GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review | May 2018

End of Trump's isolation?

Corporate Review

May 2018

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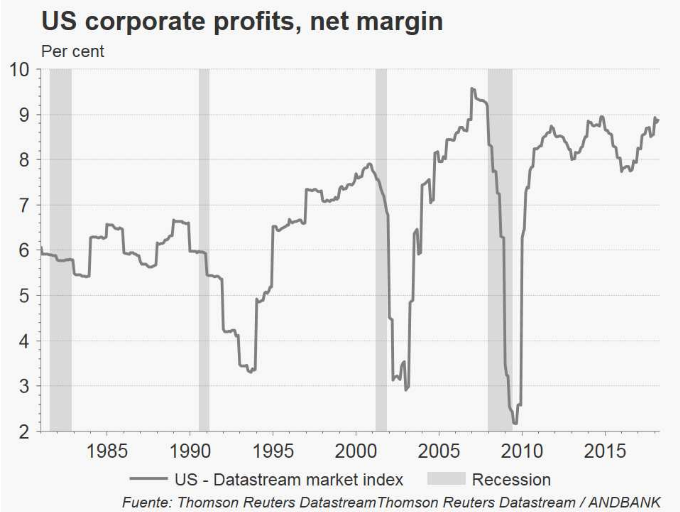
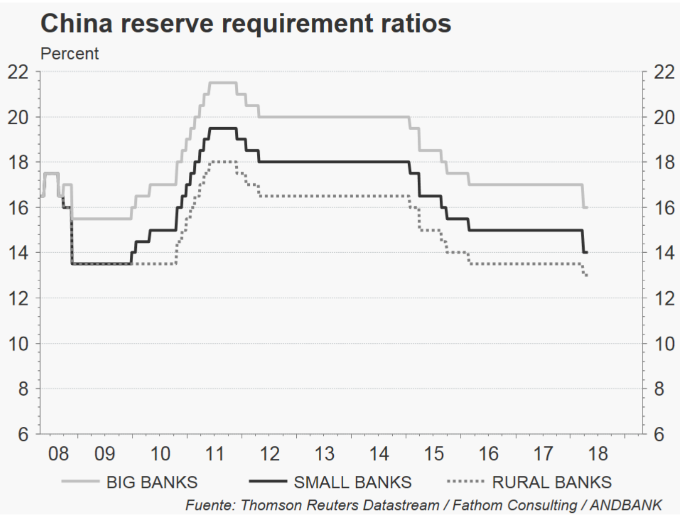
EXECUTIVE SUMMARY

CHARTS OF THE MONTH





EQUITIES

Stock markets have been trading between hope and fear of late. As it turns out, hope and fear are so far balanced, resulting in a pretty outspoken zig-zag pattern in equities. We remain constructive into earnings season, expecting a high bar to be met on a mix of organic growth and tax flow. Our most preferred markets are the European ones and some specific bets in Asia. No changes in our fundamental targets, except in Brazil (we have revised up our PE multiples) and China (we have cut our projections). We still see value despite the recent turmoil in global equities.

FIXED INCOME

Still negative outlook for long-dated government bonds denominated in EUR, GBP and JPY, and to a lesser extent in USD. An apparent easing of trade tensions and fairly muted reaction to heightening geopolitical risk have pushed yields higher and cheapened shorter expiry vol. We continue to see the risks skewed towards a move higher in yields and maintain a short duration bias. With the front end fully priced in for Fed rate hikes, we believe the sell-off in bonds will now be led by the back end in the near term.

CORPORATE CREDIT

The distribution of risks remains geared to the downside in European credit. Markets are already pricing in closer euro area integration, and we believe this dynamic will remain in place, but resistance to Macron's Eurovisions in some core countries could provide a source of volatility. In EUR we remain negative in IG and in HY. In USD, we remain positive in IG and neutral HY.

CURRENCIES

The magnitude of the dollar rebound (+1.7% rally in the USD index in the week) has been very consistent with the magnitude of the notional amount unwind (4.37bn reduction in net notional shorts –see the table-). important short positions in USD still persist meaning that the USD still offers good value at current levels.

COMMODITIES

Market optimism has been fueled by both the OPEC supply-cut pact and geopolitical tensions. The fact that the cartel and its allies may be willing to over-tighten the market has only added to this sense. The failure to recertify the deal with Iran could lead other countries to reduce purchases of Iranian crude oil, which could in theory take a sizable number of barrels of oil off the market. In our view, the oil price crossed the upper part of a fundamental range.

USA

We expect trade tensions to fall well short of a full-scale conflict

Trade tensions

Narrowly-targeted tariffs are unlikely to have a significant macro impact, but an escalation of trade restrictions could put a damper on business confidence. For now, we expect actual policy changes to fall well short of this bad scenario.

US recession risk remains low

US growth has slowed modestly in recent days, though underlying fundamentals remain strong. We expect fiscal stimulus and the continued strength in the labor market to drive strong income growth for households and push growth rate higher in the quarters ahead. With households and businesses having increasingly shifted towards long-maturity fixed-rate borrowing in recent years, higher rates should have limited impact.

Fed & inflation

The new Fed chairman Jay Powell conceded that elements in the new US tax legislation could lift investment and with that, productivity, as well as labor force participation. However, he also stated that US central bankers held a wide range of views on the size of the effects of the tax cuts. Powell is leaning towards continued dovishness, implicitly accepting an inflation target overshoot. **We anticipate two more rate increases this year**, keeping a low probability of a fourth hike, since the Fed is combining rate hikes with a level of money supply that is well below the nominal GDP growth. Rate hikes and a shrinking Fed balance sheet, together with the likely higher working capital demands, could lead to a tightening in financial conditions later this year aimed at maintaining a growth range bound within balanced levels. **Inflation:** A number of drivers point to a sustainable move higher in inflation. Higher wages, above-trend growth, rising deficits, a weaker dollar, and potential restrictive trade policy.

Andbank's market sentiment

Stock markets have been trading between hope and fear of late. As it turns out, hope and fear are so far balanced, each taking their turn, resulting in a pretty outspoken zig-zag pattern in equities. Over the past several months, the market has become much narrower, a classic sign of underlying deterioration. Nevertheless, we remain constructive into earnings season, expecting a high bar to be met on a mix of organic growth and tax flow. Robust earnings should help the market to balanced out downside risks and could help the market to move higher. But watch for early signs of margin pressure as a harbinger of earnings growth deceleration later this year.

Bonds: Uncertainty on the economic impact of sequential fiscal stimulus, so far unprecedented at this point in the business cycle, where resource utilization is already very high, entails a wider range of policy path outcomes. We continue to see the risks skewed towards a move higher in long-dated yields and maintain a short duration bias.

Financial markets outlook

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

Bonds – Govies: NEGATIVE (10Y UST target yield 3.2%)

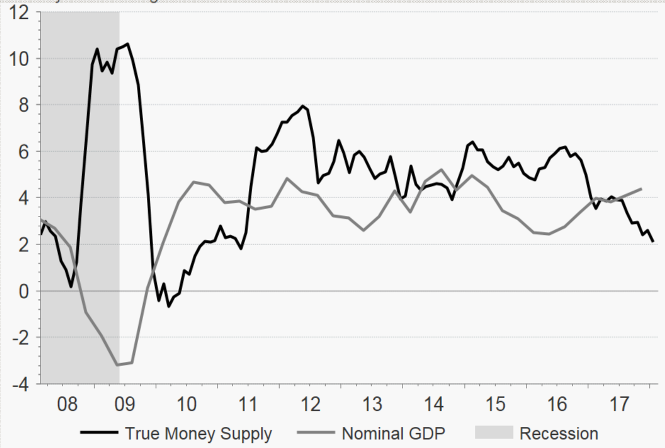
Credit – CDX IG : POSITIVE (Target Spread 45)

Credit – ICDX HY: NEUTRAL (Target Spread 413)

Forex – CDX index: POSITIVE

US - True Money Supply vs Nominal GDP growth

1 year % change



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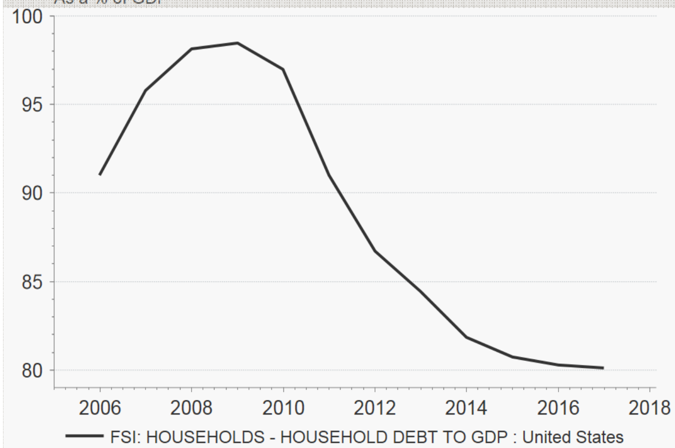
US - HOUSEHOLD DEBT TO GDP

As a % of GDP



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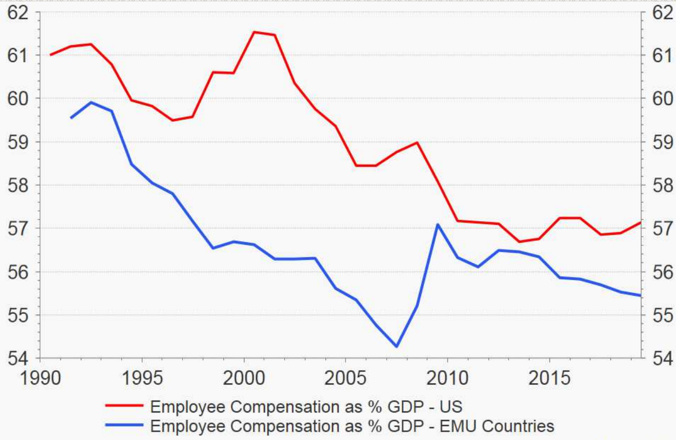
WAGE SHARE (US vs EURO ZONE)

% of GDP



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EUROPE
Taking a breath

Data: The slowdown does not pose a risk to growth

Macro surprises in the Eurozone have nosedived into negative territory. That said, although PMI readings have continued on the downside, they remain at expansionary levels and, in our opinion, do not pose a meaningful headwind risk to growth, though admittedly they may prevent further GDP forecast upgrades. We envisage it as a halt at the mid point of a cycle rather than as a change of trend towards a negative phase. Draghi has already acknowledged the softening of activity indicators during the first quarter, but consensus within the ECB is high regarding the continuation of the upswing. Consumer confidence remains at strong levels, while the manufacturing side has suffered more from the euro's strength and the trade war fears. We are registering positive signs on the wage front, though still far from causing inflationary pressures (fragmented labor markets, limited bargaining power, etc.). Inflation should trend gradually higher during the year, as growth picks up and higher energy prices from 2H2017 impact on the headline figures, but is far from being self-sustaining.

