ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

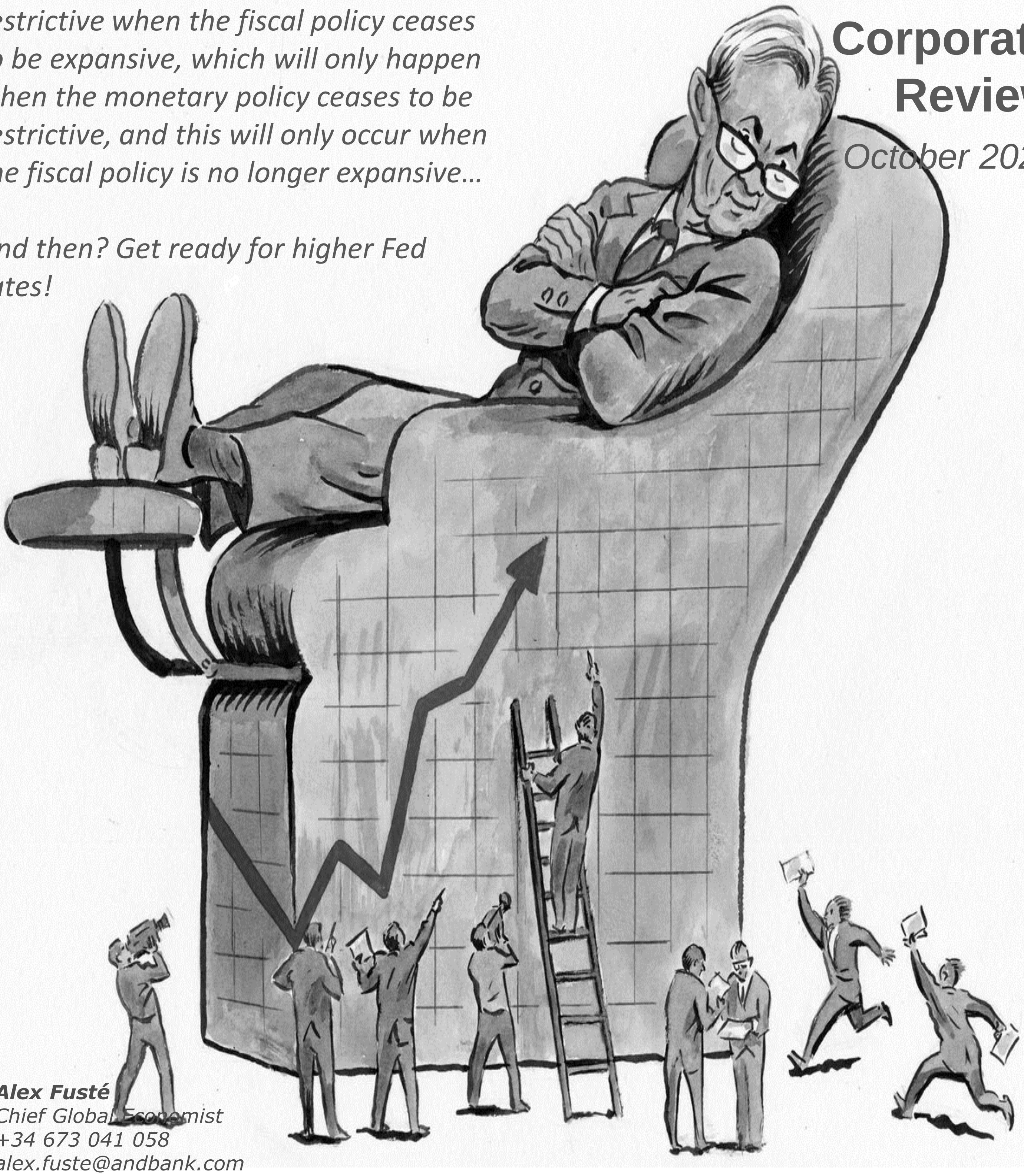
Andbank Monthly Corporate Review – October 2023

The monetary policy will cease to be restrictive when the fiscal policy ceases to be expansive, which will only happen when the monetary policy ceases to be restrictive, and this will only occur when the fiscal policy is no longer expansive…

And then? Get ready for higher Fed rates!

Corporate Review

October 2023



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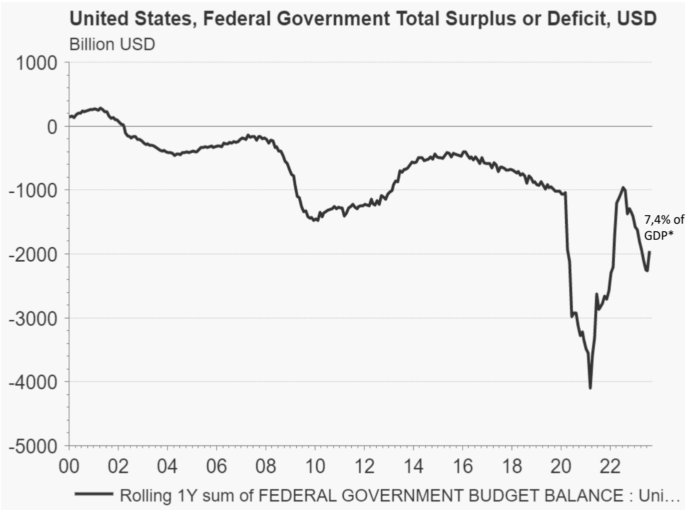
EXECUTIVE SUMMARY

CHART OF THE MONTH

The disconnect between US fiscal and monetary policies will keep the Fed's hawkish stance.



*Nominal US GDP was US$6,62 trn for 1Q2023 (~US$26,4trn annualized)

Source: LSEG Datastream / ANDBANK

EQUITIES

Index	INDEX CURRENT PRICE	Andbank's Strong Buy Point (100% Exposure)	E[Perf] to Strong Buy Point	Recommended Strategy	Exit Point (Strong Sell)
USA S&P 500	4.274	3.899	-8,8%	UW-MW	5.068
Europe - Stoxx Europe 600	448	423	-5,8%	UW-MW	507
Euro Zone - Euro Stoxx	438	403	-8,0%	UW-MW	484
Spain IBEX 35	9.395	10.644	13,3%	MW-OW	11.708
Mexico IPC GRAL	51.108	56.788	11,1%	OW	62.467
Brazil BOVESPA	114.193	130.000	13,8%	MW	143.000
Japan NIKKEI 225	32.372	34.884	7,8%	OW	38.373
China SSE Comp.	3.107	2.980	-4,1%	UW	3.278
China Shenzhen Comp	1.902	1.901	-0,1%	UW	2.091
India SENSEX	65.991	73.513	11,4%	OW	80.865
Vietnam VN Index	1.154	1.378	19,4%	OW	1.515
MSCI EM ASIA	507	588	16,0%	OW	647

ANDBANK ESTIMATES

FIXED INCOME GOVIES CORE & CORPORATE CREDIT (DM)

Asset Class	*Indices*	*Performance YTD*	*Current Price*	*Andbank's Strong Buy Point (100% Exposure)*	*Expected Performance (to Potential Price)*
Fixed Income Core countries	US Treasury 10 year Govie	-2,1%	4,51	4,50	4,5%
	UK 10 year Gilt	-2,3%	4,29	3,75	8,6%
	German 10 year BUND	0,0%	2,79	2,50	5,1%
	Japanese 10 year Govie	-2,3%	0,73	0,75	0,6%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,8%	3,87	3,50	6,8%
	Italy - 10yr Gov bond	3,4%	4,70	4,20	8,7%
	Portugal - 10yr Gov bond	2,9%	3,51	3,50	3,6%
	Ireland - 10yr Gov bond	1,3%	3,19	3,00	4,7%
	Greece - 10yr Gov bond	6,4%	4,20	4,50	1,8%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	2,6%	80,55	85	4,6%
	Credit EUR HY-Itraxx Xover	6,4%	419,19	500	5,7%
	Euribor 3m				
	Credit USD IG - CDX IG	4,4%	72,50	90	5,9%
	Credit USD HY - CDX HY	8,3%	444,91	550	6,9%

FIXED INCOME - EM

Asset Class	*Indices*	*Performance YTD*	*Current Price*	*Andbank's Strong Buy Point (100% Exposure)*	*Expected Performance (to Potential Price)*
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-123,5%	25,42	17,00	92,8%
	Russia - 10yr Gov bond (local)	-11,0%	12,70	--	--
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	5,7%	6,84	6,00	13,6%
	India - 10yr Gov bond (local)	6,8%	7,16	6,50	12,4%
	Philippines - 10yr Gov bond (lo	7,5%	6,51	6,25	8,5%
	China - 10yr Gov bond (local)	3,1%	2,71	2,25	6,4%
	Malaysia - 10yr Gov bond (loca	2,9%	4,01	4,00	4,1%
	Thailand - 10yr Gov bond (loca	-4,3%	3,19	2,25	10,7%
	Singapore - 10yr Gov bond (loc	-0,3%	3,40	4,00	-1,4%
	Rep. Korea - 10yr G. bond (loc	0,3%	3,94	3,50	7,4%
	Taiwan - 10yr Gov bond (local)	1,5%	1,22	2,25	-7,0%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-1,1%	9,99	10,00	9,9%
	Mexico - 10yr Govie (USD)	1,1%	6,37	6,25	7,3%
	Brazil - 10yr Govie (Loc)	17,4%	11,72	11,50	13,5%
	Brazil - 10yr Govie (USD)	2,5%	6,77	7,50	0,9%

COMMODITIES & FX

Asset Class	*Indices*	*Performance YTD*	*Current Price*	*Andbank's Strong Buy Point (100% Exposure)*	*Expected Performance (to Potential Price)*
Commodities	Oil (WTI)	13,8%	91,3	87,50	-4,2%
	GOLD	4,0%	1.896,5	2.000	5,5%
Fx	EURUSD (price of 1 EUR)	-1,3%	1,057	1,100	4,1%
	GBPUSD (price of 1 GBP)	0,4%	1,21	1,25	2,9%
	EURGBP (price of 1 EUR)	-1,7%	0,87	0,88	1,2%
	USDCHF (price of 1 USD)	-0,9%	0,92	0,95	3,7%
	EURCHF (price of 1 EUR)	-2,2%	0,97	1,05	7,9%
	USDJPY (price of 1 USD)	13,6%	148,98	140,00	-6,0%
	EURJPY (price of 1 EUR)	12,2%	157,45	154,00	-2,2%
	USDMXN (price of 1 USD)	-10,2%	17,49	18,50	5,8%
	EURMXN (price of 1 EUR)	-11,4%	18,47	20,35	10,2%
	USDBRL (price of 1 USD)	-5,7%	4,99	5,00	0,3%
	EURBRL (price of 1 EUR)	-6,9%	5,27	5,50	4,4%
	USDARS (price of 1 USD)	98,0%	350,00	370,00	5,7%
	USDINR (price of 1 USD)	0,6%	83,21	84,00	1,0%
	CNY (price of 1 USD)	5,9%	7,31	7,50	2,6%

USA

Why the Fed signal of "higher for longer" is a threat for financial markets?

Federal Reserve

In line with what the market expected, the Federal Reserve has paused interest rate increases, leaving the reference rate in the range of 5.25-5.50%. As for what we can expect until the end of the year, no Fed members see more than a 25 bps hike this year and seven of the 19 officials expect no more hikes this year. The market at this moment is assigning a probability of 30% to a rate increase in the next meeting (November 1st) and a 70% probability that the same level of rates will be maintained.

In its statement the Central Bank indicated that rates will remain high for a prolonged period. The Federal Reserve's September statement has minor changes from the July statement. The central bank changed its description of economic growth to "solid" rather than "moderate" but also softened language around job growth. In its speech the Fed chairman, Jerome Powell, said that the worst thing the Fed can do is not restore price stability as quickly as possible and that, although price pressures have shown some encouraging signs of easing, bringing inflation back to a 2% target is far from complete.

What is more important, the Fed also published the Summary of Economic Projections (SEP). The Fed Funds Target Median rate for the end of this year is 5.625% and 5.125% for the end of next year, an implied cut of rates of 50 bps much lower than the 100 bps in the June SEP. This was the most hawkish statement from the Fed, seeking to convey the message of higher for longer. For 2023 Fed members now expect higher GDP growth compared with previous SEP (+2.1% vs +1.0%) and lower unemployment rate (3.8% vs 4.1% in June), both in line with a soft-landing scenario. If we look at prices the officials now expect a lower core for this year PCE (+3.7% vs +3.9%) and two more years above the 2% target of the Fed (+2.6% in 2024 and +2.2% in 2025).

Inflation and economic activity

In August the headline CPI increased for the second consecutive month on an annual basis, slightly above market estimates (+3.6% y/y), with a print of +3.7% y/y (+3.2% y/y in July). Compared with July the CPI rose by +0.6% m/m, with Energy as the main driver (+5.6% m/m) explained by the jump in gasoline prices (+10.6% m/m). Shelter costs, which includes rent of primary residence, owners' equivalent rent and lodging away from home, and accounts for 35% of headline & 41% of core CPI, climbed 0.3% m/m and +7.2% y/y, compared with +7.7% y/y in July. Within shelter, owners equivalent rent increased +0.4% m/m and 7.3% y/y. However, Core CPI continues to decline, reaching 4.3% y/y (+4.7% y/y in July), with only +0.2% monthly growth.

The labour market data continues to paint a rosy scenario. Initial jobless claims in the week ended September 16th declined to 201,000, the lowest number in the last eight months and in the lower end of their 194,000-265,000 range for this year. Nonfarm payrolls continue growing, with an increase of 187,000 workers in August. The unemployment rate rose to 3.8% but is explained by a higher participation rate. Labour market data continues to be the main source of justification for a possible rate hike in the following Fed meetings or at least a scenario where rates remain at a high level for a prolonged time.

The housing market is where the main cautionary signs appear. Privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,283,000. This represents a 11.3% m/m decline and -14.8% below last year's number (1,505,000). Multi-family starts explain this number, as they were down 41.6% y/y, while single-family starts were up 2.4% y/y. We also saw a decline in existing home sales with a print 15.3% lower than August last year.

Financial markets

Rates & Credit: The sentiment of higher interest rates for a longer period increased volatility in both fixed income and equity markets, and the yield on the 10-year US bond topped 4.35% in the second half of the month, something not seen since 2007. The downgrade by Fitch (AAA to AA+) also contributed to the noise. Standard & Poor's had done the same in 2011 after the debt ceiling was hit, marking the first downgrade of the United States in history. With the rise in long rates seen in recent weeks, the spread between the two-year rate and the 10-year rate was reduced from 100 bps to 65 bps. We are increasing duration but not in an overweight position, yet moving from an underweight to a Neutral stance. For credit we made a slight downward adjustment in our spread targets for Investment Grande and High Yield.

