GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

Andbank Monthly Corporate Review – June 2024

Corporate Review

June 2024

Are We on the Brink of the end of the Free Trade Era? Unforeseen Consequences Loom Large

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ANDBANK Private Bankers

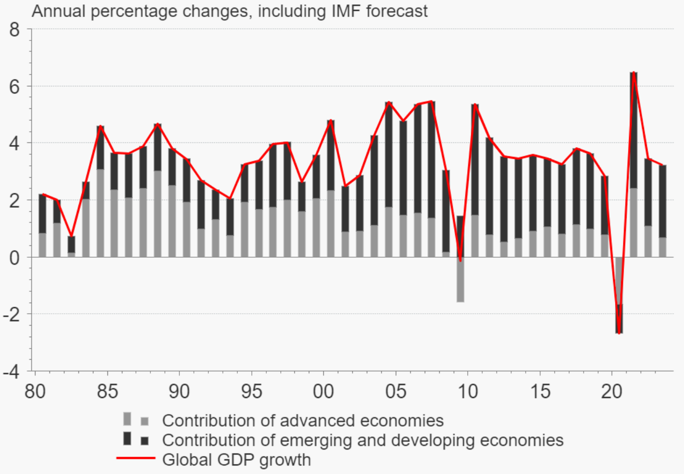
EXECUTIVE SUMMARY

CHARTS OF THE MONTH

Reshaping the world economy

Global GDP

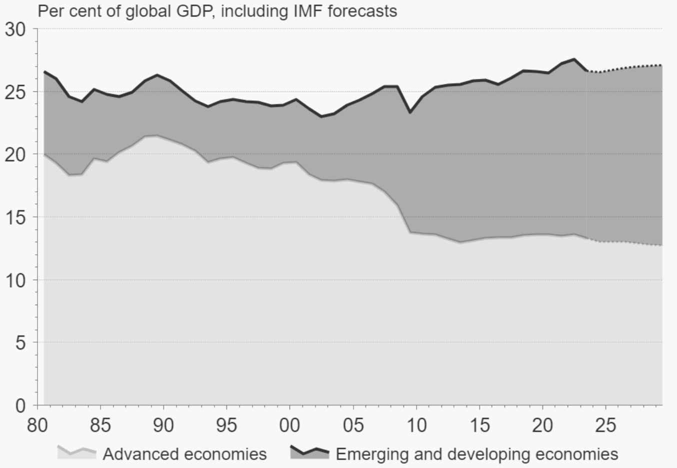
Annual percentage changes, including IMF forecast



Source: LSEG Datastream / ANDBANK

Global investment

Per cent of global GDP, including IMF forecasts



Source: LSEG Datastream / ANDBANK

EQUITIES

Index	INDEX CURRENT PRICE	Andbank's Target Price	Expected performance to target Price	Recommended Strategy
USA S&P 500	5.285	5.112	-3,3%	MW-UW
Europe - Stoxx Europe 600	520	514	-1,2%	OW
Spain IBEX 35	11.422	10.935	-4,3%	MW
Mexico IPC GRAL	53.761	58.323	8,5%	MW
Brazil BOVESPA	122.290	140.952	15,3%	MW-OW
Japan NIKKEI 225	38.923	42.180	8,4%	OW
China SSE Comp.	3.078	3.065	-0,4%	UW
China Shenzhen Comp	1.719	1.718	-0,1%	UW
India SENSEX	76.469	84.257	10,2%	OW
Vietnam VN Index	1.280	1.471	14,9%	OW
MSCI EM ASIA	571	610	6,9%	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	1,0%	-2,7%	4,41	**4,50**	3,7%
UK 10 year Gilt	0,3%	-4,1%	4,23	4,50	2,1%
German 10 year BUND	-0,4%	0,9%	2,58	**2,50**	3,2%
Japanese 10 year Govie	-1,2%	-5,0%	1,06	1,25	-0,5%
Spain - 10yr Gov bond	0,0%	-1,3%	3,30	3,50	1,7%
Italy - 10yr Gov bond	-0,2%	0,0%	3,88	4,10	2,1%
Portugal - 10yr Gov bond	0,1%	-2,1%	3,15	3,10	3,5%
Ireland - 10yr Gov bond	-23,5%	-23,5%	2,94	2,90	3,3%
Greece - 10yr Gov bond	-0,3%	-3,2%	3,58	4,25	-1,8%
Credit EUR IG-Itraxx Europe	0,4%	2,1%	52,06	75	3,6%
Credit EUR HY-Itraxx Xover	1,1%	3,5%	295,33	450	2,1%
Credit USD IG - CDX IG	0,5%	2,8%	50,42	75	5,4%
Credit USD HY - CDX HY	1,0%	4,5%	333,92	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)	12,6%	-7,3%	25,78	25,00	32,0%
Russia - 10yr Gov bond (local)	-1,6%	-16,1%	14,93	25,00	-65,6%
Indonesia - 10yr Gov bond (loc	1,2%	-0,8%	6,89	6,00	14,0%
India - 10yr Gov bond (local)	2,2%	4,9%	6,94	6,25	12,5%
Philippines - 10yr Gov bond (lo	2,5%	-2,7%	6,64	5,75	13,7%
China - 10yr Gov bond (local)	0,0%	3,2%	2,31	1,75	6,7%
Malaysia - 10yr Gov bond (loca	0,7%	0,3%	3,89	3,25	9,0%
Thailand - 10yr Gov bond (loca	-0,2%	0,2%	2,77	2,00	8,9%
Singapore - 10yr Gov bond (loc	0,6%	-3,8%	3,31	3,40	2,6%
Rep. Korea - 10yr G. bond (loc	0,9%	-1,6%	3,45	3,50	3,0%
Taiwan - 10yr Gov bond (local)	0,8%	-2,8%	1,59	2,65	-6,9%
Mexico - 10yr Govie (Loc)	-0,6%	-3,1%	9,73	9,75	9,6%
Mexico - 10yr Govie (USD)	1,1%	-1,7%	6,05	6,25	4,5%
Brazil - 10yr Govie (Loc)	-2,1%	-8,2%	11,82	11,50	14,4%
Brazil - 10yr Govie (USD)	0,4%	-2,3%	6,49	7,00	2,4%

COMMODITIES & FX

Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Oil (WTI)	-4,6%	4,0%	74,5	80,00	7,3%
GOLD	1,8%	13,6%	2.343,0	2.100	-10,4%
EURUSD (price of 1 EUR)	1,1%	-1,5%	1,087	1,05	-3,4%
GBPUSD (price of 1 GBP)	1,8%	0,3%	1,28	1,29	0,9%
EURGBP (price of 1 EUR)	-0,7%	-1,8%	0,85	0,81	-4,3%
USDCHF (price of 1 USD)	-1,0%	6,6%	0,90	0,87	-3,0%
EURCHF (price of 1 EUR)	0,1%	5,0%	0,98	0,91	-6,3%
USDJPY (price of 1 USD)	2,1%	10,7%	156,21	140,00	-10,4%
EURJPY (price of 1 EUR)	3,2%	9,1%	169,84	147,00	-13,4%
USDMXN (price of 1 USD)	3,1%	3,1%	17,48	18,50	5,8%
EURMXN (price of 1 EUR)	4,2%	1,7%	19,00	19,43	2,3%
USDBRL (price of 1 USD)	3,0%	7,7%	5,22	5,00	-4,3%
EURBRL (price of 1 EUR)	4,1%	6,1%	5,68	5,25	-7,6%
USDARS (price of 1 USD)	2,0%	10,9%	896,50	1.000	11,5%
USDINR (price of 1 USD)	-0,3%	-0,1%	83,10	82	-1,0%
CNY (price of 1 USD)	0,0%	2,0%	7,24	7,50	3,6%

USA

Price and labour market data gave the Fed a breather, but commodities may complicate the situation

Federal Reserve: We project between 50-75 cuts in Fed Fund rates in 2024.

The Federal Reserve decided to maintain its reference rate range between 5.25%-5.50%, where it has been since July 2023. The Federal Open Market Committee's statement after the meeting continues indicating that it does not expect that interest rate cuts will be in order until there is greater confidence that inflation is moving sustainably toward the two percent target. In addition, changes were announced regarding the Quantitative Tightening (QT) implemented in June 2022. Since then, up to USD 60 billion in Treasuries and USD 35 billion in Mortgage-Backed Securities (MBS) were left to mature monthly without reinvesting the proceeds. The process has resulted in the central bank's balance sheet shrinking to around USD 7.4 trillion, or USD 1.5 trillion less than its peak in mid-2022. As of June 1st, the Fed will curtail the QT by reducing the monthly cap for Treasuries to USD 25 billion. It will continue to allow USD 35 billion in MBS to mature monthly but will reinvest principal payments above that level in Treasuries instead of MBS. Federal Reserve chairman Jerome Powell sought to reduce uncertainty about the monetary policy path and said that the Fed's next move was "unlikely" to be a rate hike.

Minutes from the May policy meeting of the FOMC show that officials have grown more concerned that in recent months there has been a lack of further progress toward the Fed target. This is reflected in the statements of Fed Governor Waller, who in a hawkish tone said that, while he does not expect the FOMC will have to raise rates, he warned that he will need to see "several months" of good data before voting to cut. The market is now pricing in between one and two rate cuts this year. At the next Fed meeting (June 11-12) the focus will be not so much on the decision about the reference rate — no movement is expected. Instead, the market will be paying attention to the publication of the Fed's quarterly economic projections. The Fed will likely adjust its rate projection for the end of this year, going from the forecast of three cuts that we had in the March dot plot to two cuts in these new projections. Our view continues to be that the Fed will cut rates this year with a reduction in the reference rate of between 50 bps and 75 bps.

Inflation and economic activity

The CPI increased +0.3% m/m (+0.4% m/m in March) and on an annual basis increased +3.4% y/y, in line with expectations and below the previous month's print of +3.4% m/m. Core inflation readings came in at +0.3% m/m and +3.6% y/y, both in line with market expectations, decelerating from +3.8% y/y in March. Shelter costs increased +0.4% m/m and +5.5% y/y, uncomfortably high for the Fed. Energy rose +2.6% on an annual basis (+1.1% m/m), while Food was up +2.2% y/y. We are closely following the recent rally in commodities and its possible effect on U.S. consumer prices and hence on monetary policy.

We have seen some cooling in the labour market but it is still showing a healthy dynamic. In April 175k new jobs were created, below the 315k March print and also below the market consensus (233k), while the unemployment rate ticked up from 3.8% to 3.9%. Wage growth cooled further during April, increasing +0.2% m/m and +3.9% y/y, coming down from +3.9% y/y in the previous month.

Financial markets

Rates & Credit: The rate of the 10-year North American Treasury bond hit an annual high at the end of April, going from 3.9% at the beginning of the year to 4.7% and declining to 4.5% during the month of May. On the other hand, the interest curve has steepened during the last month, with the spread of the rate between 2 and 10 years going from -33 bps to -48 bps. In recent months we have taken advantage of the rise in treasury bond rates, moving from being underweight in duration to a neutral positioning. Credit spreads continued to compress in both IG and HY and are currently close to historical minimums. We continue to favour IG bonds over HY.

Equity: With 96% of companies reporting results, the blended EPS, according to Factset, has increased +6.0% y/y, well above the +3.4% y/y expected at the time the earning reports began. NVIDIA is the largest contributor to earnings growth for the entire S&P 500 and, if we exclude it the EPS growth rate for the index would fall to +3.3% y/y. 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-UNDERWEIGHT

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

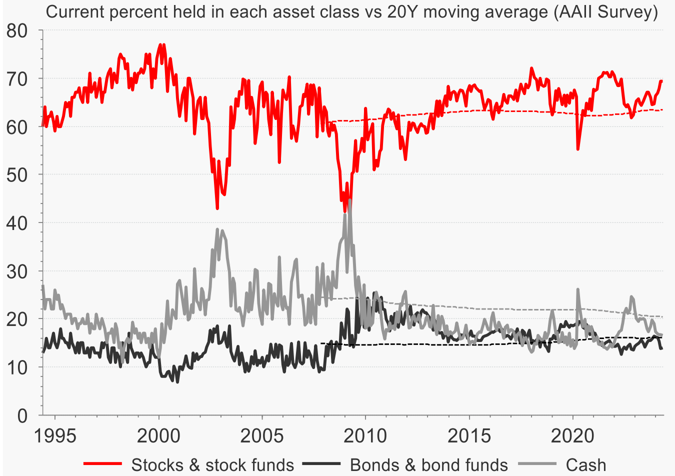
US price-to-earning ratio

S&P 500

Source: LSEG Datastream / ANDBANK

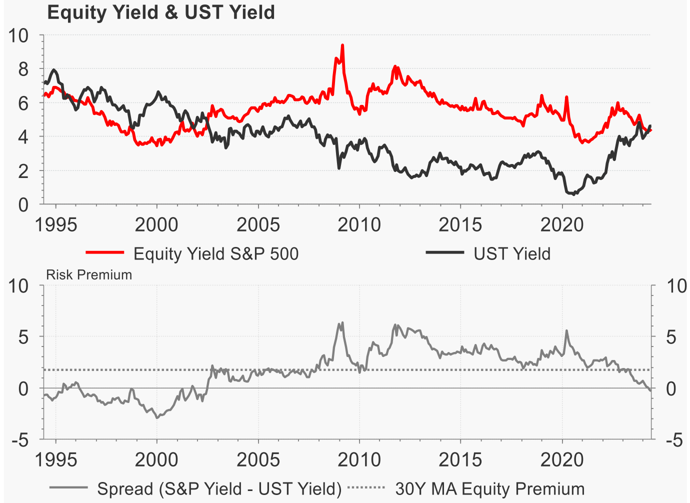
US asset allocation: Equity, Bonds & Cash

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

Better economic outlook ahead of Parliamentary elections

Improving growth prospects

Activity is showing signs of improvement, in both hard and soft data. Higher PMIs are paving the way for higher GDP numbers ahead, as reflected in the recent EC projections: 0.8% y/y for 2024 vs. 0.5% previously. Real data are also supportive, with retail sales on the rise and 1Q GDP delivering positive surprises (0.3% q/q vs. 0.1% est.). The industrial figures are lagging, with factory orders and industrial production still low, though surveys (IFO, PMIs) do all point to an improving trajectory. Exports are also likely to pick up with trade partners like the US and China showing strength. Disinflation remains on track, with CPI numbers on the downside, both in terms of headline and core data (2.4% y/y and 2.7% y/y as of April) and with the important service component slightly decelerating (4% y/y to 3.7% y/y). Negotiated wages will be published shortly, with the Indeed survey pointing to moderating growth at 3.3% y/y in March vs. 3.7% y/y on average in 1Q24. Inflation expectations have recently moved upwards but remain anchored (<2.5% y/y). Over the coming months, inflation could prove bumpy due to the more volatile energy and food components. In the mid-term, meanwhile, potential inflationary pressures coming from decarbonisation, deglobalisation, and demographics (3Ds) are worth watching closely.

ECB: first rate cut in sight, and beyond June?

