GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – Strategic Outlook 2023

EXECUTIVE SUMMARY

- **Global:** 2022 taught us that, far from being a regional issue, we have become entrenched in a global and transversal conflict. Global because all major countries are involved. Transversal because it plays out on many fields: politics, energy, semiconductors, food, or finance. Global conflicts last a long time, which means that it will most likely extend through 2023; suggesting that the commodity complex is likely to remain dislocated, continuing to put pressure on consumer prices during 2023 and forcing central banks to remain vigilant for a long time. Perhaps longer than the consensus can estimate today. In such a case, it is likely that the environment will continue to be adverse for financial markets. That is why we are not at all clear that 2023 should be better than 2022.
- **Energy & Markets:** There is tight linkage between energy, the economic cycle and markets. The world economy has never done well with structurally high energy prices, and although gas prices have fallen recently, they are still 480% above pre-2020 average prices in Europe (in the US gas prices are 250% above 2019 levels). The link also indicates that it has rarely been profitable to invest in financial assets when energy is expensive and accelerating. If we take the 2-year trend for oil and gas prices and compare it to the 15-year trend, we conclude that energy is in the acceleration phase.
- **Inflation:** On several occasions during 2022 the market thought inflation had already peaked, causing a bounce in asset prices. The issue of inflation is of the utmost importance, since it caused a dramatic change in the monetary regime, which in turn triggered a sharp change in investor's mood. In our CIGA (Andbank's Global Investment Committee), we finally agreed that inflation may already have peaked in the US, but the discussion was arduous as we know from our data that inflation never peaks until we are well into recession. If history is correct, and repeats itself, the central banks must knowingly lead us into recession to put the animal back in the cage.
- **Europe & the ECB:** Be that as it may, whether inflation has peaked or not, one of the most important conclusions of the CIGA was that the main global economies will enter a recession during 2023. Europe will be the first, with negative estimated GDP growth (according to estimates in Reuters) of -0,8% saar in 1Q23, -2.8% in 2Q23 and -1.20% in 3Q, making it easier for the ECB's Refi Rate not to extend far beyond the current levels, and be fixed at 3%-3.25%.
- **USA & the FED:** The US economy could take a little longer to go into recession, due to its greater dynamism. It is not yet clear how deep that recession could be (the bank consensus maintains a favorable view in this regard). The negative reading of this resilience is that it will make the Fed work harder to cool down the economy sufficiently, probably taking the terminal rate to 5% (or above) and keep it there for one or, maybe, two years. This has not yet been discounted in assets prices and will be a negative surprise when it materializes. We do not share the view that the Fed may already lower interest rates in 2023.
- **The Four-Quadrant Framework:** This framework proposes that the world be considered according to two variables: Growth and prices. Therefore, there are only four possible scenarios: 1) Growth with inflation, 2) Growth with deflation, 3) Recession with deflation, and 4) Recession with inflation. This approach becomes more relevant knowing that financial assets behave very differently depending on whether the economy is in one quadrant or the other. In the CIGA's opinion, the global economy is heading towards Quadrant 4 (Recession with inflation). And although this transition could be temporary, we must remain cautious, even more so knowing that in that scenario few financial assets do well.
- **Our strategy:** We will maintain a high level of cash & near cash in our discretionary mandates (around 15% to 20%) and will only aggressively build portfolios with levels close to 3,200 for the S&P, and 390 for the Stoxx Europe 600. A generally cautious view is maintained for all markets (perhaps with a little more optimism in the Spanish market, Mexico, India and Vietnam) but current positions will be maintained: ***In equities***, we are in high-conviction sectors (for the growth part) and consistent sectors (for the value part), with bias in consulting, scoring, port management, defense, luxury, prison services, etc. ***In Fixed Income,*** we have invested a great analytical effort in the selection of our direct positions. We view our losses as temporary, not permanent. We believe that all our individual fixed income positions will perform and will not enter any restructuring process (both in IG and HY). We are going to be very demanding when it comes to taking duration (in USD when the UST10 is above 4%, and in euros, when the Bund is at or above 3%). In corporate credit, the stance is also cautious, and we will only build portfolio at certain levels (well above 100bp in IG and 500bp in HY).
- **Beyond 2023:** We are aware of the challenging tone of our considerations and recognize that we are not at all convinced that the market environment in 2023 will be better than in 2022. Nevertheless, we do clearly expect a world where interest rates are positive and economic decisions are rationalized, making the environment more reasonable. This is a path that leads us to no longer having to fall into a new imbalance to solve another previous imbalance, that is, path that will steer us away from eventual disaster. The market dictates the price of assets, reinvigorating the principle of price discovery and, although painful at first, it is infinitely better than when the asset prices are set by a monetary authority. We see 2023 as a good opportunity to follow certain assets which, at certain prices, will provide a unique opportunity to build a portfolio. A portfolio that, without expecting great immediate joy, will lay the foundations for great rewards in the not-too-distant future.

EQUITIES

Index	INDEX CURRENT PRICE	Potential Price	E[Perf] to potential price	Recommended Strategy	Suggested Exit Point
USA S&P 500	4.027	3.198	-20,6%	UW-MW	4.157
Europe - Stoxx Europe 600	441	389	-11,8%	MW	467
Euro Zone - Euro Stoxx	427	369	-13,6%	MW	443
Spain IBEX 35	8.397	8.097	-3,6%	OW-MW	8.907
Mexico IPC GRAL	51.994	52.844	1,6%	OW-MW	58.129
Brazil BOVESPA	108.841	106.896	-1,8%	MW	117.586
Japan NIKKEI 225	28.383	26.559	-6,4%	MW	29.215
China SSE Comp.	3.089	2.951	-4,5%	UW	3.246
China Shenzhen Comp	1.998	1.929	-3,5%	UW	2.122
India SENSEX	62.273	68.186	9,5%	OW	75.005
Vietnam VN Index	948	1.001	5,7%	OW	1.102
Taiwán SE Weighted Index	14.784	13.940	-5,7%	MW/OW	15.334
MSCI EM ASIA	495	501	1,3%	OW	552

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Performance YTD	Current Price	Andbank's estimate (potential price)	Expected Performance (to potential price)
Fixed Income Core countries	US Treasury 10 year Govie	-17,3%	3,84	4,00	2,5%
	UK 10 year Gilt	-17,0%	3,19	3,75	-1,3%
	German 10 year BUND	-17,4%	1,97	2,25	-0,3%
	Japanese 10 year Govie	-1,3%	0,24	0,25	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	-19,0%	2,98	3,25	0,8%
	Italy - 10yr Gov bond	-21,1%	3,91	4,25	1,2%
	Portugal - 10yr Gov bond	-19,1%	2,89	3,25	0,0%
	Ireland - 10yr Gov bond	-17,5%	2,43	2,75	-0,1%
	Greece - 10yr Gov bond	-22,3%	4,18	4,75	-0,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-1,4%	94,75	100	2,6%
	Credit EUR HY-Itraxx Xover	-4,9%	461,22	500	5,3%
	Credit USD IG - CDX IG	-1,0%	81,35	100	4,9%
	Credit USD HY - CDX HY	-3,5%	479,51	500	8,9%

FIXED INCOME - EM

Asset Class	Indices	Performance YTD	Current Price	Andbank's estimate (potential price)	Expected Performance (to potential price)
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	118,1%	10,73	11,75	2,6%
	Russia - 10yr Gov bond (local)	-5,4%	10,00	14,00	-22,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	0,1%	7,01	6,50	11,1%
	India - 10yr Gov bond (local)	-1,2%	7,31	7,25	7,8%
	Philippines - 10yr Gov bond (local)	-15,7%	7,20	8,00	0,8%
	China - 10yr Gov bond (local)	2,1%	2,80	2,75	3,2%
	Malaysia - 10yr Gov bond (local)	-3,3%	4,37	5,25	-2,7%
	Thailand - 10yr Gov bond (local)	-4,6%	2,65	3,50	-4,2%
	Singapore - 10yr Gov bond (local)	-10,2%	3,10	4,00	-4,1%
	Rep. Korea - 10yr G. bond (local)	-10,3%	3,68	4,50	-2,9%
	Taiwan - 10yr Gov bond (local)	-6,4%	1,57	2,50	-5,9%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-6,5%	9,21	10,00	2,8%
	Mexico - 10yr Govie (USD)	-19,1%	5,88	5,90	5,8%
	Brazil - 10yr Govie (Loc)	-15,2%	13,34	13,50	12,1%
	Brazil - 10yr Govie (USD)	-12,0%	6,66	7,25	2,0%

COMMODITIES & FX

Asset Class	Indices	Performance YTD	Current Price	Andbank's estimate (potential price)	Expected Performance (to potential price)
Commodities	Oil (WTI)	6,0%	79,7	87,50	9,7%
	GOLD	-5,0%	1.737,8	1.900	9,3%
Fx	EURUSD (price of 1 EUR)	-9,9%	1,024	0,975	-4,8%
	GBPUSD (price of 1 GBP)	-12,6%	1,18	1,17	-1,0%
	EURGBP (price of 1 EUR)	3,1%	0,87	0,83	-3,8%
	USDCHF (price of 1 USD)	5,1%	0,96	0,97	1,1%
	EURCHF (price of 1 EUR)	-5,3%	0,98	0,95	-3,7%
	USDJPY (price of 1 USD)	23,5%	142,12	135,00	-5,0%
	EURJPY (price of 1 EUR)	11,2%	145,54	131,63	-9,6%
	USDMXN (price of 1 USD)	-4,6%	19,54	21,00	7,5%
	EURMXN (price of 1 EUR)	-14,1%	19,99	20,48	2,4%
	USDBRL (price of 1 USD)	-4,5%	5,32	5,25	-1,3%
	EURBRL (price of 1 EUR)	-14,0%	5,45	5,12	-6,0%
	USDARS (price of 1 USD)	58,9%	163,17	370,00	126,8%
	USDINR (price of 1 USD)	9,7%	81,70	82,00	0,4%
	CNY (price of 1 USD)	12,8%	7,16	7,50	4,7%

USA

Where is the Fed going to stop and when is it going to turn around?

Growth & Federal Reserve

The US economy could take a little longer than Europe to enter a recession, due to its greater dynamism. It is not yet clear how deep that recession could be (the consensus of banks maintains a favorable view in this regard). The negative reading of this resilience is that it will make the Fed work harder to cool down the economy sufficiently, probably taking the terminal rate to 5% or above to be able to anchor and channel inflation. Once the terminal rate at 5%-5.5% is reached, presumably the Fed will hold it steady there for some time. A year, maybe two. The length of that period will have to do with the dynamics of the war and energy prices. We do not share the view that the Fed could lower interest rates as early as 2023. This is not yet discounted in the price of assets and will be a negative surprise when it materializes.

The last Fed meeting started with the expected 75 bps interest rate hike (target now in the 3.75%-4% range), followed by Powell´s words suggesting that it was "very premature to be thinking about pausing" and that the "ultimate level of interest rates will be higher than previously expected [in September]". From our end, we are monitoring what is happening with commodities, especially energy prices. We have become entrenched in a global and transversal conflict. Global because all major countries are involved. Transversal because it is played out on many fields: politics, energy, semiconductors, food, or finance. Global conflicts last a long time, which means that it will most extend through 2023; suggesting that the commodity complex is likely to remain dislocated, continuing to put pressure on consumer prices during 2023 and forcing central banks to remain vigilant for a long time. Perhaps longer than the consensus can estimate today. Historically the Fed has started its rate cut cycles once inflation has peaked and recession has materialized. This is because inflation historically peaks only once we have entered a recession. The question then is, are we already in a recession? And if we are not, how long will it take to see the pivot point?

Inflation and economic activity

The issue of inflation is of the utmost importance, since it caused a dramatic change in the monetary regime, which in turn triggered a sharp change in investor's mood. In our CIGA (Andbank's Global Investment Committee), we finally agreed that inflation may already have peaked in the US, but the discussion was arduous as we know from our data that inflation never peaks until we are well into recession. If history is correct, and repeats itself, the central banks must knowingly lead us into recession to put the animal back in the cage. Inflation showed for the first time in recent months a better number than market expectations (+0.4% m/m vs. +0.6% m/m estimate) and annual inflation declined from 8.2% y/y to 7.7% y/y (vs. 8% y/y estimate) after reaching 9.1% y/y in June. For core inflation we also had readings below expectations for monthly (+0.3% m/m vs. +0.5% m/m) and annual figures (+6.3% y/y vs. +6.5% y/y). Labor market data as a whole still signal a strong labor market, which still puts pressure on prices, and on the Fed. Although the unemployment rate increased to 3.7%, employers keep hiring with new payrolls coming at 261,000, above market expectations of 205,000. On the other hand, it was the slowest pace since December 2020, but still a solid gain by historical standards. Average hourly earnings also rose 0.4% m/m and were up 4.7% from a year ago, still well below the inflation rate. On the positive side we also have consumer confidence that rose (+4.05%) for the second consecutive month to 107.8 from 95.30 two months ago. The real estate sector continues to be where the greatest number of signs of slowdown appear.