Equity: After having reached a peak at the end of July, to advance in the year by 20.6% until that time, in recent weeks there was a correction close to 4%, causing the SPX Total Return Index to increase by 16% thus far into the year. The Technology Sector continues to be the best performer so far this year, with a rise of close to 35%. The Energy Sector, which had been the main detractor so far this year, along with the Financial Sector, is now in positive territory with a rise of 5%. We hold to our recommendation of a balanced portfolio between Value/Cyclical and Quality Growth companies,.

Market outlook – Recommendations & Targets from fundamental analysis

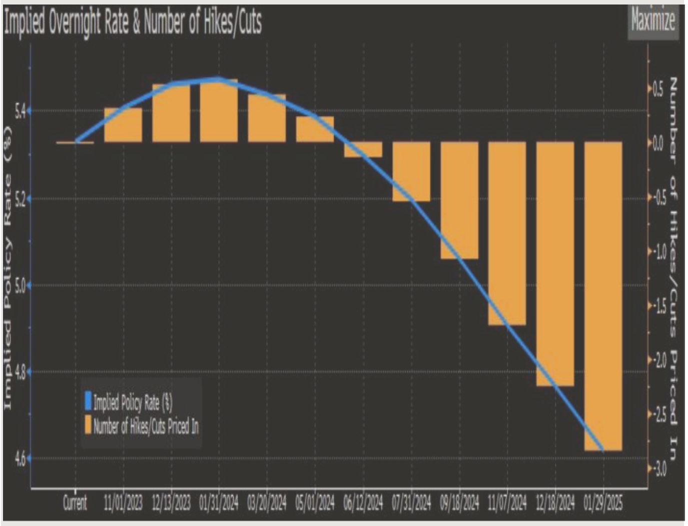
Equities: S&P UNDERWEIGHT- MARKETWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 4.50%

CDX IG: MARKETWEIGHT (Target Spread 90)

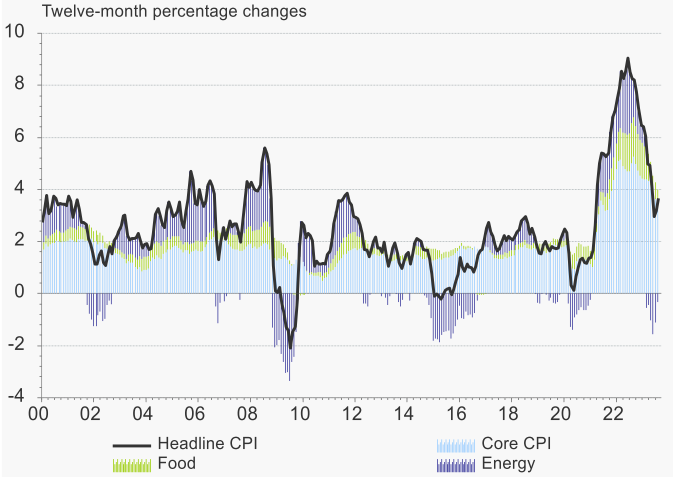
CDX HY: UNDERWEIGHT- MARKETWEIGHT (Target Spread 550)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT



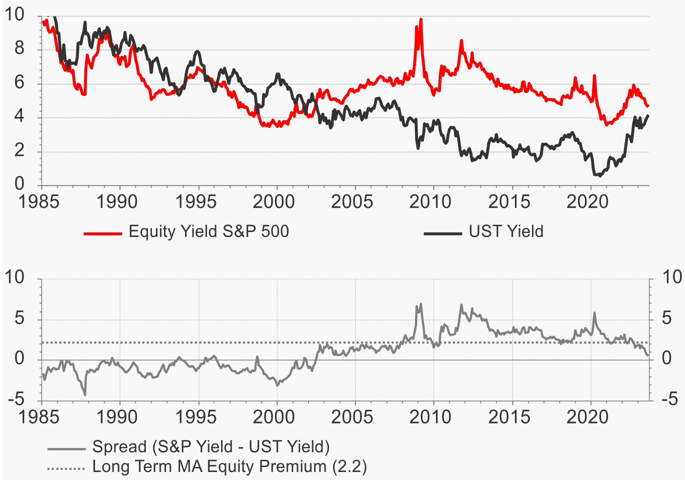
US headline CPI and contributions

Twelve-month percentage changes



Fuente: LSEG Datastream / ANDBANK

Equity Yield & UST Yield



Fuente: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

EUROPE

Economic outlook looks more challenging. Have we reached peak for rates?

A gloomier outlook...

European macro has deteriorated more than expected during the summer. Not only have service PMIs surprised on the downside, now into contractive territory, but other forward-looking indicators such as German industrial orders or retail sales have also dropped or stalled. 2023 GDP official estimates have thus been lowered, also affecting next year's projections, significantly revised downwards, mainly due to the carry-over from 2H2023. Though energy prices have increased, they might pose more of a risk in terms of inflation rather than a headwind for growth, as gas inventories remain at very high levels in Europe (>90%) before the start of the winter season. As for prices, the ECB's current outlook points to an ongoing disinflation trend, but it is expected to remain high for an extended period of time. While headline inflation was revised slightly upwards, explained by energy prices recent performance, core numbers were lowered. Although we are moving into months where base effects vanish, making further progress is more complicated to predict but prices should gradually ease.

ECB: Dovish hike

The ECB delivered another hike in September, as the implicit rates had already priced. The decision seems consistent with the inflation outlook defined and the ECB´s mandate. Forward guidance could be summarised in this statement: "rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". Though Lagarde refused to confirm the pause, or that the peak had been reached, the ECB's language does suggest as much. The focus seems to have shifted now from the "intensity" to the "duration" of the monetary policy. We believe that there will be no further interest rate hikes, and therefore, the monetary tightening cycle in Europe has already come to an end. This view would only change in the event of an energy shock pushing the price per barrel above 100 dollars for an extended period.

Financial Markets: Govies, Corporate Credit & Equity

Govies: The approaching end of the tightening cycle usually recommends a medium-term bullish duration outlook in govies. But, unless inflation surprises on the downside, the ECB stance may warrant a plateau in rates well into 2024 and bunds could remain closed to current levels. Some upside risks could come from the PEPP tapering, but a clear communication from the ECB should soften the market's preparation for the end of PEPP flexibility. Despite PEPP guidance being left unchanged at last ECB meeting, it will be discussed in the coming months. Though most analysts do not expect an early end to PEPP reinvestments, we could have some news in December. On the other side, fiscal consolidation will be high on the European agenda in 2024-2025. We are sticking to our targets for bund and peripherals.

Corporates: European corporate bonds remained stable over the summer. We believe the latest ECB meeting provides a stable foundation for high rates and raises the floor for yields. We continue with spreads at minimum levels, similar to those reached before the American banking crisis in March. With the yields of senior bonds above 4% and with the expectation that issuers may somewhat delay their financing for next year (expecting lower coupons), it is expected that flows will go towards fixed income with better ratings. Lower growth expectations, on the other hand, would affect the sector with the worst credit rating, with the lowest rating, the high yield. Default rates could jump from 1-2% to 3-4% (speaking of BB), but at the moment nothing worrying. We would avoid those ratings lower than BB. At sector level, we continue with a constructive positioning for financial and defensive companies, underweighting the most cyclical companies.

Equity: We are recommending a balanced portfolio between Growth and Value. Value should continue to be driven by "higher for longer" rates. Europe has tended to offer a higher dividend yield than global peers, but a low or negative net buyback yield meant the region's total yield often lagged. However, European companies spent a record $200bn on share repurchases over the last 12M, and the region has seen a bigger increase in buyback activity over the last 5Y than anywhere else. We prefer to change our defensive stance to a dividend strategy, which still has a Value tilt, but we think is better in a weaker economic environment rates and EPS peaking. In Spain, at this point, we are assigning 50% of probabilities to a second election, but most importantly, from a macro perspective, we maintain our view that political uncertainty would be only a modest detractor for growth. However, we doubt that this would materially impact our catch-up macro story, with Spanish growth over-performing the Euro area and the EU sponsored Recovery fund as one of the main growth drivers over the forecast horizon. Spain has seen several bouts of significant political uncertainty with repeat elections or weak minority governments in the past, but none of these seems to have affected growth in a very clear way.

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)

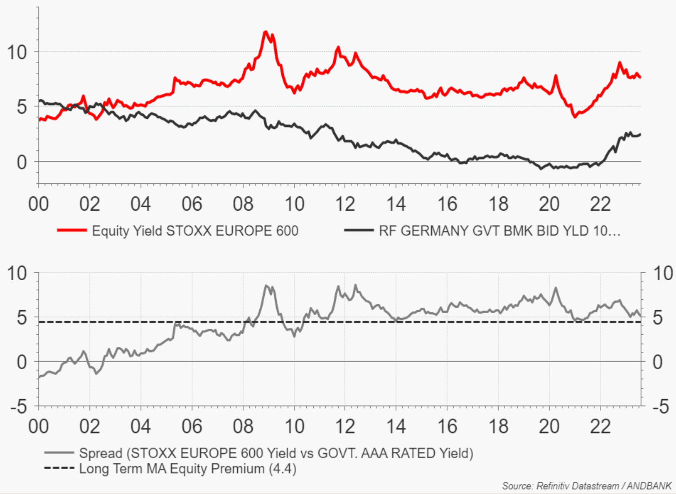
Peripheral – MW IT (4.2%), SP (3.5%), PT (3.5%), IE (3%). UW GR (4.5%),

Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 85)

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

FX – EUR/USD: New operating range: 1.03 (sell USD) - 1.10 (buy USD)

Equity Yield (Europe) vs Risk Free Yield10Y



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

CHINA

PBOC wants to drive yuan appreciation. SOEs selling USDs. Growth forecast cut for 2023 and 2024.

FX: China asks big banks not to square their Fx positions and to keep Fx positions open to curb yuan pressure.

Chinese banks have been requested not to square their positions in the inter-bank foreign exchange markets after any U.S. dollar sales to clients, until their spot foreign exchange position hits a certain level. With this decision, banks would refrain from immediately squaring their foreign exchange positions in the market and will be forced to run open positions (open risk) for a while in order to alleviate downside pressure on the yuan. This means that some of the heavy dollar purchases by companies would be absorbed by banks. Banks were also told that companies requesting to purchase $50 million or more will need to seek the central bank's approval. Thus, PBOC is tightening scrutiny of bulk dollar purchases by domestic companies. Also, state-owned banks were seen selling dollars in both onshore and offshore markets and sources who received the directive said banks were also told to encourage their clients to hold off on dollar purchases. The effect could be just the opposite, as usually happens when there is a control (prohibition) on access to a strong currency that is seen as a reserve currency. In fact, exporters are retaining their dollar earnings in deposits rather than converting them into Yuan.

What's next for the Yuan? More depreciation

Two things are behind this year's decline in the yuan: a widening yield differential with other major economies, particularly the United States, and a faltering domestic economy that causes the rate of return on marginal capital invested in China to remain lower than that of other places. As long as these two aspects remain unchanged, they will continue to negatively impact capital flows into the yuan regardless of whatever efforts Beijing makes to avoid further falls. In fact, in recent months, China has intensified its efforts to slow the rate of decline of the yuan by setting midpoints persistently stronger than expected, but it has not managed to stop the decline of its local currency, as can be seen in the accompanying graph 3. More recently, earlier this month authorities announced they would increase the supply of dollars by lowering the amount of foreign exchange that banks must set aside. Chinese authorities "are simply smoothening the cycle. They want to avoid herding behaviour. They want to avoid a scenario where the market feels that they might be losing control. They're just using different administrative tools to smoothen price action" said Sid Mathur, head of Asia-Pacific macro strategy and emerging market research at BNP Paribas.

Equities: Beijing tries to support the equity market

Leveraged China equity positions saw their biggest daily increase in over three years on September 11, as new regulations took effect that lower the deposit ratio for high-risk trades. Total outstanding margin debt is now at $205B, still 33% below 2015's peak.

Economics: Poll shows China GDP growth forecast cut to 5% in 2023, 4.5% in 2024

A Reuters poll shows China's economy will grow less than previously expected both in 2023 and 2024 amid a struggling property market. Latest forecast is 5% for 2023, down from 5.5% forecast in July. Some economists even cautioned the government's growth target of around 5% for 2023 could be missed as a drip-feed of policies would not be enough to stabilise economy. A majority of economists did not expect an aggressive economic stimulus package as local governments remain in heavy debt.

Trade: China hits back at Europe's EV probe as protectionist

Beijing quickly hit back at EU's investigation into China's EV subsidies. The Ministry of Commerce said the EU's investigation is "a naked protectionist act" that will disrupt and distort the global automotive industry and supply chain and will harm China-EU economic and trade ties. Analysts expect China will take countermeasures if Brussels eventually levies duties on Chinese EV imports.

Property sector: Moody's cuts China property sector outlook

Moody's cut China's property sector's outlook from "stable" to "negative", citing economic growth challenges that would dampen sales despite the slew of support measures from the government. Moody's expected contracted sales to fall by about 5% over next six to 12 months. Property investment have contracted ~8.9% y/y in first eight months. Moody's pointed out that the impact of measures taken was likely to be short-lived and uneven.

Geopolitics

The US National Security Council spokesperson said China's moves to expand a government ban on iPhones is "aggressive and inappropriate retaliation against US companies". The Biden administration has begun an official probe into the made-in-China 7nm processor discovered in Huawei's latest smartphone Mate 60 Pro.

Norway's $1.4T sovereign wealth fund is closing its only office in China, citing concerns about rising tensions between the US and China. The fund held some $42B across 850 mainland China and HK companies at end-22, down from a peak of $47B in 2020.

Market outlook – Recommendations & Targets from fundamental analysis

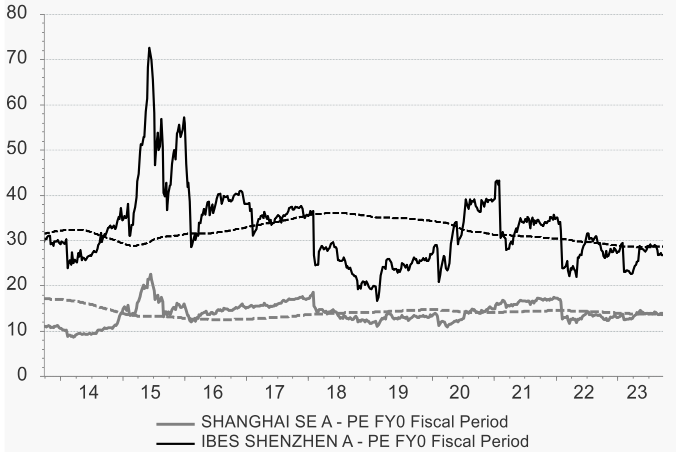
Equities – SHANGHAI Idx: UNDERWEIGHT /// SHENZHEN Idx: UNDERWEIGHT

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

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio

PE LTM



Fuente: LSEG Datastream / ANDBANK

Chinese Equities Undeperforms World & US indices

MSCI China vs MSCI Global and MSCI USA

Source: Refinitiv Datastream / ANDBANK

USDCNY exchange rate

Spot rate

Fuente: LSEG Datastream / ANDBANK

JAPAN

BoJ will not abandon the sub-zero rate policy this year. Positive for equity.

