GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – May 2022

Corporate Review

May 2022

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Private Bankers

EXECUTIVE SUMMARY

CHART OF THE MONTH

EQUITIES

Index	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point
USA S&P 500	4.122	4.645	12,7%	MW	5.109
Europe - Stoxx Europe 600	430	470	9,5%	MW	517
Euro Zone - Euro Stoxx	407	456	11,9%	MW	501
Spain IBEX 35	8.328	9.316	11,9%	MW-OW	10.247
Mexico IPC GRAL	50.194	61.036	21,6%	OW	67.139
Brazil BOVESPA	105.266	112.500	6,9%	MW	123.750
Japan NIKKEI 225	27.004	29.424	9,0%	OW	32.366
China SSE Comp.	3.002	3.322	10,7%	MW	3.654
China Shenzhen Comp	1.859	2.344	26,1%	MW-OW	2.578
India SENSEX	54.836	67.259	22,7%	MW-OW	73.985
Vietnam VN Index	1.329	1.844	38,7%	OW	2.029
Taiwán SE Weighted Index	16.408	18.508	12,8%	MW/OW	20.359
MSCI EM ASIA	567	618	8,9%	OW	679

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Fixed Income Core countries	US Treasury 10 year Govie	3,07	3,25	1,6%
	UK 10 year Gilt	1,94	1,75	3,5%
	German 10 year BUND	1,07	1,25	-0,4%
	Japanese 10 year Govie	0,24	0,25	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	2,16	2,25	1,4%
	Italy - 10yr Gov bond	3,06	2,85	4,7%
	Portugal - 10yr Gov bond	2,18	2,25	1,6%
	Ireland - 10yr Gov bond	1,72	1,75	1,5%
	Greece - 10yr Gov bond	3,46	3,45	3,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	90,22	80	0,8%
	Credit EUR HY-Itraxx Xover	427,51	375	5,4%
	Credit USD IG - CDX IG	83,06	80	0,9%
	Credit USD HY - CDX HY	455,91	375	7,0%

FIXED INCOME EMERGING MARKETS

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	20,69	20,00	26,2%
	Russia - 10yr Gov bond (local)	10,15	14,00	-20,7%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	6,95	5,60	17,8%
	India - 10yr Gov bond (local)	7,43	7,00	10,9%
	Philippines - 10yr Gov bond (local)	6,04	4,80	16,0%
	China - 10yr Gov bond (local)	2,82	2,40	6,2%
	Malaysia - 10yr Gov bond (local)	4,43	3,30	13,5%
	Thailand - 10yr Gov bond (local)	2,62	3,00	-0,4%
	Singapore - 10yr Gov bond (local)	2,73	3,40	-2,6%
	Rep. Korea - 10yr G. bond (local)	3,35	3,90	-1,0%
	Taiwan - 10yr Gov bond (local)	1,01	1,90	-6,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	9,12	9,05	9,7%
	Mexico - 10yr Govie (USD)	4,96	5,00	4,6%
	Brazil - 10yr Govie (Loc)	12,56	11,75	19,0%
	Brazil - 10yr Govie (USD)	5,87	6,50	0,8%

COMMODITIES & FX

Asset Class	*Indices*	*Current Price*	*Fair Value*	Expected Performance to Fair Value*
Commodities	Oil (WTI)	109,9	100,00	-9,0%
	GOLD	1.880,1	1.800	-4,3%
Fx	EURUSD (price of 1 EUR)	1,056	1,08	2,3%
	GBPUSD (price of 1 GBP)	1,23	1,39	12,8%
	EURGBP (price of 1 EUR)	0,86	0,78	-9,4%
	USDCHF (price of 1 USD)	0,98	0,93	-5,4%
	EURCHF (price of 1 EUR)	1,04	1,01	-3,2%
	USDJPY (price of 1 USD)	130,40	116,00	-11,0%
	EURJPY (price of 1 EUR)	137,74	125,28	-9,0%
	USDMXN (price of 1 USD)	20,20	21,50	6,5%
	EURMXN (price of 1 EUR)	21,28	23,22	9,1%
	USDBRL (price of 1 USD)	5,03	5,25	4,4%
	EURBRL (price of 1 EUR)	5,31	5,67	6,8%
	USDARS (price of 1 USD)	116,15	175,00	50,7%
	USDINR (price of 1 USD)	76,76	76,00	-1,0%
	CNY (price of 1 USD)	6,68	6,35	-4,9%

US

Inflation remains strong and the Fed advances firmly in its restrictive stance

The Fed raises rates 50 bp. What to expect now? Market implications?

As you know, the FED yesterday raised its reference interest rate by 0.50% (the highest increase in 22 years, but avoiding the "feared" 75bp increase announced prematurely by some). It was a unanimous decision. What to expect from now? When it comes to interest rates, the Fed treats us to a dose of tact and delicacy (always welcome). Jerome Powell has already told us that policymakers are ready to approve 50bp rate hikes at the next two policy meetings (in June and July). Thus, we are heading for consistent rises, but not exaggerated or violent. Such a run should be enough to avoid (and perhaps rule out) large corrections in risk assets. Regarding the withdrawal of liquidity from the Fed (a key issue also for the financial environment), the Fed said that it would tolerate a decrease of $47.5 billion per month in the June-August period, and up to $95 billion per month from September. No surprises there. What the market had already discounted. I am not particularly worried about this circumstance, for two reasons: 1) There is a specific program on the Fed's balance sheet (called the Outstanding Repo Facility), endowed with 2 billion dollars, as an emergency program in the event of liquidity stress in the money market. 2) In the previous process of tightening the Fed's balance sheet in 2017, it took a year and a half to see how the first symptoms of liquidity problems emerged, which gives us a wide margin of time before having to worry. US stock markets soared after Powell threw cold water on the idea of raising rates by three-quarters of a percentage point. Government bond yields fell sharply. The dollar, logically, weakened. Will the bullish equity reaction continue? Powell's unusual level of specificity on the pace of gains in June and July gives us all the information we need for a relative calm. By ruling out (to say the least) 75bp hikes, Powell reveals the Fed's concern to avoid exaggerated monetary policy decisions that could push the economy into recession. A very well telegraphed gesture, which should reassure fears of recession or stagflation. Such a circumstance, and with a bit of luck, could contribute to ending the annoying positive correlation between bonds and equity. If this were the case, the adjustment still to be finalized in debt instruments would not necessarily have to be accompanied by additional corrections in equity (as has been the case up to now). All told, and to be honest, we think it would be premature to write off the positive correlation between bonds and debt. After all, both have risen wildly in price for many years. It is legitimate then to think that, on the opposite path and with falling prices, such a positive correlation will continue for a long time as well. Such a premise leads us to think that the additional adjustment that we still have to see in yields will be accompanied by an inevitable instability in equity. Nothing serious and messy, a priori.

Inflation

In March consumer prices recorded an increase of 8.5% y/y, the highest pace in more than 40 years (7.9% y/y in February). Compared with the previous month, inflation rose +1.2% m/m (+0.8% m/m in February). Gasoline prices rose 18.3% m/m, accounting for over half of the monthly increase, while food rose 1% m/m (+8.8% y/y). Most of the main contributors to recent inflationary pressure (rental cars, transportation, hotels, new vehicles) are expected to get softer in the short to medium term. Housing, clothing, medical care, education (all with higher weighting in the CPI) are below the headline inflation figures. Inflation expectations are rising, with the US 10-year break-even rate climbing to 3%, the highest level in at least two decades.

Financial markets

Rates & Credit: Another negative month for fixed income, with the 10-year Treasury yield reaching 3%. Higher quality bonds continue to underperform in 2022, with low rates and the longer duration of the index showing more impact against rising rates. High Yield also showed a widening of spreads but still continues to outperform compared to investment grade bonds as a result of low default rates and higher energy exposure. We have a neutral positioning for IG and HY, with positive bias in the latter.

Equities: S&P 500 EPS estimates were revised lower for 1Q22 (-1.2%) but have been raised for the back half of the year (3Q22: +1.5%; 4Q22: +2.6%). So far, the consensus EPS level is 225 for this year and 247 for next. The 1Q22 earnings season will give us more information on business costs and growth for this year.

We keep our recommendation of a balanced portfolio between Value/Cyclical and Growth styles. In Growth, we would focus on 'Quality Growth' companies, with more moderate multiples, solid earnings and stable growth, while underweighting, for the time being, the hyper growth companies. We also maintain our recommendation in Large Caps, which provide stability and protection against volatility, and Small Caps, where there is still a long road to recovery.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 3.25% in the s/t

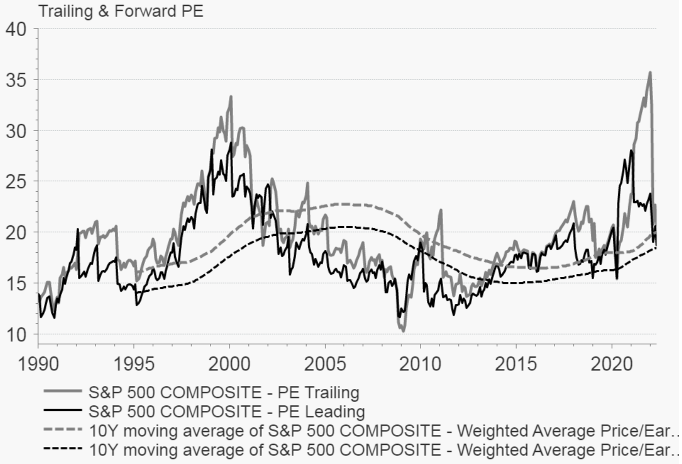
CDX: IG MARKETWEIGHT (Target Spread 80)

CDX: HY MW OVERWEIGHT (Target Spread 375)