Financial markets

Equities: Given that the conflict in Ukraine is global in nature, and will therefore thrust major powers into contention, it will most likely lengthen and harden, leaving a complicated picture for energy prices, inflation, the Fed, and markets. That is why we have tried to define what could be a floor for the S&P. To do this, we have tightened earnings (EPS to negative growth levels, and we have set them at USD220 for 2023) and we have also tightened the PE multiple to 14.5 (consistent with a mild recession). That gives us a base price of 3,200.

Rates & Credit: We are going to be very demanding when it comes to taking duration in USD (only when the 10YUST yield is well above the 4%); especially after discussing our targets for the Fed's next steps. In the corporate credit area, the stance is also cautious, and we recommend building portfolio only at certain levels (above 100bp in IG, when high quality bonds are offering interesting yields with a conservative duration) and 500bp in HY (where default rate forecast for 2023 is low at 2.5%-3.5% according to Fitch).

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P UNDERWEIGHT- MARKETWEIGHT

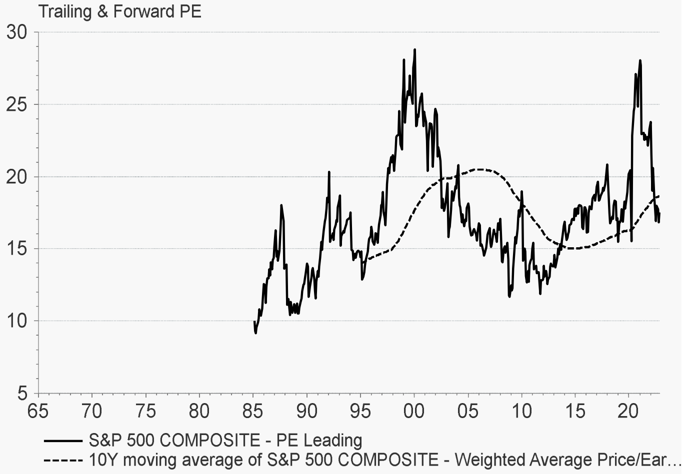
Bonds: Govies UNDERWEIGHT. 10Y UST Target 4.25%

CDX IG: MARKETWEIGHT (Target Spread 100)

CDX HY: MW-OVERWEIGHT (Target Spread 500)

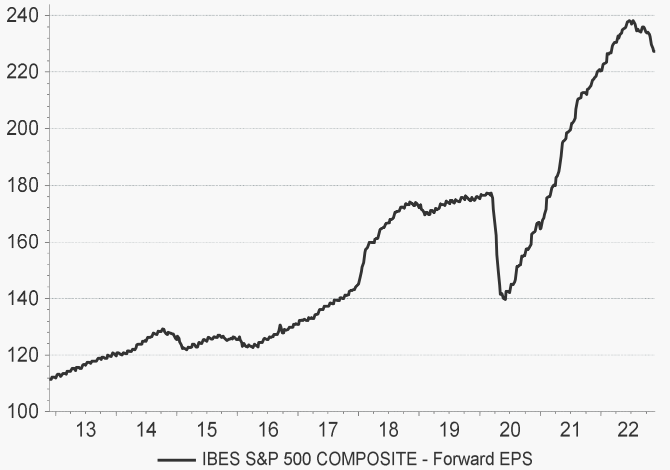
Forex: DXY index MARKETWEIGHT-OVERWEIGHT

US price-to-earning ratio
Trailing & Forward PE



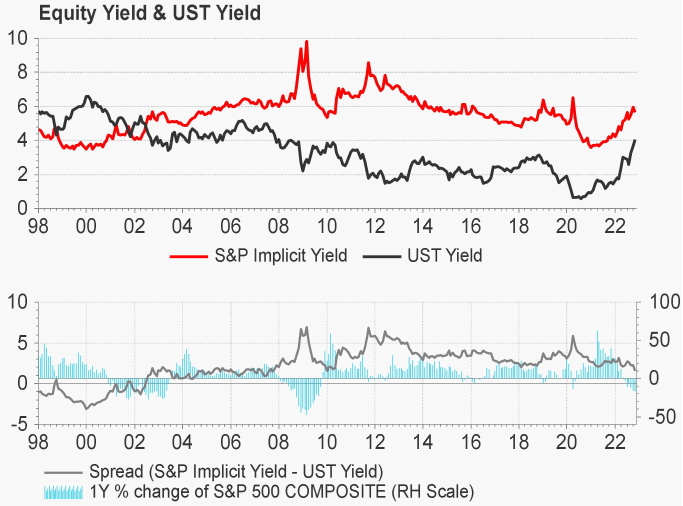
Fuente: Refinitiv Datastream / ANDBANK

S&P 500 - EPS



Fuente: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Fuente: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

EUROPE

Good luck needed to avoid recession next year

2023: Recession along with still high inflation (though lower than in 2022)

A moderate recession in 2023 seems to be the consensus among forecasters, ECB members included. On the negative side, we have declining consumption and sluggish private investment, both affected by the erosion of consumer purchasing power and very low confidence levels. The main tailwind comes from the fiscal impulse in response to the energy crisis, with the NGEU funds being fully deployed in 2023-2024. The labor market, fully recovered from the pandemic, could start to weaken modestly. GDP figures could thus hover around 0%/-0.2% for the full year 2023. On a quarterly basis, estimations are for GDP growth (according to Reuters estimates) of -0,.% seasonally adjusted annualized rate (saar) in 1Q23, -2.8% in 2Q23, and -1.20% in 3Q. Technical recession is also part of ECB recent estimates, making it easier for the ECB's Refi Rate not to extend far beyond the current levels, and stay fixed at 3%-3.25%.

Energy risks remain well alive despite the recent relief in natural gas prices/demand. Positive structural steps have been taken for a cooperative energy approach for the long run. Inflation in Europe has not peaked yet, and is expected to peak by the end of 2022, though it could remain uncomfortably high in 2023, sliding towards 5.5%-6% y/y at the end of the year. The base case scenario is that energy inflation annual rates decrease due to base effects and policy measures. Core inflation could lose some steam as the economy dips into recession, but service inflation is far from controlled and energy has spilled into core goods. All in all, core inflation could decrease to around 4-4.5% y/y. Economic scenarios ranges from a more dramatic impact on the activity, should another commodity shock occur with gas rationing/blackouts due to lack of supply (GDP would be at ~ -1% y/y), or a more positive outcome if we see a faster resolution of the 2022 shocks.

ECB entering 2023: no further front-loading, rate cuts discarded

"More hikes are justified, but significant progress has been made". That seems to point to further moderation in rate hikes within sight, as the full effect of the current monetary tightening will be felt in the next 12 to 18 months. We stick to +50 bps into December, with a bigger hike not off the table, followed by +50-75 bps in 1Q2023. Rates could then enter a plateau for the rest of 2023. That would lead us to a terminal depo rate around 2.75% (slightly below market expectations, close to 3%), and the terminal rate for the refi rate could be fixed at 3%-3.25%. QT will be implemented from 1Q2023, with APP reinvestments phasing out. The shrinkage of the ECB balance sheet will be dominated by the early repayment of TLTROs and should have limited effects on financing terms.

Financial Markets: Govies, Corporate Credit & Equity

Govies: The bottom in the sell-off tends to be reached in the six months before the last hike (end of Q1-Q2 2023?). With a terminal rate around 2.5-2.75%, we could consider a 10Y bund yield around 2.5%. QT should not play a major role in pushing yields up, as in 2018-2019 when growth and inflation moderated. As for peripherals, we only adjust our Italian risk premium to 200 bps (from 240 bps), due to the prudent Meloni´s first fiscal approach. A budget proposal for 2023 sets aside some fears regarding a very expansionary policy and aligns with the EU discipline.

Corporates: Considering the recession and that we do not believe that there will be more interest rate hikes by the ECB —beyond the spring of 2023— spreads could narrow in 2H2023. On the one hand, we have attractive valuations both in absolute and relative terms (European senior IG category with yields above 4%). On the other, the net offer in European IG for 2023 will be less than in 2022. Finally, the PEPP will be the first line of defense against unjustified spread widenings. Even so, our recommendation remains maintaining a defensive position, favoring IG over HY, and building positions aggressively above 100bp spread in the IG universe, and +500bp in the HY. Higher yields have enhanced the attractiveness of higher quality bonds, while recessionary prospects weigh more heavily on riskier credit. We are not aggressive in duration (3-5 years preferred) and as long as risks persist, we are underweighting companies in cyclical sectors.

Equity market: Despite the pressure from energy and borrowing costs, companies have shown significant resilience, with margins that have remained stable. The fall in prices and higher EPS have caused a contraction of multiples, leaving European indices with more comfortable valuations than US peers. In 2023 we are facing a year that, in addition to higher costs (along with energy, we now have to add higher financing costs and higher salary costs), which will put pressure on margins, we will have an economic decline (affecting sales growth). So it seems desirable to maintain a cautious position, giving greater weight to defensive businesses with the ability to pass on their costs.

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 2.5%. Buy at 3% yield)

Peripheral – UW IT (4.25%), SP (3.25%), PO (3.25%), GR (4,75%), IE (2.75%)

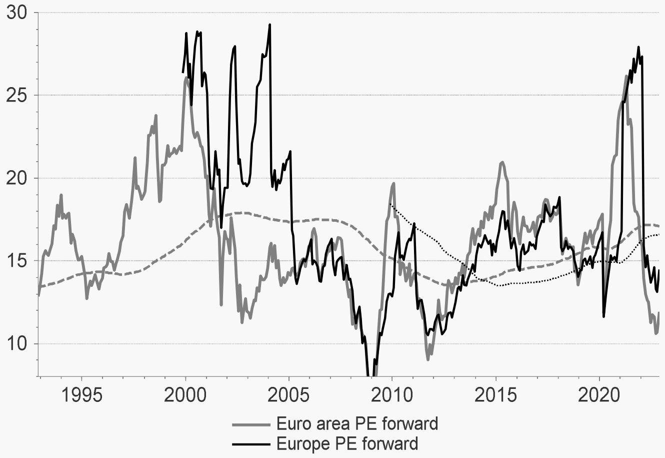
Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 100)

Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 500)

FX – EUR/USD Central Target 0,975 (At 0.95 cover 75% of the USD. At 1.00 cover 25%)

Euro area & EU price-to-earnings

Ratio - Forward



Fuente: Refinitiv Datastream / ANDBANK

STOXX 600 - EPS

1Y % Change

Fuente: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Fuente: Refinitiv Datastream / ANDBANK

CHINA

China is reportedly preparing to remove the commitment to economic reform from the legislation

Reforms

According to the Nikkei Asia outlet, China is ready to scrap calls for reforming and opening up the economy from upcoming legislation. The new legislative text would seek to replace the term reform with a reference to President Xi Jinping's trademark ideology, in a move seen as pushing market-friendly policies lower on the agenda. Language calling for adherence to openness is removed, and the concepts of national security and social stability, proposed as primary objectives already at the Communist Party congress, would be emphasized. During the CCP Congress, Xi made few references to China's reform and opening up, slamming the legacy of Deng Xiaoping and Hu Jontao that led the country to join the global economy in the 1980s. And while Xi has emphasized the importance of rule of law, he has overseen a tightening of the Communist Party's control over the National People's Congress. The standing committee of the National People's Congress is chaired by Xi's ally Li Zhanshu. China watchers say the proposed changes could stall economic reforms.

China enters deflation. China monetary data broadly disappoint

Chinese PPI (producer price index) was negative for first time in two years, at -1.3% y/y (vs +0.9% in prior month). Meanwhile, headline CPI continued its downward trend in October, and stood at +2.1% y/y (vs +2.8% in prior month). PBOC posted new loans of CNY615.2B in October (vs consensus CNY800.0B and prior CNY2.47T), the lowest figure for new lending since Dec-17 and curbing the growth in outstanding loans to 11.1% y/y (prior 11.2%). Sequential weakness was broad-based across household and corporate sectors. The disappointment was compounded in total social financing as prior support from front-loaded local government bond issuance diminished with quotas exhausted, and M2 money supply grew slower than expected. M2 money supply +11.8% y/y vs consensus 12.0% and prior +12.1%.

