ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – March 2024

Corporate Review

March 2024

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Could oil spoil the party for us in 2024 due to the severe destocking challenge?

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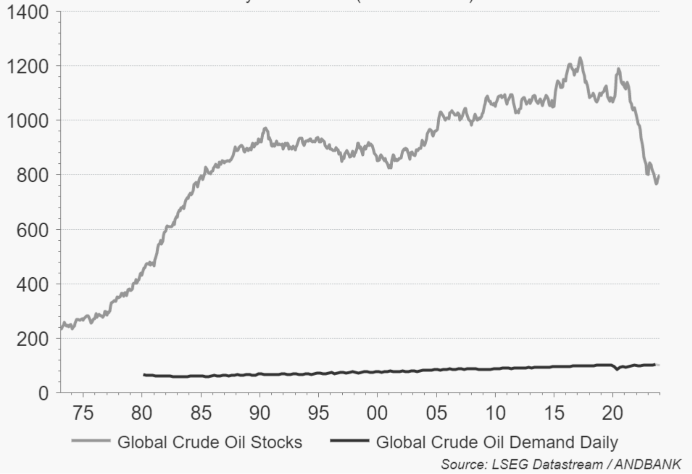
EXECUTIVE SUMMARY

CHART OF THE MONTH

REPLENISHMENT OF STOCKPILES COULD BOOST OIL PRICE

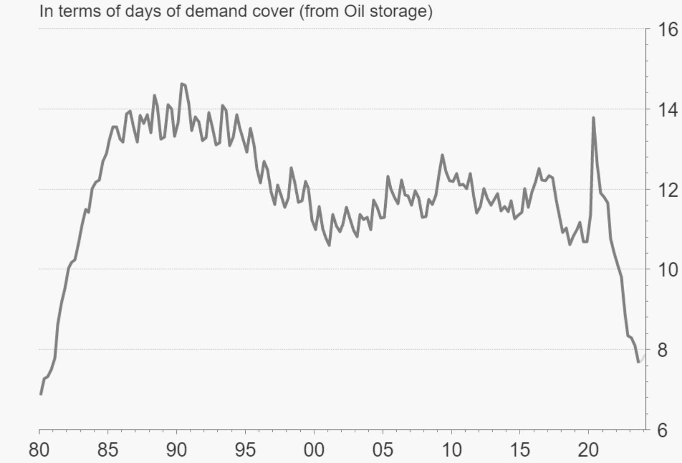
Global Oil Stocks & Daily Oil Demand (million barrels)



Source: LSEG Datastream / ANDBANK

RATIO OF GLOBAL OIL STOCKS TO OIL DEMAND

In terms of days of demand cover (from Oil storage)



Source: LSEG Datastream / ANDBANK

EQUITIES

Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
USA - S&P 500	3,6%	7,7%	5.137	4.625	-10,0%
Europe - Stoxx Europe 600	2,9%	3,9%	498	517	3,8%
Euro Zone - Euro Stoxx	4,1%	5,7%	501	535	6,7%
SPAIN - IBEX 35	0,0%	-0,4%	10.066	10.846	7,8%
MEXICO - MXSE IPC	-4,6%	-3,2%	55.536	58.323	5,0%
BRAZIL - BOVESPA	1,6%	-3,7%	129.180	140.952	9,1%
JAPAN - NIKKEI 225	10,9%	53,7%	40.109	42.180	5,2%
CHINA - SHANGHAI COMPOSITI	11,3%	2,2%	3.039	3.065	0,9%
CHINA - SHENZEN COMPOSITE	15,9%	-5,9%	1.729	1.896	9,7%
INDIA - SENSEX	2,5%	2,2%	73.866	77.761	5,3%
VIETNAM - VN Index	7,6%	25,9%	1.261	1.356	7,5%
MSCI EM ASIA (in USD)	4,5%	0,6%	546	585	7,2%

FIXED INCOME GOVIES CORE, PERIHERAL & CREDIT (DM)

Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
US Treasury 10 year Govie	-1,1%	1,9%	4,21	**4,25**	3,8%
UK 10 year Gilt	-1,2%	0,7%	4,11	4,50	1,0%
German 10 year BUND	-1,3%	4,1%	2,41	**2,50**	1,7%
Japanese 10 year Govie	-0,4%	-1,9%	0,71	1,00	-1,6%
Spain - 10yr Gov bond	-0,9%	6,9%	3,30	3,50	1,7%
Italy - 10yr Gov bond	-0,3%	12,0%	3,88	4,40	-0,3%
Portugal - 10yr Gov bond	-0,7%	8,1%	3,05	3,10	2,7%
Ireland - 10yr Gov bond	-1,1%	5,7%	2,80	2,90	2,0%
Greece - 10yr Gov bond	-0,9%	15,5%	3,31	4,25	-4,2%
Credit EUR IG-Itraxx Europe	0,6%	4,7%	53,37	75	3,8%
Credit EUR HY-Itraxx Xover	1,3%	12,8%	303,35	450	2,6%
Euribor 3m					
Credit USD IG - CDX IG	0,6%	7,5%	51,50	75	5,4%
Credit USD HY - CDX HY	1,2%	15,8%	337,02	450	5,6%
Libor Usd 3m					

FIXED INCOME - EM

Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Turkey - 10yr Gov bond (local)	-4,3%	-121,2%	25,63	25,00	30,7%
Russia - 10yr Gov bond (local)	-3,0%	-7,6%	12,84	25,00	-84,4%
Indonesia - 10yr Gov bond (loc	-0,1%	10,8%	6,58	5,75	13,2%
India - 10yr Gov bond (local)	0,5%	10,8%	7,05	6,60	10,7%
Philippines - 10yr Gov bond (lo	-0,1%	12,7%	6,23	5,50	12,1%
China - 10yr Gov bond (local)	0,8%	7,2%	2,35	1,75	7,2%
Malaysia - 10yr Gov bond (loca	-0,2%	6,0%	3,84	3,00	10,6%
Thailand - 10yr Gov bond (loca	0,8%	1,9%	2,56	1,75	9,0%
Singapore - 10yr Gov bond (loc	-1,4%	3,8%	3,05	4,00	-4,5%
Rep. Korea - 10yr G. bond (loc	-0,8%	6,7%	3,33	3,50	2,0%
Taiwan - 10yr Gov bond (local)	-0,2%	2,3%	1,18	2,25	-7,3%
Mexico - 10yr Govie (Loc)	1,5%	9,6%	9,15	9,50	6,3%
Mexico - 10yr Govie (USD)	-1,7%	7,3%	5,92	6,00	5,2%
Brazil - 10yr Govie (Loc)	0,0%	30,8%	10,73	11,25	6,6%
Brazil - 10yr Govie (USD)	-0,6%	9,2%	6,29	6,75	2,6%

COMMODITIES & FX

Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Oil (WTI)	10,4%	-0,6%	79,8	80,00	0,3%
GOLD	2,3%	14,3%	2.085,1	2.000	-4,1%
EURUSD (price of 1 EUR)	0,6%	1,3%	1,085	1,05	-3,2%
GBPUSD (price of 1 GBP)	0,3%	4,7%	1,27	1,29	1,8%
EURGBP (price of 1 EUR)	0,3%	-3,2%	0,86	0,81	-4,9%
USDCHF (price of 1 USD)	1,9%	-4,5%	0,88	0,87	-1,5%
EURCHF (price of 1 EUR)	2,4%	-3,2%	0,96	0,91	-4,6%
USDJPY (price of 1 USD)	1,4%	14,7%	150,38	140,00	-6,9%
EURJPY (price of 1 EUR)	1,9%	16,3%	163,13	147,00	-9,9%
USDMXN (price of 1 USD)	-0,6%	-12,7%	17,01	18,50	8,8%
EURMXN (price of 1 EUR)	0,0%	-11,4%	18,45	19,43	5,3%
USDBRL (price of 1 USD)	-0,3%	-6,3%	4,95	5,00	0,9%
EURBRL (price of 1 EUR)	0,3%	-5,0%	5,37	5,25	-2,3%
USDARS (price of 1 USD)	1,9%	377,0%	843,00	1.000	18,6%
USDINR (price of 1 USD)	-0,1%	0,2%	82,88	82	-0,7%
CNY (price of 1 USD)	0,1%	4,4%	7,20	7,50	4,2%

USA

Stocks rise on strong corporate earnings and economic activity, despite rising interest rates

Federal Reserve

The Fed kept interest rates unchanged in the first monetary policy decision of the year, something the market was already expecting. Chair Jerome Powell indicated that the Fed was not inclined to cut rates at its next meeting. In the minutes from this last meeting, most Fed officials said they were worried about moving too fast to cut their benchmark interest rate before it was clear that inflation was sustainably returning to their 2% target. In our last corporate opinion report we headlined that the market seemed to be incorrectly predicting what may happen to interest rates this year, forecasting dovish Fed action. What has happened over the last month seems to prove us somewhat right, as market expectations slowly started to converge to what the Fed predicted in the December dot-plot. The market went from an estimate at the beginning of the year of 6 to 7 cuts during 2024, to only expecting 3 to 4 cuts if we look at the most recent data. The probability of a Fed cut at the next policy meeting on March 20th was almost 90% at the beginning of the year and is now less than 5%, while now the market is not expecting a cut until after the June meeting. This change in expectations comes in a context where inflation in January was higher than expected and economic activity data continues to show a resilient economy. It is also important to highlight that some prominent economists, such as Larry Summers, former Treasury Secretary, are talking about a scenario where the next move by the Fed may be a rate hike rather than a rate cut, as most market participants are expecting. Note that this is not our baseline scenario, which is still similar to the Fed's, and we assign a very low probability to it. Finally, at the end of January, the situation of regional banks was in the spotlight once again with the fall of more than 50% in the shares of New York Community Bank, the bank that took over the assets of the failed Signature bank and whose first results after this last purchase were not to the market's liking. It should be recalled that regional banks are the most exposed to commercial home mortgage lending, with more than 40% of their assets in this category.

Inflation and economic activity

The CPI on a 12-month basis came out to +3.1% y/y, down from +3.4% y/y in December but higher than the +2.9% y/y average market expectation. Core CPI jumped +0.4% m/m and was up +3.9% y/y, unchanged from previous print but also above market forecasts (+0.3% m/m and +3.7% y/y, respectively). Shelter prices, which account for about one-third of the CPI weighting, continue to explain most of the price rise, contributing to more than two-thirds of the headline increase. Prices in this category increased +0.6% m/m and 6% y/y. Energy offset some of the increase, down -0.9% m/m as gasoline prices slid -3.3% m/m. Wholesale price data also came in higher than expected in January after several months of nearly flat or declining readings. Core PPI jumped +0.5% m/m, bringing the yearly increase to 2% y/y, an acceleration from December's +1.7% y/y. Labour market data remains strong and continues to be the main source of data for those who defend the position that it is not yet time to modify monetary policy. US Nonfarm Payrolls expanded by 353k in January, much better than estimates of 185K and spread wide across sectors. December's job gains had an upward revision from an initial estimate of 117K to a final job creation of 333K. The unemployment rate stood at 3.7%. Meanwhile Job Openings grew in December to 9.026 from 8.925 million in November and also above 8.7 million estimate from analysts. Salaries accelerated during the month of January, as average hourly earnings increased +0.6% m/m , double the monthly estimate of +0.3% m/m, and on a yearly basis wages jumped +4.5% y/y, well above the +4.1% y/y forecast. This is probably the data that should generate the most concern for Fed officials given the possibility that new inflationary momentum may be gathering.

Financial markets

Rates & Credit: The shift in expectations mentioned in the first part of the paper led to an upward shift in the sovereign yield curve. The interest rate on the 10-year bond increased by about 50 bps, from 3.8% to the current 4.3%. On the other hand, the curve inverted a little more with the spread between the 10-year and the 2-year debt going from -20bps to -35bps, a level still far from the peak of last year when the spread reached 100 bps. We maintain our 4.5% level for the 10yr bond to move to a neutral stance in terms of duration. We also keep unchanged our credit spread targets for IG and HY..

Equity: With 79% of Companies reporting results for the 4Q24 (16th of February), three quarters of the companies have reported EPS surprises and the blended EPS (combines actual results for companies that have reported and estimated results for companies that have yet to report) is growing +3.2% y/y above the +1.6% y/y at the end of last year (Factset). Services and Technology companies continue to be the top performers at the start of this year. We also continue to see a widening in the relative value of Large vs. Small Cap Companies and growth vs value companies. We continue to recommend balancing styles and taking advantage of opportunities in sectors that are underperfoming (i.e. small caps today).

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT-UNDERWEIGHT

Bonds: Govies UNDERWEIGHT. 10Y UST Target 4.5%

CDX IG: MARKETWEIGHT (Target Spread 75)

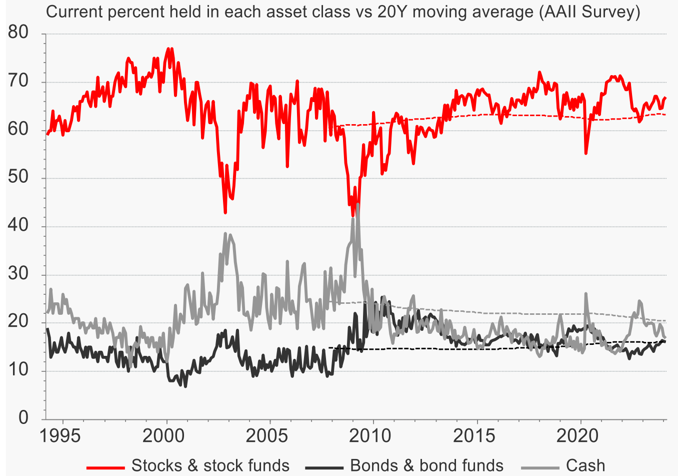
CDX HY: UNDERWEIGHT (Target Spread 450)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

US price-to-earning ratio
S&P 500

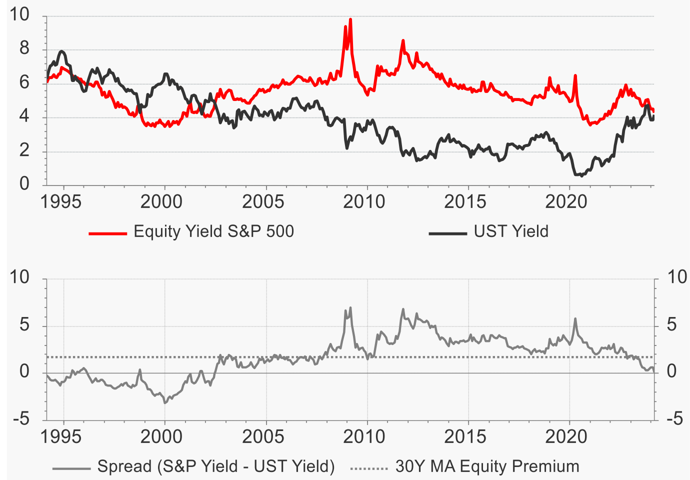
Fuente: LSEG Datastream / ANDBANK

US asset allocation: Equity, Bonds & Cash
Current percent held in each asset class vs 20Y moving average (AAII Survey)



Fuente: LSEG Datastream / ANDBANK

Equity Yield & UST Yield



Fuente: LSEG Datastream / ANDBANK

EUROPE

The scenario is not ideal but there may be positive signs for economic activity and equity

Can we expect an improvement in sentiment in the short term?