Forex: DXY index MW OVERWEIGHT

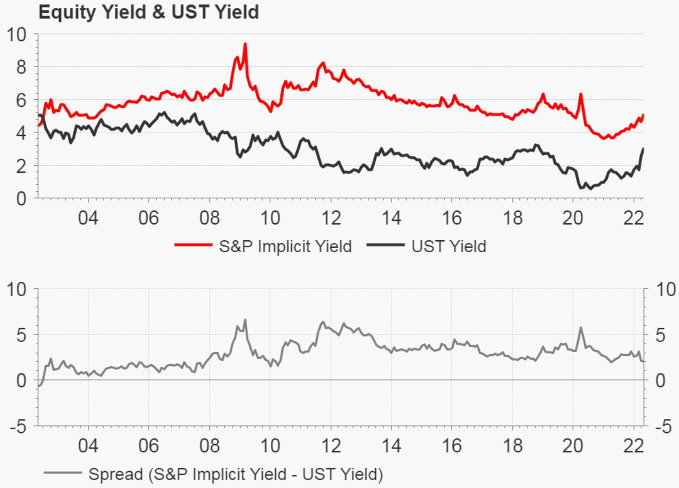
US price-to-earning ratio

Trailing & Forward PE



Source: Refinitiv Datastream / ANDBANK

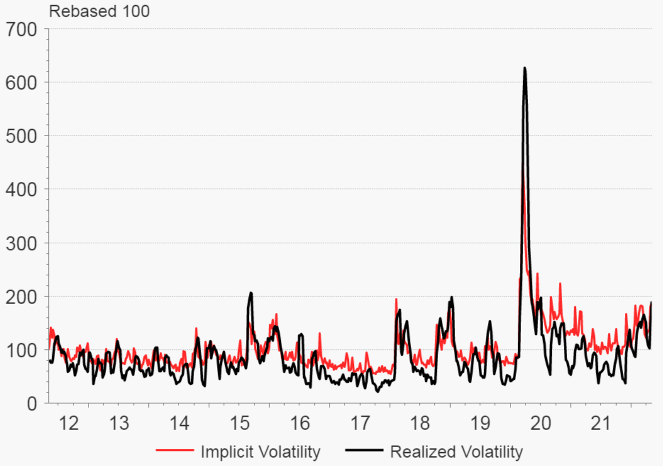
Equity Yield & UST Yield



Source: Refinitiv Datastream / ANDBANK

VIX VOLATILITY INDEX

Rebased 100



Source: Refinitiv Datastream / ANDBANK

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MACRO ECONOMY

EUROPE

Avoiding recession seems to be the best scenario after Ukraine invasion

Risks tilted to the upside for the European economy

The macro outlook deteriorated substantially during 1Q. Compared to the ECB forecasts for 2022, consensus estimates have come closer to the adverse scenario in terms of GDP and are moving towards the severe scenario for the CPI. Though PMI surveys remain well above 50 levels, consumer confidence has plunged following the rise in the cost of living. The historically low unemployment rate remains the bright spot of the European economy. On the near horizon, we may see a further deterioration in manufacturing sentiment due to the war and the renewed lockdowns in China, worsening the supply problems. Meanwhile, the service front still benefits from the easing of COVID restrictions. Inflation has hit but has not derailed the economic recovery. Looking forward, there seem to be structural inflationary pressures (energy transition, deglobalization, etc.) that are unlikely to substantially ease the core inflation rate. As for the war's direct implications in terms of energy supply, Europe has already banned Russian coal imports and seems on its way to do the same with oil. A halt in gas supply from Russia would be disruptive for Europe (shortages that would make it hard to avoid recession) and is still a risk rather than a base scenario. Smart solutions come from limiting the dependence on Russia, rather than phasing out supplies entirely.

ECB drawing the path towards the June meeting

In April, the ECB confirmed the tapering of the APP (€40 bill. in April, €30 bill. in May and €20 bill. in June), along with its intention to end the program at some point in Q3 (July? September?). As for rate forward guidance, Lagarde was unspecific: rates will be lifted gradually some time (weeks or months) after QE ends. In the last month, implicit rates have come a long way, with over 60 bps tightening priced in until year-end (40 bps previously). Some sources point to the possibility of a crisis tool, a backstop in case of debt-market stress, that could be used should an undesired fragmentation occur; so far, no tangible guidance on this potential facility has been given. We would expect ECB APP purchases to be brought to an end by the summer, and we now see room for two hikes in 2022 (September, December), instead of one, as inflation is proving higher and more persistent than expected.

Politics: No surprise in France

In line with the opinion polls, Macron was re-elected as French President, with a comfortable 58% of the votes. The President's victory is clouded by the fact that Le Pen won more votes than any other far-right candidate in the history of the French Republic and has closed the gap with Macron vs. 2017, sending a warning signal for the future. Legislative elections in June will now be key and are potentially more uncertain than the presidential elections, since the new President's majority may be weaker than the existing majority (60% of parliamentary seats).

Financial Markets: Govies, Corporate Credit & Equity

Govies: Duration remains under pressure, investors having adjusted their expectations on the ECB terminal rate. Accordingly, we have moved our bund target from 0.6% to 1% and maintain peripheral spreads for the time being, bearing in mind that tensions could mount for Italy in the run-up to the elections in 2023.

Corporates: We maintain a defensive position, paying less attention to duration, the more cyclical sectors and the European countries most affected by the conflict. In the immediate future, first-quarter earnings announcements and corporate growth forecasts are of particular relevance. We maintain our spread targets for both IG and HY, modified last month. Our recommendation is to remain cautious in both asset classes, bearing in mind that investment grade may suffer more from pressure on interest rates (although spreads are more resilient) and that high yield will be less affected by changes in rates and more by risks to future growth.

Equity market: Over the last two months the correlation between developed bond yields and the relative performance of Europe's banking sector has been broken. The divergence is not difficult to explain. Rising bond yields are no longer delivering a message of improvement in the business cycle. On the contrary, earnings risk and credit stress are rising. In other words, interest rate risk is no longer procyclical. As a result we are overweighting Defensive and reducing exposure to cyclical sectors and countries. We favor the UK market, which offers one of the highest dividend yields globally and is trading near the lowest relative P/E vs global peers.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT

Equities – Euro Stoxx: MARKETWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 1.25%)

Peripheral – OW: IT(2.85%), GR(3.45%). UW: SP(2.25%), IE(1.75%), PO (2.25%).

Credit – Itraxx Europe (IG): MARKETWEIGHT-UW (Target Spread 80)

Credit – Itraxx Europe (HY): MARKETWEIGHT (Target Spread 375)

FX – EUR/USD Target 1.08 (Buy USD at 1.12)

Euro area & EU price-to-earnings
Ratio - Forward

Source: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Source: Refinitiv Datastream / ANDBANK

EUR Corporate Bond Market
IG & HY

Source: Refinitiv Datastream / ANDBANK

CHINA

Cyclical stocks being hurt (again) after disappointing easing by PBOC

PBOC lowers RRR but policy easing didn't go as far as expected.

The PBOC lowered RRR on Friday 15, but the 25 bp cut was less than the anticipated 50 bp. The measure added around US$ 83B of long-term liquidity (less than the suggested US$170). Additionally, the PBOC refrained from loosening policy further, opting to keep its 1Y loan prime rate at 2.85%, versus expectations of a 5-10 bp cut. It also decided against fresh liquidity via its MLF, with no new injections, versus expectations of a CNY100B net injection. Just recall that the State Council announced during the previous days that "China will use monetary policy tools, including a RRR cut, and will step up financial support to the real economy". Analysts now see less room for China rate cuts after a "conservative" RRR cut. According to a Reuters survey, economists considered the cut to the RRR on Friday a modest trim and pointed to the PBOC's concern over inflation and US tightening as the main cause. The PBOC's decision makes further interest rate cuts less likely now, with the PBOC seemingly concerned about spillover effects, as other countries raise rates, which could probably draw capital away from China.

Macro: Activity data in March highlights extent of damage from lockdowns

GDP +1.3% q/q vs consensus +0.7% and +1.6% in prior quarter. Q1 GDP +4.8% y/y vs consensus +4.4% and +4.0% in prior quarter. Q1 domestic travelers 830M (-19.0% y/y). Despite the better-than-expected GDP figures, high frequency economic data showed strains caused by continuing Covid lockdowns. Retail sales contracted -3.5%, versus expectations of a 1.6% decline and an increase of 6.7% in January and February. Final consumption accounted for 69.4% of Q1 growth, versus an 85.3% share in Q4. Industrial production expanded 5.0% y/y, down from a 7.5% expansion in January and February. Fixed asset investment increased 9.3% y/y in Q1, also down from 12.2% growth in Jan-Feb. Unemployment stood at 5.8% in March, the highest level since May 2020 and up from 5.5% in February.

China's new home sales-by-value fell 29% y/y in March, the worst drop since July last year. The data is unlikely to reflect the lockdowns in Shanghai and Guangzhou, nor the loosening measures taken by 60 municipal authorities in Q1. As many as 20 cities have seen a substantial impact on new-home sales since then.

China boosted coal and gas output to record levels during March, as it turned to domestic supplies amid a surge in international prices after Russia's invasion of Ukraine. Coal production increased 15% y/y to 396M tonnes and natural gas output rose 6.3% to 19.7B cubic meters. Crude oil output rose 3.9% to 17.17M tonnes, the highest level since December 2015, despite refining activity falling as economic activity declined.

Vice Premier Liu said that China's supply chains must be stabilized amid Covid outbreaks and that it is up to local governments to get companies back to work. He said the government will create a 'white list' of key industrial firms that need help in recovery, including 666 companies in Shanghai making semiconductors and medical supplies

COVID: CCP calls on nation to support President Xi's zero-Covid strategy

An editorial in the *People's Daily* urges citizens to get behind President Xi's zero-Covid policies, indicating any substantial shift in policy is unlikely in the short term. Citizens should follow the strategy "unswervingly and unrelentingly", with "earlier, faster, stricter and more practical" measures, the editorial said.

Meanwhile, Shanghai officials are targeting Wednesday, April 20, as the day the city's lockdown may ease, provided there is no Covid transmission outside of quarantined areas. A Shanghai health official noted that, of the 23.6K new infections on Saturday, 722 were found outside quarantined areas. Tesla told employees to enter a closed-loop system after receiving approval from local authorities to restart operations.

Meanwhile, the FT noted how Chinese immigration consultants have seen a surge in inquiries from people wishing to leave the country, following Shanghai's lockdown. The article also said keyword searches relating to "immigration" have also soared, with a seven-fold increase in searches for the word since the beginning of April.

