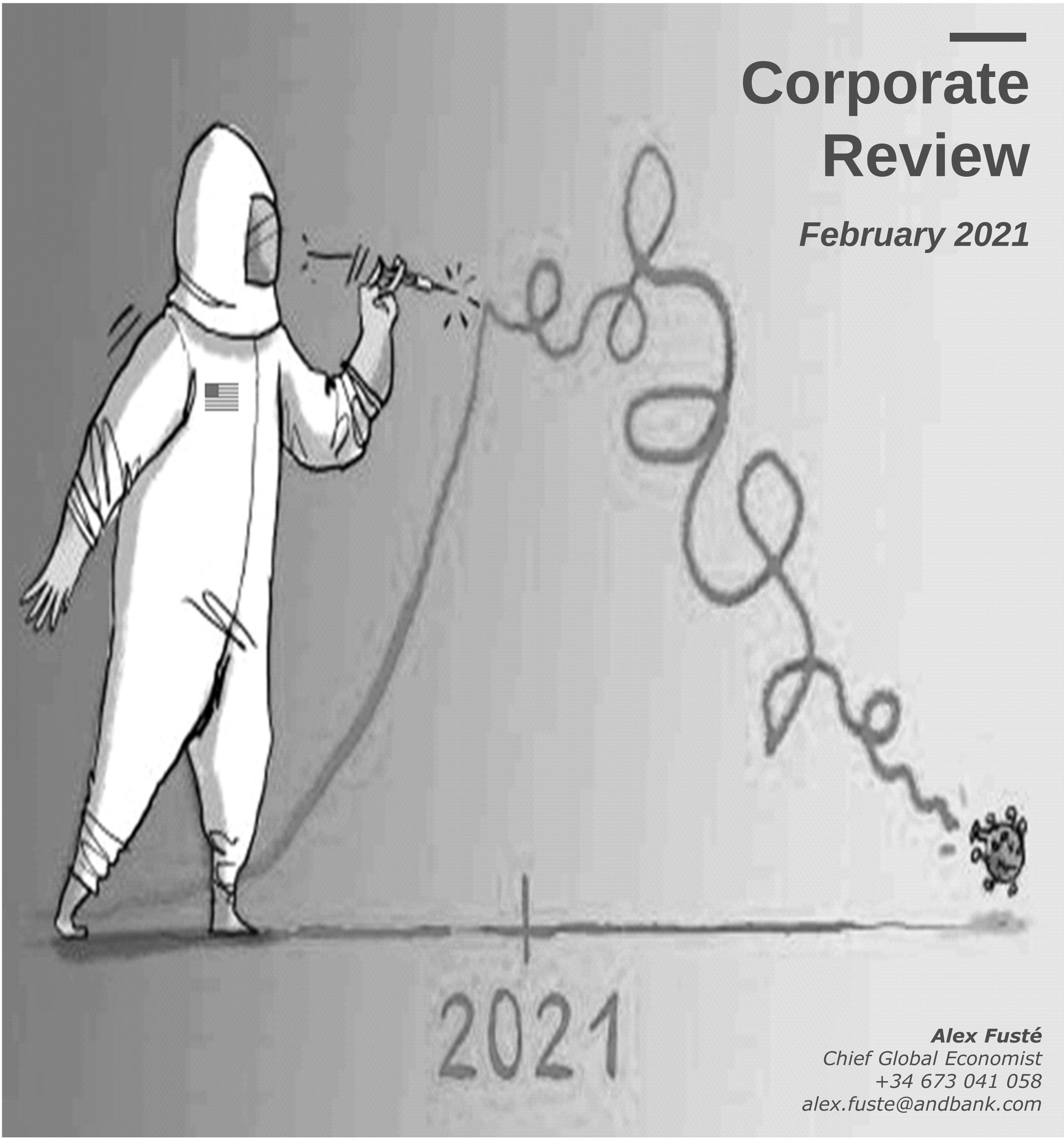
GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review

Andbank Monthly Corporate Review – February 2021



Corporate Review

February 2021

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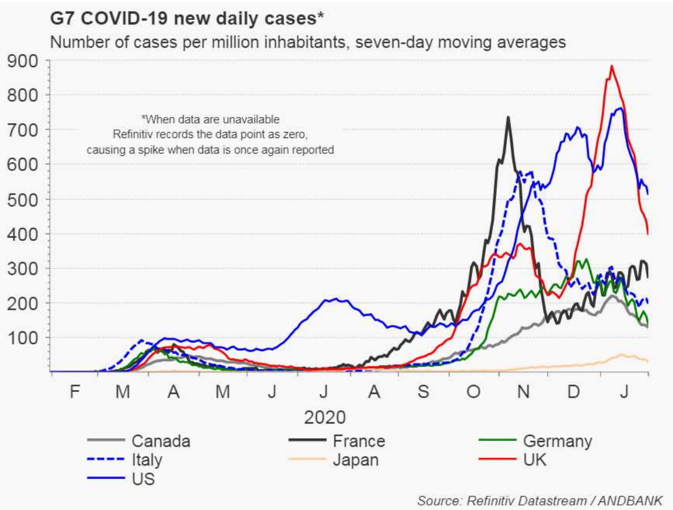
ANDBANK Private Bankers

EXECUTIVE SUMMARY

CHART OF THE YEAR

"What did surprise us is we hadn't really thought through the economic impacts" Melinda Gates



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EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2020 E[Perf] to Fair Value	Recomm	2020 Exit Point
USA S&P 500	3.826	3.500	-8,5%	MW	4.025
Europe - Stoxx Europe 600	409	425	3,9%	OW	489
Euro Zone - Euro Stoxx	406	398	-2,0%	MW/OW	458
Spain IBEX 35	8.014	7.276	-9,2%	MW	8.367
Mexico IPC GRAL	43.849	42.480	-3,1%	MW	48.852
Brazil BOVESPA	118.234	112.500	-4,8%	MW/OW	129.375
Japan NIKKEI 225	28.647	24.415	-14,8%	UW	28.077
China SSE Comp.	3.517	3.363	-4,4%	MW/UW	3.868
China Shenzhen Comp	2.381	2.367	-0,6%	MW/OW	2.722
India SENSEX	50.256	46.467	-7,5%	OW	53.437
Vietnam VN Index	1.111	1.033	-7,1%	MW	1.188
MSCI EM ASIA	776	662	-14,8%	MW -UW	761

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value (Next 12 months)
Fixed Income Core countries	US Treasury 10 year Govie	1,12	1,25	0,0%
	UK 10 year Gilt	0,36	0,80	-3,2%
	German 10 year BUND	-0,48	-0,40	-1,1%
	Japanese 10 year Govie	0,05	0,00	0,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,10	0,20	-0,7%
	Italy - 10yr Gov bond	0,55	0,70	-0,7%
	Portugal - 10yr Gov bond	0,03	0,20	-1,3%
	Ireland - 10yr Gov bond	-0,17	0,00	-1,6%
	Greece - 10yr Gov bond	0,61	1,20	-4,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	51,81	55	-0,1%
	Credit EUR HY-Itraxx Xover	267,75	300	1,2%
	Credit USD IG - CDX IG	54,85	50	0,9%
	Credit USD HY - CDX HY	311,70	297	3,8%

FIXED INCOME EMERGING MARKETS

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value (Next 12 months)
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	12,65	12,04	17,5%
	Russia - 10yr Gov bond (local)	6,32	5,28	14,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,06	5,23	12,7%
	India - 10yr Gov bond (local)	6,08	6,90	-0,5%
	Philippines - 10yr Gov bond (local)	3,07	3,02	3,4%
	China - 10yr Gov bond (local)	3,20	2,20	11,2%
	Malaysia - 10yr Gov bond (local)	2,70	1,64	11,2%
	Thailand - 10yr Gov bond (local)	1,18	0,81	4,1%
	Singapore - 10yr Gov bond (local)	1,07	0,93	2,2%
	Rep. Korea - 10yr G. bond (local)	1,65	1,02	6,8%
	Taiwan - 10yr Gov bond (local)	0,29	0,25	0,6%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	5,17	6,00	-1,5%
	Mexico - 10yr Govie (USD)	2,85	3,00	1,7%
	Brazil - 10yr Govie (Loc)	7,58	6,75	14,2%
	Brazil - 10yr Govie (USD)	3,75	3,50	5,8%

COMMODITIES & FX

Asset Class	Indices	Current Price	Fair Value	Expected Performance to Fair Value (Next 12 months)
Commodities	Oil (WTI)	55,1	55,00	-0,2%
	GOLD	1.834,3	1.900	3,6%
Fx	EURUSD (price of 1 EUR)	1,202	1,20	-0,2%
	GBPUSD (price of 1 GBP)	1,36	1,37	0,5%
	EURGBP (price of 1 EUR)	0,88	0,88	-0,6%
	USDCHF (price of 1 USD)	0,90	0,90	0,1%
	EURCHF (price of 1 EUR)	1,08	1,08	-0,1%
	USDJPY (price of 1 USD)	105,05	103,50	-1,5%
	EURJPY (price of 1 EUR)	126,28	124,20	-1,6%
	USDMXN (price of 1 USD)	20,12	21,00	4,4%
	EURMXN (price of 1 EUR)	24,22	25,20	4,1%
	USDBRL (price of 1 USD)	5,36	5,00	-6,8%
	EURBRL (price of 1 EUR)	6,45	6,00	-7,0%
	USDARS (price of 1 USD)	87,70	120	36,8%
	USDINR (price of 1 USD)	73,00	74,00	1,4%
	CNY (price of 1 USD)	6,46	6,25	-3,3%

USA

Bipartisan approach to build back better

Economics & politics: No significant changes in taxes

After the COVID wave scenario materialized, the next step in political analysis is divining the policy surrounding sectors including defense, energy, financial services and healthcare; and, weighing what can realistically make its way through Congress. Our view is that Biden will focus almost wholly on rebuilding the economy and COVID containment, with the latter having the most impact. This will be done without significant changes to taxes or regulation, as Biden has indicated that he intends to initially pursue a bipartisan compromise as he will not use the budget reconciliation process. In addition, with a razor-thin margin in the Senate and a narrow House majority, it is important to note again that Senate filibuster rules, which effectively require most legislation to meet a 60-vote threshold to advance, will remain intact. That means that most of the policy changes will require negotiation not only within the Democratic party but also with the Republican party.

President Biden has released the details of his COVID-relief plan, which the transition team estimates will cost $1.9 trillion (8.6% of GDP). We do not expect all of the elements of the proposal to pass, as this will occur via regular order and not the budget reconciliation process and will fail to garner the 60 votes needed in the Senate (requiring the support of at least 10 Republicans). We expect near-term fiscal measures between $900bn and $1.1trn.

Is inflation a risk in 2021? The Fed's stance

Fiscal policy has quickly shifted gears from gridlock to generous stimulus. This reduces an important downside risk to growth this year and is likely to lead to even greater strength once the current COVID outbreak is under control. But the new more transmissible virus strain poses risks of more stringent and longer lockdown measures in the near term, which would disproportionately impact services spending. The medium-term growth trajectory is highly dependent on the successful delivery of vaccines. This scenario has led to a heightened focus on a potential upside for US inflation. Market-based measures of headline inflation expectations jumped to a two-year high recently and Treasury yields have awoken from a long slumber with 10-year treasuries jumping above 1%. There is a good chance that inflation will remain somewhat firm in the second half of 2021, as a surge in demand in certain sectors currently constrained by COVID-19 may outstrip supply-side capacity, leading to sharp increases in sector-specific inflation rates. We do not envision a smash-up in government bonds in 2021, but enough of a rise in yields to undermine the narrative that borrowers will "forever" have access to (nearly) free money and highlight the challenge of owning government bonds.

it seems safe to say that -barring any adverse economic surprises- the composition of the Fed's purchases won't change anytime soon. Instead, the Fed-watching question for 2021 centers on when it will move towards tapering those purchases. We guess that the Committee moves towards tapering around the end of the year. A number of participants noted that tapering should follow the sequence of 2013 and 2014, suggesting that the tapering process could go on for about ten months.