Covid-Policy: China Politburo Standing Committee reaffirms zero-Covid

China Politburo Standing Committee reaffirms zero-Covid policy as Covid infections jump to highest in a year. NHC showed national new Covid cases reaching 10,535 Thursday 10th, the highest in more than a year, and an almost 20% jump from Wednesday's total. The center of the outbreak remains in Guangdong where (3,007 new cases) and Henan province (3,005 new cases as Foxconn's Zhengzhou factory remained in a closed loop system). Inner Mongolia and Chongqing also posted higher new counts, and Beijing city found 114 new cases, some outside designated quarantine zones with the populous Chaoyang district sent into lockdown. While Covid situation remains grave, the Politburo Standing Committee convened to formulate 20 measures to optimize response measures. China shortens quarantine to eight days from ten for inbound travelers, citing optimization and scientific implementation of Covid control and prevention measures. The NHC also announced the cancellation of Covid-related circuit breakers for flights, and halves the number of negative PCR test results required within 48 hours of boarding (from two to one). All said, the NHC underscored that “priority remains on protecting health and saving lives, and reaffirmed its Covid-zero policy”. Still, the meeting emphasized efficiently managing Covid prevention and control, and endorsed a targeted approach that retains control measures while rectifying superfluous steps

Bond crisis ahead? China property crisis may endanger $1.6T of local state debt

Bloomberg commented that China's growing property crisis is putting more pressure on $1.6T of onshore bonds with regional governments stepping in to bail out troubled developers. Local government financing vehicles (LGFVs) are now the main purchasers of unfinished properties of defaulters, so much so that credit agencies are saying they could weigh on their credit profiles. China suffers another outflow of funds in October of $8.8B with investors worried over geopolitical developments and China's zero-Covid policy. Fixed income saw outflow of $1.2B and equities $7.6B, its highest level since Mar-22. In contrast, other emerging markets saw +$18B of fund inflow. Thus, it was mainland traders who were behind the recent run up in Chinese shares, while foreign funds stay away according to FT.

Geopolitics

The US blocks over 1K Xinjiang solar shipments since June over slave labor concerns. The seized shipments include panels and polysilicon cells mainly produced by Chinese firms Longi Green Energy, Trina Solar and JinkoSolar. Panels manufactured by the three companies account for a third of US supplies and the firms have halted new shipments to the US. US customs told Reuters that it has not released any of the shipments. White House announced President Biden will meet with President Xi Jinping in Bali. A senior US official was reported saying that Biden will set a floor to prevent further deterioration in relations, and there will be no joint statement. Biden is expected to discuss Taiwan, Russia's war in Ukraine and North Korea and the US would brief Taiwan on the results.

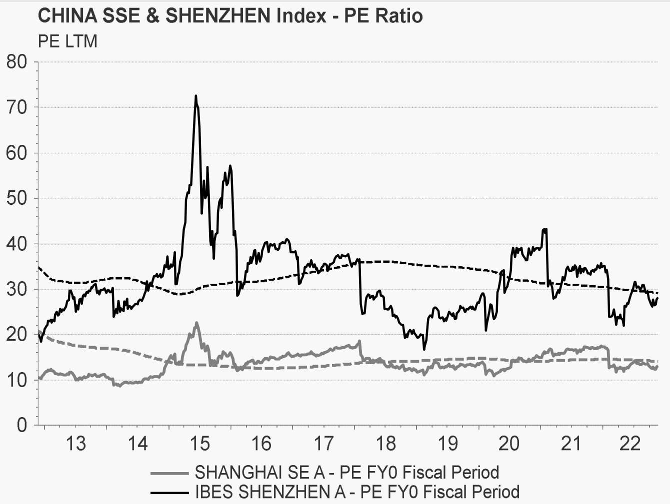
Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: UNDERWEIGHT

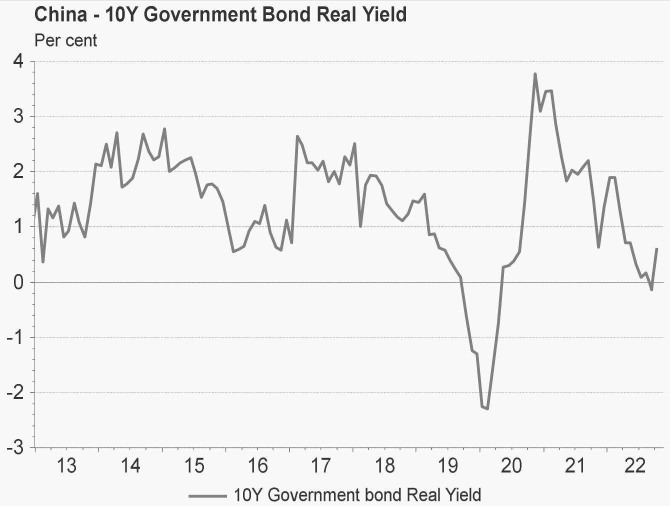
Equities – SHENZHEN Idx: UNDERWEIGHT

Bonds – Govies: MARKETWEIGHT-UNDERWEIGHT (10Y Yield target 2.75%)

Forex – CNY/USD: UNDERWEIGHT (Target 7,50)



Fuente: Refinitiv Datastream / ANDBANK



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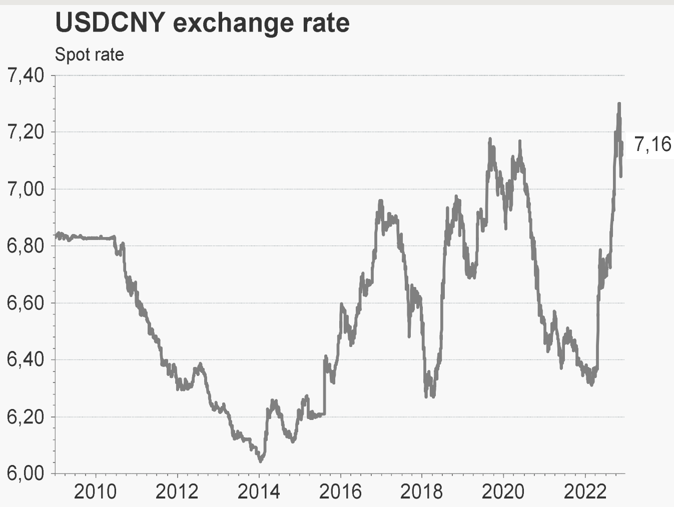


Fuente: Refinitiv Datastream / ANDBANK

JAPAN

Japan to lead G7 economic growth. Kuroda reiterates inflation to fall back below target. BoJ continues its QE

Central Bank: Kuroda reiterated BOJ views on the economy and policy. BOJ buying more JGBs than MOF issuance

Governor Kuroda reiterated BOJ policy, mainly noting that uncertainties have further increased from already extreme levels on both domestic and external economic outlook. He cited IMF forecasts for Japan to lead G7 economic growth next year, though explained by lagging recovery out of the pandemic combined with support from easy monetary policy. Domestic inflation still expected to run at around 3% this FY before slowing to ~1.5% from FY23. Kuroda's said to parliament that "any future debate on an exit from ultra-loose monetary policy will center on the pace of increase in short-term interest rates and adjustments in the bank's balance sheet". Still, he brushed aside the chance of a near-term interest rate hike, stressing that the BOJ must continue to underpin a fragile economic recovery with loose monetary policy. Opposition party member calls on BOJ policy normalization. The BOJ 2% inflation target will be scrutinized at a government-affiliated think tank. The Economic and Social Research Institute meeting will be held on 5-Dec and comes at a time when soaring raw material prices and a weak yen, driven by ultra-low interest rates, are pushing consumer inflation above the target. Meanwhile, the central bank purchases of the JGB 10-year technically exceeded the amount issued by MOF. Nikkei noted that new auctions for #368 will end 1-Dec, and a continuation of this dynamic could drastically deplete the amount in circulation with the potential for major impact on interest rates and the currency market.

Fiscal

Cabinet will approve on Tuesday an FY22 supplementary budget of ¥29.1T ($199B) as part of an economic stimulus package worth ¥71.6T designed to mitigate the pain on households and businesses of rising prices. MOF is eying tax hikes on wealthy.

Forex: More forensics on Japan FX intervention

FX reserves fell to $1.195T as at October-end, from $1.238T in the previous month, marking the third straight decline, following larger depletion after September's record single-day FX intervention operation, and the lowest level since July 2011. FX chief Masato Kanda told reporters he was closely watching foreign exchange market moves with a sense of urgency and that authorities were ready to take action, if needed. Comments followed weaker-than-expected US CPI data, which lowered market expectations for aggressive Fed rate hikes, sending the dollar falling by 4 yen overnight.

Debt: Government debt balloons to new record

Nikkei cited MOF data showing outstanding general government debt was a record ¥994T ($6.8T) in September, up ¥9.46T from June. It was noted that growth has risen to largest amount relative to GDP among G7 economies (262.5%), further exacerbating sensitivity to any interest rate rises. The approved second supplementary budget is set to inflate debt further to ¥1,042.4T at FY-end.

Activity

Q3 GDP at -1.2% q/q annualized rate (vs consensus +1.1% and revised +4.6% in prior quarter). Non-annualized figures were GDP -0.3% q/q (vs consensus +0.3% and revised +1.1% in prior quarter). September final industrial production at -1.7% m/m (vs preliminary -1.6% and +3.4% in prior month). November Reuters Tankan manufacturers' sentiment index +2 vs +5 in prior month. The October Economy Watchers Survey current conditions index was 49.9 vs 48.4 in prior month. Outlook index 46.4 vs 49.2 in prior month. In the labor market space, the Teikoku Databank survey showed that 50.1% of companies in Japan are suffering from a shortage of full-time employees as the country's labor crunch, caused by the aging population, continues to be felt. The labor shortage is compounded by recovering economic activity. This was the first reading above 50% since November 2019. Meanwhile, the Japan Tourism Agency data showed the number of foreign tourists that arrived in Japan in October increased more than 15-fold from the previous month to 288,909 as the government removed almost all COVID-19 entry restrictions on 11-Oct.

Corporate: Japanese companies joining with government for next-gen chip development. Companies hold firm on capex plans with focus on tech

Nikkei reported several Japanese companies will team up with the government to launch a new entity named Rapidus to develop and make next-generation semiconductors, aiming to establish manufacturing processes by the late 2020s. Companies include Toyota Motor, Denso, NTT, Sony, Kioxia, NEC and SoftBank, with each expected to contribute ~¥1B ($6.8M).

Reuters monthly corporate survey found 52% of Japanese companies plan to focus their capital spending on technology next year, with investment plans largely unaffected by a plunge in the yen. It marked an increase from January 2019 when 42% of companies said tech would be an investment focus. 90% expected their spending would either stay the same or grow next year.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: MARKETWEIGHT

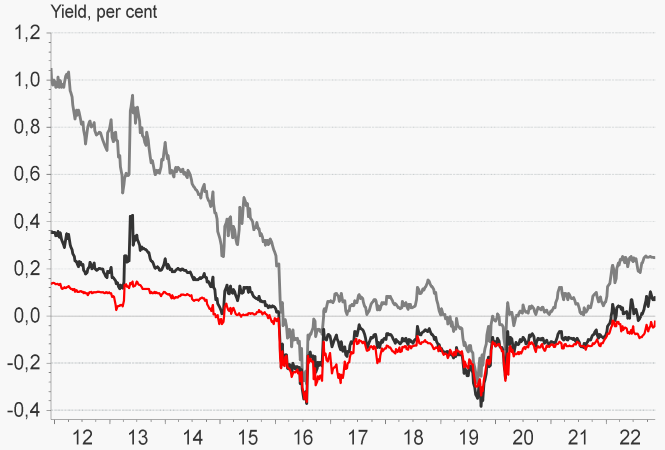
Bonds – Govies: MARKETWEIGHT-UNDERWEIGHT (Target yield 0.25%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 135)

Japan Nikkei 225 price / earnings
Ratio

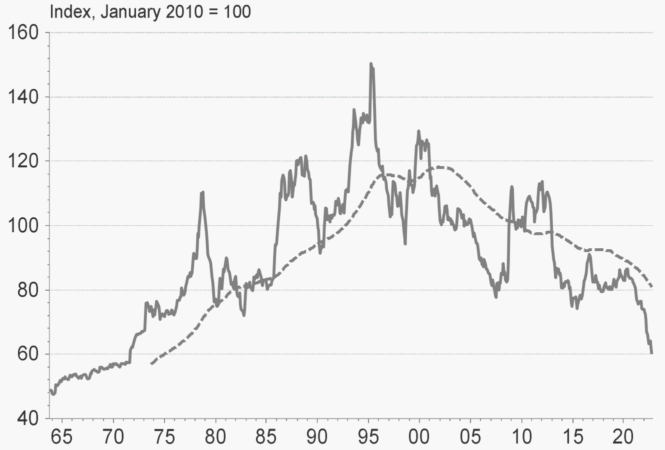
Fuente: Refinitiv Datastream / ANDBANK

Japan benchmark government bonds
Yield, per cent



Fuente: Refinitiv Datastream / ANDBANK

Japan real narrow EER
Index, January 2010 = 100



Fuente: Refinitiv Datastream / ANDBANK

INDIA

Our assessment for the future remains bright. It is not only FDI, but also domestic investment

Our talks with local agents allow us to get a general picture of the macro environment

It's very interesting to see how things have changed in the last five years in this country, especially when you look at specific things like industrial policy or solar energy policy. This is important because in Delhi, for example, what most worries people is not an economic slowdown, but more environmental issues (partly because of the fires in the valleys surrounding Delhi). The situation in India today is very reminiscent of the situation in Beijing in the early 2000s, when China was about to change our lives. The big difference is that, at that time, in Beijing it was not known how bad the situation was in all senses (including pollution), but in India data are published every day and thanks to the data they can begin to manage issues sooner and better, compared to the situation in Beijing in 2000. The second issue that is on the minds of citizens is politics, as some may fear a return to the old autocracy. The truth is that there is no political opposition to Modi today, which means that he has the legitimacy to speed up a reformist and opening-up process. Opposition politicians have been greatly weakened in parliament, especially when the main opposition party has chosen a leader of more than 80 years, which limits the possibilities of injecting fresh air into that party and thus of taking power away from Modi. In summary, Modi's BJP is very strong in almost the entire country. The figure of the president himself is also very well positioned for a third term, and without any opposition, Modi can win easily and continue to make policies focused on the economic progress that he likes so much, practically without obstacles. The market will take it very well.

