GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK
Private Bankers

Andbank Monthly Corporate Review – August & September 2024

Small caps show signs of life for the first time in a long while.

Corporate Review

August 2024

SMALL CAPS

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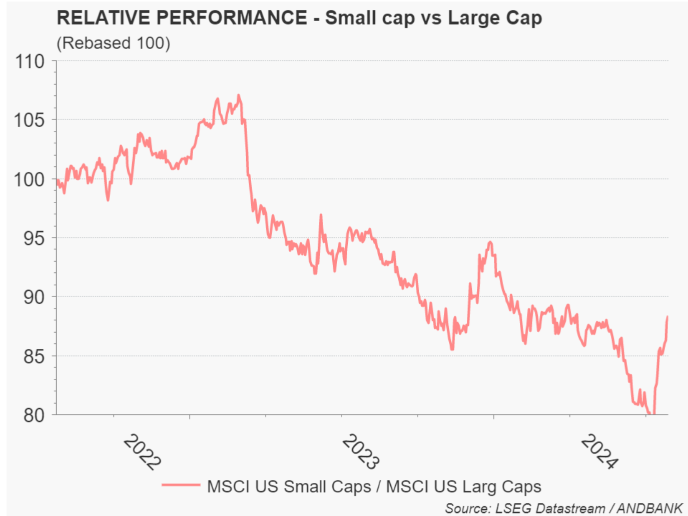
EXECUTIVE SUMMARY

CHARTS OF THE MONTH

Historic $9.9B Inflows for Small Caps, But Longevity of Rotation in Question



This rotational friction was exacerbated by the Chips Act (a regulation suggesting that the United States is considering more onerous restrictions in its chip crackdown against China. The Imminent Seasonal Shift (the first half of August is the fifth worst two-week period of the year). Fed Pivot. A favorable macro environment (Economic growth remains above trend, with the Atlanta Fed's GDP-Now for the second quarter increasing to +2.7% from +2.0%. And positive bank earnings, which support First Quadrant Thesis. However, despite the sell-off in some growth stocks, semiconductor fundamentals remain favorable (TSMC exceeding expectations, accompanied by the continued advance in AI capabilities), and yet some fundamentals in a large number of small caps continue to raise doubts: 1) Cautious readings from investors on corporate updates of retail stocks such as Five Below, Leslie's, Hugo Boss, and Burberry. Many retailers lagged despite the broad rotation. 2) Important industries (such as airlines) still need to cut capacity, as evidenced by United's weak third-quarter guidance. 4) Signs of industrial weakness in guidance updates from ABB, Atlas Copco, JB Hunt, PPG, and Autoliv. 5) Doubts on whether China will support the rotation, as the conclusions of China's Third Plenum disappointed due to the absence of a commitment to aggressive fiscal stimulus.

EQUITIES

Index	INDEX CURRENT PRICE	Andbank's Target Price Next 12 months	Expected performance to target Price	Recommended Strategy
USA S&P 500	5.459	5.532	1,3%	MW
Europe - Stoxx Europe 600	513	515	0,4%	MW-OW
Spain IBEX 35	11.166	11.475	2,8%	MW-OW
Mexico IPC GRAL	52.820	58.948	11,6%	MW-OW
Brazil BOVESPA	127.492	135.000	5,9%	MW
Japan NIKKEI 225	37.667	44.607	18,4%	OW
China SSE Comp.	2.892	3.085	6,7%	UW
China Shenzhen Comp	1.562	1.731	10,8%	UW
India SENSEX	81.421	86.641	6,4%	OW
Vietnam VN Index	1.247	1.512	21,2%	OW
MSCI EM ASIA	585	619	5,8%	OW

FIXED INCOME GOVIES CORE, PERIHERAL & CREDIT (DM)

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price 12 months view*	*Expected Performance (to Target Price)*
US Treasury 10 year Govie	2,1%	-0,2%	4,17	**4,50**	1,5%
UK 10 year Gilt	1,3%	-2,1%	4,05	4,50	0,5%
German 10 year BUND	1,0%	2,9%	2,38	**2,50**	1,4%
Japanese 10 year Govie	0,2%	-4,7%	1,02	1,25	-0,8%
Spain - 10yr Gov bond	1,9%	-0,1%	3,20	3,35	2,0%
Italy - 10yr Gov bond	3,0%	1,8%	3,73	3,90	2,4%
Portugal - 10yr Gov bond	2,1%	-0,4%	2,99	3,10	2,1%
Ireland - 10yr Gov bond	1,4%	-2,3%	2,78	2,90	1,9%
Greece - 10yr Gov bond	2,5%	-1,0%	3,36	3,50	2,2%
Credit EUR IG-Itraxx Europe	0,6%	2,7%	54,60	75	3,6%
Credit EUR HY-Itraxx Xover	1,3%	4,6%	297,32	450	2,0%
Credit USD IG - CDX IG	0,6%	3,7%	52,10	75	5,4%
Credit USD HY - CDX HY	1,1%	6,0%	333,58	450	5,4%

FIXED INCOME - EM

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price 12 months view*	*Expected Performance (to Target Price)*
Turkey - 10yr Gov bond (local)	4,0%	-7,7%	26,29	25,00	36,6%
Russia - 10yr Gov bond (local)	1,3%	-15,6%	15,11	25,00	-64,0%
Indonesia - 10yr Gov bond (loc	1,7%	0,0%	6,90	6,00	14,1%
India - 10yr Gov bond (local)	1,3%	6,2%	6,91	6,25	12,2%
Philippines - 10yr Gov bond (lo	3,4%	2,0%	6,16	5,75	9,5%
China - 10yr Gov bond (local)	0,6%	4,9%	2,15	1,75	5,3%
Malaysia - 10yr Gov bond (loca	1,0%	1,8%	3,77	3,25	7,9%
Thailand - 10yr Gov bond (loca	0,7%	2,0%	2,59	2,00	7,3%
Singapore - 10yr Gov bond (loc	2,1%	-0,6%	2,95	3,40	-0,6%
Rep. Korea - 10yr G. bond (loc	2,1%	2,9%	2,94	3,50	-1,5%
Taiwan - 10yr Gov bond (local)	0,9%	-2,6%	1,59	2,65	-6,9%
Mexico - 10yr Govie (Loc)	0,4%	-2,7%	9,85	10,00	8,6%
Mexico - 10yr Govie (USD)	1,9%	-0,1%	5,95	6,25	3,6%
Brazil - 10yr Govie (Loc)	2,5%	-9,0%	12,11	11,50	17,0%
Brazil - 10yr Govie (USD)	1,2%	-0,6%	6,39	7,00	1,5%

COMMODITIES & FX

Indices	*Performance Last month*	*Performance YTD*	*Current Price*	*Andbank's Target Price 12 months view*	*Expected Performance (to Target Price)*
Oil (WTI)	-5,0%	8,5%	77,4	85,00	9,9%
GOLD	2,6%	19,2%	2.390,0	2.300	-3,8%
EURUSD (price of 1 EUR)	1,3%	-1,7%	1,09	1,05	-3,2%
GBPUSD (price of 1 GBP)	1,7%	1,0%	1,29	1,29	0,3%
EURGBP (price of 1 EUR)	-0,4%	-2,6%	0,84	0,81	-3,5%
USDCHF (price of 1 USD)	-1,7%	5,0%	0,88	0,87	-1,5%
EURCHF (price of 1 EUR)	-0,4%	3,3%	0,96	0,91	-4,7%
USDJPY (price of 1 USD)	-4,6%	8,7%	153,39	140,00	-8,7%
EURJPY (price of 1 EUR)	-3,4%	7,0%	166,48	147,00	-11,7%
USDMXN (price of 1 USD)	0,9%	9,1%	18,50	18,50	0,0%
EURMXN (price of 1 EUR)	2,3%	7,4%	20,07	19,43	-3,2%
USDBRL (price of 1 USD)	1,3%	16,8%	5,67	5,25	-7,3%
EURBRL (price of 1 EUR)	2,6%	14,8%	6,15	5,51	-10,3%
USDARS (price of 1 USD)	1,9%	14,8%	928,50	1.000	7,7%
USDINR (price of 1 USD)	0,4%	0,6%	83,73	82	-1,7%
CNY (price of 1 USD)	-0,2%	2,2%	7,25	7,50	3,4%

USA

Still a constructive environment for stocks, with same drivers in place, though less room for PE expansion

Equity Market – Positive Outlook: We maintain our constructive view for the Medium/long term. In the short term, we are also positive. We are also positive in the short term, given expected double-digit growth in corporate earnings, looser monetary policy, low inflation, and an economy that remains on a path of economic growth. Technology and Communication Services have been leading stock performance this year, but recently we have seen a clear rotation into the lagging sectors. After the inflation data was released, we also saw an outperformance of the Small Caps after having reached an historically low relative value against the Large Caps. Market downturns are normal every year, and after the rally in the stock market during 2024 we would expect to see some volatility spikes, but our underlying view remains positive for stocks.

Equity Bullish Price Factors.

CPI Cooling: Headline CPI declined to +3.0% y/y and Core CPI to +3.3% y/y in June (-0.1% m/m and +0.1% m/m, respectively), lower than market expectations for both measurements. This is the third month with measurements below what the market expected before publication. Going forward, we expect the slowdown in the Shelter component to continue to push inflation progressively lower.

Weaker unemployment data, but still solid labor market: The unemployment rate rose to 4.1% (4% in the previous month). On the other hand 206k new jobs were created (above 190K market expectation), job openings remained above 8 million and wage growth was +3.9% y/y (+0.3% m/m).

More Dovish Monetary Policy: In his testimony before the Senate, the Fed Chairman, Jerome Powell, said that rate cuts are "not appropriate" until there is greater confidence inflation is heading to 2%. Since the June inflation data, market estimates have increased from 1-2 cuts to 2-3 cuts in 2024, while the chance of seeing a cut at the September meeting is above 90%. We have four monetary policy meetings ahead of us, including at the end of July. We maintain our forecast of two rate cuts for this year.

Slower Balance Sheet Reduction: The slowdown in the pace of asset reductions on the Federal Reserve's balance sheet is another factor that improves market liquidity and encourages purchases.

US Presidential Elections: Both candidates are former presidents and while they may differ in their styles and some policies, neither will take the U.S. economy down a path that will affect the value of companies.

Positive GDP Forecast: Quarterly GDP closes the latest revision with 1.4% growth in 1Q24 and is expected to increase to 2% in the second quarter. The economy is expected to close this year with 2% growth.

Positive Earnings Season: During the first quarter of the year the earnings of the S&P500 companies grew +5.9% y/y, above the +3% y/y expected before the start of the results release. Companies are starting to report results for 2Q24, where +8.8% y/y growth is expected. For 2024 as a whole, +11.4% y/y growth is expected, which may be a bit challenging.

Lower Default Rate: The default rate of U.S. companies has been declining in recent months and remains below 2%. In addition, the average credit quality in High Yield has improved considerably in recent years and most of the maturities are not going to occur in the short term.

Artificial Intelligence: This is the theme of the moment and of the future, and the U.S. has great exposure through its companies across a multitude of sectors. Regulation is helping to drive it further, getting ahead of other geographies that have already started to put up barriers to its growth.

Equity Bearish Price Factors.

Economic Activity Contraction (PMI): Economic activity as measured by the PMI remained in contraction territory in the Manufacturing sector, at a level of 48.5, while the Services PMI dropped five points (53.8 to 48.8), also moving into contractionary territory. Services have continued to expand over the last few months, but it is worth keeping an eye on this sector because it has had some weaker months, such as this one.

Potential Weaker than Expected Second Half Sales: Some companies have warned about a possible decline in their sales toward the end of the year. Therefore, one of the key things to watch for in the second-quarter earnings release is the guidance the companies provide for the following quarters.

Market outlook – Recommendations & Targets from fundamental analysis

Equities: S&P MARKETWEIGHT

Bonds: Govies MARKETWEIGHT. 10Y UST Target 4.5%

CDX IG: MARKETWEIGHT (Target Spread 75)

CDX HY: UNDERWEIGHT (Target Spread 450)

Forex: DXY index MARKETWEIGHT-OVERWEIGHT

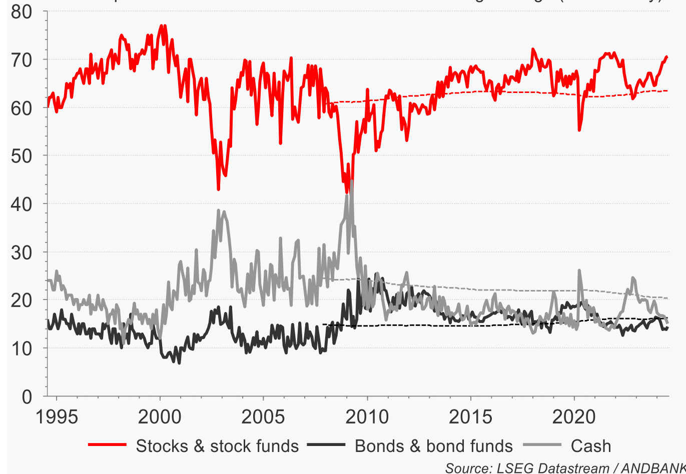
US price-to-earning ratio

S&P 500

Source: LSEG Datastream / ANDBANK

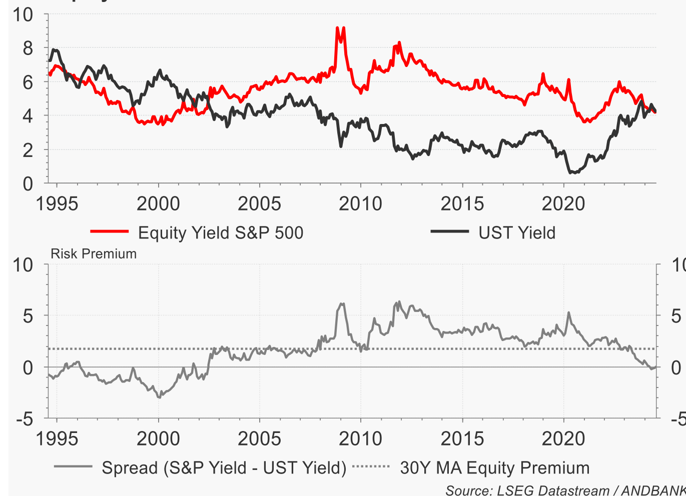
US asset allocation: Equity, Bonds & Cash

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



Source: LSEG Datastream / ANDBANK

Equity Yield & UST Yield



Source: LSEG Datastream / ANDBANK

EUROPE

Political noise does not change our constructive view of the European economy

All in all, the economic outlook seems supportive for Equity/Credit Markets, along with the coming monetary easing, which would add support and should also be a catalyst, mainly for short-term rates.

Macro bullish factors: 1) GDP growth is set to improve in 2H2024 according to PMI readings; 2) employment remains resilient (unemployment rate close to lows, at 6.4%), and wage revisions strong; 3) positive inflation path paves the way for rate cuts (inflation expectations anchored at 2.3%), with two additional movements from the ECB in September/December, barring data surprises, and with increasing confidence in the FED joining the "easing camp"; 4) consumption seems to be recovering, levered on positive real income, improving confidence and a high savings rate.

