GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review | November 2018

"Stock market corrections, although painful at the time, are actually a very healthy part of the whole mechanism" (R.Chernow)

Corporate Review

November 2018

A guide to navigate in a financial storm

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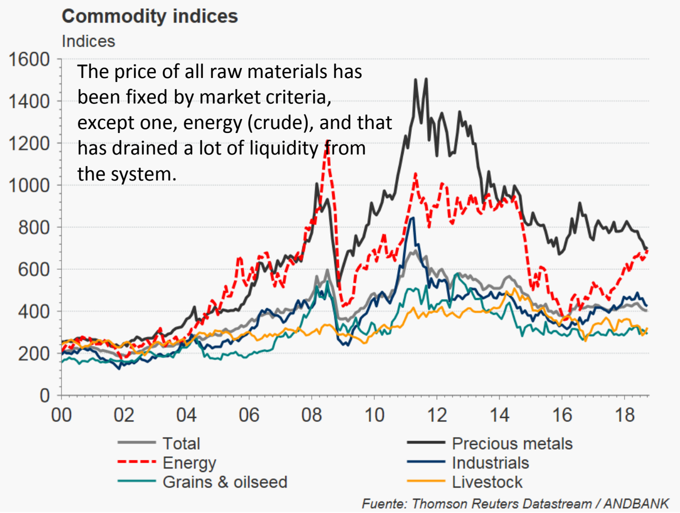
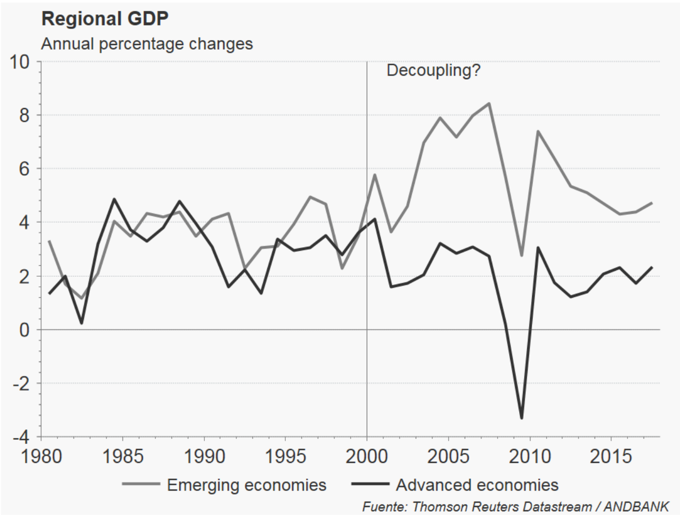
EXECUTIVE SUMMARY

CHARTS OF THE MONTH





EQUITIES

It's early in the third-quarter earnings season, but with 17% of S&P500 companies reporting, it can be seen that 87% have exceeded their forecasts with average gains of 21.3% in profits and 7.4% in sales. It is not unusual for markets to remain jittery for some time following a spike in the VIX but we support the view that the broad market could rebound by the end of the year. We still consider that the S&P is trading at fair value, and prefer Europe, Ibex, Japan and India.

FIXED INCOME

With the Fed having raised short-term rates eight times this cycle, some question whether more hikes will take their toll on economic growth and risk assets, making the 10Y UST bond a safe haven. We do not see the Fed's current course as an imminent threat to economic growth and the markets. We have up ticked our fair value level for the 10Y UST yield to 3.25%, and leave the Bund at 0.8%. In general, we remain cautious on Peripheral debt, which we consider expensive. We continue projecting positive returns for EM bonds in hard currency.

CORPORATE CREDIT

We have seen wider spreads in European and US corporate bonds over the last month, with no news coming from the ECB, bad news from the Brexit and Italian fronts, and a deterioration in investor sentiment. The ECB's CSPP net purchases demonstrate stability, but are hardly likely to prevent the structural spread widening. We remain cautious on euro denominated credit, and fix our targets for the EUR IG and HY indices at 92 and 316 bps respectively. We are more neutral on USD credit, fixing our targets for the CDX IG and HY in USD at 60 and 400.

CURRENCIES

Dollar net longs extended again, with global investors' positioning in USD now sitting at USD28.46bn: clearly above the highs reached in mid-August, This means that there is little room for further EM currency depreciation. Fundamentally speaking, we favor the USD vs GBP and EUR. Technically (flows), we prefer AUD (-2.25 sigmas in 3yr Z score vs the USD), BRL (-1.20 sigmas), and JPY (-1.1 sigmas).

COMMODITIES

There is a rush for drilling permits in Colorado. Platts reports that drilling permit activity across the state is on track for a record high this year as producers prepare for the possibility of the state's Proposition 112 being passed. US shale production is expected to reach record levels in November. The justifiable fundamental price, in our opinion, would be around USD50.

USA
The risk of a recession remains low

Economic activity pulse

The US labor market continues to generate solid job gains and business confidence remains robust, with small business confidence at an all-time high. Consumer spending is still strong off the back of higher wage growth, while business investment remains solid in the wake of favorable depreciation rules. The Now tracker published by the US Federal Reserve Bank of Atlanta for the 3QGDP was tracking at 3.8%. Fiscal stimuli will likely remain supportive through much of 2019, though strong growth and tight labor markets suggest inflation upside. Core inflation has stabilized near the Fed's 2.0% target, and we expect it to continue sideways in a narrow range. Medicare reimbursement schedules indicate some downside for health care prices, and a weaker housing market should lead to sideways shelter inflation. These are two of the largest categories of core PCE, and should keep overall inflation anchored near 2.0%. Given the length of the current expansion –the second-longest in the post-World War II period– there are nagging concerns about the end of the cycle. More robust wage growth and increased inflation will lead to a continued policy tightening aimed at reaching a policy-induced slowdown. Nevertheless, while there is little doubt that the economic expansion is mature, the key economic and financial indicators we monitor still suggest that the risk of a recession in the near term is low.

Risk factors

US trade ceasefires with Korea, Japan, Mexico/Canada, and the EU allow the US to fully focus on its on-going trade “war” with China. We still envisage that both China and the US are digging in for a long fight until significant pain is felt on both sides, and continue to see the ongoing trade tensions as one of several threats for financial markets.

Corporate results

In this month's stock market swoon, the largest declines have come from among the highest flying technology and consumer discretionary stocks that have dominated this cycle, or from small caps which have been the biggest winners from tax reform and Washington's policy shift toward protectionism. It's early in the third-quarter earnings season, but with 17% of S&P500 companies reporting, it can be seen that 87% have exceeded their forecasts with average gains of 21.3% in profits and 7.4% in sales. Economic indicators, especially those which center on jobs, also support an appetite to jump at perceived bargains created in the sell-off. We support the view that there could be a rebound in the broad market by the end of the year towards our exit point of 2,985 for the S&P 500. Looking further ahead, we see the trend in forward earnings forecasts converging and starting to normalize. Margins may come under pressure as wages, interest rates and energy costs continue to increase, offsetting the positive effects of permanent tax cuts. Historically, investing when volatility jumps typically leads to positive returns in subsequent months. Nevertheless, it is not unusual for markets to remain nervous for some time following a spike in the VIX. We leave our midpoint for the S&P 500 unchanged at 2,715 with the exit point at 2,985.

Financial market outlook

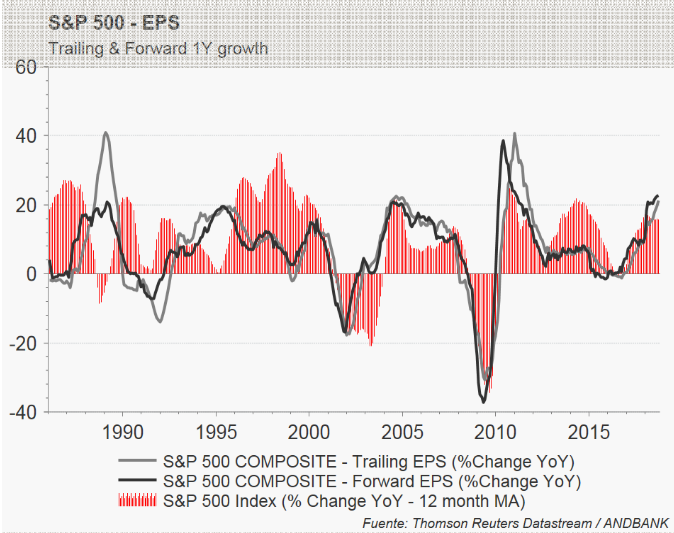
Equities – S&P: NEUTRAL. Central point 2,715. Exit point 2,985

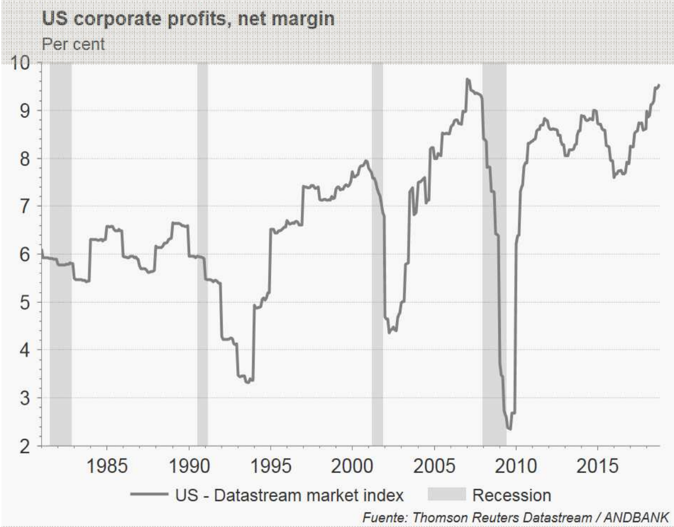
Bonds – Govies: NEGATIVE (10YUST entry point 3.25%)

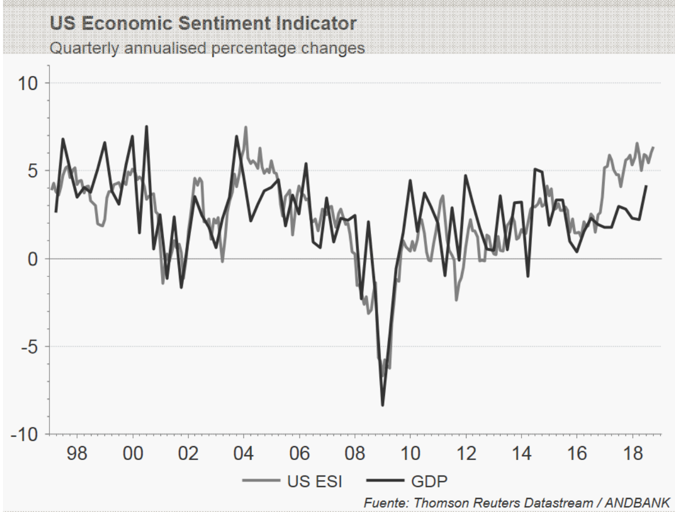
New! Credit – CDX IG : NEUTRAL (Target Spread 60)

New! Credit – CDX HY: NEGATIVE (Target Spread 400)

Forex – CDX index: NEUTRAL







EUROPE
Italy: Unpredictable

Activity

The European macro picture remains broadly unchanged, with industrial sentiment still downbeat and the best news coming from the labor side (wages being revised upwards, unemployment rate coming down, for instance). With the spread between European and US manufacturing surveys near the upper bound, we would not expect this difference to widen as it has done in the past nine months. CPI numbers remain close to last month's levels: 2.1% for the headline CPI and 0.9% YoY for the Core index. Despite the numbers, the positive message from the ECB has been reinforced: “vigorous pick-up in underlying inflation is expected” coming from the positive trend in wages.

