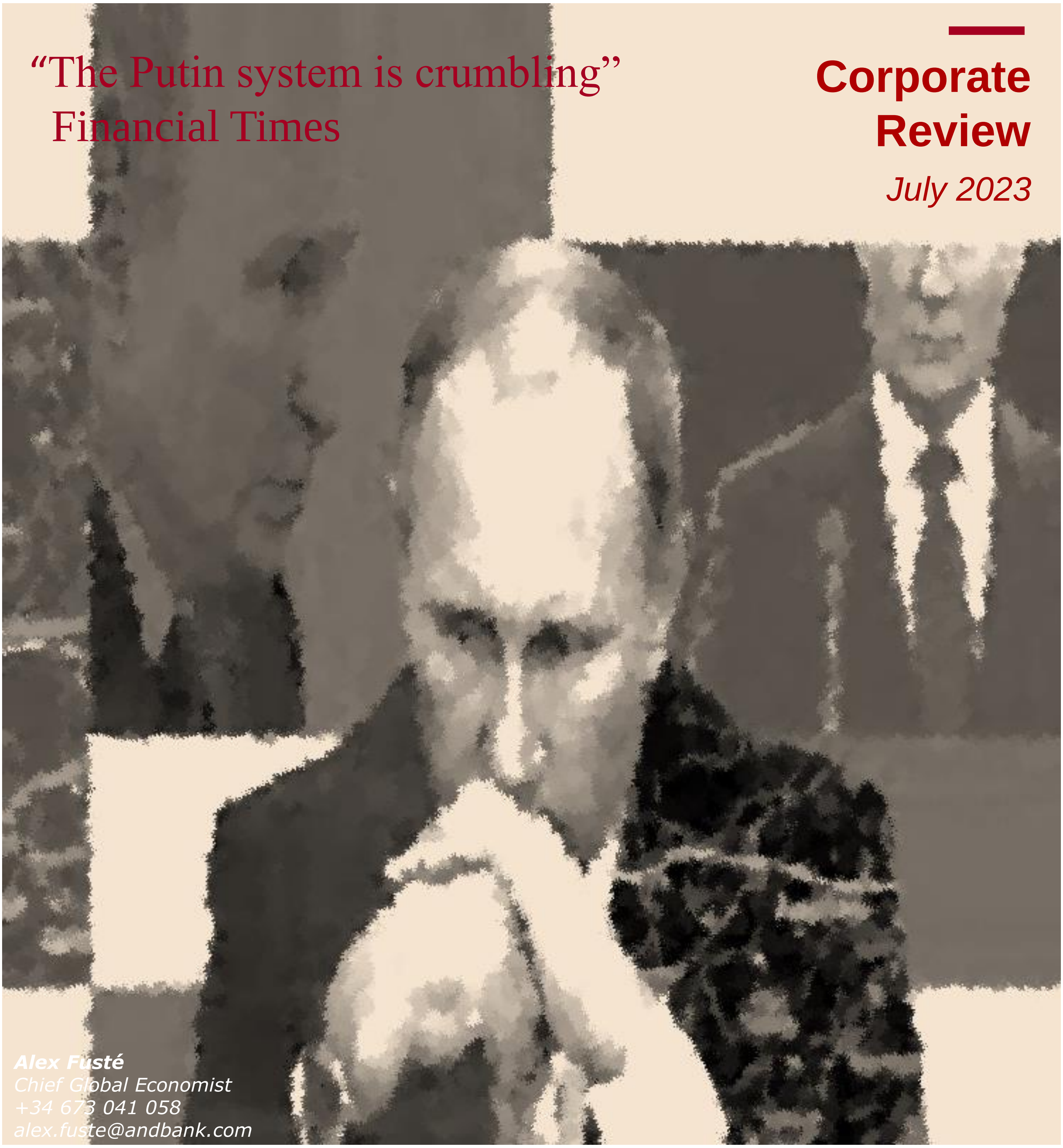
GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review – July 2023



"The Putin system is crumbling"
Financial Times

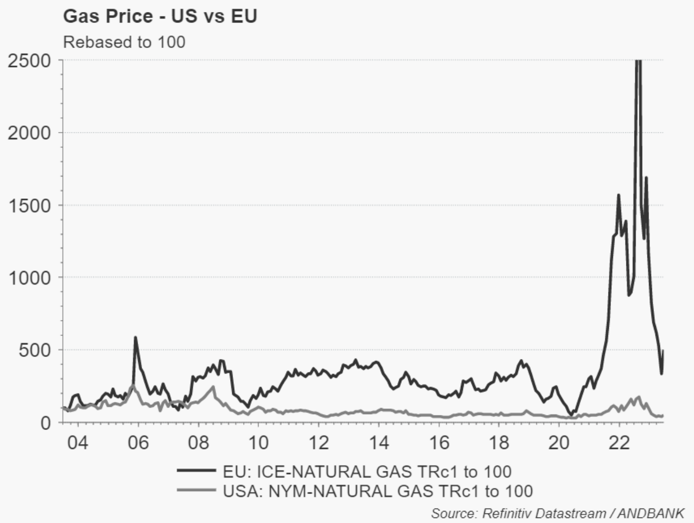
Corporate Review

July 2023

Alex Fusté
Chief Global Economist
+34 673 041 058
alex.fuste@andbank.com

EXECUTIVE SUMMARY

CHART OF THE MONTH
A reflection on the possible instability in Russia



With each passing day that the current status quo in Ukraine is maintained, it increases the chances of the Kremlin regime's downfall. Knowing that there are 21 ethnically diverse republics - many dissatisfied and others highly nationalistic - the fall of the Kremlin may result in a civil conflict, and it is likely that the country could enter a stage of anarchy in which no one can guarantee that Russia will export anything it currently exports. In such a case, the chart attached above could turn against the West in general and Europe in particular. There are three essential commodities that Russia sells in large quantities today, such as fertilizers, grains, and energy. On the first day of a civil conflict in Russia or a disorderly downfall of the Kremlin, international policymakers and businessmen would embark on purchasing precautionary inventories. Investors worldwide would take long positions on the first contract of those essential commodities, as would be considered the only valid hedge. This would imply immediate food and energy inflation, prompting the Federal Reserve and the European Central Bank to respond with new interest rate hikes, erasing what little growth remains and, of course, impacting both bond and stock markets, in what could end up being a repeat of 2022. In conclusion, as long as the conflict lasts, the chances of an external shock that drags economies and markets increase, requiring all portfolio managers to remain on high alert.

EQUITIES

Index	INDEX CURRENT PRICE	Entry Point (Strong Buy)	E[Perf] to potential price	Recommended Strategy	Entry Point (Strong Sell)
USA S&P 500	4.451	3.813	-14,3%	UW-MW	4.957
Europe - Stoxx Europe 600	461	423	-8,4%	UW-MW	507
Euro Zone - Euro Stoxx	462	403	-12,8%	UW-MW	484
Spain IBEX 35	9.638	10.502	9,0%	MW-OW	11.553
Mexico IPC GRAL	54.118	58.974	9,0%	OW	64.871
Brazil BOVESPA	119.447	120.258	0,7%	MW	132.284
Japan NIKKEI 225	33.753	32.172	-4,7%	OW	35.389
China SSE Comp.	3.244	2.993	-7,8%	UW	3.292
China Shenzhen Comp	2.060	1.947	-5,5%	UW	2.142
India SENSEX	65.205	71.175	9,2%	OW	78.292
Vietnam VN Index	1.126	1.321	17,4%	OW	1.453
MSCI EM ASIA	529	588	11,1%	OW	647

ANDBANK ESTIMATES

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	Indices	Performance YTD	Current Price	Andbank's estimated reasonable price (Strong Buy)	Expected Performance (to potential price)
Fixed Income Core countries	US Treasury 10 year Govie	2,5%	3,81	3,75	4,3%
	UK 10 year Gilt	-4,2%	4,41	3,75	9,7%
	German 10 year BUND	2,6%	2,40	2,50	1,6%
	Japanese 10 year Govie	0,3%	0,39	0,75	-2,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	3,8%	3,39	3,50	2,5%
	Italy - 10yr Gov bond	7,2%	4,09	4,20	3,2%
	Portugal - 10yr Gov bond	5,3%	3,11	3,50	0,0%
	Ireland - 10yr Gov bond	3,6%	2,80	3,00	1,2%
	Greece - 10yr Gov bond	9,9%	3,62	4,50	-3,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	2,0%	76,81	100	3,7%
	Credit EUR HY-Itraxx Xover	5,2%	403,95	550,00	3,2%
	Euribor 3m				
	Credit USD IG - CDX IG	3,2%	69,00	100,00	5,3%
	Credit USD HY - CDX HY	6,0%	446,62	600,00	5,4%

FIXED INCOME - EM

Asset Class	Indices	Performance YTD	Current Price	Andbank's estimated reasonable price (Strong Buy)	Expected Performance (to potential price)
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-50,3%	16,01	17,00	8,1%
	Russia - 10yr Gov bond (local)	-1,3%	11,18	--	--
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	9,1%	6,20	6,00	7,8%
	India - 10yr Gov bond (local)	5,4%	7,11	6,50	12,0%
	Philippines - 10yr Gov bond (local)	6,1%	6,49	6,90	3,2%
	China - 10yr Gov bond (local)	2,8%	2,67	2,25	6,0%
	Malaysia - 10yr Gov bond (local)	2,9%	3,89	4,00	3,0%
	Thailand - 10yr Gov bond (local)	1,2%	2,43	3,00	-2,1%
	Singapore - 10yr Gov bond (local)	2,0%	3,02	4,00	-4,8%
	Rep. Korea - 10yr G. bond (local)	2,7%	3,53	4,50	-4,2%
	Taiwan - 10yr Gov bond (local)	1,8%	1,14	2,25	-7,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	7,4%	8,67	8,75	8,0%
	Mexico - 10yr Govie (USD)	5,4%	5,65	5,50	6,8%
	Brazil - 10yr Govie (Loc)	22,7%	10,67	12,00	0,1%
	Brazil - 10yr Govie (USD)	5,2%	6,23	6,75	2,1%

COMMODITIES & FX

Asset Class	Indices	Performance YTD	Current Price	Andbank's estimated reasonable price (Strong Buy)	Expected Performance (to potential price)
Commodities	Oil (WTI)	-12,1%	70,6	87,50	24,0%
	GOLD	5,5%	1.925,1	2.000	3,9%
Fx	EURUSD (price of 1 EUR)	1,9%	1,091	1,100	0,9%
	GBPUSD (price of 1 GBP)	4,9%	1,27	1,25	-1,5%
	EURGBP (price of 1 EUR)	-2,8%	0,86	0,88	2,3%
	USDCHF (price of 1 USD)	-3,0%	0,90	0,95	5,9%
	EURCHF (price of 1 EUR)	-1,1%	0,98	1,05	6,8%
	USDJPY (price of 1 USD)	10,2%	144,43	120,00	-16,9%
	EURJPY (price of 1 EUR)	12,3%	157,56	132,00	-16,2%
	USDMXN (price of 1 USD)	-12,3%	17,08	19,50	14,1%
	EURMXN (price of 1 EUR)	-10,6%	18,62	21,45	15,2%
	USDBRL (price of 1 USD)	-9,7%	4,77	5,00	4,7%
	EURBRL (price of 1 EUR)	-8,0%	5,21	5,50	5,6%
	USDARS (price of 1 USD)	46,0%	258,00	370,00	43,4%
	USDINR (price of 1 USD)	-1,0%	81,92	84,00	2,5%
	CNY (price of 1 USD)	5,0%	7,24	7,50	3,6%

USA

Powell's hawkish tone is defying market expectations

Federal Reserve and Debt Ceiling

After ten consecutive rate hikes since March 2022, the Fed chose to leave rates unchanged (target range 5-5.25%) after its latest monetary policy meeting in a decision that was widely expected by the markets. In its post meeting statement, the FOMC said that holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy.

On the other hand, the new dot plot showed two additional rate hikes for 2023, with the median expectation of the fund rate by the end of 2023 pushed to 5.6%, a development that was not expected by the markets and caused a recalibration of expectations by market participants. This change was driven by an increase in economic activity, as Fed officials now see improved growth in output for the coming quarters. More specifically, Fed officials now see real GDP growth of +1.0% in 2023 (versus a previous estimate of +0.4%), while moderating expectations for the unemployment rate to 4.1% (versus a previous estimate of 4.5%).

The July decision will be data dependent but Fed officials in the days after the monetary policy meeting have been pushing the narrative that the market should expect more rate hikes later this year. Fed Chair Jerome Powell testified before the Congress Financial Services Committee where he used a very hawkish tone, noting that inflation pressures continue to run high and that it was a "pretty good guess" to expect two more hikes for this year. If we look at market expectations we see that futures curves are pricing a 70% chance of a 25 bps rate hike at the next meeting. The moderation in inflation seen in the last couple of months is acting as a counterbalance for the Fed to act so aggressively.

Last but not least, at the end of May, an agreement was reached to suspend for two years the government borrowing limit, with a commitment from the Biden administration to curb the growth of federal discretionary spending for the next couple of years. This removed a factor of uncertainty and became one of the main drivers explaining the stock market's good performance in the first half of June.

Inflation and economic activity

Recent CPI and PPI data points have shown inflation slowing. CPI fell to +4.0% y/y in May from the +4.9% y/y April print and also came in below expectations (+4.1% y/y), marking the 11th consecutive month inflation slowed. Monthly growth was 0.1% m/m (market was expecting +0.2% m/m). A drop in energy prices helped bring down the headline number, influenced by base effects. Core inflation also decreased compared to the previous month (+5.3% y/y vs +5.6% y/y) but is still above headline inflation and well above the Fed's 2% target. Once again, shelter prices were the biggest contributor to the increase (+0.6% m/m, +8% y/y). As we mentioned previously, shelter is expected to show some considerable easing sooner than later in line with what has been happening with market prices this year.

As has been the norm in recent months, labor market data was good despite the rise in the unemployment rate (3.7% from 3.4% previously). 339K new jobs were created in the month, slightly above the previous figure, but well above estimates (180K), and wages grew by only +0.3% m/m compared to +0.5% m/m in the previous reading. In his appearance before Congress, Powell pointed out that unemployment rates are still at historically low rates, with high employment and participation rates, indicating a very strong job market. On the other hand, the number of jobless claims have been increasing, which could be an early sign of a softening labor market. 264,000 new claims were filed on a seasonally adjusted basis in the week ended June 17, the highest level since October 2021, although still very low in historical terms.

Financial markets

Rates & Credit: Fed new dot plot pushed the 10-year rate back to 3.80% and it has now stabilized in the range 3.70%-3.80%. The spread between the 2-year rate and the 10-year rate continued to increase during the last month and was once again above 100 bps. We maintain our spread targets and positioning for IG and HY Credit.

