ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – May 2023

Corporate Review *May 2023*

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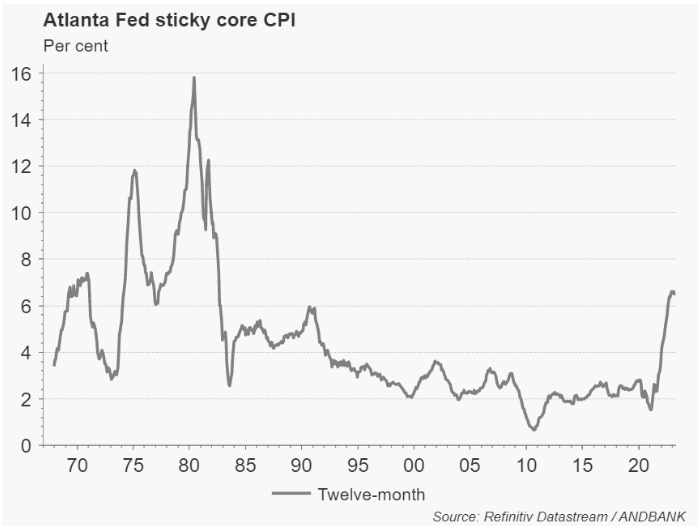
EXECUTIVE SUMMARY

CHART OF THE MONTH
Alternative gauges of inflation



EQUITIES

Index	INDEX CURRENT PRICE	Potential Price	E[Perf] to potential price	Recommended Strategy	Suggested Exit Point
USA S&P 500	4.135	3.293	-20,4%	UW-MW	4.281
Europe - Stoxx Europe 600	466	390	-16,3%	UW-MW	468
Euro Zone - Euro Stoxx	462	372	-19,5%	UW-MW	446
Spain IBEX 35	9.319	8.978	-3,7%	MW-OW	9.876
Mexico IPC GRAL	54.442	59.037	8,4%	OW	64.941
Brazil BOVESPA	102.923	106.896	3,9%	MW	117.586
Japan NIKKEI 225	28.458	29.418	3,4%	OW	32.360
China SSE Comp.	3.323	2.993	-10,0%	UW	3.292
China Shenzhen Comp	2.056	1.980	-3,7%	UW	2.178
India SENSEX	60.797	69.380	14,1%	OW	76.318
Vietnam VN Index	1.045	1.278	22,2%	OW	1.405
MSCI EM ASIA	521	588	12,8%	OW	647

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's estimate (potential price)*	*Expected Performance (to potential price)*
US Treasury 10 year Govie	0,7%	4,2%	3,51	4,00	-0,4%
UK 10 year Gilt	-2,3%	0,1%	3,79	3,75	4,1%
German 10 year BUND	-1,1%	1,6%	2,47	2,50	2,2%
Japanese 10 year Govie	-0,6%	0,3%	0,38	0,75	-2,6%
Spain - 10yr Gov bond	-1,2%	2,2%	3,51	3,50	3,6%
Italy - 10yr Gov bond	-1,5%	4,2%	4,36	4,50	3,2%
Portugal - 10yr Gov bond	-0,7%	3,4%	3,26	3,50	1,3%
Ireland - 10yr Gov bond	-0,8%	2,6%	2,86	3,00	1,7%
Greece - 10yr Gov bond	-0,6%	4,4%	4,21	5,00	-2,1%
Credit EUR IG-Itraxx Europe	0,5%	1,2%	85,13	100	3,6%
Credit EUR HY-Itraxx Xover	1,0%	2,6%	450,25	550	4,8%
Credit USD IG - CDX IG	0,5%	1,9%	79,30	100	5,4%
Credit USD HY - CDX HY	0,9%	3,2%	484,02	600	6,6%

FIXED INCOME - EM

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's estimate (potential price)*	*Expected Performance (to potential price)*
Turkey - 10yr Gov bond (local)	-10,2%	-18,5%	11,82	11,75	12,4%
Russia - 10yr Gov bond (local)	-1,7%	1,1%	10,64	14,00	-16,2%
Indonesia - 10yr Gov bond (local)	2,7%	5,7%	6,48	6,25	8,3%
India - 10yr Gov bond (local)	2,0%	4,1%	7,11	7,00	8,0%
Philippines - 10yr Gov bond (local)	1,2%	7,5%	6,15	7,50	-4,6%
China - 10yr Gov bond (local)	0,8%	1,4%	2,78	2,75	3,0%
Malaysia - 10yr Gov bond (local)	1,3%	2,6%	3,84	4,00	2,6%
Thailand - 10yr Gov bond (local)	-1,3%	0,9%	2,42	3,50	-6,2%
Singapore - 10yr Gov bond (local)	1,5%	3,5%	2,76	4,00	-7,2%
Rep. Korea - 10yr G. bond (local)	-0,2%	4,2%	3,26	4,50	-6,7%
Taiwan - 10yr Gov bond (local)	0,3%	1,4%	1,16	2,25	-7,6%
Mexico - 10yr Govie (Loc)	1,6%	4,7%	8,81	9,00	7,2%
Mexico - 10yr Govie (USD)	1,9%	5,6%	5,49	6,00	1,4%
Brazil - 10yr Govie (Loc)	7,0%	7,9%	12,24	13,50	2,2%
Brazil - 10yr Govie (USD)	0,3%	4,2%	6,22	7,00	-0,1%

COMMODITIES & FX

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's estimate (potential price)*	*Expected Performance (to potential price)*
Oil (WTI)	3,1%	-6,3%	75,2	87,50	16,4%
GOLD	1,1%	8,8%	1.985,8	2.200	10,8%
EURUSD (price of 1 EUR)	1,7%	3,0%	1,102	1,050	-4,7%
GBPUSD (price of 1 GBP)	1,3%	3,1%	1,25	1,22	-2,2%
EURGBP (price of 1 EUR)	0,3%	-0,1%	0,88	0,86	-2,6%
USDCHF (price of 1 USD)	-2,7%	-3,3%	0,89	0,97	8,5%
EURCHF (price of 1 EUR)	-1,1%	-0,4%	0,99	1,02	3,4%
USDJPY (price of 1 USD)	2,1%	3,5%	135,66	120,00	-11,5%
EURJPY (price of 1 EUR)	3,8%	6,6%	149,49	126,00	-15,7%
USDMXN (price of 1 USD)	0,0%	-7,2%	18,08	20,00	10,6%
EURMXN (price of 1 EUR)	1,5%	-4,5%	19,90	21,00	5,5%
USDBRL (price of 1 USD)	-3,1%	-5,8%	4,98	5,25	5,5%
EURBRL (price of 1 EUR)	-1,5%	-3,0%	5,49	5,51	0,5%
USDARS (price of 1 USD)	6,6%	25,6%	222,00	370,00	66,7%
USDINR (price of 1 USD)	-0,5%	-1,2%	81,76	84,00	2,7%
CNY (price of 1 USD)	0,5%	0,3%	6,92	7,50	8,4%

USA

Investors got a sharp reminder that the US banking crisis and broader credit crunch are not over

US Banking sector: So, where are we in the evolution of this banking crisis?

Shares in First Republic Bank dropped -49% on Tuesday 25th on news it intends to sell up to US$100bn of its US$233bn asset book after suffering deposit outflows in March of US$100bn (more than 40% of its deposits). Another regional bank, PacWest, also fell -9% on Tuesday on news that it too plans to sell assets following deposit outflows. The KBW bank index fell another -3.5%, bringing it close to its lows of late March and early April and providing investors a sharp reminder that the US banking crisis is not over. What's next?

On the **positive side**, fear-induced bank runs subsided since late March because of the implicit guarantee on all deposits expressed by Treasury Secretary Janet Yellen and Fed's Chair Jerome Powell. It is noteworthy that banks are only now planning to sell assets in response to deposit outflows that occurred a full month ago. This is thanks to the liquidity support provided by the Fed and that allows banks to meet withdrawals without being forced into immediate fire sales of assets.

On the **negative side**, while the Fed's loan facilities are helpful, it is not a permanent solution. Fed loans come at a cost: currently around 5%, and soon at 5.25%. Meanwhile, depositors are increasingly demanding higher interest rates on deposits. This means funding costs for banks are rising. This implies negative net interest margins: 1) Many of the securities already on bank balance sheets earn low yields locked in a few years ago and must be funded at higher costs; and 2) The yield curve is deeply inverted, meaning that even new loans generate yields that are low relative to current short-term funding rates. This has left some banks with the unenviable choice between selling assets at a loss or enduring a prolonged period of negative net interest margins. Bond prices that banks have on their balance sheets have recovered some in recent months, but not enough to wipe out banks' unrealized losses. Losses have moderated from -19% last October to -13% today. That still leaves many treasury bonds, MBS and other assets on bank balance sheets in the red. **There is another concern for some banks** that is related to their exposure to commercial real estate loans. Large parts of the commercial real estate space are being hammered by two macro forces: (i) post-Covid, people are working less in the office, more from home, and as a result they are spending less at the mall, more on Amazon; (ii) interest rates have risen, which is felt hardest in highly leveraged and long-duration assets such as real estate.

What does it mean for the US economic outlook? While the Fed and the FDIC have addressed the bank runs and liquidity stresses, broad financial conditions remain extremely tight: 1) The inverted yield curve discourages banks from making loans. 2) There are also constraints on demand, as real yields have risen enough to discourage companies from borrowing to fund new capital spending and households from borrowing to buy new homes. As a result, commercial bank credit growth has stalled. 3) After March's expansion, the Fed's balance sheet is now contracting once again. 4) Given that policy stimulus and behavioral changes during the boom were anything but mild, now that financial conditions have tightened enough it seems wishful thinking to expect the bust to be mild. 5) The broader credit bust seems far from over.

Federal Reserve

In May's decision the Fed could hike rates and fix the Fed funds rate at 5.25%. For the June meeting the market assigns a higher probability of a pause, and expectations for the December meeting to fix official rates at 4.55% on average (far below the expectations at the start of March, when the market was pricing an end of year rate of 5.50%). **Inflation:** Headline CPI fell to 5% y/y (+0.1% m/m) below last month's reading (+6.0% y/y) but Core inflation picked up to +5.6% y/y (vs 5.5% y/y in Feb.), with shelter prices explaining 60% of the monthly increase in Core prices. If you exclude shelter inflation, Core prices rose only +2.3% y/y. We continue to see a lag between the official data (BLS collects rent data every six months and most rents don't change that frequently) and private numbers that have fallen recently and will led to a cooldown in CPI. The labor market remains too robust for the Fed's comfort. Unemployment for the month of March fell to 3.5% and 236k new jobs were created, a robust gain by historical standards. Wages grew by +4.2% y/y, down from the prior month annualized +4.6% y/y. U.S. retail sales fell 1% m/m in March, the fourth decline in the past five months. The Conference Board Leading Index closed at 108.4 (-7.8% yoy), falling for the twelfth consecutive month. Existing-home sales declined (-22% yoy and -2.4% mom), with median sale price for existing homes at -0.9% y/y. Total housing inventory (980,000 units) is up +5.4% y/y. Despite these gains, this inventory still represents only a 2.6-month supply, which is well short of the 5 to 6 months of a more balanced market.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P UNDERWEIGHT- MARKETWEIGHT

Bonds: Govies UNDERWEIGHT. 10Y UST Target 4%

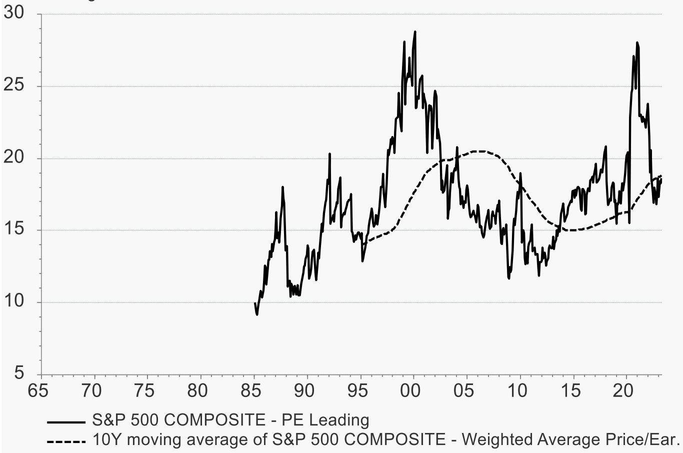
CDX IG: MARKETWEIGHT (Target Spread 100)

