ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – May 2024

Corporate Review

May 2024

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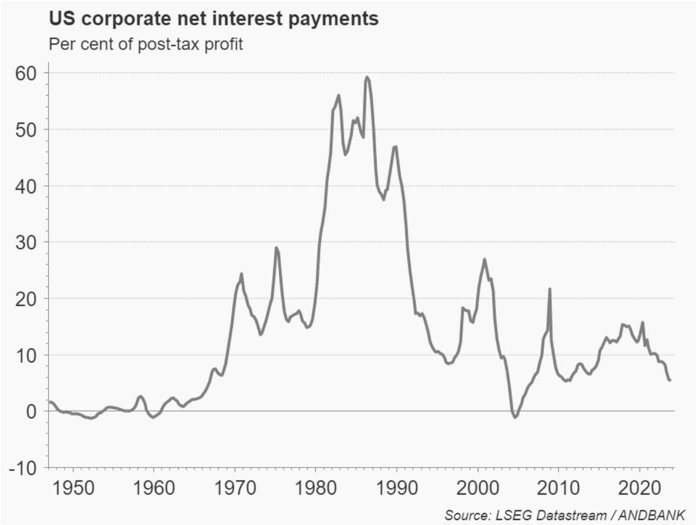
EXECUTIVE SUMMARY

CHART OF THE MONTH



The chart of the month would help alleviate some concerns among those who view the extension of high Federal Reserve rates as detrimental to the market. While it is true that delaying reductions in Fed Fund rates puts upward pressure on bond yields, which can unsettle equity analysts, we believe that the movement in yields may not affect the entire yield curve uniformly. After all, we are among those who consider the "higher for longer" Fed rates as the best mechanism to anchor inflation expectations, which caps the long end of the yield curve. Therefore, we would be discussing a limited effect (to the short end of maturities) in the fixed income world.
In summary, based on the attached chart and the previous reflection, it is clear that in the USA, interest payments on debt pose a problem only for the government, not for businesses.

EQUITIES

Indices	Performance Last month	Performance YTD	Current Price 30/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
USA - S&P 500	-1,7%	7,3%	5.116	5.112	-0,1%
Europe - Stoxx Europe 600	-0,4%	5,8%	507	514	1,4%
Euro Zone - Euro Stoxx	-1,1%	7,7%	511	534	4,5%
SPAIN - IBEX 35	-0,1%	8,6%	10.967	10.949	-0,2%
MEXICO - MXSE IPC	0,4%	0,8%	57.828	58.323	0,9%
BRAZIL - BOVESPA	-0,2%	-5,1%	127.352	140.952	10,7%
JAPAN - NIKKEI 225	-3,6%	14,8%	38.406	42.180	9,8%
CHINA - SHANGHAI COMPOSITI	1,0%	4,4%	3.105	3.065	-1,3%
CHINA - SHENZEN COMPOSITE	-1,3%	-4,4%	1.756	1.709	-2,7%
INDIA - SENSEX	1,2%	3,6%	74.800	76.866	2,8%
VIETNAM - VN Index	-6,0%	7,0%	1.210	1.356	12,1%
MSCI EM ASIA (in USD)	0,2%	4,2%	565	585	3,5%

FIXED INCOME GOVIES CORE, PERIHERAL & CREDIT (DM)

Indices	Performance Last month	Performance YTD	Current Price 30/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
US Treasury 10 year Govie	-1,8%	-4,8%	4,62	**4,50**	5,6%
UK 10 year Gilt	-1,4%	-4,9%	4,29	4,50	2,6%
German 10 year BUND	-0,7%	1,1%	2,52	**2,50**	2,7%
Japanese 10 year Govie	-0,9%	-3,5%	0,86	1,00	-0,2%
Spain - 10yr Gov bond	-0,1%	-1,6%	3,30	3,50	1,7%
Italy - 10yr Gov bond	0,1%	0,1%	3,82	4,10	1,6%
Portugal - 10yr Gov bond	-0,2%	-2,2%	3,14	3,10	3,4%
Ireland - 10yr Gov bond	-0,3%	-3,8%	2,90	2,90	2,9%
Greece - 10yr Gov bond	-0,3%	-1,9%	3,38	4,25	-3,6%
Credit EUR IG-Itraxx Europe	0,3%	1,6%	56,55	75	3,9%
Credit EUR HY-Itraxx Xover	0,0%	2,1%	320,84	450	3,2%
Credit USD IG - CDX IG	0,4%	2,1%	54,26	75	5,5%
Credit USD HY - CDX HY	0,5%	3,5%	339,64	450	5,7%

FIXED INCOME - EM

Indices	Performance Last month	Performance YTD	Current Price 30/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
Turkey - 10yr Gov bond (local)	-10,3%	-12,7%	26,18	25,00	35,6%
Russia - 10yr Gov bond (local)	-1,9%	-12,8%	14,38	25,00	-70,6%
Indonesia - 10yr Gov bond (loc	-3,5%	-3,7%	7,17	6,00	16,5%
India - 10yr Gov bond (local)	-0,2%	2,2%	7,20	6,50	12,8%
Philippines - 10yr Gov bond (lo	-3,7%	-4,2%	6,75	5,75	14,8%
China - 10yr Gov bond (local)	0,2%	3,2%	2,28	1,75	6,5%
Malaysia - 10yr Gov bond (loca	-0,5%	-0,7%	3,97	3,25	9,7%
Thailand - 10yr Gov bond (loca	-1,8%	0,1%	2,75	1,75	10,8%
Singapore - 10yr Gov bond (loc	-2,0%	-4,9%	3,41	3,40	3,5%
Rep. Korea - 10yr G. bond (loc	-1,4%	-2,6%	3,54	3,50	3,9%
Taiwan - 10yr Gov bond (local	-1,7%	-3,4%	1,65	2,65	-6,4%
Mexico - 10yr Govie (Loc)	-3,4%	-5,6%	9,94	9,50	13,4%
Mexico - 10yr Govie (USD)	-1,1%	-3,3%	6,18	6,00	7,6%
Brazil - 10yr Govie (Loc)	-2,9%	-7,5%	11,61	11,25	14,5%
Brazil - 10yr Govie (USD)	-1,7%	-4,1%	6,66	6,75	5,9%

COMMODITIES & FX

Indices	Performance Last month	Performance YTD	Current Price 30/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
Oil (WTI)	-3,1%	15,2%	82,6	80,00	-3,1%
GOLD	1,7%	12,5%	2.319,8	2.100	-9,5%
EURUSD (price of 1 EUR)	-0,6%	-3,0%	1,070	1,05	-1,9%
GBPUSD (price of 1 GBP)	-0,4%	-1,6%	1,25	1,29	2,9%
EURGBP (price of 1 EUR)	-0,2%	-1,5%	0,85	0,81	-4,6%
USDCHF (price of 1 USD)	0,5%	8,4%	0,91	0,87	-4,7%
EURCHF (price of 1 EUR)	-0,1%	5,2%	0,98	0,91	-6,5%
USDJPY (price of 1 USD)	3,5%	11,2%	156,87	140,00	-10,8%
EURJPY (price of 1 EUR)	2,8%	7,8%	167,82	147,00	-12,4%
USDMXN (price of 1 USD)	2,8%	0,4%	17,02	18,50	8,7%
EURMXN (price of 1 EUR)	2,2%	-2,6%	18,21	19,43	6,7%
USDBRL (price of 1 USD)	1,2%	5,5%	5,12	5,00	-2,3%
EURBRL (price of 1 EUR)	0,6%	2,3%	5,48	5,25	-4,2%
USDARS (price of 1 USD)	2,2%	8,4%	876,50	1.000	14,1%
USDINR (price of 1 USD)	0,2%	0,4%	83,51	82	-1,4%
CNY (price of 1 USD)	0,2%	2,1%	7,24	7,50	3,5%

ANDBANK Private Bankers

USA

Expectations of a tighter Fed provide us with an opportunity to start increasing duration

Federal Reserve and Fed Fund rates

During April, we saw important statements from different members of the Monetary Policy Committee. The Chairman, Jerome Powell, indicated that interest rate reductions are unlikely in the near future, stating that "recent data have clearly not given us greater confidence, and instead indicate that it's likely to take longer than expected to achieve that confidence". Other members sounded even more hawkish. Minneapolis Fed President Neel Kashkari stated that the Fed needs to achieve more confidence that inflation is declining before cutting interest rates and could do this after 2024. Last but not least, the New York Fed President John Williams mentioned that although an increase in the rate is not his base scenario, if the data indicates that it is necessary, the Fed will not hesitate to do so. Behind the hawkish statements from these Fed officials there was a higher-than-expected inflation print, as well as other data indicating strong economic activity, such as retail sales, which all led to the deepening of the adjustment of expectations that we have been seeing in the last two months. The escalation of the confrontation between Israel and Iran also contributes to this adjustment of expectations, mainly due to the increase in the price of oil, which leads to a rise in inflationary expectations.

At this moment the market is forecasting only two interest rate cuts this year (or 50 bps), positioning itself in a more hawkish tone than the Federal Reserve itself, which in the March Dot plot indicates a reduction of 75 bps during the course of this year. For the market, an interest rate reduction in the next two meetings (May and June) is now off the table, and for the July meeting, at the time of writing, there is a 60% probability that the Fed will maintain its rate at the current level. Finally, the probability that we will reach the end of this year without an interest rate reduction went from 0% at the beginning of the year to 15% at this time. We at Andbank continue to think that the Fed is going to cut interest rates during this year, due to the reputational cost that not doing so would imply, but we now expect the cuts could occur in the last quarter of the year, and we are inclined to think of two cuts for this year. Similarly, since in February we introduced the scenario of no cuts by the Fed in 2024—a scenario to which, while not our central case, we assigned a probability of between 5-10%—we would now assign a probability of 15%-20% to this scenario of stable Fed rates.

Inflation and economic activity

March CPI rose +3.5% y/y, higher than the previous month's reading (+3.2% y/y) and also above market expectations (+3.4% y/y). Core CPI rose for the third consecutive month, to 3.8% y/y. The three-month annualized rate is +4.5%, suggesting inflation may be stickier than previously thought. The headline CPI increase was primarily driven by the shelter and energy components. Retail sales for March came in much stronger than expected (+0.7% m/m vs +0.4% m/m expected), another sign that consumers remain resilient despite the high interest rate environment. If we strip out the auto and gas categories, the increase in core retail sales was even stronger, at +1.1% m/m, comfortably surpassing what analysts expected. In the labor market we have another month with data indicating resilience in economic activity. Companies added 303,000 jobs, the largest job creation since January 2023. The unemployment rate declined to 3.8% in February, being fixed at historically low levels.

Outlook & assessment for Financial Markets

US Equity: We feel comfortable with the current valuations of the U.S. equity market. Based on our EPS projection of $243/share for the S&P 500 and a PE multiple of 21 (which would give us an implied yield of 4.75%), we arrive at a fair/reasonable price for the S&P at 5,100 points. Given that the index trades very close to this price we consider fair, we conclude that the market is well-valued and not expensive. We would maintain exposure in this market and would not start a more defensive strategy until the index trades 10% above our fair price. In regional strategy, however, we would have the U.S. market slightly underweighted (overweighting Europe, which offers us an implied yield of 7.2%). Communication Services and Technology companies continue to be the top performers this year, but the increase in the oil price has favored the rise of Energy stocks. We continue to recommend balancing styles and taking advantage of opportunities in sectors that are underperforming (i.e. small caps today).

Bonds. Rates & Credit: The last month was a challenging one for duration, with the rate on the 10-year Treasury bond moving from 4.2% to above 4.6%. There was no significant change in the slope of the yield curve, which continues to remain inverted, with the 10-2 year spread stable at -35 bps. With the 10-year above our 4.5% target, we started increasing duration in our mandates. Our duration strategy is as follows: With yields on the UST 10-year in the 4.5% area, maintain an average duration of 5 years in the USD debt block. If the UST yield rises to 4.75%, we will increase the duration of our bonds to 7 years, and if the UST reaches 5%, we will increase the duration to 10 years. Moving to Credit: Neutral for Investment Grade and High yield.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT-UNDERWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 4.5%

CDX IG: MARKETWEIGHT (Target Spread 75)

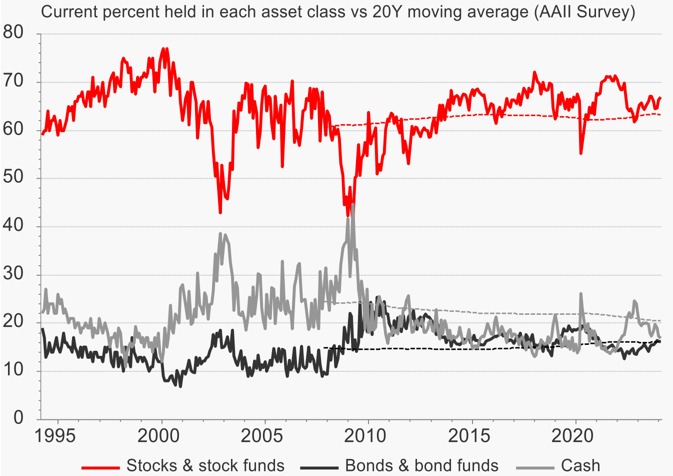
CDX HY: MARKETWEIGHT (Target Spread 450)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

US price-to-earning ratio
S&P 500

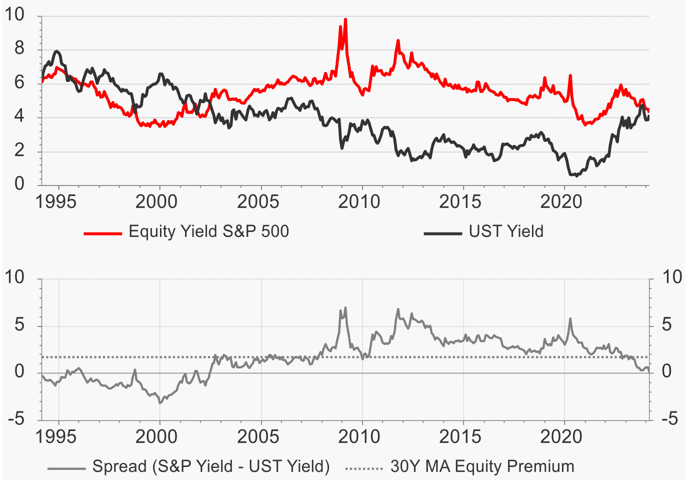
Fuente: LSEG Datastream / ANDBANK

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

Some signs of an incipient recovery. The ECB seems ready to cut rates. Comfortable with equity and short-term debt

Activity: Early signs of recovery

Confidence keeps rising steadily, with new surveys, such as the Services PMI, adding to the early recovery signs pointed out since the beginning of the year. Nevertheless, industrial momentum remains subdued, with German firms far from confident: 37% still expect further decline in production, while 23% expect expansion. The service sector is the main ray of hope, with some 34% of service firms willing to create jobs and boost investments. High interest rates, sluggish global growth and the Ukraine and Gaza conflicts remain as headwinds. As for inflation, numbers have continued on the downside, meeting the ECB projections. Wage and corporate margin indicators show signs of easing, with the *Indeed* survey pointing to wage growth at 3.3% y/y in March vs. 3.7% on average in 1Q2024. Risk remains on the domestic side (service resilience at +4% y/y) and energy prices. According to Lagarde, disinflation "goes on", though it should not be expected to be a lineal road, but a bumpy one, where energy plays a key role (Brent price in March ECB staff estimates: 79.7 $/b for 2024).