Equity: According to Factset earnings, declined -2% y/y in the 1Q23. Analysts expect earnings to continue declining in 2Q23 (-6.4% y/y), but also project earnings growth to return in the 2H23 (3Q23 +0.8% y/y & 4Q23 +8.2% y/y). Growth companies, especially large caps, continue to be the best performers YTD, with the NASDAQ 100 increasing more than +35% in 2023, outperforming the SP500 by more than 20%. Unlike last year, value stocks are underperforming this year with the Russell 1000 Value increasing only +1.1% YTD. We hold to our recommendation of a balanced portfolio between Value/Cyclical and Quality Growth companies,

Market outlook – Recommendations & Targets from fundamental analysis

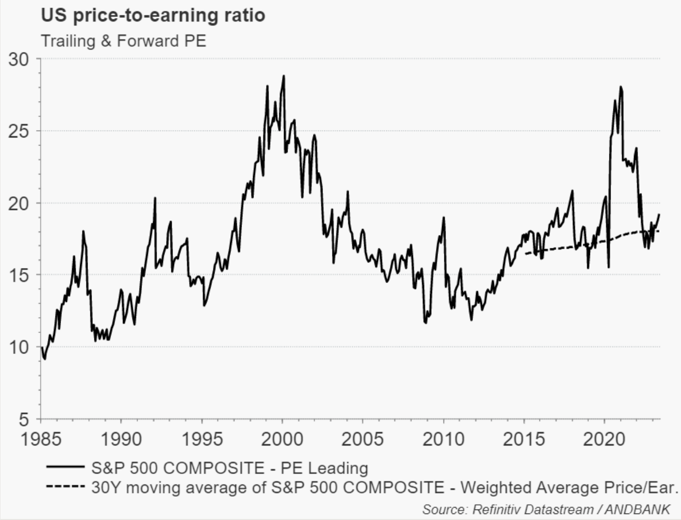
Equities: S&P UNDERWEIGHT- MARKETWEIGHT

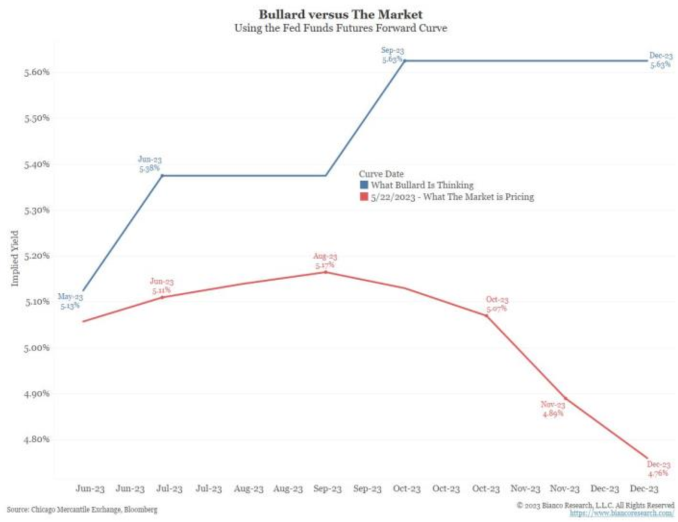
Bonds: Govies UNDERWEIGHT. 10Y UST Target 3.75%

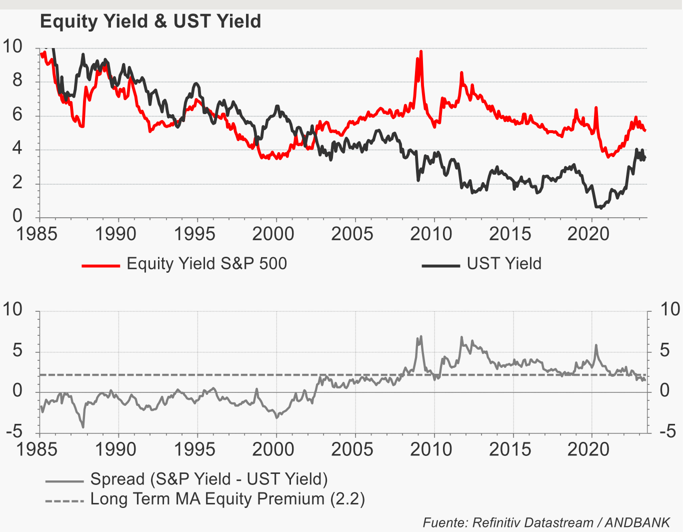
CDX IG: MARKETWEIGHT (Target Spread 100)

CDX HY: UNDERWEIGHT (Target Spread 550)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT







EUROPE

Improvements in the Macro but there is still work for the Central Bank

New macro estimates..

The macro picture from the brand new ECB projections show an economy where growth remains positive and with a hard landing scenario clearly avoided. Inflation is expected to decline, with the focus on the core figures, which are largely revised upwards for 2023-2024 due to unit labor costs above other factors. Labor markets, described as an "enigma" by Lagarde, may stay tight in 2024, with the unemployment rate decreasing further. In Schnable's words, "the path towards sustained price stability remains uncertain and fraught with risks tilted to the upside". Compared with the ECB, the market consensus shows less optimism in terms of growth. The Eurozone economy is expected to recover in Q2 (after -0.3% q/q in Q1 distorted by Ireland), but a mild recession is forecast towards year's end / 2024. ECB rate hikes could dampen the economy (usual lag of at least four quarters), with weakening credit dynamics, softening demand in the manufacturing sector (as reflected in a decline in new orders), and the service PMIs likely falling from expansionary levels. As a consequence, markets are also more confident on the disinflation trend for 2024 than the ECB's staff.

ECB not close to a pause, still "ground to cover"…

June´s meeting came out as unanimously expected in terms of measures: a 25 bps rate hike, and the confirmation of the balance reduction both via TLTROs repayments (447 bn In June/July) and the halt in APP reinvestments from July onwards. Moreover, Lagarde "preannounced" another hike for July. The dominant hawkish bias (pause not discussed, growth estimates above consensus, inflation outlook,…) leaves the door open for further tightening in September. Should summer data show an accumulation of faster disinflation or the deceleration on the service front, the ECB could then pause. As downside surprises in inflation forecast may not materialize quickly enough before September, an additional hike to 4% now appears likely. Hence, after another 25 bps hike in July, we are now also penciling in a 25 bps move for September, taking the depo terminal rate to 4%.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Peripheral spreads have tightened despite the reduced incoming support from the ECB: QT pace will be pushed up from the current EUR 15bn to around EUR 25bn per month in 2H23 as the APP reinvestments will be discontinued starting in July. One big concern (not yet in the ECB's conversations) has to do with the likelihood of the PEPP reinvestment end being brought forward from the end of 2024. Positive short-term factors for peripherals can be found in the growth momentum, political stability (Italy), rating outlook improvements (Greece), strong retail demand. Against this backdrop, we propose adjusting some of our targets: 10y Italian spread to 170 bps (from 200 bps), 10y Greece spread to 200 bps (from 250 bps). As for the bund, we maintain the 2.5% target for year end.

Corporates: Corporate fixed income has continued its upward trend this month. The greater activity on the supply side in May was well absorbed by greater investor appetite (especially in IG) and the lower issuances in the month of June have continued to help that spread compression. We continue to insist that the ECB's end of reinvestments due to maturities, which will involve EUR14 bn in 2H23 and another EUR 15 bn in the first 5 months of 2024, will not be particularly significant or damaging. We are still underweight on HY with default rates in European high yield expected to increase from the current 2.7% to 3.7% (according to an ECB survey). We continue to insist on short durations, being very selective in investment grade and maintaining a low exposure to high yield. We maintain the target spread levels for both IG (100 bps) and HY (550 bps).

Equity: Even after the recent strong performance, we think the Eurozone remains attractively priced. Having said that, the Eurozone is a global cycle value play, and could struggle to keep outperforming in the event of continued rotation, peaking PMIs, further ECB hikes and a weaker China. We maintain our favorable stance regarding the UK market which It is still trading at a record discount vs other regions and offers the highest dividend yield globally, and exporters are benefiting significantly from weak GBP. We favor big (FTSE 100) vs small caps (FTSE 250). Regarding Spanish market, positive developments for activity in the first half of the year — i) easing of energy prices; ii) notably buoyant tourism and services; iii) strong labor markets iv) national fiscal policy support to mitigate the impact of high inflation on household incomes—have helped sustain the strength of overall activity. The last Employment and Collective Bargaining Agreement recently signed includes recommended wage increases of 4% for 2023, and 3% for 2024 and 2025, mitigating the risks that second-round effects on inflation might emerge via wages. We maintain our overweight stance on Ibex.

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)

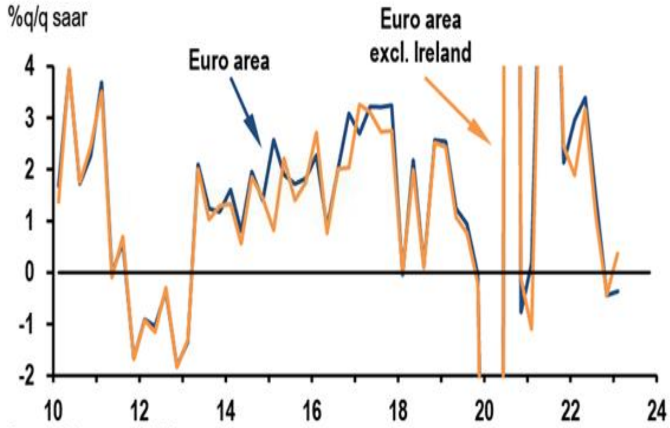
Peripheral – MW IT (4.2%), SP (3.5%), UW PO (3.5%), IE (3%), GR (4.5%),

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

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

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

Figure 9: Euro area GDP



Source: Eurostat, J.P. Morgan

ECB staff growth forecasts

%oya, % for the unemployment rate

	June projections		
	2023	2024	2025
Real GDP	0.9	1.5	1.6
Employment	1.3	0.5	0.4
Unemployement rate	6.5	6.4	6.3
HICP			
Headline	5.4	3.0	2.2
Core	5.1	3.0	2.3
Unit labour costs	5.6	3.4	2.6
Compensation per empl.	5.3	4.5	3.9
Labour productivity	-0.3	1.0	1.3

Source: ECB, J.P. Morgan

Euro STOXX banks Index

Fuente: Refinitiv Datastream / ANDBANK

ANDBANK
Private Bankers

MACRO ECONOMY

CHINA

Biden calls Xi Jinping a dictator. RMB Depreciation continues

Government attributes RMB depreciation to market effects but it has depreciated more than twice that of many Asian currencies.

Chinese RMB has depreciated 13.78% in the last 343 working days (going from 6.31 on March 1, 2022 to 7.18 on June 22, 2023). The State media calls for a "rational view" on yuan volatility. In that regard, the Economic Daily explained yuan depreciation as a "result of market mechanisms" and said other major currencies softened against USD, especially the Japanese yen, and that “it is highly probable the yuan will appreciate against the dollar in H2”. However, we should note that the depreciation of the RMB has been much higher than for the rest of the currencies, even when compared only with the currencies of the region. For the same period, the EUR has remained flat against the USD, the CHF has even appreciated. The GBP is down 3.5%, and in Asian currencies, the IDR is down 7%, the Thai Bath is down 8% and the Philippine Peso is down 8%. In all cases, softer depreciations than the one experienced by the RMB (-14%). We expect more deprecation after Beijing showed little resistance to the decline.

The expected fiscal stimulus could again fall below expectations.

Domestic sources said China has started a new round of nationwide inspections to assess the size of local government debt, a sign authorities are preparing to take concrete steps to address a key financial risk. The lack of clarity in this regard until today casts many doubts on what will follow now. While it is true that having an accurate accounting of the size of liabilities at the local debt level is positive, it is also true that it is going to be key to formulate policies to address the problem. We fear that the numbers could be high, and the fiscal decisions too, which could leave central and local governments with very little room for stimulus.

The monetary stimulus may not generate the expected reaction

China lowers LPRs with a modest reduction of 5Y rate (-10bp) and disappoints investors. Reuters cited analysts who argued that although the PBOC is likely to cut rates further in H2, reluctance among private businesses and households to borrow may indicate policy easing could end up not having the desired effects, and even hurt banks’ net interest margin. Economists noted small rate cuts will not make a big impact on demand for loans and may force Beijing to rely on fiscal stimulus and other policy tools to spur demand. The problem is that fiscal policy is also being constrained by circumstances.

Geopolitics & commerce : China hits back after Biden calls Xi a "dictator"

China responded with outrage after President Biden's comments referring to Xi Jinping as a "dictator“. The Chinese foreign ministry spokesperson called the remarks "extremely absurd" and "irresponsible" and said they seriously insulted China's political dignity. Biden said Xi was “very embarrassed” when a suspected Chinese spy balloon was blown off course over U.S. airspace early this year. "The reason why Xi Jinping got very upset in terms of when I shot that balloon down with two box cars full of spy equipment in it was that he didn't know it was there … That's a great embarrassment for dictators”. Biden made his comments just a day after U.S. Secretary of State Antony Blinken completed a visit to China aimed at stabilizing relations that Beijing says are at their lowest point since formal ties were established in 1979. Biden frequently alludes to the idea that Xi Jinping presides over a one-party system that many Western leaders and human rights groups call a dictatorship because it lacks an independent judiciary, free media, or universal suffrage for national office. Democrats frequently claim that critics of Xi and his party are censored and risk detention. Indeed, Biden had previously referred to China as “a dictatorship” and "a place for the autocrat," but his recent remarks about the Chinese leader were some of his most direct reproaches, which could indicate that the relations between both leaders, far from being getting closer, are getting further and further apart. Perhaps more importantly, Biden also said that China "has real economic difficulties".

German chancellor Olaf Scholz asked Chinese premier Li Qiang to ensure western companies have "a level playing field" in China as he voiced concerns about market access and fair competition. Meanwhile, a EU business group said European companies are growing more pessimistic about doing business in China. The EU Chamber of Commerce in China published a survey showing some 64% of respondents said it became more challenging to do business in China. Slowing economic growth and Geopolitical disputes were highlighted among the top challenges.

Economy: China policymakers face growing calls for economic support.

State media and top government advisors have applied more pressure on Beijing to respond to China's ailing economic recovery with extra stimulus. Three state-run securities newspapers ran front-page articles on Wednesday 23 calling for the PBOC to ease monetary policy further. In response, Beijing’s government unveiled a CNY520B ($72.3B) tax break package to boost sales of EVs and other green cars up to 2027. New energy vehicles purchased in 2024 and 2025 will be exempted from purchase tax amounting to as much as CNY30K (USD 4,100) per vehicle, with the exemption halved for purchases made in 2026 and 2027.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: UNDERWEIGHT /// SHENZHEN Idx: UNDERWEIGHT

Bonds – Govies: UNDERWEIGHT (10Y Yield target 2.25%)

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio

PE LTM

Fuente: Refinitiv Datastream / ANDBANK

China - 10Y Government Bond Real Yield

Per cent

Fuente: Refinitiv Datastream / ANDBANK

USDCNY exchange rate

Spot rate

Fuente: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

JAPAN

Inbound recovery, plans for robust capex, ongoing BOJ monetary easing, solid earnings and cheap valuations

Stimulus: Government and BOJ debate whether this is a sustained exit from deflation. Support for current easing is maintained.