ECB tapering

At the ECB’s next meeting, attention will turn to the reinvestment strategy: composition, length. There are no crucial discussions on the first hike or the rate path. Consensus expects the depo rate to be raised by October 2019 when Draghi ends his mandate, reaching zero by the beginning of 2020, while the market is currently pricing in a quickest path (first hike by September). Should the inflation surprise on the upside, the depo “normalization” might start sooner.

Italy & Brexit: the “Never-ending Story”

Italy has become the main source of risk, with a budget and a deficit path openly questioned both internally and externally. We expect the EC to reject the Italian Budget, giving Italy 3 more weeks to revise its numbers and resubmit them. Eventually, the EC could trigger an Excessive Deficit Procedure that would take a few months and could end with Italy receiving a fine. Negative market reactions could prove to be more convincing than the EC, with Italian politicians having penciled in a change of goals should the spread reach the 400 pb level.

As for Brexit, no further steps were taken in the last European Summit, though the will to negotiate remains without an explicit timetable. On the positive side: a more conciliatory tone from Macron, Merkel's “pressure” to search for imaginative solutions and the option of a longer transition period beyond December 2020. On the negative side, “no progress” has been made on the main sticking point of the Irish border, and May depends on the DUP support. More answers than questions regarding Brexit: will a final agreement be met? If so, will it be approved by the British parliament? Or will a second referendum or new elections be called? No simple solution at sight: a Norway style agreement would not satisfy Brexiteers and a Canada solution would not avoid a hard Irish border. Could a temporary customs union work? While not uncontroversial (UK would not be able to close new trade treaties with third parties), it would create more breathing space and would avoid a hard border.

Financial market outlook

Equities – Stoxx Europe: POSITIVE. Central point 372. Exit 400

Equities - Euro Stoxx: POSITIVE. Central point 380. Exit 420

Bonds – Core governments: NEGATIVE (Bund target yield 0.80%)

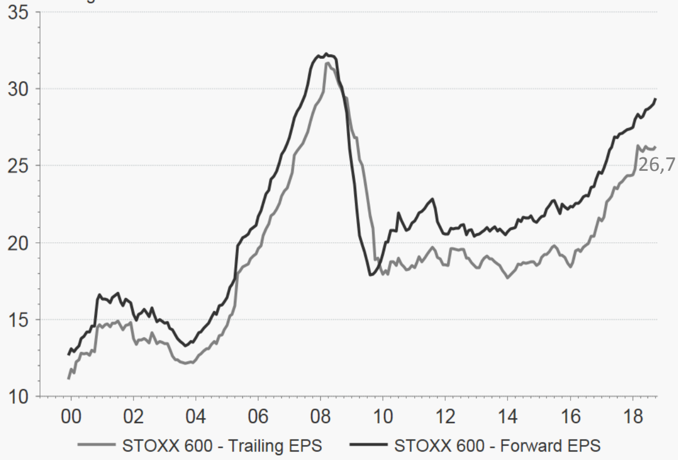
Bonds – Peripheral : NEGATIVE (SP 1.60%, IT 3.5%, PO 2.2%)

Credit – Itraxx Europe (IG): NEGATIVE (Target Spread 92)

Credit – Itraxx Europe (HY) : NEUTR-NEGAT (Target Spread 316)

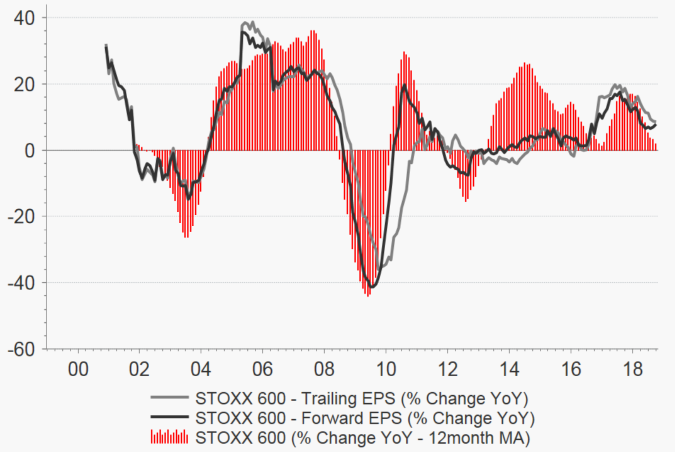
Forex – EUR/USD: ST NEUTRAL / LT NEGAT (1.15)

STOXX 600 - EPS
Trailing & Forward 1Y Growth



Fuente: Thomson Reuters Datastream / ANDBANK

STOXX 600 - EPS
Trailing & Forward 1Y Growth



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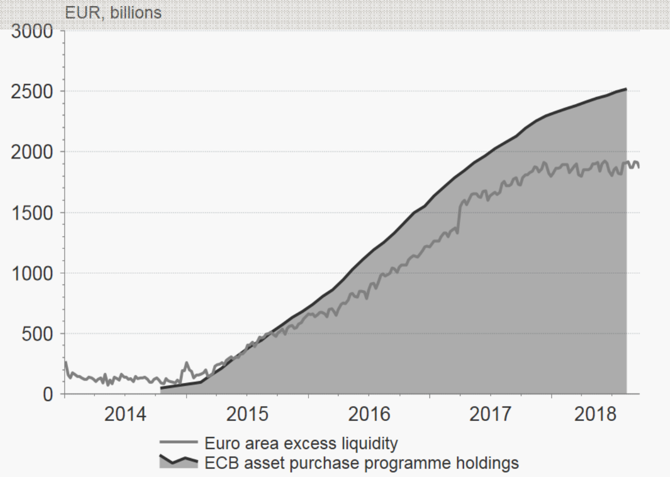
ECB excess liquidity
EUR, billions



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN
A potentially problematic situation for banks

Expansive budget funded with higher taxes

The national leftwing parties have agreed on and signed the base document to negotiate the 2019 budget with the rest of their vote-of-confidence partners. The budget has a marked emphasis on spending, which will be accompanied by tax hikes. Both parties have 155 representatives in the Spanish Congress and need at least another 21 votes to pass the Budget in the first instance, and 170 in a second round, to approve the accounts with a simple majority, since the opposition has 169 votes against.

If we drill down into the figures presented by the government and its ally (Podemos), there are no surprises. Like its predecessor, the government of Mariano Rajoy, the new government entrusts the entire public deficit reduction to an increase in tax receipts (which seems inflated). This has already been pointed out by Brussels in its letter on the document submitted, which the Sanchez government may have to revise. On the positive side, the Minister of Finance has presented a new macroeconomic forecast in the budget which is in line with other economic organizations, since it forecasts slower GDP growth for this year and for the next two. Turning to other political affairs, Spain will see its first regional elections on December 2. Andalusia will be the first region to hold elections, and will serve as a thermometer to calibrate forces nationwide. The first polls give the PSOE –currently in power in Andalusia– a meager majority, but there are many possibilities that no one else will be able to form a government.

Bad news for banks

An important aspect when it comes to modifying our year-end goal for the Ibex is the new negative surprise that affects banks. And it is that the Supreme Court has published (¡October 16) a resolution annulling the clause that defines who must pay the taxes for arranging a mortgage. The Court initially considered that it is the bank and not the borrower that is subject to the tax. In addition, the Court has moved away from previous legal precedents. This could mean a loss of up to EUR5bn for the banks, which took the news with strong corrections in the markets.

In the first instance, the impact on banks is unclear, since we do not know if the annulment will be applied retroactively or if it is a measure that will affect banks moving forward. But what is quite clear is that the uncertainty created must be included in the banks' rice, since it shrinks mortgage loan margins. This could result in a lower return on equity. We see three main scenarios: 1) the best case is a scenario of non-retroactivity; 2) retroactivity of four years, with a potential impact of EUR4bn; 3) full retroactivity, with a potential impact of up to EUR13bn. The Supreme Court will decide on this matter on November 5. Until then it is likely that negative sentiment will persist among Spanish banks. We have to be cautious about an issue that we know little about and apply a risk premium through a fall in the P/E multiple of 14x.

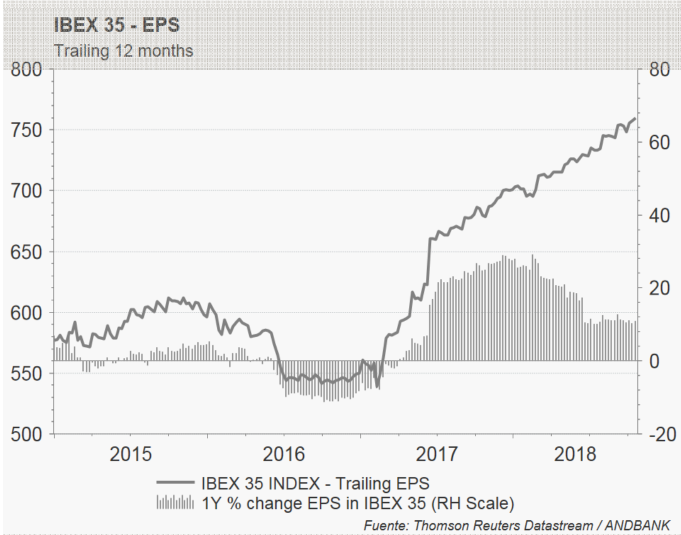
Financial market outlook

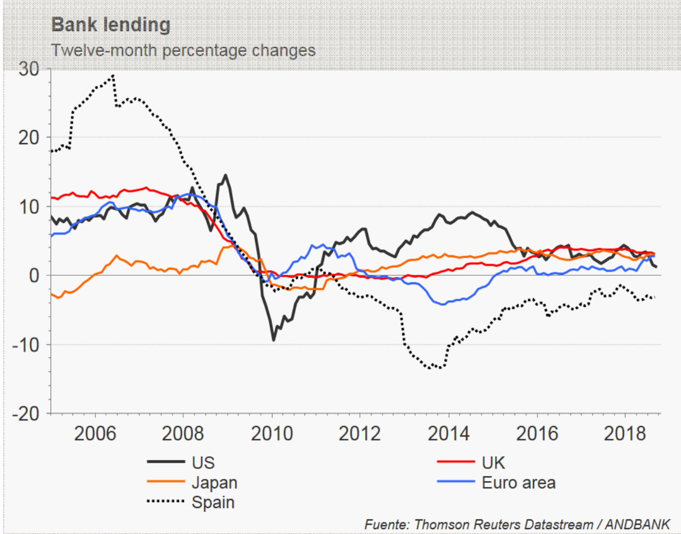
Equities – IBEX: POSITIVE. Central point 9,650. Exit point 10,620

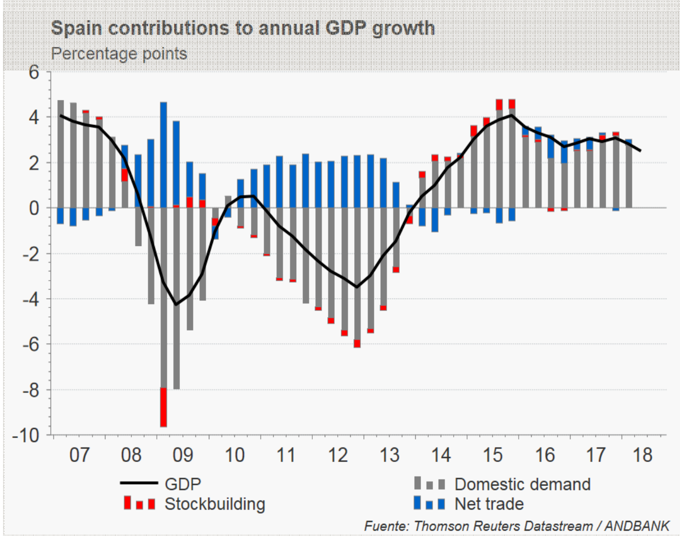
Bonds – Governments: NEGATIVE (BONO target yield 1.60%)

Credit – Invest. grade: NEGATIVE

Credit - High yield: NEGATIVE







JAPAN
BOJ to keep rates low indefinitely

Politics

Shinzo Abe is all but sure to fend off a leadership challenge from within his ruling LDP, setting him on course to become the country's longest-serving prime minister. With no significant policy-driven catalyst in view, all in Japan might well appear to remain stable.