ECB: June as the time to start "dialing back" for the ECB

Though April's ECB communication was not specific in terms of a starting date to cut rates, the underlying message was clear: June is the date, unless extraordinary events occur, and irrespective of any FED decision. Some members already support a rate cut in April. As for the FED, Lagarde highlighted the ECB's data dependence – not FED dependence, drawing the line between economies and inflation dynamics. Following the meeting, Stournaras said: "it is time for the ECB to diverge from the FED". While a certain level of decoupling between the Fed and ECB may occur, it will probably be limited. We stick to our two rate cut estimates for the ECB's Refi rate and Depo rate in 2H24 (depo levels at 3.5% by year end), with the first cut by June, unless a more inflationary scenario driven by wage growth unfolds. A third rate cut cannot be ruled out. In Villeroy's words: "bar a surprise, we should cut in June and the cut will have to be followed by other cuts".

Outlook & assessment for Financial Markets: Govies, Corporate Credit & Equity

Bonds - Govies: We maintain our bund and spread targets: 10Y Bund yield at 2.5%; Italy (160 bps), Spain (100 bps), Portugal (60 bps), Greece (120 bps), Ireland (40 bps). Our duration strategy for the EUR debt block is to keep short durations of 1- years, with yields comfortably above 3.25% (while the longer segments present lower yields, with the Bund10 at 2.5%). We believe that in 12 months, the yield of the long segments will remain at that 2.5% for the Bund, so the best strategy is to remain without duration in euros.

Corporate bonds (Credit): Credit spreads continue to tighten since the beginning of 2024, in all sectors and across ratings. Markets continue being positive in all risk assets, including corporate credit. However, the rating agencies see the default rates on European bonds climbing, driven by leverage, debt maturities and declining performance. We are positioning on average durations of 3-4 years, with defensive and anti-cyclical names to avoid any potential spread widening. We hold spread target levels for both IG (75 bps) and HY (450 bps), with a recommendation of Neutral/OW for IG and UW/Neutral for HY.

Equity: We feel comfortable with the current valuations of the European equity market. Based on our EPS projection of €36.6/share for the Stoxx Europe 600 and a current PE multiple of 14 (which gives us an implied yield of 7.14%), we arrive at a fair/reasonable price for the index at 514 points (current price is 509). Given that the index trades slightly below the price we consider fair, we conclude that the market is well-valued and not expensive. We will maintain an overweight exposure in this market until the index trades 10% above our fair price. European equities appear fairly valued relative to their own history and modestly in the global context, especially when compared to the US. Furthermore, dissecting valuations through both a market cap and a geographical lens reveals that while large cap stocks seem overpriced across all markets, the extent of this overvaluation is significantly greater in the US than in Europe and the UK. Moreover, US small caps are trading close to their average since 2008, whereas European and UK small caps are significantly cheaper relative to their own history. Interestingly, European small caps have outperformed their US counterparts over the past two decades. Consensus forecasts for earnings per share growth signal a mixed yet cautiously optimistic view, with Europe ex-UK on a modestly positive trajectory. However, profit margins are showing signs of compression after reaching all-time highs. The future trajectory of energy prices remains uncertain. Should energy prices remain high, the anticipated relief in manufacturing input prices may not be as pronounced as expected. Investors have taken notice, shifting their positioning in recent weeks more towards defensive sectors (such as consumer staples and utilities) and energy stocks, which, nonetheless, remain inexpensive. Focusing on companies with good businesses, attractive valuations, and management teams with honesty and integrity will be key to navigating successfully through any market turbulence.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: OVERWEIGHT

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

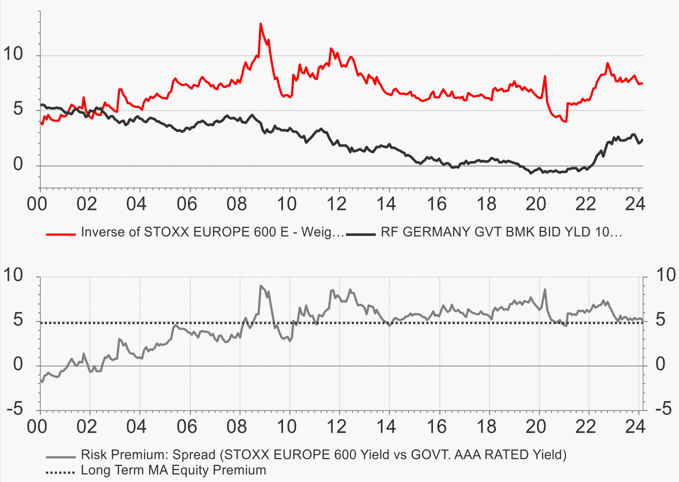
Peripheral – UW IT (4.10%), SP (3.50%), PT (3.10%), IE (2.90%). GR (4.25%),

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

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

FX – EUR/USD: >1.10 BUY USD / (1.10-1.05) Neutral $ / <1.05 SELL USD

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

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MACRO ECONOMY

SPAIN

Good economic news ahead of company earnings reports

Macro & Economic Politics

Looking at economic activity, the Spanish economy expanded at +0.6% q/q in the last quarter of 2023, an impressive feat considering that high interest rates have pushed the wider euro area into stagnation. But the headline number overstates the actual picture, as private demand (investment and household spending) contracted and inventories were the main driver of growth, adding a whopping 0.4 percentage points.

Going forward, falling interest rate expectations and the recovery in households' real income should help support spending and, by transference, economic activity. Also, the delay in EU-funded investment means its peak impact on growth will land this year instead. A record tourist season is also expected for this year, with a forecast increase in revenues of +8.6% compared to last year, according to the private agency Exceltur.

According to the latest Eurostat estimates, the economy is projected to grow by 1.7% in 2024 and 2% in 2025, 20 bps above our forecast for both years, surpassing the European Union's average of 0.9% and 1.7%, respectively. Eurostat emphasized that consumption and investment will be the primary drivers of economic expansion this year, with private consumption buoyed by real income gains and the utilization of accumulated household savings, while investment growth will be supported by the broader implementation of the Recovery and Resilience Plan. Looking to the long term, the main challenges continue to be increasing investment and productivity.

So far this year, economic data continues to exceed expectations. The composite PMI surged to 55.3 in March 2024 from 53.9 in February, the fourth consecutive month of expansion in the country's private sector and marking the strongest performance since April 2023. Service sector activity grew at the fastest pace since May 2023 (56.1 vs 54.7 in February), while Manufacturing activity kept up the solid levels seen in the previous month (51.4 vs 51.5 in February). Industrial production expanded +1.3% m/m in February, well above the +0.8% y/y average in the Eurozone. We expect manufacturing activity to maintain its high level of economic activity, as new orders showed the highest expansion in the last eleven months.

Also, the labor market continues to exhibit signs of improvement, with unemployment rates declining steadily. The number of unemployed fell in March by 33,405 and now stands at 2.73M (-1.2% m/m and -4.7% y/y), implying an unemployment rate of 11.5%, still well above the European average. Government initiatives aimed at fostering job creation and upskilling programs have contributed to this positive trend, instilling more optimism among consumers.

Retail sales in the Iberian nation soared by +1.9% y/y in February, marking the 15th consecutive annual increase, while house prices saw an average increase of 4.2% in 2023, bucking the trend observed in many Eurozone countries, where average house price growth was negative last year, largely as a consequence of rising interest rates.

Last but not least, it should be noted that Spain's harmonized CPI inflation ticked up in March to +3.3% y/y (+1.4% m/m), from +2.9% y/y in February, above the +2.4% y/y increase for the Eurozone as a whole. The print was also above our forecast of +2.8% y/y, but we don't think it should be a cause for concern. The press release offers few details but confirms there were competing base effects on inflation: utility bills pushed up, while food was a drag, by less than we anticipated. Headline CPI is expected to rise again in the coming months, partly due to the government's decision to reverse tax cuts announced during the energy crisis. This is one of the reasons why inflation will exceed that of the euro area, reaching +3% y/y by end-2024, above the +2% y/y forecast for the block as a whole.

Stock Market

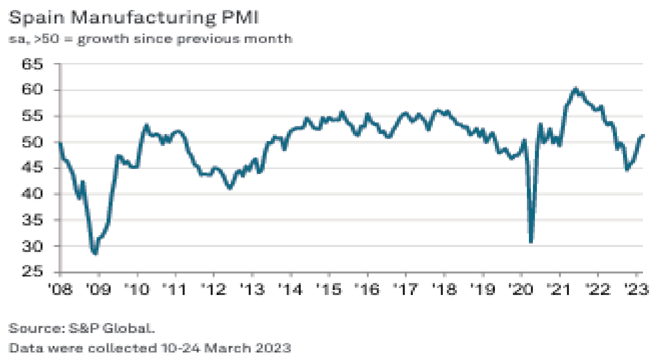
On the financial front, the prices of Spanish companies are going through a period of remarkable performance. The IBEX 35 Index, comprising the 35 largest Spanish companies by market capitalization, surged by approximately +11% in March, with four consecutive weeks of gains, reaching a level not witnessed since May 2017.

The good performance of the Spanish economy and the earnings results from the last quarter of last year are causing a more constructive vision on the part of the market. The consensus is now slightly more positive for this year than our numbers. We still maintain our forecast of 986 EPS for the next twelve months, with a slight multiple expansion from current 10.6X to 11x.

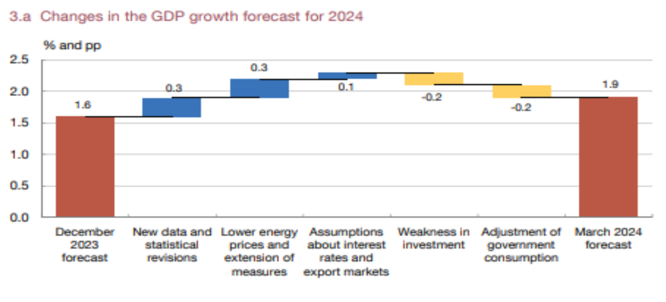
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: OVERWEIGHT

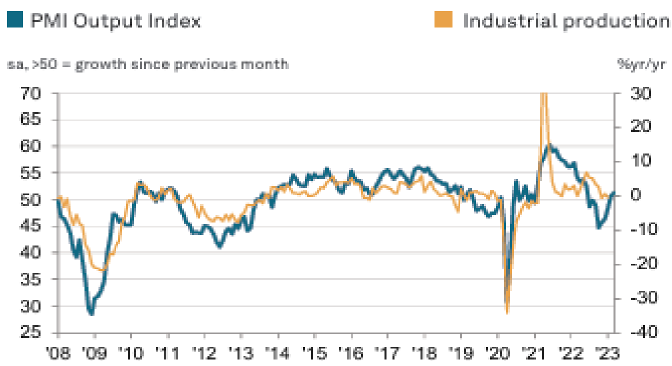
Bonds: Govies UNDERWEIGHT (10 year target 3.50%)



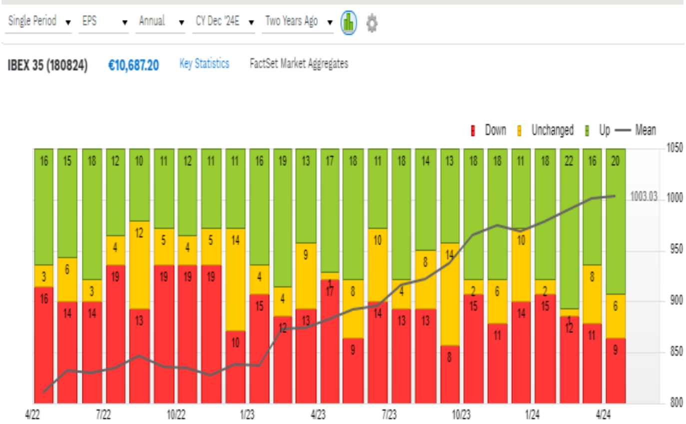
Source: S&P Global.
Data were collected 10-24 March 2023



SOURCES: INE and Banco de España.



Sources: S&P Global, INE.



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MACRO ECONOMY

CHINA

Mixed economic data and heightened geopolitical tensions continue to reduce risk appetite

China Securities Regulatory Commission (CSRC) downplays delisting risks to calm small-cap panic

CSRC said tighter regulatory rules would not spark a wave of delistings. The statement came in to allay investor concerns following a two-day sell-off in small caps. Head of CSRC listed company supervision department Guo Ruiming said amended rules target so-called "zombie" firms or "bad actors" in the market, not small caps. He added that "changes won't likely impact market in near term". Guo said only 30 companies could face delisting next year due to their financial metrics, while another 100 firms could be tagged with a "special treatment" warning and would be given 1.5 years to improve performance.

The IMF sets an estimate of GDP growth with decreasing rates for China until 2026, flagging property sector risk

In its latest World Economic Outlook, the IMF fixed its forecast for China's 2024 growth, seeing it falling to 4.6% from 5.2% in 2023, with a further drop to 4.1% for 2025. Lack of domestic demand remains a challenge, as there are doubts that exports alone could offset weak demand at home.

The IMF also warned that lack of a comprehensive restructuring package for China's troubled property sector could prolong the downturn and could darken the country's outlook. The institution recommended that China accelerate the exit of non-viable developers and focus on completion of unfinished housing projects while supporting household consumption. The downturn in China's property market deepened in March, both in investments and in house prices, weighing on confidence. Recent figures from the real estate sector still show that the depression in the sector continues and as yet shows no sign of bottoming out: Real estate development investment (9.5%) y/y. Residential investment (10.5%) y/y. Housing construction area of property developers (11.1%) y/y. Area of new housing starts (27.8%) y/y in Jan-Feb. Sales area of new commercial properties (19.4%) y/y. Sales amount of new commercial properties (27.6%) y/y.

Youth unemployment in China: New metric, same mess.

China's rising youth unemployment is starting to be somewhat alarming and requires close attention. Unemployment among 16 to 24-year-olds hit record highs last summer and Beijing paused publishing the data. After a six-month absence, China's National Bureau of Statistics (NBS) has again released official youth employment data for December 2023: 14.9%. The government stopped reporting the rate in June 2023, after it had risen continuously to a record high of more than 21%, as high as 40% in rural regions or as high as 50% when you factor in part-time or underemployment. The NBS refined its methodology to exclude students.

Some of the factors behind this negative trend in youth unemployment in China include inadequate private sector job creation and skills mismatches. While the number of new graduates entering the labor market is rising (to nearly 12 million in 2024), there aren't enough jobs to keep pace, especially as regulatory burdens are dampening growth in the industries most likely to employ young people, such as technology. But the youth labor market in China has a few unique characteristics as well: The cultural demands on young Chinese workers are high. They are routinely expected to work "9-9-6", i.e. from 9 am to 9 pm, six days a week, and in the face of grueling hours for low pay, young people in China are opting out, choosing instead to remain idle and not work or engage in any economic activities, or become "professional children," paid by their parents or grandparents to live with and care for them. Also, the general economic downturn and collapse of the property and housing market in particular has led to a hiring slowdown, with jobs that might be most suitable to new labor market entrants continuing to be among the hardest hit. Meanwhile, deflationary pressures could persist and prompt more cheap exports of manufactured goods, which could stoke trade tensions with other countries. China's floods of exports are raising tensions with developed markets in US and EU.