BOJ left short and long-term rate targets unchanged but initiated a long-term policy review: Guidance was tweaked to take out references to monitoring Covid developments. Other key components were retained (QQE and YCC) will be maintained until inflation stably reaches the 2% target, the monetary base will continue to expand, BOJ will not hesitate to ease further if necessary. Furthermore, the statement acknowledged that achieving price stability has been a challenge over the past 25 years and that a "broad perspective" policy review will be conducted with a planned time frame of around one to one and a half years. May Overall CPI was +3.2% y/y vs consensus +3.4% and +3.5% in prior month. BoJ Governor Ueda reiterated that policymaking would continue as usual during the review period. The March BOJ minutes indicated members thought that market distortions remained though did not worsen. Some BoJ's members suggested the need to examine the effects of past efforts to improve market functioning (possibly a prelude to their decision to conduct a long-term review) while maintaining support for current easing. A key focus seemed to be the effects on corporate debt financing, as many members agreed that widening credit spreads had paused though deterioration in market functioning remained and continued to warrant close monitoring.

The last meeting of the Council on Economic and Fiscal Policy was focused on whether recent rises in inflation and wage growth suggest the country is approaching a sustained exit from deflation. PM Kishida stressed the need to exit deflation and foster the perception that there will be no return to deflation. He also called for policy coordination with BOJ as he maintained that faster wage growth is his administration's top priority. Workers are set to receive the biggest pay raises in 31 years. A survey of 308 Japanese companies showed average wages are set to rise 3.89% in 2023, accelerating 1.54% from last year. 90% of firms are awarding base wage raises, noting that the inflation factor (CPI ex-imputed rent) used to calculate real wages rose 3.8% in FY22, a 41-year high. Small firms' pay raises were somewhat softer than the average at 3.57%, though this was still a record according to the available comparable data. In the inflation camp, the latest reading was for April CGPI at +5.8% y/y (vs +7.2% y/y in prior month). Expectations remain for inflation to persist as 75% of grocery producers plan to increase prices over the coming year. About half did not manage to pass on higher costs, with negative real incomes cited as a headwind. However, progress has been mixed, with most firms reporting partial pass through and only 12% passing on 80% or more of cost increases.

International flows and macro developments: The activity is in good shape

The April Economy Watchers Survey current conditions index was 54.6 vs 53.3 in the preceding. The March leading economic index was 97.5 vs 98.2 the previous month. Coincident index unchanged at 98.7. April services PMI 55.4 vs 55.0 in prior month. Composite PMI 52.9 (unchanged).

Earnings: Focus on projected earnings

Nikkei ranked Japanese companies in order of the magnitude of analysts' FY earnings forecasts over corporate guidance. Toyota Motor is projected to outperform by the biggest margin by more than ¥110B ($816M) as yen weakness cushions downward pressure on net profits. Nintendo (7974.JP) ranked second at ¥21.5B. Daikin (6367.JP) was third, buoyed by similar FX dynamics. Japan's biggest banks guide toward stronger profit growth, but are expressing caution about the outlook: Nikkei reported that combined net profit at Mitsubishi UFJ (8306.JP), Sumitomo Mitsui (8316.JP) and Mizuho Financial (8411.JP) rose 5% in fiscal 2022. Earnings were underpinned by growth in foreign loans, contributing to improved interest rate spreads. Banks guided for 10% profit growth in fiscal 2023, the biggest since 2005. However, banks also expressed concerns about the outlook, made no new buyback announcements, reflecting a desire to protect capital amid risks from rising interest rates (particularly in US), troubles in the CRE segment and the softer outlook for the global economy.

Demographics remain an important deflationary driver

Official data showed Japan's estimated child population fell for the 42nd consecutive year to hit a new record low, as Prime Minister Fumio Kishida called for implementing "unprecedented" measures to boost the birth rate. The number of children aged 14 or younger was 14.35M as of 1-Apr, down by around 300,000 from a year earlier. The ratio of children to the total population was 11.5%, down by 0.2%, also the lowest figure since 1950 when comparable data became available.

Global semiconductor deflation in sight as global demand for chips slumps

Kioxia Holdings and Western Digital (WDC) are speeding up merger talks and finalizing a deal structure as the drop in the Flash memory market increases pressure for consolidation. Under the plan, the merged entity would be 43% owned by Kioxia, 37% by Western Digital and the remainder by existing shareholders. The article noted that the planned merger is likely to draw antitrust scrutiny in both the US and China.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

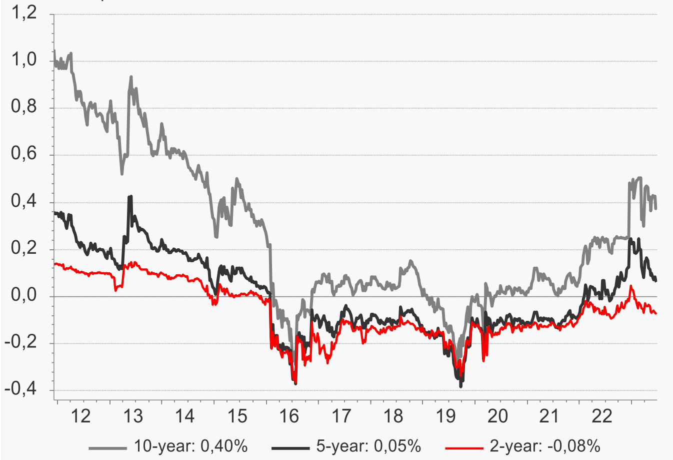
Bonds – Govies: UNDERWEIGHT (Target yield 0.75%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 130)

Japan Nikkei 225 price / earnings
Ratio

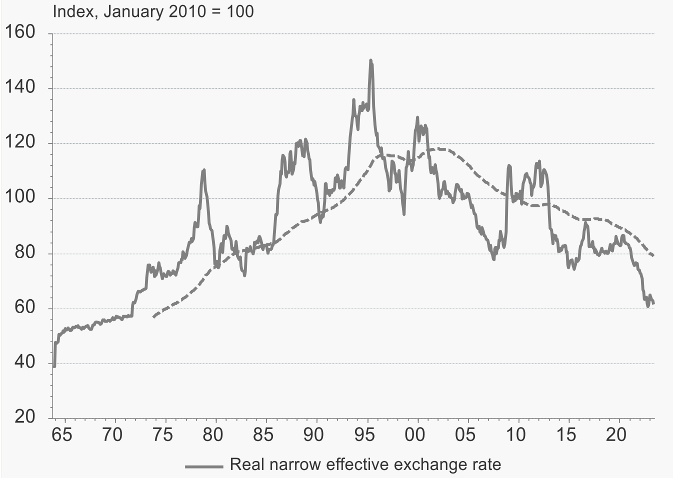
Fuente: Refinitiv Datastream / ANDBANK

Japan benchmark government bonds
Yield, per cent



Fuente: Refinitiv Datastream / ANDBANK

Japan real narrow EER
Index, January 2010 = 100



Fuente: Refinitiv Datastream / ANDBANK

INDIA

Tax reforms are paying off, with improvement in the tax base and quality of public spending

Tax reform aimed at widening the tax net while reducing the tax burden

The Indian government has introduced several reforms over the past few years to rationalize both direct and indirect taxes, expand the tax net, and consequently improve tax revenue collection. On the other hand, it has maintained a tilt towards growth by spending judiciously more than its revenue. Indian government's revenue base is amongst the lowest within the Emerging Markets universe. From 2016 to 2020, government revenues in India averaged 19.5% of GDP compared to the median of 26% for large emerging markets. This low revenue base constrains the ability of the government to spend on drivers of domestic growth. At 27.5%, India's average government expenditure to GDP was ~4% lower than the median of 31.2% for the peer set. Due to this handicap of a low revenue base, the government's expenditure relative to its revenues is much higher in India. In the 2016-2020 period, India's government expenditure was 140% of revenues, the highest among its peers and their the median of ~112%. This consistent overspending by the government explains the higher deficits and higher government debt in India. Between 2016 and 2020, Government debt averaged 75% for India against the average of less than 50% for peers. Only Brazil had a higher government debt at over 85% of GDP. High government debt is one of the key constraints in India's sovereign credit rating, which is just a notch above investment grade despite extremely favorable long-term macro variables. In order to address this issue, the Indian government has undertaken a series of tax reforms, covering both direct and indirect taxes. The key objective of these reforms is to improve overall tax collection by widening the tax net while reducing the tax burden on individual taxpayers. These reforms focus on simplifying the tax structure, streamlining tax rates by eliminating distortion causing exemptions, and plugging leakage in the tax collection process. We expect that the introduction of these reforms will improve the problem of the low sovereign credit rating, and this will stop pushing up the cost of capital for Indian businesses.

Some of the key tax reforms include:

(i) The introduction of the Goods & Services Tax (GST) in 2017 which was aimed at streamlining indirect tax collection. Prior to 2017, there were over a dozen different indirect taxes levied separately by the Central and the State governments. These taxes were additive in nature, which had a cascading effect and led to a higher effective tax rate. Under GST, most of the disparate indirect taxes were consolidated into a single levy, the differentiation between goods and services was removed, and tax rates were made uniform across the country. Also, due to the availability of input credit at every stage, the cascading effect is removed as incremental tax is levied only on the value added at each stage. This mechanism removed the incentive for remaining out of the tax net. **(ii) Reduction in corporate tax rate:** In 2019, the base corporate tax rate was reduced from 30% to 22% for existing companies and further to 15% for new manufacturing companies. These rates were made available to companies that chose not to utilize any tax exemptions offered under the previous tax regime. **(iii) Simplified tax rates for Individuals:** Similar to the change for corporates, a new tax regime was introduced for individual taxpayers in 2020. Under this regime, taxpayers were offered concessional tax rates which could be availed if a taxpayer chose not to utilize any tax exemptions. This was further improved in 2023 by increasing the threshold of income eligible for full tax rebate. (iv) **Elimination of dividend distribution tax:** Until 2020, corporates were required to pay dividend distribution tax on dividends paid they paid out at a standard rate that penalized recipients falling in a low tax bracket. The incidence of tax has now been shifted to the recipients, thereby reducing the burden for small investors with lower effective tax rates.

The effects are beginning to be seen now. Benefits are expected to gain momentum

Widening of the tax-GDP ratio: As per provisional data, total tax revenue in FY23 is expected to be ~18% of GDP — the highest since FY08. **Improved tax compliance:** There is evidence of a widening of the tax base as well as improved compliance. The number of companies filing tax returns increased by a third in the FY15-21 period, with the number of companies filling tax returns rising from 729k to 967k. The number of individuals filing tax returns increased by 60% in that same period, and the number of individuals declaring incomes over INR 1 million has more than tripled. **Rising Government capex:** Higher tax revenues lead to improved quality of government expenditure. As non-discretionary expenditure generally grows at a steady pace, any revenue buoyancy creates space for higher discretionary spending. This is reflected in a pick-up in government's capital expenditure over the past two years. As per provisional data for FY23, aggregate capital expenditure has increased to ~17% of GDP, the highest in the last six years. The benefits from tax reforms introduced in the past few years are expected to gain further momentum going forward. As the revenue base expands, the government's ability to spend on discretionary avenues will improve. In addition to capital expenditure, the ability to invest in human capital development like education, healthcare, welfare, etc. will also be enhanced.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

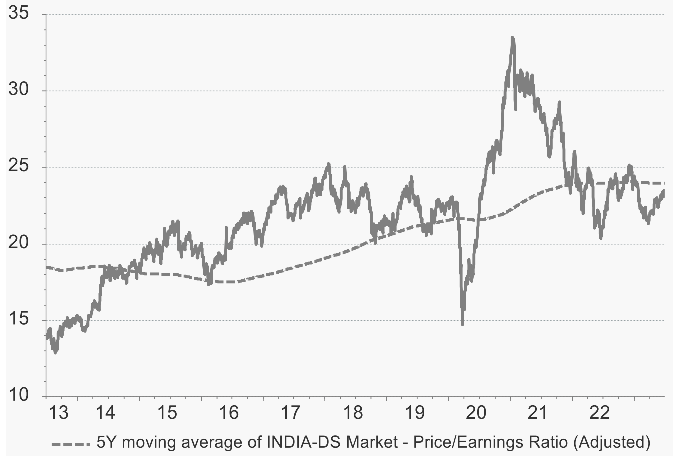
Bonds – Govies: OVERWEIGHT (Target yield 6.5%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 84)

India Datastream index Price Earnings Ratio

Ratio



Fuente: Refinitiv Datastream / ANDBANK

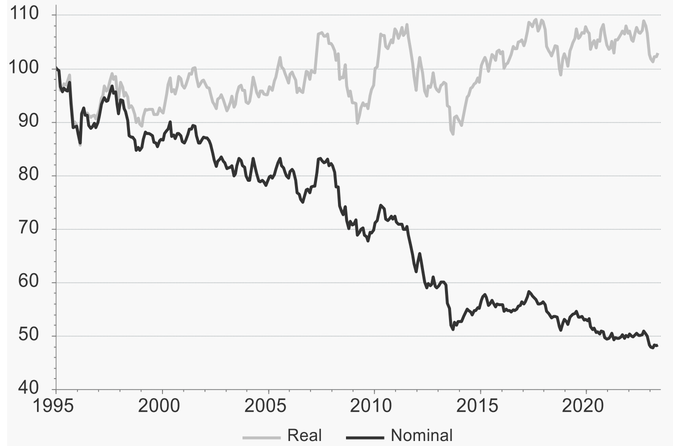
India benchmark government bonds

Yield, per cent

Fuente: Refinitiv Datastream / ANDBANK

India broad effective exchange rates

Index, January 1995 = 100



Fuente: Refinitiv Datastream / ANDBANK

VIETNAM

Reforms aimed at enhancing role as a high-quality manufacturing hub. Equity: Beginning of a recovery

Financial market review: We see the beginning of a recovery phase

The VNI rallied almost 3% right after another 50 bps policy rate cut despite foreign net selling of $131m. Retail investor confidence was exceptional in May with the consensus narrative saying that the worst has passed. This led to an increase in average daily liquidity of 10.6% m/m. Given strong macro policy support, we see the beginnings of a recovery phase, with four out of five criteria turning positive: 1) declining interest rates, 2) stable FX, 3) improving liquidity, and 4) solutions for troubled real estate companies. Conspicuous in its absence is earnings improvement, but local analysts believe that quarterly earnings for the top 80 companies already bottomed out in 4Q22, and positive earnings growth should start to come back in 2H23, with recovery of over 20% possible in 2024.

REIT crisis seems to enter the control phase

Resolving the recent real estate issues remains a key objective for the Government, and the special working group created to support Novaland (NVL) is starting to bear fruit, with the company resuming one of its key projects in Phan Thiet. **Banks** are also starting to finance NVL projects again, prompting buyers to resume mortgages, which is leading to an uptick in real estate activity, both in the secondary and primary markets, as developers tentatively begin launching projects with mid-segment developments attracting purchasers. Despite high mortgage rates, we are cautiously optimistic for the thawing of the property market, but patience is key as market consolidation can take time, often 18-24 months. As for **corporate bonds**, negotiations are still going on between REIT issuers, bondholders and new buyers, importantly with no further deterioration. Maturities will peak from June-August, and while we continue to monitor the situation, we are hopeful that the major bottlenecks are now mostly resolved.

New potential capital flow

There will be VND bank deposits maturing in 2H23 equivalent to hundreds of millions of dollars, which will likely be reinvested soon after maturity. Some important brokerage surveys show a growing desire for margin. With 100,000 newly opened trading accounts in May and an uptick in turnover, we see an increase in appetite for riskier assets, especially as cheap valuations offer attractive yields vs the recent decline in deposit rates. We maintain our view that 2023 is a year for accumulating stocks. While investors may favor a cautious approach, they should also be prepared to take advantage of buying in the dip. During years when interest rates decline but strong growth has yet to appear, the VNI's historical expected return is 15-17%.