CDX HY: UNDERWEIGHT (Target Spread 600)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

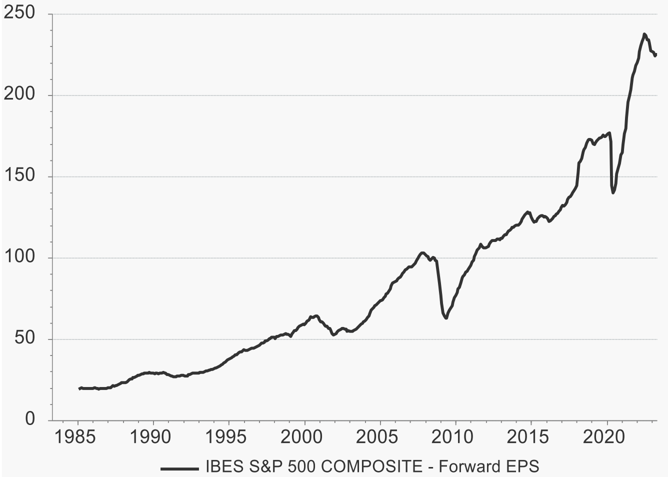
US price-to-earning ratio

Trailing & Forward PE



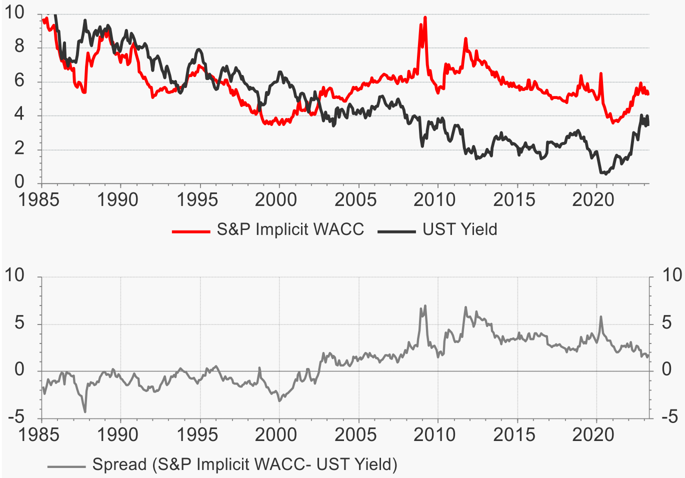
Fuente: Refinitiv Datastream / ANDBANK

S&P 500 - EPS



Fuente: Refinitiv Datastream / ANDBANK

Equity Yield & UST Yield



Fuente: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

EUROPE

With inflation still at high levels and as banking crisis subsides, ECB will stick to its hawkish policy

Economy still enjoying a "better than expected" 1H

While the manufacturing sector PMI remains in recessionary territory, sentiment is upbeat in services (above its long-term average) leading to better GDP estimates for 1H2023. But, as the decline in energy prices seems to have come to a halt, with the underlying path in terms of credit condition clearly negative, we would expect the service optimism to fade in the coming months. 2H2023 could thus prove more challenging, as the M1 numbers show (-10% y/y), with the accumulative impact of the monetary tightening.

As expected, general CPI came down abruptly in March due to base effects (6,9% y/y vs 8.5% y/y in Feb.), while the core reading is proving sticky. Expectations for the months ahead show that the core CPI will be on the upside till June (5,9%?), cooling down towards the end of the year (4% levels?). The inflation scenario remains challenging for the ECB, but longer CPI expectations (1-3 year) have slowed down and remain well anchored.

Looking into May´s ECB meeting

May´s decision remains open and very dependent, not only on price data, but also on credit conditions. In this sense, the Euro area Bank Lending Survey to be published just before the ECB meeting could be of the utmost importance. Bank loans still constitute the bulk of long-term borrowing of euro area corporates and financial transmission in credit (rising borrowing costs, lower demand, tighter credit supply conditions) already evident in March may have worsened since. Hawkish voices from the ECB have been dominant, little after the market recovered some calm post-SVB turmoil. Unless the financial risk came back, the ECB is "forced" to make more hikes as inflation remains sticky and high. Movements could be slowed down to 25 bps from May or June on. A faster QT is also in the cards for the coming months, having been defended by several ECB members**.**

Financial Markets: Govies, Corporate Credit & Equity

Govies: With volatility returning to more normalized levels, bond prices have corrected. There is a noteworthy divergence in rates expectations between the FED and the ECB which could prove unsustainable, bearing in mind that growth downturns confined to the United States are rare, and that spillover overseas would follow. A lower divergence could come from both fronts. We stick to a scenario of rates plateauing by summer (3.5-3.75%) and a bund target around 2.5%.

Corporates: After the events that occurred in the American regional banks and Credit Suisse (CS) we have seen some improvement in the last month. If we look at non-financial sectors, we see a narrowing of spreads, but if we look at the financial senior debt sector in Europe, we see a mixed performance. After the hit of the previous month, Switzerland would be the top performer, followed by Spain and France (flat), and ending with some spread expansion in Italy and more prominently in the German senior bank. The subordinated sector and AT1 have also stabilized in the last two weeks. It is true that investor appetite has recently returned somewhat (both for IG and HY), but even so, we would continue to insist on short durations, being very selective in investment grade and maintaining a low exposure to high yield.

Equity: We are seeing some rotation in the market. Post a poor start of the year, key Defensive sectors (Staples, Utilities and Healthcare), appear to be finding their footing. On the other side, certain Cyclicals, such as Autos, Construction, Chemicals and Cap Goods, appear to be stalling. We maintain our underweight on cyclicals before earnings reports, as we think that during the year we will find more attractive prices. We expect additional disinflation signals to materialize in the coming weeks, which should allow us to gradually leave inflation concerns behind and investors to shift their focus onto growth and earnings.

The Spanish economy appears to be performing somewhat better in the opening months of 2023 than had been anticipated in December. From spring onwards, economic activity is expected to gather momentum, albeit in a still highly uncertain setting in which various factors will continue to somewhat weaken the macro-financial dynamics of the Spanish economy. We are on the optimistic side for the economy and markets and maintain our overweight stance

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: UNDERWEIGHT- MARKETWEIGHT

Equities – Euro Stoxx: UNDERWEIGHT- MARKETWEIGHT

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 2.5%. Buy at 3% yield)

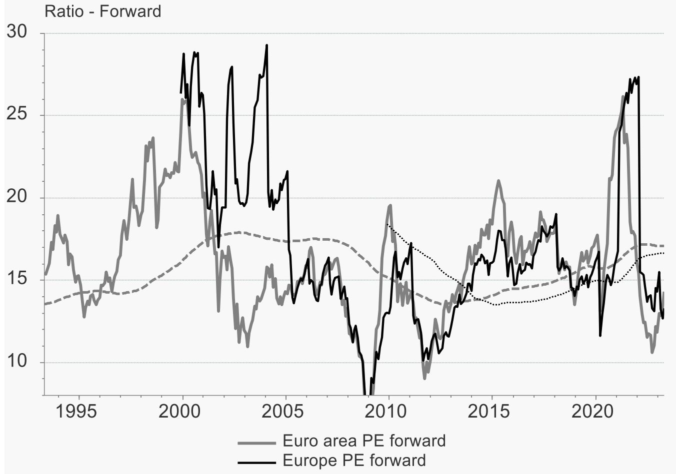
Peripheral – MW IT (4.5%), SP (3.5%), PO (3.5%), IE (3%). UW GR (5%),

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

Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 550)

FX – EUR/USD At or below 1.00 sell $ / buy €. At or above 1.10 buy $ / Sell €

Euro area & EU price-to-earnings



Fuente: Refinitiv Datastream / ANDBANK

STOXX 600 - EPS

Fuente: Refinitiv Datastream / ANDBANK

Euro STOXX banks Index

Fuente: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

CHINA

Xi Jinping tightens CCP grip. Tensions with the US continue to rise.

Xi Jinping tightens CCP grip in major revamp

President Xi tightened his grip over the government and economy with the biggest revamp in the CCP in years, setting up powerful committees to oversee everything from financial markets to social stability. Authorities from the PBOC said that "China will reduce the number of high-risk institutions to help fend-off systemic financial risks". PBOC also vowed to manage the pace of credit extension and ensure credit growth stays reasonable". Reorganization includes the creation of two separate financial bodies, one to take control of the financial stability committee, previously under the State Council. Another committee will be set up to oversee science and technology.

PBOC: Loan Prime Rate unchanged for seven consecutive months. Need for imminent monetary easing subsided after RRR cut

LPRs were left at 3.65% for 1y and 4.30% for 5y. MLF (Mid Term Lending Facility) rate was also kept unchanged last week, as PBOC opted for a larger-than-expected size to shore up liquidity. Reuters noted that the need for imminent monetary easing subsided after PBOC unexpectedly cut RRR by 25 bps last Friday 17. Some economists still see room for LPRs to fall this year to support lending and lift investor confidence.

US-listed China stocks erase 2023 gains

US-listed China stocks erased all gains for the year, as the rally driven by reopening waned, with sluggish earnings and a lack of policy incentives. Investors' attention turns back to US-China geopolitical tensions and the state's control over private enterprise after Chinese stocks made one of the most crowded trades for hedge funds earlier this year.

China halts GDR approvals, threatening Europe share sale boom and potentially threatening a lucrative series of listings in Europe. Policymakers worry a wave of GDR issuance in Zurich could lead to significant downward pressure on China's stock market.

Bond market intervention: China U-turns on abrupt suspension of bond quotes

Traders were able to access widely used bond price feeds again after an abrupt suspension of the data earlier. At least three data vendors, including Wind, Dealing Matrix, and East Money Information, are showing bond quotes again after regulators told some brokers they could start providing feeds to data platforms. But the most popular, Qeubee, hasn't received approval yet. A halt was ordered by CBIRC to "address data security concerns". Transactions plunged as much as 60% in the past few days as traders struggled to access data.

Economy & Fiscal & REIT sector

China's fiscal revenues fell 1.2% y/y in Jan.-Feb. 2023, despite signs of economic recovery post zero-Covid. Fiscal revenue totaled CNY4.56T in Jan.-Feb., a 1.2% y/y fall, while expenditure reached CNY4.1T, a 7% y/y increase.

State land sale revenue slumped 29% y/y in the first two months, suggesting developers remain cautious even after authorities stepped up help for the sector.

Corporate

Evergrande prepares restructuring agreement for end-March after it won preliminary support from a group of major creditors. The ad-hoc group expects the restructuring to be effective by Oct 1.

Baidu shares rebounded sharply as users told of their experiences with its answer to ChatGPT, called Ernie bot, recouping sharp losses a day earlier when it launched the product, which failed to impress. Baidu said more than 75K corporate users have applied for a trial of an Ernie API developed by Baidu Cloud. Citi analysts said Ernie wasn't perfect, but it could answer the majority of "complicated, or absurd questions" put forward.

Geopolitics: Xi tests new limits of friendship with Putin on state visit to Moscow

President Xi Jinping's first state visit to Moscow in four years is a demonstration of his commitment to President Putin but could also be set to show the red lines in their "no limits partnership". Putin will hope China might pledge material support to help the war in Ukraine, but Xi might remain guarded as Beijing tries to boost trade with Europe. It remains to be seen whether Xi also calls Ukrainian president Volodymyr Zelenskyy after his Russia trip.

