ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – Strategic Outlook 2024

Corporate Review

Strategic Outlook 2024

2024

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EXECUTIVE SUMMARY

Macroeconomics: Low risk of Recession in 2024

- **Global:** According to forecasts from official and private organizations there will be no global economic recession in 2024, with world GDP expanding at 2,5%
- **Developed economies:** Economic expansion in Western economies will be limited. For Europe, we expect a growth of 0.6%, while the United States will grow at a slightly higher pace of 1.1%. Japan may grow at 1%.
- **Emerging economies**: The greatest momentum is expected to come from India, with a projected growth of 6.5%-7%. Vietnam is expected to grow by 6.4%. China will expand by around 4.5%. Brazil is expected to grow by 1.5%, and Mexico by 1.7%. Russia will experience a 1% growth, while Turkey will grow by 3%.

Equity Markets: A year to make money

- **Global:** Developed markets: In general, we believe that 2024 will be a year where one can generate profits in the equity markets. We acknowledge some relative valuation and risk premium challenges in the U.S. equity market, which could influence other global indices. However, several global indices show very attractive levels of risk premiums. Consequently, discretionary management mandates could benefit by focusing on indices with a premium level above their historical average and, for markets with current mediocre risk premium levels, exposure is recommended but in a manner distinct from the index. Therefore, it is a year conducive to active management.
- **US**: The S&P currently offers a risk premium of only 1% (well below the historical 2%), making it an unappealing index. However, this does not necessarily imply that the index must decline to offer an acceptable risk premium again. As seen in 1998-99, the index price can remain high (low premium) for an extended period. We maintain a target PE multiple of 19x for this index in 2024, with an estimated EPS of $243, resulting in a fair value of 4595 points for the S&P.
- **Europe: T**he risk premium offered by the Stoxx Europe 600 and Euro Stoxx is 5.6% and 5.8%, respectively—very attractive levels considering the 20-year average is only 5%. We recommend overweighting these markets throughout 2024. The same applies to the Spanish market, with a current risk premium of 6.31% (well above its long-term average of 5.7%). We will explore the possibility of incorporating some direct exposure to this market throughout the year.
- **Emerging Asia**: Our outlook is favorable for MSCI EM Asia, where we anticipate a 14% appreciation. While we remain cautious on exposure to China, we will seek exposure to a potential economic recovery in this giant through satellite Asian markets, with Vietnam standing out, given our highly favorable valuation and an expected appreciation of around 20% for this market in 2024. India remains one of our long-term bets despite slightly elevated valuations. The Indian Sensex should comfortably trade above 71,000 points in 2024.
- **Emerging Latam:** We prefer Mexico over Brazil, with a target level for the IPC Index at 60,152 (+12% in 2024) and for the Ibovespa at 136,000 (+6%)."

Bond Market: A year to exploit the short end of the yield curve

- **Global:** Risk appetite remain high, but liquidity could be an issue in 2024, with the Fed and the ECB accelerating their QT and withdraw liquidity from the system. Jerome Powell has already announced his plan to reduce the balance sheet by selling $2.8 trillion in UST and $1.1 trillion in ABSs over the next two years. A similar scenario is unfolding with the ECB (somewhat lagging in its Quantitative Tightening), where we anticipate a balance sheet reduction through the sale of €2.4 trillion bonds over the next two years. In total, we are talking about a withdrawal of nearly $6.5 trillion from developed financial markets over the next two years. We don't know how this might impact asset prices, but it is undoubtedly something we want to highlight in this document as one of the risks that we cannot lose sight of.
- **Developed Govies:** This same risk dictates that we should exercise caution in the bond market, where we believe we could achieve better entry levels before aggressively exposing ourselves to long maturities. We would be aggressive in purchasing duration at levels of 5% for the 10-year U.S. Treasuries, above 2.75% for the Bund, 4.75% for UK Gilts, and 1% for JGBs.
- **Periphery**: In the European periphery, we would wait to be aggressive in long dated bonds until we see 3.75% for Spanish bonds and 4.65% for Italian bonds.
- **Credit:** We expect some spread widening in European and US credit. We believe IG euro denominated bonds should trade at spread levels of 75 basis points and 450 for HY. For American credit, we also anticipate some spread widening, with 90 basis points for IG and 550 for HY.

Global Risk Appetite & Energy

- The primary driver determining global risk appetite is the international price of energy. As long as oil remains stable or low, the appetite for risk will continue to grow. In this regard, despite the serious conflicts in Ukraine and the Middle East, a series of developments have occurred that contribute to maintaining calm in the global energy market, thus keeping risk appetite intact. These developments are related to some market participants putting new quantities of oil into the market. Iran ramps up output and China's oil imports from Iran have hit record highs. India's diversification to buy crude oil from Venezuela, following the lifting of sanctions by the United States, also helps to counteract the uncertainties caused by wars in Ukraine and Israel.

EQUITIES

Index	INDEX CURRENT PRICE	Andbank's Target Price	E[Perf] to target Price	Recommended Strategy	Exit Point (Strong Sell)
USA S&P 500	4.570	4.595	0,6%	MW-UW	5.055
Europe - Stoxx Europe 600	466	478	2,5%	OW	526
Euro Zone - Euro Stoxx	464	489	5,5%	OW	538
Spain IBEX 35	10.208	10.816	6,0%	OW	11.898
Mexico IPC GRAL	54.054	60.167	11,3%	OW	66.184
Brazil BOVESPA	126.803	136.799	7,9%	MW	150.479
Japan NIKKEI 225	32.776	34.641	5,7%	OW	38.105
China SSE Comp.	2.972	3.038	2,2%	UW	3.341
China Shenzhen Comp	1.845	1.864	1,0%	UW	2.051
India SENSEX	69.296	72.269	4,3%	OW	79.496
Vietnam VN Index	1.116	1.334	19,5%	OW	1.467
MSCI EM ASIA	522	578	10,7%	OW	635

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	0,7%	4,24	5,00	-1,9%
	UK 10 year Gilt	-0,5%	4,14	4,75	-0,7%
	German 10 year BUND	4,4%	2,31	2,75	-1,2%
	Japanese 10 year Govie	-1,7%	0,66	1,00	-2,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	6,0%	3,31	3,75	-0,2%
	Italy - 10yr Gov bond	9,5%	4,04	4,65	-0,8%
	Portugal - 10yr Gov bond	8,1%	2,94	3,35	-0,4%
	Ireland - 10yr Gov bond	6,1%	2,65	3,15	-1,4%
	Greece - 10yr Gov bond	13,5%	3,42	4,50	-5,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	3,6%	66,31	75	4,4%
	Credit EUR HY-Itraxx Xover	9,2%	366,51	450	5,1%
	Euribor 3m				
	Credit USD IG - CDX IG	5,8%	62,17	90	-0,2%
	Credit USD HY - CDX HY	8,9%	487,44	550	3,0%

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)	-103,6%	23,15	20,00	48,4%
	Russia - 10yr Gov bond (local)	-6,3%	12,36	25,00	-88,8%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	9,2%	6,56	5,75	13,0%
	India - 10yr Gov bond (local)	7,3%	7,26	6,75	11,3%
	Philippines - 10yr Gov bond (lo	11,2%	6,21	6,25	5,8%
	China - 10yr Gov bond (local)	3,9%	2,68	2,25	6,1%
	Malaysia - 10yr Gov bond (loca	5,7%	3,76	3,50	5,8%
	Thailand - 10yr Gov bond (loca	-1,7%	2,93	2,25	8,4%
	Singapore - 10yr Gov bond (loc	4,2%	2,90	4,00	-5,9%
	Rep. Korea - 10yr G. bond (loc	4,6%	3,48	4,60	-5,5%
	Taiwan - 10yr Gov bond (local)	1,7%	1,22	2,25	-7,0%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	5,8%	9,35	10,50	0,2%
	Mexico - 10yr Govie (USD)	5,4%	5,97	6,75	-0,3%
	Brazil - 10yr Govie (Loc)	26,2%	10,92	12,00	2,3%
	Brazil - 10yr Govie (USD)	7,2%	6,33	8,00	-7,0%

COMMODITIES & FX

Asset Class	Indices	Performance YTD	Current Price	Andbank's Strong Buy Point (100% Exposure)	Expected Performance (to Potential Price)
Commodities	Oil (WTI)	-8,5%	73,4	75,00	2,1%
	GOLD	11,1%	2.026,9	2.000	-1,3%
Fx	EURUSD (price of 1 EUR)	1,2%	1,083	1,05	-3,1%
	GBPUSD (price of 1 GBP)	4,5%	1,26	1,25	-1,1%
	EURGBP (price of 1 EUR)	-3,1%	0,86	0,84	-2,0%
	USDCHF (price of 1 USD)	-5,6%	0,87	0,95	8,9%
	EURCHF (price of 1 EUR)	-4,4%	0,95	1,00	5,5%
	USDJPY (price of 1 USD)	12,1%	146,95	140,00	-4,7%
	EURJPY (price of 1 EUR)	13,5%	159,24	147,00	-7,7%
	USDMXN (price of 1 USD)	-10,4%	17,45	18,50	6,0%
	EURMXN (price of 1 EUR)	-9,3%	18,89	19,43	2,8%
	USDBRL (price of 1 USD)	-6,5%	4,94	5,00	1,1%
	EURBRL (price of 1 EUR)	-5,3%	5,36	5,25	-2,0%
	USDARS (price of 1 USD)	105,1%	362,45	370,00	2,1%
	USDINR (price of 1 USD)	0,8%	83,34	84,00	0,8%
	CNY (price of 1 USD)	3,5%	7,14	7,50	5,0%

USA

The market begins to price in a victory over inflation. We suggest caution for the moment

Federal Reserve

In the November meeting of the Federal Reserve Open Market Committee (FOMC) decided to keep the interest rate unchanged at the 5.25%-5.50% range, as expected and for the second consecutive meeting. The Fed Chairman, Jerome Powell, in his remarks following the announcement expressed that this decision should not be mistaken for a signal that the Fed is done with its tightening cycle and that the Fed intends to retain the option of another rate hike if data indicates that inflation's decline has stalled.

A couple of weeks later the minutes were released and we can see that the FOMC members are still worried that inflation could remain at these levels or even rise, so they think policy will need to stay "restrictive" until data shows inflation on a convincing trek back to the central bank's 2% goal. At the same time the minutes showed that members believe that the Fed should move carefully considering the totality of the oncoming data and balance of risks, to take a decision.

To the Fed's slightly dovish statement must be added the weaker employment data and lower-than-expected inflation data, which caused a significant drop in the longest part of the interest curve. The market now shows almost complete certainty that the Fed is not going to modify the rate at the last meeting of the year (December 13) and the overwhelming sentiment now is that the Fed is done hiking. For the next year it is pricing between two and four reductions in the reference rate with cuts starting in May.

Inflation and economic activity

October's inflation data boosted the markets with all measures beating estimates. Headline CPI was down from 3.7% y/y to 3.2% y/y, compared to a 3.3% y/y estimate, while Core CPI was down to 4% y/y from 4.1% y/y. If we look at monthly prints the CPI was flat from the prior month and the Core inflation expanded only 0.2% m/m against an estimate of 0.3% m/m. One of the main drivers of the lower CPI print is the energy index decline of -2.5% m/m, largely due to a 5% m/m decline in the gasoline index

Shelter costs, which accounts for approximately 40% of the CPI, rose +0.3% m/m in October, half the +0.6% m/m gain in September and the annual increase eased from as the year-over-year increase eased from 7.1% y/y to 6.7% y/y. Inflation appears to be trending in the right direction and if this continues should keep additional rate hikes off the table

On the employment side, perhaps the most critical factor in getting inflation lower, the jobs market is strong though moderating. Nonfarm payrolls increased by 150,000 in October, slowing than expected but still a positive reading at this stage of the economic cycle, though the unemployment rate has climbed to 3.9% (3.8% in September), the highest reading since January 2022. In addition, wages grew only 0.2% m/m for the third consecutive month. The labor force participation rate changed little from September (62.8%) to October (62.7%). The labor market is still tight but is finally showing signs that it is reacting to Fed efforts.

Financial markets

Rates & Credit: After reaching a 5% yield at the end of October, we saw a significant compression of rates for the 10 year bond which now trades at a 4.4% yield. The interest rate compression was also considerable in the longest part of the curve with 30-year yields decreasing from 5.1% to 4.55%. The spread between the 10-year rate and the 2-year bond, which had been at -20 bps at the end of October, increased once again until reaching -50 bps, which means a greater inversion of the yield curve. interest.

Looking at credit the IG Spread that widened above 80 at the start of November has already gone back to 65 again, near 2023 lows. High Yield spreads widened at the end of October to levels close to 530, near to our target level, but it has also been narrowing and is now also at a level close to this year's lows (410). The Default rate has increased to 2.60% but remains below the historical average of 3.5%.

Equity: The S&P currently offers a risk premium of only 1% (well below the historical 2%), making it an unappealing index. However, this does not necessarily imply that the index must decline to offer an acceptable risk premium again. As seen in 1998-99, the index price can remain high (low premium) for an extended period. We maintain a target PE multiple of 19x for this index in 2024, with an estimated EPS of $243 (+9,9% yoy), resulting in a fair value of 4595 points for the S&P. Companies are providing a softer guidance and we continue to recommend the balance of styles in response to a possible sector rotation. For next year we are expecting an earnings growth of around 10% and a similar level of multiples, which is in line with our view for the most likely scenario in 2024: lower inflation, modest growth (no recession) and lower rates.