Forecasts are still for bullish growth, although we are aware that government forecasts do not explain the complete picture

The government continues to forecast bullish growth of 8%-8.5% in the 2022-23 fiscal year, but this could be a somewhat false picture as a lot of this reflects some base effects and sort of catch-up after the Covid lockdowns. It is worth recalling that the economy was slowing for eight consecutive quarters before Covid, so it was a sort of going through a structural slowdown, and lockdowns were so severe in India that they allowed a sort of economic momentum that was not there before Covid, meaning that although the rebound in activity looks good it does not tell the full story. If we look at the latest quarter growth sequentially, India’s economy did not grow at all. All in all, we are inclined to think that GDP growth will be closer to 7% this fiscal year (maybe somewhat higher) and then could moderate to 6.5% for FY2024 and 2025. Still, that is much better than any other major country out there. For inflation, projections are 6.8% this year, declining to 5.2% and 4.75% in the subsequent years.

Reforms adopted in Modi's first term are beginning to bear fruit

Although our view is getting somewhat more mixed, in general, we still have a positive take on this economy. Lots of people express disappointment over how most governments often suggest things but are then unable to undertake important pending reforms. For example, land reform or farm bills are issues that continue to concern people. There are also worries about how difficult it still is to open large factories because of the difficult labor laws. However, something important must be recognized. In the last three years there have been important changes in the right direction. Of course, getting started is always hard and it takes a long time to outgrow old, inefficient or uneconomic practices, but some of the reforms adopted in Modi's first term have started to take hold and are beginning to show their positive effects. I would highlight the "Goods and Services Tax" (GST) reform, which managed to get rid of a disparity in criteria between different states, the cause of a perpetual slowdown in commercial traffic. The GST was the embryo of a genuine common single market. Today it is much easier to move goods without having to go through the different state taxes, which seriously slowed down the entire circuit. The paradox is that thanks to this streamlining, government revenue from GST has increased remarkably month by month, reaching record levels, and that makes us optimistic for two reasons. It shows that the reforms were going in the right direction and that their effects have yet to fully deploy.

Another advance worth noting is the reform for financial inclusion (aimed at the poor), and especially the financial digitization program, which has managed to curb corruption throughout the subsidy scheme. The modernization and digitization process is moving faster and more naturally than we might have thought in 2018, when it all started. Today, people make payments and transfers with their mobile devices in much of the country. Everywhere, sellers and service providers expect mobile payment, and generally no longer want cash. This has made it possible to advance against the serious problem of the submerged economy, which affected state revenue so negatively, and is also very helpful in the creation of small businesses. These were major reforms that are visibly bearing fruit now, and that make us remain optimistic with this economy, and this market.

Advantages for India of China's setback due to its special zero Covid policy, and its technology transfer problems due to US sanctions

There is an awareness in the country that China's serious problems represent a major potential opportunity for India. This is relevant since the awareness of that opportunity may allow the Indian society to become better prepared to exploit all that potential. We see how the most important mobile phone factories in China remain closed for long periods (for example, Foxconn), and how they are relocating activity to Vietnam or India. Apple looks like it's going to bring more production to India.

Sure enough, it looks like FDI is growing vigorously, and will continue to do so as long as there's no change in the current geopolitical environment. There is also an opportunity in terms of financial flows, due to the fact that China is not only doing worse economically, but also because of the fear of increasing isolation of Beijing as a result of geopolitical tensions that seem likely to increase due to the new political direction that China has taken after the last congress of the CCP.

It is not only FDI. The domestic investment cycle also points to a vigorous boom

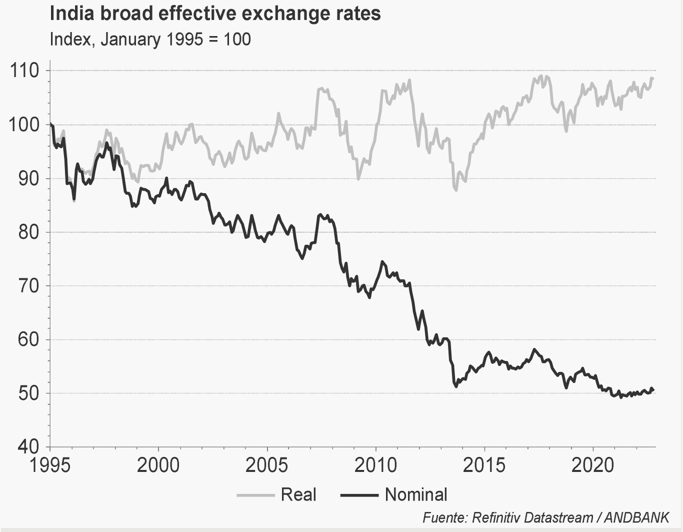
Then there is the matter of the private-domestic investment cycle. It has been on hold for much of the past few years, and we expect it to pick up again, which it hasn't done yet. When that starts, we will see a quantum leap in the quality and intensity of growth. It's too early to say anything, but signs are emerging that could fuel a revival of domestic investment. Banks have been working out their bad debt problems, but now seem to be in better shape, thanks in part to the new bankruptcy and insolvency code. Bank balance sheets have been cleared and they are now able to finance a new cycle of local investment. Credit is already accelerating at a 16% yoy rate, and because of that we can already see the excellent results in some banks (see State Bank). The reality is that there is more credit because there is also more demand for loans, and if part of that demand comes from the industrial side, then this would be very encouraging. If we look at capacity utilization in industry, we see that it is already around 70%-75%, and that is a level where companies begin to seriously consider making capital investment. A very important business survey was published recently that showed very promising figures, as most sectors plan to grow in the next 9 months. We maintain a positive outlook for the next 2-3 years in this economy and this market.

Can India deliver on the front of the fight against climate change?

Modi has made big promises on climate change, and as in other countries, it seems difficult to meet the objectives set. What does seem certain is the goal of reaching 50% of its electricity generation from renewables by 2030. They are on the way to reaching 500 gigawatts from green sources, and 2/3 of this capacity will come from solar sources. Achieving this milestone (and India is one of the countries with the most solar capacity in the world, with huge solar deserts in the area of Rajasthan and Gujarat) would be a game changer. The question is if they will succeed. And the truth is that logic would indicate they will. Not only because of the self-imposed climate goals, but also because of the environmental problems in the big cities of this country that need an immediate solution, as well as for security reasons. India imports large amounts of energy (around 4-5% of its GDP). That is dangerous if there were a global energy shock. That is why there is a general push in India to achieve energy self-sufficiency. Something that can push the country towards meeting such ambitious goals.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT
Bonds – Govies: OVERWEIGHT (Target yield 7.25%)
Bonds – Corporates: OVERWEIGHT
Forex – INR/USD: NEUTRAL (Target 82)



VIETNAM

Temporary lack of liquidity in the market drags, but no economy in the world is growing at 13%, like Vietnam

Assessment of the situation

Recently, waves of mass selling have triggered price slumps and investor withdrawals on the stock market. Also, lots of domestic investors are holding large amounts of cash in Vietnam, draining liquidity from the stock market and causing movements in the index to be relatively more violent than in liquid markets. High deposit rates fueled the situation by encouraging investors to put their money into savings. The statistics indicate that the end of September 2022, the deposit balance of investors was about VND 72,500bn, an increase of VND 2,400 bn compared to the end of the second quarter of 2022. This amount of money is very large relative to the current stock market size. The effects of this amount of cash withdrawal from the stock market can be seen in the current trading volume of the VN Index, which is only averaging 12 billion shares per month, down approximately 30 percent from the second half of 2021. The fact that domestic investors largely decided to stay in cash, shows that sentiment remains cautious and that they are waiting for clearer signs of a floor forming before deciding to re-enter the market.

Long-term outlook: Vietnam's GDP is growing at a staggering 13% and there is considerable scope for market rebound in the long term

Vietnam's economy grew at 13.67% in real terms in 3Q22 from a year earlier. A sharp recovery in external trade, and personal consumption also, contributed to this astonishing level of growth (the first quarterly growth of more than 10% since 2009) according to the General Statistics Office of Vietnam. More importantly, the upswing came after the nation's economy expanded almost 8% yoy in 2Q22. It is worth noting that Vietnamese external gross trade has jumped to represent almost 200% of GDP (a decade ago this was 120% of GDP), and its trade balance with the US is growing at an astonishing 45% annual pace, reaching a monthly figure of US$11bn. Thus, it seems indisputable that the economy is flying high, just as it seems indisputable that it will continue to fly high with average GDP growth of 7-8% per year for the next few years (even higher than India) with a positive medium-term outlook assigned by international credit-rating agencies. In that outlook, the market would turn for the better in years to come as the US Federal Reserve is expected to reduce the frequency of interest hikes in 2023, a move that would ease the pressure on the State Bank of Vietnam to absorb more money from the economy. That points to a prospective recovery of cash flows. The outlook for the Vietnamese stock market is also positive in the long term because the VN Index is being undervalued compared to other markets in Southeast Asia. Nine-month pretax profits of the 200 largest firms in the market rose by 22% year-on-year and most listed firms are projected to grow by 20% in profits next year. Indeed, the market has been caught in a vicious circle of falling liquidity and panic selling but, for the time being, and despite unfavorable factors, long-term investors would consider that now is the time to hold stocks.

Short-term outlook: Instability could continue due to the low level of liquidity

The VN Index is currently trading around P/E trailing 9.6 times, equivalent to the bottom during the Covid-19 pandemic at the end of the first quarter of 2020. The market's deep decline reflects fears of external factors such as FED rate hikes and the risk of global economic recession, drivers that could leak into the domestic market in the form of instability of the corporate bonds market. Sure, in the short term, domestic investor sentiment is still heavily influenced by outside news (mainly the Fed and the war), and money flow can only really come back strongly if these factors cool down. Admittedly, we do not expect new developments on these fronts, so instability could well continue in this market. If compared with historical data, during periods of high interest rates like today, many investors are worried that P/E may drop to 8 times before bottoming, equivalent to a reduction of approximately 10 to 15% from current levels. However, in the context that Vietnam's long-term macroeconomic growth is guaranteed, along with the profit growth of listed companies, we think long-term investment opportunities appear quite clearly. Nevertheless, we reiterate that it will be difficult to see a jump on the upside in this index anytime soon as the inflows to the stock market in coming weeks are forecasted to remain low. Why? Currently, the total value of corporate bonds falling due in 2023 stands at VND 230,000 bn. This number of corporate bonds set to mature are mostly concentrated in the second half of 2023. Not only the stock market but also the general economy will inevitably face a large amount of money withdrawal from the economy as businesses have to collect money to cover their debt repayment obligations.