According to the ECB, some forward-looking survey indicators point to a pick-up in activity for this year, though they remain at very low levels (manufacturing PMI slightly up but <50). It also seems premature to take a more constructive position from other data such as the German orders (surprisingly up, but strongly affected by exceptional issues). All in all, macro sentiment is still gloomy, so that downward revision of the EU Commission's winter GDP forecasts should not come as surprise and look optimistic compared to lower private estimates (2024E: 0,5% y/y). As for prices, underlying inflation has fallen significantly, but domestic and services components are proving stickier than expected. Regarding the inflation outlook, wage pressures indicate that some levelling-off seems in sight, but data are yet to fully validate this, as data revisions have recently been larger than in the past, making forecasts more unreliable.

European Central Bank

Despite the possibility of rates cuts being considered premature at the last meeting, many ECB members are openly speaking of them recently. March will be important as new macro projections could show lower GDP expectations, but June seems the "sweet spot" as wage indicators will be available by then. Dovish ECB talk has spread, starting with Lagarde who defined the inflation trend as encouraging, or Chief Economist Lane (*"inflation is a tiny problem but still a challenge")* who sees risks in cutting rates too soon or too late. But, sticky services inflation and resilient labour markets, recommend patience and caution. The ECB, like the FED, needs more confidence in the strength of disinflation, which implies more time, new data. We stick to our two rate cut estimates for 2H24 (depo levels at 3,5% by year end), unless a more pessimistic scenario in terms of growth (and inflation) unfolds. Market expectations have come down, following US macro strength and CPI´s bumpy road, but still price in four rate cuts in 2024.

Fiscal policy

A further formal step has been taken on the fiscal side with the negotiators from the Council and the European Parliament having reached a provisional political agreement on the proposed reform of economic governance in the EU, coming into force in 2025. As we previously wrote, the new framework maintains the same old targets, with some improvements from a theoretical point of view but counterweighed by the scheme's complexity and lack of clarity as to the consequences of non-compliance.

Financial Markets: Govies, Corporate Credit & Equity

Govies: No changes suggested for our bund and spread targets: 10Y bund yield at 2.5%; Italy (190 bps), Spain (100 bps), Portugal (60 bps), Greece (120 bps), Ireland (40 bps).

Corporate Credit

Equity: Warren Buffett's sage advice that "it's far better to buy a wonderful company at a fair price than a fair company at a wonderful price" resonates well when evaluating the current state of European stock markets. While we could debate whether the European stocks in aggregate would qualify as a "wonderful" business in Buffett's terms, it's evident that, on the whole, the index is now more robust than it has been over the past two decades. Currently, the Stoxx Europe 600 is trading at a price-to-earnings ratio close to its historical average, with earnings not significantly off from all-time highs, despite a dip since 1Q22. The risk premium, reflecting equity market value relative to fixed income returns, is not far from its two-decade average of 4.7%, after a recent surge in the 10-year bund yield. This suggests a market that is fairly valued, where investors might find quality companies at reasonable prices. The earnings picture for 4Q23, with about 40% of companies having reported, shows a mixed bag with a general sales decline and earnings growth dipping. Yet, if we exclude the energy sector, we have a more optimistic scenario for growth, hinting at underlying strengths in certain segments. Risks remain, particularly with margin pressures from cost inflation or growth slowdowns. However, the positive guidance and increased buybacks reported in earnings announcements signal a confidence among European companies that may well justify investor optimism for improvement as the year progresses. Moreover, despite challenges such as narrow market breadth (although not as unsettling as in the US) and rising bond yields, the European equity market's fundamentals, supported by a robust US economy and signs of stabilisation in Europe, suggest a supportive environment for equities

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: OVERWEIGHT

Equities – Euro Stoxx: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (Bund target 2.50%)

Peripheral – UW IT (4.40%), SP (3.50%), PT (3.10%), IE (2.90%). GR (4.25%),

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 €

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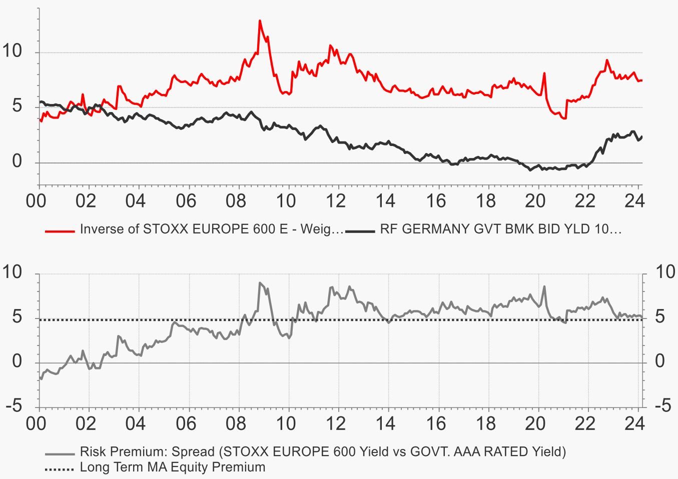
Equity Yield (Europe) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

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 area price-to-earnings

Europe Stoxx 600

Fuente: LSEG Datastream / ANDBANK

SPAIN

Last year's good performance seems to be carrying over into this year

Macro & Economic Politics

The European Commission just published its winter forecast for EU countries, where it cuts the estimate of Eurozone activity growth during this year from 1.2% to 0.8%, while keeping the forecast for Spain unchanged at 1.7% growth. The Commission lowered its forecast for average inflation in 2024 from 3.4% to 3.2% in 2024, with a projected rate of 2.1% for the next year. These numbers are somewhat better than Andbank's forecast of 1.5% of GDP growth in 2024 and in line with our projection for prices.

The Commission points out that the forecasted outperformance of the Spanish economy is due to better-than-expected activity at the end of last year and the expected behaviour of consumption and investment, which will continue to support economic activity in a slowdown scenario. We agree with the first part of the explanation, but not with the second. Although investment is set to improve this year, from a disappointing level for 2023, we believe that not only will consumption, both private and public, perform well this year, but we also expect exports to perform well.

The first activity data for this year have been released and so far they are encouraging. January PMI composite rose to 51.5 (50.4 in December 2023) with manufacturing PMI improving to 49.2 (46.2 in the previous print) and services jumping to 52.1 (from 51.5), in the last case notching up the fifth month of consecutive growth and the best numbers for this survey since July 2023.

Consumer prices rose +3.4% y/y in January from +3.1% y/y in the period through December. It compares with +3.4% y/y in France, +3.1% y/y in Germany and +0.9% y/y in Italy. The pickup in Spain's inflation was mainly due to a rise in electricity and gas prices, which respectively increased +9.4% y/y and +7% y/y. The Spanish government in January ended a reduction on value-added tax on utility bills approved two years earlier. If we look at core inflation, which strips out volatile fresh food and energy prices, the behaviour is more encouraging as it dropped from +3.8% y/y to +3.6% y/y in the same period, its lowest since March 2022.

Another positive effect of that better-than-expected economic activity in the second half of 2023 is the reduction of the public debt-to-GDP ratio. As of December 2023, public debt-to-GDP ratio stood at 107.7%, a significant decrease of 17.6 points from its peak during the pandemic. This decrease in the debt-to-GDP ratio surpasses by 40 bps the forecast in the Budget Plan, which estimated a debt of 108.1% of GDP at the end of 2023.

Talking about debt, the last auction for 30yr sovereign bonds showed a significant appetite for Spanish debt. A total of 6 billion euros were issued, which is the highest amount recorded for a Treasury bond of this maturity, and with a demand of over 83.7 billion, resulted in an oversubscription of 14 times the amount issued. This high demand, combined with strong participation by international investors, accounting for more than 91% of the total issue, demonstrates the confidence of foreign investors in the Spanish economy and its long-term performance, especially relevant in a context of the European Central Bank's gradual withdrawal from the market. With this syndication, the Treasury has already issued 40,846 billion euros in just over a month, which represents 23.6% of its medium and long-term financing programme for 2024. The average maturity of outstanding sovereign debt reached 8 years, and the average interest stands at 2.1%.

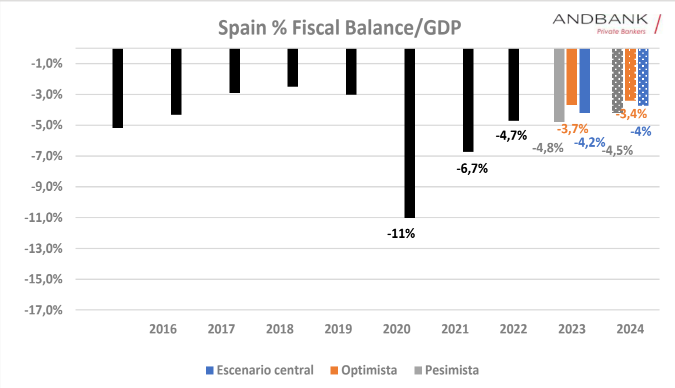
Stock Market

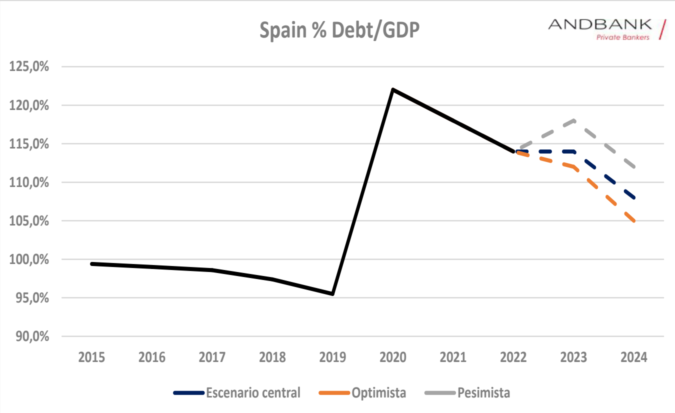
During this month, we have seen the results for 2023 from Spanish banks. It was a record quarter for the banking sector, with net interest margins growing at double-digit rates in each one of the listed banks. The banking industry maintains a strong balance sheet and continues to improve its coverage ratios thanks to the positive evolution of employment and salaries. After these positive earnings reports from banks, one third of the index, along with the improving economic data in Spain, analysts are once again revising their profit forecasts for 2024. This brings the market's expected EPS to almost the same levels that Andbank set in its annual strategy (Consensus 985 vs 986 Andbank´s forecast). We prefer to wait for the results of the rest of the index, especially energy companies, which have not had a favourable market for their businesses throughout 2023, before revising our forecasts. We must also not forget that companies with significant weight in the Index, like Amadeus, Inditex and Telefonica, have not reported their results at the time of this writing, relevant information that could lead us to recalibrate our expectations.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: OVERWEIGHT

Bonds: Govies UNDERWEIGHT (Bund target 3.50%)





CHINA

Measures aimed at propping up stocks are insufficient. Market suitable only for traders

Financial Market: Taking the temperature of the consensus. Hopes for more follow-through rescue measures are rising among investors

According to fund managers, China will have to do more to convince stock investors about the sustainability of the market rally seen in the first half of February, spurred by recent rescue measures after some US$5 trillion of value had been erased over the past three years. “The measures aimed at propping up stocks alone are insufficient to sustain the rally that has led to the recovery of a combined US$377 billions of capitalisation on markets on the mainland and Hong Kong in the first week of February” (Pictet AM).

Investors will now shift their focus to the economy and corporate earnings after the excitement about these bailout measures fades. While the market cheered the recent moves (China’s sovereign wealth fund boosted buying of ETFs and the securities regulator pledged to slap harsh punishments on trading misconduct while imposing new curbs on short selling), we believe China’s economic and corporate fundamentals remain grim. Bellwether companies from Alibaba Group Holding to Semiconductor Manufacturing International Corp posted lower profits for the last quarter.

The PCC’s Plenum on “Indefinite postponement” status. This does not help

Historically, policymakers gathered at the plenum to discuss and work out economic development strategies for the next five years. A clear approach to market-friendly policies is vital to revive confidence among the nation’s entrepreneurs and investors, who have been traumatised by restrictions on the tech industry over the past three years, and the draconian zero-Covid policies. The fact that the plenum is on ‘indefinite postponement’ status does not contribute at all to providing the necessary visibility for entrepreneurs or foreign investors.

Politics permeates everything in the Chinese market, and when that happens, developments tend to be unpredictable

Big companies still balk at making investments in new businesses because of the cloudy policy outlook. For example, Tencent Holdings’ founder Pony Ma Huateng recently said the social-media giant would rather sacrifice a share of its digital payments market to avoid confrontation with state-owned banks.

China is also facing a potential flare-up in geopolitical tension. US lawmakers are targeting Chinese biopharmaceutical companies with a proposed bill banning them from doing business with the American government. The episode has seen billions of yuan evaporate from the market values of WuXi Biologics and WuXi AppTec, the biggest players in the biotech industry. Meanwhile, former president Donald Trump has threatened to levy tariffs of more than 60 per cent on Chinese goods if he is elected. American voters will pick a new president in November. These headwinds continue to unsettle investors, particularly overseas traders who have dumped a record 201 billion yuan (US$27.9 billion) of stocks over the past six months, even as valuations remain at historical lows.

We consider the Chinese market suitable only for traders

In this delicate scenario, it may be advantageous to remain nimble and flexible. Short-term traders can find opportunities amid volatility. The stocks of state-owned enterprises and large caps will benefit from the state buying. Meanwhile, longer-term investors must await clearer signals on the policy front.

Indeed, Chinese stocks’ relative valuations are at an all-time low, but the prospects for the asset class are not particularly bright as investors doubt Beijing's willingness to deliver not only fiscal support to revive the market, but also to take a policy turn towards reform and liberalisation in relation to both its domestic policies and its foreign positioning.

Beijing in a surprise move named a new head to oversee the nation’s US$8.3 trillion stock market last week

Wu Qing, a veteran with years of experience both at the Shanghai Stock Exchange and the securities regulator, has replaced Yi Huiman as the chairman of the China Securities Regulatory Commission (CSRC). The reshuffle signalled more attention to the capital market from China’s top leaders. Wu is seen as a close aide to Premier Li Qiang, who last month urged more forceful measures to end the stock market rout. Wu, the former vice-mayor of Shanghai before taking charge of the CSRC, was one of Li’s lieutenants when Li served as the party’s No 1 official in charge of the metropolis until 2022. But all these efforts to end the stock rout could be undermined by gloomy economic data and earnings. China’s growth is likely to weaken to 4.8% in 2024, falling short of the possible annual growth target of 5%. And while the key concern has always been the magnitude of the economic recovery and macro-policy support, so far there are no material changes to the two. What is more, no turnaround in the property sector, which is key for an improvement in sentiment, is yet in sight.

