflation expected to converge with the Central Bank target. On the economic growth side, the estimate for 1Q24 was improved.

Inflation and activity

The economic activity information published between year-end and February has maintained the positive behavior we saw during the past year. Consumption grew at a 6% y/y rate in January, while fixed investment increased by 19.8% during 2023, with a strong boost from construction (+23.3% y/y). Investment was the main driver of economic activity in Mexico during 2023, driven by both public and private investment, and as a proportion of GDP reached its highest level since records started (1993), at 24.4%. Despite the above, we should note a slowdown during the last quarter of the year (residential construction -1.7% q/q). On the Employment data side, the unemployment rate was 2.8% in January, considerably below the average of recent decades, while there was also a drop in the informality rate (54.5% in January 2024 vs. 55.2% in January 2024), although it still remains at extremely high levels.

The disinflation process continued during February, after the transitory rebound in headline inflation during December and January, driven by supply shocks. Annual inflation at the end of February was +4.4% y/y, lower than the +4.88% y/y print in January. On the other hand, and more relevant, core inflation extended its downtrend (+4.64% y/y vs +4.76% y/y last month), decelerating for 13 consecutive months, and is now at its lowest level since July 2021. The slower pace of core inflation has continued to be mainly driven by lower goods inflation, while services inflation is still showing more resistance to decline. According to the survey carried out by Banxico, which collects the forecasts of 41 economic analysts and consultants from the national and foreign private sector, inflation is expected to be 4.14% y/y at the end of this year and 3.70% y/y at the end of next year

Politics and Fiscal policy

Public finances began the year with a decline in revenues, driven by a drop in oil revenues, reduced growth in tax revenues, and an increase in spending, as expected due to the authorized primary balance deficit in 2024. On the political side, the electoral race ahead of this year's national elections is beginning to heat up. Some comments made by the official candidate, Claudia Sheinbaum, in relation to the state-owned companies PEMEX (oil production and distribution) and CFE (energy generation and distribution) are worth highlighting. As expected, she said that both companies will continue to be state-owned and that her goal for PEMEX is to maintain oil production at current levels (1.8 mbd), using renewable energies to cover the increased energy demand, and to expand the company's mandate to include lithium extraction and thermal and renewable energy generation.

Financial markets

Equity: We maintain a favourable perspective on exposure to the stock market due to the cyclically adjusted valuation compared to its historical average and its lower valuation (12.6x fwd PE) relative to other stock markets. However, we must point out several risks to this position: i) a possible recession in the U.S.; ii) a deterioration of the fiscal situation and political noise; iii) higher for longer real rates. We have a target of 58,800 for the end of 2024.

Fixed Income & FX: We maintain the idea that a decline in inflation will materialise during 2024, but it will be slow, especially for core prices. Mexican peso bonds look overvalued, with a spread over US Treasuries (503 bps) lower than the 12-month average (515 bps). Due to the recent move in local rates, with 10-year back to 9.3%, and given the monetary policy outlook, we maintain our spread target (525 bps) for the next 12 months. Regarding the dollar bond, the spread dropped to 156 bps, well below our expected level for the next 12 months of 175 bps, also looking expensive.

Despite the recent appreciation of the dollar, the peso continued to appreciate, due to the rate differential vs. the US, the good investment outlook due to nearshoring, and the better macroeconomic and fiscal environment compared with peers. During March the peso was trading below 17 USDMXN, well below our target of 18.5 USDMXN, so we expect a depreciation of the currency between now and the end of the year.

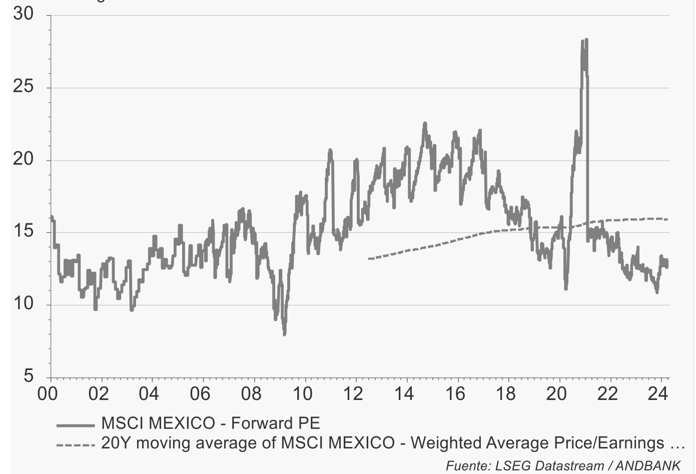
Market outlook – Recommendations & Targets from fundamental analysis

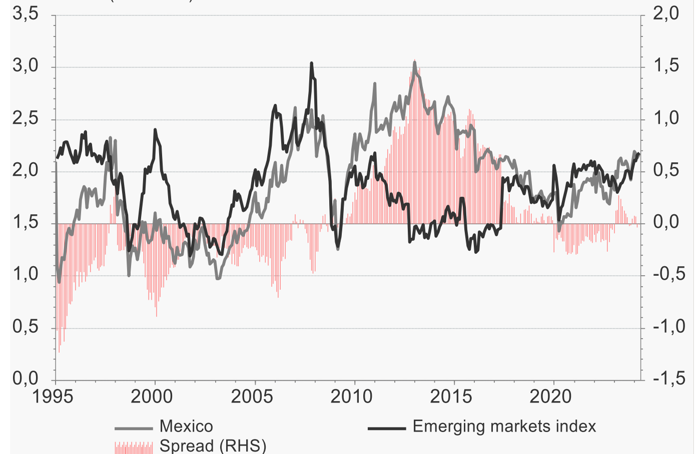
Equities – Mex IPC: OVERWEIGHT

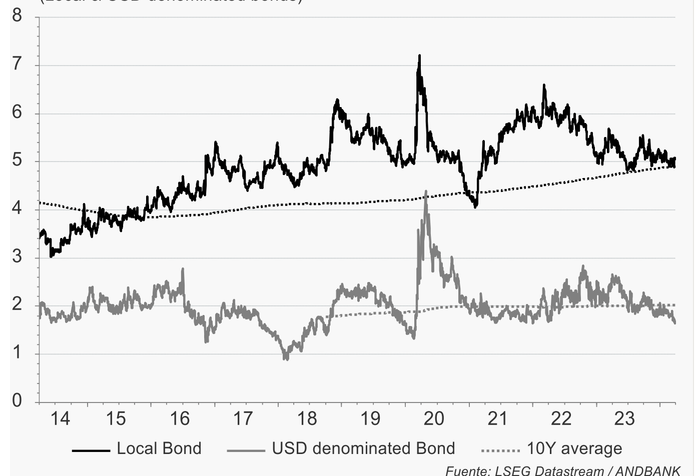
Bonds – Govies Local: UNDERWEIGHT (Target Spread 525 => Target yield 9.5%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 175 => Target yield 6%)

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







ARGENTINA

Fiscal Policy remains the anchor of expectations pending political negotiations

Politics: Government continues to struggle in pushing its political agenda.