Central Bank: A very slow normalization

The latest minutes sounded on the dovish side and underlined that monetary policy normalization is likely to be a very slow process. The next ECB meeting seems a non-event. June or even July seem better dates to shed light on the normalization steps. The ECB is likely to decide then on a reduction of its bond purchases to zero by the end of 2018, after a short tapering phase. The latest rumors point to an ECB that has not yet had talks on the interest rate path after QE. Expectations regarding the first rate hike have been pushed forward towards mid-2019. As for the BoE, Governor Carney dumped expectations of a (largely priced-in) rate hike in May: "it is not a done deal". IPC figures and retail sales have recently come down while the labor market remains solid.

Preparing the agenda for the EU summer summit

Eurozone integration is back in the political debate. Despite different approaches, the new SPD head (Nahles) backs further steps by saying that EU policy will be implemented as laid out in the GroKo agreement. Completion of the Banking Union and the start of discussions on common budget capacity are among the challenges ahead. FinMin Scholz and Weidmann have rejected Lagarde's proposal for an EU "bad weather fund" including annual German contributions of €11bn. Meanwhile, Scholz says the European Monetary Fund "is convincing and the one to choose". More to come on the way to the 28-29th of June.

In Italy, Matarella's next move could be the appointment of the Lower House speaker as new mediator to determine whether a working majority is possible. A cross-party President's government might be the central scenario, though probably short-lived.

Financial markets outlook

Equities – Stoxx Europe: POSITIVE. Central point 411. Exit 439

Equities - Euro Stoxx: POSITIVE. Central point 413. Exit 454

Bonds – Core governments: NEGATIVE (Bund target yield 0.90%)

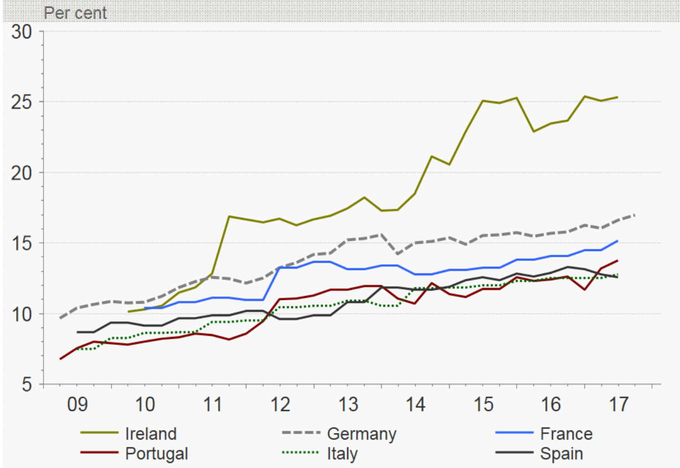
Bonds – Peripheral : NEGATIVE (SP 1.65%, IT 2.1%, PO 2.2%)

Credit – Itraxx Europe (IG) : NEGATIVE (Target Spread 85)

Credit – Itraxx Europe (HY : NEUT-NEGAT (Target Spread 330)

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

Euro area banks tier 1 capital ratio



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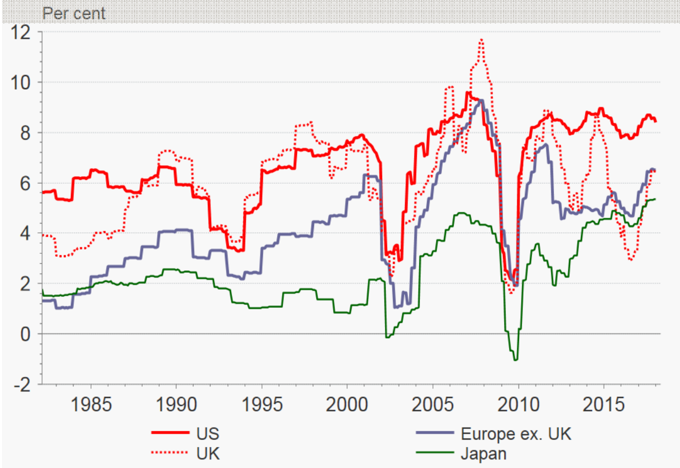
Net profit margins



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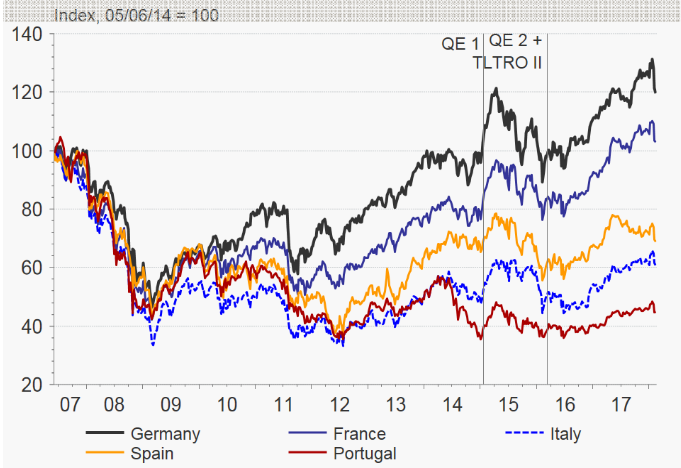
Euro area equities



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SPAIN
Sun and optimism coming back

IMF revises its GDP growth forecast

The IMF fixed its forecast for the Spanish GDP growth at 2.8% (2018), up from the previous forecast of 2.4%. 2019 projections were also revised higher to 2.2% (vs 2.1% in January). The Spanish economy continues to enjoy robust growth, with balanced dynamics across sectors. Maybe the dissonant note in this positive short-term picture is that private and public debt remain at elevated levels and unemployment still represents a vulnerability. In fact, we clearly agree with the IMF that the main challenges for the economy are the above-average sovereign debt ratios and unfavorable demographic trends, both of which call for an immediate improvement in the structural primary balance to put debt firmly on a downward path.

Data

In a short-term perspective, the Spanish economy is coping well with the recent slowdown in the region. Hard data in February suggested a relatively better performance for the Spanish economy, compared with its neighbors. The month-on-month change in the Industrial Production Index stood at 1.5% (SA). The y/y change of the IPI stood at 3.1% and housing transactions in Spain reached 41,480 units in February 2018 (+16% yoy), with housing prices up 7.2% yoy in 2017. We have seen positive data even in the external sector, with Spanish exports growing 2.5% yoy (seasonally adjusted) in nominal terms in February, compared with imports (+0.4% yoy), resulting in an improvement in the external position, just as was recommended by the IMF. Accordingly, recent surveys point to the same trend, which we believe could continue throughout most of 2Q. Optimism is back that the economy will remain resilient for most of the year, despite the political headwinds.

Fiscal, budget and politics

The Spanish government set the budget in the Council of Ministers and now wants to pass it in the Congress. Given the inability to form a government in Catalonia, this could lead the Basque National Party to relax its stance on the budget. Indeed, one possible scenario is that in the end the Basque National Party will vote in favor of the Budget, as they did not present any amendments in Congress to permit discussion, a first step to give the Catalan parties more time to form a government. If this scenario materializes, the ruling government is set to complete its term (until -020), which would dispel the threat of early elections.

Earnings season

We expect better quarterly results than the previous quarter (which prompted us to cut our target price for the Ibex). These results should give some support to this recent rally. Again, some structural aspects continue to weigh heavily and explain the Ibex's relative underperformance. Exposure to economies such as Brazil, Mexico and even the UK represents a burden to the Spanish index year to date. The recent recovery in housing transactions and prices suggests that banks will continue to have a positive outlook, which could help the Ibex close the gap with the rest of European indices.

Financial Market Outlook

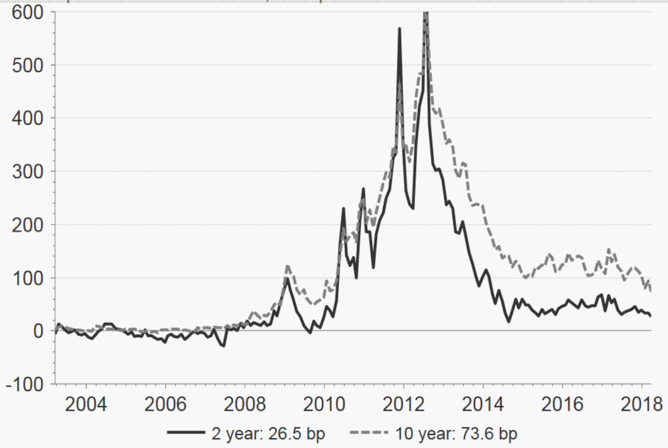
Equities – IBEX: POSITIVE. Central point 10,729. Exit point 11,800

Bonds – Governments: NEGATIVE (BONO target yield 1.65%)

Credit – Invest. grade: NEGATIVE // High yield: NEGATIVE

Spain government bond spreads

Spread over German bunds, basis points



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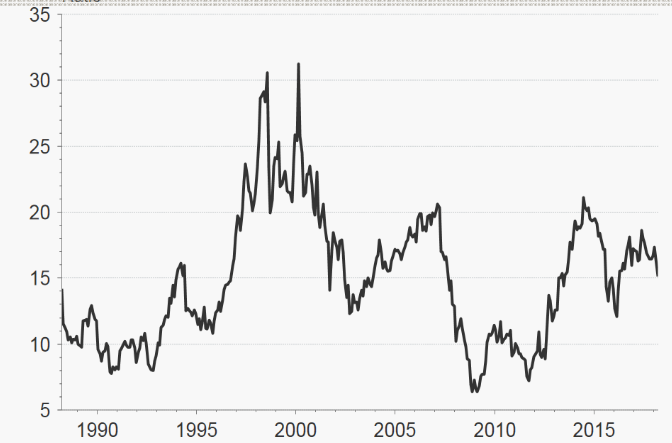
Spain IBEX 35 price / earnings

Ratio



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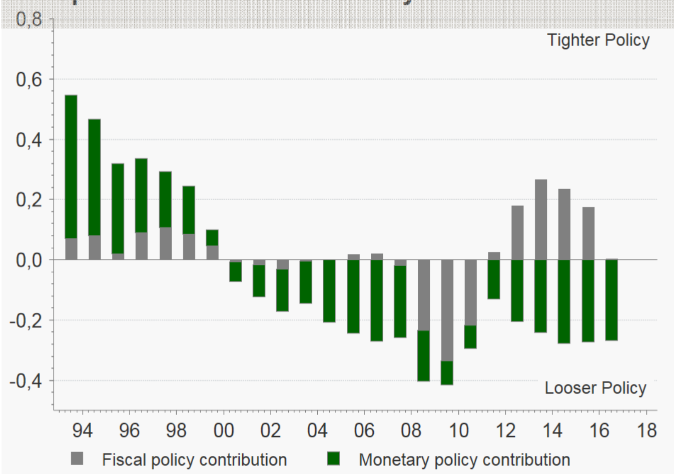
Spain Macroeconomic Policy Indicator



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JAPAN

Unlike other US allies, Abe got no trade concessions

PM Abe may have to resign

Shinzo Abe played a fair amount of golf with Donald Trump in Mar-a-Lago, but unlike other US allies he got no trade concessions. The talk is again of the Japanese prime minister being a busted flush who may have to resign. While such an outcome should not derail Japan's recovery and corporate prospects, it could prove challenging for stock prices.