Market outlook – Recommendations & Targets from fundamental analysis

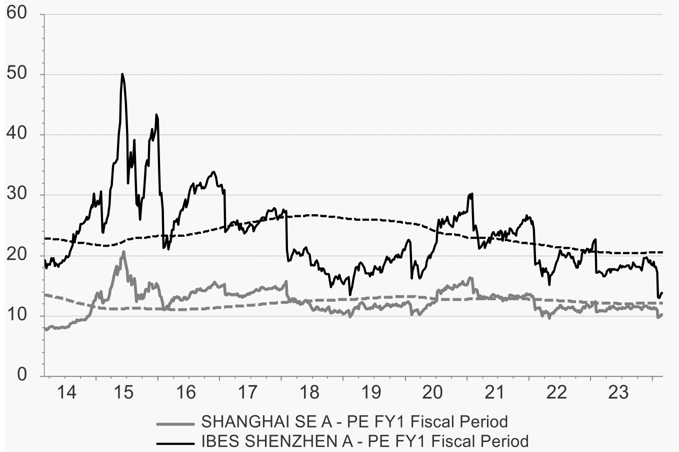
Equities – SHANGHAI Idx: UW /// SHENZHEN Idx: UW

Bonds – Govies: MARKETWEIGHT (10Y Yield target 1.75%)

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio

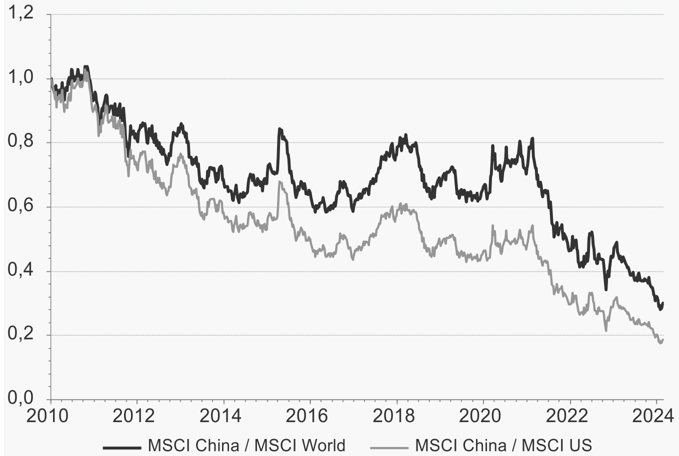
PE forward



Fuente: LSEG Datastream / ANDBANK

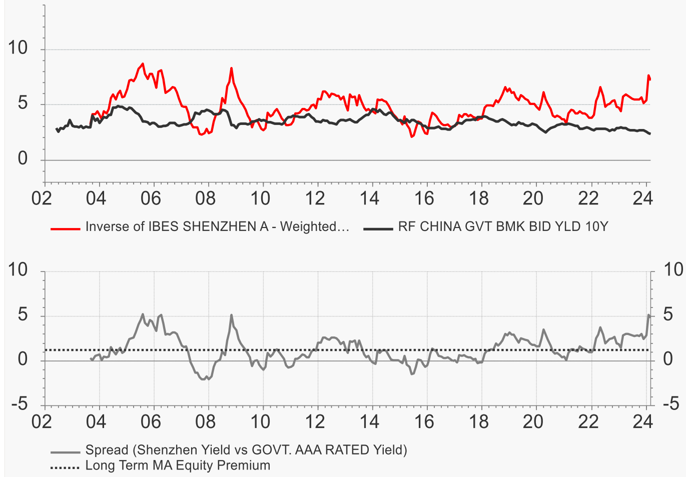
Chinese Equities Undeperforms World & US indices

MSCI China vs MSCI Global and MSCI USA



Fuente: LSEG Datastream / ANDBANK

Equity Yield (China Zhenzhen) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

JAPAN

Regulator pushes further its mandatory reform to optimise stock prices. More blue chips committing

The TSE stepped up pressure on CEOs to meet its request to improve capital efficiency metrics and stock prices. More Japanese blue chips committing to share price improvements

TSE's monthly update showing the list of companies committing to stock performance improvements grew to 726 among Prime Market constituents at January-end versus 660 in December. Additions include Daikin Industries, Rohm, Yakult and Kagome. However, articles noted the continued absence of Toyota, Keyence, Fast Retailing and SoftBank.

About 47% of companies in Japan's broad benchmark Topix index still trade below book value, compared with 18.4% in Europe and 4.8% in the US, according to Jefferies. The gap suggests that Japanese companies tend to keep excess cash and other assets, such as shares in other companies, rather than use them to boost profits or their stock price.

The TSE is promoting a mandatory reform by which companies are forced to become aware of this problem of low P/BV ratios, and to do so it urges companies to publish the causes of their low ratios (mostly related to excessively complex and inefficient capital structures), as well as the measures to be taken to boost the share price. With this, the TSE intends for companies to show investors that the company sees and is aware of the problem. The TSE's move is the latest in a series of reform measures aimed at further increasing the attractiveness of the stock market for investors. Companies have started to respond to TSE's reform measures, with share buybacks hitting a record high last May. Some companies, such as Toyota Motor, announced that they would sell off cross-shareholdings. The TSE released its first list of companies responding to a request to improve capital efficiency and stock prices. The list included 660 (or 40%) out of 1,656 firms in TSE Prime section. Another 155 names (9%) are considering action. This compares with July tallies of 20% and 11% respectively. Three hundred of 1,1649 (19%) have either announced or are considering measures. The TSE will update the list every month and plans to promote good examples of corporate disclosures by early February.

This step of announcing the list of companies is not only important from a company perspective, but also for investors, who will now know which companies are serious about making changes. This will continue to provide support for the market, as the lists underscore that more companies are paying closer attention to shareholder interests. The TSE's initiative doesn't end today. It will be updated every month, which means more companies are expected to take action.

International transactions in Japanese securities for the week ended 10-Feb

International investors: Net buyers of ¥621.3B in domestic equities vs net purchases of ¥308.2B in previous week. Net buyers of ¥175.9B in domestic long-term debt vs net purchases of ¥397.7B in previous week.

Domestic investors: Net buyers of ¥22.1B in foreign equities vs net sales of ¥194.5B in previous week. Net buyers of ¥1,499.3B in foreign long-term debt vs net purchases of ¥456.7B in previous week.

Economy: GDP seen remaining in contraction until Q2

A Nikkei poll of 10 economists found the consensus is looking for GDP to contract a further 0.3% q/q annualised in Q1, following the surprising 0.4% dip in the previous quarter. Expectations of adverse impacts from the Noto Peninsula earthquake and disruptions from the Daihatsu scandal that halted shipments are among the reasons shaping this consensus. Forecasts were split between six positive and four negative. 2024 Q2 consensus looks for 1.8% growth with all respondents in positive territory. There is general optimism for a rebound in private demand alongside expectations corporate profit growth will feed through to pay raises in the upcoming Shunto results, providing a boost to household sentiment. Core CPI projections were similarly little changed, though the quarterly trajectory was seen moderating below the BOJ's 2% target through 1Q26.

BOJ economic forecast updates to remain conducive for policy normalisation

Although the BOJ rhetoric is clearly signalling an end to negative rates, BOJ Governor Ueda said in parliament on Friday 16th February that "the central bank will examine whether to maintain its various monetary easing measures, including negative interest rates, when sustained achievement of its inflation target comes into sight". He also repeated that "monetary conditions will likely remain accommodative even after ending negative rates". Meanwhile, a BOJ source remarked that they are "unperturbed by the latest Q4 GDP data" which signalled a technical recession.

Corporate: FY23 profits on track for third straight annual record

Analysis of TSE Prime Market results showed FY23 aggregate net profits projected to rise 13% on the year to ¥43.5T ($290B). Upgraded by ¥3.5T from guidance in May. Manufacturing sector looks for 16% growth to ¥21.4T, combined with nonmanufacturing growth of 11% to ¥22.1T — both on track for record highs. Net profit margins seen improving to 5.8% from 5.5% in FY22 and would mark the highest level since 2008 outside of the extraordinary post-Covid 6.1% in FY22.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 1.00%)

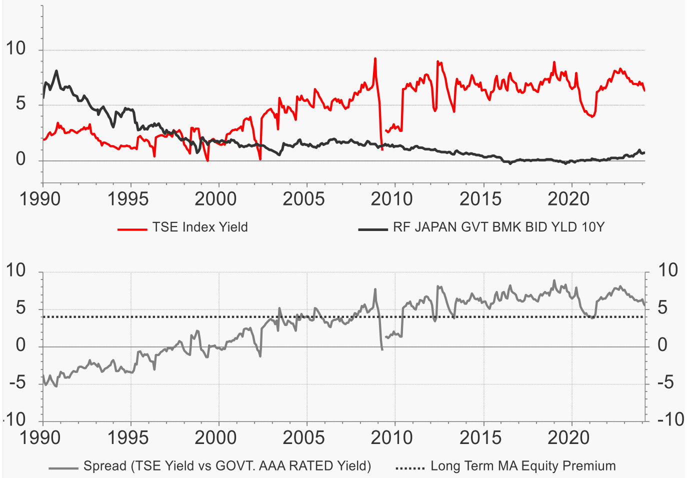
Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 140)

Japan Nikkei 225 price / earnings

Ratio

Fuente: LSEG Datastream / ANDBANK

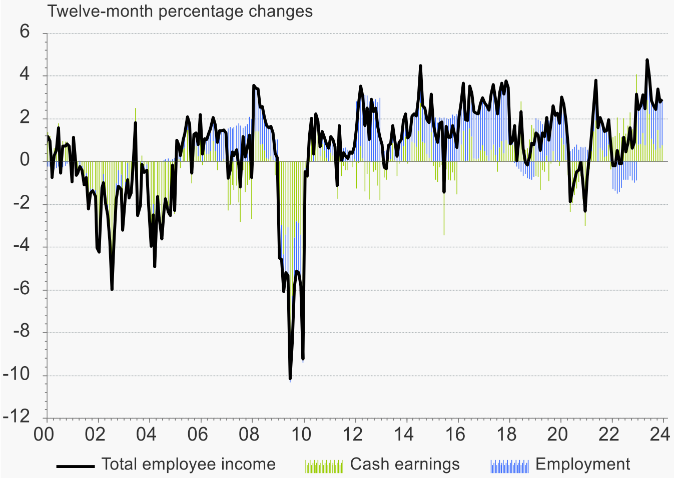
Equity Yield (Japan) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

Japan - Total employee income growth

Twelve-month percentage changes



Fuente: LSEG Datastream / ANDBANK

INDIA

Significant boost in the state elections for market friendly BJP, ahead of central government elections

The results of the state elections were more favourable for the BJP than anticipated, indicating a stronger pre-election position

The BJP secured a decisive victory in three out of four states (Madhya Pradesh, Rajasthan, and Chhattisgarh), while the Congress party emerged victorious in Telangana. These state election results provide significant momentum for the BJP before the central government elections scheduled for April-May 2024. With the BJP's strong position in key states such as Madhya Pradesh, Rajasthan, Gujarat and Uttar Pradesh, an improvement in the market's mood is expected, supported by continuity in policies, reform agenda, development and economic growth. The BJP can now focus more on welfare plans ahead of the state elections.

Economy: India's economic strengths are evident from various key indicators

Real GDP growth was 7.7% in the first half of fiscal 2024, driven by robust dynamics in manufacturing and investment sectors, partly due to impressive corporate profits of the Nifty in 1HFY2024. Industrial production in India (IIP) climbed to 10.3% YoY in Aug 2023, the highest since June last year, compared to the 6.0% rise in Jul 2023. Manufacturing output increased by 9.3%, mining by 12.3% and electricity by 15.3%. Positive trends continued in the latter part of 2023, as seen in high-frequency data such as GST collections, automobile sales, energy demand and PMI figures. Globally, favourable conditions, such as stabilised interest rates, Brent crude oil prices and steady bond yields, further buoy India's economic outlook. The Manufacturing Purchasing Managers' Index growth slowed in Oct 2023 to 55.5 (from 57.5 in Sep 2023), reflecting a slower increase in total new orders, but still at a reasonable expansionary level. Meanwhile, Services PMI also fell but remained at an impressive 58.4 in Oct. According to the government data, the combined Index of Eight Core Industries increased by 8.1% in Sep 2023 compared to 8.3% in Sep 2022. The production of all Eight Core Industries recorded positive growth except crude oil which contracted by 0.4% in Sep 2023.

CPI-based inflation dropped to 5.02% in Sep 2023, compared to 6.83% in Aug 2023. The rate fell within the RBI's upper tolerance level and was due to a significant slowdown in food inflation.

Equity Market momentum to continue positive until elections

The profits for the first half of fiscal 2024 (which began in April) were impressive, showing a year-on-year increase of 30%. We anticipate that the growth rate will stabilise at 20% year-on-year in the second half. Looking ahead to the next twelve months, and with a slight expansion in the PE multiple (from 20x to 21x) due to the inclusion of expectations of a political victory for the BJP and the continuation of the pro-market agenda, we believe that the Sensex India index should trade between 78,000-80,000 points in the coming 12 months (today at 73,000). Also, the clarity in U.S. interest rates and strong second-quarter GDP data for India (with updated GDP forecasts for fiscal 2024) have brightened the outlook for Indian stocks. The peaking of global interest rates is also expected to have a positive impact on foreign investor flows into India. Since the financial results were announced on December 3, markets have already risen by 8-9% (as of 15 January 2024), and I believe that market momentum could continue to be positive until the general elections in April-May 2024. How to invest? Medium and small-cap companies have significantly outperformed large-cap companies over the past year. Small & mid-caps returned 24% and 30%, respectively, compared to ~4.5% for large companies over the past year. The superior performance is attributed to attractive valuations during the pandemic and expectations that medium and small-sized companies will benefit more from strong economic growth. While valuations in small and mid-caps may be deemed expensive by some, I consider the country's reality vastly different from that of 10 years ago, and thus, such historical analyses should be afforded less importance. That being said, the current valuation of the mid-cap index is 21.8x compared to its long-term average valuation of 15.8x, representing a premium of ~38%. Similarly, the current valuation of the small-cap index is 18.4x compared to its long-term average valuation of 14.1x, a premium of ~30%. All said, the long-term growth potential for medium and small-cap companies still remains strong, though, admittedly, the margin of safety has been reduced due to higher valuations. Short-term returns may be moderate in these sectors. It seems that now is the time to shift the investment portfolio in India towards larger capitalisation positions. We will identify the vehicle that aligns with this objective to expose ourselves to this market in our discretionary mandates

Central Bank: RBI kept policy repo rate unchanged at 6.50%

The Monetary Policy Committee (MPC) in its fourth bi-monthly monetary policy review of FY24 kept key policy repo rate unchanged at 6.50% for the fourth consecutive time. All six members unanimously voted to keep the policy repo rate unchanged. The MPC also remained focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. It seems that now is the time to shift the investment portfolio in India towards larger capitalization positions.