Geopolitics: German Chancellor Scholz began China trip amid growing tensions. Imposition of European tariffs on Chinese products remains very likely.

German Chancellor Olaf Scholz began a three-day trip to China amid growing tensions between Europe and China over claims of unfair competition. Scholz's delegation included three cabinet ministers and business executives from BMW, Mercedes-Benz, Bayer, Merck and Siemens, who highlighted the significance of the Chinese market and said withdrawing from it is not an alternative. The visit takes place while Brussels raised concerns that its companies do not enjoy a level playing field, citing factors including market barriers and industrial overcapacity. Scholz said competition between China and Germany should be fair, while also cautioning against a protectionist stance. Scholz likely warned President Xi that Beijing needs to act soon to avoid EU tariffs aimed at rebalancing the trade relationship, including on EVs. Meanwhile, Xi told Scholz that Germany needs to view and develop bilateral relations from a long-term, strategic perspective. At the moment we do not think trade tensions will ease. The imposition of European tariffs on Chinese products remains very likely and could further deteriorate relations.

Market outlook – We remain cautious with Chinese assets. Recommendations:

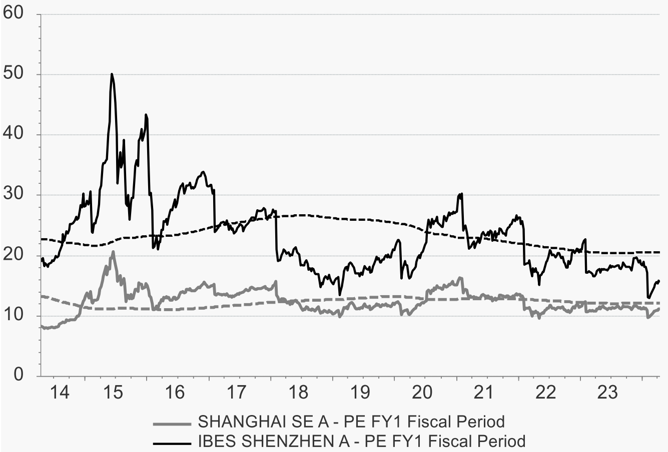
Equities – SHANGHAI Idx: UNDERWEIGHT // SHENZHEN Idx: UNDERWEIGHT

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

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio

PE forward



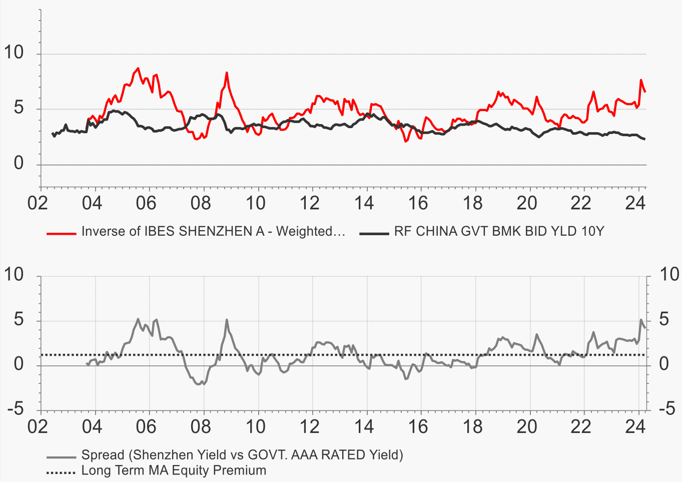
Fuente: LSEG Datastream / ANDBANK

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

ANDBANK Private Bankers

JAPAN

Yen falls to levels not seen since 1990. We maintain a positive stance for equity and the JPY.

Demographics continue to put a ceiling on inflation. In principle, an economy with a favorable inflation differential should have a stronger currency.

The greatest deflationary driver is still in full force in Japan, namely the demographics. Japan's population fell by 595K from a year earlier to 124.4M, marking the 13th consecutive year of decline. An 837K drop among Japanese nationals was the largest since comparable data became available in 1950. Single-person households were forecast to account for 44.3% of the 52.61M households in Japan in 2050, compared to 38.0% in 2020. Lower structural inflation is favorable for an economy's currency, but this is especially true when lower inflation is caused by improvements in productivity. We are concerned that deflation in Japan is rooted in declining demographics, not in productivity improvements. Productivity in Japan has been characterized by a general trend of slow growth, with an average growth for the period 2013-2023 of +0.5% annually, reflecting an economy with limited productivity growth. In the United States, productivity gains during the same period were +1.2% annually. All in all, while still validating the thesis that countries with lower inflation tend to have stronger currencies and waiting to delve deeper into the productivity differences, we maintain a favorable view for the JPY against the USD (with a target of 140), and favorable against the EUR. **Other factors behind the JPY's weakness**: 1) NISA flows skewed 80% toward foreign equities have drawn the attention of the FSA. The Regulator has begun instructing financial institutions to thoroughly explain the risks that a potential yen strength would have in devaluing households' foreign equity holdings, mainly in the US. 2) Great international instability could be behind the depreciation of the JPY. This is demonstrated by the fact that with the worsening of the situation in the Middle East, the EUR has also fallen sharply versus the USD, from 1.09 to the current 1.06. This is curious because in situations of global instability the JPY has traditionally acted as a safe haven asset. We expect the JPY to act as such again if the international situation worsens. That is why we maintain a favorable view for the JPY.

Yen market flummoxed by lack of yen intervention

We discussed market perplexity over the lack of FX intervention even after the yen weakened beyond 153 per dollar for the first time since 1990, prompting a reassessment of the seriousness of MOF's jawboning. Finance Minister Suzuki said in parliament that the authorities would not rule out any steps to deal with excessive exchange-rate swings after the dollar surged to a 34-year high against the yen. Suzuki also said “excessive currency moves are undesirable” and that “it is important for currencies to move in a stable manner reflecting fundamentals”. The vice finance minister said that he would not rule out any steps. Discussions of potential trigger points in the USD/JPY gained further traction, with predictions starting from the 152 level to around 155. Analysts noted Japan has ample FX reserves to manage the situation with the JPY and get its price back on track. Resulting yen weakness is also prompting speculation this may bring forward the timing of the next BOJ rate hike (Nikkei), seemingly countering BOJ Governor Ueda's comments to parliament ruling out a change in monetary policy in direct response to FX moves.

BOJ: Ueda indicates room to reduce monetary stimulus but does not give any sign of when. This maintenance of monetary policy is very favorable for the equity market, which we continue to like.

BOJ governor Kazuo Ueda reaffirmed an accommodative policy stance for the time being while the inflation target has yet to be achieved. Still, he added that if economic and price conditions move in line with current projections, trend inflation will gradually accelerate. If so, BOJ must consider reducing the degree of stimulus and a judgement will depend on upcoming data. Ueda also said he had no preset idea in mind on when or how the BOJ will next adjust short-term interest rates. However, the steady BOJ JGB purchase operation in April defies speculation of decline, and reaffirmed the board's message that financial conditions would remain accommodative. CFTC net speculative shorts in the JPY amounted to ¥1.79T as of 2-Apr, being the second largest since 2013. This coincides with the yen's recent decline to a 34-year low versus the dollar

The TSE index reduces the presence of SMEs after reshuffling and becomes a more consolidated and stable market. Still, it maintains an individual size that is a fraction of the NYSE, maintaining the characteristic attractiveness of medium-sized Japanese copmpanies.

Nikkei discussed progress in the consolidation of TSE Prime Market constituents, noting a 20% reduction since the reshuffle two years ago. The latest count as of March-end was 1,650, the lowest number for the TSE's top tier in 12 years. Over the two years since the overhaul, the average market cap of Prime names has grown 80% to ~¥600B. The article noted the Prime Market still contains a large number of relatively small-cap firms, and average market cap remains less than a quarter of that of companies in NYSE or Nasdaq's Global Select market. We continue to like the Japanese market for this reason, but also because of the progress in the new capital optimization reform in companies.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 1.00%)

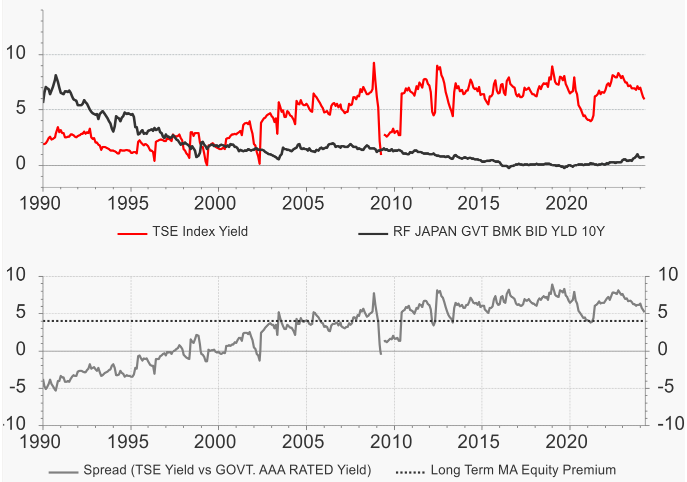
Forex – USD-JPY: OVERWEIGHT. JPY (Mid-term target 140)

Japan Nikkei 225 price / earnings

Ratio

Fuente: LSEG Datastream / ANDBANK

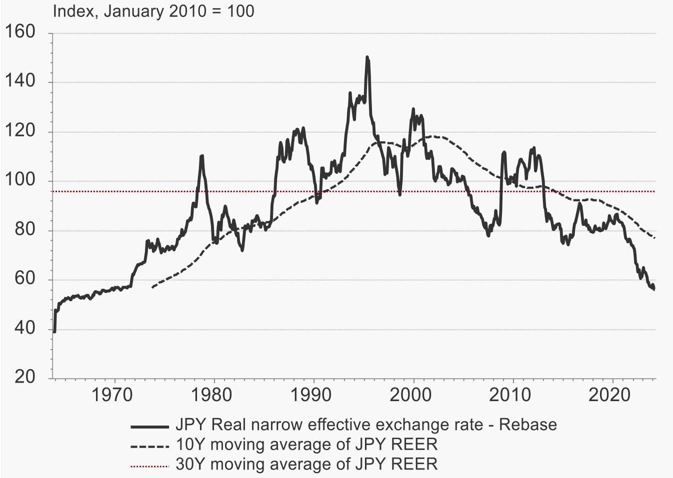
Equity Yield (Japan) vs Risk Free Yield10Y



Fuente: LSEG Datastream / ANDBANK

Japan real narrow EER

Index, January 2010 = 100



Fuente: LSEG Datastream / ANDBANK

INDIA

India is set to become the world's third-largest economy in 2027.

Why you should invest in the Indian stock market despite Iran-Israel tensions

Impressive GDP growth, healthy direct tax collections, easing inflation and the expectations of a normal monsoon indicate the Indian market may maintain its momentum. The Indian economy stands in stark contrast to the global scenario, where inflation continues to confound policymakers and stakeholders. India's stance of neutrality in such tensions has indirectly led to increased investments in safer economies. We see minimal potential disruptions to Indian markets. Rate cuts may commence in the last quarter of this calendar year, injecting further liquidity into the markets. While acknowledging the possibility of short-term turbulence stemming from valuation dilemmas or global developments, we maintain confidence in India's long-term growth narrative remaining intact. Signals suggest the current BJP-led NDA government will continue, fuelling economic growth and stable interest rates, which could increase global investment in India. Considering these factors, one should continue to stay invested in Indian stocks.

We hope for continuity of political stability. An aspect that will favor the equity market. PM Modi eyes 3rd term to sustain India's economic growth

India's rapid growth, set to elevate it to the world's third-largest economy in the next three years, is one of the key pillars of Prime Minister Narendra Modi's re-election bid, despite concerns over widening wealth disparities. During Modi's decade-long tenure of two terms in a row India's economic progress has propelled it from the 10th to the 5th-largest, trailing only the United States, China, Japan, and Germany. The International Monetary Fund (IMF) predicts that the trajectory will persist in the coming years pushing India's GDP above the $5 trillion mark by 2027, potentially surpassing Japan and Germany. India's sustained progress contrasts with the slowdown of major economies. While the IMF forecasts global growth at 3.1% in 2024, the Indian government estimates the country's GDP will grow by more than 7% in that fiscal year and will continue expanding at a similar pace the following year. We underscore several initiatives aimed at rural development and others pumping billions of dollars into infrastructure expansion, which contribute to Modi's popularity. These initiatives include the 'Clean India' mission (2014), the 'Water is Life' program (2019), which has provided nearly 150 million rural households with access to clean water, and the extensive renovation of roads, bridges, and railway stations, alongside the expansion of airports, which have doubled in number over the last decade to 149, further showing India's developmental strides.

99% of the potential to be captured in this market is likely still missing

The growth potential of this economy is still enormous, and we believe that we are still in the early phase of a potential development story. In our opinion, 99% of the potential to be captured in this market is likely still missing. It seems as if the government has promoted a series of corporate champions to then spread the seeds of corporate success throughout the country. That may be the reason why the government seems to have no problem with inequality at this moment. India's per capita GDP remains below $3,000 annually, with a predominantly agrarian society. The focus is to transition the agricultural workforce into other sectors and thereby boost the country's average productivity and the average income per capita.

India can weather the impact of geopolitical challenges on trade in FY25

India's overall exports during this last fiscal year, a year that was fraught with geopolitical challenges, are expected to have surpassed the previous year's record high by $280 million to touch $776.68 billion. New Delhi was able to limit the impact of the unfolding geopolitical tensions over land and sea, which pushed up shipping costs for Indian exporters. Credit goes to new areas of Indian exports, and outbound shipments of electronic goods, where India has traditionally been weaker, grew 24 percent due to government initiatives such as the Production Linked Incentive (PLI) scheme and other "Make in India" efforts. Smartphone exports are expected to rise by 30 percent to over $15 billion, and other goods exports, such as engineering, pharmaceuticals, iron ore, ceramics and handicrafts, also registered good growth. Traditional labour-intensive sectors such as marine products, jewelry, textiles, apparel and leather exports are losing global market share. The improvement in India's trade deficit in FY24 has largely been attributed to a reduction in net imports of minerals, net chemical imports and the country's purchase of cheaper oil from Russia. This is all a result of lower commodity prices, while domestic demand conditions held up.