Activity & corporate profits

1Q economic performance was weak (GDP shrank by -0.6% SAAR) but 2Q GDP bounced back to 3% SAAR, continuing Japan's longest run of growth since the 1980s (of eight consecutive quarters of growth). The outlook for 3Q GDP has been revised down to 1.35% SAAR (or 0.37% QoQ). Japan's economic outlook is the brightest in decades, with FY18 Real GDP growth expected in the 1.2% area (though FY19 GDP estimations are considerably lower at 0.80%). Japan is also showing the strongest signs of breaking out of its longstanding deflationary mode, as recent tightness in the labor market has seen a rise in the labor force participation rate. Nevertheless, even with the increased supply of labor, demand for workers remains unmet and wage gains are now becoming more broad-based across the workforce. If sustained, this rise in workers' incomes should translate into stronger consumer spending and higher sales for corporations. This is certainly a very positive outcome at a time when corporate profitability remains at a record high, meaning that Japanese corporations can afford the increased wage bills. Maybe it is precisely this likely rise in wages that has prompted foreign investors to pull more than USD40bn out of the Japanese equity market YTD. On the positive side, some analysts argue that as long as productivity growth continues and keeps pace with the rise in labor costs, current elevated profit margins are unlikely to come under pressure. The renewed willingness of Japanese corporations to invest domestically suggests expectations of productivity growth are reasonable.

Risks & a quick assessment

Trade conflict: Although Japan is not directly in the crosshairs of the US trade warriors, Japanese corporates are a key link in the global supply chain. Japan is the second largest contributor of value added in China's exports. Tapering is not a real threat in the short-term..

Should risk appetite return to global markets, and given that the yen faces little downside risk, holding Japanese equities on an unhedged basis offers the prospect of upside. At the same time, should risk sentiment take hold, Japanese stocks will offer some degree of protection via a safe-haven bid for the yen.

BoJ maintains its easing bias. Reforms

The BoJ kept M2 money supply at 2.8% YoY in September (from 2.9% in the prior month): well above the projected 2.25% for FY18 nominal GDP growth.

Japan is to help foreign companies take over small businesses. The government is considering offering a two-tier visa status for foreign workers next April to relieve labor shortages. Top-tier workers will be able to stay in the country for five years, while second-tier workers will be able to stay in the country with their spouses and children with no limit to the number of extensions

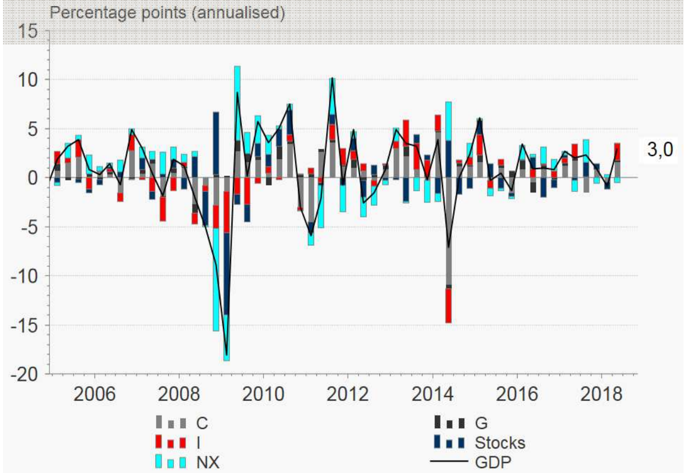
Financial market outlook

NEW! Equities – N225: NEUTRAL Central point 23,000. Exit 25,380

Bonds – Govies: NEGATIVE. Target yield 0.10%

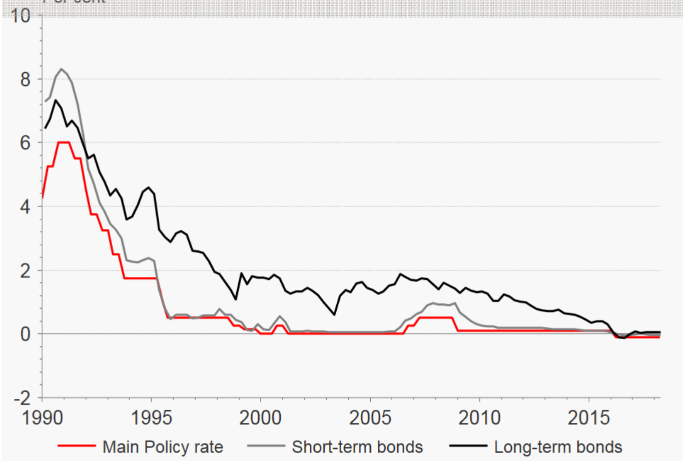
Forex – USDJPY: NEUTRAL. Mid-term target 111.2

Contributions to Japanese GDP growth
Percentage points (annualised)



Fuente: Thomson Reuters Datastream / ANDBANK

Japan interest rates
Per cent



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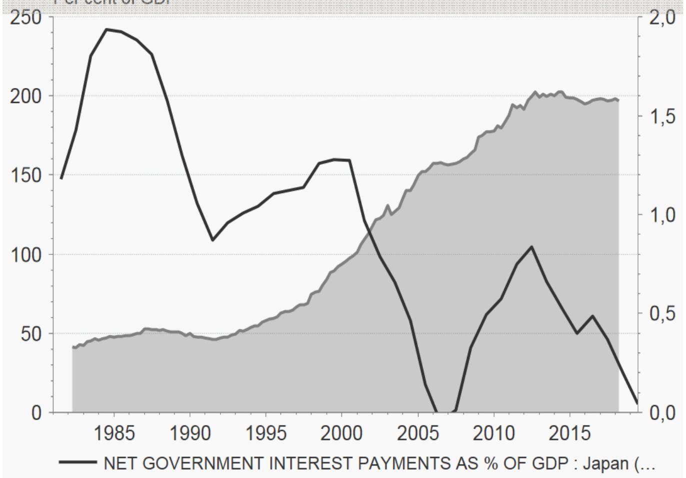
Japan government debt & Interest payments
Per cent of GDP



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CHINA

Most significant fiscal revamp in 38 years, combined with monetary easing

The new IIT law means a significant reduction in tax burden

The income tax exemption threshold is being raised to RMB36k (from RMB18k). The 20% tax rate will only be applied from RMB144k (instead of RMB54k previously). The 25% tax rate will applied from the RMB300k limit (higher than the RMB108k limit previously). The standard basic deduction is to be increased from RMB3,500/month to RMB5,000/month. A more remarkable proposal is the introduction of specific additional deductible items, which include not only the expenses related to dependent education and major illness, but also deductions for continued education, housing costs as mortgage interest or rental expense (deductible amounts are yet to be released). It is expected that the new IIT law will be implemented in two phases. In phase 1, effective from October 1, 2018, the new tax table would be implemented for taxable employment income, and income derived from production and business operations by individual industrial and commercial households. The overall amendment would be effective from January 1, 2019 (phase 2).

China is also stepping up its monetary easing

On Sunday, the People's Bank of China announced that from October 15 it will cut the reserve requirement ratio (RRR) for banks by 100bp (after the cuts in April and June). Big state owned banks will have a RRR of 14.5% (from 15.5%), and smaller banks will face a RRR of 12.5%. The measure will inject a gross amount of RMB1.2 tn into the financial system (RMB750bn in net terms, since a portion of this liquidity injection will be used to repay the lending facility due on October 15). This injection is larger than the two previous injections, meaning that Beijing's authorities are stepping up the pace of the monetary stimulus, probably because they already feel the pressure of Donald Trump's trade measures. This measure is aimed at paring back bank funding costs and corporate borrowing costs (by improving bank liquidity). Foreign reserves are no longer growing (and swelling the PBOC's balance sheet with which to feed new injections into the system). As a result, the PBOC has only one way to improve liquidity: cut RRR periodically to keep excess liquidity in the system and prevent a rise in the interbank rates. The flip-side of cutting RRR (at a time when the Fed is tightening rates) is that the PBOC will experience greater volatility in the exchange rate. The RRR cut does not have any major directional consequences but one of the objectives is to support banks, and thus, the Chinese equity market. From the point of view of bank profitability, RRR cuts are much more preferable than liquidity injections via PBOC lending facilities. The scale of Beijing's monetary easing is more modest than in the last easing cycle (2014-2015), when the PBOC cut benchmark lending rates by 125bps in just 12 months. If the trade war escalates, Beijing will come up with more supportive policies. The combination of RRR cuts, lower interbank rates, higher bank lending, accelerated local government bond issuances, and potential cuts to benchmark rates will help to keep credit growth stable at around 10%-12% YoY, maintaining the current pace of activity.

Financial market outlook

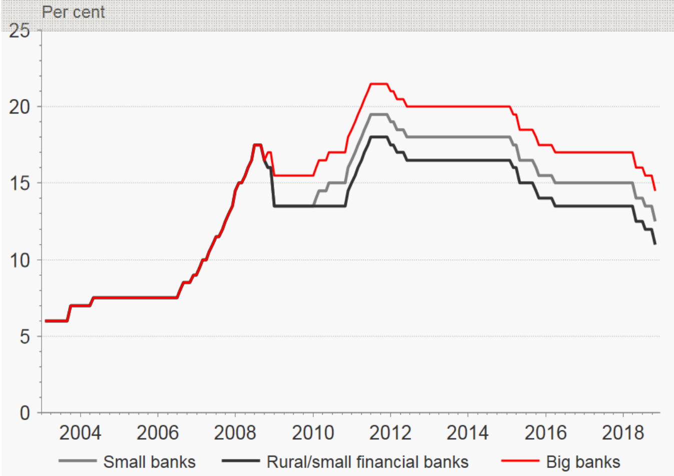
Equities – SHANGHAI index: NEUTRAL (central point 2,729)

Equities – SHENZHEN Index: POSITIVE (central point 1,385)

Bonds – Govies: POSITIVE (target yield 3.25%)

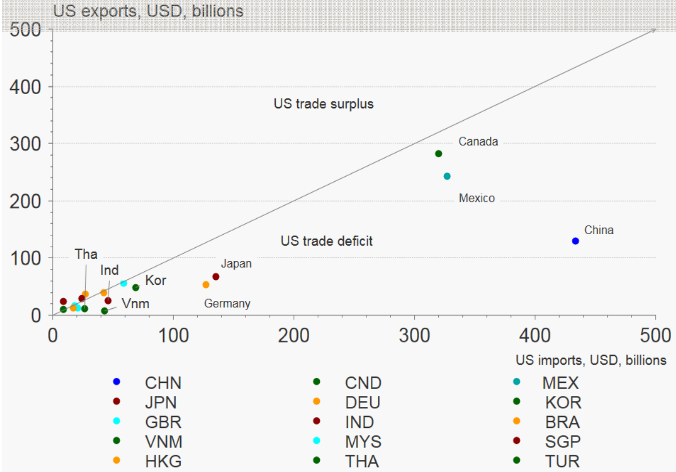
Forex – CNY/USD: NEGATIVE (target 7.00)