The main discussions in the political arena continue to be those related to the Emergency Decree, which contains 366 articles that seek to reform several fronts of the Argentine economy, and the Omnibus ("Bases") Law, the second pillar in the government's reform program.

The main news in relation to the Emergency Decree was the rejection by the Senate, with 42 votes against, 25 in favor and four abstentions. This was the first time in history that an emergency decree has been rejected by the Upper House and is the second legislative blow to the Milei administration, following the failure of the Omnibus bill reform package in Congress last month. For the time being, the decree remains in force, since a negative vote by the Chamber of Deputies is also required for it to be rejected. Opposition senators argued that the decree is unconstitutional because it does not meet the necessity and urgency requirements for this type of decree, and that it violates the separation of powers.

The government has resumed discussions with the provincial governors to send a new version of the Emergency Law to Congress. The government has sent the governors a draft of the new version of the Law, and as a sign of willingness it will also be sending a fiscal law, which includes the reincorporation of the Income Tax, which had been modified by former Minister Sergio Massa in order to increase his electoral flow in last year's elections. The collection of this tax is divided between the Central Government and the Provinces. Previously, during his inaugural speech for the ordinary sessions of Congress, President Milei called on provincial governors, former presidents and political party leaders to meet on May 25, the day celebrating the beginning of the country's independence process, in the city of Cordoba to sign a pact (*Pacto de Mayo*), which includes ten points which he would like to see established as a consensus for State policies. They include, among other things, a reduction in public expenditure to record low levels (25% of GDP), a tax reform, discussion of federal co-participation in taxes, and a labor and pension reform.

Provinces: La Rioja defaults on its debt once again

As part of the negotiation process, the government has been putting pressure on the provinces, mainly through its management of the discretionary transfers that the central government makes to the provinces. One of the provinces with the greatest dependence on these transfers is La Rioja. The province announced that it would not be able to pay the capital (5% of total) and coupon, totaling 26.3 MM USD, of its debt maturing in 2028. The payment of principal, in this case, has a grace period of only three days, so the province has defaulted. At the time of writing, the province has paid part of the interest charge but has not yet paid the outstanding principal. In a communiqué, the province expressed its willingness to reach a quick and amicable agreement with the holders in order to solve the situation, but received a strong rejection from a Creditors' Committee.

Prices: Sharper-than-expected slowdown, but still far from being able to claim victory

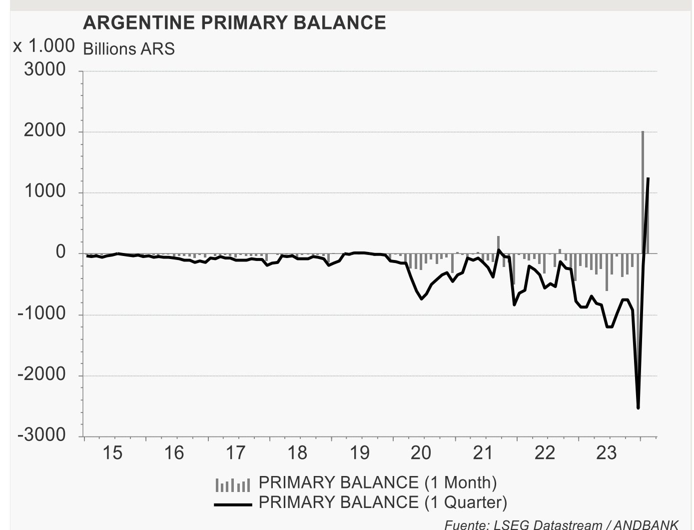
February inflation was +13.2% m/m, a more than seven points drop from the January print (+20.6% m/m), surprising on the downside (market expectation +15% m/m). Year-on-year inflation continued to rise, reaching +276.2% y/y, compared with +254.2% y/y in January. CPI increase was primarily driven by regulated prices, which saw an increase of +21.1% m/m. This is largely explained by the new government's policy of increasing the rate of reduction of public utility subsidies (mainly energy and transportation) and the liberalization of prices for telecommunications services, which had lagged far behind during the previous administration.

On the other hand, the prices of seasonal products and those belonging to the core CPI rose at rates below the General index, showing increases of +8.7% m/m and 12.3% m/m, respectively. The drop in core prices is explained by lower demand, resulting from lower consumption as a result of the contraction in economic activity in recent months. FX performance has also helped the government in its battle with inflation. In the last two months the blue chip swap exchange rate went from 1,300 ARS to 1,100 ARS per dollar and the gap with the official exchange rate decreased from 60% to 25%. The government has made significant progress in correcting relative prices, but there are still price corrections ahead to reach reasonable tariff prices, so going forward we will continue to see pressure from this side. It is a consensus among market analysts that further deceleration of inflation will largely depend on weaker core prices.