US tariffs will have a small impact on Japan's economy

China is a key final processing location for many manufacturers, so the worry is that if the US indeed slaps new tariffs on Chinese exports, Japanese firms will get disproportionately penalized.

Back in 2011, Japan's value-added share of Chinese-made goods exported to the US was about 5.4%, according to the OECD. Since then, however, Chinese firms have reduced their reliance on Japanese high-tech intermediate goods, while Japanese producers have tended to focus on selling into the domestic Chinese market. All this suggests that US tariffs will have a small impact on Japan's economic growth.

Bank of Japan & Economic data

BoJ becomes top buyer of stocks: The Nikkei reported that the BoJ has surpassed foreign investors to become the largest net buyer of Japanese stocks by purchasing ~¥18T in ETFs between November 2012 and March 2018. The piece noted that the BoJ tends to buy on dips, suggesting that it is unlikely that the BoJ's purchases would drive share prices higher. I prefer not to make any kind of comment on such nonsense.

February average wages +1.3% y/y (vs +1.2% in prior month). But real wages at -0.5% y/y (in line with -0.6% in prior month). The consequence of such low wage growth (nominal and real) is that household spending came in at just +0.1% y/y. The takeaway: the pick-up in consumption seems to be stalling due to slow growth in wages and rising cost pressures. It is reported in the media that a slowdown in household spending would hurt the government's plans in achieving its inflation target.

Sentiment

Investors are pessimistic about Japanese firms' prospects, as they expect earnings per share this year to grow at a measly 4% and return on equity to slide to 8%. Valuations have fallen back to 2011 levels. And yet the fundamentals underpinning Japan's domestic demand all look decent. In general, Japanese firms continue to earn record profits and are hiring fairly aggressively. The Nikkei discussed concerns among international investors about the Japanese market, as the current political turmoil evokes memories of scandals in the past that caused major shakeouts. The story noted the combination with the yen's recent appreciation and escalating trade frictions between the US and other big economies may explain Japan's recent underperformance. That is why in March we cut our PE fw from 19 to 18.5x.

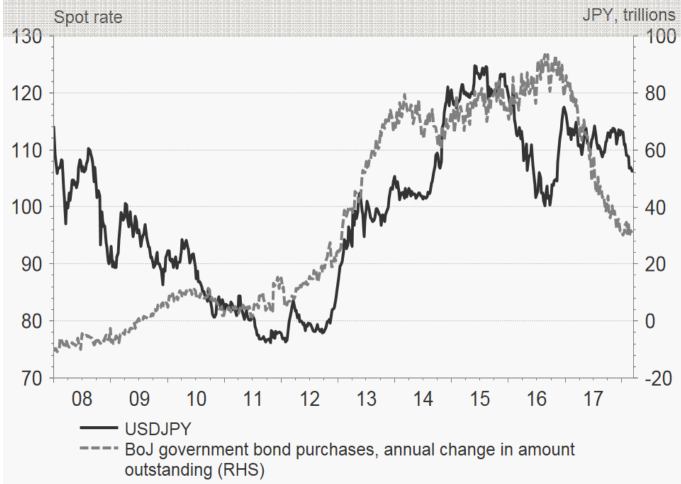
Financial markets outlook

Equities – N225: NEUT-POSIT. Central point 23.094. Exit 25.400

Bonds – Govies: NEGATIVE. Target yield 0.10%

Forex – USDJPY: NEGATIVE. Mid-term target 111.2

Bank of Japan quantitative easing and USDJPY



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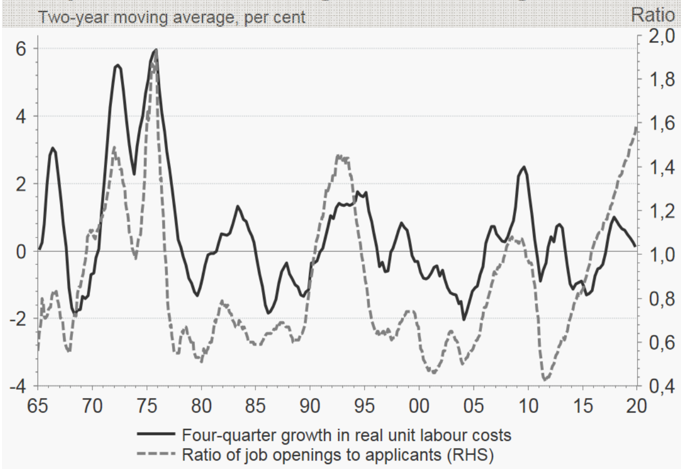
Japan labour market tightness and wages



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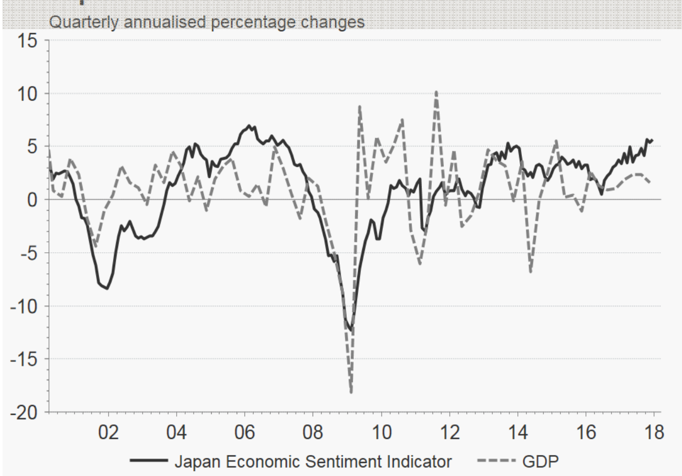
Japan Economic Sentiment Indicator



Fuente: Thomson Reuters Datastream / ANDBANK

CHINA
PBOC announces targeted RRR cut

Macro economy: Q1 GDP seen growing 6.8% y/y

A Bloomberg poll showed that the consensus forecast for China's Q1 GDP looks for 6.8% y/y growth, following the same pace as in the prior quarter, and well ahead of the government target of 6.5%. Economists expect 2018 growth of 6.5%.

China aims for a mature free trade port system in Hainan: The official guideline was released for a plan to establish the Hainan region as a mature free trade port by 2035. A free trade port is the world's most open form of economic zone, which has brought prosperity to places like Singapore and Hong Kong, thanks to its broad-based preferential policies on trade and investment.

Corporates: Central SOE profits up 19.4% in Q1

State-owned enterprises (SOEs) saw their net profits surge 19.4% in Q1. Total revenues increased 8.7% on the year. Meanwhile, the private sector keeps growing, with the number of private industrial businesses with annual turnover over CNY20M ($3.18M) already at 222,000 in 2017, up 17.5% from five years ago and accounting for 57.7% of the total. The private sector made up 22.3% of total industrial assets by the end of 2017, up 2.4 pp from 2012.

The percentage of sales that mainland-listed companies earn outside their home country has climbed to 13% on a market capitalization-weighted average, which is the highest level on record going back 10 years

PBOC announces targeted RRR cut

The PBOC announced Tuesday it will cut the reserve requirement ratio (RRR) by 100bp for most commercial and foreign banks effective 25 April. According to the central bank, funds released will be used to pay back medium-term lending facilities. The central bank said it will keep monetary policy prudent and neutral, maintain a stable, reasonable level of liquidity, and oversee moderate growth of financial credit and social financing. The actions align with China's various policy initiatives, such as rural regional development and small business financing. Governor Yi Gang recently said credit policies will be used proactively.

Debt well within the official limit

Xinhua cited Finance Ministry data showing China's local government debt balance stood at CNY16.61T ($2.64T) at the end of March, well within the official limit. Policy makers decided that the upper limit for local government debt this year should be CNY20.99T.

China expected to deregulate bank deposit rates

The China Securities Journal discussed expectations policy makers will lift an implicit ceiling on bank deposit rates, allowing them to be driven by bond yields and other market rates. By allowing banks to attract more deposits, the measures also aim to reduce liquidity pressure stemming from increased restrictions on wealth management products.

Financial markets outlook

Equities NEW! – SHANGHAI index: POSITIVE (central point 3.474)

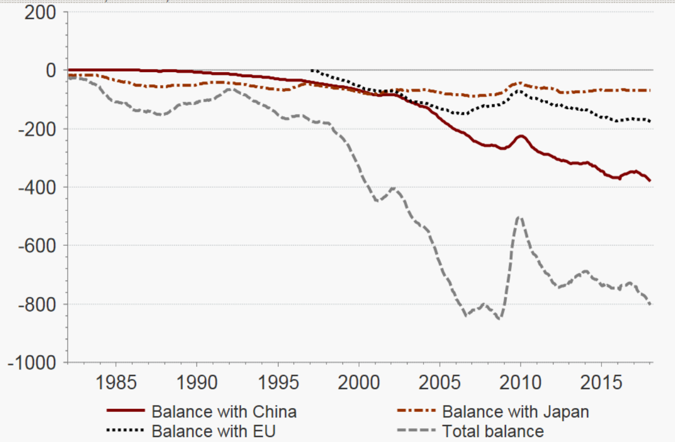
Equities – SHENZHEN Index: POSITIVE (central point 1.930)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex NEW! – CNY/USD: NEUTRAL (mid-term target 6.00)

US visible trade balance

USD, billions, twelve-month sum



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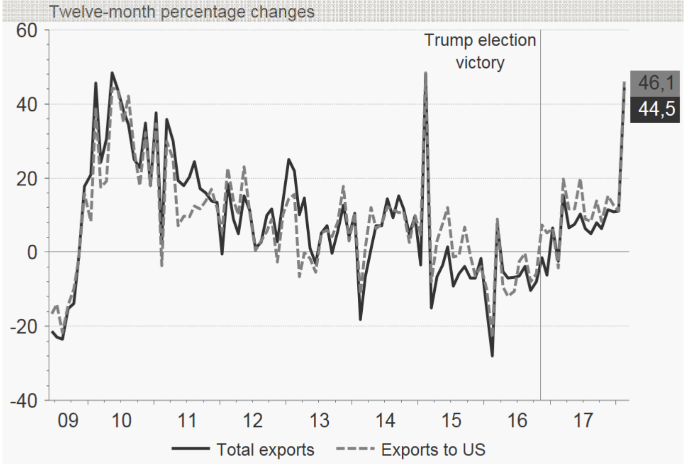
China exports to US

