GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review – July 2024

Corporate Review

July 2024

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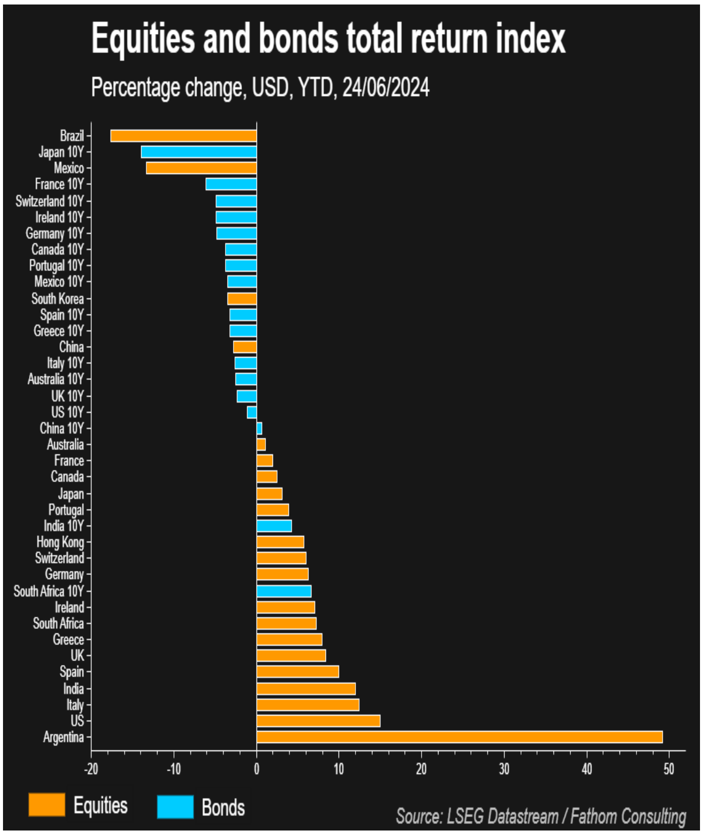
EXECUTIVE SUMMARY

CHARTS OF THE MONTH

Reshaping the world economy



EQUITIES

Index	INDEX CURRENT PRICE	Andbank's Target Price	Expected performance to target Price	Recommended Strategy
USA S&P 500	5.537	5.487	-0,9%	MW
Europe - Stoxx Europe 600	520	515	-1,1%	MW-OW
Spain IBEX 35	11.070	12.459	12,5%	OW
Mexico IPC GRAL	52.655	58.877	11,8%	MW
Brazil BOVESPA	126.164	135.000	7,0%	MW-OW
Japan NIKKEI 225	40.912	44.330	8,4%	OW
China SSE Comp.	2.950	3.083	4,5%	UW
China Shenzhen Comp	1.591	1.725	8,5%	UW
India SENSEX	79.549	85.619	7,6%	OW
Vietnam VN Index	1.283	1.494	16,5%	OW
MSCI EM ASIA	607	615	1,3%	OW

FIXED INCOME GOVIES CORE, PERIHERAL & CREDIT (DM)

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
US Treasury 10 year Govie	0,2%	-1,9%	4,35	**4,50**	3,2%
UK 10 year Gilt	0,4%	-3,3%	4,17	4,50	1,5%
German 10 year BUND	0,1%	1,3%	2,56	**2,50**	3,0%
Japanese 10 year Govie	-0,5%	-5,3%	1,09	1,25	-0,2%
Spain - 10yr Gov bond	-0,6%	-1,7%	3,38	3,50	2,4%
Italy - 10yr Gov bond	-0,7%	-0,5%	3,98	4,10	3,1%
Portugal - 10yr Gov bond	-0,2%	-2,1%	3,18	3,10	3,9%
Ireland - 10yr Gov bond	0,1%	-3,5%	2,92	2,90	3,1%
Greece - 10yr Gov bond	-0,8%	-3,6%	3,65	4,25	-1,2%
Credit EUR IG-Itraxx Europe	0,3%	2,4%	55,84	75	3,7%
Credit EUR HY-Itraxx Xover	0,3%	4,0%	301,05	450	2,2%
Credit USD IG - CDX IG	0,5%	3,4%	50,54	75	5,3%
Credit USD HY - CDX HY	0,7%	5,2%	336,22	450	5,5%

FIXED INCOME - EM

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
Turkey - 10yr Gov bond (local)	4,1%	-4,6%	25,70	25,00	31,3%
Russia - 10yr Gov bond (local)	-0,9%	-16,5%	15,11	25,00	-64,0%
Indonesia - 10yr Gov bond (loc	-1,2%	-1,8%	7,07	6,00	15,7%
India - 10yr Gov bond (local)	0,8%	5,1%	6,99	6,25	12,9%
Philippines - 10yr Gov bond (lo	1,8%	-0,9%	6,48	5,75	12,3%
China - 10yr Gov bond (local)	0,8%	4,0%	2,23	1,75	6,1%
Malaysia - 10yr Gov bond (loca	0,5%	0,8%	3,86	3,25	8,7%
Thailand - 10yr Gov bond (loca	1,0%	1,2%	2,67	2,00	8,0%
Singapore - 10yr Gov bond (loc	0,3%	-3,1%	3,24	3,40	1,9%
Rep. Korea - 10yr G. bond (loc	1,9%	0,8%	3,18	3,50	0,6%
Taiwan - 10yr Gov bond (local)	-1,3%	-4,0%	1,75	2,65	-5,5%
Mexico - 10yr Govie (Loc)	0,9%	-3,8%	9,91	9,75	11,2%
Mexico - 10yr Govie (USD)	0,3%	-1,6%	6,09	6,25	4,8%
Brazil - 10yr Govie (Loc)	-2,3%	-10,6%	12,23	11,50	18,0%
Brazil - 10yr Govie (USD)	-1,0%	-2,9%	6,63	7,00	3,7%

COMMODITIES & FX

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price*	*Expected Performance (to Target Price)*
Oil (WTI)	15,1%	17,7%	83,9	85,00	1,3%
GOLD	3,2%	16,6%	2.365,0	2.300	-2,7%
EURUSD (price of 1 EUR)	-0,6%	-2,0%	1,08	1,05	-2,9%
GBPUSD (price of 1 GBP)	0,0%	0,2%	1,28	1,29	1,0%
EURGBP (price of 1 EUR)	-0,6%	-2,2%	0,85	0,81	-3,9%
USDCHF (price of 1 USD)	1,2%	7,0%	0,90	0,87	-3,3%
EURCHF (price of 1 EUR)	0,5%	4,8%	0,97	0,91	-6,1%
USDJPY (price of 1 USD)	4,1%	14,3%	161,25	140,00	-13,2%
EURJPY (price of 1 EUR)	3,5%	12,0%	174,34	147,00	-15,7%
USDMXN (price of 1 USD)	1,3%	6,6%	18,08	18,50	2,3%
EURMXN (price of 1 EUR)	0,7%	4,6%	19,55	19,43	-0,6%
USDBRL (price of 1 USD)	3,8%	13,1%	5,49	5,25	-4,3%
EURBRL (price of 1 EUR)	3,2%	10,8%	5,93	5,51	-7,1%
USDARS (price of 1 USD)	1,9%	13,0%	913,50	1.000	9,5%
USDINR (price of 1 USD)	-0,1%	0,3%	83,48	82	-1,4%
CNY (price of 1 USD)	0,4%	2,4%	7,27	7,50	3,2%

USA

We maintain our forecast of few interest rate cuts despite a better-than-expected CPI

Federal Reserve

At its June meeting, the Fed unanimously decided to hold interest rates steady for the seventh consecutive meeting, leaving the target rate between 5.25% and 5.50%. The only change in the FOMC statement was to alter the assessment of "lack of progress" in recent inflation data to "moderate progress." Chairman Powell stressed that the Fed's decision on the direction of rates remains "meeting by meeting," with the "data leading the way," but noted "modest progress" in the disinflationary process. Powell also said that the CPI report for May was encouraging, but also mentioned several structural factors (housing shortage, wage pressure, etc.) that may make a return to 2% inflation difficult.

The updated Summary of Economic Projections (SEP) appeared to be broadly in line with market expectations, with a higher inflation forecast for 2024 and less monetary easing. Within the Fed's economic forecast, the most significant update was the expectation that Core PCE inflation will rise from 2.6% to 2.8% by the end of the year." The median Fed membership points to a 25 bps cut by the end of this year (5.1% reference rate at the end of this year, from 4.6% previously) and four cuts in 2025 (4.1% rate at the end of that year). Between now and the end of the year there are four Monetary policy meetings left. The market is now expecting two cuts this year, which is the option we are leaning towards at this time.

Inflation and economic activity

The May CPI print was flat compared with the previous month, while on an annual comparison prices rose +3.3% y/y. For both measures, the record was lower than analysts' expectations (+0.1% m/m & +3.4% y/y) and the previous month's record (+0.3% m/m & +3.4% y/y). Energy prices fell by -2% m/m in May, primarily driven by a -3.6% m/m decrease in the gasoline index. Shelter inflation more than offset the decline in energy prices and continues to outpace overall inflation, rising +0.4% m/m for the fourth month in a row and +5.4% y/y on an annual basis, down marginally from +5.5% y/y in April, underscoring ongoing pressure in the housing market. Core CPI rose just +0.2% m/m, its smallest monthly increase since August 2021. On a year-over-year basis, core CPI moderated to +3.4% y/y (from +3.6% y/y in April), a more than three-year low. The soft core CPI print in the May report provided some respite for the Fed after a string of strong inflation reports in the prior months. The Producer Price Index (PPI) for May also turned out softer than expected, with wholesale prices down -0.2% m/m after April's +0.5% m/m increase.

The labor market report for the month of May showed that employment data remains strong. The unemployment rate has indeed been rising lately (now at 4% from 3.9% in April) but it remains at extremely low levels, while nonfarm payrolls rose by 272 K jobs, comfortably exceeding estimates of the creation of 180K new jobs. The May report showed hourly wages rising +0.4% m/m and +4.1% y/y over the past 12 months. The latter is positive for workers but not so much for the Federal Reserve, which would feel more comfortable with lower wage pressures. Last but not least, retail sales data also pushed market interest rates lower by presenting weaker-than-expected data. Compared to the previous month, sales in nominal terms increased only +0.1% m/m, less than the +0.2% m/m expected by analysts. However, the result was slightly better than the -0.2% m/m decline in April.

Financial markets

Rates & Credit: After reaching 4.6% at the end of May, the US government's 10-year bond rate contracted to 4.25% as a result of better price records than previously expected. On the other hand, there were no significant changes in the slope of the interest curve, with the spread between the 10-year bond and the 2-year bond at 48 bps at the time of writing this report. We made no changes to our interest rate level where we began to increase duration (4.5%) or to the spreads for Corporate debt, maintaining a neutral positioning for IG debt and an underweight for high yield bonds.

Equity: In the last month, the best-performing sectors were Utilities and Communication Services. So far this year, technology companies continue to be the leaders in terms of performance, with an average return close to 20%. We continue to recommend balancing styles and taking advantage of opportunities in sectors that are underperforming (i.e. small caps today). We are constructive on North American stocks in the medium and long term, but with the recent increases we are taking a cautious position.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 4.5%

CDX IG: MARKETWEIGHT (Target Spread 75)

CDX HY: UNDERWEIGHT (Target Spread 450)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

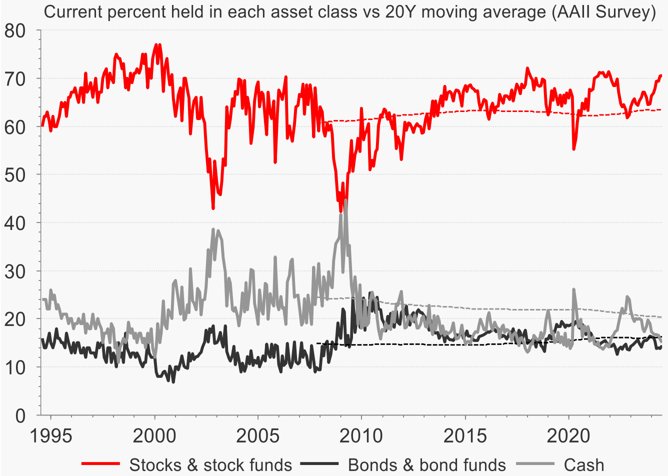
US price-to-earning ratio

S&P 500

Source: LSEG Datastream / ANDBANK

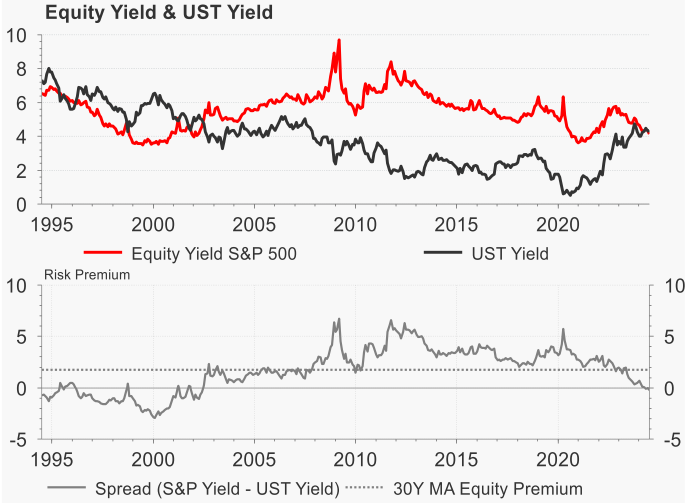
US asset allocation: Equity, Bonds & Cash

Current percent held in each asset class vs 20Y moving average (AAII Survey)



Source: LSEG Datastream / ANDBANK

Equity Yield & UST Yield



Source: LSEG Datastream / ANDBANK

EUROPE
Politics take centre stage

Economic activity data continues to improve

Recently updated ECB projections reflect the upturn in activity suggested by both hard and soft data. GDP growth is now expected to hover around +0.9% y/y in 2024 vs. +0.6% y/y expected previously. The industrial side of the economy seems to have bottomed but lags behind factory orders, and industrial production is still low, though surveys (IFO, PMIs) point to an improving trajectory. The expected recovery from the consumption side remains alive, as unemployment is at its lowest, confidence is on the rise, and retail sales have been increasing in some countries. As for inflation, the ECB has also revised its estimates for 2024-2025 slightly upwards, reflecting the strength of domestic prices and high negotiated wages (around +5.0 y/y in 1Q24). Over the coming months, headline inflation is expected to fall slightly due to energy (the rise in late summer 2023 will be excluded from the y/y comparison) and food. From the fall onwards, however, the trend could change, pointing upwards again. Both inflation rates would close 2024 below 3% (2.5% for the general reading; 2.7% for core inflation), significantly below the 2023 figures. Inflation expectations remain anchored (<2.5% y/y).