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

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



GLOBAL EQUITY INDICES

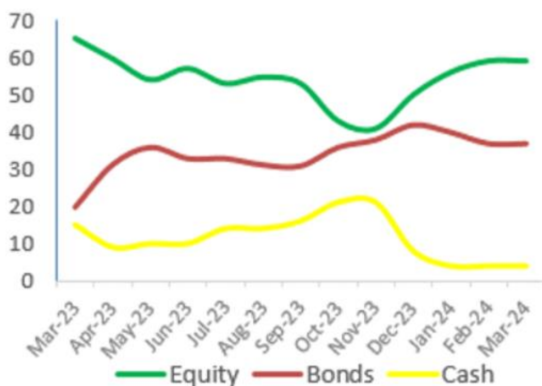
Fundamental assessment

Index	Projected EPS 2024	Projected EPS Growth 2024	PE (fw)	Current Equity Yied	Current Risk Premium	Hist 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
USA S&P 500	243,4	9,92%	21,54	4,64%	0,28%	2,00%	21,00	4,76%	0,39%	5.244	5.112	-2,5%	MW-UW
Europe - Stoxx Eur	36,6	4,39%	13,98	7,15%	4,76%	5,00%	14,00	7,14%	4,75%	513	513	0,2%	MW
Spain IBEX 35	986,0	4,01%	11,19	8,93%	5,70%	5,70%	11,00	9,09%	5,85%	11.035	10.846	-1,7%	OW
Mexico IPC GRAL	4.486	10,18%	12,85	7,78%	-1,58%	-0,90%	13,00	7,69%	-1,67%	57.653	58.323	1,2%	MW-OW
Brazil BOVESPA	15.489	12,03%	8,20	12,20%	1,14%	-1,10%	9,10	10,99%	-0,07%	126.990	140.952	11,0%	MW-OW
Japan NIKKEI 225	1.758	25,56%	22,67	4,41%	3,67%	4,00%	24,00	4,17%	3,42%	39.839	42.180	5,9%	MW
China SSE Comp.	306,5	14,56%	10,03	9,97%	7,68%	4,80%	10,00	10,00%	7,71%	3.075	3.065	-0,3%	UW
China Shenzhen C	120,0	23,60%	14,63	6,83%	4,54%	1,25%	14,00	7,14%	4,85%	1.780	1.702	-4,3%	UW
India SENSEX	3.750	26,07%	20,08	4,98%	-2,13%	-2,00%	21,00	4,76%	-2,35%	73.904	77.306	4,6%	OW
Vietnam VN Index	123,3	30,47%	10,44	9,58%			11,00	9,09%		1.287	1.356	5,4%	OW
MSCI EM ASIA	43,4	22,32%	12,90	7,75%			13,50	7,41%		559	585	4,6%	OW

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

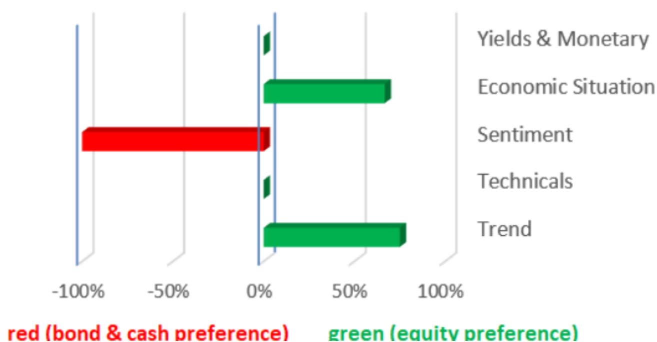


Tactical Asset Allocation

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



GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q4 2023 Earnings Dashboard

Blended Growth Rates

STOXX 600 2023Q4 EARNINGS

	Growth
STOXX 600	-6.5%
Consumer Cyclicals	12.1%
Healthcare	10.6%
Industrials	0.6%
Technology	-0.8%
Financials	-2.0%
Consumer Non-Cyclicals	-3.9%
Energy	-26.9%
Utilities	-31.9%
Basic Materials	-34.3%
Real Estate	-34.8%

STOXX 600 2023Q4 REVENUE

	Growth
STOXX 600	-5.0%
Consumer Cyclicals	-2.3%
Healthcare	0.2%
Industrials	3.2%
Technology	-1.3%
Financials	2.0%
Consumer Non-Cyclicals	0.6%
Energy	-17.6%
Utilities	-13.1%
Basic Materials	-12.6%
Real Estate	-21.8%

Scorecard

Earnings (■Above ■Match ■Below)

	Above	Match	Below
STOXX 600	**49%**	**8%**	**43%**
Basic Materials	41%	3%	55%
Consumer Cyclicals	45%	9%	45%
Consumer Non-Cyclicals	53%	7%	40%
Energy	50%	15%	35%
Financials	54%	12%	34%
Healthcare	35%	10%	55%
Industrials	49%	0%	51%
Technology	54%	8%	38%
Real Estate	82%	0%	18%
Utilities	33%	17%	50%

Revenue (■Above ■Match ■Below)

	Above	Match	Below
STOXX 600	**51%**	**0%**	**49%**
Basic Materials	21%	0%	79%
Consumer Cyclicals	57%	0%	43%
Consumer Non-Cyclicals	36%	0%	64%
Energy	60%	0%	40%
Financials	57%	3%	41%
Healthcare	67%	0%	33%
Industrials	55%	0%	45%
Technology	60%	0%	40%
Real Estate	42%	0%	58%
Utilities	33%	0%	67%

Earnings (■Reported ■Remaining)

	Reported	Remaining
STOXX 600	**291**	**49**
Basic Materials	29	6
Consumer Cyclicals	22	9
Consumer Non-Cyclicals	15	4
Energy	20	0
Financials	59	3
Healthcare	31	5
Industrials	55	12
Technology	37	7
Real Estate	11	0
Utilities	12	3

Revenue (■Reported ■Remaining)

	Reported	Remaining
STOXX 600	**335**	**61**
Basic Materials	38	4
Consumer Cyclicals	28	17
Consumer Non-Cyclicals	22	9
Energy	20	0
Financials	61	3
Healthcare	33	5
Industrials	66	13
Technology	40	9
Real Estate	12	0
Utilities	15	1