The ECB has verbally committed to June as the starting point for cutting rates, and so cuts should be expected barring extraordinary events. The “conversation” will then move to the path of rate cuts. In this sense, we do not expect the ECB to pre-commit to further rate cuts or front-load on easing. A common ground has been flagged out along the members 'speeches: July seems early for a second move, another rate cut in 2024 should be taken for granted, while further cuts will be more gradual depending on the macro scenario. We stick to our two rate cut estimates for 2H24 (depo levels at 3.5% by year-end), with the first one by June, and the second one in September/December (projection meetings). A third rate cut is not out of the cards but would hinge on the Fed’s intentions, with the potential for monetary divergence probably limited due to the FX channel.

Politics

European Parliamentary elections (6th-9th of June) will lead to a new European Commission to be appointed in the autumn. Defence, security and trade policies will be key issues. Polls point to a shift towards the right, with centrist groups maintaining the majority by a narrow margin. Less emphasis on the energy transition along with a push for stronger industrial defence production is expected.

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).

Corporate Credit: Credit spreads continue to tighten in all sectors and a wide range of ratings (EUR IG’s are quoting with a 52 bps spread and HY at 298 bps). The supplyside uptick seen in the HY seems not to be enough to offset the spike in demand, causing the new HY issues to be highly oversubscribed. We are positioning on average durations of 3 to 4 years in defensive and anti-cyclical players to avoid any potential spread widening. We maintain spread target levels for both IG (75 bps) and HY (450 bps), with a recommendation of Neutral/OW for investment grade and UW/Neutral for high yield for both.

Equity: Valuations continue to be near their long-term average, at a moment when overall corporate profitability is healthy and growth is weak. First quarter earnings for the Stoxx 600 are expected to decrease -5.4% y/y (ex Energy -1.5% y/y). Should monetary conditions ease, small caps (which are more cyclical, with strong exposure to industrials, financials, materials, and discretionary sectors) should benefit as their refinancing challenge would somewhat abate. In addition, small caps are trading at cheaper levels than the entire 2013-2019 period. In addition, strong demand from the US appears to be stimulating Eurozone exports. This could continue if a Trump victory in the US elections results in trade policy shifts that further favour European over Chinese products, or if an early cut by the ECB (vs the Fed) results in a weaker Euro. Under this scenario, our tactical recommendation would be to focus on industrial exporters.

We remain more positive on Europe: macro data is improving in many countries and we believe profit revisions will be high, central banks in Europe are expected to cut rates soon (ECB and BoE), valuation ratios are attractive and global investors have a very low positioning in Europe.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: OVERWEIGHT

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

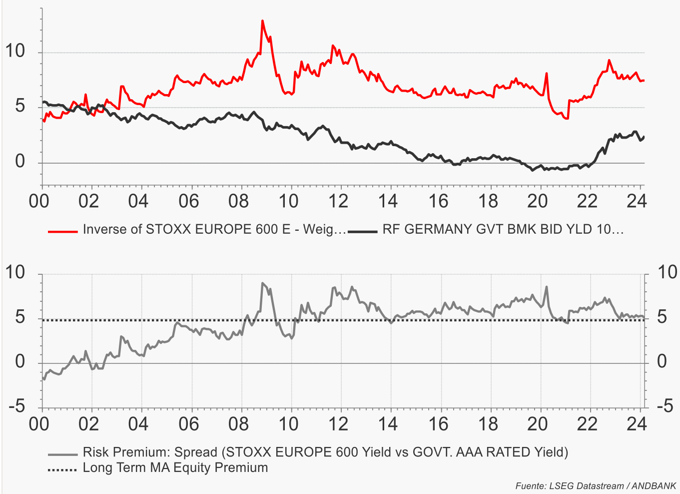
Peripheral – UW: IT (4.10%), SP (3.50%), GR (3.70%). MW: PT (3.10%), IE (2.90%).,

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



Euro area price-to-earnings

Europe Stoxx 600

Euro area benchmark yield curve slope

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

SPAIN

Economic spring in Spain, based on tourism and services. Not on industrial activity

Macroeconomic policies

Regarding economic activity, preliminary data presented for 1Q24 for GDP growth show the Spanish economy expanded +0.7%, speeding up its growth compared with previous quarters. The year-on-year variation was +2.4% y/y (vs +2.1% y/y in the previous quarter). Domestic demand contributed 2.2 points to year-on-year GDP growth, while external demand contributed only 0.2 points. In terms of aggregates, final consumption expenditure slowed from +2.8% y/y to +2.6% y/y, while household expenditure increased at the same rate as in the previous quarter (+2.3% y/y). This quarter showed more balanced growth with public sector expenditure increasing by +3.0% y/y, which is 1.1% less than in the previous quarter. On the other hand, gross fixed capital formation recorded a variation of 1.1%, which is +1.1% higher than in the previous quarter. If we look at supply, we also see growth in its components similar to the average. The gross value added by the industrial sector increased by +2.3% y/y, and within this sector, the manufacturing industry rose +3.3% y/y. Exports of goods and services decreased -1.1% y/y (+1.1% y/y in the previous quarter), while imports showed a variation of -1.7% y/y (+1.6% y/y in the previous quarter). Looking at the soft data, going forward we see no signs of a slowdown in growth. Manufacturing PMI rose to 52.2 in April 2024, up from 51.4 in the prior month, surpassing the market forecasts of 50.8. Services PMI stood at 56.2 in April, above the 56.1 print in March, signalling the best growth outlook since May 2023.

The tourism sector has shone again in this last quarter. The number of foreign visitors, which in the first three months of 2024 increased by +17.7% y/y and exceeded 16.1 million, is about to set a new record. Tourist spending is also increasing, growing +27% y/y in the first quarter. This acceleration of growth, better external sector performance and a positive contribution from the investment side have led the European Commission, in their Spring 24 Economic Forecast to raise its estimates of GDP growth for 2024 and 2025. According to this report, economic activity is expected to grow at +2.1% y/y in 2024 and +1.9% y/y in 2025, driven by domestic demand, which will be sustained by continued labour market resilience. The implementation of the Recovery and Resilience Plan (RRP) is set to underpin investment growth over the forecast horizon. Also, the International Monetary Fund (IMF) raised its forecast for Spain's economic growth this year to +1.9% y/y from +1.5% y/y, while maintaining its projection of +2.1% y/y growth of GDP in 2025. The better economic prospects of Spain's neighbouring' countries, who are the main clients for its exports and where most foreign visitors come from, the growth in investment and low unemployment rates supporting consumption, lead us to predict that we may see a few more quarters of expansion in economic activity

On the price side, the CPI in April (+3.3% y/y) was slightly higher than in the previous month (+3.2% y/y), explained in part by the withdrawal of part of the support measures established in previous years to combat the impact of inflation on households and business. The annual variation rate of core inflation decreased from +3.3% y/y to +2.9% y/y, the lowest since January 2022, after it peaked at +7.6% y/y in February 2023.

Stock Market

The Ibex 35, Spain´s main stock index, accumulates a return of +12,5% in 2024, one of the best year-to-date performers among its peers. The low valuation ratios of Spanish companies are generating more deals in the corporate arena. We have seen several transactions so far this year, some of which have already been closed, while others were announced but have not yet been completed. The most notable one, not only at the local level but also at the European level, was the IPO of the beauty group *Puig*, which raised €2.6bn in fresh capital, was significantly oversubscribed and valued *Puig* at €13.9bn. Below is a list of other deals: i) A group formed by *I Squared Advisor* and *TDR Capital* is near to completing the acquisition of the industrial testing company *Applus* (€1.65bn valuation), after entering a bidding war with *Apollo Global*; ii) Renewable energy company *Opdenergy* has been acquired by the infrastructure private Equity firm *Antin*; iii) In the security company *Prosegur*, its main shareholder, Helena Revoredo, has increased its ownership from 59.79% to 73.13% of the company; iv) *TAQA*, the Abu Dhabi National Energy Company, has confirmed that it is negotiating to buy a 40% stake in *Naturgy* (gas and energy company) held by the *CVC* and *GIP* funds, which would require the launch of a takeover bid for the remaining 60%; v) The Hungarian company *Ganz-Mavag*, is preparing to present a takeover bid for 100% of the shares of the high-speed train manufacturer *Talgo*, and *Bondalti*, a leading Portuguese chemical company, the same for *Ercros*.

Last but not least, we have BBVA trying to buy Banco Sabadell through a hostile bid. If the purchase goes through, it would make BBVA the third largest bank in the Eurozone by market cap, only behind BNP Paribas and Banco Santander.

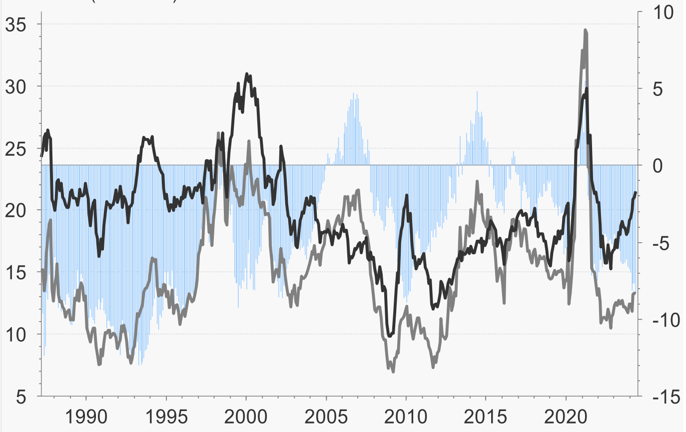
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: MARKETWEIGHT

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

Spain price-to-earnings ratio

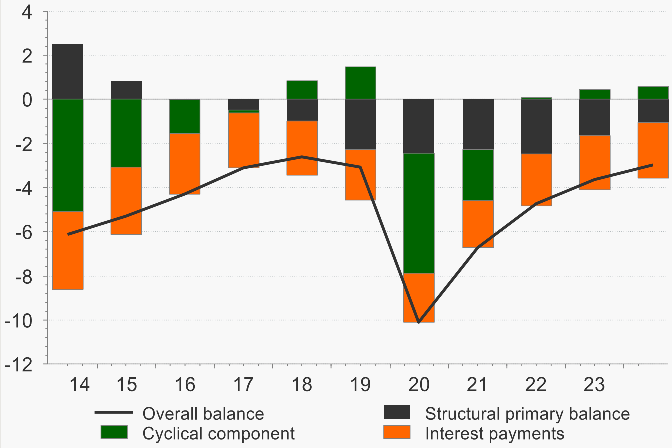
Ratio (both axes)



Source: LSEG Datastream / ANDBANK

Spain government budget balance breakdown

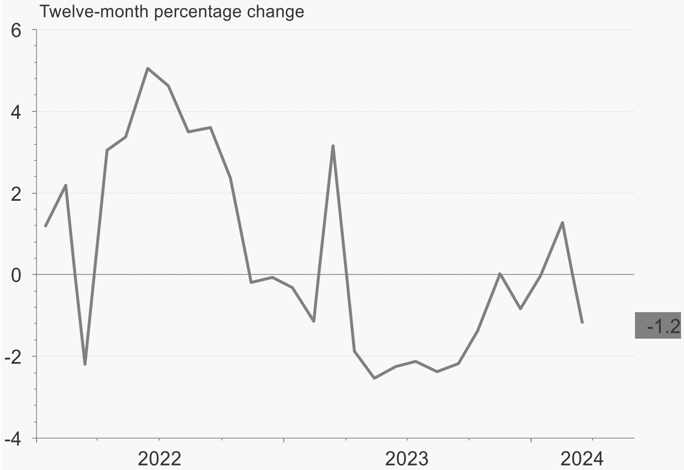
Total Government. Per cent of GDP



Source: LSEG DatastreamThomson Reuters Datastream / ANDBANK

Spain industrial production

Twelve-month percentage change



Source: LSEG Datastream / ANDBANK

CHINA

The End of the Free Trade Era: Farewell to the Great Global Deflationary Factor

Geopolitics/Trade: Biden sharply hikes US tariffs on billions in Chinese chips, cars

U.S. President Joe Biden today unveiled a bundle of steep tariff increases on an array of Chinese imports. The new measures affect $18 billion in Chinese imported goods including electric vehicles, computer chips, steel and aluminium, batteries, critical minerals, solar cells, medical products and cranes. The United States imported $427 billion in goods from China in 2023 and exported $148 billion to the world's No. 2 economy. The U.S. Trade Representatives agree that prior "Section 301" tariffs had minimal impact on U.S. economy-wide prices, and had been effective in reducing U.S. imports of Chinese goods, while increasing imports from other countries. They also believe that the new tariffs are justified because China continued stealing U.S. intellectual property and in some cases had become "more aggressive" in cyber intrusions targeting American technology. As part of the long-awaited tariff revision, Biden increased the following tariffs this year under Section 301 of the Trade Act of 1974: EV from 25% to 100% (bringing total duties to 102.5%). Lithium-ion EV batteries and other battery parts from 7.5% to 25%. Photovoltaic cells used to make solar panels from 25% to 50%. Tariffs on ship-to-shore cranes will rise from 0% to 25%. Tariffs on syringes and needles will rise from 0% to 50%. Duties on personal protective equipment (PPE) used in medical facilities will rise from 0% to 25%. Previously announced increases in tariffs on some steel and aluminium products will take effect this year, rising from 7.5% to 25%. More tariffs will follow in 2025 and 2026 on semiconductors, the rate on which will double to 50%.

China immediately vowed retaliation. Its Trade Ministry said Beijing was opposed to the U.S. tariff hikes and would take measures to defend its interests, urging the United States to cancel the measures. Meanwhile, Trump said he would put a 200% tax on vehicles made by Chinese carmakers in Mexico, who seek to bypass tariffs via USMCA. He also pledged a 60% across-the-board tariff on all Chinese goods.

The US Treasury Secretary Janet Yellen, who warned China in April that its excess production of EVs and solar products was unacceptable, said that such concerns were widely shared by U.S. allies and the actions were "motivated not by an anti-China policy but by a desire to prevent damaging economic dislocation from unfair economic practices". She also said that "Washington cannot allow emerging sectors to be wiped out by Chinese competition", adding that she hopes Beijing won't mount significant retaliation against any steps the White House takes to protect some of its critical new industries.

MOF confirms sale of bonds to ensure Beijing hits its growth target

The Ministry of Finance on Monday 13th May confirmed plans to commence sales of CNY1T ($140.8B) in ultra-long special treasury bonds with the first tranche of CNY40B of 30Y bonds to be auctioned on Friday the 18th. Economists noted government spending on infrastructure, which the bonds could fund, will be crucial in ensuring Beijing hits its growth target of about 5%. Prominent analysts raised expectations for PBOC to lower RRR to free up liquidity and also saw a higher chance of a rate cut. Similarly, two Chinese state-owned "megabanks" will begin a combined CNY60B ($8.3B) debt sale amid a push by Beijing to build capital and support fresh investment in the wider economy. ICBC will issue CNY20B in four-year total loss-absorbing capacity (TLAC) bonds and CNY10B in six-year bonds. The Bank of China will issue CNY 30B also in two tranches.

The IMF sets an estimate of GDP growth with decreasing rates for China until 2026

In its latest World Economic Outlook, the IMF fixed its forecast for China's 2024 growth, expecting it to fall to 4.6%, with a further drop to 4.1% for 2025. Lagging domestic demand remains a challenge, as there are doubts that exports alone can offset weak demand at home. The IMF also warned that the lack of a comprehensive restructuring package for China's troubled property sector could prolong the downturn. The institution recommended that China accelerate the exit of non-viable developers.