Macro bearish factors: 1) Industrial recovery remains uneven (weak orders and poor outlook for construction in Germany); 2) a bumpy road for inflation is to be expected until the end of 2024, with core CPI still high (2.9% y/y); 3) external support could decrease, with the US economy cooling off and increasing trade tensions.

Politics bullish factor: 1) French elections brought relief, avoiding an RN-led government, but uncertainty remains as parties attempt to build a politically sustainable coalition in a parliament grid-lock. On the positive side, pro-EU parties dominate the Assembly, neither far right nor far left holds an absolute majority, and the advance of the left alliance is mainly driven by the more moderate socialists.

Politics bearish factors: 1) High public debt levels in some peripherals (Italy) and semi-core (France), with a new European Parliament that could place the focus on debt reduction; 2) French spreads: despite a better political scenario than feared, a return to pre-EU elections levels (50 bps) may not be straightforward, as the market would prefer to wait and see whether some of the leftist compromises take place.

Financial Markets: Govies, Corporate Credit & Equity

Govies

Bullish factors: 1) Barring data surprises, depo cuts should be expected in September (CPI data for wages and productivity, plus fresh ECB projections) and probably also December (last 2024 projection meeting), "hand in hand" with the FED; 2) correlation with US treasuries, with the FED set to start an easing cycle by September, which would likely lead to lower yields in the US, also to be felt in Europe.

Bearish factors: 1) Uncertain monetary steps moving into 2025, with the first two cuts easy to forecast as long as inflation remains close to 2.5% levels, but clear signals that the CPI is heading to 2% levels will be needed for further steps (words of Pierre Wunsch, member of the ECB Governing Council); 2) potential inflationary pressures from decarbonization, deglobalization and demographics (3Ds) should be monitored.

Corporate Credit

Credit spreads remain close to historical lows (IG at 55 bps and HY at 282 bps). During June, trading volume in iTraxx CDS indexes touched this year's highs due to increased volatility caused by political uncertainty and increased hedging. The emphasis seems to have shifted from buy-and-hold strategies to active hedging. We are positioning on average durations of 3-4 years in defensive and anti-cyclical names. We hold spread target levels for both investment grade (75 bps) and high yield (450 bps), with a recommendation of Neutral for investment grade and underweight for high yield.

Equity

The new configuration of the Assembly of France likely means equity markets will be "on hold" for the foreseeable future. The CAC 40 Index is barely up YTD and could stay there until stability returns. For the broader European region, while the equity risk premium continued to trend lower with rising yields and higher valuations, we continue to believe that valuations in Europe are attractive in historical terms, with 12-month forward P/E ratios and free cash flow yields near historical averages, and also relative to other markets. Recent positive economic surprises in Europe, coupled with the beginning of a rate-cutting cycle from the ECB, will be supportive for valuations, particularly mid and small-caps.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – Stoxx Europe: MARKETWEIGHT-OVERWEIGHT

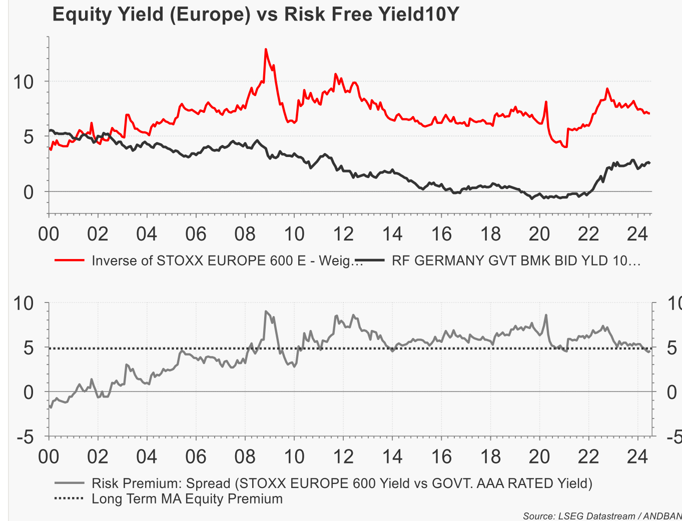
Bonds – Core governments: UNDERWEIGHT (OW at 3% yield, Bund target 2.50%)

Peripheral – MW: IT (3.9%), SP (3.35%), PT (3.10%), IE (2.90%). UW: GR (3.50%).

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 €



Source: LSEG Datastream / ANDBANK

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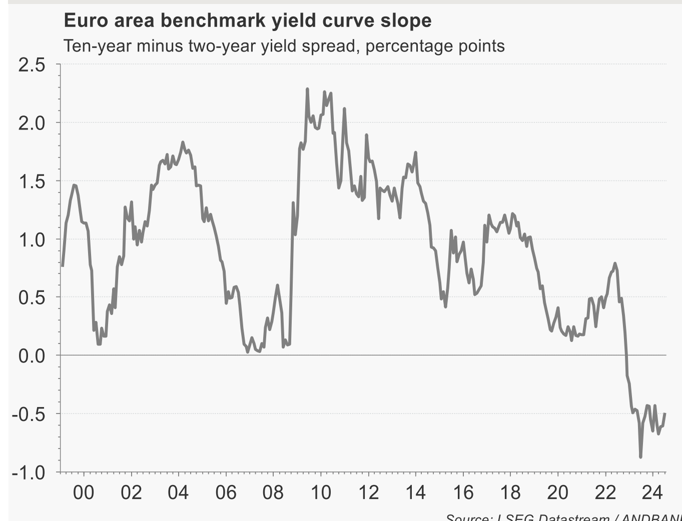


Source: LSEG Datastream / ANDBANK

SPAIN

Leading European economic growth

Macroeconomic Policies and Economic Activity

In recent months, the Spanish economy has continued to show high rates of GDP growth, higher than projected just a few months ago and than the rates achieved by the other euro area economies. The favorable performance of tourism and exports of other services, together with the influx of foreign population, which has helped sustain job creation and household spending, are the main drivers of Spain's recent economic outperformance.

The GDP growth forecast for Spain in 2024 has been raised to 2.5%. This positive outlook is attributed to several factors, including the good performance of external demand, an increase in the labor force, and the execution of Recovery Plan funds. However, growth is expected to moderate to 2.1% in 2025, primarily due to constraints in tourism growth. Tourism will continue to contribute to robust growth, albeit to a smaller extent than in 2023. In 2023 the tourism sector grew +7.6% y/y and accounted for 35.2% of total GDP growth. Given that the tourism sector has recovered to its pre-pandemic level, we expect its growth to normalize to a still strong 5% in 2024 and to add +0.6% to GDP growth this year. The key factors behind this solid rate of expansion include the recovery of purchasing power in the international tourists' home countries and Spain's higher geopolitical stability relative to some key competitor countries. We expect tourism to continue to contribute positively to the Spanish economy in 2025, growing an additional 3.2% and adding 0.4% to growth

The CPI rose +0.4% m/m in June, one-tenth more than expected, but its y/y rate dropped from 3.6% y/y to 3.4% y/y, due to lower fuel and edible oil prices. Meanwhile, inflation is forecast to continue to ease gradually in the coming quarters. Nonetheless, the headline inflation forecast for 2024 has been revised upward, compared to the March projection, from 2.7% to 3%, and by 0.1% for 2025 and 2026, to 2% and 1.8%, respectively. The upward revision for 2024 reflects the higher contributions expected from the energy component and core inflation. The upward revisions for 2025 and 2026 are mainly due to the slightly slower deceleration in services inflation than was anticipated in March, in a setting in which services inflation has fallen by barely 0.2% since the start of the year.

The supply-demand imbalance in the real estate market, the improvement in the economic outlook, and the gradual decrease in interest rates suggest that the real estate market will gain traction in the coming quarters. The factors that have supported the real estate market (positive net job creation supporting growth in households' labor income, dynamic migration flows, the resilience of foreign demand, the favorable financial situation of households) will continue to be present, and a relaxation in financial conditions will further support the demand for housing. This scenario could lead to a faster house price increase than expected in our central scenario if the supply of housing does not pick up as projected

On the external front, the main sources of uncertainty come from the current focal points of geopolitical tensions worldwide, global economic growth, the Chinese real estate sector, and the international financial markets, with some stock indices close to all-time highs and with a relatively low-risk premium. In the domestic arena, there is considerable uncertainty as to how long services – especially travel services – can maintain the strong dynamism they have shown in Spain in recent quarters. Also notable are the risks associated with the reactivation of the European fiscal rules. In particular, compliance with these rules will require the design and implementation of a medium-term fiscal consolidation plan that will result in a sharper correction of the structural public deficit than the one envisaged in these projections

Stock Market

The Ibex 35, the main equity index of the Spanish stock market, had an annual return of around 8.3% at the end of the first half of the year. Profits in this first part of the year have been driven mainly by the financial sector. However, although the macro environment remains favorable, the price target potential for the sector is low and limits further gains in the second half of the year. This is important as the sector has a 30% weighting in the index. The second most overweight sector in the index is utilities, with a weight of 20%. Although valuations are low, the absence of catalysts and the poor earnings momentum limit further gains in the short term.

With an expected EPS of 1038, the index trades at a P/E of 11.1. A catalyst for further gains could be an improvement in market sentiment towards sectors with a more defensive profile. Further interest rate reductions could also boost stock returns.

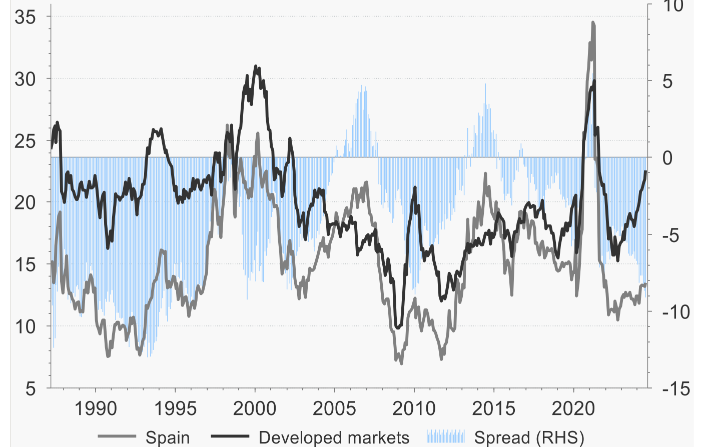
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Spain's Ibex: MARKETWEIGHT-OVERWEIGHT

Bonds: Govies MRKETWEIGHT (10-year target 3.35%)

Spain price-to-earnings ratio

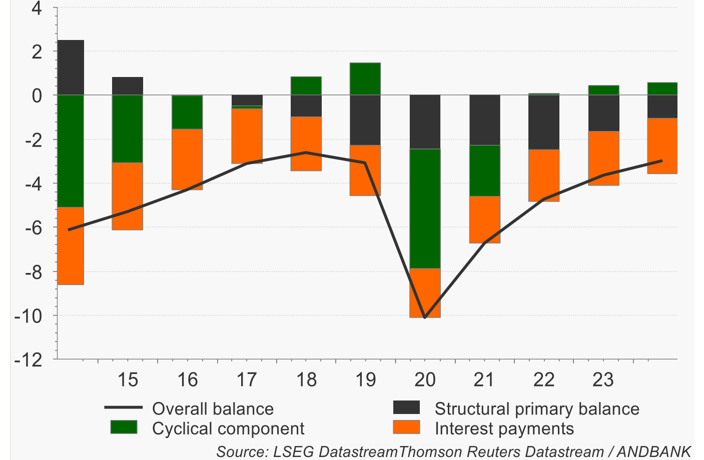
Ratio (both axes)



Source: LSEG Datastream / ANDBANK

Spain government budget balance breakdown

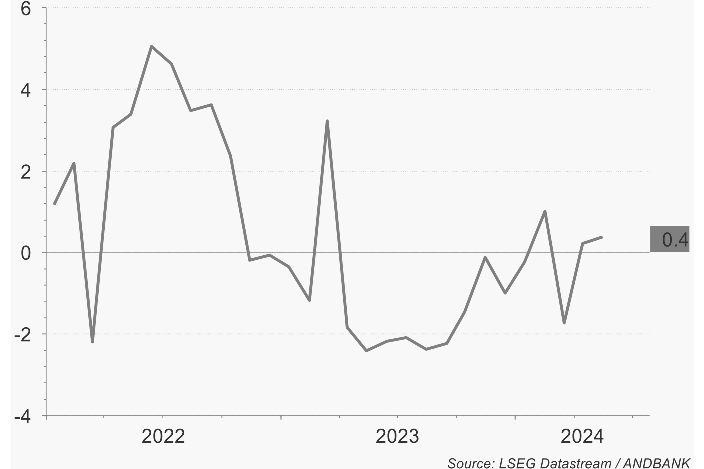
Total Government. Per cent of GDP



Source: LSEG DatastreamThomson Reuters Datastream / ANDBANK

Spain industrial production

Twelve-month percentage change



Source: LSEG Datastream / ANDBANK

CHINA

China continues on its path of disconnection with the West.

Equity Market – Negative Outlook: While Chinese equity market valuations may seem low, we must acknowledge that the historical comparison of multiples loses all meaning when the underlying market has little or nothing to do with its past. Today, negative drivers continue to accumulate and include a macro that does not work (GDP for Q2 disappointed again by 4.7%). Market volumes remain low and the government makes the National Teams act. Geopolitics increasingly puts China on a path to total disconnection. Trump's 60% tariffs on all Chinese imports would reduce China's GDP by 2.5%. Trump's new VP considers China as the main threat, and even Biden has just stated that Europe is already prepared to withdraw its investments from China. Meanwhile, the weakness of the yuan does not allow the PBOC to inject liquidity into the market.

Equity Bullish Price Factors.

PBOC accelerates cash injection but only during the 3rd PCC Plenum: PBOC injected a net CNY674B ($93B) via reverse repo operations, the largest amount since January, to keep liquidity abundant while top Chinese leaders met at the Third Plenum. The move came amid a heightened focus on money markets. Economists noted that large cash injections could be aimed at stabilizing financial markets, as PBOC may want to avoid funding cost spikes that could fuel volatility.

Yields near record lows: The Ministry of Finance (MOF) said it planned to sell up to CNY2.49B ($344M) worth of two types of 10-year treasury bonds, now that yields are near record lows. Low funding costs should be supportive of equities.

Equity Market: Bearish Price Factors

The macroeconomy continues on a downward path: The Chinese equity market responded negatively amid mostly negative takeaways from China's soft Q2 GDP and June activity data. China's economy grew much slower than expected in Q2, with 4.7% y/y growth (vs 5.3% in prior quarter and 5.1% expected), the slowest pace in five quarters, amid a persistent property downturn, while efforts to boost consumer spending fell short, adding pressure on authorities. More recently, retail sales in June rose at the slowest pace since Dec-2022. The government will need to unveil more policy support, as the GDP miss has renewed doubts about the achievability of the government's 2024 target of ~5%. Goldman Sachs, Barclays, and JPMorgan lowered their full-year growth estimates.

Low volume in equity markets: Trading volume in mainland markets remains subdued, although multiple ETFs tracking CSI 300 saw heightened volumes, suggesting possible state-linked funds, or National Teams, snapping up shares to prop up markets.