Surprise Factors

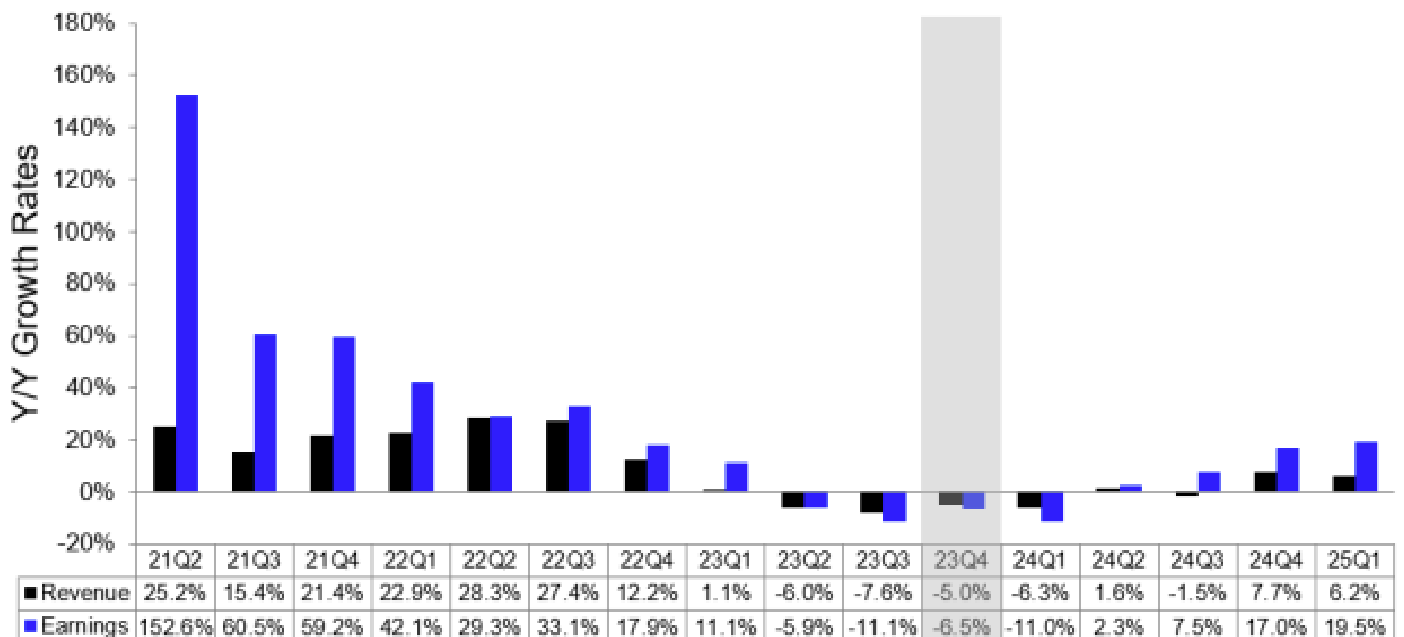
Earnings

	Surprise
STOXX 600	3.6%
Basic Materials	115.8%
Energy	6.3%
Industrials	4.1%
Consumer Cyclicals	3.8%
Consumer Non-Cyclicals	3.7%
Technology	2.8%
Financials	2.7%
Healthcare	-0.1%
Utilities	-1.2%
Real Estate	-48.2%

Revenue

	Surprise
STOXX 600	-4.7%
Basic Materials	-3.5%
Energy	2.1%
Industrials	-0.5%
Consumer Cyclicals	1.6%
Consumer Non-Cyclicals	-1.0%
Technology	0.2%
Financials	9.3%
Healthcare	0.7%
Utilities	-47.0%
Real Estate	-3.2%

Exhibit 3A. STOXX 600 YoY Growth Rates



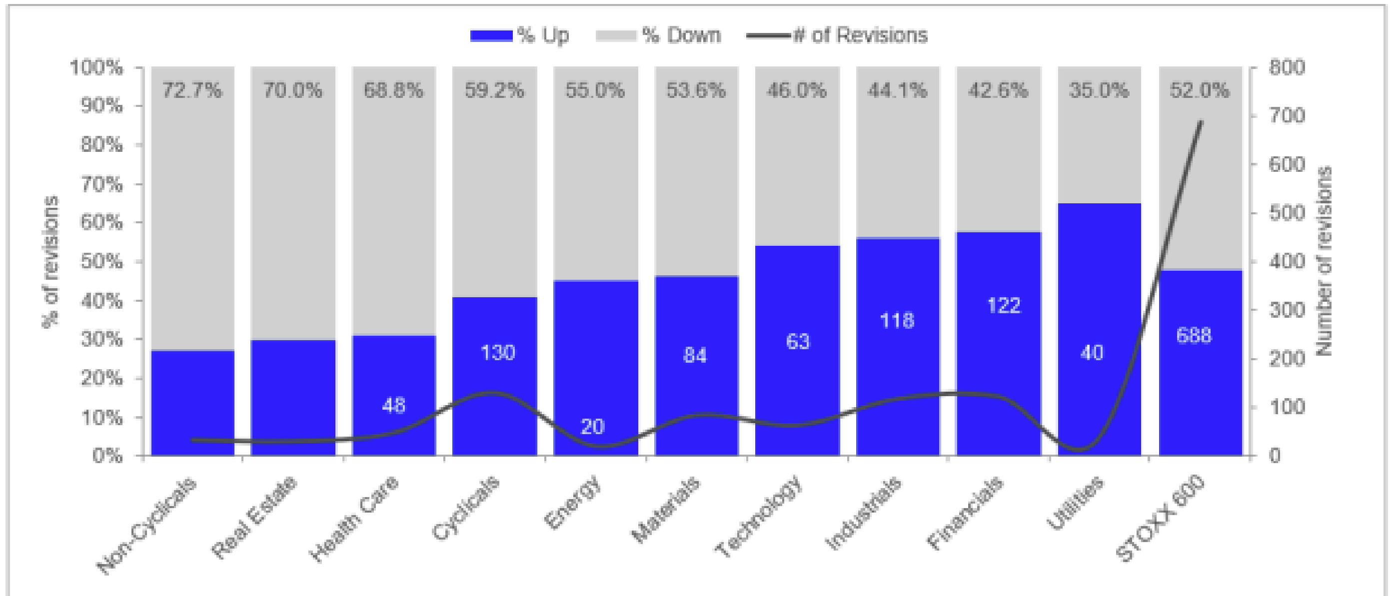
	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1
■Revenue	25.2%	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-6.3%	1.6%	-1.5%	7.7%	6.2%
■Earnings	152.6%	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-11.0%	2.3%	7.5%	17.0%	19.5%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