Market developments: Mainland bourses switch off the live feed of northbound Stock Connect flows

The Shanghai and Shenzhen markets have ceased displaying real-time figures on local stock transactions (via the Stock Connect link with Hong Kong). This politically motivated measure aims to boost investor confidence by removing a data source that sometimes reveals negative information. Henceforth, the two main continental equity markets will provide details of daily (not intraday or real-time) flows. These markets will still be allowed to report the ten most traded stocks. Real-time data showed foreign capital outflows, which Beijing considered a primary cause of deteriorating investor confidence, particularly during intense sell-off sessions by foreign investors in 2023. By ending real-time transmission, Beijing prioritises the opinion of advisors who believe this will reduce market volatility, thereby benefiting long-term development. In our modest opinion, if Beijing intends to transform a naturally volatile market into a less volatile one, restricting information is not the correct approach. Investors base their decisions on rules, and these rules rely on data. They may not feel comfortable in markets where information is concealed. The argument that only irrelevant data is withheld does not hold. There is no such thing as irrelevant information in markets, especially regarding flows.

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

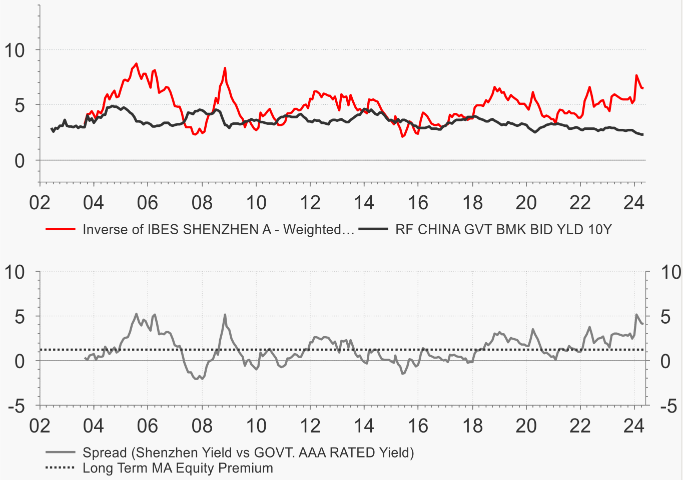
Source: LSEG Datastream / ANDBANK

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

MACRO ECONOMY

JAPAN

BOJ is sticking to the idea that deflation is the main problem. Yen weakness adding to cost pressures

Indicators suggest inflation is real. This could force the BOJ to review its stance

Yen depreciation is becoming a bigger driver of price hikes. According to Teikoku Databank analysis, Japan's leading 195 food makers raised prices on 417 items in May by an average of 31%, the highest since the survey began in 2022. A weak yen adds to higher materials costs and logistics expenses. Respondents cited yen weakness for price hikes on 28.9% of items so far this year, already well above the 11.4% logged in all of 2023. Similarly, the Kyodo analysis of Japan Golden Week activity found domestic tourism declined compared to last year amid rising prices, despite this year marking the first since pandemic restrictions were fully lifted. Consumers are being discouraged from travelling amid a surge in accommodation prices (in part driven by a resurgence in inbound tourism and weak yen). Members of the Council on Economic and Fiscal Policy (CEFP) urged the BOJ to be vigilant on the risk of sharp declines in the yen currency triggering "excessive" price rises that hurt private demand.

Those who support easy BOJ's monetary policy and low interest rates argue that growth is still under pressure, pointing to weak Q1 GDP data, which point to contraction, with Reuters consensus looking for a -0.4% q/q, following 0.1% growth in the previous quarter. Drags in GDP are expected to come from all pillars of private consumption and capex, but we are aware that the Q1 GDP contraction could have been influenced by the impacts of the Noto peninsula earthquake at the start of the year, as well as the Toyota-owned carmaker Daihatsu scandal that led to the closedown of all four of its plants and suspension of production and shipments for two months (until the end of January), after admitting it had falsified safety tests on 64 models for three decades (24 of the models were sold with Toyota branding). Daihatsu sells around 1.1 million cars per year, which make up around 10% of Toyota's 10 million vehicle sales.

JPY: Japanese companies decided to keep $68B of overseas profit abroad. Extended debate on FX impacts with hawkish tilt

Nikkei cited government data showing Japanese corporations reinvested 10.57 trillion yen ($67.8 billion) of overseas profits last fiscal year, more than triple the amount a decade earlier. The shift is seen ramping up medium to long-term downward pressure on the yen, which is trading at historic lows. In an attempt to reverse the trend, the Japanese government is weighing tax incentives to encourage the repatriation of offshore profits.

Macroeconomic conditions remain weak, salary revisions are poor and bankruptcies are on the rise. This gives BOJ reasons to keep its loose monetary policy of very low rates, which will continue to favour equity versus bonds. All said, manufacturers are logging record profits

March household spending -1.2% y/y vs consensus -2.4% y/y and -0.5% y/y in the prior month. This represents +1.2% m/m vs consensus -0.3% m/m and +1.4% m/m in the prior month. March average nominal wages +0.6% y/y vs +1.4% in the prior month. Real wages -2.5% y/y vs -1.8% y/y in the prior month. April bank lending +3.1% y/y vs +3.2% y/y in the prior month. April Economy Watchers Survey current conditions index fell to 47.4 vs 49.8 in the prior month. The Outlook index fell to 48.5 vs 51.2 in the prior month.

Corporate bankruptcies remain elevated. The Tokyo Shoko Research report showed corporate bankruptcies rose 28% y/y in April to 783 cases, marking the 25th straight increase and the highest YTD. The article cited ongoing solvency struggles since the pandemic, with repayment of government-back zero interest loans reaching a final peak in April.

Manufacturers have logged record profits according to a top story in Nikkei that highlighted TSE Prime manufacturing companies' net profits growing 23% in the year ended March to a record ¥14.8T ($95B). This includes 170 firms. Manufacturing EPS growth eclipsed nonmanufacturers for the first time since FY21. Nonmanufacturing company's earnings were up 7%. Price hikes (of goods) and a weak yen helped manufacturers record significant growth in sales volumes, allowing companies to weather China's economic slowdown.

Latest BOJ decisions indicate less interventionism, with fewer bond purchases, but far from a turn in policy and a possible rise in interest rates

BOJ announced a smaller JGB purchase operation in mid-May. It announced a scheduled JGB purchase operation targeting a 5y~10y zone of ¥425B ($2.7B) in size, down from ¥475B in the prior operation on 24-Apr, and marks the first downsize since MPC ended YCC in March. Benchmark 10y yield rose ~3 bp to 0.93% on announcement effects. This follows heightened attention on the monetary policy and especially signs of QT.

Market outlook – Recommendations & Targets from fundamental analysis

We do not observe a clear willingness from 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

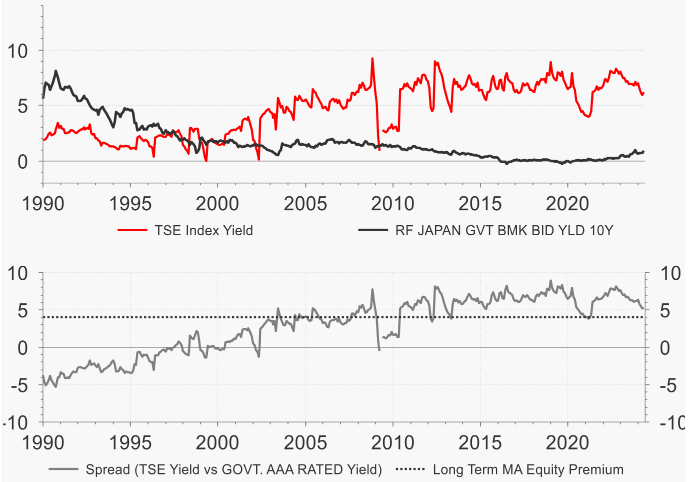
Bonds – Govies: UNDERWEIGHT (Target yield 1.25%)

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

Japan Nikkei 225 price / earnings
Ratio

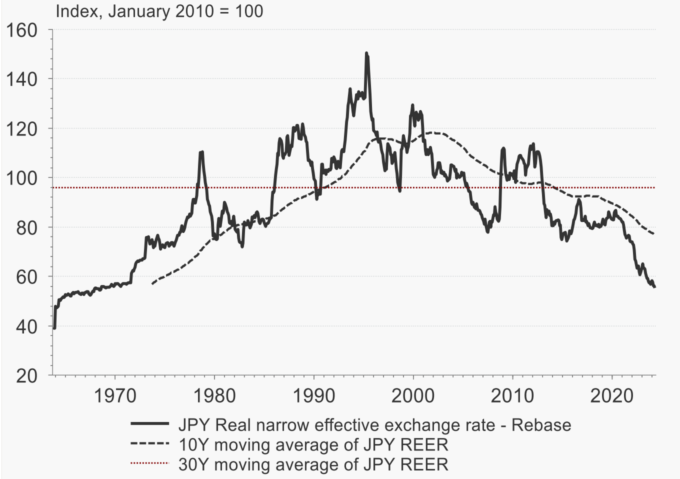
Source: LSEG Datastream / ANDBANK

Equity Yield (Japan) vs Risk Free Yield10Y



Source: LSEG Datastream / ANDBANK

Japan real narrow EER
Index, January 2010 = 100



Source: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

INDIA

Reform-oriented policies has laid the foundation for steady economic growth in the coming years

Macro data: Inflation appears to be under control. Reserves remain healthy. Credit expansion is gaining momentum, indicating that the economy continues gaining traction.

The Consumer Price Index (CPI) moderated to 4.9%, down from 5.1% in the previous month. Core inflation moderated to 3.3%. According to the latest data from the Reserve Bank of India (RBI), foreign exchange reserves stood at approximately USD 640.3 billion during the month. The INR remained stable during the month, closing at 83.5 Rs/USD compared to 83.40 Rs/USD in the previous month and 83.3 in December 2023. According to the RBI's monthly sectoral credit data, overall bank credit for March 2024 grew by 16.3%, compared to 15.4% in March 2023. Lending to agriculture and associated activities remained stable at 20.1% compared to the previous month. Credit growth to the industry was 8.5%, compared to 5.6% in the previous year. Credit to the services sector increased by 21.2%, compared to 20.7% the previous month. Growth in personal loans was 17.1%.

Flows & Sentiment

Domestic investors were net buyers of equities, valued at approximately USD 5.3 billion for the month of April. Foreign investors were net sellers of equities, valued at approximately USD 1.04 billion.

The central bank is carefully managing the reduction of stimuli. It maintains favourable monetary conditions and raises growth projections for this economy

The Monetary Policy Committee (MPC) kept the Repo rate unchanged at 6.50%. Consequently, the Standing Deposit Facility (SDF) remains at 6.25% and the Marginal Standing Facility at 6.75%. The MPC reiterated its commitment to "withdrawal of accommodation" to contain inflation within the RBI's medium-term target (4% with a +/-2% band) while supporting growth. The RBI projects inflation of 4.5% for fiscal 2025, with balanced risks.

Regarding growth, the RBI projected real GDP growth of 7.0% for 2024-25 and continued to express confidence in domestic growth based on strong investor demand, rising business and consumer optimism, healthy corporate balance sheets and robust public and private capital expenditure. However, it highlighted downside risks from global factors such as geopolitical tensions, geo-economic fragmentation or increasing disruptions in the Red Sea. Nevertheless, India has shown that it can weather the impact of geopolitical challenges on trade. India's overall exports during the last fiscal year, one fraught with geopolitical challenges, surpassed the previous year's record high by $280 million to reach $776.68 billion. New Delhi was able to limit the impact of the unfolding geopolitical tensions, which pushed shipping costs up for Indian exporters. Outbound shipments of electronic goods, where India has traditionally been weaker, grew 24 percent due to government initiatives such as the Production Linked Incentive (PLI) scheme and other "Make in India" efforts. Smartphone exports rose by ~30 percent to over $15 billion, and other goods exports, such as engineering, pharmaceuticals, iron ore, ceramics and handicrafts, also posted solid growth. The improvement in India's trade deficit in FY24 has largely been attributed to a reduction in net chemical & mineral imports and the country's purchase of cheaper oil from Russia. This all resulted in lower commodity prices, while domestic demand conditions held up. Globally, the World Trade Organization (WTO) acknowledged the resilience of global trade, despite the presence of several major economic shocks. By the end of 2023, merchandise trade volume was up 6.3 percent compared to 2019, and commercial services trade volume was up 21 percent between 2019 and 2023. The rosier predictions of WTO for FY25 global trade are attributed to expectations of gradual abatement of inflation in 2024 and 2025, allowing real incomes to grow again in advanced economies, and boosting consumption of manufactured goods.

Our outlook remains favourable for the Indian equity market

While the economy is expected to grow by 7% in the current fiscal year, the Government has established the groundwork for sustainable long-term growth through a concerted focus on public investment, digital infrastructure development, India's energy security and strengthening supply needs through domestic manufacturing. This is expected to complement India's long-term growth potential, based on the demographic dividend. The impact of the Production-Linked Incentive (PLI) scheme is being felt across various sectors, especially electronics. Simultaneously, logistics costs have shown a downward trend driven by the infrastructure push, contributing to increased manufacturing competitiveness. All these factors will enable India to remain among the fastest-growing major economies, with a solid macroeconomic position and stable political environment. The momentum of corporate earnings growth is expected to remain the key driver of the market in the medium and long term.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – SENSEX: OVERWEIGHT (New target Price 84,000!!)

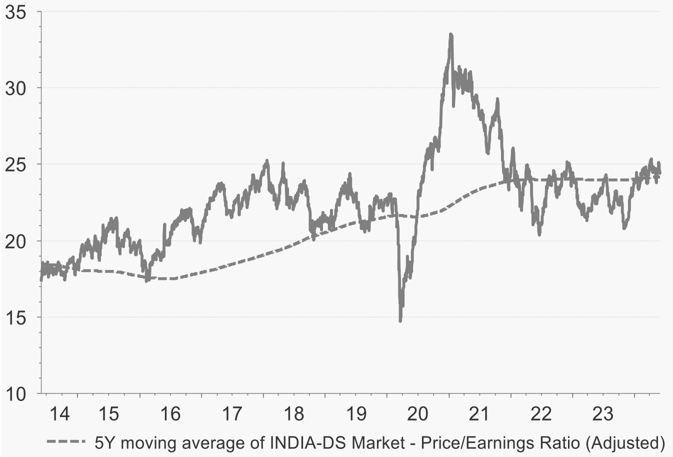
Bonds – Govies: OVERWEIGHT (Target yield 6.25%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 82)

India Datastream index Price Earnings Ratio

Ratio



Source: LSEG Datastream / ANDBANK

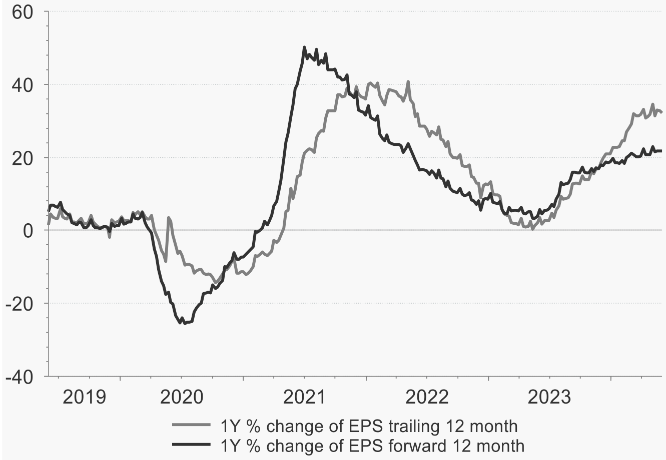
India NIFTY 50 realised volatility

One-year rolling standard deviation of daily returns

Source: LSEG Datastream / ANDBANK

EPS (Trailing & Forward)

MSCI India



Source: LSEG Datastream / ANDBANK

VIETNAM

Bamboo diplomacy, brought to excellence by Vietnam, turning the country into an economic hub

Vietnam Sticks to "Three Nos" Policy

Vietnam is holding fast to its "Three Nos" policy: no military alliances, no siding with one country against another and no foreign military bases. Despite all-too-frequent Chinese maritime incursions, Vietnam has played it cool in the South China Sea lately. While boosting maritime security ties with the US and its allies, Vietnam has been careful to reassure 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

The ongoing anti-corruption campaign has complicated the business environment, but is an essential step for long-term investor confidence

The Communist Party is in the hot seat as yet another high-ranking official, Vuong Dinh Hue, steps down amid a corruption probe. Hue was the National Assembly chairman and resigned over vague "violations" of party rules, joining a growing list of ousted officials, including two presidents in two years. Party leader Nguyen Phu Trong's sweeping anti-graft campaign, launched in 2016, has taken down thousands of government and business leaders. These departures are showing some deep cracks in Vietnam's ruling structures, with experts saying that Vietnam is in "uncharted" political waters, with the party's reputation and legitimacy taking a hit. Of course, the ongoing anti-corruption campaign has complicated the business environment, delayed legal approvals and shaken international investor confidence, but if the corruption cleanup in institutions and the government itself is successful, this will undoubtedly be positive in the long term for the country, its economy and the financial market.