China reserve requirement ratios
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

US trading relationships, 2017
US exports, USD, billions



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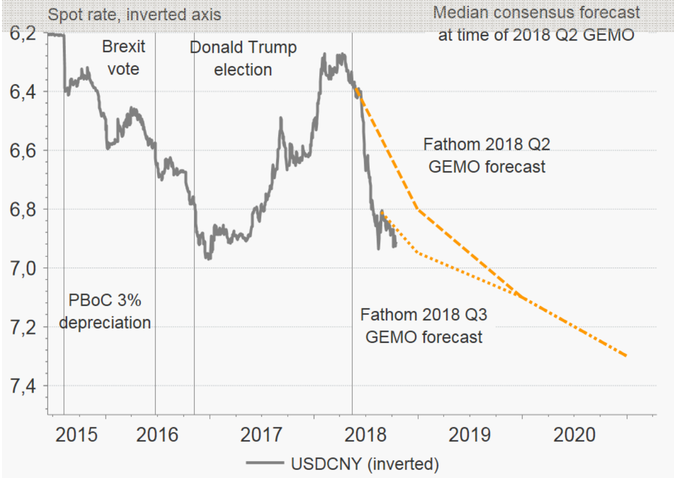
USDCNY
Spot rate, inverted axis



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INDIA

Domestic headwinds push margins lower. Correction may be overdone

Corporate earnings growth revised downwards

The earnings recovery thesis has peaked out due to the emergence of domestic and global headwinds. mMrgins will continue to struggle due to the rise in input costs (after the sharp depreciation of the INR). This is emerging as the top concern for sectors such as Auto, Cement, Telecoms, and Building Materials. We have cut our FY margins to 10.6% (from 11.7%), resulting in much lower FY18-19 EPS growth of ~8% (from 18% estimated before the INR depreciation and the sharp rise in oil prices). Some heavyweights are showing strong readings in September quarterly earnings (Infosys reported +14% EPS growth QoQ and +10.3% YoY).

The banking storm seems to be receding

RBI data indicates that loan growth accelerated to 13.1% (Sep'18) YoY compared with 5.7% in the same period last year, with private banks (~21% YoY) considerably outpacing PSU banks (~7% YoY). On the banking margin front, even after the recent hike in policy rates by the RBI, steady momentum continued on a sequential basis, thanks mainly to the ability of banks to pass on higher interest rates to end customers. We forecast NII growth of ~15% YoY. We remain cautious on treasury losses during the quarter as the recent uptick in benchmark 10Y GOI security yields should also accelerate treasury losses further. As the rising yield scenario persists, we anticipate that the fortunes of lenders (specially with better ALM profiles) will improve, along with better margins and earnings growth. There are decent prospects for ICICI Bank, HDFC Bank, IndusInd Bank, Kotak Mahindra Bank, and Federal Bank. We remain cautious on PSB Bank due to lingering concerns around rate sensitivity, elevated credit costs, and a continued loss of market share.

Infrastructure stocks correction overdone

Infrastructure stocks have corrected sharply over the last nine months, largely due to (1) the uncertainty given the current state of banking system –all leading to a stretching of working capital and balance sheets and impacting earnings; (2) political uncertainty related to impending states elections, leading to doubts about orders and expectations of payment delays, this being election year; and (3) the reversal of the interest rate cycle. We find most of the concerns are excessive. While payment delays and higher interest rates might lead to higher debt/interest expenses, we note that most infra companies have strong balance sheets (average DE of 0.3x), thereby limiting the impact. We expect strong results from most companies in the coming quarters, driven by strong order books and the low base last year (GST impact). We foresee stocks returning to earlier multiples, as the political uncertainty wanes and market conditions improve.

Decent prospects for activity growth and profits. FX stabilizes

According to the last IMF report, India will be the world economy that grows the most in the next 5 years. More importantly, India will be the only economy (together with Vietnam) that will accelerate its structural growth (from 7.1% to 7.7%). The rupee has shown signs of stabilization amid softening crude oil prices and easing concerns over trade deficits.

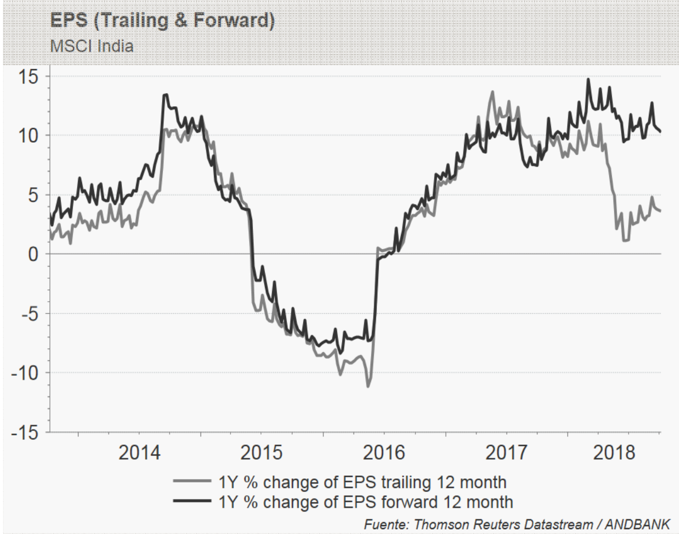
Financial market outlook

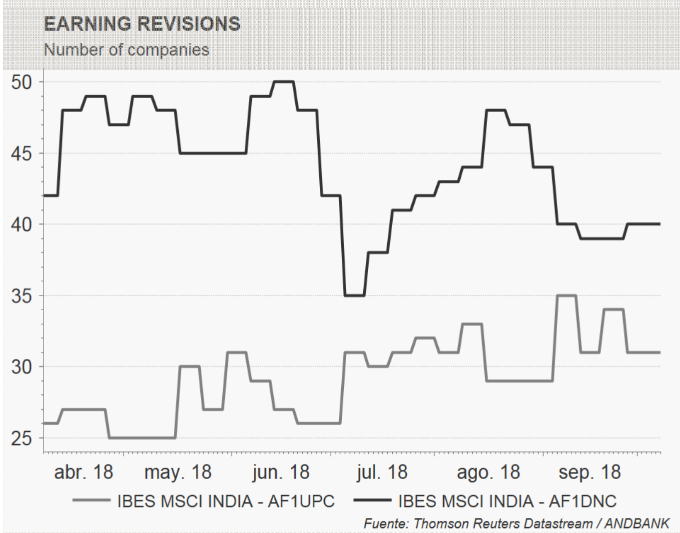
NEW! Equities – SENSEX Index: NEUTRAL (central point 34,800)

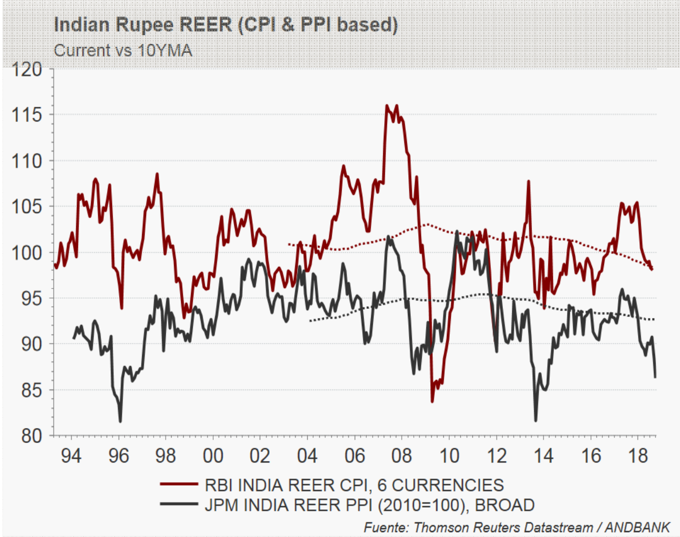
NEW! Bonds – Govies: POSITIVE (target yield 7%)

Bonds – Corporates: POSITIVE

NEW! Forex – INR/USD: STABLE (target 73)







MEXICO
AMLO's position less moderate now

Politics & economics

The position of López Obrador and his team has become less moderate in general terms compared to the first months after winning the elections. Recently, their proposal to stop Mexican oil exports ended with Pemex's outlook being downgraded to negative. A controversial issue has been the construction of the new airport. Now Obrador intends to hold a public referendum to determine if the new CDMX airport will be in Texcoco (where construction has already started) or if an alternative airport will be built at another location (and private investors will be affected).

USMCA will replace NAFTA (if approved by the US Congress). The agreement allayed some uncertainty in local markets, but even so, a number of clauses are considered negative for the automotive sector, with rules of origin being tightened and the minimum wage raised to avoid tariffs. Immigration could be a new point of rupture between the US and Mexican foreign policy. The GDP estimate was cut by Banxico at its previous meeting. For 2018, the growth forecast remains at the 2.0-2.5% level.

Central bank & monetary conditions

Banxico kept its rate on hold at the last meeting, despite the rise by the Fed. The inflation outlook for the central bank is higher as energy prices continue to rise and because the exchange rate is expected to become more volatile. Among internal risks, the 2019 budget stands out, with much expectation regarding the new government's adjustment plans as well as the latest controversy about the construction of new airports. The annual CPI moved above 5% year-on-year in September (above analysts' forecasts), thanks to a greater contribution of gasoline and gas prices. Upward inflation risks were fueled by the peso's recent volatility, despite the NAFTA issue being resolved, the Fed's monetary policy and its possible devaluation effects. An increase in rates of more than 25 bps is expected by the end of the year.

Market sentiment

MSCI Mexico has lost over 11% from its post-election high. We attribute the downtrend to the recent global sell-off coupled with renewed fears of strain on the MX and US relationship due to the 7k people coming from Central America and currently marching through Mexico towards the US border. Uncertainty around the outcome of this week's public consultation on the future of the new Mexico City airport (NAICM) has also contributed negatively. We see a sound top-down story coupled with strong bottom-up fundamentals for companies. Nonetheless, we highlight heightened market jitters around AMLO's course of action. We acknowledge Mexico's new "normal" valuation has to be below the historical ~16x long-term average to account for "AMLO's put," as the market discovers what this new regime will entail in terms of fiscal, economic, and public policy. Range 44,000-50,000 12M. We are considering two possible year-end scenarios, depending in particular on AMLO's budget proposal and other announcements as he takes the presidency. 44,000-48,000.