ECB: first rate cut delivered. More cuts in store for 2H24

As expected, the ECB cut rates and avoided pre-committing to further rate cuts, though an easing cycle is our base scenario. The almost unanimous decision was not a consequence of having reached the inflation target but had to do with having halved inflation growth levels since the rates reached their plateau. The ECB seems to think that monetary policy does not need to be so restrictive, as "confidence in the future inflation path has increased over the last few months, though progress along the disinflationary path is likely to be bumpy", according to President Lagarde. We stick to the view that July seems early for a second move, while there is room for at least one more rate cut during 2024 (most likely in September/December, both projection meetings). Depo rates could end the year at 3.25-3.5%. Further cuts will be more gradual, depending on the macro scenario and the FED's easing path.

Politics

European Parliamentary elections confirmed the shift towards the right and brought a surprise from France with the call for snap elections (June 30th, July 7th). Polls suggest that the Le Pen party is likely to lead (>30%), followed by the left parties coalition (>25%), with Macron failing to advance into the second round (19%) but staying on as President. A cohabitation scenario would then unfold, with likely consequences in terms of domestic policies (pension reforms, fiscal policies?). "Frexit" fears lack real support, with Le Pen's position softened, but volatility could remain high.

Financial Markets: Govies, Corporate Credit & Equity

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). For French spreads, we foresee a low likelihood of a return to the 45–55 bps range prevailing before the European Parliament elections (foreign investors are the main bondholders, higher rating risks could deploy).

Corporate Credit: After tightening considerably during the first half of 2024, the credit spread started to widen from mid-June (IG 66 bps and HY 337 bps). During May, flows in European high-grade funds turned positive, after two months of outflows caused by rate uncertainty. For High Yield, after a strong comeback in 1Q, we saw a slow month, with almost zero flows, as mutual fund outflows overshadowed ETF inflows. We are positioning on average durations of 3-4 years in defensive and anti-cyclical players to avoid any potential spread widening. We maintain spread target levels for both investment grade and high yield, with a recommendation of Neutral/OW for investment grade and UW/Neutral for high yield.

Equity: The upheaval in France caused the Paris stock market to underperform, with the CAC 40 plunging 5.3%. The most affected companies were heavily indebted companies with a "French connection" whose financing conditions the market likely perceives could suffer (e.g. Orange), banks and insurers with close ties to the French State (e.g. Société Générale or BNP Paribas) and companies whose business models are closely linked to decisions taken by the French government, such as motorways and airports, TV channels, and energy groups (e.g. Vinci, Aéroports de Paris or Engie). While political uncertainty will likely persist for weeks, some see opportunities in French multinationals with little domestic exposure, such as luxury brands, consumer goods companies, or electrical components manufacturers. Elsewhere in Europe, Golden Goose completed its IPO in the biggest Milan listing since May 2023, showcasing the European trend amid buoyant markets. The EU Commission also slapped tariffs on Chinese EVs, prompting China to threaten reprisals in agriculture, aviation and big internal combustion cars. German car makers such as Volkswagen, Mercedes-Benz and BMW could suffer.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: OVERWEIGHT

Bonds – Core governments: UNDERWEIGHT (OW at 3% yield, Bund target 2.50%)

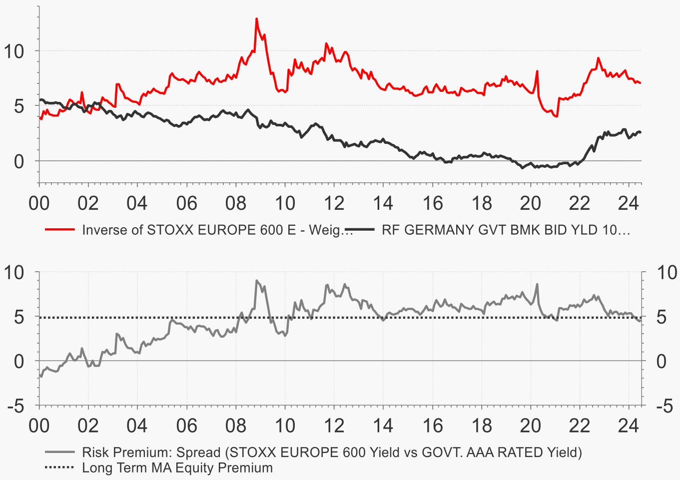
Peripheral – MW: IT (4.10%), SP (3.50%), PT (3.10%), IE (2.90%). UW: GR (3.70%).

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

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

FX – EUR/USD At or below 1.05 sell $ / buy €. At or above 1.10 buy $ / sell €

Equity Yield (Europe) vs Risk Free Yield10Y



Source: LSEG Datastream / ANDBANK

Euro area price-to-earnings

Europe Stoxx 600

Source: LSEG Datastream / ANDBANK

Euro area benchmark yield curve slope

Ten-year minus two-year yield spread, percentage points

Source: LSEG Datastream / ANDBANK

SPAIN

Good company results support our positive positioning in Equity

Macroeconomic Policies and Economic Activity

On June 12th, the European Commission endorsed a positive preliminary assessment of 60 out of the 61 milestones and targets linked to Spain's fourth payment request for €10 billion (net of pre-financing) under the Recovery and Resilience Facility, the centrepiece of *NextGenerationEU*. At the same time, the Commission has communicated to Spain the reasons why it considers that the target for investments in business digitalization are not fully met. Spain now has one month to submit its observations to the Commission. Following the EFC's opinion on the positive preliminary assessment and after assessing the observations submitted by Spain, the Commission will adopt a payment decision, after which the payment to Spain can take place. Note that the Spanish recovery and resilience plan comprises 111 reforms and 142 investments, with 595 milestones and targets. It amounts to €163 billion, of which €79.8 billion consists of grants and €83.2 billion of loans.

One day earlier the Bank of Spain published its new macroeconomic projections for the 2024-2026 period. Compared with the March projections, GDP growth for 2024 is revised by +0.4% to 2.3% and remains unchanged for 2025 (1.9%) and for 2026 (1.7%). The main factor behind this upward revision of the average rate of growth of GDP for 2024 is the positive carry-over effect resulting from the new data in the Quarterly National Accounts (QNA) flash estimate, specifically the upward revision in the growth rates for the last two quarters of 2023 and the higher-than-expected growth in 1Q24.

Accordingly, at the time of this report, various economic indicators (including employment, consumption, and confidence indicators, which provide partial but incomplete information on economic activity in 2Q24) suggest that Spanish GDP growth remains high in 2Q24, at around +0.5% q/q. Confidence indicators are consistent with strong activity growth in 2Q24: both the services and the manufacturing Purchasing Managers' Indices (PMIs) have risen steadily in recent months, with the latter now in expansionary territory. This good business environment is also reflected in the results of the Bank of Spain's Business Activity Survey (EBAE), which suggest that Spanish firms' turnover increased markedly between March and June of this year.

Unfortunately, we also had some negative data published recently. On the prices front, for instance, the inflation rate increased by +0.9% between February and May, to a year-on-year HICP rate of +3.6%, well above the rest of European countries. Part of this rebound was expected, due to the recent increase in the market price of energy and the discontinuation of earlier government policies aimed at containing energy prices.

Another cause of the price increase may come from the labor market. Job creation remains very strong, especially among larger firms. According to the statistics for social security-registered firms, job creation in recent months has continued to be driven by larger firms, with the percentage of social security-registered workers in Spain accounted for by firms with 500 or more employees rising from 33.2% at the end of 2019 to 35.7% at end-2023 and 36.1% in April this year. By contrast, the share of microenterprises (firms with 1 to 9 employees) in total employment decreased from 21.6% to 18.7% over the same period. This job creation with a bias towards larger companies is a signal that the new jobs being created during this period are not in lower value-added sectors such as tourism or trade.

Stock Market

The Ibex 35 (Spain's main stock index) still accumulates a double-digit return (11.1%) year to date, despite the negative week after the European elections, with a 3.6% correction. In any case, the local market has been one of the best performers lately, delivering the same return as the S&P500 over the last year and a half, reflecting the good health of the country's economy. Spanish companies' earnings reports for the first quarter of the year show a recovery in earnings. Earnings per share grew +12.6% y/y in 1Q24, causing analysts to revise their estimates upwards for the rest of the year, with a new EPS estimate of 1,038. With this level, EPS growth for the year would be +16% y/y, one of the highest growth rates expected for an index in 2024. This forecast is based on better sales per share growth (currently standing at +3.8% for the year) and better margins, lifting the expected ROE of the index well above double-digit level (currently 12.4%) and registering one of the best results in the last twenty years.

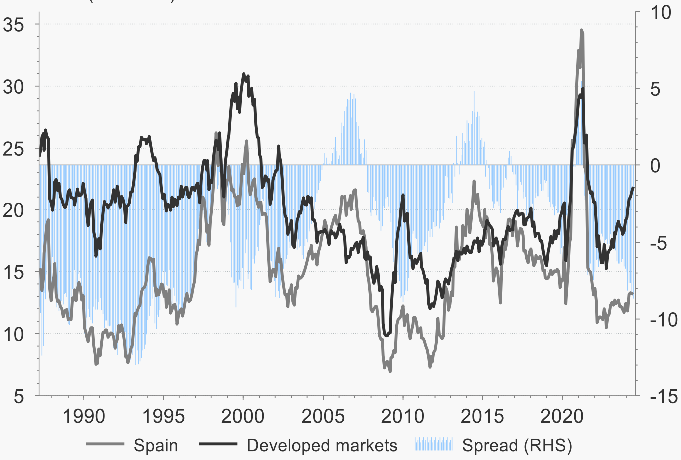
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: OVERWEIGHT

Bonds: Govies MRKETWEIGHT (10-year target 3.50%)

Spain price-to-earnings ratio

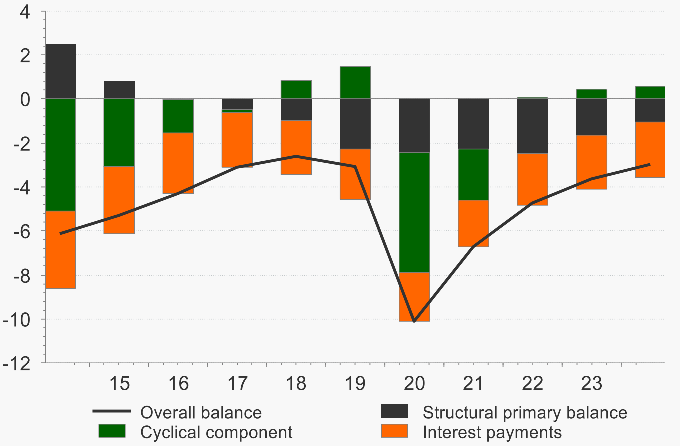
Ratio (both axes)



Source: LSEG Datastream / ANDBANK

Spain government budget balance breakdown

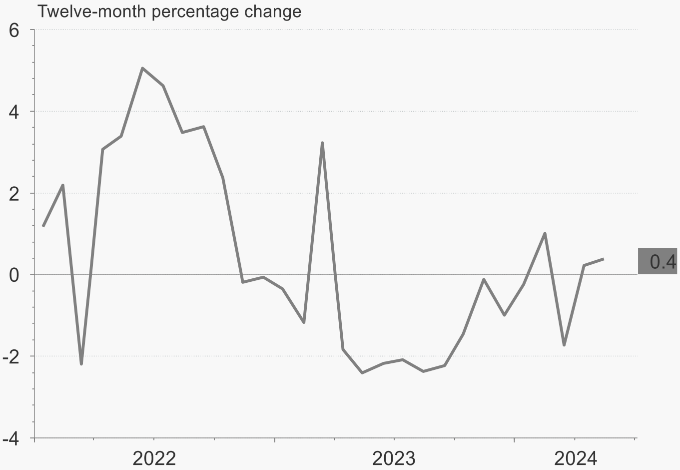
Total Government. Per cent of GDP



Source: LSEG DatastreamThomson Reuters Datastream / ANDBANK

Spain industrial production

Twelve-month percentage change



Source: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

CHINA

The G7 Summit: A Significant Setback for China's Opportunity to Rebuild Western Ties

During the G7 summit held in Italy, there were constant mentions of China, not for positive reasons.

In the final communiqué of the G7 summit leaders, there are 28 references to the Asian giant, and nearly all of them describe Beijing as a "malicious force." During the press conference with the President of Ukraine following the summit, we heard harsh and surprising words from Biden, who emphatically stated, "China is not supplying weapons to Moscow for its war with Ukraine, but it is providing the capacity to produce those weapons and the available technology to facilitate it." "Thus, it is indeed aiding Russia," he added, referring to Russia's attack on Ukraine. Throughout the days of the G7 summit held in Apulia, Italy, there were constant mentions of China, not for positive reasons. The final official communiqué of the summit defined China as the "savior of Russia's war machinery." Other references in the communiqué portray Beijing as an increasing threat in the South China Sea and as an unpredictable economic actor (as reported in a recent Infobae article). In total, there are 28 references in the final communiqué, almost all describing China as a malicious force. This perception of China among the major Western economies and much of the developed world keeps the question of whether China is an investable market very present in investors' minds. Certainly, neither the recent developments at the G7 nor China's stance suggest any change in the perception of foreign investors, who will likely remain hesitant to invest in a market whose economy faces new and more intense sanctions.

Anatomy of a Transformation: China and its Relationship with the World

Even today, the contrast between China's image now and just a few years ago is striking to me. For example, in previous G7 summits Western countries talked about forming alliances with Beijing to tackle common issues such as nuclear proliferation, terrorism, or climate change. Beijing was generally described by the West as a partner, a supplier, and above all, a magnificent customer for all kinds of Western products, from German cars to French haute couture. In the communiqués of the two previous summits, China's role was suggested as a moderating force over President Putin. This time, with the passage of time and the evidence at hand, no one at the G7 wants to describe China as a moderating force. Thus, the words of the director of the Carnegie Russia Eurasia Center in Berlin, Alexander Gabuev, who opined that "China now opposes any peace effort in which it cannot be a central actor," were widely echoed. It seems, then, that the war in Ukraine has a long way to go, given China's lack of the necessary diplomatic experience for such an important task. All those qualities the West attributed to China in the past—partner, ally, customer, and supplier—have vanished. Today, China is spoken of in the same tone and terms as Russia, a result of the strange "no-limits alliance" between Beijing and Moscow, as the leaders of both countries like to trumpet. As an observer, and at this point, I fear that the unfolding events will result in an even deeper "no-limits alliance," leading to a homogenization of status and the inevitable assimilation into the sanctions schemes. This is a bad omen for Chinese assets, unless we see a 180-degree turn in Beijing's foreign policy.

The future of the relationship between China and Western countries looks bleak

A senior Biden administration official who attended the G7 leaders' discussions reported on the leaders' debate about China's new role and described it as assuming that the relationship between the West and China will become increasingly conflict-ridden. This is in line with the official communiqué, which included the following direct clarification towards Beijing: "We will continue to take action against actors in China who materially support Russia's war machinery, including financial institutions and other entities in China that facilitate Russia's acquisition of items for its military-industrial base." The U.S. Department of the Treasury has already issued a series of new sanctions designed to disrupt the growing technological links between Russia and China. Until now, few G7 countries had taken similar steps, but it now appears that the rest of the Western powers are willing to join this general sanctions scheme against China.