E-Commerce Boom: Surging Sales, Taxation

The e-commerce sector is on fire, with sales projected to hit $3.33 billion in Q2 2024. As the digital economy explodes, Vietnam is getting creative with taxation, squeezing $575 million from foreign tech giants. The government is balancing the need for revenue with a wish to maintain the sector's growth.

Scrutiny on Debt Burdens

We have scrutinised Vietnam's growing debt burden closely in 2023. The country's debt profile seems sustainable and reliable to us. Not only because of the low level of debt (37% of GDP), but also because the average maturity on new issuance reached 12.6 years in 2023, extending the average remaining term on Vietnam's debt stock to over 9 years. The effective interest rate was a relatively modest 3.2% thanks to strong domestic investor demand. While public debt remains manageable (at around 37% of GDP), the widening fiscal deficit will require sustained fiscal discipline, especially if global growth remains sluggish and after Vietnam's public finances came under strain in 2023, mainly because of a slowing global economy. An update from the United Nations Conference on Trade and Development projected global merchandise trade volumes declined 5% year-on-year to $30.7 trillion, reflecting economic slowdowns in most major economies. The situation strained Vietnam's export-oriented manufacturing sector and crimped revenues from trade taxes. Domestically, businesses continued grappling with headwinds like rising borrowing costs, supply-chain disruptions and softening consumer demand. In parallel, the real estate market remained in the doldrums, and private investment lagged as firms hoarded cash. In response, the government enacted fiscal support measures like temporarily reducing value-added tax by 2 percentage points, lowering environmental taxes on gasoline and granting rent relief to businesses. Such policies lowered total revenue by around $2.9 billion, to reach $68.7 billion in 2023, which represents a decline of 4% from 2022 levels. On the expenditure side, total state budget outlays reached an estimated $67.9 billion in 2023, up 10.9% from 2022 levels. In our view, the external environment is unlikely to significantly improve in the coming year, so Vietnam will need to mind its finances carefully to ensure debt affordability.

Sustaining the Momentum of Vietnam's Rise. Nation Set for 6% Growth in 2024

Economic growth is expected to stay strong through 2024, with several organisations forecasting a GDP increase of around 6%. Public investment, strong foreign direct investment inflows and consistent domestic consumption are expected to drive that growth. Fiscal and monetary policies are expected to keep the economy on track, with the Asian Development Bank and the ASEAN+3 Macroeconomic Research Office all believing Vietnam will outperform regional averages. Vietnam's transformation from low-tech to high-value industries is turning heads, especially in furniture and electronics. The country has even surpassed China as the top furniture exporter to the U.S., thanks to industrial prowess and savvy trade tariff avoidance. Vietnam is gearing up for a fourth FDI boom, with money pouring into investments in high-tech and sustainable development sectors. FDI surged 32% in 2023 to US$36.6 billion (while global capital increased by only 3%). Technology, renewable energy, health and real estate are leading the charge. 50,000 foreign enterprises are currently operating in the country.

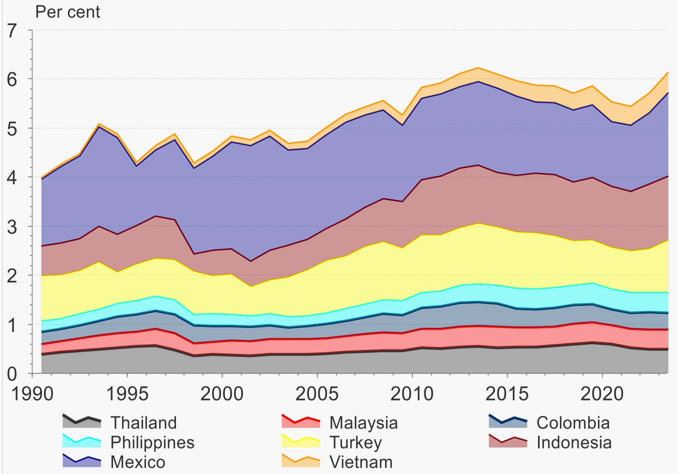
Market outlook – Recommendations & Targets from fundamental analysis

Equities – VNI Idx: OVERWEIGHT (New target Price at 1470!!)

VIETNAM - Datastream index Price Earnings Ratio

Source: LSEG Datastream / ANDBANK

Other EMs share of world GDP



Source: LSEG Datastream / ANDBANK

EARNING PER EMPLOYEE - Quarterly Total

Source: LSEG Datastream / ANDBANK

ISRAEL

The market is repricing fiscal and military risks

Macro, fiscal & monetary policy

This May the Israeli economy experienced several notable macroeconomic developments. GDP growth for 1Q24 was revised upwards, reflecting stronger-than-expected performance in the tech sector and robust consumer spending. The updated figures showed a 3.5% annualised growth rate, compared to the initial estimate of 2.8%. This positive revision was driven by increased exports, particularly in high-tech services, and a rebound in tourism.

The fiscal deficit continued to widen in April, reaching 7% of GDP over the past 12 months, breaching the target for the full year (6.6% GDP) in only four months. The Ministry of Finance accountant general Yali Rothenberg said that the growth trend in the deficit will continue in the coming months despite better-than-expected revenue numbers. He added that it is expected to reach a peak in 3Q24 and then converge toward the annual goal in the last quarter of the year. The Ministry of Finance's spending projections for next year also show that if taxes are not adjusted the fiscal outcome in 2025 may end up being similar to this year, further increasing the country's indebtedness, which may lead to further credit rating downgrades.

Inflation remains a critical issue, with the CPI rising in April by +2.8% y/y, significantly above market estimates (+2.5% y/y) and slightly higher than the previous month (+2.7% y/y), but still inside the central Bank of Israel Inflation target (1%-3%). The largest contributors were Transportation (+3.4% y/y) and Clothing (+2.3% y/y). Housing prices continued soaring, increasing +0.9% m/m, with the fourth consecutive month of increases. The unemployment rate declined to 4.1%, the lowest since the start of the pandemic, signalling a strong labour market recovery. This improvement was attributed to increased hiring in the service and tech industries, alongside government initiatives aimed at boosting employment.

Fixed income

The fixed-income market in Israel saw notable movements in May. Government bond yields rose, reflecting market expectations of tighter monetary policy in response to persistent inflation. The 10-year government bond yield climbed to 2.8%, up from 2.5% in April. Corporate bond spreads widened slightly as investors became more cautious about credit risk amid the uncertain inflationary environment. However, demand for high-quality corporate bonds remained strong, particularly in sectors like technology and healthcare, which showed resilience and growth potential. The issuance of new bonds remained robust, with several high-profile companies tapping into the market to finance expansion projects.

Given the view that inflationary pressures are not going to decrease in the near term, it seems that the reference rate will remain at its current level when a couple of months ago the market was expecting the rate would be cut twice by the end of the year. Our view is that the Bank of Israel sees the fight against inflation as the most important issue, even at the expense of a slowdown in the local economy. In addition, the Central Bank expressed its concern about the fiscal stance of the current administration. Because the budget deficit already exceeds the target, mainly due to the continuation of the war, the Central Bank will put monetary easing on hold and we expect that interest rates will remain unchanged at least until the end of the year and possibly even beyond that.

Stocks

The Israeli stock market posted a mixed performance in May. The benchmark TA-125 index saw a modest gain of 1.5% for the month, driven by strong earnings reports from major tech companies and positive sentiment around economic growth prospects. The tech-heavy TA-35 index outperformed, rising by 2.3%, as investors continued to favour technology stocks with strong growth potential. However, other sectors faced challenges. Real estate stocks underperformed due to concerns about rising interest rates and their impact on property valuations and financing costs. The financial sector also saw mixed results, with some banks reporting lower-than-expected earnings due to higher provisions for potential loan losses.

We still hold the opinion that even though the stock market is priced cheap on a relative basis, as long as security issues are not resolved, the market is highly unlikely to outperform foreign markets. At the moment international investors are showing little interest in local companies and the number of Israelis exploring opportunities abroad is increasing.

Market outlook – Recommendations & Targets from fundamental analysis

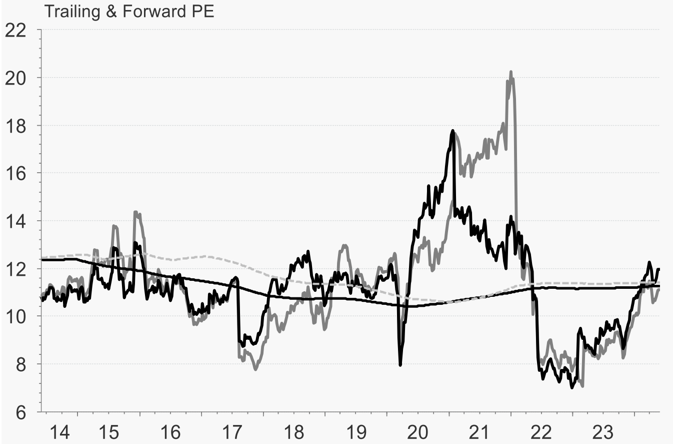
Equities – TLV35 Index: MARKETWEIGHT

Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

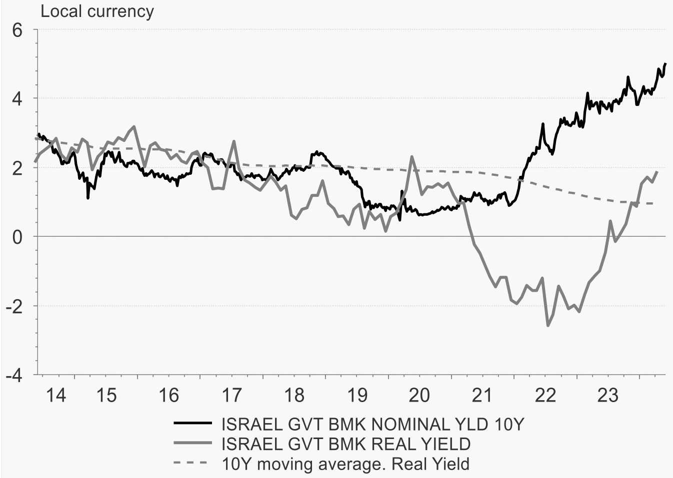
FX – ISL vs USD: Neutral in REER

Israel price-to-earning ratio
Trailing & Forward PE



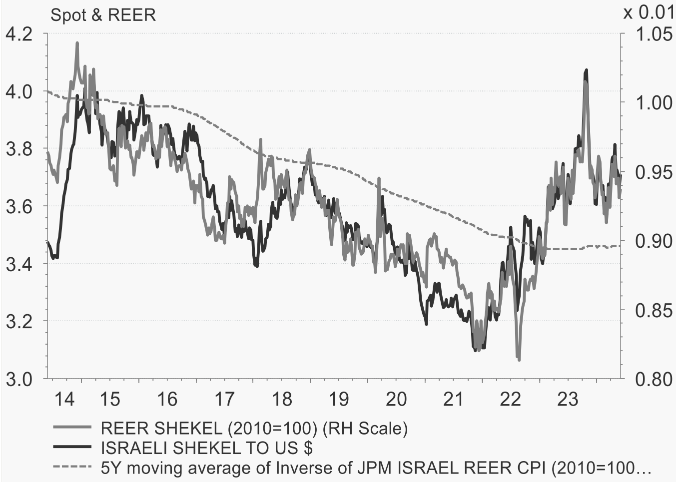
Source: LSEG Datastream / ANDBANK

ISRAEL GOVERNMENT BMK REAL & NOMINAL YIELD 10Y
Local currency



Source: LSEG Datastream / ANDBANK

Israel Shekel
Spot & REER



Source: LSEG Datastream / ANDBANK

BRAZIL

Rate cutting cycle on hold

A divided view…

The Central Bank's Committee on Monetary Policy (Copom) decided to slow down the pace of interest rate cuts, in a divided vote, decided by Roberto Campo's casting vote. The split between Copom members occurred during the May Monetary policy meeting, where a smaller-than-expected interest rate cut was decided, revealing differing views on monetary policy among the members. Those appointed by Bolsonaro favoured a more conservative 25 bps cut, while Lula's appointees supported a 50 bps reduction.

The publication of the meeting's minutes helped to calm market concerns, with Finance Minister Fernando Haddad commenting that the arguments from both sides were pertinent. Economists reject the notion of political interference in Copom, instead suggesting that the diversity of views reflects the directors' backgrounds, reflecting positively on the Central Bank's autonomy. The market, on the other hand, is now speculating on how the balance of power within Copom might shift in the future as new members are appointed during the current administration. For the next meeting, the market is divided between another 25 bps cut or no cut at all.

Tragedy strikes the south of Brazil

Rio Grande do Sul (RS), the southernmost state in the country, has recently been hit by severe flooding, with widespread devastation and hundreds of towns submerged under water. The disaster has resulted in a significant number of deaths, missing persons and many residents being displaced from their homes.

The extreme weather has been attributed to a rare combination of hotter-than-average temperatures, high humidity and strong winds. Climate experts have noted that these types of events have increased in step with climate change in recent decades. The magnitude of the devastation is being compared to Katrina given that (i) both events are associated with climate change and human activities that intensify climate extremes, (ii) failures in flood protection infrastructure, such as the breaching of holding dams, and (iii) delays in public response and evacuation, leading to debates over governmental responsibility given that hurricanes are surrounded by a lot more uncertainty when compared to the predictability of flooding in river-related disasters.