Foreign trade is regressing and the economy slowing, but this seems somewhat temporary

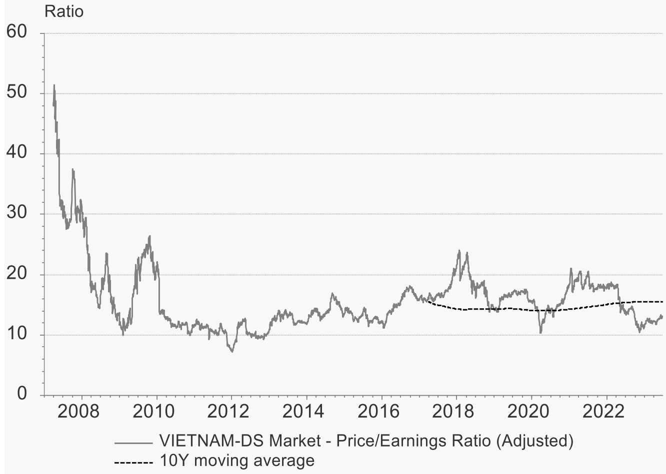
Vietnam's latest economic data underscores the intricate interplay between global demand dynamics, China and its trade performance, with internal and external factors contributing to the recent slowdown in the Vietnamese economy. 5M23 exports were down 11.6% y/y, while imports fell 17.8% y/y. May's PMI of 45.3 reflected this contractionary trend. The good news is the Government has taken prompt action to address these challenges. The reasons for this poor economic performance include 1) post-Covid inventory destocking, and 2) tighter global lending standards and higher rates that have further dampened international purchasing power. Consequently, Vietnam's EU and US exports have respectively decreased by 17% and 20% y/y, significantly impacting export-oriented industries such as fisheries (-28% y/y), and textiles (-20%). Local enterprises have also had to confront funding difficulties due to elevated financing costs, which jumped significantly from 8% to 15% in 2H22. Delays in receiving VAT refunds have done nothing to help cash flow. Vietnamese businesses are having to overcome cumbersome day-to-day hurdles. Examples include fire prevention protocols, or the adoption of higher import standards designed to promote greener production methods. While important, these tougher standards require longer processing times. Acknowledging these challenges, the Government has proactively taken measures to help soften their impact. The SBV has implemented three policy rate cuts totaling 100bps from March to May 2023. The Prime Minister also released an urgent dispatch focused on addressing administrative obstacles, while offering businesses incentives to explore potential markets such as the Middle East, Latin America, and India. These initiatives highlight the Government's commitment to promoting economic growth and enhancing the business environment. It is our belief that exports will soon improve once those issues are resolved.

Now is the time for Vietnam to rethink its FDI structure. The country is transitioning away from accepting labor-intensive manufacturers (seeking low costs and tax incentives), and is instead targeting high-value investments aligned with environmental sustainability and long-term commitment. The government is also promoting domestic enterprises, upgrading the legal framework and fostering technology integration to help ensure Vietnam adapts to international standards, luring in new businesses to realize its long-term vision for economic growth.

Market outlook – Recommendations & Targets from fundamental analysis

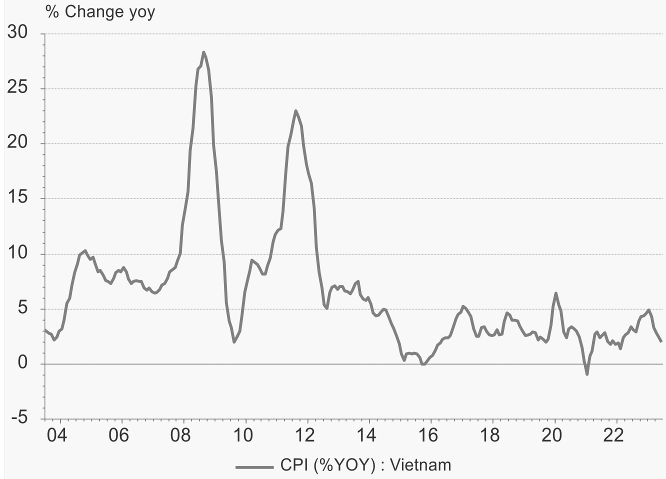
Equities – VNI Idx: OVERWEIGHT

VIETNAM - Datastream index Price Earnings Ratio



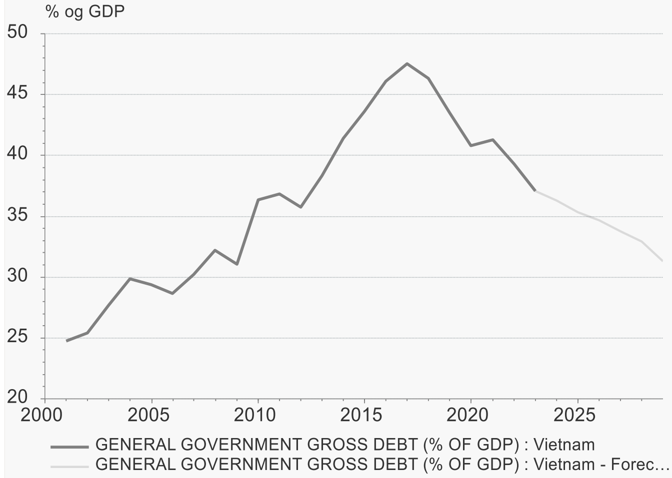
Fuente: Refinitiv Datastream / ANDBANK

Vietnam CPI



Fuente: Refinitiv Datastream / ANDBANK

Vietnam - General Government Gross Debt



Fuente: Refinitiv Datastream / ANDBANK

MACRO ECONOMY

ISRAEL

Political dispute still weighs. In the meantime, the economy shows resilience

Politics & Economy

The political storm in Israel slightly eased recently but nevertheless still continues to affect the markets. Since March, it seemed as if the two sides would manage to settle the political dispute regarding the judicial overhaul. However, due to several recent events (especially the dispute regarding the choice of candidates to form part of the judicial selection committee), it seems that it will be quite some time before the political crisis ends. The PM, Benjamin Netanyahu, said that the government will start taking practical steps, in a measured way, to move ahead with the judicial reform as it understands that the government is not reaching even a minimal understanding with the opposition. It should be noted that the macro data do indicate a certain slowdown in economic activity, but at least for now it seems as if the effect of the political crisis is relatively minor, economically speaking. The IMF projects slower economic growth for this year with an estimate of +2.5% y/y.

On the inflation side, it seems that prices continue to moderate after the consumer price index for the month of May increased by only 0.2% m/m (bringing annual rate down to +4.6% y/y) compared to an expected increase of 0.5% m/m. Most items recorded a decrease in their prices except for rents. Rents increased +0.4% m/m (annual rate of over 8% y/y), which poses a challenge for the Bank of Israel. The average forecast for 12-month forward inflation is now +2.8% according to the Central Bank Survey, 20 bps below the high end of the Central Bank's target range.

Housing prices decreased by 0.2% m/m after last year’s increases in interest rates and apartment prices deterred buyers. However, the high cost of purchasing an apartment leads an increasing number of potential buyers to hold off on their purchase plans and instead rent an apartment. At the same time, a decrease in the sale of apartments and their prices causes many building contractors to postpone the start of the construction of new projects, which may create a shortage next year and onwards. Residential building starts declined 25% if we compare the first quarter of this year with the last quarter of last year.

Monetary policy & Fixed income

The main question now is whether the Bank of Israel is done raising interest rate or not. The recent forecast indicates that the reference rate could be raised at least twice more to the level of 5.25%. We believe that the slowdown in the economy along with the increasing pressures in the housing industry will cause the central bank to end the cycle of interest rates hikes at the current point (4.75%). At the same time, it seems that the interest rate will remain at its current level for a long time. Although we assume that interest rates will not continue to rise, we estimate that the current structure of the yield curve does not justify an extension of duration. The local curve continues to be inverted as the slope has even steepened in recent weeks, creating a highly concave range in the medium term. Therefore, we continue to hold the short-terms which now carry a return of approximately 4.7%.

Another thing to take into consideration is that current head of the Bank of Israel, Amir Yaron, will end his five-year term of office in six months and in the following months we could see some noise in relation to his possible continuity or if the current government is going to seek to replace him. Yaron has publicly criticized the judicial reform promoted by the current government, warning of the damage that its approval could cause to the Israeli economy.

Stock market

Most of the stock indices recorded positive returns in the last month, with some sectors providing positive surprises. The Tel Aviv 125 index rose by approximately 0.5%, but the midcap shares index, Tel Aviv 90, rose by more than 3%. Surprisingly, the best performing sector was real estate, which recorded an impressive increase of 6%. This is despite the recent slowdown in the activity of the industry. The indices of small cap companies also recorded decent increases of about 5%. We believe that the stock market in Israel is currently priced at a fair price and we see limited upside from current levels.

Market outlook – Recommendations & Targets from fundamental analysis

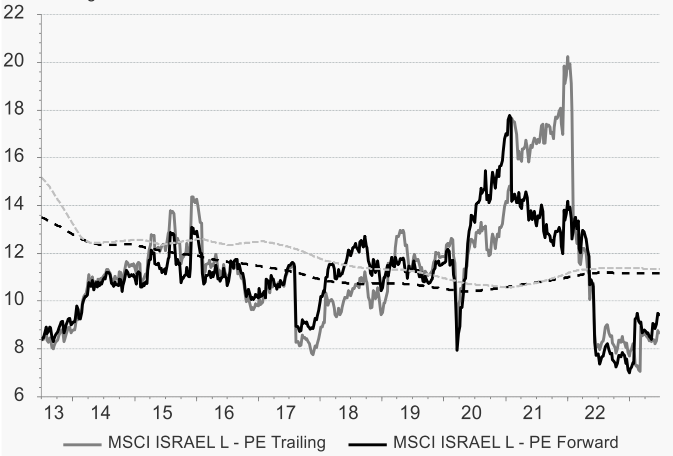
Equities – TLV35 Index: MARKETWEIGHT

Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio
Trailing & Forward PE

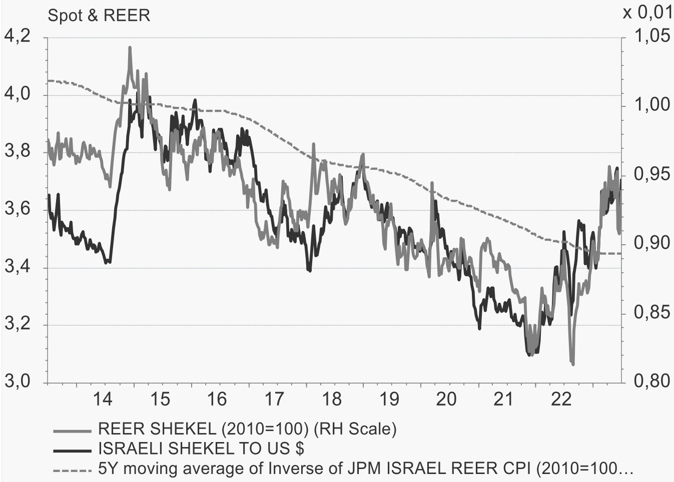


Fuente: Refinitiv Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y
Local currency

Fuente: Refinitiv Datastream / ANDBANK

Israel Shekel
Spot & REER



Fuente: Refinitiv Datastream / ANDBANK

BRAZIL

Economic activity is showing better than expected numbers

Noise continues in politics

Lula´s government continues to suffer from an apparent lack of coordination. The recent joust between President Lula and House Speaker Arthur Lira has shown how much this office is dependent on the *centrão* block (term for the group of politicians that do not have a specific ideological orientation, but work together, in favor of or against the executive branch, in order to guarantee advantages for their parties and themselves). With many of his initiatives being blocked by *centrão* and/or the agribusiness block, Lula has had a tough time gaining political momentum despite the better than expected economic situation. This lack of momentum was visible in a recent poll by IPEC, where approval for the way Lula governs has slipped to 53% from 54% in April and 57% in the first poll in March, while disapproval has increased to 40% now, from 37% and 35% previously.

At least the latest macro-economic data are good

The latest figures are a sign the economy is not in bad shape, despite high interest rate levels. GDP came in much stronger than projected. It was expected to come at a healthy +3.0% y/y, but surprised on the upside, expanding +4.0% y/y in Q1 2023; accelerating from +1.9% in the previous quarter. The services sector grew +2.9% and industry rose +1.9%, with extractive industries registering the best results. On the other hand, the manufacturing sector declined by -0.9%. Most analysts are revising their year-end forecasts to above +2.0%, which is very significant, given they started the year close to +0.5%.

Good news is also coming from job market data. The unemployment rate was 8.5% in April, picking up slightly from the last reading (8.4% in January), but it was considerably below market forecasts of 8.7%. Despite the very high interest rate levels, the jobless level has been also surprising positively. However, a more detailed look at the numbers makes it increasingly clear that income transfer policies (a staple of Lula's governments) are affecting the structure of labor supply in the economy. We see a significant decline in the participation rate (people working or looking for work), and also, in occupation growth in formal jobs. It's already been a few months of positive surprises, which should lead analysts to reconsider the hypothesis that monetary restrictions are not impacting activity and job creation as severely as expected.

Last but not least, we have a good inflation print. The IGP-M index, which is used to gauge wholesale and construction prices fell -1.84% m/m in May, more than expected by the market (-1.73% m/m). Wholesale prices have been easing for a while and are expected to have a lagging effect on the consumer price index. The IPCA, which is Brazil's official CPI, is also trending downward (+0.23% m/m below +0.33% m/m consensus), but there is a statistical nuance in the 12-month number that will only disappear in the September reading. July, August and September of last year were deflationary months in Brazil because of the reduction in gasoline taxes that Bolsonaro implemented in order to gain some traction before the electoral dispute of October. Since then, the tax cuts have been lifted and gas taxes have been adjusted back to standard rates, which has affected the CPI readings. On the positive side, inflation expectations have moderated since the start of May.

Recent data keeping the markets in a good mood

The ten-year government local government bond started the year at 12.76%, peaked at 13.64% on March 3rd, and is now at 11.1%. Ibovespa started the year at around 109,700 points, went all the way down to 97,319 (-11.2%) on March 23rd, and is close to 120,000 at the moment of this writing. The Real started the year at 5.28, traded around 5.20 during the first three months, and since the new fiscal framework announcement (March 30th) was trading at around 5.00. At the moment of this writing it is trading at around 4.80. The Brazil 5-year CDS is now below 200 points.