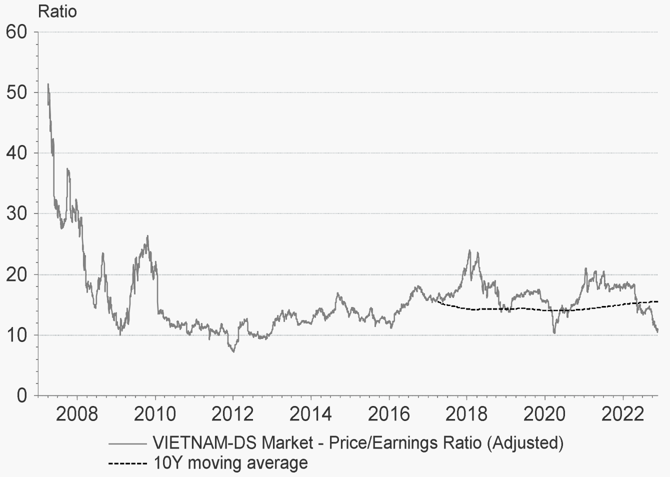
Solid fiscal and monetary position makes Vietnam one of the most solvent countries in the world

Inflation is running low at 4% because money supply growth is quite slow compared to domestic credit growth (due to the proactive regulation from the State Bank of Vietnam) and because the government is also applying an orthodox fiscal policy to control imbalances and prices: State budget revenue grew positively, exceeding the estimated schedule, while state budget expenditures were controlled and lower than planned, leading to a large surplus in the budget balance in 3Q, reaching VND 247,601bn in August. If we add that overall government debt is below 40% of GDP, this makes the country a solvency leader. This means a stronger currency, stable debt prices and stable business funding costs. In sum, a market that should be less vulnerable to external shocks.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

VIETNAM - Datastream index Price Earnings Ratio

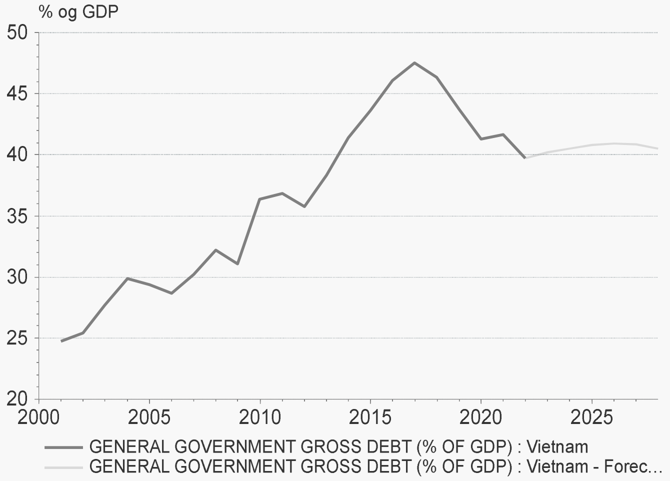


Fuente: Refinitiv Datastream / ANDBANK

Vietnam CPI

Fuente: Refinitiv Datastream / ANDBANK

Vietnam - General Government Gross Debt



Fuente: Refinitiv Datastream / ANDBANK

ISRAEL

We finally have a new government. What are the implications?

Politics

Benjamin Netanyahu, Israel's former prime minister (between 1996 and 1999 and from 2009 to 2021), was officially tasked with forming a new government, after being backed by party leaders representing more than half of Israel's 120 parliament members. Now Netanyahu will have 28 days to form a coalition government, with the possibility of a two-week extension. Netanyahu's decisive victory in recent elections removes a political cloud that has been hanging over the country for the past four years. The coalition is expected to have a distinct political tendency (to the right), although it is not yet clear in which direction it will lean from an economic standpoint.

Experience shows that Netanyahu holds a liberal economic outlook. Although in recent years the economic policies outlined by his governments have not been clear to one side or the other and it seems that only after the new finance minister is appointed will it be possible to assess what his policies will be. However, we do not anticipate a significant change in the way fiscal policy is managed and we assume that Netanyahu will take care to maintain the sound fiscal condition of the Israeli economy

Inflation and Monetary policy

The price index for the month of October rose by 0.6% m/m, slightly above expectations of 0.5% m/m and the first acceleration since July. Clothing and fruit and vegetables were the two main drivers of last month's reading (+4% m/m and +3.% m/m, respectively). The current annual inflation rate runs at 5.1% (from 4.6% y/y in September). However, in accordance with the global trend, the inflation forecasts for the next 12 months stand at approximately 2.8%, within the Bank of Israel's official target (1%-3%).

Clear signs of cooling are beginning to emerge in the hot real estate market, following a drop of nearly 30% in the number of transactions in October. In addition, the number of housing starts rose significantly during 2022, which should increase the inventory in the coming years and lead to a moderation in housing prices. Additionally, high interest rates also affect potential buyers, creating a perfect setting for a drop in housing prices next year after the price surge of recent years.

Despite the expected moderation of inflation, it seems that the Bank of Israel is not expected to change the current monetary tightening and interest rates seek likely to continue rising from the current level of 2.75% to 3.75% during 2023, as already projected by the market.

Economic activity

If we look at economic activity, quarterly GDP grew at +2.1% q/q annualized in the 3Q22, above analysts' expectations, and showed no signs of deceleration. On a year-on-year basis, Israel's economy grew 5.8% y/y and there are great chances that it will beat the Bank of Israel's forecast of 6% growth for FY2022. The strong economic performance also supports the decision of the Central Bank to continue with the restrictive monetary policy.

Fixed Income and Stock market

Although the slope of the curve has become steeper compared to the last few weeks, we believe that there is no room to extend the duration in light of the modest time premium. Alongside this, we believe that there are very attractive investment opportunities in the corporate bond market. The Tel Bond Shekel index comprised by high investment rating paper is trading at a yield of 4.3% for a duration of three years, a spread of 1.2% compared to government bonds. We consider this level as a very attractive entry point that embodies good risk ratios.

Stock indices in Tel Aviv continued to show strength, rising in the last month by more than 3%, which brings the return since the beginning of the year to 4% in the Tel Aviv 125 index. However, this is the first time that we feel somewhat pessimistic about the local stock market. The latest financial reports from a variety of credit providers companies showed an increase in provisioning for bad loans in light of their estimates that the expected slowdown will affect consumers. At the same time, some real estate companies representing a significant part of the stock index reported a slight decrease in demand, which we estimate will continue in the coming quarters. It should be noted that despite the increase in interest rates, discount rates are still not evident in the revaluations of the properties.

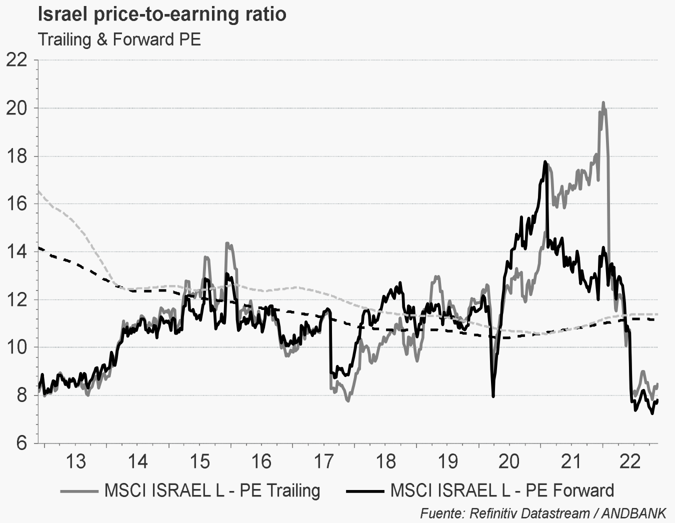
Market outlook – Recommendations & Targets from fundamental analysis

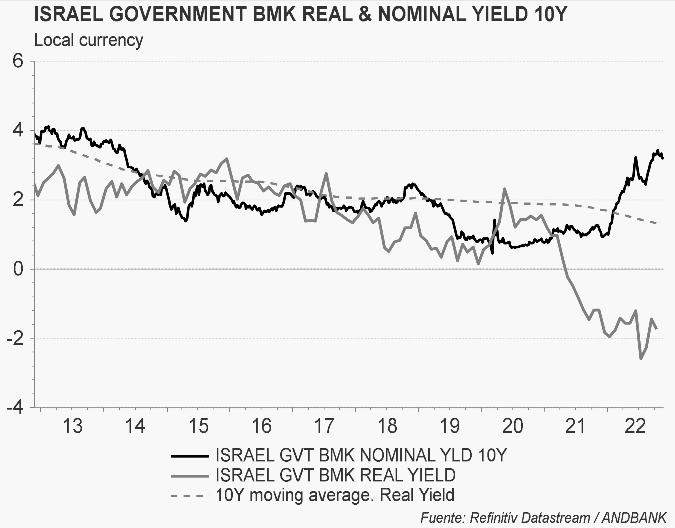
Equities – TLV35 Index: MARKETWEIGHT-UNDERWEIGHT

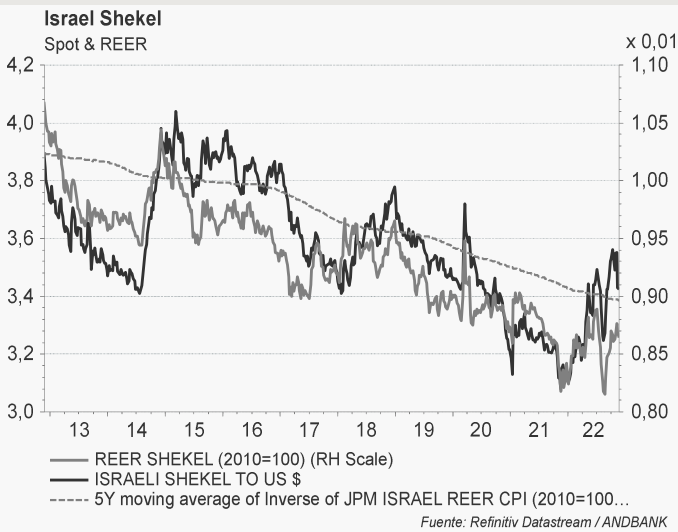
Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER







BRAZIL

Lula won the presidency. What should we expect?

Very close results, as expected

After a fierce electoral period with very strong polarization, Brazil had the second round of elections for president and governors on October 30th. Lula da Silva was elected president, heading a multi-party coalition government, with 50.9% of the votes, while the incumbent President Jair Bolsonaro ended with 49.1%. The difference was just over two million votes. In this way Lula will take office for the third time. Bolsonaro won in the South, Southeast, Midwest, and North regions, while Lula won in the Northeast region. For governors, the second round of the 2022 elections resolved the dispute for the government in the 12 remaining states. We highlight the victory of Tarcisio de Freitas, former Minister of Infrastructure of the Bolsonaro government, in Sao Paulo, the main state of Brazil, defeating Fernando Haddad, one of the figures closest to Lula da Silva. For Congress, in the Senate, candidates linked to President Bolsonaro took 80% of the disputed seats, while in the Chamber, the current government took 65% of the seats.

After confirmation of the results by the TSE, in his first speech the President-elect reaffirmed his commitment to social welfare, investments and the economy, in which he promised to create a government of union between all states and parties, and to strengthen the country, emphasizing that he will rule for all. Additionally, he promised that he will encourage housing and education programs and that, among his priorities, is to help the vulnerable population. It was a conciliatory speech that, together with statements from some of the elected governors, was aimed to bring some calm to a very divided country.

Transition Cabinet

The biggest concern around the election results was that Bolsonaro would insist on challenging the electronic voting system, claim there was fraud and not recognize Lula's victory. However, the 61-page report published mid-November by military researchers tasked by Bolsonaro to do independent testing of the machines did not find any discrepancies in the results from the two rounds of the election, leaving Bolsonaro with no solid ground for claiming fraud. Despite all that, Bolsonaro has not formally recognized the result of the TSE, even though he has authorized the transition to proceed.

The names from the transition cabinet have been coming out since the election and, as Lula stated during the campaign, those names are not only from his own party (PT, the Worker´s Party), but from a wide range of the political spectrum. These names are very important, because many of them will assume official positions after the inauguration. Of special interest to investors, the transition team responsible for the economy is comprised of two PT economists (Nelson Barbosa and Guilherme Mello) and two economists that helped design Plano Real (André Lara Resende and Pérsio Arida), the economic plan that finally curbed hyperinflation in Brazil in the 1990s. Three of those names have a good chance of becoming the Economy minister in January. Regarding official announcements, despite the market being very anxious and having aired many names for the main positions, our expectation is that they will only be announced close to the inauguration on January 1st.

What changes for investments?

At the moment there are no signs that make us think that investors should be nervous about what may come in the coming years. With the divided Congress the new administration will not have the support in Congress to make any major change to the economic framework. The new government is not going to change the fact that Brazil continues to be an important player in the world commodities market and that Brazilian institutions have shown great resilience despite the political ups and downs of the last ten years.