The floods will also have a major impact on the region's economy. *Rio Grande do Sul* accounts for 6.5% of Brazilian GDP and accounts for more than 12% of the country's agricultural GDP. Over 94% of all economic activity in *Rio Grande do Sul* has been affected by storms and floods. *Itaú* has published research estimating a 0.3% negative impact on GDP and an additional 0.4% possible impact on inflation, mainly from food-related products.

President Lula recently visited *Rio Grande do Sul* to assess the damage and announce federal aid. The government's plan includes purchasing new homes for displaced low-income families, using properties available for public auction and expanding the *Minha Casa, Minha Vida* housing programme. Additionally, around 200,000 families will receive a one-time aid payment of BRL 5,100, and workers from cities under a state of emergency can withdraw up to BRL 6,200 from their FGTS accounts (public retirement fund). Lula also announced the temporary inclusion of 21,000 new families in the *Bolsa Familia* program. To address the agricultural impact, Lula has authorised importing 100,000 tonnes of rice to palliate the significant crop losses, as *Rio Grande do Sul* is a major rice producer. The floods are expected to cause food inflation, with increased costs for cargo transportation and final products. Amidst the crisis, Lula's visit and the political implications of appointing his former press secretary as the emergency minister for reconstruction, have drawn criticism, with accusations he is politicising the tragedy.

Last, but not least, *Petrobras* is under new management

Jean Paul Prates has resigned as CEO of *Petrobras* amid a political dispute with government officials advocating for increased state control. *Petrobras* shares fell significantly following the announcement. Clarice Coppetti was named interim CEO, while Magda Chambriard is set to become the new CEO, marking the sixth leadership change in six years. Chambriard supports the view that the company should be an engine of job creation and industrial development. Her appointment is pending integrity and HR reviews and board approval, which do not require shareholder endorsement.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT-OVERWEIGHT

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

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

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

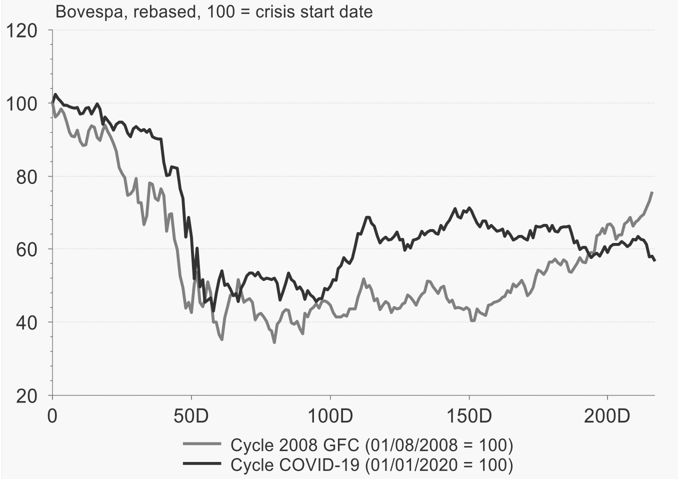
Brazil MSCI Index price-to-earning

Trailing & Forward PE

Source: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

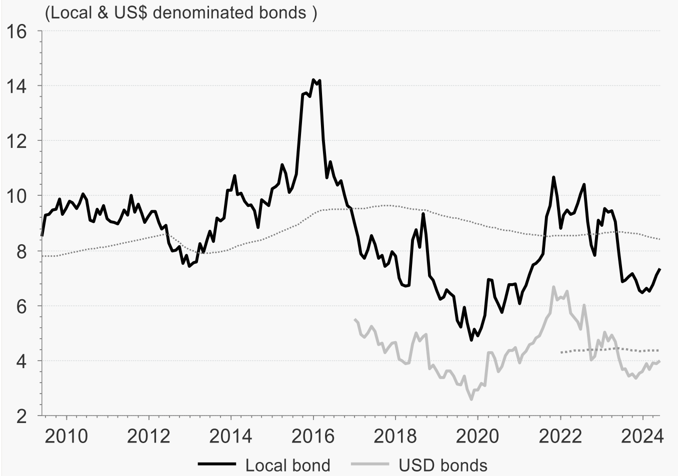
Bovespa, rebased, 100 = crisis start date



Source: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)



Source: LSEG Datastream / ANDBANK

MEXICO

Mexican Peso plummets sharply after the presidential election outcome

Politics

Claudia Sheinbaum won a landslide victory to become Mexico's first female president, inheriting the project of her mentor and outgoing leader Andres Manuel Lopez Obrador whose popularity among the poor helped drive her triumph. The ruling coalition was also on track for a possible two-thirds super majority in both houses of Congress, which would allow the coalition to pass constitutional reforms without opposition support. Sheinbaum has a complicated path ahead. She must balance promises to increase popular welfare policies while inheriting a hefty budget deficit and low economic growth. Among the new president's challenges will be tense negotiations with the United States over the huge flows of U.S.-bound migrants crossing Mexico and security cooperation over drug trafficking at a time when the U.S. fentanyl epidemic rages.Mexican officials expect these negotiations to be more difficult if the U.S. presidency is won by Donald Trump in November. Trump has vowed to impose 100% tariffs on Chinese cars made in Mexico and said he would mobilize special forces to fight the cartels.

Central Bank

After cutting its benchmark rate in March, Mexico's Central Bank, in a unanimous decision, kept it unchanged at its May meeting. Market expectations, as measured by forward rates (TIIE 28-day), now discount only 2 cuts of 25 bps each for the remainder of the year. It is not clear what is going to happen in the June meeting. On the one hand, we have a real ex-ante rate that is still at very restrictive levels, but on the other hand, in the minutes of the May meeting Monetary Policy Committee members expressed that sticky service inflation and a strong jobs market are reasons to exercise caution when deciding on further rate cuts.

Inflation and activity

As of the first quarter, economic indicators have shown a slowdown, particularly in terms of consumption and recently in the dynamics of remittance inflows. In 1Q24, GDP grew +1.9% y/y, below the preliminary reading (+2.0% y/y). Looking at the sectoral breakdown we see that tertiary activities (trade and services) grew +2.4% y/y, secondary activities +1.5% y/y and primary activities only +0.7% y/y. Compared to 4Q23, GDP increased 0.3%. This quarterly growth represents a rebound after the previous quarter. GDP showed no change.

The headline inflation rate rose in the first two weeks of May +4.78% y/y. The figure,, within market expectations, is higher than the +4.65% y/y for the whole of April and represents a sustained rise from February's +4.4% y/y. The core prices index increased +4.31% y/y, while non-core prices rose +6.27% y/y. Although April and May are months of low and even negative inflation due to subsidies on electricity tariffs, which are part of the non-core index, last month this effect was surpassed by a strong increase in agricultural product prices (+ 8.75% y/y).

Financial markets

Equity: Stocks continue to walk to our base scenario for the index (58,000-60,000), and we expect them to reach it during the remainder of the year. The index is trading at ~13x P/E Forward, 12.5x CAPE. Therefore, the expected return remains attractive from an absolute and relative standpoint.

Fixed Income & FX: After the upward movement of the peso curve between the end of March and April, so far in May we have observed a downward adjustment in peso rates. The spread between the 10-year peso and dollar debt today is close to our year-end target of 525 bps, after trading very close to 500 bps and now exceeding its average for the year. Although we do not expect an aggressive rate reduction from the Central Bank, the outlook for further rate cuts would allow us to build duration in portfolios at these levels. In dollars, the spread dropped to 150 bps after trading last month's near our 175 bps target.

The peso has remained volatile, given the adjustment in the outlook for the future monetary policy of the FED and Banxico, and once again appreciated strongly and returned to trading at between 16.50 and 16.65. We maintain our outlook for a level of 18.50 in 12 months due to the volatility that may be generated in the second half of the year, especially with the US elections.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: OVERWEIGHT

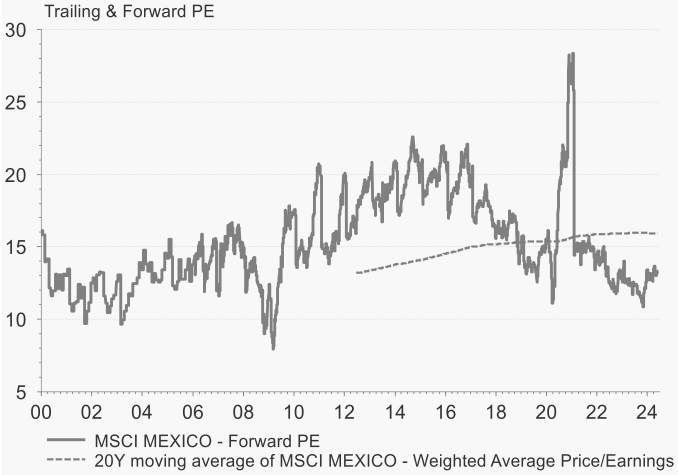
Bonds – Govies Local: UNDERWEIGHT (Target Spread 525 => Target yield 9.5%)

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

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

Mexico MSCI Index price-to-earning

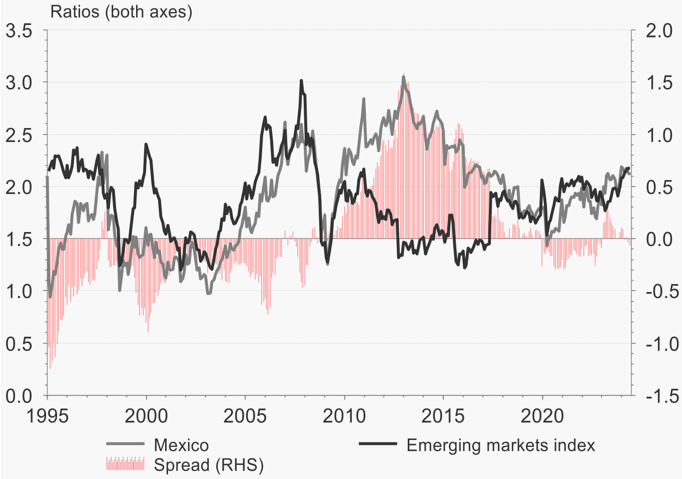
Trailing & Forward PE



Source: LSEG Datastream / ANDBANK

Mexico price-to-book ratio

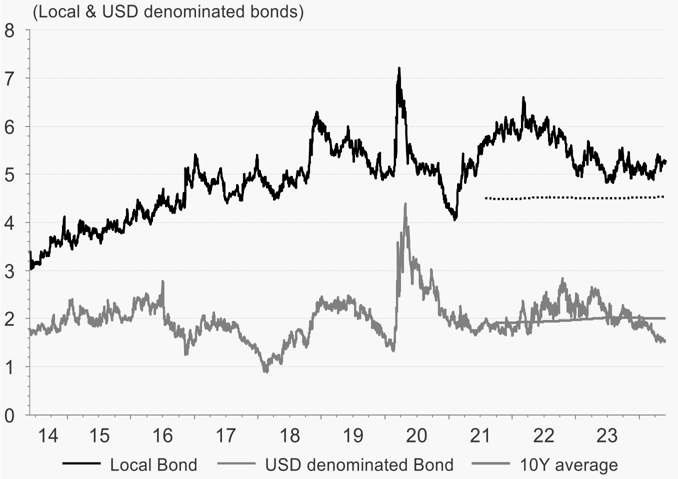
Ratios (both axes)



Source: LSEG Datastream / ANDBANK

MEXICO - SPREAD 10 GOV BOND vs UST

(Local & USD denominated bonds)



Source: LSEG Datastream / ANDBANK

ARGENTINA

No choice but to do old fashioned politics to push the legislative agenda

Politics: Opposition with less hurry than government to approve Bases Law

The omnibus bill (“Law for the bases and starting points for Argentines’ freedom”) and the fiscal bill were approved by the Chamber of Deputies with 142 affirmative votes, with106 deputies voted against and five abstaining, with the ruling coalition *La Libertad Avanza* (LLA) obtaining support from the dialogist opposition formed by the PRO and the majority of *Hacemos Coalición Federal* (HCF) and the *Unión Cívica Radical* (UCR). The Senate can take three paths: i) Approve the law without modifications; ii) Introduce modifications to the text (with a simple majority or by two-thirds), so it returns to the chamber of origin (Lower House), which can accept the modifications and approve the law or insist on the original text, for which it needs to reach the same majority or higher than that of the chamber that introduced modifications; iii) Outright rejection of the initiative, which would prevent it from being dealt with again during the current legislative year (scenario almost discarded). At the moment it remains unclear whether the ruling coalition has enough votes in the Upper House for the bill to pass. *Union por la Patria* is the largest minority, with 33 of the 72 total senators, and it is expected that all of its congressmen will not support the initiative. LLA only has 7 seats, and PRO, its closest ally today, has 6, so the government will have to negotiate with the opposition, mainly the UCR, which is asking for amendments to approve the laws. The points where there are differences are the magnitude of the benefits to be granted to large investments with the proposed new investment promotion regime (RIGI), the proposed modifications to the income tax, privatisations and the proposed method for adjusting pensions.

Corporates: Negative signal from the government to the power generation sector

The Government established an exceptional payment regime for USD 1.2 bn of debt with utility companies for December 2023, January 2024 and February 2024. The government is looking to pay this debt with sovereign bonds maturing in 2038, which implies a haircut of almost 50% of the debt in present value terms. The power generation companies say that this means the government is keeping part of the money it has already received from the power distribution companies. This measure is a contradictory signal taking into consideration the push that this government is making to strengthen the energy sector.

On a more positive note, we highlight that Argentine private companies have started to return to the international capital market, with Pan American Energy taking the lead by issuing a bond with an outstanding amount of USD 400 mn, interest of 8.5%, maturity of 8 years (2032) and a sinkable Schedule of three consecutive annual payments starting in 2030.

Prices: Cooled for the fourth straight month

April CPI came in at 8.8% m/m, below market expectations (+9% m/m) and the March print (+11% m/m), reaching +284.4% y/y on an annual basis. Once again, regulated prices are those that showed the greatest increases, with an average of +18.4% m/m (+18.1% m/m in March), led by housing and utility bills (+35.6% m/m), a byproduct of the utilities tariffs realignment process that Milei's administration is carrying out. Core prices advanced significantly less than headline CPI, increasing by +6.3% m/m (vs. 9.4% m/m in March), with the food and beverages subcomponent increasing +6.0% m/m. Finally, seasonal products rose 9.9% m/m in April (vs. +11.1% m/m in March). The downward trend is expected to continue with headline inflation converging to the Core in the following months as a result of a smaller increase in regulated prices.