Regulation. Chinese associations say NFTs must not be "securitized"

The China Banking Association, the National Internet Finance Association, and the Securities Association of China said that the fungible nature of NFTs should not be weakened through creating fractional NFTs or batch minting NFTs. The associations also said that securities, insurance, credit, precious metals and other financial products should not be used as underlying assets for NFTs.

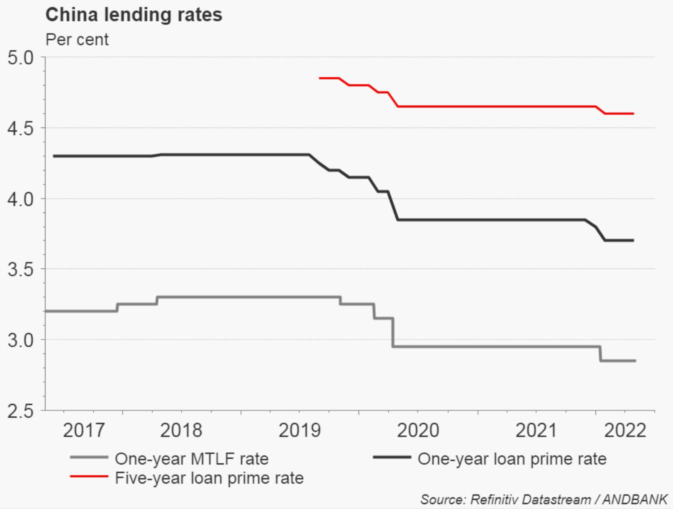
Market outlook – Recommendations & Targets from fundamental analysis

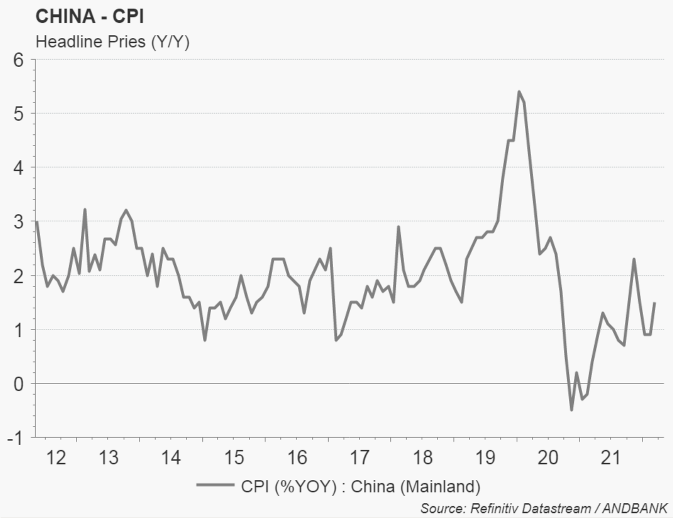
Equities – SHANGHAI Idx: MARKETWEIGHT

Equities – SHENZHEN Idx: MARKETWEIGHT- OVERWEIGHT

Bonds – Govies: OVERWEIGHT (10Y Yield target 2.4%)

Forex – CNY/USD: MW (Target 6.5-6.75)





JAPAN

Yen weakness positive for the Nikkei, exporters in particular

BoJ likely to raise near-term CPI forecasts amid surge in energy prices. Will also cut GDP growth projections

BOJ members are likely to raise the current FY inflation forecast to above 1.5% at the bank's April 28 meeting, vs the current forecast of 1.1%. One source said inflation may rise to almost 2% this year, but largely due to fuel and food costs. Sources added the BOJ is expected to lower its current FY GDP growth forecast from 3.8%, reflecting the impact of higher raw material prices on domestic consumption. The BOJ is also likely to note that, while the recovery is expected to continue, there are increased risks to the outlook due to the hit to demand from the war in Ukraine**.**

BOJ Governor Kuroda stepped up his warnings about the rapid deprecation of the yen, saying a "significantly weaker" yen will fuel negative effects and hurt businesses, marking tougher rhetoric from Kuroda, who had previously described the currency as "somewhat weak." However, he also reiterated that a weak currency benefits Japan's economy and that it is still "appropriate to continue monetary easing". Investors are therefore positioned for more yen weakness as the BOJ sticks with easing regardless. But while the BOJ remains undeterred by the yen's weakness, Japan government officials and businesses have increasingly voiced concern about the increase in business costs and commodity imports. Recall that the yen is at a 20Y low against the dollar, reflecting the widening policy divergence between a still-accommodative BOJ and a hawkish Fed. Major investors continue to position for more yen weakness, with CFTC data showing net shorts near a more than three-year high

Economy: An overview of the situation

February final industrial production grew by +2.0% m/m vs preliminary +0.1% and revised (2.4%) in prior month.

Tokyo condo prices hit new highs. Real Estate Economic Institute data show average new condominium prices in Tokyo and surrounding areas rose 6.1% in FY21 to a record ¥63.6M ($503K), surpassing the height of the bubble era in 1990. Prices in Tokyo's 23 central wards also jumped 11.7% to a record ¥84.49M ($660K). The bullish market is supported by solid demand for luxury properties such as high-rise condos in central Tokyo and is due to rising labor and material costs.

Meanwhile, a news survey found that 42% of major Japanese firms are planning to increase hires of new graduates in FY23, reflecting expectations of a broadening recovery from the coronavirus pandemic. This proportion was up 25 pp from a year earlier and topped the ratio of companies planning to curb new hiring for the first time in three years. Businesses that had been hard hit by the pandemic, such as airlines and the tourism sector, stood out in their resolve to increase recruitment as they explore new ways for growth.

Yen weakness: Finance Minister makes most explicit warning yet against yen slump. Further falls will be limited as Yellen puts pressure on Japan

Finance Minister Shunichi Suzuki told parliament that the damage to the economy from a weakening yen at present is greater than the benefits accruing to it, making the most explicit warning yet against the currency's recent slump against the dollar. Reiterating prior remarks, he said, "Stability is important and sharp currency moves are undesirable." US Treasury Secretary Janet Yellen will hold a bilateral meeting with her Japanese counterpart, Shunichi Suzuki, on the sidelines of the G20 financial leaders' gathering. Authorities in both countries agreed late last month to communicate closely on currency issues, following a sharp weakening in the yen.

What's behind the yen's weakness? The increasing Treasury yield premium is making USD-denominated assets more attractive and prompting purchases of UST by major Japan investors. Even accounting for the cost of hedging, 10Y Treasuries still offer a yield of 1.6% to Japanese investors compared to the tiny fraction on offer from JGB equivalents.

Corporates

Japanese firms hit by COVID lockdown in Shanghai: Kyodo discussed impacts from the Shanghai Covid lockdown on Japanese business. Ryohin Keikaku had closed about 50 of its over 300 stores in China as of last week. Fast Retailing had closed all 86 outlets of its Uniqlo clothing chain and eight stores of its GU casual brand in Shanghai as of Thursday. Lawson was forced to close 80 to 90% of its around 1,000 stores in Shanghai. Sony, Mitsubishi Electric and Sharp have suspended operations at factories in the city for extended periods of time.

More Japan-listed firms shutter Russian operations: 60 out of 168 listed Japanese firms which operate in Russia have decided to stop doing so as Moscow continues its war in Ukraine. This was up from 37 in the previous survey in March. Many firms cited disruptions in logistics and supply chains for suspending operations in Russia, with the prolonged crisis in Ukraine deepening wariness among businesses.

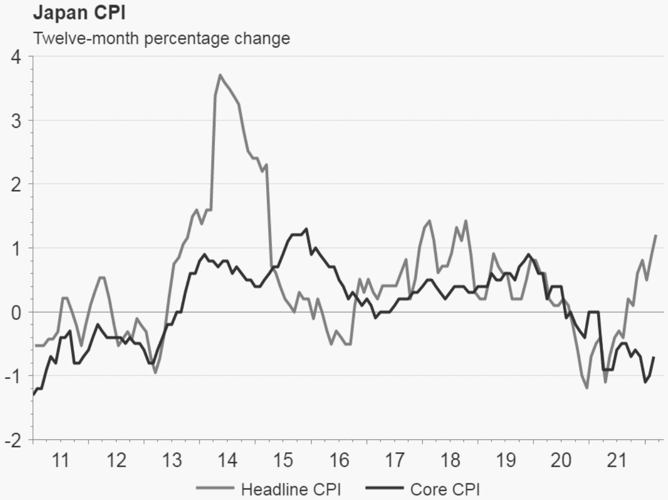
Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: MARKETWEIGHT-UNDERWEIGHT (Target yield 0.25%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 116)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK

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INDIA

Short-term future looks bright, but we see clouds in the long term

What factors drove the strong growth seen in 2021?

As the government has withdrawn monetary support and easy conditions (pressed by global inflation), it has increased public investment. This, of course, will have undesirable long-term effects. The budget announcements unsettled bond markets, pushing bond yields higher (to levels not seen since July 2019). This fiscal strategy can be understood from the perspective that it is understandable to prioritize growth, since too much fiscal consolidation at this early stage of the recovery would be counterproductive.

Is this growth strategy sustainable? No. It may boost investor appetite in the short term but must be redefined to be sustainable in the long term

While the spending targets set for this year are consistent with the budget presented by Finance Minister Nirmala Sitharaman when she unveiled the five-year plan for deficit-led growth, the fact is that the projected deficit for this year is again dangerously high (6.4% of GDP) and especially striking, as it follows a (past) year in which we have come from a 6.9% deficit (largely due to pandemic-related expenses). Looking ahead, the government is not considering any significant reduction of the deficit at least until 2025, when it plans to reduce it to 4.5% (a figure that is still very high). The days when the country sought a legally mandated 3% budget deficit ceiling can be said to be over. Perhaps the only positive aspect of the entire fiscal issue, and the current growth model, is that the government wants to change the structure of spending, shifting it from payments for transfers and subsidies towards productive investment, especially in transport infrastructure. India is budgeting INR7.5trn on capital expenditure in FY23 (an increase of INR1.5trn, or 25%, over the capital spending seen in FY22). Considering that the total increase in general public spending is INR1.75trn (+5% yoy), a capital spending increase of INR1.5trn represents 85% of the increase in public spending. The bulk of new spending will thus be devoted to projects like expressways, trains, cargo terminals and affordable housing. Meanwhile, the subsidy bill is being slashed to INR3.2trn, a fall of -25%. This, of course, may generate a boost in the economy and the equity market in the short and medium term, but only if it previously does not generate tensions in the cost of funding due to the deterioration of the fiscal profile, which will happen eventually if this fiscal route continues.