Bond market: Corporate bonds

As we discussed in our 2021 outlook, credit returns have historically been negative when starting a year with such a tight level of valuation. There is little room for error when carry is so low. The largest risk is probably a jump in interest rate volatility, if/when we have both a reopening and fiscal support still ramping up, combined with very loose monetary policy. High Yield has seen another active month as issuers capitalize on historically low yields as January's MTD issuance reached $38.4bn, or $8.9bn excluding refinancing-related volume (net). Notably, the $29.5bn in refinancing MTD already represents a high since September's and August's record. The top-line HY default rate closed 2020 at 6.4%, marginally higher than the 2015/16 energy cycle peaks as we saw companies able to restructure and emerge from bankruptcy at record speeds last year and heading into 2021. The pipeline of likely defaults now looks a lot lighter. We are therefore reviewing our target from 420 to 350.

Equity market

We are raising our EPS target for S&P companies from US$170 to $175. Using a reasonable PE multiple of 20x, we can fix a fundamental fair value for the S&P at 3,500 with an exit point at 4,025. For 2021, we must focus on the evolution of the vaccine in the US, possible side effects and the number of vaccinated people; the first measures of the Biden mandate; and financial results from the last quarter of 2020 that will be published shortly.

Financial market assessment

Equities – S&P: MARKETWEIGHT

Bonds – Govies: UNDERWEIGHT (10Y UST Entry point 1.25%)

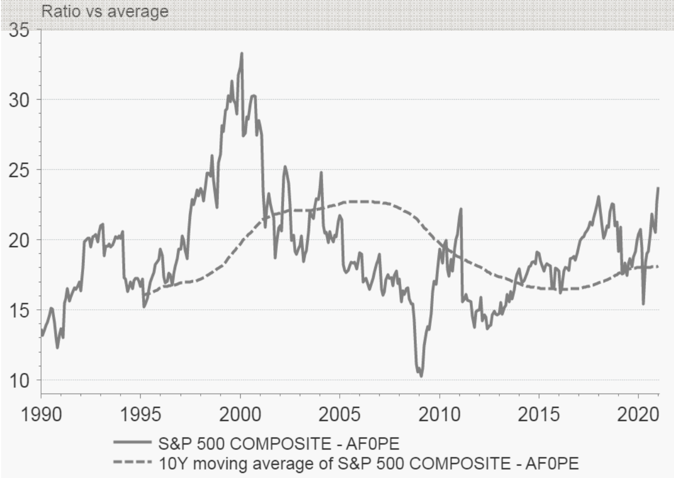
CDX IG: MARKETWEIGHT-UW (Target Spread 50)

CDX HY: OVERWEIGHT (Target Spread 300)

Forex – DXY index: MARKETWEIGHT

US price-to-earning ratio

Ratio vs average



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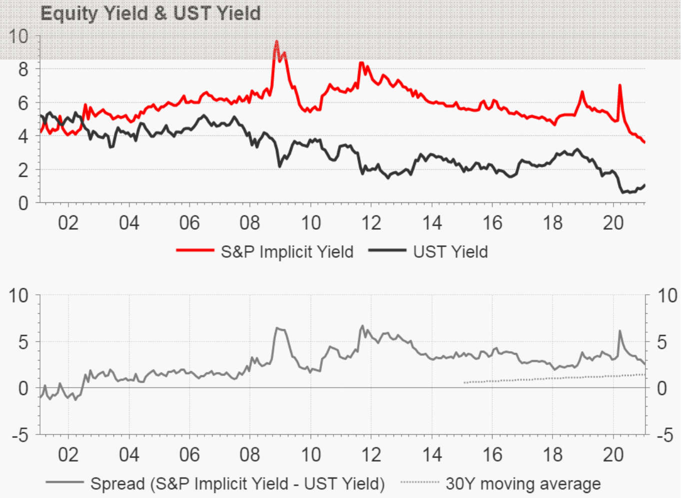
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

Federal Reserve balance sheet

Four-week change, USD, billions

Source: Refinitiv Datastream / ANDBANK

EUROPE

The pandemic is causing the first revisions of activity estimates

Slow vaccination

Uncertainty surrounding COVID is leading EU members to lower their growth estimates (France considers the 6% annual target as challenging, Germany has changed its official projection from 4,4% to 3%, below consensus). PMI surveys still point to a resilient manufacturing outlook, while the sentiment from the services front has also, unsurprisingly, receded slightly. European GDP growth in 2021 could be cut from our initial estimates of 5% YoY to around 4.5%. Some of the potential risks outlined in December have not materialized. A non-deal Brexit was finally avoided, the European budget/Next Generation Fund was approved and vaccinations has started. But others remain in place or have been added, such as the delay in the vaccination roll-out in most EU members or the spread of the UK (now prevalent) and the South African variants. Herd immunity could be reached in Q3, taking into account further vaccine approvals (Moderna and Biontech so far).

Inflation numbers are still in low territory but a spike should be expected in January following the reversal of the VAT cut in Germany, and particularly from March due to base effects and energy components. Nevertheless, inflation break-evens have recovered substantially.

ECB: implicit yield curve control

After an "all included" recalibration was announced at December's meeting, the market's attention has moved to two issues. First, the ECB mantra about "preserving favorable financing conditions", and secondly, will the PEPP envelope be fully/partially used?

Regarding the first, Lagarde defined this "compass" as an "holistic, multifactorial and across sectors" approach. This suggests the ECB is opting for non-specific language to avoid a direct "yield curve control" message, but that would imply an unlimited amount of resources (as in the BoJ) and thus exceeding the PEPP's framework.

On the second issue, and increasingly important following a less dovish stance from Lagarde and the expanded and extended measures in December, the ECB left all options open. Despite the ECB's flexible approach, an overwhelming majority of the market expects the PEPP to be fully used or even increased, making it an issue that could bring some volatility.

After Brexmas, Italy comes back to the political scenario

As expected, a Brexit (light, limited) agreement was reached. The deal was indeed more ambitious regarding trade on goods than on services. In a nutshell, it provides a preferential regime, tariffs and quota-free trade in goods, provided they meet the so-called rules of origin. Though not being a "perfect fit" for all, as it builds barriers where previously there were none, it avoids a more catastrophic scenario and allows for an orderly transition and more time to negotiate without further deadlines. There is no financial passport for UK banks and the equivalence treatment that allows third country access for the UK to the EU has yet to be finalized. Meanwhile, Italy is going through a new period of political instability, with Renzi abandoning the ruling coalition. Despite surviving a confidence vote, Conte has lost the outright support to pass important issues (such as a vote on the reform of the judiciary system). Three scenarios could now emerge: a) A new coalition with or without Conte; b) A technical government; or c) Early elections. Our base scenario would be a new coalition as it seems difficult to build consensus on b), and c) lacks incentives for many of the political parties in the ruling coalition, with the polls anticipating a center-right victory.

Equity Market

European companies are starting to release 4Q20 results with much improved consensus expectations versus last quarter. As of today, an improvement in the quarterly results is expected, resulting in a 33% YoY decline for the Stoxx 600, much better than expected three months ago. In this case, we are somewhat more positive than the consensus on FY21 EPS, where the consensus stands at €22.5 for the Eurostoxx 300 and €23.5 for the Stoxx 600. In both cases our forecast is 5% higher than consensus. We are positive in the most cyclical segments of the market. We expect a certain amount of rotation (from the quality world) after leaving the economic recession behind and moving into the expansion part of the investment cycle. The more value and cyclical composition of the Stoxx index is accompanied by a still significant weighting of banking and insurance, which positively correlates the index with a potential increase in the slope of the yield curve. If we are right in our scenario of a very gradual rise in long-term yields, with the short-end well anchored by CBs this should support the European indices due to its composition.

Financial market assessment

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT-OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target −0.40%)

Peripheral – MW: IT (0.7%). UW: SP (0.2%), PO (0.2%), IE (0%), GR (1.2%).

Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 55)

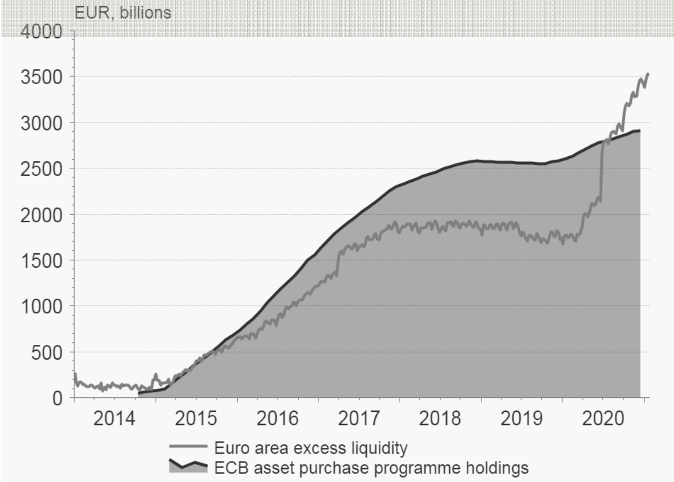
Credit – Itraxx Europe (HY): MW-OW (Target Spread 300)

Fx – EUR/USD Target 1.20 (Buy USD at 1.23, Sell USD at 1.16)

STOXX 600 - EPS
1Y % Change

Source: Refinitiv Datastream / ANDBANK

ECB excess liquidity
EUR, billions



Source: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Source: Refinitiv Datastream / ANDBANK

CHINA

Activity will remain strong during 1H21 but will moderate in 2H21

Diplomacy: Tensions between China and the US continued to accumulate in the last phase of Trump's term

Declassified documents (from Feb 2018) highlighted the principles under which the US operated in the Asia Pacific region, including the "vow to defend Taiwan". An internal administration document showed an Indo-Pacific strategy focused on China's rise, attempting to debunk Beijing's narrative that China's regional dominance was inevitable. The US blacklisted more Chinese entities, most recently Xiaomi for its military links along with China National Offshore Oil Corp over its drilling in the South China Sea. This follows the December decision to blacklist more than 60 other Chinese companies. Chinese technology companies - Tencent Music Entertainment Group, online retailer Vipshop Holdings and livestreaming platform Joyy - are seeking secondary listings in Hong Kong in reaction to recent scrutiny from US exchanges. The Trump administration has notified Huawei suppliers, such as Intel, that it is revoking their licenses to sell to the Chinese tech Huawei and the Commerce Department announced its intent to deny a significant number of license requests for exports to Huawei. In parallel, fund and portfolio managers at western financial institutions have been recently required by their respective money laundering departments not to carry out purchase operations on a list of some 35 Chinese companies, based on a US executive order. Also, in a joint decision, the UK and US announced an import ban on all cotton and tomato products from Xinjiang region over allegations they are made with forced labor from Uighur Muslims. The ban includes products processed in third countries with raw materials sourced in Xinjiang. For its part, China announced that it will strengthen regulations over the rare-earth metals industry in response to ongoing tensions with the US. Current regulations focus on production stage mine development, smelting or separation while the new draft law seeks to manage the "entire industry chain" including refining and product transport for exports, meaning that Beijing could apply the new export control law which strengthens state control over the flow of strategic materials. In addition, China's foreign ministry announced sanctions on US officials who have engaged in "nasty" behavior over Taiwan. This step comes after Washington's decision to lift restrictions on contacts between US and Taiwanese officials. Meanwhile, China is trying to regain regional influence through the traditional approach of investments, and has signed an infrastructure deal with the Philippines worth $940M for a 71km railway and a CNY500M grant for infrastructure and other projects in the Philippines, including a $400M bridge project linking Samal island to Davao. China is also pulling 10,000 troops from its border with India, although they could be redeployed within a week.