Trump's VP choice Vance says China is the biggest threat to America: In one of the first interviews after being named as Trump's running mate, JD Vance said China is the biggest threat to America, foreshadowing a likely more hawkish stance of a likely Trump second mandate. Recall that Trump has promised to hike tariffs to 60% on all Chinese imports if re-elected. This would undoubtedly be a huge blow to Chinese manufacturers.

Trump tariffs could slice 2.5% from Chinese GDP growth: UBS research noted Trump's proposal to impose up to 60% tariffs on Chinese goods carries negative implications for China's economy and would slice 2.5% from China's GDP growth over 12 months, reflecting the direct impact on exports and the indirect impact on consumption and investment. UBS economists noted that, in response, China is thought more likely to ease fiscal and monetary policy, allowing yuan depreciation of 5 to 10% to cushion the blow from tariffs. Easing fiscal policy will in turn negatively impact Chinese bonds, funding costs, and therefore also equity.

President Biden said European allies are prepared to curtail investment in China. His words came after NATO accused China of enabling the invasion of Ukraine. Biden acknowledged that Beijing is supplying Moscow with information and capacity.

With its hands tied by the weakness of the Yuan, PBOC cannot inject liquidity beyond the week of the 3rd Plenum: PBOC has withdrawn cash from the banking system for the fifth straight month. PBOC conducted a CNY100B MLF operation, but with CNY103B in maturing funds the net result was a liquidity drain of CNY3B, marking the fifth straight month of no liquidity injection via MLF operations. MLF had to be supplemented by injection via seven-day reverse repos. The weak yuan remains a key constraint limiting PBOC's monetary easing efforts, which could further widen the yield gap with the US and fuel more capital outflows.

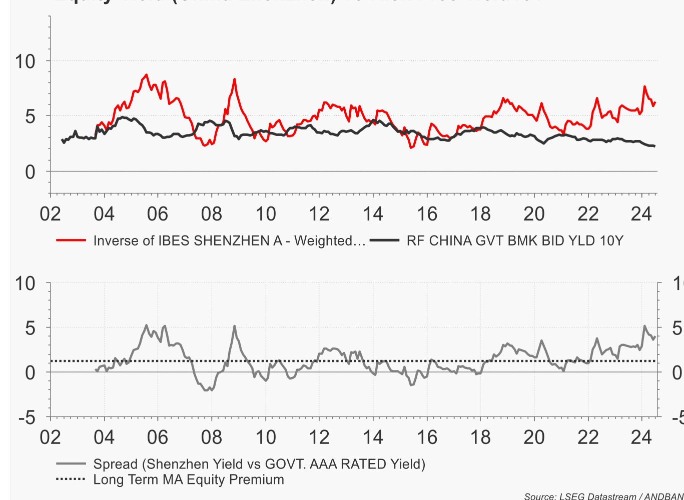
China suspends securities re-lending and bolsters regulation of algo trading: CSRC announced a suspension of securities re-lending. In addition, stock exchanges will raise the minimum margin requirement ratio to 100% from 80% for short-selling and the bar would be higher for hedge funds, from 100% to 120%. CSRC also disclosed plans to draw a "red line" for algo transactions. While some may see the limitation on short selling as something favorable to the market, the truth is that it places new limits on investment activity. We are aware that short selling is not always a favorable practice, but the fact is that in the USA this practice is free and this has not restricted the advance of the market, which is reaching historical highs.

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

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

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

Forex – CNY/USD: UNDERWEIGHT (Target 7.50)



MACRO ECONOMY

JAPAN

Risk premium of equities remains significantly above the historical average, relative valuation is attractive.

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

Equity Bullish Price Factors

Forex: The BOJ would be signaling a PUT on the currency and that could trigger a repatriation flow of Yen and a consequent appreciation of the currency. Analysis of BOJ accounts has estimated the scale of Thursday's July 11th intervention totaled ~JPY3.5T ($22B), which follows a record JPY9.8T spent boosting the yen in late April and early May. The timing of the suspected intervention came as a surprise, given it coincided with a broader dollar pullback on soft US CPI data, suggesting the authorities timed their action to magnify the yen's rally. While the intervention generated slight gains for the yen, it is still too early to tell whether the downward pressure will persist. The yen ended the week up 2% against the dollar but remains down more than 10% this year. This fits with the view that interventions are failing to arrest the yen's depreciation, given the key driver remains Japan's yield discount to the US, which is accentuating the build-up of bearish speculative positions. The yen's weakness is heightening attention on the July BOJ meeting and whether it encourages the central bank to hike interest rates alongside plans to reduce JGB purchases.

Macro: 1) May final industrial production 3.6% m/m vs preliminary +2.8% and (0.9%) in the prior month. 2) Japan's domestic electronic components makers are boosting capital spending this fiscal year, as automobiles continue to incorporate more electrical parts for everything from hybrid drivetrains to advanced driver-assistance systems. Based on the investment plans of 32 companies, total spending was expected to reach ¥1.4T ($8.7B) in FY24, a 46% increase from four years ago. 3) June bank lending +3.2% y/y vs revised +2.9% in the prior month. 4) June Economy Watchers Survey current conditions index 47.0 vs consensus 46.1 and 45.7 in the prior month. Outlook index 47.9 vs consensus 46.5 and 46.3 in the prior month. 5) Major Japanese semiconductor makers are planning around ¥5T ($31B) in capital investments through 2029, as they move to boost production of power devices and image sensors. Seeking to revive the domestic chip industry, they will increase investments in power semiconductors, sensors, and logic chips, all considered core technologies in growth fields such as AI and electric vehicles

Foreign Investors' Appetite Regaining Momentum: Foreign investor buying of Japan equities regaining momentum after quarterly rebalancing. TSE data showed foreign investors bought net ¥881.0B ($5.5B) in Japan equities – cash and futures – in the first week of July, marking the second straight week of net purchases on both fronts, and the total was second-highest YTD behind the peak in early January. Inflows were attributed to building confidence in an upcoming reduction in interest rate differentials and were led by long-term institutional investors such as pension funds, as well as short-covering among fast money investors. The notable pickup in July was seen as a result of institutional quarterly rebalancing.

BOJ's policy & the TINA scenario: Market-implied probability of a July BOJ rate hike remains off its highs. A July rate hike scenario remains only "partially discounted." The key assumption is that the next rate hike would take rates to 0.25% from the current 0~0.1%, which is a 15bp increase, but there is a lack of market conviction on whether the BOJ will proceed with a rate hike along with the launch of a plan to reduce JGB purchases. The weakening economic backdrop is in the air as a factor for these doubts, and a further downward revision of the BOJ's GDP growth projections for FY24 is expected. All of this suggests a very loose interest rate policy, which will keep bond yields very low, fueling the TINA (There is no alternative) driver.

Equity Market: Bearish Price Factors

Regional banks retaining cross-shareholdings by reclassification: Nikkei discussed a growing trend among regional banks to retain cross-shareholdings by reclassifying them into conventional equity investments. The value of such diversions totaled ¥637.9B ($4B) in FY23, up 90% on the year. As institutional investors are being pressured to release cross-shareholdings that do not contribute to growth, developments have prompted concerns that banks are responding with superficial measures to the Capital and Shareholder Price Optimization Reform.

Bond Market – Negative Outlook

The BOJ's intentions regarding the first rate hike are unclear, as are its intentions regarding the pace of bond buybacks and its Yield Curve Control policy. For the moment, with bond yields between 0% and 1%, we maintain our negative view of these assets.

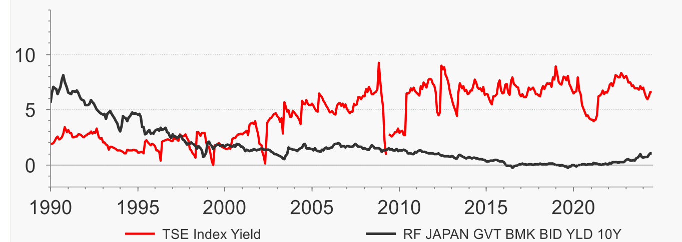
Market outlook – Recommendations & Targets from fundamental analysis

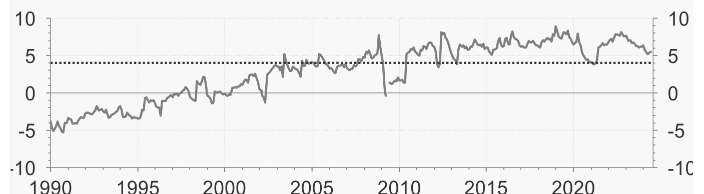
Equities – N225: OVERWEIGHT

Bonds – Govies: UNDERWEIGHT (Target yield 1.25%)

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

Source: LSEG Datastream / ANDBANK





Source: LSEG Datastream / ANDBANK

Source: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

INDIA

Large and growing Market, Strong Manufacturing, Global Supply Chain Participation, Demographic Advantage

Equity Market – Positive Outlook: We maintain our favorable outlook for this market based on an overwhelming majority of current positive drivers, among which we highlight a voracious appetite from domestic investors, a Modi budget that could make the market soar, a spectacular increase in banking and financial inclusion in the country, favorable development of macro aggregates, healthy credit expansion, and the advantages of the PLI scheme, as well as reduced regulatory pressure for the asset management industry.

Equity Bullish Price Factors.

Domestic Investors' Appetite: While foreign investors were net sellers of equities, valued at approximately USD 3.06 billion, domestic investors were net buyers of equities, valued at approximately USD 6.7 billion for the month.

Modi's Budget to send India's soaring stocks higher: The upcoming government budget will likely boost consumer spending and infrastructure building, which bodes well for businesses. A diminished majority for the Prime Minister Narendra Modi-led Bharatiya Janata Party in the recent elections has prompted investors to raise bets in the consumer sector on expectations the government will shift toward more populist measures to shore up support. While relying on some regional parties to form the government, the BJP has retained most ministers from its second term, signaling continuity in fiscal policy, mostly aimed at boosting economic growth through infrastructure spending. The Indian government remains committed to upholding pre-election borrowing and spending targets in the July 23 budget, despite the ruling BJP losing its majority in this year's national vote.

Financial Inclusion-Index rises to 64.2 in March 2024: The Financial Inclusion Index (FI-Index), which captures the extent of financial inclusion across the country, ranging between 0 and 100, stood at 64.2 in March 2024 from 60.1 in March 2023. The FI-Index comprises three broad parameters: Access (having a weight of 35 per cent in the index), Usage (weight 45 per cent), and Quality (weight 20 per cent). The index has been conceptualised as a comprehensive index, incorporating details of banking, investments, insurance, postal as well as the pension sector. For the period ending March 2017 the index was 43.4, and for the period ending March 2021, 53.9.

Development of macro aggregates continues to be favorable for market sentiment: The Consumer Price Index (CPI) moderated to 4.83%, compared to 4.9% the previous month. Core inflation was low at 3.25%. Oil prices fell by 6.0% mom. Funding costs moderated, with the yield on the 10-year benchmark bond ending the month at 6.979%, compared to 7.186% the previous month. The yield on the 1-year bond also ended lower. Foreign exchange reserves stood at approximately USD 646.67 billion during the month, helping the INR to stay stable at ~83.4 Rs/USD compared to 83.51 Rs/USD the previous month. India's long-term growth potential remains intact due to its large and growing market, strengthening manufacturing base, and increasing participation in the global supply chain.

Credit continues to expand at a healthy pace: Monthly data on sectoral credit from the RBI suggests that overall bank credit for April 2024 grew by 15.3% yoy, compared to 16.3% the previous month. Credit to agriculture and allied activities stood at 19.7%. Credit growth to industry was 6.9% in April. Credit growth to the services sector grew by 19.2%. Personal loan growth was 17.4%.

Fastest-growing major economy and continues to grow at a good pace: with GVA (Gross Value Added) growth of 7.2% for fiscal year 2024, activity has been significantly higher than the previous year's 6.7%. This strong momentum reflects solid foundations for sustainable long-term growth through focused attention on public investment, the development of digital infrastructure, energy security, and strengthening supply needs through domestic manufacturing.

The benefits of the Production Linked Incentive (PLI) scheme are visible in various sectors, especially in electronics and logistics, where costs have trended downward thanks to the infrastructure push.

Lower regulatory risk helps sustain strong AUM growth in asset management companies: Total MF industry AUM increased 11.5% in Q1FY25 after stellar growth of 37.4% in FY24. Industry equity AUM increased 14.9% in Q1FY25 to INR 36.5trn. Industry debt AUM increased 3.5% to INR 9.3trn. Retail investment in equity MF has increased sharply, with equity schemes seeing a 54% YoY rise in investments from individual investors in May'24. Individual investors held ~60.6% of total AUM.

Corporate profits continue to grow at a solid pace: Corporate earnings for the past year were robust on the back of margin tailwinds and may grow above trend (~20%) in financial year 2025, keeping India's medium-term growth story intact.

Equity Bearish Price Factors.

Unemployment: A lack of follow-through in private expenditure has worsened India's chronic unemployment problem, a key issue contributing to the recent electoral rebuke given to Prime Minister Narendra Modi's government

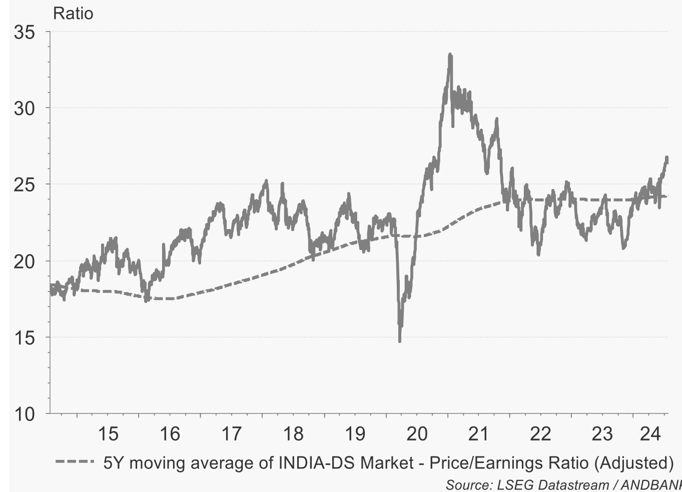
Market outlook – Recommendations & Targets from fundamental analysis

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

Bonds – Govies: OVERWEIGHT (Target yield 6.25%)

Bonds – Corporates: OVERWEIGHT

Forex – INR/USD: NEUTRAL (Target 82)



Source: LSEG Datastream / ANDBANK

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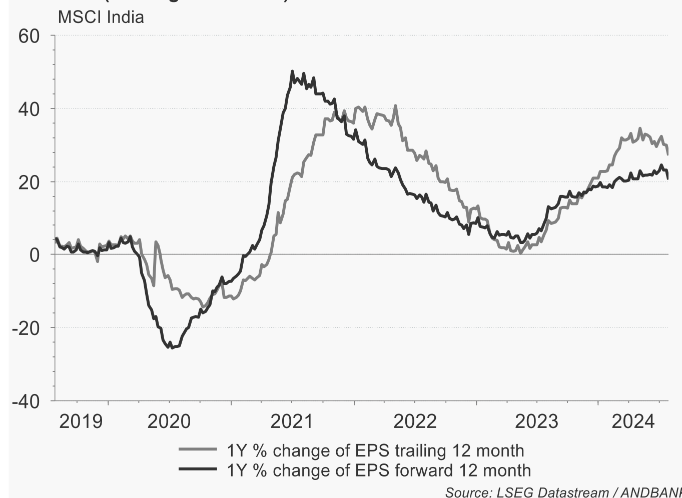


Source: LSEG Datastream / ANDBANK

VIETNAM

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

Equity Market – Positive Outlook: Strong interest from domestic investors has offset recent outflows of foreign capital (as a result of the closure of a couple of ETFs aimed at foreign investors). News of an expansion for the Fubon ETF, by an additional USD150 million, represents a major boost for this market. At the micro level, profit forecasts are improving and banks are making profits. In addition, the country continues to close new trade agreements with countries in the region and around the world. Another positive driver is the infrastructure investment agenda for the next decade (valued at around $600bn), as well as the boom in exports, which continue to contribute to the improvement of reserves, and with them, to exchange rate stability and calm in the debt and equity markets.