Fiscal difficulties could arise due to a growth model based on capital-intensive public spending

Gross market borrowing, needed both to finance the fiscal deficit and debt repayments, is expected to rise 30% to INR15trn (US$200bn). That could prove challenging in an environment of diminishing liquidity, both at home and abroad. How is the government going to finance this? The government is also budgeting a 10% increase in tax revenue to INR27.6 trillion. Fiscal revenue will also depend on progress in the privatization of state assets. The government finally managed to sell the airline Air India and hopes to bring Life Insurance Corporation of India to market on March 31. Still, it expects to raise only INR0.8trn in FY22 (half of what was budgeted) and around INR0.7trn from privatizations.

A combination of generous spending, high borrowing and moderate revenues presents a worrying outlook for bond investors. With the 6.4% deficit target in FY23, the 10-year benchmark bond yield surged to 6.85% – the highest level since July 2019 – and looks certain to break through 7% in the coming months. Markets were also disappointed by Sitharaman's failure to attempt to include the Indian bond market in global debt indices (which would have attracted some US$40bn of foreign capital, followed by annual inflows of around US$20bn).

With its grow-first approach, the government is betting everything on one card

The government evidently believes spending more to boost growth is the best way to bring debt under control. The debt-to-GDP ratio jumped to 90% during the pandemic, up nearly 20pp. But high nominal GDP growth means the ratio is now falling, despite high fiscal deficits. Equity markets reacted favorably to the growth-first approach.

The government forecasts real GDP growth of 8-8.5% in FY23, and the economy is now well placed to enjoy 6-8% growth for the next two years.

GDP recently surpassed its pre-Covid level, but GDP per head is lower than it was pre-pandemic, with fewer people in work (as in most countries). The government is betting that pouring vast funds into public investment will generate jobs, reignite private investment and boost weak household consumption. If it does not, India's comeback story will prove short-lived.

Market outlook – Recommendations & Targets from fundamental analysis

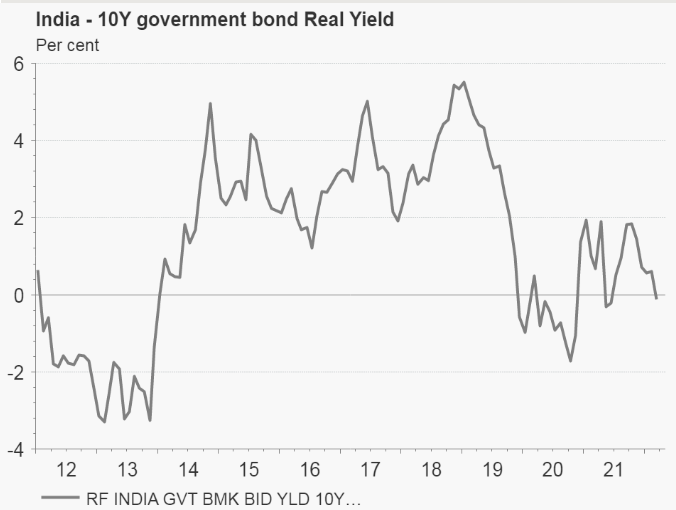
Equities – SENSEX: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 7.0%)

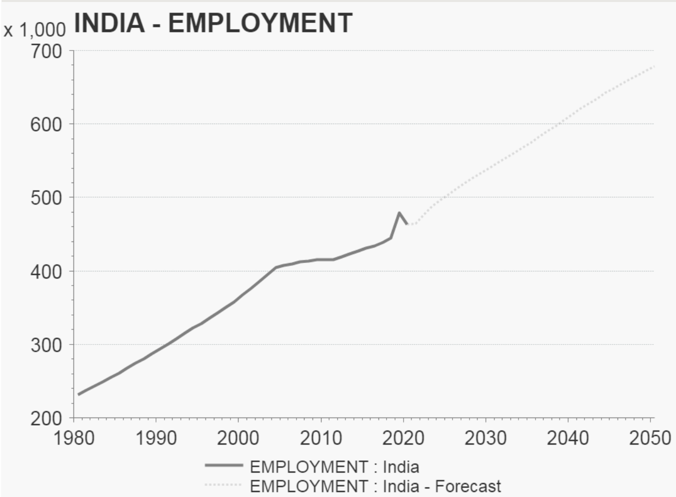
Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 76)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv DatastreamThomson Reuters Datastream / ANDBANK

ISRAEL

Central Bank joins its overseas colleagues

Politics

The ruling coalition, established less than a year ago with a very slim majority, suffered a major blow recently due to the departure of one of its members, Idit Silman, in a dispute over the use of leavened bread products in hospitals during Passover. To what was previously mentioned we have to add that the Raam party, which is largely backed by Muslim Arab-Israelis, suspended its membership after a group of Palestinians were wounded in clashes with police in Jerusalem. The party also stated that if the violence continues they will resign as a block.

The latest events leaves the coalition in a very fragile position, with very limited power, narrowing its ability to introduce and implement further reforms. The consensus is that the government will soon break down, forcing another round of elections.

Monetary policy and inflation

The Bank of Israel raised its benchmark interest rate by 25 bps (to 0.35% from 0.1%), the first raise in the last three years. According to the central bank minutes, the decision was unanimous. The bank noted that the current economic environment no longer justifies loose monetary policy. The bank now forecasts that interest rates will reach 1.5% in the next twelve months. We think this forecast is very likely to materialize. Furthermore, since the market is already pricing that level and the curve is still steep (compared to other developed countries), we think that the curve will flatten mainly through its long end. The bank has not changed its growth forecast for 2022, leaving it at 5.5%, but has lowered the forecast for 2023 by 1% to 4%.

Inflation in March rose by 0.6% m/m, slightly lower than estimates of 0.7% m/m. Annual inflation stood at +3.5% y/y (same figure as last month), staying above the central bank target range (1%-3%). Despite a rise in the unemployment rate in the second half of March (4.7% to 5.3%), the job market remains tight, putting pressure on wages and thus on prices. The year-to-date depreciation of the shekel (down 5.9% against the USD) is another factor that puts pressure on prices.

Although inflation expectations were lowered by the market and macro economists after the CPI figure was published, the looming crisis in the housing market deserves attention. Prices rose 11.3% in the last twelve months (in some areas by over 25%), coupled with higher mortgage rates, resulting in a dramatic rise in monthly payments, posing not only a major economic challenge to the government but also a social challenge. As mentioned earlier, due to the renewed political crisis, we think the government will find it increasingly difficult to tackle these major issues.

On a positive note, Moody's confirmed Israel's rating (A1) and raised its outlook to positive, from stable, saying that the key drivers for the change are the government's reform agenda, aimed at addressing longer-term challenges, and the expectation of a further reduction in the government's debt ratio.

Stock market

The stock market performed impressively during last month. Tel Aviv 35 rose by +4.4%, whereas Tel Aviv 90 (mid cap) increased more than +5%. The main (surprising) leaders were Energy stocks, which showed an extraordinary performance of more than 23%, attributed to the jump in the price of oil after the outbreak of war in Eastern Europe. Another "beneficiary" from the current situation is ICL, one of the world's largest fertilizer producers, which rose by 20%.

We maintain our positive stance in the defense sector established in our last meeting. Rada rose by 10% and Elbit systems added 3%. In conference calls following the publication of their financial reports for 2021, the management of these two companies mentioned that countries from all over the world are expected to increase their defense budget. We think that the war in Ukraine marks the beginning of a trend of steady defense budget increases around the world. Although the trend is strong, we have reduced our recommendation for Elbit to market weight after the company said, in the conference call, that they forecast a decrease in profit margins due to a tight labor market. We still maintain our overweight recommendation for Rada, as their market potential (radars) looks very promising.

Market outlook – Recommendations & Targets from fundamental analysis

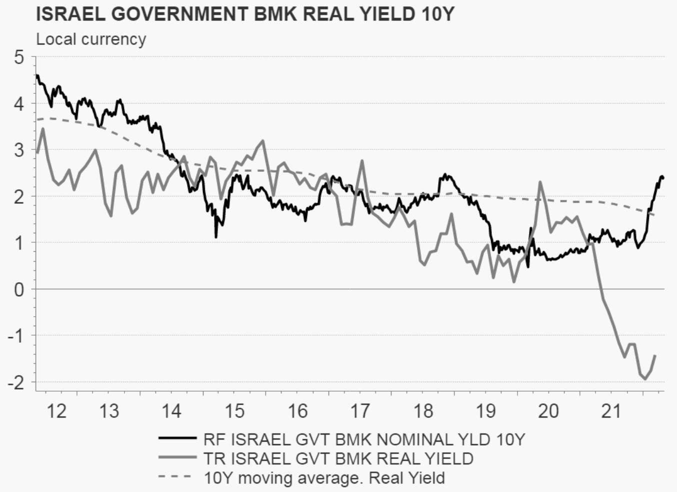
Equities – TLV35 Index: MARKETWEIGHT

Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: UNDERWEIGHT

FX – ISL vs USD: Expensive in REER

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK

BRAZIL

Good first quarter, but political uncertainty has not decreased yet

Inflows were very strong for the first quarter

From an investor perspective, Brazil had a very good 1Q22. Ibovespa (main equity index) was up 14.5%, the real appreciated 15.1%, low duration inflation linkers were up 3.8%, and the *multimercados* index was up 4.3%, beating risk-free returns (known locally as CDI, *Certificado de Depósito Interbancario*) of 2.4% for the period. This is a very different story from last year's risk, when Ibovespa was down 11.9% and the real depreciated 7.4%. The grand culprit for this stark difference in performance was the recent show of interest by foreign investors in Brazil, bringing an additional BRL 64.1 billion to the stock market just in 1Q21. As the second quarter started, Brazil saw a reduction in the velocity of the inflows. We think that this behavior is to be expected and are now focusing on understanding whether and when outflows will start.