Biden's focus on climate puts pressure on China's infrastructure program

A Center for Strategic and International Studies member said president Biden's focus on fighting climate change makes it harder for China to "greenwash" mega-infrastructure programs, namely its Belt and Road initiative launched in 2013. Energy projects, many of them fossil fuel power plants, have been at the heart of the initiative and the US still has the chance to hold China accountable.

Breakdown of 4Q20 GDP data. The wider picture still shows that activity will remain strong during 1H21 but will moderate in 2H21.

According to the official figures, China's economy expanded at the fastest pace in two years last quarter. GDP grew 6.5% YoY in Q4, up from 4.9% YoY in Q3 (the Bloomberg median was 6.2%). Though the monthly data suggest that growth slowed in December, it remains strong and this will likely persist during the first half of 2021, before giving way to a weaker second half. The breakdown of the GDP data shows a pick-up in industry and construction last quarter, but the biggest tailwind was the improvement in service sector growth, from 4.3% YoY to 6.7%. On a monthly basis, however, December data were generally a bit weaker than November's, with the services production index dropping back, as did retail sales. Instead, industrial activity picked up again to 7.3% YoY (from 7.0% in November). On the more negative side, fixed investment expanded at a meagre 2.9% year-to-date, and dragged down the rate of capital spending, which slowed from 9.7% YoY in November to 5.6% in December.

Activity remains strong, which is helping to support the labor market (unemployment held steady at 5.2%, its pre-virus level). With the labor market largely back to normal, income growth is rebounding and wages among migrant workers expanded at 2.8% YoY. From all the aforementioned, it can be inferred that the economy will remain robust during 1H21 as households run down the excess savings they accumulated last year and the tailwinds from last year's stimulus should keep industry and construction strong for a while longer. Favorable base effects will also help keep activity growth rates elevated in the coming months. Further ahead, and well into the second half of 2021, growth will likely soften as foreign demand for Chinese goods (due to industrial lockdowns in western economies) reverses and domestic policy support also starts to be partially withdrawn.

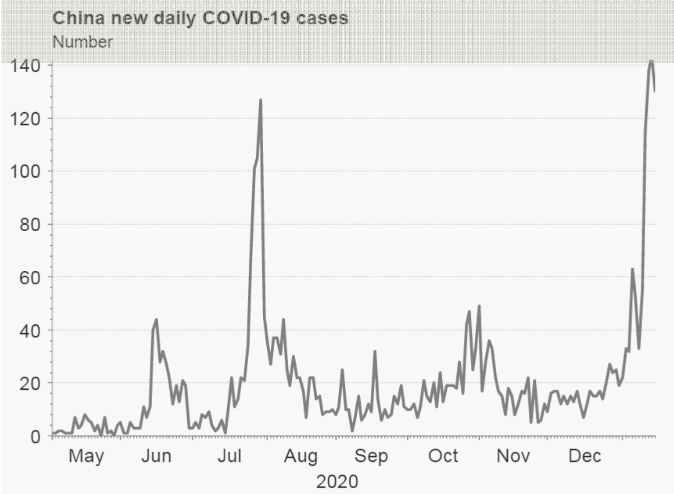
Financial market outlook

Equities – SHANGHAI Idx: UNDERWEIGHT-MARKETWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.20%)

Forex – CNY/USD: OW (Target 6.25)



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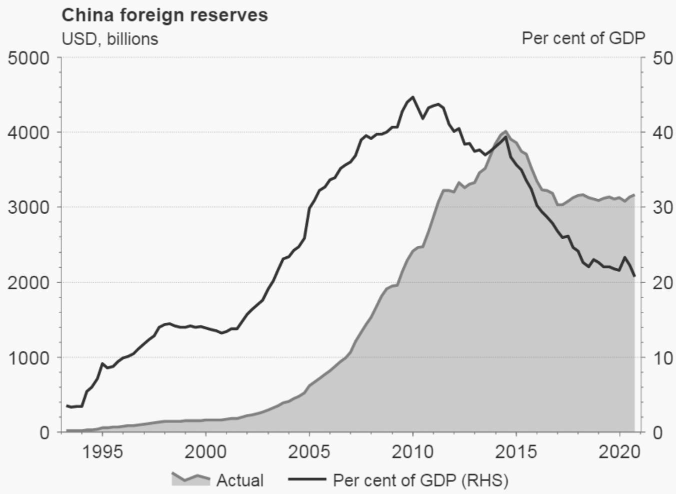

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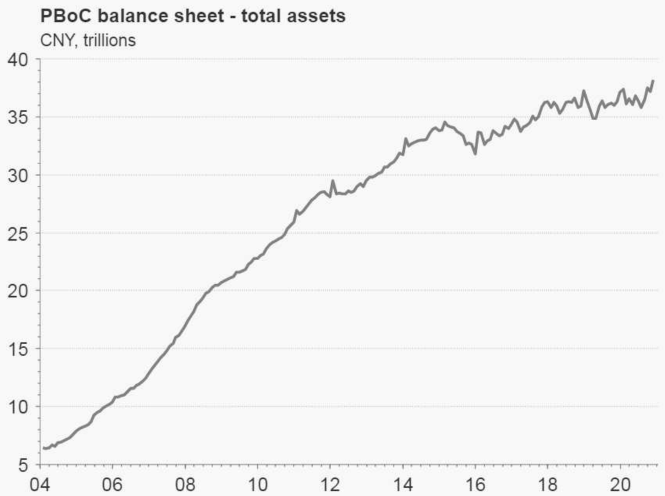


Source: Refinitiv Datastream / ANDBANK

JAPAN

Japanese savers return to the carry trade and aggressively buy foreign debt

The Japanese market, measured by the Topix index, continues its positive tone

Services and info & communications remain key drivers for the upward trend, but transportation equipment is also among those making gains, with the US strength causing broad-based buying, led by cyclicals. Banks posted the sharpest losses in the first days of 2021.

International transactions by Japanese savers in January

Domestic investors were net buyers of ¥1000.2B in foreign long-term debt during the first 15 days of January (vs net purchases of ¥445B in previous 2 weeks), and net buyers of ¥244B in foreign equities (vs net purchases of ¥441B).

BoJ on hold as expected. Unanimity to extend lending measures

The BoJ left short and long term rates unchanged, with board members voting 7-1 to leave policy rates unchanged and voted unanimously to extend lending measures by a year. No changes to guidance. Outlook report showed minor revisions to economic forecasts, with FY20 GDP revised to 5.6% from prior 5.5%, while FY21/22 were nudged higher, reflecting government stimulus. There were also marginal revisions to core inflation, keeping the idea that FY20 decline is likely to give way to gradual recovery from FY21. The BoJ noted that outlook remains extremely unclear depending on coronavirus effects.

Covid & Vaccines

Japan seals deal with Pfizer for COVID shots for 72M people: Nikkei reported the Japanese government has agreed with Pfizer (PFE) to receive 72M doses of its vaccine this year. The agreement secures doses for an additional 12M people after an agreement last year for 60M. The government is finalizing its vaccine rollout schedule, with the general population becoming eligible as early as May. Under 16s are excluded as the clinical data is incomplete. The plan aims to have the majority of the population inoculated by around July. Priority groups will be started from late-February through to mid-April. Japan is highly likely to have recorded community transmission of a COVID-19 variant spreading in the UK, as it confirmed for the first time multiple cases from people with no recent foreign travel history. Health ministry officials have discussed proposal to enable fines or even prison sentences for people who test positive for the coronavirus but refuse to be hospitalized or cooperate with contact tracing efforts.

Diplomacy: US and Japan to bring back bottom-up diplomacy under Biden

Nikkei reported working level talks will replace former President Trump's top-down approach in US diplomacy with Japan, with the shift likely helped along by many familiar faces from President Biden's days as vice president in the Obama administration. Tokyo has welcomed the appointment of well-known Japan hand Kurt Campbell to the new post of Indo-Pacific coordinator on the National Security Council.

Economy: Japan manufacturers' sentiment stabilizes. Services deteriorates

The Tankan manufacturers' sentiment index rose to minus 1 in January (highest since July 2019) from minus 9 in December, while the service-sector index fell to minus 11 from minus 4. The outlook, especially for services, is clouded by the state of emergency covering Tokyo and other population centers until Feb 7. The state of emergency declared throughout much of Japan is expected to widen losses in three of the hardest-hit industries, namely the restaurant, rail and air transportation sectors, which still have yet to recover from the previous decree last spring. These companies will see estimated monthly losses totaling more than ¥230bn (or $2.2bn), which compares poorly with total operating losses averaging ¥320bn per month during the three months to June. On the manufacturing side, the improvement was driven by upbeat views in the chemical, metal products and electric machinery sub-sectors.

Japan defends Tokyo Olympics schedule

Government officials remain committed to holding the rescheduled Tokyo Olympics this summer. Chief Cabinet Secretary Kato said preparations continue, responding to a prior Reuters report quoting administrative and regulatory reform minister Kono as saying the fate of the games "could go either way".

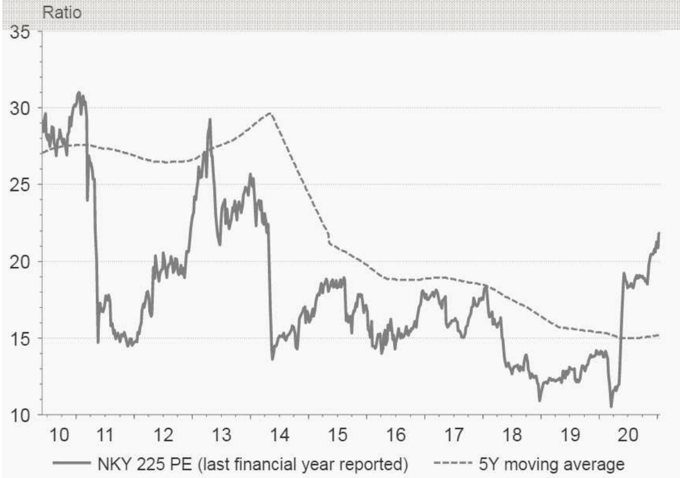
Financial market outlook

Equities – N225: UNDERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 0.00%)

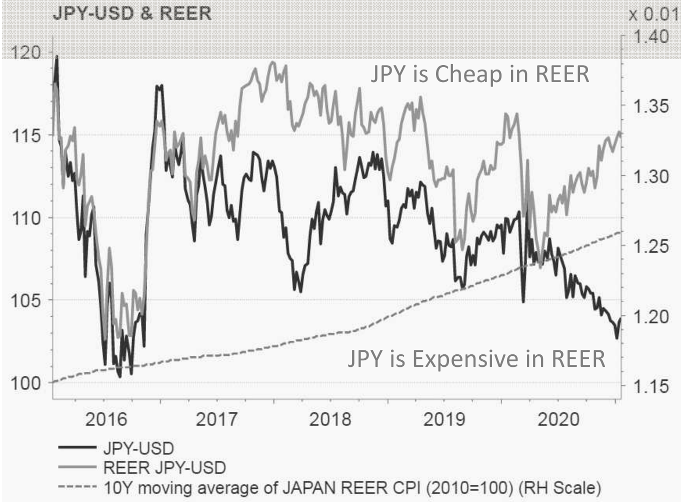
Forex – USD-JPY: MARKETWEIGHT (Mid-term target 103,5)