Market outlook – Recommendations & Targets from fundamental analysis

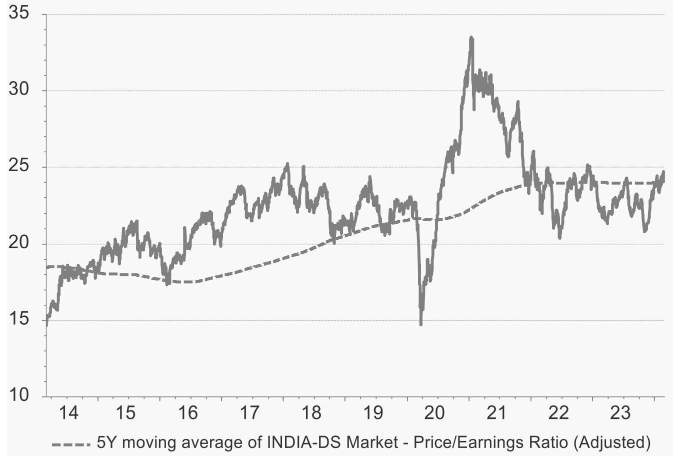
Equities – SENSEX: OVERWEIGHT

Bonds – Govies: OVERWEIGHT (Target yield 6.6%)

Bonds – Corporates: OVERWEIGHT

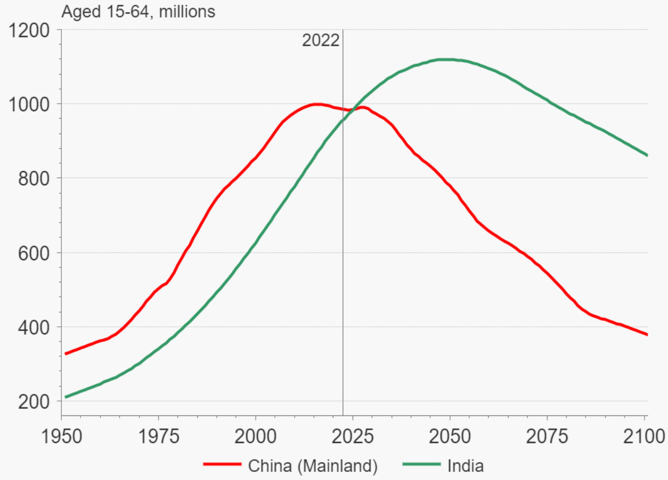
Forex – INR/USD: NEUTRAL (Target 82)

India Datastream index Price Earnings Ratio
Ratio



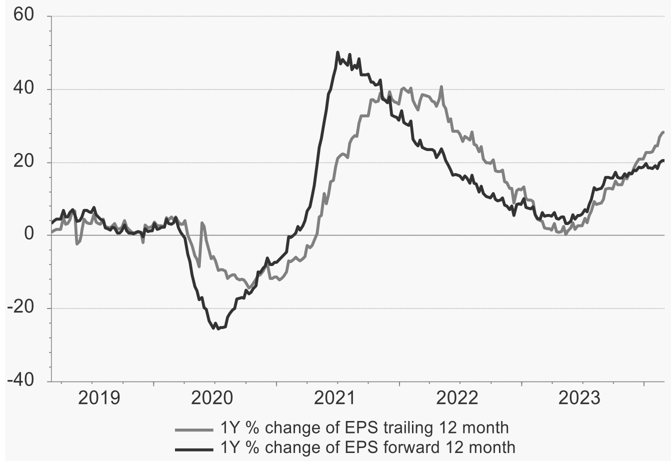
Fuente: LSEG Datastream / ANDBANK

China vs India: Working-age population
Aged 15-64, millions



Source: LSEG Datastream / ANDBANK

EPS (Trailing & Forward)
MSCI India



Fuente: LSEG Datastream / ANDBANK

VIETNAM

FDI jumps, demonstrating the country's appeal for foreign companies. Market sentiment also improves

Market sentiment improves on supportive news: Land Law

January marked a month buzzing with activity. Not only was the Land Law approved by the National Assembly (which provides multiple acceptable methods for conducting land valuations, effective in 2025), but the Law on Credit Institutions (which lowers the risk of cross ownership & tightens lending to related entities) was also passed on 18 Jan. There has been a lot of discussion of the 2024 economic plan, with the SBV targeting credit growth of 15% (vs. 13.71% recorded in 2023). Supporting news helped stabilise and improve investor sentiment, and the VN Index gained 3.04% in January.

The market's short-term outlook remains positive

The VnIndex gained in both points and volume. This development further supported the index's uptrend in the short term. VnIndex will likely continue to test the resistance zone of 1240-1250 points (today at 1225). However, this is proving to be a formidable resistance for the market at present. Therefore, we emphasise the possibility that VnIndex may experience correction when approaching that resistance zone. We recommend maintain holding but refrain from increasing stock exposure. **Q4 2023 earnings continued to improve significantly.** As of 5th February, total net profit was up +35.3% YoY and +4.8% QoQ.

FDI Inflows Remain Strong

Vietnam continues to solidify its position as a prime destination for foreign direct investment (FDI), with a healthy upsurge in registered capital and new projects early in 2024. The country's open and flexible investment policy, along with its improving business environment, has attracted $36.61 billion in FDI in 2023, a 32% increase from the year prior, but 100% compared to the 5-year average. Hanoi alone drew nearly $870 million in FDI in January. The influx was primarily in the manufacturing and processing sectors. Of the total registered capital inflow, newly registered capital reached nearly US$20.19 billion (55% of total inflows), an increase of 62.2%. The number of newly registered projects totalled 3,188, up 56.6 percent. Among them, the manufacturing and processing industry, which contributes significantly to the sustainable development of the economy, continues to lead with total investment capital of over US$23.5 billion and accounts for 64.2% of the total registered investment capital.

Vietnam's open and flexible investment policy creates a favourable and stable business environment that is constantly improving

With its rapidly growing population, especially the middle class, Vietnam has much economic development potential and a much higher growth rate than other Asian countries, including Japan. Given the attractive investment factors many foreign companies, mainly Japanese ones, want to invest in Vietnam. The General Director of the Samsung Vietnam Complex, Choi Joo Ho, said he believes that "nowadays global information technology companies are closely eying Vietnam as a key hub for mobile phones. The Vietnamese Government has implemented the promised support policies and as a result, Samsung has continuously been provided with an excellent business environment".

Ready to welcome major investors, help agro exports and strengthen the currency

These are the fields in which we consider the government should focus its efforts on being ready to receive investments from large corporations: 1) The competitiveness of Vietnam's investment environment. 2) The improvement of state management quality from the central to local levels with respect to foreign investment. 3) Developing a strong domestic business sector with sufficient capacity for international integration to enter joint ventures and cooperate with foreign investors, particularly through administrative reform, the improvement of the legal system, and enhancing the quality and efficiency of state management of foreign investment. Our surmise is that steps are being taken in the right direction in all these areas, although competition with other countries for attracting FDI will be fierce. In parallel, PM Pham Minh has captained an upgrade in railway and logistics connectivity to support not only manufacturers, but also agricultural exports to China and other countries with a streamlined trade process. With agriculture exports totalling $11.5 billion to China last year, this move could substantially expand Vietnam's exports to the country and ensure the continued competitiveness of Vietnamese farm produce. This will continue to contribute to an improvement in international reserves, and with that, a strong currency.

Banks see record deposits and expanding credit

Banks also saw growth in 2023, with total deposits reaching a record VND 13,5 quadrillion (US$562 billion), a 14% increase from 2022. Credit growth surged, estimated at 13.5%, with outstanding loans hitting a similar number. The growth appears to be healthy and is indicative of a recovery of the economy and increased demand for credit. A year-end surge in credit was a positive outcome of measures by the industry. Looking ahead to 2024, the State Bank of Vietnam (SBV) has set an ambitious credit growth target of 15%, which represents an injection of about 2 quadrillion VND in loans (US$83bn).

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

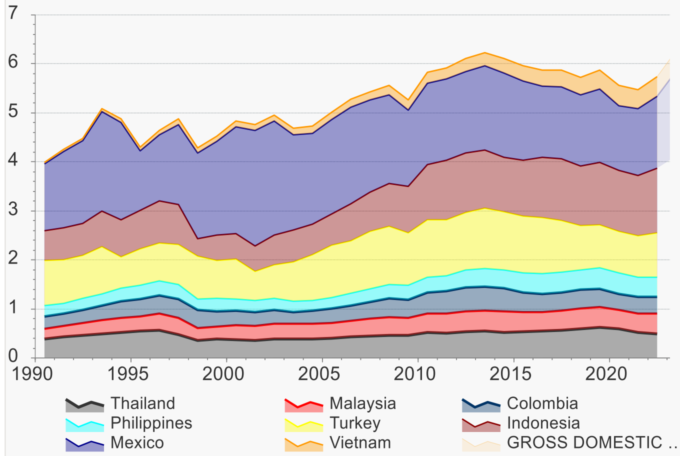
VIETNAM - Datastream index Price Earnings Ratio

Ratio

Fuente: LSEG Datastream / ANDBANK

Other EMs share of world GDP

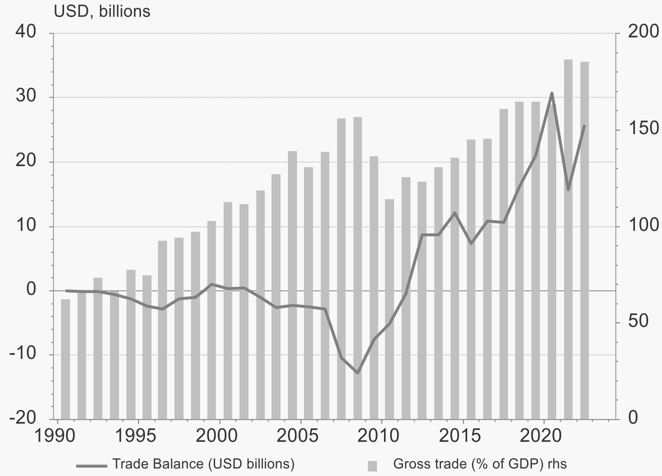
Per cent



Fuente: LSEG Datastream / ANDBANK

Vietnam Gross Trade & Trade Balance

USD, billions



Fuente: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

ISRAEL

Mr. Market seems to "ignore" Geopolitical risks. Maybe he's right…

Macro, fiscal & monetary policy

Israel's economy contracted in the fourth quarter by 19.4% (in annual terms), against a backdrop of a sharp contraction in activity, mainly in the months of October and November. The Bank of Israel (BOI) research division observed in January that despite the sharp fourth quarter slump, "GDP is expected to grow by 2% in 2023 and 2024". The growth of the local economy for the whole 2023 was high compared to other OECD countries, although this is mainly due to a population increase of about 2% and a jump of 8.3% in spending on public consumption. It is also important to note that preliminary indications for the first quarter point to a renewed and sharp acceleration in growth, as reflected in the business trends survey data, with an impressive increase in demand for workers and a rise in credit card purchases to higher than the average for the same period of the previous year.

The CPI in January fell to 2.6% y/y, compared to +3.0% y/y in December of last year and also below market expectations. Compared with December CPI the index was unchanged. The sharp drop in economic activity and in inflation, now within the Central Bank's target range (1%-3%), and the strengthening of the Shekel, make a new cut in the reference rate by the Central Bank to be expected.

At the same time, BOI governor Amir Yaron clarified that the rate of pace of rate cuts "will be measured" and that interest rate decisions should be made cautiously at the present time, since the war is not yet over and there is a real risk of escalation in the war with Hezbollah. In addition, similar to the clarification by the Fed and ECB senior officials, BOI officials have recently stated, more than once, that a sharp and too rapid interest rate cut may lead to a renewed increase in volatility in the markets and a rise in inflation, which according to the officials is significantly more dangerous than the damage that a higher-rates-for-longer monetary policy can produce.

Aside from the other factors which do not support an interest rate cut in the next meeting, if we consider the considerable acceleration in economic activity at the beginning of the first quarter, the renewed and sharp increase in demand for workers, the increase in inflation expectations since the interest rate decision in January, and the fact that the research division of BOI expects an interest rate of 3.75%-4.0% at the end of the year, we recommend extending durations for up to four years following the recent rise in yields.

Last but not least, we must highlight the reduction in the credit rating of Israel's debt by the Moody's agency, going from an A1 rating to A2, considering that "the ongoing military conflict with Hamas, its aftermath and wider consequences materially raise political risk for Israel, as well as weaken its executive and legislative institutions and its fiscal strength, for the foreseeable future". Moody's also downgraded its outlook to negative. Amir Yaron, in a statement released after Moody's decision, said that "In order to strengthen the confidence of the markets and of the rating agencies in the Israeli economy, it's important that the government and the Knesset should act to deal with the economic issues raised in the report."

Stocks

The Israeli stock market performance was very surprising in the last month when the Tel Aviv 125 index rose by more than 4%. The return since the beginning of the year is about 7.5%. The good performance of the local stock market comes despite the war in the south (although there is a decrease in its intensity) and despite the fear of a new military conflict in the north of the country. Companies linked to the gas sector posted the best performance with a rise of 7.5%, explained by the agreement reached with Egypt to triple gas supplies. Banks also performed well with a gain of 4.2%, while real estate companies had a more modest increase of 0.75%. We would also like to highlight as positive news for the market the purchase of a 5% stake in the Tel Aviv Stock Exchange by Bill Ackman, founder and chief executive of Pershing Square Capital Management.

Despite the impressive performance, we still maintain that the Israeli stock market is trading at relatively cheap prices, although the market seems to be ignoring the security and geopolitical risks. Therefore, we maintain our "market perform" (relative to developed markets) recommendation.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

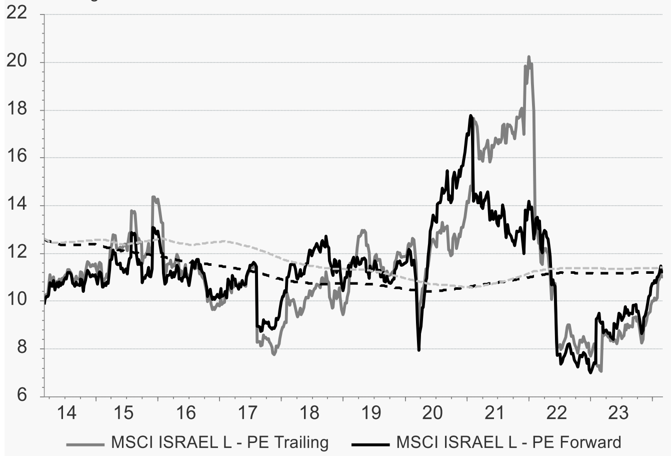
Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio

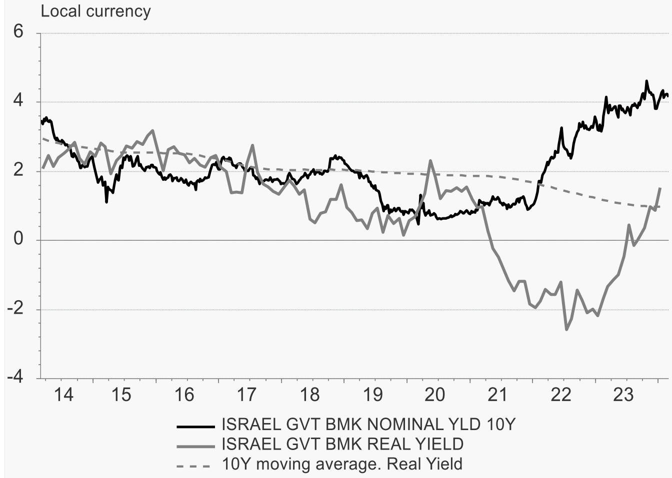
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y

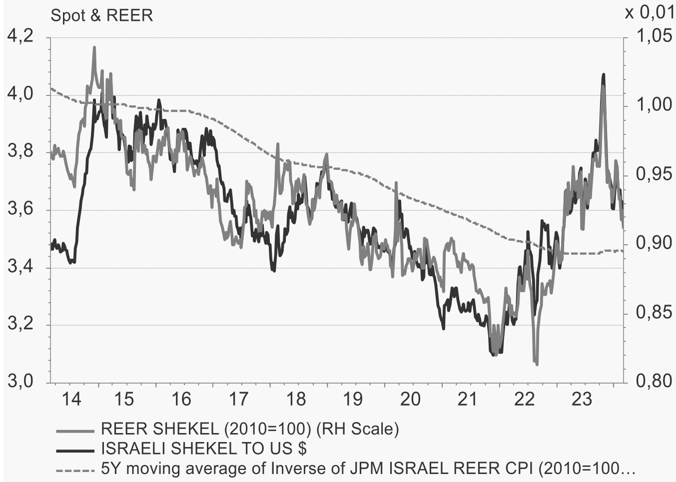
Local currency



Fuente: LSEG Datastream / ANDBANK

Israel Shekel

Spot & REER



Fuente: LSEG Datastream / ANDBANK

BRAZIL

No politics before Carnaval this year

Carnaval came earlier this year (mid February), and it seems that legislators are in no hurry to return to Brasilia. In October this year, municipal elections will be held, and it is therefore expected that lawmakers will seek to spend as much time as possible in the regions where they were elected to garner greater support from their party's candidates.