Equity Bullish Price Factors.

Domestic Investors' Appetite & Fubon ETF approval: the market received strong support from better-than-expected GDP growth in the second quarter, which saw a year-on-year increase of 6.9%, driven by the government's supportive policies. Despite significant foreign capital outflows, the market demonstrated resilience and stability, showcasing the robustness of Vietnamese equities. Retail investor confidence remained strong, bolstered by positive news such as the approval of the Fubon FTSE Vietnam ETF to raise an additional USD 150 million and the National Assembly's proposal to extend a 2% VAT reduction.

Improved Outlook for Profits: Consequently, the fund manager anticipates that the profits of listed companies, especially in key investment sectors, are poised to benefit from the economic recovery and will exceed expectations in Q2.

Banks post huge profits despite low credit growth: As one of the first banks to announce consolidated business results for the first quarter, SeABank achieved pre-tax profit of $62.75 million, up nearly 41 per cent compared to the same period last year. The Vietnamese bank's leaders stated that they have maintained a good net interest margin because the bank has managed its brand and customer care well, so the provision for credit losses was not very high. The director of the Research Department at MB Securities (MBS) said that investment securities credit growth in 2024 could reach the target of 14-15%. There are gradual warming signs, as apartment prices in major cities like Hanoi and Ho Chi Minh City are increasing, along with demand. This is expected to boost credit in the secondary real estate market, thereby helping the housing loan segment to recover.

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

Energy and Transport Sectors Get Major Upgrades: Moves are underway to reform the infrastructure and energy sectors. A whopping $600 billion of pledges have been made to achieve net-zero emissions by 2050, with a focus on hydrogen energy and digital transformation. By 2030, the aim is to fully digitize energy systems and processes. This means a major push in charging infrastructure and for electric vehicles. The country isn't going it alone: partnerships with Russia in oil and gas projects and with global firms like Keppel for large-scale carbon reduction solutions are on the agenda.

Vietnamese airlines are going global: VietJet is launching direct flights from Ho Chi Minh City to Xi'an, and Vietnam Airlines has inked nearly $450 million in deals with Chinese firms to increase passenger and cargo services. Air India is starting direct Delhi-HCMC flights. Vietnam Airlines has even snagged an award for its premium economy despite the chaos.

Exports Boom Across Ag, Textiles, Tech: Exports are on fire, with agriculture notching as much as $55 billion thanks to strong sales in rice, fruits and seafood. The textile sector is facing some hurdles from proposed VAT changes that could raise costs and hurt competitiveness, but the country still possesses a significant competitive advantage in the expertise it has in these manufacturing processes.

Equity Market: Bearish Price Factors

Concern Over Funan Techo: There are concerns about Cambodia's Funan Techo Canal project. The canal is planned to boost Cambodia's logistics by connecting Phnom Penh directly to the coast, bypassing Vietnam, but it could mess with water flows and ecosystems in the Mekong Delta. Plus, it might redirect trade away from Vietnamese ports and give China more sway in the region - not great for ongoing tensions.

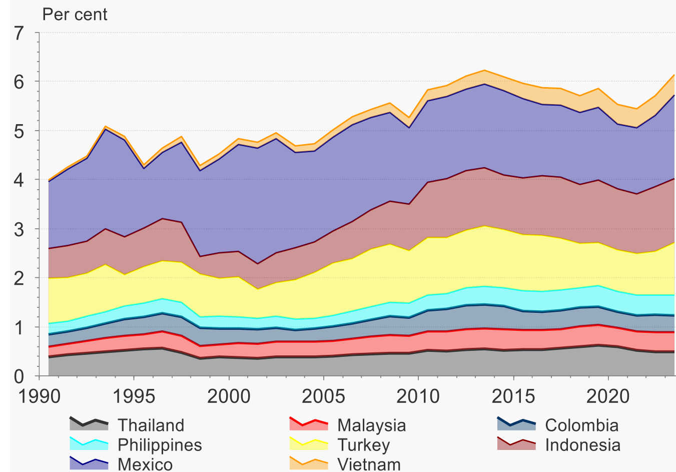
Foreign Investors' Appetite declined in July: The market experienced significant selling pressure from foreign investors, primarily due to the closure of BlackRock's iShares Frontier and Select EM ETF (which had over $100 million exposure to the Vietnamese market), and the redemption of the Diamond ETF, which has lost its appeal to foreign investors.

Possible interest rate hikes: With the continued weakness of the VND and rising inflation, the likelihood of an interest rate hike has increased. Consequently, the portfolio must be prepared for potential changes in interest rates.

Market outlook – Recommendations & Targets from fundamental analysis

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

Source: LSEG Datastream / ANDBANK



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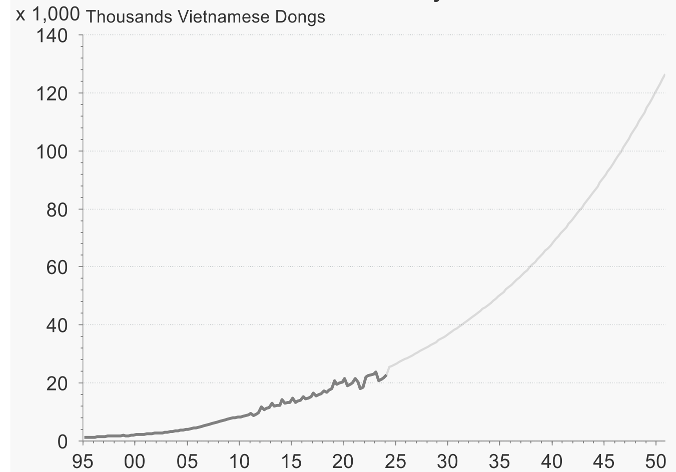


Source: LSEG Datastream / ANDBANK

ISRAEL

Impressive performance of local markets. Risks still persist

Macro, fiscal & monetary policy

July was another month of economic turbulence for Israel, with macroeconomic indicators resembling a perilous tightrope walk. The CPI saw a modest increase of +0.1% m/m, in line with expectations, driven primarily by surging services prices (culture and entertainment +1.2% m/m) and persistently high housing costs (rents +0.5 m/m). The annual figure rose from +2.8% y/y to +2.9% y/y, close to the 3% upper limit of the Bank of Israel's target range. This sustained inflationary pressure squeezes real wages, leaving households grappling with ever-tightening budgets and escalating financial stress.

On the fiscal front, the 12-month fiscal deficit expanded further to 7.6% of GDP, higher than the 6.6% estimate for the full calendar year of 2024. Israel's widening deficit is primarily due to continued elevated defense spending and additional stimulus measures aimed at cushioning the economy amidst ongoing geopolitical instability.

The economic ramifications of the security situation remain profound, creating a volatile mix of uncertainty and economic disruption. The tourism sector, once a cornerstone of Israel's economic activity and a major source of income for the government, remains deeply impaired, and foreign direct investment remains tepid. The overarching geopolitical tensions cast a long shadow, severely impacting economic recovery prospects and overall stability.

After July's Monetary Policy meeting the Central Bank of Israel decided to leave the benchmark rate unchanged at 4.5%. The BOI also downgraded its growth forecasts for 2024 and 2025 in view of the current economic conditions. For 2024, GDP growth is now projected at 1.5%, down from the previous 2%, due to the ongoing geopolitical tensions and their impact on economic activity. For 2025, the growth forecast has been revised to 4.2%, down from 5%, assuming a stabilization of the geopolitical situation and a recovery in key sectors like tourism and foreign investment. Similar to what happened with the Fed's June dot plot, Central Bank officials are now seeing only one interest rate cut over the next year, compared with three rate cuts in its previous forecast.

Fixed income

July saw a notable flattening of the yield curve, reflecting (temporary?) changes in investor sentiment. While short-term yields have remained relatively stable, long-term yields dropped by 0.3%, primarily influenced by a similar move in US yields. We still maintain the view that due to the security and political situation, short duration is still recommended. Despite the relative steepness of the curve (rising from left to right), we think that risks are not fully priced yet.

We think that due to the government's fiscal management, current inflationary pressures, and the tense geopolitical situation, short duration is appropriate until longer-dated yields reflect current risks. Worth mentioning is that the corporate bonds market has been showing impressive resilience, mainly due to the solid financial strength of most of the companies that comprise the main corporate bond indices.

Stocks

The Tel Aviv Stock Exchange (TASE) has been on a wild ride throughout July, with the benchmark TA-125 index seeing significant gains. The index closed up 4.5%, buoyed by strong performances in the technology and healthcare sectors. Investor sentiment, while cautious, has been bolstered by optimistic earnings reports and a general resilience in the face of global economic uncertainty. Insurance stocks, after suffering a rough patch, have begun to recover as investors reassess growth prospects in a climate of rising interest rates and geopolitical instability. The real estate sector has also shown robust growth, driven by increased demand after a long period of stagnation.

Last but not least, we should highlight the news that Alphabet is in advanced discussions to buy Israeli firm Wiz for approximately 23 bn USD. Wiz develops cybersecurity software for cloud computing and earlier this year raised 1 bn USD of capital, giving the Company a valuation of 12 bn USD. If confirmed, this will be the largest M&A transaction in Alphabet's history.

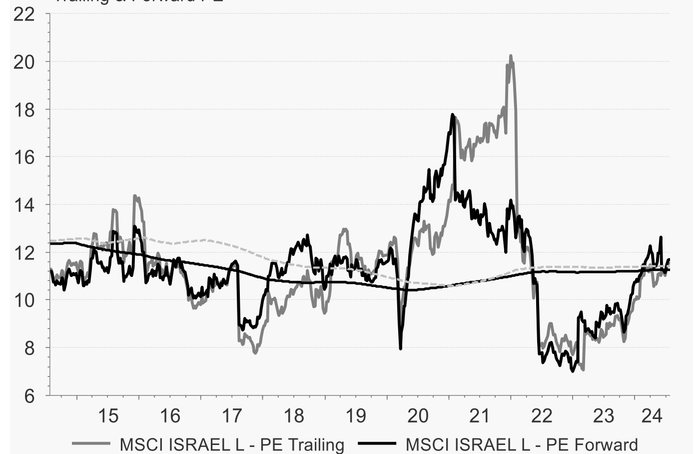
Market outlook – Recommendations & Targets from fundamental analysis

Equities – TLV35 Index: MARKETWEIGHT

Bonds – Government–10Y Gov: MARKETWEIGHT

Bonds – Corporates: MARKETWEIGHT

FX – ISL vs USD: Neutral in REER



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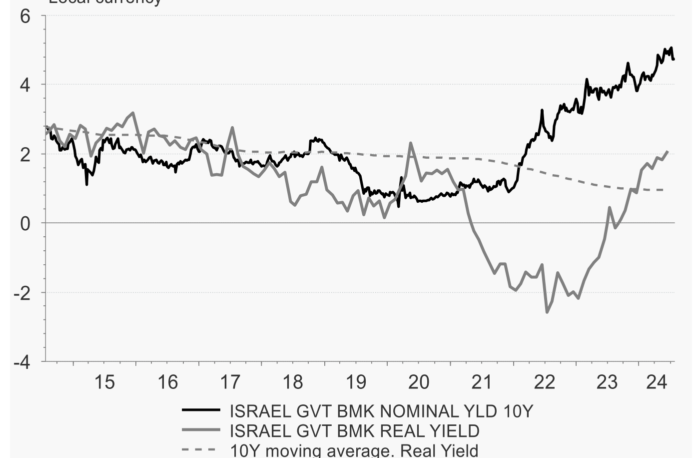

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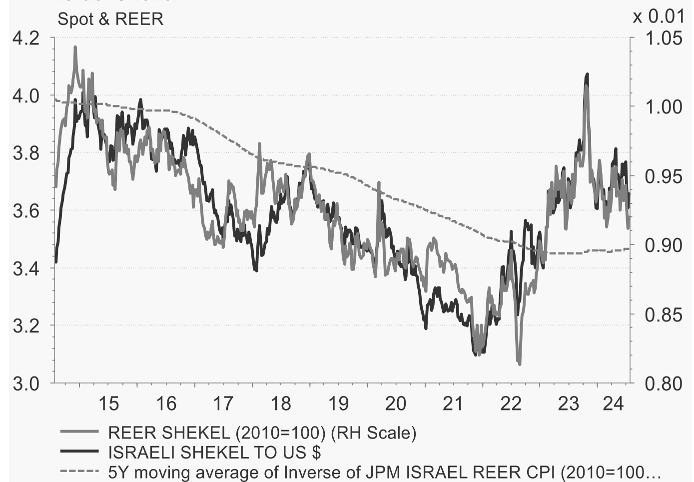


Source: LSEG Datastream / ANDBANK

BRAZIL

When is the Central Bank going to resume the rate cutting cycle?

In the words of Roberto Campos

The Central Bank has maintained interest rates at 10.5%, despite concerns about the strength of the Brazilian economy, particularly the labor market. The bank is adopting a cautious approach, waiting to see the effects of this decision on the economy before considering further rate cuts.

Speaking at the ECB Forum in Portugal, Roberto Campos Neto, the president of the Central Bank, explained that the recent decision to halt the reduction of rates was influenced by both inflation data and recent market noise. He noted that a general sell-off in emerging markets, including Brazil, was driven more by noise than by fundamentals. Campos Neto highlighted that this noise was linked to expectations around fiscal and monetary policy paths, creating enough uncertainty to pause the rate cuts. He emphasized the need to improve communication to eliminate these noises and better align expectations with current fiscal and inflation data.

On the Fiscal front, the possibility of a budget cut

In recent interviews, Finance Minister, Fernando Haddad, emphasized the need for patience in addressing the country's fiscal situation, describing it as an "obsession" to organize government finances. He highlighted that Brazil is coming out of two significant fiscal challenges: the COVID-19 pandemic and the 2022 elections, which, according to him, were preceded by mismanagement of public finances. Haddad assured that the government's work plan remains steady and unchanged, adding that recent economic data has been surprisingly positive, with growth of economic activity and declining inflation. He mentioned that retail sales, services, and inflation data all exceeded expectations, suggesting a promising outlook for economic growth.