What's in store for FY25? In its Global Trade Outlook and Statistics released recently, the World Trade Organization (WTO) acknowledged the resilience of global trade, despite the presence of several major economic shocks. By the end of 2023, merchandise trade volume was up 6.3 percent compared to 2019, and commercial services trade volume was up 21 percent between 2019 and 2023. The rosier predictions for FY25 are attributed to expectations of a gradual abatement in inflation in 2024 and 2025, allowing real incomes to grow again in advanced economies, boosting consumption of manufactured goods, according to the WTO.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT

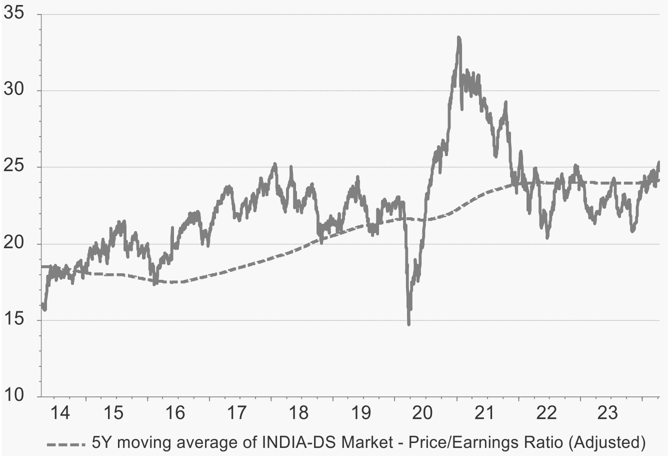
Bonds – Govies: OVERWEIGHT (Target yield 6.6%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 82)

India Datastream index Price Earnings Ratio

Ratio



Fuente: LSEG Datastream / ANDBANK

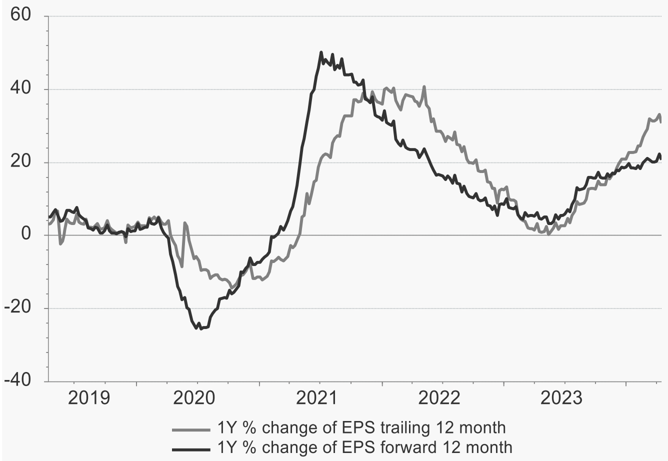
India NIFTY 50 realised volatility

One-year rolling standard deviation of daily returns

Fuente: LSEG Datastream / ANDBANK

EPS (Trailing & Forward)

MSCI India



Fuente: LSEG Datastream / ANDBANK

VIETNAM

Market wobbles after the magnitude of the real estate group fraud. We maintain a positive outlook

In a case that has gripped the nation, Vietnam tycoon sentenced to death for her role in a massive financial fraud scandal.

A billionaire real estate tycoon in Vietnam has been sentenced to death for her role in masterminding the country's biggest case of financial fraud. Truong My Lan was found guilty of bribery, violating banking regulations and embezzlement – for siphoning off more than 12 billion dollars from one of Vietnam's commercial banks, the Saigon Commercial Bank. Truong My Lan was the chairwoman of the Van Thinh Phat Holdings Group and was the mastermind of a fraud that involved the creation of fake loan applications and the use of shell companies to siphon billions from Saigon Commercial Bank in what has been described as one of the most significant cases of corporate malfeasance in history. Lan, a major stakeholder in the bank, orchestrated the embezzlement of approximately $12.5 billion over the course of a decade. She paid bribes to government officials and controlled the Saigon Commercial Bank illegally through hundreds of shell companies. The court heard that Lan paid a bribe of more than $5 million to senior Central Bank inspectors. The scheme, which implicated high-ranking officials and involved over 1,000 domestic and international subsidiaries, has drawn comparisons to Malaysia's 1MDB (Malaysia Development Berhard Fund) scandal. Prosecutors had recommended capital punishment in late March, arguing that Lan, and this kind of fraudulent activities, needed to be "ostracized from society forever." The outcome became clear on April 10, when the court stated that she needed to be handled with the "strictest punishment." This is important because the death penalty is rare for financial crimes in Vietnam. The State Bank of Vietnam official accused of taking a US$5.2 million bribe from Lan to overlook illegal activity at SCB was sentenced to life in prison. Authorities say more than 40,000 people are victims of the scam. Vietnam has emerged as a global business hub and courted foreign investment, positioning itself as an alternative to China for foreign companies wanting to manufacture in Asia, but cases like this can affect the willingness of foreign corporations to do business in the country.

President Resigns Amid Anti-Corruption Drive

President Vo Van Thuong's resignation continues to be a big story this week and we follow up with more analysis of what's going on. Analysts hint at internal party conflicts and a possible power struggle as the Communist Party tries to maintain control while projecting stability. The impact on foreign investment remains to be seen, as "stability" has been an important recent selling point. This news, while it may generate some volatility, does not currently alter our favorable outlook for the Vietnam stock market. Some recent developments confirm our positive positioning.

Banks Rake in Profits Despite the news

Local banks are killing it profit-wise, even with credit growth stuck in neutral. SeABank achieved pre-tax profit growth of nearly 41% yoy. VIB bank has set a pre-tax profit growth target of 13%-15% and has big dividend plans for 2024. ACB also shared its first quarter results recently and has set a pre-tax profit growth target for 2023 of +10%. HSBC Vietnam and Shinhan Bank Vietnam also saw profits surge. Looking at 2024 estimates, the director of the Research Department at MB Securities said that credit growth in 2024 could reach the target of 14-15 per cent, with expectations for positive changes in both the corporate and individual customer loan segments.

High-Speed Rail to China by 2030

Workers are gearing up to start building two high-speed rail lines to China by 2030. The lines will connect Hanoi to border provinces Lao Cai and Lang Son, linking up with Chinese rail networks

Trade deals to boost growth

Taiwan sees Vietnam as crucial for diversifying supply chains, especially in the high-tech and consumer services sectors. Vietnam and Thailand are eyeing nearly $19 billion in trade and tourism-boosting visa strategies. Reports this week also related to strengthening ties with Laos, Saudi Arabia, and Australia to boost trade development.

Sustaining the Momentum of Vietnam's Rise

Vietnam's transformation from low-tech to high-value industries is turning heads, especially in furniture and electronics. The country has even surpassed China as the top furniture exporter to the U.S., thanks to industrial prowess and savvy trade tariff avoidance. But with rapid growth come challenges, like rising labor and land costs. As Vietnam eyes more lucrative sectors like pharmaceuticals, the future of its export dominance hangs in the balance. Vietnam is gearing up for a fourth FDI boom, with money pouring into investments in high-tech and sustainable development sectors. FDI surged 32% in 2023 to US$36.6 billion (while global capital increased by only 3%). Technology, renewable energy, health, and real estate are leading the charge, as Vietnam works to improve its investment climate and infrastructure. Việt Nam Association of Foreign Invested Enterprises (VAFIE) pointed out that Việt Nam remains an attractive destination for the FDI influx, with more than 49,000 foreign enterprises currently operating in the country. **Vietnamese airlines are going global,** launching direct flights from Ho Chi Minh City to China, Germany, Delhi and Turkmenistan.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT

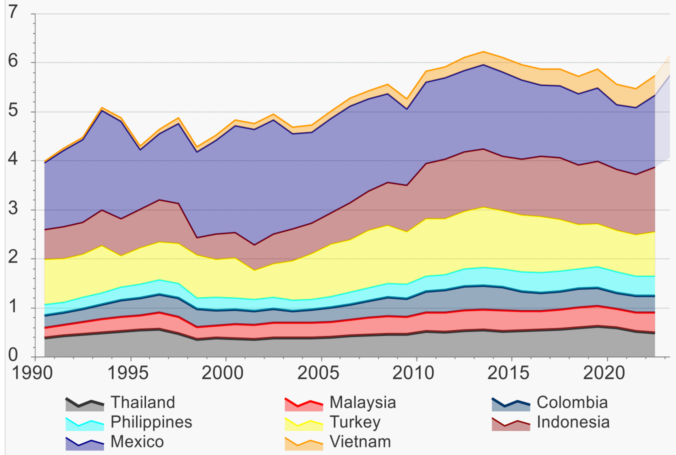
VIETNAM - Datastream index Price Earnings Ratio

Ratio

Fuente: LSEG Datastream / ANDBANK

Other EMs share of world GDP

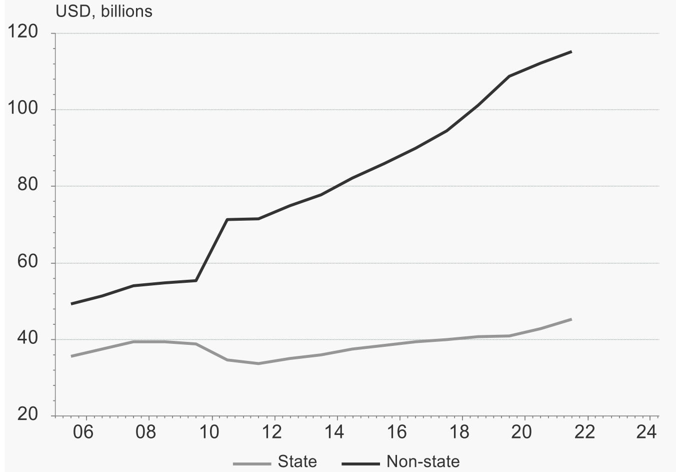
Per cent



Fuente: LSEG Datastream / ANDBANK

Vietnam GDP - State vs Private

USD, billions



Fuente: LSEG Datastream / ANDBANK

ISRAEL

The situation is becoming more complex

Macro, fiscal & monetary policy

Despite the overwhelming failure of Iran's missile attack on Israel (99% of the missiles were intercepted), the risk of regional conflagration considerably outweighed all the economic consequences that come with it. Recalling that the war is already entering its seventh month and right now its end is not in sight.

Israel's risk premium rose sharply following the missile attack, as reflected in the CDS market. These developments come at a suboptimal time (although wars never come at a good time), given the understanding that the economic effect of opening another front is quite considerable. The budget data for March showed a deficit of 6.6%, which is the updated deficit target for the entire year. Therefore, the government will be forced to make another budget cut and at the same time will probably have to raise the deficit target.

Another blow to the Netanyahu administration was the decision by S&P to downgrade its debt rating from AA- to A+, also changing the outlook from stable to negative. The arguments to justify this change are similar to those we have been discussing previously: the recent rise in the conflict between Israel and Iran increases the geopolitical risks and the agency sees the government's fiscal deficit widening to 8%. It is also important to highlight the readjustment of growth expectations for this year by the IMF, with an expected growth rate of 1.6%, below the Bank of Israel's prediction of 2% growth and almost half the IMF's last prediction of 3.1%. The local capital markets are very "disturbed" by the consequences of these events, and we expect that this atmosphere will prevail in the markets until the picture, both economic and military, becomes clearer.

Fixed income

The fixed income market reacted to the events quite violently as the yields rose throughout the curve. The three-year government bond jumped from a yield of 4% at the beginning of the month to a yield of 4.4%, while the ten-year bond climbed from 4.43% to close to 4.9%. However, it should be noted that despite the sharp increase in yields, the slope of the curve has not changed at all. Therefore, the risk-reward ratio is not yet favorable for longer durations, so we recommend staying at the short part of the curve with no more than three years of maturities.

Contrary to market expectations of an interest rate reduction (it was not our base case), the Bank of Israel left the interest rate unchanged at 4.5% in the last meeting. The governor, Amir Yaron, stated that the increase in the level of uncertainty requires maintaining the budget framework and hinted that the interest rate will not change in the near future. Yaron also said that the bank still expects an interest rate of 3.75% at the end of 2024, and if the security situation moderates and inflationary conditions stabilize, the bank will act accordingly

The inflation data for March also seems to support the case for maintaining rates in the near future. The CPI rose +0.6% m/m in March, above market expectations of +0.5% m/m. On a year-over-year basis, inflation went from +2.5% y/y in February to +2.7% y/y in March. The categories with the largest increases were clothing and footwear +2% m/m and culture and entertainment +1.5% m/m, while at the other end fresh fruit and vegetables fell -3% m/m. The unemployment rate held steady at 3.3% in 1Q24, indicating strong economic activity.

Stocks

Naturally, recent events have affected stocks. The Tel Aviv 125 index fell by 6.25% this month, which almost resets its return since the beginning of the year. Stock price declines were seen across all sectors, with bank stocks standing out with a decline of 8% and the real estate sector falling close to 9%, while the industry sector recorded a "modest" decline of 1.7%.

We reiterate our assessment that the Israeli stock market is trading at attractive prices compared to other developed markets and relative to its multi-year average historical multiples. But the security situation will make it very difficult for the market to recover soon, as long as there is no change in the military-political situation. However, defense companies will naturally continue to enjoy a positive sentiment, not only due to the local situation but also thanks to the increase in geopolitical tension in the world, which forces many countries to significantly increase their defense budgets

Market outlook – Recommendations & Targets from fundamental analysis

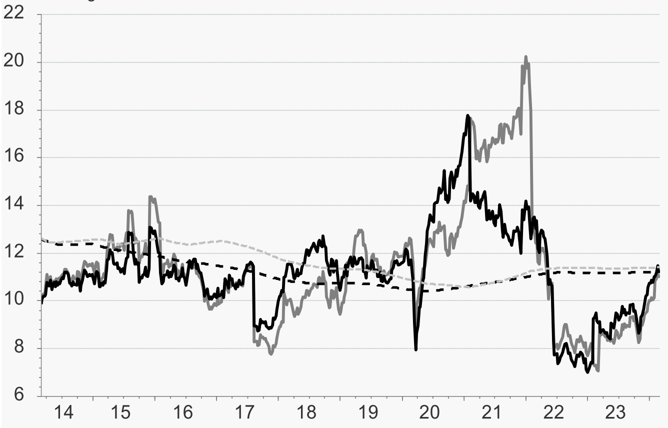
Equities – TLV35 Index: MARKETWEIGHT

Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio
Trailing & Forward PE

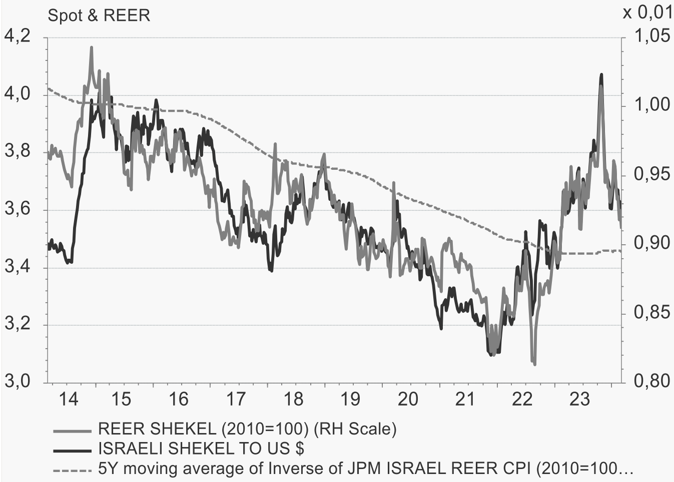


Fuente: LSEG Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y
Local currency

Fuente: LSEG Datastream / ANDBANK

Israel Shekel
Spot & REER



Fuente: LSEG Datastream / ANDBANK

BRAZIL

Good fundamentals, but fiscal policy still a concern

Inflation under control…

The Brazilian economy is experiencing a disinflationary trend, with IPCA (the official consumer price index) rising by just +0.16% in March, significantly below the median forecasts. This brings the 12-month rate to +3.93%. The slowdown is attributed to seasonal adjustments and a less intense increase in food and fuel prices. President Lula's provisional decree to expand subsidies to the renewable energy sector and advance payments from *Eletrobras* could further this trend, potentially reducing electricity bills by 3.5 to 5.0% in 2024. Despite these positive signs, persistent inflation in the services sector and uncertainties around food prices pose challenges to achieving the Central Bank's target of 3.0%. Also, the gap between national and international gasoline prices is widening, with Brazilian prices now 16% lower than international rates. This discrepancy, coupled with rising Brent crude prices, suggests that *Petrobras* may need to increase gasoline prices, which could impact inflation figures in the coming months. The buoyant job market in Brazil, which exceeded analysts' expectations, could also influence inflation dynamics in labor-intensive sectors, potentially slowing the convergence of inflation rates. Core inflation, excluding volatile prices, also continued to decelerate, indicating a supportive environment for a gradual easing cycle, but core-services inflation dynamics still warrant attention.