BOJ Governor Ueda says easing to continue as inflation uncertainties remain extremely high

Ueda continued to stress the extremely high uncertainties surrounding the baseline scenario and reiterated the assessment that sustainable and stable achievement of the 2% price stability target accompanied by wage increases has not yet come into sight. Hence, BOJ still finds it necessary to patiently continue with monetary easing under YCC. Ueda also said the BOJ could have enough data by year-end to determine NIRP exodus. "Zero rates would be lifted if we are convinced stable inflation/wages are secure". But he also reemphasised "BOJ is some distance away from achieving its price stability target and would continue its patient monetary easing".

Japan, China share of US Treasuries falls to record low. Why does this matter?

Japan and China's share of US Treasury holdings declined to the lowest on record. Combined, they held $1.94T in Treasuries as of June, making up about a 25% of all US debt held abroad (compared with a high of 25.4% in 2007), and under 8% of the total US debt outstanding. This matters because the supply of U.S. debt is increasing while the rest of the marginal buyers are all shrinking, pressing yields sharply upward. The evolution of the 10YUST yield (and probably the price of stocks) does not depend so much on inflation as on the UST holdings of central banks, which in turn depends on the world prices of energy and imported raw materials. The higher the external energy and food bill, the more these central banks must sell their reserve assets (mostly UST) held at the Fed. The last chart shows the changes in foreign holdings of US debt (held in the FED), which in turn explains the jump in the UST yields (starting in 1Q22). The good news is that it seems as if central banks have stopped selling UST. If this is maintained (for which it is necessary to see a relaxation in the price of energy), then the equity market will do well. If, on the other hand, energy prices rise above $90-$100 per barrel (and Saudi Arabia and Russia are doing everything possible to do so), then foreign central banks will continue selling UST, boosting yields, which will end up putting pressure on equities.

Macroeconomy & Inflation

Q2 revised GDP +4.8% q/q annualised vs consensus +5.6% and preliminary +6.0%. September Reuters Tankan manufacturers' sentiment index missed expectations (+4 vs +12 in prior month). August bank lending +3.1% y/y vs revised +2.9% in prior month. August Economy Watchers Survey current conditions index 53.6 vs consensus 54.4 and 54.4 in prior month. Outlook index 51.4 vs 54.1 in prior month

July nominal average wages +1.3% y/y vs consensus +2.4% and +2.3% in prior month. Real wages (2.5%) y/y vs consensus (1.4%) and (1.6%) in prior month .

Fiscal: Bias to extend support measures to the population. Trend towards fiscal deterioration.

Prime Minister Kishida in New Delhi said he plans to reshuffle his cabinet and "will compile a package of drastic economic measures soon, supported firmly by an extra budget". Meanwhile, Nikkei reported major utility companies on Tuesday applied to METI for electricity subsidy extensions through December of ¥3.5 per kilowatt hour, which would reduce the average household monthly energy bill by ¥900. With the current programme set to expire in September, the government has approved continuing support for households through the rest of the year.

Corporate & Earnings: Problems in the semiconductor market?

Corporate bankruptcies soar, rising 54% y/y in August, marking the 17th straight increase and the biggest since early 2020. Growth in defaults was attributed to impacts from inflation, labour shortages and debt repayment. August figures also saw all 10 industry categories logging increases for the first time in 15 years. Notable sectors were services, construction and manufacturing.

SUMCO CEO (involved in the manufacture and sale of various silicon wafers for semiconductors manufacturers in the production of memory and micro processing units or MPU's) signalled operating earnings could drop more than 30%, citing output cuts among customers that point to a challenging environment in Q3 and Q4. The message noted the backdrop of broader market softness impacting demand for silicon wafers, compounded by investment needs and payroll expenses.

Diplomacy: Japan-China dialogue hits stumbling block over Fukushima water

The ASEAN+3 summit turned into a missed opportunity for Japan/China leaders to engage in formal bilateral talks, reflecting their deep rift over Japan's release of treated water from the Fukushima nuclear power plant. Analysts point out that the current issue may have a lasting impact on bilateral ties, presenting challenges for Tokyo's efforts to stabilise relations already strained by Beijing's growing military assertiveness.

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 140)

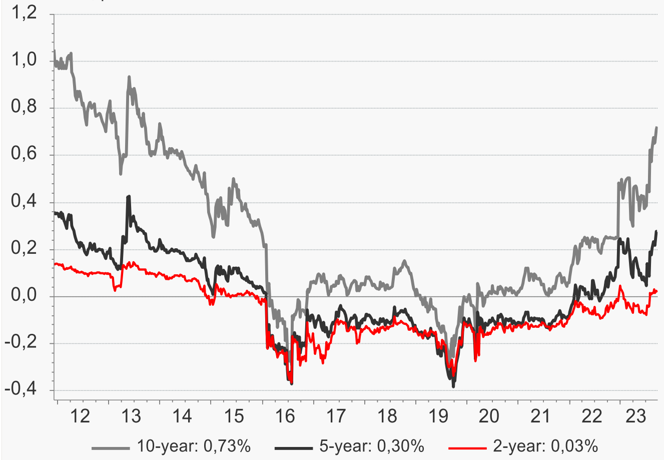
Japan Nikkei 225 price / earnings

Ratio

Fuente: LSEG Datastream / ANDBANK

Japan benchmark government bonds

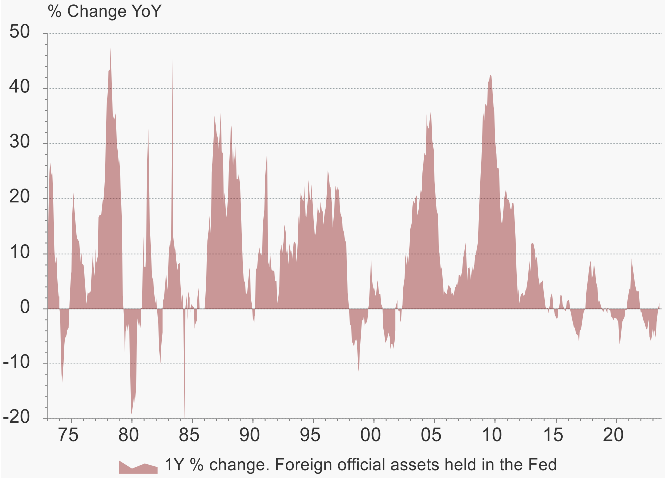
Yield, per cent



Fuente: LSEG Datastream / ANDBANK

Securities held in custody for foreign official accounts

% Change YoY



Fuente: LSEG Datastream / ANDBANK

INDIA

Macro is accelerating and will continue to support equity expansion. Pro-market reforms continue

Flows and foreign interest in Indian assets were positive. The Indian market held steady in August

According to the latest data, foreign investors were net buyers of equities worth USD 1.48 billion in August, and net buyers of fixed income worth USD 0.93 billion. Domestic investors were also net buyers of equities worth USD 3.02 billion during the month. However, the stock market lost its upward trajectory of the past four months in August as inflation increased sequentially and investors began to take into account the probability of interest rates remaining high for a longer period.

Inflation & monetary policy & markets

The core inflation remained at 4.93%, but the headline Consumer Price Index (CPI) for July surged to 7.4%, up from the previous month's 4.8%. The price of oil rose 14% m/m, ending at USD 85 per barrel. In its last meeting, the Monetary Policy Committee (MPC) kept the repo rate at 6.50%, the Reverse Repo Rate at 6.25%, and the Marginal Standing Facility (MSF) Rate at 6.75%. The Monetary Policy Committee reiterated its emphasis on "withdrawal of accommodation" to contain inflation within the RBI's medium-term target for CPI (4% with a range of +/-2%), while simultaneously supporting growth. The Central Bank raised the inflation forecast slightly to 5.4% (previously 5.1%) for 23-24. The Monetary Policy Committee anticipates that the rise in crude oil prices amidst production cuts and the firming up of production costs could be sources of upward risk.

The equity market. Performance breakdown & outlook

The sector with the best performance during the month was Technology, and we maintain a favourable view of the sector, with a preference for mid-level IT service companies possessing substantial contract portfolios and a stable trend of securing major contracts for long-term transformation projects. The sector with the weakest performance during the month was Consumer Basics. This sector has experienced rather moderate volume growth as high inflation has impacted demand. However, the weak demand growth has been offset by margin improvement following the relaxation in raw material prices. We remain positive on the sector because, in the long term, increased penetration and interest in premium brands across all categories will be the main growth driver for the sector. Basic consumer goods companies have the most stable business profile, with strong cash flow generation and healthy balance sheets.

Outlook: After remaining within a stable range for several months, inflation increased sequentially, generating uncertainty about the future trajectory of interest rates. While until a month ago the consensus leaned strongly towards interest rates having peaked, concerns about an extension of the period of higher rates led the market to correct during the month. 1Q24 results indicate steady growth, with significant improvement in margins as the moderation in input and cost prices begins to take effect. Although valuations continue to be above average, it is expected that macroeconomic stability and prospects of robust profit growth will support future momentum. Due to the improvement in capacity utilisation levels, capital investment by the corporate sector is gradually recovering, which will support public investment and contribute to driving growth.

The macro is accelerating and will continue to support equity expansion

Real GDP growth improved to 7.8% in 1Q24 (4Q23: 6.1%), driven by an 8.0% rise in gross fixed capital formation and a 6.0% increase in private consumption (4FY23: 2.8%). Public consumption contracted by 0.7% (4Y23: +2.3%). On the production side, the Value Added by sector (VAB) in 1Q24 grew by 7.8% (4Q23: 6.5%), primarily due to a 10.3% growth in services (4Q23: 6.9%). In terms of contribution to growth, investments made a positive contribution, private consumption remained robust, which helped to offset a weak external sector, as seen in the sharp contraction in real exports.

The Monetary Policy Committee maintained the forecast for India's real GDP growth at 6.5% for 23-24 and expressed satisfaction with domestic growth buoyed by strong corporate balance sheets, supply chain normalisation, and the government's continued focus on capital investment, while highlighting downside risks from geoeconomic fragmentation and weakness in external demand.

Reforms

The capital markets regulator Securities and Exchange Board of India (SEBI) is at an "early stage" of evaluating the regulations for on-boarding clients by brokers. The objective of the move is to simplify the process, particularly for retail investors. The Government of India made it easier for exporters to take advantage of an advance authorisation programme that permits free importation of basic materials. This is happening against a backdrop of dropping merchandise exports, which fell for a fifth straight month in June due to a downturn in demand in the West and China

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

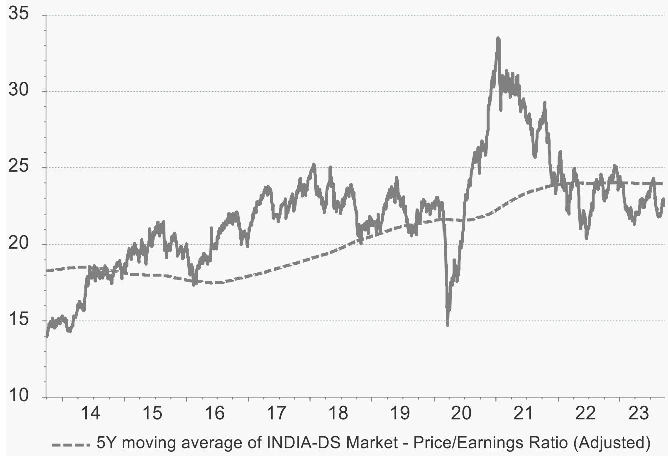
Bonds – Govies: OVERWEIGHT (Target yield 6.5%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 84)

India Datastream index Price Earnings Ratio

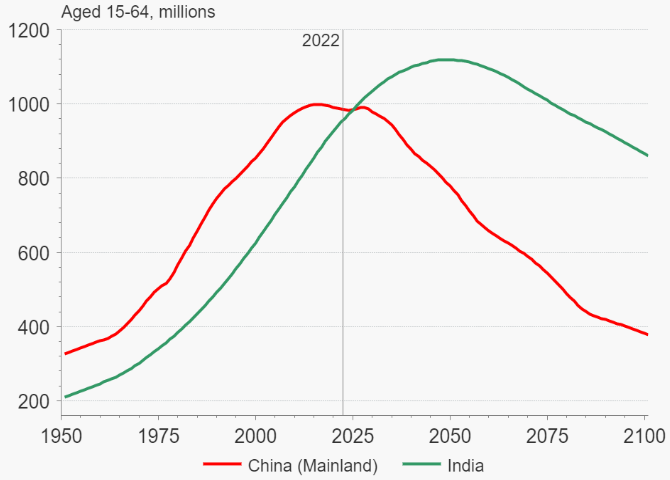
Ratio



Fuente: LSEG Datastream / ANDBANK

China vs India: Working-age population

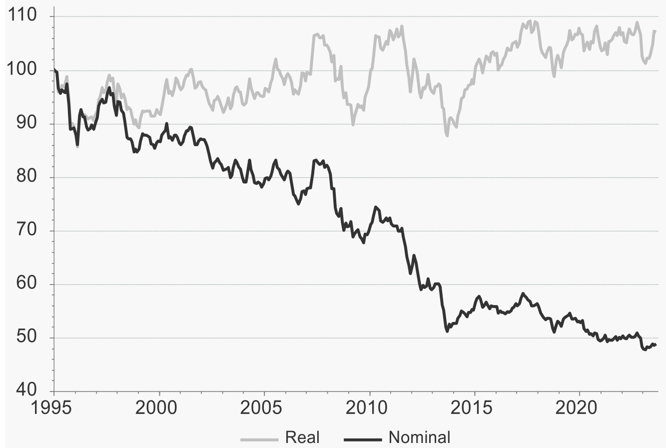
Aged 15-64, millions



Source: LSEG Datastream / ANDBANK

India broad effective exchange rates

Index, January 1995 = 100



Fuente: LSEG Datastream / ANDBANK

MACRO ECONOMY

VIETNAM

Still positive stance, although Vietnamese monetary policy divergence could lead to short-term exchange rate volatility and cause some capital outflows.

Update on the 2022-2023 stimulus package

The National Assembly Standing Committee assessed the implementation of the 2022-2023 stimulus package and we finally received feedback regarding the intensity and the efficacy of the stimulus package after 18 months in effect. As of June 2023, real disbursement was estimated at VND 92.8 tn (or 31% of the plan), which is incredibly slow if we compare it to the performance at the end of 2022 (VND 61 tn or 20.2% of the plan). Most disbursement came from tax cuts and deferrals (VND 60.2 tn). Some programmes which have an easy paperwork process have also been on track, such as rental support for workers or the refinancing policy from the Vietnam Bank for Social Policies. On the other hand, infrastructure disbursement for the stimulus package or the interest subsidy programme was far below target. Regarding infrastructure support, VND 24.2 tn or 15% of the plan has been disbursed. Similarly, only VND 500 bn of the interest subsidy has been disbursed to date. Given such slow progress for the stimulus package (which is expected to expire by the end of 2023), full disbursement in Q4 is unlikely. We might hear more suggestions of alternatives regarding unused funding, whether it be conversion to other packages, or an extension prior to and during the next National Assembly meeting in Oct-Nov 2023.