Market outlook – Recommendations & Targets from fundamental analysis

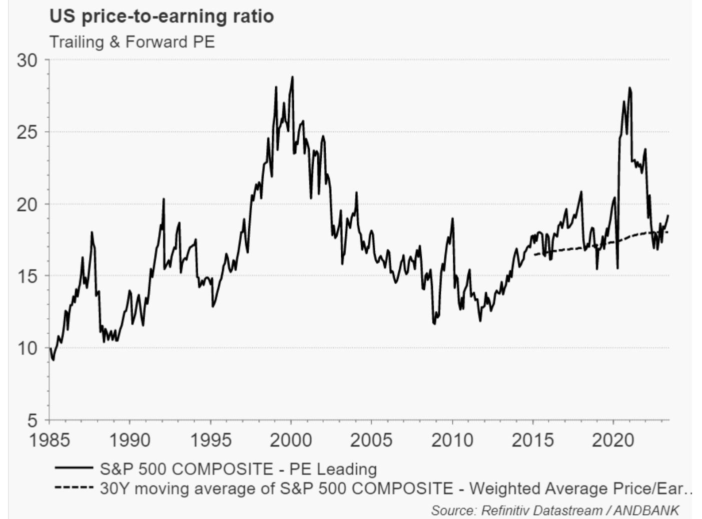
Equities: S&P MARKETWEIGHT-UNDERWEIGHT

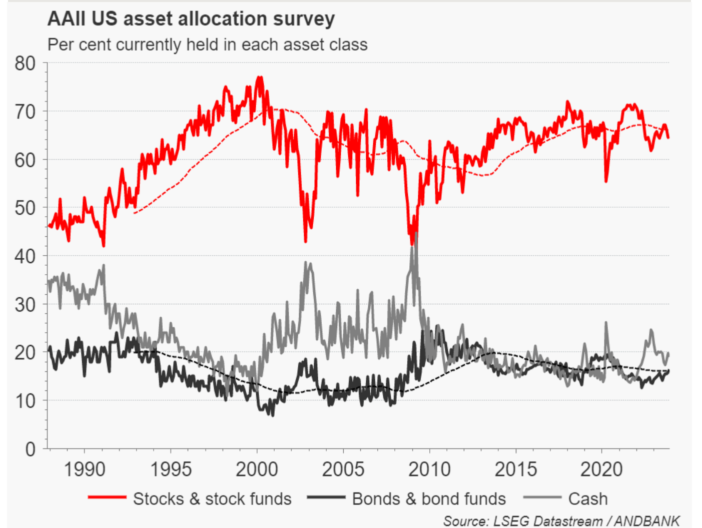
Bonds: Govies MARKETWEIGHT. 10Y UST Target 5.0%

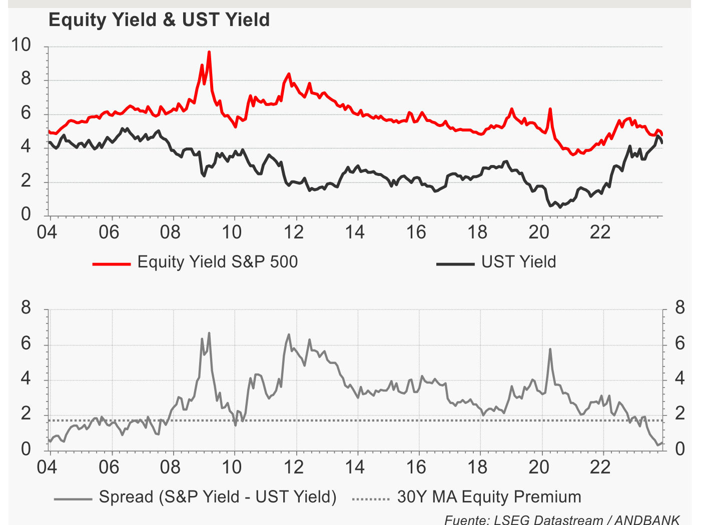
CDX IG: MARKETWEIGHT (Target Spread 90)

CDX HY: UNDERWEIGHT (Target Spread 550)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT







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MACRO ECONOMY

EUROPE

Lower inflationary pressures but the big question for the EU remains how to restart growth

2024: subdued growth, slow progress in inflation

Following a mild contraction in the last part of 2023, GDP growth in 2024 would also be modest. On the positive side, consumption, supported by positive real wages, decent savings rates and a solid labor market, would continue to be a bright spot, though a slightly higher unemployment rate (6,7%) should be expected. Investment, a wild card, could weaken, with manufacturing confidence in depressed levels and backlogs of orders created by the supply shortages exhausting, despite the tailwinds from the Next Generation funds and their delayed disbursement and the possibility of companies having, at least, partially adjusted to the higher interest levels. As for the external component, we would not expect a significant positive contribution as global trade outlook is weak, and hinges on the Chinese recovery. Fiscal policy could be from neutral to slightly contractionary along 2024, with the fiscal impulse from the recovery fund disbursements (0,5% 2024 GPD est.) and the reapplication of the Stability and Growth Pact (SGP) whose reform is under discussion and would apply to 2025 budgets at the earliest. Timeline for agreeing a reform is tight with the European Parliament Elections in Jun-24. Everything considered, GDP figures could thus hover around 0,5% y/y in 2024. Disinflation is expected to continue, but big falls are behind us and the last mile seems harder to achieve. The negative contribution from the energy component could cease by Dec-23, but food inflation will continue to fall and the loss of momentum in the service sector would alleviate the core readings. General inflation could end 2024 around 2,8% y/y with core inflation decreasing to 3% levels. Alternative scenarios varies from a deeper lagged impact from restrictive financial conditions, to a more positive outcome if external growth proves to be higher than expected.

ECB entering 2024: rate cuts on the table

Prospects of balanced risks for inflation and softer growth reinforce the thesis of having reached the peak in rates. Next question is, when will rate cuts start? 2H24, with the 2% CPI target at sight, could be the moment. But, unless a more pessimistic scenario in terms of growth unfolds, we would expect a slower path than the one priced in by the markets (-100 bps), to end 2024 at depo levels around 3,5% (vs. the current 4%). As for the balance sheet, the debate on further QT would start during Q124, with the review of the operational framework, bringing forward the end of the reinvestments of the PEPP from the end of the year to a path similar to the one followed with the APP purchases.

Financial Markets: Govies, Corporate Credit & Equity

Govies: Looking into 2024, with a terminal rate around 3,5% and the bunds following likely rate cuts from the FED, we could think of a 10Y bund yield at 2,5-2,75%. Pending risks affecting long term yields are clear: fiscal situation that demands consolidation, decreasing support from the ECB, doubts on the accuracy of inflation expectations measures or the appropriate term premium to be demanded. Italy has successfully avoided a downgrade, while other peripherals (Portugal, Greece) have benefited from a better outlook and ratings upgrade.

Corporates: Our view is that the most interesting risk/return trade-off for the short/medium end of the interest rate curve is up to 2-3 years (as an average duration). The combination of high yields (e.g. 2y AAA offers 3.3% and 2y BBB 4% approx.), greater stability (compared to longer tranches) and also sensitivity to falling interest rates, makes investment in this tranche at IG very attractive. At a sector level, we made no changes: overweight financials and defensive companies, and underweight more cyclical companies. We modify the spread target levels for both IG (75) and HY (450), upgrading both for next year.

Equity: The risk premium offered by the Stoxx Europe 600 and Euro Stoxx is 5.52% and 5.8%, respectively—very attractive levels considering the 20-year average is only 5%. We recommend overweighting these markets throughout 2024. The same applies to the Spanish market, with a current risk premium of 6.31% (well above its long-term average of 5.7%). We will explore the possibility of incorporating some direct exposure to this market throughout the year. The market still cheap compared from its past valuations and for which we are expecting an EPS growth of about 6%. The main risk for our forecast is margin erosion in a disinflationary scenario but we remain constructive. We still prefer an OW of the periphery over core Europe, but we are aware that a better than expected Chinese economy performance, cheaper energy and an industrial recovery could help the European core countries. In Spain, we have seen a more than positive evolution in EPS for Spanish companies in the last coupe of years, with net margin (today at 10.7%) at the highest level in the last 10 years and profits raising more than prices. PE multiples have contracted to a more than attractive P/E of 10x.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: OVERWEIGHT

Equities – Spain's Ibex: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 2.75%)

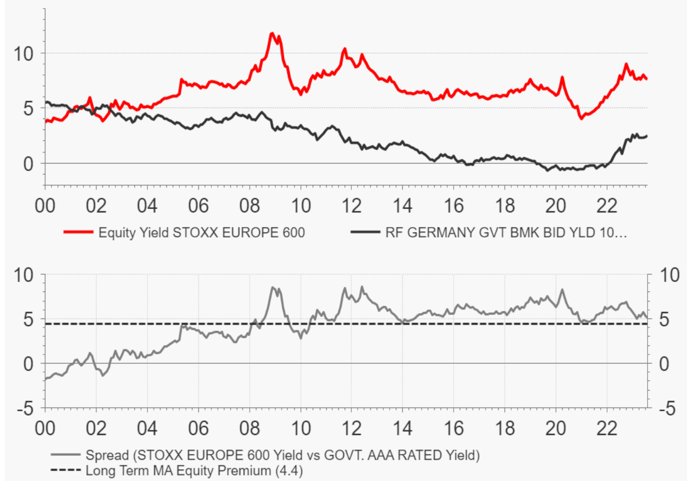
Peripheral – UW IT (4.65%), SP (3.75%), PT (3.35%), IE (3.15%). GR (4.5%),

Credit – Itraxx Europe (IG): MARKETWEIGHT (Target Spread 75)

Credit – Itraxx Europe (HY): UNDERWEIGHT (Target Spread 450)

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

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

No longer driving the global trade cycle. Currency weakness signals stress in confidence.

The divergence between the spot rate and the daily fixing signals stress in confidence.

The spread between the spot USDCNY rate and the People's Bank of China's daily fixing has blown out to 125pips, widths rarely seen since the "renminbi devaluation summer" of 2015. This suggests that without the PBOC's interventions, the renminbi would be even weaker. To guess the future price of the Renminbi vs the USD, it is necessary to first understand the reasons behind this weakness, and whether they will last or not. Among these reasons we highlight three: 1) Outflows of foreign capital and Chinese savers who turn their backs on an internal economy that is no longer functioning. 2) Another explanation has to do with the simple fact that in the last two years there have been some momentous changes in the time value of money in the United States. For the first time since China began opening its bond market to foreigners, China rates are well below US rates at any point on the yield curve.

The positives for China.

One of the reasons behind the CNY's weakness could be temporary and could reverse in the future, leading to an appreciation in the CNY (though we are not sure of the influencing power of this driver). One of the most popular strategies by global Hedge Funds in the last decade has been to go short US debt and long Chinese debt (driven by the irresponsible North American fiscal policy versus a somewhat more orthodox fiscal stance from Beijing). A hedge fund could go short a US 10-year zero-coupon bond, face value 1 million, priced 90%. He receives US$900,000 expecting a loss of US$100,000 over the next 10 years. The same fund manager tend to hedge his position by buying a 10-year Chinese zero-coupon bond for the same amount. The Chinese bond was trading at 73.3 relative to par of 100. This implies a gain of US$240,000 over the following 10 years (US$900,000 x 0.267). The fund manager assumed that the exchange rate will remain unchanged (backed by the stability of the CNY) and therefore this was an attractive trade for him. This could explain why the cost of capital in China is lower. The interesting thing is that, instead of gradually heading towards $100, the US bond has sunk to 63 in the middle of the period, causing a profit of US$270,000 on the short side of the trade, while the price of the Chinese bond remained more stable, rising only a little, resulting in a small loss of US$50,000 on the Chinese bond, basically explained by the fall of the exchange rate. Even so, our manager would be closing his position today, generating a profit of US$220,000 but such an unwinding implies three steps: 1) Coverage of the short position on the US 10-year zero. 2) Selling the Chinese long-dated bond. 3) Selling the renminbi (which is no longer needed), causing the appearance of downside financial pressures affecting the renminbi. The truth is that once the process to unwind these strategies is completed, there would be no more "forced" sales of Yuan, so it could stop falling. That's a scenario we could share. A stable CNY now at current levels, ruling out an appreciation of the Yuan motivated by the resumption of that strategy, given that the geopolitical scenario, and the poorer visibility for the CNY, discourage the resumption of such strategies, and thus, we rule out them as a driver that could boost the CNY.

The fact China rates are well below US rates at any point on the yield curve suggests that changes in China's cost of capital are independent of changes in long-term rates in the United States and are no longer determined by them. So, it can be said that if the main objective of the PBOC was to break the grip of US long-term rates on Chinese long-term rates, that has been achieved, and it could be considered a very important advance. Is this enough to think about an overperformance of the Chinese equity market? Definitely not. It would take more than just a lower cost of capital to have higher relative performance. These needs include sustained economic growth, liberalization of the capital market or letting the currency float. Aspects about which we still have many doubts.

Macroeconomic Outlook

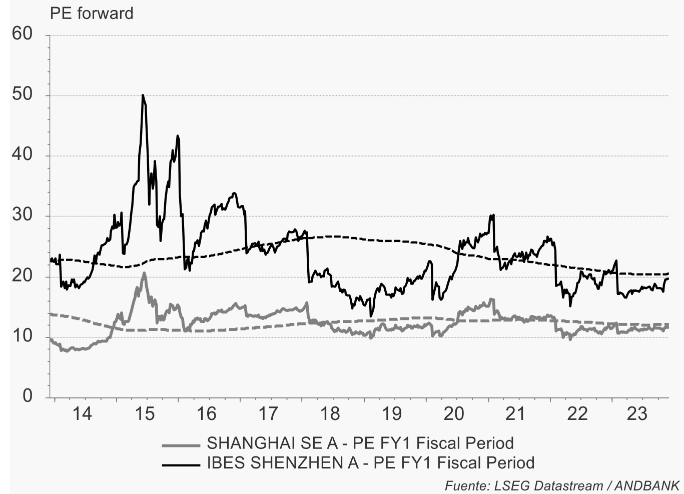
The IMF fixed China GDP growth forecast to 4.6% in 2024. Though low, this represents an upward revision of 0.4 ppt from its estimation in October's World Economic Outlook (WEO). IMF First Deputy Managing Director said revision came after recent policy initiatives from Beijing, including newly approved CNY1T sovereign bond issuance and allowing local governments to frontload next year's bond quotas. China's finance minister Lan Fo'an announced that the government will stick to proactive fiscal policy, accelerating issuance of government bonds. Lan also mentioned some new local government debt quotas for 2024 have been frontloaded to meet local governments' financing needs. The IMF added that "more is needed to be done to secure a quicker recovery in China's property market". Meanwhile, the Foreign Direct Investment (FDI) turned negative for first time in China. outflows of foreign direct investment in China have exceeded inflows for 2023 Q3, first time since records began in 1998, over geopolitical tensions with US and Beijing's expanded anti-espionage law. FDI came to negative US$11.8B, reflected in balance-of-payments data for July-September, with more withdrawals and downsizing than new investments for factory construction and other purposes.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SHANGHAI Idx: UW /// SHENZHEN Idx: UW

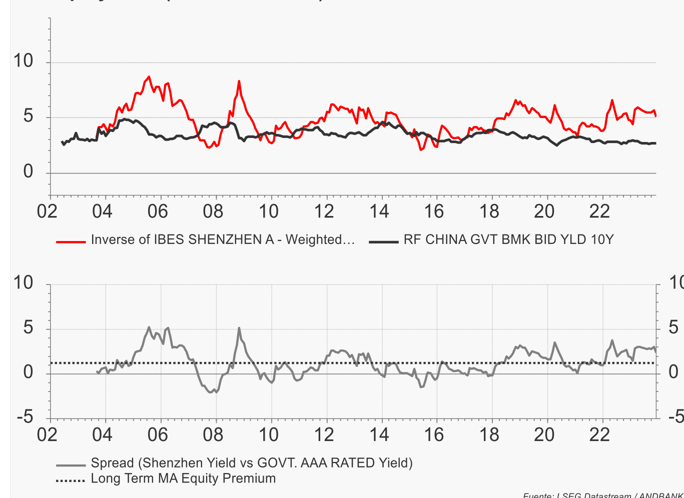
Bonds – Govies: UNDERWEIGHT (10Y Yield target 2.25%)

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)



Fuente: LSEG Datastream / ANDBANK

Source: Refinitiv Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

JAPAN

International investors increasing exposure to Japanese assets. Better outlook for Corporate profits

Fx: Pimco buying yen in preparation for tighter BOJ policy

Bloomberg cited an interview last week with Pimco fund manager Emmanuel Saref, who indicated the fund started building a long yen position when it weakened past 140 per dollar a few months ago, citing ongoing elevated inflation, while that in the US is moderating. Sharef could not predict what steps the BOJ would take though suggested it could take the form of more gradual easing or an abandonment of YCC leading to an eventual short-term rate hike.