Monetary policy

From a monetary policy perspective, all current inflation projections indicate that high prices are here to stay. Projections for 2022 inflation range from 6.4 % to over 8.0%, for a target range of 3.5% +/- 1.5%. In other words, inflation is expected to be at least 1.4% above the upper limit of the band. Part of this year's inflation has to do with energy price dislocations caused by the Russia-Ukraine situation. But given the duration of the conflict and the future disruptions already incurred, this pressure is unlikely to be relieved any time soon. In this scenario, local financial markets are pricing in an additional rate hike in June, finishing the tightening cycle with rates between 13.25% and 13.75%, and maintaining this higher level of rates for longer. It is still unclear whether that will be enough to keep foreign investors interested in the local market, especially with the uncertainty surrounding the upcoming presidential election.

Election chess has begun

The window for changing parties closed on April 1. During this window: i) 122 out of 513 representatives changed parties; ii) Bolsonaro's current party (Partido Liberal), Progressistas (PP) and Republicanos were the biggest winners, while União Brasil, PSB and PTB suffered the biggest losses; iii) Six governors and three mayors left office to run for other seats in October.

On the presidential dispute, current president Bolsonaro (right wing affiliation) and former president Lula (left wing affiliation) still lead the polls, with Lula holding the advantage and both well ahead of the remaining candidates. Lula has secured Geraldo Alckmin, a former opponent from the center, as his vice-president, in an effort to show Lula is interested in governing for a larger part of the political spectrum, rather than his previous stance, which was more clearly to the left. Bolsonaro hinted that he might repeat his first election strategy of choosing someone from the military as his vice-president. The man best placed for the position is General Bragga Neto, current Defense Minister.

Former Justice Minister Sergio Moro also changed parties during the window and has issued confusing statements as to whether he is still a contender. His new party, União Brasil, has said that the party's candidate will be someone else. São Paulo's Governor, João Doria, has left office and is maintaining his plans to run for president of the PSDB party, after a back and forth of statements between him and the party leaders. Three other candidates are considered strong contenders: i) Ciro Gomes, who has run for president three times already but never reached the second round; ii) Eduardo Leite, a former Governor for Rio Grande do Sul and from the same party as Doria, who lost the party nomination but is still working in the background to be considered; iii) Simone Tebet, senator for Mato Grosso from the MDB, the party of former president Michel Temer. Of all these other candidates, Ciro Gomes does not wish to form an alliance with anyone. The other four pre-candidates have agreed to reach an agreement before May 18, so that the lesser known candidates have enough time to start campaigning. Local markets do not hold out much hope either for this coalition, known locally as Terceira Via (or third alternative), or for Ciro Gomes, with time playing against these other candidates. The winds would have to change very rapidly for either Lula or Bolsonaro to be out of the second round.

Market outlook – Recommendations & Targets from fundamental analysis

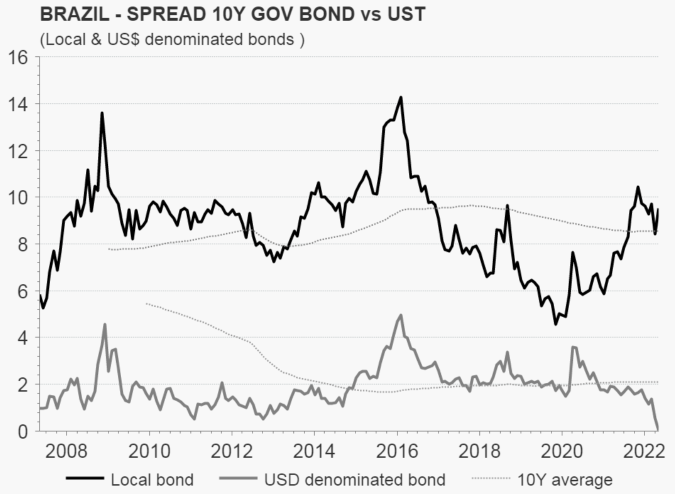
Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 11.75%. Spread 850)

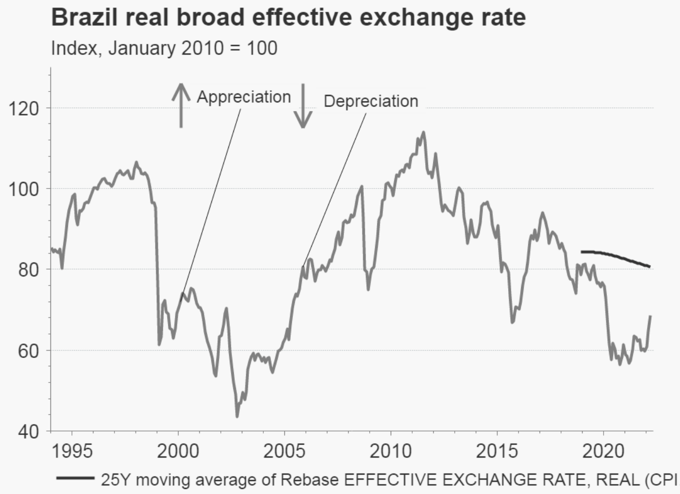
Bonds – Govies USD: UNDERWEIGHT (Target yield 6.50%. Spread 325)

FX – BRL/USD: UNDERWEIGHT (Mid-term target 5.25)

Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK



Source: Refinitiv Datastream / ANDBANK

MEXICO

Rejection of Energy sector reform positive for private investment

Central Bank

For the second time this year, the central bank board decided to increase its target rate by 50 bps to bring the monetary policy rate to 6.50%. For the first time in almost a year, the decision was unanimous. The risks of high inflation and slack economic growth remain the main observations of the central bank's monetary policy committee. As has been the practice since the end of last year, the projected level of general and core inflation for the following quarters was published, with a level above the long-term goal (300 bps +/- 100 bps) for 2022 (5.50% y/y from the 4% y/y projected in February) and 2023 and convergence to the target in the first quarter of 2024. The Bank of Mexico governor, Victoria Rodriguez, stated that the inflation forecast could be revised upward in the next monetary policy meeting (scheduled for May 12). The expectation is for an increase of up to 300 bps in the Interbank Equilibrium Interest Rate (TIIE) in response to rate hikes by other central banks and the increasing inflation outlook. At the same time, analysts expect a rise of 200 bps for the rest of the year.

Inflation and activity

Inflation forecasts were once again adjusted upwards after the CPI rose 7.45% year-on-year in March. Core inflation maintained its increasing bias and is more than 380 bps above the central bank's long-term target. The estimated level for 2022 was increased to a range of around 6.0% (surveys for private analysts), in order to converge to the central bank's long-term goal (3%) by 2024. Growth prospects have moved drastically downwards and, on average, for the consensus of analysts the estimate is already below 2%.

Politics & Fiscal policy

The General Economic Policy Pre-criteria were presented (updating the macro and financial variables used in estimating the 2022 budget and a draft of the 2023 budget). Main points: i) positive tone for this year's economic growth, estimated at 3.4%, 140 bps above consensus expectations; ii) the expected average for this year of the price of the Mexican oil export mix was adjusted upwards, from 55 to 94 dollars per barrel. These two adjustments could generate an overestimation of public revenues, allowing the government to maintain the stimulus programs it has been carrying out in recent months (mainly subsidizing the price of gasoline).

On April 17, the constitutional reform, aimed at amending the articles relating to the electrical industry and strengthening the state-owned company (Comisión Federal de Electricidad) in charge of electricity generation and distribution, was put to the vote. The reform required a qualified majority (2/3 of the deputies present) to be passed, but after a 12-hour session it failed to obtain the necessary votes (275 in favor and 223 against, no abstentions) and was rejected in the plenary session of Congress. The executive's proposal had negative implications for private-sector clean energy contracts, weakened regulators and increased economic inefficiencies that could have raised prices for the final consumer.

Financial markets

Equity: Positive outlook due to higher remittances and greater mobility, with consumption and export-oriented companies being favored. The valuation of the local index, with current price to earnings (15.95) well below the last five-year average (20.17), is a positive signal for equity investments. Also helping are moderately optimistic forecasts for quarterly corporate reports and lower uncertainty for the domestic political side. On the negative side, the drag on emerging markets, with restrictive monetary policies due to inflationary pressures. We remain constructive at this level (12-month target price: 60,000).

Fixed Income & FX: We maintain our position of not increasing duration in local portfolios, in view of the prospect of greater action by the central bank and the reduction in liquidity in the local market due to the decrease in the participation of foreigners. Regarding the dollar-denominated debt, we maintain the forecast of 175-180 bps for the end of 2022.

The volatility in the exchange rate has decreased, despite the appreciation in the USD, operating in a range around 20 USDMXN. We now expect a year-end level of 21 USDMXN, slightly below the previous 21.50, supported by a favorable effect of a more restrictive central bank.