Haddad also reiterated the government's efforts to cut costs, by announcing a significant budget cut of R$ 25.9 billion in mandatory expenses. This decision aims to ensure the sustainability of the 2024 budget and the preparation of the 2025 budget, which must be submitted by August 31. The cuts were identified line by line, focusing on areas that are not aligned with the spirit of the social programs planned for the coming year.

Additionally, the government is considering further measures, such as spending contingencies, to meet fiscal targets for 2024 and maintain a balanced budget for 2025. These measures may be implemented based on recommendations from the Federal Revenue, Treasury, and Federal Budget Secretariat, with potential actions starting as early as July 22. The goal is to ensure that the fiscal framework is respected and that the budget limits for 2025 are set accordingly.

On the inflation front, data surprised to the downside

The official inflation rate in Brazil, measured by the Broad National Consumer Price Index (IPCA), rose by 0.21% in June, showing a slowdown compared to May's +0.46% m/m. The IPCA has accumulated a 2.48% increase for the year and a 4.23% rise over the past 12 months, staying within the government's acceptable range of 4.5%.

Tax reform

Brazil's lower house has made significant progress on tax reform by approving the first set of legal definitions for a new consumption tax system. This reform aims to simplify the country's complex tax structure by consolidating five multi-tiered taxes into two VAT-like levies: one federal (CBS) and one for states and municipalities (IBS). The new legislation eliminates taxes on essential food items and imposes a "sin tax" on products like alcoholic beverages, sugary drinks, cigarettes, and sports betting. The reform is crucial for Brazil, where complying with current tax laws is notoriously time-consuming, taking an average of 1,500 hours per year. By streamlining the tax system, the government hopes to reduce this burden significantly, making it easier for businesses to operate and comply with tax regulations. This simplification is expected to boost economic efficiency and improve the overall business environment in Brazil.

The second legislative package, presented this week, focuses on creating the committee responsible for overseeing the implementation of the new tax system. This step is essential for ensuring that the reform is executed effectively and that the transition to the new system is smooth. Overall, the tax reform represents a major step forward in modernizing the economy and making it more competitive on the global stage.

Market outlook – Recommendations & Targets from fundamental analysis

Equities – iBovespa: MARKETWEIGHT

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

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

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

Brazil MSCI Index price-to-earning

Trailing & Forward PE

Source: LSEG Datastream / ANDBANK

Brazil equities (USD), 2008 vs 2020

Bovespa, rebased, 100 = crisis start date

Source: LSEG Datastream / ANDBANK

BRAZIL - SPREAD 10Y GOV BOND vs UST

(Local & US$ denominated bonds)

Source: LSEG Datastream / ANDBANK

MEXICO

Elected government doing everything to calm markets but reforms cannot yet be ruled out

Central Bank

The Bank of Mexico kept its monetary reference rate unchanged (11%) at its June meeting, as its monetary policy decision coincided with the increase in volatility in local markets. The minutes of that meeting show that the central bank kept the door open to a further 25 bps cut in its benchmark rate due to the perception that the ex-ante real rate remains at a highly restrictive level. Only one member voted in favor of a cut. After the decision, a less pessimistic balance is perceived due to the increase in inflation and inflationary expectations (which could include unfavorable policies for prices in both Mexico and the U.S. during 2025).

Inflation and activity

In June, headline inflation moved towards 5% again (+4.98% y/y), driven by the negative impact of the increase in prices that make up the non-core index (+7.67% y/y), especially agricultural products, which during the last month rose +10.36% y/y. Persistence has also been observed in the services sub-index of core inflation, which has not trended downward since reaching its highs in 2022.

The economic growth expectation for the year stands at 2%-2.5%, much closer to the long-term average after adjustments for the pandemic period. The latest economic activity indicators show a slowdown during the first half of this year.

Politics

After the election results had created a climate of local uncertainty in the first ten days of the month, the presentation of the future cabinet names by the president-elect and a considerable effort to lessen the market's pessimistic expectations prompted a partial recovery of local assets, especially the peso.

The negative market trend after the elections can be explained by the fact that there is a month's difference between the coming into office in September of the new government, in which Lopez Obrador's party has a large majority, and the date the new President takes office, which opens a window for the current President to push through reforms, primarily of the judiciary system, pensions and social programs, among other things.

For the time being, we cannot rule out the possibility that some of these reforms will prosper, especially that of the judicial system, which could lead to a deterioration in perceptions of the rule of law in the country. The latter is a key factor for credit rating agencies when assigning a rating to a country (today Mexico maintains its investment grade rating, one notch above speculative grade for Fitch and two for Standard & Poor's and Moody's).

Financial markets

Equity: The Mexican market, like global indices, performed well in June, especially at the end of the month, and yet the S&PBMV IPC has accumulated a negative return of 4% year to date. After partially reversing the sharp setbacks generated by political uncertainty in the first two weeks of June after the presidential elections, the main drivers of the performance of the local index are regaining importance. The negative drivers include: i) a lack of names related to the theme that generates the most interest among investors today, namely Artificial Intelligence, ii) rumors about the possibility of new taxes on the banking sector, and iii) a less attractive growth story. On the other hand, we have identified the following positive drivers of stock market performance: i) the possibility of a change in investor appetite toward cyclical sectors, ii) the possibility of at least one Central Bank move during the year, and iii) a positive outlook for earnings growth. For the time being, we reiterate our estimate of 58,800 for the next twelve months.

Fixed Income & FX: The local debt yield curve moved downward, following the lower rates seen in the U.S. and the market's lower perception of political risk. The spread against the 10-year bond returned to 560 bps, after rising above 600 bps. Our estimate remains at 550 basis points, with volatility expected in the following months (the reforms and the 2025 budget will be presented in September). We remain cautious about peso duration. For USD debt, the spread increased to 181 bps, exceeding our target of 175 bps, which we are maintaining for the end of the year.

As with rates, the peso recovered much of its lost ground by returning from June highs of 18.80 to 17.70 in the second week of July. We expect it to remain within a range of 18.30 to 19.00, with more volatility in the last part of the year, thus maintaining the 18.50 estimate we have had for 2024 as a whole.

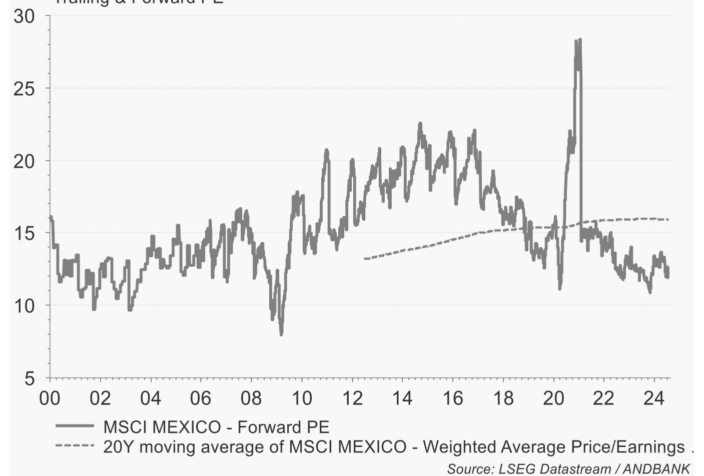
Market outlook – Recommendations & Targets from fundamental analysis

Equities – Mex IPC: MARKETWEIGHT-OVERWEIGHT

Bonds – Govies Local: OVERWEIGHT (Target Spread 550 => Target yield 10%)

Bonds – Govies USD: UNDERWEIGHT (Target Spread 175 => Target yield 6.25%)

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



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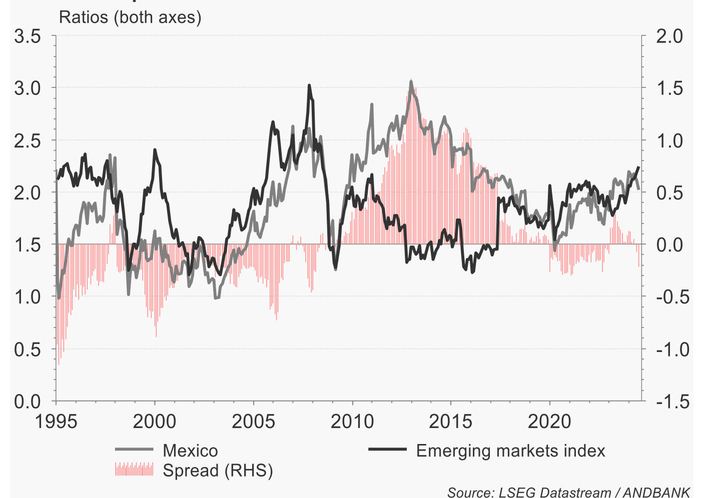
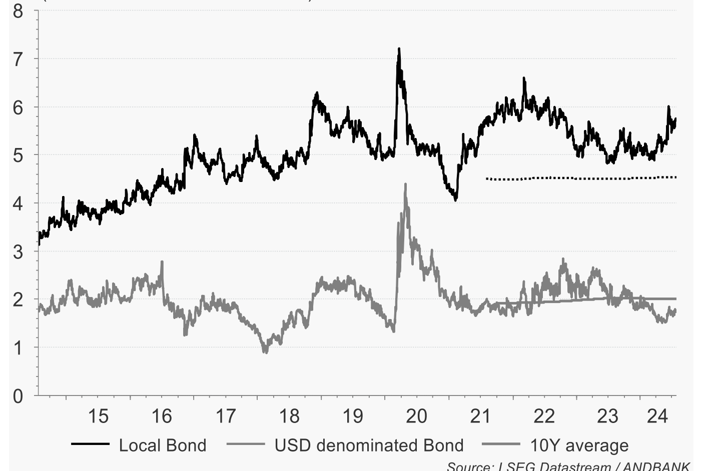


Source: LSEG Datastream / ANDBANK



Source: LSEG Datastream / ANDBANK

ANDBANK Private Bankers

MACRO ECONOMY

ARGENTINA

Government continues taking measures with the aim of lifting capital controls

Politics: Good news for the government

Finally, after lengthy political negotiations, both in the Senate and in the Chamber of Deputies, and significant changes, the Bases Law and the fiscal Package, which make up the main body of legislation promoted by the Milei administration, were approved. The Deputies approved the amended version of the Bases Law proposed by the Senate (147 ayes, 107 noes and 2 abstentions) after the Government desisted from including the national air carrier (*Aerolineas Argentinas*), the SOE mailing company (*Correo Argentino*) and public TV and radio in the list of companies to be privatized and dropped the proposed changes to the social security system, such as the elimination of the pension moratorium. The main victory for the Government came during the vote on the Fiscal Package, when it succeeded in maintaining the original version of the bill, in which income tax was increased and the wealth tax was modified, after the Senate had not approved either of these two chapters.

Monetary and Exchange Policy: New focus of attention of the Market

Now that the Bases Law has been approved (a major step for the Government), market participants are now paying greater attention to the Government's economic policy, especially to the possibility of a change in the exchange rate scheme, with the abandonment of capital controls, which is a highly complex challenge at a time when the Government cannot continue to accumulate reserves (commodity prices have been falling recently) and regional currencies have been undergoing a process of devaluation. Finance Minister Luis Caputo and Central Bank President Santiago Bausili announced in a press conference the launch of a second stage of normalization that will include the replacement of debt issued by the Central Bank by new Treasury debt called Fiscal Liquidity Bills (LeFi). This move is intended to close one of the channels of money creation. According to Caputo, this is the second stage, because previously the Government halted monetary issuance for the fiscal deficit, so that interest payments will now have to be made out of the Treasury's fiscal surplus. Although these announcements are in the right direction, the announcement left a bitter taste in the market because more clarity on the lifting of capital controls was expected. The government had to announce new measures, most notably the sterilization of currency issuance for USD purchases in the official market through the simultaneous sale of dollars in parallel currency markets, so as to contain the exchange gap, which had increased to over 50%, even though this could reduce the accumulation of reserves.

Economic Activity: Two economies with different realities

Argentina's economic activity indicators show that the sectors linked to domestic activity have performed worse than the sectors linked to foreign activity. On the one hand, we have the following data for the domestic sectors: i) Retail sales for SMEs -21.9% y/y in June at constant prices, with a cumulative drop of 17.2% in 1H24; ii) the Manufacturing Industrial Production Index for May showed a seasonally adjusted decrease of -0.2% m/m, with a 14.8% y/y decline, while Construction Activity showed a seasonally adjusted +6.2% m/m advance in May but decreased 32.6% y/y. On the other hand, recent external sector data are encouraging, with agriculture showing a recovery after last year's drought, and with improvements in other industries: i) Mining Industrial Production in May showed an increase of +7.7% y/y; ii) Neuquén province reached a new record for oil production in May, with 394 thousand bpd (+19.3% YTD y/y)

Corporates: Pending YPF-Petronas plant, PAE signs contract with Golar

For several years there have been talks in Argentina about the construction of an LNG plant (for 30 bn USD) to be operated between YPF and the Malaysian oil company Petronas, but in recent months YPF has begun to move more quickly to start up the plant. Although the project was originally planned to be carried out in the city of Bahia Blanca (province of Buenos Aires), Argentina's main petrochemical hub, in recent months the southern Province of Rio Negro, next to Neuquén, has expressed its interest in the construction to be carried out in that province. With a similar objective of converting natural gas into LNG for subsequent export, Pan American Energy (owned by BP, Bridas, and the Bulgheroni family) and Golar LNG signed a 20-year agreement for the installation of a floating liquefaction vessel (capacity of 2.4 mn tons per year) in Argentina that will produce LNG for export markets, starting in 2027.

Prices: A print with mixed signals for the government

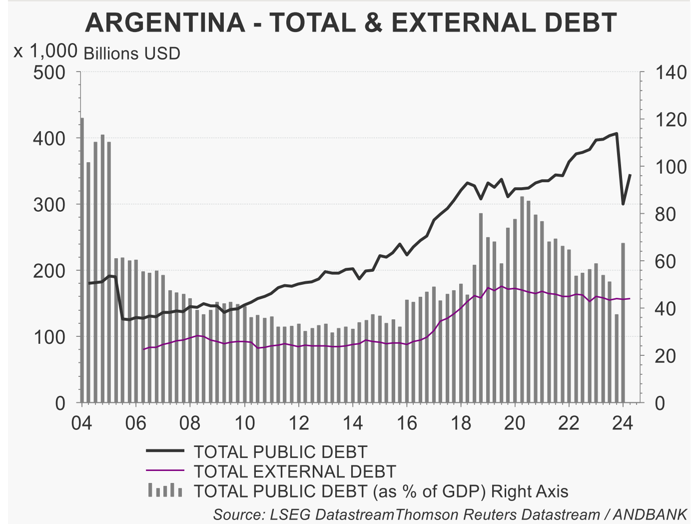
In the first month of the Milei administration (Dec-23) inflation increased every month by more than 25%, after a more than 50% devaluation of the official FX. In the following months, inflation started to decrease month by month until it reached 4.2% m/m in May. June's inflation figure (+4.6% m/m) reversed this downward trend, although one of the positive readings is that the figure was lower than expected by market analysts (+5.2% m/m). Another positive element to highlight is that core prices increased below headline inflation for a sixth consecutive month, with a +3.7% m/m increase. Regulated prices rose +8.1% m/m, again outpacing the headline CPI, driven by housing and utilities, which surged by +14.3% m/m. To take the pressure off regulated prices, the government has postponed increases in fuel taxes and utility prices that together would have added 1.2% to monthly inflation in July, according to JPMorgan.