In an unusual move, the PBOC echoed President Xi's warning that US is seeking to suppress China, which suggests the bank could be looking for ways to safeguard against possible further sanctions. The PBOC did not elaborate on what measures it could take to protect the economy from US containment, but some analysts suggested they could include stepping up financing support for tech companies, strengthening China's cross-border payment system, and diversifying its $3T forex holdings. Meanwhile, the Biden administration wants ByteDance to divest TikTok to address national security concerns.

Market outlook – Recommendations & Targets from fundamental analysis

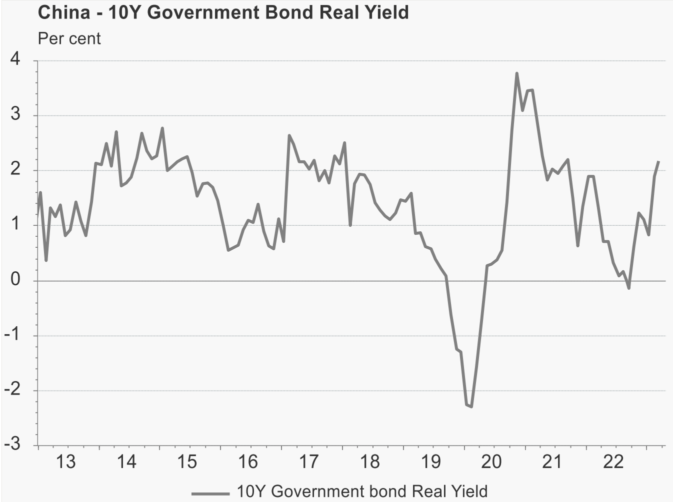
Equities – SHANGHAI Idx: UNDERWEIGHT

Equities – SHENZHEN Idx: UNDERWEIGHT

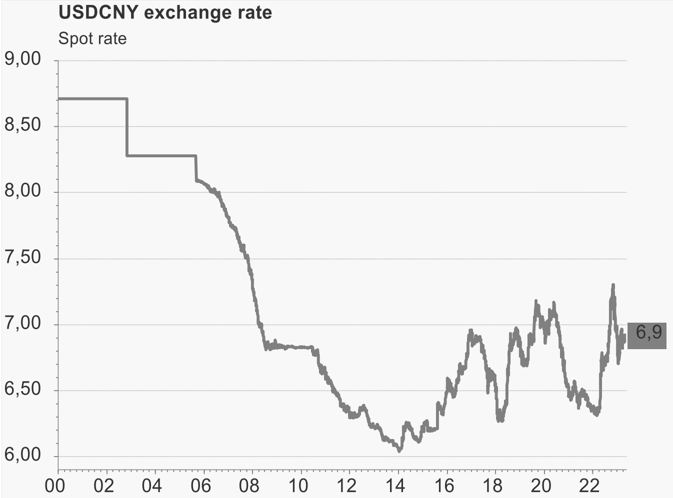
Bonds – Govies: UNDERWEIGHT (10Y Yield target 2.75%)

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK

JAPAN

Surge in JGBs purchases to defend cap on yields. Infrastructure diplomacy returns to isolate China

Geopolitics: Japan Returns to Infrastructure Diplomacy to Counter China Now that China's OBOR Appears to be Over

Japan plans $75B investment across Indo-Pacific to counter China. Prime Minister Fumio Kishida on Monday announced a new plan to promote an open and free Indo-Pacific, promising billions of dollars in investment to help economies across the region in everything from industry to disaster prevention. Japan pledged $75 billion to the region by 2030 via private investment and yen loans and by ramping up aid through official governmental assistance and grants.

South Korean President Yoon Suk Yeol said on Tuesday he would restore Japan's fast-track trade status after a summit with Japanese Prime Minister Fumio Kishida last week. South Korea and Japan removed each other from the list in 2019 amid a decades-old row over a 2018 South Korean court order for Japanese companies to compensate forced labourers during Japan's 1910-45 occupation of Korea.

US to allow Japan-provided materials in EV tax credit scheme: Washington and Tokyo are preparing to make Japanese vehicles eligible for tax credits in a US initiative for electrified vehicles that use critical minerals from the US or countries that it has free trade agreements with. Under the changes, the US would relax the rules to allow EVs to contain key minerals provided by Japanese companies, such as parts makers, despite Tokyo not holding a free trade agreement with Washington.

BOJ & Monetary Stimulus

BOJ data showed JGB holdings grew to a record 52.02% of outstanding bonds at the end of December, reflecting the surge in purchases to defend its cap on long-term yields. Market share increased further, after topping 50% for the first time in September. BOJ's loss on bond holdings spikes tenfold: Nikkei estimated the BOJ's unrealized losses on JGB holdings came to ¥9.5T ($71.4B) as of December-end. Governor Haruhiko Kuroda told the lower house Budget Committee in February that the unrealized loss was about ¥8.8T at the end of 2022. BOJ announces unrealized gains and losses on JGBs at the end of March and September every year.

Summary of Opinions for the March MPM showed recognition of external calls for policy normalization but argued that risk from a hasty policy change is higher than risk from a delay, as it may threaten improving dynamics conducive to achieving the price stability target. Analysts recall that recent measures to improve market functioning have been effective to a certain extent, though fundamental improvement has not yet been realized. Remains open to additional improvement measures if necessary, including corporate bond and swap markets.

Japan planning to add ¥2T to inflation relief measures. The government is planning to add another ¥2T to inflation relief measures. Bulk of new funding to add ¥1.2T to local government discretionary provisions. Temporary transfer was established in September last year at ¥700B. Local governments encouraged to use funds to reduce burden of LPG (which were not included previously), high-voltage electricity for factories, and support for dairy farmers suffering from rising feed prices. Package also to include ¥500B in special payments of ¥30,000 per low-income household.

Tech sector & Corporates: Japan grants tax exemption to big tech firms

Nikkei reported the National Tax Agency will allow foreign technology companies an exemption for taxes resulting from registering their overseas headquarters in the country. Foreign companies with continuous operations in Japan are required to register their overseas headquarters with authorities. The Justice and Internal Affairs ministries in March 2022 notified 48 foreign tech businesses that they were in violation of this rule. Over 40 companies, including Facebook parent Meta, Twitter and Google, have since registered their headquarters.

Tokyo Electron (8035.JP) announced Monday that it will spend roughly ¥22B ($167M) to build a chip production facility in Oshu, Iwate prefecture in anticipation of renewed demand from the semiconductor industry. This will be the company's seventh production facility in Oshu. The addition is expected to expand production capacity for chipmaking devices by 50% when construction is completed in the fall of 2025. This will raise capacity by as much as double the original scale.

Honda set to debut e-motorcycles for Japan's mass market as early as 2023 under plans to release at least 10 such models worldwide by 2025. Honda aims to boost global sales to 1M units by 2026 and 3.5M units by 2030, the latter being a more than 20-fold jump from 2021.

Maxell to mass produce all-solid-state batteries for factory robots: An alternative to lithium-ion batteries for powering industrial robots will go into mass production this summer in Japan, with Maxell (6810.JP) planning to mass-produce the world's first high-power, all-solid-state batteries for industrial machines**.**

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

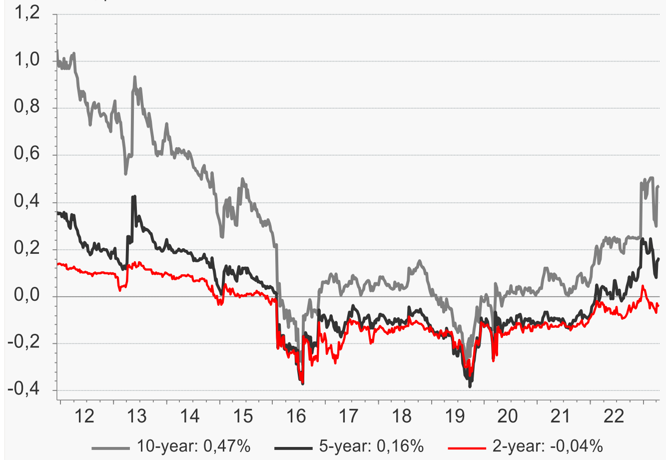
Bonds – Govies: UNDERWEIGHT (Target yield 0.75%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 112)

Japan Nikkei 225 price / earnings
Ratio

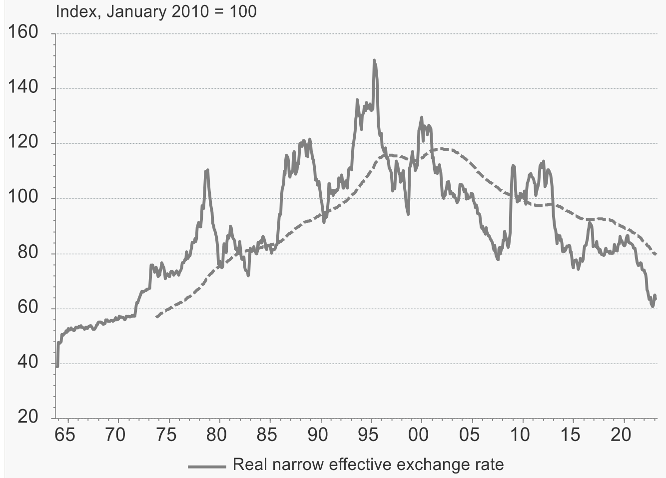
Fuente: Refinitiv Datastream / ANDBANK

Japan benchmark government bonds
Yield, per cent



Fuente: Refinitiv Datastream / ANDBANK

Japan real narrow EER
Index, January 2010 = 100



Fuente: Refinitiv Datastream / ANDBANK

INDIA

India tipped to join pivotal JPMorgan bond index. GDP Growth expected to remain robust in FY24

Favorable Macro Outlook

Exports of goods and services as a share of GDP have been highest since FY16 in H1 of FY 22-23. FDI flows into the pharma industry have grown four times in FY 22. India enters the top 40 innovating countries for the first time in 2022 as per Global Innovation Index. India's rank has improved from 81 in 2015 to 40 in 2022. India is now the most innovative country in the lower middle-income group, overtaking Vietnam (48th) and leading Central and South Asia. GDP forecast for FY24 to be in the range of 6-6.8% in real terms (11% in nominal terms). Exports (in electronics & mobile phone segment) are to rise nearly threefold. India has become the second-largest mobile phone manufacturer globally, with the production of handsets going up from six crore units in FY15 to 31 crore units in FY22. These numbers are expected to improve as more domestic and global players set up and expand their bases in India (noteworthy example of China-Plus One Strategy).

Indian Equity Market Outlook

India's macro economic parameters are in the healthy zone: FX reserves at $600 billion, twin balance sheet problem significantly resolved, and supply-side initiatives likely to enhance productive capacity. GST collections display healthy trend; disinvestment making progress; positive outlook for government capex. The risk to earnings estimates on account of inflation, higher rates, margin compression and potential softening of demand is partially offset by commodity business profits. Valuations for large-caps now in the comfort zone, both on trailing and forward earnings. After the correction, the India Sensex trades at 18.4x FY23E, at its 10-year average. Having said that, markets NEVER stay at averages (they tend to overshoot on the upside and will sure undershoot on the downside). In that context we would still prefer large-caps vs mid-cap.

India's share in world market cap at 3.1%, above historical average of 2.5%. India among the top five contributors to world market cap. Corporate earnings continued to remain healthy in 2022. While aggregate growth appeared impressive, it was driven by only three sectors: BFSI, O&G, and Metals. These three sectors, jointly with IT, accounted for 90% of incremental earnings YoY. The adverse macroeconomic backdrop, with heightened worries on rising interest rates, elevated crude oil prices and liquidity tightening, has kept the market volatile and jittery. Banking sector has witnessed credit growth of early double digits after a long time and that could be the catalyst which the sector was looking for to turn its underperformance around. If the global economy slows down, as the IMF projects, then commodity prices should retreat on the back of the monetary tightening that took place in 2022. The baseline assumption is that inflation should not be as big a problem as it was in 2022. Difficult to predict oil price, RBI takes a number below $100 a barrel. India can live with that number and be able to achieve the growth rates projected in their official surveys. Recovery of economy is complete; hence, we don't have to speak of pandemic recovery anymore but have to look ahead to the next phase. The reforms of the last eight years mean India will perform better in this decade.