In June the BCB held its policy rate at 13.75% for a seventh straight meeting. In its post meeting statement the BCB did not signal imminent monetary easing and conditioned the next decisions on the upcoming data. The market is now pricing the rate cutting cycle to start in August. Bloomberg´s interest rate curve analytics show a 100% chance of a 25 bps cut in August based on the price of interest rate futures contracts. Given all the recent positive surprises, it may just be that the BCB will indeed start cutting rates sooner rather than later.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT

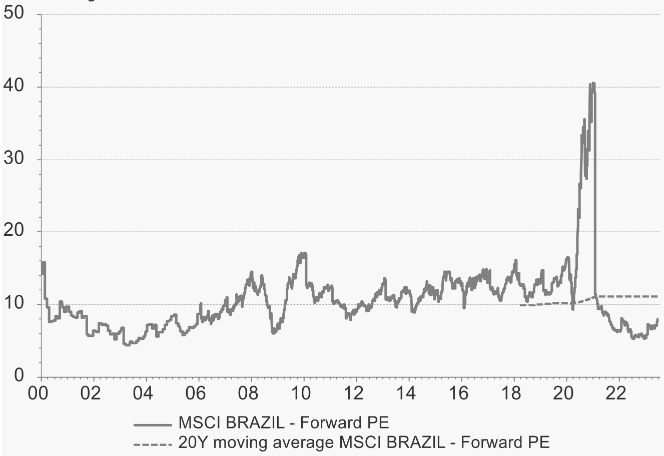
Bonds – Govies Local: OVERWEIGHT (Target yield 13.75%. Spread 950)

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

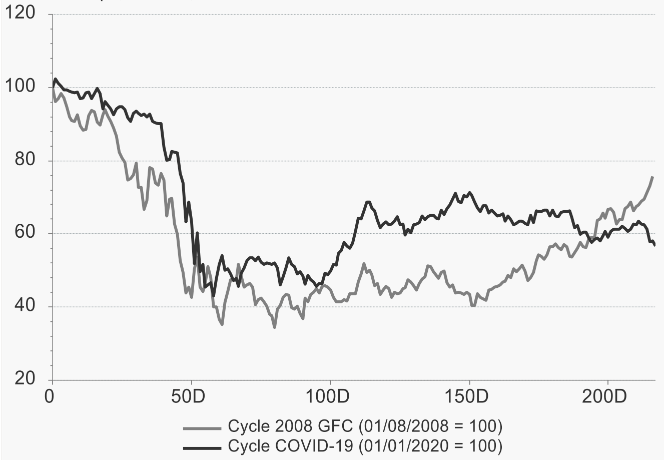
Trailing & Forward PE



Fuente: Refinitiv Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

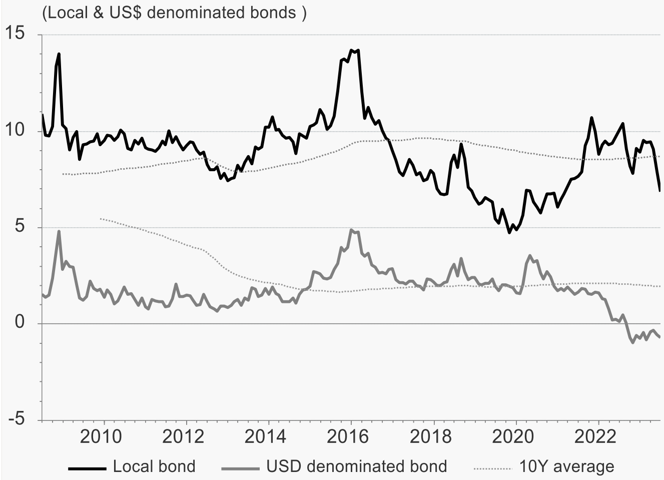
Bovespa, rebased, 100 = crisis start date



Fuente: Refinitiv Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: Refinitiv Datastream / ANDBANK

MEXICO

Good inflation dynamics helping Banxico, but good data on economic activity act as a counterweight

Central Bank

As was widely expected by the market and unanimously decided, Banxico kept its rate unchanged at 11.25% at its meeting on June 22. The statement had a neutral bias regarding the central bank's monetary stance. Within the global risks, it was recognized that some central banks decided to raise their rates again after having recently paused and that the expectation of an economic slowdown would be slightly less than expected. Regarding the prospects for growth in the country, an optimistic reading is maintained due to the resilience shown by various economic variables. For inflation, the preponderance of risks continues to be of increases. Inflation forecasts for the following quarters of 2023 were adjusted slightly downwards; for core inflation they remained unchanged. The post-meeting statement maintained as its main conclusion: "...in order to achieve the orderly and sustained convergence of headline inflation to the 3% target, it considers that it will be necessary to maintain the reference rate at its current level for a prolonged period."

Inflation and activity

The latest inflation data (first half of June) surprised on the downside with annual inflation at +5.18% y/y compared with +5.30% y/y of consensus expectation and +5.67% in the previous reading. Core inflation reached 6.91% y/y (vs 7.32% y/y in the previous reading), while compared to the fortnightly rate of the month it increased +0.11%, its smallest increase for a year. The outlook for the end of the year continues to moderate and at the moment the average in the latest surveys is located at 5% for the general CPI and 5.30% for the core CPI. Convergence towards the central bank's long-term goal is expected to be seen at the end of next year.

Regarding economic activity, the latest reports maintain a positive trend: April retail sales grew again 1.5% m/m and 3.8% y/y, above estimates, while industrial production in April rebounded after falling in March (0.7% y/y). The Global Indicator of Economic Activity (IGAE) grew 0.82% (+3.3% y/y) in the fourth month of 2023, higher than the estimated 0.6%, and marked the best result since March 2022.

Public Finances and Credit Rating

Fitch Ratings affirmed Mexico's long-term foreign and local currency sovereign rating at 'BBB-', with a stable outlook. The rating continues to be supported by a prudent macroeconomic stance, robust external finances, and a stable debt/GDP trajectory. Conversely, among the main challenges, the rating agency highlights long-term growth and Pemex's tax burden.

On the other hand, until April, Public Finances reported a primary surplus of around 15.8 MM USD. Between January and April, revenues fell 3.1% y/y in real terms, impacted by oil revenue (-28.8%), with non-oil revenue slightly positive (2.7%). In the latter, the +3.8% ISR reading and the +27.7% IEPS figure stand out. Budget spending fell 2.1% y/y in real terms, with decreases in administrative expenses (-14.0%), Pemex (-6.9%) and CFE (-23.8%), among others. The GDP debt level remains above 49%.

Financial markets

Equity: There are elements of support for the local market, such as attractive valuations and a resilient outlook for the economy; along with the boost from the nearshoring trend, which began a long time ago and is consolidating today. Although Banxico seems more willing to pause interest rate hikes than other central banks, the pressure on valuations could continue given the noise of news such as the expropriation of a tranche of operations from the transportation division of GMEXICO and the challenges in the sale of Citibanamex that ended in the decision to place it on the Mexican stock market.

Fixed Income & FX: We maintain the idea that inflation will drop for the rest of the year, but this will be slow, especially in the context of the price dynamics of the core sub-index. For peso bonds we maintain the 12M target at 500 bps, with a probability of being lower if, with a recessive environment, Banxico decides to cut its rate between the end of the year and the beginning of 2024. Regarding the dollar bond, given the prospects for local rates, we adjust our target to 175 bps.

The peso continues to be one of the strongest currencies against the dollar, accumulating an appreciation of more than 12% in the year and reaching its minimum since 2016. We maintain our 12-month target of 19.50.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: MARKETWEIGHT

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

Bonds – Govies USD: UNDERWEIGHT (Target yield 6.15%. Spread 175)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 19.50)

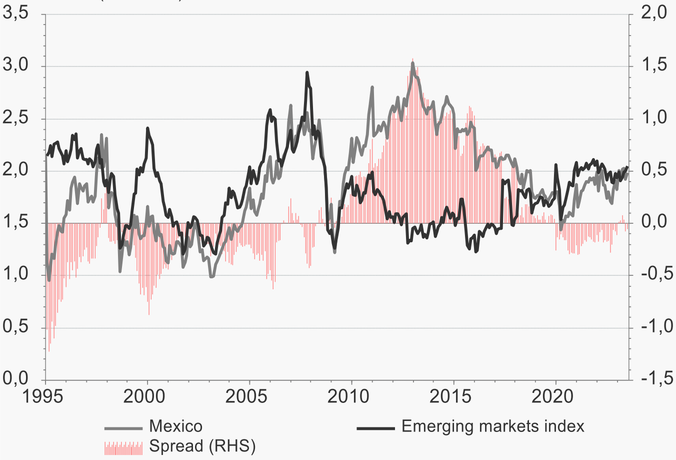
Mexico MSCI Index price-to-earning

Trailing & Forward PE

Fuente: Refinitiv Datastream / ANDBANK

Mexico price-to-book ratio

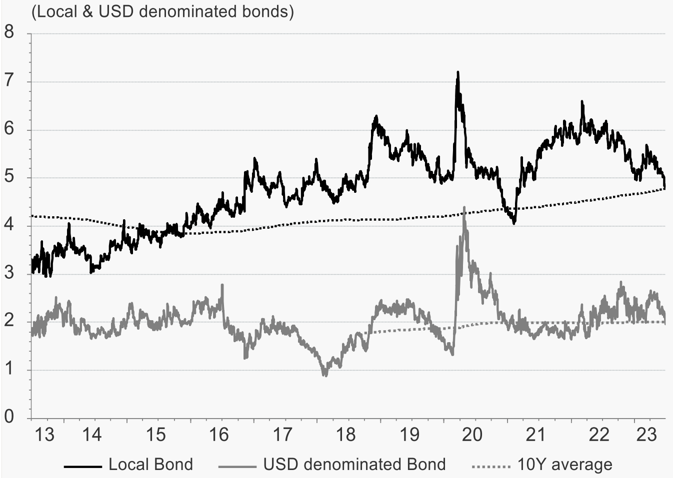
Ratios (both axes)



Fuente: Refinitiv Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Fuente: Refinitiv Datastream / ANDBANK

ARGENTINA

Now that we know the candidates... let the game begin!

Politics: Lists were closed with a last-minute surprise in the ruling party

The closing of lists for this year's elections brought its biggest surprise in *Unidad por la Patria*, the incumbent coalition previously named *Frente de Todos*. When everything seemed to indicate that the coalition was heading towards an internal competition between Wado de Pedro (current Minister of the Interior and close to VP Cristina Fernandez) and Daniel Scioli (former governor of the Province of Buenos Aires and presidential candidate in 2015), It was decided at the last moment that the presidential formula will be headed by Sergio Massa, current Minister of Economy. Despite the foregoing, Kirchnerism will head the lists for the Senate (Wado de Pedro) and Deputies (Maximo Kirchner) and will go for re-election in the Province of Buenos Aires with Axel Kiciloff. Although Massa is going to compete in the internal elections with Juan Grabois, a candidate from the extreme left, the current Minister is expected to win the internal elections with ease. For the moment Massa will continue to head the Ministry of Economy, and it is not clear if at some point he will resign from the position to dedicate himself completely to the electoral race. There were no surprises in the main opposition alliance, *Juntos por el Cambio*, where the competition is going to be between Horacio Rodriguez Larrera (current Governor of the City of Buenos Aires) and Patricia Bullrich (Minister of Security during the Macri government). In both cases they will be accompanied by a figure from the Radical Civic Union (Gerardo Morales and Luis Petri, respectively).

During the month of June we had four new elections for provincial governors. The most important one took place in Cordoba, where the ruling party (Peronism not aligned with Kirchnerism) maintained power, although the JxC candidate narrowed the differences compared to the 2019 elections. In the provinces of Tucuman and Formosa, the Peronist candidates, in these cases allies to the ruling party, maintained their governorships with clear advantages over their competitors. Finally, in the Province of San Luis there was a victory for the candidate close to Rodriguez Larreta (although he does not belong to JxC) who defeated the current governor, a Peronist.

New Capital Controls for Provincial Debt

The province of Cordoba was able to meet a 120 MM USD debt payment after a court ordered the central bank to sell dollars to the local government, suspending capital controls imposed by the government. The Central Bank established a new regulation for provinces in which it mandates that provinces will not be allowed to obtain more than 40% of the dollars needed to repay the principal of its debt in the official market, and that the remaining 60% must be met with their own foreign currency resources or, failing which, that they must seek rescheduling, postponing payments for at least two years. Other provinces, such as Mendoza, have already announced that they are going to follow a path similar to that of Córdoba to try to circumvent the new regulation of the Central Bank.

ARS Debt Exchange

The government swapped debt for 7.4 trillion ARS of a total of 9.5 trillion ARS, an acceptance rate of almost 78%, exchanging debt maturing between June and September of this year for new instruments maturing between August 2024 and January 2025 (three dual linked bonds and one inflation adjusted). According to market participants the state ownership of the exchangeable instruments was between 60%-75%, so it is estimated that the participation of private holders was below 30%.

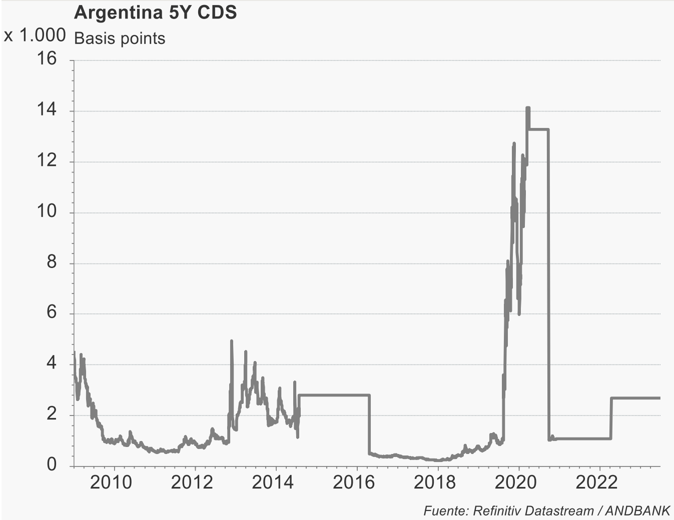
Inflation: Lower print but no changes in outlook

May inflation was +7.8% m/m, decelerating from the April print (+8.4% m/m) and well below market expectations (+9% m/m according to BCRA survey), with annual inflation hitting +114.2% y/y. Core prices rose at the same rate as headline inflation (+8.4% m/m in April) while seasonal prices slowed down to 6% m/m (+12.6% m/m in April) and regulated prices jumped to +9% m/m (+4.9% m/m in April). The slowdown in food and beverages prices, the biggest component of the CPI, from +10.1% m/m to +5.8% m/m, is the main explanatory factor for the smaller rise in prices in the month of May. This print is a relief for the government given the trend seen in previous months and the market's expectations for this month, but there is no sign that we are facing a downward trend in inflation. Money emission to finance fiscal deficit will continue and probably get worse in an electoral scenario. With an almost non-existent demand for pesos, any monetary expansion leads to higher inflation with a central bank that needs to validate increasingly higher rates so that it does not enter into an uncontrollable spiral, but at the cost of increasing the central bank deficit.