BoJ, policy rates and inflation

October CPI seen accelerating. In a Reuters consensus poll, core CPI is expected to rise 3.0% y/y in October, following 2.8% in September. After core CPI hit a peak of 4.2% in January, it slowed below the 3% threshold for the first time in over a year in September as utility bills fell reflecting the lagged effect of past oil price falls.

In a Q&A session to the lower house, Governor Ueda said the confidence level was insufficient to determine the achievement of its inflation goal. Added that the central bank and government are on the same page on inflation. On JGB yields, remarked that he does not see 10y yields significantly overshooting 1%. As the inflation mandate draws closer to realization, signaled the bank would discuss exit strategies for the ETF program and will communicate appropriately.

Flows: International transactions in Japanese securities & tourism support the JPY.

International investors: Net buyers of ¥388.4B in domestic equities vs revised net purchases of ¥312.9B in previous week. Net sellers of ¥296.2B in domestic long-term debt vs revised net purchases of ¥514.0B in previous week.

JGB's holdings by foreign investors: MOF data showed foreign investors held 14.5% of outstanding JGBs and other government debt, higher than the 13.1% held by domestic banks, investment trusts and securities companies. Mostly driven by Japanese institutions, whose share has shrunk from nearly 50% 15 years ago, while foreigners' share has roughly doubled. Shift largely attributed to BOJ JGB purchases and Japanese banks have been the main sellers

Tourism: October foreign entries to Japan top pre-pandemic levels for 1st time: Kyodo cited government data showing foreign visitors totaled 2.5M in October, up 0.8% from the same month in 2019, the first time the monthly figure has surpassed levels seen before the coronavirus outbreak. The most arrivals came from South Korea at 631,100, more than triple compared with the figure in October 2019. Taiwan came in second at 424,800, up 2.7%. Visitors from mainland China, which used to be the largest visitor group to Japan before the COVID-19 pandemic, stood at 256,300, down 64.9%, ranking third.

Diplomacy: China, Japan reaffirm 'strategic relationship' in rare leader talks.

Chinese President Xi Jinping and Prime Minister Kishida met on mid-November in San Francisco and said they would pursue mutually beneficial relations in their first face-to-face talks in a year, putting emphasis on shared economic interests amid a series of diplomatic disputes. The leaders discussed thorny issues such as China's ban on Japanese seafood and the case of a Japanese businessman detained in China on suspicion of espionage during hour-long talks.

Corporate Profits.

FY23 corporate earnings growth projections strengthening on weak yen, price hikes. Nikkei analysis of some 1,020 companies in the TSE Prime Market showed net profits projected to rise 13% y/y, higher than 6% growth expected in September on the back of a series of upward revisions. Absolute earnings set for the third straight record year. Net profit margins tracking 6%, the second-highest level since the global financial crisis in 2008. Breadth also solid with 56% of names set to post dual growth (revenue and profits).

Japan top banks post record fiscal H1 earnings: Japan's five major bank profits for Apr-Sep, growing 56% y/y to about ¥2T ($13.3B) marking a record-high. FY earnings also on track to beat records at ~¥3T. Net operating profits increased 16% to ¥1.78T on improvements in NIMs. Assets held by MUFG, SMFG and Mizuho have grown to over ¥900T, up 60% since FY12 before the BOJ vastly expanded its monetary easing

Sector Reforms.

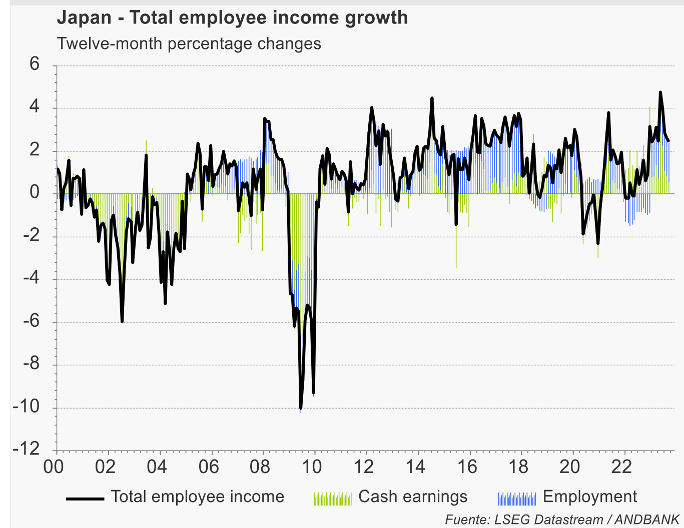
At a Stanford University event, Japanese Prime Minister Fumio Kishida and South Korean President Yoon Suk Yeol have announced a collaborative framework for research and development in quantum technologies. “Next-generation quantum computers have the potential to quickly solve complex problems that today's supercomputers struggle with”. With China making great strides in the field, Japan hopes to work with the U.S. and South Korea to strengthen competitiveness by supporting partnerships between research institutions. There are different types of quantum computers. Superconducting quantum computers are the main format in Japan, while research into such types as trapped-ion quantum computers is popular in South Korea.

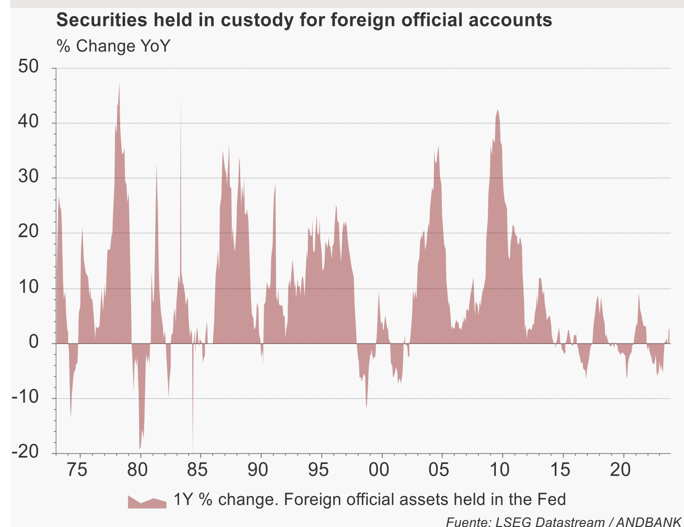
Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 1.00%)

Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 140)





INDIA

The logistics revolution may lead to a return to the structural growth rate of 8-10%.

The government's focus has been on improving India's transport infrastructure, and this is starting to properly boost the economy.

Anyone visiting India in recent years will have witnessed a transformation of urban skylines and rural landscapes. Having allocated US$120bn (3.3% of GDP) on capital projects in this fiscal year, Modi's government is frantically building infrastructure, with some US$60bn going on roads and railways. The government's focus on improving India's transport infrastructure is starting pay off and to properly boost the economy: India's road network has increased by more than 40% in length over the last decade to reach 6,3mn km—the world's third longest. The big success story has been the expansion of national highway network, that has almost doubled in length in the period to reach 140,000 km and should hit 200,000 km by 2025. Controlled-access motorways, similar to German autobahns, have quadrupled in length over the past decade to a total of more than 4,000 kilometers, with another 9,000 kilometers planned to be completed in the next three years. Similarly, India's train-related fatalities had fallen, with two consecutive years when no passengers died from accidents.

Favourable macroeconomic outlook backed by India's logistics revolution.

A key reason that India has struggled to raise the manufacturing sector's share of GDP beyond 15-17% has been bad infrastructure, with years of underinvestment in railway track, meaning that Indian freight trains travel at a paltry 25 kph and 70% of freight being moved by road (road transport is far more expensive than rail). Narendra Modi's government has a policy target of cutting India's logistics costs from 16% of GDP to about 8%. To that end, it has launched schemes that include: 1) India Garland Project—US$130bn to be spent building 80,000 km of four-lane highways. 2) Dedicated freight corridors—8,000 km of new railway lines to be built for sole use by freight trains.3) Sagarmala project ("Garland of the sea")—US$110bn to be spent on ports and maritime infrastructure along India's 7,500 km coastline and waterways. 4) UDAN-regional connectivity scheme: a buildout of operational airfields that has seen the number double over the past decade to about 140. Taking as valid the widely demonstrated hypothesis that infrastructure investment helps drive economic growth by raising productivity and lowering production costs, and if India's government continue to implement its infrastructure agenda focused on freight transportation, we believe that this will give a boost to growth, benefiting both Indian companies and Indian capital markets.

All this effort put to the test

A proof of this government-wide effort is the eight-rail Delhi-Mumbai expressway whose completion is scheduled for next year. It aims to halve the travel time between India's two largest cities, to about 12 hours (from 24 hours). Another proof is seen by laying a fiber optic cable along the route as part of the overall project. Similarly, an expressway project connecting the north to the west will see the construction of an oil pipeline alongside it. Along the same lines, the aforementioned freight rail corridors are being realigned to use government land, deviating from the original routes to avoid passing through national parks, which would require many approvals. With the aim of avoiding delays in these big infrastructure projects, the Indian government has launched the "speed and power" national masterplan, that is being rolled out in tandem with a central government taskforce on the "National Infrastructure Pipeline". The idea of running the masterplan from the center is to force different government departments to work together. This effort to speedily build out infrastructure is paying off. In the World Bank's latest logistics performance index released in April, India ranked 38th overall (up from 54th in 2014) and 47th for the infrastructure sub-index (up from 58th in 2014) putting it ahead of Vietnam, Indonesia and Mexico. India is expected to reach a ranking within the top 25 by 2030.

India wants to walk down the path forged by its Asian neighbors including Japan, South Korea and China

India seeks to industrialize its economy and give a competitive edge to its underdeveloped manufacturing sector. To this aim, developing infrastructure has become a political imperative. The mechanisms to finance all this spending seem correct and do not put the country's fiscal and debt metrics at risk. India's government expanding the usage of the public sector's balance sheet to defray risks embedded in long-gestation infrastructure projects. Innovative financing and derisking mechanisms like the *"national monetisation pipeline"*, that seeks to unlock INR6trn in funding in the four years to 2025 by selling toll rights (not ownership) to institutional investors, or the *"hybrid annuity model"* with the aim to augment public sector funding of infrastructure by reducing regulatory risks for the private sector will spur more projects to be undertaken. The construction sector is now the second-largest source of employment in India after agriculture, employing about 20% of the workforce, but around 90% of construction workers are still employed informally, with few legal protections and wages. The good news is that surging infrastructure spending will push formal construction employment. The hope is that this infrastructure splurge can power a return to the 8-10% structural growth rates seen in 2004-07.

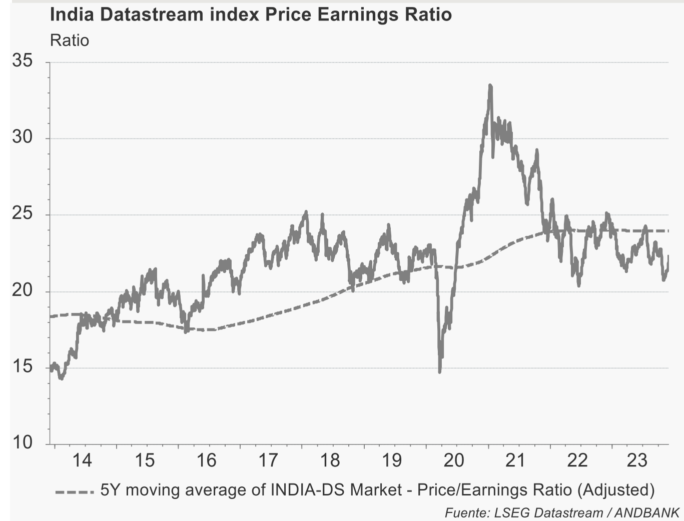
Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

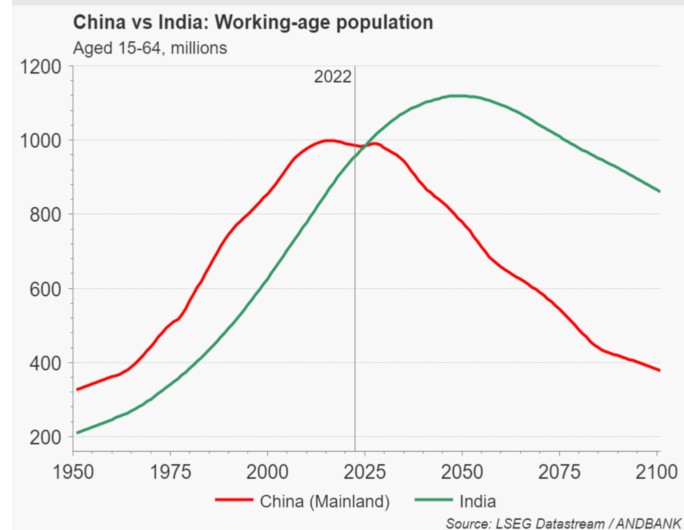
Bonds – Govies: OVERWEIGHT (Target yield 6.5%)

Bonds – Corporates: OVERWEIGHT

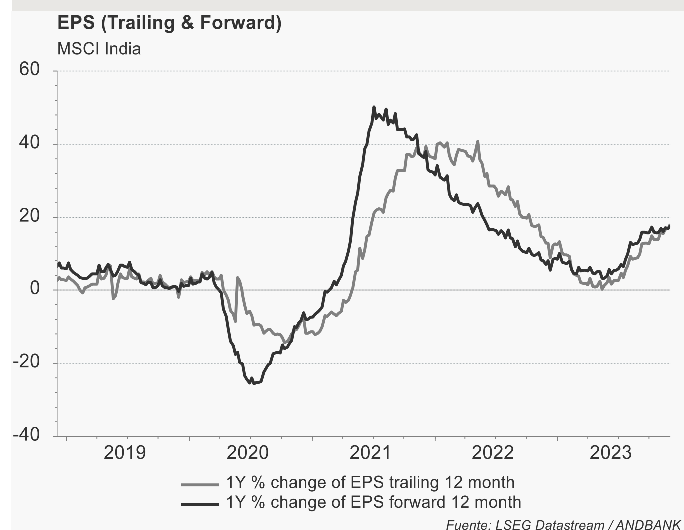
Forex – INR/USD: NEUTRAL (Target 84)



Fuente: LSEG Datastream / ANDBANK



Source: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

VIETNAM

FDI surged and doubled the five-year average. The stock market offers a good entry opportunity.