India tipped to join pivotal JPMorgan bond index

Although in 2022 JPMorgan temporarily refused to include India in a widely followed bond index until at least the next year, JPMorgan continues sounding out big investors on adding India to its widely tracked emerging-market bond index, setting the stage for tens of billions of dollars of inflows as the country's domestic market opens up to foreign capital. A decision to add Indian debt to one of the bank's flagship indices would mark a turning point for global investor exposure to the world's fifth-largest economy and the fruition of years of discussions between the Indian government, index providers, and investors. The consultation with asset managers comes as a growing chorus of investors and analysts are tipping India's sovereign bonds for inclusion in the influential benchmark. We think there is now a momentum from the investor side for inclusion, and the Indian government's wariness of hot money flows — which can quickly move into and out of markets — has also been allayed. The government has been convinced that funds coming in through indexes are stickier than initially thought. It's a win-win for everyone if they can make it work and the incentives are now more aligned for this to happen, so it becomes a matter of time, in our view. Forecasts are that about $270bn of so-called fully accessible route (FAR) sovereign bonds traded in India's local market would become eligible for the GBI-EM index by 2023, and that the country would represent about a tenth of the overall benchmark upon its inclusion. That would prompt around $30bn of passive inflows, helping India to finance its fiscal and current account deficit. India is not included in most other major bond indices, such as Bloomberg's Global Aggregate index or the FTSE Emerging Markets Bond index. FTSE Russell placed Indian government bonds on a watch list for possible inclusion in early 2021 but said in March that that status remained unchanged — although it is scheduled for another assessment. The Reserve Bank of India introduced FAR bonds in March 2020, allowing foreign financial institutions to invest in rupee-denominated bonds without restrictions for the first time.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

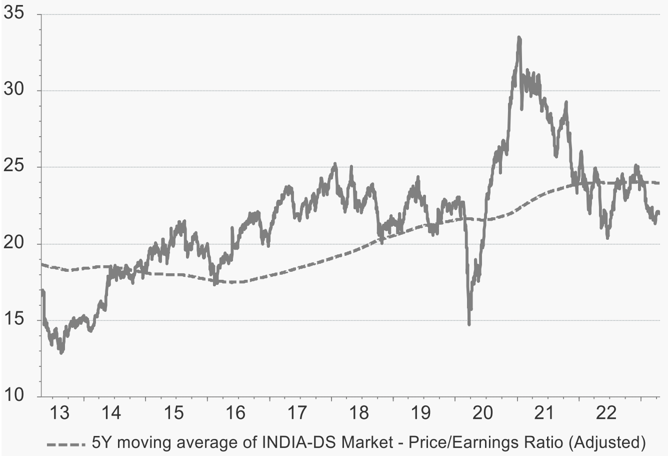
Bonds – Govies: OVERWEIGHT (Target yield 7.0%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 84)

India Datastream index Price Earnings Ratio

Ratio



Fuente: Refinitiv Datastream / ANDBANK

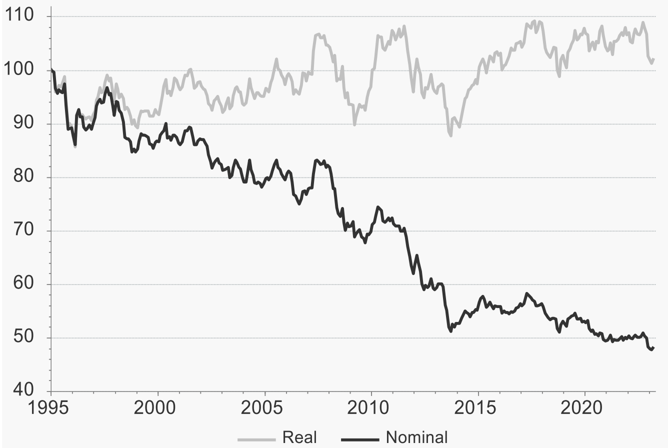
India benchmark government bonds

Yield, per cent

Fuente: Refinitiv Datastream / ANDBANK

India broad effective exchange rates

Index, January 1995 = 100



Fuente: Refinitiv Datastream / ANDBANK

VIETNAM

PM says the government is developing new policies in line with the global minimum tax and on the principle of creating a favorable investment environment in Vietnam

Current Sentiment

Thanks to the boost from foreigners, as Fubon (the new ETF that invests in the constituent stocks of the underlying index) continued to make inflows throughout the month, local investor sentiment improved slightly in the second half of the month (although still 10.5% below the one-month average, as investors are still waiting for the Fed meeting before becoming more active). Notably, VHM (an important Vietnam-based company operating in the residential real estate industry) was up 17% in the month, making it the biggest contributor to the VN Index, as news articles continued to report a deal between VHM and CapitaLand of Singapore for several projects valued at approximately USD1.5 billion. Other good news related to the Vietnamese real estate sector was that some developers successfully kicked off new bond issuance valued at VND16 trillion over the past 2 weeks. At the same time, Hung Thinh Land has reached an agreement with bondholders to delay payments on VND900 billion worth of bonds for another 6 months.

Clear strengthening of trade between China and Vietnam

As bilateral trade between Vietnam and China jumped to USD234.9 billion last year, Vietnam has become China's biggest trading partner among the 10 ASEAN countries and its sixth-largest partner in the world. On March 18, the Ministerial Dialogue between Chinese and Vietnamese State Assets Supervisors was held in Beijing. In recent years, leaders of China and Vietnam have reached a series of important consensuses on cementing traditional friendship, strengthening strategic communication and deepening mutually beneficial cooperation, providing crucial guidance for the two countries in deepening bilateral relations and charting the course for the two countries to strengthen exchanges and cooperation in the field of SOEs and state assets. Chinese central SOEs and Vietnamese SOEs have carried out a series of win-win cooperation projects in energy and telecommunications infrastructure, on a market economy basis, with remarkable outcomes achieved.

Vietnam takes step towards global minimum tax to boost investment

Vietnam has for years been pursuing a range of fiscal policies aimed at luring foreign investments into the economy by offering tax relief and incentives, while more than 130 countries, representing around 90% of global gross domestic product (GDP), backed a deal in 2021 to prevent global companies from excessively accumulating wealth with a global minimum tax of at least 15%, which it would apply to companies with annual revenues greater than USD800 million. The minimum tax rule is effective from 2024 and when it comes into force, tax incentives would no longer give Vietnam a competitive advantage in attracting foreign investment, forcing Vietnam to change the way it attracts foreign investors. On the positive side, low taxes are not the only instrument that governments use to stimulate economic growth, as foreign investors consider many other factors, including business environment and market growth potential. About 70% of respondents surveyed by the European Chamber of Commerce said Vietnam could increase foreign investment inflows by reducing roadblocks in administrative procedures, 53% suggesting infrastructure improvements, 35% calling for skilled personnel and 47% looking towards lower visa barriers for foreign experts. Prime Minister Pham Minh Chinh said at a business forum last weekend that the government is developing new policies, scheduled for completion this year, in line with the global minimum tax and aimed at creating a favorable business and investment environment in Vietnam.

Foreign direct investment disbursements in the Southeast Asian country rose 13.5% to USD22.4 billion in 2022 from a year earlier (although investment pledges were down 11% at USD27.72 billion). Vietnam is targeting GDP growth of 6.5% for this year, after growing at the fastest pace since 2011, at 8.02%. It is worth noting that Vietnamese external gross trade has jumped to represent almost 200% of GDP (a decade ago it was 120% of GDP), and its trade balance with the US is growing at an astonishing 45% annual pace, reaching a monthly figure of USD11 billion. 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) and with a positive medium-term outlook assigned by international credit-rating agencies.

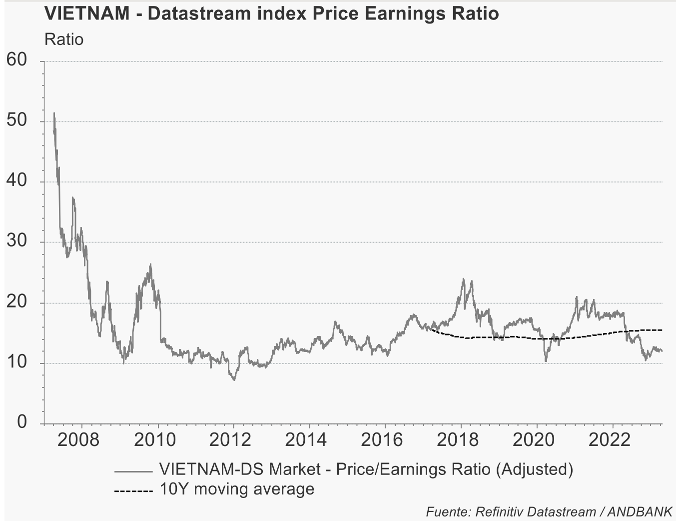
The outlook for the Vietnamese stock market is also positive in the long term because the VN Index is undervalued compared to other markets in Southeast Asia. The nine-month pretax profits of the 200 largest firms in the market rose by 22% year-on-year and most listed firms are projected to grow by 20% in profits next year.

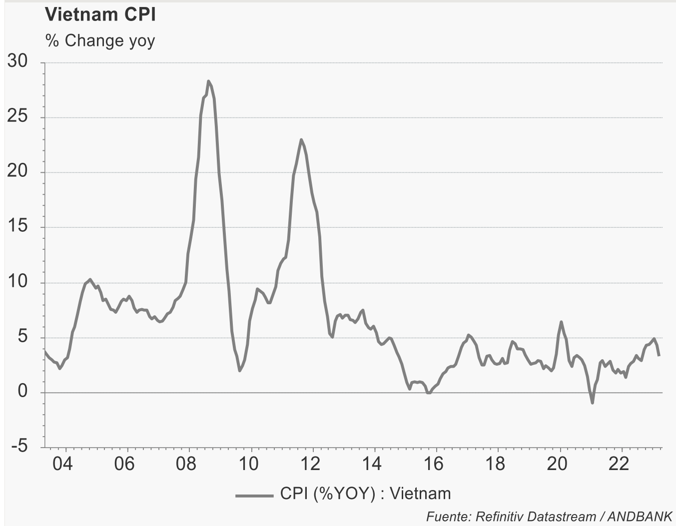
Update on USD interest rate cap

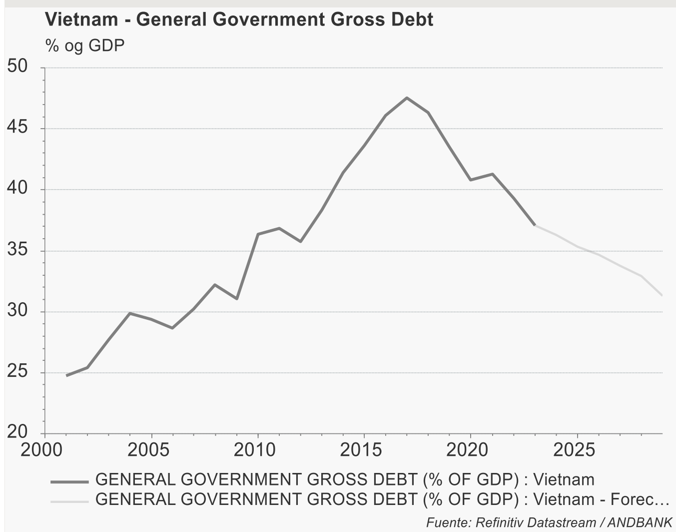
Following up on last week's Vietnam Business Forum, some economic chambers proposed that the central bank (SBV) remove the USD deposit caps, which have been kept at 0% since Dec 2015. Back in 2015, the SBV had reason to slash the rate to 0% in order to avoid a dollarization-type situation and maintain the stability of the exchange rate. Given the dynamic of the present situation, the SBV might want to consider this option as a good way to avoid the possibility of an undue degree of USD outflows stemming from foreign companies.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT







ISRAEL

Attractive pricing for stocks. Drop in political tension the main catalyst in the short term. Not there yet

Politics and Economy

The most relevant economic event in recent weeks was the decision of the credit rating agency Moody's to downgrade Israel's credit outlook from positive to stable, against the background of the government's ongoing effort to carry out a large-scale reform of judiciary system without seeking a broad consensus, with the attendant weakening of state institutions and the decline in the ability to anticipate future policies. Moodys maintained credit rating at A1, citing "strong economic growth and improving fiscal strength".