We believe that Brazil's economic data should continue to be positive and attract foreign capital, given that in the current global scenario the country presents itself as a good opportunity. Inflation is decreasing (expected to end this year below 7%) and GDP is expected to grow around 3% this year.

We continue to see opportunities in fixed income, waiting for the interest rate cut cycle, and in equities, with good prognosis for specific sectors, such as low-income housing, retail and education, in which securities are still trading at historically low valuations and should benefit from a more social oriented government

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 13.5%. Spread 950)

Bonds – Govies USD: UNDERWEIGHT (Target yield 7.25%. Spread 325)

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

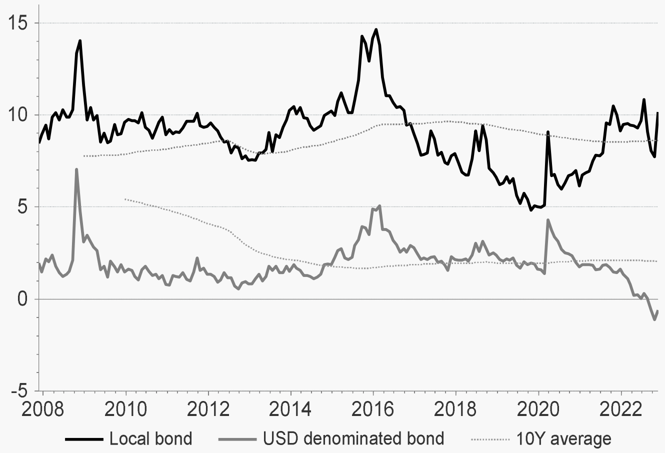
Brazil MSCI Index price-to-earning
Trailing & Forward PE

Fuente: Refinitiv Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020
Bovespa, rebased, 100 = crisis start date

Fuente: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST
(Local & US$ denominated bonds)



Fuente: Refinitiv Datastream / ANDBANK

MEXICO

Banxico: Possibility of decoupling from the Fed at center stage

Central Bank

As expected, and after the latest FED decision, Banxico raised its rate by 75 bps, to bring the monetary policy rate to 10%. The governing board has maintained a 'hawkish' bias, dependent on economic data. Not only inflation, which has marginally moderated its upward trend, but especially monetary policy with respect to what the Fed does. The central bank highlighted in its latest quarterly inflation report that the real rate has barely passed the neutral zone and there is still room for further monetary tightening. It also highlighted that long-term prospects have been unanchored and have risen in the last two months, so the change in the trend in the estimates would be due to the recent change in the Federal Reserve's views on the rate.

Market participants (looking at Mexican swaps) are now are expecting a 50 bps hike in December, in line with Fed, but also only one additional increase in 2023, then remaining on pause for half a year, while waiting for a marked decrease in inflation to be able to start a rate cutting cycle in the second half of the year, decoupling from the Fed, which is expected to start the easing at the end of 2023 or early 2024. Paul Krugman has cautioned that such a move would carry unnecessary risk with little reward.

Inflation and activity

Headline inflation recorded a rise of 8.41% y/y in October, falling for the first time since October 2020 (8.7% y/y in September), surpassed by the core inflation (8.42% y/y), which has continued under pressure. The long-term prospects (between 5-8 years), according to the estimates of the central bank, a few months ago increased from 3.50% (level where they had remained anchored for several years) to 3.70%, but after the recent increases in the central bank's reference rate, they have remained at that level. The forecast for 2022 has increased, for the central bank and private analysts, to levels above 8% y/y, starting to converge to the long-term goal (3% y/y) in the 2nd half of 2023.

Growth prospects for this year have been improving recently but at the same time analysts are lowering their forecast for next year. According to a survey conducted by Bloomberg (25 economists), analysts now expect the Mexican economy will expand 2.5% in 2022 (2.0% previous) and 1% in 2023 (1.2% previous).

Politics and Credit Rating

The position of the federal government to present a bill to reform the electoral authority, seeking to reduce its financing, already defined in the 2023 budget, has generated social mobilization due to the fear that by reducing the autonomy of the institution, which has served as an arbitrator in federal elections, the next elections could be discredited. Another important event to pay attention to is the review of non-conformities on trade issues in the TMEC with Canada and the US that will be resolved in December, where sanctions for Mexico for anti-competitive practices are not ruled out.

Also, the Fitch credit agency affirmed Mexico´s long term rating at BBB-, with outlook remaining stable. According to the agency “The rating is constrained by weak governance indicators, muted long-term growth performance, micro policy intervention affecting investment prospects, and the potential contingent liabilities from Pemex”

Financial markets

Equity: Corporate reports came in in line with expectations, with surprises in financials and basic consumption. The attractive valuations have remained as the main catalyst for an expansion of the stock index in the near future. Mexico trades at a CAPE (Cyclically Adjusted Price to Earnings Ratio) of 18x, which is consistent with returns of 11.4%. We think the main risks are inflation, rate hikes due to a restrictive policy, and the uncertainty that trade disputes with Canada and the US could bring.

Fixed Income & FX: The spread between peso bonds and treasury bonds (10 years) has remained in a range between 560-590 basis points, currently in the middle of that range, at 575 bps. We believe that the curve could continue to accelerate its inversion if a recessive US scenario materializes. At these levels we are not increasing duration.

The peso has been the biggest gainer for major emerging-market currencies in this year. The local currency has remained between 19.5 and 20.5, staying in the lower part of the range in recent weeks. We expect the currency to remain in this range between now and the end of the year.

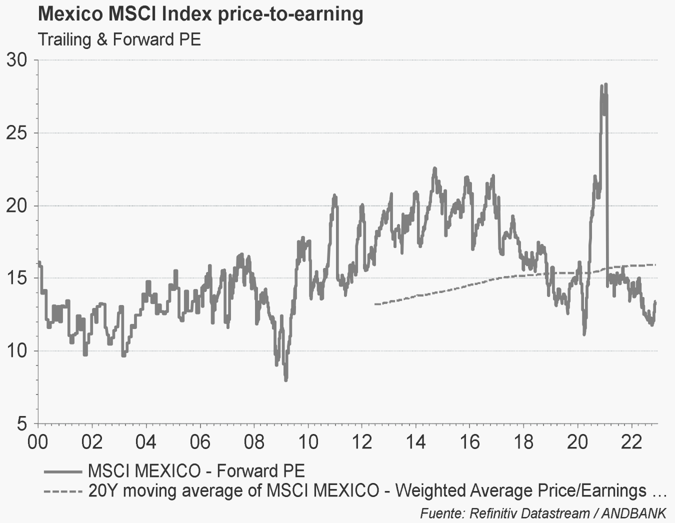
Market outlook – Recommendations & Targets from fundamental analysis

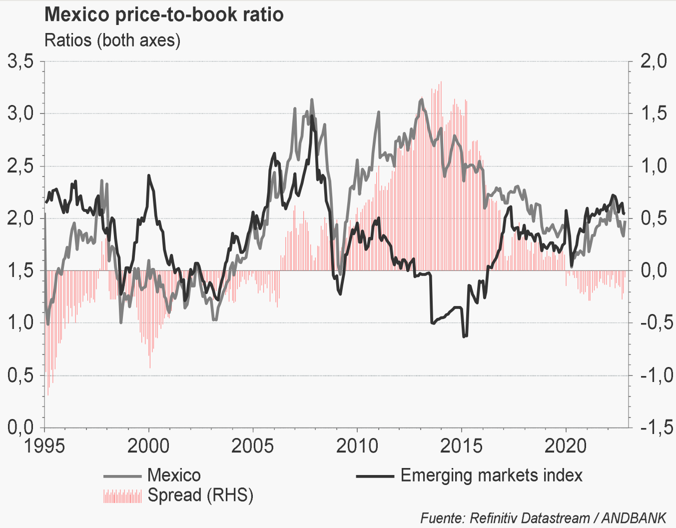
Equities – Mex IPC: OVERWEIGHT- MARKETWEIGHT

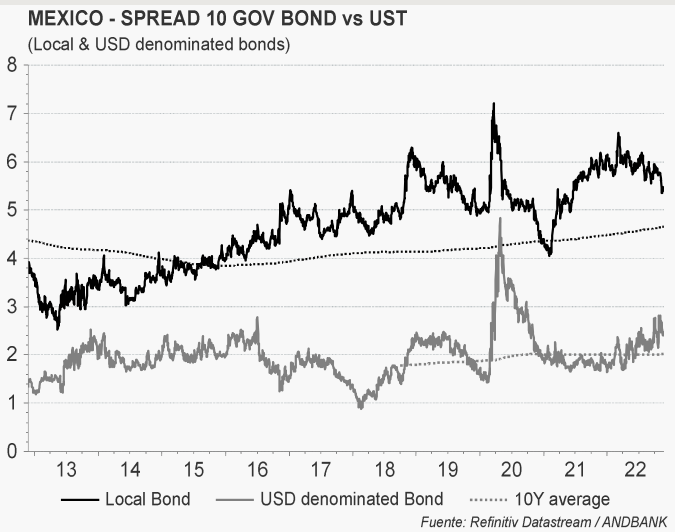
Bonds – Govies Local: UNDERWEIGHT (Target yield 10%. Spread 600)

Bonds – Govies USD: MARKETWEIGHT (Target yield 5.90%. Spread 190)

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







ARGENTINA

Again, history repeats itself. Cristina Fernandez vs Mauricio Macri in 2023?

Politics: Main driver for next year

The VP Cristina Fernandez de Kirchner made her first public appearance after the assassination attempt suffered just over two months ago. In the most relevant part of her speech, CFK stated that she is going to do whatever it takes so that the Argentinian people can recover the hope and happiness they had in 2015 (final year of her second term). The tone of the speech sounded almost like a pre-launch of her candidacy for President in 2023, an idea that has been gaining traction in a large part of the ruling coalition, despite the desire expressed by President Alberto Fernandez to run for re-election, an idea with very little support within that coalition.

In the main opposition coalition, *Juntos por el Cambio*, the picture is not much clearer. Although Mauricio Macri has neither confirmed nor ruled out his candidacy, the former president is increasing his presence in the media and recently presented a new book called "*For what?",* where he reviews the policies that *Juntos por el Cambio* should implement from 2023 if it reaches the government. It looks like the base case today is an internal election between Macri and Horacio Rodriguez Larreta, current governor of the City of Buenos Aires. Rodriguez Larreta has tried to position himself as a centrist option with a more conciliatory stance. The problem for him is that it is not clear if the time is right for this type of political positioning. Liberal candidate Javier Milei has been rising in the polls by capturing voters who are disillusioned not only with the current administration, but also with the government of Mauricio Macri. The size of his electoral support is an unknown, with pollsters placing him between 10% and 20% in intention to vote.

Regarding national internal elections it looks like the incumbent project for its elimination will not be presented in congress and they will be carried out in August 2023 as stipulated in the electoral schedule. The polls indicate that if the elections were held today they would be defined with a ballotage between the two main coalitions, with the most likely scenario being a victory for *Juntos por el Cambio*, but in Argentina in ten months many things can happen.

Two economic challenges ahead: ARS Liabilities and Weather

Despite the fact that since Massa took office in the Ministry of Economy, expectations have moderated, the problem of rising peso debt remains latent with maturities increasingly concentrated in the short term. In a swap to exchange bonds with maturities in November and December of this year to June, July and September of next year, only 61.4% of the bonds were tendered, when 60% of the bonds that mature in these two months were in the hands of the State. According to estimates by private analysts, maturities must be met worth 12.3% of GDP during the coming year and nearly 90% are linked to inflation. Also, during the last auctions the average maturities were the shortest in the last two years.

On the other hand, the weather has been playing against Argentina this year. As a result of the current drought the Commerce Chamber of Rosario is forecasting for the 2022/23 wheat campaign production 49% less than the record of the previous year; this could be the worst harvest in the last seven years. If this projection materializes, it is estimated that exports would be reduced by between 3 and 4 Bn USD. which means a lower generation of reserves in a situation of extreme weakness on the external front

Inflation: Impossible to control without a serious Stabilization Plan

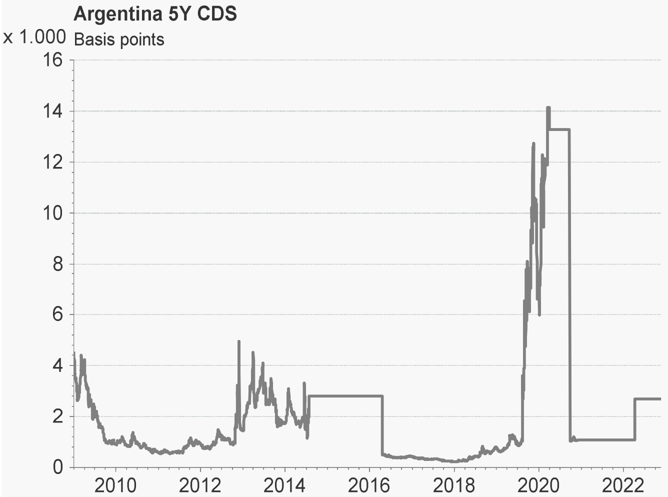
CPI increased 6.3% m/m in October, below expectations (6.5% m/m) and compared with last year the record was 88% y/y higher. If we look at the three big categories, seasonal prices were the main price driver of the October reading, going up +9% m/m, while regulated prices rose by 7.4% m/m and core inflation was 5.5%. According to the BCRA's REM, market analysts now are expecting 100% inflation for this year and 96% for next year.