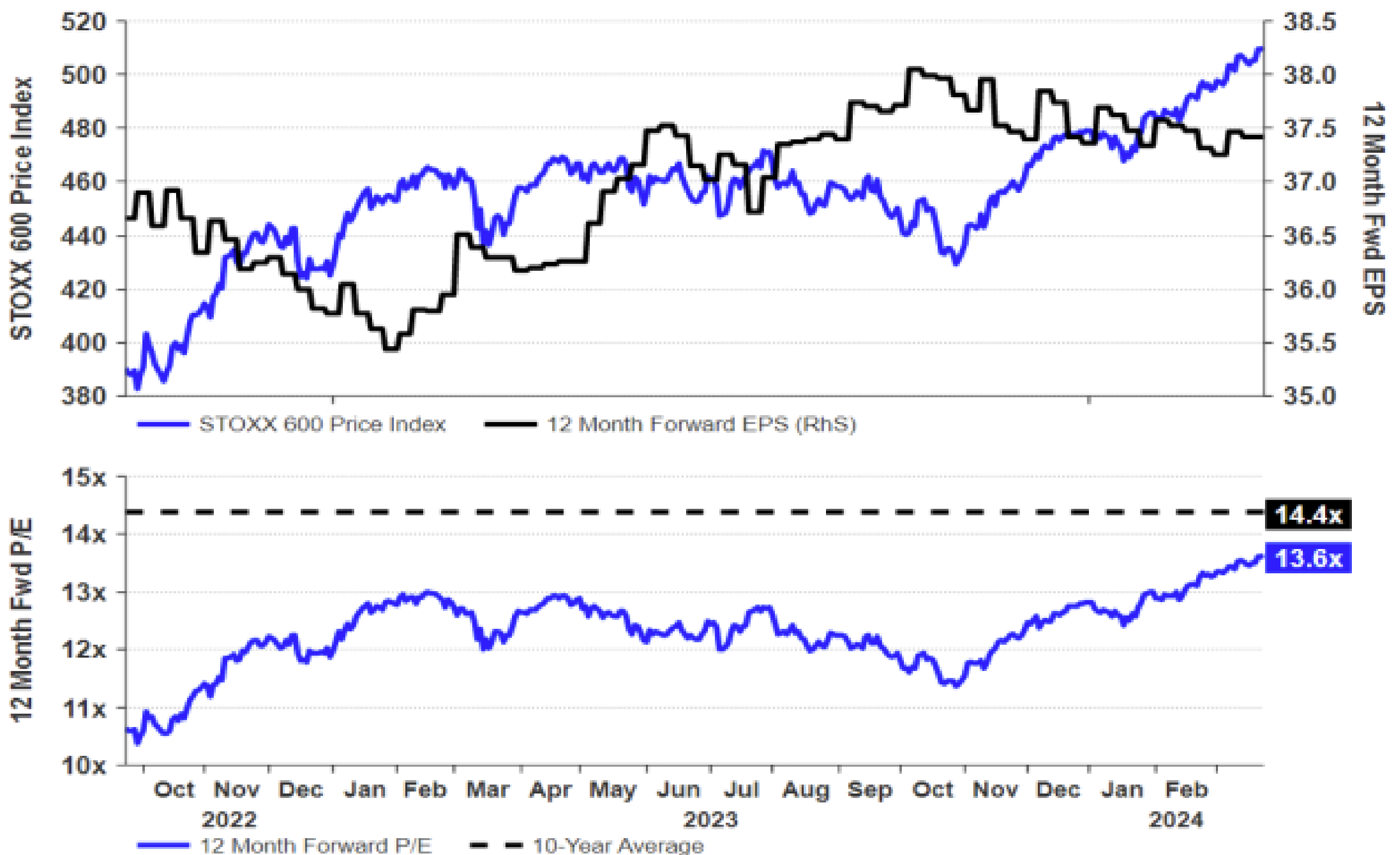
Earnings Dashboard - EUROPE

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



Source: LSEG Datastream

GLOBAL EQUITY INDICES

Earnings Dashboard - US

Exhibit 1. 2023Q4 S&P 500 Earnings Dashboard

BLENDED GROWTH RATES

	S&P 500 2023Q4 EARNINGS	S&P 500 2023Q4 REVENUE
S&P 500	10.1%	3.7%
Comm. Services	53.3%	6.6%
Consumer Discretionary	37.3%	5.5%
Utilities	36.0%	-8.2%
Technology	24.2%	7.8%
Real Estate	9.9%	7.9%
Financials	8.8%	7.3%
Industrials	8.4%	3.1%
Consumer Staples	7.1%	2.9%
Health Care	-14.1%	7.8%
Materials	-18.9%	-5.2%
Energy	-21.9%	-10.1%

SCORECARD

S&P 500 2023Q4 EARNINGS (■Above ■Match ■Below: 76%, 5%, 19%)

	Above	Match	Below
S&P 500	76%	5%	19%
Consumer Discretionary	79%	-	21%
Consumer Staples	82%	8%	11%
Energy	61%	9%	30%
Financials	77%	3%	20%
Health Care	81%	3%	16%
Industrials	82%	3%	15%
Materials	75%	-	25%
Real Estate	48%	26%	26%
Technology	89%	5%	6%
Comm. Services	63%	-	37%
Utilities	60%	10%	30%

S&P 500 2023Q4 REVENUE (■Above ■Match ■Below: 64%, 36%)

	Above	Match	Below
S&P 500	64%	0%	36%
Consumer Discretionary	55%	-	45%
Consumer Staples	50%	-	50%
Energy	48%	-	52%
Financials	59%	-	41%
Health Care	86%	-	14%
Industrials	68%	-	32%
Materials	64%	-	36%
Real Estate	68%	-	32%
Technology	71%	-	29%
Comm. Services	79%	-	21%
Utilities	30%	-	70%

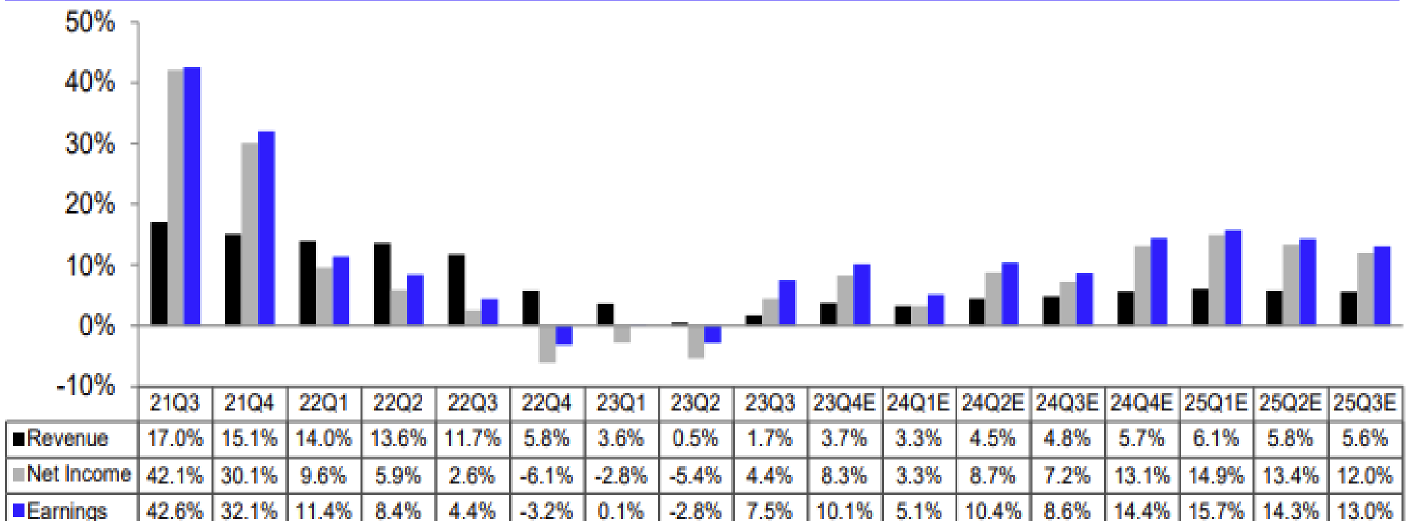
EARNINGS (■Reported ■Remaining: 100%, 0%) / REVENUE (■Reported ■Remaining: 100 %, 0%)

	Earnings Reported	Earnings Remaining	Revenue Reported	Revenue Remaining
S&P 500	498	2	498	2
Consumer Discretionary	53	0	53	0
Consumer Staples	38	0	38	0
Energy	23	0	23	0
Financials	69	2	69	2
Health Care	64	0	64	0
Industrials	78	0	78	0
Materials	28	0	28	0
Real Estate	31	0	31	0
Technology	65	0	65	0
Comm. Services	19	0	19	0
Utilities	30	0	30	0