Financial market outlook

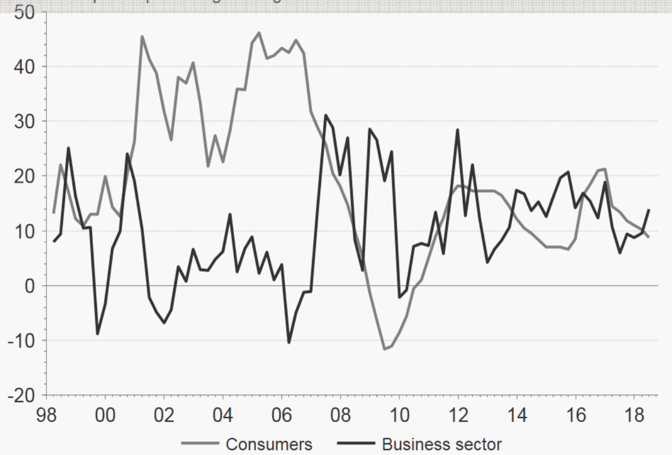
NEW! Equities – Mex IPC: NEUTRAL (Target 46,100). Exit 49,000

Bonds – Govies Local: NEUTRAL (target spread 500, yield 8.25%)

Bonds - Govies USD: NEGATIVE (target spread 140, yield 4.65%)

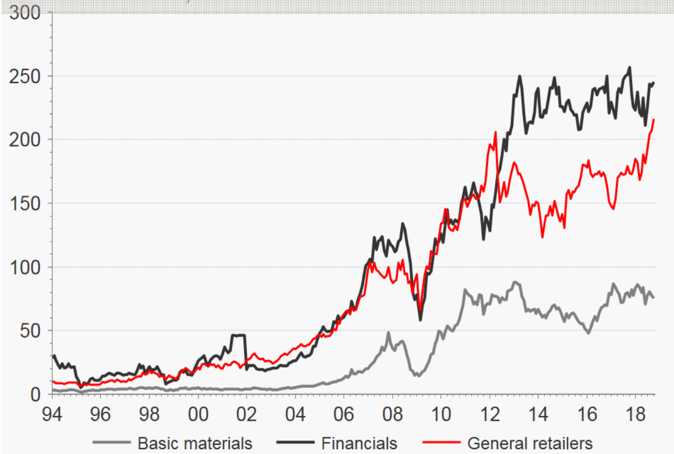
FX – MXN/USD: NEUTRAL (Mid-term target 19.15)

Mexico lending
Four-quarter percentage changes



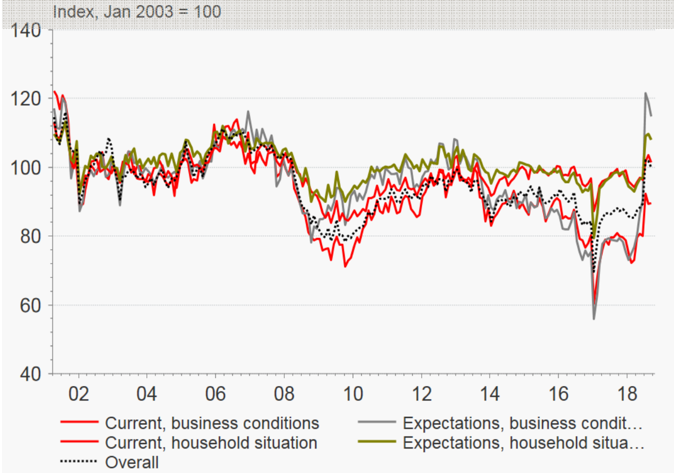
Fuente: Thomson Reuters Datastream / ANDBANK

Mexico FTSE index
Price return index, thousands



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico consumer confidence
Index, Jan 2003 = 100



Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL

Elections: the final act

Politics. Bolsonaro will likely be nominated the next president

The first round of the elections took place on October 7, and the outcome was as expected: a second round between Jair Bolsonaro (PSL) and Fernando Haddad (PT). In fact, Bolsonaro won more votes than the opinion polls suggested prior to election day (46.03% of the valid votes). Haddad garnered 29.28% of the votes, whereas Ciro Gomes received 12.47%. The big surprise was Geraldo Alckmin's performance. The main center-wing candidate, who had the biggest coalition and the most TV time, won just 4.76% of the valid votes, in the worst performance by a PSDB presidential candidate ever.

Bolsonaro is now leading the polls for the second round, which takes place on October 28, with about 58% of the valid votes. Given the comfortable scenario, Bolsonaro campaign has been avoiding the debates on television and has maintained the same criticizing tone adopted in the first round. This strategy is proving consistent, as the polls are practically unchanged and indicate his very likely victory.

Once Bolsonaro's victory is confirmed, market attention will turn to the composition of his economic team and to the first signs of how the relationship between the Executive and Congress will be. Bolsonaro's team has signaled that they might retain some members of the current economic team. On the congressional front, the picture is more cloudy. Congress went through a considerable renewal. A large number of the congressmen elected will be there for the first time, which increases the uncertainty as to how the Government's support will play out. On the other hand, PSL (Bolsonaro's party) has grown substantially from 8 to 52 elected member: only behind the PT, with 56 members. MDB (Michel Temer's party) and PSDB were the main losers in this congressional election.

Economics: Better short-term data

The IBC-Br (economic activity index calculated by the central bank) ticked up 0.47% in August –above market expectations (median of 0.25%). Industry and services were big contributors, as well as better crop harvests (especially coffee). Net job creation also surprised positively in September, standing at 137,300 new jobs (net). Inflation, on the other hand, stood at 0.48% in September (4.53% YoY, at the central target). On the monetary policy front, the central bank has maintained the Selic rate at 6.50%, as expected by market players.

A quick assessment of the financial market's situation

The economic recovery and the lower interest rates should boost companies' results. Long-term public debt dynamics will depend on the reforms rolled out by the new government. We consider the initial intentions as credit supportive for Brazilian's debt instruments. In the short term; bond yield will likely remain stable. But we believe the local 10Y bond yield could fall to 10% by year-end, with the USD bond being fixed at 5.5%. We remain neutral on the BRL. Despite the considerable political uncertainty, we should see BRL trading at BRL 3.80/USD in the short run.

Financial market outlook

Equities – IBOVESPA: NEUT-POSIT (Target 87,000). Exit 91,300

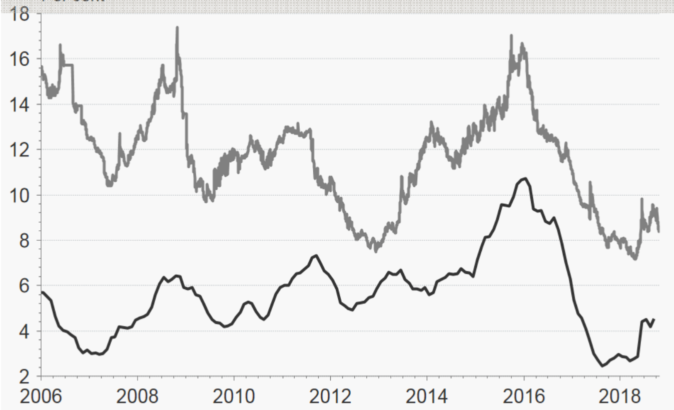
Bonds – Gov. Local: POSITIVE (target yield 10%)

Bonds – Gov. USD: POSITIVE (target yield 5.50%. Spread 330bp)

FX – BRL/USD: POSITIVE (mid-term target 3.80)

Brazil 2Y government bond & CPI

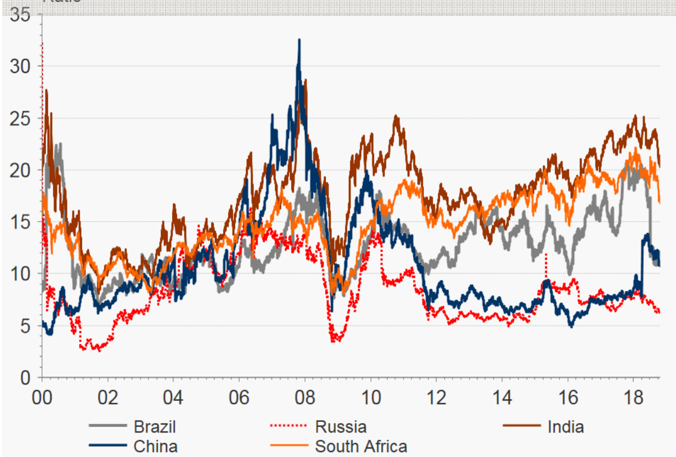
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

BRICS PEs

Ratio

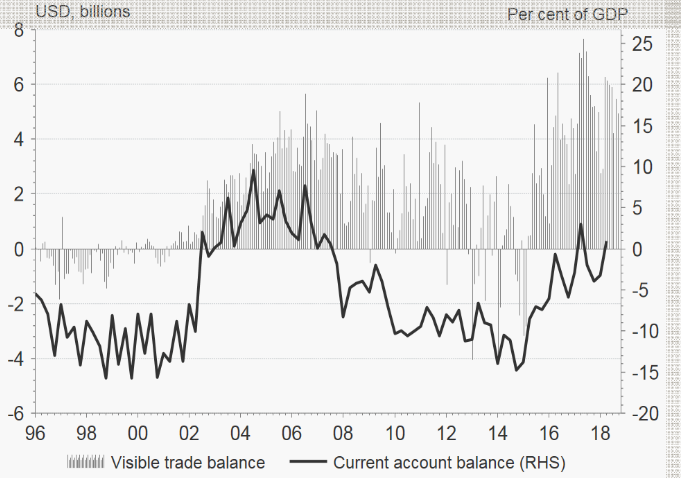


Fuente: Thomson Reuters Datastream / ANDBANK

Brazil balance of payments

USD, billions

Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA

IMF Round 2: The Three Zeros Plan

Zero fiscal deficit, zero monetary expansion and zero intervention: this is how many local economists are referring to the new IMF program. The fact is that since the new monetary and FX regime was applied in late September, the ARS has appreciated by 8% to the current USDARS 36.5 level and the fiscal result for 3Q18 has overshot the primary fiscal target: the YTD figure reached -1.3% of GDP while the target was set at -1.9% for the same period.

Updated borrowing needs after the revised IMF deal

The revised IMF deal set an accelerated disbursement schedule for 2018 and 2019 while increasing funds by USD7.1bn to USD57.1bn and making them usable instead of precautionary. As a result, financial needs in 2018 would be fully covered and excess funding of USD5.5bn could be set aside for 2019 if we assume a reasonable 100% ARS Lecap and 50% USD Letes roll-over. In 2019, net borrowing is around USD8bn and should be easily covered by a conservative Lecap and Letes roll-over. In 2020, net borrowing reaches about USD24.5bn, which could stand at USD 15.5bn if we assume a full roll-over of short term debt.

Fiscal equilibrium might not be enough

The level of economic activity is one of the main risks the government has to face in order to reach fiscal equilibrium next year. September's REM forecasts a contraction in GDP of -0.5% for 2019 with almost all components of GDP expected to drop except exports. 2018 GDP growth will likely end with a -2.5% decline. But even reaching fiscal equilibrium would probably prove to be insufficient if government spending is not further cut, especially beyond 2020 since most of the measures included in the 2019 budget will not be applicable after 2020. Cutting government spending is the only way to lift the heavy burden of tariffs on the Argentine people. In short, no matter what, Argentina will have to cope with the effects of the fiscal adjustment if it wants to enjoy the fruits. Longer term, 2020 projections show GDP growth of 2.2%.

Monetary and FX policy finally working together

The new monetary policy implemented at the end of last month changed from targeting inflation to setting a goal of 0% seasonally adjusted nominal growth of the average monetary base until June 2019, while leaving Leliqs to float on a daily basis. Additionally, the BCRA set a non-intervention area for the FX with a lower and upper band of USDARS 34 and USDARS 44, respectively that will be adjusted daily at a 3% monthly rate. If the ARS depreciates above the upper band, the BCRA would be able to sell up to USD150mn daily to mitigate volatility and would buy USD if the ARS appreciates below the lower band only if inflation drops significantly.