Update on government meeting with large SOEs

The government held a meeting with large SOEs regarding pro-growth measures and monetary policy support in terms of access to credit, which remains the top agenda item of discussion. There are 676 SOEs in Vietnam (478 of these being fully state-owned), with estimated assets of $156.4 bn. This is equivalent to 23.4% of national fixed assets and long term financial investment within the country, with an average estimated ROA and ROE of 6% and 13% respectively. In 2023, the government estimated that SOE revenue should be around $57.6 bn, with $5.3 bn in profit flowing up to replenish the state budget. Total losses across all SOEs (possibly from EVN or Vietnam Airlines) will be around $1.71 bn. All of these figures are a little bit better than the 2023 plan (beating the plan by 4% - 7%). While we have not seen many new measures in the short term for SOEs, for the long-term the Prime Minister suggested the government is seriously looking into investing in new segments of technology or energy, such as semiconductors or hydrogen.

Monetary environment

The central bank governor took a moment to provide additional clarity on the stance of the SBV. On the ongoing debate regarding the central bank assigning credit limits to each commercial bank on a case-by-case basis, the SBV stated its hands are tied and that there is nothing that the central bank can do in this regard. As of Aug 28th, deposit growth at member banks was 4.65% YTD (VND: +6.47% YTD, foreign currency denominated: -14.39% YTD), while credit growth was 5.16% YTD (foreign currency denominated: +14.24% YTD).

Exchange rate: The SBV seeks a stable VND

On the exchange rate debate, and whether the active management of the VND should allow depreciation to support exports, the SBV stance is that exchange rate policy decisions are not specific to any group of enterprises, but rather that currency decisions should be made on an across-the-board basis and taking into consideration a variety of sectors. As local enterprises' trade balance is in deficit by $30 bn in 2022, the view of the SBV is that a weaker VND would hurt, rather than support, such enterprises. And for foreign investors, in the SBV's view, a stable VND is better than a volatile one, so for the central bank to follow the path of more depreciation would not be considered a rational decision given the above factors.

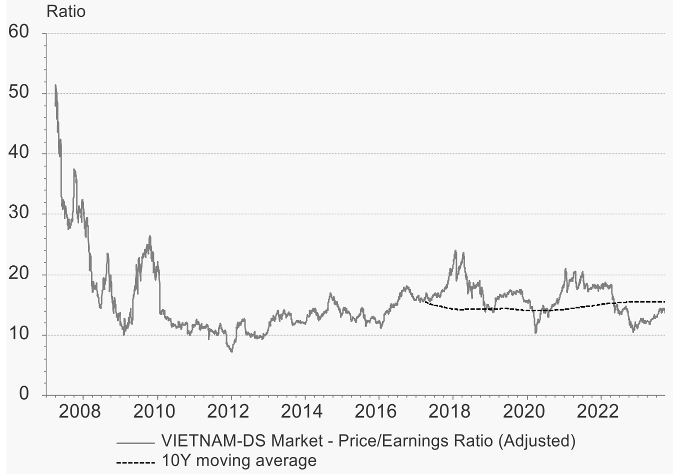
The macroeconomic framework will remain stable. The risks lie in the desynchronisation of monetary policy

Vietnam's economy saw a growth rate of 3.7% in 1H23, marking a low in the country's recent positive trajectory, but a rise in GDP of 4.1% in 2Q23, from 3.3% in 1Q23, which was driven by swift supportive policies, including four rate cuts totalling 150bps since March. The big question, however, is whether Vietnam can continue to maintain its loose monetary policies in the face of global market complexities and contrarian policy movements. We believe that leveraging monetary policy to boost the economy could continue and will not precipitate significant inflationary pressure. Firstly, because headline inflation edged up by just 2.0% y/y in H1, with average 2023 CPI projected to hover between 3.5%-4.0% y/y. Secondly, because borrowing demand and total money supply remain healthy (sustainable), with total credit and M2 expanding by a mere 4.7% and 3.2% YTD, respectively. These figures underscore the necessity of incentive mechanisms. Flows from trade and especially FDI remain strong, as Vietnam's effectiveness in FDI diplomacy is evident, underpinned by a series of high-level visits from key partners, including 50 major US and 200 major Korean companies in H1. The risks ahead for this market lie in the fact that synchronisation with global monetary policy is vital for a sustainable economic recovery. In that sense, and as the world's leading central banks continue to tighten monetary policy, Vietnamese policy divergence could lead to short-term exchange rate volatility and thus cause some capital outflows.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

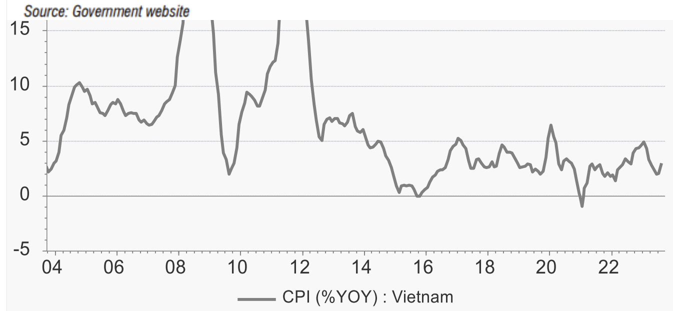
VIETNAM - Datastream index Price Earnings Ratio



Fuente: LSEG Datastream / ANDBANK

	Plan (VND bn)	YTD Disbursement (VND bn)
Total	**347,000**	**92,800**
Tax cuts/deferral	70,000	60,201
Rental support for workers	6,600	3,679.3
Infrastructure support	***176,000***	***24,281***
Interest subsidy scheme from VBSP for targeted borrowers	20,000	19,090
Interest subsidy scheme for targeted sectors	***40,000***	***500***

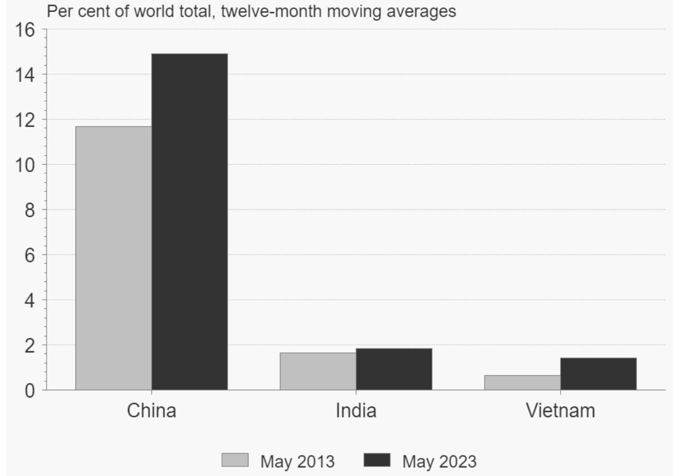
Source: Government website



Fuente: LSEG Datastream / ANDBANK

China, India and Vietnam exports

Per cent of world total, twelve-month moving averages



Source: LSEG Datastream / ANDBANK

ISRAEL

Waiting for politicians to make the right decisions

Politics

The political crisis continues to be the most significant factor on which the eyes of investors in Israel are focused. Although it seemed as if the government was halting the moves in the judicial system, in reality the ruling coalition continues to push for changes in the judicial system. In addition, coalition commitments result in the allocation of budgets to non-productive sectors (mainly the religious population) and the need to finance subsidies that make a negligible, if any, contribution to the economy.

Investors are now awaiting developments in the political arena and it seems that until the crisis is resolved, the market will have difficulty breaking through. According to local newspapers, PM Benjamin Netanyahu reportedly met with a delegation from the credit agency Moody's Investors ahead of the update of Israel's sovereign country rating, which is expected to be released in October, after the agency indicated a few months ago that the judicial reform could negatively affect the economy.

Macro

The effect of the political crisis is mainly evident in the weakening of the shekel, which shed about 8% of its value against the dollar and the euro. Although the dollar has strengthened against most currencies in the world, in recent years the shekel had remained strong even during periods when the dollar stood out in the global currency markets. The strength of the shekel was due to a positive balance of payments and high level of currency reserves. The weakness of the shekel is one of the reasons why we think the Bank of Israel, which may increase rates once again between now and the end of the year, will leave interest rates at their current high levels (4.75% today) in the near future. In addition, the consumer price index rose by +0.5% m/m in August (+4.1% y/y), above the forecast of 0.4% m/m and the central bank target for annual inflation of 1-3%. The main monthly increases occurred in transport (+1.8% m/m), culture and entertainment (+1.3% m/m) and home maintenance (+0.7% m/m). This reinforces the possibility of high interest rates for a long time to come.

High interest rates are starting to affect the real estate market, with the number of transactions this year dropping by approximately 60% compared to last year, which could further deepen the slowdown in the economy.

Another source of uncertainty is what might happen with the President of the Central Bank. Bank of Israel governor Amir Yaron, who is due to end his term at the end of this year, and PM Netanyahu, agreed to announce a decision about Yaron's possible continuity for a second five year term. This is going to happen at the end of the Jewish High Holidays, which is around October 7. It should be considered that Yaron has spoken out publicly against the judicial reform promoted by the government.

Fixed Income

Similar to most markets in the world, sound investment opportunities have arisen in Israel´s fixed income market, although the government debt market and the corporate market must be approached differently. Regarding government bonds, the local yield curve is still inverted, which in our opinion does not reflect the increased risk of the local economy. Therefore, we are recommending bonds with a duration that does not exceed two years. The 1-year bond yield is now 4.75% compared to a 3.98% yield on the 10-year bond. On the other hand, in the corporate bond market there are a large number of opportunities with interesting risk-return profiles. For example, corporate bonds rated A+ and above for a period of 3.5 year yield 5.5%, which implies a spread of 1.5% over government bonds. Corporate bonds are our preferred investment in the fixed income market.

Stock market

Tel Aviv 125 rose by 3.3% since the beginning of the year. It should be noted that the index rose mainly due to the contribution of the gas and oil sector, which has advanced this year by approximately 45%. The Banks Index contributed its share with an increase of about 10%. We believe that as long as the political crisis is not resolved, the banking sector, which will continue to benefit from the high interest rate should be overweighted. We are also leaning towards exporting companies, mainly in the field of security, infrastructure and logistics. For now, we are avoiding companies whose main activity is in the local economy, such as retailers.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

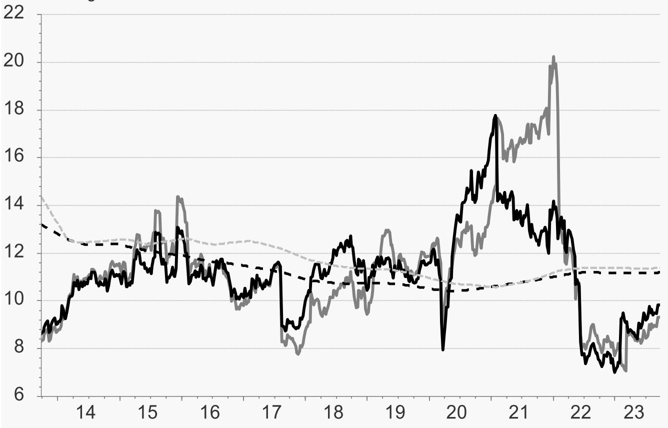
Bonds – Government–10Y Gov: UNDERWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio

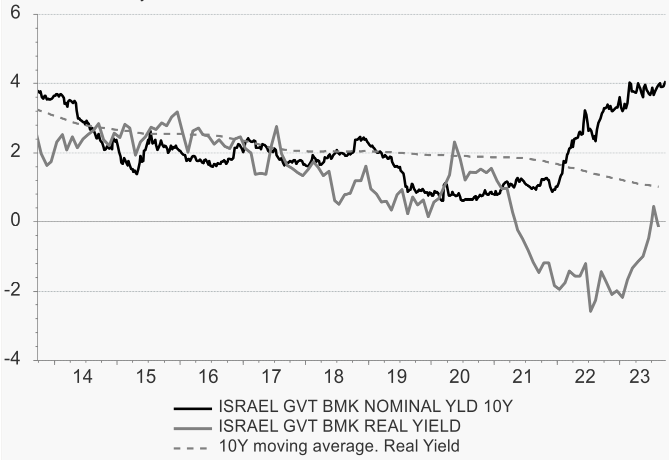
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y

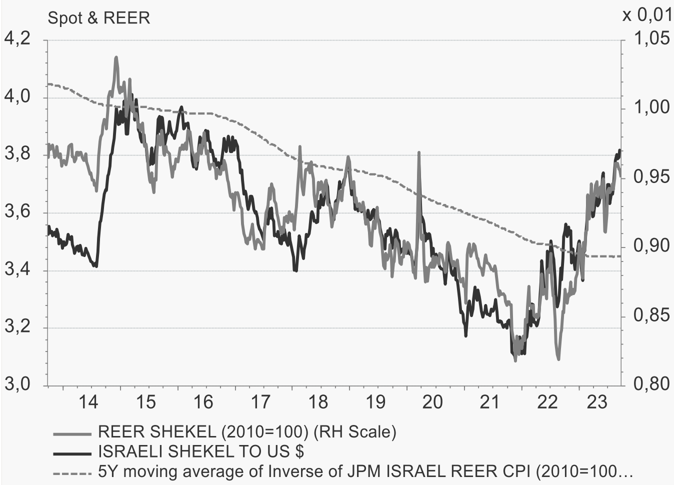
Local currency



Fuente: LSEG Datastream / ANDBANK

Israel Shekel

Spot & REER



Fuente: LSEG Datastream / ANDBANK

BRAZIL

The rate cutting cycle has begun

It's finally here…

August brought both good and bad news. On August 3rd, the Brazil Central Bank (BCB) initiated the eagerly anticipated rate-cutting cycle in Brazil, with two 50 bps rate cuts taking the reference rate from 13.75% to 12.75%. With the market having priced in the rate cut a few months before the Central Bank's decision, after the announcement, assets performed negatively. The USDBRL exchange went up 3.80%, the Ibovespa decreased -5.09%, while long dated inflation linkers fell -1.27% for the month. This was in sharp contrast to the returns obtained by the market in the four months from April to July, when the Ibovespa went up 19.7%, the Real strengthened by 6.7% and long dated inflation linkers were up 11.7%. International news, especially from the USA and China, explain a significant part of this correction, but it was to be expected after the large increase in assets driven by the approval of the new fiscal framework. Markets suggest that the easing cycle should last about 12 months, with rates around 12% for year-end 2023, and 9% for 2024. Markets usually rejoice during easing cycles, and we do not anticipate this time will be any different. We believe that August was just a small correction in a bull market cycle.