Japan Nikkei 225 price / earnings
Ratio



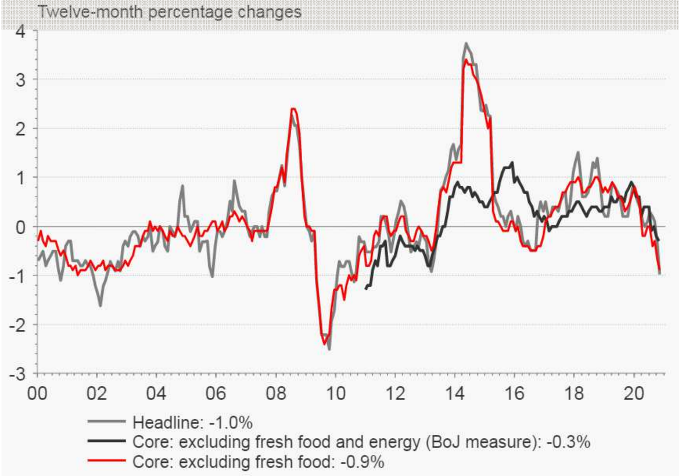
Source: Refinitiv Datastream / ANDBANK

JPY-USD & REER



Source: Refinitiv Datastream / ANDBANK

Japan CPI
Twelve-month percentage changes



Source: Refinitiv Datastream / ANDBANK

INDIA

Well placed to be among the world's faster-growing emerging economies in 2021

India enjoys positive net foreign inflows, with new registrations driving the official number of foreign portfolio investors

New registrations are pushing the official number of foreign portfolio investors to record highs. As a result, Indian stocks scaled record highs in the first two weeks of January (the Sensex is about to pass the 50,000 mark). Local benchmarks remain up 25% in US dollar terms since the start of November, but foreign investors' appetite for Indian assets does not yet look sated. India's economy has rebounded from last summer's slump, and although this trend may slow, the twin drivers of fiscal and monetary stimulus (fiscal tools remain at full capacity today after the prudence applied during these months) will continue to lend support to the bull market for months to come. COVID case numbers have fallen and stabilized, enabling companies to resume business faster than expected. Mobility indexes are approaching 90% of normal, PMIs have recorded five straight months of growth, and the consumer rebound has continued beyond the autumn festive period. A record goods and services tax haul in December is evidence of a broad-based cyclical recovery. That means GDP growth in the fiscal year to March 31 will come in at around -8% (less dire than the previous forecast of -11%). All the aforementioned leaves India well placed to be among the world's faster-growing emerging economies in 2021, turbocharged by a bullish combination of base effects and policy stimulus. We expect 2021 GDP growth somewhere between 7% and 10% in the 2021-22 fiscal year, and this will push the economy back towards its pre-pandemic size.

Fiscal and monetary outlook augurs well for the stock market. The government is in a better position to help the economy. Inflation eased considerably, giving space for monetary stimulus.

The Government is in a better position to help the economy. The government's fiscal response to the crisis has so far been timid, with actual support amounting to less than 2% of GDP. Higher tax receipts mean the government is at last better placed to implement some fiscal stimulus. The finance minister has hinted that her next budget, due to be released on February 1, will not focus on keeping the deficit in check. Inflation eased considerably, giving room for monetary stimulus as well. CPI inflation eased to 4.6% in December, from 6.9% in November, falling back into the RBI's target band of 2-6%. Given that it has vowed to support the economy once inflation is in hand, the RBI may resume its easing cycle after its monetary policy committee meeting. So, the bullish policy outlook augurs well for the stock market and foreign investors have piled in since November, buoyed by excess global liquidity, low interest rates, a strengthening rupee and a higher weighting of Indian stocks in MSCI indexes. Alongside China, India enjoyed positive net foreign inflows in 2020, with new registrations pushing the official number of foreign portfolio investors over the 10,000 mark.

Understanding the Indian equity market. What's behind the rally? What about the risks?

Enthusiasm can be partly credited to the weighting of "Covid winners" in India. The top-performing stock in 2020 was Divi's Laboratories, which makes the active pharmaceutical ingredients used in vaccines and is also benefiting from India's deteriorating relationship with China, expanding capacity as India seeks to cut its reliance on Chinese suppliers. Other sectors are also performing strongly, including auto stocks, as pent-up demand has fueled a sales rebound, with passenger vehicle registrations surging 24% in December YoY. Kia, Honda and Tata Motors all plan to ramp up production this year. Risks: As in other global equity markets, we are cautious about a growing disconnect between the real economy and financial markets, and the risks of stretched valuations. Price-to-book multiples (a more helpful measure than P/E ratios, given the extreme nature of this cycle) are trading at around three times, which poses a risk if sentiment is eroded by a new and uncontrolled wave of COVID. The good news is that India is better placed than most other emerging markets to ride out such a wave as it has begun one of the world's most ambitious vaccination programs. It has pre-ordered 1.6bn vaccine doses, including 500m of the Oxford-AstraZeneca vaccine, and aims to inoculate one-fifth of its population by August. India's young population means it can recover at a lower immunization level than other economies.

Financial market outlook

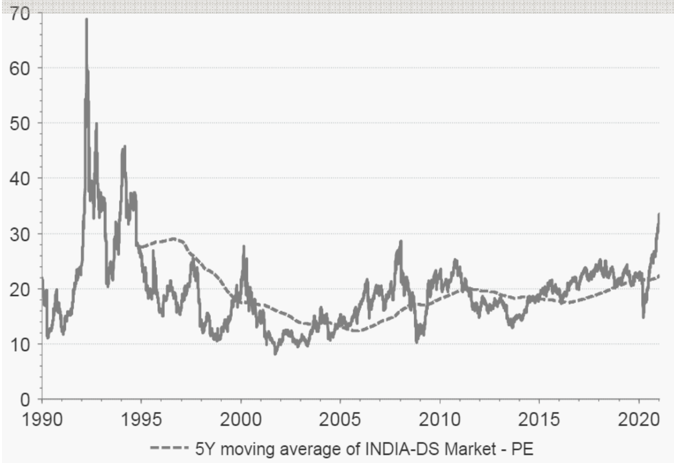
Equities – SENSEX: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 6.9%)

Bonds – Corporates: OW-MARKETWEIGHT

Forex – INR/USD: MARKETWEIGHT (Target 74)

India Datastream index price / earnings
Ratio

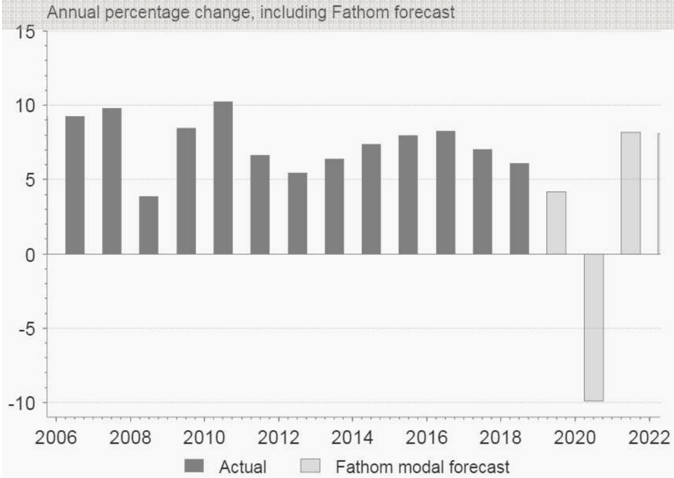


Source: Refinitiv Datastream / ANDBANK

India benchmark government bonds
Yield, per cent

Source: Refinitiv Datastream / ANDBANK

India GDP
Annual percentage change, including Fathom forecast



Source: Refinitiv Datastream / ANDBANK

ISRAEL

Israel plans to vaccinate entire population (over the age of 18) by the end of March

Israel's Macro View & Central Bank

Israel's GDP in 3Q20 declined 1.1% YoY, primarily driven by the sharp drop in personal spending (-9.6% YoY) and a reduction in investments (-8.4% YoY). On the positive side, imports fell by 15.3% YoY and exports of goods and services went up by 4.9% YoY.

Due to Israel's bias towards the hi-tech sector and despite the strength of the NIS, total exports have grown against shrinking imports that were cut off worldwide this year, and should lead Israel to post GDP growth for the year as a whole.

Israel's CPI for December 2020 shrank by 0.1% MoM and by 0.7% YoY. The biggest decline in December came from a 2.9% drop in fruit and vegetables.

Employment: Israel is still suffering from the effects of COVID-19 and has yet to allow many employees to return to work. Israel's unemployment rate, including those that lost their job due to COVID-19 restrictions, reached 12.9% compared to 14.3% the previous month.

Equity Market View

The Israeli stock market maintained its positive momentum rising nearly 8% in 2020. The rapid pace of the vaccination program (as of today, over 25.5% of the population) was the main driver of this trend. The financial sector rose another 10% completing a 20% rally since September. Local technology stocks were also among top performers having risen over 11%. Israeli small caps followed their peers overseas, adding 13.5%. Near term performance will depend on two main factors. First and foremost, much will depend on Israel's ability to maintain its rapid pace of vaccination. Current estimates predict that 70% of the population will be vaccinated by the end of March. The second factor is the coming election (the fourth in the last two years) that will be held mid-March. If a new and stable government is not formed, and a budget not introduced, this will probably have a negative effect on the market.

Bond Market & Forex

Israel has vaccinated over 25% of its population (over 35% of the population over the age of 18) and the world is watching to see the effect of this wide vaccination on the rate of infection. The Israeli government is planning to vaccinate the entire population (over the age of 18) by the end of March. The country is still in a tight lockdown because of the high infection rate, but is predicted to start opening up the economy again by the end of the month.

Israeli government bond yields increased sharply due to higher inflation expectations, similar to other developed countries. However, Israeli bond holders can draw support from the sharp drop in the USD-ILS exchange rate, after the Israeli central bank signaling that it will not even think about hiking interest rates.

The longest Israeli non-index linked note is the 347 series. With 26+ years to maturity, 18+ modified duration and a yield of almost 2%, we believe it is a good opportunity to invest in a low credit risk, high duration fixed income asset category.

The credit spread in the CPI-linked TelBond60 index decreased to 1.22% compared with 1.29% in mid-December, 1.67% in mid-July and pre-COVID spread levels of 1.2%-1.25%. The credit spread in the non-CPI-linked TelBond Shikli50 fell to 1.18% compared to 1.23% in mid-December, 1.71% in mid-July and pre-COVID spread levels of 1.3%-1.35%.