This transformation in the Western perception of China has gradually taken shape as Beijing's excessive interest in dominance in trade and security issues, and its sometimes stifling influence on developing countries, has become evident. All these factors have contributed to the progressive distancing between the West and China. But it has been China's support for Russia in the Ukraine conflict (Beijing has not yet condemned the Russian invasion) that has finally changed opinions in Europe. European countries which a few years ago were concerned that the United States might be too belligerent towards China have finally endorsed the same stance, collaborating on the terms of the G7 communiqué and calling for "a strengthening of Western supply chains to make them less dependent on Chinese companies." However, the tension goes beyond supply chains. In the jointly issued communiqué, European nations accuse China of a series of major cyberattacks on critical infrastructure, both European and American. European countries resolved in writing to "continue efforts to deter persistent and malicious cyberactivity from China that undermines innovation and threatens our critical infrastructure."

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

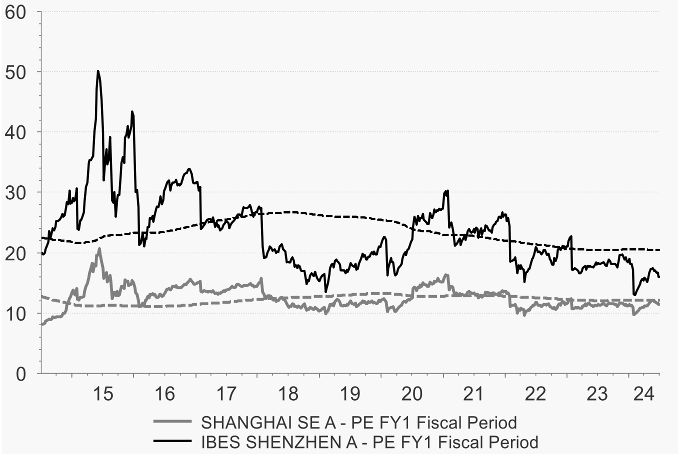
Equities – SHANGHAI Idx: UNDERWEIGHT // SHENZHEN Idx: UNDERWEIGHT

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

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)

CHINA SSE & SHENZHEN Index - PE Ratio

PE forward



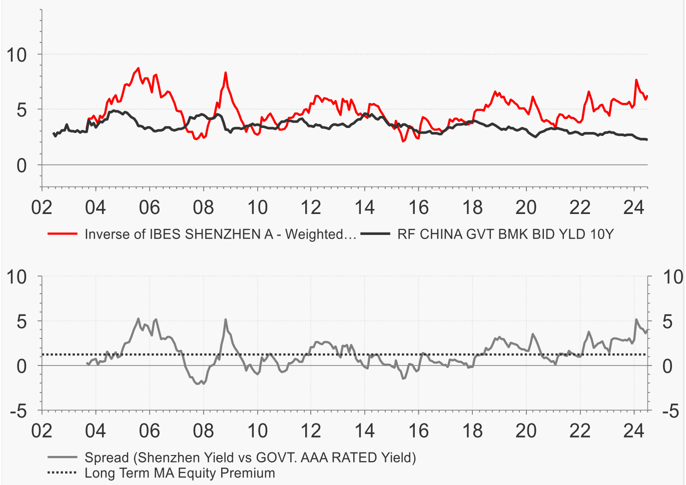
Source: LSEG Datastream / ANDBANK

Chinese Equities Undeperforms World & US indices

MSCI China vs MSCI Global and MSCI USA

Source: LSEG Datastream / ANDBANK

Equity Yield (China Zhenzhen) vs Risk Free Yield10Y



Source: LSEG Datastream / ANDBANK

JAPAN

Government issued fresh warning against yen bears.

US adds Japan to currency manipulation watchlist

The US Treasury department added Japan to its 'monitoring list' over forex practices, citing large bilateral trade and current account surpluses, but stopped short of labeling it as a currency manipulator. The report noted Tokyo's forex intervention in April and May and acknowledged that the intervention was transparent. Meanwhile, Finance Minister Shunichi Suzuki says Japan will maintain close communication with the United States and other countries over forex policy after Washington put Japan back on the currency manipulator watchlist. Suzuki said he did not believe Washington had any problem with Japan's currency policy, as the designation was made automatically, taking factors such as Japan's trade surplus with the US into account.

Japan’s Vice Finance Minister for International Affairs issued a fresh warning against yen bears and said “the authorities are ready to take action against speculative and excessive moves in the forex market that hurt the economy.” The comments failed to prevent the yen from weakening above 159 per dollar for first time since 29-Apr, as markets focus on US-Japan rate divergence.

Domestic retail investors are rebuilding long yen positions on FX intervention plays and encouraged by verbal warnings from MOF officials. Such trades saw some success ahead of the intervention operations conducted in April and May.

The FX hedge ratio among Japan's life insurers fell to 47% of foreign securities as of 31-Mar, according to Bloomberg-compiled data. This was the lowest total since Sep-2011, as prolonged yen weakness disincentivizes insurers from seeking to protect against the adverse impact of appreciation on foreign investment gains.

Japanese net external assets swell to record high

MOF data showed Japan's net external assets rose to a record ¥471.3T ($3T) in 2023, increasing for a sixth straight year, as a weak yen and overseas corporate acquisitions boosted the value of the country’s foreign assets. Japan retained its position as the world's top creditor, followed by Germany with $2,89T of net external assets and China with $2,63T as of the end of 2023.

BoJ: Markets still see possibility of July BOJ rate hike

Press takeaways from the last BOJ Summary of Opinions gravitated towards the possibility of a July rate hike, highlighting positive rhetoric for an early move. A key citation was one member's view that upside risks to prices have become more noticeable. This member called for close data analysis ahead of the next MPM and said that, if deemed appropriate, the board should not be behind the curve in raising the policy rate as the likelihood of achieving the inflation target increases. That being said, we do not observe a clear willingness on the part of the BOJ to abandon the current monetary policy, beyond carrying out some intervention to support the currency, which is why it will keep interest rates low and will continue to maintain control of the yield curve at a low level. All of this results in a favorable scenario for the Japanese equity market. The risk premium of the Japanese equity market remains at 500bps, significantly above the historical average, so the relative valuation is attractive. May nationwide core CPI +2.5 y/y vs consensus +2.6% and +2.2% in prior month. June flash manufacturing PMI 50.1 vs 50.4 in prior month. Services PMI 49.8 vs 53.8 in prior month. Composite PMI 50.0 vs 52.6 in prior month

Government seeking to expand JGB investor base as BOJ plans to reduce bond purchases: The MOF is exploring broadening the eligible investor base for mini JGBs beyond individuals, prompted by the BOJ's plans to reduce bond purchases. Educational institutions, condominium management associations and unlisted small companies are emerging as potential candidates. The MOF is hopeful of a growing demand for principal-guaranteed small-lot JGBs as interest rates rise. The ministry held a panel group discussion on 21-Jun, which proposed preferential tax treatment or inclusion in investment trusts to encourage investments.

Moody's probably won't downgrade Japan if FY25 primary surplus target is missed

In a Reuters interview, Moody's Japan sovereign analyst Christian de Guzman said they don't expect Japan to meet its FY25 primary budget-balancing target but that won't trigger negative ratings action because the goal is still a "commitment" to fiscal reform. He noted that Moody's had long expected the goal would not be met and has not pursued any sort of negative rating action.

Market outlook – Recommendations & Targets from fundamental analysis

We do not observe a clear willingness on the part of the BOJ to abandon the current monetary policy, beyond carrying out some intervention to support the currency, which is why it will keep interest rates low and will continue to maintain control of the yield curve at a low level. All of this results in a favourable scenario for the Japanese equity market. The risk premium of Japanese equities remains at 500 bps, significantly above the historical average, so the relative valuation is attractive.

Equities – N225: OVERWEIGHT

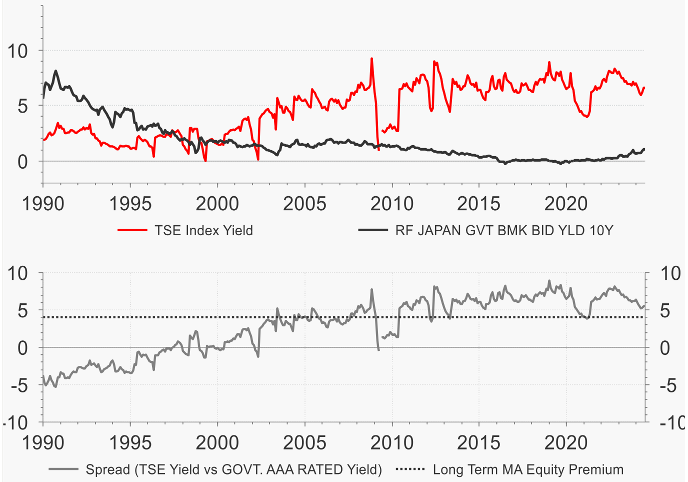
Bonds – Govies: UNDERWEIGHT (Target yield 1.25%)

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

Japan Nikkei 225 price / earnings

Source: LSEG Datastream / ANDBANK

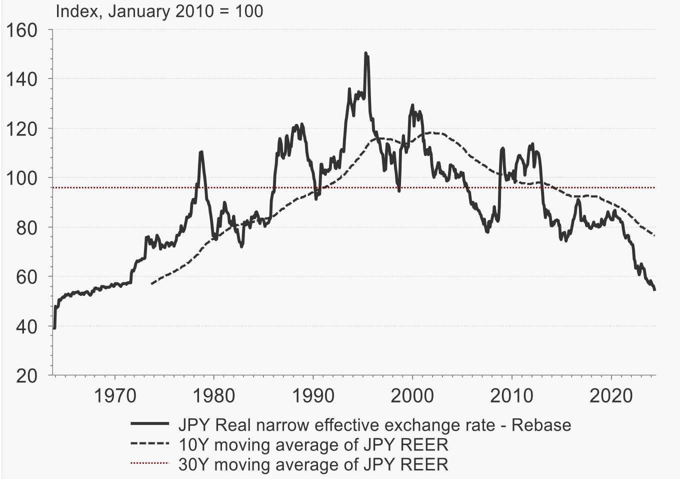
Equity Yield (Japan) vs Risk Free Yield10Y



Source: LSEG Datastream / ANDBANK

Japan real narrow EER

Index, January 2010 = 100



Source: LSEG Datastream / ANDBANK

INDIA

Modi manages to form a coalition and bets on the continuity of his agenda

Election Results and Initial Market Reaction.

On the first trading day after the elections in India, the stock market dived, closing the session down by 5%. The electoral results diminished Modi's political power slightly, which disquiets investors who no longer view Modi's BJP as an omnipotent and reassuring political force. Then, on the second market day, with 100% of the votes counted, the Indian Sensex Index surged 3.2%. In the end, the BJP won 240 seats, below the 300 seats Modi achieved in the previous elections, but Modi's BJP can still pull together a governing majority of 292 seats with its allies in the National Democratic Alliance, allowing it to govern India for another term. **Where does the market risk lie?** While the BJP is expected to keep its coalition intact, Modi will need to appease his capricious allies. There were rumors yesterday that two of his allies, controlling a combined 28 seats, might switch sides to join the opposition alliance, potentially forcing a change of government—a scenario the market would likely frown upon. At the time of writing, however, it is being announced that Modi has won crucial backing from two key allies in this coalition, allowing him to form a government. The consensus is that Modi will maintain coalition unity.

Market Assessment and Projections

In the short term, markets might react negatively to the challenges now facing PM Modi, who will need to make some concessions. If these concessions undermine fiscal rigor and the continuity of the reformist agenda, investors will take note and we could see capital outflows from this market. In the medium term, however, we believe investors are more likely to conclude that India's economic fundamentals remain solid. In the long term, this constructive outlook depends on the government's avoiding unproductive populist policies to compensate for its political setback, such as diverting funds from investments in infrastructure towards more popular social handouts. On the positive side, Modi has accurately signaled his intentions for many years and has championed a program based on the idea of transforming India into an international manufacturing hub—a goal that requires attracting significant foreign capital and installation capacity. This strategic objective is incompatible with economic populism.

Our focus will be on what Modi needs to do and on monitoring what he does

Modi must secure the continuity of his economic and political legacy, maintaining the average real annual growth rate of 6-7% for the next five years. If he does, he could fulfill the (unwritten) promise of surpassing Germany and Japan to become the world's third-largest economy. This will require (i) sustaining the infrastructure investment agenda to enhance the competitiveness of transportation and logistics, (ii) expanding the manufacturing sector to create jobs and accommodate the hundreds of thousands migrating from rural to urban areas, and (iii) keeping foreign direct investment flowing to India through effective management of FX and debt risks. Indeed, India's superior performance in recent years has been based on the government's dual ability to keep the economy running while maintaining fiscal rigor. If Modi can continue to resist the temptation to engage in fiscal disorder and alter public spending to reverse his poor electoral performance, then he will ensure that domestic logistics costs continue to decline to developed world levels during the next parliament, resulting in a situation of sustained economic development.

Overall, Modi must continue to focus on improved infrastructure. Only then can there be faster growth in domestic markets (manufacturing and services). Infrastructure improvements in India over the last five years have led to an 80% increase in India's share of global service exports (from 2.5% to 4.4%). This path must continue, as only through better logistics can Modi's goal of turning India into a real alternative for manufacturing supply chains be achieved. The journey so far has been correct, as foreign direct investment inflows into India have been strong in recent years.

No need to panic over the election result. Indian asset prices have performed well under previous coalition governments

The MSCI India index returned 200% in 2004-2014 when a shaky Congress-led group ruled the country. This is similar to the performance under Modi during his first two terms with a single-party majority, although it is true that his gains occurred with less volatility. So, if asset prices reset significantly lower, there may be a buying opportunity, as the subsequent returns from Indian assets could exceed those of the last two decades.

Another possibly favorable aspect, though little noticed by investors, is that the electoral result makes it much harder for Modi's BJP to impose religious policies to consolidate Hindu primacy. This is a policy that risks destroying India's multicultural democracy and has the potential to be socially explosive, which is bad for the investment environment.

Having said all that, I must admit that holders of Indian assets now face a risk-reward equation that is negatively skewed. We are not traders, so our medium and long-term outlook prevails. As far as India is concerned, that outlook remains intact and favorable. We will maintain our direct exposure in this market.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT (New target Price 85,000!!)