Market outlook – Recommendations & Targets from fundamental analysis

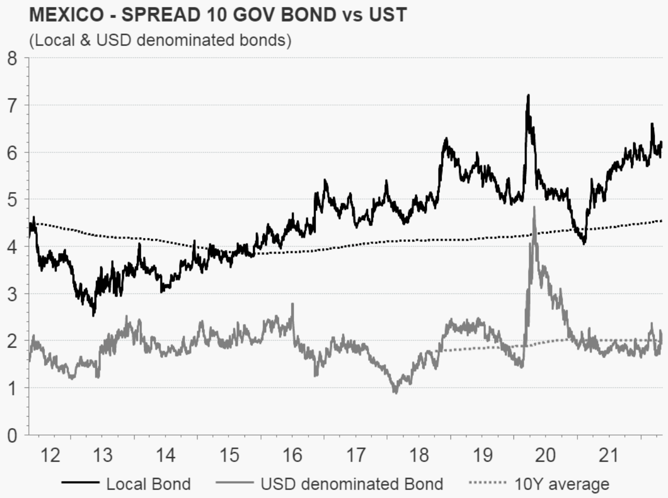
Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Spread 580 bps)

Bonds – Govies USD: MARKETWEIGHT (Spread 175 bps)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 21,5)

Source: Refinitiv Datastream / ANDBANK



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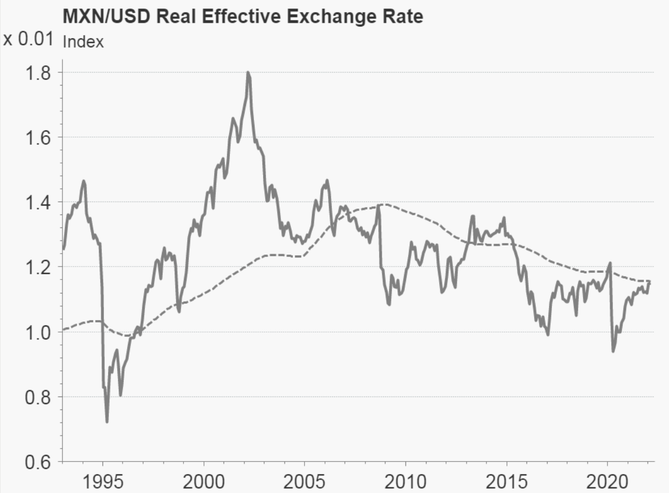


Source: Refinitiv Datastream / ANDBANK

ARGENTINA

No positive catalysts on the horizon

IMF: new context pushes for a revision of goals

The first review of the new program with the IMF was brought forward to May, due to the new shocks arising from the war between Russia and Ukraine. The IMF spokesperson, Gerry Rice, admitted that the new program faces high risks due to the country's fragile economic and social situation, with added complications due to Russia's invasion of Ukraine. The fund also warned that the political backing of the agreement "may be fragile and could be weakened before the presidential elections in October 2023 or before if confidence is not rebuilt quickly." The IMF's strategic director, Ceyla Pazarbasioglu, also showed concern, stating that inflation is paralyzing the economy in Argentina. We do not rule out that in the following months some of the agreed goals between the IMF and Argentina will be reviewed.

On the other hand, the IMF has approved the creation of a new Resilience and Sustainability Trust (RST), to channel funds from economically stronger members towards poor and middle-income countries, from which Argentina could receive up to 1.3 billion USD in SDRs, to be returned over a period of 20 years.

Energy: Higher energy prices put fiscal and reserve targets at risk

One of the few commitments assumed by Argentina on the fiscal front of the new program with the IMF is the reduction of energy subsidies (2.3% of GDP in 2021). The problem is that, with higher gas and LNG prices (energy imports are expected to double this year), subsidies on energy will not only decrease in 2022 but will actually increase. The Government seems on track to hiking electricity and natural gas tariffs on June 1, after calling public hearings between May 10 and 12, but the politically feasible increase (the tariff issue has caused a major internal dispute between Guzman and officials close to VP Fernández de Kirchner) will not be enough to compensate, putting pressure on the primary balance. Higher energy prices also make the reserve accumulation target (+5.8 billion USD) difficult to achieve, despite higher soybean and wheat prices.

President Fernández assured that Bolivia will respect the current contract for the supply of gas, which will allow Argentina to receive 14 MMm^3 per day, as in 2021. And if there is an increase in production, due to higher productivity of current wells or the entry into operation of another developing area, Argentina could receive between 16 and 18 MMm^3/day. The average price to be paid is close to US$12.18 per MMBTU, a significant increase compared with 2021 prices but well below the international price of LNG. Also, Martin Guzman announced that Brazil will send around 2 GWh of energy from May to September. The two events mentioned above are in the right direction to ensure energy supply in the winter months.

Inflation: Much worse than expected

CPI jumped +6.7 m/m in March (+55.1% y/y), significantly above the February print (+4.7% m/m). This was expected, because of the international context, but also higher than consensus (+5.5% m/m) and worst case forecasts, with a jump of +6.4% m/m in core prices (+4.5% m/m in February), showing that the Argentine inflationary dynamics has more local than exogenous components. Regulated prices also contributed to the high print, with an increase of +8.5% m/m, explained by the electricity and gas hikes, plus the adjustment of educational fees with the beginning of the school year.

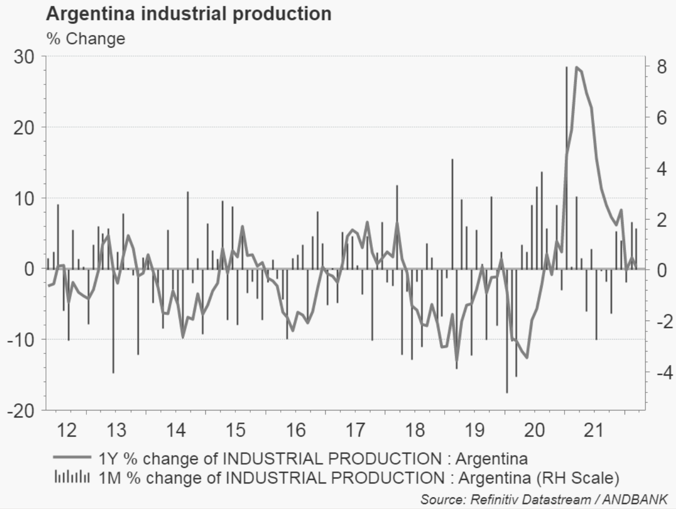
Prior to the release of the March number, economists raised their annual inflation forecast for Argentina this year by 4.2 percentage points to 59.2% y/y, according to the central bank's monthly survey. The increase in prices is expected to remain at high levels due to several factors: i) gas and electricity hikes; ii) recent acceleration in the official crawling peg exchange rate (60% annualized rate); iii) food price pressures will persist, driven by the global commodity price shock; iv) main unions negotiating salary adjustments, with a floor of 55%.

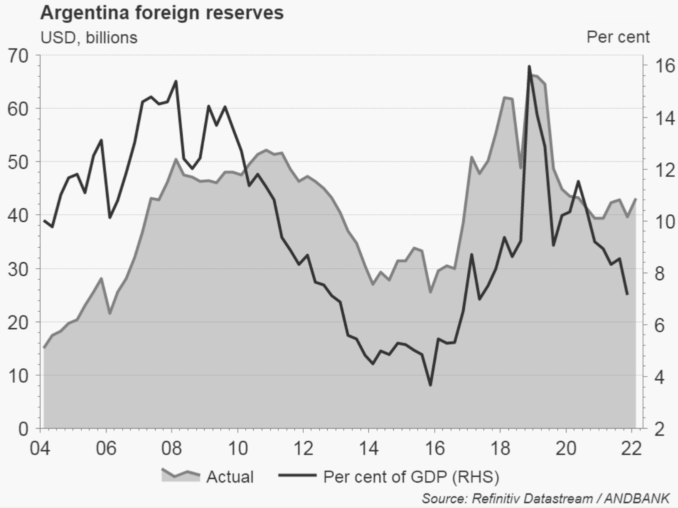
In response to the new inflation data, the Central Bank once again increased the monetary policy interest rate (+250 bps, 44.5% to 47%), which in effective annualized terms implies a 58.7% level. As part of the agreement with the IMF, the government is aiming to reach a positive real interest rate to increase the demand for ARS securities.

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2022 year-end target 175)





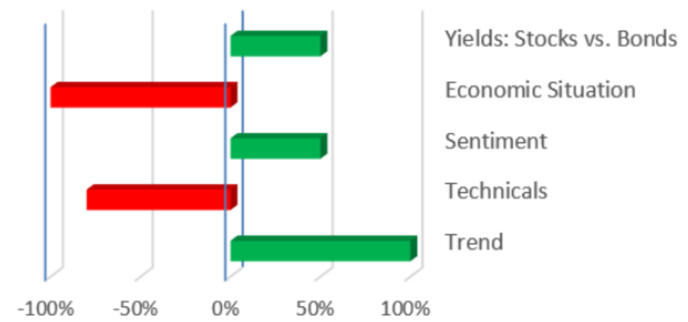
GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS 2022	Projected EPS 2023	EPS Fw 12 months	EPS Growth 2022	E [PE] ltm Year End	INDEX CURRENT PRICE	Current Fair Value (EPS 12 month fw)	E[Perf] to Fair Value	Qualitative Assessment	Exit Point
USA S&P 500	225,0	246,0	232	7,7%	20,00	4.127	4.645	12,5%	MW	5.109
Europe - Stoxx Europe 600	30,5	33,0	31,4	4,3%	15,00	430	470	9,4%	MW	517
Euro Zone - Euro Stoxx	29,0	33,0	30,4	2,5%	15,00	408	456	11,7%	MW	501
Spain IBEX 35	634,0	725	665	1,8%	14,00	8.334	9.316	11,8%	MW-OW	10.247
Mexico IPC GRAL	4.000	4.200	4.069	10,6%	15,00	50.179	61.036	21,6%	OW	67.139
Brazil BOVESPA	15.000	15.000	15.000	4,1%	8,00	105.379	112.500	6,8%	MW	123.750
Japan NIKKEI 225	1.810	1.894	1.839	3,7%	16,00	27.004	29.424	9,0%	OW	32.366
China SSE Comp.	310,2	374,0	332	32,5%	10,00	3.002	3.322	10,7%	MW	3.654
China Shenzhen Comp	120,3	149,0	130	24,0%	18,00	1.859	2.344	26,1%	MW-OW	2.578
India SENSEX	2.760	3.236	2.924	18,8%	23,00	54.836	67.259	22,7%	MW-OW	73.985
Vietnam VN Index	105,1	134,6	115	19,5%	16,00	1.329	1.844	38,7%	OW	2.029
Taiwán SE Weighted Index	1.423	1.425	1.424	12,3%	13,00	16.408	18.508	12,8%	MW/OW	20.359
MSCI EM ASIA	47,2	53,6	49	8,3%	12,50	567	618	8,9%	OW	679

ANDBANK ESTIMATES

NED DAVIS – 13 Indicators to decide whether to invest in Equities or Bonds, and decide on geographic and sectoral exposure.