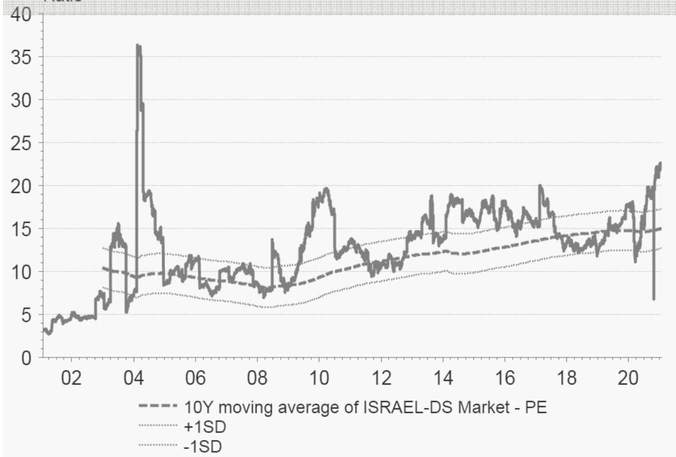
Financial market outlook

Equities – TLV35 Index: UNDERWEIGHT (Expensive)

Bonds – 10Y Gov: MARKETWEIGHT-OW (Positive real yield)

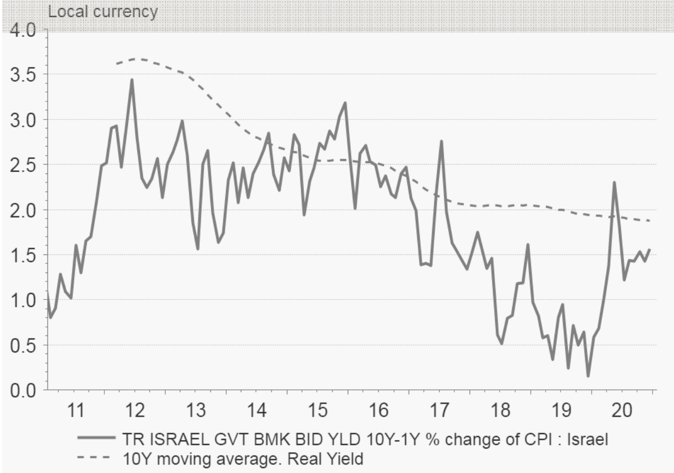
FX – ISL vs USD: UNDERWEIGHT (Still expensive in REER)

Israel price/earnings, Datastream index
Ratio



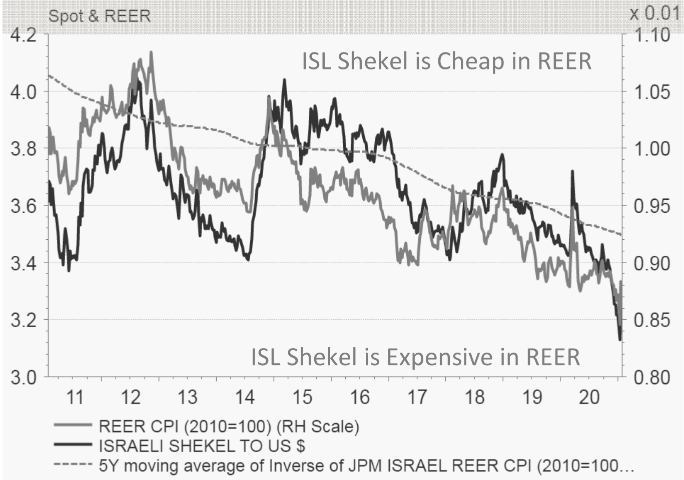
Source: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL YIELD 10Y
Local currency



Source: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Source: Refinitiv Datastream / ANDBANK

BRAZIL

Agricultural prices at multi-year highs and record harvest can boost the economy, as in 2003 and 2016

A harvest pointing to record volumes and grain prices at the highest since 2013, herald a boost for national income and the economy

The recent drought, mainly in Rio Grande do Sul, resulted in a slight correction to the Conab forecast for Brazilian grain production in the 2020/21 season, but with the normalization of rains in other agricultural regions, substantial losses are being ruled out and the harvest is on track to break a new record. The IBGE statistics institute, which also released new data on Wednesday, now expects the crop to reach 260.5 million tons, an annual increase of 2.5%. The projected soybean harvest, the flagship of Brazil's agribusiness, is 133.3 million tons, 7.1% higher than last year's total according to Conab. If confirmed, the volume will be the largest ever.

The central bank director, Bruno Serra, discussed at length the consequences of the recent rise in commodity prices for Brazil, which he said is caused by the unprecedented fiscal expansion, supply constraints due to weather events and the cut in oil production in Saudi Arabia. He examined various examples of historical commodity cycles. In 2004, it was favorable for Brazil's growth, while in 2016 the positive impact was concentrated on the American economy. Mr Serra said there is a debate going on at the moment, but he was inclined towards the first and more favorable of the two examples. "I think we have conditions, due to the moment of commodities, the Chinese recovery, the current account deficit at a very healthy level... to assess whether Brazil is in the first group, in that most positive group. I think it's reasonably possible."

Economics

There are some positives pointing towards a resumption in economic activity. One is the economy's potential to undergo a cycle of inventory replenishment in the first half of this year. It is logical to expect this stock replenishment will take place during the first half of 2021, even with retail cooling. Another factor is that the second wave of the pandemic has not yet affected mobility in Brazil, so for the time being has had little economic impact. The BCB also considers what is seen by financial analysts as the country's failure to obtain a vaccine, but points out that Brazil does has experience vaccinating its population. Of course there is uncertainty in the above diagnoses, but the BCB's head of monetary policy, Bruno Serra, emphasized his view that the "glass half-full" outlook was clear, which stands in stark contrast to the discourse that the risks surrounding the withdrawal of the fiscal stimulus could cause a drop in 1Q GDP. It is unlikely that he spoke in the final hours of Copom's silent period without agreeing on his statement with the other members of the committee. As such, we would consider this view as representing Copom as a whole. The statement increases the chances of the forward guidance being withdrawn in January 2021 and signals that the central bank wants to resume full freedom to start raising interest rates after the end of the "forward guidance" if it deems necessary.

Central bank prepares ground for possible withdrawal of stimuli

"It is natural to expect that this extraordinary stimulus will depart the scene at some point," said Bruno Serra (the BCB's monetary policy director) at an XP Investimentos event. "This is a debate that will happen in due course over the next quarter. This debate is taking place in the market. It is natural for it to occur on our side as well". Mr Serra went one step further in the bank's communication, which until now only mooted the possibility of withdrawing the forward guidance. "Just as there is no mechanical diagnosis between the end of the forward guidance and the start of the interest-rate tightening cycle, there is also no mechanical determination that an interest-rate cycle cannot happen immediately followed by a possible drop in the forward guidance", said Mr Serra. The overall diagnosis of the economy changed as well. Mr Serra cited various factors that could downplay the theory that the economy will take a long time to catch up to its idle capacity. The central bank perceives a risk that the economy could grow and overheat.

Due to short-term temporary inflation shocks and the giant gap between producer price indices and consumer price indices (the IGPM will close the year at 22.86% while the IPCA at 3.45%), together with the fiscal uncertainty, we expect Copom to raise rates in 2021 (perhaps to 3.00% by year end). IPCA CPI inflation reached 0.86% MoM in October, taking the reading to 3.9% YoY, coming close to the BCB's 2020 mid-target (4.0%).

FX. The positive current account continues to be a good source of funding. This is supportive for the BRL

We have seen a sixth consecutive current account surplus report. Although FDI fell below expectations in September, it marked the highest current account balance on record (12 month CA was +1.3% of GDP). FDI is losing steam but still remains the main source of funding (+3.2% of GDP). The announcement of more aggressive interventions in the FX market pushed BRL from 5.80 to 5.20 in a matter of weeks. Copom held the Selic rate at 2.00%.

Financial market outlook

Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGH (Target yield 7%. Spread 575)

Bonds – Govies USD: OVERWEIGHT (Target yield 3.5%. Spread 250)

FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.00-.5.25)

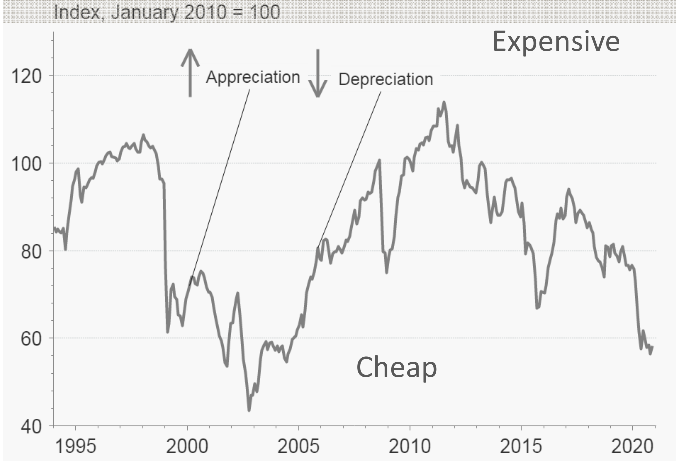
Brazil price/earnings, Datastream index

Ratio

Source: Refinitiv Datastream / ANDBANK

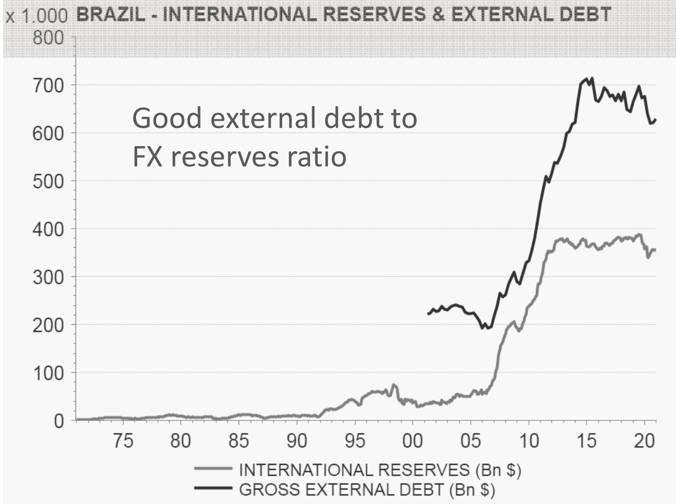
Brazil real broad effective exchange rate

Index, January 2010 = 100



Source: Refinitiv Datastream / ANDBANK

BRAZIL - INTERNATIONAL RESERVES & EXTERNAL DEBT



Source: Refinitiv Datastream / ANDBANK

MEXICO

Marketweight equities (exit at 49,000). We prefer USD denominated Mexican bonds (target spread 175bp)

Central bank and monetary policy

Banxico maintained the pause in its rate cut cycle at its December meeting, leaving its benchmark at 4.25%. The decision was divided, with two members voting in favor of a new quarter point cut. It is expected that the balance could be in favor of more cuts in the first part of 2021 following the change in the composition of the bank's governing board, with a new member appointed by this administration. The outlook is for a level of 3.75% for the reference rate in the first half of the year.

Fiscal path & economy

In public finances, the positive income performance continued in the final part of the year, which created a primary surplus of 0.7% at the November cutoff, making Mexico one of the few OECD countries to have a positive indicator in this area. It should be noted however that tax revenue growth barely reached 0.1% and that total receipts were influenced by the strong increase in the use of funds and trusts.

Industrial production and fixed investment continued to influence the weak data corresponding to 3Q and 4Q 2020. The outlook for FY2020 GDP growth, assuming a decrease of around 5% in the last quarter, would be around -8.5%. Looking at 2021, there is a favorable environment for emerging markets due to the greater global stimulus and even the weakness of the dollar. The economic recovery in the US this year is expected to stimulate the local manufacturing sector and therefore exports, positively impacting Mexico's GDP. Meanwhile, inflation posted a slight rebound at the start of the year, at 3.33% in annual terms in the first half of January. The increase in non-food prices, impacted by the supply shock of the pandemic in different sectors, has continued the trend in the underlying reading of the indicator.