Inflation accelerated less than expected in August as consumer prices rose +4.61% y/y and monthly inflation stood at +0.23% m/m. Still, annual inflation has now accelerated for two straight months as the economy delivers surprisingly strong growth.

In the meantime, fiscal issues continue to dominate the news…

With the fiscal framework approved, the economy ministry is focusing on getting the votes needed to get the federal tax reform through congress. There has been a first vote in the lower house, and the bill is being analysed by the senate as we speak. The job is mostly a door-to-door effort, as either Haddad or key members of his staff have meetings with the senators and their teams, to explain the importance of getting the bill approved as it was designed.

Still on tax related subjects, the economy ministry put forth two other bills to keep the budget in balance for 2024, one to tax offshore investments and the other to rescind a tax deferral benefit for closed end funds. According to news outlets, the government expects to raise close to R$ 45 billion (c. USD 9 Billion) in the next three years. Those were necessary, because Lula had already signed other bills related to campaign promises, one that guarantees above-inflation adjustments to Brazil's minimum wage, and another to implement a correction to the tax brackets for individuals (very long overdue, by the way, as the brackets had not been adjusted for inflation since 2016).

While other significant stories develop…

During the first week of September, congress moved quickly and swiftly to approve a mini-electoral reform that looks shady at best. With the "excuse" of guaranteeing free public transportation for voters in all future elections, congress allowed for more leeway in spending electoral funds, while reducing general electoral oversight and transparency. The bill was approved in the lower house, and now goes to the senate and then to Lula's desk for signing. What caught everybody's attention is that this all happened in less than a month. From setting up the working group to getting it approved, there was very little resistance in congress and the bill got approved by an overwhelming 367-87 majority.

Another topic of interest in Brazil is still the investigation into the January 8th riot on *Praça dos Três Poderes*, in Brasilia. The investigative committee is close to the end of its term, but there are talks of asking for an extension in order to try to get some closure on the matter. If the committee is ended as originally scheduled, there is little chance of any politician and/or military personnel been held accountable. As for the civilians that stormed the public buildings, the Supreme Court convicted the first of rioters for crimes related to sedition, criminal association and property damage. The man in question posted videos of himself on the senate floor calling on the population to "take to the streets". He was convicted 8-to-3 and sentenced to 17 years in prison. Criminal law experts think that the sentence is too harsh on one side but believe that it's imperative that a strong message be sent about not attacking democratic institutions. There are still approximately 250 people slated to go on trial on the same charges

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT- OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target yield 11%. Spread 700)

Bonds – Govies USD: UNDERWEIGHT (Target yield 7%. Spread 300)

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

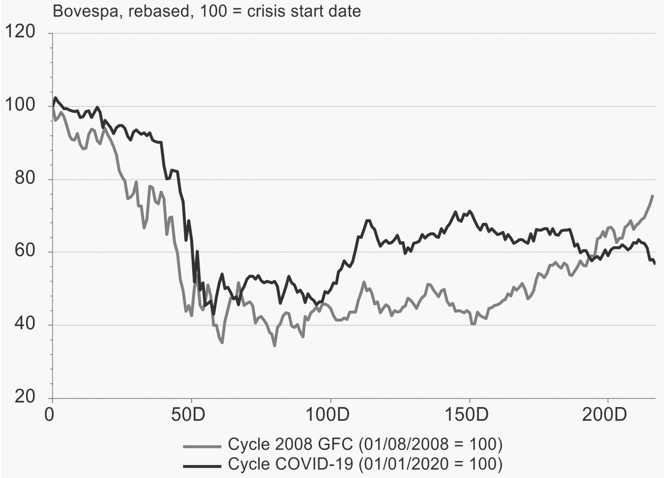
Brazil MSCI Index price-to-earning

Trailing & Forward PE

Fuente: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

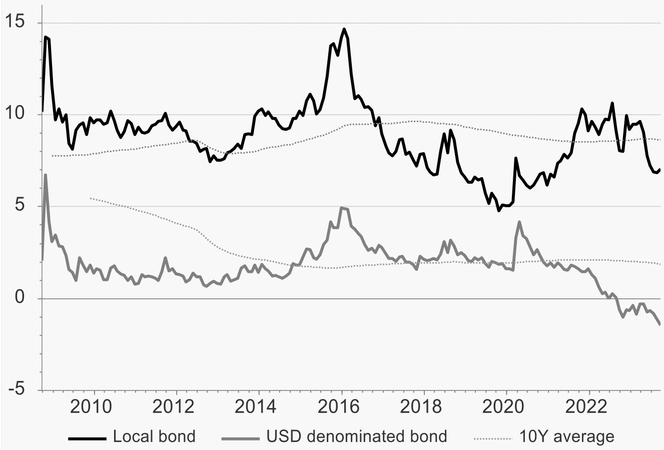
Bovespa, rebased, 100 = crisis start date



Fuente: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: LSEG Datastream / ANDBANK

MEXICO

Public deficit increases for AMLO's last year. Is austerity over?

Central Bank

Banxico has maintained its reference rate at 11.25% and in its latest communication we can see that there has been unanimity in the governing board that no cut in the reference rate is expected in the near future. In its Monetary Policy statement, the Central Bank states that the real ex-ante short-term rate is at a high level after the latest increases, placing it at a historically restrictive level. On the other hand, the medium and long-term estimates of inflation from the consensus of analysts and those generated by the Central Bank itself have increased in the last 2 months.

Inflation and activity

The latest inflation data (August) remained very close to analyst estimates, with headline printing an increase of +4.64% y/y (+4.79% y/y in July), while core increased +6.08% y/y (vs. +6.11% y/y expected and +6.64% y/y in July). It is forecast that inflation will close the year around the current level or slightly higher, close to +5% y/y for headline and around +5.25% y/y for core inflation. In the long term (4-year horizon), the forecast has moved from around 3.5% and is now closer to 4%. Regarding the dynamics of the economy, the latest reports show that a positive trend is maintained with good data on industrial output and investment, the latter driven by government spending on public works as well as by a good outlook due to the increase in 'nearshoring'. Export performance has also maintained dynamism.

Budget 2024

The Ministry of Finance presented the 2024 economic budget in Congress. The revenues of the Federation must be approved by both chambers before the end of October and the Chamber of Deputies will have to do the same before November 15 with the budget for public spending. It is likely that the executive's proposal will be approved without many changes considering the majority that the President of the Republic's party (*Morena*) has in Congress. For its preparation, the main macroeconomic assumptions used were the following: i) GDP Growth: 2023 +3% (in line with market estimates), maintaining the growth rate for 2024 despite the fact that the private sector projects growth of 1.6%, more in line with a soft landing scenario in the United States; ii) Inflation: 2023 in line with the median forecasts of the main surveys, but the expected level for 2024 is 20 bps lower than the 4% average foreseen by analysts; iii) FX: 17.30 for the end of this year and 17.60 for next year; iv) Oil: An average export oil price of 56.7 dollars per barrel is calculated for next year, a level of approximately 30 dollars less than the current one (83.85 as of September 9) and even below the average price for the year until the end of August 68.3 dollars per barrel. Total production is estimated at 1,983 k bpd, with exports of 994 k bpd.

The budget proposes an increase in the fiscal deficit from 3.3% this year to 4.9% of GDP in 2024, the largest negative balance in 36 years. To address the shortfalls, the Review Law of 2024 (LIF2024) requests a ceiling on the Federal Government's net internal debt of 1,99 trillion pesos. Last but not least, support will continue for Pemex, which will receive a transfer of 145 billion pesos (8.3 billion USD) and reduce its tax burden to help with its heavy debt payments. The reduction of the *Derecho de Utilidad Compartida* (DUC) will drop from 40% to 35%. Additional announcements are not ruled out during the year.

Financial markets

Equity: Mexico's S&PBMV IPC has not been immune to global risk aversion and lost 3.3% in the last month. In a context where economic expectations are positive and Banxico seems to have reached the end of its monetary policy cycle, valuations look punished, and it seems to us that there are still elements to justify a recovery in the rest of the year for the market. We maintain our target of 56,000 for the end of the year and 59,000 for the following 12 months.

Fixed Income & FX: We continue to hold that a decrease in inflation will take place between the last months of 2023 and the beginning of 2024, but it will be slow, especially for core inflation. We increased the target for the local debt spread by 550 bps, due to the effect of the risk caused by the increase in the fiscal deficit, the probability of an economic recession in 2024 and the start of the electoral process for next year's presidential election. Regarding the dollar bond, we maintain our expected level of 175 bps, but we anticipate a possibly volatile environment for the same risk reasons related to peso bonds.

The peso continues to be one of the strongest currencies against the dollar, although after the end of August it depreciated sharply (5%) from 16.74 to 17.71 on September 7, and subsequently fell to the current level of 17 pesos per dollar. We lowered our target for the next 12 months from 19 to 18.50 pesos per dollar.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: MARKETWEIGHT-OVERWEIGHT

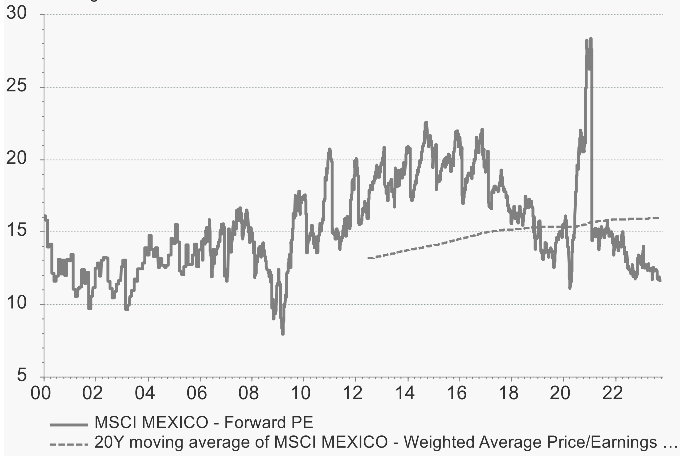
Bonds – Govies Local: OVERWEIGHT (Target yield 9.00%. Spread 500)

Bonds – Govies USD: UNDERWEIGHT (Target yield 5.75%. Spread 175)

FX – MXN/USD: UNDERWEIGHT (Mid-term target 19.00)

Mexico MSCI Index price-to-earning

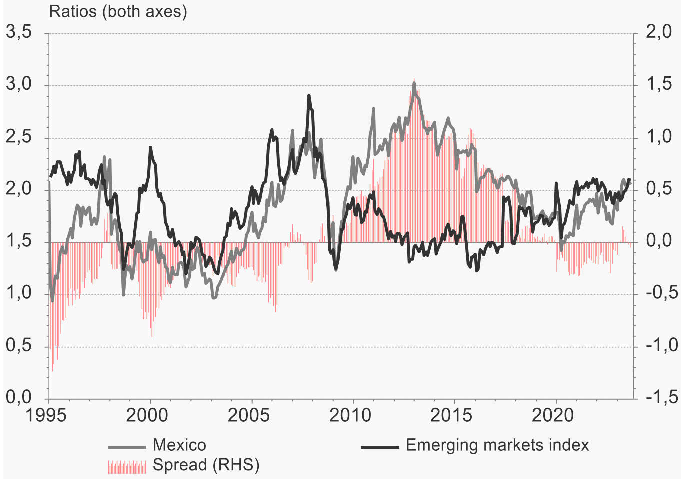
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Mexico price-to-book ratio

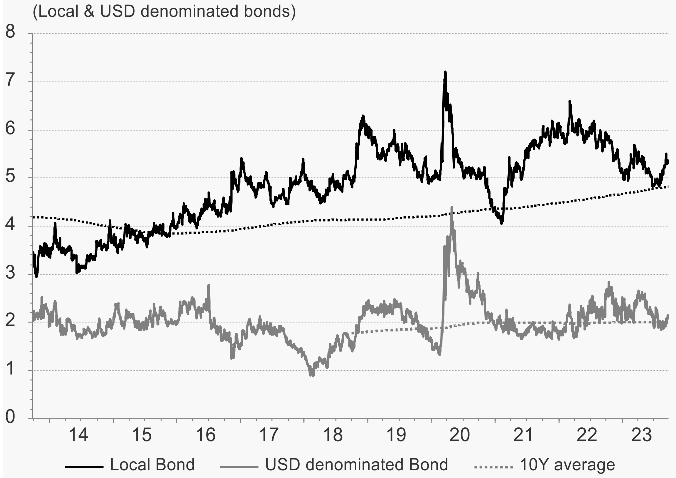
Ratios (both axes)



Fuente: LSEG Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Fuente: LSEG Datastream / ANDBANK

ARGENTINA

Will Javier Milei accomplish the feat?

Politics: Milei becomes the main candidate after the internal elections

Primary election day was a day full of surprises. The two main ones were the vote, above expectations, for the liberal candidate Javier Milei, and the very poor performance of the opposition coalition *Juntos por el Cambio* (JxC). Milei received 29.9% of valid votes, well above the 18-20% that the pre-election polls indicated, making him the candidate with the most votes and also allowing his political force, *La Libertad Avanza* (LLA), to lead the primary vote. On the other hand, JxC obtained 28% of the votes, significantly below the 35% predicted by the polls. Within this coalition, Patricia Bullrich (16.8% of the votes) won with a great advantage over Horacio Rodriguez Larreta (11.2%). Moving on to the ruling party *Union por la Patria* (UP), Sergio Massa, as expected, was the clear winner (21.4% of votes vs 5.85% for Juan Grabois), and the level of voting was close to what was expected in previous poll (27.3% vs 29%-30%).

With these results we have the three forces separated by a little more than 2% advantage. In recent surveys Milei remains ahead with parity for second place, making it very difficult to predict what may happen. It should be noted that, for a candidate to be elected president and winner in the first round, he must obtain 45% of the valid votes or 40% and a difference of 10 points with whoever came second. If this does not happen, there will be a second round, or runoff, and it would be on November 19. The electoral debate has centred around the feasibility of the economic policies proposed by Javier Milei, especially the dollarisation of the economy and its aggressive fiscal plan. The problem is that to dollarise without a sharp FX correction or ARS debt restructuring you will need between 40-50 bn USD at a time when the Debt/GDP ratio is running high and where recourse to the IMF has already been used in the past, making it unlikely that the organisation will accede increasing its exposure to Argentina. To the above we must add Milei's lack of majorities in congress to promote disruptive measures.

Another important event in the political arena was the loss by Peronism of two provinces, Santa Fe and Chaco. In the province of Santa Fe, one of the most important in Argentina, Maximiliano Pullaro, candidate for JxC, will become governor after beating Peronist contender Marcelo Lewandowski, with 58.4% of the vote vs 30.9% for the runner up. In Chaco, the JxC candidate, Leandro Zdero, also obtained a victory against the incumbent governor, Jorge Capitanich, with a vote of 46.2% compared to the current governor's 41.7%, putting an end to 16 years of government by Peronism.