SURPRISE FACTORS

Earnings		Revenue	
S&P 500	6.3%	S&P 500	1.2%
Consumer Discretionary	11.7%	Consumer Discretionary	2.3%
Industrials	9.9%	Industrials	1.9%
Energy	9.7%	Energy	-0.9%
Health Care	9.0%	Health Care	3.0%
Technology	6.2%	Technology	1.2%
Consumer Staples	6.1%	Consumer Staples	0.4%
Materials	4.9%	Materials	0.7%
Financials	3.9%	Financials	1.6%
Comm. Services	3.4%	Comm. Services	1.5%
Real Estate	-2.1%	Real Estate	1.2%
Utilities	-3.9%	Utilities	-9.4%

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%	3.7%	3.3%	4.5%	4.8%	5.7%	6.1%	5.8%	5.6%
■Net Income	42.1%	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	8.3%	3.3%	8.7%	7.2%	13.1%	14.9%	13.4%	12.0%
■Earnings	42.6%	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	10.1%	5.1%	10.4%	8.6%	14.4%	15.7%	14.3%	13.0%

Source: LSEG I/B/E/S

COMMODITIES

ENERGY – OIL

Fundamental view (WTI): Target range USD70-90bbl

Buy < USD70; Sell >USD90

Short-term drivers

(Bullish price factor) – Lots of geopolitical developments suggest oil price to remain high. Venezuela over the weekend arrested regional campaign leader for presidential opposition candidate, elevating the likelihood of oil sanctions being reinstated by the US. In Russia last night, a Ukrainian drone struck a Lukoil refinery, halting some production. In Yemen overnight, US-UK forces launched strikes on Houthi rebels, killing twelve. Elsewhere in the Middle East, there are growing concerns around rising tension between Israel and Hamas-Hezbollah as Ramadan began yesterday with no ceasefire agreement in sight. Ramadan is historically a high-tension time in the Middle East, with bulk of strife focused on the Al-Aqsa mosque in Jerusalem.

(Bullish price factor) – OPEC+ continues with its voluntary production cuts and tries to take 700,000 b/d off the market, but compliance issues remain acute, and group struggles to implement cuts. February was the second month of the group's latest voluntary production cuts, which were supposed to take approximately 700,000 b/d off the market in the first quarter of 2024. The group has yet to deliver on this pledge as compliance issues remain acute with Iraq and Kazakhstan, which continue to pump well above their quotas. The group's biggest overproducer, Iraq, produced 4.27 million b/d in February, against a quota of 4.00 million b/d. Kazakhstan continues to be the biggest non-OPEC overproducer. It produced 1.56 million b/d in February, against a quota of 1.468 million b/d. Both Iraq and Kazakhstan indicated they would compensate for overproduction in January but have yet to release further details. The rest of the group is closely watching quota busters. OPEC+ countries implementing cuts produced 175,000 b/d above their combined quotas in February -- a compliance rate of 97.8%. The 22-country OPEC+ alliance produced 41.21 million b/d in February, comprising 26.58 million b/d from OPEC's 12 members and 14.63 million b/d from its 10 Russia-led partners.

(Bullish price factor) – OPEC+ future policy: The group extends its aggressive cut strategy in a bid to shore up oil prices. On March 3 OPEC+ extended voluntary cuts until the end of June. The current quotas had been scheduled to expire at the end of March, but the group continues to battle sluggish prices. Some analysts are skeptical that this will be enough to support prices. S&P Global Commodity Insights expects OPEC+ members will have to keep their cuts in place through the entire year if they want to support oil prices. Joint Ministerial Monitoring Committee co-chaired by Saudi Arabia and Russia is scheduled to convene April 3 to review market conditions and assess member compliance with their quotas. The committee can also make recommendations for changes to production policy.

(Bullish price factor) – Hedge funds slashed their bearish bets on US crude to the lowest in five months after OPEC and its allies extended production cuts. Money managers' short-only positions on the US oil benchmark fell 12,348 lots to 28,009 futures (28 million barrels) in the week ending March 5. The reduction in short bets boosted funds' net-long position in WTI to 183,960, the highest in 19 weeks. Repurchasing previous bearish short positions in U.S. crude futures and options had fueled the rally for almost three months as Saudi Arabia and its OPEC+ allies restricted production. Net long position in crude futures suggests Hedge Funds expect additional increases in oil price, although should also be noticed that funds probably have fewer than 10 million barrels left to buy back. Almost all shorts have now been repurchased, so extending the rally will depend on the establishment of new bullish longs. In the natural gas arena, portfolio investors scaled back bearish short positions in U.S. gas following announcements of drilling and output cuts from a number of major producers in the United States.

(Bullish price factor) – The conflict in the Bab el-Mandab Strait, which disrupts the use of the Suez Canal, is an issue that the global economy can endure; however, it appears that it will be protracted and carry a cost. One of Yemenis ballistic missiles took lives for the first time upon striking a container ship and it's time to acknowledge that we are at war with them. Houthis are proving that the developed West faces rising challenges on two fronts from weaker enemies: The first challenge is that advances in the production of drones and precision-guided missiles have democratized extremely powerful weapons that until recently were available only to the richest states. The second is a growing asymmetry of vulnerabilities. Wealthy, complex societies such as the US, which had a per capita gross domestic product above $76,000 at the end of last year, have a lot more to attack (and lose) than a nation such as Yemen, with per capita GDP of $650. In a globalized economy, much of the infrastructure supporting all that wealth creation is offshore. When the Houthis disrupt the roughly 12% of global shipping that passes through the Bab al-Mandab strait it impacts consumers in Europe and manufacturers in Asia, but not Yemen. The same goes for attacking the dozen or more international submarine data cables that run through the same strait. Three important Red Sea cables have been damaged in the strait and, although submarine cables are quickly repaired in normal conditions, the situation in the Red Sea is teaching us how difficult is for operators to get the $60 million-plus repair ships out to restore the connections in a war zone. Why is this so important? Intercontinental data cables are critical infrastructure. Trillions of dollars pass through these small fiber-optic highways every day, not to mention communications that companies rely on to operate. Submarine cables tend to be laid in bundles and they're often also gathered together to reduce costs; security is usually minimal. All of that is ideal for anyone bent on causing a catastrophic disruption and, although a hostile state cutting another's cable connections is difficult to demonstrate in recent years (it's more reminiscent of times past, such as when Britain attacked Germany's undersea telegraph cables at the start of World War), but so long as countries believe they're at war, it will happen, and the Houthis of Yemen think they're at war with the West. A war that can last a long time. Why? If the Houthis kill US troops, that's a political problem for the Biden administration. Instead, if the US kills Houthi civilians, that's a political boon for the Houthis. Recent developments make us think that this conflict is going to extend over time, and although the global economy can resist it, it is not going to be free.