Strong economic growth in 2023

In December, the IBC-Br, a monthly indicator calculated by the Central Bank, surged by 0.82% compared to November, surpassing earlier estimates. This positive trend dispels concerns of a decline in economic activity and kept the last quarter of 2023 in positive territory. Although the economy slowed down in the fourth quarter, it remains resilient. Growth was driven by improvements in industry (which rose by +1.1% m/m) and services (+0.3% m/m). It's important to note that this growth occurs against a relatively fragile comparison base, but still reflects progress. The IBC-Br for the whole of 2023 showed 2.45% growth in economic activity. This performance exceeded expectations and suggests that Brazil ended 2023 with robust growth. Economists now anticipate that the economy expanded close to 3% in 2023, a much stronger outcome than initially projected. However, despite these positive surprises for last year's activity, economists remain cautious for this year. expecting a bit of a slowdown. The average market forecast for this year's GDP growth is 1.6%, according to the Focus Survey of the Central Bank.

The fiscal front continues to be the main concern for the market

In 2023, the consolidated public sector recorded a primary deficit of BRL 249.1 billion (equivalent to 2.29% of GDP), compared to a surplus of BRL 126.0 billion (1.25% of GDP) in 2022. Gross general government debt as a percentage of GDP, which in Brazil includes federal, state and municipal governments, reached 74.3% of GDP in the same period.

The fiscal target for 2024 is zero deficit, which, as pointed out previously, is a very hard target to achieve. We are taking a look at the *Prisma Fiscal,* a market expectations collection system developed by the Secretariat of Economic Policy (SPE) under the Ministry of Finance, which tracks the evolution of key Brazilian fiscal variables based on market expectations. In the February 2024 *Prisma Fiscal* report, improvements were observed in almost all projections for the years 2024, 2025, and 2026: i) Nominal GDP (BRL): 11.5 Tri, 12.1 Tri, 12.8 Tri; ii) revenue collection (BRL): 2.5 Tri, 2.7 Tri and 2.9 Tri; iii) debt to GDP (% GDP): 77.7%, 80.1% and 82.5%; iv) primary result (BRL): –83.97 Bi, –79.74 Bi and -67.56 Bi. Although the most recent market expectations are improving, they are far from the fiscal surplus implicit in the fiscal framework targets proposed by Finance Minister Fernando Haddad last year. The expected 2024 to 2026 numbers are not bad, as they do not signal a collapse, but the government needs to show that they are aware that the situation is not moving as fast as they wished.

Investment landscape

The outlook for investors in Brazilian assets this year remains positive. Market expectations for the terminal rate of the *Selic* reference rate for the current cycle are still around 9.0% (currently 11.25%), with inflation expectations at around 3.5% for 2024, and 3.0% for 2025. And as discussed above, the economy has shown resilience, with inflation-adjusted wages continuing to grow, the labour market tightening and consumer confidence improving.

That said, both bonds and equities in Brazil had a difficult start of the year, mainly due to the repricing around the expected date of the first rate cut in the US. The Federal Reserve is expected to begin reducing interest rates between late spring and early summer 2024. This move would mark the start of a monetary easing cycle, which should further improve local market expectations. Meanwhile, every time the market pushes the date further back, the 10-year treasury yield climbs, and it seems that Brazilian markets are reacting very poorly to this.

Besides impacting the interest rate curve directly, lower rates in the US should also bring better prospects for all emerging market currencies, including the Brazilian real. That should help attract another wave of foreign investors to Brazil, which always helps the local stock market.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

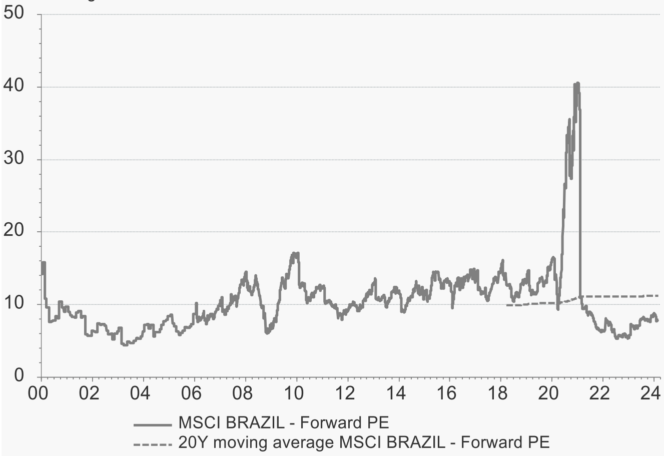
Bonds – Govies Local: UNDERWEIGHT (Target Spread 700 => Target yield 11.2%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 250 => Target yield 6.75%)

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

Brazil MSCI Index price-to-earning

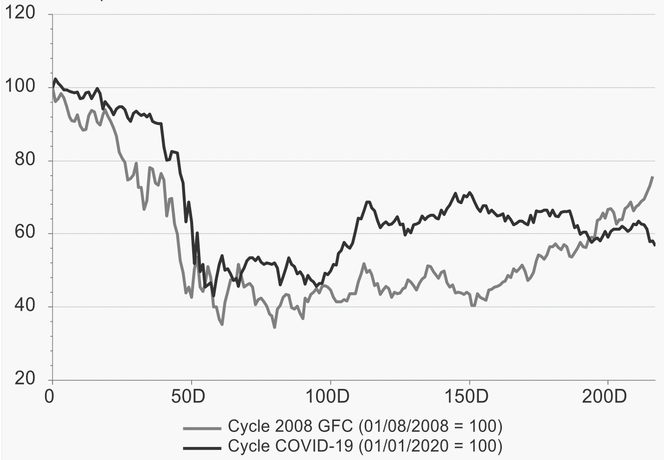
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

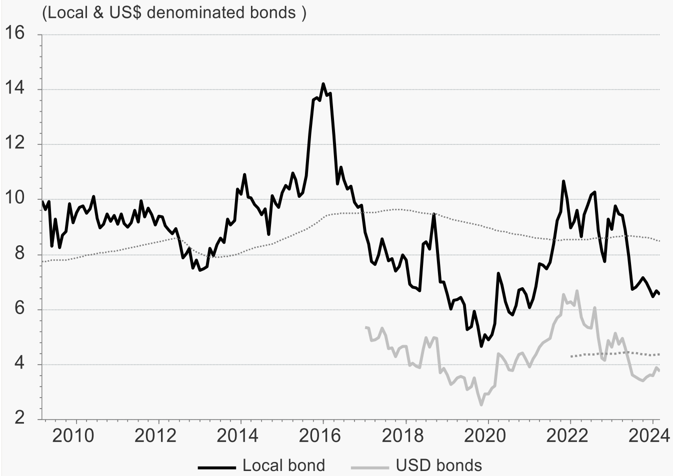
Bovespa, rebased, 100 = crisis start date



Fuente: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: LSEG Datastream / ANDBANK

MACRO ECONOMY

MEXICO

Populist reforms push by AMLO but almost zero probability of being approved

Central Bank

In its first monetary policy decision of the year, Banxico maintained its reference rate at 11.25%. The central Bank removed from its guidance the passage mentioning that it would keep its rate unchanged for an undetermined period of time and indicated that it is evaluating its next move. In that sense, the board members have started to analyse whether they could make a cut before the Federal Reserve lowers its reference rate, on the assumption that inflation remains on a downward trend despite the recent increase in headline CPI. The next meeting will be held on March 21st. Leading analyst surveys expect a terminal level of the benchmark rate by the end of this year 175 bps below the current level, while the market has reduced its expectation to a cut of only 100 bps.

Inflation and activity

Mexico's economy stayed on the growth track over the past year, with economic activity expanding by 3.1% in 2023 in its first review, despite a slight slowdown in the economy during the fourth quarter of last year. In 2022 the economy grew by 3.9%. Foreign trade accounts for a considerable part of this dynamic, with manufacturing exports jumping sharply. In the latest US trade balance report, Mexico ranked as the largest trading partner, leaving China in second place. This context has also facilitated the prospects for foreign investment in the country.

Inflation rebounded in January to 4.88% y/y (+4.66% y/y), driven by a rise in agricultural prices, part of non-core inflation. The core index maintained its downward trend from +5.09% y/y to +4.76% y/y, but in the more 'super-core' metric it still remains above the high end of the central bank's long-term target range (3% +/- 1%). The Central Bank expects inflation to close this year at +3.5% y/y.

Fiscal policy and politics

During the last month there were no relevant changes in the fiscal outlook. Mexico for the moment continues to differentiate itself positively from its emerging peers, especially those in the region, despite the increase in the budgeted deficit for 2024.

In the political arena, the most relevant news was the presentation by President Lopez Obrador of a package of proposals and initiatives for constitutional reforms. The proposals look unlikely to be viable given that the president's party and its satellite parties currently do not have a qualified majority (two-thirds of Congress), which is what is needed to make changes to the constitution. Some proposals, such as minimum wage increase above inflation or a change in the pension system that would allow people who started working in 1997 to retire with 100% of their last salary, could be popular and will surely generate debate, especially in an election year, but the initial proposals have not been supported by the opposition and would be disastrous for businesses and public finances.

Finally, it was learned that Moody's downgraded the credit rating of the state oil company Pemex two notches from B1 to B3, leaving Pemex's debt six notches below investment grade.

Financial markets

Equity: We maintain a favourable perspective on exposure to the stock market due to the cyclically adjusted valuation compared to its historical average and its lower valuation (12.6x fwd PE) relative to other stock markets. However, we must point out several risks to this position: i) a possible recession in the U.S.; ii) a deterioration of the fiscal situation; iii) higher for longer real rates. We have a target of 58,800 for the end of 2024.

Fixed Income & FX: We maintain the idea that a decline in inflation will materialise during 2024, but it will be slow, especially for core prices. Mexican peso bonds look overvalued, with a spread over US Treasuries (500 bps) lower than the 12-month average (517 bps). Due to the recent move in local rates back to 9.3%, and given the monetary policy outlook, we slightly adjust downwards our spread target (550 bps to 525 bps) for the next 12 months. Regarding the dollar bond, the spread has been around 170 bps, below our expected level for the next 12 months of 175 bps.

The peso has shown resilience despite the recent appreciation of the dollar. The reasons for this strength are i) the rate differential vs the US, 2) the good investment outlook due to nearshoring, 3) positive differentiation against emerging peers in the macroeconomic and fiscal environment. The peso traded in a range between 17 and 17.4 USDMXN. We maintain our outlook for a level of 18.50 for the next 12 months.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

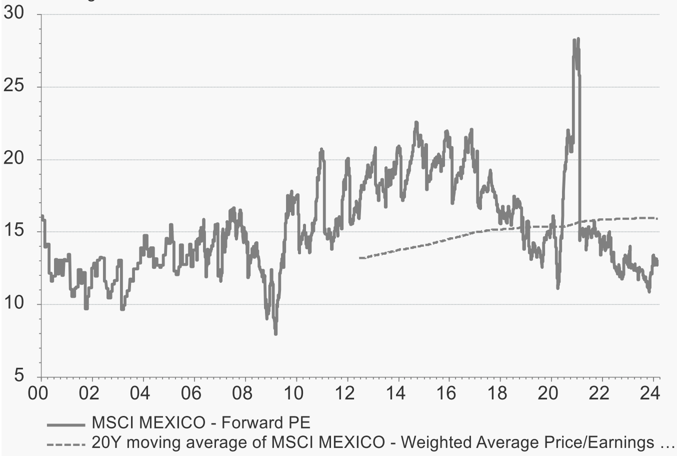
Bonds – Govies Local: UNDERWEIGHT (Target Spread 525 => Target yield 9.5%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 175 => Target yield 6%)

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

Mexico MSCI Index price-to-earning

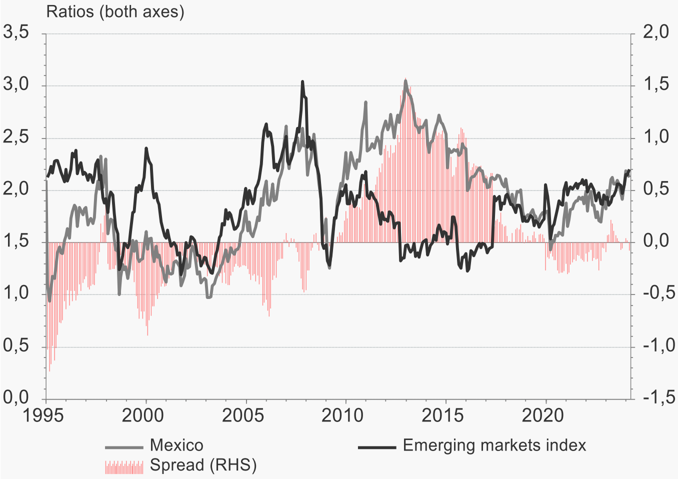
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Mexico price-to-book ratio

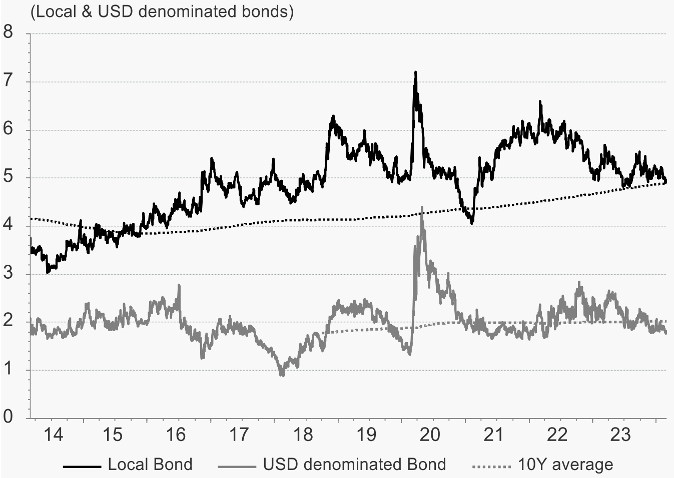
Ratios (both axes)



Fuente: LSEG Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Fuente: LSEG Datastream / ANDBANK

ARGENTINA

Omnibus Law: The summer soap opera

Politics: The first defeat in Congress for the Milei Government

After an arduous negotiation process with members of the opposition not in the Kirchnerism camp, in early February, the government obtained general approval of the omnibus law (formally the "Bases and Starting Points for the Freedom of Argentines" law). Together with the initial mega-decree, the omnibus bill constitutes one of the cornerstones of the reform programme that President Javier Milei is seeking to promote, with provisions for changes in a variety of aspects of the economic and social life of Argentines.