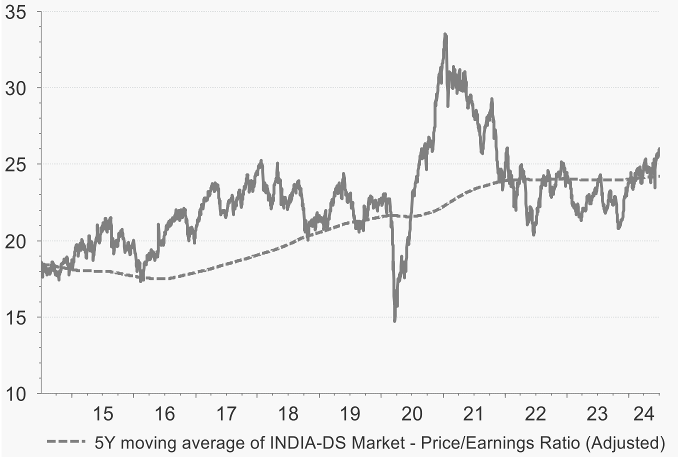
Bonds – Govies: OVERWEIGHT (Target yield 6.25%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 82)

India Datastream index Price Earnings Ratio

Ratio



Source: LSEG Datastream / ANDBANK

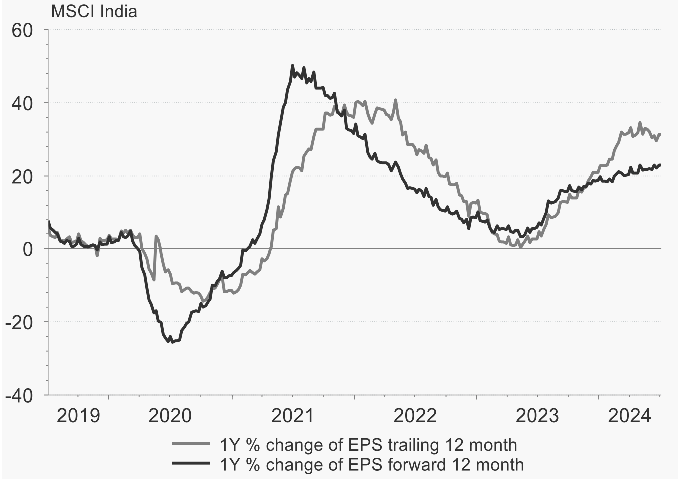
India NIFTY 50 realised volatility

One-year rolling standard deviation of daily returns

Source: LSEG Datastream / ANDBANK

EPS (Trailing & Forward)

MSCI India



Source: LSEG Datastream / ANDBANK

VIETNAM

Vietnam remains a bright star, a bright spot across the ASEAN region.

Balancing Growth and Inflation

Vietnam remains a bright star in Southeast Asia despite power shortages seen last year and the weakened real estate sector. Vietnam and a broader ASEAN are clearly the biggest beneficiaries of the "China+1" strategy, which seeks to diversify the production and supply chain of international companies that have been heavily dependent on China. Instead of relying exclusively on China, companies adopt this strategy to include at least one other country in their production and supply network. Vietnam's advantages, which include a competitive labor market and a number of FTAs, make it a lot easier to export to other markets such as the EU. These offer fundamental support that is helping Vietnam to attract investments.

Vietnam has continued to receive an inflow of FDI, despite domestic issues in relation to property and politics. Registered FDI topped $11 billion in the year to May 20, with manufacturing being the most attractive sector, accounting for 67.1% of the total registered capital. Disbursed FDI in the five-month period reached $8.25 billion, up 7.8% year-on-year. Inflation in Vietnam warrants a close watch in the near term, as the latest reading is approaching the regulatory ceiling. Headline inflation was flat at 4.4% year-on-year in May, hovering close to the government's 4.5% ceiling.

Continued recovery in external sector

Export growth in May jumped 13.9% year-on-year, beating market expectations (HSBC: 9.5%, Bloomberg: 10.6%). Similar to previous months, consumer electronics took the lead, accounting for 60% of growth. The encouraging sales performance and outlook for Samsung's new flagship, the Galaxy S24 series, is likely providing some uplift.

Putin Visit Underscores Deep-Rooted Ties

Russian President Vladimir Putin is widely portrayed as a pariah in the West, but he looks set to receive a warm welcome when he visits Vietnam this week. Vietnam is not a member of the International Criminal Court (ICC), which has issued an arrest warrant for Putin over alleged war crimes in Ukraine, and ties between Hanoi and Moscow have been strong for decades. Russia is the top supplier of weapons to Vietnam, and Russian firms extract oil and gas in Vietnamese fields in the South China Sea that are claimed by China. Could this be a cause for concern for foreign investors who have invested their capital in Vietnam? No, not at the moment. Vietnam is holding fast to its "Three Nos" policy: no military alliances, no siding with one country against another and no foreign military bases. While boosting maritime security ties with the US and its allies, Vietnam has been careful to give reassurance that these moves aren't about boxing in China. The commitment to this policy comes from both external and internal factors, including wariness of great power showdowns and the victory of General Secretary Nguyen Phu Trong, who pitched the idea of "bamboo diplomacy" to balance relations with the big players. Vietnam's "bamboo diplomacy" foreign policy is based on the country's experience in balancing competing geopolitical interests over the past three decades. The policy takes its name from the attributes of the bamboo plant: strong and durable, yet flexible and adaptable.

Political Shift Emphasizes Loyalty Over Expertise but might signal a reduction in internal infighting and a respite after years of turbulence

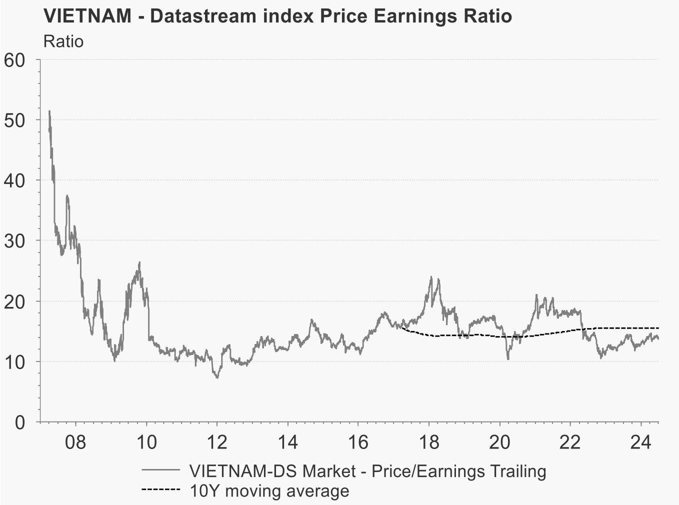
The political landscape continues to undergo big changes, with new Politburo and Secretariat appointments seemingly favoring loyalty over technocratic expertise. Recent promotions have boosted the military's influence in top institutions, a strategy that seeks to balance power against the public security apparatus, which is dominant in the elite institutions. The reduction in technocratic leaders is making some wonder about the government's future ability to address complex economic and policy challenges that will need to be addressed if Vietnam is to realize its potential. A noticeable trait among these seven new leaders is their background in either the party apparatus or the police and military. Only Le Minh Hung, former governor of the State Bank of Vietnam (SBV), qualifies as a technocrat. This makes two technocrats out of 16 Politburo members, compared to seven out of 16 in the 12th Congress (2016) and five out of 19 at the start of the 13th Congress in 2021. The party adheres to the principle of "both red and expert", meaning that one must be both committed to the party's ideology and technically excellent. These moves suggest President Lam is consolidating power within the party-state system, potentially positioning himself for the general secretary role in 2026.

On a positive note, the mass promotions might signal a reduction in internal infighting, as factions settle their differences. With two years to go until the next Party Congress, President To Lam appears to have emerged as the ultimate winner in the fiercest game of thrones in the CPV's recent history. While the long-term trajectory of Vietnam remains uncertain, this newfound stability might provide a respite after years of turbulence at the top. This would help prepare the party for the upcoming leadership transition.

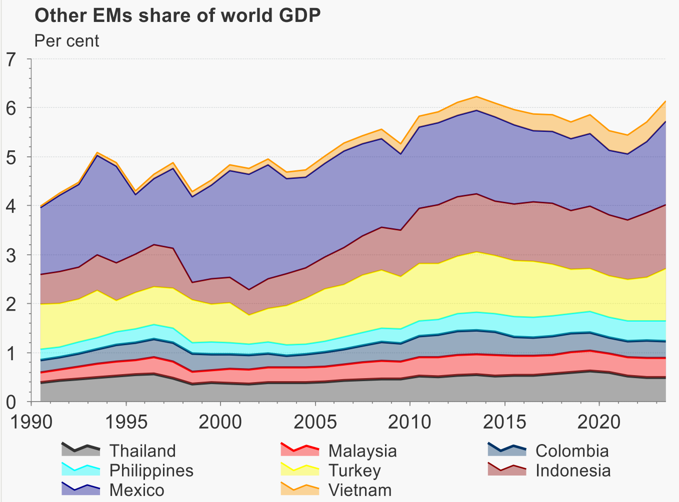
That being said, significant shifts in Vietnam's economic governance or foreign policy are unlikely. Performance-based legitimacy will continue to underpin the regime's stability, while trade openness and China wariness will sustain Hanoi's "bamboo diplomacy" with China and the United States.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT (New target Price at ~1,500!!)



Source: LSEG Datastream / ANDBANK



Source: LSEG Datastream / ANDBANK

Source: LSEG Datastream / ANDBANK

ISRAEL

No relief in sight at this moment

Macro, fiscal & monetary policy

June has been nothing short of a roller coaster for the Israeli economy, with macroeconomic indicators flashing warning signs reminiscent of a malfunctioning traffic light system. The CPI monthly reading for May was +0.2% month-over-month, driven by a combination of rising fuel prices and stubbornly high housing costs. The annual inflation rate now stands at +2.8% y/y, uncomfortably close to the upper band of the Bank of Israel's target range. This inflationary pressure continues to erode real wages, leaving households with less disposable income and more reasons to frown at their monthly budget spreadsheets.

On the fiscal front, the government's deficit widened further, hitting 4.2% of GDP year to date. This is largely attributed to increased defense spending and a series of stimulus measures aimed at propping up the economy amid ongoing geopolitical tensions. The economic effects of the war have been substantial, creating a toxic cocktail of uncertainty and volatility. Tourism, once a reliable revenue stream, has been decimated, while foreign direct investment is hesitant at best (for instance, Intel has halted the construction of a new 25 bn USD factory). The war's shadow looms large, casting doubts over economic recovery and stability. Prime Minister Benjamin Netanyahu has pledged to destroy Hamas, but some voices in the military are beginning to say that it will be very difficult to destroy the ideas behind Hamas fundamentalism. Netanyahu has dissolved the war cabinet, a widely expected move following the departure of former general Benny Gantz, who accused Netanyahu of putting his political considerations ahead of war strategy

Fixed income

The yield curve in June has shown a significant steepening, reflecting heightened market uncertainty and increased risk premiums. Short-term yields have remained relatively stable, anchored by the Bank of Israel's monetary policy stance, which kept its rate unchanged (4.5%) for the third consecutive time. However, long-term yields have surged, indicating investor concerns about future inflation and fiscal sustainability. This divergence suggests a lack of confidence in the government's ability to manage its debt effectively in the face of rising expenditures and slowing economic growth.

The widening gap between short-term and long-term yields is a clear signal that investors are demanding higher returns for the increased risk associated with holding Israeli government debt over longer periods. Although Israel's sovereign rating is A+ for S&P and A2 for Moody's, the spread between Israeli ten-year USD bonds and US Treasuries today is around 175 bps, priced between BB (200 bps) and BBB countries (150 bps). Following our recommendation in recent reviews, we maintain the view of holding short duration.

Stocks

The Tel Aviv Stock Exchange experienced a volatile June, with the benchmark TA-35 index swinging like a pendulum in a grandfather clock. Despite a brief mid-month rally, the index ended June down 2.5%, weighed down by declines in the technology and financial sectors. Investors are spooked, not just by domestic issues but also by the broader global economic uncertainty.

Tech stocks, once the darlings of the TASE, have seen their valuations slashed as investors question their growth prospects in an environment of rising interest rates and geopolitical instability. The banking sector, meanwhile, is grappling with the dual challenges of lower interest rates squeezing profit margins and a potential increase in loan defaults as economic conditions worsen.

In summary, June has been a month of reckoning for the Israeli economy. Macroeconomic indicators are flashing red, the bond market is sending distress signals, and the stock market is on a roller coaster with no end in sight. The war's economic effects are pervasive, creating a climate of uncertainty that makes it difficult to see a clear path to recovery. As we move into the second half of the year, the hope is that some semblance of stability can be restored, but for now, the outlook remains decidedly bleak.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

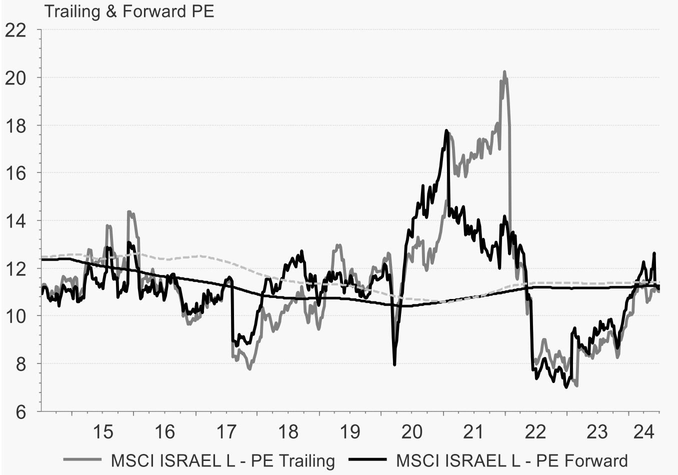
Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio

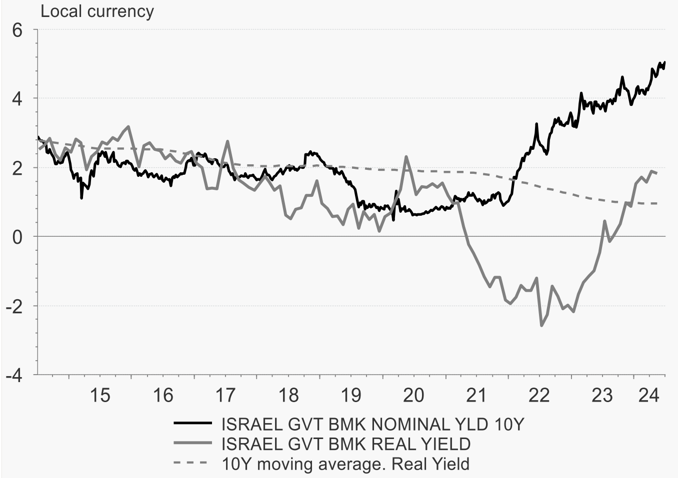
Trailing & Forward PE



Source: LSEG Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y

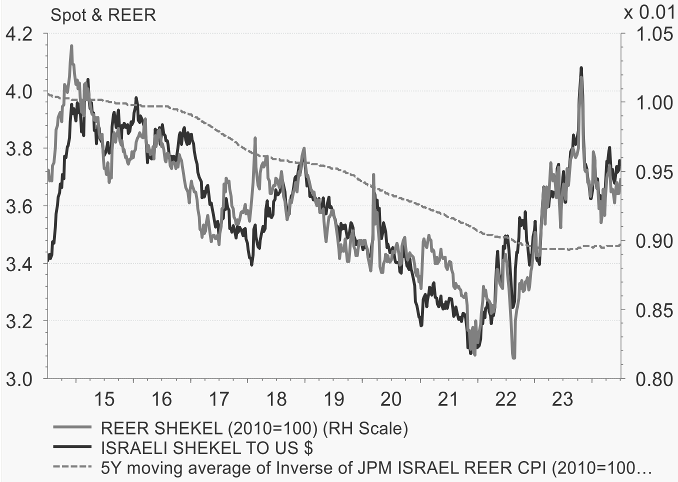
Local currency



Source: LSEG Datastream / ANDBANK

Israel Shekel

Spot & REER



Source: LSEG Datastream / ANDBANK

BRAZIL

Lula's administration is losing its momentum

The Economy is still growing

The IBC-Br, a leading indicator of Brazil's economic activity, showed a marginal increase of 0.01% in April, falling short of the expected 0.45%. Despite a decline of 0.34% in March, the index has risen by 4.01% over the past 12 months and 1.81% year-to-date.