Sergio Massa launched a new price control program (called Precios Justos) for the next four months in a new effort to curb inflation that has thus far been immune to all the programs promoted during this government. During the term of the program, some products (approximately 1,500) will have their prices fixed, while others will be allowed programmed increases. Although Massa has shown himself to be more conservative on the fiscal front, the goals are not credible due to pressures from Kirchner's circles to expand expenditures taking into consideration next year's elections. On the other hand, the exchange scheme has not served as an anchor for expectations either, due to the limited stock of reserves of the central ban.

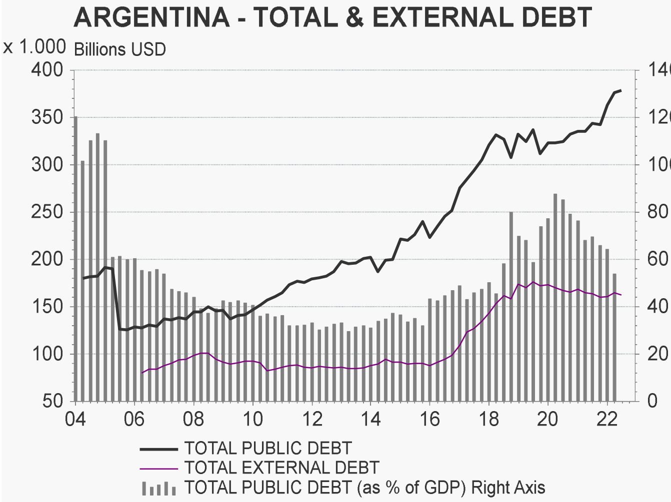
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

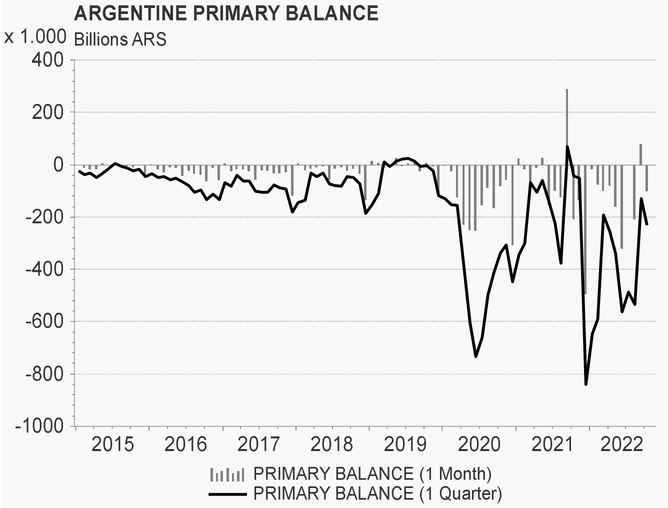
FX – USDARS: NEGATIVE (2023 year-end target 370)



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv DatastreamThomson Reuters Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK

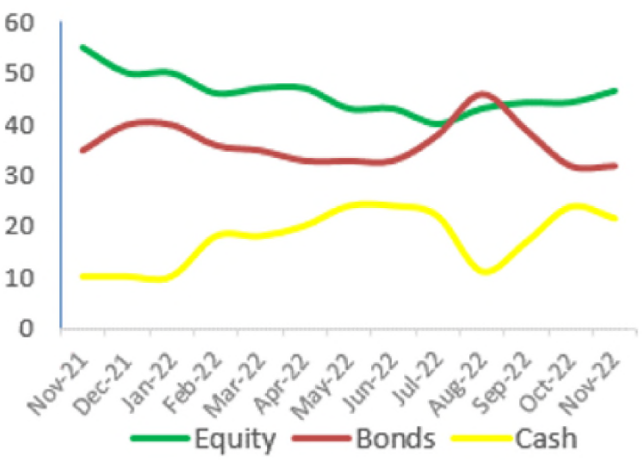
GLOBAL EQUITY INDICES
Fundamental assessment

Index	EPS 2022	Projected EPS 2023	Projected EPS Growth 2023	E [PE] ltm At year end	INDEX CURRENT PRICE	Potential Price	E[Perf] to potential price	Recommended Strategy	Suggested Exit Point
USA S&P 500	225,0	220,0	-2,22%	14,50	4.027	3.198	-20,6%	UW-MW	4.157
Europe - Stoxx Europe 600	32,0	32,5	1,56%	12,00	441	389	-11,8%	MW	467
Euro Zone - Euro Stoxx	29,0	31,0	6,90%	12,00	427	369	-13,6%	MW	443
Spain IBEX 35	745,0	735,0	-1,34%	11,00	8.397	8.097	-3,6%	OW-MW	8.907
Mexico IPC GRAL	3.780	4.100	8,47%	13,00	51.994	52.844	1,6%	OW-MW	58.129
Brazil BOVESPA	17.816	17.816	0,00%	6,00	108.841	106.896	-1,8%	MW	117.586
Japan NIKKEI 225	1.845	1.830	-0,81%	14,50	28.383	26.559	-6,4%	MW	29.215
China SSE Comp.	275,0	315,0	14,55%	9,50	3.089	2.951	-4,5%	UW	3.246
China Shenzhen Comp	101,0	132,0	30,69%	15,00	1.998	1.929	-3,5%	UW	2.122
India SENSEX	2.680	3.151	17,57%	22,00	62.273	68.186	9,5%	OW	75.005
Vietnam VN Index	100,0	120,0	20,00%	8,50	948	1.001	5,7%	OW	1.102
Taiwán SE Weighted Index	1.394,0	1.394,0	0,00%	10,00	14.784	13.940	-5,7%	MW/OW	15.334
MSCI EM ASIA	40,0	42,0	5,00%	12,00	495	501	1,3%	OW	552

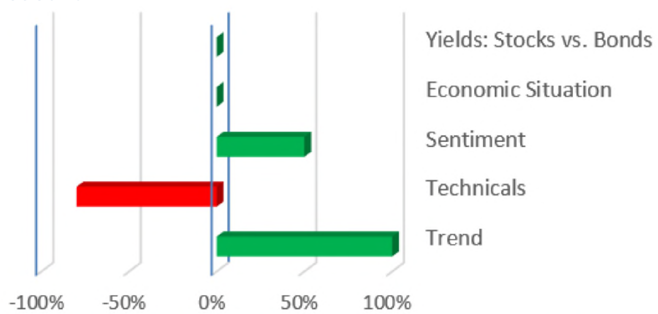
ANDBANK ESTIMATES

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

Dynamic Asset Allocation implied by Ned Davis Research



Current Relative Strength (Equities vs Bonds) Ned Davis Research



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

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	61%	61,5%
Europe ex. U.K.	14%	12%
Emerging Markets	11%	11,2%
Japan	5%	5,5%
U.K.	4%	3,8%
Canada	3%	3,1%
Pacific ex. Japan	2%	3%
Materials	4%	2,5%
Energy	5%	4%
Health Care	17%	13,8%
Financials	9%	10,7%
Real Estate	2%	2,7%
Utilities	3%	2,7%
Consumer Staples	7%	7%
Information Technology	27%	27,4%
Communication Services	10%	9,3%
Industrials	8%	7,9%
Consumer Discretionary	8%	12,1%

ENERGY – OIL

Fundamental view (WTI): Target range USD75-100bbl

Buy < USD75; Sell >USD100

Short-term drivers

(Bullish price factor) – Insurers raise operational questions about price cap on crude. There are concerns centering around scenarios where a ship at sea is determined to be carrying crude sold above the price cap, suggesting this could trigger the withdrawal of insurance and possibly strand the ship without buyers being willing to take delivery. There are still unpublished legal details from the EU's ratification of the price cap that will ultimately need to align with more detailed US Treasury guidance.

(Bullish price factor) – OPEC cuts world demand growth forecasts for both 2022 and 2023, but still in surplus, a combination of facts that will allow it to maintain the OPEC+ supply agreement to cut global production: OPEC's latest Monthly Oil Report cut its demand growth forecast for 2022 by 100K bpd (to a final growth of 2.5M bpd). The 2023 demand growth forecast was also cut by 100K bpd to 2.2M bpd, also challenged by economic growth and geopolitical uncertainties. OPEC left its 2023 supply forecast unchanged, adding that they see upside from producers including the US, offsetting declines primarily in Russia and Mexico. The report also said that the global oil market moved into surplus, going from a 300K bpd deficit in Q1 to a surplus of 200K bpd in Q2 and 1.1M bpd in Q3.

(Bullish price factor) – Saudis say OPEC+ will maintain its cautious stance on production: Saudi Energy Minister Abdulaziz bin Salman told Bloomberg that OPEC+ members are still seeing uncertainties in the global economy, which guarantees the cartel's cautious stance on production. He added that the group's job is to act responsibly and not lose sight of what the market requires.

(Bullish price factor) – Biden administration proposes stricter standards on methane emissions from drilling. It would expand monitoring for methane leaks at oil and gas drilling sites from the original ~300K covered in a 2021 rule to ~1M sites.

(Bullish price factor) – Mid-term results may mean US energy policy will stay the course. Experts polled at a Houston energy conference felt that the lack of a broad "red wave" of Republican victories may mean that the Biden administration will feel no need to make a course correction on energy policy.

(Bullish price factor) – IEA says Russia may struggle to find new markets for its oil: IEA latest monthly report pointed that "Russia may struggle to find buyers for its oil once the EU ban kicks in on 5-Dec", which could force Russian production below 10M bpd next year. The report said that Russia has redirected more than a million barrels a day to India, China, and Turkey in recent months as its traditional customers fell away, though those flows have steadied recently, suggesting they may not be able to ramp up imports further. If global demand remains stable, the rest of the world would have to triple Russian imports to around 3.3M bpd by February, which the IEA said isn't feasible and could push Russian output down by 2M bpd (from pre-war levels) by the end of March to 9.6M bpd.

(Bullish price factor) – A price cap system imposed by the US and the EU could start in December, and Russia could refuse to sell crude oil at the capped price. This could result in a shortfall in physical crude supplies and a surge in prices for both crude and fuels that would hit refiners and domestic consumers hard in countries particularly exposed to Russian oil given their import dependence and their price-sensitive consumers. This being said, because the US sees one of these countries (India) as an increasingly important diplomatic partner, the US may have to ensure India's refineries remain supplied by releasing more barrels from the US SPR. Just recall that India's demand for Russian crude has continued to rise to multiyear highs, up to 1M bpd, or a 21% share of its import basket of crude products (4.6M bpd). US Treasury Secretary Yellen said the US is happy for India to continue to buy as much Russian oil as it wants, even at prices above the G7 price cap, as long as it steers clear of Western insurance, finance, and maritime services bound by the cap.

(Bearish price factor) – Chinese refiners ask Saudi Aramco to cut December loading volumes: Reuters reported that several Chinese refiners asked Saudi Aramco to reduce loadings for December to about half the previous month's level. The request comes as Chinese demand has weakened amid Covid restrictions and muted economic growth.

(Bearish price factor) – Pullback in Covid restrictions in China might not do much either for short-term demand or for prices: Platts said that China's relaxed Covid restrictions might be insufficient to effectively stimulate short-term demand. The article said that Beijing still has kept its zero Covid policy a top priority, while some analysts said that demand could further weaken with the relaxation as it would cause the number of Covid cases to surge, leading to more lockdowns or movement controls despite the policy changes. Platts analysts cut their China Q4 oil demand forecast by 62K bpd, while crude traders see state-owned firms considering a slowdown of purchases for December-loading cargoes as the more relaxed measures may lead to an increase in Covid cases and subsequently dampen demand.

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 – 2,000 /oz

Buy < USD1,700; Sell >USD2,000

Positive drivers for gold

Within the Four-quadrants-framework, the quadrant that we believe the world economy is heading towards (Recession with inflation) is usually a favorable environment for gold, one in which, historically, this commodity does well.