Election aftermath: Let's spend and then see

The day after the primary elections the Central Bank carried out an 18% devaluation of the official exchange rate (it went from 287 to 350 USD/ARS) and also announced that it will remain fixed until the October presidential elections. The Central Bank also made a record hike in interest rates of 20%, taking the reference rate up to 118% (effective annual rate of 208.2%). In an attempt to mitigate the loss of purchasing power after the devaluation and increase the meagre vote in the month of August, the Government has promoted a series of measures that may further erode the fiscal result and worsen the inflationary situation. The most prominent one is the increase in the minimum taxable income for income tax, which will be increased from ARS 700,000 to 1,770,000 per month (2,600 USD approx), benefiting around 800,000 workers according to government estimates. The government also announced a lump-sum payment of ARS 60,000 (90 USD approx.) for formal private and state workers and ARS 37,000 (55 USD approx) for retirees and pensioners. Last but not least, the government will freeze residential electricity and gas tariff prices for the next two months and fuel and medication prices until November 1st. According to estimates made by Argentine consulting firms, these measures, added to the loss of revenue from lower taxes on exports due to the drought, could bring the primary fiscal deficit to 3.5% of GDP.

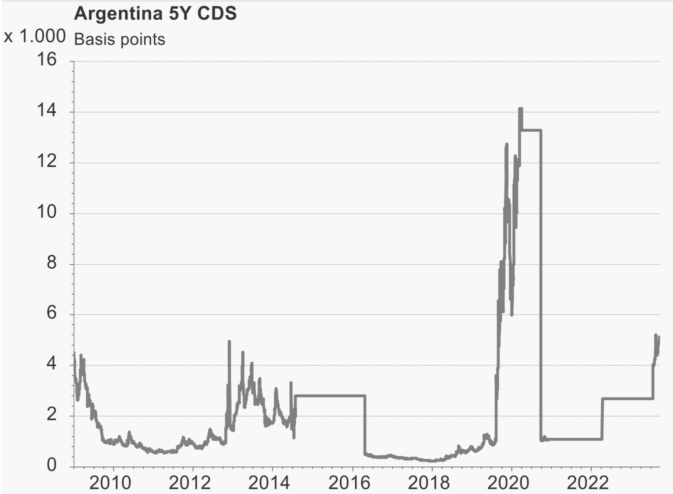
Inflation: Flirting with hyperinflation

The monthly inflation rate was 12.4% in August, above market expectations and almost double the July number (+6.3% m/m) , and with this print the CPI increased 124.4% on an annual basis. This is the first CPI release after the 18% devaluation of August and for September another double digit number wouldn't be a surprise. Breaking down the CPI by components, core inflation came in at 13.8% m/m, seasonal products rose 10.7% m/m and regulated prices increased by 8.3% m/m. Food and beverages had the greatest impact on the index, increasing by +15.6% m/m, while the health sector saw the second-biggest increase (+15.3% m/m) and equipment & home maintenance (+14.1% m/m) the third.

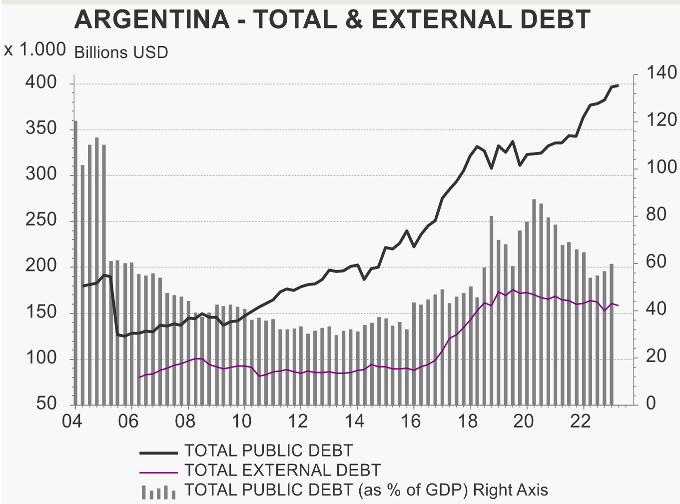
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

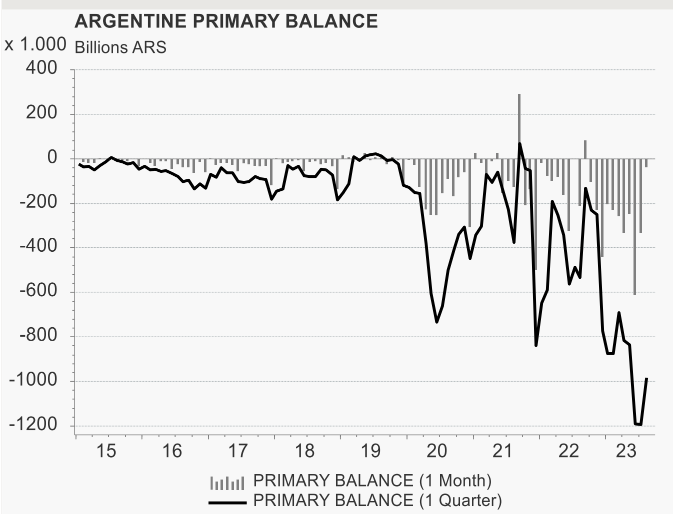
FX – USDARS: NEGATIVE (2023 year-end target 550)



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG DatastreamThomson Reuters Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

EQUITIES

GLOBAL EQUITY INDICES

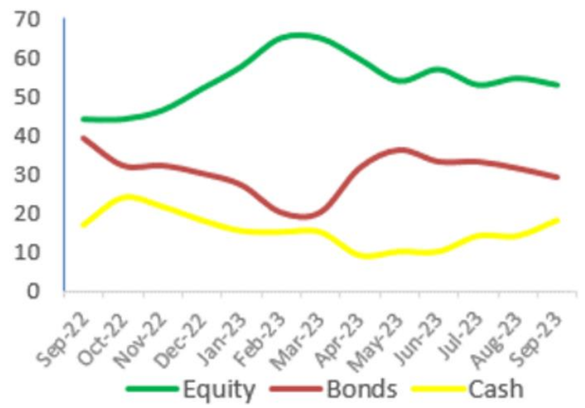
Fundamental assessment

Index	Projected EPS 2023	Projected EPS 2024	Projected EPS Fw 12 months	Projected EPS Growth 2023	Implicit PE (12m fwd)	E [PE] fw At year end	INDEX CURRENT PRICE	Andbank's Strong Buy Point (100% Exposure)	E[Perf] to Strong Buy Point	Recommended Strategy	Exit Point (Strong Sell)
USA S&P 500	220,0	242,0	236	-2,2%	18,09	16,50	4.274	3.899	-8,8%	UW-MW	5.068
Europe - Stoxx Europe 600	32,5	32,5	32,5	1,6%	13,81	13,00	449	423	-5,9%	UW-MW	507
Euro Zone - Euro Stoxx	31,0	31,0	31	6,9%	14,15	13,00	439	403	-8,1%	UW-MW	484
Spain IBEX 35	850,0	900,0	887	14,1%	10,60	12,00	9.406	10.644	13,2%	MW-OW	11.708
Mexico IPC GRAL	4.225	4.200	4.207	11,8%	12,15	13,50	51.108	56.788	11,1%	OW	62.467
Brazil BOVESPA	17.816	17.816	17.816	0,0%	6,41	6,75	114.193	130.000	13,8%	MW	143.000
Japan NIKKEI 225	1.975	1.925	1.938	7,0%	16,70	18,00	32.372	34.884	7,8%	OW	38.373
China SSE Comp.	310,0	315,0	314	12,7%	9,91	9,50	3.107	2.980	-4,1%	UW	3.278
China Shenzhen Comp	120,0	132,0	129	18,8%	14,76	14,75	1.902	1.901	-0,1%	UW	2.091
India SENSEX	3.151	3.623,7	3.501	17,6%	18,88	21,00	66.088	73.513	11,2%	OW	80.865
Vietnam VN Index	120,0	144,0	138	20,0%	8,38	10,00	1.154	1.378	19,4%	OW	1.515
MSCI EM ASIA	42,0	42,0	42	5,0%	12,06	14,00	507	588	16,0%	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



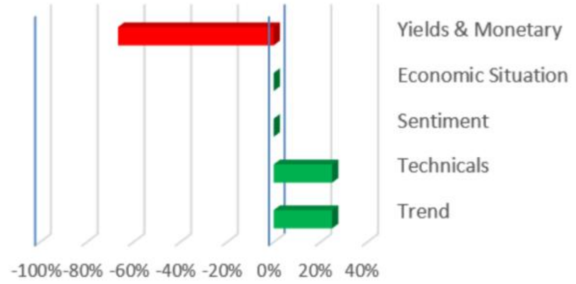
Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	67%	61,5%
Europe ex. U.K.	13%	12,5%
Emerging Markets	10%	10,8%
Japan	5%	5,5%
U.K.	2%	3,8%
Canada	2%	3%
Pacific ex. Japan	1%	3%

U.S. SECTOR	Recommended Allocation	Benchmark
Energy	6%	4,6%

Current Relative Strength (Equities vs Bonds) Ned Davis Research

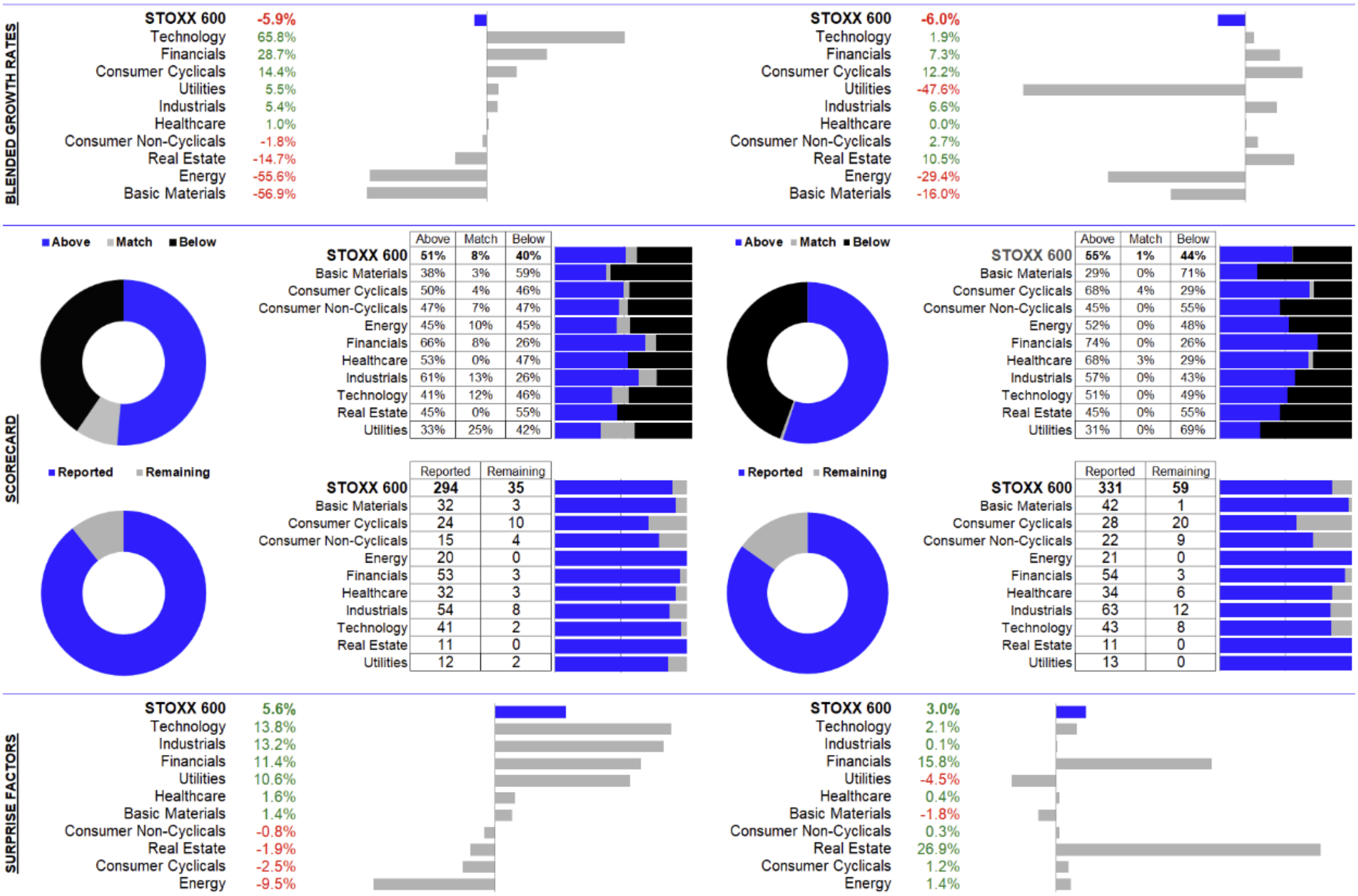
Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



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

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE



LSEG STOXX 600 2023Q2 EARNINGS DASHBOARD

Source: LSEG I/B/E/S

REPORTING ANALYST: Tajinder Dhillon, CFA — September 26, 2023

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

BLENDED GROWTH RATES

STOXX 600 2023Q2 EARNINGS	
STOXX 600	**-5.9%**
Technology	65.8%
Financials	28.7%
Consumer Cyclicals	14.4%
Utilities	5.5%
Industrials	5.4%
Healthcare	1.0%
Consumer Non-Cyclicals	-1.8%
Real Estate	-14.7%
Energy	-55.6%
Basic Materials	-56.9%

STOXX 600 2023Q2 REVENUE	
STOXX 600	**-6.0%**
Technology	1.9%
Financials	7.3%
Consumer Cyclicals	12.2%
Utilities	-47.6%
Industrials	6.6%
Healthcare	0.0%
Consumer Non-Cyclicals	2.7%
Real Estate	10.5%
Energy	-29.4%
Basic Materials	-16.0%

SCORECARD

Earnings — Above / Match / Below

	Above	Match	Below
STOXX 600	**51%**	**8%**	**40%**
Basic Materials	38%	3%	59%
Consumer Cyclicals	50%	4%	46%
Consumer Non-Cyclicals	47%	7%	47%
Energy	45%	10%	45%
Financials	66%	8%	26%
Healthcare	53%	0%	47%
Industrials	61%	13%	26%
Technology	41%	12%	46%
Real Estate	45%	0%	55%
Utilities	33%	25%	42%

Revenue — Above / Match / Below

	Above	Match	Below
STOXX 600	**55%**	**1%**	**44%**
Basic Materials	29%	0%	71%
Consumer Cyclicals	68%	4%	29%
Consumer Non-Cyclicals	45%	0%	55%
Energy	52%	0%	48%
Financials	74%	0%	26%
Healthcare	68%	3%	29%
Industrials	57%	0%	43%
Technology	51%	0%	49%
Real Estate	45%	0%	55%
Utilities	31%	0%	69%