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



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

13 Indicators to choose between Stocks or Bonds (or Neutral):

	Stock/Bond Indicators	apr-22	mar-22	feb-22	
TREND	Stock/Bond Ratio Trend Model	Stocks	Bonds	Bonds	1
	Stock/Bond Ratio Trend	Stocks	Stocks	Stocks	
TECHNICALS	Stock/Bond Overbought/Oversold Indicator	Neutral	Neutral	Neutral	
	% Of Stocks Above 10Wk & 40Wk Moving Averages	Bonds	Bonds	Bonds	
	% Markets Above 10Wk & 40Wk Moving Averages	Bonds	Bonds	Bonds	
	Stock Momentum	Bonds	Bonds	Neutral	
	Bond Momentum	Bonds	Bonds	Bonds	
YIELDS	Corp. Bond Yield - Stock Earnings Yield	Neutral	Stocks	Stocks	2
	Yield Curve	Stocks	Stocks	Stocks	
SENTIMENT	NDR Global Consumer Sentiment Composite	Stocks	Stocks	Bonds	
	NDR Global Business Sentiment Composite	Neutral	Neutral	Stocks	
ECONOMY	OECD G7 Leading Indicator Index	Bonds	Bonds	Bonds	
	Crude Oil Momentum	Bonds	Bonds	Bonds	

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	54%	59,8%
Europe ex. U.K.	16%	12,7%
Emerging Markets	13%	12,1%
Japan	6%	5,9%
Canada	6%	2,9%
U.K.	4%	3,7%
Pacific ex. Japan	1%	2,9%
Health Care	16%	12,9%
Utilities	4%	2,4%
Consumer Staples	9%	6,4%
Energy	5%	2,8%
Materials	4%	2,5%
Financials	10%	10,9%
Real Estate	3%	2,5%
Industrials	8%	8,2%
Information Technology	23%	27,4%
Communication Services	8%	10,9%
Consumer Discretionary	10%	13,1%

ENERGY – OIL

Fundamental view (WTI): Target range USD90-120bbl

Buy < USD90; Sell >USD120

Short-term drivers

(Bullish price factor) – OPEC+ production missed quota by 1.45M bpd in March: Reuters reported that OPEC+ production was 1.45M bpd below its production target in March, led by Russia's 300K bpd miss below its 10.08M bpd quota. Compliance rose to 157% from 132% in February, the highest since production cuts were implemented in May-20. **OPEC+ will likely continue to brush off calls to hike output** to offset the sanctions on Russia, because crude exports of members such as Saudi Arabia rose to 7.307M bpd in February (over 300K bpd from January and the highest in a 12-month period), although still far below the 10.24M bpd in Apr-20.

(Bullish price factor) – DUCs fall to lowest since early 2017, which could eventually weigh on output: Permian producers worked into their backlog of wells drilled but uncompleted for the 20th straight month, putting inventory of DUCs in the region at the lowest level since Feb-18. This could lead to a lag on new oil output hitting the market, as producers must now call on more drilling rig crews to start the new well process.

(Bullish price factor) – Draghi says Europe can reduce energy dependence on Russia faster than expected: The Italian prime minister Draghi said that diversification of energy can happen faster than previously expected. The comments came after Italy reached an agreement to increase gas imports from Algeria and also followed a Thursday NY Times report that said that Brussels is drafting plans for an embargo on Russian oil products, a move long resisted because of big costs to Germany and its potential to disrupt politics around the region. The NYT article said the EU is likely to adopt a phased-in ban on Russian oil, which would give countries, Germany in particular, time to find alternative suppliers.

(Bullish price factor) – Major trading companies looking to stop dealing in Russian crude: Reuters reported that major global trading houses are planning to reduce crude and fuel purchases from Russia as early as May in order to sidestep difficulties with international sanctions. The article notes that while the EU has not yet imposed a ban on Russian oil, traders are seeking to comply with existing sanctions language limiting Russia's access to the international financial system. The article notes that energy trading firms are protecting against compliance and reputational risks in the unclear and evolving environment.

(Bearish price factor) – The Biden administration will offer oil and gas companies drilling rights on federal land in June. The announcement comes after the Department of the Interior said last week it would resume oil and gas lease sales on public lands, reversing one of Biden's earliest policy moves. The largest planned sale would be in Wyoming, where Interior will offer over 131K acres to oil and gas companies.

(Bearish price factor) – China refinery output lowest in five months amid COIVD slowdown: China refinery output was down 2% y/y in March, falling to the lowest throughput levels since October. Refiners are also set to further cut throughput in April to around 6% below 2021 levels, as the country's Covid zero policy continues to weigh on demand.

(Bearish price factor) – Rivals in Lybia open talks in Cairo; unity government pledges output increase of up to 1,4 mbpd: The representatives from Libya's Tripoli government and its eastern-based parliaments opened a week of negotiations in Cairo aimed at settling their differences. Tensions have been rising between the factions (with militias mobilizing) after a 24-Dec election was called off. At the same time, Tripoli government announced a plan to further develop the country's oil sector and increase output to ~1.4M bpd.

(Bearish price factor) – IEA lowers 2022 oil demand forecast: In the April edition of its Oil Market Report, the International Energy Agency cut its estimate for 2022 oil demand by 260K bpd, citing severe Covid lockdown measures in China along with weaker-than-expected demand from OECD countries at the start of the year. The report adds that despite an expected ~1.5M bpd April drop in supplies due to Russian shut-ins (which could double to ~3M in May), a deficit is unlikely to build due to steady OPEC+ output increases, higher production from non-OPEC+ countries, and massive stock releases from IEA member countries. Nevertheless, it adds that the market outlook remains mired in uncertainty.

Long-term drivers

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

(Price Negative) – Growing environmental problems will gradually tighten legislation on production levels. The value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come 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 view (Gold): Target range USD1,700 – 1,900 /oz

Buy < USD1,700; Sell >USD1,900

Positive drivers for gold

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).

Gold is cheap relative to palladium: The Gold/Palladium ratio fell to 0.84, well below its 20-year average of 1.85x, suggesting that gold is deeply cheap relative to palladium, or palladium is even more expensive than gold.

Neutral drivers for gold

Gold will no longer be the only 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 such a disruptive scenario. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will better display its quality as an anti-fragile asset in the face of a shock. In this regard, we must say that until now we saw the supply of UST as unlimited, which favored gold as the quintessential anti-fragile asset. However, we no longer see unlimited supply of UST; instead, after learning the Fed's intentions, we foresee a very limited supply in relation to the strong demand that there may be for UST (typical demand of external central banks in an environment of expansion and economic recovery). That is why the UST can once again dethrone gold as an anti-fragile asset and take command. This is bad news for gold; however, it should be said that the supply of gold will also remain very limited over the next decade

Negative drivers for gold

Gold expensive relative to silver. The Gold/Silver ratio rose to 83.76 but is still above its 20-year average of 66.82x, suggesting that gold is 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$1,500/oz.

Gold to oil: This ratio fell to 17.37, still well above its 20-year average of 18.33x. Considering our mid-term fundamental fair value for WTI oil at US$80 and assuming that the function utility of both commodities will remain unchanged, the price of gold must approach US$1,466 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.24009), 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$1,516. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,078. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,336.

The three identified threats that could end the gold rally no longer seem so distant. What are these threats? 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. Therefore, the only four threats to the gold bull market seem to be: 1) Higher nominal rates. 2) Stronger USD. 3) A rise in real rates. 4) A loss of momentum. But how real and dangerous is each of these risks in bringing an abrupt end to the gold rally?

Looking at this history and knowing that a gold bull market usually feeds on its own momentum for quite a while and only ends when facing higher nominal rates or a stronger USD or a rise in real rates, it seems reasonable to me to give a small alarm signal that **we could be close to a turn in the trend of gold (down),** since gold has totally lost its momentum, and also because the possibility of an increase in interest rates has become more visible with the imminent start of Tapering by the Fed.

Risk #1. Higher nominal rates (MEDIUM RISK): Although a few months ago it seemed impossible to think of rate hikes by the monetary authorities, this is a possibility that is gaining ground with each passing day.

Risk #2. Stronger USD (MEDIUM RISK): The US current account balance has been gradually improving, leading to a shortage of dollars and a rise in its price (negative for gold). With a longer-term view, we do not foresee a jump in the US current account balance that will boost the USD dramatically. 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. However, a more determined Fed in its exit strategy (Tapering) could cause a certain shortage of the USD, which would have a very negative effect on the price of gold.

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

Risk #4 Momentum – (MEDIUM RISK) Gold bull markets usually feed on their own momentum for quite a while. The price of gold has lost traction and momentum for some time, and with it, a self-reinforcing momentum. A constructive view could be that, perhaps the emerging world could recreate a gold-prone cycle, such as the one experienced in 2001-2011. In 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 was created in the US (by people with scant interest in gold), and with much more moderate EM growth. If EMs thrive again, led by Asia, this could be a tailwind for gold. But at the moment we do not have a clear opinion about Asia, dragged by a China engrossed in a kind of nihilism existence.

EXCHANGE RATES

Flow analysis & Fundamental targets

Outlook (of the respective currency against the USD) according to the analysis by Altman's Z. Fundamental objectives.

USD vs All: Z-Score Analysis: Neutral view for the US dollar in the short-term.

EM Currencies: Z-Score Analysis: Neutral view for the US dollar in the short-term.