… but for how long?

In this scenario, the BCB has continued to lower interest rates, with another half a percentage point cut in March (reference rate now at 10.75%). The decision was in line with market expectations and the BCB's previous guidance. However, in response to recent signs of strength in economic activity in both Brazil and the US, the forward guidance statement has shifted from "two cuts of the same magnitude" to "a movement of the same magnitude", indicating that the scenario has become more data dependent. This subtle change in guidance grants the Central Bank greater flexibility to adjust monetary easing, considering the domestic inflation scenario and all the recent global economic uncertainties.

In the meantime, fiscal continues to be a point of attention

Markets were caught by surprise with a slight change in rules for the fiscal framework. The "*Projeto de Lei de Diretrizes Orçamentárias*" (PLDO) for 2025 details the government's fiscal strategy for that year. The proposal, just released, includes a revision of expenditures, projecting savings of up to R$ 37.3 billion by 2028. Notably, the PLDO anticipates significant savings in social security benefits and the agricultural insurance program (Proagro), with the former potentially yielding R$ 28.6 billion in savings. However, the surprise was a zero primary result target for 2025, an important change to the previous 0.5% surplus target. This new, less conservative fiscal approach suggests a more cautious economic stance. The primary result is a consequence of total primary revenue of R$ 2.857 trillion and expenses of R$ 2.348 trillion for the next year. The gross government debt (DBGG) is projected to reach 77.9% of GDP in 2025, with expectations of a decrease starting only in 2028. And on top of that news, in regards to 2024, the Lower House has passed an amendment allowing the Lula administration to increase spending by BRL 15.7 billion this year. This move, which bypasses the usual May assessment for a March one, has been criticized by the market as potentially eroding trust in Brazil's economic outlook. The amendment was added to an unrelated bill, which the Supreme Court has previously ruled unconstitutional in certain contexts. The additional funds are partly allocated for lawmaker-appointed budgetary earmarks, influencing the upcoming mayoral elections. The amendment's timing is strategic, providing more time for budget requests before the June electoral year deadline.

And the right has been gaining some momentum ahead of the mayoral elections

The latest Quaest opinion poll shows right-wing governors in four major states gaining popularity, surpassing President Lula's approval ratings, which shows a potential realignment in political dynamics: local governments enjoying higher public support than the federal administration. Economic sentiment is also changing, with increasing pessimism about the economy's direction, reflected by Lula's dwindling nationwide approval. These right-wing governors, each trying to inherit Bolsonaro's political legacy, are leveraging their higher approval rates and public security policies to position themselves for the 2026 presidential race, amidst growing voter concerns over crime and public security. And speaking about the right-wing movement in Brazil, it just gained a major global player: Elon Musk. A vocal proponent of free speech, he has aligned himself with the far-right Brazilian movement by questioning the country's democratic status and threatening to challenge supreme court decisions relating to his social media platform X. This move coincides with his businesses' significant interest in Brazil and his broader campaign against disinformation regulations. The tension escalated, with Musk directly attacking Supreme Court Justice Alexandre de Moraes, who has been taking measures to combat electoral disinformation, leading to a heated debate between the balance of free speech and "fake news".

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT

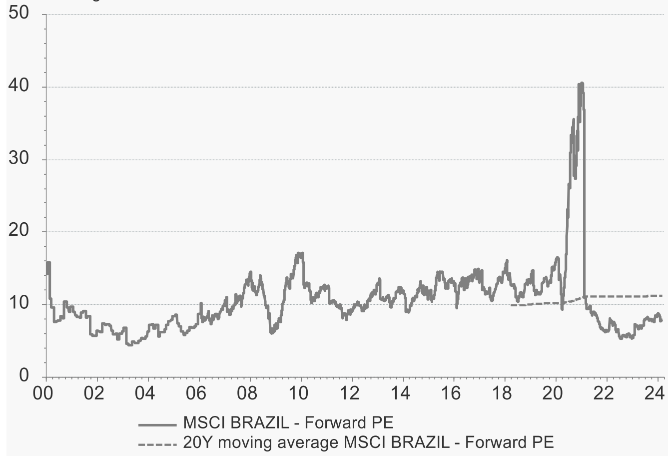
Bonds – Govies Local: OVERWEIGHT (Target Spread 700 => Target yield 11.25%)

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

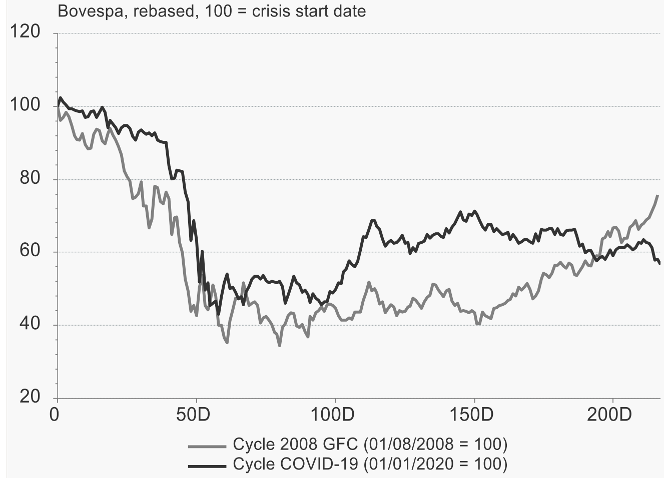
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

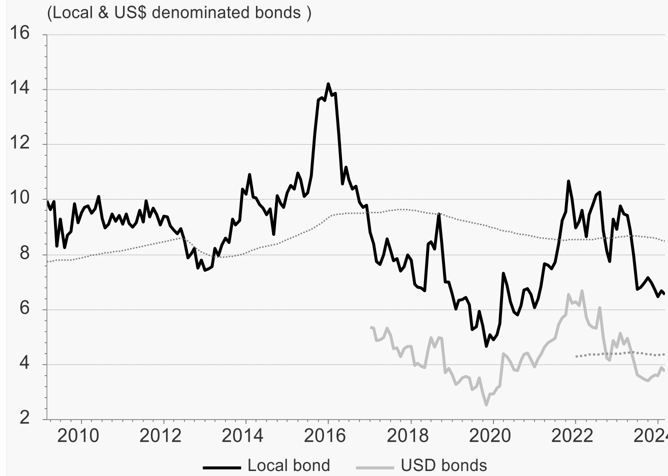
Bovespa, rebased, 100 = crisis start date



Fuente: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Fuente: LSEG Datastream / ANDBANK

MEXICO

Banxico started cutting rates but members trying to spread a hawkish message

Central Bank

The Bank of Mexico (Banxico) reduced its reference rate by 25 bps (11.25% to 11.00%) as widely expected by analysts' consensus. Market expectations prior to the meeting, as measured by forward rates (TIIE 28-day), did not discount the cut, so the short end of the curve immediately reacted to the announcement of the move in a split decision (4-1). The central bank also adjusted its inflation expectations for the following quarters upwards slightly, estimating a level close to 4% for the end of this year.

Days after Banxico's decision, some of the members of the Monetary Policy Committee stated in the media that the recent rate cut should not be interpreted as the beginning of a rate-cutting cycle. Banxico Deputy Governor Jonathan Heath said that Banxico would likely only make "fine adjustments" to interest rates going forward because stubbornly high inflation required them to remain elevated for some time yet. Along the same lines, Irene Espinosa, also Deputy Governor, noted that it is too early to talk about a prolonged easing cycle

Inflation and activity

Some economic indicators for February have shown a certain slowdown compared to their performance in 2023. Industrial production measured for February of this year fell marginally, leaving its annual growth at +3.3% y/y. The indicator was affected by a drop in construction due to an unfavorable comparison base.

In March, headline inflation rose to +4.42% y/y (+0.29% m/m), while core inflation went from 4.64% y/y to 4.55% y/y, the lowest level since May 2021. These numbers were below analysts' estimates. The price of services (+0.69% m/m, +5.37% y/y) and food (+0.3% m/m, +5.01% y/y) were the main drivers of this result.

Politics and Fiscal policy

Updates to the main economic policy criteria used to prepare the 2024 budget were published. The increase in public deficits compared to what was announced last September stands out. We believe that this may generate greater concern for credit rating agencies about the dynamics of public finances. Economic growth expectations remained at +2.6%, the high part of the range of analysts' forecasts and above the IMF's +2.4% estimate (it recently adjusted its estimate downwards). Also, expectations regarding crude oil production were adjusted downwards, although they continue to be high compared to the dynamics they have shown to date. Finally, the estimated debt/GDP level was increased to just over 50%.

On the other hand, we are getting closer to the presidential elections on June 2. According to opinion polls, Claudia Sheinbaum, the incumbent government candidate, has a significant advantage over her closest rival, Xochitl Galvez, a businesswoman and current senator. The line of Sheinbaum's campaign proposals has so far not diverged from the policies carried out by the current administration.

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 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 and political noise; iii) "higher for longer" real rates. We have a target of 58,800 for the end of 2024.

Fixed Income & FX: The changes in the monetary outlook generated strong increases in peso rates along the entire maturity curve, with the 10-year bond reaching almost 10% yield, which caused a widening of the spread with the US Treasury bond to 522 bps, exceeding its average for the year of 507 bps, approaching our target of 525 bps, which we maintain for the time being. Regarding the dollar bond, the spread rose to 165 bps, also approaching our expected level for the next 12 months (175 bps).

The peso increased its volatility and depreciated in recent weeks, as the dollar strengthened against most of the world's currencies. So far this year, the currency has traded as high as 16.30 pesos per dollar, and in the last few weeks it has depreciated to 17 pesos per dollar. We maintain our target level of 18.50 at the end of a 12-month period.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: MARKETWEIGHT

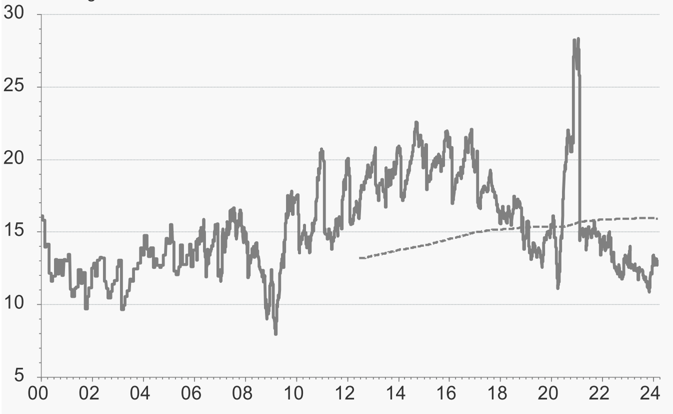
Bonds – Govies Local: OVERWEIGHT (Target Spread 525 => Target yield 9.5%)

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

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

Mexico MSCI Index price-to-earning

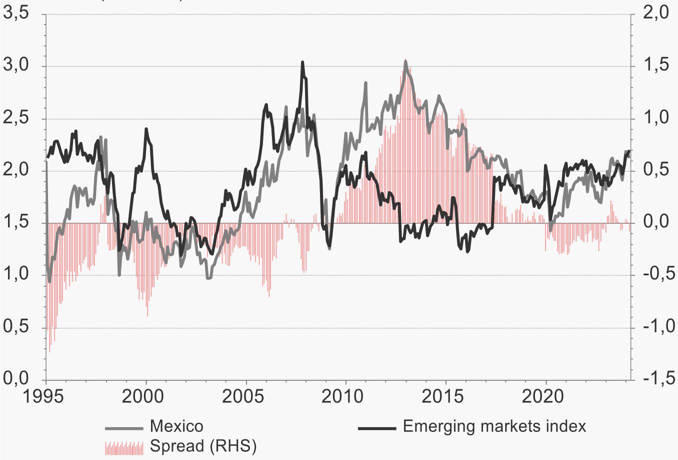
Trailing & Forward PE



Fuente: LSEG Datastream / ANDBANK

Mexico price-to-book ratio

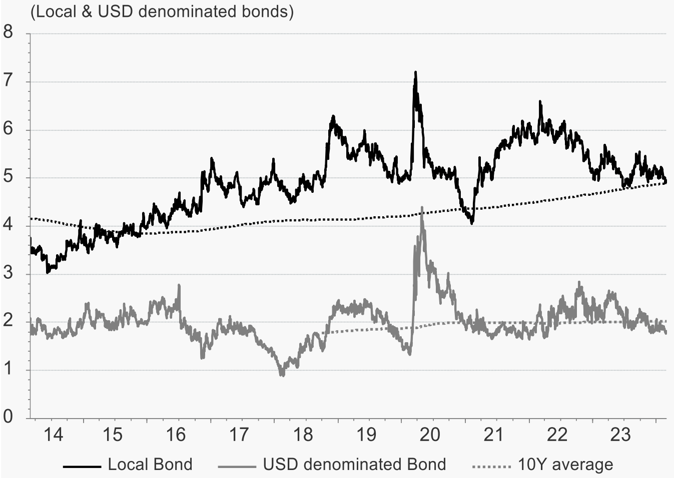
Ratios (both axes)



Fuente: LSEG Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Fuente: LSEG Datastream / ANDBANK

ARGENTINA

Inflation continues to decline amid a slowdown in economic activity. Corporate actions on the rise

Politics: New and more moderate Bases Bill

The government has released a draft of the "new" version of the Law of Bases (Omnibus Law) for discussion in congressional committees, after weeks of negotiations with governors and allied blocks. The Law of Bases is the key piece of legislation the government is pushing to carry out the reforms it believes will boost the country's growth. It should be remembered that the previous version of the Law of Bases was withdrawn from Congress when, in the Chamber of Deputies, after being approved in general terms, the articles began to be rejected during the vote in particular.

One of the main amendments is that the delegation of powers and declaration of a public emergency is now sought for only one year, instead of the four years sought in the previous bill. The new bill also includes the reintroduction of the lowest income tax bracket, which was eliminated in the last weeks of the previous government to boost its chances of winning the election, a moratorium for undeclared assets (100K exempt and with a penalty of 5 to 15% depending on the time of entry) and changes in the personal property tax. The bill states that 18 State companies may be totally or partially privatized (originally there were 40), including *Aerolíneas Argentinas* and *Banco Nación.*

The government is also working to incorporate in the Law of Bases, or in a new law, some of the articles from the Decree of Necessity and Urgency that were stopped by the courts. These include articles promoting the extension of the trial period for new employees from three to six months, the admission of new employment termination options, a reduction of fines for unregistered employment when calculating severance payments and implementation of a simplified electronic labor registration system. It is unclear what will happen with the articles relating to the "solidarity" union dues, which were the most criticized by the unions (at present, employers are obliged to withhold dues, fees or contributions from workers' salaries because they are members of trade union associations).