(Neutral price factor) – Demand & Supply relatively balanced: The IEA said this month that the global oil market is relatively well supplied, with demand still strong (though growth is slowing), and supply increasing from the Americas. Aramco expects global oil demand to be "fairly robust," and they're looking at a growth of about 1.5 million b/d, to reach 104 million b/d for 2024 (from 102.4 million b/d in 2023). Total supply is expected to reach a record high of about 103.8M bpd this year, almost entirely driven by non-OPEC+ producers. The Chief Executive Officer of Kuwait Petroleum Corp said that "global oil demand is strong, and that the market looks relatively balanced this year". OPEC+ tries to stabilize prices after a recent surge in oil output from the Americas as US shale production helped meet some of the recent growth in demand. The Standard Chartered spokesperson said that "oil price levels are currently in line with demand and supply dynamics" and expects price to continue trading rangebound.

(Bearish price factor) – US Deregulation. A second Trump term would likely see expansion of oil and gas development, along with a gutting of energy regulators and climate priorities. President Joe Biden has spent years implementing programs to fight climate change by advancing renewable energy and imposing tougher regulations on fossil fuels. Much of that work could go up in smoke if Trump wins the elections, as the Republican leader would probably re-enter the White House with a raft of executive orders to expand oil and gas development. That could include ending a pause on new LNG export permits. Energy is already a daily talking point in Trump's campaign: He routinely slams the Biden administration's EV policies and chants "drill, baby, drill" at rallies to rile up his base. Some of Trump's assistants, including his daughter Ivanka, have attempted to convince Trump to stay in the UN pact, but Trump is said to have responded: "I would not know how to message that to my base".

PRECIOUS METALS - GOLD

Fundamental view (Gold): Short-Term Target range USD1,900 – 2,100 /oz

Buy < USD1,900; Sell >USD2,100

Positive drivers for gold

Gold could be the best anti-fragile asset in 2024: 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 outperform the UST bond. However, with the Fed's announcement to slow down QT, it will sell bonds held on its balance sheet at a slower pace. That is, there will be less paper and less supply of Treasuries in the market. This could diminish gold's prominence as a benchmark asset. **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.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.23514), 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$1,761. 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$1,546.

Gold in terms of silver: The Gold/Silver ratio fell to 88.98, still above its 20-year average of 68.15x, 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$1,667/oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 2.26x, above its 20-year average of 1.69x. 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 $1,590 per ounce.

Gold to oil ratio: This ratio is at 26.41x, still well above its 20-year average of 19.43x. 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$1,554 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 it displaces the feared scenario of stagflation (or recession with inflation), which is more favourable for gold. Of course, the price of gold will also be determined by the decisions of the Western central banks in their management of the money supply, 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 rate 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, the 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	13,50	11,41	32,1	-28,2	2,1	0,63
USD vs G10	17,64	12,45	32,7	-25,4	3,6	0,83
EM	4,14	1,04	4,1	-0,8	2,0	1,65
EUR	4,22	-4,30	23,4	-8,6	9,6	-0,58
JPY	-10,65	0,37	0,6	-15,0	-8,4	-0,55
GBP	2,78	-0,90	5,6	-6,5	-0,7	1,15
CHF	-3,04	-1,33	0,2	-6,0	-2,4	-0,39
BRL	0,17	-0,18	1,0	-0,8	0,0	0,38
MXN	3,97	1,22	4,0	-0,5	1,7	2,20
RUB	0,00	0,00	1,2	-0,3	0,3	0,00
AUD	-6,89	-1,71	6,1	-7,0	-1,3	-1,56
CAD	-3,70	-3,60	6,1	-5,1	-0,3	-1,14

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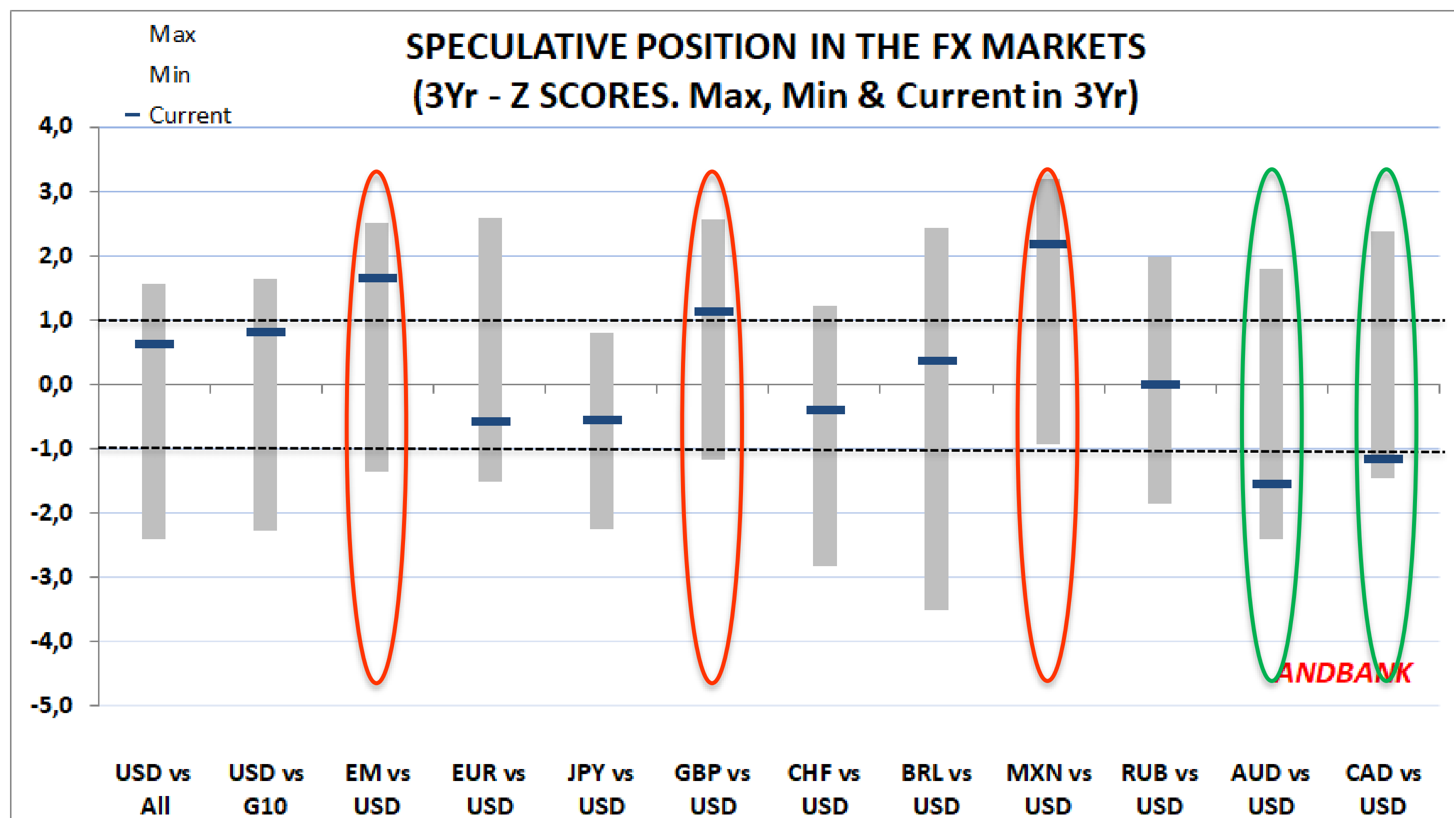
Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