The law was approved with 144 votes in favour (37 deputies from *La Libertad Avanza*, 37 from PRO, 32 from *Unión Cívica Radical*, 18 *Hacemos Coalición Federal*, 9 *Innovación Federal*, 3 *Independencia*, and 8 from other blocks) and 109 deputies against. To achieve this the government had to remove the entire fiscal chapter from the law a few days before the vote in Congress, given that the financial discussions were the main sticking points in the negotiations between Milei and the opposition legislators who had previously showed themselves more inclined to approve the law, mainly those with ties to provincial leaders. This section of the law included modifications to the Wealth and Income Taxes, changes to the pension adjustment formula and to export duties. The next stage of the process was the approval, modification or removal of each of the articles separately. What happened was that some of the legislators who had previously approved the law in general, voted against some of its articles. Upon learning of this, the President ordered the head of the LLA bloc, Oscar Zago, to stop discussion of the law: It will thus be sent back to the starting point, that is, to being discussed again in the Congressional Committees.

Economy Minister Luis Caputo tried to reassure markets by saying that the government's economic programme has not been modified and that the current administration remains committed to the goal of achieving balanced public accounts. According to the Minister, the most important part of the stabilisation programme was not included in the omnibus bill. At the time of this writing, it is unknown how the government intends to move forward to have this law approved. The President has spoken out very harshly against the legislators who approved the law in general but then voted against it in the particular vote, which may complicate future negotiations. As expected, the fragmentation of Congress is proving an obstacle for Milei in his first months in office, and it would be no surprise if this continues at least until the next mid-term congressional elections.

IMF: Forecasts were reconciled and new goals were established

The IMF has stated that although the main objectives of the current programme with Argentina were not met at the end of last year. The multilateral organisation approved a waiver and has established new objectives with the new Argentine administration ("…ambitious plans to bring the program back on track"). In its staff report, the IMF says it has agreed with the government on a roadmap to progressively dismantle exchange controls over the course of this year, including the elimination of the preferential exchange rate for exports by June of this year, and, by the end of the year, the PAIS tax on imports. The IMF also slashed its forecast for Argentina's 2024 GDP to a 2.8% contraction from its previous projection of a 2.8% expansion. The latter was based on the assumption that a new administration would not proceed with a correction of the exchange rate and fiscal situation, an assumption that seems to be far off the mark. As part of the seventh review of the programme, the IMF approved the disbursement of 4.7 bn USD.

Prices: Inflationary pace begins to ease

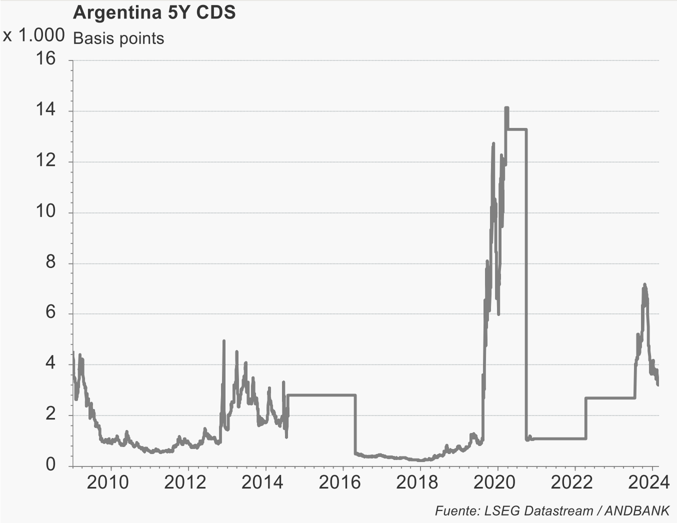
January CPI reached +20.6% m/m, below expectations (+21.9% m/m according to the Central Bank survey) and December print (+25.5 m/m). With the reading for the month of January, interannual inflation stands at 254.4% y/y. Core prices decreased to 20.2% m/m (+20.4% m/m food and beverages) from 28.3% m/m in December, while the opposite occurred with regulated prices, which increased from 20.7% m/m in December to 26.6% m/m in January. In the last two CPI prints seasonal price increases have been significantly below the average (+16.2% m/m in both cases).

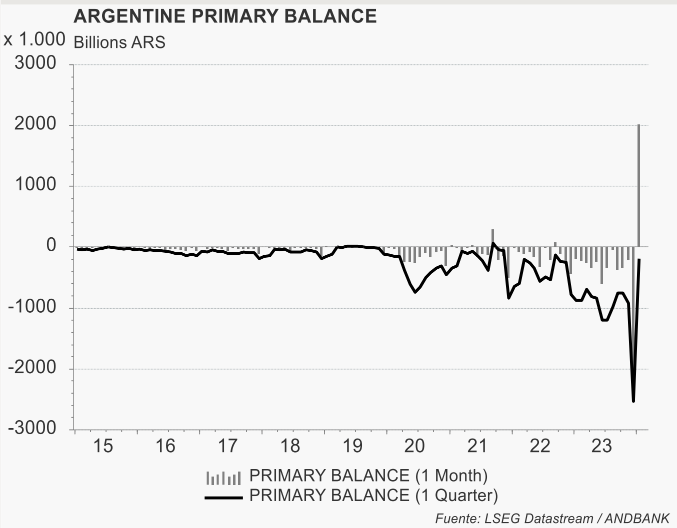
The market is expecting an increase of around +15% m/m in February and 10% m/m in March. The slowdown in the rise in core prices would be the main driver of this decrease in the inflation rate, mainly due to the slowdown in economic activity, but increases in regulated prices will offset part of this decline since there are still more adjustments to be made in transportation and utility prices in order to achieve the relative price equilibrium that the government is seeking.

Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

FX – USDARS: NEGATIVE (2024 year-end target 1600)





GLOBAL EQUITY INDICES

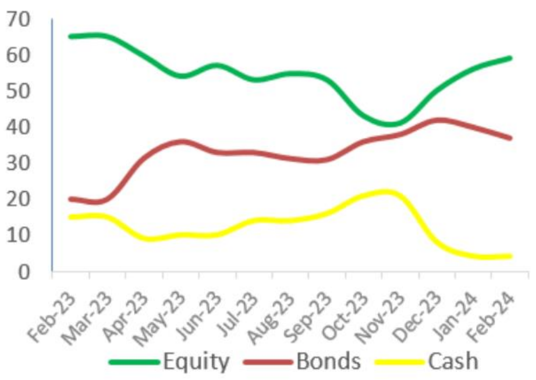
Fundamental assessment

Index	Projected EPS 2024	Projected EPS Growth 2024	PE (fw)	Current Equity Yied	Current Risk Premium	Hist Risk Premium	Reasonable PE	Implied Equity Yied at Reasonable PE	Implied Risk Premium at Reasonable PE	INDEX CURRENT PRICE	Andbank's Target Price	E[Perf] to target Price	Recommended Strategy
USA S&P 500	243,4	9,92%	21,10	4,74%	0,53%	2,00%	19,00	5,26%	1,06%	5.137	4.625	-10,0%	MW-UW
Europe - Stoxx Eu	36,9	5,25%	13,49	7,41%	5,00%	5,00%	14,00	7,14%	4,73%	498	517	3,8%	OW
Spain IBEX 35	986,0	4,01%	10,20	9,80%	6,50%	5,70%	11,00	9,09%	5,79%	10.061	10.846	7,8%	OW
Mexico IPC GRAL	4.486	10,18%	12,38	8,08%	-1,07%	-0,90%	13,00	7,69%	-1,45%	55.536	58.323	5,0%	MW-OW
Brazil BOVESPA	15.489	12,03%	8,34	11,99%	1,26%	-1,10%	9,10	10,99%	0,26%	129.180	140.952	9,1%	MW-OW
Japan NIKKEI 225	1.758	25,56%	22,82	4,38%	3,67%	4,00%	24,00	4,17%	3,46%	40.109	42.180	5,2%	MW
China SSE Comp.	306,5	14,56%	9,92	10,09%	7,73%	4,80%	10,00	10,00%	7,65%	3.039	3.065	0,9%	UW
China Shenzhen C	126,4	30,16%	13,68	7,31%	4,96%	1,25%	15,00	6,67%	4,31%	1.729	1.896	9,7%	UW
India SENSEX	3.750	26,07%	19,95	5,01%	-2,04%	-2,00%	21,00	4,76%	-2,29%	73.875	77.761	5,3%	OW
Vietnam VN Inde	123,3	30,47%	10,23	9,77%			11,00	9,09%		1.261	1.356	7,5%	OW
MSCI EM ASIA	43,4	22,32%	12,59	7,94%			13,50	7,41%		546	585	7,2%	OW

ANDBANK ESTIMATES

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

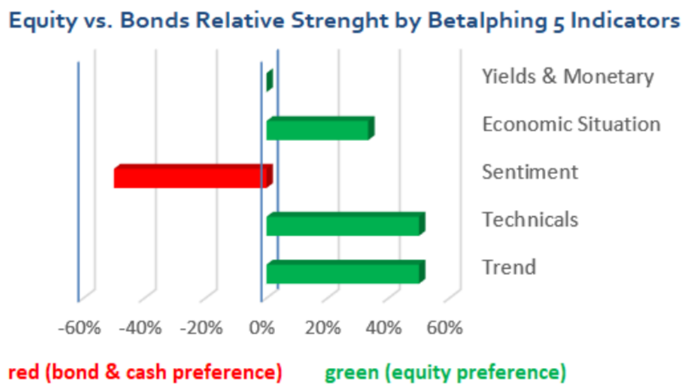
Dynamic Asset Allocation per Ned Davis Research



Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	67%	61,8%
Europe ex. U.K.	13%	12,5%
Emerging Markets	10%	10,7%
Japan	5%	5,5%
U.K.	2%	3,7%
Canada	2%	2,9%
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: Q4 2023 Earnings Dashboard

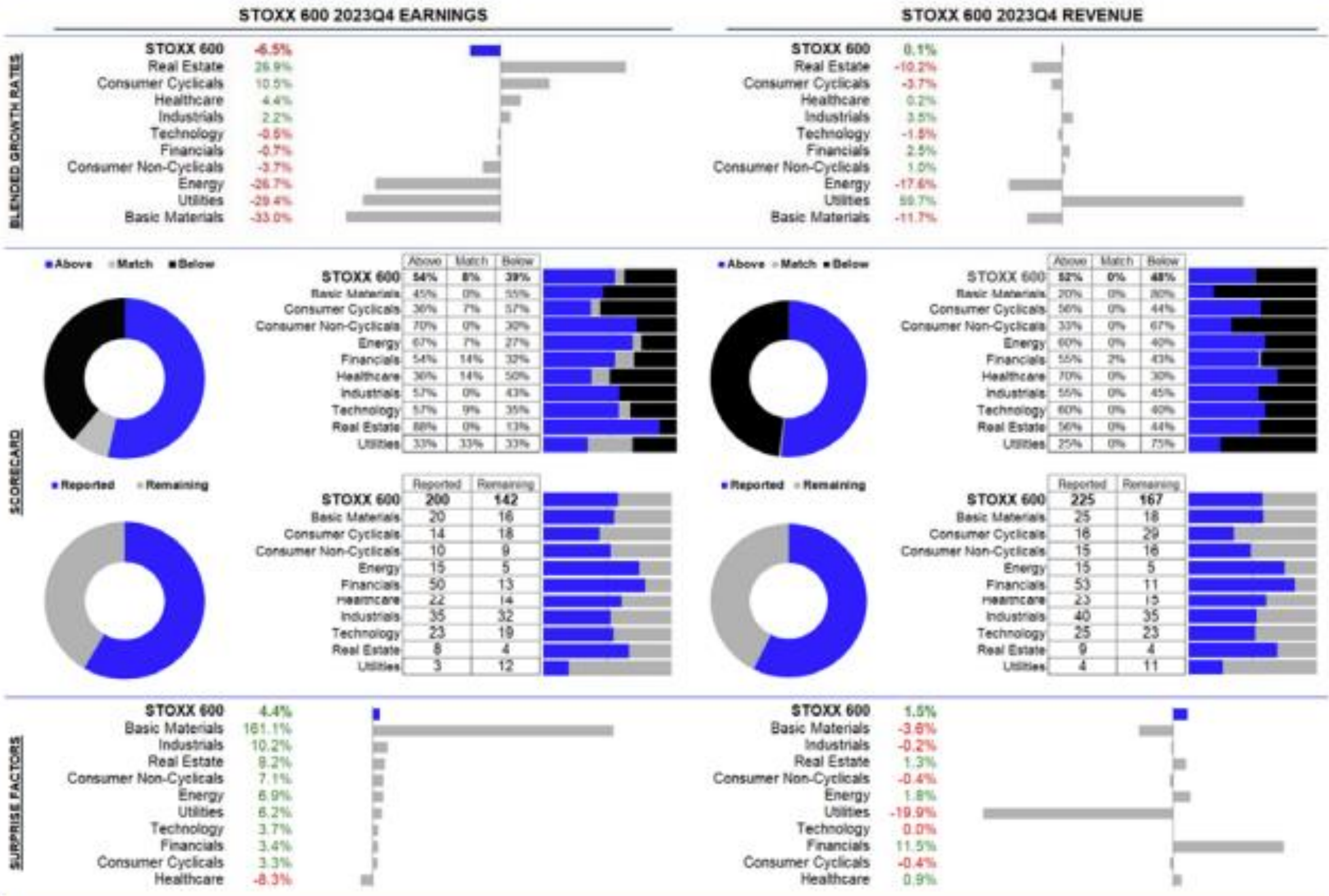
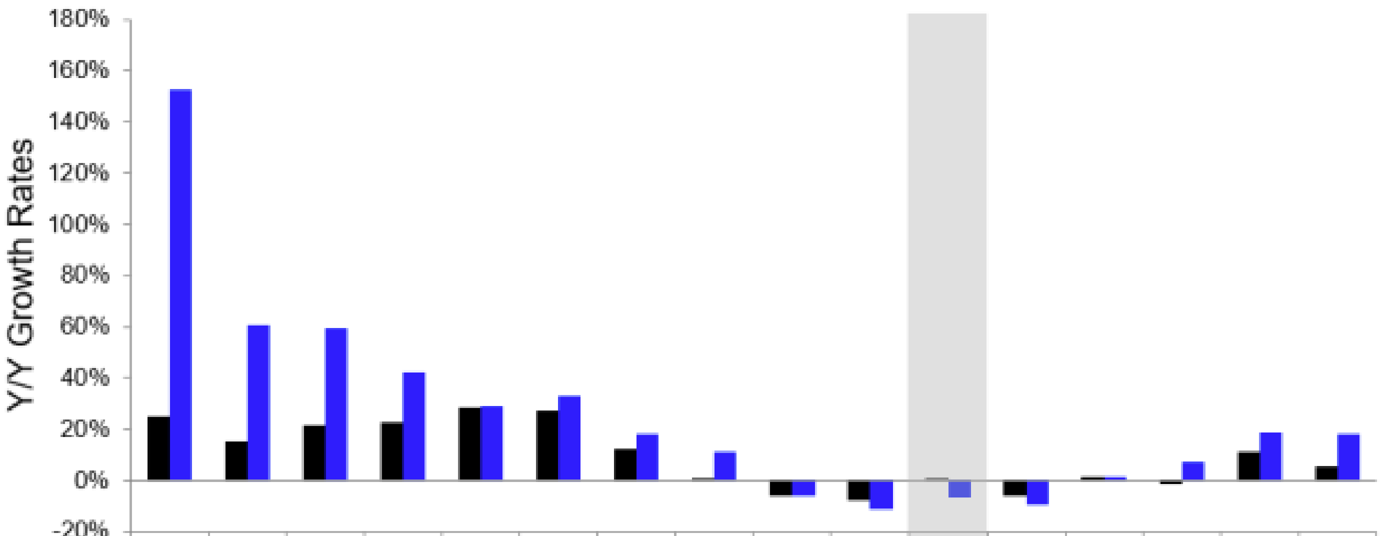