Prime Minister Benjamin Netanyahu defended the strength of Israel's democracy after Moody's decision. Netanyahu acknowledged that Israel is a divided country right now, but he said was confident that a compromise with the opposition could be found on the proposed judicial reform. At the end of March, the government put a hold on the reform after criticism it received from different actors and growing street protests. The decision was taken after the Minister of National Security and one of the main figures of the incumbent coalition, Itamar Ben Gvir, agreed to a pause in exchange for a promise to create a national guard under his command. Uncertainty is also taking a toll on consumer confidence, which fell to 74 in March from 85 in February.

Inflation and Monetary policy

The government's budget proposal for 2023-2024 is based on assumptions that we believe are unrealistic. The budget assumes growth rates of over 3%, a figure that as of now seems quite disconnected from reality. We forecast that the government will be forced to cut the budget. However, we assume that even if the budget is cut, the government will be forced to significantly increase the issuance of bonds in order to finance the deficit.

March CPI showed an increase of 0.4% m/m from February (+5% y/y vs +5.2% y/y in February), below market expectations of +0.5% m/m. Core inflation rose to an annual rate of 5.2% y/y. According to the Bank of Israel survey, the average inflation forecast for next 12 months is +3% y/y. The Bank of Israel raised the interest rate by 0.25% at its last meeting to 4.5%, the ninth straight increase in this tightening cycle. The decision was supported by all of the monetary committee members. The central bank governor, Amir Yaron, has been very vocal expressing the negative effects that the judicial reform could have on the economic growth not only in the short term but for the upcoming years. The central bank laid out different scenarios, and in the worst scenario the estimate saw a 2.8% annual hit to the GDP over the next three years.

We estimate that one further interest rate increase is expected at most. The moderation of inflation alongside the fact that the real interest rate is positive along the entire yield curve reinforces our opinion.

Fixed Income and Stock market

The stock market in Israel recorded a shortfall of almost 12% compared to the MSCI World year to date. Tel Bond Shekel (corporate bonds) underperformed by about 3.5% compared to the US investment grade bond index. The government bond index also performed poorly compared to the corresponding index in the US. In addition, the shekel was among the weakest currencies in the world and depreciated by about 5.5% against the basket of currencies. Furthermore, Israel's 10-year CDS premium increased by approximately 60 bps to 90 bps level.

Markets in Israel no longer fear only the judicial reform, but also the developing deterioration in the economic situation. After all, the broad effects of the reform only intensified the risks to growth in Israel that were present before. However, it appears that the negative return brought stock prices to a price level that reflects the required increase in the risk premium. We think the current level signals a bottom. If it weren't for the political crisis, we would certainly recommend the Israeli market as a strong buy. We find current prices are very attractive considering risk-reward ratio. For instance, bank stocks are trading at the lowest capital multiples ever recorded. Bank Leumi, the largest bank in the country, reached a capital multiplier of 0.8 at its lowest point. Unfortunately, the political crisis does not allow us to examine the feasibility of purchasing shares in the local market only from the economic angle, so we are still holding back from increasing exposure. However, a relaxation of the crisis may push the Israeli market to a sharp rally.

Market outlook – Recommendations & Targets from fundamental analysis

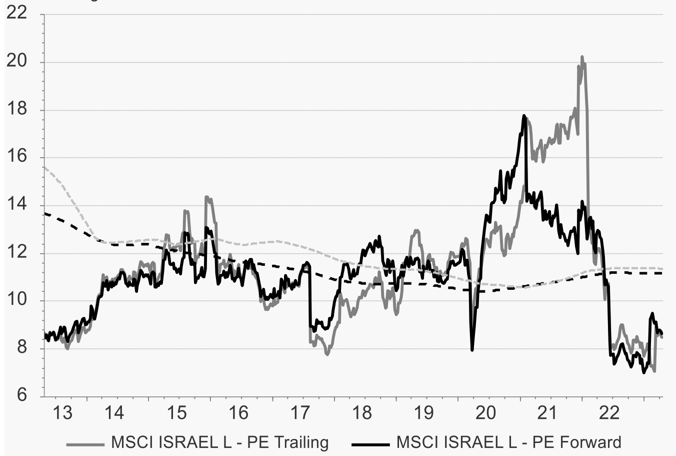
Equities – TLV35 Index: MARKETWEIGHT

Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT

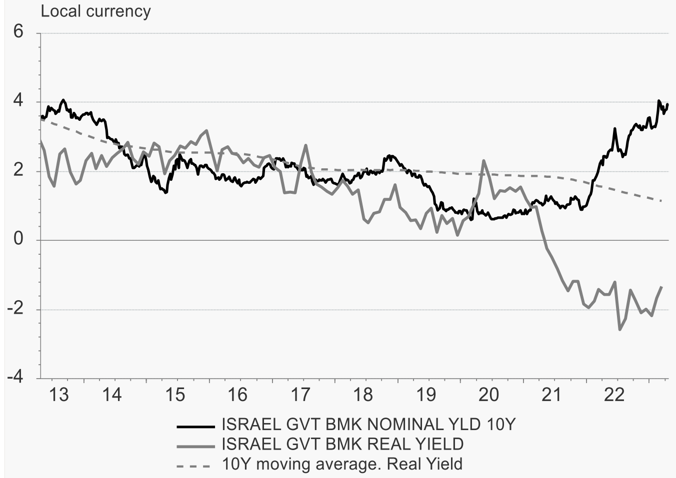
FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio
Trailing & Forward PE



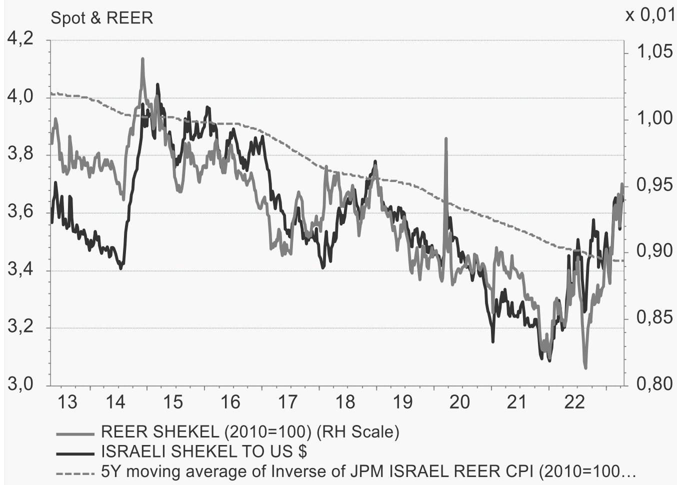
Fuente: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y
Local currency



Fuente: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Fuente: Refinitiv Datastream / ANDBANK

ANDBANK Private Bankers

BRAZIL

Fiscal framework: Better than expected

It´s finally here… the anxiously awaited fiscal framework

Earlier than his own original expectations, Finance Minister Haddad has unveiled his plan for the fiscal framework that will guide the government for Lula's entire mandate. The new framework replaces the much simpler debt ceiling with a more flexible approach, with the explicit purpose of preventing public debt from getting out of control. Brazil´s debt to GDP is at around 75% of GDP today, but its expected trajectory indicates that it could end up close to 95% of GDP over the next 10 years -- an unconceivable number for a developing economy interested in attracting foreign investment.

The framework establishes targets for primary results (revenues minus expenses, excluding interest rate expenses on its own debt). On the revenue side, if the government achieves its primary targets, it may increase spending by 70% of revenue growth from year to year. However, if the government fails to meet the primary target in any given year, the budget for the following year may only increase by 50% of revenue growth. Additionally, investments in key areas such as health and education will be allowed to grow more, by up to 100% of revenue growth. On the spending side, the framework creates a range for how much spending can increase every year. The range will be from inflation + 0.6% to inflation +2.5%. In other words, spending will show real growth every year of at least 0.6%, but no more than 2.5%. Money that gets trapped by the upper limit, should be set aside to be used when the government misses the targets and need to spend the minimum. These moves were designed to calm financial markets. The targets for primary results, as % of GDP, were set as: 2023: -0.5%, 2024: 0.0%, 2025: 0.5%, 2026: 1.0%. In all cases, a range was established with +/- 0.25%. Behind the framework is the idea that they needed to accommodate the historical agenda of the Workers´ Party, with the goal of investing in health and education for the poor, at the same time as it needs to reassure the markets that everything would be done respecting fiscal discipline.

What was the market reaction?

Reactions, in general, were of surprise. Market participants were expecting a much worse fiscal anchor, so in the end, most were positively surprised, which still does not reduce overall skepticism. It's like designing a strategy for a business. If you base the strategy on the wrong premises, there is very little chance that it will work. But once you draw up the plans, you need to implement them; if well implemented, the plan achieves all the potential of the strategy, but if poorly executed, it brings less than expected results. That is where the market is focusing now. The framework is believable, and shows some promise, but is this government able to implement the strategy? The more skeptical side argues that for the framework to work there has to be a very large increase in revenues that would only happen via increasing taxes, which would hurt the economy badly. The supportive side argues that by capping expense as a percentage of revenue, it guarantees a more stable trajectory for the debt-to-GDP ratio. Additionally, the possibility of having an upper limit for debt growth will force the government to save money for a "rainy day".

So far, price reaction has been mixed. Rates have been coming down slowly but steadily. The stock market took a hit right after the announcement and has been climbing since then. Our view is that the market is pricing in that the surplus targets would be achieved, allowing for public finances and credit metrics to gradually improve, future inflation expectations to come down, and thus interest rates, which is good for fixed income instruments. However, the surplus would come via taxation that would hurt companies bottom lines, pricing them downward. We believe that the added flexibility in the new framework is welcomed in relation to the much stricter debt ceiling rule. However, the next couple of years will be very important for defining the effectiveness of the framework as a fiscal anchor, depending very much on the government not overshooting in its efforts to raise revenue via taxes, instead of creating an environment were the country gets back on a sustainable growth path.