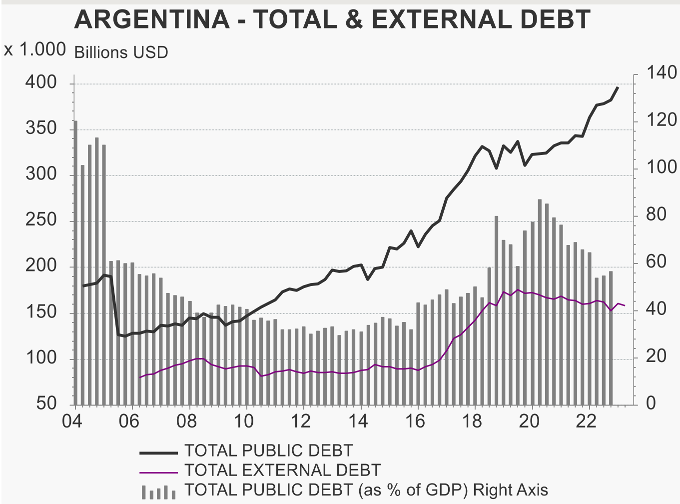
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

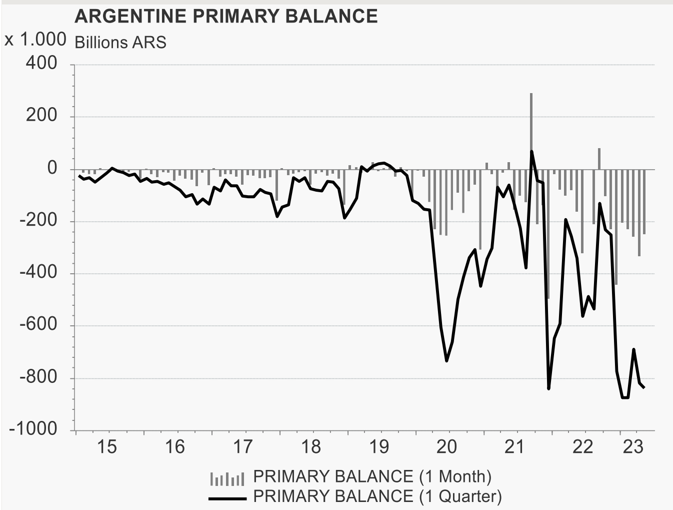
FX – USDARS: NEGATIVE (2023 year-end target 400)



Fuente: Refinitiv Datastream / ANDBANK



Fuente: Refinitiv DatastreamThomson Reuters Datastream / ANDBANK



Fuente: Refinitiv Datastream / ANDBANK

GLOBAL EQUITY INDICES

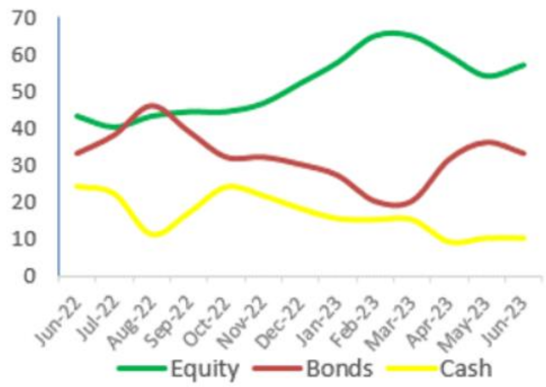
Fundamental assessment

Index	Projected EPS 2023	Projected EPS 2024	Projected EPS Fw 12 months	EPS Growth 2023	Implicit PE (12m fwd)	E [PE] fw At year end	INDEX CURRENT PRICE	Entry Point (Strong Buy)	E[Perf] to potential price	Recommended Strategy	Entry Point (Strong Sell)
USA S&P 500	220,0	242,0	231	-2,2%	19,26	16,50	4.450	3.813	-14,3%	UW-MW	4.957
Europe - Stoxx Europe 600	32,5	32,5	32,5	1,6%	14,19	13,00	461	423	-8,4%	UW-MW	507
Euro Zone - Euro Stoxx	31,0	31,0	31,0	6,9%	14,90	13,00	462	403	-12,8%	UW-MW	484
Spain IBEX 35	850,0	900,0	875	14,1%	11,01	12,00	9.636	10.502	9,0%	MW-OW	11.553
Mexico IPC GRAL	4.225	4.200	4.212	11,8%	12,85	14,00	54.139	58.974	8,9%	OW	64.871
Brazil BOVESPA	17.816	17.816	17.816	0,0%	6,71	6,75	119.563	120.258	0,6%	MW	132.284
Japan NIKKEI 225	1.975	1.925	1.950	7,0%	17,31	16,50	33.753	32.172	-4,7%	OW	35.389
China SSE Comp.	315,0	315,0	315	14,5%	10,30	9,50	3.244	2.993	-7,8%	UW	3.292
China Shenzhen Comp	132,0	132,0	132	30,7%	15,61	14,75	2.060	1.947	-5,5%	UW	2.142
India SENSEX	3.151	3.623,7	3.389	17,6%	19,24	21,00	65.205	71.175	9,2%	OW	78.292
Vietnam VN Index	120,0	144,0	132	20,0%	8,52	10,00	1.126	1.321	17,4%	OW	1.453
MSCI EM ASIA	42,0	42,0	42	5,0%	12,60	14,00	529	588	11,1%	OW	647

ANDBANK ESTIMATES

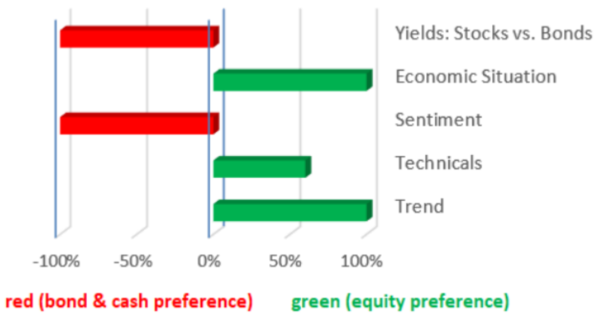
NED DAVIS – 13 Indicators to help decide whether to invest in Equities or Bonds and decide on geographic and sectorial exposure

Dynamic Asset Allocation per Ned Davis Research



Current Relative Strength (Equities vs Bonds) Ned Davis Research

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	64%	61,2%
Europe ex. U.K.	16%	12,2%
Emerging Markets	8%	11,1%
Japan	6%	5,4%
U.K.	2%	3,8%
Pacific ex. Japan	2%	3,1%
Canada	2%	3,1%
Health Care	18%	14,5%
Utilities	4%	2,9%
Information Technology	27%	26,4%
Communication Services	8%	8,3%
Energy	4%	4,7%
Materials	2%	2,6%
Financials	11%	11,2%
Consumer Discretionary	10%	10,9%
Consumer Staples	7%	7,5%
Industrials	5%	8,2%
Real Estate	1%	2,7%

EQUITIES

GLOBAL EQUITY INDICES

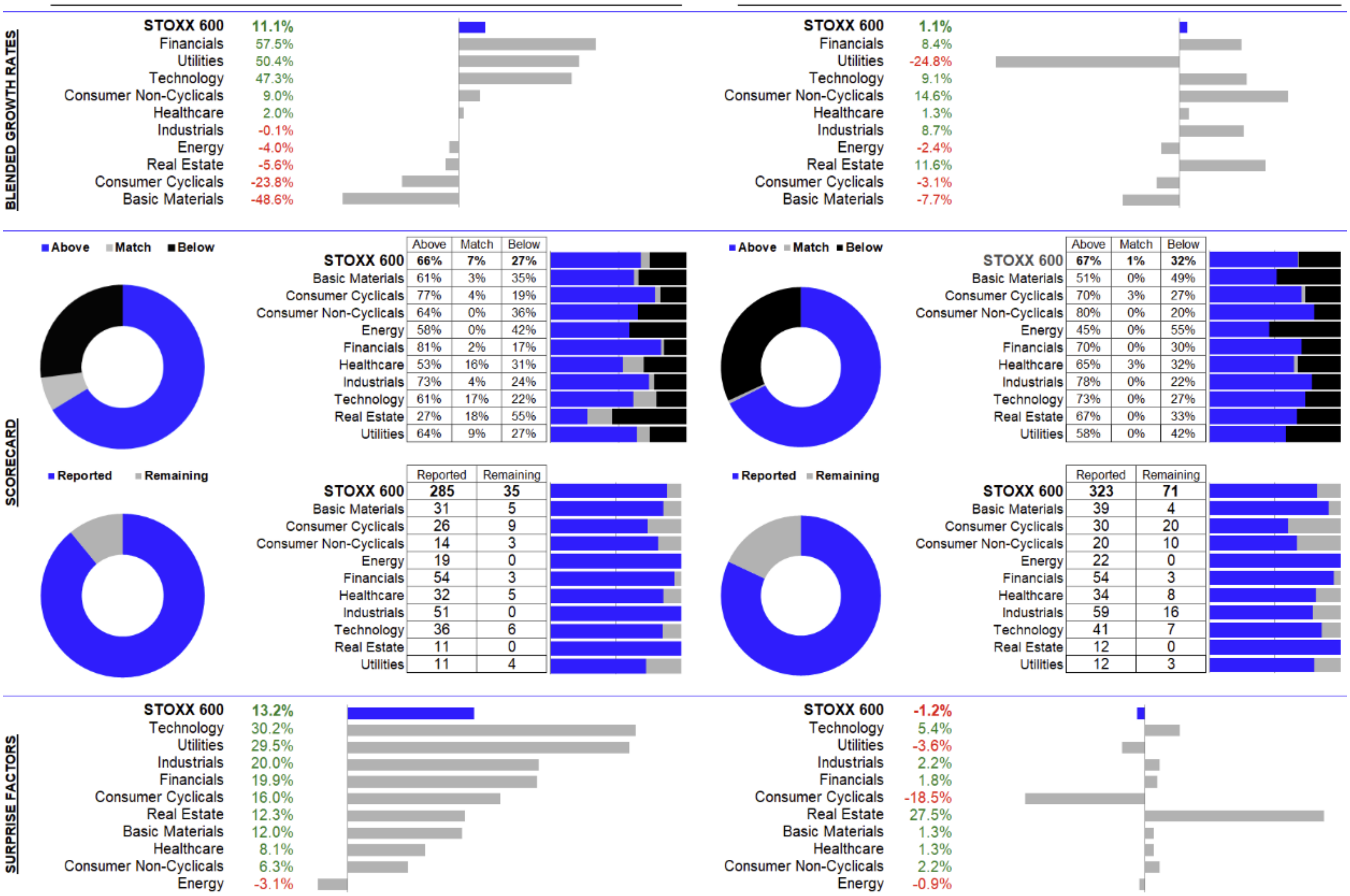
Earnings Dashboard - EUROPE

REFINITIV STOXX 600 2023Q1 EARNINGS DASHBOARD

Source: Refinitiv I/B/E/S data

REPORTING ANALYST: Tajinder Dhillon, CFA — June 27, 2023

FOR THE LATEST EARNINGS INSIGHT VISIT: http://lipperalpha.financial.thomsonreuters.com/



BLENDED GROWTH RATES

STOXX 600 2023Q1 EARNINGS		STOXX 600 2023Q1 REVENUE	
STOXX 600	11.1%	STOXX 600	1.1%
Financials	57.5%	Financials	8.4%
Utilities	50.4%	Utilities	-24.8%
Technology	47.3%	Technology	9.1%
Consumer Non-Cyclicals	9.0%	Consumer Non-Cyclicals	14.6%
Healthcare	2.0%	Healthcare	1.3%
Industrials	-0.1%	Industrials	8.7%
Energy	-4.0%	Energy	-2.4%
Real Estate	-5.6%	Real Estate	11.6%
Consumer Cyclicals	-23.8%	Consumer Cyclicals	-3.1%
Basic Materials	-48.6%	Basic Materials	-7.7%

SCORECARD

Earnings: Above / Match / Below

	Above	Match	Below
STOXX 600	66%	7%	27%
Basic Materials	61%	3%	35%
Consumer Cyclicals	77%	4%	19%
Consumer Non-Cyclicals	64%	0%	36%
Energy	58%	0%	42%
Financials	81%	2%	17%
Healthcare	53%	16%	31%
Industrials	73%	4%	24%
Technology	61%	17%	22%
Real Estate	27%	18%	55%
Utilities	64%	9%	27%

Revenue: Above / Match / Below

	Above	Match	Below
STOXX 600	67%	1%	32%
Basic Materials	51%	0%	49%
Consumer Cyclicals	70%	3%	27%
Consumer Non-Cyclicals	80%	0%	20%
Energy	45%	0%	55%
Financials	70%	0%	30%
Healthcare	65%	3%	32%
Industrials	78%	0%	22%
Technology	73%	0%	27%
Real Estate	67%	0%	33%
Utilities	58%	0%	42%

Earnings: Reported / Remaining

	Reported	Remaining
STOXX 600	285	35
Basic Materials	31	5
Consumer Cyclicals	26	9
Consumer Non-Cyclicals	14	3
Energy	19	0
Financials	54	3
Healthcare	32	5
Industrials	51	0
Technology	36	6
Real Estate	11	0
Utilities	11	4

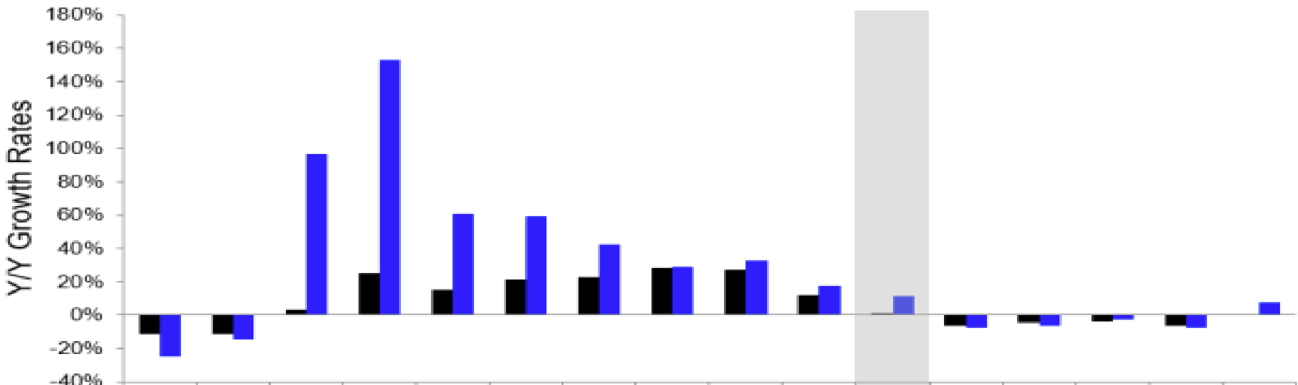
Revenue: Reported / Remaining

	Reported	Remaining
STOXX 600	323	71
Basic Materials	39	4
Consumer Cyclicals	30	20
Consumer Non-Cyclicals	20	10
Energy	22	0
Financials	54	3
Healthcare	34	8
Industrials	59	16
Technology	41	7
Real Estate	12	0
Utilities	12	3

SURPRISE FACTORS

Earnings		Revenue	
STOXX 600	13.2%	STOXX 600	-1.2%
Technology	30.2%	Technology	5.4%
Utilities	29.5%	Utilities	-3.6%
Industrials	20.0%	Industrials	2.2%
Financials	19.9%	Financials	1.8%
Consumer Cyclicals	16.0%	Consumer Cyclicals	-18.5%
Real Estate	12.3%	Real Estate	27.5%
Basic Materials	12.0%	Basic Materials	1.3%
Healthcare	8.1%	Healthcare	1.3%
Consumer Non-Cyclicals	6.3%	Consumer Non-Cyclicals	2.2%
Energy	-3.1%	Energy	-0.9%