Corporates: The M&A market begins to reactivate

First and foremost, HSBC announced the sale of its business in Argentina (bank, asset management and insurance units) to *Grupo Galicia* for 550 MM USD. The deal will be funded 275 MM USD with cash, 200 MM USD with equity, and Galicia will cancel a 75 MM USD issued by HSBC Bank. HSBC will have to recognise a loss of 1Bn USD after this transaction, which is part of the bank's global strategy to focus on the Asian market. We also highlight the process being carried out by YPF for the sale of 55 conventional areas in six provinces (*Andes* project) to focus on unconventional production in *Vaca Muerta*. With these disposals the company will be able to lower the lifting cost, aiming to move from a current production distribution of 50/50 conventional and non-conventional to a target of 80% non-conventional and 20% conventional. Last but not least, the financial services firm *Consultatio* (owned by real estate mogul Eduardo Constantini) acquired TPCG, an asset trading and asset management firm.

Economic Activity

The World Bank published its estimate of economic activity for this year, forecasting a 2.8% drop. Most of the data published in recent months reflect this contraction in economic activity, which is not surprising, given the current administration's efforts to reorganize the economy. In February, industrial production showed a decline of -0.7% m/m (-9.9% y/y), while construction declined -2.6% m/m (-24.6% y/y). Car registrations fell -36.6% y/y in March (-30.2% y/y YTD) and cement dispatches dropped -43% y/y during the same month (-29.6% y/y YTD). However, we also wish to highlight some areas of the economy where the news has been positive. In addition to the good harvest expected for this year, mining increased +13.4% y/y in February and will be another engine driving economic activity, together with the development of oil & gas.

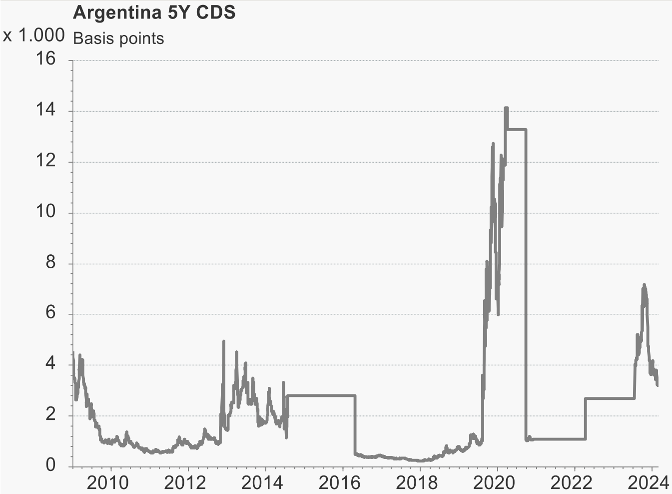
Prices: Beating market expectations again

The CPI rose 11% m/m in March (+287.9% y/y), with a print that once again is below market expectations (+12.5% m/m) and is at a lower level than the previous month (+13.2% m/m). The most relevant highlight is that core inflation came in at +9.4% m/m (vs 13.2% in February), with regulated prices contributing to the higher level of inflation by increasing +18.1% m/m (+21.1% m/m). The latter was to be expected, for two reasons: first, because the government is adjusting service rates to match the costs of providing them, and second, because the school year began in March, causing an increase of +52.7% m/m in education-related services. The government is now aiming to reach single-digit inflation in April.

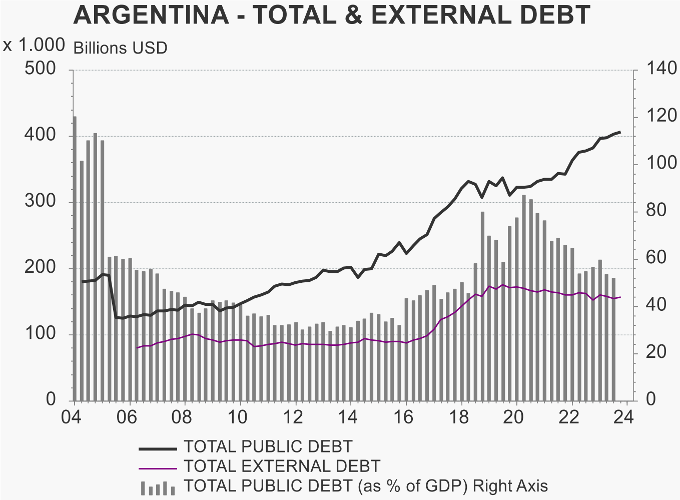
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

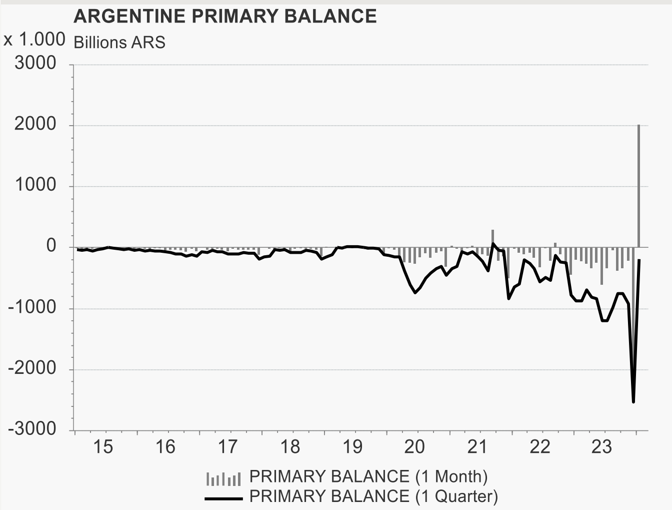
FX – USDARS: NEGATIVE (2024 year-end target 1600)



Fuente: LSEG Datastream / ANDBANK



Fuente: LSEG DatastreamThomson Reuters Datastream / ANDBANK



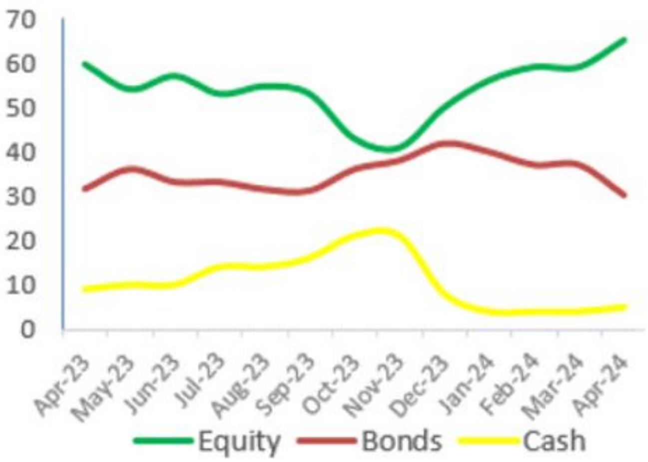
Fuente: LSEG Datastream / ANDBANK

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%	21,02	4,76%	0,14%	2,00%	21,00	4,76%	0,14%	5.116	5.112	-0,1%	MW-UW
Europe - Stoxx Eu	36,6	4,39%	13,81	7,24%	4,72%	5,00%	14,00	7,14%	4,62%	507	514	1,4%	OW
Spain IBEX 35	1.000,0	5,49%	11,02	9,08%	5,78%	5,70%	11,00	9,09%	5,79%	10.968	10.949	-0,2%	MW
Mexico IPC GRAL	4.486	10,18%	12,89	7,76%	-2,18%	-0,90%	13,00	7,69%	-2,24%	57.828	58.323	0,9%	MW
Brazil BOVESPA	15.489	12,03%	8,22	12,16%	0,55%	-1,10%	9,10	10,99%	-0,62%	127.352	140.952	10,7%	MW
Japan NIKKEI 225	1.758	25,56%	21,85	4,58%	3,71%	4,00%	24,00	4,17%	3,30%	38.406	42.180	9,8%	OW
China SSE Comp.	306,5	14,56%	10,13	9,87%	7,59%	4,80%	10,00	10,00%	7,72%	3.105	3.065	-1,3%	UW
China Shenzhen C	120,0	23,60%	14,38	6,95%	4,67%	1,25%	14,00	7,14%	4,86%	1.756	1.709	-2,7%	UW
India SENSEX	3.750	26,07%	20,45	4,89%	-2,31%	-2,00%	21,00	4,76%	-2,44%	74.840	76.866	2,7%	OW
Vietnam VN Index	123,3	30,47%	9,81	10,19%			11,00	9,09%		1.210	1.356	12,1%	OW
MSCI EM ASIA	43,4	22,32%	13,04	7,67%			13,50	7,41%		565	585	3,5%	OW

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

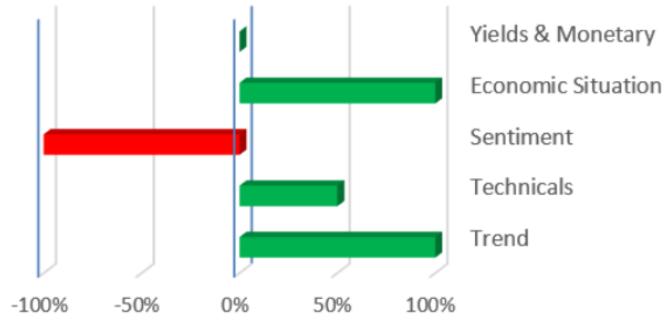


Tactical Asset Allocation

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

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



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

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q1 2024 Earnings Dashboard

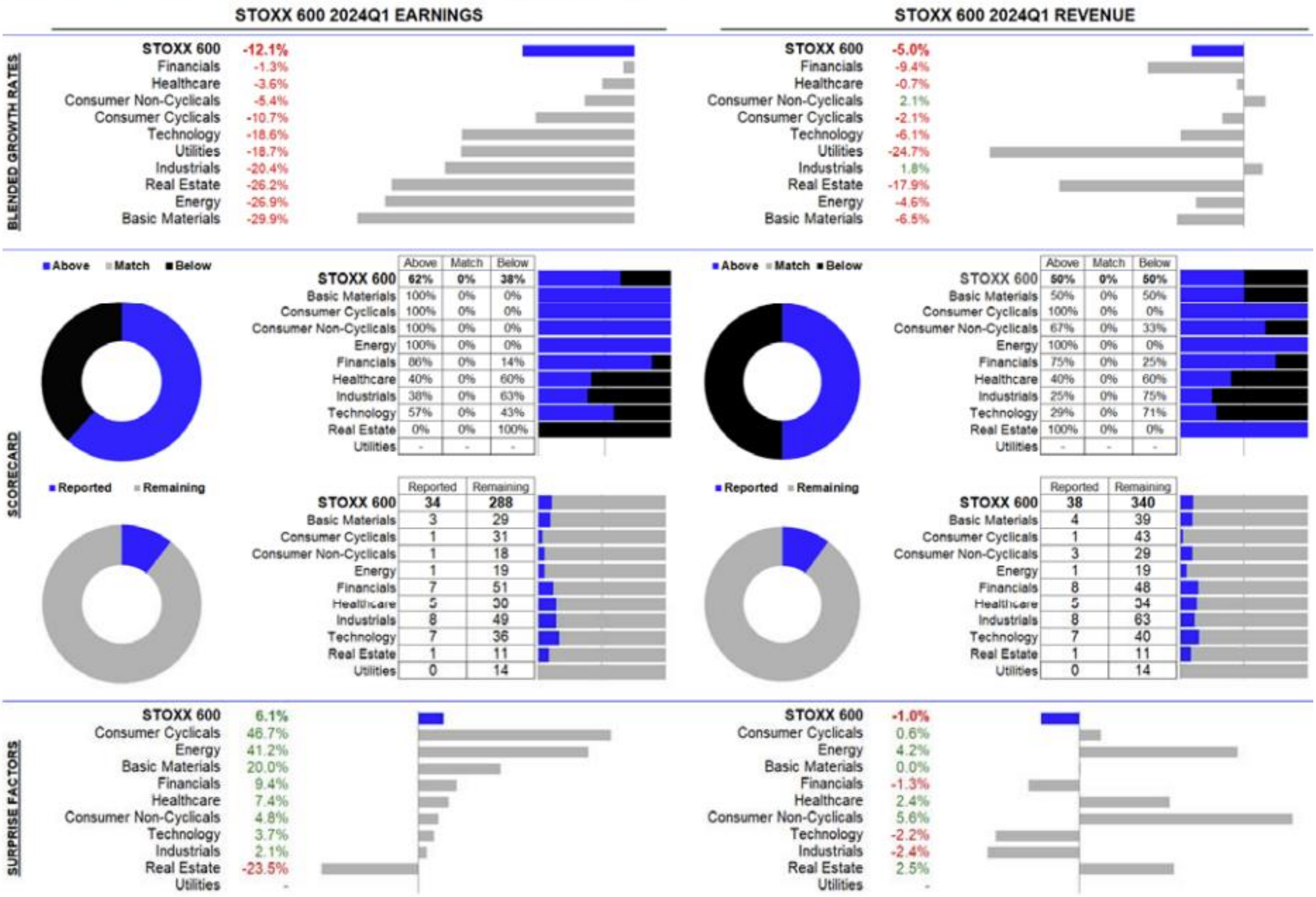
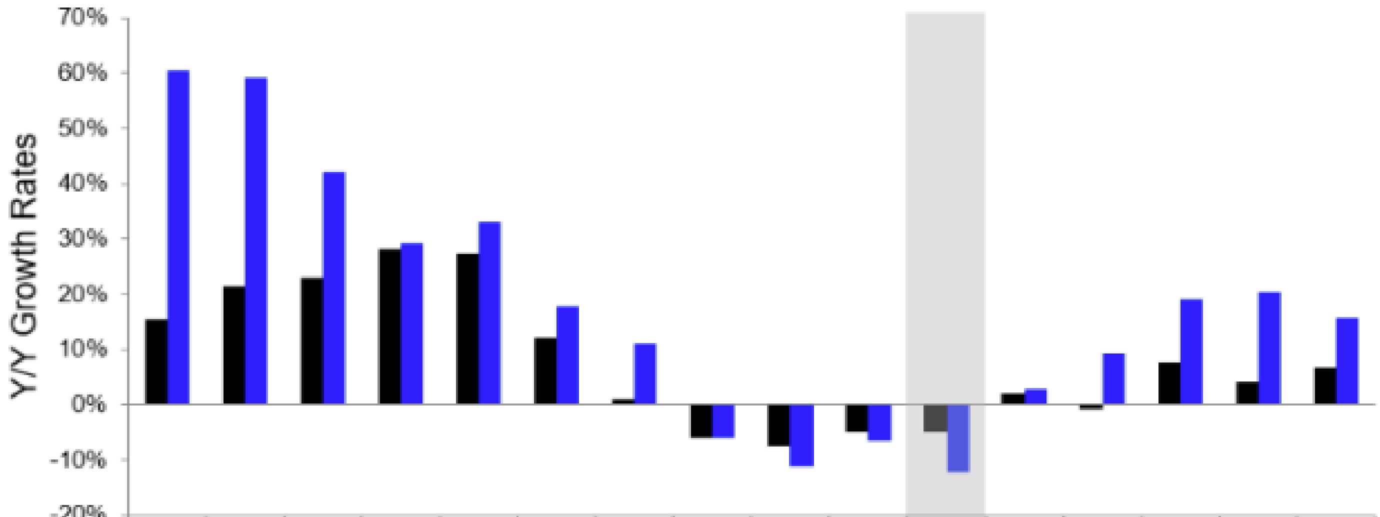