Next steps

Haddad´s announcement was just that, an announcement. Now, the government is currently writing the actual text of the law, which will need to be approved in two sessions in the lower chamber and two sessions in the senate, before becoming law. One of the transition cabinet's best moves was to get approval to remove fiscal law from the constitution. Up till then, the fiscal rules for Brazil were set in the magna carta; with the change, only general fiscal principles remain in the constitution, and the actual rules were moved to complementary law. That was very important, because to change the constitution, an absolute majority of 3/5 of the congress members is needed, while to change a complementary law requires only a simple majority (50% + 1), making approval much easier. During the next few weeks, we will see the final bill and the changes deputies and senators make to the original text, and that will probably consolidate the market views on the effectiveness of the framework.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT

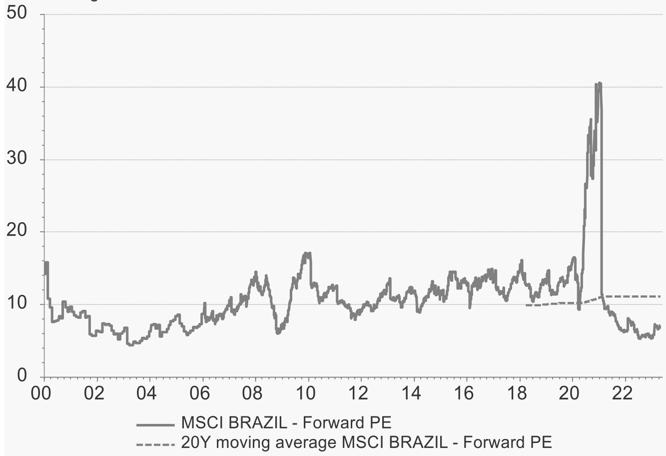
Bonds – Govies Local: OVERWEIGHT (Target yield 13.75%. Spread 950)

Bonds – Govies USD: UNDERWEIGHT (Target yield 7.50%. Spread 325)

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

Brazil MSCI Index price-to-earning

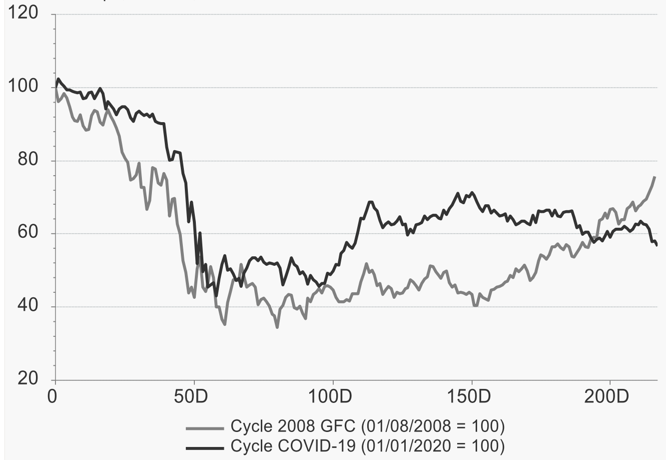
Trailing & Forward PE



Fuente: Refinitiv Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

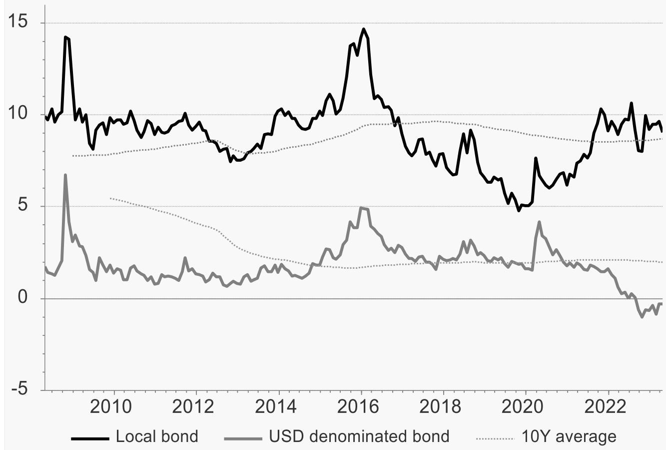
Bovespa, rebased, 100 = crisis start date



Fuente: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: Refinitiv Datastream / ANDBANK

MEXICO

The drop in inflation and the growth of nearshoring the two main topics on the agenda

Central Bank

The central bank increased its rate by 25 bps, as was unanimously expected by the market, to bring its rate to 11.25%. Although there was a slight improvement in the forecast for inflation in the following quarters (2Q23-4Q24), the market expects an additional increase in the May meeting (+25 bps), although operators are at the same time forecasting interest rate reductions of up to 100 bps in the last quarter of 2023. The minutes of the meeting showed a more dovish tone in the central bank's governing board. Recent inflation data is giving more flexibility to Banxico and we also take into consideration the Fed's decision of the same month.

Inflation and activity

Inflation eased in the first half of the month as consumer prices rose +6.24% y/y , down from +6.58% y/y at the end of March. Compared with the prior two-week period, prices fell 0.16%. Core inflation decelerated to 7.75% y/y, below the previous measure of 8.03% y/y.

Inflation is expected to slow to 5% by the close of this year and reach 4% by the end of 2024, according to a first draft of Mexico's 2024 budget. That's slightly above the estimates of the central bank, which expects inflation of 4.8% in the fourth quarter and 3.1% in the last quarter of 2024.

Mexico tapped global markets, raising 2.9 billion USD of bonds (1.35 billion USD from the sale of new bonds due in 2053). Part of the proceeds will be used to buy back existing notes maturing between 2041 to 2052. This is the second time in the year that Mexico raised debt, after a 4 billion USD offering in January.

Politics

We continue to see a growing flow of FDI to sectors that could benefit from nearshoring, with the prospect that the commercial and diplomatic distance between China and the US could favor the Mexican export sector. The announcement of a future Tesla investment production plant in Monterrey stands out as one of the main examples of this trend.

Andrés Manuel López Obrador (AMLO) announced that Mexico will buy 13 gas-fired combined-cycle power plants from Spain's Iberdrola, making the Federal Electricity Commission (CFE) the biggest power company. The amount paid for the purchase is 6,000 MM USD. The sale follows a series of past accusations by the President of Mexico, who has said that Iberian companies "abused our country and our peoples", denouncing Iberdrola for lobbying to pressure against the energy reform being carried out by his government that reversed reforms passed during the previous Administration that had opened up the energy sector to private investment. AMLO's government has blocked and frozen the permits of private companies to generate energy, weakened the autonomous organizations of the energy sector, canceled energy auctions, stopped the development of energy projects with private initiative and canceled the oil rounds.

Financial markets

Equity: It seems that there is not much room to unlock value in the Mexican market. We believe that multiples will continue to be pressured by historically high interest rates and results that show the challenges to growth. The nearshoring momentum narrative remains supportive of the market but not as a catalyst that counterbalances the rest of the factors against equities this year. Our twelve-month target for Mexbol is 59,000 points.

Fixed Income & FX: We believe that the inflation deceleration process will remain slow, with Banxico being able to bring the reference rate to levels of 11.50% in the second quarter of the year and keep it at those levels for the rest of the year. The spread for debt in pesos has fallen to 530 bps, still above our estimated level of 500 bps, while for bonds in dollars, the spread has plummeted to 176 bps, below our expected level for the 12 months of 200 bps and compared to its long-term averages.

After trading close to 19 pesos in mid-March, the dollar has weakened once again in recent weeks to settle again at 18 pesos. We maintain our year-end target of 20 pesos.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 9.25%. Spread 500)

Bonds – Govies USD: UNDERWEIGHT (Target yield 6.15%. Spread 200)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 20)

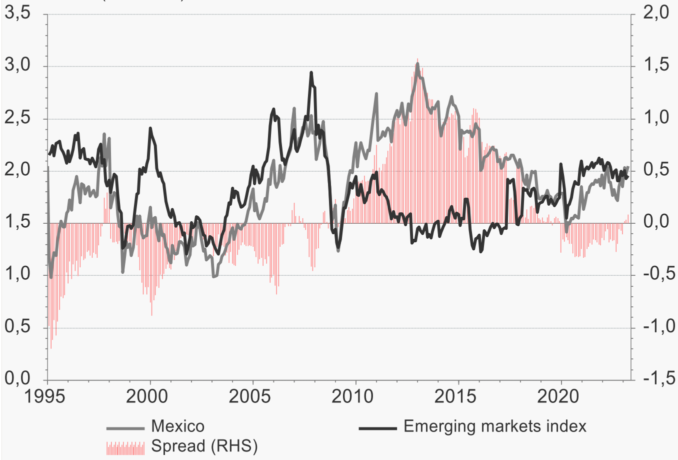
Mexico MSCI Index price-to-earning

Trailing & Forward PE

Fuente: Refinitiv Datastream / ANDBANK

Mexico price-to-book ratio

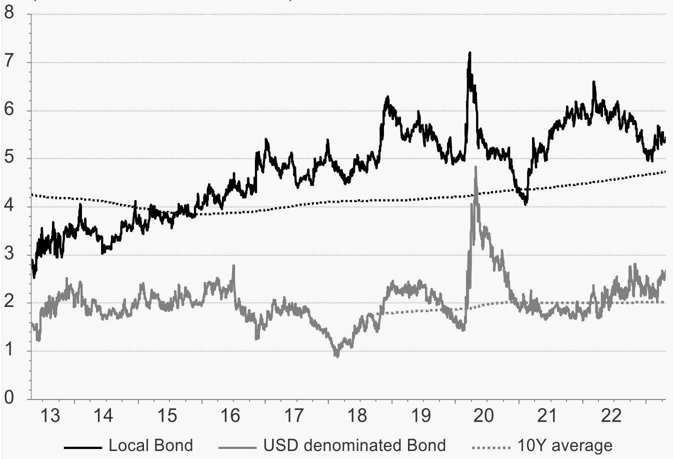
Ratios (both axes)



Fuente: Refinitiv Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Fuente: Refinitiv Datastream / ANDBANK

ARGENTINA

The electoral cycle begins

Politics: Opposition factions begin to form

Horacio Rodríguez Larreta, chief of government of the City of Buenos Aires, has announced that national and city elections will be held on the same day this year, but with separate ballots, one for National elections, and another one for City authorities. This decision divided the PRO, the largest party of *Juntos por el Cambio* (JxC) coalition, with Rodriguez Larreta on one side and Mauricio Macri, María E. Vidal and Patricia Bullrich on the other. The Union Cívica Radical, also part of JxC, emerges as the main beneficiary since this enables its candidate, Martin Losteau, to compete on equal terms with Jorge Macri, the PRO candidate. Those who criticize Rodriguez Larreta argue that he made this decision to gain the support of the UCR in the national elections.

We also had the first provincial elections in Neuquén and Rio Negro. In both provinces, the government coalition and JxC did not field strong candidates in the race and the winners belong to local parties. In Neuquén the *Movimiento Popular Neuquino* (MPN) lost the election but at the hands of a candidate who is a national deputy representing MPN (Rolando Figueroa). The MPN loses the governorship for first time in 60 years. In Rio Negro, *Juntos Somos Rio Negro* maintained the governorship with Alberto Weretilneck, who obtained 41.62% of the votes with a clear advantage over the Pro candidate (Aníbal Tortoriello with 24.16%).

Lots of news coming from international courts

During the past month we had three important events in international courts that affect both the national government and YPF, the state oil company. First, U.S. District Judge Loretta Preska ruled against the Argentine state in a lawsuit over the expropriation of YPF, which is listed in the NYSE. In 2012 Argentina expropriated YPF shares held by Repsol, at the time the majority shareholder. The plaintiffs argued that Argentina should have made a tender offer to minority shareholders, giving them the possibility of existing YPF in the same sale conditions as given to the majority shareholder. At the same time, the court ruled in favor of YPF, finding it was not required to force Argentina to make the tender offer and is therefore not liable in the lawsuit. The amount of compensation has not yet been defined but Burford Capital, which funded the consolidated case, estimates 8.4 Bn USD plus interest.

A couple of days later it was learned that a London court also ruled against Argentina in a lawsuit brought by four hedge funds that claim Argentina changed the GDP base in order to avoid paying the holders of GDP-linked bonds issued in the debt restructuring of 2005 and 2010 to sweeten the deal. The judge ruled Argentina should pay 1.33 billion euros plus interest, 48% going to the four funds.

Last but not least, YPF and Repsol reached an agreement with Maxus liquidation trust, Occidental, the EPA and the states of Ohio and Wisconsin, in connection with the contamination of the Passaic River done by the Maxus Corporation. In 1995 YPF acquired Maxus as part of an international expansion plan. Maxus had previously sold its chemicals business to Occidental Chemical and agreed to compensate it for environmental liabilities arising from its operations, including environmental damage to the Passaic River. The companies will have to pay a total of 575 million USD (287.5 million each), an amount less than 5% of the total claimed. The settlement is still subject to court approval

IMF: cuts growth forecasts but still looks optimistic

Nigel Chalk, acting director for the Western Hemisphere, stated that as more information becomes known the more serious the shock seems to be for the country as a result of the drought. The IMF slashed their 2023 growth forecast to 0.2%, down from 2% previously, still above the market consensus (-2.7% according to BCRA REM). The Rosario Stock Exchange cut its projections for soybean production (main contributor to Argentina's exports) for this year's campaign from 27 m/ton in March to 23 m/ton metric tons, a drop in production of 45% compared to last year.