Market expectations for Brazil's economic growth have become more optimistic as the year advances (although it was even better about a month ago), with the median forecast now at 2.09% GDP growth this year, up from 1.78% in January. This change reflects anticipated stronger growth and persistent inflation. Brazilian economists predict, on average, a 2.3% GDP growth for the year, despite potential uncertainties from recent floods in the southern region.

Brazil's Q1 GDP growth was +0.8% q/q, driven by the service sector and increased household spending, marking a return to growth fueled by domestic demand. Looking ahead, the economy is still expected to benefit from fiscal stimulus, a significant minimum wage increase, and a positive credit cycle, although challenges such as a still restrictive monetary policy remain.

Fiscal policy is still a concern

A provisional measure (MP) limiting the use of PIS/Cofins tax credits was returned by the President of the Senate, Rodrigo Pacheco, to the executive branch, signaling that it wouldn't even be read on the floor. This MP, introduced by the government of President Lula and aimed at compensating for revenue loss due to payroll tax relief, faced strong opposition from businesses and lawmakers. The MP's return constitutes a setback for the government's fiscal strategy.

The MP's origin lies in Finance Minister Fernando Haddad's 2024 goal of eliminating the public deficit by increasing tax collection. The payroll tax relief, created during Dilma Rousseff's presidency, was extended by Congress against the economic team's wishes. The government's attempt to gradually end this relief through the MP led to widespread criticism, as it would impact businesses' finances and potentially lead to price increases for consumers. The negative reaction from various sectors, especially exporters who benefit from tax exemptions, culminated in the political and legal challenge that resulted in the MP's return.

Now, Fernando Haddad faces a tough situation, as the return of the MP puts pressure on the government to find alternative fiscal strategies, especially since President Lula has shown no sympathy for spending cuts of any kind, which has only worsened market participants' view of Brazil's fiscal affairs.

Haddad has received a lot of support from business leaders in Brazil and has announced an agenda to cut government spending for the 2025 budget. The economic team's spending review includes reevaluating social benefits and considering more flexible health and education expenditures. Haddad stated that the government continues to aim for a zero deficit for 2025 and emphasized that, amid market concerns and the recent government defeat in Congress, his commitment is to "cut privileges."

Inflation might become a concern again

The IPCA index increased by +0.46% m/m in May, marking a second consecutive monthly rise, primarily driven by escalating food and energy costs. Over the past 12 months, the index has climbed by +3.9% y/y, signaling a halt in the disinflationary trend that began in 2023.

May's inflation might already be showing a little bit of the impact that the tragedy in the state of *Rio Grande do Sul* (RS) will have on food prices and economic activity. Next month's numbers will give a better understanding of the primary and secondary impacts, but as the waters receded and the clean-up started, it is estimated that the losses in transaction flow amount to BRL 22 billion and asset losses range from BRL 35 billion to BRL 40 billion.

This inflationary pressure has changed the expectation of further cuts in the central bank target rate, currently at 10.5%. The Central Bank's Monetary Policy Committee (COPOM) members themselves are stating that inflation in Brazil has lost its "anchor", thus demanding a more cautious stance from them. Thus, market agents adjusted their year-end interest rate forecasts from 9.75% to 10.50%.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

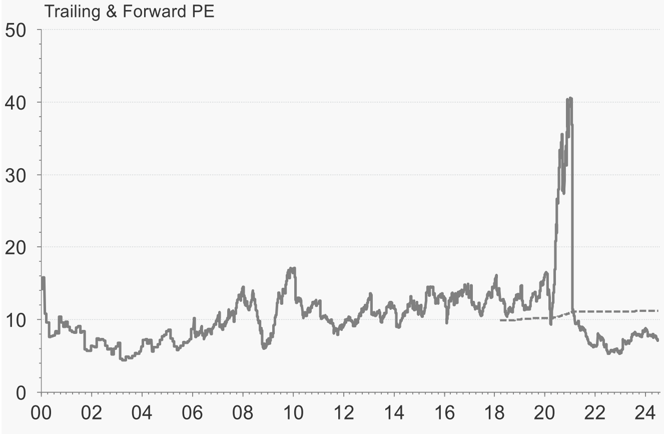
Bonds – Govies Local: OVERWEIGHT (Target Spread 700 => Target yield 11.5%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 250 => Target yield 7%)

FX – BRL/USD: MARKETWEIGHT (Mid-term target 5.25)

Brazil MSCI Index price-to-earning

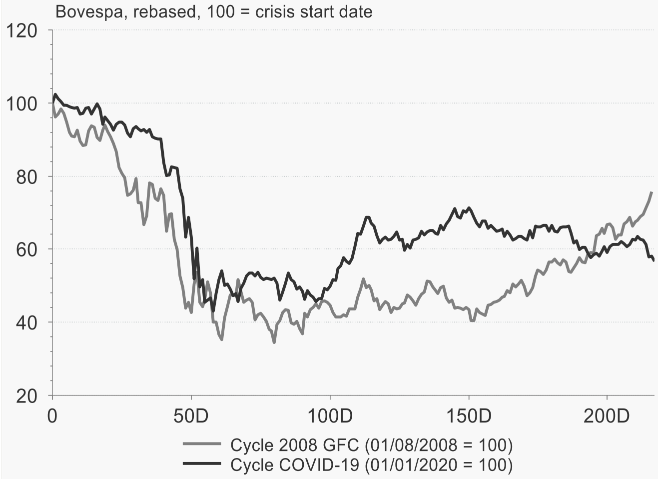
Trailing & Forward PE



Source: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

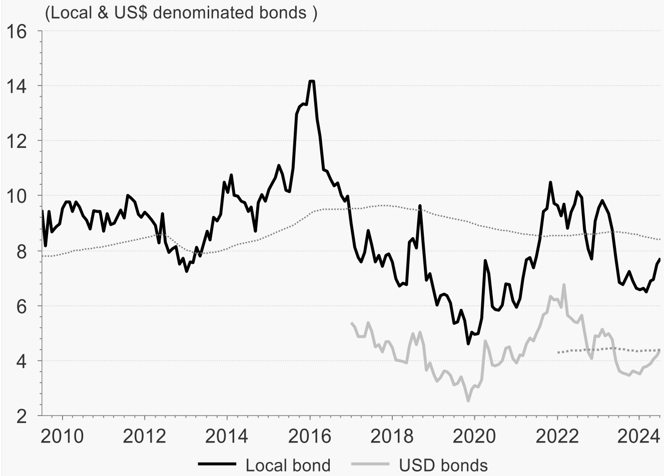
Bovespa, rebased, 100 = crisis start date



Source: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Source: LSEG Datastream / ANDBANK

MEXICO

The odds of a policy with less dialogue increase, but the market reaction seems exaggerated

Politics

The election results created a climate of uncertainty in the first few days after the elections. What generated the most nervousness in the market was not so much the victory of the official candidate Claudia Sheinbaum (with 59% of the votes, ahead of Xóchitl Gálvez a distant second, with 28%), a result that was already discounted before the elections, but that this victory came with a very feasible qualified majority (2/3 of the chambers) and that the party of President López Obrador (*Morena*) has also won more than half of the state congresses (taking seven of the 9 that were at stake in these elections), which is necessary in order to be able to carry out constitutional reforms. After the elections, only 5 out of a total of 32 states do not have congresses in which *Morena* has a simple majority.

The possibility of having the power to implement reforms generated concern in the markets, especially after the current legislature promised that when the new legislature enters in September, one month before the president-elect takes office, they would seek to pass reforms proposed by Lopéz Obrador, including reforms to the judiciary, pensions and social programs, among other things.

Scheinbaum confirmed that Finance Minister Rogelio Ramirez de la O will remain in his post and, in a move to calm the market, the Ministry prepaid 894 MM USD of the bond maturing in April of next year. Investors will be watching the new administration's stance on the high deficit. Ramirez de la O emphasized that they will seek to reduce it from 6% this year to 3% in 2025.

Central Bank

After cutting its benchmark rate in March, Mexico's central bank kept the rate unchanged at its May meeting in a unanimous vote. The next monetary policy meeting will be held on June 26. Market expectations, as measured by forward rates (TIIE 28 days), now discount only two cuts, each of 25 bps, for the rest of the year. Although the recent stance of central bank members was that they could make the first such cut at their June meeting, due to an ex-ante real rate at very restrictive levels, the recent depreciation of the exchange rate has reduced this possibility to practically zero.

Inflation and activity

In May, headline inflation remained elevated, at +4.69% y/y, while the core measure fell to +4.21% y/y. Although April and May are months of low and even negative inflation, due to subsidies in electricity tariffs, which are part of the non-core index, in May this effect was surpassed by a sharp increase in agricultural product prices. The good news in the report was the decline in the price dynamics of the core index. Long-term estimates (5-10 years) have been re-anchored at 3.5%. We do not rule out inflationary pressures in the last part of the year (US elections, trade risks, expansionary fiscal policies in Mexico, minimum wage hikes).

Financial markets

***Equity*:** The Mexican market has stood out for its weakness, with the S&P/BMV IPC losing 2.7% in May and closing the month close to 55,000 points. The lack of names related to the topic that generates the most interest (AI), rumors about the possibility of new taxes on the banking sector, a less attractive growth story, and BANXICO's reluctance to move too fast keep the stock market under pressure. At the beginning of June, the stock market reacted violently to the electoral result in the country, where the ruling party will continue in the Executive and with an important influence in the Legislative branch. For the time being, we reiterate our 12-month closing estimate of 58,800 units.

***Fixed Income & FX*:** The local curve moved higher across all maturities by as much as 45 bps in the days following the election. The spread against the 10-year bond exceeded 600 bps, surpassing our estimate for year-end. Our estimate remains at 550 bps, with an expectation of high volatility in the following months (reforms and the 2025 budget will be presented in September). We remain cautious on peso duration. For dollar debt, the spread increased to 181 bps, exceeding our expectation of 175 bps, a target we maintain for the end of the year.

The peso increased its volatility considerably after the election, flirting with 19 USDMXN in the hours following the election results. The peso was trading around 17 USDMXN before the election, losing more than 10% of its value against the USD. Although it has corrected in recent days, it remains above 18 (18.3) and we expect it to remain in a range of 18.30-19, with more volatility in the last part of the year.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: MARKETWEIGHT

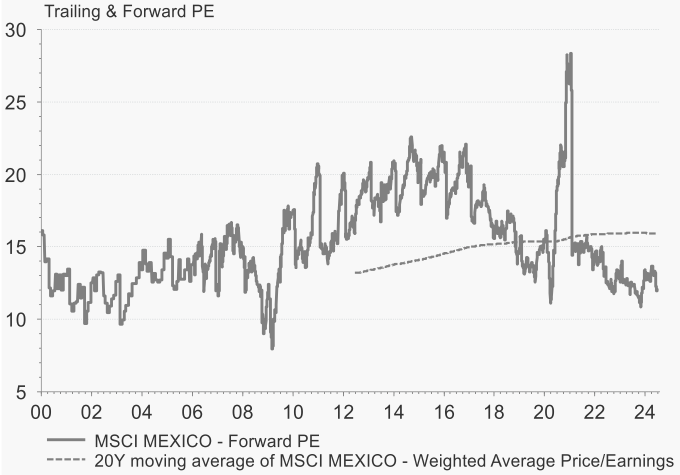
Bonds – Govies Local: OVERWEIGHT (Target Spread 525 => Target yield 9.75%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 175 => Target yield 6,25%)

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

Mexico MSCI Index price-to-earning

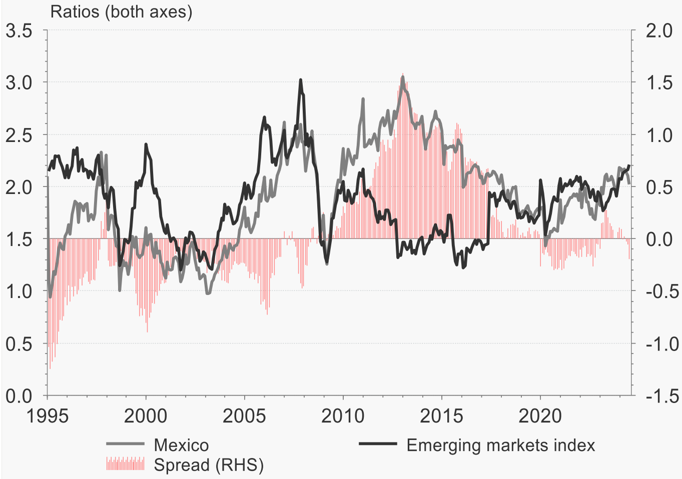
Trailing & Forward PE



Source: LSEG Datastream / ANDBANK

Mexico price-to-book ratio

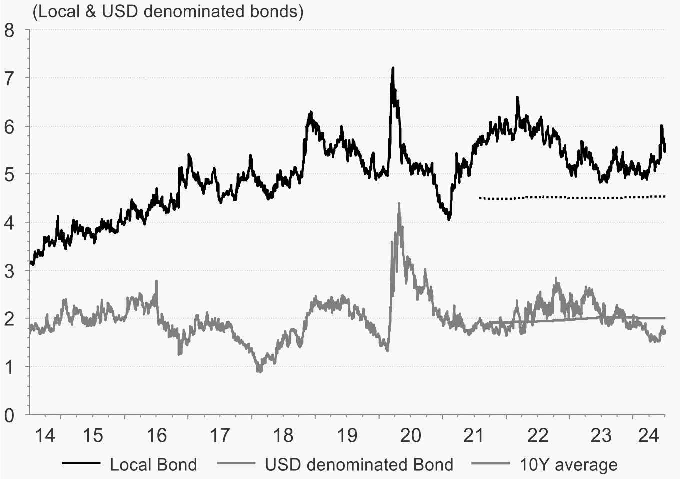
Ratios (both axes)



Source: LSEG Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Source: LSEG Datastream / ANDBANK

ARGENTINA

After the approval of the *Bases* bill, the focus shifts from politics to economics

Politics: The government achieved a much-needed legislative victory

After several weeks of intense political negotiations, Javier Milei's administration secured the approval of the Bases Law in the Senate. The senators' vote was tied, with 36 senators on each side, and was settled in favor of the government by the vote of Vice President Victoria Villaruel. Although the legislation has undergone significant revisions (for instance, removal of SOE airline *Aerolineas Argentinas* from the list of firms eligible for privatization, amendments to the Investment Promotion Regime and the Social Security chapter), resulting in a much less ambitious version than the original proposal, it contains measures designed to make the country more attractive to entrepreneurs and business interests and its progress demonstrates that Milei can legislate despite his party's having only 7 out of the total of 72 senators and a hostile relationship with opposition members of Congress.