Twelve-month percentage changes



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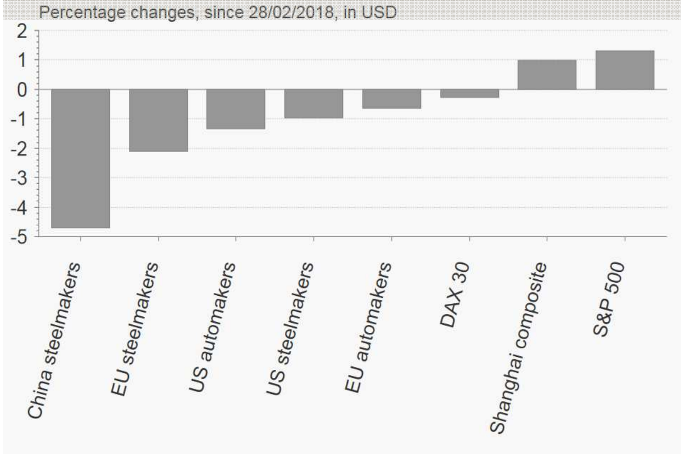
Equity performance following tariff announcement

Percentage changes, since 28/02/2018, in USD



Fuente: Thomson Reuters Datastream / ANDBANK

INDIA

PNB scandal: The worst could be over

The effects from an alleged fraud on public sector bank (PNB) could be overdone

Even as a US$32bn recapitalization is rolled out and bad debt is cleaned up, investors remain spooked by an outlandish recent scandal, where the alleged US$2bn fraud at Punjab National Bank, has hit trust in the sector and fired up politics (the perpetrator, Nirav Modi, went to Davos with prime minister Narendra Modi (no relation), and this is being used by opposition parties ahead of the general election due next year. According to our sources, this case does not warrant a de-rating of Indian bank stocks to crisis valuations: (1) The alleged crime looks like "a comically simple inside job" (U. Sikand). (2) PNB has seized assets that cover up to 50% of the missing funds. (3) India's public sector banks—which account for 70% of national lending— are trading at a 40% discount to book value. (4) "Economic growth floats all boats and the last two quarters has seen sequential rises, with investment as a share of GDP having bottomed at 28% and bank credit recently rising to a two-year high of 11%". (5) The real kicker for public sector banks comes from India's greatly enhanced bad debt resolution program. The new bankruptcy system shows signs of adhering to strict timelines and delivering better than expected recoveries. Some 540 cases have been admitted under the new regime since January 2017 and some 79 judgments have been pronounced. (6) Of the resolved "bad debt cases", the recovery rate came out at 40%, excluding one specially egregious case that would be hard to repeat today. This compares badly with Mexico (70%) but beats India's historical rate of 26%. (7) In the next 2-3 months we will see resolution plans for 12 large borrowers that account for 25% of the system's outstanding non-performing loans (all entered under a 270-day RBI program) and a recovery rate of 40% would be taken as a very bullish signal for public banks.

Financial market sentiment

Following the recent plunge in India's public sector bank stocks, some analysts now consider these stocks as a trading opportunity. The government last week said it would back-load bond issuance in the new fiscal year, rather than front-load as normal. Since the announcement, 10-year government bond yields have fallen 40 bps, a rally that could continue (given the more benign readings of inflation). Foreign investors are running up against quota limits for the domestic bond market, providing another driver for this trend to continue.

Economic Outlook

India's central bank surveyed the landscape and has painted an upbeat picture: (1) It argued that the investment cycle may be turning, while inflation, the sub-continent's constant bugbear, is becalmed. (2) Household consumption appears to have recovered impressively since demonetization and government consumption should also support growth. (3) The push to localize production is taking off. (4) The GST is positive for organized manufacturers. (5) Foreign investments have gone from 1.1% to 1.7% of GDP.

Financial markets outlook

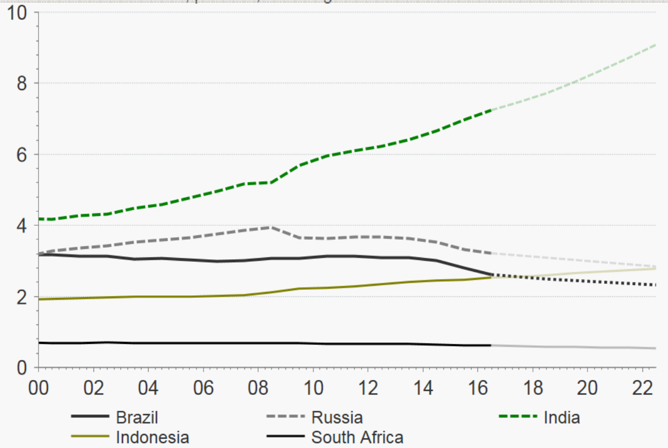
Equities – SENSEX Index: POSITIVE (central point 36,000)

Bonds – Govies: POSITIVE (target yield 6.75%)

Bonds – Corporates: POSITIVE

Emerging market GDP (PPP)

Share of world total, per cent, including IMF forecast

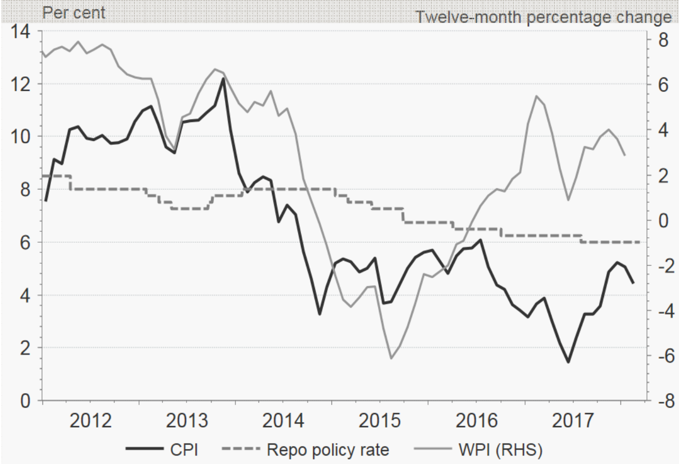


Fuente: Thomson Reuters Datastream / ANDBANK

India inflation and policy rate

Per cent

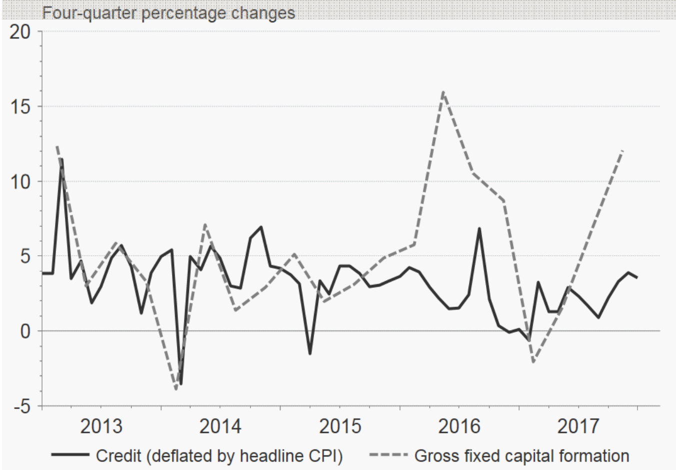
Twelve-month percentage change



Fuente: Thomson Reuters Datastream / ANDBANK

India real credit and GFCF

Four-quarter percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

MACROECONOMY

MEXICO
Politics & NAFTA still weigh

Politics & NAFTA

INE yesterday carried out the first presidential debate with a view to elections in 2018, in Mexico City, at the Palacio de Mineria. The participants were the five candidates for the Presidency: Anaya, López Obrador, Meade, Jaime Rodríguez and Margarita Zavala. Although this type of debate is not used to set out proposals or lines of political action, in this case it served to verify that Obrador, who leads in the polls, appears more moderate than on other occasions, which could help to calm certain fears about his more populist side. We don't expect a relevant change in the voting intentions shown by the latest polls (AMLO 43%, Anaya 29%).

About NAFTA: "Canada, the United States and Mexico could see an agreement in ten days to modernize the Agreement," said the representative of the Mexican private sector recently. Although Donald Trump made any arrangement conditional on a migration policy, negotiators are optimistic that by May 4th they could reach a global agreement.

Economic outlook & Central Bank policy

Moody's modified the outlook of Mexico's sovereign debt rating from "negative" to "stable". The rating agency identified three reasons for its decision: (1) Resilience in growth, despite the complex renegotiations of NAFTA; (2) The structural reforms; and (3) Low probability that the next administration will damage public finances. Private sector estimation for 2018 growth stayed around 2.2%.

Central Bank & Inflation

Banxico did not move its monetary policy rate at its March meeting, keeping it stable at 7.50%. Banxico's Governing Board highlighted the appreciation that the Mexican currency has recorded since the last monetary policy decision, which helped to lift the short-term interest rate while keeping medium and long-term rates well under control. The probabilities of a rate hike at the next Banxico meeting (May 17th) are now lower (down from 65% to 53%). Banxico expects a downward path in prices, since it forecasts that CPI will close 2018 at around 4-4.5 per cent, approaching its long-run target (3% +/-1%) in 2019.

Market sentiment

Equities: Investors' consensus is now Neutral to Overweight this market. Lack of acceleration in the growth rate, Nafta and elections are risk-off events in 1H, leading to MXN volatility. However, valuations are moderate and earnings forecasts realistic. We forecast valuations will remain moderate (our 2018 PE target is 16.8x), which, added to our realistic earnings forecasts (+5.7% in EPS), make us fix our fundamental target in the 46,000-53,000 area, with a central target at the 48,400 point. Key drivers will be: (i) Reforms and political developments; (ii) Global liquidity evolution and the pace of Fed rate adjustments; and (iii) LatAm GDP growth acceleration. ***Fixed Income:*** Even assuming that NAFTA remains fairly stable, we still expect some pressure as a result of the political context and the Fed's normalization path.