Market outlook – Recommendations & Targets from fundamental analysis

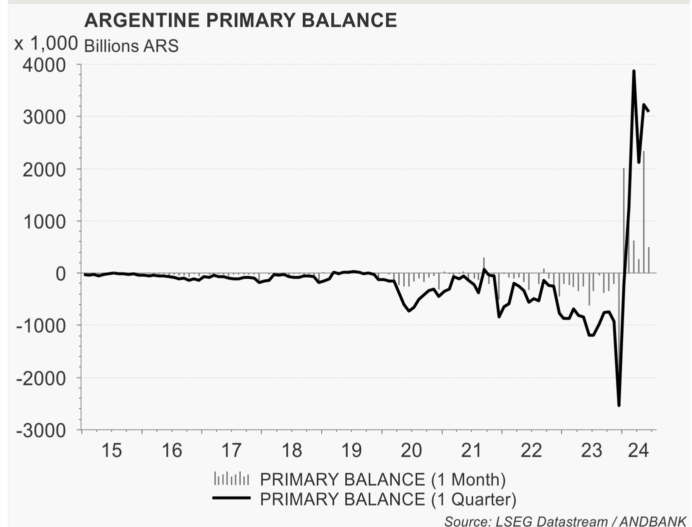
Bonds – 10YGov USD: NEUTRAL

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

Source: LSEG Datastream / ANDBANK



Source: LSEG DatastreamThomson Reuters Datastream / ANDBANK



Source: LSEG Datastream / ANDBANK

ANDBANK
Private Bankers

EQUITIES

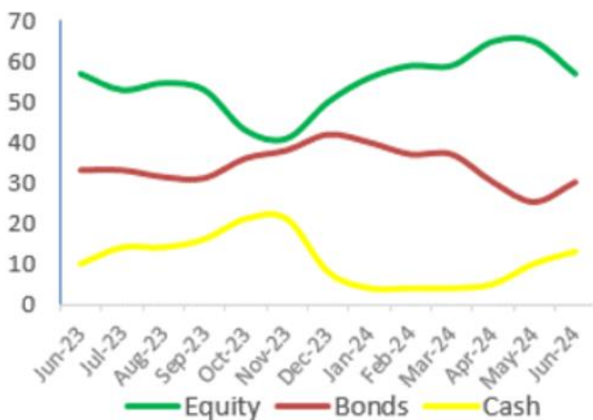
GLOBAL EQUITY INDICES
Fundamental assessment

Index	Projected EPS Fw 12 months	Projected EPS Growth 2024	PE (ltm)	Price Earning (forward)	Current Equity Yied	Current Risk Premium	Hist Risk Premium	Reasonable Price Earning Ratio 12m	Implied Equity Yied at Reasonable PE	Implied Risk Premium at Reasonable PE	INDEX CURRENT PRICE	Andbank's Target Price Next 12 months	Expected performance to target Price	Recommended Strategy
USA S&P 500	263	10,6%	24,65	20,72	4,83%	0,65%	2,00%	21,00	4,76%	0,59%	5.459	5.532	1,3%	MW
Europe - Stoxx Europe 600	37	4,4%	14,63	13,95	7,17%	4,79%	5,00%	14,00	7,14%	4,76%	513	515	0,4%	MW-OW
Spain IBEX 35	1.043	5,5%	11,78	10,70	9,34%	6,14%	5,70%	11,00	9,09%	5,89%	11.166	11.475	2,8%	MW-OW
Mexico IPC GRAL	4.534	10,2%	12,97	11,65	8,58%	-1,27%	-0,90%	13,00	7,69%	-2,16%	52.820	58.948	11,6%	MW-OW
Brazil BOVESPA	15.489	12,0%	9,22	8,23	12,15%	0,04%	-1,10%	9,10	10,99%	-1,12%	127.492	135.000	5,9%	MW
Japan NIKKEI 225	1.859	25,6%	26,91	20,27	4,93%	3,91%	4,00%	24,00	4,17%	3,14%	37.667	44.607	18,4%	OW
China SSE Comp.	309	14,6%	10,81	9,37	10,67%	8,52%	4,80%	10,00	10,00%	7,85%	2.892	3.085	6,7%	UW
China Shenzhen Comp	124	23,6%	16,09	12,63	7,91%	5,77%	1,25%	14,00	7,14%	5,00%	1.562	1.731	10,8%	UW
India SENSEX	4.126	24,4%	27,37	19,73	5,07%	-1,85%	-2,00%	21,00	4,76%	-2,15%	81.421	86.641	6,4%	OW
Vietnam VN Index	137	30,5%	13,20	9,07	11,02%			11,00	9,09%		1.247	1.512	21,2%	OW
MSCI EM ASIA	46	22,3%	16,51	12,76	7,84%			13,50	7,41%		585	619	5,8%	OW

ANDBANK ESTIMATES

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

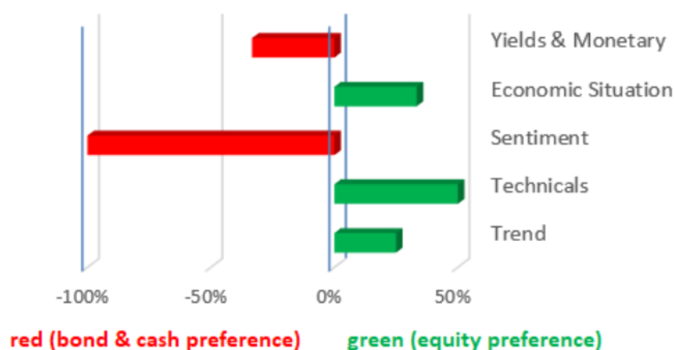
Dynamic Asset Allocation per Ned Davis Research



Tactical Asset Allocation

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

Current Relative Strength (Equities vs Bonds) Ned Davis Research



GLOBAL EQUITY INDICES

Earnings Dashboard - EUROPE

Exhibit 1A. STOXX 600: Q2 2024 Earnings Dashboard

STOXX 600 2024Q2 EARNINGS

BLENDED GROWTH RATES

Sector	Growth
STOXX 600	-0.8%
Utilities	17.5%
Financials	5.4%
Energy	4.9%
Consumer Non-Cyclicals	4.4%
Basic Materials	1.9%
Healthcare	-0.1%
Real Estate	-1.0%
Consumer Cyclicals	-1.5%
Industrials	-9.9%
Technology	-31.2%

SCORECARD

■ Above ■ Match ■ Below

Sector	Above	Match	Below
STOXX 600	52%	3%	44%
Basic Materials	14%	0%	86%
Consumer Cyclicals	29%	0%	71%
Consumer Non-Cyclicals	38%	0%	63%
Energy	50%	0%	50%
Financials	71%	7%	21%
Healthcare	83%	0%	17%
Industrials	59%	0%	41%
Technology	62%	15%	23%
Real Estate	20%	0%	80%
Utilities	--	--	--

■ Reported ■ Remaining

Sector	Reported	Remaining
STOXX 600	86	250
Basic Materials	7	29
Consumer Cyclicals	7	26
Consumer Non-Cyclicals	8	12
Energy	4	18
Financials	14	46
Healthcare	6	20
Industrials	22	43
Technology	13	27
Real Estate	5	6
Utilities	0	15

SURPRISE FACTORS

Sector	Surprise
STOXX 600	-0.3%
Financials	5.7%
Energy	5.6%
Healthcare	5.5%
Consumer Non-Cyclicals	1.6%
Industrials	0.5%
Consumer Cyclicals	-2.1%
Real Estate	-5.4%
Basic Materials	-9.9%
Technology	-13.9%
Utilities	-

STOXX 600 2024Q2 REVENUE

BLENDED GROWTH RATES

Sector	Growth
STOXX 600	0.9%
Utilities	17.6%
Financials	4.5%
Energy	-2.4%
Consumer Non-Cyclicals	-7.1%
Basic Materials	-1.6%
Healthcare	1.4%
Real Estate	-18.7%
Consumer Cyclicals	1.6%
Industrials	2.3%
Technology	-2.3%

SCORECARD

■ Above ■ Match ■ Below

Sector	Above	Match	Below
STOXX 600	60%	1%	39%
Basic Materials	38%	0%	63%
Consumer Cyclicals	25%	0%	75%
Consumer Non-Cyclicals	40%	10%	50%
Energy	75%	0%	25%
Financials	86%	0%	14%
Healthcare	100%	0%	0%
Industrials	52%	0%	48%
Technology	69%	0%	31%
Real Estate	67%	0%	33%
Utilities	--	--	--

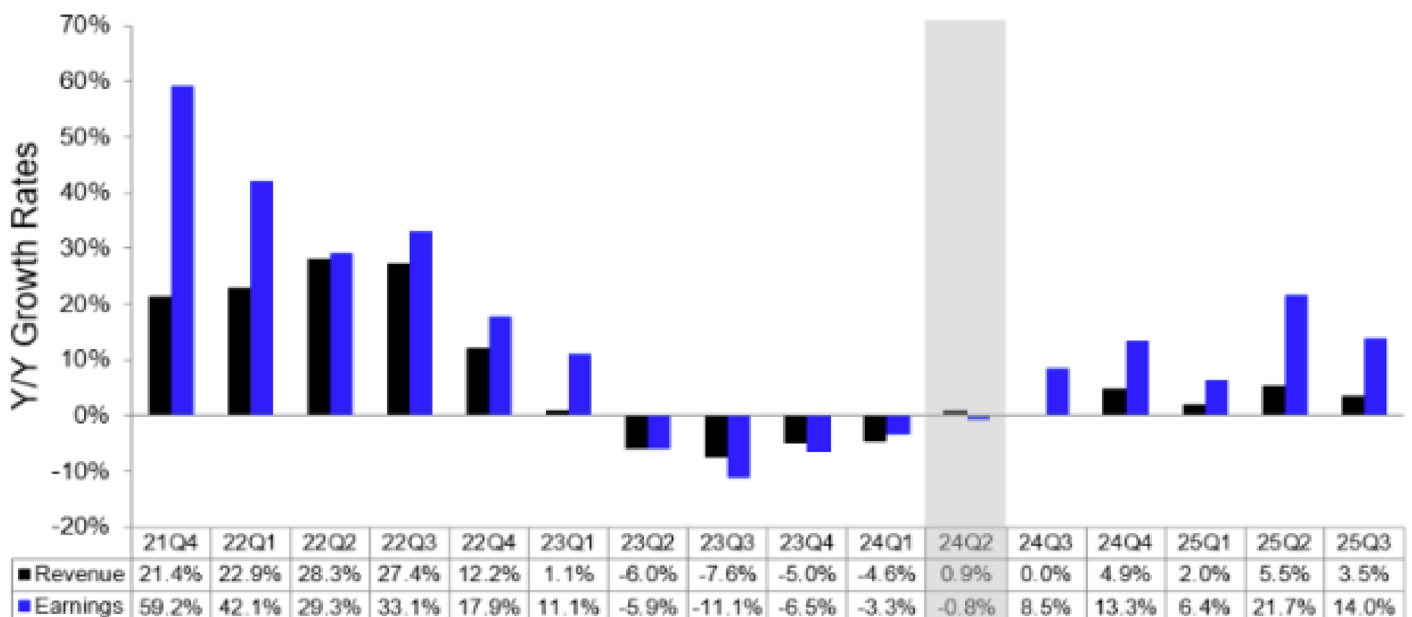
■ Reported ■ Remaining

Sector	Reported	Remaining
STOXX 600	92	292
Basic Materials	8	36
Consumer Cyclicals	8	33
Consumer Non-Cyclicals	10	21
Energy	4	19
Financials	14	46
Healthcare	6	33
Industrials	23	48
Technology	13	36
Real Estate	6	5
Utilities	0	15

SURPRISE FACTORS

Sector	Surprise
STOXX 600	0.4%
Financials	1.6%
Energy	10.2%
Healthcare	1.4%
Consumer Non-Cyclicals	-0.2%
Industrials	-0.6%
Consumer Cyclicals	-1.4%
Real Estate	-1.4%
Basic Materials	-1.2%
Technology	0.4%
Utilities	-

Exhibit 3A. STOXX 600 YoY Growth Rates



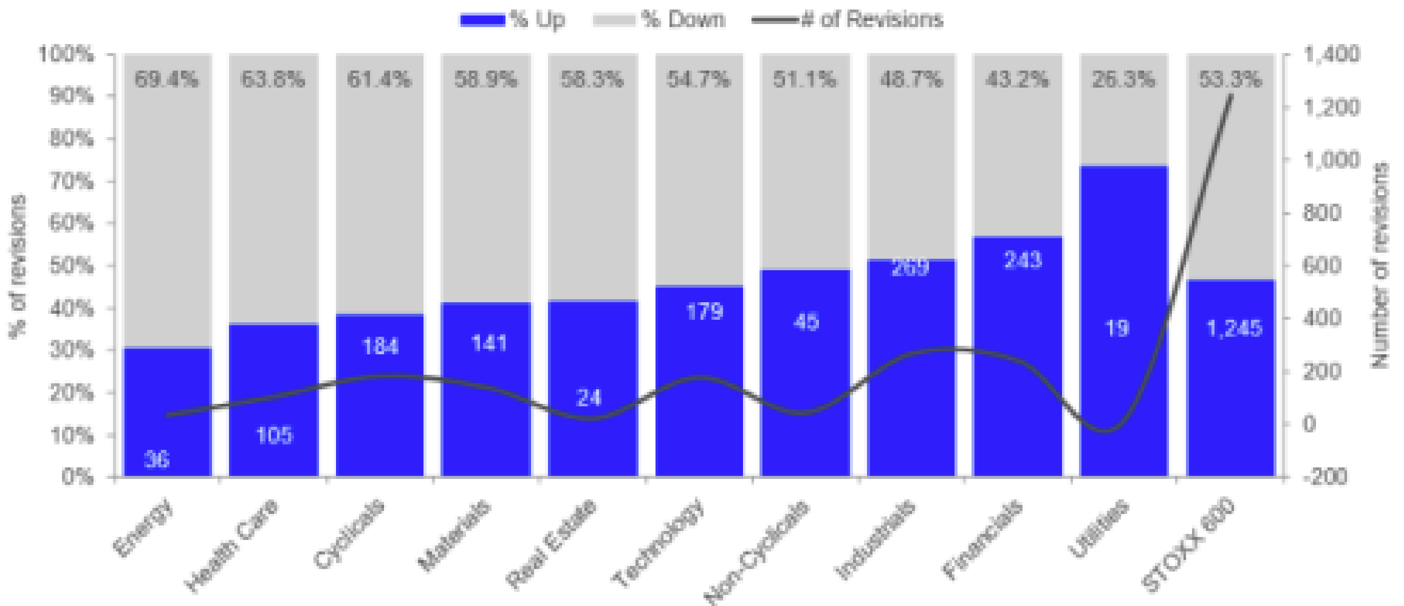
	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	25Q3
■ Revenue	21.4%	22.9%	28.3%	27.4%	12.2%	1.1%	-6.0%	-7.6%	-5.0%	-4.6%	0.9%	0.0%	4.9%	2.0%	5.5%	3.5%
■ Earnings	59.2%	42.1%	29.3%	33.1%	17.9%	11.1%	-5.9%	-11.1%	-6.5%	-3.3%	-0.8%	8.5%	13.3%	6.4%	21.7%	14.0%