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SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price 02/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
Equity	USA - S&P 500	2,2%	9,9%	5.244	5.112	-2,5%
	Europe - Stoxx Europe 600	3,0%	7,0%	513	513	0,2%
	Euro Zone - Euro Stoxx	3,8%	9,8%	521	534	2,6%
	SPAIN - IBEX 35	9,6%	9,2%	11.035	10.846	-1,7%
	MEXICO - MXSE IPC	3,9%	0,5%	57.653	58.323	1,2%
	BRAZIL - BOVESPA	-1,1%	-5,4%	126.990	140.952	11,0%
	JAPAN - NIKKEI 225	-0,7%	19,0%	39.839	42.180	5,9%
	CHINA - SHANGHAI COMPOSITE	1,2%	3,4%	3.075	3.065	-0,3%
	CHINA - SHENZEN COMPOSITE	3,0%	-3,2%	1.780	1.702	-4,3%
	INDIA - SENSEX	0,0%	2,4%	73.904	77.306	4,6%
	VIETNAM - VN Index	2,0%	13,9%	1.287	1.356	5,4%
	MSCI EM ASIA (in USD)	1,6%	3,1%	559	585	4,6%
Fixed Income Core countries	US Treasury 10 year Govie	-0,9%	-3,0%	4,37	**4,25**	5,3%
	UK 10 year Gilt	0,8%	-3,3%	4,06	4,50	0,5%
	German 10 year BUND	0,2%	2,0%	2,39	**2,50**	1,5%
	Japanese 10 year Govie	-0,2%	-2,6%	0,74	1,00	-1,3%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,5%	-1,4%	3,24	3,50	1,1%
	Italy - 10yr Gov bond	0,6%	0,3%	3,77	4,10	1,1%
	Portugal - 10yr Gov bond	-0,2%	-1,8%	3,06	3,10	2,7%
	Ireland - 10yr Gov bond	-0,2%	-3,4%	2,83	2,90	2,2%
	Greece - 10yr Gov bond	0,0%	-1,6%	3,30	4,25	-4,3%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,3%	1,3%	54,80	75	3,8%
	Credit EUR HY-Itraxx Xover	0,6%	2,3%	298,01	450	2,3%
	Euribor 3m					
	Credit USD IG - CDX IG	0,5%	1,7%	52,12	75	5,4%
	Credit USD HY - CDX HY	0,9%	3,1%	330,88	450	5,3%
	Libor Usd 3m					
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	14,2%	-2,2%	24,64	25,00	21,8%
	Russia - 10yr Gov bond (local)	-7,3%	-11,2%	14,06	25,00	-73,5%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	0,2%	-0,2%	6,66	5,75	14,0%
	India - 10yr Gov bond (local)	0,1%	2,3%	7,12	6,60	11,2%
	Philippines - 10yr Gov bond (lo	0,7%	-0,5%	6,23	5,50	12,0%
	China - 10yr Gov bond (local)	0,7%	2,9%	2,29	1,75	6,6%
	Malaysia - 10yr Gov bond (loca	0,1%	-0,2%	3,87	3,00	10,8%
	Thailand - 10yr Gov bond (loca	0,6%	1,9%	2,50	1,75	8,5%
	Singapore - 10yr Gov bond (loc	-0,4%	-2,9%	3,13	4,00	-3,8%
	Rep. Korea - 10yr G. bond (loc	0,3%	-1,2%	3,33	3,50	2,0%
	Taiwan - 10yr Gov bond (local)	-1,9%	-1,7%	1,43	2,25	-5,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,4%	-1,6%	9,36	9,50	8,2%
	Mexico - 10yr Govie (USD)	0,3%	-1,7%	5,93	6,00	5,3%
	Brazil - 10yr Govie (Loc)	-1,8%	-3,9%	11,06	11,25	9,5%
	Brazil - 10yr Govie (USD)	0,0%	-2,1%	6,34	6,75	3,1%
Commodities	Oil (WTI)	8,0%	18,7%	85,0	80,00	-5,9%
	GOLD	6,8%	9,5%	2.258,5	2.000	-11,4%
Fx	EURUSD (price of 1 EUR)	-1,0%	-2,6%	1,075	1,05	-2,3%
	GBPUSD (price of 1 GBP)	-0,9%	-1,2%	1,26	1,29	2,5%
	EURGBP (price of 1 EUR)	0,0%	-1,4%	0,86	0,81	-4,7%
	USDCHF (price of 1 USD)	2,7%	7,9%	0,91	0,87	-4,2%
	EURCHF (price of 1 EUR)	1,6%	5,1%	0,98	0,91	-6,4%
	USDJPY (price of 1 USD)	0,8%	7,5%	151,64	140,00	-7,7%
	EURJPY (price of 1 EUR)	-0,2%	4,7%	163,00	147,00	-9,8%
	USDMXN (price of 1 USD)	-2,1%	-2,0%	16,61	18,50	11,4%
	EURMXN (price of 1 EUR)	-3,0%	-4,5%	17,84	19,43	8,9%
	USDBRL (price of 1 USD)	1,8%	3,8%	5,04	5,00	-0,7%
	EURBRL (price of 1 EUR)	0,8%	1,1%	5,41	5,25	-3,0%
	USDARS (price of 1 USD)	1,6%	6,1%	857,50	1.000	16,6%
	USDINR (price of 1 USD)	0,6%	0,2%	83,39	82	-1,3%
	CNY (price of 1 USD)	0,5%	1,9%	7,24	7,50	3,7%

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

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