Financial markets outlook

Equities – Mex IPC: CAUTIOUS (Target 48,400). Exit 51,500

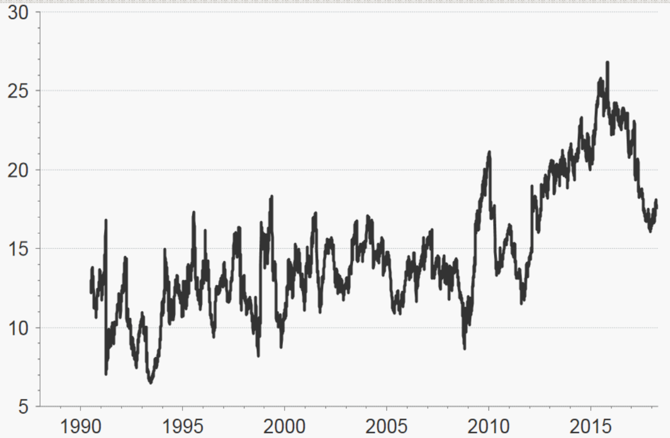
Bonds – Govies Local: NEUTRAL (target spread 480, yield 8.0%)

Bonds - Govies USD: NEGATIVE (target spread 140, yield 4.60%)

Fx – MXN/USD: NEUTRAL (mid-term target 18.80)

Mexico equities price/earnings ratio

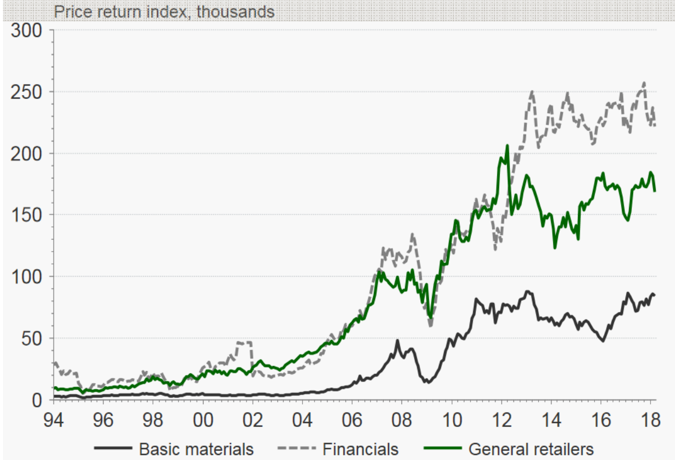
Datastream index



Fuente: Thomson Reuters Datastream / ANDBANK

Mexico FTSE index

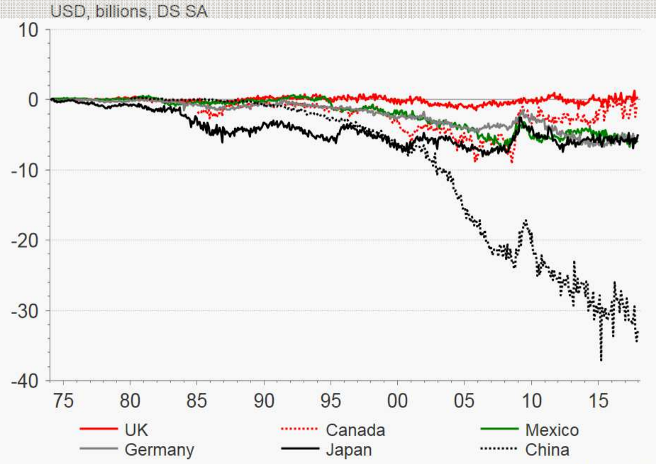
Price return index, thousands



Fuente: Thomson Reuters Datastream / ANDBANK

US visible trade balances by country

USD, billions, DS SA



Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL

Still a great deal of uncertainty regarding the candidates

Politics

With the electoral schedule still in its early stages, there were few meaningful developments over the past month. After the deadline of April 7th, when potential candidates had to decouple from their current functions and parties, we saw pretty much what was expected. The former Finance Minister, Henrique Meirelles, stepped down to probably run for President. We see his candidature as a weak one, since he is not known to the general public and has little reach regionally. There is a large number of potential candidates and we will likely see a consolidation movement as the polls get more relevant. Most recently, a new outsider name has attracted attention, Joaquim Barbosa. He is a former Supreme Court judge and gained popularity during the "Mensalao" probe, in Lula's first tenure. Even without any kind of campaign, he has scored around 12% in the recent polls, which places him in a strong position to go on to an eventual second round. The bottom line is that, despite Lula's arrest, there is still a great deal of uncertainty regarding the strongest candidates and which of them could be in a second round. The picture will probably be clearer in July, after the World Cup, when the party coalition will be more mature.

Monetary policy: Ending the cycle (part III)

Recent inflation figures, as measured by the IPCA index, have been mild, once again falling short of market expectations. The latest figure is 0.09% for the month of March (2.68% YoY), equal to the lowest rate reached under the Plano Real (which stabilized inflation in 1994). In this scenario, the Central Bank has cut the policy rate by 0.25%, bringing it to 6.50% per annum, as expected. However, the statement has almost assured that a further 25 bps cut will be made, surprising the market at some point. Further cuts will depend on benign inflation and global economic conditions.

Economic activity: GDP consensus has been cut

The cyclical recovery is continuing its path, although the latest data came in below expectations. Industrial production, services and household consumption figures for recent months were weaker than market analysts were expecting. Formal employment and job creation have also recovered at a slower pace. Consensus GDP growth has shifted towards 2.5%, from the previous 3.0%.

Market sentiment

Stocks: The economic recovery and the lower interest rates should help boost companies' results, but much of the effect has already been priced in by the equity market. We have revised up our fw PE from 14.1 to 14.5, resulting in an increase in the target price (see below). *Bonds:* Long term public debt dynamics will be dependent on reforms, and thus on elections. In the short term, bond yields will likely remain stable. We have cut projections for inflation (from 5% to 3.5%, with a target for real yield at 5.5%, resulting in a new target for yield at 9%).

Financial markets

Equities – IBOVESPA: NEGATIVE (Target 84,000). Exit 88,200

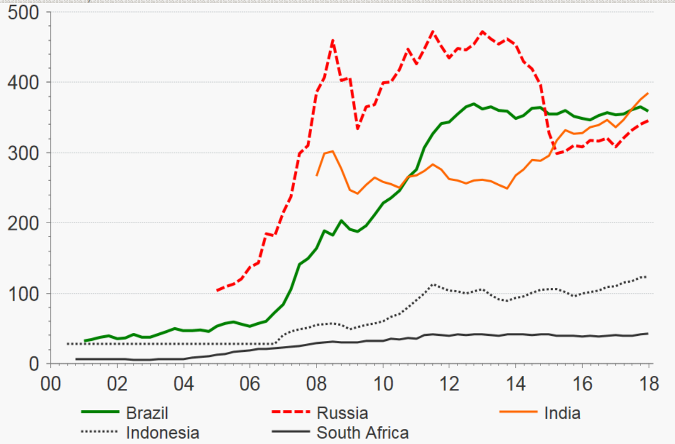
Bonds – Gov. Local: POSIT (target yield 9.0% - real yield 5.5%)

Bonds – Gov. USD: NEGATIVE (target yield 5.3%. Spread 210bp)

Fx – BRL/USD: NEUTRAL (mid-term target 3.30)

Emerging market official reserves

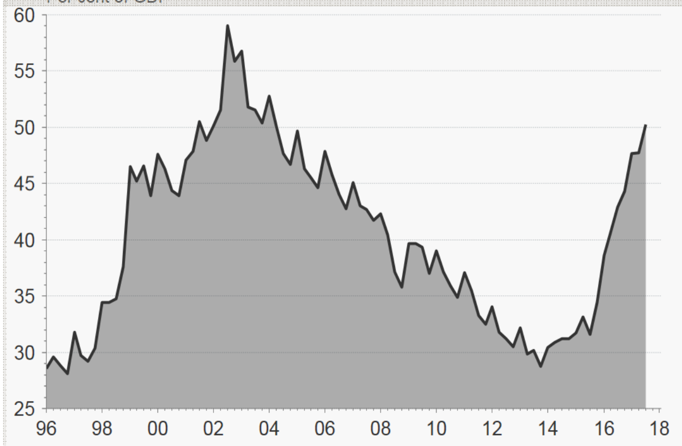
USD, billions



Fuente: Thomson Reuters Datastream / ANDBANK

Brazil government debt

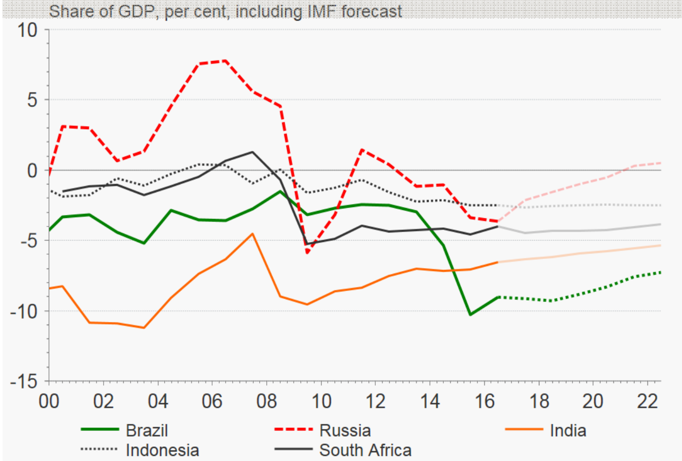
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

Emerging market government budget balances

Share of GDP, per cent, including IMF forecast



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA
From a Frontier to an Emerging Market

Latest developments: Capital market reform

Capital Market Reform: Last March 21st, the Senate passed the renamed "Productive Financing Bill" after amending it. As a result, the bill now has to go back to the lower house for approval. Aimed at increasing the powers of the local securities and exchange commission, the bill redefines the roles of market participants and changes the guidelines on the operation of investment funds, issuance of corporate debt and public offerings. One of the measures taken was to allow short selling, which is a requirement for Argentina to be considered an Emerging Market rather than a Frontier country. The bill's main objective is to boost the development of the capital market by deregulating, making corporate issuance faster and less costly, protecting investors and making it easier for market participants to perform their activity.

Wage negotiations: Negotiations continue to be successful and last week the union with the largest number of affiliates in the railway business reached an agreement for a 15% increase without conflict.

Reforms tracker

Tax Reform: DONE (Dec 28th). Tax liability Law: DONE (Jan 2nd). Pension Reform: DONE (Dec 19th). Labor Reform: PENDING. The government is negotiating with the main unions to reach an agreement. The government has changed strategy, trying to pass the law partially by accelerating approval of the parts on which there is consensus. Capital Markets Reform: HALF-APPROVAL. The objective is to promote local capital market development.

Macro & Fiscal

Economic Activity & Inflation: The Argentine economy grew 0.6% MoM in January. This reading translates into 4.1% growth YoY. Economic growth continued to expand across sectors, with 14 out of 15 sectors posting YoY growth. Electricity, gas and water was the only sector to post a YoY decrease. This figure is consistent with our 2018 target for real GDP growth of 2.8%. We hold to our inflation target of 22%, which is above market consensus.