Source: LSEG I/B/E/S

GLOBAL EQUITY INDICES

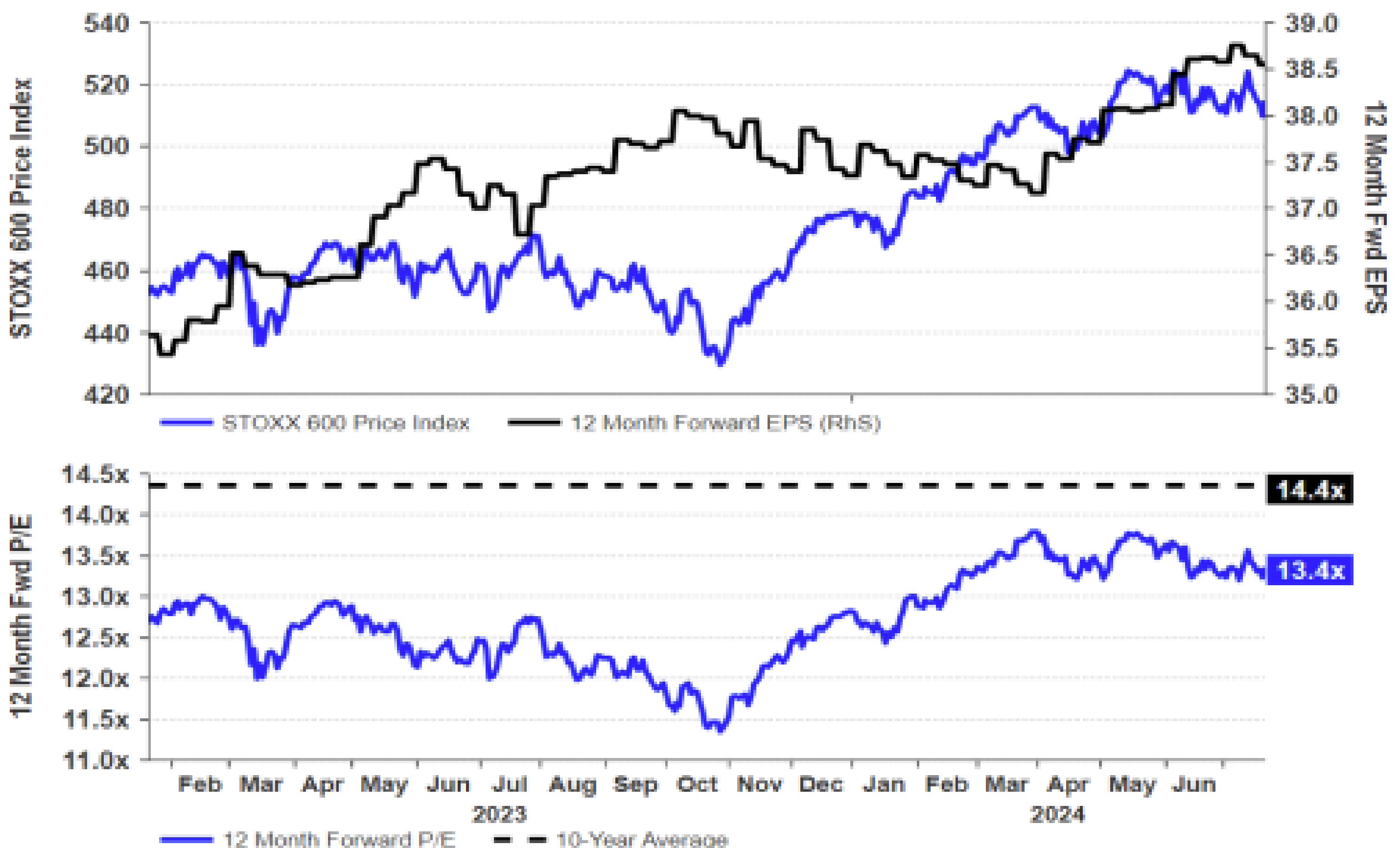
Earnings Dashboard - EUROPE

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. 2024Q2 S&P 500 Earnings Dashboard

BLENDED GROWTH RATES

S&P 500 2024Q2 EARNINGS		S&P 500 2024Q2 REVENUE	
S&P 500	12.1%	S&P 500	4.8%
Comm. Services	24.0%	Comm. Services	5.9%
Health Care	22.5%	Health Care	7.1%
Technology	17.8%	Technology	9.8%
Financials	17.6%	Financials	4.2%
Consumer Discretionary	8.0%	Consumer Discretionary	5.0%
Utilities	5.9%	Utilities	5.1%
Consumer Staples	1.5%	Consumer Staples	2.1%
Industrials	-1.4%	Industrials	-0.4%
Energy	-1.6%	Energy	5.7%
Real Estate	-2.4%	Real Estate	6.8%
Materials	-7.2%	Materials	-1.3%

SCORECARD

Earnings (Above / Match / Below): 79% / 6% / 15%

Earnings	Above	Match	Below
S&P 500	79%	6%	15%
Consumer Discretionary	67%	4%	29%
Consumer Staples	77%	8%	15%
Energy	67%	17%	17%
Financials	80%	4%	16%
Health Care	95%	-	5%
Industrials	78%	10%	13%
Materials	91%	-	9%
Real Estate	78%	22%	-
Technology	76%	-	24%
Comm. Services	75%	25%	-
Utilities	80%	-	20%

Revenue (Above / Match / Below): 58% / 0% / 42%

Revenue	Above	Match	Below
S&P 500	58%	0%	42%
Consumer Discretionary	54%	-	46%
Consumer Staples	54%	-	46%
Energy	50%	-	50%
Financials	57%	-	43%
Health Care	80%	-	20%
Industrials	50%	-	50%
Materials	64%	-	36%
Real Estate	56%	-	44%
Technology	67%	-	33%
Comm. Services	50%	-	50%
Utilities	60%	-	40%

Earnings (Reported / Remaining): 41% / 59%

Earnings	Reported	Remaining
S&P 500	206	294
Consumer Discretionary	24	28
Consumer Staples	13	25
Energy	6	16
Financials	49	22
Health Care	20	43
Industrials	40	38
Materials	11	17
Real Estate	9	22
Technology	21	46
Comm. Services	8	11
Utilities	5	26

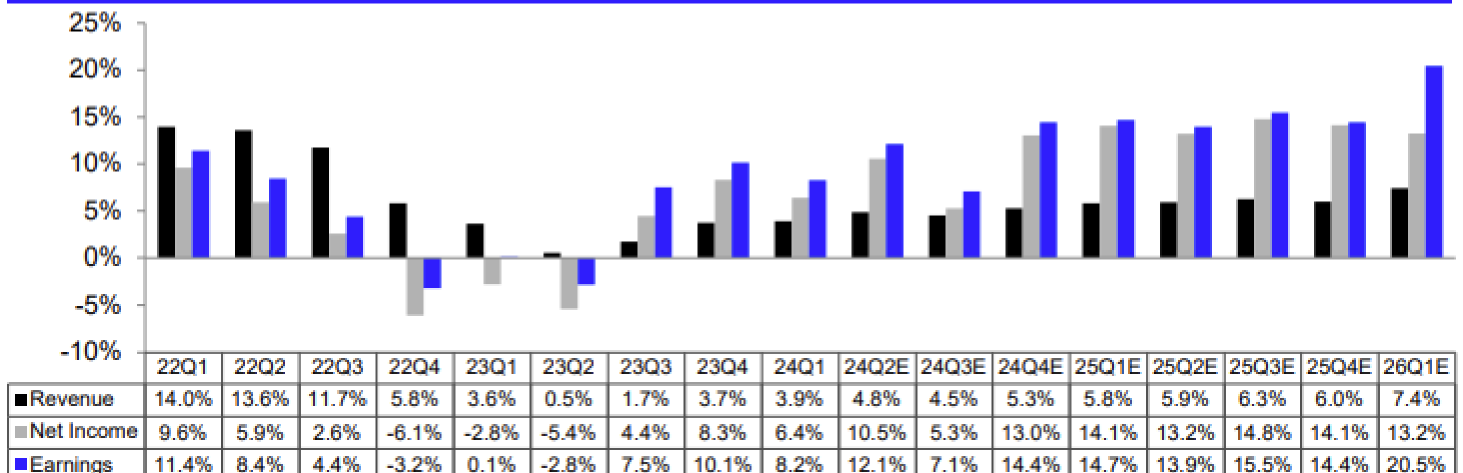
Revenue (Reported / Remaining): 41% / 59%

Revenue	Reported	Remaining
S&P 500	206	294
Consumer Discretionary	24	28
Consumer Staples	13	25
Energy	6	16
Financials	49	22
Health Care	20	43
Industrials	40	38
Materials	11	17
Real Estate	9	22
Technology	21	46
Comm. Services	8	11
Utilities	5	26

SURPRISE FACTORS

Earnings		Revenue	
S&P 500	4.4%	S&P 500	1.0%
Materials	8.7%	Materials	2.3%
Health Care	6.9%	Health Care	2.0%
Energy	5.8%	Energy	0.8%
Financials	5.4%	Financials	1.0%
Industrials	4.0%	Industrials	0.4%
Technology	4.0%	Technology	0.7%
Consumer Staples	3.2%	Consumer Staples	0.8%
Comm. Services	2.7%	Comm. Services	-0.1%
Utilities	2.6%	Utilities	-4.1%
Real Estate	2.6%	Real Estate	0.4%
Consumer Discretionary	0.2%	Consumer Discretionary	2.1%

Exhibit 5. S&P 500 YoY Growth Rates



	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3	23Q4	24Q1	24Q2E	24Q3E	24Q4E	25Q1E	25Q2E	25Q3E	25Q4E	26Q1E
Revenue	14.0%	13.6%	11.7%	5.8%	3.6%	0.5%	1.7%	3.7%	3.9%	4.8%	4.5%	5.3%	5.8%	5.9%	6.3%	6.0%	7.4%
Net Income	9.6%	5.9%	2.6%	-6.1%	-2.8%	-5.4%	4.4%	8.3%	6.4%	10.5%	5.3%	13.0%	14.1%	13.2%	14.8%	14.1%	13.2%
Earnings	11.4%	8.4%	4.4%	-3.2%	0.1%	-2.8%	7.5%	10.1%	8.2%	12.1%	7.1%	14.4%	14.7%	13.9%	15.5%	14.4%	20.5%

Source: LSEG I/B/E/S

ENERGY – OIL

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

Buy < USD75; Sell >USD95. The detailed analysis of the developments in the energy market during the last month makes us maintain a bullish stance on crude oil prices. We have counted 6 bullish developments for the price of oil and 2 bearish factors.

(Bearish price factor) – China Independents' refinery rates subdued on weak margins and low products demand. China's oil products imports slumped 33.2% from May to a 20-month low of 2.97M mt in June. According to the latest data from local energy information provider JLC, utilization rates fell by one percentage point to around 52% as of July 10. Low utilization rates come after a June that saw the lowest utilization rates since March 2020, when the country was hit by the COVID-19 pandemic. Most independent refineries have been running around their breakeven point for most of the year, due mainly to weak demand for oil products amid thin margins. Average utilization rate in the first half of 2024 also fell by 10 percentage points year on year to 58%, from 68% a year earlier. Among the factors that contribute to lower demand for gasoil are a sluggish housing market, slow construction of infrastructure projects, but also a growing use of electric vehicles and LNG-fueled heavy-duty trucks.

(Bearish price factor) - Kuwait's discovery: Kuwait Petroleum Corporation (KPC) said on July 14th that it had made a "giant" oil discovery in the Al-Nokhatha field east of the Kuwaiti island of Failaka, with oil reserves estimated at 3.2 billion barrels. "Huge commercial amounts" of light oil and associated gas in an offshore field have been discovered, marking a "turning point". Meanwhile, **Exxon plans to drill up to 30 wells for its seventh oil project in Guyana**. The project, which is pending government approval, will lift the country's capacity by ~180k bpd, to ~1.5 million barrels of oil per day in five years time.

(Bearish price factor) – New Iranian president, Masoud Pezeshkian, ran on a reformist platform and promised to ease tensions with the West. He also intends to have oil sanctions "disaster" removed and stop Iranian government from selling oil below market price. His victory opened the prospect for the OPEC member to supply more crude to the market and energize its aging oil and gas infrastructure. "We need foreign opening. Economic development … is not possible without interactive foreign policy and detente," said Pezeshkian.

(Bearish price factor) – Hamas has broadly agreed to a US-proposed cease-fire plan with Israel, according to a senior American official, though the details still have to be resolved. Israel is sending negotiators to Qatar to try to finalize an agreement, with US officials also set to take part. It's the clearest sign in weeks that a pause in hostilities could be on the cards after nearly nine months of war in Gaza.

(Bullish price factor) – Group discipline within OPEC+ in meeting quotas appears to maintain a high degree of adherence. Iraq, OPEC's second largest oil producer, acknowledged on July 13 that it produced 184,000 b/d over its OPEC+ quota in June and pledged to compensate for its excess output by a September 2025 deadline under the latest OPEC+ agreement by making additional cuts of equivalent volume. "Iraq affirms its complete commitment to the agreement and to the voluntary adjustments and will compensate for any overproduction since the beginning of 2024". Meanwhile, Kazakhstan's energy minister said he has prepared a plan to compensate for the country's oil production exceeding its OPEC+ quota. The OPEC+ alliance has made several rounds of production cuts over the past two years to help shore up the market, including some 2.2 million b/d of voluntary cuts by Iraq and several other members from mid-2023.

(Bullish price factor) – Russian exports on the decline: Russia's Rosneft and Lukoil will cut oil exports from the Black Sea port of Novorossiisk in July by some 220K bpd.

(Bullish price factor) – Platts agency indicated OPEC+ oil output fell by 130K bpd in June to 40.87M bpd, lowest in 11 months, as the group's allies moved closer to quota compliance.

(Bullish price factor) – Saudi summer: Saudi Arabia boosted imports of the dirtiest type of oil to the highest level in more than three years to help meet power demand amid extremely high temperatures.

(Bullish price factor) – Russian export ban: Reuters reported Russia's Federal Antimonopoly Agency FAS wants to reinstate a gasoline export ban from Aug. 1 to help meet fuel demand and secure price stability. As Russia stops exporting gasoline, recipient countries will have to produce their own gasoline, for which they will first have to buy oil and refine it.

(Bullish price factor) – Market positioning: Fund managers have been net buyers of oil in each of the last four weeks, purchasing a total of 316 million barrels since June 4, reverting to a broadly neutral position in petroleum in July after heavy selling triggered by the OPEC+ meeting at the start of June.

(Bullish price factor) – Global demand: Reuters reported global oil demand will outpace supply next year, according to latest EIA report. The change came after OPEC and its allies, collectively known as OPEC+, extended most of their deep oil output cuts into next year at a meeting last month. The producer group has been restricting output since late 2022 to shore up oil markets.