The victory for the government was not complete, as the Senate rejected the reinstatement of the lowest Personal Income Tax bracket and the proposed changes to the Wealth Tax. Both these proposals were included in the Tax Law, which was dealt with together with the Bases Law. Since the Bases Law and the Tax Law were amended in the Senate, both laws must return to the Chamber of Deputies. If this chamber accepts the amendments, the bill proposed by the Senate becomes law. If it does not accept them, the Chamber of Deputies needs an absolute majority to insist on the original wording of the bill.

IMF: Imminent start of negotiations for a new agreement

The International Monetary Fund (IMF) approved the eighth revision of its agreement with Argentina and authorized the transfer of 800 MM USD. The IMF indicated that the program remains firmly on track, with the government exceeding all agreed targets (fiscal surplus, curbed monetary issuance, and accumulated international reserves of 17 bn USD), and praised the government's determination to achieve four consecutive months of fiscal surplus for the first time in nearly two decades. The staff report added that "sustaining the strong early progress requires improving the quality of fiscal adjustment (revenue-enhancing reforms to strengthen the quality and durability of the fiscal anchor… complemented by the continued rationalization of subsidies), taking initial steps towards an enhanced monetary and FX policy framework, implementing the structural agenda, and securing financing assurances."

The IMF staff report forecasts a 3.5% drop in GDP for this year and warns of the risk that a longer-than-expected recession could increase social tensions and complicate the stabilization plan. Even so, officials believe that the economy has already bottomed out, noting that several indicators point to a possible stabilization starting in April. On the other hand, the IMF expects inflation to end this year at 140% y/y and then drop to 45% y/y next year.

The Minister of Economy, Luis Caputo, said that the government is looking to start negotiations for a new program involving net new money that will help Argentina to exit capital controls. The IMF avoided commenting on the possibility of a new agreement. Former IMF Western Hemisphere Department Director, Alejandro Werner, estimated that the Argentine government could negotiate a new agreement with net new money of between 8 bn and 10 bn USD.

Prices: The government continues on the right path

The May CPI print came in at 4.2% m/m, well below market expectations (+ 5.2% m/m) and the April number (+8.8% m/m), reaching +276.4% on an annual basis. Core prices rose +3.7% m/m (vs. 6.3% in April) and for the fifth consecutive month below headline inflation. Seasonal products rose +7.2% m/m (vs. +9.9% m/m in April), while regulated prices increased by +4% m/m (vs. +18.4% m/m), slower than the headline for the first time this year. This is partly due to postponed tariff hikes and negotiations to reduce the cost of health-care plans. The three highest subcomponents of inflation were communication (8.2% m/m), education (7.6% m/m), and alcoholic beverages and tobacco (6.7% m/m). The June print will likely be higher than last month's number, as utility bill prices, halted in May, resume their correction.

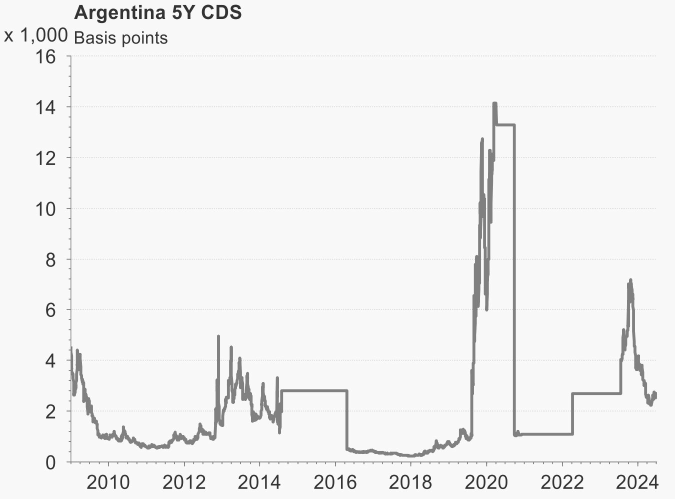
Central Bank: Swap with China renewed

The Central Bank of China (PBOC) and its Argentine counterpart reached an agreement to renew, for one year, a tranch of its currency swap activated in June 2023 for 5 bn USD. Once the agreement is finalized, the bank that requested the activation must return to its peer the amount of money used plus interest.

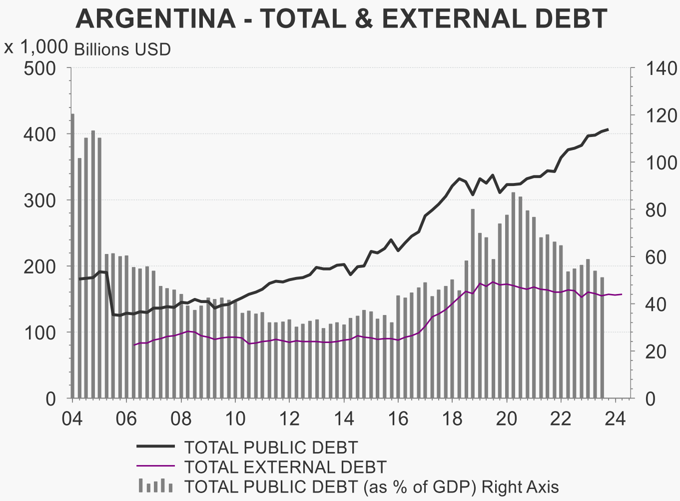
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

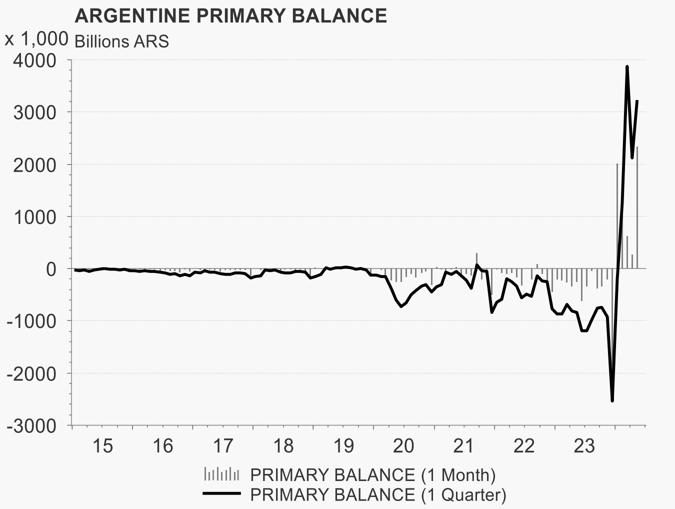
FX – USDARS: NEGATIVE (2024 year-end target 1600)



Source: LSEG Datastream / ANDBANK



Source: LSEG DatastreamThomson Reuters Datastream / ANDBANK



Source: LSEG Datastream / ANDBANK

GLOBAL EQUITY INDICES

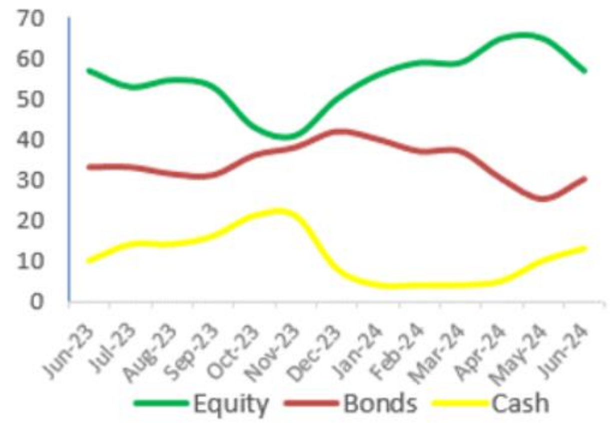
Fundamental assessment

Index	Projected EPS Fw 12 months	Projected EPS Growth 2024	Price Earning (forward)	Current Equity Yied	Current Risk Premium	Hist Risk Premium	Reasonable Price Earning Ratio	Implied Equity Yied at Reasonable PE	Implied Risk Premium at Reasonable PE	INDEX CURRENT PRICE	Andbank's Target Price	Expected performance to target Price	Recommended Strategy
USA S&P 500	261	10,6%	21,19	4,72%	0,37%	2,00%	21,00	4,76%	0,41%	5.537	5.487	-0,9%	MW
Europe - Stoxx Europe 600	37	4,4%	14,15	7,07%	4,51%	5,00%	14,00	7,14%	4,59%	520	515	-1,1%	MW-OW
Spain IBEX 35	1.038	5,5%	10,66	9,38%	6,00%	5,70%	12,00	8,33%	4,96%	11.070	12.459	12,5%	OW
Mexico IPC GRAL	4.529	10,2%	11,63	8,60%	-1,31%	-0,90%	13,00	7,69%	-2,22%	52.655	58.877	11,8%	MW
Brazil BOVESPA	15.489	12,0%	8,15	12,28%	0,05%	-1,10%	9,10	10,99%	-1,24%	126.164	135.000	7,0%	MW-OW
Japan NIKKEI 225	1.847	25,6%	22,15	4,51%	3,42%	4,00%	24,00	4,17%	3,07%	40.912	44.330	8,4%	OW
China SSE Comp.	308	14,6%	9,57	10,45%	8,22%	4,80%	10,00	10,00%	7,77%	2.950	3.083	4,5%	UW
China Shenzhen Comp	123	23,6%	12,91	7,75%	5,52%	1,25%	14,00	7,14%	4,91%	1.591	1.725	8,5%	UW
India SENSEX	4.077	24,4%	19,51	5,13%	-1,87%	-2,00%	21,00	4,76%	-2,23%	79.549	85.619	7,6%	OW
Vietnam VN Index	136	30,5%	9,44	10,59%			11,00	9,09%		1.283	1.494	16,5%	OW
MSCI EM ASIA	46	22,3%	13,33	7,50%			13,50	7,41%		607	615	1,3%	OW

ANDBANK ESTIMATES

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

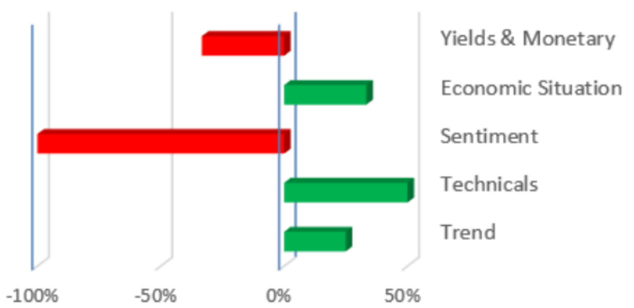
Dynamic Asset Allocation per Ned Davis Research



Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	62%	63%
Emerging Markets	15%	10,4%
Europe ex. U.K.	13%	12,1%
Japan	5%	5,5%
U.K.	2%	3,6%
Canada	2%	2,8%
Pacific ex. Japan	1%	2,7%

Current Relative Strength (Equities vs Bonds) Ned Davis Research



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

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q1 2024 Earnings Dashboard

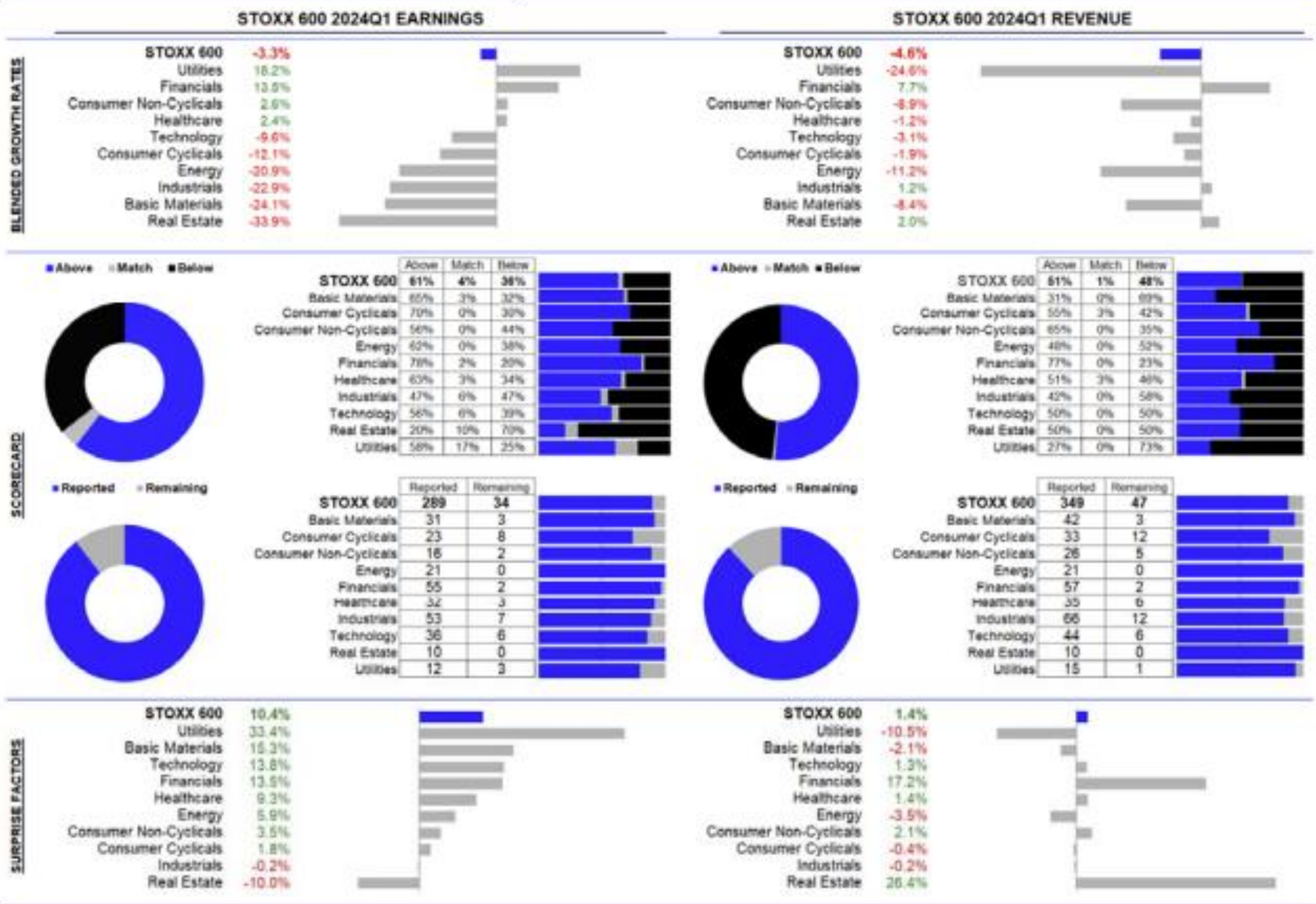
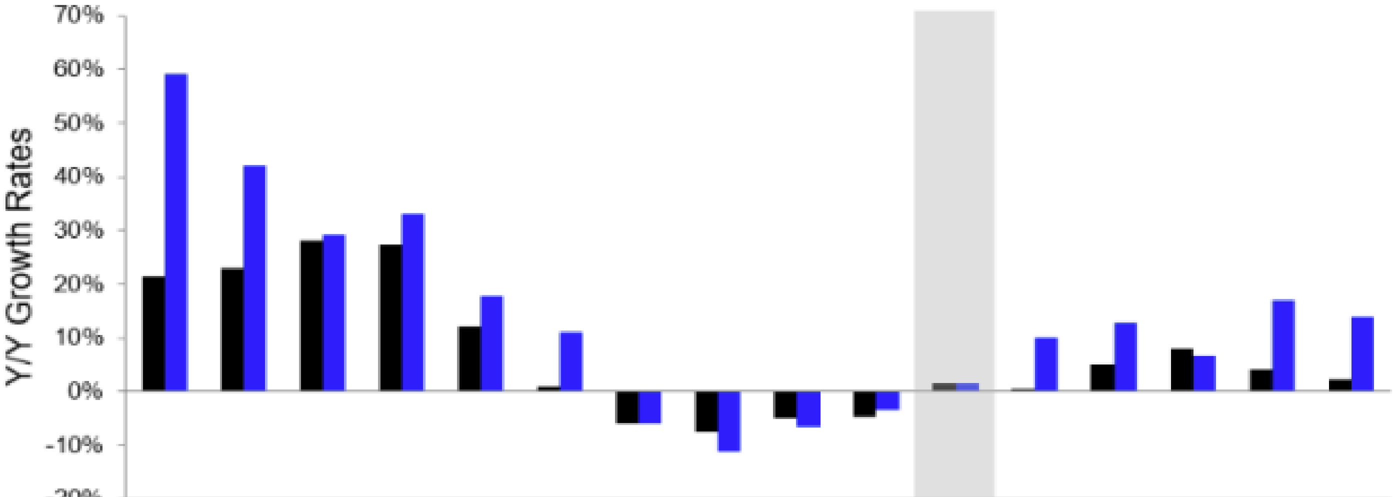