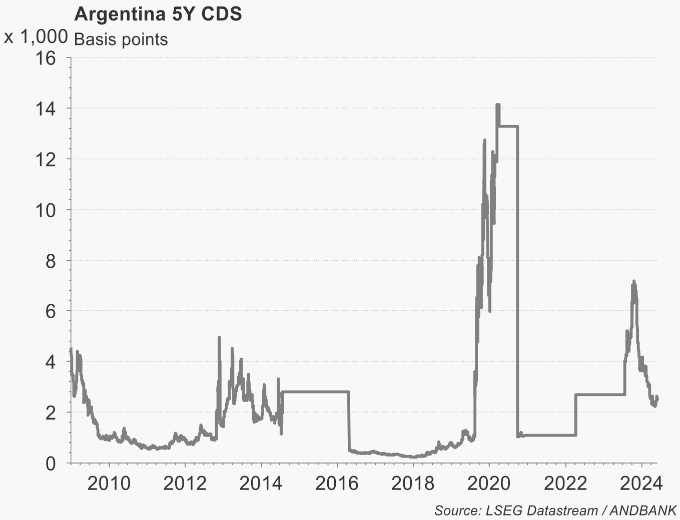
Monetary Policy: Central Bank takes advantage of the “cepo” and loosens interest rates

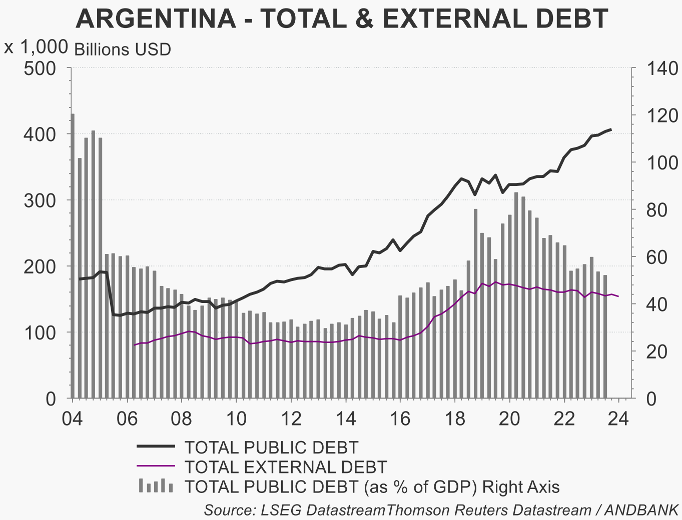
The Central Bank lowered its reference rate from 50% to 40% and now has fallen from a high of 133% at the end of last year. This movement is based on the expectation that the slowdown in price increases will deepen in the following months. With this measure, the Central Bank lowers the interest payments on its short-term liabilities, a source of money creation, at the same time that the Treasury achieves a fiscal surplus and eliminates the need for monetary financing. A looser monetary policy is also possible because the government has opted to maintain capital controls, repressing the demand for foreign currency. Lifting currency controls is a crucial step in returning to international markets. President Milei said that this will happen after solving the problem of interest-bearing liabilities, the Central Bank's puts and the issue of dividends, but Minister of Economy Luis Caputo said that the government will not immediately move forward with the lifting of capital controls

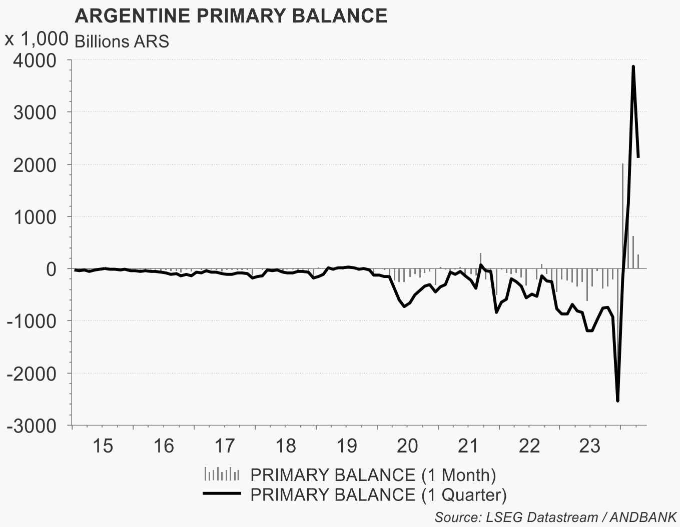
Market outlook – Recommendations & Targets from fundamental analysis

Bonds – 10YGov USD: NEUTRAL

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







GLOBAL EQUITY INDICES

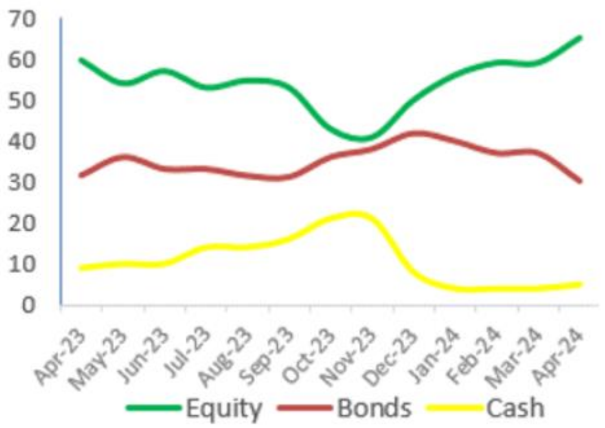
Fundamental assessment

Index	Projected EPS 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	243	9,9%	21,71	4,61%	0,19%	2,00%	21,00	4,76%	0,35%	5.285	5.112	-3,3%	MW-UW
Europe - Stoxx Eu	37	4,4%	14,17	7,06%	4,48%	5,00%	14,00	7,14%	4,56%	520	514	-1,2%	OW
Spain IBEX 35	994	5,5%	11,49	8,70%	5,41%	5,70%	11,00	9,09%	5,80%	11.422	10.935	-4,3%	MW
Mexico IPC GRAL	4.486	10,2%	11,98	8,35%	-1,39%	-0,90%	13,00	7,69%	-2,04%	53.761	58.323	8,5%	MW
Brazil BOVESPA	15.489	12,0%	7,90	12,67%	0,85%	-1,10%	9,10	10,99%	-0,83%	122.290	140.952	15,3%	MW-OW
Japan NIKKEI 225	1.758	25,6%	22,15	4,52%	3,46%	4,00%	24,00	4,17%	3,11%	38.923	42.180	8,4%	OW
China SSE Comp.	307	14,6%	10,04	9,96%	7,65%	4,80%	10,00	10,00%	7,70%	3.078	3.065	-0,4%	UW
China Shenzhen C	123	23,6%	14,01	7,14%	4,83%	1,25%	14,00	7,14%	4,84%	1.719	1.718	-0,1%	UW
India SENSEX	4.012	24,4%	19,06	5,25%	-1,69%	-2,00%	21,00	4,76%	-2,18%	76.469	84.257	10,2%	OW
Vietnam VN Index	134	30,5%	9,57	10,44%			11,00	9,09%		1.280	1.471	14,9%	OW
MSCI EM ASIA	45	22,3%	12,63	7,92%			13,50	7,41%		571	610	6,9%	OW

ANDBANK ESTIMATES

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

Dynamic Asset Allocation per Ned Davis Research

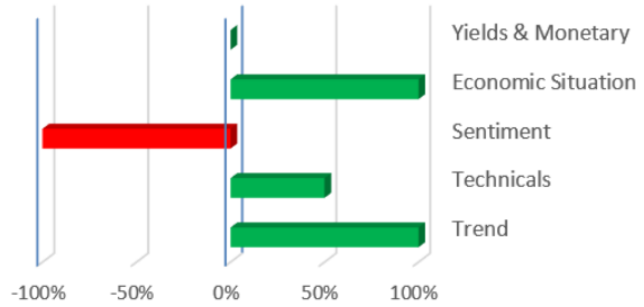


Tactical Asset Allocation

GLOBAL EQUITY ALLOCATION	Recommended Allocation	Benchmark
U.S.	67%	61,8%
Europe ex. U.K.	13%	12,5%
Emerging Markets	10%	10,7%
Japan	5%	5,5%
U.K.	2%	3,7%
Canada	2%	2,9%
Pacific ex. Japan	1%	2,9%

Current Relative Strength (Equities vs Bonds) Ned Davis Research

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



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

GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q1 2024 Earnings Dashboard

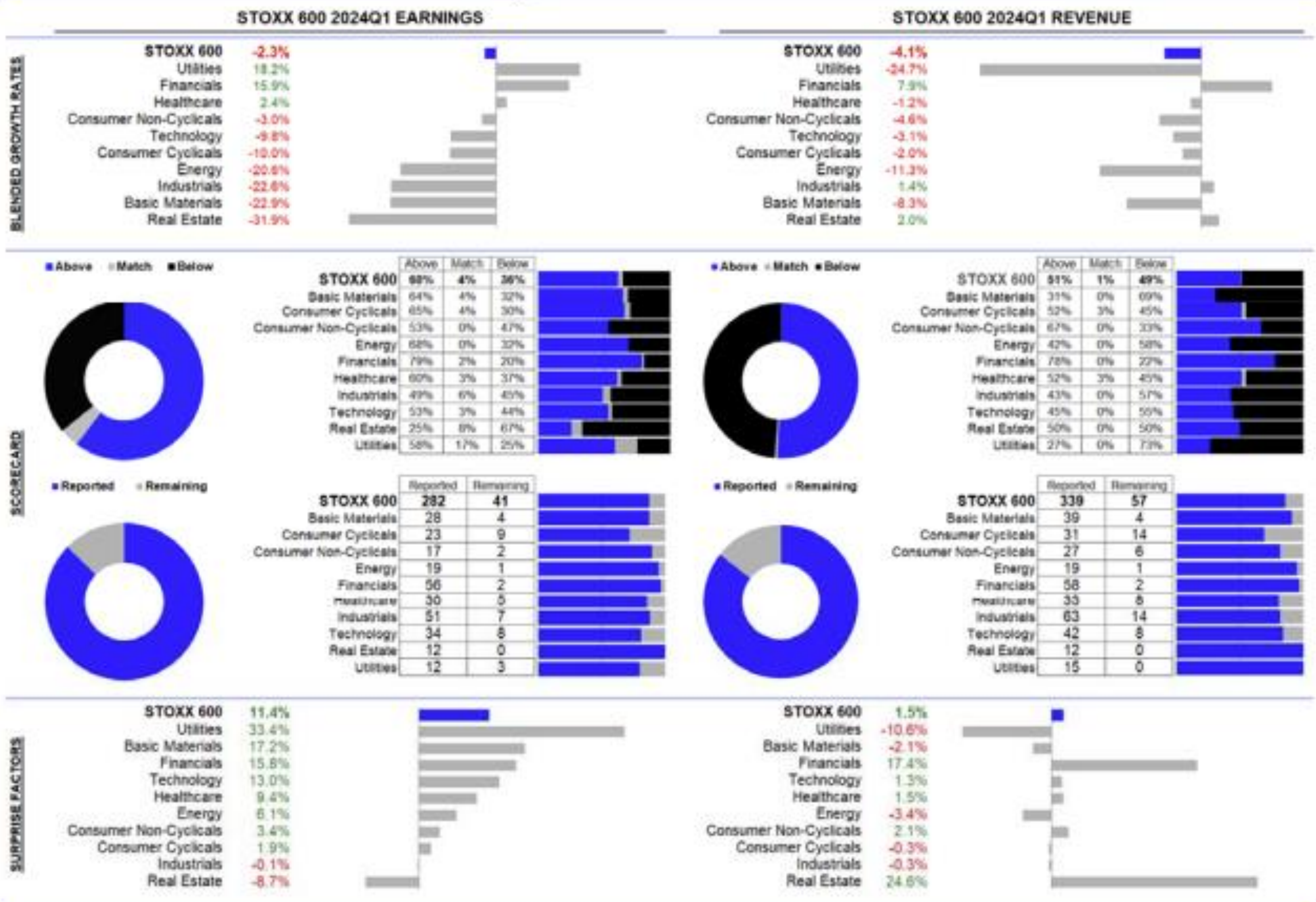
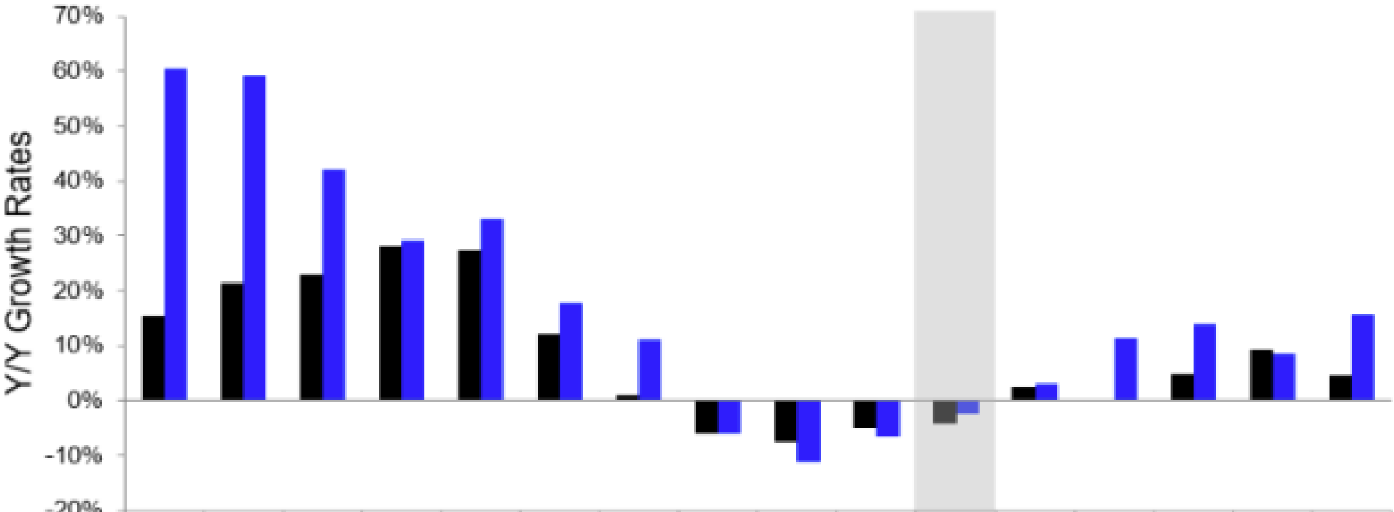


Exhibit 3A. STOXX 600 YoY Growth Rates



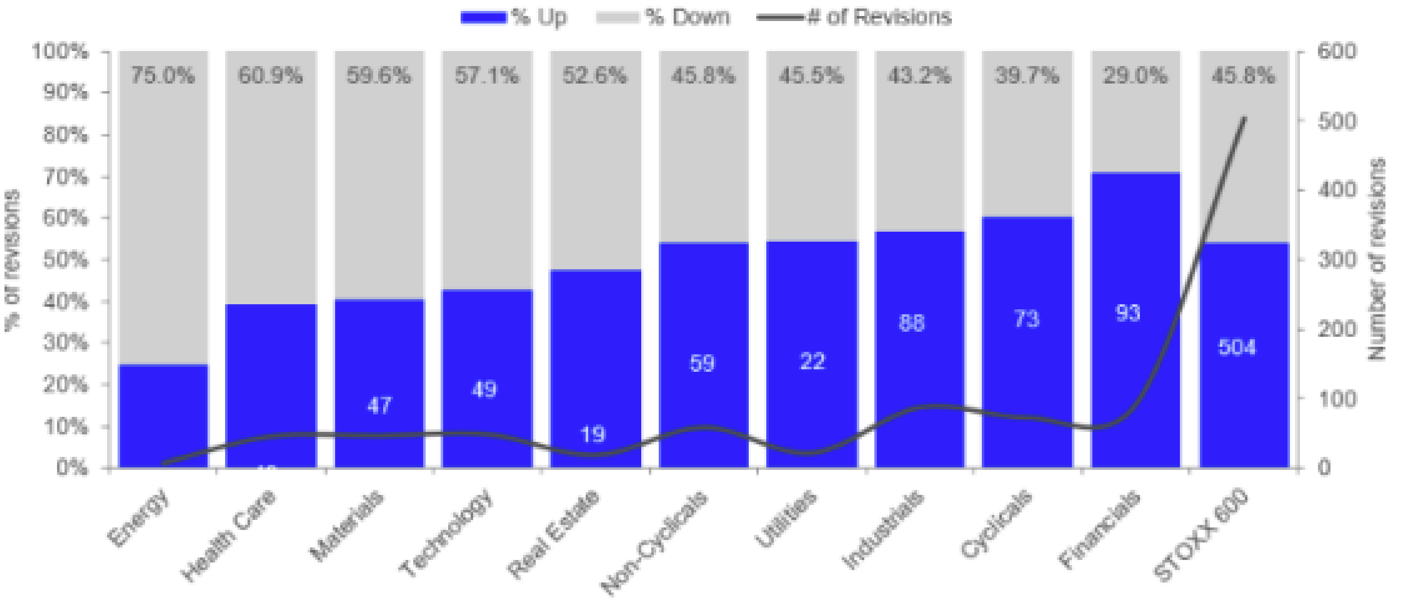
	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2
Revenue	15.4%	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-4.1%	2.6%	0.3%	5.0%	9.4%	4.6%
Earnings	60.5%	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-2.3%	3.1%	11.3%	13.9%	8.5%	15.7%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