Fiscal: Fiscal data for March was released on April 13th. Excluding tax amnesty revenues, tariff collection continued to rise faster than inflation (27.2% vs 25.4%). In addition, the Treasury received ARS 15 billion in rents from state-owned bank Banco Nación as part of the ARS 20 billion committed in the 2018 budget law. Meanwhile, primary spending rose 17.6% YoY in March and the decoupling between primary revenues and spending continued for the eighth month in a row, highlighting the government's commitment to fiscal consolidation. The slowdown in public spending is explained mainly by cuts in economic subsidies, mostly in energy. Social transfers are the only spending item that rose in real terms, posting +4.2% growth YTD. Considering the measures already announced by the government (continued cuts in subsidies, pension adjustments, etc.), we think the 3.2% primary fiscal deficit target for 2018 will be met. As of March 2018, the primary deficit amounted to 0.30% of GDP vs 0.60% of budget.

Financial Market Targets

Bonds – 10YGov USD: POSITIVE. Target yield 6.20%. Target spread 300 (current 364)

Fx –USD-ARS: NEGATIVE (year-end target 22)

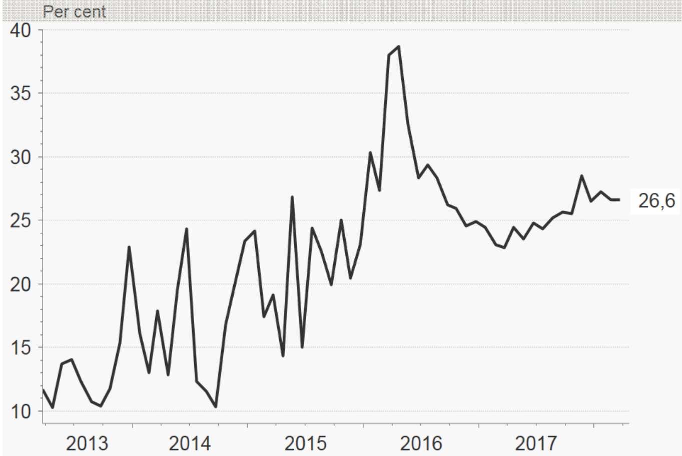
USDARS exchange rate

Spot rate

Fuente: Thomson Reuters Datastream / ANDBANK

Argentina 3-month interbank rate

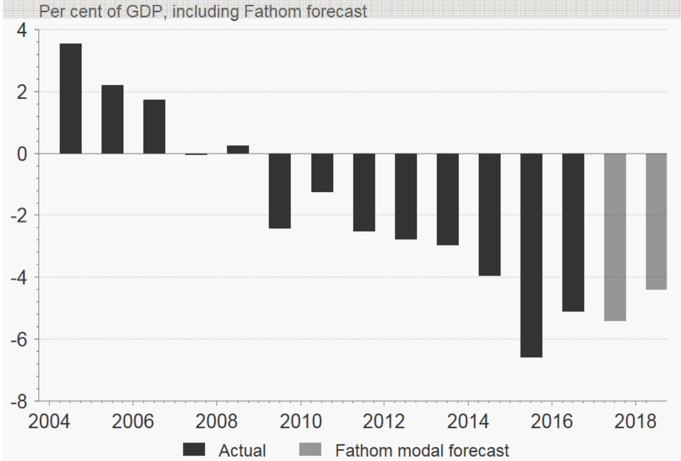
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Argentina budget balance

Per cent of GDP, including Fathom forecast



Fuente: Thomson Reuters Datastream / ANDBANK

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Sales per Share 2017	Net Margin 2017	Andbank's Sales growth 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
USA S&P 500	1.232	10,8%	5,6%	12,17%	158,3	18,8%	20,02	16,86	17,15	2.669	2.715	1,7%	2.987
Europe - Stoxx Europe 600	298	8,1%	5,2%	8,19%	25,7	6,6%	16,00	15,01	16,00	385	411	6,6%	439
Euro Zone - Euro Stoxx	349	7,1%	5,2%	7,15%	26,2	6,4%	15,84	14,88	15,75	390	413	5,8%	454
Spain IBEX 35	7.461	9,2%	5,0%	9,13%	715	4,8%	14,62	13,95	15,00	9.981	10.729	7,5%	11.802
Mexico IPC GRAL	33.496	8,1%	7,2%	8,03%	2.881	5,7%	17,77	16,81	16,80	48.422	48.407	0,0%	51.553
Brazil BOVESPA	52.724	9,9%	7,2%	10,26%	5.798	11,6%	16,58	14,86	14,50	86.139	84.064	-2,4%	88.267
Japan NIKKEI 225	20.076	5,8%	5,1%	5,92%	1.248	6,6%	19,19	18,00	18,50	22.468	23.094	2,8%	25.403
China SSE Comp.	2.642	8,7%	7,1%	8,77%	248	7,5%	13,35	12,42	14,00	3.082	3.474	12,7%	3.821
China Shenzhen Comp	902	8,5%	7,3%	8,67%	84	9,3%	23,14	21,17	23,00	1.776	1.930	8,6%	2.123
India SENSEX	14.218	10,8%	9,2%	11,06%	1.717	12,1%	22,96	20,47	21,00	35.160	36.063	2,6%	39.669
MSCI EM ASIA (MXMS)	425	9,4%	6,8%	9,59%	44	8,8%	14,60	13,42	14,40	584	627	7,3%	690

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 moved from -1 last month to -0.5 (in a -10/+10 range), settling in an area that suggests that the equity market is no longer overbought and, thus, the risk of a sustained and justified sell-off is now low.

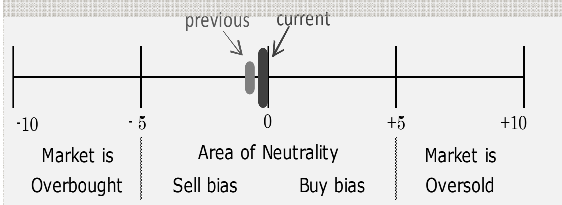
Positioning & Flow (Constructive bias): Investors have cut their exposure to the equity markets, with Hedge Funds and Asset allocators now being neutral. Strategist are now underweight, bringing our reading for these indicators to a more constructive bias (contrarian approach). Meanwhile, Equity ETFs' flows (hot money) have shown significant sales.

Sentiment (Neutral bias): Mixed readings of these indices, with Investors intelligence ratios, AAII bull & bears and NAAIM showing negative readings and pointing towards additional declines in equities. Market breadth (number of companies trading over their 200 moving average level) has normalized recently and gives us a neutral bias.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	5	3
Positive Bias	1	2
Neutral	5	9
Negative Bias	5	4
Sell signals	5	3
FINAL VALUATION	**-1,0**	**-0,5**

Risk Composite Indicator



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

S&P: SIDEWAYS
Support at 2,532. Resistance at 2,800. Target:3,053

STOXX600: SIDEWAYS
Support at 360. Resistance at 388. Target: 400

IBEX: SIDEWAYS
Support at 9,327. Resistance at 10,211. Target: 11,140

€/$: SIDEWAYS-BEARISH
Support at 1.215. Resistance at 1,255. Target: 1,17

Oil: SIDEWAYS-BULLISH
Supports at 59,97. Resistance at 74,9.. Target 76,5

Gold: SIDEWAYS-BEARISH
Supports at 1,295. Resistance at 1,374

US Treasury: SIDEWAYS (price perspective)
Supports at 2.65%. Resistance at 3.02%.

FI FIXED INCOME - GOVERNMENTS

DEVELOPED MARKETS

Fundamental assessment

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

Swap spread: The swap spread down-ticked to 2.2bps (from +3bps last month). For this spread to normalize at +10bps, with the swap rate anchored in the 2.2% area, the 10Y UST yield would have to move towards 2.1%.

Slope: The slope of the US yield curve continued to flatten this month to 51bps (from 56bps). With the short end normalizing towards 2.25 % (today at 2.46%), to reach the 10Y average slope (of 175bps) the 10Y UST yield would have to move to 4%.

Real yield: A good entry point in the 10Y UST would be when 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 down-ticked to 46bps (from 49bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area (today at 1.0%), the Bund yield would have to move towards 1.05% (entry point).

Slope: The slope of the EUR curve was stable at 117bps (from 16bps last month). If the short end "normalizes" in the -0.50% area (today at -0.60%), to reach the 10Y average yield curve slope (130bps) the Bund yield would have to move to 0.80%.

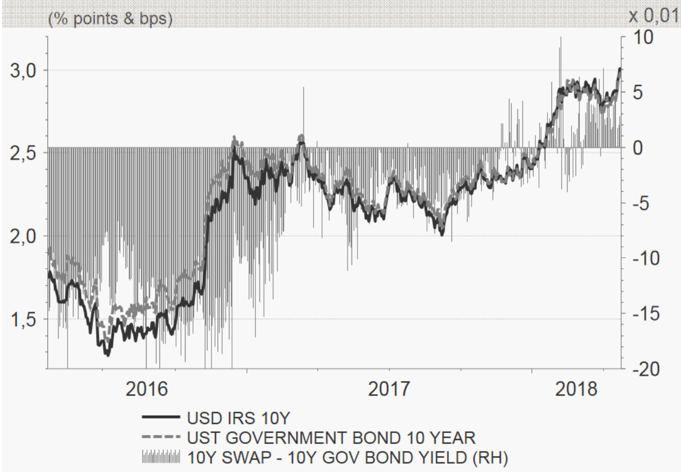
Real yield: A good entry point in the German Bund would be when real yield hits 1%. Given our CPI forecast of 1.4%, the Bund yield would have to rise to 2.4% to become a "BUY".

UK Gilt: Fair value 2.3%. Ceiling 3.6%

Swap spread: The swap spread down-ticked to 10bps (from 14bps last month). For the swap spread to normalize at 14bps, with the swap rate anchored in the 2.5% area (today at 1.64%), the 10Y UK Gilt should go to 2.35%.
Slope: With 2Yr normalized at 1%, to reach the average slope at 1.62%, the 10Yr Gilt should go to 2.62%.
Real Yield: A 1% real yield means the 10Y gilt should be at 3.6%.