Exhibit 3A. STOXX 600 YoY Growth Rates



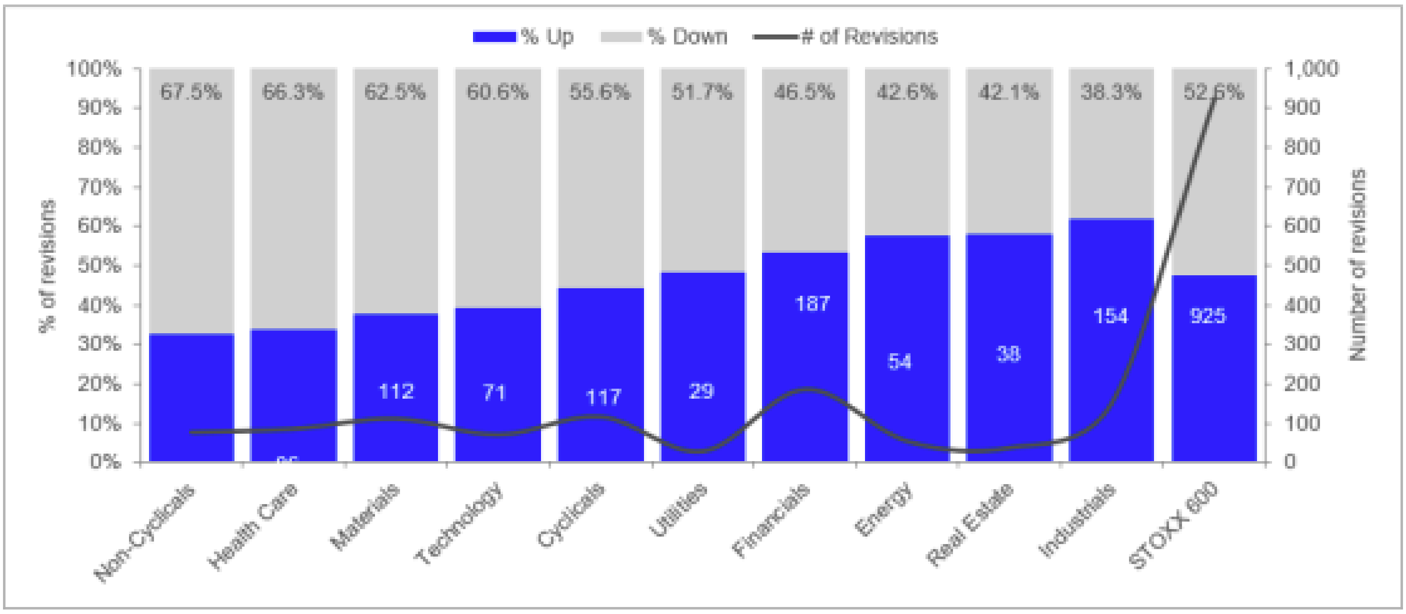
	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1
Revenue	25.2%	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	0.1%	-6.0%	1.2%	-1.4%	11.2%	5.3%
Earnings	152.6%	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-9.4%	1.6%	7.2%	18.5%	17.9%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

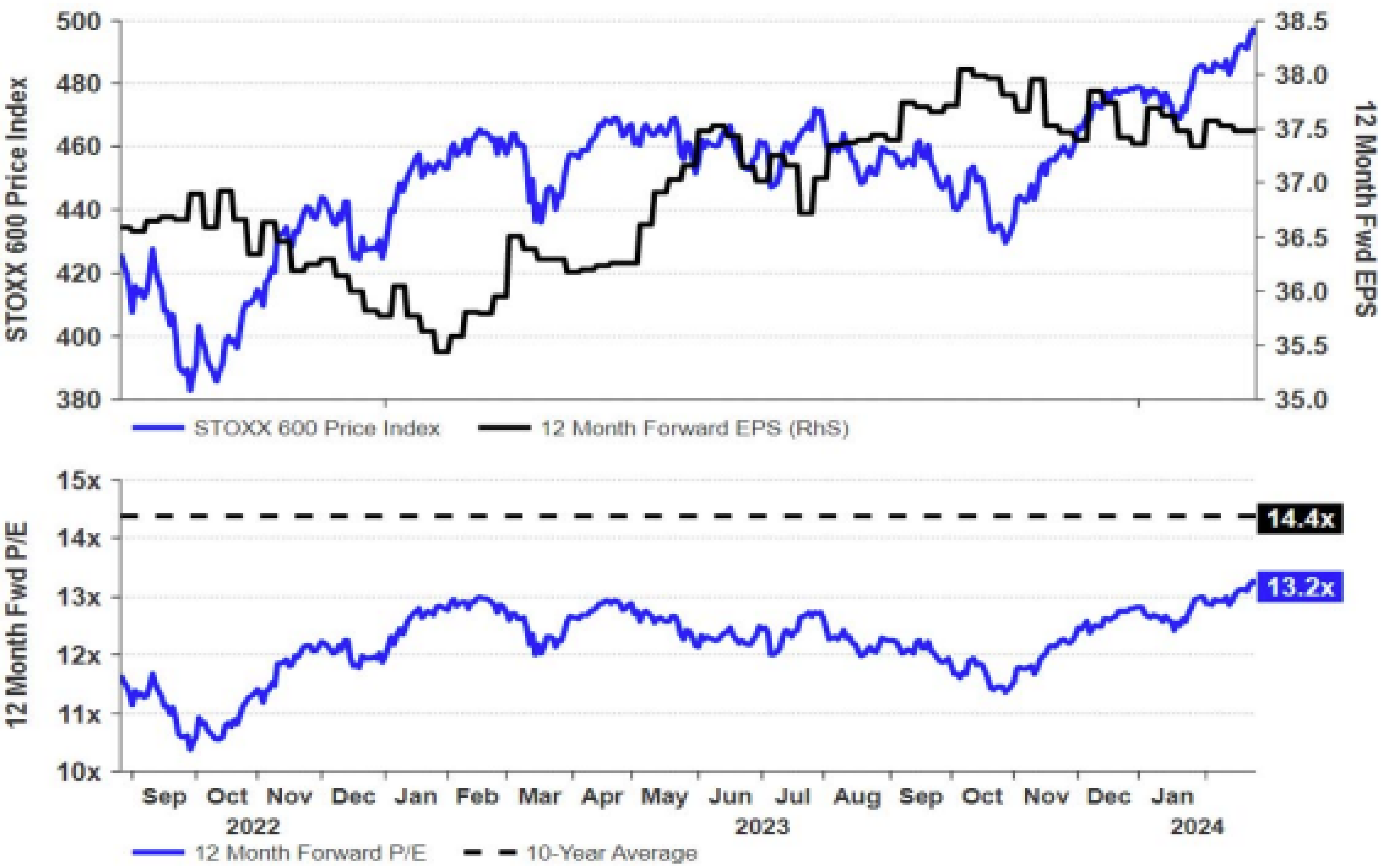
Earnings Dashboard - EUROPE

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



Source: LSEG I/B/E/S

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



Source: LSEG Datastream

GLOBAL EQUITY INDICES

Earnings Dashboard - US

Exhibit 1. 2023Q4 S&P 500 Earnings Dashboard

BLENDED GROWTH RATES

S&P 500 2023Q4 EARNINGS		S&P 500 2023Q4 REVENUE	
S&P 500	10.0%	S&P 500	3.4%
Comm. Services	53.4%	Comm. Services	6.7%
Utilities	46.2%	Utilities	-7.3%
Consumer Discretionary	35.3%	Consumer Discretionary	5.3%
Technology	23.7%	Technology	7.6%
Real Estate	14.0%	Real Estate	7.9%
Financials	8.8%	Financials	4.8%
Industrials	8.2%	Industrials	3.3%
Consumer Staples	5.5%	Consumer Staples	3.0%
Health Care	-14.1%	Health Care	7.8%
Materials	-19.0%	Materials	-5.2%
Energy	-22.0%	Energy	-10.0%

SCORECARD

Earnings: ■Above ■Match ■Below (S&P 500: 77% / 5% / 18%)

	Above	Match	Below
S&P 500	77%	5%	18%
Consumer Discretionary	77%	-	23%
Consumer Staples	86%	7%	7%
Energy	67%	5%	29%
Financials	78%	1%	20%
Health Care	83%	3%	14%
Industrials	82%	3%	16%
Materials	75%	-	25%
Real Estate	54%	29%	18%
Technology	89%	4%	7%
Comm. Services	61%	-	39%
Utilities	64%	14%	23%

Revenue: ■Above ■Match ■Below (S&P 500: 64% / 36%)

	Above	Match	Below
S&P 500	64%	0%	36%
Consumer Discretionary	47%	-	53%
Consumer Staples	50%	-	50%
Energy	48%	-	52%
Financials	58%	-	42%
Health Care	88%	-	12%
Industrials	67%	-	33%
Materials	64%	-	36%
Real Estate	71%	-	29%
Technology	72%	-	28%
Comm. Services	83%	-	17%
Utilities	27%	-	73%

Earnings: ■Reported ■Remaining (90% / 10%)

	Reported	Remaining
S&P 500	448	52
Consumer Discretionary	43	10
Consumer Staples	28	10
Energy	21	2
Financials	69	3
Health Care	58	6
Industrials	76	2
Materials	28	0
Real Estate	28	3
Technology	57	7
Comm. Services	18	1
Utilities	22	8

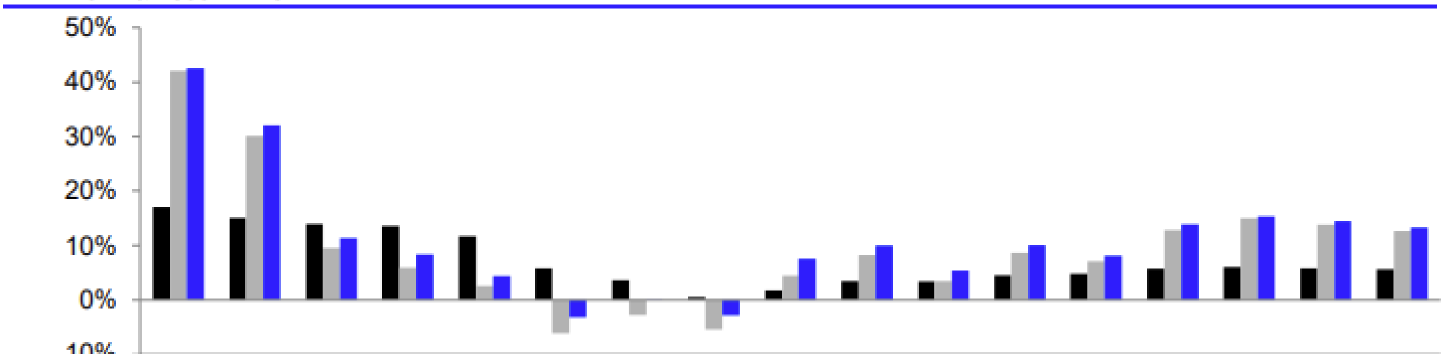
Revenue: ■Reported ■Remaining (90% / 10%)

	Reported	Remaining
S&P 500	448	52
Consumer Discretionary	43	10
Consumer Staples	28	10
Energy	21	2
Financials	69	3
Health Care	58	6
Industrials	76	2
Materials	28	0
Real Estate	28	3
Technology	57	7
Comm. Services	18	1
Utilities	22	8

SURPRISE FACTORS

Earnings		Revenue	
S&P 500	6.8%	S&P 500	1.1%
Consumer Discretionary	12.3%	Consumer Discretionary	2.4%
Energy	10.3%	Energy	-0.8%
Industrials	9.9%	Industrials	2.0%
Health Care	9.3%	Health Care	3.0%
Technology	6.3%	Technology	1.4%
Consumer Staples	5.5%	Consumer Staples	0.7%
Materials	4.9%	Materials	0.7%
Financials	4.5%	Financials	-0.8%
Utilities	3.3%	Utilities	-11.5%
Comm. Services	3.3%	Comm. Services	1.6%
Real Estate	1.8%	Real Estate	1.4%

Exhibit 5. S&P 500 YoY Growth Rates



	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4E	24Q1E	24Q2E	24Q3E	24Q4E	25Q1E	25Q2E	25Q3E
■Revenue	17.0%	15.1%	14.0%	13.6%	11.7%	5.8%	3.6%	0.5%	1.7%	3.4%	3.4%	4.5%	4.8%	5.7%	6.0%	5.8%	5.6%
■Net Income	42.1%	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	8.3%	3.4%	8.7%	7.1%	12.8%	15.0%	13.8%	12.6%
■Earnings	42.6%	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	10.0%	5.4%	10.1%	8.2%	13.9%	15.3%	14.4%	13.3%

Source: LSEG I/B/E/S

ENERGY – OIL

Fundamental view (WTI): Target range USD70-90bbl

Buy < USD70; Sell >USD90

Short-term drivers

(Bullish price factor) – Stockpile replenishment: Efforts from China, the US, and Europe to replenish heavily run down oil stockpiles could boost prices over the coming months. Heavily depleted by supply disruptions wrought by sanctions on Russia, as well as disruptions in the Red Sea and protracted OPEC+ output cuts, global oil inventories have barely recovered with traders unable to justify the costs for storing oil. The available data so far this year has shown a large counter seasonal fall in crude and fuel stocks of almost 29 million barrels, compared with a typical average build of 20 million barrels during January in 2015-2019. The Chinese are buying heavily oil arriving this spring to replenish stocks while the United States is gradually topping up its Strategic Petroleum Reserve after selling a record amount from the government oil stores in 2022. This combination of factors could end up raising our quarterly outlook for Brent crude prices to an average of $82 - $85

(Bullish price factor) – Pledge to cut. Iraq and Kazakhstan pledged compliance with new OPEC+ oil targets after failing to fully cut as promised last month.