Trade stands as a key driver. Suggests a high level of industrial competitiveness

The Trade activity was a bright spot in recent months, specially in October, as Vietnam's economy continued to recover. Exports escalated to $32.3bn, up 5.3% y/y, while imports increased to $29.3bn, up 2.9% y/y. Thanks to outstanding performance from exporting electronic components and agricultural items, the trade surplus reached $24.6bn YTD ($3bn in October), which is equivalent to a surplus of 8.74% of GDP in just 10 months (10.5% of GDP in annualized terms). The strong foundation for trade performance is industrial production, increasing 5.5% m/m and 4.1% y/y. Services flourished, with retail sales up 1.5% m/m and 7.0% y/y as inbound visitors neared 10 million in 10M23, 4.2 times higher than 10M22.

FDI growing 100% vs the 5-year average. The Central Bank will not follow its peers in the region in raising rates. Favorable monetary environment for equity.

Inflation rose modestly by 0.1% MoM and 3.6% YoY, posing no immediate alarm, with the uptick in rice and fuel prices being offset by a decrease in food (pork) prices. Capital inflows to Vietnam have been resilient on both trade, remittance, and investment, especially after President Biden's state visit. Committed FDI investment in October surged to $5.5bn, doubling the five-year average. We maintain the viewpoint that the VND is fundamentally solid and the SBV will continue its commitment to prioritizing growth while securing major economic stabilities.

Stable currency. Little exposed country.

The strengthening dollar triggered capital outflows from Asia in general, adding some volatility in the FX market. In Vietnam, the VND lost 1.1% MoM in October, but remained relatively stable YTD with a 3% depreciation. Post the Fed's recent rate pause, the Fed funds rate remains at 5.25-5.50%, in contrast with a YTD reduction in VND lending rates of 2.0–2.2%. Reassuringly, Vietnam's Fx exposure is relatively low at only 35% of GDP. However, local companies will require prudent cash flow management and debt refinancing, finding an optimal balance of domestic vs. foreign leverage.

The National Assembly in Hanoi fixed the socio-economic objectives. It defined new regulations in key matters with a marked pro-growth bias.

The National Assembly's ongoing session in Hanoi, setting the socio-economic objectives for 2024, included a GDP growth rate target of 6.0-6.5%. This translates to a GDP per capita between $4,700 and $4,730, while maintaining the State budget deficit under 4% of GDP. Average inflation is set to be kept below 4.0-4.5%, with credit growth at 15+%. Significant regulatory enhancements are also on the docket, with the Land Law, Housing Law, and Real Estate Law poised for substantial amendments, acting as crucial levers in propelling Vietnam towards its 2024 economic growth objectives.

Market Review. The VNI index is now oversold and offers a good buy opportunity.

October saw the VNI continue to fall from September, dropping 10% in this 2-month period, the worst two-month decline since September 2022. However, Vietnam was not singular in its negative performance, with most regional peers and Western indices also falling in double digits. Concerns that dampened sentiment in September and October, such as the money management operations in the form of SBV continuing issuing bills and rising interbank rates, misinterpreted as policy tightening, continued to spook investor sentiment throughout October. During the latter half of October, however, $4.5bn of the bills expired with new issuances of $2bn, representing a relative net injection of $2.5bn. The spectre of rising DXY and Fed rate concerns continued to overshadow performance.

In a more structural analysis, the trailing P/B of the total VNI is ~1.5x, levels not seen since Covid. In light of easing monetary policy, we believe the VNI is now oversold, evidenced by the switch from foreign net selling to net buying of $15.9m from 30 October to 7 November, who are seeing it as a good re-entry point. The VNI Index found support at the 1,085-1,100 level, still managing to outperform most EM markets, but on 26 October a large volume of sell orders in VHM (Vinhome), the first developer in the country, hit the market after parent company Vingroup issued 5-year exchangeable bonds with the option to convert into Vinhomes shares. This triggered another round of panic selling on the VNI index in October.

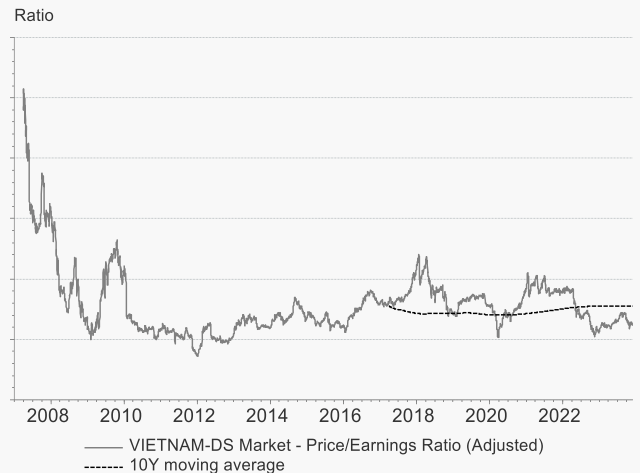
All 80 Companies in the coverage universe have now reported Q3 earnings, and the aggregated growth for NPAT remains flat at +0.5% y/y. Encouragingly, both revenue and EBIT growth are on the rise, with revenue increasing by approximately 5% y/y and EBIT by nearly 9% y/y. There are two main reasons why NPAT is not taking off, but could in the near future: 1) Following the currency depreciation since June, P&L was affected by increased loan provisions from some large cap stocks with USD denominated debt. 2) Financials, particularly the banking sector, continue to be significant contributors to earnings. Results, however, are behind quarterly forecasts, partially from the impact of earnings sacrifice from State-Owned Commercial Banks to support the economic recovery with preferential rates. Meanwhile, IT, energy, metals, and industrials are showing robust results, while consumer, conglomerates, chemicals, and utilities are underperforming. The property sector is in line with expectations.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

VIETNAM - Datastream index Price Earnings Ratio

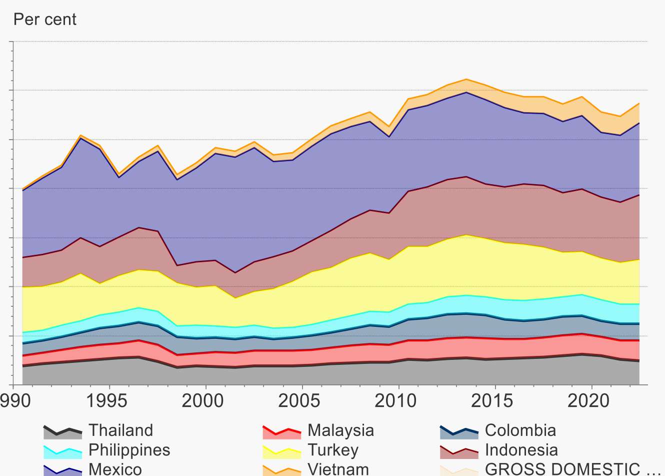
Ratio



Fuente: LSEG Datastream / ANDBANK

Other EMs share of world GDP

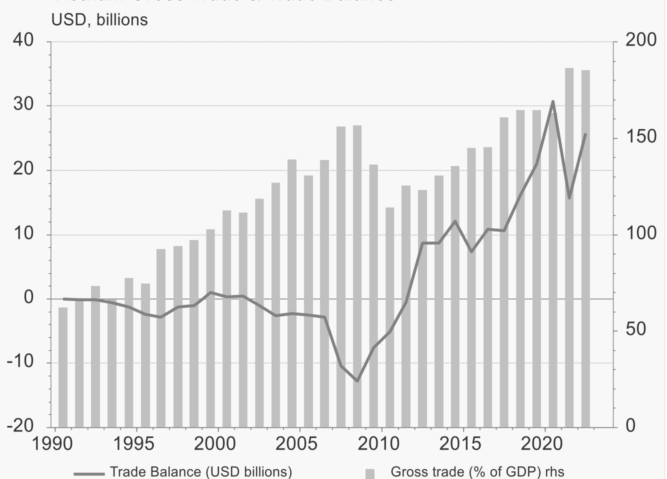
Per cent



Fuente: LSEG Datastream / ANDBANK

Vietnam Gross Trade & Trade Balance

USD, billions



Fuente: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

ISRAEL

Unclear fiscal policy raises concerns regarding the economy on “the day after”

Politics & Fiscal and Monetary policy

Naturally, the war that is taking place today between Israel and the terrorist organization Hamas, continues to be the factor that affects many aspects in Israel, whether economic or political. Currently, the end of the war is not in sight and therefore any economic forecast is a kind of bet. However, several insights are beginning to emerge from the events that will accompany the economic developments now and after the war.

To finance the war the government will be forced to make budgetary adjustments and therefore the Ministry of Finance submitted a proposal to modify the budget with a higher fiscal deficit. We should note that Israel entered the war with debt-to-GDP ratio of 61%, significantly lower than in most developed countries. Therefore, the government appears to have room to pursue a more expansionary fiscal policy. According to Avi Simhon, chairperson of Israel’s National Economic Council, in a worst case scenario the country will reach a debt-to-GDP of 70%.

Having said this, the proposal presented by the Minister of Finance, Bezalel Smotrich, leaves the impression that the path chosen is far from being the optimal one. First, the expenditure items that had originally been allocated to some ministries, with the aim of achieving political will, were not modified. Nor were the expenditures allocated to the new ministries created during the current administration modified. It turns out that most of the spending cuts fall on items in sectors that are extremely necessary for society. It turns out that a bulk of the cuts is made at the expense of other important needs. In a recent note the Bank of Israel stated that there is a need to change the priorities in the budget.

Our view is that the thing that will determine Israel's ability to emerge economically strong from this crisis is not the deficit percentage or the size of the budget, but the way in which these issues are managed.

The Bank of Israel is waiting to see how the Ministry of Finance will act. Although inflation expectations have fallen sharply since the beginning of the war and the economy is slowing, the central bank is waiting until fiscal decisions are made. Along with this, it should be noted that an agreement between the government and the Governor of the Bank of Israel, Amir Yaron, has been reached and he will stay on for a second five-year term (2024-2028). We believe that this decision is of great importance, since the Central Bank is highly regarded for its actions during this war. The Bank of Israel is now seen as the "responsible adult" in Israel, therefore Yaron's appointment removes a large part of the uncertainty that has prevailed in recent months.

To get an idea of how the war is affecting the economy, in the latest labor market data we can see a huge rise in the number of employees who are temporarily absent from their jobs, soared to 430,000 in October from 160,000 in September, which includes employees in the army reserves and employees placed on unpaid leave.

Fixed income

The yield curve has changed to a great extent since the beginning of the war. While until October the curve was inverted, it has steepened and now it is back to being at a "normal“ form. After this change we think it is attractive to extend duration, and after a long time in which we held only short duration, we are increasing our position in the long end of the curve.

Stocks

After the local stock market experienced sharp declines at the beginning of the war, the last month was characterized by an important recovery with the Tel Aviv 125 index increasing by 5%. The recovery can be explained by two main factors. First, the market, with the fall caused by the war, had begun to trade at attractive valuations, which attracted participants to the market, and on the other hand, the market reflects in its prices what may happen after the war. The history of the last twenty years shows that Israel recovered very quickly from security crises and it seems what the market it is pricing now.

We still think that the market is trading at attractive values, but for the bullish trend to be maintained it is necessary to end this confrontation as soon as possible. From our side we hope that next year will bring a return to the normal situation.

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

MACRO ECONOMY

BRAZIL

Achievement of fiscal targets and the process of lowering rates will be the focus of investors next year.

Monetary easing shall continue

The November COPOM meeting, reduced rates by another 50 bps, widely telegraphed by the BCB President ,Roberto Campos Neto, previously, and eagerly anticipated by market participants. Campos Neto has been vocal in saying that the recent international turmoil have not significantly changed the inflation outlook for Brazil in the coming months, thus will not have impact in the ongoing easing cycle. Consumer inflation slowed down in October with prices increasing +4.82% y/y (vs 5.19% y/y in September),below market expectations of 4.87% y/y

Market expects another 50 bps cut in the December 13th Copom meeting, and further cuts are expected in 2024. The Focus Survey, that pools economic projections from more than a hundred of market participants in Brazil, are expecting a terminal rate between 9.00% and 9.25% for the end of this cycle of rate cuts. Since there are eight meetings scheduled for 2024, that implies that by keeping the 50 bps rates cut by meeting, the BCB would be done with cutting rates by July.However, Campos Neto has also been very clear about the impact a deterioration in fiscal expectations could have to future inflation expectations, and consequently, to the level of the terminal rate and the timing of the rate cuts.

During November there has been an important discussion around the new fiscal framework deficit targets, the main topic has been how Lula´s government would get to zero deficit in 2024, despite the projected 2.1% deficit for 2023. Lula was caught on tape saying, during a cabinet meeting, that “money in the bank is good for the economists, but money in job sites is good for the people” (free translation). That statement sparked a plethora of meetings with Fernando Haddad, Finance Minister, to try to revert the market's perception that the President is thinking of changing the target system even before it went into effect. After a lot of meetings with congressmen, other ministers and Lula himself, it was decided that no change should take place as of now.