Exhibit 3A. STOXX 600 YoY Growth Rates



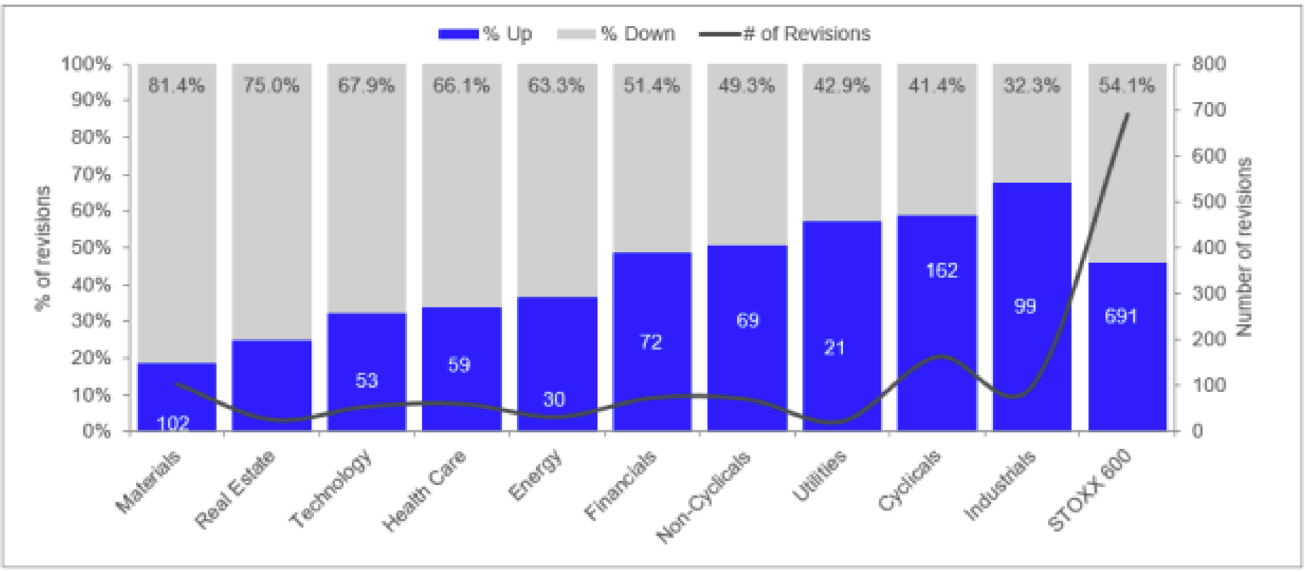
	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2
Revenue	-11.6%	-11.2%	3.3%	25.2%	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.5%	-4.3%	-4.0%	-6.4%	0.3%
Earnings	-24.7%	-14.5%	96.4%	152.6%	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-7.4%	-6.6%	-2.7%	-7.9%	7.5%

Source: Refinitiv I/B/E/S data

GLOBAL EQUITY INDICES

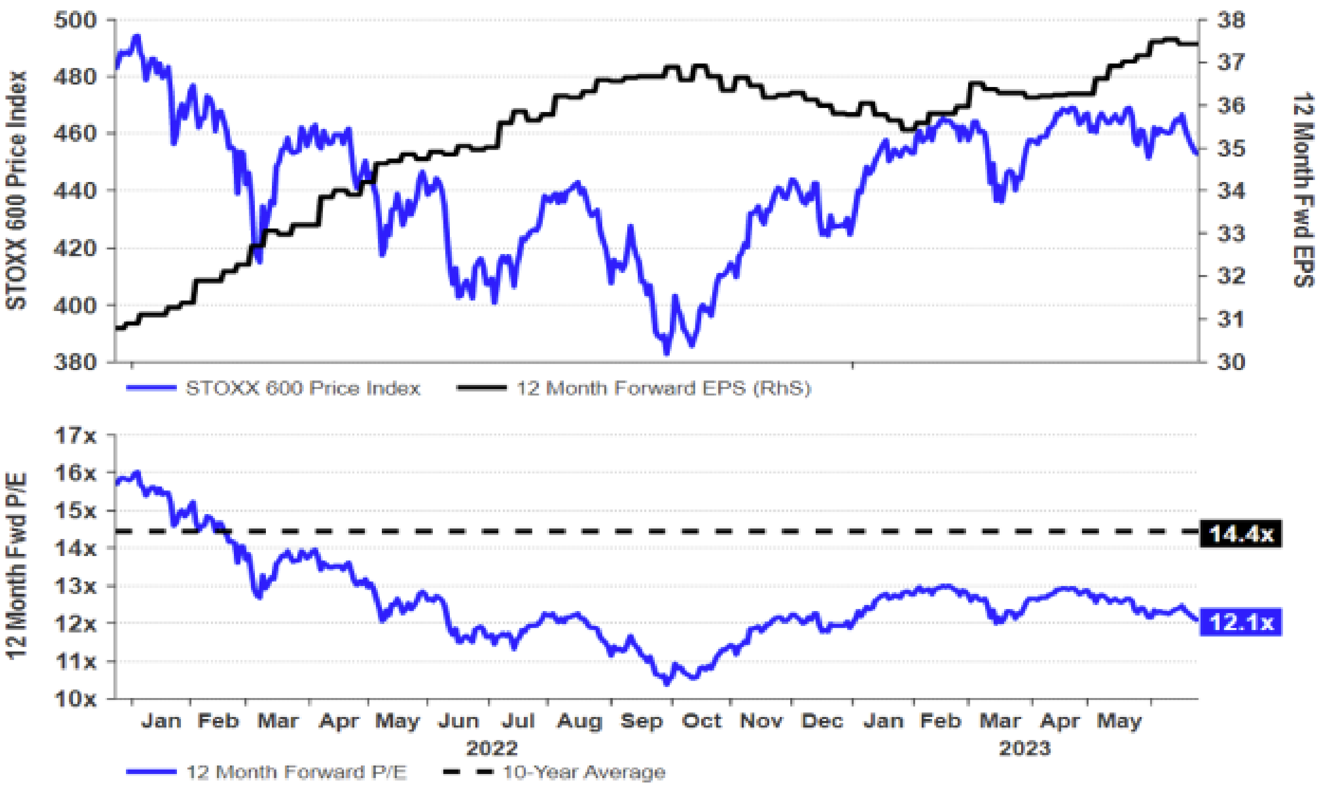
Earnings Dashboard - EUROPE

Exhibit 16A. STOXX 600: Weekly Earnings Estimate Revisions by Sector



Source: Refinitiv I/B/E/S data

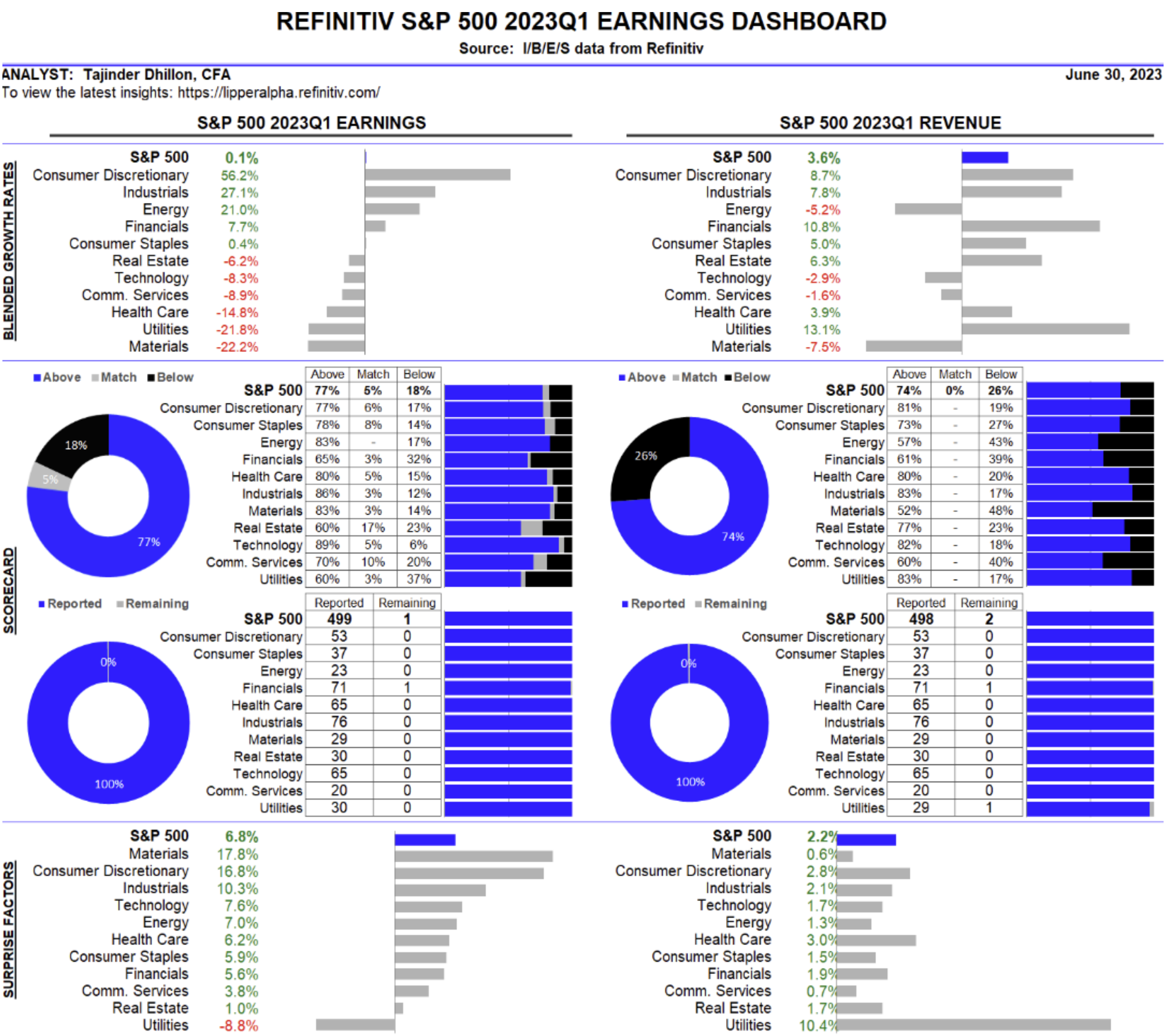
Exhibit 17A. STOXX 600: 12-month Forward Price/Earnings Ratio



Source: Refinitiv Datastream

GLOBAL EQUITY INDICES

Earnings Dashboard - US



REFINITIV S&P 500 2023Q1 EARNINGS DASHBOARD

Source: I/B/E/S data from Refinitiv

ANALYST: Tajinder Dhillon, CFA — **June 30, 2023**

To view the latest insights: https://lipperalpha.refinitiv.com/

BLENDED GROWTH RATES

	S&P 500 2023Q1 EARNINGS		S&P 500 2023Q1 REVENUE
S&P 500	0.1%	S&P 500	3.6%
Consumer Discretionary	56.2%	Consumer Discretionary	8.7%
Industrials	27.1%	Industrials	7.8%
Energy	21.0%	Energy	-5.2%
Financials	7.7%	Financials	10.8%
Consumer Staples	0.4%	Consumer Staples	5.0%
Real Estate	-6.2%	Real Estate	6.3%
Technology	-8.3%	Technology	-2.9%
Comm. Services	-8.9%	Comm. Services	-1.6%
Health Care	-14.8%	Health Care	3.9%
Utilities	-21.8%	Utilities	13.1%
Materials	-22.2%	Materials	-7.5%

SCORECARD

Earnings (Above / Match / Below; chart: Above 77%, Match 5%, Below 18%)

	Above	Match	Below
S&P 500	77%	5%	18%
Consumer Discretionary	77%	6%	17%
Consumer Staples	78%	8%	14%
Energy	83%	-	17%
Financials	65%	3%	32%
Health Care	80%	5%	15%
Industrials	86%	3%	12%
Materials	83%	3%	14%
Real Estate	60%	17%	23%
Technology	89%	5%	6%
Comm. Services	70%	10%	20%
Utilities	60%	3%	37%

Revenue (Above / Match / Below; chart: Above 74%, Below 26%)

	Above	Match	Below
S&P 500	74%	0%	26%
Consumer Discretionary	81%	-	19%
Consumer Staples	73%	-	27%
Energy	57%	-	43%
Financials	61%	-	39%
Health Care	80%	-	20%
Industrials	83%	-	17%
Materials	52%	-	48%
Real Estate	77%	-	23%
Technology	82%	-	18%
Comm. Services	60%	-	40%
Utilities	83%	-	17%

Earnings (Reported / Remaining; chart: 100%, 0%)

	Reported	Remaining
S&P 500	499	1
Consumer Discretionary	53	0
Consumer Staples	37	0
Energy	23	0
Financials	71	1
Health Care	65	0
Industrials	76	0
Materials	29	0
Real Estate	30	0
Technology	65	0
Comm. Services	20	0
Utilities	30	0

Revenue (Reported / Remaining; chart: 100%, 0%)

	Reported	Remaining
S&P 500	498	2
Consumer Discretionary	53	0
Consumer Staples	37	0
Energy	23	0
Financials	71	1
Health Care	65	0
Industrials	76	0
Materials	29	0
Real Estate	30	0
Technology	65	0
Comm. Services	20	0
Utilities	29	1

SURPRISE FACTORS

	Earnings		Revenue
S&P 500	6.8%	S&P 500	2.2%
Materials	17.8%	Materials	0.6%
Consumer Discretionary	16.8%	Consumer Discretionary	2.8%
Industrials	10.3%	Industrials	2.1%
Technology	7.6%	Technology	1.7%
Energy	7.0%	Energy	1.3%
Health Care	6.2%	Health Care	3.0%
Consumer Staples	5.9%	Consumer Staples	1.5%
Financials	5.6%	Financials	1.9%
Comm. Services	3.8%	Comm. Services	0.7%
Real Estate	1.0%	Real Estate	1.7%
Utilities	-8.8%	Utilities	10.4%

S&P 500 Y/Y EARNINGS AND REVENUE GROWTH SUMMARY

EXHIBIT 16A. S&P 500 Y/Y GROWTH RATES

	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	2022	2023	2024
Revenue	11.7%	5.8%	3.6%	-0.6%	0.6%	3.2%	4.2%	5.4%	11.7%	1.8%	5.0%
Earnings	4.4%	-3.2%	0.1%	-5.7%	1.3%	9.5%	8.5%	12.6%	4.8%	1.3%	11.7%

Source: Refinitiv Workspace

ENERGY – OIL

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

Buy < USD75; Sell >USD100

Short-term drivers

(Bullish price factor) – African OPEC members prepared to fight for market share after being forced to accept lower quotas: Platts reported that after Africa's OPEC members were strong-armed into lower quotas after last month's production cut, the members will seek to come to future meetings with a united front. The article cited multiple African delegates who said Saudi Arabia has pushed for quota reductions based on contested production figures, which led to a significant cut in the African countries 2024 baselines. However, a source said that countries have until November to demonstrate a higher level of production which could reset their baselines higher.

(Bullish price factor) – Shale executives see limited US increases despite OPEC+ cuts: Reuters reported that an EOG Resources executive said that prices are likely to rise in the months ahead given muted US shale production increases and cuts by OPEC+. The article noted that US firms have already cut drilling activity to the lowest level since Apr-22, while analysts see further cuts through year-end given the recent price declines. The article also noted EOG sees the Permian as a region the company is likely to avoid given labor and service constraints and will likely focus instead on Ohio and Wyoming. The EIA estimated that US oil production growth will slow to 1.3% to 12.77M bpd this year from a 6.1% gain projected, with waning production expected to continue in the Permian.