Exhibit 3A. STOXX 600 YoY Growth Rates



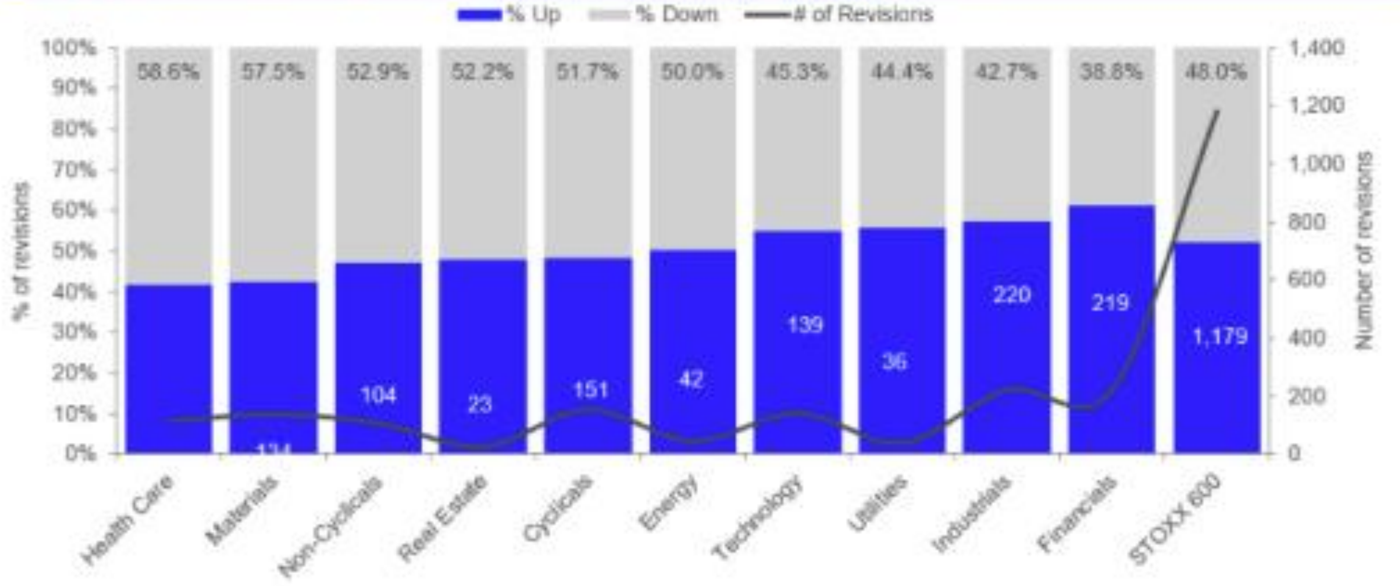
	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2
Revenue	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-5.0%	2.1%	-0.8%	7.8%	4.2%	6.6%
Earnings	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-12.1%	2.8%	9.4%	19.2%	20.4%	15.8%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

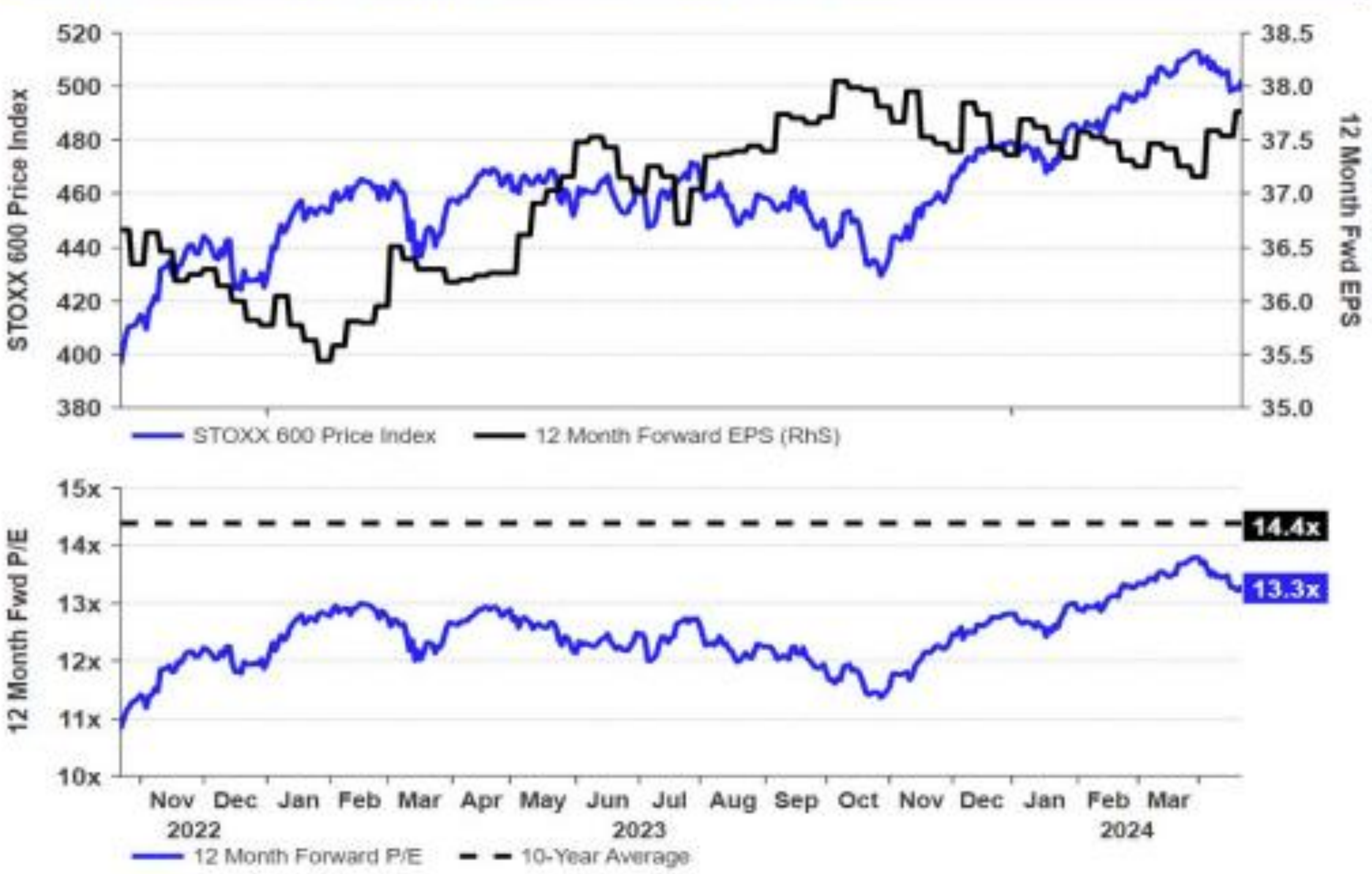
Earnings Dashboard - EUROPE

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

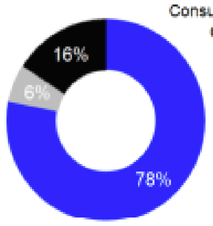
GLOBAL EQUITY INDICES

Earnings Dashboard - US

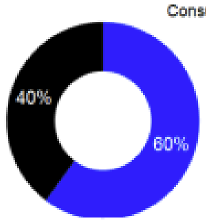
BLENDED GROWTH RATES

	S&P 500 2024Q1 EARNINGS	S&P 500 2024Q1 REVENUE
S&P 500	5.6%	3.8%
Comm. Services	43.4%	6.8%
Technology	22.7%	7.3%
Consumer Discretionary	20.9%	5.2%
Utilities	20.5%	-3.3%
Financials	10.5%	3.5%
Industrials	6.3%	2.8%
Real Estate	4.5%	6.6%
Consumer Staples	2.4%	1.7%
Materials	-21.8%	-4.7%
Energy	-24.1%	-2.8%
Health Care	-26.9%	7.4%

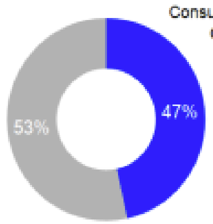
SCORECARD



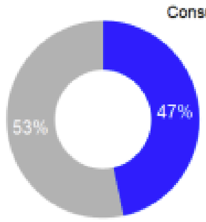
S&P 500 2024Q1 EARNINGS	Above	Match	Below
S&P 500	78%	6%	16%
Consumer Discretionary	79%	4%	17%
Consumer Staples	87%	7%	7%
Energy	60%	20%	20%
Financials	71%	6%	24%
Health Care	100%	-	-
Industrials	72%	9%	19%
Materials	69%	8%	23%
Real Estate	75%	25%	-
Technology	88%	-	12%
Comm. Services	90%	-	10%
Utilities	57%	-	43%



S&P 500 2024Q1 REVENUE	Above	Match	Below
S&P 500	60%	0%	40%
Consumer Discretionary	54%	-	46%
Consumer Staples	73%	-	27%
Energy	70%	-	30%
Financials	61%	-	39%
Health Care	88%	-	12%
Industrials	44%	-	56%
Materials	62%	-	38%
Real Estate	63%	-	38%
Technology	65%	-	35%
Comm. Services	50%	-	50%
Utilities	14%	-	86%



S&P 500 2024Q1 EARNINGS	Reported	Remaining
S&P 500	233	267
Consumer Discretionary	24	28
Consumer Staples	15	23
Energy	10	13
Financials	51	20
Health Care	26	38
Industrials	43	36
Materials	13	15
Real Estate	8	23
Technology	26	39
Comm. Services	10	9
Utilities	7	23



S&P 500 2024Q1 REVENUE	Reported	Remaining
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Consumer Discretionary	24	28
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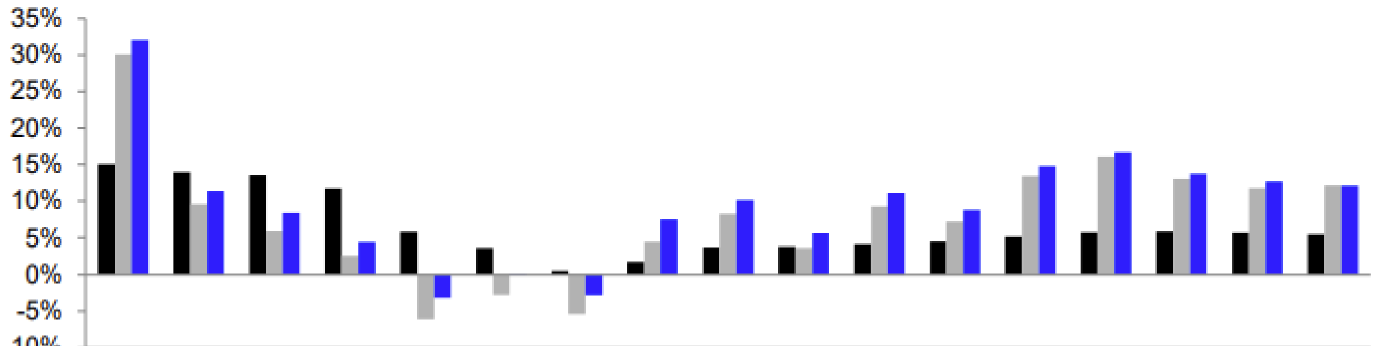
Energy	10	13
Financials	51	20
Health Care	26	38
Industrials	43	36
Materials	13	15
Real Estate	8	23
Technology	26	39
Comm. Services	10	9
Utilities	7	23

SURPRISE FACTORS

S&P 500 2024Q1 EARNINGS	
S&P 500	9.5%
Comm. Services	13.5%
Consumer Discretionary	11.6%
Health Care	11.2%
Industrials	10.6%
Financials	9.9%
Materials	9.9%
Consumer Staples	8.4%
Technology	7.2%
Utilities	7.2%
Real Estate	1.8%
Energy	0.8%

S&P 500 2024Q1 REVENUE	
S&P 500	1.2%
Comm. Services	0.6%
Consumer Discretionary	0.7%
Health Care	2.5%
Industrials	0.8%
Financials	1.9%
Materials	0.9%
Consumer Staples	0.2%
Technology	1.0%
Utilities	-7.8%
Real Estate	-0.6%
Energy	2.5%

Exhibit 5. S&P 500 YoY Growth Rates



	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1E	24Q2E	24Q3E	24Q4E	25Q1E	25Q2E	25Q3E	25Q4E
Revenue	15.1%	14.0%	13.6%	11.7%	5.8%	3.6%	0.5%	1.7%	3.7%	3.8%	4.1%	4.5%	5.2%	5.7%	5.9%	5.7%	5.4%
Net Income	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	8.3%	3.6%	9.3%	7.2%	13.4%	16.1%	13.0%	11.7%	12.2%
Earnings	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	10.1%	5.6%	11.1%	8.8%	14.8%	16.7%	13.7%	12.7%	12.1%

Source: LSEG I/B/E/S

ENERGY – OIL

Fundamental view (WTI): Target range USD75-95bbl

Buy < USD75; Sell >USD95. The detailed analysis of the developments in the energy market during the last month makes us maintain a bullish stance for the price of crude oil. We have counted 10 bullish developments for the price of oil, and 4 bearish.

(Bullish price factor) – Oil funds turn bullish as Mideast conflict intensifies. Portfolio investors are increasingly bullish about oil as Saudi Arabia and its OPEC+ allies restrict production in the face of rising demand and the shadow war between Israel and Iran spills into the open. Hedge funds and other money managers purchased the equivalent of 37 million barrels in the six most important petroleum-related futures and options contracts over the seven days ending on April 2.

(Bullish price factor) – OPEC quota: Reuters reported Kazakhstan's oil minister said the country will compensate for exceeding its oil production quota by 130K bpd recently.

(Bullish price factor) – Lowest on record: Reuters reported US imports of Mexican crude fell to the lowest on record in early April, as Mexico's state energy company Pemex cut exports to supply more to its domestic refineries. The imports dropped to 209,000 barrels per day (bpd) in the week ended April 5, according to the U.S. Energy Information Administration (EIA). To put this into perspective, the imports averaged about 733,000 bpd in 2023. The previous weekly low was 226,000 bpd in the last week of 2021.

(Bullish price factor) – Vitol sees oil price at $80-$100/b, healthy 2024 demand growth. Russell Hardy, the chief executive of the world's largest energy trader Vitol, told a conference on Tuesday that “oil prices will trade in a range of $80-$100 per barrel” and that “global oil demand will grow by 1.9 million barrels per day in 2024”.

(Bullish price factor) – India's Q1 oil demand growth momentum seen spilling over to Q2. India's oil products demand rose 4.3% on the year to 5.3 million b/d in Q1, with gasoline, diesel, and jet fuel registering robust gains – a trend likely to continue in Q2. Intensifying election activity will give another boost to energy demand in Q2 and spur the pick-up in the oil import bill that has been underway since mid-2023. Mumbai-based oil analyst held a similar view: "Oil demand in India is expected to rise in the April-June quarter due to the general elections that are scheduled to be held in a phased manner over April and May."

(Bullish price factor) – The Odds of $100 Oil Are Rising as Supply Shocks Convulse the Market. When oil jumped above $90 a barrel just days ago, military tensions between Israel and Iran were the immediate trigger. But the rally’s foundations went deeper to current global supply shocks that are intensifying fears of a commodity-driven inflation resurgence. 1. A recent move by Mexico to slash its crude exports is compounding a global squeeze, prompting refiners in the US to consume more domestic barrels. 2. American sanctions have stranded Russian cargoes at sea, with Venezuelan supply a potential next target. 3. Houthi rebel attacks on tankers in the Red Sea have delayed crude shipments. 4. Panama Canal continues to keep the passage of ships very restricted. That the two main maritime passage infrastructures are closed or semi-closed greatly lengthens the routes of all ships, and with it, the availability of transportation, which makes a potential disruption in the delivery of energy-related goods, and therefore, a potential shortage. 5. To the problems in Suez and Panama, we must now add a possible interruption in transit through the Hormuz Canal, following Iran's decision to attack a merchant ship. This could put problems in the transit of ships with which the Saudis sell their energy products. 6. And OPEC and its allies are sticking with their production cuts despite the turmoil.