There are a number of projects in congress that raise revenues to compensate for some of the higher costs expected in election years (city and government elections are two years off cycle with the presidential election). Since not all of these projects are approved yet, it was deemed appropriate to wait and see where the government stands in March, and then, if necessary, make any adjustments. Market participants are already talking about, and indicating some level of comfort, at 0.5% deficit for 2024. If the government is able to deliver within this “adjusted” expectation, there should not be much extra noise. Nevertheless, the risk remains for next year. If local fiscal concerns and a hawkish Fed remains, the rate cutting cycle in Brazil might be shorter than currently expected.

How is the economy reacting?

It seems that the expectation of an easing cycle has been already incorporated into projections. The IBC-Br (Index of Economic Activity), fell by 0.06% in September 2023, missing market estimates of an increase of 0.2%; after a revision for further decline in August. The service sector, which accounts for half of Brazil's formal jobs and about 70% of the country's GDP, contracted 0.3% in September. Industrial production remained somewhat stable at 0.1% and retail activity rebounded slightly, from August, at 0.6%. Compared to the previous quarter, economic activity shrank by 0.64% in Q3. Focus survey projects GDP for 2023 at 2.85% and for 2024 at 1.50%.

Financial Markets

After the bull market at the end of the first semester, local markets reacted in line with international markets and the prospect of a hawkish Fed for a longer time, making August, September and October, the worst months of the year, with both fixed income and equity markets giving back most of the great performance of the first half of the year.

However, November was an outstanding month in general. As of the writing of this piece, Ibovespa Equity Index is in its 2-year high, around 126,000 points approaching its historical high of 130,776 from June 2021. So, it seems that despite all the concerns around local fiscal policy, foreign monetary policy, and even recent geo-political events, markets are looking for a strong end-of-year finish.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

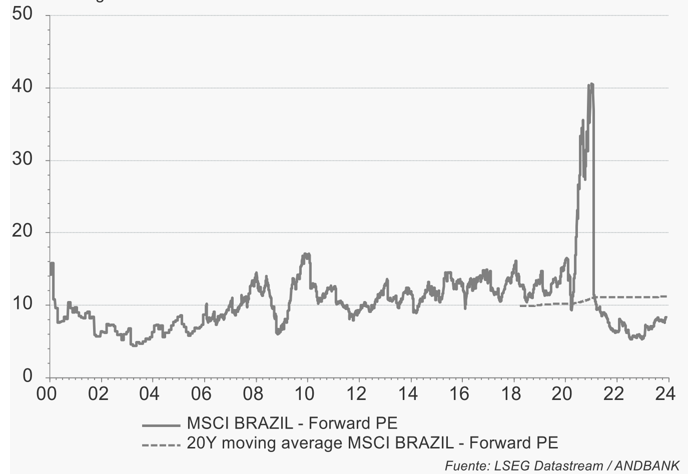
Bonds – Govies Local: UNDERWEIGHT (Target Spread 700 => Target yield 12%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 300 => Target yield 8%)

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

Brazil MSCI Index price-to-earning

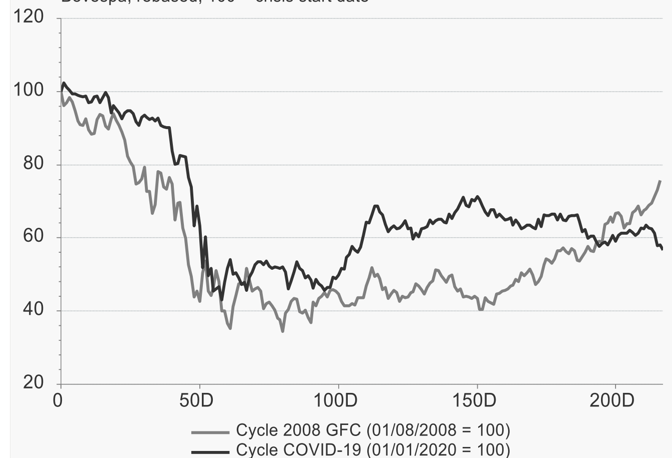
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

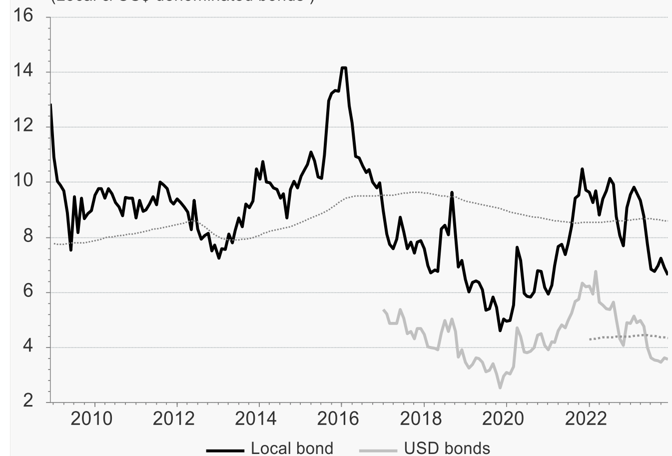
Bovespa, rebased, 100 = crisis start date



Fuente: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: LSEG Datastream / ANDBANK

MEXICO

Fundamentals are solid entering a new year, but Politics can bring greater volatility

Central Bank

Banxico maintained its monetary pause with a benchmark rate level of 11.25% and as in recent statements there has been unanimity in the board of governors regarding the fact that a cut in the benchmark rate is not expected in the near future. However, it modified the tone of its guidance by considering that the rate will remain at this level for "some time" and not for "an extended period of time", which was read by market participants as a relaxation of its monetary policy stance, which was supported by comments from members of the bank's governing board who pointed out that, given the high level of the real ex-ante rate, a rate cut would maintain a restrictive monetary policy. In addition, estimates for headline inflation in the following quarters were adjusted downward, although core inflation forecasts remained unchanged.

Inflation and activity

The economy in Mexico remains on a path of healthy growth at the end of the 3Q23. The preliminary review and the second review of GDP for the 3Q23 reaffirmed a growth of 1.1% q/q and 3.3% y/y, showing eight consecutive quarters of growth, driven by domestic consumption and industrial activity. Industrial production grew by 3.7% year-on-year in the first three quarters of 2023, driven in particular by construction (+13.7% y/y). The Government announced that Mexico attracted a record figure of almost 33 billion USD in foreign direct investment in the first three quarters of the year, something that analysts attribute to the phenomenon of chain relocation or "nearshoring."

For its part, October inflation maintained the downward trend for the ninth consecutive month. Headline Inflation had an increase of 4.26% in annual terms, down from +4.45% y/y in September. The Core Index, however, came at 5.5% y/y (+0.39% m/m), with services inflation above market expectations. Core prices must come down more for the Central Bank start easing its monetary policy. The Central Bank´s target of inflation is of 3% +/- 1%.

Political Economy

The budget proposal for 2024 was approved without major changes when the Revenue and Expenditure Law was voted in Congress between the end of October and the beginning of November. Among the main changes to the original proposal was a greater reduction in the Pemex´s share of profits that the government receives, from 40 to 30%, below the 35% proposed by the executive. Also, with relevance for investors, it was agreed to have a withholding tax rate on real interest earned of only 0.50%, down from the proposed 1.48%.

We also have official candidates for the 2024 presidential elections. For the president's party, *Morena*, the former head of government of the City of Mexico, Claudia Sheinbaum, will be the candidate is going to be the candidate and today she is the one who has the greatest probability of obtaining the presidency. The main opposition force (an alliance of several parties among which the PRI and PAN stand out), will have the Senator Xochitl Gálvez as its candidate, while the *Movimiento Ciudadano* party, today the third party in the polls, will be represented by the current governor of the state of Nuevo León, Samuel García.

Financial markets

Equity: We believe that the current movement of the Mexican stock market has been driven by an expectation of lower short-term interest rates in the US and a benign scenario for economic growth. Our view is that this growth may be lower than expected and we foresee a correction in the short term for Equity. However, we favor the Mexican stock market for the coming year due to the lag it has had this year and for having a heavy load of cyclical companies that could benefit from an expansive monetary and fiscal policy stance next year. Target price for the IPC Index 59,000

Fixed Income & FX: We maintain the view that a decline in inflation will materialize between the last months of 2023 and the beginning of 2024, but the decline will be gradual, especially in core prices. For next year we anticipate a possible volatile environment caused by the increase in the fiscal deficit, the probability of an economic recession in 2024 and the beginning of the electoral process for next year's presidential election. We maintain our targets for local currency and USD debt.

Peso averaged 18.1 pesos per dollar in October, but in November we saw the currency appreciate again to reach 17.1 pesos per dollar. Solid macro, fiscal discipline and prospects for nearshoring investment have contributed to the peso's appreciation this year.

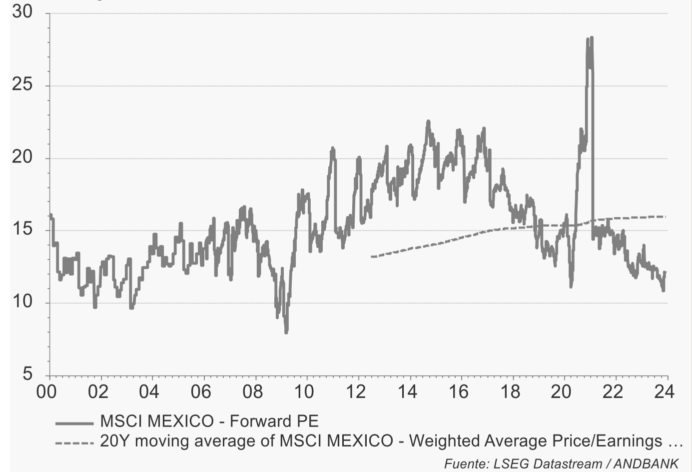
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

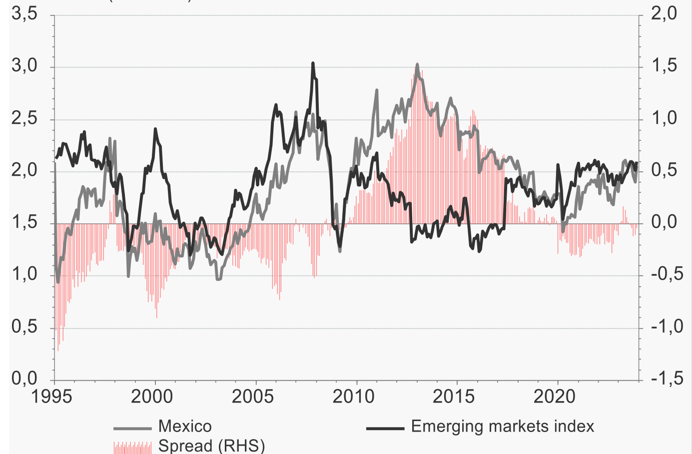
Bonds – Govies Local: UNDERWEIGHT (Target Spread 550 => Target yield 10.5%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 150 => Target yield 6.75%)

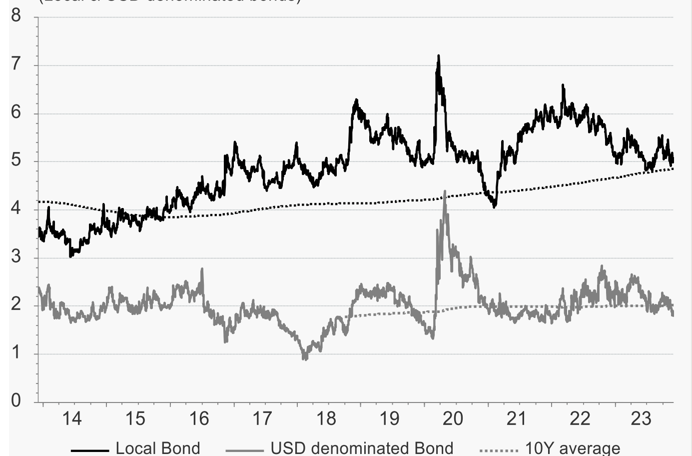
FX – MXN/USD: UNDERWEIGHT (Mid-term target 18.50)



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG Datastream / ANDBANK

ARGENTINA

Milei is the new President. A bumpy road ahead.

Election Recap

The leader of the *La Libertad Avanza* (LLA) party, Javier Milei, is the new elected president of the Argentine Republic after having obtained 55.7% of the votes compared to 44.3% for the official candidate Sergio Massa. Milei, who had only achieved 30% of the votes in the general elections, managed to capture a significant majority of the votes of *Juntos por el Cambio* (23.8% in the general elections) and Juan Schiaretti's votes (6.7% in the general elections). We must highlight the support of Mauricio Macri and Patricia Bullrich for the candidacy of Javier Milei, who are largely responsible for why the transfer of the JxC votes has been so important. The sum of the blank and null votes was only 3%, despite the significant number of undecided voters prior to the elections and the fact that several opposition leaders had not favored either of the two candidates. The participation rate was 76.3%, slightly below the 77% in the general elections.

Milei's triumph was reflected at territorial level with victories in 21 of the 24 Argentine provinces. If we look at the voting in the four main provinces of Argentina, Milei's dominance was broad, with the exception of the Province of Buenos Aires (PBA), the main fiefdom of the ruling party: i) PBA: Milei 49.3% vs 50.7% Massa; ii) City of Buenos Aires: Milei 57.3% vs 42.7% Massa; iii) Córdoba: 74% Milei vs 26% Massa; iv) Santa Fe: Milei 62.8 vs Massa 37.2%.

What is known about Javier Milei's cabinet so far?

One of the innovations of Javier Milei's government is the reduction of the number of Ministries from the current eighteen to only eight. The Ministries of Health, Social Development, Labor and Education will be merged into a single Ministry of Human Capital, headed by Sandra Pettovello, who will have the sensitive task of managing the administration of social plans and other state assistance. The Ministry of Infrastructure will also be created and will be in charge of Energy, Transportation, Public Works and Housing, Telecommunications and Mining, until now independent ministries. This new Ministry will be led by Guillermo Ferraro, who served until recently as Director of KPMG Argentina. Guillermo Francos and Nicolas Posse, two former co-workers of Milei at *Corporación América*, will be two key pieces of the new cabinet, the first as Minister of the Interior and the second as Chief of Staff. Mariano Cuneo Libarona, a lawyer with extensive experience in the private sector, was also confirmed as Minister of Justice. Economist Diana Mondino will be the future Chancellor. The elected deputy will be in charge of Argentina's relations with other countries. Another appointment worth highlighting is that of Horacio Marin at the head of YPF, consolidating the position of President and CEO. Marin worked as E&P Director at Tecpetrol, the O&G company of the Techint Group.