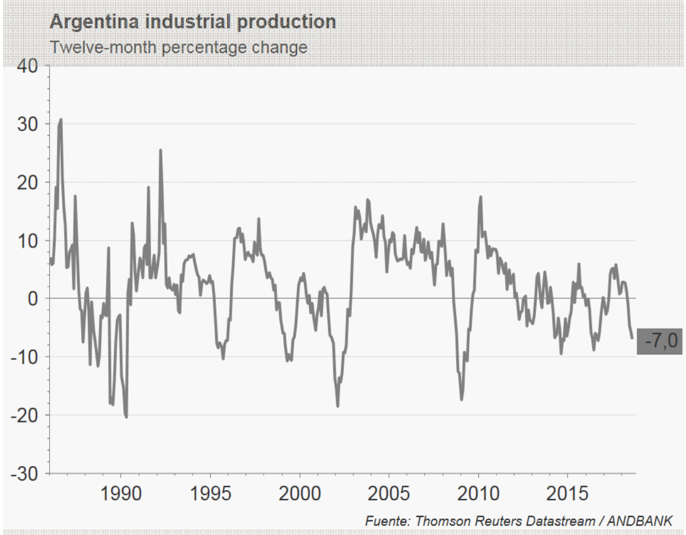
Inflation and FX going forward

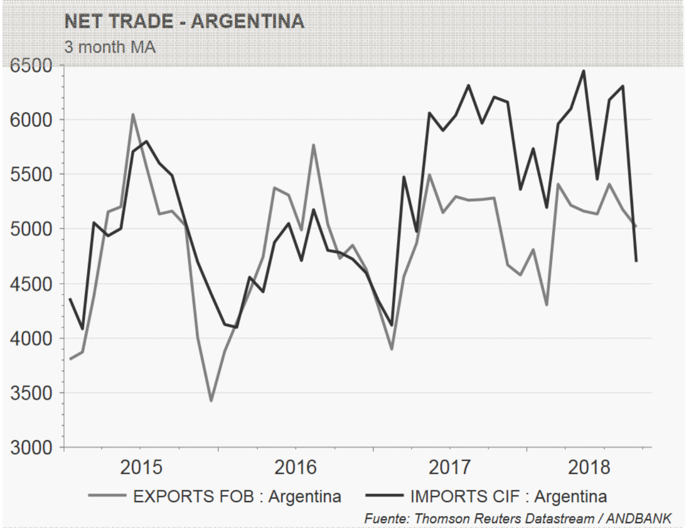
September's REM showed an estimate of 44.8% inflation for 2018, with forecasts of 27% and 19% for 2019 and 2020, respectively. In addition, they forecast the exchange rate to average USDARS 43 by December 2018, reaching an average of USDARS 50.4 by December 2019. The Leliq rate is expected to remain at the current high levels (it reached 73% pa in the past few days), at least until inflation expectation moderates.

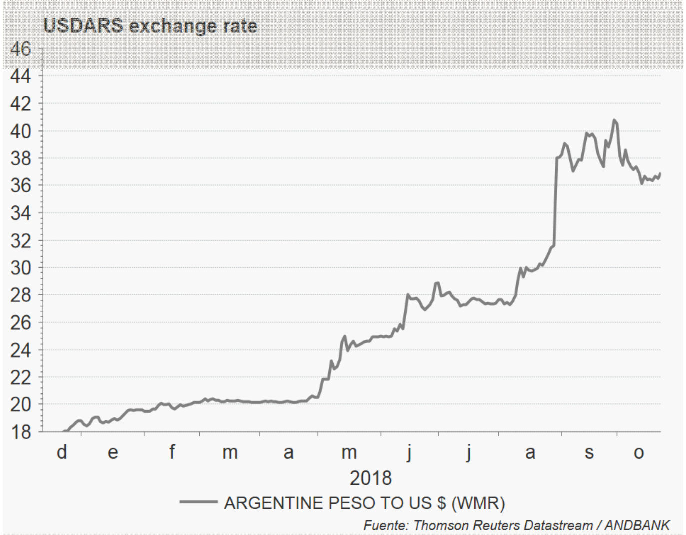
Financial market outlook

NEW! Bonds – 10YGov USD: POSITIVE. Target yield 8.75%.

FX –USDARS: NEGATIVE (year-end target 40)







GLOBAL EQUITY INDICES
Fundamental assessment

Index	Andbank's Sales growth 2018	Sales per Share 2018	Andbank's Net Margin 2018	EPS 2018	EPS Growth 2018	Current PE with EPS 2017	Current PE Fw EPS 2018	PE estimate at Dec 18 EPS 2018	INDEX CURRENT PRICE	2018 Central Point Fundam range	2018 E[Perf] to Centr. Point	2018 Exit Point	E[Perf] to Exit point
USA S&P 500	5,6%	1.301	12,17%	158,3	18,8%	19,81	16,68	17,15	2.640	2.715	**2,8%**	2.987	13,1%
Europe - Stoxx I	5,2%	313	8,19%	25,7	6,6%	14,51	13,61	14,50	349	372	**6,5%**	398	14,0%
Euro Zone - Eur	5,2%	367	7,15%	26,2	6,4%	13,88	13,05	14,50	342	380	**11,2%**	418	22,3%
Spain IBEX 35	5,0%	7.834	8,80%	689	1,0%	12,67	12,55	14,00	8.650	9.651	**11,6%**	10.617	22,7%
Mexico IPC GR/	7,2%	35.891	8,03%	2.881	5,7%	16,79	15,89	16,00	45.776	46.101	**0,7%**	49.098	7,3%
Brazil BOVESPA	7,2%	56.514	10,26%	5.798	11,6%	16,13	14,46	15,00	83.845	86.963	**3,7%**	91.311	8,9%
Japan NIKKEI 2:	5,0%	21.087	5,92%	1.248	6,5%	18,16	17,05	18,50	21.269	23.080	**8,5%**	25.388	19,4%
China SSE Comp	7,1%	2.831	8,77%	248	7,5%	11,26	10,47	11,00	2.599	2.729	**5,0%**	3.002	15,5%
China Shenzher	7,3%	968	8,67%	84	9,3%	16,82	15,38	16,50	1.291	1.384	**7,3%**	1.523	18,0%
India SENSEX	9,2%	15.530	10,66%	1.656	8,13%	21,78	20,14	21,00	33.349	34.772	**4,3%**	38.249	14,7%
MSCI EM ASIA (	6,8%	454	9,59%	44	8,8%	11,83	10,87	11,50	473	501	**5,8%**	551	16,4%

UPWARD REVISION DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY
Tactical assessment

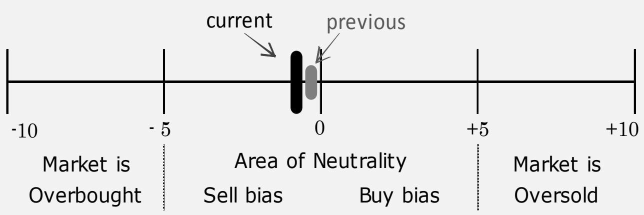
Andbank GEM Composite Indicator: We remain in an area of neutrality. No imminent risk of a sustained sell-off.

Our broad index has ticked down to -0.7 from -0.5 (in a range of -10/+10), settling in an area that suggests the equity market is not oversold and remains in neutral territory (in terms of flow stress). Consequently, the risk of a sustained and justified fundamental sell-off is low.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	2	3
Positive Bias	5	3
Neutral	7	6
Negative Bias	5	6
Sell signals	3	3
FINAL VALUATION	**-0,5**	**-0,7**

Risk Composite Indicator



TECHNICAL ANALYSIS
Trending scenario. Supports & resistances (1 month)

S&P: SIDEWAYS
Support at 2,676. Resistance at 2,939

STOXX600: SIDEWAYS
Support at 351. Resistance at 386

EUROSTOXX50: SIDEWAYS
Support at 3,156. Resistance at 3,453

IBEX: BEARISH
Support at 8,500. Resistance at 9,665

EURUSD: SIDEWAYS
Support at 1,129. Resistance at 1,185

Oil (WTI): SIDEWAYS-BULLISH
Supports at 66.90. Resistance at 76.96

Gold: SIDEWAYS-BULLISH
Supports at 1,180. Resistance at 1,265

US Treasury: BULLISH
Supports at 3.00%. Resistance at 3.22%.

FI FIXED INCOME - GOVERNMENTS

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.1%. Fair value 3.2%. Ceiling 4,2%

Swap spread: The swap spread up ticked to +9bps (from +5bps last month). For this spread to normalize at +5bps, with the swap rate anchored in the 2.5% area (inflation expectation), the 10Y UST yield would have to move towards 2.45%.

Slope: The slope of the US yield curve remained stable at 28bps (from 26bps). With the short end normalizing towards 2.50% (today at 2.87%), to reach the 10Y average slope (of 170bps) the 10Y UST yield would have to move to 4.2%.

Real yield: A good entry point in the 10Y UST would be when the real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a "BUY".

GER Bund: Floor 0.80%. Fair value 1.05%. Ceiling 2,4%

Swap spread: The swap spread rose to 60bps (from 54bps last month). For the swap spread to normalize at 36bps, with the swap rate anchored in the 1.40% area (today at 0.99%), the Bund yield would have to move towards 1.04% (entry point).

Slope: The slope of the EUR curve remained stable at 99bps (from 98bps last month). If the short end "normalizes" in the -0.50% area (today at -0.59%), to reach the 10Y average yield curve slope (130bps) the Bund yield would have to move to 0.80%.

Real yield: A good entry point in the German Bund would be when the real yield hits 1%. Given our CPI forecast of 1.4%, the Bund yield would have to rise to 2.4% to become a "BUY".

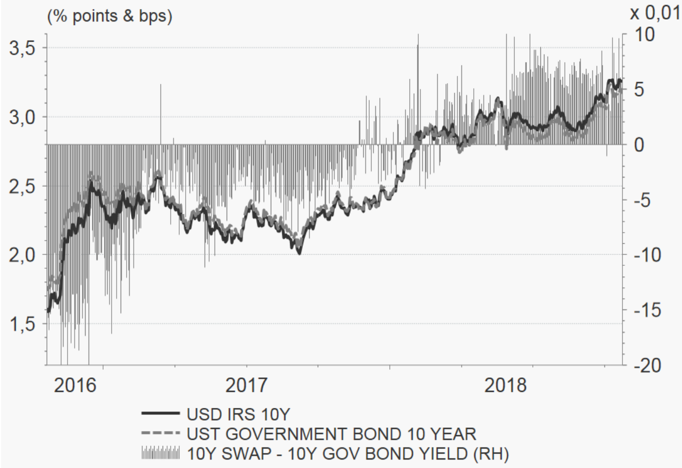
UK Gilt: Fair value 1.9%. Ceiling 3,6%

Swap spread: The swap spread rose to 16bps (from 11bps last month). For the swap spread to normalize at 12bps, with the swap rate anchored in the 2% area (today at 1.6%), the 10Y UK Gilt would have to shift to 1.88%.

Slope: With 2Y normalized at 1.5%, to reach the average slope at 1,65%, the 10Y Gilt would have to move to 3.15%.

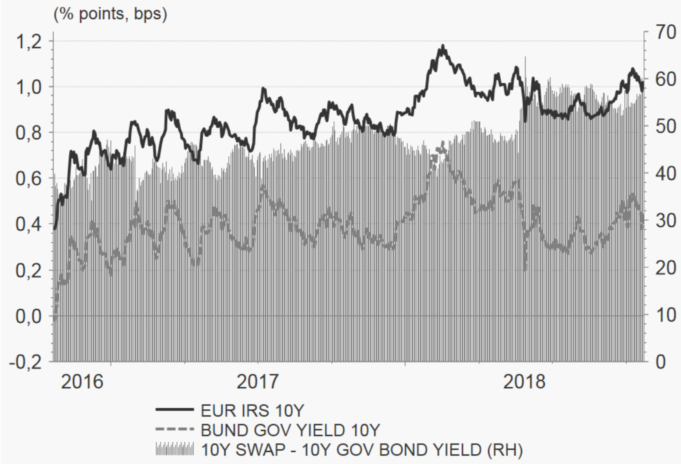
Real yield: A 1% real yield means the 10Y gilt should be at 3.6%.