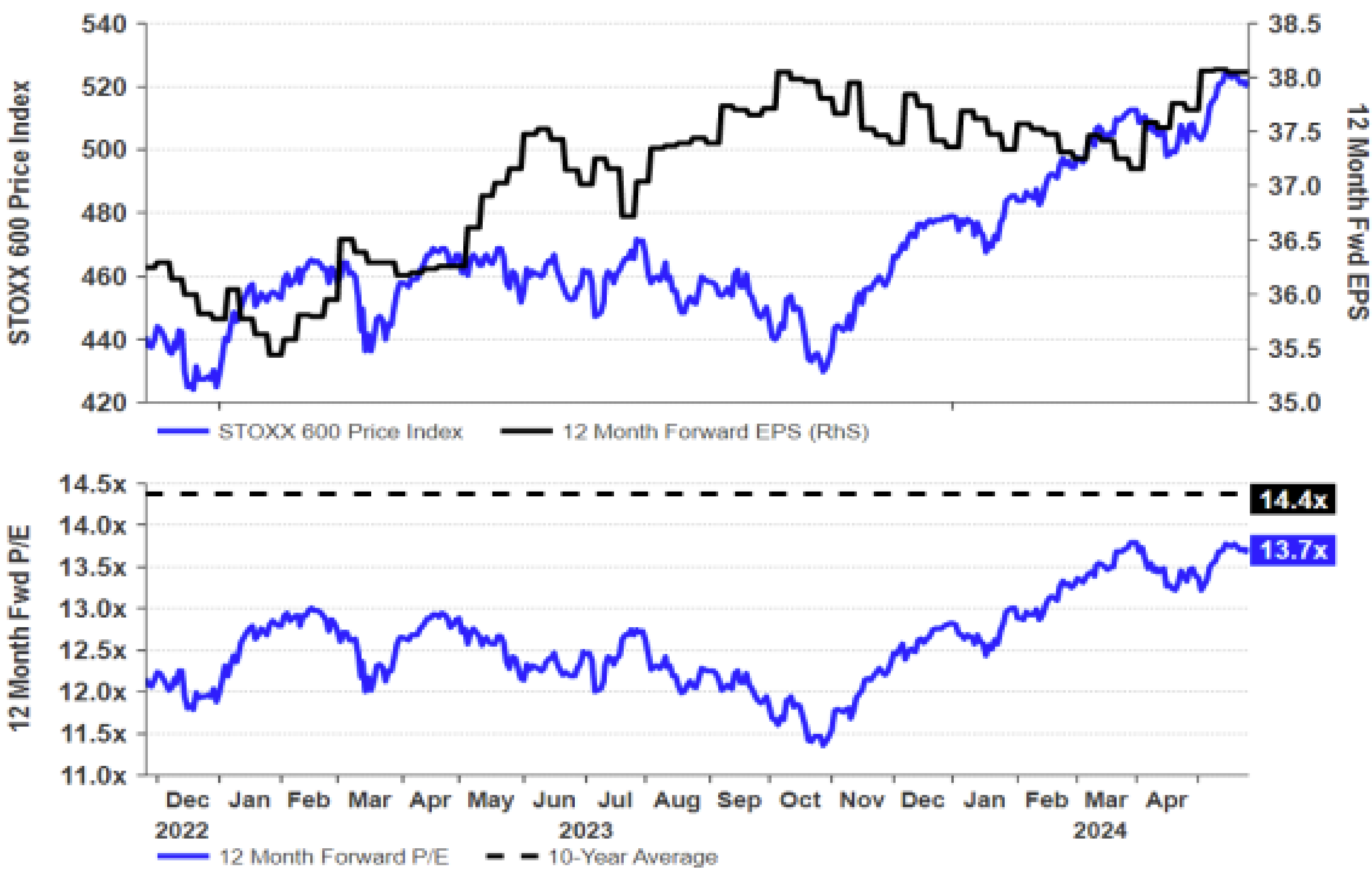
Earnings Dashboard - EUROPE

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

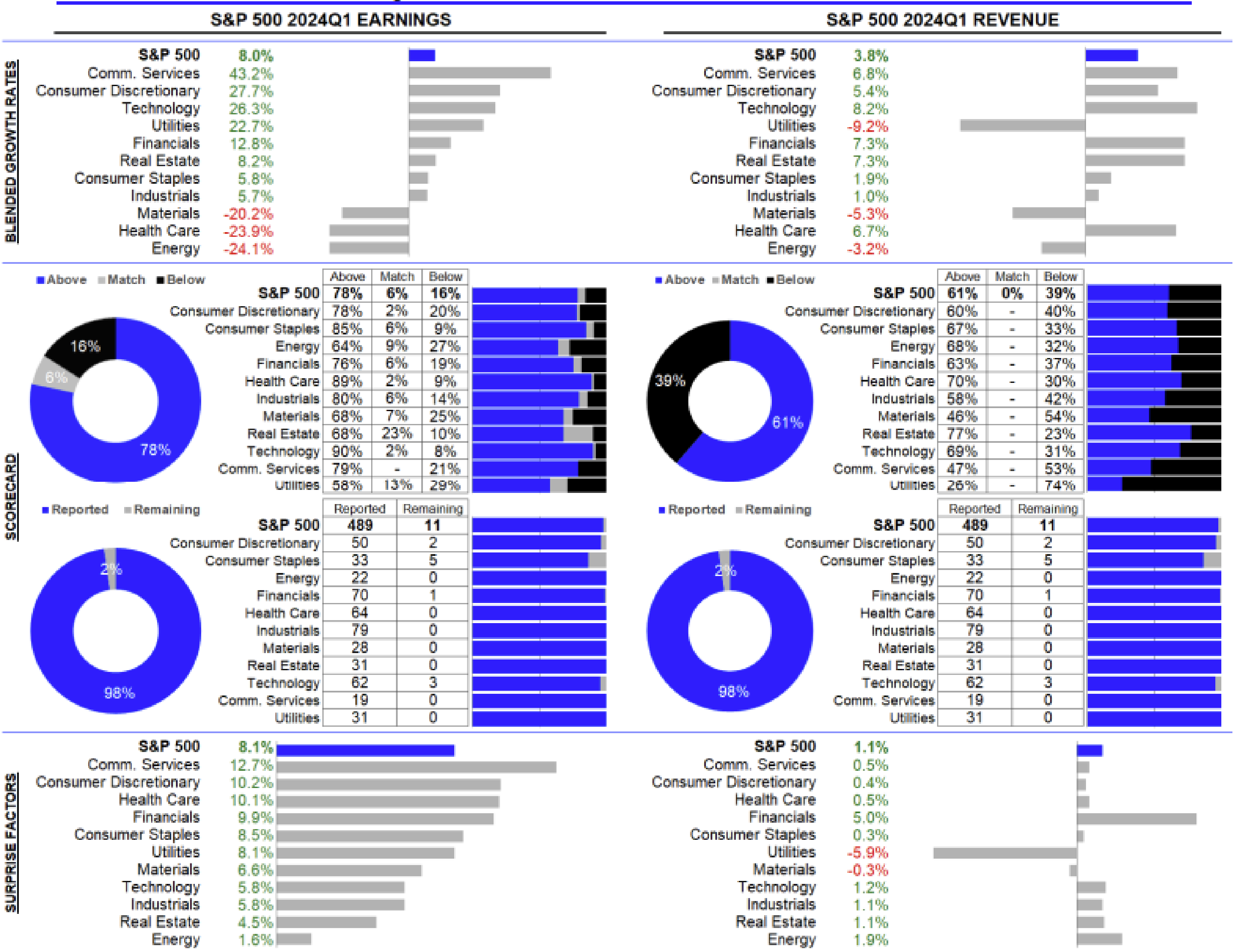
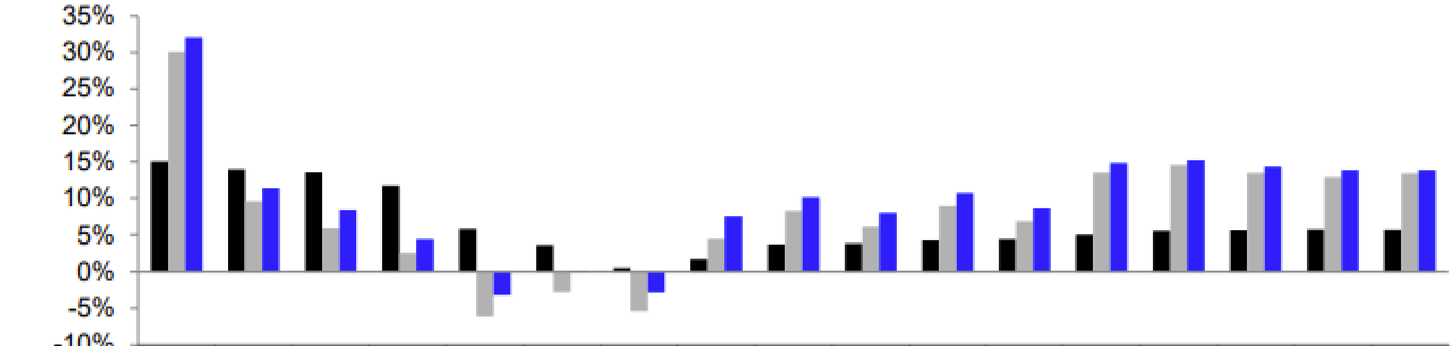


Exhibit 5. S&P 500 YoY Growth Rates



	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%	3.8%	4.3%	4.4%	5.0%	5.5%	5.6%	5.7%	5.7%
Net Income	30.1%	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	8.3%	6.1%	9.0%	6.8%	13.5%	14.6%	13.5%	12.9%	13.4%
Earnings	32.1%	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	10.1%	8.0%	10.7%	8.6%	14.8%	15.2%	14.4%	13.8%	13.8%

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 10 bullish developments for the price of oil and 4 bearish factors.

(Bullish price factor) – Reuters reported China's imports of fuel oil rose 10% in April from a year earlier to the highest level since at least 2020. The April imports, which equate to about 620,180 barrels per day, were 48% higher than in March, as traders brought in more shipments from Venezuela and Iran. Higher supplies from Venezuela due to the relaxation of sanctions contributed to the higher volumes. It also helps that refiners ramping up purchases before prices of oil strengthened further, amid a global rally in the high sulphur fuel oil market in the second quarter this year. Russia was China's top oil supplier in April for the 12th consecutive month, with volumes rising 30% from a year earlier.

(Bullish price factor) – China boosts crude oil storage just at a time when the level of strategic crude oil reserves in Western countries is at a minimum. The pace at which crude oil flowed into China's stockpiles increased in April. A total of 830,000 barrels per day (bpd) was added to China's commercial or strategic stockpiles in April, up from 790,000 bpd in March. Currently, China's strategic petroleum reserves are estimated at around 475.9 million barrels in state reserves and 209.44 million barrels in enterprise reserves, totalling approximately 685.34 million barrels. On the other hand, the United States Strategic Petroleum Reserve (SPR) currently stands at 367.81 million barrels as of 10 May 2024. This level is significantly lower than the historical average of 584 million barrels and the high of 726 million barrels recorded in 2010. As for Europe, currently, the strategic petroleum reserves total around 727 million barrels, which is significantly low compared to higher historical levels. Geopolitical tensions and production fluctuations have impacted the ability of European countries to maintain high reserves. Additionally, the European Union has experienced a high dependency on oil imports, reaching a record dependency of 97.7% in 2022, which suggests increased vulnerability.

(Bullish price factor) – Drone strike impact: Bloomberg reported drone strikes on Russian oil assets have disrupted 14% of the country's oil refining capacity and increased domestic prices by 20% to 30%. Ukraine's drone strikes on Russian energy infrastructure earlier this year disrupted 14% of the country's oil refining capacity and drove up domestic fuel prices, but had minimal impact on electricity output, the Pentagon's intelligence agency said. The loss of some Russian refining capacity pushed up domestic prices 20% to 30% by mid-March and triggered an export halt to focus on meeting domestic demand, according to an assessment by the Defence Intelligence Agency, which was summarised in a report released this month by the inspector general overseeing US aid to Ukraine.

(Bullish price factor) – Major US refiners returned billions in capital to shareholders in Q1 and increased share buybacks, even as refining margins softened, suggesting that the demand for gasoline, and hence for oil, remains firm. Three of the biggest U.S. independent oil refiners —Marathon Petroleum (MPC.N), Phillips 66 (PSX.N) and Valero Energy (VLO.N)— earned combined adjusted profits of $2.93 billion and returned $5.5 billion to shareholders through stock repurchases and dividends in the first quarter. Refiners are tapping into their exiting cash to pay for buybacks and capital returns to shareholders. Although refining margins were a little softer year-on-year, refiners are still making significant money to the point where they can pay hefty dividends. It is worth mentioning that many companies are carrying excess cash because spending on growth projects has been limited (which could put additional pressure on future gasoline prices). Demand outlook: U.S. refiners have a favourable market outlook as they expect refinery runs to increase from 15.4 million barrels per day in the first quarter to 16.2 million barrels in the third quarter.

(Bullish price factor) – Gasoline Demand to Top 2019 Levels this Summer, Rystad Says. Global gasoline demand will remain robust this summer despite recent signs of weakness in the market, according to Rystad Energy A/S, which expects consumption to top the levels seen before the pandemic. "We see gasoline markets being balanced-to-strong for the summer," Mukesh Sahdev, head of Rystad's oil trading solution team. "It's likely the recent decline in US mobility is a temporary blip."

(Bullish price factor) – India's oil consumption increased 4.8% y/y in the first four months of 2024, largely driven by consumer demand. Increased domestic consumption was equivalent to an extra 220,000 barrels per day (bpd). India is becoming one of the most important drivers of global petroleum consumption and is expected to overtake China as the single most important source of growth by 2030. To put this in perspective, India accounts for one-tenth of global growth this year, the second-highest share of any country, but still well behind almost one-third coming from China. Two-thirds of India's petroleum consumption is attributable to just three products: diesel (39%), gasoline (16%) and liquefied petroleum gas (LPG) (13%). Diesel is mainly used by freight haulers, manufacturers and mines. The fastest growth has come in gasoline, rising at an average rate of 8% per year, as household incomes have driven a rapid increase in motorcycle and car ownership. The number of registered motorcycles and passenger cars more than doubled in the decade up to 2020.