(Bullish price factor) – Russian refining: Bloomberg reported Russia's oil processing fell further in the latest week as the country's refineries struggle with Ukraine's drone attacks. Russian facilities processed 5.16 million barrels of crude a day in the second week of February. That's down 94,000 barrels a day from the previous week, according to calculations based on historical figures. As a result, Russia's seaborne crude shipments fell for a second week, with difficulties selling a key Pacific grade to India set to further snarl in the coming week. Moscow has been struggling to get its Sokol crude into India, the main market for the grade produced by the Sakhalin 1 project.

(Bearish price factor) – US Deregulation. A second Trump term would likely see expansion of oil and gas development along with a gutting of energy regulators and climate priorities. President Joe Biden has spent years implementing programmes to fight climate change by advancing renewable energy and imposing tougher regulations on fossil fuels. Much of that work could go up in smoke if Trump wins the elections, as the Republican leader would probably re-enter the White House with a raft of executive orders to expand oil and gas development. That could include ending a pause on new LNG export permits, scrapping electric vehicle mandates and once again withdrawing the United States from a United Nations pact to fight global warming. Those short-term actions would be followed by longer-term efforts to shrink environmental regulation and government bureaucracy, and — depending on the makeup of Congress at the time — to unwind provisions of Biden's signature climate law, the Inflation Reduction Act. Reuters spoke with a dozen Republican policy consultants and former Trump administration officials who are helping lay the groundwork for a second Trump presidency to sketch out the administration's likely approach to energy issues. The policy blueprint shows how a second Trump presidency would bring about another U-turn in U.S. policies governing how the country produces and uses energy. Energy is already a daily talking point in Trump's campaign: He routinely slams the Biden administration's EV policies and chants "drill, baby, drill" at rallies to rile up his base. Some of Trump's special assistants, including his daughter Ivanka, have attempted to convince Trump to stay in the UN pact, but Trump is said to have responded: "I would not know how to message that to my base".

(Bearish price factor) – US Permian consolidation: Corporate consolidations in the Permian will allow producers to remain profitable even in commodity price slump.

(Bearish price factor) – Norway. Oil and gas companies operating off the Norwegian coast will spend an estimated $23 billion this year in investments in hydrocarbon extraction and pipeline transport, which are now forecast to be 13% higher compared to a final investment figure for 2023, Statistics Norway said on Thursday.

(Bearish price factor) – India resumes buying Russian Sokol oil after 2-month hiatus. That led to more than 10 million barrels of unsold Sokol floating in seaborne storages in one of the biggest disruptions to Russian oil trade since the West imposed sanctions on Moscow. Indian state refiners had to stop buying the Russian grade last year after the government advised local refineries against using Chinese yuan to pay for Russian oil amid strained relations between New Delhi and Beijing.

(Bearish price factor) – Iraq looks to Chinese investors to meet ambitious output growth plans. Iraq is the OPEC's second-largest crude producer and is targeting 7 million b/d of capacity by 2027, up from around 5.4 million b/d in mid-2023. Iraq's ambitious and long-stated drive to boost its crude production capacity has Baghdad increasingly looking eastward for needed investment, as local export capacity is constrained by infrastructure. Chinese companies combined have direct shares in around 24 billion barrels of reserves (34% of Iraq's proven reserves) and are responsible for production of around 3.0 million b/d (66% of Iraq's total production). But any expansion plans are constrained by domestic issues, including limited infrastructure for export capacity and access to water. Disputes over control of production in the semi-autonomous Kurdistan region have also taken a major bite out of Iraq's crude output. Iraq is also subject to an OPEC+ quota of 4 million b/d, though its recent production has been much higher — 4.27 million b/d in January.

Long-erm 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 into play. 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): Short-Term Target range USD1,800 – 2,000 /oz

Buy < USD1,800; Sell >USD2,000

Positive drivers for gold

Gold could be the best anti-fragile asset in 2024: 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 the short term** and for as long as QT continues (whereby the Fed puts a large amount of UST on the market), gold could continue to overperform the UST bond. **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 positive for U.S. Treasuries in terms of reclaiming their role as a safe-haven asset, outperforming gold. Gold is expected to take a back seat and exhibit underperformance.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.23514), 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$1,678. In real terms gold continues to trade well above its 20-year average of US$1,256oz. For the gold price to stay near its historical average in real terms, the nominal price must remain near US$1,551.

Gold in terms of silver: The Gold/Silver ratio rose to 89.71, still above its 20-year average of 68.05x, suggesting that gold is 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$1,5738/oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 2.14x, above its 20-year average of 1.70x. This implies that gold is currently expensive compared to palladium. To bring this ratio to its long-term average, assuming that palladium is well valued, then the price of gold should reach $1,609 per ounce.

Gold to oil ratio: This ratio is at 25.63x, still well above its 20-year average of 19.38x. Considering our mid-term outlook for WTI oil at US$80 (right in the middle of our new range of $70-90 for oil) and assuming that the utility function of both commodities will remain unchanged, the price of gold must approach US$1,550 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 as displaces the feared scenario of stagflation (or recession with inflation) which is more favourable 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: During the 2010-2017 and 2020-2022 periods, 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, leading to strong arguments for the purchase of gold. 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. From this perspective, gold would once again exhibit its historical disadvantage and should underperform compared to U.S. Treasuries.

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.

EXCHANGE RATES

Flow analysis & Short-term view

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	2,09	8,07	32,1	-28,2	1,7	**0,02**
USD vs G10	5,19	8,46	32,7	-25,4	3,2	**0,12**
EM	3,11	0,39	3,9	-0,8	1,9	**0,93**
EUR	8,52	-3,51	23,4	-8,6	9,9	**-0,15**
JPY	-11,02	-4,21	0,6	-15,0	-8,3	**-0,65**
GBP	3,68	0,97	4,3	-6,5	-0,7	**1,48**
CHF	-1,71	-1,14	0,2	-6,0	-2,3	**0,40**
BRL	0,36	-0,02	1,0	-0,8	0,0	**0,75**
MXN	2,75	0,41	3,3	-0,5	1,6	**1,16**
RUB	0,00	0,00	1,2	-0,3	0,3	**0,00**
AUD	-5,18	-1,33	6,1	-6,3	-1,3	**-1,10**
CAD	-0,10	0,08	6,1	-5,1	-0,3	**0,06**

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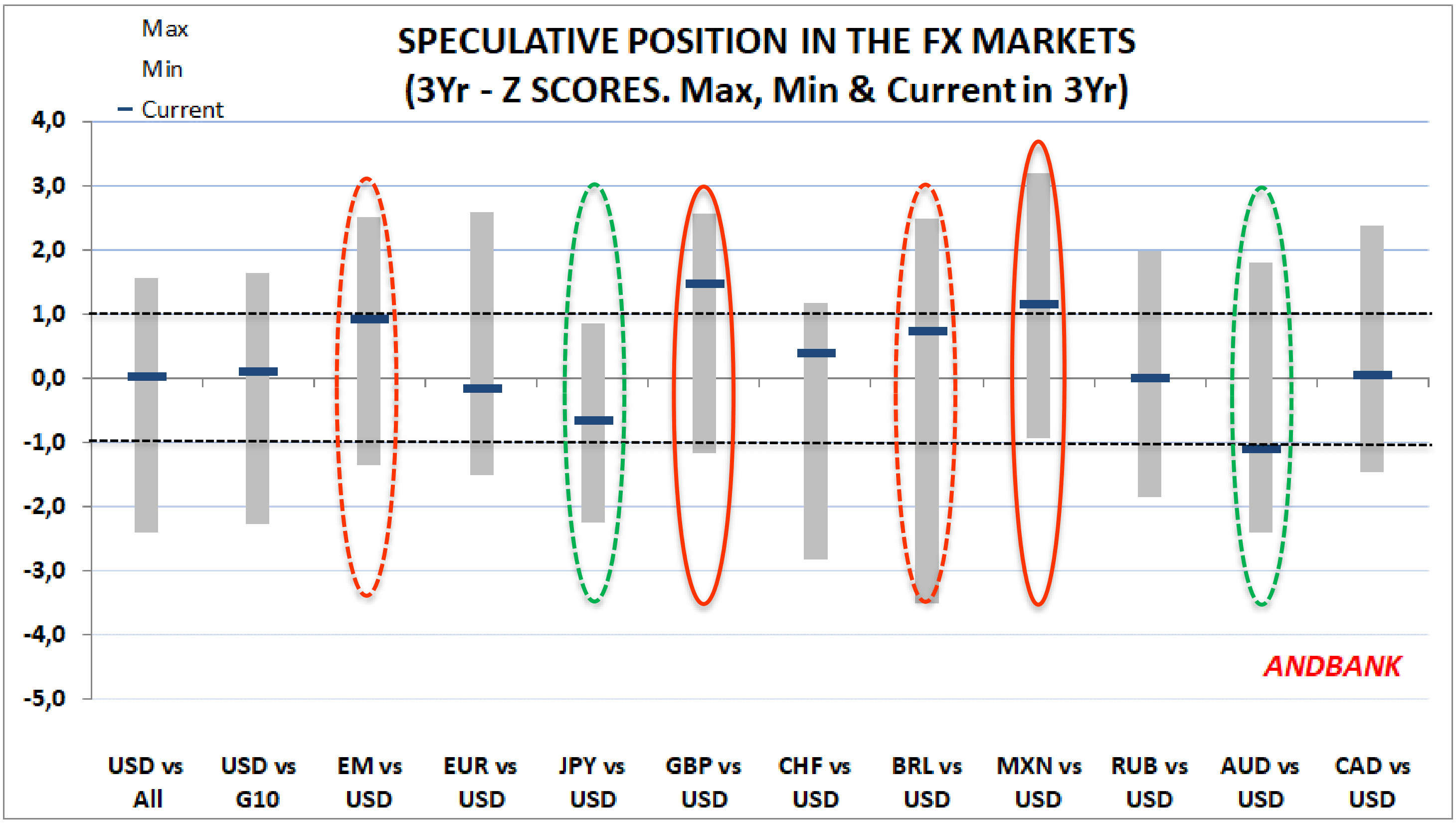
Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	*Indices*	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
Equity	USA - S&P 500	3,6%	7,7%	5.137	4.625	-10,0%
	Europe - Stoxx Europe 600	2,8%	3,9%	498	517	3,8%
	Euro Zone - Euro Stoxx	4,1%	5,7%	501	535	6,7%
	SPAIN - IBEX 35	0,0%	-0,4%	10.059	10.846	7,8%
	MEXICO - MXSE IPC	-4,6%	-3,2%	55.536	58.323	5,0%
	BRAZIL - BOVESPA	1,6%	-3,7%	129.180	140.952	9,1%
	JAPAN - NIKKEI 225	10,9%	53,7%	40.109	42.180	5,2%
	CHINA - SHANGHAI COMPOSITI	11,3%	2,2%	3.039	3.065	0,9%
	CHINA - SHENZEN COMPOSITE	15,9%	-5,9%	1.729	1.896	9,7%
	INDIA - SENSEX	2,5%	2,3%	73.865	77.761	5,3%
	VIETNAM - VN Index	7,6%	25,9%	1.261	1.356	7,5%
	MSCI EM ASIA (in USD)	4,5%	0,6%	546	585	7,2%
Fixed Income Core countries	US Treasury 10 year Govie	-1,1%	1,9%	4,21	**4,25**	3,8%
	UK 10 year Gilt	-1,2%	0,7%	4,11	4,50	1,0%
	German 10 year BUND	-1,3%	4,1%	2,41	**2,50**	1,7%
	Japanese 10 year Govie	-0,4%	-1,9%	0,71	1,00	-1,6%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,9%	6,9%	3,30	3,50	1,7%
	Italy - 10yr Gov bond	-0,3%	12,0%	3,88	4,40	-0,3%
	Portugal - 10yr Gov bond	-0,7%	8,1%	3,05	3,10	2,7%
	Ireland - 10yr Gov bond	-1,1%	5,7%	2,80	2,90	2,0%
	Greece - 10yr Gov bond	-0,9%	15,5%	3,31	4,25	-4,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,6%	4,7%	53,37	75	3,8%
	Credit EUR HY-Itraxx Xover	1,3%	12,8%	303,35	450	2,6%
	Euribor 3m					
	Credit USD IG - CDX IG	0,6%	7,5%	51,50	75	5,4%
	Credit USD HY - CDX HY	1,2%	15,8%	337,02	450	5,6%
	Libor Usd 3m					
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-4,3%	-121,2%	25,63	25,00	30,7%
	Russia - 10yr Gov bond (local)	-3,0%	-7,6%	12,84	25,00	-84,4%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	-0,1%	10,8%	6,58	5,75	13,2%
	India - 10yr Gov bond (local)	0,5%	10,8%	7,05	6,60	10,7%
	Philippines - 10yr Gov bond (lo	-0,1%	12,7%	6,23	5,50	12,1%
	China - 10yr Gov bond (local)	0,8%	7,2%	2,35	1,75	7,2%
	Malaysia - 10yr Gov bond (loca	-0,2%	6,0%	3,84	3,00	10,6%
	Thailand - 10yr Gov bond (loca	0,8%	1,9%	2,56	1,75	9,0%
	Singapore - 10yr Gov bond (loc	-1,4%	3,8%	3,05	4,00	-4,5%
	Rep. Korea - 10yr G. bond (loc	-0,8%	6,7%	3,33	3,50	2,0%
	Taiwan - 10yr Gov bond (local)	-0,2%	2,3%	1,18	2,25	-7,3%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	1,5%	9,6%	9,15	9,50	6,3%
	Mexico - 10yr Govie (USD)	-1,7%	7,3%	5,92	6,00	5,2%
	Brazil - 10yr Govie (Loc)	0,0%	30,8%	10,73	11,25	6,6%
	Brazil - 10yr Govie (USD)	-0,6%	9,2%	6,29	6,75	2,6%
Commodities	Oil (WTI)	10,4%	-0,6%	79,8	80,00	0,3%
	GOLD	2,3%	14,3%	2.085,1	2.000	-4,1%
Fx	EURUSD (price of 1 EUR)	0,6%	1,3%	1,085	1,05	-3,2%
	GBPUSD (price of 1 GBP)	0,3%	4,7%	1,27	1,29	1,8%
	EURGBP (price of 1 EUR)	0,3%	-3,2%	0,86	0,81	-4,9%
	USDCHF (price of 1 USD)	1,9%	-4,5%	0,88	0,87	-1,5%
	EURCHF (price of 1 EUR)	2,4%	-3,2%	0,96	0,91	-4,6%
	USDJPY (price of 1 USD)	1,4%	14,7%	150,38	140,00	-6,9%
	EURJPY (price of 1 EUR)	1,9%	16,3%	163,13	147,00	-9,9%
	USDMXN (price of 1 USD)	-0,6%	-12,7%	17,01	18,50	8,8%
	EURMXN (price of 1 EUR)	0,0%	-11,4%	18,45	19,43	5,3%
	USDBRL (price of 1 USD)	-0,3%	-6,3%	4,95	5,00	0,9%
	EURBRL (price of 1 EUR)	0,3%	-5,0%	5,37	5,25	-2,3%
	USDARS (price of 1 USD)	1,9%	377,0%	843,00	1.000	18,6%
	USDINR (price of 1 USD)	-0,1%	0,2%	82,88	82	-0,7%
	CNY (price of 1 USD)	0,1%	4,4%	7,20	7,50	4,2%

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

UPWARD REVISION DOWNWARD REVISION

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