Politics & Covid

The country recorded the highest Covid infection and death rates during the first weeks of January. The main cities continue to be classified by the red traffic light that limits formal activities, although certain sectors such as restaurants have disregarded the measures to be able to continue operating. On Sunday 24 January, President López Obrador announced that he had tested positive for coronavirus and it also emerged that Carlos Slim, one of the country's most important businessmen, had also been suffering from the disease for at least a week.

Mexican Assets: Equities, Bonds & FX

Equity: The perceived risks point towards the second part of the year, when there will be internal political factors and more information on the performance of the economy and COVID's impact on public finances, in addition to the possible fiscal deterioration by Pemex. 2021 Consensus Target Price 49,000.

Bonds: After the increase observed between August and October, the 10-year spread fell to 440 basis points due to the lower risk aversion that favored emerging fixed income assets between the end of 2020 and January this year.

Despite the additional cuts in the central bank rate, we expect a curve with a positive slope and the spread between the local Mexican bond and the UST to remain between 475 and 500 bps. For Mexican US dollar denominated bonds, the increase in the UST rate to levels of 1.13% put an effective brake on the fall in the spread, which reached its most recent low of 145 bp on January 12. The outlook for the year is for a range between 175 and 200 bp.

FX: The MXN peso suffered high volatility at the start of 2020 but was favored by the international context and the continuous depreciation of the dollar in the last part of the year, reaching 20 MXN per dollar, although it showed some resistance recently. The outlook for MXN/USD will be defined by a certain degree of weakness in the USD globally, which is widely expected during the first half of the year. Such a scenario could result in a slight appreciation of the MXN peso. Nevertheless, and as with other local assets, the peso could face internal risk factors towards the end of the year. We have modified our previous outlook to a level of 21 at the end of 2021

Financial market outlook

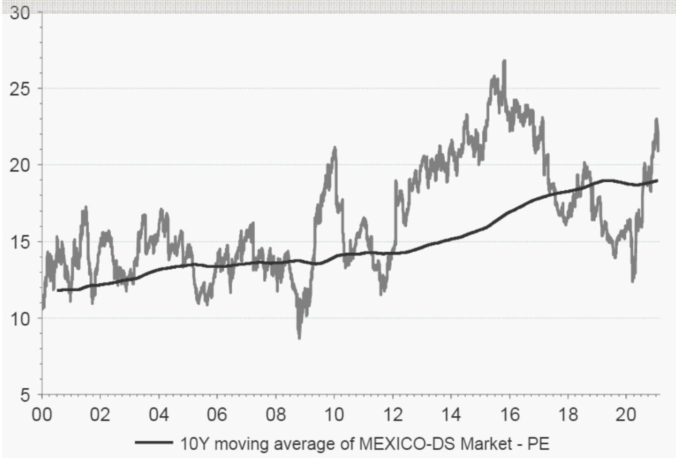
Equities – Mex IPC: MARKETWEIGHT

Bonds – Govies Local: MARKETWEIGHT-UW (Target yield 6.00%. Spread 475bp)

Bonds – Govies USD: OVERWEIGHT (Target yield 3.00%. Spread 175bp)

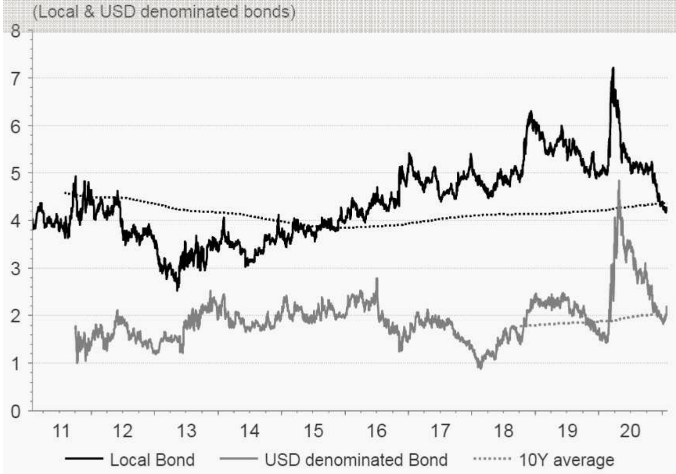
FX – MXN/USD: UNDERWEIGHT (Mid-term target 21)

Mexico equities price/earnings ratio
Datastream index



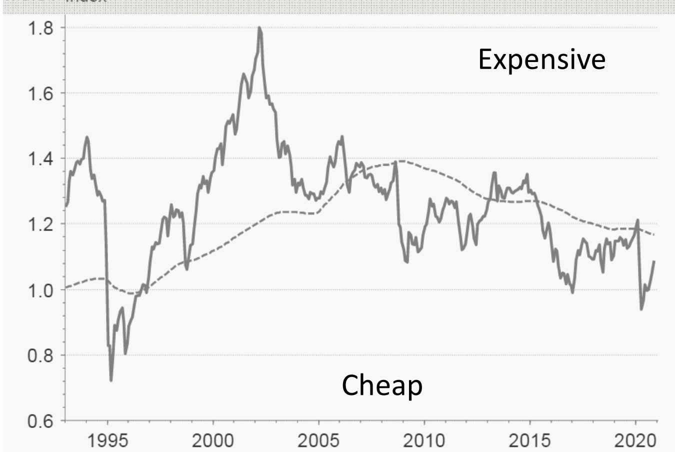
Source: Refinitiv Datastream / ANDBANK

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



Source: Refinitiv Datastream / ANDBANK

MXN/USD Real Effective Exchange Rate
x 0.01 Index



Source: Refinitiv Datastream / ANDBANK

ANDBANK
Private Bankers

ARGENTINA

Without initiatives for fiscal restraint investors continue to turn their backs on the country

Discouraged by the lack of pro-business initiatives from this administration, the market is now looking to see if some external factor is going to save Argentina's economy. The new agreement with the IMF could be a boost for Argentina in terms of expectations but our base case is that it is not going to be a game-changer given the post-pandemic stance of the IMF and the lack of incentives from the political side (mid-term elections in October).

With the fiscal balance closing 2020 with a deficit of 8.5% of GDP (6.5% primary deficit) and still without access to the international bond market despite having restructured the external debt, the Argentine government will have to resort to funding from multilateral entities (which seems very unlikely can be achieved) if it wants to cover its fiscal deficit while not exacerbating the inflationary problem by funding public spending using the central bank.

Commodities could be the other lifeline for Argentina, with soybean and corn prices reaching record highs since 2014, meaning more USD coming from exports, an improving trade balance and central bank reserves helping to control inflation. On the other hand, there are high export duties, an FX gap and a government pushing for more regulations in these markets generating a lack of incentives for greater investment. This could be a short term patch but not a longer term solution.

YPF: disturbing signs for the whole corporate space

In a context of an increasing oil price and the market expecting only a debt exchange in the front-end of the curve (after new central bank regulation), YPF announced an aggressive exchange offer for all its international bonds. The aspect that generated the most noise among investors was the non-payment of interest for two years on the new bonds. The exchange seems to be more driven by the need of government to protect reserves than by a debt sustainability exercise carried out by the company. The question is if this should be seen as a message for other corporates.

Provincial debt: progress but Government stepping in

Five provinces have now concluded their foreign debt restructuring. Bondholders of secured credits (Neuquén 28 & Chubut 26) are using it as leverage to increase NPVs (72-73 cents @15%) while for the unsecured bonds (Mendoza, Río Negro, Neuquén 25 & Córdoba) in general we have seen maturity extensions, no haircuts and step-up coupons with lower rates (NPVs between 66-80@15% for this group).

Guzman met with finance ministers from provinces that have not yet restructured their debt (in most cases highly dependent on federal transfers) and advised them not to rush discussions to close a deal with unfavorable conditions.

The exchange proposal by Entre Ríos, the first province to be sued in NY, has been highlighted by Guzman as a good example to follow. A great unknown is what the creditors of Buenos Aires province are going to do: will they continue to wait (the last and only offer was in April 2020) or will they start legal action?

Inflation heating up

December's CPI came in at +4.0% MoM, while 12M inflation accelerated to +36.1% (+35.8% in November). The headline figure conceals a major disparity between core (+4.9% MoM) and regulated (+2.6%) prices generating repressed inflation and putting pressure on the fiscal equation as subsidies expand. Analysts expect an inflation rate of +50% YoY for 2021 but with several factors that could push that figure higher.

3Q GDP fell -10.2% YoY (vs -19.1% YoY in 2Q20, grew +12.8% QoQ SA), accumulating -11.8% YoY drop during 9M20.

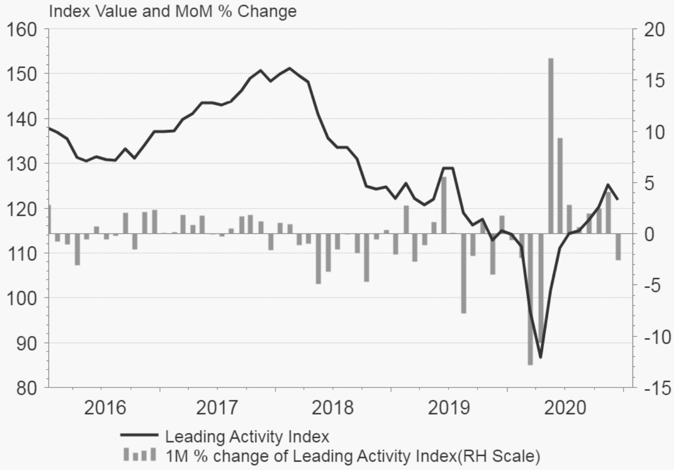
Bonds – 10YGov USD: NEUTRAL

FX – USD-ARS: NEGATIVE (2021 year-end target 120)

ARGENTINA - ECONOMIC ACTIVITY INDICATOR

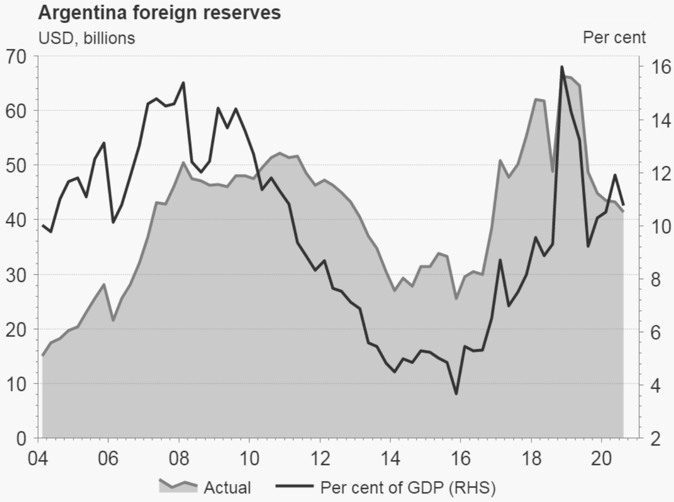
Fuente: Refinitiv Datastream / ANDBANK

ARGENTINA - LEADING INDICATOR



Source: Refinitiv Datastream / ANDBANK

Argentina foreign reserves



Source: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS 2021	EPS Growth 2021	Projected EPS Growth Andbank 2022	PE EPS nxt 12m	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	2020 E[Perf] to Fair Value	Recomm	2020 Exit Point	Max. Risk Premium	E[Perf] to Exit point
USA S&P 500	175,00	25,9%	5,00%	20,00	3.826	3.500	-8,5%	MW	4.025	1,15	5,2%
Europe - Stoxx Europe 600	24,99	41,7%	5,00%	17,00	409	425	4,0%	OW	489	1,15	19,6%
Euro Zone - Euro Stoxx	23,43	48,7%	5,00%	17,00	406	398	-2,0%	MW/OW	458	1,15	12,7%
Spain IBEX 35	428	88,5%	5,00%	17,00	8.014	7.276	-9,2%	MW	8.367	1,15	4,4%
Mexico IPC GRAL	2.832	73,8%	5,00%	15,00	43.849	42.480	-3,1%	MW	48.852	1,15	11,4%
Brazil BOVESPA	6.250	206,7%	5,00%	18,00	118.234	112.500	-4,8%	MW/OW	129.375	1,15	9,4%
Japan NIKKEI 225	1.285	25,4%	5,00%	19,00	28.647	24.415	-14,8%	UW	28.077	1,15	-2,0%
China SSE Comp.	258,70	16,8%	5,00%	13,00	3.517	3.363	-4,4%	MW/UW	3.868	1,15	10,0%
China Shenzhen Comp	107,60	23,9%	5,00%	22,00	2.381	2.367	-0,6%	MW/OW	2.722	1,15	14,3%
India SENSEX	2.213	37,2%	5,00%	21,00	50.256	46.467	-7,5%	OW	53.437	1,15	6,3%
Vietnam VN Index	76,50	27,8%	5,00%	13,50	1.111	1.033	-7,1%	MW	1.188	1,15	6,9%
MSCI EM ASIA	44,10	24,1%	5,00%	15,00	776	662	-14,8%	MW -UW	761	1,15	-2,0%