SWAP SPREAD USD



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.60%
NEW! Italian bond BTPI: Target yield at 3.50%
Portuguese Gov bond: Target yield at 2.20%
Ireland Gov bond: Target yield at 1.10%
Greece Gov bond: Target yield at 4.50%

EMERGING MARKET BONDS

Fundamental targets

To date, our rule of thumb for EM bonds has been "buy" when the following two conditions are met: 1) the US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.

Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more.

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	8,58%	2,88%	5,70%	-1,00%	7,58%
	India	7,87%	3,75%	4,12%	-1,00%	6,87%
	Philippines	8,05%	6,70%	1,35%	-0,50%	7,55%
	China	3,53%	2,50%	1,03%	-0,50%	3,03%
	Malaysia	4,15%	0,19%	3,96%	-1,00%	3,15%
	Thailand	2,73%	1,37%	1,36%	-0,50%	2,23%
	Singapore	2,49%	0,74%	1,75%	-0,50%	1,99%
	South Korea	2,16%	1,96%	0,20%	0,00%	2,16%
	Taiwan	0,87%	1,76%	-0,89%	1,00%	1,87%
EME	Turkey	17,34%	24,52%	-7,18%	1,00%	18,34%
	Russian Fed	8,63%	3,40%	5,23%	-1,00%	7,63%
LATAM	Brazil	10,50%	3,97%	6,53%	-1,00%	9,50%
	Mexico	8,34%	5,07%	3,27%	-1,00%	7,34%
	Colombia	7,17%	3,23%	3,94%	-1,00%	6,17%
	Peru	6,09%	1,20%	4,89%	-1,00%	5,09%

ENERGY – OIL

Fundamental view (WTI): Target price USD50pb. Sell > USD60. Buy < USD40
Technical view (WTI): Sideways-Bullish. Support at 64.45. Resistance at 75.26

Short-term drivers

***(Price Negative)* – Rush for drilling permits in Colorado.** Platts reports that drilling permit activity in Colorado is on pace for a record high this year as producers prepare for the possibility of the state's Proposition 112 being passed, which would increase the required setback for wells from all occupied properties to 2,500 feet (from a current 500 feet). The report notes that the vast majority of those permits were filed for the Denver-Julesburg Basin, this year seeing 7,315 applications in contrast to last year's 5,564 (which was also a record).

***(Price Negative)* – Cartel not talking price for fear of being labeled as manipulators and amid antitrust fears.** OPEC has urged its members not to mention oil prices when discussing policy. This is a break from the past, as the cartel is seeking now to avoid the risk of US legal action for manipulating the market. The US legislation that could open the group up to antitrust lawsuits has long lain dormant but could be revived under a more aggressive President Trump.

***(Price Negative)* - US shale production expected to reach record levels in November.** Production from the major US shale plays is expected to post a monthly rise of ~100k bpd in November to 7.71mn bpd, with half of the increase coming from the Permian Basin. The increase is expected to come despite US drilling activity remaining relatively unchanged over the last few weeks (though the rig count is still up more than 100 since January).

***(Price Negative)* – New light grade being sold by Permian drillers.** Oil producers in the US Permian Basin have begun selling a new grade of light crude called "WTI Light." Sales started in September with deliveries into Midland, TX. The new stream is being primarily blended to produce so-called Domestic Sweet crude, WTI Midland, or benchmark WTI for delivery at Cushing.

(Price Negative)* – *Iran keeps oil price at the lowest level in 14 years. With the deadline for Iran's sanctions closing in, any waivers could be issued soon. The US has said that any sanction waivers would be "few and far between," but that the threats have already had an impact on Iran's oil business, with the country having lost key buyers. Iran has responded by keeping its price for light crude delivery to Asia at the lowest level in 14 years relative to the rival Saudi grade.

***(Price Neutral)* - Management shakeup at PDVSA.** Venezuela is installing at least five new executives at state-run oil firm PDVSA, though the changes are unlikely to halt the unraveling of the country's oil industry, which was put under military management last year by President Nicolas Maduro in what he stated was a move to root out inefficiencies and corruption. The new executives are relative unknowns in the energy industry.

***(Price Neutral)* - US planning more sanctions.** The US plans to increase sanctions pressure on Venezuela, though there sees less need to immediately target its energy sector given the country's sagging production. A US administration official said sanctions are only some of the many tools the US has on the table.

Long-term drivers

(-) Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is dictated by the amount of time they can pump before alternative energies render oil obsolete. In order to push back this deadline as far as possible, it is in producers' interests to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible). The head of the latest consortium pursuing the large-scale production of cellulosic ethanol from farm waste says that the outlook looks promising again, with "the technology being competitive with oil at USD70/barrel."

(-) Growing environmental problems will gradually tighten legislation and production levels; the value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems that will likely continue to put a lot of pressure on the market for fossil fuels over the coming decades, OPEC's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as they can.

(-) Are OPEC producers able to structurally fix prices? While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well in achieving a considerable increase in the price of oil, this has been at the cost of a loss of market share, meaning that OPEC producers are no longer able to easily fix prices without bearing costs. Back in the 1970s and the early 2000s, the exporters cartel agreed to cut output and the approach worked well, as the principal competition was among conventional oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil should therefore easily be offset (in theory) by a quick increase in shale oil production.

(-) Shale producers to raise output considerably at USD60 a barrel; the IEA has said that an oil price of USD60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

Fundamental price for gold at USD1,100/oz. Sell above USD1,300

Negative drivers

Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) rose to USD1,112 (from USD1,086 last month). In real terms, gold continues to trade well above its 20-year average of USD882. Given the global deflator (now at 1.10296), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near USD972.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio ticked up to 83.82x (from 83.56x last month) and still remains well above its 20-year average of 62.54x, suggesting that gold is expensive (at least relative to silver). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to USD915/oz.

Gold to Oil: This ratio rose during the month to 17.73x (from 16.92x last month), still well above its 20-year average of 14.97x. Considering our fundamental long-term target for oil of USD50pb (our central target for the long term) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach USD750 for this ratio to remain near its LT average.

Speculative positioning: CFTC 100oz Active Future non-commercial contracts: Longs are fixed now at 197k (from 214k last month). Short contracts rose to 208k (from 132k). Thus, the net position decreased sharply to -11k during the month (from +81k), suggesting that speculators' appetite for gold has decreased markedly in the last three months.

Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

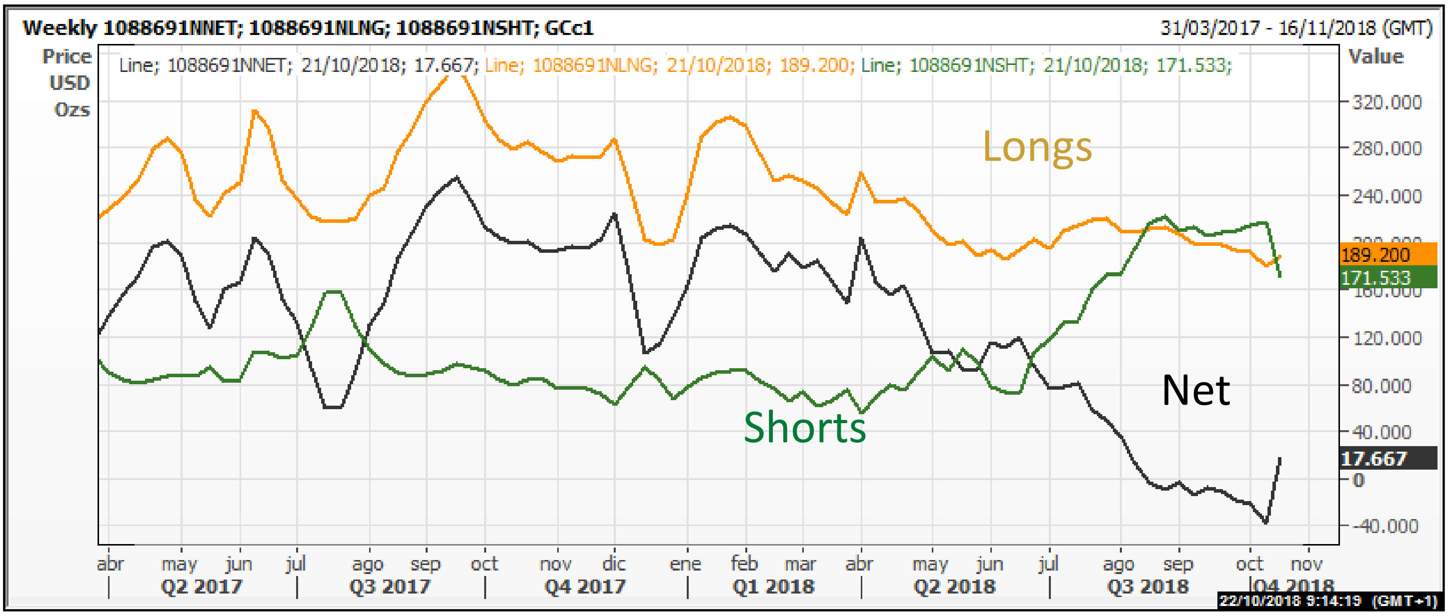
Positive drivers

Gold to the DJI: This ratio (inverted) fell in the month to 20.47x (from 22.32x last month), still above its LT average of 19.73x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach USD1,267 for this ratio to remain near its LT average.

Gold to the S&P500: This ratio rose to 0.443x (from 0.41x last month) but is still well below its LT average of 0.596x. Given our target price (central point) for the S&P of USD2,715, the price of gold must approach USD1,618 for this ratio to remain near its LT average.

Negative yields still make gold attractive. The disadvantage of gold compared to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

Relative share of gold: The total value of gold in the world is circa USD6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around USD173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EURUSD: ST Resistance at 1.185 // Fundamental mid-term target 1.15 // Fundamental long-term target 1.03

Flows: Dollar net longs extended again, with global investors' positioning in USD now sitting at USD28.46bn: clearly above the highs reached in mid-August, which were the largest since January 2017. The rise in dollar positioning has been significant in recent months, with the current positioning representing a +1.46 sigma on a one-year z-score basis (vs +1.15 last month). Therefore, the dollar continues on course, with investors building long positions, though at a lower average pace of USD0.9bn of new long positions per week (from USD2.5bn pace seen last month). **Outlook:** **Flow analysis:** At a z-score of +1.46 in the global USD positioning, the greenback seems overbought against all other currencies, except the EUR. Our **technical analysis** within the Investment Committee indicated three very important things: (1) the EURUSD is now facing a key resistance level at 1.185, and then a longer-term one of 1.26; (2) this last resistance level should hold well and we do not believe the EUR will cross it; and (3) the EURUSD should, therefore, be moving back into the longer-term range again: first towards 1.15 and then towards 1.03. Our more **fundamental discussion** sticks with our structural bearish view on the Euro.