Gold is cheap relative to palladium: The Gold/Palladium ratio fell to 0.886, still 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.

Negative drivers for gold

The massive negative returns in bonds have disappeared and no longer make gold attractive: The disadvantage of gold compared to fixed income instruments (gold does not offer a coupon) was neutralized with nominal negative yields in a large number of global bonds. But this circumstance has now disappeared, with most of the bonds in the USD universe offering positive returns and making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield.

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, 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 another 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, in the short term, and as long as QT continues (whereby the Fed puts a large amount of UST on the market), the UST bond will continue to underperform gold. But with a longer-term view, once QE has definitely ended, we no longer see the supply of UST (understood as volume of issued paper) as something unlimited, but rather as quite limited. This should be bad news for gold.

Gold expensive relative to silver. The Gold/Silver ratio fell to 83.93 but is still above its 20-year average of 67.35x, 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$1,394/oz.

Gold to oil: This ratio rose to 21.7, still well above its 20-year average of 18.51x. Considering our long-term fundamental fair value for WTI oil at US$87.5 and assuming that the utility function of both commodities will remain unchanged, the price of gold must approach US$1,620 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.28477), 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$1,351. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,103. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,417.

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 gold prices skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers. This ended in 2011, when the USD started to strengthen. Therefore, the only 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 sound 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 a reality.

Risk #1. Higher nominal rates (HIGH RISK): Although a few months ago it seemed impossible to think of rate hikes by monetary authorities, this is now a reality and a trend that seems to have no end in the near future.

Risk #2. Stronger USD (HIGH RISK): The US current account balance has been gradually improving (from -4.6% of GDP in 1Q22 to -3.9% in 2Q22), leading to a shortage of dollars and a rise in its price (what has kept the price of gold capped). With a longer-term view, we do not foresee a big jump in the US current account balance that could boost the USD dramatically, causing a sharp decline in the price of Gold. Rather, the current account balance (deficit) could remain stable at around 2%-3% of GDP, depending on the intensity of the US recession. This should keep the USD well supported but stable, far from a strong rebound that could bring gold's bull market to an end. However, a more determined Fed in its tightening strategy 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 that period, it was the new wealth being created in EMs, with a strong affinity for gold, that pushed gold prices higher. If EMs thrive again, led by Asia, this could be a tailwind for gold. But at the moment we do not have a clear outlook about Asia in general.

CURRENCIES

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. Fundamentally, favorable to the USD

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

EUR-USD: Fundamental Target 0.975 (Strong Buy USD at 1.05. Strong Sell USD at 0.90) // Z-Score Analysis: Negative to EUR

USD-JPY: Fundamental Target 135; **EUR-JPY**: Target 131,6 // Z-Score Analysis: Neutral to the JPY vs the USD

GBP-USD: Fundamental Target 1.17; **EUR-GBP**: Target 0.83 // Z-Score Analysis: Neutral view on the GBP vs the USD

USD-CHF: Fundamental Target 0.97; **EUR-CHF:** Target 0.95 // Z-Score Analysis: Neutral view on the CHF vs the USD

USD-BRL: Fundamental Target 5.25; **EUR-BRL:** Target 5.12 // Z-Score Analysis: Neutral view on the BRL vs the USD

USD-MXN: Fundamental Target 21; **EUR-MXN:** Target 20.48 // Z-Score Analysis: Slightly Negative to the MXN vs the USD

USD-ARS: Target 370, Negative on the ARS

USD-INR: Target 82, Neutral on the INR

CNY: Target 7.5. Negative view on the CNY

RUB: Neutral view on the RUB vs USD

AUD: Favorable view on the AUD vs USD

CAD: Favorable view on the CAD vs USD

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	-10,74	32,1	-28,2	3,8	**0,07**
USD vs G10	0,40	-9,99	32,7	-25,4	6,2	**-0,33**
EM	0,00	0,35	3,9	-0,8	1,4	**0,01**
EUR	14,57	10,03	23,4	-8,6	6,9	**0,77**
JPY	-5,91	0,72	0,6	-15,0	-7,9	**0,47**
GBP	-2,43	0,25	4,3	-6,5	-2,0	**-0,14**
CHF	-2,23	-1,49	0,2	-6,0	-2,3	**0,05**
BRL	0,17	-0,32	1,0	-0,8	0,0	**0,34**
MXN	1,75	2,59	3,3	-0,9	1,1	**0,55**
RUB	0,00	0,00	1,2	-0,3	0,3	**-0,25**
AUD	-3,02	-1,06	6,1	-5,2	-1,0	**-0,62**
CAD	-0,97	0,89	6,1	-5,0	0,3	**-0,48**

Positive
Neutral-Positive
Neutral-Negative
Negative

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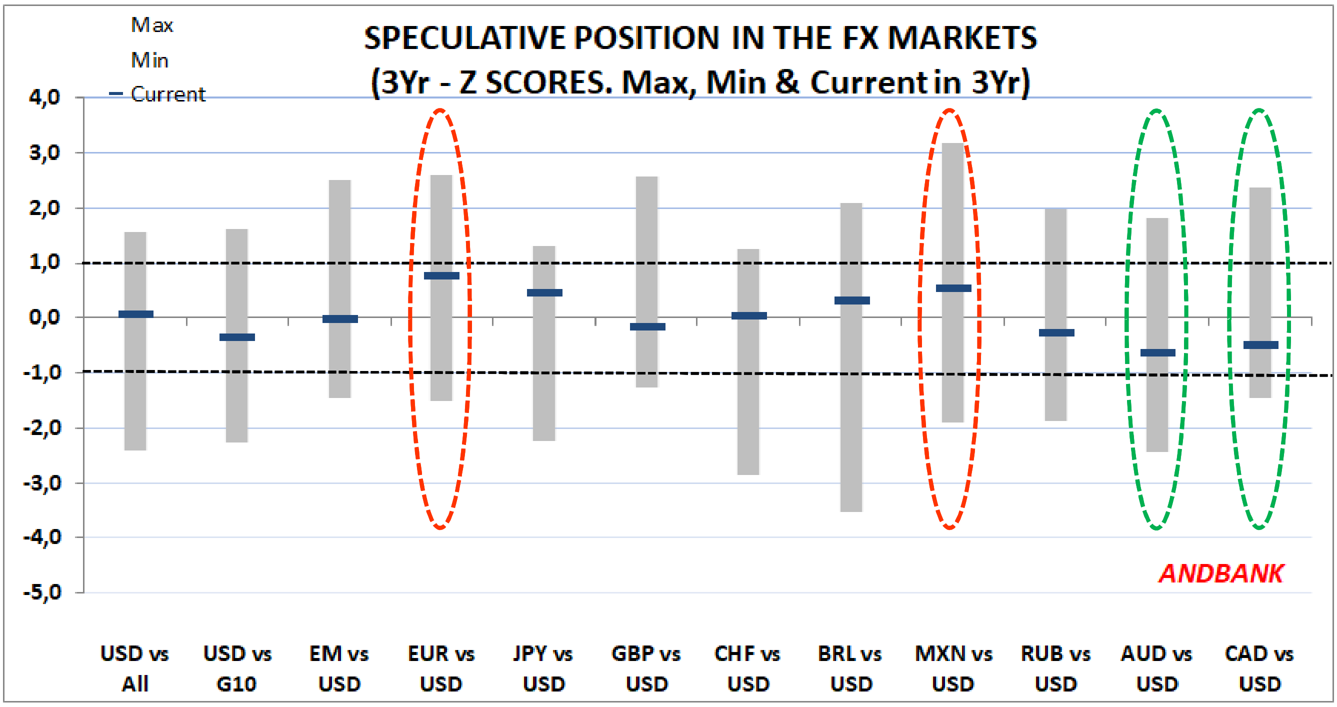

The currencies we technically favor are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	***Indices***	***Performance YTD***	***Current Price***	***Andbank's estimate*** *(potential price)*	***Expected Performance*** *(to potential price)*
Equity	USA - S&P 500	-15,5%	4.027	3.198	-20,6%
	Europe - Stoxx Europe 600	-9,5%	441	389	-11,8%
	Euro Zone - Euro Stoxx	-10,7%	427	369	-13,6%
	SPAIN - IBEX 35	-3,6%	8.396	8.097	-3,6%
	MEXICO - MXSE IPC	-2,4%	51.994	52.844	1,6%
	BRAZIL - BOVESPA	3,8%	108.841	106.896	-1,8%
	JAPAN - NIKKEI 225	-1,4%	28.383	26.559	-6,4%
	CHINA - SHANGHAI COMPOSITE	-15,1%	3.089	2.951	-4,5%
	CHINA - SHENZEN COMPOSITE	-21,0%	1.998	1.929	-3,5%
	INDIA - SENSEX	7,0%	62.273	68.186	9,5%
	VIETNAM - VN Index	-36,2%	948	1.001	5,7%
	MSCI EM ASIA (in USD)	-25,7%	495	501	1,3%
Fixed Income Core countries	US Treasury 10 year Govie	-17,3%	3,84	4,00	2,5%
	UK 10 year Gilt	-17,0%	3,19	3,75	-1,3%
	German 10 year BUND	-17,4%	1,97	2,25	-0,3%
	Japanese 10 year Govie	-1,3%	0,24	0,25	0,1%
Fixed Income Peripheral	Spain - 10yr Gov bond	-19,0%	2,98	3,25	0,8%
	Italy - 10yr Gov bond	-21,1%	3,91	4,25	1,2%
	Portugal - 10yr Gov bond	-19,1%	2,89	3,25	0,0%
	Ireland - 10yr Gov bond	-17,5%	2,43	2,75	-0,1%
	Greece - 10yr Gov bond	-22,3%	4,18	4,75	-0,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-1,4%	94,75	100	2,6%
	Credit EUR HY-Itraxx Xover	-4,9%	461,22	500	5,3%
	Euribor 3m				
	Credit USD IG - CDX IG	-1,0%	81,35	100	4,9%
	Credit USD HY - CDX HY	-3,5%	479,51	500	8,9%
	Libor Usd 3m				
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	118,1%	10,73	11,75	2,6%
	Russia - 10yr Gov bond (local)	-5,4%	10,00	14,00	-22,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	0,1%	7,01	6,50	11,1%
	India - 10yr Gov bond (local)	-1,2%	7,31	7,25	7,8%
	Philippines - 10yr Gov bond (local)	-15,7%	7,20	8,00	0,8%
	China - 10yr Gov bond (local)	2,1%	2,80	2,75	3,2%
	Malaysia - 10yr Gov bond (local)	-3,3%	4,37	5,25	-2,7%
	Thailand - 10yr Gov bond (local)	-4,6%	2,65	3,50	-4,2%
	Singapore - 10yr Gov bond (local)	-10,2%	3,10	4,00	-4,1%
	Rep. Korea - 10yr G. bond (local)	-10,3%	3,68	4,50	-2,9%
	Taiwan - 10yr Gov bond (local)	-6,4%	1,57	2,50	-5,9%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-6,5%	9,21	10,00	2,8%
	Mexico - 10yr Govie (USD)	-19,1%	5,88	5,90	5,8%
	Brazil - 10yr Govie (Loc)	-15,2%	13,34	13,50	12,1%
	Brazil - 10yr Govie (USD)	-12,0%	6,66	7,25	2,0%
Commodities	Oil (WTI)	6,0%	79,7	87,50	9,7%
	GOLD	-5,0%	1.737,8	1.900	9,3%
Fx	EURUSD (price of 1 EUR)	-9,9%	1,024	0,975	-4,8%
	GBPUSD (price of 1 GBP)	-12,6%	1,18	1,17	-1,0%
	EURGBP (price of 1 EUR)	3,1%	0,87	0,83	-3,8%
	USDCHF (price of 1 USD)	5,1%	0,96	0,97	1,1%
	EURCHF (price of 1 EUR)	-5,3%	0,98	0,95	-3,7%
	USDJPY (price of 1 USD)	23,5%	142,12	135,00	-5,0%
	EURJPY (price of 1 EUR)	11,2%	145,54	131,63	-9,6%
	USDMXN (price of 1 USD)	-4,6%	19,54	21,00	7,5%
	EURMXN (price of 1 EUR)	-14,1%	19,99	20,48	2,4%
	USDBRL (price of 1 USD)	-4,5%	5,32	5,25	-1,3%
	EURBRL (price of 1 EUR)	-14,0%	5,45	5,12	-6,0%
	USDARS (price of 1 USD)	58,9%	163,17	370,00	126,8%
	USDINR (price of 1 USD)	9,7%	81,70	82,00	0,4%
	CNY (price of 1 USD)	12,8%	7,16	7,50	4,7%

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

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