EUR-USD: Fundamental Target 1.08 (Buy USD at 1.12) // Z-Score Analysis: Neutral to favorable to the EUR in the ST

USD-JPY: Fundamental Target 116; **EUR-JPY**: Target 125 // Z-Score Analysis: Slightly favorable to the JPY vs the USD

GBP-USD: Fundamental Target 1.39; **EUR-GBP**: Target 0.78 // Z-Score Analysis: Favorable view on the GBP vs the USD

USD-CHF: Fundamental Target 0.93; **EUR-CHF:** Target 1.01 // Z-Score Analysis: Slightly negative view on the CHF vs the USD

USD-BRL: Fundamental Target 5.25; **EUR-BRL:** Target 5.67 // Z-Score Analysis: Negative view on the BRL vs the USD

USD-MXN: Fundamental Target 21,5; **EUR-MXN:** Target 23.2 // Z-Score Analysis: Slightly favorable to the MXN vs the USD

USD-ARS: Target 175, Negative on the ARS

USD-INR: Target 76, Neutral on the INR

CNY: Target 6.60. Neutral on the CNY

RUB: Neutral-favorable view on the RUB vs USD

AUD: Neutral view on the AUD vs USD

CAD: Neutral-Negative view on the CAD vs USD

Positive
Neutral-Positive
Neutral-Negative
Negative

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	0,00	0,00	32,1	-28,2	4,6	**0,32**
USD vs G10	13,91	-2,26	32,7	-25,4	6,3	**0,44**
EM	0,00	0,00	3,9	-1,2	1,4	**-0,06**
EUR	2,95	-0,01	23,4	-8,6	7,3	**-0,46**
JPY	-9,39	1,01	0,6	-15,0	-8,4	**-0,24**
GBP	-5,47	-2,19	4,3	-6,5	-1,7	**-1,39**
CHF	-1,67	-0,12	0,2	-6,0	-2,3	**0,42**
BRL	0,94	0,04	1,0	-0,8	0,0	**1,98**
MXN	0,49	0,70	3,3	-1,5	1,1	**-0,51**
RUB	0,00	0,00	1,2	-0,3	0,4	**-0,51**
AUD	-1,97	1,75	6,1	-6,6	-1,4	**-0,15**
CAD	1,63	1,75	6,1	-5,0	0,3	**0,48**

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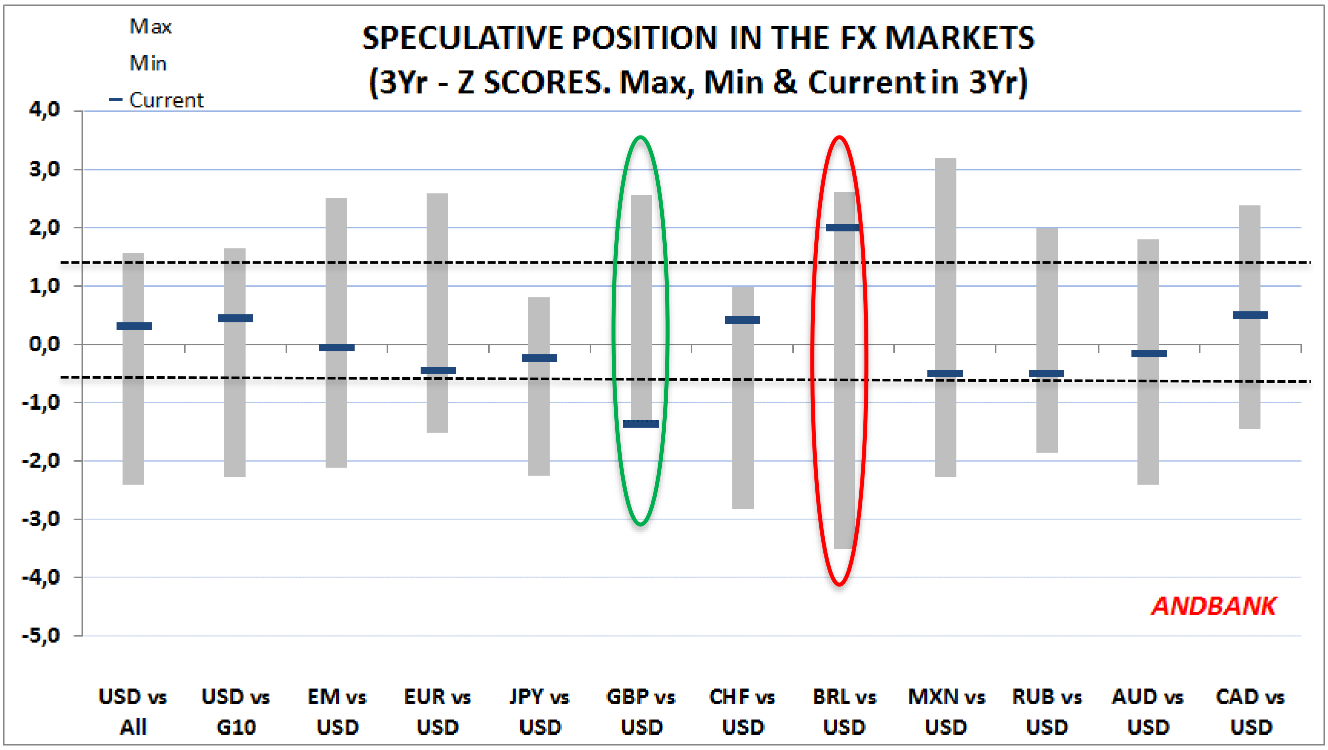

The currencies we technically favor are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Fair Value	Expected Performance to Fair Value*
Equity	USA - S&P 500	-8,1%	-13,7%	4.117	4.645	12,8%
	Europe - Stoxx Europe 600	-5,9%	-12,0%	429	470	9,6%
	Euro Zone - Euro Stoxx	-4,7%	-15,0%	407	456	12,0%
	SPAIN - IBEX 35	-1,9%	-4,5%	8.323	9.316	11,9%
	MEXICO - MXSE IPC	-9,5%	-5,9%	50.153	61.036	21,7%
	BRAZIL - BOVESPA	-11,0%	0,4%	105.237	112.500	6,9%
	JAPAN - NIKKEI 225	-1,3%	-6,2%	27.004	29.424	9,0%
	CHINA - SHANGHAI COMPOSITE	-8,6%	-17,5%	3.002	3.322	10,7%
	CHINA - SHENZEN COMPOSITE	-12,6%	-26,5%	1.859	2.344	26,1%
	INDIA - SENSEX	-8,0%	-5,9%	54.836	67.259	22,7%
	VIETNAM - VN Index	-12,7%	-10,5%	1.329	1.844	38,7%
	MSCI EM ASIA (in USD)	-6,7%	-14,9%	567	618	8,9%
Fixed Income Core countries	US Treasury 10 year Govie	-3,6%	-11,9%	3,07	**3,25**	1,6%
	UK 10 year Gilt	-1,8%	-7,5%	1,94	1,75	3,5%
	German 10 year BUND	-3,3%	-10,1%	1,07	**1,25**	-0,4%
	Japanese 10 year Govie	0,0%	-1,3%	0,24	0,25	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	-4,1%	-12,7%	2,16	2,25	1,4%
	Italy - 10yr Gov bond	-5,9%	-14,9%	3,06	2,85	4,7%
	Portugal - 10yr Gov bond	-4,9%	-13,7%	2,18	2,25	1,6%
	Ireland - 10yr Gov bond	-3,4%	-11,9%	1,72	1,75	1,5%
	Greece - 10yr Gov bond	-5,8%	-17,2%	3,46	3,45	3,5%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,5%	-1,3%	90,22	80	0,8%
	Credit EUR HY-Itraxx Xover	-2,0%	-4,9%	427,51	375	5,4%
	Credit USD IG - CDX IG	-0,3%	-1,0%	83,06	80	0,9%
	Credit USD HY - CDX HY	-1,7%	-4,1%	455,91	375	7,0%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	33,4%	25,9%	20,69	20,00	26,2%
	Russia - 10yr Gov bond (local)	13,7%	-11,2%	10,15	14,00	-20,7%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	-1,1%	-2,8%	6,95	5,60	17,8%
	India - 10yr Gov bond (local)	-3,6%	-5,7%	7,43	7,00	10,9%
	Philippines - 10yr Gov bond (local)	-0,2%	-9,0%	6,04	4,80	16,0%
	China - 10yr Gov bond (local)	-0,1%	0,4%	2,82	2,40	6,2%
	Malaysia - 10yr Gov bond (local)	-3,7%	-5,7%	4,43	3,30	13,5%
	Thailand - 10yr Gov bond (local)	-3,7%	-5,4%	2,62	3,00	-0,4%
	Singapore - 10yr Gov bond (local)	-1,8%	-8,1%	2,73	3,40	-2,6%
	Rep. Korea - 10yr G. bond (local)	-2,2%	-8,9%	3,35	3,90	-1,0%
	Taiwan - 10yr Gov bond (local)	-0,6%	-2,3%	1,01	1,90	-6,1%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-4,6%	-9,9%	9,12	9,05	9,7%
	Mexico - 10yr Govie (USD)	-6,0%	-13,4%	4,96	5,00	4,6%
	Brazil - 10yr Govie (Loc)	-10,8%	-14,6%	12,56	11,75	19,0%
	Brazil - 10yr Govie (USD)	-3,5%	-8,2%	5,87	6,50	0,8%
Commodities	Oil (WTI)	14,2%	46,1%	109,9	100,00	-9,0%
	GOLD	-2,4%	2,8%	1.880,1	1.800	-4,3%
Fx	EURUSD (price of 1 EUR)	-3,0%	-7,1%	1,056	1,08	2,3%
	GBPUSD (price of 1 GBP)	-5,6%	-8,8%	1,23	1,39	12,8%
	EURGBP (price of 1 EUR)	2,6%	1,9%	0,86	0,78	-9,4%
	USDCHF (price of 1 USD)	5,4%	7,8%	0,98	0,93	-5,4%
	EURCHF (price of 1 EUR)	2,2%	0,2%	1,04	1,01	-3,2%
	USDJPY (price of 1 USD)	5,3%	13,3%	130,40	116,00	-11,0%
	EURJPY (price of 1 EUR)	2,1%	5,2%	137,74	125,28	-9,0%
	USDMXN (price of 1 USD)	0,2%	-1,4%	20,20	21,50	6,5%
	EURMXN (price of 1 EUR)	-3,1%	-8,6%	21,28	23,22	9,1%
	USDBRL (price of 1 USD)	6,6%	-9,7%	5,03	5,25	4,4%
	EURBRL (price of 1 EUR)	3,4%	-16,1%	5,31	5,67	6,8%
	USDARS (price of 1 USD)	3,9%	13,1%	116,15	175,00	50,7%
	USDINR (price of 1 USD)	1,1%	3,1%	76,76	76,00	-1,0%
	CNY (price of 1 USD)	5,1%	5,2%	6,68	6,35	-4,9%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
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