Earnings — Reported / Remaining

	Reported	Remaining
STOXX 600	**294**	**35**
Basic Materials	32	3
Consumer Cyclicals	24	10
Consumer Non-Cyclicals	15	4
Energy	20	0
Financials	53	3
Healthcare	32	3
Industrials	54	8
Technology	41	2
Real Estate	11	0
Utilities	12	2

Revenue — Reported / Remaining

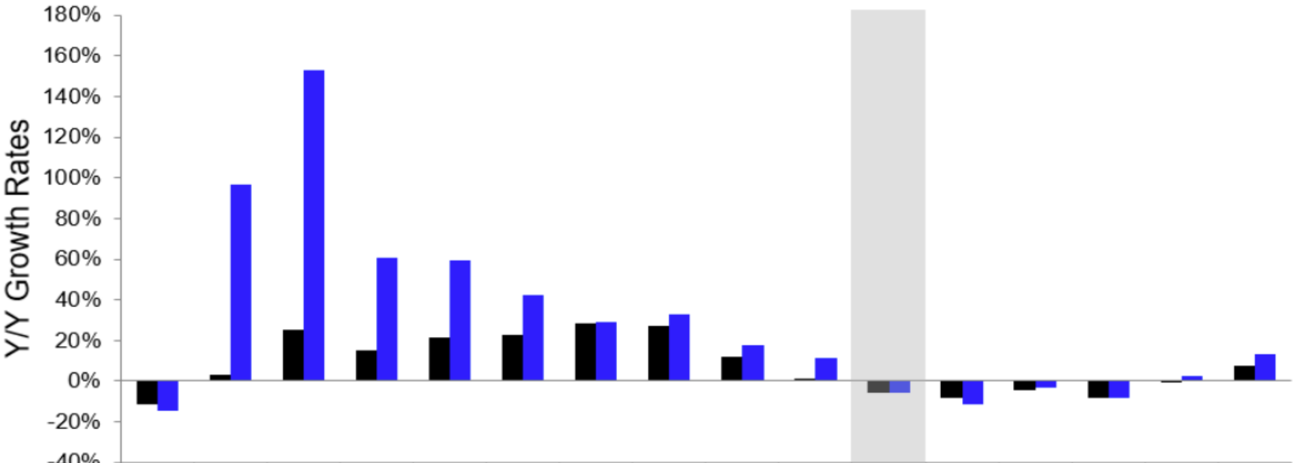
	Reported	Remaining
STOXX 600	**331**	**59**
Basic Materials	42	1
Consumer Cyclicals	28	20
Consumer Non-Cyclicals	22	9
Energy	21	0
Financials	54	3
Healthcare	34	6
Industrials	63	12
Technology	43	8
Real Estate	11	0
Utilities	13	0

SURPRISE FACTORS

Earnings	
STOXX 600	**5.6%**
Technology	13.8%
Industrials	13.2%
Financials	11.4%
Utilities	10.6%
Healthcare	1.6%
Basic Materials	1.4%
Consumer Non-Cyclicals	-0.8%
Real Estate	-1.9%
Consumer Cyclicals	-2.5%
Energy	-9.5%

Revenue	
STOXX 600	**3.0%**
Technology	2.1%
Industrials	0.1%
Financials	15.8%
Utilities	-4.5%
Healthcare	0.4%
Basic Materials	-1.8%
Consumer Non-Cyclicals	0.3%
Real Estate	26.9%
Consumer Cyclicals	1.2%
Energy	1.4%

Exhibit 3A. STOXX 600 YoY Growth Rates



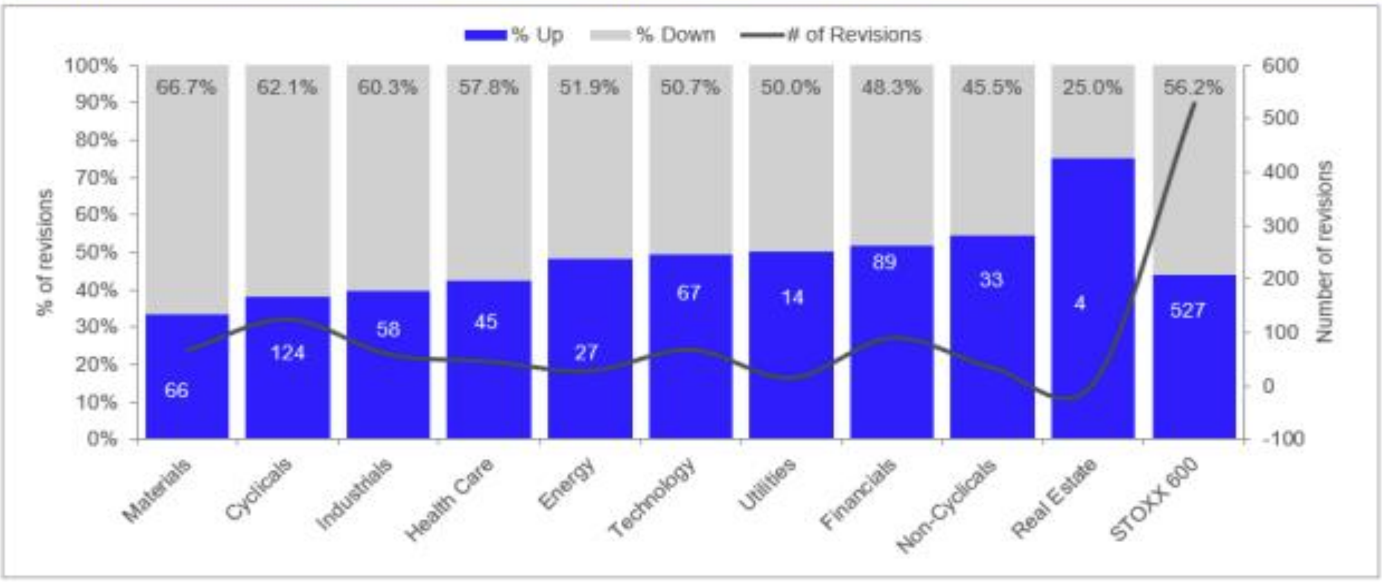
	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3
Revenue	-11.2%	3.3%	25.2%	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.9%	-4.7%	-8.0%	-0.9%	7.6%
Earnings	-14.5%	96.4%	152.6%	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.6%	-2.9%	-8.1%	2.8%	13.4%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

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



Source: LSEG I/B/E/S

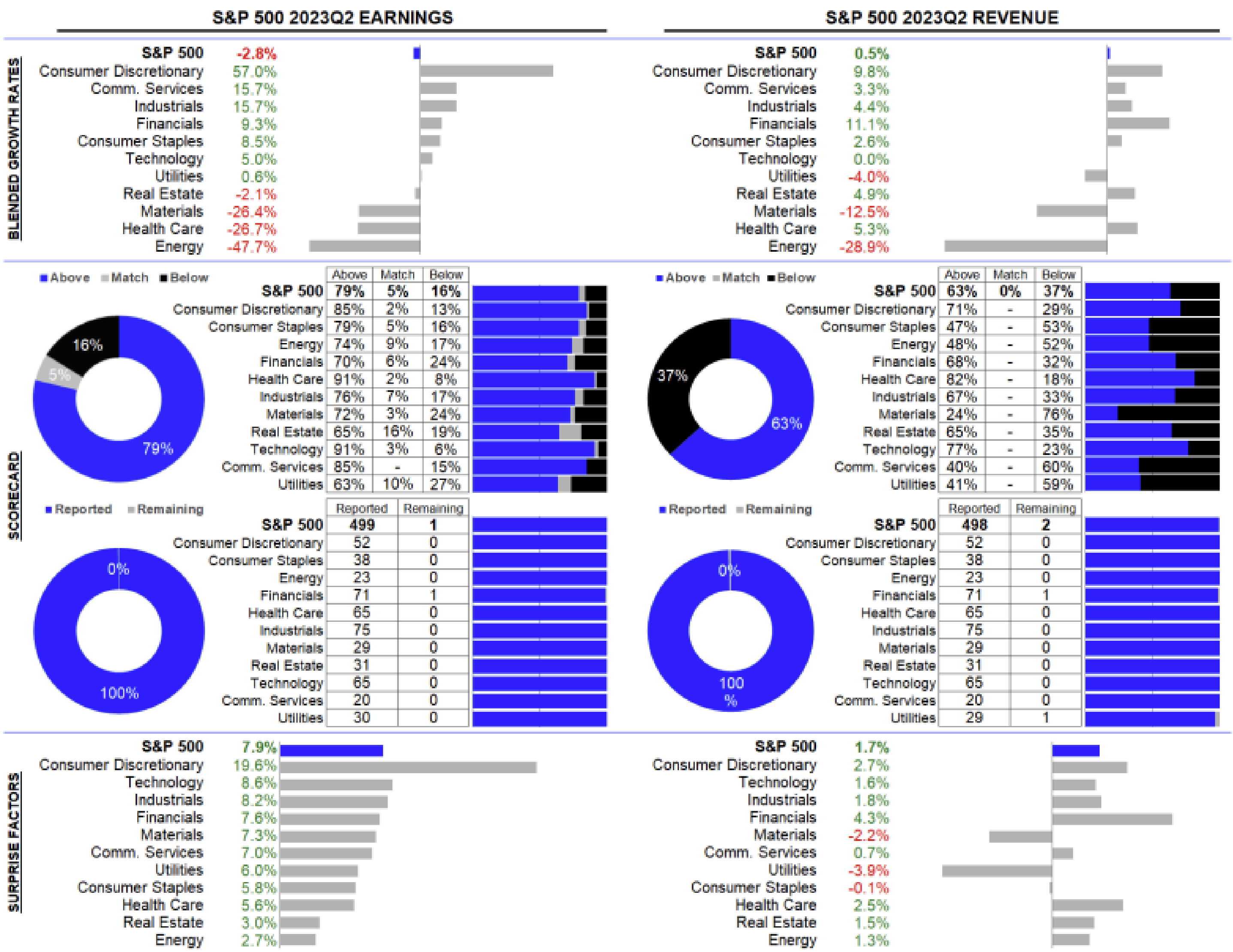
Exhibit 17A. STOXX 600: 12-month Forward Price/Earnings Ratio

Source: LSEG Datastream

GLOBAL EQUITY INDICES

Earnings Dashboard - US

Exhibit 1. 2023Q2 S&P 500 Earnings Dashboard



Blended Growth Rates

	Earnings		Revenue
S&P 500	-2.8%	S&P 500	0.5%
Consumer Discretionary	57.0%	Consumer Discretionary	9.8%
Comm. Services	15.7%	Comm. Services	3.3%
Industrials	15.7%	Industrials	4.4%
Financials	9.3%	Financials	11.1%
Consumer Staples	8.5%	Consumer Staples	2.6%
Technology	5.0%	Technology	0.0%
Utilities	0.6%	Utilities	-4.0%
Real Estate	-2.1%	Real Estate	4.9%
Materials	-26.4%	Materials	-12.5%
Health Care	-26.7%	Health Care	5.3%
Energy	-47.7%	Energy	-28.9%

Scorecard – Earnings

	Above	Match	Below
S&P 500	79%	5%	16%
Consumer Discretionary	85%	2%	13%
Consumer Staples	79%	5%	16%
Energy	74%	9%	17%
Financials	70%	6%	24%
Health Care	91%	2%	8%
Industrials	76%	7%	17%
Materials	72%	3%	24%
Real Estate	65%	16%	19%
Technology	91%	3%	6%
Comm. Services	85%	-	15%
Utilities	63%	10%	27%

Scorecard – Revenue

	Above	Match	Below
S&P 500	63%	0%	37%
Consumer Discretionary	71%	-	29%
Consumer Staples	47%	-	53%
Energy	48%	-	52%
Financials	68%	-	32%
Health Care	82%	-	18%
Industrials	67%	-	33%
Materials	24%	-	76%
Real Estate	65%	-	35%
Technology	77%	-	23%
Comm. Services	40%	-	60%
Utilities	41%	-	59%

Reported / Remaining

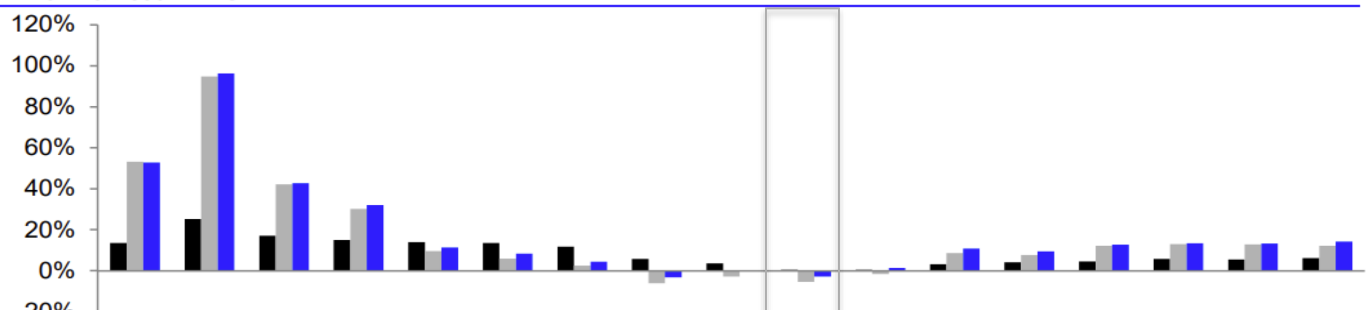
	Earnings Reported	Earnings Remaining	Revenue Reported	Revenue Remaining
S&P 500	499	1	498	2
Consumer Discretionary	52	0	52	0
Consumer Staples	38	0	38	0
Energy	23	0	23	0
Financials	71	1	71	1
Health Care	65	0	65	0
Industrials	75	0	75	0
Materials	29	0	29	0
Real Estate	31	0	31	0
Technology	65	0	65	0
Comm. Services	20	0	20	0
Utilities	30	0	29	1

Surprise Factors

	Earnings		Revenue
S&P 500	7.9%	S&P 500	1.7%
Consumer Discretionary	19.6%	Consumer Discretionary	2.7%
Technology	8.6%	Technology	1.6%
Industrials	8.2%	Industrials	1.8%
Financials	7.6%	Financials	4.3%
Materials	7.3%	Materials	-2.2%
Comm. Services	7.0%	Comm. Services	0.7%
Utilities	6.0%	Utilities	-3.9%
Consumer Staples	5.8%	Consumer Staples	-0.1%
Health Care	5.6%	Health Care	2.5%
Real Estate	3.0%	Real Estate	1.5%
Energy	2.7%	Energy	1.3%

Source: LSEG I/B/E/S

Exhibit 5. S&P 500 YoY Growth Rates



	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2E	23Q3E	23Q4E	24Q1E	24Q2E	24Q3E	24Q4E	25Q1E
Revenue	13.5%	25.2%	17.0%	15.1%	14.0%	13.6%	11.7%	5.8%	3.6%	0.5%	0.5%	3.2%	4.2%	4.5%	5.8%	5.5%	6.2%
Net Income	53.1%	94.8%	42.1%	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	-1.6%	8.6%	7.7%	12.2%	13.0%	12.8%	12.1%
Earnings	52.8%	96.3%	42.6%	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	1.5%	10.9%	9.5%	12.7%	13.4%	13.2%	14.2%

Source: LSEG I/B/E/S

ENERGY – OIL

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

Buy < USD75; Sell >USD100

Short-term drivers

(Bullish price factor) – A number of analysts also reiterated calls for higher oil prices for longer. Bank of America analysts said yesterday Brent could hit $100 a barrel this year if OPEC+ supply cuts continue. Bernstein analysts also said they see $100 a barrel oil in Q4 and holding in the $80-100 range through 2024, though see downside risk as the market will return to surplus if Saudi Arabia increases production back to Q1-23 levels.