POSITIONING, FLOW & SENTIMENT ANALYSIS
Risk Outlook: Neutral // Positioning: Neutral
Andbank's Assessment: +0.0 (in a −7/+7 range)

Aggregate (MW-UW bias): The aggregate assessment arising from our analysis of asset managers' positioning, flows from speculators and sentiment surveys suggests that the positioning in risky assets should be neutral-underweight.

Market Positioning (MW-UW bias): Asset allocation in equities from global portfolio managers represents a negative tilt towards this asset class, due to the consistently high exposure to the asset class in portfolios. The move from last month has been important enough for us to adjust the figure accordingly (from +0.5 to a 0 score). The Put-Call ratio indicates that investors are still not hedging their portfolios. Skew remains in positive territory, reflecting that a fear of a more violent downside movement is still present.

Flow Analysis (OW bias): Net inflows into US equities indicate a very positive momentum; it is worth mentioning the rotation toward "cyclicals" (financials and energy) and "value" from Nasdaq and growth as a result of the vaccine announcement by Pfizer. Emerging markets follow the lead with flows in Asia directed toward China (also Japan). EU was slightly positive.

Surveys & Sentiment Analysis (MW bias): Sentiment from investors is very bullish on vaccine announcements. Our contrarian reading is negative.

TECHNICAL ANALYSIS
Trending Scenario. Supports & Resistances

	Name	Ticker Reuters	View 1 month	Principal Support 12M	Principal Resistance 12M	Support 1 month	Resistance 1 month	Target (TA) 12M	@	Return to Target (TA)
INDICES	Euro Stoxx Index	.STOXXE	Bullish	329,29	443,29	380,52	421,41	443,00	404,17	9,61%
	Euro Stoxx 600	.STOXX	Bullish	338,57	433,90	381,63	433,90	441,75	408,54	8,13%
	Ibex	.IBEX	Lateral bullish	5.814,50	9.676,00	7.663,50	8.439,70	8.375,60	8.036,40	4,22%
	S&P	.SPX	Lateral bullish	3.209,00		3.636,48			3.841,47	
	Japón	.N225E	Lateral bullish	22.948,00	38.957,00	26.361,00	31.086,34	32.817,46	28.822,29	13,86%
	China	.SZSC	Lateral bullish	1.744,00	3.156,96	2.330,17	2.957,00	2.905,00	2.462,85	17,95%
	India	.BSESN	Lateral bullish	33.291,00		44.923,00			48.347,59	
	Brasil	.BVSP	Lateral bullish	90.147,00		106.650,00		119.593,10	117.380,49	1,88%
	México	.MXX	Lateral bullish	35.277,00	50.603,00	41.439,36	46.925,06	44.866,00	44.683,55	0,41%
OTROS	Oil West Texas	WTCLc1	Lateral bullish	34,49	65,49	43,57	59,66	50,00	51,98	-3,81%
	Gold	XAU=	Lateral	1.659,00	2.072,49	1.764,29	1.991,91	2.230,00	1.852,55	20,37%
	Treasury 10Y USA	US10YT=RR	Lateral bullish	0,5040%	1,3210%	0,8820%	1,2830%		1,0847%	
	Bund 10Y Germany	DE10YT=RR	Bullish	-0,9090%	-0,1420%	-0,6710%	-0,3720%		-0,5135%	

Bullish -> +3.5%; Lateral bullish -> (+1.5%, +3.5%); Lateral -> (−1.5%, +1.5%); Lateral bearish -> (−3.5%, −1.5%); Bearish <−3.5%

ENERGY – OIL

Fundamental view (WTI): Target range USD50-60bbl

Buy < USD50; Sell >USD60

Short-term drivers

***(Price Positive)* – Oil price reaches February levels (pre-pandemic):** Crude is now higher in nine of the past 11 sessions, with commentators attributing recent strength to optimism about US stimulus prospects and the vaccine impact on the global demand outlook. The boost in oil prices is driven by good news from the vaccine front. From now on, we continue to expect a favorable flow of news from this front, either due to the incorporation of new vaccines or the improvement in production capacity (laboratories such as Pfizer are adapting their plants to multiply the response capacity).

***(Price Positive)* – Outgoing Trump administration makes multiple last-minute actions aimed at increasing crude production, but Biden's administration has effective capacity to neutralize them:** In one of the final acts of the Trump administration, the US Interior Department issued drilling leases for nine tracts on more than 400K acres of Alaska's Arctic National Wildlife Refuge (ANWR), where oil production has been opposed for years by environmental and indigenous groups. President-elect Biden has said he opposes the actions, and while the Biden administration may find it difficult to undo the leases, a Democratic Interior Department may decline to issue exploration or development permits.

***(Price Positive)* – President-elect Biden has signaled that he is prepared to take multiple energy-related actions soon:** These actions include notifying the UN that the US will rejoin the Paris climate accords, as well as issuing a moratorium on oil leasing in the ANWR area. Biden is also expected to block the Keystone XL pipeline, which was designed to carry crude from Alberta's oil sands to the US. In a broader move, Biden is seen issuing an order directing federal agencies to revisit fuel-efficiency standards and to revisit a 2019 Trump decision revoking California's authority to issue its own tailpipe standards.

***(Price Positive)* – IEA lowers its global demand forecast on Covid concerns but affirms that supply management balances the trend very well:** In its January 2021 Oil Market Report, the IEA said that due to continued constraints from border closures, social-distancing measures, Covid-related shutdowns, and a slow vaccine rollout that may only gain steam in the second half, it is cutting its Q1 global demand outlook by 580K bpd and its 2021 forecast by 300K bpd. However, the IEA also noted that the OPEC+ agreement is expected to drain 1.1M bpd from global oil stocks (assuming 100% compliance) and that much more oil is likely to be required in the second half of the year.

***(Price Positive)* – OPEC expects global oil demand growth of 95.9M bpd**. In 2020, global demand declined to 90M bpd. There are also signs that OPEC is on track to deplete its inventories, which remain about 160M barrels above the five-year average. However, while OPEC said it sees demand growing steadily this year supported primarily by transportation and industrial fuels, it also cautioned that there are uncertainties with the main downside risks being issues related to COVID-19 containment measures.

***(Price Positive)* –Positioning in the futures market and the mix between long and short positions seems balanced, offering room for additional price increases.** Total holdings of Brent and WTI futures have climbed to their highest level since May, with analysts attributing the rise to the market's prospects brightening, inflation hedging, and some talk of commodities entering a pricing supercycle. All said, crude's recent rally has also spurred an uptick in producer hedging, with short positions of swap dealers rising to their highest level since April in the third week of January.

***(Price Positive)* – Russia & Saudi Arabia seem to be collaborating like never before.** Russia's Urals crude has risen nearly $1/barrel since a mid-December low, boosted by Saudi Arabia's unilateral decision to cut its output by 1M bpd in February and March. The Urals grade has similar properties to Saudi Arabia's benchmark Arab Light, and has seen an increase in demand from European refiners. It is as if both countries (contenders in the energy market) have learned from the catastrophic effects of their particular struggle in the first quarter of 2020, with each increasing the quantities of barrels on the market.

Long-term drivers

***(Price Negative)* –** Alternative energies picking up the baton: Conventional producers must bear in mind that the value of their reserves is dictated by the amount of time they can pump before alternative energies render oil obsolete. In order to push back this deadline as far as possible, it is in producers' interest to keep oil prices low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

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

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

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,800 – US$2,000/oz.

Positive drivers for gold

Gold is not a crowded trade: In spite of a 55% surge over the past two years, this rally has garnered limited headlines, unlike the tech sector. The total market of the precious metal sector is small enough to keep running without hitting the big numbers problems. 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).

The three identified threats that could end the gold rally seem to be distant: The 1976-80 rally ended when US short rates were jacked up to break inflation, causing a rise in the USD. The 1985-88 rally ended when Germany pulled out of the Accord Plaza deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw the gold price skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers. This ended in 2011, when the USD started to strengthen. Looking at this history, when gold bull markets get going, they usually feed on their own momentum for quite a while, and only end when facing higher nominal rates, a stronger USD or a rise in real rates. Therefore, the only three threats to the unfolding gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. But how real and dangerous is each of these risks in bringing an abrupt end to the gold rally?

Risk #1. Higher nominal rates (LOW RISK): It is almost impossible to find an OECD central banker even thinking of raising interest rates in his or her lifetime.

Risk #2. Stronger USD (LOW RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price. We do not foresee a jump in this current account balance that will boost the USD again. Rather, the balance (deficit) could remain stable at around 2% of GDP and keep the USD well supported but stable, far from a strong rebound that could end gold's bull market.

Risk #3. A rise in real rates (LOW RISK): So if nominal rates are not going to rise, the only way OECD countries can experience surging real rates is through an already low inflation rate collapsing even more. But how? Such a deflationary outcome could be triggered by a permanent collapse in the price of energy, a collapse in real estate, or even a collapse in the Renminbi. There are few signs of such shocks unfolding permanently. With this in mind, it seems that a surge in real rates is not an immediate threat.

Momentum - Gold bull markets usually feed on their own momentum for quite a while. Our constructive view is that the emerging world will recreate a gold-prone cycle, such as the one experienced in 2001-2011. Gold bull markets may build up over multi-year periods. In the 2001-2011 period, it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. In contrast, in the 2011-2020 decade, most of the world's wealth has been created in campuses on the US-West coast, by people with scant interest in this "relic", and with EM growth having been much more moderate. Despite this, the gold price has ripped higher and is showing strong momentum. Imagine now if EMs thrive again, led by Asia, what a tailwind that would be for gold.

Gold as the new anti-fragile asset: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always carry out the exercise of deciding which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets, demand or supply shocks, or a collapse in real rates (due to inflation shocks). The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold & US Treasuries or other Tier 1 Govies) is likely to perform better in the future. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will better display its quality as an anti-fragile asset in the face of a shock. In this respect, we are very clear that the supply of US Treasury bonds will be almost unlimited, whereas the supply of gold will remain very limited over the next decade.