Milei mentioned that the Minister of Economy is unlikely to be known in the future given Massa's irresponsibility in this transition and that in this way he would be preserving him. It is almost a certainty that part of the cabinet will be made up of officials who were part of Mauricio Macri's government. At the moment all the appointments are from people close to Javier Milei.

What will happen next?

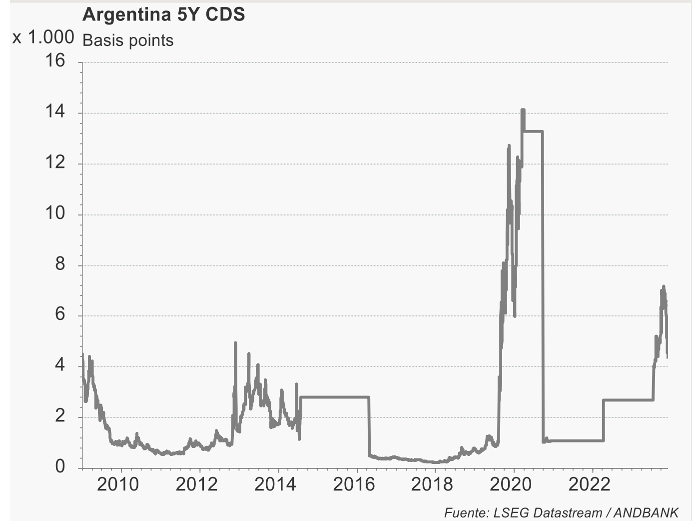
One of the main unknowns in economic matters is whether he will carry out the dollarization of the economy. In his first interview as president-elect, he stated that today the main priority in economic matters is to solve the problem of the Central Bank's monetary liabilities, for which he is working on the financial engineering to make an attractive offer for the holders. It is estimated that USD 30 billion is necessary to redeem all of these instruments. For Milei, the solution of this problem is a precondition to be able to lift the foreign exchange restrictions and then eliminate the Central Bank.

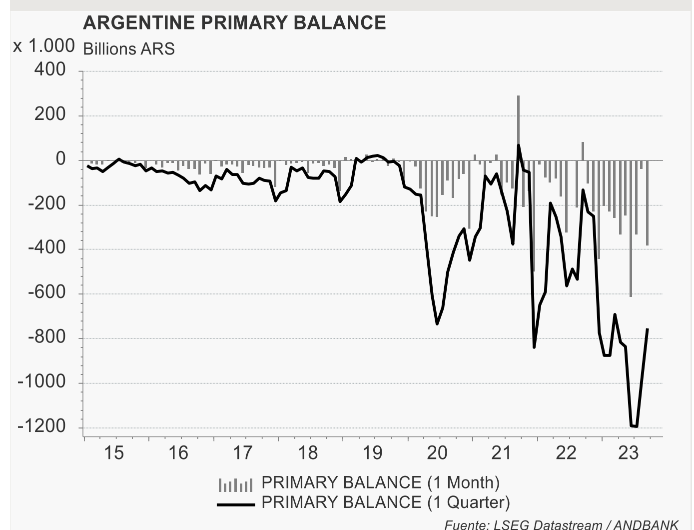
In Congress, LLA has only eight senators (quorum with 36) and 37 deputies (quorum with 129), so it will need the votes of an important part of the opposition. The support of the JxC congressmen who respond to Mauricio Macri and Patricia Bullrich (most of the PRO party) and a part of the Radical Civic Union is taken for granted. It is an unknown what may happen with *Hacemos por Nuestro país*, of Juan Schiaretti, and other provincial parties, but we are inclined to think that support for some bills can be expected. Remember that *Unión por la Patria* today has 118 deputies and 31 senators, being by far the main minority in Congress. The question here is whether it will remain as a solid block or whether there will be congressmen who will support some of the government's projects. A fragmentation of Peronism as a result of the leadership struggle may help Milei for the approval of certain reforms or at least for the Presidential Decrees not to be repealed by Congress.

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2024 year-end target 800)





GLOBAL EQUITY INDICES

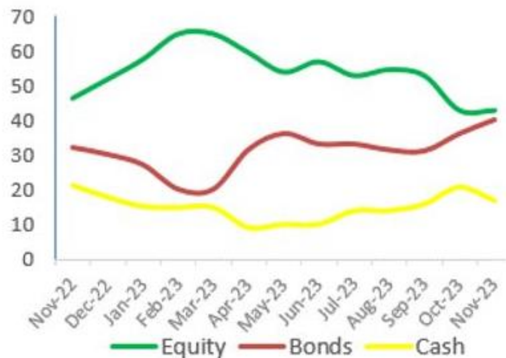
Fundamental assessment

Index	Projected EPS 2024	Projected EPS Growth 2024	PE (fw)	Current Equity Yied	Current Risk Premium	Hist Risk Premium	Reasonable PE fw so that Risk Prem = hist	Reasonable Equity Yied	INDEX CURRENT PRICE	Andbank's Target Price	E[Perf] to target Price	Recommended Strategy	Exit Point (Strong Sell)
USA S&P 500	243,4	9,92%	18,89	5,29%	1,06%	2,00%	19,00	5,26%	4.570	4.595	0,6%	MW-UW	5.055
Europe - Stoxx Europe 600	36,9	6,03%	12,69	7,88%	5,58%	5,00%	13,00	7,69%	466	478	2,5%	OW	526
Euro Zone - Euro Stoxx	37,8	6,18%	12,32	8,12%	5,81%	5,00%	13,00	7,69%	464	489	5,5%	OW	538
Spain IBEX 35	986,0	4,01%	10,38	9,63%	6,33%	5,70%	11,00	9,09%	10.206	10.816	6,0%	OW	11.898
Mexico IPC GRAL	4.486	10,18%	12,13	8,25%	-1,10%		13,50	7,41%	54.054	60.167	11,3%	OW	66.184
Brazil BOVESPA	15.489	12,03%	8,25	12,12%	1,20%		8,90	11,24%	126.803	136.799	7,9%	MW	150.479
Japan NIKKEI 225	1.758	25,56%	18,92	5,28%	4,62%	4,00%	20,00	5,00%	32.776	34.641	5,7%	OW	38.105
China SSE Comp.	306,5	14,56%	9,79	10,22%	7,54%	4,80%	10,00	10,00%	2.972	3.038	2,2%	UW	3.341
China Shenzhen Comp	126,4	30,16%	14,85	6,74%	4,06%	1,25%	15,00	6,67%	1.845	1.864	1,0%	UW	2.051
India SENSEX	3.477	16,89%	20,14	4,97%	-2,29%	-2,00%	21,00	4,76%	69.296	72.269	4,3%	OW	79.496
Vietnam VN Index	123,3	30,47%	9,21	10,86%			11,00	9,09%	1.116	1.334	19,5%	OW	1.467
MSCI EM ASIA	43,4	22,32%	12,19	8,20%			13,50	7,41%	522	578	10,7%	OW	635

ANDBANK ESTIMATES

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

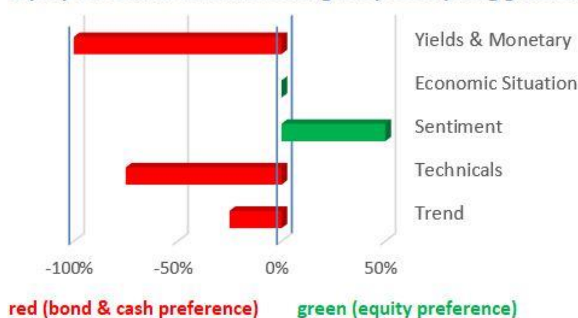
Dynamic Asset Allocation per Ned Davis Research



Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	67%	61,5%
Europe ex. U.K.	13%	12,6%
Emerging Markets	10%	10,8%
Japan	5%	5,5%
U.K.	2%	3,8%
Canada	2%	3%
Pacific ex. Japan	1%	2,9%

Current Relative Strength (Equities vs Bonds) Ned Davis Research



GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q3 2023 Earnings Dashboard

BLENDED GROWTH RATES

STOXX 600 2023Q3 EARNINGS		STOXX 600 2023Q3 REVENUE	
STOXX 600	**-11.5%**	**STOXX 600**	**-7.7%**
Financials	21.4%	Financials	6.8%
Technology	11.3%	Technology	-8.0%
Consumer Cyclicals	9.7%	Consumer Cyclicals	2.8%
Real Estate	2.2%	Real Estate	2.5%
Healthcare	-3.7%	Healthcare	-4.4%
Consumer Non-Cyclicals	-4.6%	Consumer Non-Cyclicals	0.8%
Industrials	-14.1%	Industrials	-0.1%
Utilities	-25.5%	Utilities	-38.4%
Energy	-45.7%	Energy	-21.5%
Basic Materials	-59.8%	Basic Materials	-17.9%

SCORECARD

Earnings (■Above ■Match ■Below)

	Above	Match	Below
STOXX 600	**55%**	**7%**	**38%**
Basic Materials	52%	3%	45%
Consumer Cyclicals	57%	0%	43%
Consumer Non-Cyclicals	44%	6%	50%
Energy	55%	5%	40%
Financials	65%	11%	24%
Healthcare	46%	7%	46%
Industrials	51%	7%	42%
Technology	59%	13%	28%
Real Estate	56%	0%	44%
Utilities	46%	8%	46%

Revenue (■Above ■Match ■Below)

	Above	Match	Below
STOXX 600	**47%**	**0%**	**53%**
Basic Materials	32%	0%	68%
Consumer Cyclicals	45%	3%	52%
Consumer Non-Cyclicals	41%	0%	59%
Energy	60%	0%	40%
Financials	73%	0%	27%
Healthcare	57%	0%	43%
Industrials	34%	0%	66%
Technology	51%	0%	49%
Real Estate	36%	0%	64%
Utilities	19%	0%	81%

Earnings (■Reported ■Remaining)

	Reported	Remaining
STOXX 600	**288**	**41**
Basic Materials	31	4
Consumer Cyclicals	23	14
Consumer Non-Cyclicals	16	3
Energy	20	0
Financials	54	2
Healthcare	28	4
Industrials	55	4
Technology	39	4
Real Estate	9	2
Utilities	13	4

Revenue (■Reported ■Remaining)

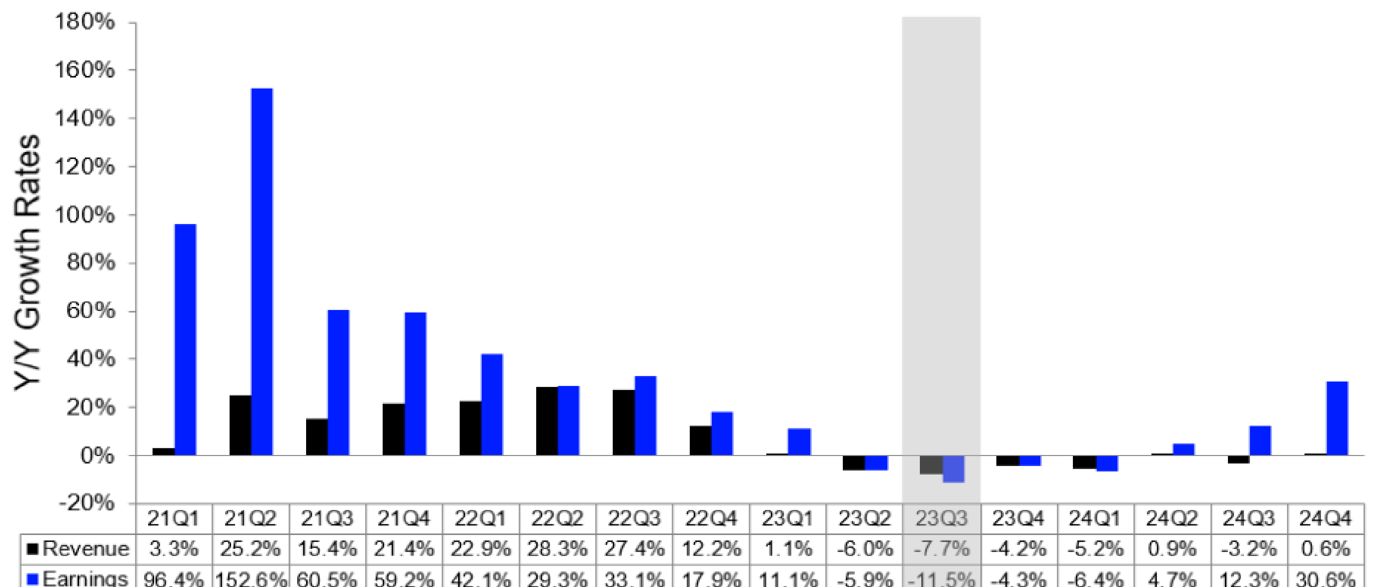
	Reported	Remaining
STOXX 600	**332**	**63**
Basic Materials	41	3
Consumer Cyclicals	29	18
Consumer Non-Cyclicals	22	9
Energy	20	0
Financials	55	5
Healthcare	30	9
Industrials	67	12
Technology	41	6
Real Estate	11	0
Utilities	16	1

SURPRISE FACTORS

Earnings		Revenue	
STOXX 600	**-2.6%**	**STOXX 600**	**-0.9%**
Real Estate	6.2%	Real Estate	18.2%
Consumer Cyclicals	3.3%	Consumer Cyclicals	1.4%
Consumer Non-Cyclicals	2.0%	Consumer Non-Cyclicals	-0.2%
Industrials	0.2%	Industrials	-1.0%
Healthcare	-0.7%	Healthcare	-1.1%
Technology	-1.6%	Technology	-0.9%
Financials	-2.9%	Financials	12.6%
Energy	-3.8%	Energy	-1.8%
Basic Materials	-9.6%	Basic Materials	-3.8%
Utilities	-22.8%	Utilities	-26.2%