(Bullish price factor) – Saudi output cuts causing pricing and flow changes: Asian oil importers are working to secure supplies of their preferred medium sour crude amid the additional Saudi output cuts. This has helped medium grades to rise in price (even outperforming light sweet benchmarks). India is now looking to Russia to supply medium sour crude while China is ramping exports from Brazil and the United States.

(Bullish price factor) – IEA's monthly report states "Saudi-Russian cooperation represents a formidable challenge". Leaves 2023 demand target unchanged. The September Oil Market Report from the International Energy Agency left demand estimates unchanged, continuing to expect growth of 2.2M bpd in 2023 led by resurgent Chinese consumption (press takes at Platts, Bloomberg, Reuters). The report notes that Saudi-Russian cooperation has presented a "formidable challenge" to the global energy markets, though also argues demand growth could slow sharply in 2024 with an ebbing global economic recovery and rising efficiency gains and EV penetration.

(Bullish price factor) – White House and Energy Department checking in on oil industry to ensure supply: The US Energy Department has reached out to oil producers and refiners to ensure stable fuel supplies amid a 10.6% spike in gasoline prices last month. White House officials were in touch with oil companies the week of Sept 11 to gauge inventory levels and learn of any intended shutdowns of refineries, after Saudi Arabia and Russia extended output cuts.

(Bullish price factor) – Big California lawsuit targeting big oil: Reuters reports, the state of California has accused major oil companies including Exxon Mobil, Shell, and Chevron of downplaying the risks posed by fossil fuels and has filed a lawsuit against the companies. The lawsuit, endorsed by Governor Newsom, claims the companies have deceived the public and caused tens of billion in damages.

(Bullish price factor) – Trans Mountain pipeline construction could face a nine-month delay: The builders of Canada's Trans Mountain pipeline warned the project could be delayed up to nine months should regulators not approve a route change. The dispute centres on the pipeline crossing into indigenous territory, which the builder says would avoid long delays and significant cost increases.

(Bearish price factor) – US State Department notifies Congress it is unfreezing $6B in Iranian assets: US Secretary of State Blinken yesterday informed Congress that the Biden administration has authorised the waiving of sanctions for $6B in Iranian oil funds held in South Korea, which will now be transferred to Qatar (Bloomberg, Reuters, Washington Post). The move is part of a tightly choreographed plan that aims at the exchange of prisoners held by the two countries. The deal comes as the US has continued to make efforts to get Iran to submit to some further oversight of its nuclear programme, with US officials privately acknowledging that oil sanctions on the country have also been loosened somewhat (which has helped Iran become a major supplier to China).

(Bearish price factor) – China's independent refiners increasingly taking in sanctioned Iranian crude: Chinese independent refiners have stocked up on discounted Iranian oil in an effort to exploit robust margins amid strong seasonal demand. Chinese imports of Iranian crude currently hold at around 1.2-1.3M bpd, though analysts said that could rise by another 200-300K bpd if prices stay low. However, Chinese state-owned oil companies have not resumed Iranian imports due to the threat of secondary sanctions. Iran is currently exporting around 2M bpd in total, while production has recently risen to 3.6M bpd, or near the maximum of 4M bpd.

(Bearish price factor) – China added large volume to crude storage: China added about 1.32M bpd to crude stockpiles in August, reversing an unusual draw on inventories in July, because refiners processed about 510,000 bpd more than was available to them from imports (China's August oil refinery output grew to record levels, up nearly 20% y/y). China's August crude processing and import numbers paint a bullish picture for China demand but, as processors benefited from summer travel demand, a driver that could relax in the following months. Additionally, oil inventories are now higher than normal, meaning that future demand of crude oil could be now weaker.

(Bearish price factor) – IEA's Birol says peak oil demand will come this decade: IEA's Fatih Birol argues that his organisation projects that demand for oil, gas, and coal is set to hit a peak in the coming years. Birol points to the rapid adoption of EVs, especially in emerging economies, adding that a growing shift toward power generation from renewables and structural shifts in China's economy are other major factors.

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 monetise 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 other precious metals such as palladium: The Gold/Palladium ratio rose to 1.60, 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 sells 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 neutralised 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 81.69, still above its 20-year average of 67.69x, 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$1,596/oz.

Gold to oil: This ratio fell to 21.41, still well above its 20-year average of 19.08x. 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$1,669 for this ratio to remain near its LT average.

Gold in real terms: Given the global deflator (now at 1.3181), 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$1,462. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,141oz. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,503.

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	2,44	17,12	32,1	-28,2	-0,9	**0,18**
USD vs G10	4,57	16,70	32,7	-25,4	0,6	**0,22**
EM	2,13	-0,42	3,9	-0,8	2,0	**0,12**
EUR	13,61	-7,91	25,4	-8,6	11,7	**0,18**
JPY	-8,59	-0,42	0,6	-15,0	-8,3	**-0,07**
GBP	2,61	-2,10	5,2	-6,5	-0,5	**0,98**
CHF	-1,11	-0,56	0,2	-6,0	-2,2	**0,63**
BRL	0,26	-0,10	0,7	-0,8	0,0	**0,53**
MXN	1,86	-0,32	3,3	-0,5	1,7	**0,21**
RUB	0,00	0,00	1,2	-0,3	0,3	**0,00**
AUD	-6,26	-2,16	6,1	-6,3	-1,1	**-1,56**
CAD	-3,57	-2,68	6,1	-5,0	-0,2	**-1,15**

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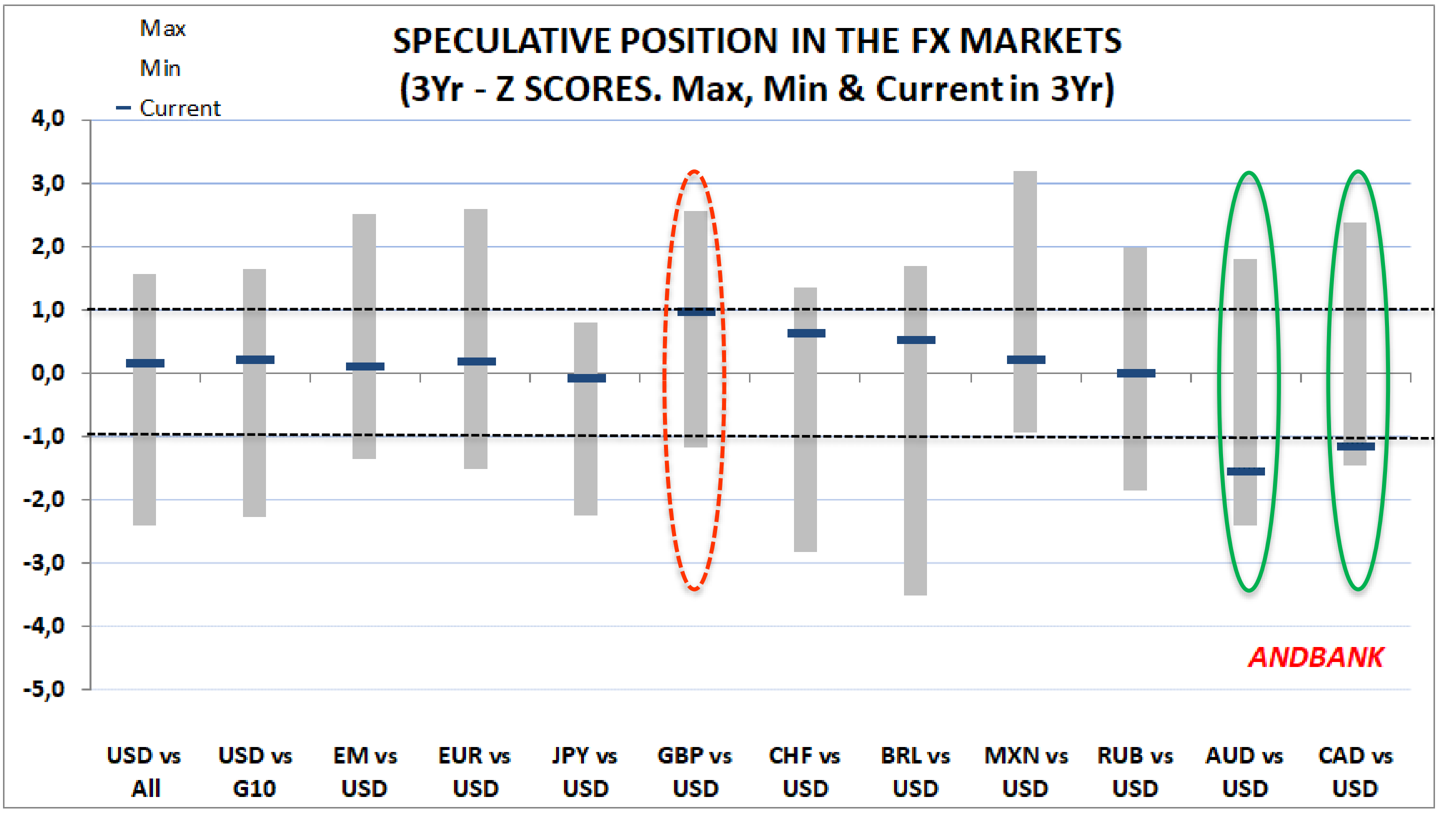
Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance YTD	Current Price	Andbank's Strong Buy Point (100% Exposure)	Expected Performance (to Potential Price)
Equity	USA - S&P 500	11,3%	4.274	3.899	-8,8%
	Europe - Stoxx Europe 600	5,7%	449	423	-5,9%
	Euro Zone - Euro Stoxx	7,0%	439	403	-8,1%
	SPAIN - IBEX 35	14,3%	9.407	10.644	13,1%
	MEXICO - MXSE IPC	5,5%	51.108	56.788	11,1%
	BRAZIL - BOVESPA	4,1%	114.193	130.000	13,8%
	JAPAN - NIKKEI 225	24,1%	32.372	34.884	7,8%
	CHINA - SHANGHAI COMPOSITE	0,6%	3.107	2.980	-4,1%
	CHINA - SHENZEN COMPOSITE	-3,7%	1.902	1.901	-0,1%
	INDIA - SENSEX	8,6%	66.062	73.513	11,3%
	VIETNAM - VN Index	14,6%	1.154	1.378	19,4%
	MSCI EM ASIA (in USD)	-1,4%	507	588	16,0%
Fixed Income Core countries	US Treasury 10 year Govie	-2,1%	4,51	4,50	4,5%
	UK 10 year Gilt	-2,3%	4,29	3,75	8,6%
	German 10 year BUND	0,0%	2,79	2,50	5,1%
	Japanese 10 year Govie	-2,3%	0,73	0,75	0,6%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,8%	3,87	3,50	6,8%
	Italy - 10yr Gov bond	3,4%	4,70	4,20	8,7%
	Portugal - 10yr Gov bond	2,9%	3,51	3,50	3,6%
	Ireland - 10yr Gov bond	1,3%	3,19	3,00	4,7%
	Greece - 10yr Gov bond	6,4%	4,20	4,50	1,8%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	2,6%	80,55	85	4,6%
	Credit EUR HY-Itraxx Xover	6,4%	419,19	500	5,7%
	Euribor 3m				
	Credit USD IG - CDX IG	4,4%	72,50	90	5,9%
	Credit USD HY - CDX HY	8,3%	444,91	550	6,9%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-123,5%	25,42	17,00	92,8%
	Russia - 10yr Gov bond (local)	-11,0%	12,70	--	--
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	5,7%	6,84	6,00	13,6%
	India - 10yr Gov bond (local)	6,8%	7,16	6,50	12,4%
	Philippines - 10yr Gov bond (lo	7,5%	6,51	6,25	8,5%
	China - 10yr Gov bond (local)	3,1%	2,71	2,25	6,4%
	Malaysia - 10yr Gov bond (loca	2,9%	4,01	4,00	4,1%
	Thailand - 10yr Gov bond (loca	-4,3%	3,19	2,25	10,7%
	Singapore - 10yr Gov bond (loc	-0,3%	3,40	4,00	-1,4%
	Rep. Korea - 10yr G. bond (loc	0,3%	3,94	3,50	7,4%
	Taiwan - 10yr Gov bond (local)	1,5%	1,22	2,25	-7,0%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-1,1%	9,99	10,00	9,9%
	Mexico - 10yr Govie (USD)	1,1%	6,37	6,25	7,3%
	Brazil - 10yr Govie (Loc)	17,4%	11,72	11,50	13,5%
	Brazil - 10yr Govie (USD)	2,5%	6,77	7,50	0,9%
Commodities	Oil (WTI)	13,8%	91,3	87,50	-4,2%
	GOLD	4,0%	1.896,5	2.000	5,5%
Fx	EURUSD (price of 1 EUR)	-1,3%	1,057	1,100	4,1%
	GBPUSD (price of 1 GBP)	0,4%	1,21	1,25	2,9%
	EURGBP (price of 1 EUR)	-1,7%	0,87	0,88	1,2%
	USDCHF (price of 1 USD)	-0,9%	0,92	0,95	3,7%
	EURCHF (price of 1 EUR)	-2,2%	0,97	1,05	7,9%
	USDJPY (price of 1 USD)	13,6%	148,98	140,00	-6,0%
	EURJPY (price of 1 EUR)	12,2%	157,45	154,00	-2,2%
	USDMXN (price of 1 USD)	-10,2%	17,49	18,50	5,8%
	EURMXN (price of 1 EUR)	-11,4%	18,47	20,35	10,2%
	USDBRL (price of 1 USD)	-5,7%	4,99	5,00	0,3%
	EURBRL (price of 1 EUR)	-6,9%	5,27	5,50	4,4%
	USDARS (price of 1 USD)	98,0%	350,00	370,00	5,7%
	USDINR (price of 1 USD)	0,6%	83,21	84,00	1,0%
	CNY (price of 1 USD)	5,9%	7,31	7,50	2,6%

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

UPWARD REVISION DOWNWARD REVISION

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