Inflation: Galloping like a runaway horse

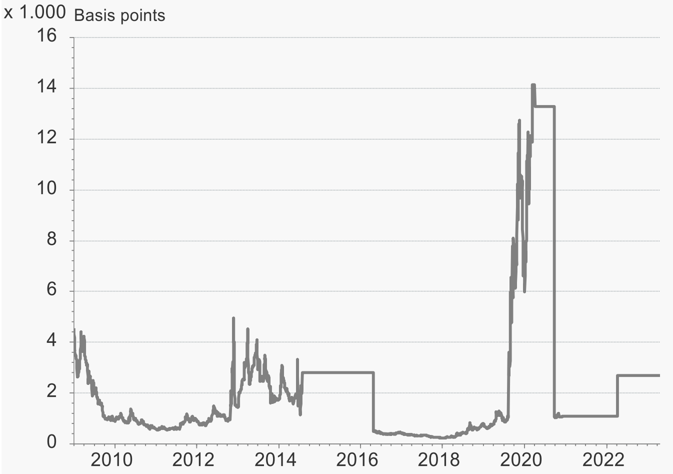
Inflation accelerated to 7.7% m/m in March, significantly above market expectations of 7% m/m. From a year ago, prices rose 104.3%, the highest annual level since 1991. In the previous reading prices jumped +6.6% m/m. One significant difference between February and March reading is that in the former month Core inflation came in above Headline CPI (+7.7% m/m), while in the latter Core was lower (7.2% m/m). Regulated (+8.3% m/m) and Seasonal Prices (+9.3% m/m) had above average increases.

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

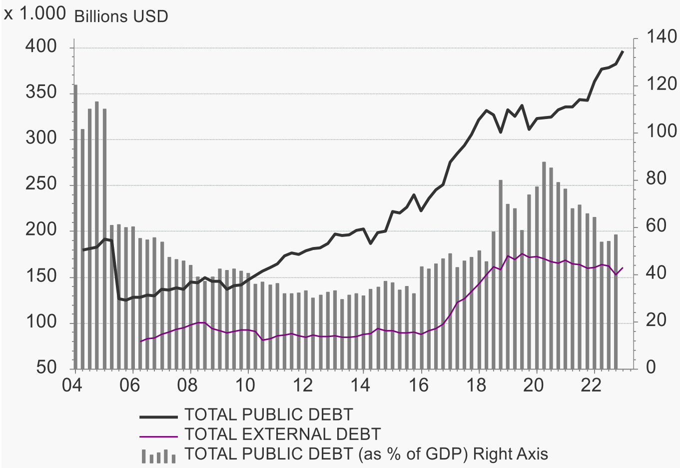
FX – USDARS: NEGATIVE (2023 year-end target 370)

Argentina 5Y CDS



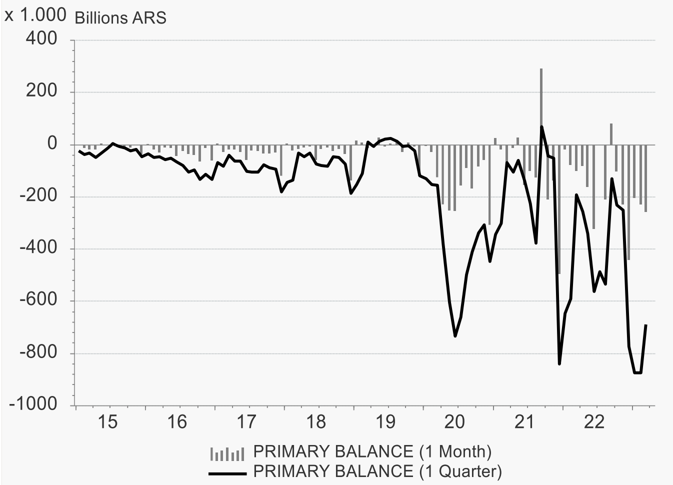
Fuente: Refinitiv Datastream / ANDBANK

ARGENTINA - TOTAL & EXTERNAL DEBT



Fuente: Refinitiv DatastreamThomson Reuters Datastream / ANDBANK

ARGENTINE PRIMARY BALANCE



Fuente: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

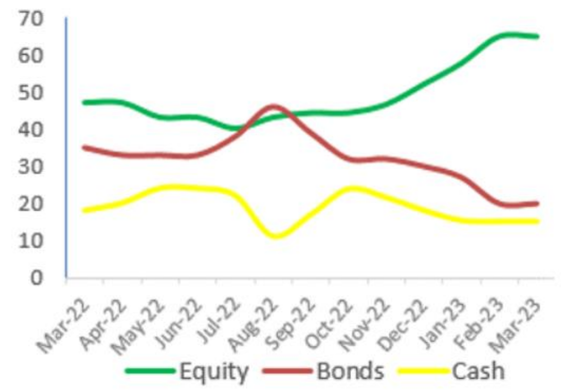
Fundamental assessment

Index	Projected EPS 2023	Projected EPS Fw 12 months	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	220,0	227	-2,2%	14,50	4.135	3.293	-20,4%	UW-MW	4.281
Europe - Stoxx Europe 600	32,5	32,5	1,6%	12,00	464	390	-16,0%	UW-MW	468
Euro Zone - Euro Stoxx	31,0	31,0	6,9%	12,00	460	372	-19,2%	UW-MW	446
Spain IBEX 35	800,0	816	7,4%	11,00	9.315	8.978	-3,6%	MW-OW	9.876
Mexico IPC GRAL	4.225	4.217	11,8%	14,00	54.442	59.037	8,4%	OW	64.941
Brazil BOVESPA	17.816	17.816	0,0%	6,00	102.923	106.896	3,9%	MW	117.586
Japan NIKKEI 225	1.885	1.898	2,2%	15,50	28.458	29.418	3,4%	OW	32.360
China SSE Comp.	315,0	315	14,5%	9,50	3.323	2.993	-9,9%	UW	3.292
China Shenzhen Comp	132,0	132	30,7%	15,00	2.056	1.980	-3,7%	UW	2.178
India SENSEX	3.151	3.304	17,6%	21,00	60.813	69.380	14,1%	OW	76.318
Vietnam VN Index	120,0	128	20,0%	10,00	1.046	1.278	22,2%	OW	1.405
MSCI EM ASIA	42,0	42	5,0%	14,00	521	588	12,8%	OW	647

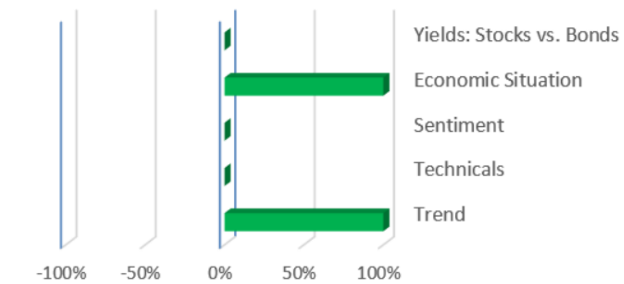
ANDBANK ESTIMATES

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

Dynamic Asset Allocation per Ned Davis Research



Current Relative Strength (Equities vs Bonds) Ned Davis Research



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

Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmar
U.S.	61%	61,3%
Europe ex. U.K.	14%	12%
Emerging Markets	11%	11,1%
Pacific ex. Japan	6%	3,1%
Japan	3%	5,4%
Canada	3%	3,1%
U.K.	2%	3,8%
Materials	4%	2,6%
Energy	5%	4,6%
Health Care	15%	14,5%
Financials	11%	10,8%
Consumer Discretionary	10%	11,3%
Communication Services	9%	8,5%
Utilities	3%	2,9%
Consumer Staples	7%	7,4%
Information Technology	27%	26,7%
Industrials	8%	8,1%
Real Estate	1%	2,7%

ENERGY – OIL

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

Buy < USD75; Sell >USD100

Short-term drivers

(Bearish price factor) – The broader oil market narrative has turned unfavorable for oil price recently: Global recession, banking and central bank fears remain the biggest drags on risk sentiment, offsetting the upside risk from China's reopening and Russia's 500K bpd production cut.

(Bullish price factor) – Supply may tighten more than demand falls: Russian flows have remained more resilient than expected, with flows shifting away from Europe and toward Asia in recent months, while US oil has replaced Russia as a key supplier to Europe. However, some analysts and traders have increasingly noted that supply may tighten more than demand falls in the coming months. First, because the shift in Russian oil trade to Asian buyers has increased Moscow's reliance on its own fleet of tankers. The problem for Moscow, and for the global supply, is that voyages for Russian ships are now much longer, and we must consider that much of the Russian fleet was designed to trade in the Baltic, Black or Mediterranean seas. The Russian-owned fleet is not designed to ship all of its crude exports from Western ports to Asian ones. That leaves it still dependent on some European-owned vessels (and here, Moscow faces the problem of the cap price restriction against transporting Russian oil above $60/barrel). All this can mean less oil circulating in the world. Then there is the possibility that international producers may pull back in response to tighter credit conditions and economic uncertainty, adding upside risk to prices.

(Neutral price factor) – US oil is replacing Russia as a key supplier to Europe. US exports to Europe hit a record 2.1M bpd so far this month. The rise in US oil sales has been driven in part by the widening of the spread between US WTI oil and Brent to $7 (WTI cheaper), as well as weaker oil demand from US refineries. Brent became more expensive relative to WTI, given declining availability of Russian oil and complications at Norway's Johan Sverdrup field. VLCCs (ships carrying US oil) destined to Europe have also reached a record high. We expect exports to Europe to remain strong as long as the Brent/WTI spread remains wide, though the coming summer driving season could add more US demand, meaning higher oil prices globally.

(Neutral price factor) – While the US replaces Russia as a key supplier of crude to Europe, China replaces Europe as a key buyer of Russian energy. Xi and Putin meeting seeks a closer energy relationship with Russia: Russia has already become China's top crude supplier, overtaking Saudi Arabia, with volumes up nearly 24% y/y in January and February. Chinese imports of Russian oil totaled 1.94M bpd in the first two months of the year, outpacing the 1.72M bpd of Saudi oil imports. This situation helps to recompose the movement seen in the game of suppliers and applicants, where Russia stops selling crude to Western countries (which have to look for crude elsewhere) and now starts selling it to China (of course much cheaper). In a way, this movement between China and Russia releases crude oil from other producing countries in the Middle East that they had been selling to China. Having been displaced by Moscow, they will have surpluses to relocate in the West. Undoubtedly, this reorganization should help to eliminate tensions due to a lack of crude oil in the world, since Russia cannot sell its crude anywhere.

(Bullish price factor) – Russia says it will extend voluntary 500K bpd of oil production cuts into June: Russia's Deputy Prime Minister Novak said that the 500K bpd oil production cut will last through June. The original pledge to cut output by 500K bpd in March came in response to the sanctions from western countries. The comment came after a report earlier this week that said Russian exports have been resilient and that inventory data suggested Russia hasn't made substantial production cuts, as the country's storage tanks topped 15M barrels for the first time in nearly a year.

(Bullish price factor) – Moscow seeks to increase its tax revenue from oil companies: FT reported that Russia will change how its oil companies are taxed in an effort to increase state revenues. The Kremlin will move to an indicator pegged to Brent, which would reduce the market discount on Russian oil (higher prices?), generating an additional US$8B of tax revenue.

(Bullish price factor) – Traders unlikely to reengage with Russian oil dealing without clear guidelines: Commodity traders Trafigura and Vitol said they would consider trading more Russian oil only if there was clear, broad-based guidance from governments, banks, and insurance companies. They said could envisage some marginal increase in trading of Russian oil if there was some stronger guidance, though they still don't expect dramatic changes to volumes. The US officials privately urged the commodity traders to restart trading Russian oil but only as long as it remains below the $60 price cap. Apparently, western officials are increasingly concerned about the Russian oil trade moving to lesser-known operators using ageing vessels. Six lesser-known companies based in Hong Kong and Dubai handled about 1.4M bpd of Russian crude oil in December as the biggest oil traders stepped back in the past year.