Source: LSEG I/B/E/S

Exhibit 3A. STOXX 600 YoY Growth Rates



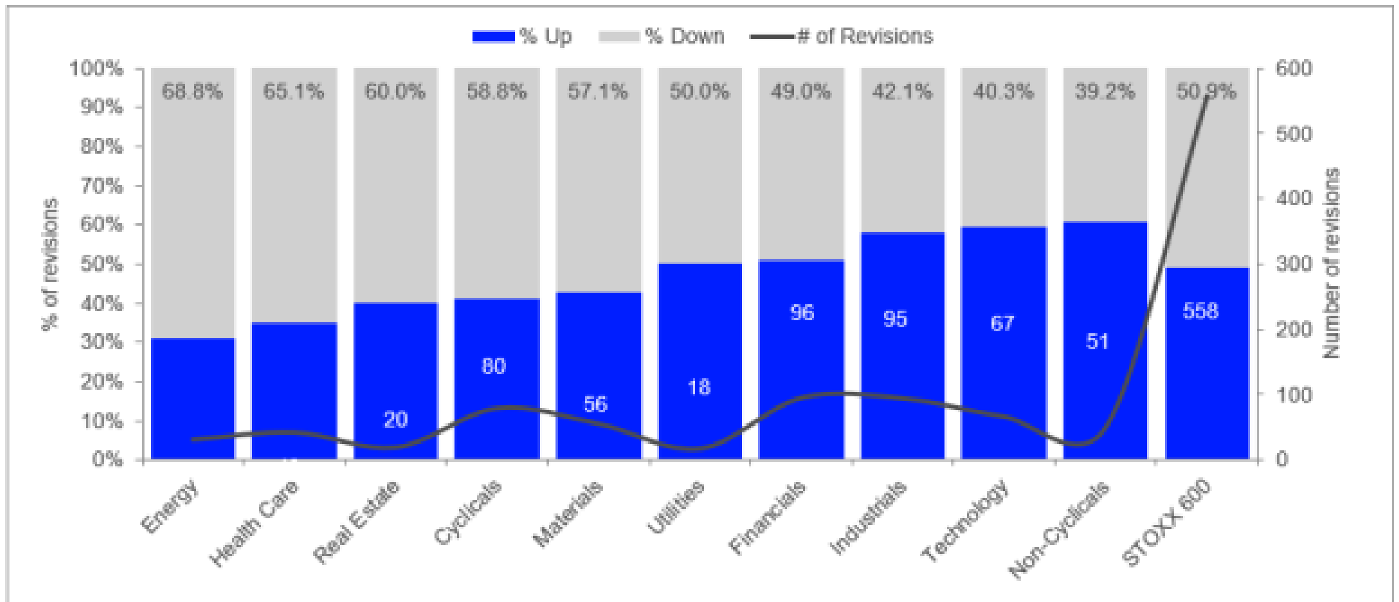
	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4
■Revenue	3.3%	25.2%	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.7%	-4.2%	-5.2%	0.9%	-3.2%	0.6%
■Earnings	96.4%	152.6%	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.5%	-4.3%	-6.4%	4.7%	12.3%	30.6%

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

STOXX 600 Price Index
12 Month Fwd EPS
STOXX 600 Price Index
12 Month Forward EPS (RhS)
12 Month Fwd P/E
14.4x
12.4x
Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov
2022
2023
12 Month Forward P/E
10-Year Average

Source: LSEG Datastream

GLOBAL EQUITY INDICES

Earnings Dashboard - US

Exhibit 1. 2023Q3 S&P 500 Earnings Dashboard

S&P 500 2023Q3 EARNINGS / S&P 500 2023Q3 REVENUE

BLENDED GROWTH RATES

Sector	Earnings	Sector	Revenue
S&P 500	7.1%	**S&P 500**	1.8%
Comm. Services	46.5%	Comm. Services	6.0%
Consumer Discretionary	42.5%	Consumer Discretionary	7.0%
Financials	23.5%	Financials	5.1%
Technology	15.3%	Technology	3.1%
Industrials	12.0%	Industrials	2.7%
Utilities	10.3%	Utilities	-5.8%
Consumer Staples	6.7%	Consumer Staples	3.3%
Real Estate	-5.4%	Real Estate	8.5%
Health Care	-17.3%	Health Care	6.7%
Materials	-18.1%	Materials	-10.2%
Energy	-33.0%	Energy	-17.1%

SCORECARD

■Above ■Match ■Below

14% 4% 82%

Earnings	Above	Match	Below
S&P 500	82%	4%	14%
Consumer Discretionary	85%	4%	12%
Consumer Staples	85%	6%	9%
Energy	74%	-	26%
Financials	82%	-	18%
Health Care	84%	5%	11%
Industrials	84%	3%	13%
Materials	76%	10%	14%
Real Estate	65%	16%	19%
Technology	90%	3%	6%
Comm. Services	89%	-	11%
Utilities	73%	7%	20%

■Above ■Match ■Below

39% 61%

Revenue	Above	Match	Below
S&P 500	61%	0%	39%
Consumer Discretionary	69%	-	31%
Consumer Staples	59%	-	41%
Energy	57%	-	43%
Financials	68%	-	32%
Health Care	65%	-	35%
Industrials	59%	-	41%
Materials	41%	-	59%
Real Estate	68%	-	32%
Technology	68%	-	32%
Comm. Services	74%	-	26%
Utilities	24%	-	76%

■Reported ■Remaining

2% 98%

Earnings	Reported	Remaining
S&P 500	490	10
Consumer Discretionary	52	1
Consumer Staples	34	4
Energy	23	0
Financials	71	1
Health Care	63	1
Industrials	75	2
Materials	29	0
Real Estate	31	0
Technology	63	1
Comm. Services	19	0
Utilities	30	0

■Reported ■Remaining

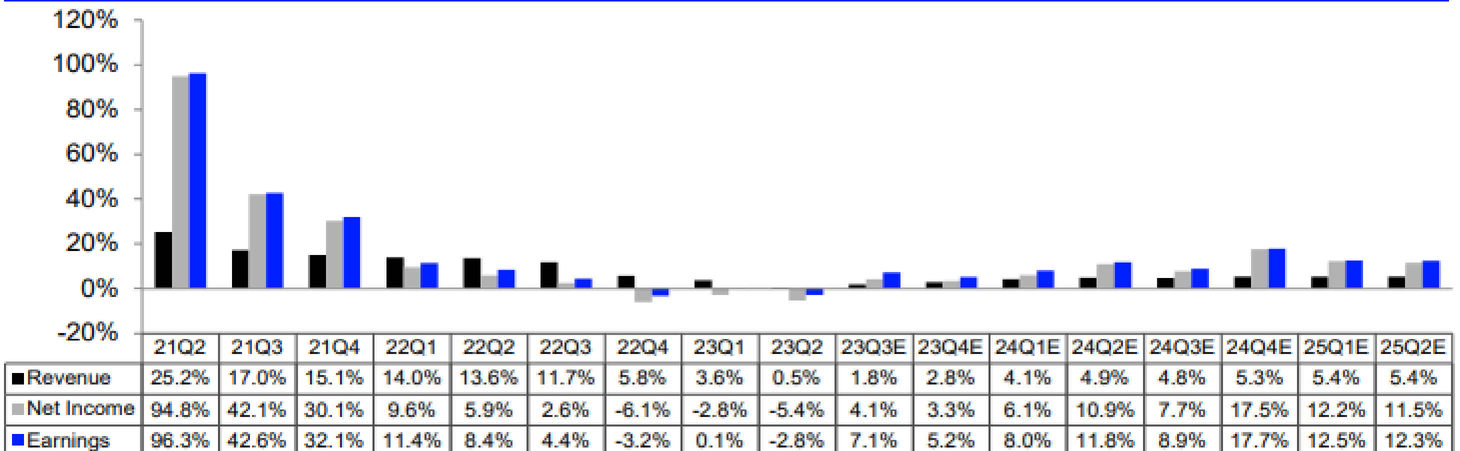
2% 98%

Revenue	Reported	Remaining
S&P 500	489	11
Consumer Discretionary	52	1
Consumer Staples	34	4
Energy	23	0
Financials	71	1
Health Care	63	1
Industrials	75	2
Materials	29	0
Real Estate	31	0
Technology	63	1
Comm. Services	19	0
Utilities	29	1

SURPRISE FACTORS

Sector	Earnings	Sector	Revenue
S&P 500	7.3%	**S&P 500**	0.9%
Consumer Discretionary	13.5%	Consumer Discretionary	0.7%
Technology	9.5%	Technology	1.6%
Comm. Services	9.5%	Comm. Services	0.9%
Financials	9.4%	Financials	2.5%
Industrials	7.2%	Industrials	1.2%
Consumer Staples	6.2%	Consumer Staples	0.0%
Health Care	4.3%	Health Care	1.7%
Materials	4.2%	Materials	0.0%
Real Estate	2.4%	Real Estate	2.1%
Utilities	1.1%	Utilities	-9.2%
Energy	-0.8%	Energy	1.7%

Exhibit 5. S&P 500 YoY Growth Rates



	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3E	23Q4E	24Q1E	24Q2E	24Q3E	24Q4E	25Q1E	25Q2E
■Revenue	25.2%	17.0%	15.1%	14.0%	13.6%	11.7%	5.8%	3.6%	0.5%	1.8%	2.8%	4.1%	4.9%	4.8%	5.3%	5.4%	5.4%
■Net Income	94.8%	42.1%	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.1%	3.3%	6.1%	10.9%	7.7%	17.5%	12.2%	11.5%
■Earnings	96.3%	42.6%	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.1%	5.2%	8.0%	11.8%	8.9%	17.7%	12.5%	12.3%

Source: LSEG I/B/E/S

ENERGY – OIL

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

Buy < USD75; Sell >USD100

Short-term drivers

(Bearish price factor) – Iraq-Turkey pipeline: Iraq and Turkey have reached an agreement on resuming exports through the Iraq-Turkey pipeline. Turkey halted 450,000 barrels per day (bpd) of northern exports through the Iraq-Turkey pipeline from March 25 after an International Chamber of Commerce (ICC) arbitration ruling.

(Bearish price factor) – China-Iran: China's oil imports from Iran have hit record highs as Iran ramps up output despite the threat of further U.S. sanctions. Existing sanctions were implemented over Iran's nuclear program, but U.S. lawmakers are seeking now to exert further pressure after the Oct. 7 attacks on Israel by Hamas, which has long been backed by Iran. U.S. lawmakers are now considering legislation that could impose measures on foreign ports and refineries that process petroleum exported from Iran. This collides with the fact that China, the world's largest crude importer, has become Iran's top customer as Beijing bought an average 1.05 million barrels per day (bpd) of Iranian oil in the first 10 months of 2023, according to ship tracking data. This is 60% above pre-sanction peaks recorded by Chinese customs in 2017. But Chinese purchases of Iranian crude oil continue to accelerate, and in October they reached around 1.45 million bpd, the highest monthly level ever recorded. Chinese imports allowed Tehran to raise output (October output edged up to 3.17 million bpd, the highest since 2018) and offer Beijing steep discounts. How does Iranian oil enter China? China's customs has not recorded any direct imports from Iran since December 2020. Almost all Iranian oil entering China is branded as originating from Malaysia or other Middle Eastern countries. The oil is carried by a "dark fleet" of older tankers that typically switch off their transponders when loading at Iranian ports to avoid detection. Other tactics include faking locations and conducting ship-to-ship (STS) operations at locations outside of authorized transfer zones and sometimes in poor weather to conceal activities, raising fears among nations over potential pollution. These ships sometimes become traceable via satellites before discharging cargoes mostly at ports in China's Shandong province. Which Chinese refineries buy Iranian crude? Giant state refiners Sinopec and PetroChina were once key Iranian oil clients, with direct investments in oilfields in Iran. But they stopped lifting Iranian oil since late 2019, after then-U.S. President Donald Trump re-imposed sanctions on Tehran's petroleum exports. Volumes have rebounded as more independent refiners joined the purchases. Most of the more than 40 independent Chinese refiners, known as teapots, process Iranian oil, according to Chinese traders. Teapots have little exposure to the dollar-based global financial system and don't need to cooperate with western firms on technology. Most of the transactions are believed to be paid in Chinese currency. Independent refiners buy Iranian oil mainly because the oil is cheap and of good quality. Iranian Light, the main export grade, trades at a discount of about $13 a barrel to ICE Brent. That compares with a premium of about $5 a barrel for similar-quality Oman crude. What’s Beijing’s stance on the trade? China's last Iranian oil cargo officially recorded by customs was destined for state reserves. Beijing opposes unilateral sanctions and has said its normal trade deserves respect and protection. China also buys crude from Russia and Venezuela - which have also faced U.S. sanctions. Is North America efficient in its sanctions regime against Iran? Since 2021, Washington has sanctioned over 180 entities and individuals related to Iran's petroleum and petrochemical sectors or related to moving and laundering illicit proceeds. Over 40 vessels have been identified as “blocked property” of the sanctioned entities. The U.S. government also regularly engages with other countries to strongly discourage them from taking steps that contravene sanctions on Iran.

(Bearish price factor) – India's diversification to buy crude oil (now from Venezuela) may be the result of a North American strategy to weaken Russian sales, but at the end of the day it means more crude oil in the market. Platts reported India is seeking to diversify its oil imports, including the possibility of buying from Venezuela, which was a key supplier in the past. "It is always good when more supplies come to the market," said Oil Minister Hardeep Singh Puri. "We will buy wherever we can get cheaper oil” and “we are open to sourcing crude oil from any country, including Venezuela, at a reasonable price.“ The coincidence between this new stance of India in relation to Venezuela, and the fact that during October the United States Department of the Treasury eased oil, commercial and financial sanctions against Venezuela, does not escape our attention. Indian government officials have made it clear that in the future, any import of crude oil from Venezuela will be guided by the country's policy related to energy security. At this point, the prospect of abundant flows of Venezuelan crude to India seems remote, although things could change in the medium and long term. India continues to source abundant volumes from Russia. Russian crude flows reached 1.8 million barrels per day between January and September (+11.2% y/y), accounting for 38% of India's total oil imports (4.7 mbpd). India's oil consumption is expected to rise from 4.9 mbpd in 2022 to 5.2 million barrels per day in 2023 (+6.1%) and to 5.3 million barrels per day in 2024.

(Bullish price factor) – In mid November, U.S. energy firms cut the number of oil rigs operating for a second week in a row to the lowest since January 2022, energy services firm Baker Hughes (BKR.O) said. The combined oil and natural gas rig count, traditionally an early indicator of future output, fell by two to 616 in the week to Nov. 10, the lowest since February 2022. Baker Hughes said that puts the total rig count down 163, or -21% y/y.