Exhibit 3A. STOXX 600 YoY Growth Rates



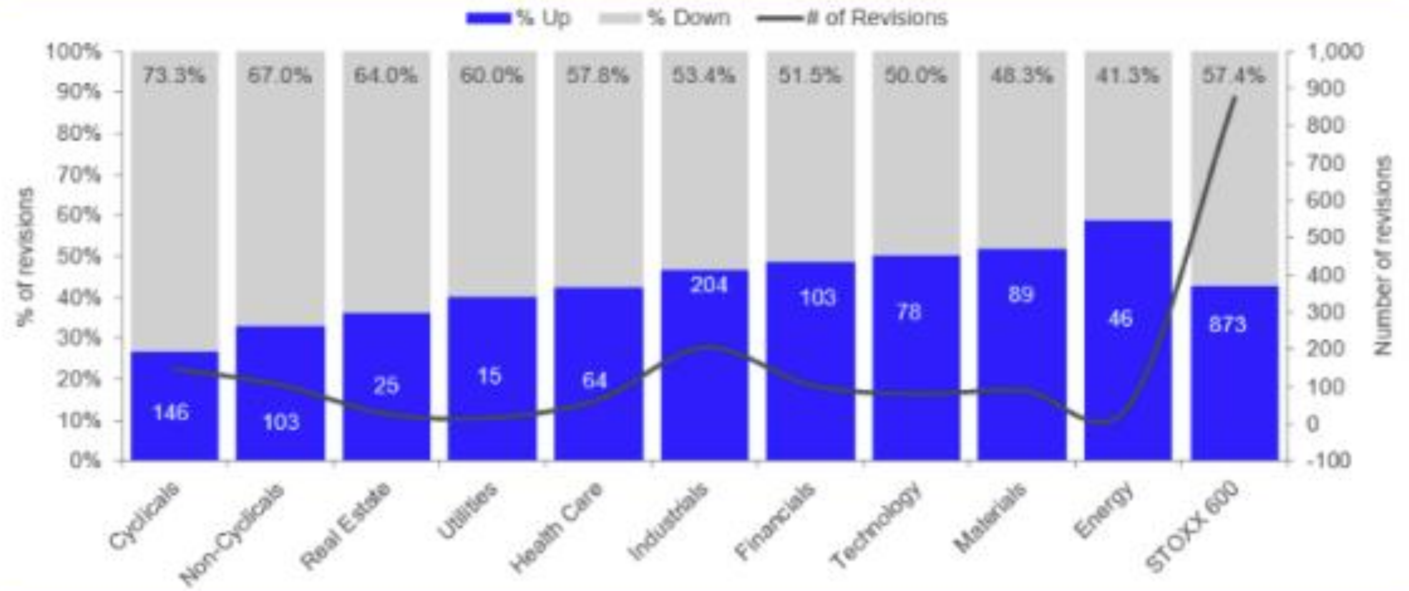
	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3
Revenue	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-4.6%	1.6%	0.5%	5.2%	8.0%	4.2%	2.3%
Earnings	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-3.3%	1.4%	10.1%	12.9%	6.7%	17.0%	13.9%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

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



Source: LSEG I/B/E/S

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

Source: LSEG Datastream

GLOBAL EQUITY INDICES

Earnings Dashboard - US

Exhibit 1. 2024Q1 S&P 500 Earnings Dashboard

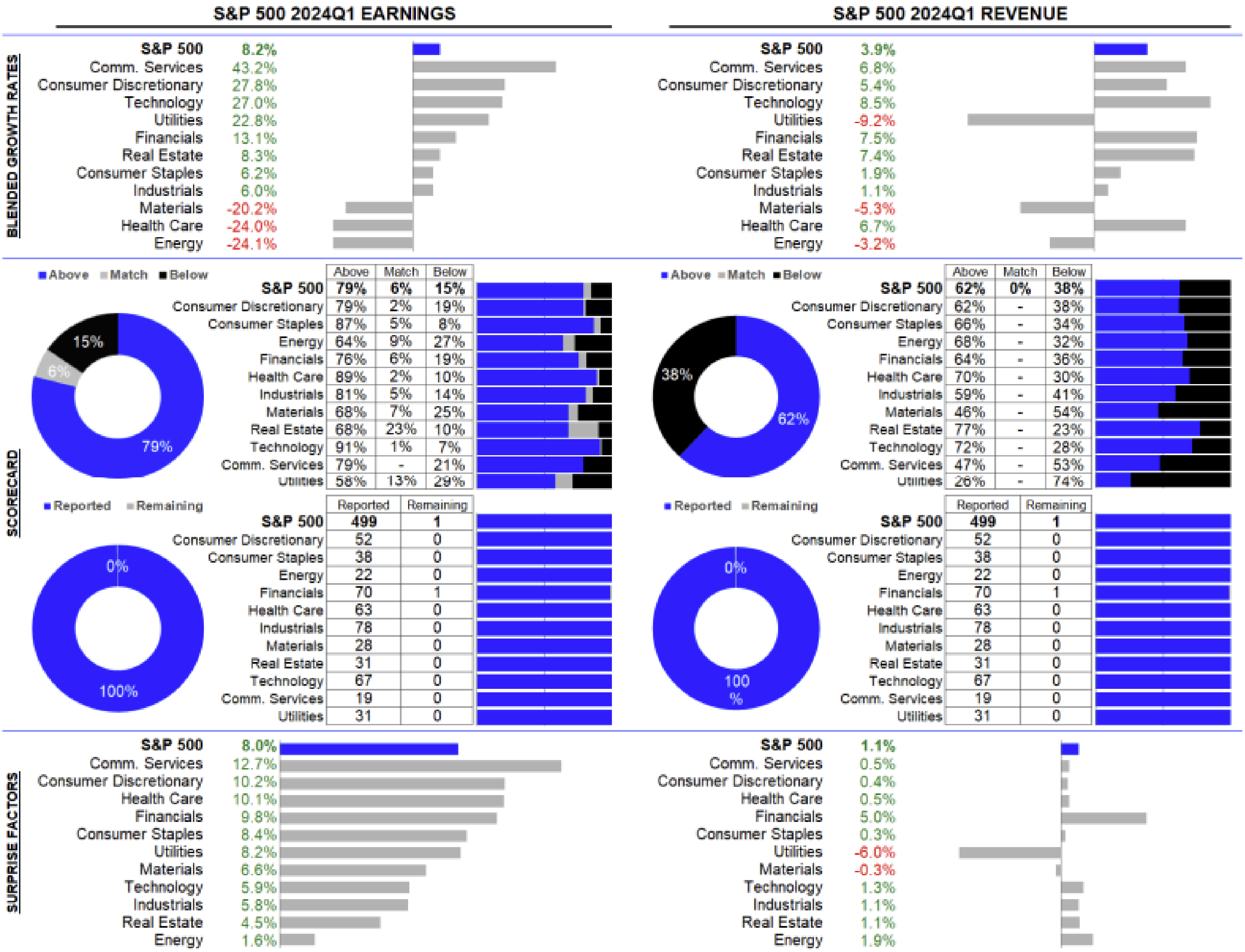
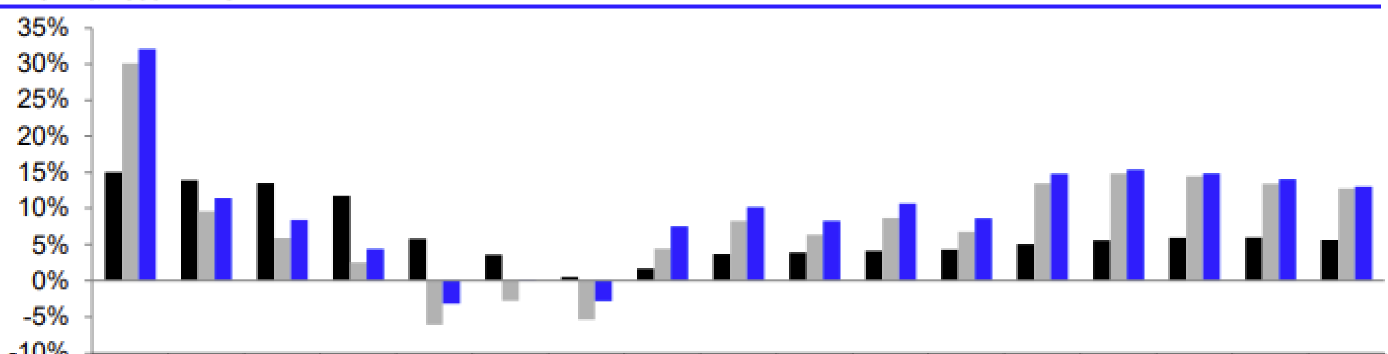


Exhibit 5. S&P 500 YoY Growth Rates



	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%	3.9%	4.2%	4.3%	5.0%	5.6%	5.9%	6.0%	5.6%
■Net Income	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	8.3%	6.4%	8.7%	6.8%	13.5%	14.9%	14.5%	13.5%	12.8%
■Earnings	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	10.1%	8.2%	10.6%	8.6%	14.8%	15.4%	14.9%	14.1%	13.1%

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 on crude oil prices. We have counted 6 bullish developments for the price of oil and 2 bearish factors.

(Bullish price factor) – Israel-Hezbollah. US to Hezbollah: "Don't count on us to stop an Israeli attack". The messaging comes as Politico reported US officials appear resigned to the possibility Israel will make a major move against Hezbollah inside Lebanon in the coming weeks. U.S. officials are trying to prevent a bigger Middle East conflict and issued this unusual warning to Hezbollah: "Don't assume that Washington can stop Israel from attacking you". The message is designed to get the Lebanese-based Shiite militia to back down and de-escalate the brewing crisis. U.S. special envoy Amos Hochstein and other American officials have traveled to the region in recent days to rein in both sides, even as there's a growing sense in Washington and beyond that escalation is inevitable. U.S. officials fear that a full-blown battle between Israel and Hezbollah, which, like Hamas, is backed by Iran, but is stronger and better armed, could tip the region into an all-out war. Israeli leaders do not appear to have made a final decision on what to do, though none seems to want an all-out war, and neither does Iran. The U.S. intelligence community believes that Hezbollah leader Hassan Nasrallah doesn't want a war but assesses that the risk of war is heightened this month, as is the risk of a miscalculation on either side, according to another senior U.S. official.

(Bullish price factor) – The sinking of a coal ship in the Red Sea on June 18th by Houthi rebels is driving a fresh surge in insurance costs, transportation in general and crude oil price for refineries. The sinking of a coal-carrier by a sea drone has boosted the risk of navigating the vital Bab el-Mandeb chokepoint to a new level and is driving a fresh surge in insurance costs. Yemen's Houthi militants managed to strike the vessel with a seaborne drone, killing one crew member and injuring others. The price of covering vessels for transit—measured as a percentage of the ship's value—surged to about 0.6%. This means that a vessel worth $50 million would have to pay $300,000 for one passage. US and UK bombing of the Houthis, which began in January, failed to quell the attacks and instead led to vessels associated with the two nations becoming targets for the group, alongside freighters with connections to Israel. The Houthis, supporting Gazans, have warned of an expanded operation to potentially attack as far as the Mediterranean. Not all ships are paying the bumper insurance premiums. Chinese vessels continue to receive significant discounts, because they have so far been less likely to be deliberately targeted. The Tutor incident marked the first time that a ship was successfully hit by what the military call an uncrewed surface vessel, or USV—effectively a small boat packed with explosives. The ship was very new, having been built in late 2022. It was capable of hauling about 80,000 tons of coal and would have had a value of $37.5 million in market.

(Bullish price factor) – US SPR: The Biden administration is ready to release more oil from the Strategic Petroleum Reserve since gas prices are "still too high for many Americans." "We will do everything we can to make sure that the market is supplied well enough to ensure as low a price as possible for American consumers". The move comes amid a years-long debate among Washington lawmakers about the role of the US's SPR. A Treasury Department report has since claimed that sales brought the price of US gasoline down by as much as 40 cents/gal. "Our sales in the summer of 2022 kept Russia's weaponization of energy markets from hurting our consumers at the pump," Energy Secretary Jennifer Granholm told the Republican-led US House Oversight Committee May 24. Still, the sale spurred widespread criticism from Republicans, who accused the administration of risking the US's energy security in an attempt to curry favor with voters ahead of the crucial 2022 midterm elections. On May 29, two key energy-focused House and Senate Republicans sent a letter to Energy Secretary Jennifer Granholm urging her to prevent Biden and his staff from further SPR releases. "We urge you, in the strongest terms, to put this country's energy security first and stop abusing the SPR for political purposes". "As the Secretary of Energy, it is your responsibility to ensure that the SPR is ready to respond to true energy supply disruptions. We ask that you ensure that the SPR is not abused for political purposes in this election year, as it was in 2022". According to the US Energy Administration, the SPR currently holds 370.5 million barrels. When Biden took office in January 2021, it held 638 million.