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 (>US$13tn of face value is yielding negative rates).

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.14534), the price of gold in real terms (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,622. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,004. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,149.

Gold is fairly valued (just slightly expensive) relative to silver (suggesting there is still preference for store of value over productive assets) though it is cheap relative to palladium. The Gold/Silver ratio is at 68.39 and still remains slightly above its 20-year average of 66.16x, suggesting that gold is slightly expensive relative to silver. For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$1,796/oz. Meanwhile, the Gold/Palladium ratio is at 0.803, well below its 20-year average of 1.835x, suggesting that gold is cheap relative to palladium, or palladium is even more expensive than gold.

Gold to oil: This ratio is at 35.52, still well above its 16-year average of 17.52x. Considering our fundamental fair value for WTI oil at US$55 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$963 for this ratio to remain near its LT average.

EXCHANGE RATES

Flow analysis & Fundamental targets

EUR-USD: Target 1.20 (Buy USD at 1.23, Sell USD at 1.16)
USD-JPY: Target 103,5; **EUR-JPY**: Target 124
GBP-USD: Target 1.37; **EUR-GBP**: Target 0.88
USD-CHF: Target 0.90; **EUR-CHF:** Target 1.08
USD-MXN: Target 21; **EUR-MXN:** Target 25.2
USD-BRL: Target 5.00; **EUR-BRL:** Target 6.00
USD-ARS: Target 120
USD-INR: Target 74
CNY: Target 6.25
RUB: NEUTRAL-POSITIVE
AUD: NEUTRAL
CAD: NEUTRAL

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	-34,69	-34,69	32,1	-35,3	-4,5	**-1,36**
USD vs G10	-34,88	-34,88	32,7	-35,6	-3,6	**-1,44**
EM	-0,20	-0,20	3,9	-0,8	1,3	**-1,09**
EUR	25,13	3,23	31,3	-8,6	12,5	**1,12**
JPY	5,43	-0,29	6,1	-15,0	-5,5	**1,63**
GBP	0,68	0,28	4,3	-6,5	-1,1	**0,68**
CHF	1,42	-0,24	2,3	-6,0	-1,6	**1,25**
BRL	-0,16	-0,16	0,7	-0,8	-0,2	**0,07**
MXN	-0,02	-0,02	3,3	-0,5	1,2	**-1,17**
RUB	-0,02	-0,02	1,2	-0,3	0,3	**-0,90**
AUD	0,06	0,56	6,1	-5,2	-0,3	**0,10**
CAD	1,09	-0,11	6,1	-5,0	0,0	**0,38**

Positive
Neutral-Positive
Neutral-Negative
Negative

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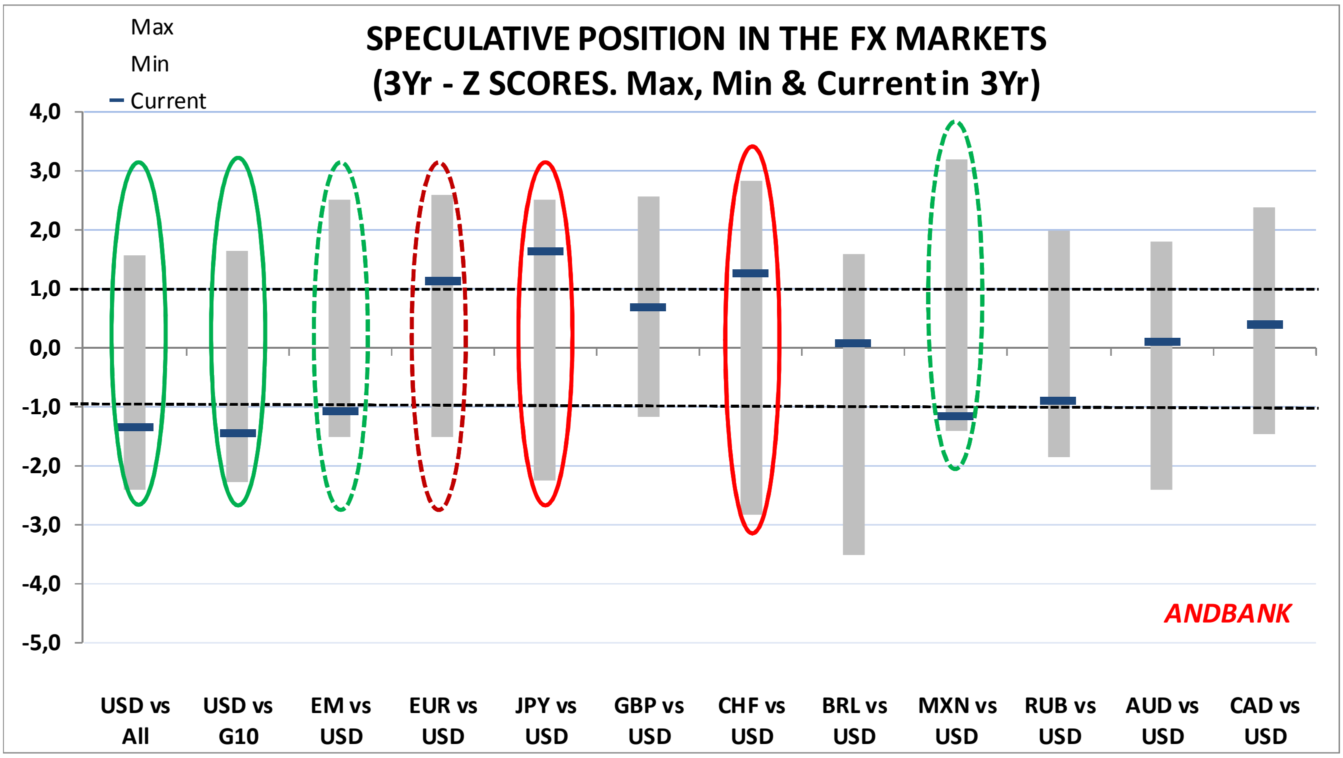

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance Last month*	*Performance YTD*	*Current Price*	*Fair Value*	Expected Performance to Fair Value (Next 12 months)
Equity	USA - S&P 500	3,4%	1,9%	3.826	3.500	-8,5%
	Europe - Stoxx Europe 600	1,7%	1,7%	409	425	3,9%
	Euro Zone - Euro Stoxx	1,5%	1,4%	406	398	-2,0%
	SPAIN - IBEX 35	-1,1%	-1,5%	8.014	7.276	-9,2%
	MEXICO - MXSE IPC	-1,9%	-0,5%	43.849	42.480	-3,1%
	BRAZIL - BOVESPA	-0,5%	-0,7%	118.234	112.500	-4,8%
	JAPAN - NIKKEI 225	5,1%	4,4%	28.647	24.415	-14,8%
	CHINA - SHANGHAI COMPOSITE	0,4%	1,3%	3.517	3.363	-4,4%
	CHINA - SHENZEN COMPOSITE	-0,2%	2,2%	2.381	2.367	-0,6%
	INDIA - SENSEX	4,3%	4,3%	50.256	46.467	-7,5%
	VIETNAM - VN Index	-0,8%	0,7%	1.111	1.033	-7,1%
	MSCI EM ASIA (in USD)	7,6%	8,8%	776	662	-14,8%
Fixed Income Core countries	US Treasury 10 year Govie	-1,5%	8,5%	1,12	1,25	0,0%
	UK 10 year Gilt	-1,5%	4,6%	0,36	0,80	-3,2%
	German 10 year BUND	-1,0%	2,1%	-0,48	-0,40	-1,1%
	Japanese 10 year Govie	-0,3%	-0,6%	0,05	0,00	0,4%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,6%	3,4%	0,10	0,20	-0,7%
	Italy - 10yr Gov bond	-0,2%	8,1%	0,55	0,70	-0,7%
	Portugal - 10yr Gov bond	-0,2%	3,6%	0,03	0,20	-1,3%
	Ireland - 10yr Gov bond	-1,5%	2,2%	-0,17	0,00	-1,6%
	Greece - 10yr Gov bond	0,0%	8,0%	0,61	1,20	-4,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	-0,2%	51,81	55	-0,1%
	Credit EUR HY-Itraxx Xover	-0,7%	-0,3%	267,75	300	1,2%
	Credit USD IG - CDX IG	0,0%	2,3%	54,85	50	0,9%
	Credit USD HY - CDX HY	-0,3%	4,2%	311,70	297	3,8%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	0,6%	7,1%	12,65	12,04	17,5%
	Russia - 10yr Gov bond (local)	-3,0%	5,9%	6,32	5,28	14,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-1,1%	15,2%	6,06	5,23	12,7%
	India - 10yr Gov bond (local)	-1,4%	10,9%	6,08	6,90	-0,5%
	Philippines - 10yr Gov bond (local)	-0,3%	15,8%	3,07	3,02	3,4%
	China - 10yr Gov bond (local)	0,3%	2,8%	3,20	2,20	11,2%
	Malaysia - 10yr Gov bond (local)	-0,8%	8,4%	2,70	1,64	11,2%
	Thailand - 10yr Gov bond (local)	-0,8%	3,5%	1,18	0,81	4,1%
	Singapore - 10yr Gov bond (local)	-1,6%	7,0%	1,07	0,93	2,2%
	Rep. Korea - 10yr G. bond (local)	-0,2%	1,0%	1,65	1,02	6,8%
	Taiwan - 10yr Gov bond (local)	-0,2%	3,3%	0,29	0,25	0,6%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,9%	20,9%	5,17	6,00	-1,5%
	Mexico - 10yr Govie (USD)	-1,8%	7,5%	2,85	3,00	1,7%
	Brazil - 10yr Govie (Loc)	-4,7%	1,2%	7,58	6,75	14,2%
	Brazil - 10yr Govie (USD)	-2,2%	7,9%	3,75	3,50	5,8%
Commodities	Oil (WTI)	15,7%	-9,7%	55,1	55,00	-0,2%
	GOLD	-5,6%	20,9%	1.834,3	1.900	3,6%
Fx	EURUSD (price of 1 EUR)	-1,8%	7,2%	1,202	1,20	-0,2%
	GBPUSD (price of 1 GBP)	0,5%	2,8%	1,36	1,37	0,5%
	EURGBP (price of 1 EUR)	-2,3%	4,3%	0,88	0,88	-0,6%
	USDCHF (price of 1 USD)	2,0%	-7,1%	0,90	0,90	0,1%
	EURCHF (price of 1 EUR)	0,1%	-0,4%	1,08	1,08	-0,1%
	USDJPY (price of 1 USD)	1,9%	-3,3%	105,05	103,50	-1,5%
	EURJPY (price of 1 EUR)	0,0%	3,7%	126,28	124,20	-1,6%
	USDMXN (price of 1 USD)	0,9%	6,3%	20,12	21,00	4,4%
	EURMXN (price of 1 EUR)	-0,9%	14,3%	24,22	25,20	4,1%
	USDBRL (price of 1 USD)	1,3%	33,5%	5,36	5,00	-6,8%
	EURBRL (price of 1 EUR)	-0,6%	43,2%	6,45	6,00	-7,0%
	USDARS (price of 1 USD)	3,8%	46,5%	87,70	120	36,8%
	USDINR (price of 1 USD)	-0,1%	2,3%	73,00	74,00	1,4%
	CNY (price of 1 USD)	0,0%	-7,2%	6,46	6,25	-3,3%

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

UPWARD REVISION DOWNWARD REVISION

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