SWAP SPREAD USD

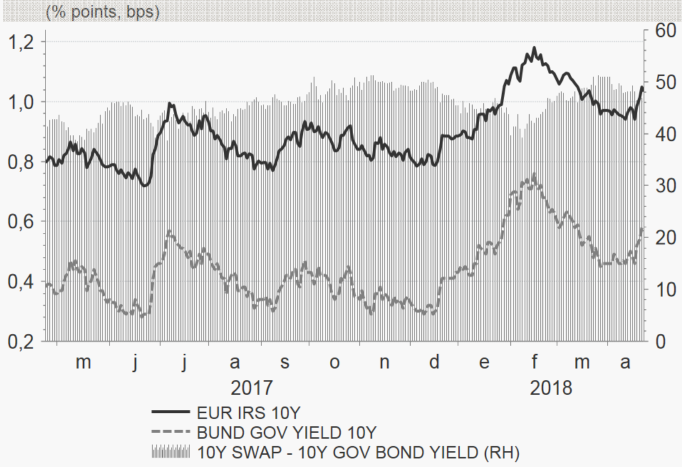
(% points & bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.65% (from 1.75%)
Italian bond BTPI: Target yield at 2.10%
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	6,84%	3,40%	3,44%	-1,00%	5,84%
	India	7,76%	4,34%	3,43%	-1,00%	6,76%
	Philippines	6,24%	4,30%	1,94%	-0,50%	5,74%
	China	3,61%	2,10%	1,51%	-0,50%	3,11%
	Malaysia	4,13%	1,27%	2,86%	-0,75%	3,38%
	Thailand	2,40%	0,84%	1,56%	-0,50%	1,90%
	Singapore	2,59%	0,25%	2,34%	-0,75%	1,84%
	South Korea	2,61%	1,35%	1,26%	-0,50%	2,11%
	Taiwan	1,01%	1,64%	-0,63%	1,00%	2,01%
EME	Turkey	12,22%	10,24%	1,99%	-0,50%	11,72%
	Russian Fed	7,23%	2,40%	4,83%	-1,00%	6,23%
LATAM	Brazil	9,59%	1,56%	8,03%	-1,00%	8,59%
	Mexico	7,44%	5,07%	2,37%	-0,75%	6,69%
	Colombia	6,46%	3,15%	3,31%	-1,00%	5,46%
	Peru	5,55%	0,34%	5,22%	-1,00%	4,55%

ENERGY – OIL: US Crude production over the 10M bpd mark

Fundamental price for WTI at US$45pb. Sell above US$60. Buy below US$35

Short-term drivers

***(Price Positive)* – Market optimism has been fueled by both the OPEC supply-cut pact and geopolitical tensions.** The fact that the cartel and its allies may be willing to over-tighten the market has only added to this sense. Saudis say more work yet to be done. Reuters reports that at the ministerial compliance meeting in Jeddah, Saudi Energy Minister Khalid al-Falih said that while global oil inventories have fallen from peak levels, they have not yet fallen far enough. The article notes that al-Falih said there remained many variables in the market, including demand uncertainty and the emergence of new supply, and he cautioned against a “mission accomplished" mentality.

(Price Positive) – **Russia: “Wider cooperation with OPEC could be indefinite”.** Russian Energy Minister Alexander Novak said that his country’s cooperation with OPEC on oil production could become indefinite once the current output-cut agreement expires at the end of this year. Novak reiterated his proposal for the creation of a joint organization with the cartel to facilitate joint efforts with the oil market and said other large oil producers could join.

***(Price Positive)* – China oil imports second highest on record for March.** China imports of crude hit 9.22M bpd in March, the second highest level on record (which was set in Jan-18 at 9.57M bpd). Generous government quotas for independent refineries fueled imports, growing 30% in the first quarter. Imports spiked ahead of maintenance season, when three state-run refiners will undergo major maintenance for 40-60 days. New tax regulations aimed at small refiners and blenders, as well as the planned overhauls, could lie behind the sharp rise in imports.

***(Price Negative)* –** Oil market risks getting ahead of itself. The WSJ reports that hedge funds and other investors have amassed a record number of bullish bets on crude, which may put the market at risk of a swift fall if the outlook sours. It notes that variables include not only geopolitical concerns but also the fate of the OPEC supply-cut agreement, which is scheduled to wrap up at the end of 2018, though there are worries about what will happen if it is not extended further.

***(Price Negative)!!* – Recent r**eports point out that while the WTI delivered to Cushing remains as the US market benchmark, there has been a surge in trading of futures contracts tracking the price differences between WTI and oil sold at the Permian fields near Midland or at Gulf Coast ports like Houston. The reports note that as domestic supplies have increased, causing crude to move in new directions, some traders are suggesting contracts tied to landlocked Cushing should be replaced with ones that better reflect the flow of physical oil.

***(Price Negative)* – Trudeau promises to back Trans Mountain pipeline expansion.** The WSJ reports that following a meeting of western provincial leaders in Ottawa, Canadian PM Justin Trudeau said he would ensure that KMI’s Trans Mountain pipeline extension would be built, despite fierce opposition from British Columbia. Officials are crafting legislation to reinforce the federal government’s authority over the project.

(Price Negative) – **As US production hits an all-time high, led by output from the Texas Permian basin**, pipelines are filling up more quickly than expected. With new pipeline projects scheduled for this year, producers may be forced to slow drilling or even shut in active production. It observes that pipeline utilization to the Gulf Coast has averaged about 89% this year and 96% in the last four weeks.

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 for which they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers’ interests to keep the oil price low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(-) 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 big pressure on the market for fossil fuels over the coming decades, Riyadh’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 possible.

(-) The re-entry of Iran is a game changer, equivalent to a structural change in the global energy market.

(-) OPEC producers are no longer able to fix prices: Back in the 1970s or the early 2000s, the exporters’ cartel agreed to cut output and the approach worked well, as the principal competition was among 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 will easily be offset by a quick increase in shale oil production, meaning that OPEC producers are no longer able to fix prices.

(-) Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,100/oz. Sell above US$1,300

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 US$1,169,95 (from US$1,152 last month). In real terms, gold continues to trade well above its 20-year average of US$820. Given the global deflator (now at 1.14413), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$938.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio has declined to 77.81x (from 80.7x last month) but still remains well above its 20-year average of 61.92x, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming that silver is well priced, then the gold price should go to US$1,009 oz.

Gold to Oil: This ratio also declined in the month, to 19.61x (from 21.3x last month), still well above its 20-year average of 15.04x. Considering our fundamental long-term target for oil of US$45pb (our central target) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$676 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) ticked down in the month to 18.27x (from 18.65x last month), still below its LT average of 19.95x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,253 for this ratio to remain near its LT average.

Speculative positioning: CFTC-CEI 100oz Active Future non-commercial contracts: Longs are fixed now at 237.28k (from 234k last month). Shorts rose moderately, to 74.22k (from 66.5k) => The net position therefore decreased to +163.06k during the month (from +167.9k), suggesting that speculators' appetite for gold has declined markedly in the last three months and that gold is still relatively expensive.

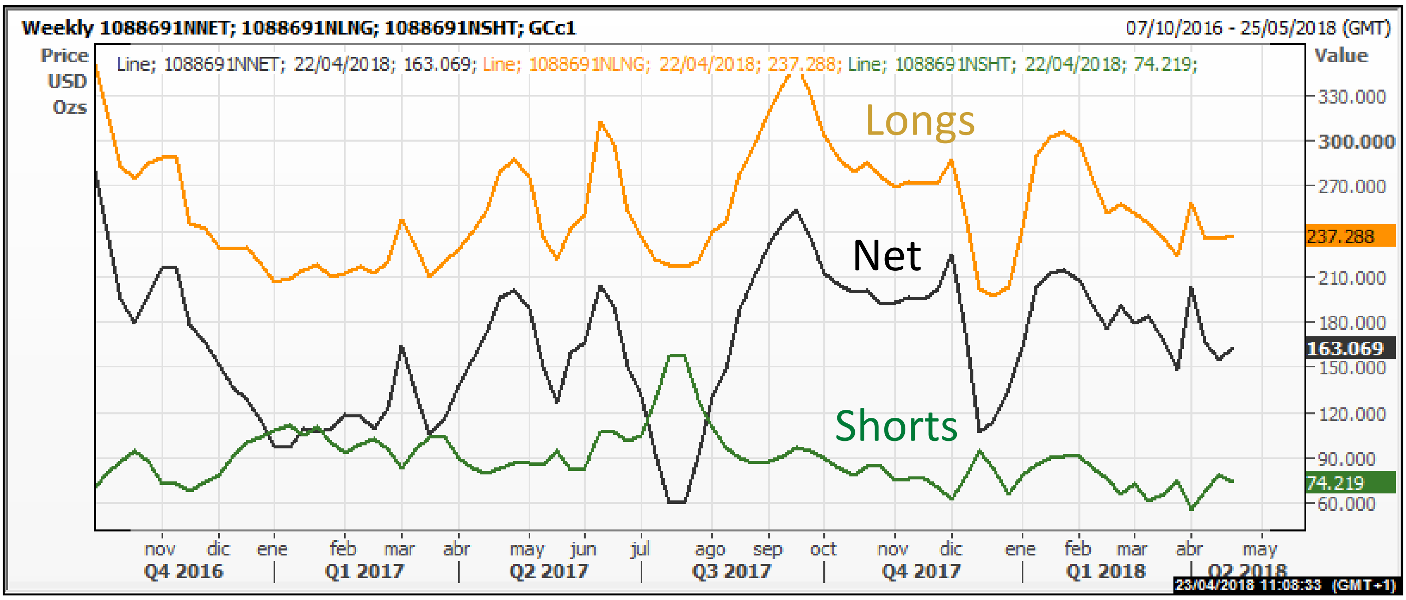
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio rose to 0.501x (from 0.486x last month) but is still well below its LT average of 0.591x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,605 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 US$6.9tn, 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 US$173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EUR-USD: Strong resistance at 1.26 // Fundamental mid-term target 1.15

Flows: The steepest part of the recent USD rally coincides perfectly with an across-the-board cutting of shorts in the green back, with global market positioning in USD having shifted from a US$-28bn worth short contracts last week to a US$-23bn position at end of month. Therefore, the magnitude of the dollar rebound (+1.7% rally in the USD index in the week) has been very consistent with the magnitude of the notional amount unwind (4.37bn reduction in net notional shorts –see the table-). Having said that, important short positions in USD still persist (US$-23.81bn), being this statistically significant (-1.86 sigmas below the 3-year average), which makes the "USD Short" still the most crowded trade position globally, suggesting that the USD remains clearly oversold. A full unwind of dollar shorts would be consistent with the dollar index 6.2% higher from current levels. Nevertheless, we think that such complete elimination of USD shorts is unlikely in the short term, since would require a complete market reassessment of the global market environment. **Outlook:** Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR/USD faces a very important resistance at 1.26. (2) This resistance level should work well (as it did in the past). We therefore believe that the EUR will not cross this resistance. (3) After that, the EUR/USD will move back into the mid-term range; first towards 1.15 (this year, according to this analysis) and then towards lower levels. Our more **fundamental discussion** resulted in a broad conclusion: The USD offers value at current levels. Our fundamental target for the EURUSD is 1.15

USD-JPY: Target 111.2; **EUR-JPY**: Target 127.8

Smart Estimates (the forecasters that historically have shown better results) fix the 2018 target for the USD/JPY at 1109 (above 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) Political shocks in Europe now seem allayed, meaning that safehaven flows into Japan are less likely now. (2) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0% there is little prospect that Japanese real yields will rise; (3) 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); (4) Meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (5) The prospect of the Fed shrinking its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