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 USD2,000 – 2,200 /oz

Buy < USD2,000; Sell >USD2,200

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 favourable environment for gold, one in which, historically, this commodity does well.

Gold is cheap relative to palladium: The Gold/Palladium ratio rose to 1.15, still well below its 20-year average of 1.84x, suggesting that gold is extremely cheap relative to palladium.

Gold could be the best anti-fragile asset in 2023: Gold, like the US Treasury bond, is an anti-fragile asset. Investors should always decide which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets 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 and US Treasuries) 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 best act as an anti-fragile asset in the face of a shock. In this regard, in the short term and for 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. With a longer-term view, once QT has ended, we no longer see the supply of UST as unlimited, but rather as quite limited. This should be good news for UST, but in the long term.

Negative drivers for gold

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

Gold expensive relative to silver. The Gold/Silver ratio rose to 87.41, still above its 20-year average of 67.45x, suggesting that gold is still expensive relative to silver (or silver is cheap relative to gold). 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$1,424/oz.

Gold to oil: This ratio fell to 23.2, still well above its 20-year average of 18.7x. Considering our mid-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$1,636 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.29825), 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$1,422. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1.115. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,447.

The four 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 the USD to rise. The 1985-88 rally ended when Germany pulled out of the Plaza Accord 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 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 for 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 that **a downward turn in gold could be close,** since gold has totally lost its momentum, and also because the possibility of an increase in interest rates has now become a reality.

Risk #1. Higher nominal rates (HIGH RISK): Although a few months ago rate hikes by monetary authorities seemed unthinkable, this is now a reality and is not likely to 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 (which has kept the price of gold capped). From a longer-term perspective, 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. The current account balance (deficit) is more likely to 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 the strong rebound that could bring the gold bull market to an end. However, a more determined tightening strategy from the Fed could cause some USD shortages, 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 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.

EXCHANGE RATES

Flow analysis & Short-term view

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	-11,97	-6,68	32,1	-28,2	0,3	-0,67
USD vs G10	-10,14	-6,71	32,7	-25,4	1,3	-0,66
EM	1,83	-0,03	3,9	-1,2	1,4	0,28
EUR	22,54	3,05	23,4	-8,6	11,1	1,16
JPY	-5,30	0,96	0,6	-15,0	-7,6	0,51
GBP	0,10	1,67	4,3	-6,5	-1,5	0,61
CHF	-0,66	0,33	0,2	-6,0	-2,3	0,99
BRL	0,27	-0,20	0,7	-0,8	0,0	0,67
MXN	1,56	0,17	3,3	-1,5	1,2	0,32
RUB	0,00	0,00	1,2	-0,3	0,3	0,00
AUD	-2,85	-0,28	6,1	-5,2	-0,8	-0,65
CAD	-3,45	0,69	6,1	-5,0	-0,3	-1,08

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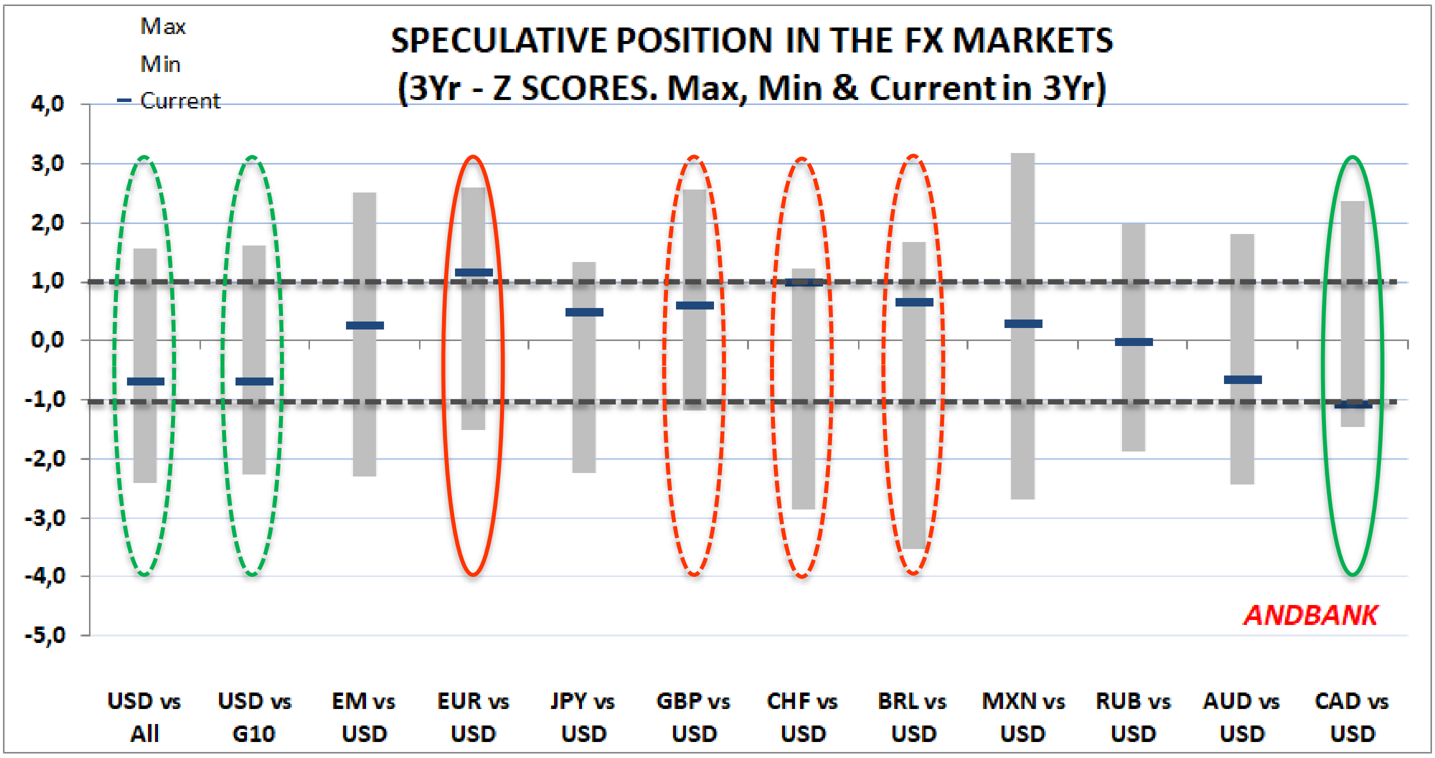
Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Andbank's estimate (potential price)	Expected Performance (to potential price)
Equity	USA - S&P 500	2,7%	7,7%	4.135	3.293	-20,4%
	Europe - Stoxx Europe 600	3,4%	9,6%	466	390	-16,2%
	Euro Zone - Euro Stoxx	2,9%	12,6%	462	372	-19,4%
	SPAIN - IBEX 35	2,7%	13,2%	9.315	8.978	-3,6%
	MEXICO - MXSE IPC	1,0%	12,3%	54.442	59.037	8,4%
	BRAZIL - BOVESPA	1,1%	-6,2%	102.923	106.896	3,9%
	JAPAN - NIKKEI 225	2,1%	9,1%	28.458	29.418	3,4%
	CHINA - SHANGHAI COMPOSITE	2,6%	7,6%	3.323	2.993	-10,0%
	CHINA - SHENZEN COMPOSITE	-2,3%	4,1%	2.056	1.980	-3,7%
	INDIA - SENSEX	4,9%	-0,1%	60.795	69.380	14,1%
	VIETNAM - VN Index	-1,0%	3,7%	1.045	1.278	22,2%
	MSCI EM ASIA (in USD)	-1,9%	1,4%	521	588	12,8%
Fixed Income Core countries	US Treasury 10 year Govie	0,7%	4,2%	3,51	4,00	-0,4%
	UK 10 year Gilt	-2,3%	0,1%	3,79	3,75	4,1%
	German 10 year BUND	-1,1%	1,6%	2,47	2,50	2,2%
	Japanese 10 year Govie	-0,6%	0,3%	0,38	0,75	-2,6%
Fixed Income Peripheral	Spain - 10yr Gov bond	-1,2%	2,2%	3,51	3,50	3,6%
	Italy - 10yr Gov bond	-1,5%	4,2%	4,36	4,50	3,2%
	Portugal - 10yr Gov bond	-0,7%	3,4%	3,26	3,50	1,3%
	Ireland - 10yr Gov bond	-0,8%	2,6%	2,86	3,00	1,7%
	Greece - 10yr Gov bond	-0,6%	4,4%	4,21	5,00	-2,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,5%	1,2%	85,13	100	3,6%
	Credit EUR HY-Itraxx Xover	1,0%	2,6%	450,25	550	4,8%
	Credit USD IG - CDX IG	0,5%	1,9%	79,30	100	5,4%
	Credit USD HY - CDX HY	0,9%	3,2%	484,02	600	6,6%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-10,2%	-18,5%	11,82	11,75	12,4%
	Russia - 10yr Gov bond (local)	-1,7%	1,1%	10,64	14,00	-16,2%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	2,7%	5,7%	6,48	6,25	8,3%
	India - 10yr Gov bond (local)	2,0%	4,1%	7,11	7,00	8,0%
	Philippines - 10yr Gov bond (local)	1,2%	7,5%	6,15	7,50	-4,6%
	China - 10yr Gov bond (local)	0,8%	1,4%	2,78	2,75	3,0%
	Malaysia - 10yr Gov bond (local)	1,3%	2,6%	3,84	4,00	2,6%
	Thailand - 10yr Gov bond (local)	-1,3%	0,9%	2,42	3,50	-6,2%
	Singapore - 10yr Gov bond (local)	1,5%	3,5%	2,76	4,00	-7,2%
	Rep. Korea - 10yr G. bond (local)	-0,2%	4,2%	3,26	4,50	-6,7%
	Taiwan - 10yr Gov bond (local)	0,3%	1,4%	1,16	2,25	-7,6%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,6%	4,7%	8,81	9,00	7,2%
	Mexico - 10yr Govie (USD)	1,9%	5,6%	5,49	6,00	1,4%
	Brazil - 10yr Govie (Loc)	7,0%	7,9%	12,24	13,50	2,2%
	Brazil - 10yr Govie (USD)	0,3%	4,2%	6,22	7,00	-0,1%
Commodities	Oil (WTI)	3,1%	-6,3%	75,2	87,50	16,4%
	GOLD	1,1%	8,8%	1.985,8	2.200	10,8%
Fx	EURUSD (price of 1 EUR)	1,7%	3,0%	1,102	1,050	-4,7%
	GBPUSD (price of 1 GBP)	1,3%	3,1%	1,25	1,22	-2,2%
	EURGBP (price of 1 EUR)	0,3%	-0,1%	0,88	0,86	-2,6%
	USDCHF (price of 1 USD)	-2,7%	-3,3%	0,89	0,97	8,5%
	EURCHF (price of 1 EUR)	-1,1%	-0,4%	0,99	1,02	3,4%
	USDJPY (price of 1 USD)	2,1%	3,5%	135,66	120,00	-11,5%
	EURJPY (price of 1 EUR)	3,8%	6,6%	149,49	126,00	-15,7%
	USDMXN (price of 1 USD)	0,0%	-7,2%	18,08	20,00	10,6%
	EURMXN (price of 1 EUR)	1,5%	-4,5%	19,90	21,00	5,5%
	USDBRL (price of 1 USD)	-3,1%	-5,8%	4,98	5,25	5,5%
	EURBRL (price of 1 EUR)	-1,5%	-3,0%	5,49	5,51	0,5%
	USDARS (price of 1 USD)	6,6%	25,6%	222,00	370,00	66,7%
	USDINR (price of 1 USD)	-0,5%	-1,2%	81,76	84,00	2,7%
	CNY (price of 1 USD)	0,5%	0,3%	6,92	7,50	8,4%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
More

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