(Bullish price factor) – Canadian government says oil production could drop by three quarters in less than three decades: Canada's government said that the country's output could fall by 76% by 2050 in a global net zero scenario, or if the world takes sufficient action to limit global warming to 1.5ºC. Production would face a less severe decline of 22% in a Canada net zero scenario, falling from 5M bpd to around 3.92M bpd by 2050. However, current measures suggest Canadian oil production will rise to a peak of 6.2M bpd by 2035. The article noted that the country's oil sands reserves are among the world's highest carbon-emitting sources of crude to produce, putting them in particular focus in the effort to limit global warming. However, Alberta's recently reelected premier has vowed to oppose many of the Trudeau government's environmental initiatives.

(Bullish price factor) – US looking to add ~12M barrels back to the SPR this year: Bloomberg reported late Tuesday that the US Energy Department is planning to purchase ~12M barrels of crude this year as it begins to replenish the Strategic Petroleum Reserve after last year's 180M-barrel drawdown. It adds that this figure includes the 6M in purchases already announced (3M scheduled for August delivery and a further 3M for which the department has solicited bids). The article also notes that the department may seek further purchase opportunities as market conditions allow.

(Bearish price factor) – Refinery runs, seaborne exports still suggest robust Russian production: For the week ended 14-Jun, overall production at Russian refineries hit the highest level since late April. The article notes analysts see this as a return from the spring maintenance season, and observe they are now not far from YTD highs. It adds that crude inputs to domestic refineries are an important input for analysts looking to gauge Russia's crude output, which Moscow claims to have cut by 500K bpd in March, a claim met by widespread international skepticism. Another Bloomberg article today notes that Russian seaborne crude exports remain ~250K bpd higher than the month preceding 26-Feb, which is the baseline month against which Russia is marking that claimed 500K bpd output cut.

(Neutral price factor) – China's oil demand growth this year faces EV headwind: Reuters reported that analysts at China National Petroleum Corp said 2023 crude oil demand in the country is expected to grow less than expected as strong demand for EVs weighs on gasoline consumption. The company previously estimated that Chinese oil demand would reach 14.86M bpd this year, but an executive said this week that growth would come in at about 14.80M bpd, noting the replacement of cars is relatively large. Bloomberg also reported that Beijing announced today that it extended tax breaks for buyers of EVs through 2027, estimated to be worth around 520B yuan, or $72.3B.

(Neutral/Bearish price factor) – US officials say international price cap has hit Russian oil revenues: Deputy Treasury Secretary Adeyemo said yesterday that there has been a nearly 50% drop in Russian oil revenues since the imposition of an international price cap, with recent changes to Russian tax policy serving as evidence of its success. Adeyemo added that these tax changes will constrain Russia's oil companies going forward. This may be a bearish factor for the price of crude oil. Bearish because it can force Russia to make up for the low price with more product on the market, and because it can bring Russia closer to starting an effort to find a solution to the conflict. In such a scenario, we understand that the entire energy market would relax.

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 USD1,900 – 2,100 /oz

Buy < USD1,900; Sell >USD2,100

Positive drivers for gold

Within the four-quadrants framework, the quadrant that the world economy could be heading towards (Recession with inflation) is usually a favourable environment for precious metals and gold, one in which, historically, this commodity does well.

Gold is cheap relative to palladium: The Gold/Palladium ratio rose to 1.39, still well below its 20-year average of 1.83x, 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 considered 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 fell to 84.49, still above its 20-year average of 67.58x, 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$1,528/oz.

Gold to oil: This ratio rose to 27.36, still well above its 20-year average of 18.94x. 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$1,744 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.3117), 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$1,457. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1.1275. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,479.

The four threats that could end the gold rally no longer seem so distant. What are those 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 mild 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.

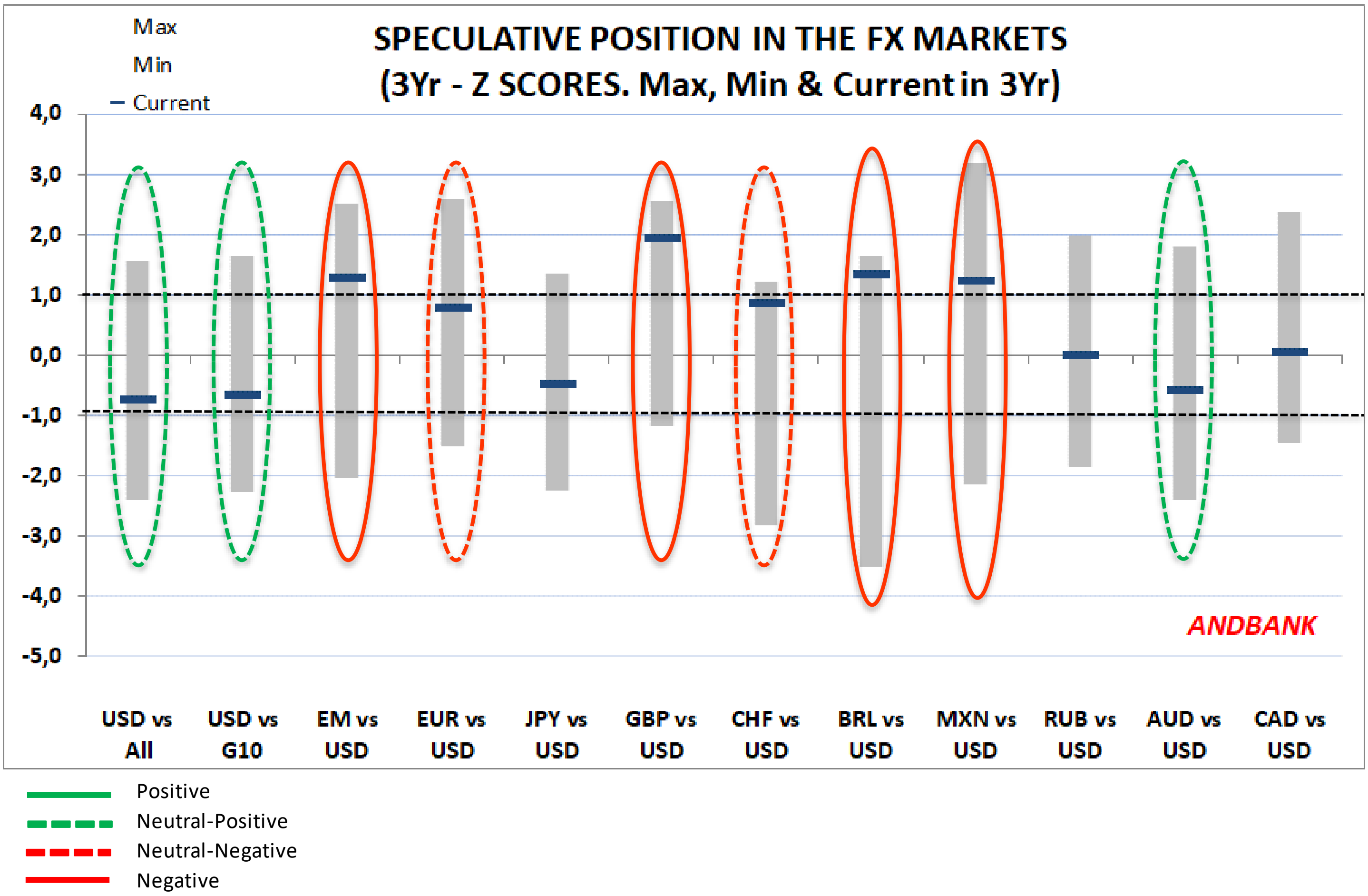
Risk #3. A rise in real rates (LOW RISK): Even if nominal rates rise, the only way OECD countries could experience surging real rates would be through the inflation rate collapsing. But how? Such a deflationary outcome could be triggered by a permanent collapse in the price of energy, a collapse in real 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, some 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	-14,10	-1,75	32,1	-28,2	-0,5	-0,73
USD vs G10	-10,62	-1,11	32,7	-25,4	0,7	-0,64
EM	3,48	0,65	3,9	-1,0	1,6	1,31
EUR	19,87	-2,37	25,4	-8,6	11,7	0,79
JPY	-9,79	-1,19	0,6	-15,0	-7,8	-0,46
GBP	4,14	3,12	4,3	-6,5	-1,2	1,95
CHF	-0,69	-0,63	0,2	-6,0	-2,2	0,87
BRL	0,66	0,04	0,7	-0,8	0,0	1,35
MXN	2,82	0,61	3,3	-1,4	1,3	1,23
RUB	0,00	0,00	1,2	-0,3	0,3	0,00
AUD	-2,64	0,24	6,1	-5,2	-0,9	-0,56
CAD	-0,22	1,98	6,1	-5,0	-0,4	0,07

ANDBANK



The currencies we technically favour are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Andbank's estimated reasonable price (Strong Buy)	Expected Performance (to potential price)
Equity	USA - S&P 500	3,9%	15,8%	4.448	3.813	-14,3%
	Europe - Stoxx Europe 600	-0,2%	8,6%	461	423	-8,4%
	Euro Zone - Euro Stoxx	1,2%	12,7%	462	403	-12,8%
	SPAIN - IBEX 35	3,4%	17,1%	9.636	10.502	9,0%
	MEXICO - MXSE IPC	1,7%	11,7%	54.138	58.974	8,9%
	BRAZIL - BOVESPA	6,3%	9,0%	119.608	120.258	0,5%
	JAPAN - NIKKEI 225	7,1%	29,4%	33.753	32.172	-4,7%
	CHINA - SHANGHAI COMPOSITE	0,4%	5,0%	3.244	2.993	-7,8%
	CHINA - SHENZEN COMPOSITE	1,2%	4,3%	2.060	1.947	-5,5%
	INDIA - SENSEX	4,2%	7,2%	65.205	71.175	9,2%
	VIETNAM - VN Index	3,2%	11,8%	1.126	1.321	17,4%
	MSCI EM ASIA (in USD)	-0,4%	2,9%	529	588	11,1%
Fixed Income Core countries	US Treasury 10 year Govie	-0,6%	2,5%	3,81	3,75	4,3%
	UK 10 year Gilt	-1,7%	-4,2%	4,41	3,75	9,7%
	German 10 year BUND	-0,6%	2,6%	2,40	2,50	1,6%
	Japanese 10 year Govie	0,1%	0,3%	0,39	0,75	-2,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,4%	3,8%	3,39	3,50	2,5%
	Italy - 10yr Gov bond	-0,6%	7,2%	4,09	4,20	3,2%
	Portugal - 10yr Gov bond	-0,9%	5,3%	3,11	3,50	0,0%
	Ireland - 10yr Gov bond	-0,5%	3,6%	2,80	3,00	1,2%
	Greece - 10yr Gov bond	0,0%	9,9%	3,62	4,50	-3,4%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,5%	2,0%	76,81	100	3,7%
	Credit EUR HY-Itraxx Xover	0,7%	5,2%	403,95	550,00	3,2%
	Euribor 3m					
	Credit USD IG - CDX IG	0,6%	3,2%	69,00	100,00	5,3%
	Credit USD HY - CDX HY	1,0%	6,0%	446,62	600,00	5,4%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-35,4%	-50,3%	16,01	11,75	50,1%
	Russia - 10yr Gov bond (local)	-2,2%	-1,3%	11,18	14,00	-11,4%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (local)	1,7%	9,1%	6,20	6,00	7,8%
	India - 10yr Gov bond (local)	-0,5%	5,4%	7,11	6,50	12,0%
	Philippines - 10yr Gov bond (local)	-4,9%	6,1%	6,49	6,90	3,2%
	China - 10yr Gov bond (local)	0,6%	2,8%	2,67	2,25	6,0%
	Malaysia - 10yr Gov bond (local)	-0,6%	2,9%	3,89	4,00	3,0%
	Thailand - 10yr Gov bond (local)	-0,3%	1,2%	2,43	3,50	-6,1%
	Singapore - 10yr Gov bond (local)	-1,0%	2,0%	3,02	4,00	-4,8%
	Rep. Korea - 10yr G. bond (local)	-0,7%	2,7%	3,53	4,50	-4,2%
	Taiwan - 10yr Gov bond (local)	0,1%	1,8%	1,14	2,25	-7,7%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	2,4%	7,4%	8,67	8,75	8,0%
	Mexico - 10yr Govie (USD)	0,2%	5,4%	5,65	5,50	6,8%
	Brazil - 10yr Govie (Loc)	6,4%	22,7%	10,67	12,00	0,1%
	Brazil - 10yr Govie (USD)	0,4%	5,2%	6,23	6,75	2,1%
Commodities	Oil (WTI)	-1,6%	-12,1%	70,6	87,50	24,0%
	GOLD	-1,2%	5,5%	1.925,1	2.000	3,9%
Fx	EURUSD (price of 1 EUR)	1,9%	1,9%	1,091	1,050	-3,7%
	GBPUSD (price of 1 GBP)	1,9%	4,9%	1,27	1,25	-1,5%
	EURGBP (price of 1 EUR)	0,0%	-2,8%	0,86	0,84	-2,3%
	USDCHF (price of 1 USD)	-1,3%	-3,0%	0,90	0,95	5,9%
	EURCHF (price of 1 EUR)	0,5%	-1,1%	0,98	1,00	1,9%
	USDJPY (price of 1 USD)	3,2%	10,2%	144,43	120,00	-16,9%
	EURJPY (price of 1 EUR)	5,1%	12,3%	157,56	126,00	-20,0%
	USDMXN (price of 1 USD)	-2,6%	-12,3%	17,08	19,50	14,1%
	EURMXN (price of 1 EUR)	-0,7%	-10,6%	18,62	20,48	10,0%
	USDBRL (price of 1 USD)	-3,7%	-9,7%	4,77	5,00	4,7%
	EURBRL (price of 1 EUR)	-1,9%	-8,0%	5,21	5,25	0,8%
	USDARS (price of 1 USD)	7,1%	46,0%	258,00	370,00	43,4%
	USDINR (price of 1 USD)	-0,6%	-1,0%	81,92	84,00	2,5%
	CNY (price of 1 USD)	2,2%	5,0%	7,24	7,50	3,6%

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

UPWARD REVISION   DOWNWARD REVISION

PRINCIPAL CONTRIBUTORS

Together
Everyone
Achieves
More

Marian Fernández
Europe: Rates, Macro & ECB
+34 639 30 43 61

David Tomas
Spain & Europe: Equity
+34 647 44 10 07

Alvaro Millán
US: Equity, Bonds & Corporates
+1 305 702 0601

Idan Azoulay
Israel: Rates, Corporate Bonds & Equities
+972 3 6138218

Jonathan Zuloaga
Mexico: Rates, Equity & FX
+52 55 53772810

Sofiane Benzarti
Luxembourg: Global Flows & Positioning
+352 26 19 39 21

Alicia Arriero
Europe: Corporate Credit IG & HY
+34 91 153 41 17

Marcus Vinicius de Macedo
Brazil: Bonds, Equity & FX
+55 11 3095-7045

Juan Manuel Lissignoli
Uruguay & Argentina: Bonds, FX, Macro & Politics
+598 2626 2333

Jordi Riera
Global Interest Rates
+376 874 373

Alex Fusté
EM Asia & Japan: Bonds, Equities & FX
Commodities: Energy & Precious Metals
+34 673 041 058

LEGAL DISCLAIMER