(Bullish price factor) – US unlikely to change oil sanctions despite new Venezuelan candidate. Venezuela's political opposition has united behind a new presidential candidate, Edmundo González Urrutia, and polls suggest he could beat President Nicolás Maduro in July's elections, but this development is unlikely to change US oil sanctions policy in the near term. The González candidacy emerged after the US Treasury Department announced 17th April that the US would not be renewing General License 44, which was issued in October to provide temporary oil and gas sanctions relief. The US decided to reimpose sanctions because Maduro failed to meet his commitment to make progress toward a free and fair election. The US in April issued GL 44A, which provides 45 days to wind down transactions related to oil and gas sector operations in Venezuela. The White House policy for Venezuela will be focused on specific licences for companies. This could work just as well as a general license, allowing Venezuelan production to continue apace despite the return to the general US sanctions regime. The snapback did not impact Chevron's General License 41, and the Treasury explicitly kept the door open for other similar company-specific licences. Experts say that these specific licences could effectively replace GL 44. Venezuela-owned PDVSA, and its partners said its crude output reached 875,000 b/d in April, up from 760,000 b/d in October. Venezuelan crude production could reach 950,000 b/d by the end of the year, mostly relying on existing specific licences. In April, Venezuela exported 5.4 million barrels of crude to the US and 1.9 million barrels to China.

(Bearish price factor) – Donald Trump would likely push to replace the head of the International Energy Agency if he wins the U.S. presidential election to shift the energy watchdog's focus back to maximising fossil fuel output. The Paris-based IEA has provided research and data to industrialised governments for more than half a century to help guide policy around energy security and supply. In recent years, the organisation has broadened its focus beyond oil and gas supply to include clean energy, as member governments seek input on meeting their goals under the Paris climate agreement and accelerate a transition away from fossil fuel reliance. That shift gathered pace during President Joe Biden's tenure, resulting in prescriptions on energy policy that angered global oil producers including Saudi Arabia, and which clash with Trump's self-described 'drill, baby, drill' energy agenda aimed at boosting the traditional oil and gas industries. The United States provides around a quarter of the group's funding. A new Trump administration would prioritise other energy policy moves first, like reversing the Biden administration's pause on liquefied natural gas export licenses, expanding domestic drilling or withdrawing the United States from the Paris climate accord. There is a feeling among Republicans that the IEA is really run by the Europeans and prioritises European energy views, which aligns with the Democrats' priorities.

PRECIOUS METALS - GOLD

Fundamental view (Gold): Short-Term Target range USD1,800 – 2,000 /oz

Buy < USD1,800; Sell >USD2,000

Positive drivers for gold

Gold could be the best anti-fragile asset in 2024: Gold, like the US Treasury bond, is considered an anti-fragile asset. Investors should always decide which anti-fragile asset should be kept in their portfolio to protect themselves against instability in financial markets. The answer will have a lot to do with the perception of which of the two traditional anti-fragile assets (gold and US Treasuries) is likely to perform better in such a disruptive scenario. This, in turn, will depend on the relative supply of each asset. The one with the lower relative supply will be the one that will perform better and will best act as an anti-fragile asset in the face of a shock. **In the short term** and for as long as QT continues (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$1,872. 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 76.89, still above its 20-year average of 68.36x, 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$2,072/oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 2.40x, above its 20-year average of 1.68x. 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 $1,602 per ounce.

Gold to oil ratio: This ratio is at 29.89x, still well above its 20-year average of 19.60x. 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$1,666 for this ratio to remain near its LT average.

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

The massive negative returns in bonds have disappeared: During the 2010-2017 and 2020-2022 periods, gold's disadvantage against fixed income instruments (gold does not offer a coupon) was 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 of the bonds in the USD universe offering positive returns, making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield. From this perspective, gold would once again exhibit its historical disadvantage and should underperform compared to U.S. Treasuries.

The four threats that could end the gold rally no longer seem so distant. What are those threats? The 1976-80 rally of gold ended when US short rates were jacked up to break inflation, causing the USD to rise. The 1985-88 gold rally ended when Germany pulled out of the Plaza Accord deal and US rates started to push up rates (prompting a rise in the US Dollar). In the 2001-11 period (which saw gold prices skyrocket from $300 to $1,800/oz), President George W. Bush's "guns & butter" policies spurred a rise in EMs, which became new gold buyers. This ended in 2011, when the USD started to strengthen. Therefore, the only threats to the gold bull market seem to be: 1) Higher nominal rates; 2) A rise in real rates; 3) Stronger USD; and 4) A loss of momentum from EM buyers. How real is each of these risks for bringing an abrupt end to the gold rally? Looking at this history and knowing that a gold bull market usually feeds on its own momentum for quite a while and only ends when facing higher nominal rates or a stronger USD or a rise in real rates, it seems reasonable to sound a mild alarm that **a downward turn in gold could be close,** since gold has totally lost its momentum since August 2020, but also because interest rate increases became a reality.

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

Risk #2. Stronger USD (HIGH RISK): The US current account (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.

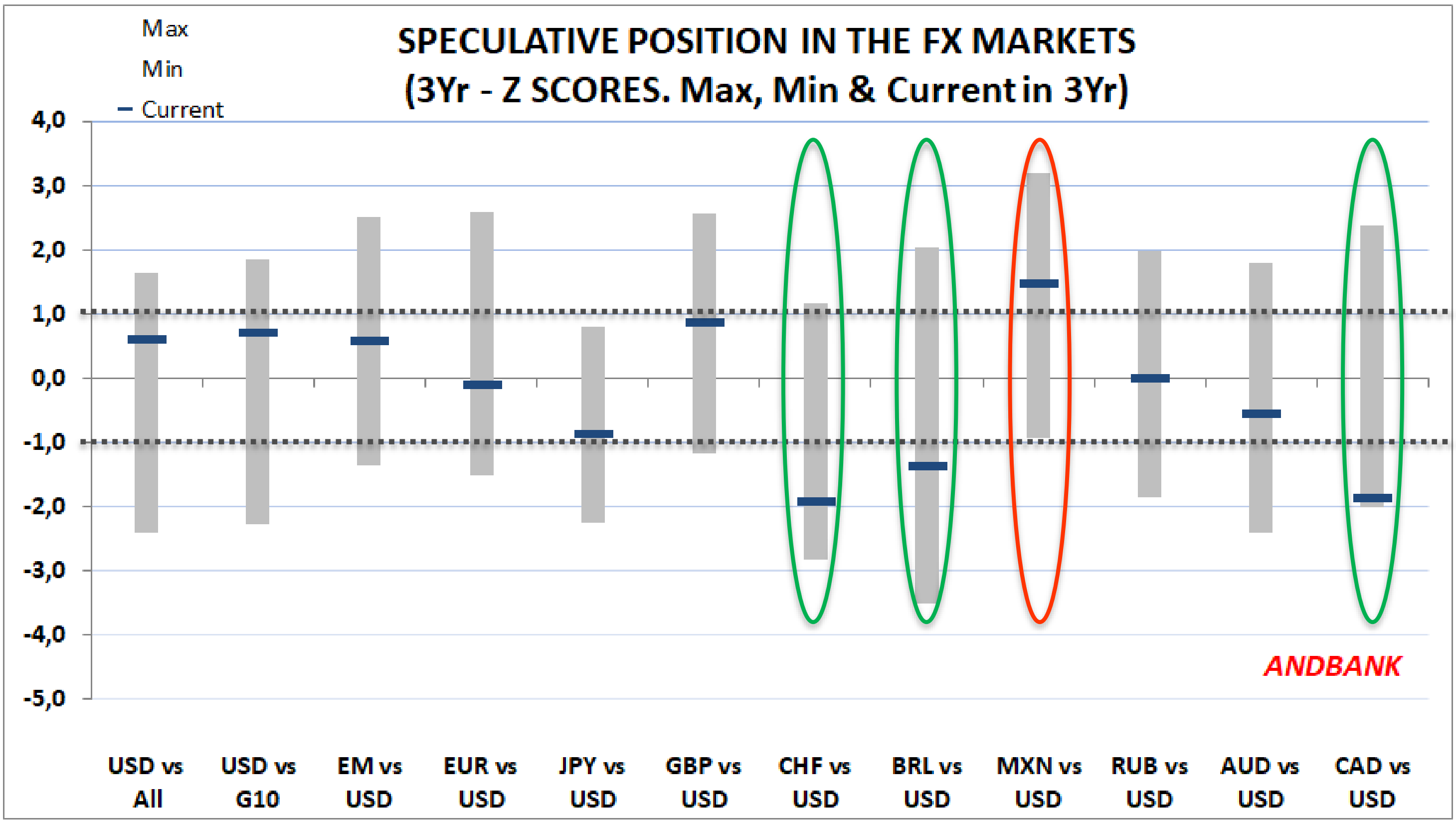
EXCHANGE RATES

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	15,30	-13,89	32,6	-28,2	3,5	**0,62**
USD vs G10	18,19	-14,48	36,3	-25,4	5,2	**0,72**
EM	2,89	-0,59	4,2	-0,8	2,1	**0,58**
EUR	7,81	8,72	23,4	-8,6	8,7	**-0,09**
JPY	-12,41	0,93	0,6	-15,0	-8,7	**-0,87**
GBP	2,03	4,29	5,6	-6,5	-0,6	**0,87**
CHF	-6,08	-0,40	0,2	-6,1	-2,7	**-1,91**
BRL	-0,71	-0,72	0,9	-0,8	-0,1	**-1,37**
MXN	3,60	0,13	4,3	-0,5	1,9	**1,48**
RUB	0,00	0,00	1,2	-0,3	0,3	**0,00**
AUD	-3,32	2,07	6,1	-7,0	-1,4	**-0,54**
CAD	-6,35	-1,76	6,1	-6,7	-0,4	**-1,87**

ANDBANK

Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price	Expected Performance (to Target Price)
Equity	USA - S&P 500	3,1%	10,8%	5.285	5.112	-3,3%
	Europe - Stoxx Europe 600	2,9%	8,6%	520	514	-1,2%
	Euro Zone - Euro Stoxx	2,1%	9,5%	519	533	2,6%
	SPAIN - IBEX 35	5,2%	13,1%	11.422	10.935	-4,3%
	MEXICO - MXSE IPC	-5,9%	-6,3%	53.761	58.323	8,5%
	BRAZIL - BOVESPA	-4,8%	-8,9%	122.290	140.952	15,3%
	JAPAN - NIKKEI 225	#N/D	16,3%	38.923	42.180	8,4%
	CHINA - SHANGHAI COMPOSITE	-0,8%	3,5%	3.078	3.065	-0,4%
	CHINA - SHENZEN COMPOSITE	-2,1%	-6,5%	1.719	1.718	-0,1%
	INDIA - SENSEX	3,5%	5,9%	76.469	84.257	10,2%
	VIETNAM - VN Index	4,8%	13,3%	1.280	1.471	14,9%
	MSCI EM ASIA (in USD)	-0,3%	5,2%	571	610	6,9%
Fixed Income Core countries	US Treasury 10 year Govie	1,0%	-2,7%	4,41	**4,50**	3,7%
	UK 10 year Gilt	0,3%	-4,1%	4,23	4,50	2,1%
	German 10 year BUND	-0,4%	0,9%	2,58	**2,50**	3,2%
	Japanese 10 year Govie	-1,2%	-5,0%	1,06	1,25	-0,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	0,0%	-1,3%	3,30	3,50	1,7%
	Italy - 10yr Gov bond	-0,2%	0,0%	3,88	4,10	2,1%
	Portugal - 10yr Gov bond	0,1%	-2,1%	3,15	3,10	3,5%
	Ireland - 10yr Gov bond	-23,5%	-23,5%	2,94	2,90	3,3%
	Greece - 10yr Gov bond	-0,3%	-3,2%	3,58	4,25	-1,8%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,4%	2,1%	52,06	75	3,6%
	Credit EUR HY-Itraxx Xover	1,1%	3,5%	295,33	450	2,1%
	Credit USD IG - CDX IG	0,5%	2,8%	50,42	75	5,4%
	Credit USD HY - CDX HY	1,0%	4,5%	333,92	450	5,5%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	12,6%	-7,3%	25,78	25,00	32,0%
	Russia - 10yr Gov bond (local)	-1,6%	-16,1%	14,93	25,00	-65,6%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	1,2%	-0,8%	6,89	6,00	14,0%
	India - 10yr Gov bond (local)	2,2%	4,9%	6,94	6,25	12,5%
	Philippines - 10yr Gov bond (lo	2,5%	-2,7%	6,64	5,75	13,7%
	China - 10yr Gov bond (local)	0,0%	3,2%	2,31	1,75	6,7%
	Malaysia - 10yr Gov bond (loca	0,7%	0,3%	3,89	3,25	9,0%
	Thailand - 10yr Gov bond (loca	-0,2%	0,2%	2,77	2,00	8,9%
	Singapore - 10yr Gov bond (loc	0,6%	-3,8%	3,31	3,40	2,6%
	Rep. Korea - 10yr G. bond (loc	0,9%	-1,6%	3,45	3,50	3,0%
	Taiwan - 10yr Gov bond (local)	0,8%	-2,8%	1,59	2,65	-6,9%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	-0,6%	-3,1%	9,73	9,75	9,6%
	Mexico - 10yr Govie (USD)	1,1%	-1,7%	6,05	6,25	4,5%
	Brazil - 10yr Govie (Loc)	-2,1%	-8,2%	11,82	11,50	14,4%
	Brazil - 10yr Govie (USD)	0,4%	-2,3%	6,49	7,00	2,4%
Commodities	Oil (WTI)	-4,6%	4,0%	74,5	80,00	7,3%
	GOLD	1,8%	13,6%	2.343,0	2.100	-10,4%
Fx	EURUSD (price of 1 EUR)	1,1%	-1,5%	1,087	1,05	-3,4%
	GBPUSD (price of 1 GBP)	1,8%	0,3%	1,28	1,29	0,9%
	EURGBP (price of 1 EUR)	-0,7%	-1,8%	0,85	0,81	-4,3%
	USDCHF (price of 1 USD)	-1,0%	6,6%	0,90	0,87	-3,0%
	EURCHF (price of 1 EUR)	0,1%	5,0%	0,98	0,91	-6,3%
	USDJPY (price of 1 USD)	2,1%	10,7%	156,21	140,00	-10,4%
	EURJPY (price of 1 EUR)	3,2%	9,1%	169,84	147,00	-13,4%
	USDMXN (price of 1 USD)	3,1%	3,1%	17,48	18,50	5,8%
	EURMXN (price of 1 EUR)	4,2%	1,7%	19,00	19,43	2,3%
	USDBRL (price of 1 USD)	3,0%	7,7%	5,22	5,00	-4,3%
	EURBRL (price of 1 EUR)	4,1%	6,1%	5,68	5,25	-7,6%
	USDARS (price of 1 USD)	2,0%	10,9%	896,50	1.000	11,5%
	USDINR (price of 1 USD)	-0,3%	-0,1%	83,10	82	-1,0%
	CNY (price of 1 USD)	0,0%	2,0%	7,24	7,50	3,6%

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

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