USDJPY: Target 111.2; **EURJPY**: Target 127.8

Smart Estimates (the forecasters that historically have shown the best results) fix the 2019 target for the USDJPY at 108.4 (below our forecast of 111.2). In our view, despite being cheap in REER vs the USD, several aspects suggest that JPY should not appreciate much further: (1) real yields are lower in JGBs, and with the 10Y JGB controlled at 0.10% there is little prospect that Japanese real yields will rise; (2) we downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short term); (3) meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (4) the prospect of the Fed paring back its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

GBPUSD: Target 1.35; **EURGBP**: Target 0.85

USDCHF: Target 0.99; **EURCHF:** Target 1.14

USDMXN: Target 19.15; **EURMXN:** Target 22.00

USDBRL: Target 3.80; **EURBRL:** Target 4.37

USDARS: Target 40

RUB: POSITIVE

AUD: POSITIVE

CAD: POSITIVE

CNY: Target 7.00

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last week in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	28,46	0,02	28,5	-28,2	-0,6	1,46
USD vs G10	29,97	-0,01	30,0	-25,4	0,8	1,62
EM	1,52	-0,03	3,8	-0,8	1,6	0,42
EUR	-4,25	-1,93	23,4	-4,2	12,0	-0,39
JPY	-11,21	1,55	0,6	-15,0	-7,5	-1,13
GBP	-4,15	0,82	4,3	-6,5	-0,5	-0,36
CHF	-2,09	-0,47	0,0	-6,0	-3,2	-0,30
BRL	-0,42	0,09	0,6	-0,8	-0,3	-1,21
MXN	1,83	-0,13	2,8	-0,5	1,4	0,92
RUB	0,11	0,01	1,2	-0,2	0,5	-0,86
AUD	-5,10	0,10	4,5	-5,2	-0,9	-2,25
CAD	-0,85	0,09	5,7	-4,0	-0,1	-0,19

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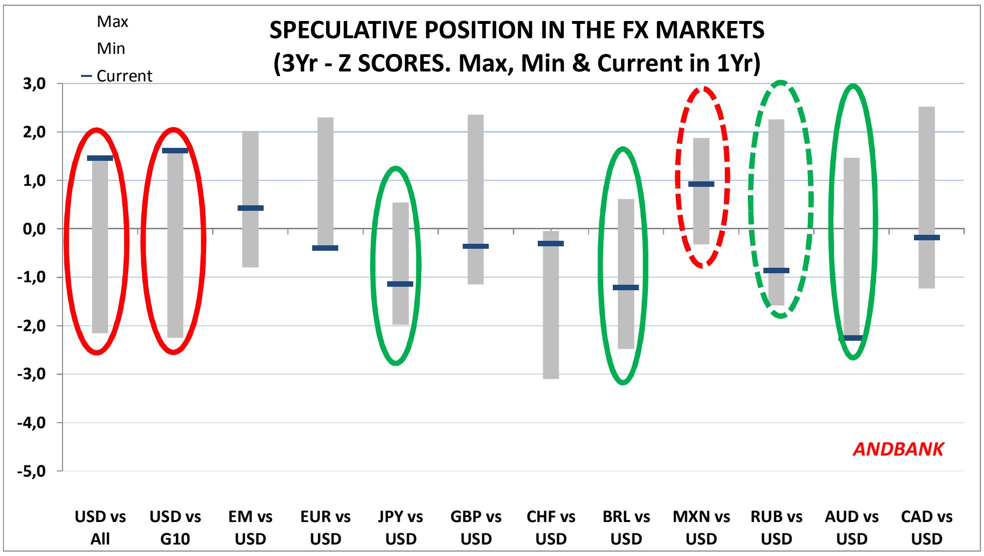

The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance 1 month	Performance YTD	Current Price 26/10/2018	Central Point (Fundam range)	Exp. Perf. To Central Point
Equity	USA - S&P 500	-9,4%	1,2%	2.640	2715	2,8%
	Europe - Stoxx Europe 600	-8,8%	-8,8%	349	372	6,5%
	Euro Zone - Euro Stoxx	-9,6%	-9,6%	342	380	11,1%
	SPAIN - IBEX 35	-7,9%	-12,5%	8.650	9.651	11,6%
	MEXICO - MXSE IPC	-7,5%	-6,2%	45.776	46.101	0,7%
	BRAZIL - BOVESPA	5,7%	10,1%	83.845	86963	3,7%
	JAPAN - NIKKEI 225	-11,2%	-6,9%	21.269	23080	8,5%
	CHINA - SHANGHAI COMPOSITE	-7,9%	-21,4%	2.599	2729	5,0%
	CHINA - SHENZEN COMPOSITE	-10,5%	-32,0%	1.291	1384	7,3%
	INDIA - SENSEX	-7,9%	-2,1%	33.349	34.772	4,3%
	MSCI EM ASIA (in USD)	-11,9%	-19,4%	473	501	5,8%
Fixed Income Core countries	US Treasury 10 year Govie	0,2%	-3,3%	3,07	3,25	-0,9%
	UK 10 year Gilt	1,7%	-0,5%	1,37	2,00	-4,8%
	German 10 year BUND	1,1%	1,0%	0,34	0,80	-3,6%
	Japanese 10 year Govie	0,1%	-0,5%	0,10	0,10	0,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,4%	1,2%	1,55	1,60	-0,1%
	Italy - 10yr Gov bond	-2,3%	-10,0%	3,45	3,50	0,2%
	Portugal - 10yr Gov bond	-0,1%	1,5%	1,90	2,20	-2,0%
	Ireland - 10yr Gov bond	0,5%	-1,7%	0,92	1,00	-0,4%
	Greece - 10yr Gov bond	-1,0%	1,8%	4,23	4,50	-1,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,2%	-0,7%	75,08	92	-1,8%
	Credit EUR HY-Itraxx Xover	-0,6%	-0,9%	307,71	316	-1,1%
	Credit USD IG - CDX IG	0,0%	1,6%	69,40	60	0,4%
	Credit USD HY - CDX HY	-1,0%	2,0%	380,19	403	0,0%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	0,3%	-38,4%	17,34	16,00	28,1%
	Russia - 10yr Gov bond	-0,4%	-2,2%	8,63	7,70	16,1%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-3,1%	-13,4%	8,58	7,25	19,2%
	India - 10yr Gov bond	1,8%	1,6%	7,87	7,00	14,8%
	Philippines - 10yr Gov bond	-5,5%	-19,2%	8,05	7,00	16,4%
	China - 10yr Gov bond	0,8%	5,6%	3,53	3,25	5,8%
	Malaysia - 10yr Gov bond	-0,4%	1,4%	4,15	3,25	11,3%
	Thailand - 10yr Gov bond	-0,8%	-1,8%	2,73	2,00	8,6%
	Singapore - 10yr Gov bond	0,2%	-2,4%	2,49	2,00	6,4%
	South Korea - 10yr Gov bond	1,1%	3,8%	2,16	2,25	1,4%
	Taiwan - 10yr Gov bond	0,1%	1,3%	0,87	1,75	-6,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-2,7%	1,4%	8,32	8,25	8,9%
	Mexico - 10yr Govie (USD)	-2,3%	-6,0%	4,79	4,65	5,9%
	Brazil - 10yr Govie (Loc)	10,6%	7,4%	10,38	10,00	13,4%
	Brazil - 10yr Govie (USD)	2,2%	-4,1%	5,75	5,50	7,8%
	Argentina - 10yr Govie (USD)	-6,6%	-31,5%	10,32	8,75	22,9%
Commodities	Oil (WTI)	-8,8%	10,5%	66,8	50,00	-25,1%
	GOLD	4,1%	-4,8%	1.240,0	1.100	-11,3%
Fx	EURUSD (price of 1 EUR)	-2,0%	-5,2%	1,138	1,15	1,1%
	GBPUSD (price of 1 GBP)	-1,6%	-5,2%	1,28	1,35	5,3%
	EURGBP (price of 1 EUR)	-0,3%	-0,1%	0,89	0,85	-4,0%
	USDCHF (price of 1 USD)	1,7%	2,5%	1,00	0,99	-1,1%
	EURCHF (price of 1 EUR)	-0,3%	-2,8%	1,14	1,14	0,0%
	USDJPY (price of 1 USD)	-1,9%	-1,0%	111,56	111,20	-0,3%
	EURJPY (price of 1 EUR)	-3,8%	-6,1%	126,94	127,88	0,7%
	USDMXN (price of 1 USD)	4,2%	-0,8%	19,50	19,15	-1,8%
	EURMXN (price of 1 EUR)	2,2%	-5,9%	22,19	22,02	-0,7%
	USDBRL (price of 1 USD)	-9,0%	11,2%	3,68	3,80	3,2%
	EURBRL (price of 1 EUR)	-10,8%	5,4%	4,19	4,37	4,3%
	USDARS (price of 1 USD)	-11,1%	97,3%	36,68	40,00	9,1%
	USDINR (price of 1 USD)	1,3%	15,1%	73,46	73,00	-0,6%
	CNY (price of 1 USD)	1,1%	6,8%	6,95	7,00	0,8%

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

UPWARD REVISION　　DOWNWARD REVISION

ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Cash	**15,0**	**20,2**	**10,0**	**14,8**	**5,0**	**9,6**	**5,0**	**5,5**
Short-Term debt & MM instrument	**25,0**	**31,8**	**15,0**	**21,0**	**5,0**	**9,1**	**0,0**	**2,7**
Fixed Income Long-Term - OECD	**30,0**	**24,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
US Gov & Municipals & Agencies		19,2		12,8		9,6		3,2
EU Gov & Municipals & Agencies		1,2		0,8		0,6		0,2
European Peripheral Risk		3,6		2,4		1,8		0,6
Credit (OECD)	**20,0**	**14,0**	**20,0**	**14,0**	**15,0**	**10,5**	**5,0**	**3,5**
Investment Grade USD		9,1		9,1		6,8		2,3
High Yield Grade USD		2,1		2,1		1,6		0,5
Investment Grade EUR		1,4		1,4		1,1		0,4
High Yield Grade EUR		1,4		1,4		1,1		0,4
Fixed Income Emerging Markets	**5,0**	**5,0**	**7,5**	**7,5**	**10,0**	**10,0**	**15,0**	**15,0**
Latam Sovereign		1,5		2,3		3,0		4,5
Latam Credit		1,3		1,9		2,5		3,8
Asia Sovereign		1,5		2,3		3,0		4,5
Asia Credit		0,8		1,1		1,5		2,3
Equity OECD	**5,0**	**5,0**	**20,0**	**20,0**	**32,5**	**32,5**	**50,0**	**50,0**
US Equity		1,8		7,0		11,4		17,5
European Equity		2,0		8,0		13,0		20,0
Japan Equity		1,3		5,0		8,1		12,5
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,0**	**10,0**	**10,0**	**10,0**	**10,0**
Asian Equity		0,0		2,8		5,5		5,5
Latam Equity		0,0		2,3		4,5		4,5
Commodities	**0,0**	**0,0**	**2,5**	**1,6**	**5,0**	**3,3**	**5,0**	**3,3**
Energy		0,0		0,2		0,5		0,5
Minerals & Metals		0,0		0,3		0,7		0,7
Precious		0,0		0,7		1,3		1,3
Agriculture		0,0		0,4		0,8		0,8
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**3,0**	**5,0**	**6,0**
REITs		0,0		0,0		0,8		1,5
Alt.Energy (wind, solar, etc)		0,0		0,0		0,8		1,5
Market Neutral		0,0		0,0		1,1		2,1
Volatility		0,0		0,0		0,5		0,9
Currency Exposure (European investor perspective)								
EUR		94,2		88,0		83,2		78,0
USD		5,8		12,0		16,8		22,0

Strategic and tactical asset allocation are investment strategies that aim to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

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