(Bullish price factor) – US power use forecast to reach record highs in 2024 and 2025, EIA says. EIA projected power demand will rise to 4,123 billion kilowatt-hours (kWh) in 2024 and 4,198 billion kWh in 2025. That compares with 4,000 billion kWh in 2023. Record power use was seen in 2022 at 4,067 kWh.

(Bullish price factor) – US oil output growth slows, gas begins to fall. In an environment of an expected increase in power use, this represents an upward driver for the price of crude oil. "Annual growth in U.S. crude oil production over the 2022-2024 will average 0.4 million barrels per day. That compares to average crude oil production growth of 1.1 million barrels per day during the three-year period from 2017 to 2019", the EIA said in its June STEO. This may reflect a combination of factors coming from, 1) the use of capital to increase dividends instead of investing in new production, 2) the effects of tighter labor markets and higher costs, and 3) increased pressure on oilfield supply chains. Despite this shift from the historical price response , we still expect U.S. crude oil production to continue growing to record levels, driven primarily by production growth in the Permian Basin. According to the EIA, U.S. crude oil production will average 12.77 million barrels per day in 2024, shy below the U.S. field crude production record of 13.1 million barrels per day seen in the week ending February 28, 2020.

(Bullish price factor) – Houthi operations: Reuters reported Houthi rebels on Monday said they conducted four operations targeting four ships in the Red, Arabian and Mediterranean Seas against the US, UK, and Israel.

(Bullish price factor) – Large inventory draw: Traders are forecasting a large depletion of inventories on a strong summer driving season, resulting in greater US gasoline consumption. Futures markets are forward-looking and appear to be anticipating a much tighter supply situation, which would underpin the higher prices and spreads over the next few months. OPEC and many analysts are predicting a large deficit in the third quarter, which would reduce inventories sharply.

PRECIOUS METALS - GOLD

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

Buy < USD2,200; Sell >USD2,400

Positive drivers for gold

Within the four-quadrants framework, the best scenario for gold would be one where inflation is combined with recession ('Inflationary Bust' or 'stagflation'). The scenario we are projecting places us in a quadrant where inflation is combined with a favorable cycle ('Inflationary Boom'). Such a scenario, while not the best, is still favorable for gold, although in this scenario gold should not outperform equities. The price of gold is also determined by other factors, such as the PBOC, in their decision to displace the USD in their strategic reserves, a factor that is currently favorable to gold.

Negative drivers for gold

Gold has just lost one of the drivers that made it the best antifragile asset: a lower relative supply. 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 as to 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 a shock. Until now, we have seen that while QT continued (which involved the Fed putting a large amount of UST on the market), gold continued to outperform the UST bond. But now it seems that the Fed is in no hurry to remove excess liquidity (and has therefore reduced the pace of selling USTs from its balance sheet). As long as the Fed maintains a low pace of UST supply, **the Treasury could regain its role as the best antifragile asset and take that role away from gold**. This month, we move this relative supply factor to the other side of the equation, making it a negative driver for gold. **In a longer-term view**, once QT has ended, we no longer see the supply of UST as unlimited but rather as 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.

Gold in real terms: Given the global deflator (now at 1.2448), 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$1,973. 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 78.31, still above its 20-year average of 68.43x, 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$2,146oz.

Gold in terms of palladium: The Gold/Palladium ratio increased to 2.32x, above its 20-year average of 1.66x. This implies that gold is currently expensive compared to palladium. To bring this ratio to its long-term average, assuming that palladium is well valued, then the price of gold should reach $1,703 per ounce.

Gold to oil ratio: This ratio is at 29.98x, still well above its 20-year average of 19.70x. 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$1,674 for this ratio to remain near its LT average.

The massive negative returns in bonds have disappeared: During the 2010-2017 and 2020-2022 periods, gold's disadvantage against fixed income instruments (gold does not offer a coupon) was neutralised by nominal negative yields in a large number of global bonds, leading to strong arguments for the purchase of gold. But this is no longer the case, with most bonds in the USD universe offering positive returns, making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield.

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

Risk #1. Higher nominal rates (HIGH RISK): High nominal rates are now a reality, and positive rates are going to stick around for a while.

Risk #2. A stronger USD (HIGH RISK): The US current account (CA) balance has continued to gradually improve throughout 2023, continuing the improvement seen in 2022, moving from -4.53% of GDP in 1Q22 to -3.1% in 2Q23. This leads to a relative shortage of dollars and consequently a potential rise in its price. 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 and stable, far from the strong rebound in the USD that could lead gold to a precipice. But 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, having 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.

CURRENCIES

EXCHANGE RATES

Flow analysis & Short-term view

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last month (Bn $)	3-yr Max (Bn $)	3-yr Min (Bn $)	3-yr Avg (Bn $)	Current Z-score 3-yr
USD vs All	9,08	-14,79	32,6	-28,2	5,2	**0,20**
USD vs G10	10,23	-14,82	36,3	-25,4	6,8	**0,19**
EM	1,16	-0,03	4,2	-0,8	2,0	**-0,63**
EUR	4,87	6,00	23,4	-8,6	7,8	**-0,32**
JPY	-8,61	5,01	0,6	-15,0	-9,1	**0,11**
GBP	11,47	7,98	11,5	-6,5	-0,3	**3,27**
CHF	-5,93	-1,03	0,2	-7,0	-3,0	**-1,52**
BRL	-0,75	-0,34	0,7	-0,8	-0,2	**-1,37**
MXN	1,91	0,31	4,3	-0,5	1,9	**0,05**
RUB	0,00	0,00	1,2	-0,3	0,3	**0,00**
AUD	-0,58	0,99	6,1	-7,0	-1,3	**0,19**
CAD	-11,73	-2,76	6,1	-11,7	-0,9	**-2,83**

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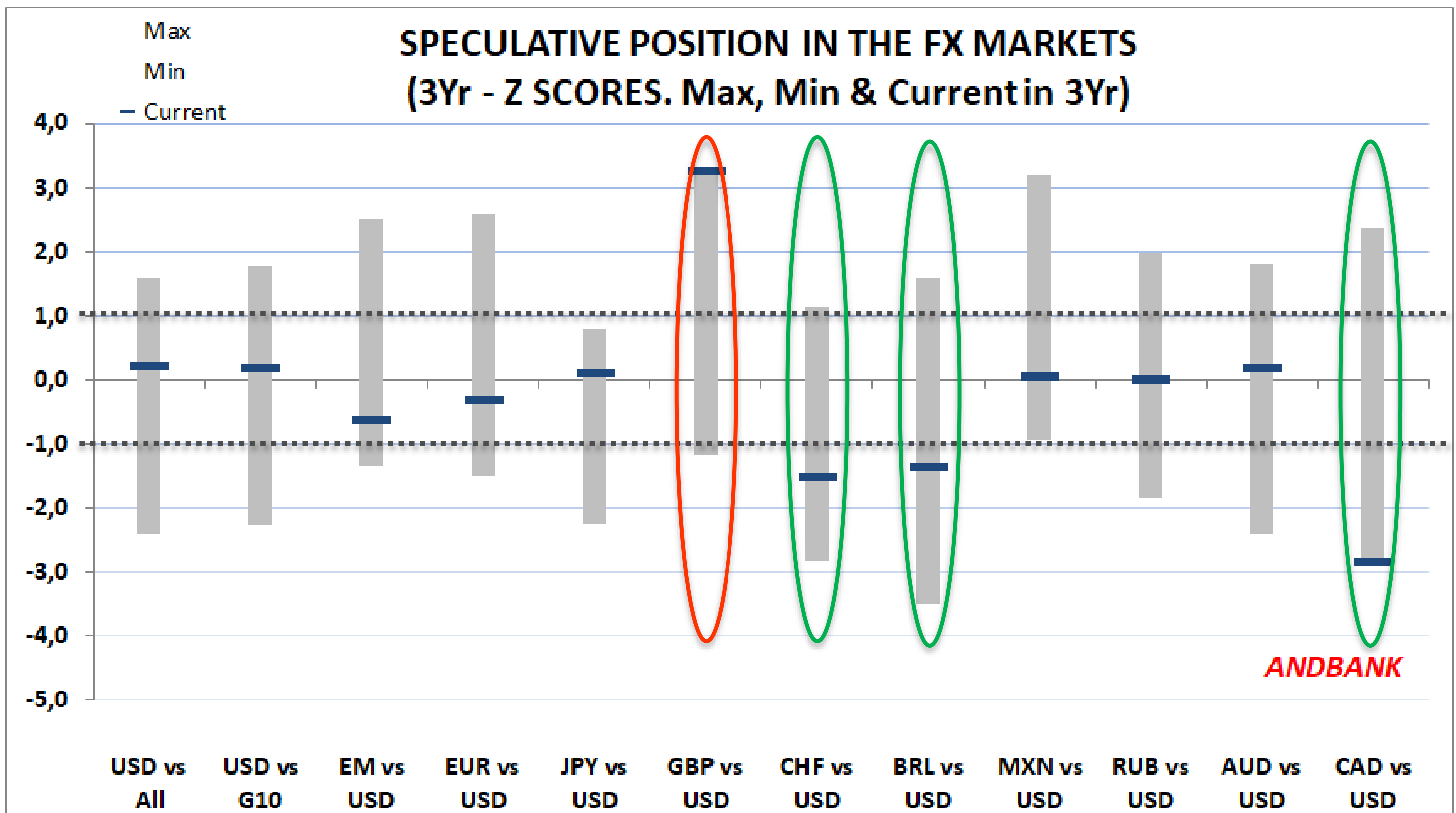
Positive
Neutral-Positive
Neutral-Negative
Negative



Positive
Neutral-Positive
Neutral-Negative
Negative

The currencies we technically favour are circled in green

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Private Bankers

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance Last month	Performance YTD	Current Price	Andbank's Target Price 12 months view	Expected Performance (to Target Price)
Equity	USA - S&P 500	0,0%	14,5%	5.459	5.532	1,3%
	Europe - Stoxx Europe 600	0,3%	7,1%	513	515	0,4%
	Euro Zone - Euro Stoxx	0,0%	5,8%	502	532	6,0%
	SPAIN - IBEX 35	2,0%	10,5%	11.166	11.475	2,8%
	MEXICO - MXSE IPC	0,7%	-8,0%	52.820	58.948	11,6%
	BRAZIL - BOVESPA	2,9%	-5,0%	127.492	135.000	5,9%
	JAPAN - NIKKEI 225	-4,8%	12,6%	37.667	44.607	18,4%
	CHINA - SHANGHAI COMPOSITE	-2,5%	-2,8%	2.892	3.085	6,7%
	CHINA - SHENZEN COMPOSITE	-3,4%	-15,0%	1.562	1.731	10,8%
	INDIA - SENSEX	3,0%	12,7%	81.421	86.641	6,4%
	VIETNAM - VN Index	0,2%	10,4%	1.247	1.512	21,2%
	MSCI EM ASIA (in USD)	-2,0%	7,8%	585	619	5,8%
Fixed Income Core countries	US Treasury 10 year Govie	2,1%	-0,2%	4,17	**4,50**	1,5%
	UK 10 year Gilt	1,3%	-2,1%	4,05	4,50	0,5%
	German 10 year BUND	1,0%	2,9%	2,38	**2,50**	1,4%
	Japanese 10 year Govie	0,2%	-4,7%	1,02	1,25	-0,8%
Fixed Income Peripheral	Spain - 10yr Gov bond	1,9%	-0,1%	3,20	3,35	2,0%
	Italy - 10yr Gov bond	3,0%	1,8%	3,73	3,90	2,4%
	Portugal - 10yr Gov bond	2,1%	-0,4%	2,99	3,10	2,1%
	Ireland - 10yr Gov bond	1,4%	-2,3%	2,78	2,90	1,9%
	Greece - 10yr Gov bond	2,5%	-1,0%	3,36	3,50	2,2%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	0,6%	2,7%	54,60	75	3,6%
	Credit EUR HY-Itraxx Xover	1,3%	4,6%	297,32	450	2,0%
	Credit USD IG - CDX IG	0,6%	3,7%	52,10	75	5,4%
	Credit USD HY - CDX HY	1,1%	6,0%	333,58	450	5,4%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond (local)	4,0%	-7,7%	26,29	25,00	36,6%
	Russia - 10yr Gov bond (local)	1,3%	-15,6%	15,11	25,00	-64,0%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond (loc	1,7%	0,0%	6,90	6,00	14,1%
	India - 10yr Gov bond (local)	1,3%	6,2%	6,91	6,25	12,2%
	Philippines - 10yr Gov bond (lo	3,4%	2,0%	6,16	5,75	9,5%
	China - 10yr Gov bond (local)	0,6%	4,9%	2,15	1,75	5,3%
	Malaysia - 10yr Gov bond (loca	1,0%	1,8%	3,77	3,25	7,9%
	Thailand - 10yr Gov bond (loca	0,7%	2,0%	2,59	2,00	7,3%
	Singapore - 10yr Gov bond (loc	2,1%	-0,6%	2,95	3,40	-0,6%
	Rep. Korea - 10yr G. bond (loc	2,1%	2,9%	2,94	3,50	-1,5%
	Taiwan - 10yr Gov bond (local)	0,9%	-2,6%	1,59	2,65	-6,9%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	0,4%	-2,7%	9,85	10,00	8,6%
	Mexico - 10yr Govie (USD)	1,9%	-0,1%	5,95	6,25	3,6%
	Brazil - 10yr Govie (Loc)	2,5%	-9,0%	12,11	11,50	17,0%
	Brazil - 10yr Govie (USD)	1,2%	-0,6%	6,39	7,00	1,5%
Commodities	Oil (WTI)	-5,0%	8,5%	77,4	85,00	9,9%
	GOLD	2,6%	19,2%	2.390,0	2.300	-3,8%
Fx	EURUSD (price of 1 EUR)	1,3%	-1,7%	1,09	1,05	-3,2%
	GBPUSD (price of 1 GBP)	1,7%	1,0%	1,29	1,29	0,3%
	EURGBP (price of 1 EUR)	-0,4%	-2,6%	0,84	0,81	-3,5%
	USDCHF (price of 1 USD)	-1,7%	5,0%	0,88	0,87	-1,5%
	EURCHF (price of 1 EUR)	-0,4%	3,3%	0,96	0,91	-4,7%
	USDJPY (price of 1 USD)	-4,6%	8,7%	153,39	140,00	-8,7%
	EURJPY (price of 1 EUR)	-3,4%	7,0%	166,48	147,00	-11,7%
	USDMXN (price of 1 USD)	0,9%	9,1%	18,50	18,50	0,0%
	EURMXN (price of 1 EUR)	2,3%	7,4%	20,07	19,43	-3,2%
	USDBRL (price of 1 USD)	1,3%	16,8%	5,67	5,25	-7,3%
	EURBRL (price of 1 EUR)	2,6%	14,8%	6,15	5,51	-10,3%
	USDARS (price of 1 USD)	1,9%	14,8%	928,50	1.000	7,7%
	USDINR (price of 1 USD)	0,4%	0,6%	83,73	82	-1,7%
	CNY (price of 1 USD)	-0,2%	2,2%	7,25	7,50	3,4%

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

UPWARD REVISION DOWNWARD REVISION

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Achieves
More

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