(Bullish price factor) – Baker Hughes reports that US energy firms cut the number of oil and natural gas rigs operating for a third week in a row for the first time since October. The oil and gas rig count, an early indicator of future output, fell by one to 620 in the week to April 5, the lowest since early February. Baker Hughes said that puts the total rig count down 131, or 17%, below this time last year.

(Bullish price factor) – Reuters reported “OPEC is likely satisfied with current oil prices”, though will likely have some difficulty maintaining them. There was no surprise that a top meeting of OPEC+ ministers opted to keep output policy unchanged, since the global crude oil market is almost exactly where the exporter group wants it. OPEC+'s ministerial committee on Wednesday kept the current output targets but did note that some countries had been over-producing and had undertaken to increase compliance. This means that the voluntary production cuts of 2.2 million barrels per day (bpd) will remain in place until at least the end of June, joining the existing 3.66 million bpd of cuts agreed in 2022.

(Bullish price factor) – Three industry sources have revealed OPEC is unlikely to make any changes to its current output policy. The OPEC+ ministerial panel is unlikely to recommend any changes to oil production policy at its upcoming meetings, three OPEC+ sources told Reuters, following producers' earlier decision to extend voluntary oil production cuts until June.

(Bullish price factor) – BofA forecast: Reuters reported BofA on Wednesday raised its 2024 Brent and WTI forecasts to $86 and $81 per barrel respectively, with prices expected to peak at $95 this summer.

(Bearish price factor) – No US involvement: Reuters reported President Joe Biden warned Prime Minister Benjamin Netanyahu the US will not take part in a counter-offensive against Iran.

(Bearish price factor) – India-Russia: A US Treasury official for economic policy said that the US will never try to stop India importing Russian oil, as “it's in Washington's interest to keep energy flowing to prevent any supply shocks caused by the Ukraine war”.

(Bearish price factor) – Iran and Venezuela's oil exports in March rose to the highest level since early 2020. Iran's oil exports reached $35.8 billion in the 12 months to end-March 2024, with China being a major buyer. Despite the reimposition of U.S. sanctions on Tehran in 2018, Chinese purchases of Iranian oil have allowed the country to maintain a positive trade balance (without oil exports, Iran would have registered a $16.8 billion trade deficit). Meanwhile, Venezuela's oil exports in March rose to the highest level since early 2020 as customers rushed to complete purchases ahead of the likely expiration of a temporary U.S. license that has allowed the country to freely sell its crude. PDVSA has said it is prepared for any scenario, including the possible return of full oil sanctions when the current license expires.

(Bearish price factor) – Iraq-Turkey pipeline: Iraq set to reopen own pipeline. Baghdad is to reopen a pipeline that could allow it to send 350,000 barrels per day (bpd) to Turkey by the end of the month. The reopening of the Kirkuk-Ceyhan pipeline, which has been shut for a decade, would provide a rival route to a pipeline from the Kurdistan region that has been shut for a year. Oil companies will be required to negotiate with the federal government in Baghdad to sell their oil via the revived pipeline to Turkey, potentially angering the Kurds, who rely almost entirely on oil revenue. Perhaps not immediately, but any new pipeline energy transport route from the region to Turkey, and from there potentially to Europe, is a good sign that eliminates the risk of lack of energy communication from Europe and, with it, reduces Europe's energy vulnerability and the possible risk of shortages that could cause fuel prices to escalate.

PRECIOUS METALS - GOLD

Fundamental view (Gold): Short-Term Target range USD2,200 – 2,400 /oz

Buy < USD2,200; Sell >USD2,400

Positive drivers for gold

Within the four-quadrants framework, the best scenario for gold would be one where inflation is combined with recession ('Inflationary Bust' or 'stagflation'). The scenario we are projecting places us in a quadrant where inflation is combined with a favorable cycle ('Inflationary Boom'). Such a scenario, while not the best, is still favorable for gold, although in this scenario gold should not outperform equities. Of course, the price of gold is also determined by other factors, such as the Asian central banks, in their decision to displace the USD in their strategic reserves. A factor that is currently favorable to 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 outperform the UST bond. **With a longer-term view**, once QT has ended, the U.S. Treasuries will again reclaim their role as a safe-haven asset, outperforming gold. By then, gold is expected to take a back seat, but only once QT has ended. For that, there is still a long way to go.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.23516), 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$1,877. 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 fell to 85.06, still above its 20-year average of 68.27x, 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$1,861/oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 2.32x, above its 20-year average of 1.67x. 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 $1,666 per ounce.

Gold to oil ratio: This ratio is at 27.55x, still well above its 20-year average of 19.49x. Considering our mid-term outlook for WTI oil at US$85 (right in the middle of our new range of $75-95 for oil) and assuming that the utility function of both commodities will remain unchanged, the price of gold must approach US$1,656 for this ratio to remain near its LT average.

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 rate 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	32,62	19,12	32,6	-28,2	2,7	1,61
USD vs G10	36,29	18,65	36,3	-25,4	4,3	1,82
EM	3,67	-0,48	4,2	-0,8	2,1	1,18
EUR	-1,34	-5,56	23,4	-8,6	9,2	-1,13
JPY	-14,53	-3,88	0,6	-15,0	-8,5	-1,41
GBP	-2,04	-4,82	5,6	-6,5	-0,7	-0,45
CHF	-5,84	-2,80	0,2	-6,0	-2,5	-2,01
BRL	0,02	-0,16	1,0	-0,8	0,0	0,07
MXN	3,65	-0,32	4,3	-0,5	1,8	1,67
RUB	0,00	0,00	1,2	-0,3	0,3	0,00
AUD	-6,24	0,65	6,1	-7,0	-1,4	-1,34
CAD	-5,60	-1,89	6,1	-6,0	-0,4	-1,71

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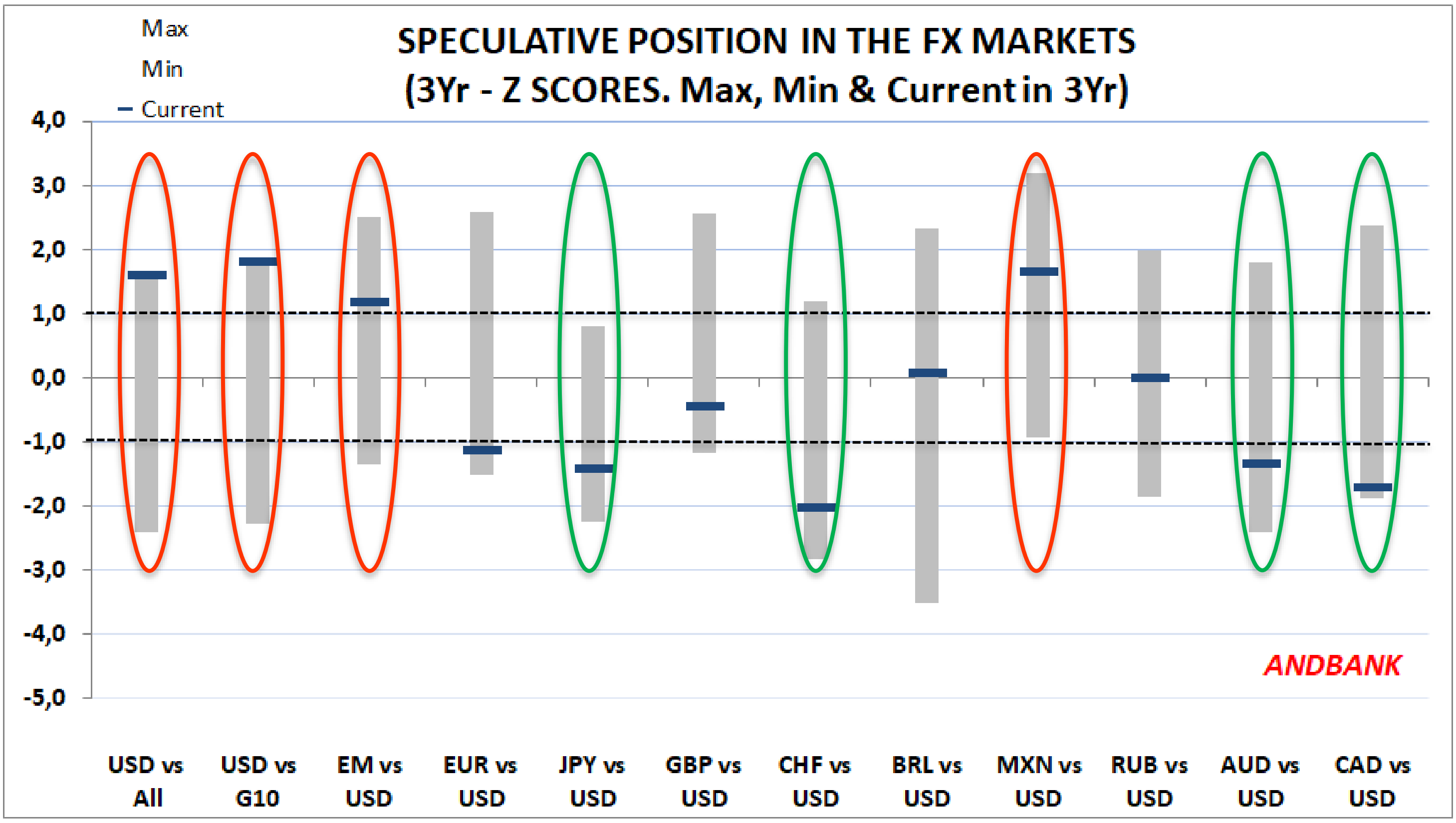
Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

ANDBANK Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price 30/04/2024	Andbank's Target Price	Expected Performance (to Target Price)
Equity	USA - S&P 500	-1,7%	7,3%	5.116	5.112	-0,1%
	Europe - Stoxx Europe 600	-0,4%	5,8%	507	514	1,4%
	Euro Zone - Euro Stoxx	-1,0%	7,7%	511	534	4,5%
	SPAIN - IBEX 35	-0,1%	8,6%	10.969	10.949	-0,2%
	MEXICO - MXSE IPC	0,4%	0,8%	57.828	58.323	0,9%
	BRAZIL - BOVESPA	-0,2%	-5,1%	127.352	140.952	10,7%
	JAPAN - NIKKEI 225	-3,6%	14,8%	38.406	42.180	9,8%
	CHINA - SHANGHAI COMPOSITE	1,0%	4,4%	3.105	3.065	-1,3%
	CHINA - SHENZEN COMPOSITE	-1,3%	-4,4%	1.756	1.709	-2,7%
	INDIA - SENSEX	1,3%	3,6%	74.832	76.866	2,7%
	VIETNAM - VN Index	-6,0%	7,0%	1.210	1.356	12,1%
	MSCI EM ASIA (in USD)	0,2%	4,2%	565	585	3,5%
Fixed Income Core countries	US Treasury 10 year Govie	-1,8%	-4,8%	4,62	**4,50**	5,6%
	UK 10 year Gilt	-1,4%	-4,9%	4,29	4,50	2,6%
	German 10 year BUND	-0,7%	1,1%	2,52	**2,50**	2,7%
	Japanese 10 year Govie	-0,9%	-3,5%	0,86	1,00	-0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,1%	-1,6%	3,30	3,50	1,7%
	Italy - 10yr Gov bond	0,1%	0,1%	3,82	4,10	1,6%
	Portugal - 10yr Gov bond	-0,2%	-2,2%	3,14	3,10	3,4%
	Ireland - 10yr Gov bond	-0,3%	-3,8%	2,90	2,90	2,9%
	Greece - 10yr Gov bond	-0,3%	-1,9%	3,38	4,25	-3,6%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,3%	1,6%	56,55	75	3,9%
	Credit EUR HY-Itraxx Xover	0,0%	2,1%	320,84	450	3,2%
	Credit USD IG - CDX IG	0,4%	2,1%	54,26	75	5,5%
	Credit USD HY - CDX HY	0,5%	3,5%	339,64	450	5,7%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	-10,3%	-12,7%	26,18	25,00	35,6%
	Russia - 10yr Gov bond (local)	-1,9%	-12,8%	14,38	25,00	-70,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	-3,5%	-3,7%	7,17	6,00	16,5%
	India - 10yr Gov bond (local)	-0,2%	2,2%	7,20	6,50	12,8%
	Philippines - 10yr Gov bond (lo	-3,7%	-4,2%	6,75	5,75	14,8%
	China - 10yr Gov bond (local)	0,2%	3,2%	2,28	1,75	6,5%
	Malaysia - 10yr Gov bond (loca	-0,5%	-0,7%	3,97	3,25	9,7%
	Thailand - 10yr Gov bond (loca	-1,8%	0,1%	2,75	1,75	10,8%
	Singapore - 10yr Gov bond (loc	-2,0%	-4,9%	3,41	3,40	3,5%
	Rep. Korea - 10yr G. bond (loc	-1,4%	-2,6%	3,54	3,50	3,9%
	Taiwan - 10yr Gov bond (local)	-1,7%	-3,4%	1,65	2,65	-6,4%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-3,4%	-5,6%	9,94	9,75	11,4%
	Mexico - 10yr Govie (USD)	-1,1%	-3,3%	6,18	6,25	5,6%
	Brazil - 10yr Govie (Loc)	-2,9%	-7,5%	11,61	11,50	12,5%
	Brazil - 10yr Govie (USD)	-1,7%	-4,1%	6,66	7,00	3,9%
Commodities	Oil (WTI)	-3,1%	15,2%	82,6	80,00	-3,1%
	GOLD	1,7%	12,5%	2.319,8	2.100	-9,5%
Fx	EURUSD (price of 1 EUR)	-0,6%	-3,0%	1,070	1,05	-1,9%
	GBPUSD (price of 1 GBP)	-0,4%	-1,6%	1,25	1,29	2,9%
	EURGBP (price of 1 EUR)	-0,2%	-1,5%	0,85	0,81	-4,6%
	USDCHF (price of 1 USD)	0,5%	8,4%	0,91	0,87	-4,7%
	EURCHF (price of 1 EUR)	-0,1%	5,2%	0,98	0,91	-6,5%
	USDJPY (price of 1 USD)	3,5%	11,2%	156,87	140,00	-10,8%
	EURJPY (price of 1 EUR)	2,8%	7,8%	167,82	147,00	-12,4%
	USDMXN (price of 1 USD)	2,8%	0,4%	17,02	18,50	8,7%
	EURMXN (price of 1 EUR)	2,2%	-2,6%	18,21	19,43	6,7%
	USDBRL (price of 1 USD)	1,2%	5,5%	5,12	5,00	-2,3%
	EURBRL (price of 1 EUR)	0,6%	2,3%	5,48	5,25	-4,2%
	USDARS (price of 1 USD)	2,2%	8,4%	876,50	1.000	14,1%
	USDINR (price of 1 USD)	0,2%	0,4%	83,51	82	-1,4%
	CNY (price of 1 USD)	0,2%	2,1%	7,24	7,50	3,5%

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

UPWARD REVISION   DOWNWARD REVISION

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Together
Everyone
Achieves
More

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