(Bullish price factor) – Geopolitical risks worst in 50 years, warns oil services boss: The CEO of Baker Hughes believes geopolitical risks are at their highest level in 50 years, raising concerns about energy supplies and helping to fuel a boom in LNG. “From a historical context I’ve heard people say, you go back to the oil embargo of 1973 — that being somewhat similar”. “In my tenure, the geopolitical climate has not been this fragile.” His comments come as the conflict between Israel and Hamas in the Middle East adds to an already febrile geopolitical environment as Russia’s full-scale invasion of Ukraine nears the end of its second year. Baker is one of the world’s three leading providers of oilfield services alongside SLB and Halliburton, responsible for drilling wells and laying pipes across the world, from Texas to West Africa. It is also a top supplier of LNG equipment at a time when demand for seaborne gas is surging, as Europe weans itself off Russian gas and global energy demand rises. Oil prices jumped to more than $130 a barrel last year after Russian troops entered Ukraine. They spiked again last month to almost $100 a barrel after Hamas militants attacked Israel. They have since eased, to around $80 on November, as concern that this could spark a wider Middle East conflict has receded and bearish economic data have damped demand.

Long-term drivers

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

(Price Negative) – Growing environmental problems will gradually tighten legislation on production levels. The value of producers’ reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems, which will likely continue to put a lot of pressure on the market for fossil fuels over the coming decades, OPEC’s most serious risk is of sitting on a big chunk of “stranded reserves” that it can no longer extract and sell. Producers therefore have a powerful incentive to monetize as much of their reserves as soon as they can.

(Price Negative) – Are OPEC producers able to structurally fix prices? While it is true the agreement between the Saudis and Russia to strangle the global energy market has worked well in achieving a considerable increase in the price of oil, this has been at the cost of a loss of market share, meaning that OPEC producers are no longer able to easily fix prices without bearing costs. Back in the 1970s and the early 2000s, the exporters cartel agreed to cut output and the approach worked well, as the principal competition was among conventional oil producers (in particular between OPEC and non-OPEC producers). Today’s biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil should therefore easily be offset (in theory) by a rapid increase in shale oil production.

PRECIOUS METALS - GOLD

Fundamental view (Gold): Target range USD1,900 – 2,100 /oz

Buy < USD1,900; Sell >USD2,100

Positive drivers for gold

Gold is cheap relative to palladium: The Gold/Palladium ratio rose to 1.79, still well below its 20-year average of 1.83x, suggesting that gold is still 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. The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (Gold and US Treasuries) is likely to perform better in such a disruptive scenario. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will best act as an anti-fragile asset in the face of a shock. In this regard, in the short term and for as long as QT continues (whereby the Fed puts a large amount of UST on the market), the UST bond will continue to underperform gold. With a longer-term view, once QT has ended, we no longer see the supply of UST as unlimited, but rather as quite limited. This should be good news for UST, but in the long term.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.23075), 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$1,646. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,242oz. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,528.

Gold expensive relative to silver. The Gold/Silver ratio rose to 82.56, still above its 20-year average of 67.8x, 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$1,664/oz.

Gold to oil: This ratio rose to 27.88, still well above its 20-year average of 19.19x. 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$1,679 for this ratio to remain near its LT average.

Within the four-quadrants framework, We are proposing a quadrant for 2024 where low (but positive) growth would be combined with inflation on the path of moderation. Such a scenario suggests a mediocre performance for the price of gold and displaces the feared scenario of recession with inflation (more favorable for gold). Of course, the price of gold will also be determined by the decision of the Western central banks, in their management of the monetary mass, and the Asian central banks, in their decision to displace the USD in their strategic reserves.

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

The four threats that could end the gold rally no longer seem so distant. What are those threats? The 1976-80 rally of gold ended when US short rates were jacked up to break inflation, causing the USD to rise. The 1985-88 gold 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) A rise in real rates. 3) Stronger USD, and 4) A loss of momentum from EM buyers. How real 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 since August 2020, but also because interest rates increases became a reality.

Risk #1. Higher nominal rates (HIGH RISK): Although two years ago rate hikes by monetary authorities seemed unthinkable, this is now a reality and positive rates are going to stick around for a while.

Risk #2. Stronger USD (HIGH RISK): The US current account balance has continued to gradually improve throughout 2023, continuing the improvement seen in 2022, moving from -4.53% of GDP in 1Q22 to -3.1% in 2Q23. This leads to a relative shortage of dollars and consequently a potential rise in its price. If this trend in the US CA balance continues, it could keep the price of gold capped. Our outlook is for the US current account balance to continue improving towards a historical average level of -3% of GDP. This should keep the USD well supported but stable, far from the strong rebound in the USD that could lead gold to a precipice. If trade relations between the USA and China continue to deteriorate, US Current Account could even reach -2% of GDP. In such a scenario, the flow of USD from the US to the world would be half that of other periods, which could keep the price of the USD well supported, and the price of gold limited above. Also, 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 since August 2020, 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, for the time being, it's not clear whether a resurgence in wealth generated in Asia can be initiated in the short term.

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CURRENCIES

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	1,12	-7,52	32,1	-28,2	0,6	**0,03**
USD vs G10	3,70	-6,24	32,7	-25,4	2,1	**0,09**
EM	2,59	1,29	3,9	-0,8	1,9	**0,51**
EUR	19,67	8,77	25,1	-8,6	10,9	**0,88**
JPY	-9,26	-0,69	0,6	-15,0	-8,5	**-0,18**
GBP	-0,63	0,23	5,2	-6,5	-0,6	**-0,01**
CHF	-2,89	-0,52	0,2	-6,0	-2,3	**-0,35**
BRL	0,68	0,61	0,7	-0,8	0,0	**1,46**
MXN	1,91	0,68	3,3	-0,5	1,6	**0,29**
RUB	0,00	0,00	1,2	-0,3	0,3	**0,00**
AUD	-4,74	0,40	6,1	-6,3	-1,2	**-1,01**
CAD	-4,66	-1,10	6,1	-5,1	-0,2	**-1,52**

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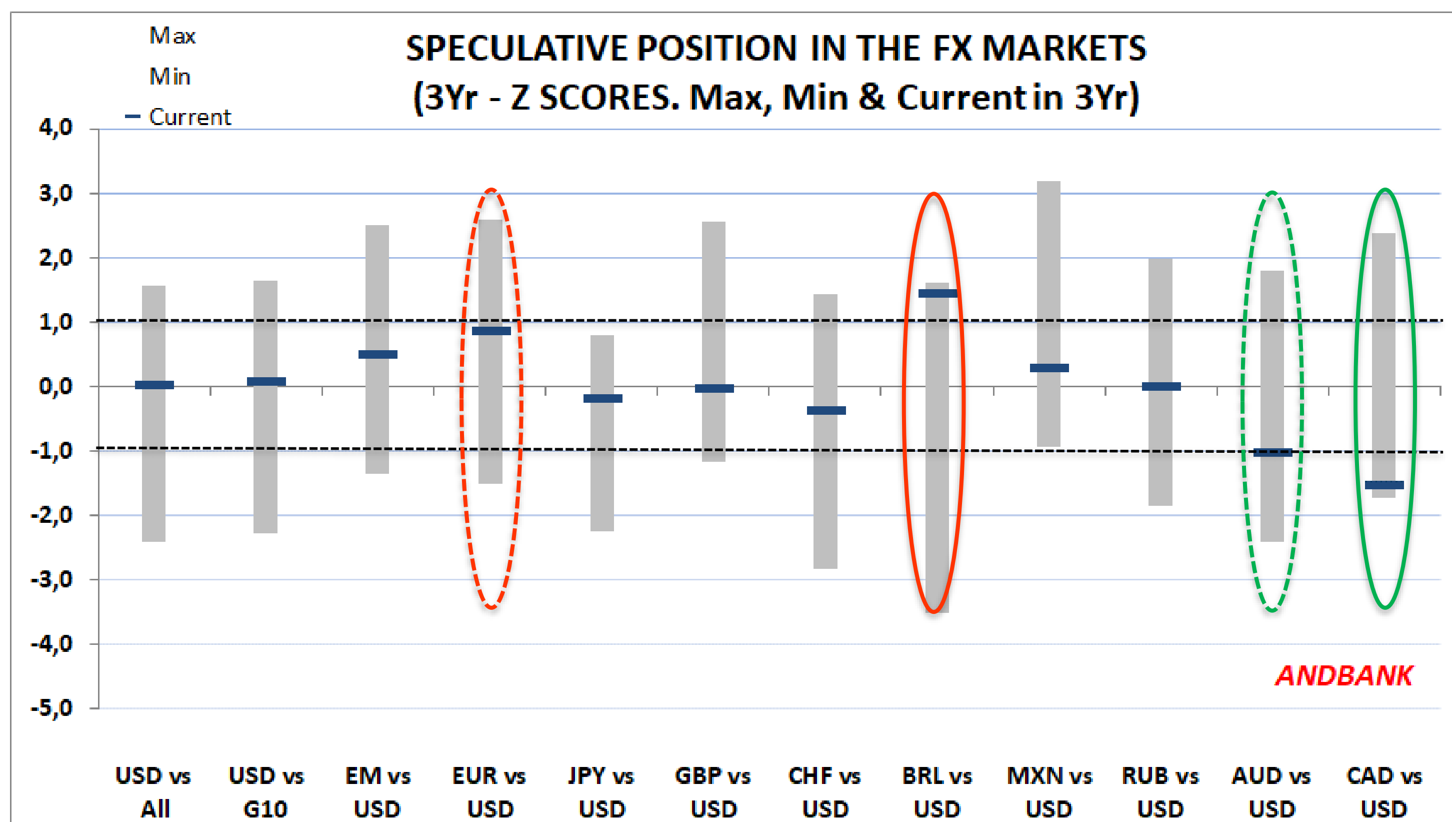
Positive
Neutral-Positive
Neutral-Negative
Negative



The currencies we technically favour are circled in green

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SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Equity	USA - S&P 500	19,0%	4.570	4.595	0,6%
	Europe - Stoxx Europe 600	9,8%	466	478	2,4%
	Euro Zone - Euro Stoxx	13,2%	464	489	5,5%
	SPAIN - IBEX 35	24,0%	10.207	10.816	6,0%
	MEXICO - MXSE IPC	11,5%	54.054	60.167	11,3%
	BRAZIL - BOVESPA	15,6%	126.803	136.799	7,9%
	JAPAN - NIKKEI 225	25,6%	32.776	34.641	5,7%
	CHINA - SHANGHAI COMPOSITI	-3,8%	2.972	3.038	2,2%
	CHINA - SHENZEN COMPOSITE	-6,6%	1.845	1.864	1,0%
	INDIA - SENSEX	13,9%	69.296	72.269	4,3%
	VIETNAM - VN Index	10,8%	1.116	1.334	19,5%
	MSCI EM ASIA (in USD)	1,5%	522	578	10,7%
Fixed Income Core countries	US Treasury 10 year Govie	0,7%	4,24	5,00	-1,9%
	UK 10 year Gilt	-0,5%	4,14	4,75	-0,7%
	German 10 year BUND	4,4%	2,31	2,75	-1,2%
	Japanese 10 year Govie	-1,7%	0,66	1,00	-2,0%
Fixed Income Peripheral	Spain - 10yr Gov bond	6,0%	3,31	3,75	-0,2%
	Italy - 10yr Gov bond	9,5%	4,04	4,65	-0,8%
	Portugal - 10yr Gov bond	8,1%	2,94	3,35	-0,4%
	Ireland - 10yr Gov bond	6,1%	2,65	3,15	-1,4%
	Greece - 10yr Gov bond	13,5%	3,42	4,50	-5,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	3,6%	66,31	75	4,4%
	Credit EUR HY-Itraxx Xover	9,2%	366,51	450	5,1%
	Euribor 3m				
	Credit USD IG - CDX IG	5,8%	62,17	90	-0,2%
	Credit USD HY - CDX HY	8,9%	487,44	550	3,0%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-103,6%	23,15	20,00	48,4%
	Russia - 10yr Gov bond (local)	-6,3%	12,36	25,00	-88,8%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	9,2%	6,56	5,75	13,0%
	India - 10yr Gov bond (local)	7,3%	7,26	6,75	11,3%
	Philippines - 10yr Gov bond (lo	11,2%	6,21	6,25	5,8%
	China - 10yr Gov bond (local)	3,9%	2,68	2,25	6,1%
	Malaysia - 10yr Gov bond (loca	5,7%	3,76	3,50	5,8%
	Thailand - 10yr Gov bond (loca	-1,7%	2,93	2,25	8,4%
	Singapore - 10yr Gov bond (loc	4,2%	2,90	4,00	-5,9%
	Rep. Korea - 10yr G. bond (loc	4,6%	3,48	4,60	-5,5%
	Taiwan - 10yr Gov bond (local)	1,7%	1,22	2,25	-7,0%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	5,8%	9,35	10,50	0,2%
	Mexico - 10yr Govie (USD)	5,4%	5,97	6,75	-0,3%
	Brazil - 10yr Govie (Loc)	26,2%	10,92	12,00	2,3%
	Brazil - 10yr Govie (USD)	7,2%	6,33	8,00	-7,0%
Commodities	Oil (WTI)	-8,5%	73,4	75,00	2,1%
	GOLD	11,1%	2.026,9	2.000	-1,3%
Fx	EURUSD (price of 1 EUR)	1,2%	1,083	1,05	-3,1%
	GBPUSD (price of 1 GBP)	4,5%	1,26	1,25	-1,1%
	EURGBP (price of 1 EUR)	-3,1%	0,86	0,84	-2,0%
	USDCHF (price of 1 USD)	-5,6%	0,87	0,95	8,9%
	EURCHF (price of 1 EUR)	-4,4%	0,95	1,00	5,5%
	USDJPY (price of 1 USD)	12,1%	146,95	140,00	-4,7%
	EURJPY (price of 1 EUR)	13,5%	159,24	147,00	-7,7%
	USDMXN (price of 1 USD)	-10,4%	17,45	18,50	6,0%
	EURMXN (price of 1 EUR)	-9,3%	18,89	19,43	2,8%
	USDBRL (price of 1 USD)	-6,5%	4,94	5,00	1,1%
	EURBRL (price of 1 EUR)	-5,3%	5,36	5,25	-2,0%
	USDARS (price of 1 USD)	105,1%	362,45	370,00	2,1%
	USDINR (price of 1 USD)	0,8%	83,34	84,00	0,8%
	CNY (price of 1 USD)	3,5%	7,14	7,50	5,0%

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

UPWARD REVISION DOWNWARD REVISION

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