GBP-USD: Target 1.35; **EUR-GBP**: Target 0.85

USD-CHF: Target 0.99; **EUR-CHF:** Target 1.14

USD-MXN: Target 18.8; **EUR-MXN:** Target 21.6

USD-BRL: Target 3.30; **EUR-BRL:** Target 3.8

USD-ARS: Target 22

RUB: NEUTRAL

AUD: POSITIVE

CAD: NEUTRAL

NEW! CNY: Target 6.00. POSITIVE

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	-23,81	4,37	12,1	-28,2	-10,1	**-1,86**
USD vs G10	-21,51	3,93	14,3	-25,4	-7,3	**-1,92**
EM	2,30	-0,44	3,9	1,5	2,8	**0,95**
EUR	19,97	-3,46	23,4	-0,2	14,7	**1,66**
JPY	0,07	-0,24	0,4	-15,0	-9,1	**0,47**
GBP	3,26	-1,00	4,3	-6,6	-0,3	**1,98**
CHF	-1,31	0,05	0,2	-3,8	-1,6	**-0,30**
BRL	-0,62	0,04	0,7	-0,7	0,1	**-0,97**
MXN	2,36	-0,46	3,3	0,4	2,2	**1,37**
RUB	0,56	-0,01	1,2	-0,3	0,5	**0,41**
AUD	-0,26	0,53	6,1	-1,6	2,2	**-0,44**
CAD	-1,96	0,46	6,1	-7,3	0,9	**-0,48**

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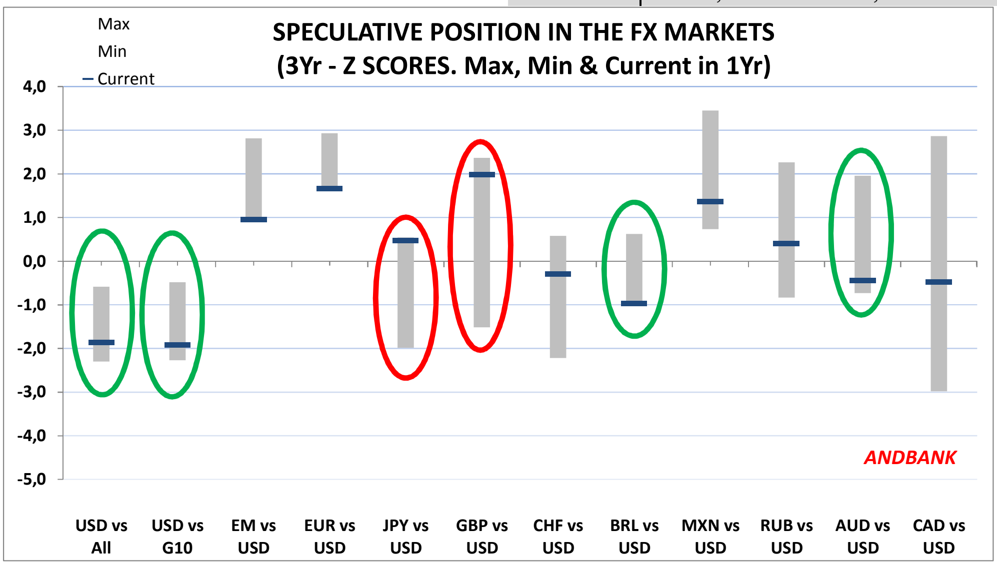

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SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance 1 month*	*Performance YTD*	*Current Price 30/04/2018*	*Central Point (Fundam range)*	*Exp. Perf. To Central Point*
Equity	USA - S&P 500	3,4%	-0,1%	2.669	2715	1,7%
	Europe - Stoxx Europe 600	3,8%	-1,2%	385	411	6,6%
	Euro Zone - Euro Stoxx	4,3%	1,0%	390	413	5,8%
	SPAIN - IBEX 35	4,0%	-1,2%	9.981	10729	7,5%
	MEXICO - MXSE IPC	5,7%	-2,2%	48.422	48407	0,0%
	BRAZIL - BOVESPA	1,7%	13,1%	86.139	**84064**	-2,4%
	JAPAN - NIKKEI 225	6,8%	-1,3%	22.468	23094	2,8%
	CHINA - SHANGHAI COMPOSITE	-2,6%	-6,8%	3.082	**3474**	12,7%
	CHINA - SHENZEN COMPOSITE	-4,3%	-6,5%	1.776	1930	8,6%
	INDIA - SENSEX	5,7%	2,7%	35.160	36063	2,6%
	MSCI EM ASIA (in USD)	-1,0%	-0,5%	584	627	7,3%
Fixed Income Core countries	US Treasury 10 year Govie	-1,6%	-3,6%	2,96	3,20	0,0%
	UK 10 year Gilt	-0,6%	-1,7%	1,44	2,00	-3,5%
	German 10 year BUND	-0,5%	-1,0%	0,56	0,90	-2,3%
	Japanese 10 year Govie	-0,1%	0,0%	0,05	0,10	-0,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,7%	2,9%	1,25	1,65	-2,4%
	Italy - 10yr Gov bond	0,5%	2,7%	1,73	2,10	-1,8%
	Portugal - 10yr Gov bond	-0,1%	2,8%	1,63	2,20	-3,5%
	Ireland - 10yr Gov bond	-0,4%	-2,2%	0,95	1,10	-0,5%
	Greece - 10yr Gov bond	3,1%	2,8%	3,86	4,50	-2,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,2%	-0,2%	56,53	85	-1,5%
	Credit EUR HY-Itraxx Xover	0,8%	-0,5%	262,66	330	-1,3%
	Credit USD IG - CDX IG	0,3%	0,6%	60,10	45	2,0%
	Credit USD HY - CDX HY	1,2%	0,7%	337,55	413	1,2%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	1,3%	-3,1%	12,23	13	6,1%
	Russia - 10yr Gov bond	-1,3%	4,9%	7,27	6,70	11,8%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	-2,4%	-3,5%	6,95	**5,80**	16,2%
	India - 10yr Gov bond	-2,4%	-1,1%	7,76	6,75	15,8%
	Philippines - 10yr Gov bond	-3,0%	-7,9%	6,33	**5,75**	11,0%
	China - 10yr Gov bond	1,4%	3,2%	3,60	3,25	6,4%
	Malaysia - 10yr Gov bond	-1,5%	-0,6%	4,16	4,00	5,4%
	Thailand - 10yr Gov bond	0,0%	-0,2%	2,40	1,85	6,8%
	Singapore - 10yr Gov bond	-2,3%	-4,2%	2,59	1,57	10,8%
	South Korea - 10yr Gov bond	-0,2%	-0,9%	2,60	2,00	7,4%
	Taiwan - 10yr Gov bond	-0,2%	-0,2%	1,01	1,50	-2,9%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,0%	4,7%	7,44	8,00	3,0%
	Mexico - 10yr Govie (USD)	-1,9%	-3,9%	4,29	**4,60**	1,8%
	Brazil - 10yr Govie (Loc)	-0,2%	8,6%	9,59	**9,00**	14,3%
	Brazil - 10yr Govie (USD)	-0,7%	-1,2%	5,11	5,30	3,5%
	Argentina - 10yr Govie (USD)	-1,0%	-7,1%	6,60	6,20	9,8%
Commodities	Oil (WTI)	8,1%	12,7%	68,1	45,00	-33,9%
	GOLD	-1,4%	1,5%	1.321,9	1.100	-16,8%
Fx	EURUSD (price of 1 EUR)	-1,4%	1,1%	1,213	1,15	-5,2%
	GBPUSD (price of 1 GBP)	-1,9%	2,0%	1,38	1,35	-2,0%
	EURGBP (price of 1 EUR)	0,4%	-0,9%	0,88	0,85	-3,2%
	USDCHF (price of 1 USD)	3,4%	1,4%	0,99	0,99	0,0%
	EURCHF (price of 1 EUR)	2,0%	2,5%	1,20	1,14	-5,2%
	USDJPY (price of 1 USD)	3,0%	-3,2%	109,03	111,20	2,0%
	EURJPY (price of 1 EUR)	1,6%	-2,2%	132,27	127,88	-3,3%
	USDMXN (price of 1 USD)	2,0%	-5,3%	18,61	18,80	1,0%
	EURMXN (price of 1 EUR)	0,6%	-4,2%	22,58	21,62	-4,3%
	USDBRL (price of 1 USD)	4,4%	4,3%	3,46	**3,30**	-4,5%
	EURBRL (price of 1 EUR)	2,9%	5,5%	4,19	3,80	-9,5%
	USDARS (price of 1 USD)	2,0%	10,3%	20,51	22,00	7,2%
	CNY (price of 1 USD)	0,9%	-2,7%	6,33	**6,00**	-5,3%

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

ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Money Market	**15,0**	**22,0**	**10,0**	**15,7**	**5,0**	**9,8**	**5,0**	**3,8**
Fixed Income Short-Term	**25,0**	**35,0**	**15,0**	**22,5**	**5,0**	**9,4**	**0,0**	**1,9**
Fixed Income (L.T) OECD	**30,0**	**18,0**	**20,0**	**12,0**	**15,0**	**9,0**	**5,0**	**3,0**
US Gov & Municipals & Agencies		12,6		8,4		6,3		2,1
EU Gov & Municipals & Agencies		1,8		1,2		0,9		0,3
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		7,0		7,0		5,3		1,8
High Yield Grade USD		3,5		3,5		2,6		0,9
Investment Grade EUR		2,1		2,1		1,6		0,5
High Yield Grade EUR		1,4		1,4		1,1		0,4
Fixed Income Emerging Markets	**5,0**	**6,0**	**7,5**	**9,0**	**10,0**	**12,0**	**15,0**	**18,0**
Latam Sovereign		1,8		2,7		3,6		5,4
Latam Credit		1,5		2,3		3,0		4,5
Asia Sovereign		1,5		2,3		3,0		4,5
Asia Credit		1,2		1,8		2,4		3,6
Equity OECD	**5,0**	**5,0**	**20,0**	**20,0**	**32,5**	**32,5**	**50,0**	**50,0**
US Equity		1,5		6,0		9,8		15,0
European Equity		2,5		10,0		16,3		25,0
Japan Equity		1,0		4,0		6,5		10,0
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,0**	**10,0**	**10,0**	**10,0**	**10,0**
Asian Equity		0,0		3,0		6,0		6,0
Latam Equity		0,0		2,0		4,0		4,0
Commodities	**0,0**	**0,0**	**2,5**	**1,9**	**5,0**	**3,8**	**5,0**	**3,8**
Energy		0,0		0,4		0,8		0,8
Minerals & Metals		0,0		0,5		0,9		0,9
Precious		0,0		0,6		1,1		1,1
Agriculture		0,0		0,5		0,9		0,9
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		0,5		0,9
Market Neutral		0,0		0,0		1,2		2,4
Volatility		0,0		0,0		0,6		1,2
Currency Exposure (European investor perspective)								
EUR		92,3		85,0		79,4		73,6
USD		7,7		15,0		20,6		26,4

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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