(Bullish price factor) – Berkshire Hathaway boosts stake in Occidental Petroleum to nearly 29%. Those acquisitions gave Berkshire about 255.3 million Occidental common shares, a nearly 29% stake worth approximately $15.37 billion. The Houston, Texas-based company acquired Permian shale oil producer CrownRock in a $12 billion deal last year to boost its presence in the largest U.S. oilfield.

(Bullish price factor) – Denmark is considering ways to restrict the passage of Russia's "shadow" tanker fleets through its Baltic waters. Russia sends about a third of its seaborne oil exports, or 1.5% of global supply, through the Danish straits, which sit as a gateway to the Baltic Sea, so any attempt to halt supplies could send oil prices higher and hit the Kremlin's finances. Since Western nations imposed a price cap on Russia's oil in an attempt to curb vital funds for its war in Ukraine, Russia has relied on a fleet of often ageing tankers based and insured outside the West. Denmark has brought together a group of allied countries to evaluate measures that would target this fleet. "There is broad consensus that the shadow fleet is an international problem and that international solutions are required". "Countries involved in the talks included other Baltic Sea states and European Union members", the minister said. Denmark is concerned that old tankers transporting oil through its straits represent a potential danger to the environment.

(Bullish price factor) –Less bearish: Traders repurchased some of the petroleum they had sold the week before after OPEC+ stressed any future production increases would be contingent on market conditions. Portfolio investors repurchased in June some of the petroleum they had sold previously, after OPEC+ surprised investors by announcing plans to start increasing production from the start of October. Now, Saudi Arabia and its OPEC+ allies have stressed that "any future production increases would be contingent on market conditions". Hedge funds and other money managers purchased the equivalent of 80 million barrels in the six most important petroleum futures and options contracts. Purchases reversed about 40% of the 194 million barrels sold the week before.

(Bearish price factor) – UK output projection: Bloomberg reported the UK could be pumping almost 30% more oil and gas than currently projected by 2030 if about £20B of new investment can be secured. The UK could be pumping almost 30% more oil and gas than currently projected at the end of the decade if about £20 billion of new investment can be secured, according to an industry group. "Improved recovery rates and slower decline are both achievable but only if investment can be secured," said Offshore Energies UK. "Government decisions following next month's election offer the opportunity to focus on a homegrown energy transition which could secure the livelihoods of hundreds of thousands of highly skilled people."

(Bearish price factor) – Brazil is steadily restoring crude output after production plummeted from damaged rig gear, hindering OPEC+ plans. Brazil's rebound in oil production promises to complicate OPEC efforts to micromanage global supplies and prices. Daily crude output in the South American powerhouse kicked off the year at 3.73 million barrels, then plummeted nearly 25% as a flurry of offshore-platform repairs cratered crude output. Recovery from the worst of the outages is expected in the coming months. Already more than one-third of the deficit has been restored, with far-reaching implications for Latin America's largest economy and worldwide energy markets.

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. Te price of gold is also determined by other factors, such as the 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 (which involves the Fed putting a large amount of UST on the market), gold could continue to overperform the UST bond. **With a longer-term view**, once QT has ended, we no longer see the supply of UST as unlimited, but rather as quite limited. This should be positive for U.S. Treasuries in terms of reclaiming their role as a safe-haven asset, outperforming gold. Gold is expected to take a back seat and exhibit underperformance.

Negative drivers for gold

Gold in real terms: Given the global deflator (now at 1.24468), 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$1,867. In real terms gold continues to trade well above its 20-year average of US$1,269oz. For the gold price to stay near its historical average in real terms, the nominal price must remain near US$1,579.

Gold in terms of silver: The Gold/Silver ratio rose to 80.03, still above its 20-year average of 68.40x, 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$1,986oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 2.55x, above its 20-year average of 1.66x. 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 $1,528 per ounce.

Gold to oil ratio: This ratio is at 28.35x, still well above its 20-year average of 19.65x. 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$1,670 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 neutralised 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 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 is likely to once again exhibit its historical disadvantage and 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) A 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 rate hikes by monetary authorities seemed unthinkable two years ago, they are now a reality and positive rates are going to stick around for a while.

Risk #2. A stronger USD (HIGH RISK): The US current account (CA) 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, the 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 seen 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	23,87	4,77	32,6	-28,2	4,2	1,03
USD vs G10	25,06	3,15	36,3	-25,4	5,9	1,05
EM	1,19	-1,62	4,2	-0,8	2,1	-0,66
EUR	-1,13	-6,76	23,4	-8,6	8,3	-1,02
JPY	-13,61	-2,06	0,6	-15,0	-8,8	-1,11
GBP	3,49	3,41	5,6	-6,5	-0,6	1,29
CHF	-4,90	0,68	0,2	-6,4	-2,8	-1,14
BRL	-0,41	0,33	0,7	-0,8	-0,1	-0,69
MXN	1,60	-1,95	4,3	-0,5	1,9	-0,24
RUB	0,00	0,00	1,2	-0,3	0,3	0,00
AUD	-1,57	2,17	6,1	-7,0	-1,4	-0,06
CAD	-8,97	-2,31	6,1	-9,4	-0,6	-2,47

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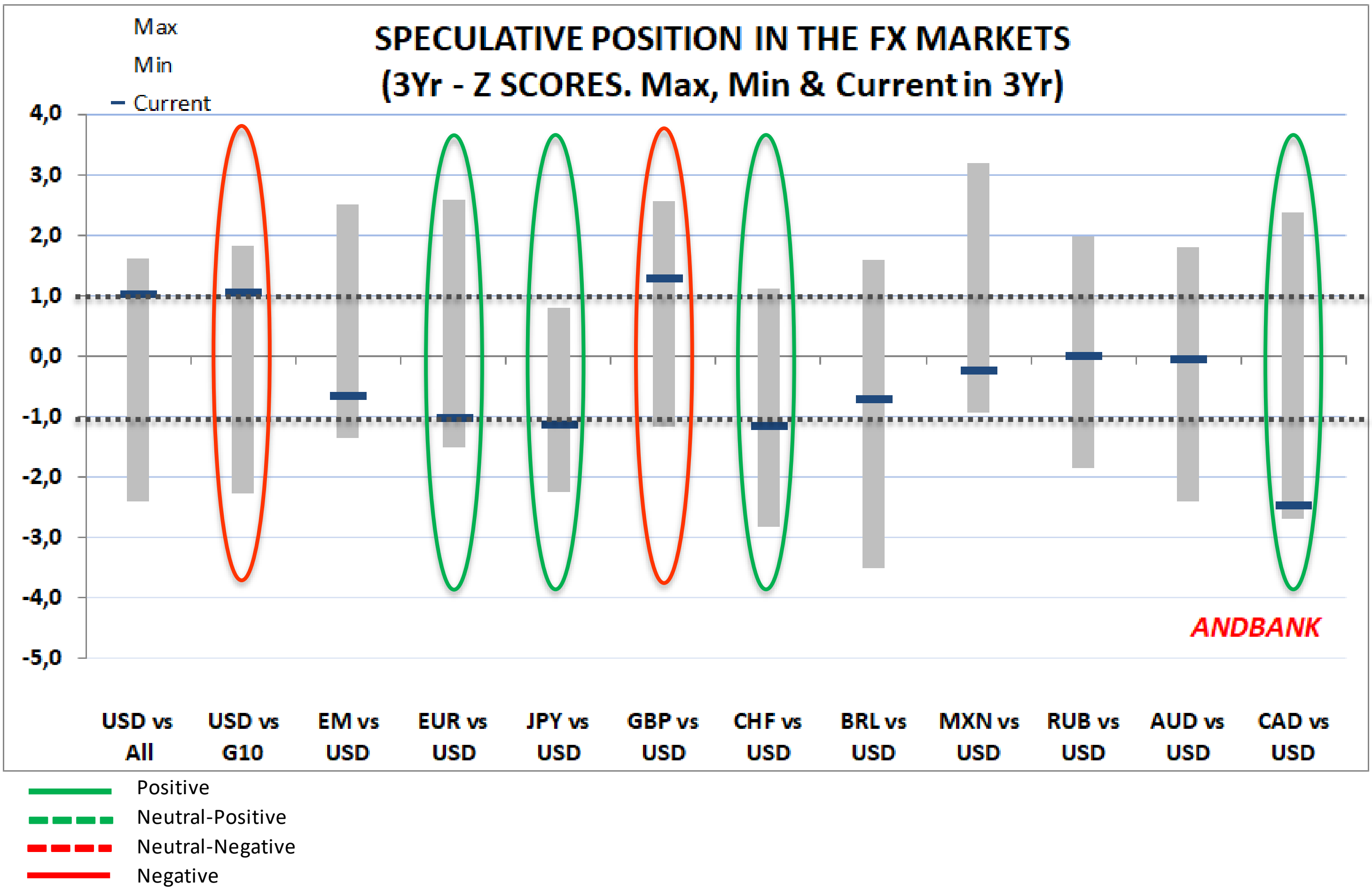

The currencies we technically favour are circled in green

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SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Equity	USA - S&P 500	4,6%	16,1%	5.537	5.487	-0,9%
	Europe - Stoxx Europe 600	0,6%	8,6%	520	515	-1,1%
	Euro Zone - Euro Stoxx	0,2%	8,6%	515	532	3,4%
	SPAIN - IBEX 35	-1,9%	9,6%	11.070	12.459	12,5%
	MEXICO - MXSE IPC	-1,6%	-8,2%	52.655	58.877	11,8%
	BRAZIL - BOVESPA	3,6%	-6,0%	126.164	135.000	7,0%
	JAPAN - NIKKEI 225	5,3%	22,3%	40.912	44.330	8,4%
	CHINA - SHANGHAI COMPOSITE	-4,6%	-0,8%	2.950	3.083	4,5%
	CHINA - SHENZEN COMPOSITE	-7,9%	-13,4%	1.591	1.725	8,5%
	INDIA - SENSEX	10,4%	10,1%	79.549	85.619	7,6%
	VIETNAM - VN Index	0,0%	13,6%	1.283	1.494	16,5%
	MSCI EM ASIA (in USD)	5,8%	11,9%	607	615	1,3%
Fixed Income Core countries	US Treasury 10 year Govie	0,2%	-1,9%	4,35	**4,50**	3,2%
	UK 10 year Gilt	0,4%	-3,3%	4,17	4,50	1,5%
	German 10 year BUND	0,1%	1,3%	2,56	**2,50**	3,0%
	Japanese 10 year Govie	-0,5%	-5,3%	1,09	1,25	-0,2%
Fixed Income Peripheral	Spain - 10yr Gov bond	-0,6%	-1,7%	3,38	3,50	2,4%
	Italy - 10yr Gov bond	-0,7%	-0,5%	3,98	4,10	3,1%
	Portugal - 10yr Gov bond	-0,2%	-2,1%	3,18	3,10	3,9%
	Ireland - 10yr Gov bond	0,1%	-3,5%	2,92	2,90	3,1%
	Greece - 10yr Gov bond	-0,8%	-3,6%	3,65	4,25	-1,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,3%	2,4%	55,84	75	3,7%
	Credit EUR HY-Itraxx Xover	0,3%	4,0%	301,05	450	2,2%
	Credit USD IG - CDX IG	0,5%	3,4%	50,54	75	5,3%
	Credit USD HY - CDX HY	0,7%	5,2%	336,22	450	5,5%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	4,1%	-4,6%	25,70	25,00	31,3%
	Russia - 10yr Gov bond (local)	-0,9%	-16,5%	15,11	25,00	-64,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	-1,2%	-1,8%	7,07	6,00	15,7%
	India - 10yr Gov bond (local)	0,8%	5,1%	6,99	6,25	12,9%
	Philippines - 10yr Gov bond (lo	1,8%	-0,9%	6,48	5,75	12,3%
	China - 10yr Gov bond (local)	0,8%	4,0%	2,23	1,75	6,1%
	Malaysia - 10yr Gov bond (loca	0,5%	0,8%	3,86	3,25	8,7%
	Thailand - 10yr Gov bond (loca	1,0%	1,2%	2,67	2,00	8,0%
	Singapore - 10yr Gov bond (loc	0,3%	-3,1%	3,24	3,40	1,9%
	Rep. Korea - 10yr G. bond (loc	1,9%	0,8%	3,18	3,50	0,6%
	Taiwan - 10yr Gov bond (local)	-1,3%	-4,0%	1,75	2,65	-5,5%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,9%	-3,8%	9,91	9,75	11,2%
	Mexico - 10yr Govie (USD)	0,3%	-1,6%	6,09	6,25	4,8%
	Brazil - 10yr Govie (Loc)	-2,3%	-10,6%	12,23	11,50	18,0%
	Brazil - 10yr Govie (USD)	-1,0%	-2,9%	6,63	7,00	3,7%
Commodities	Oil (WTI)	15,1%	17,7%	83,9	85,00	1,3%
	GOLD	3,2%	16,6%	2.365,0	2.300	-2,7%
Fx	EURUSD (price of 1 EUR)	-0,6%	-2,0%	1,08	1,05	-2,9%
	GBPUSD (price of 1 GBP)	0,0%	0,2%	1,28	1,29	1,0%
	EURGBP (price of 1 EUR)	-0,6%	-2,2%	0,85	0,81	-3,9%
	USDCHF (price of 1 USD)	1,2%	7,0%	0,90	0,87	-3,3%
	EURCHF (price of 1 EUR)	0,5%	4,8%	0,97	0,91	-6,1%
	USDJPY (price of 1 USD)	4,1%	14,3%	161,25	140,00	-13,2%
	EURJPY (price of 1 EUR)	3,5%	12,0%	174,34	147,00	-15,7%
	USDMXN (price of 1 USD)	1,3%	6,6%	18,08	18,50	2,3%
	EURMXN (price of 1 EUR)	0,7%	4,6%	19,55	19,43	-0,6%
	USDBRL (price of 1 USD)	3,8%	13,1%	5,49	5,25	-4,3%
	EURBRL (price of 1 EUR)	3,2%	10,8%	5,93	5,51	-7,1%
	USDARS (price of 1 USD)	1,9%	13,0%	913,50	1.000	9,5%
	USDINR (price of 1 USD)	-0,1%	0,3%	83,48	82	-1,4%
	CNY (price of 1 USD)	0,4%	2,4%	7,27	7,50	3,2%

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

UPWARD REVISION DOWNWARD REVISION

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