



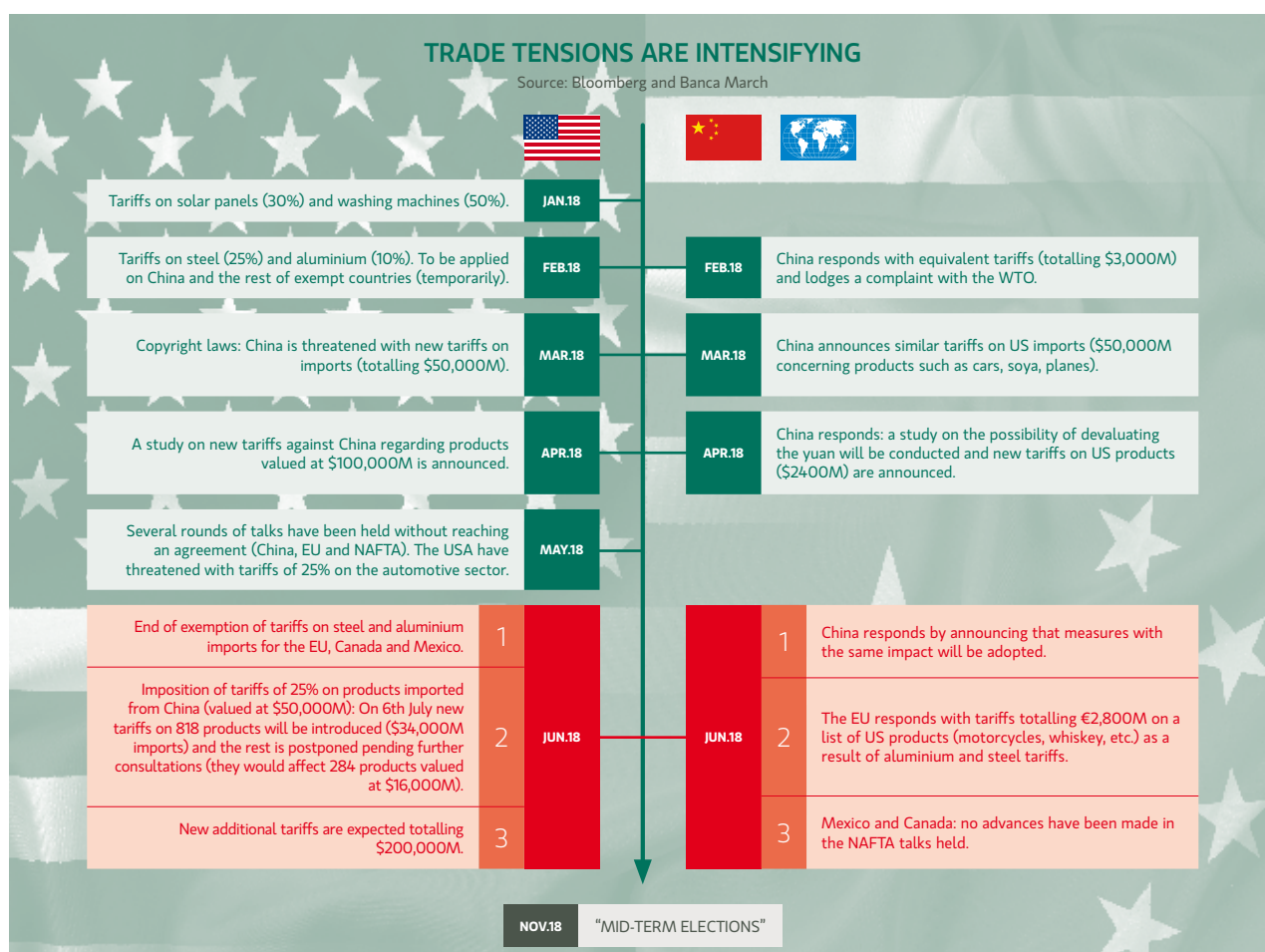
MONTHLY STRATEGY REPORT
JULY 2018

RISKS ARE INCREASING BUT EQUITIES ARE STILL THE BEST OPTION

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In June, all attention was focused on: the increasing trade war, the clear messages given by the FED and the ECB, as well as the OPEC summit.

The trade war intensified with a two-front attack. President Donald Trump confirmed imposing 25% tariffs on \$50 billion worth of Chinese imports, \$34 billion of which will take effect on July 6, and the rest will be delayed pending evaluation. Also, the US threatens to introduce tariffs on another \$200 billion worth of products and imposing restrictions on Chinese investment in US tech and industrial companies that have “sensitive” technology. China has responded by announcing it will adopt measures with the same impact. The US also announced the end of the tariff exemptions for European steel and aluminium and is looking into imposing a 20% tariff on European car imports. The E.U., in response, imposed €2.8 billion worth of tariffs on US products and awaits possible new measures to adjust its response.



Throughout the month, the developed central banks have continued stimulus withdrawal. The FED took a more aggressive approach, speeding up the interest rate hikes and indicating it will do two more hikes by year's end, up to 2.25-2.5%. The European Central Bank announced that the government and corporate bond buying programme will end in December. The Central Bank of China announced the third reduction in the cash flow which would mean pumping €100 billion into the system. The purpose of this measure is to counteract the tariffs announced by the US.

The OPEC agreed to increase oil production after a year and half of cuts, with a true increase that could be around 600,000-800,000 barrels per day. The price of Brent, close to recent highs, shows that the agreement is not enough to compensate for growing demand and production losses in countries like Venezuela and Iran.

At the macroeconomic level, there are growing inflation concerns as a result of increased energy costs. The preliminary June European Consumer Price Index grew 2% year-to-year. In the US, the general CPI was 2.8%, and the underlying personal consumption deflator reached 2%, meeting the FED target. On the positive side, we can point out the positive readings, around the world, regarding business confidence and growth in US and Chinese retail sales.

Emerging equities lead the declines in June. The increase in US interest rates and the worsening of the trade war, particularly in China, impacted emerging stock markets (MSCI Emerging -4.5% and MSCI China -5.6%). In Brazil, electoral uncertainty and the transportation strike caused an 8.4% decline in the MSCI index in June, -18.6% for the year. In Europe, moderate losses were seen in the export stock markets (EuroStoxx50 -0.7%, -3% for the year), while the IBEX closed in June with a 1.6% increase, after -5.2% in May and -4.1% for the year. In the US, stock markets closed in June with moderate gains (S&P +0.4%; Nasdaq +0.9%), reaching 1.7% and 8.8% gains this year, respectively.

Positive month for the government fixed income market. The formation of new governments in Italy and Spain encouraged the purchase of peripheral debt. In this context, the IRR on 10-year Spanish bonds fell 18 BP to 1.32%. The Italian bonds, meanwhile, fell 10 BP to 2.7% and -40 BP against the highs reached during the month. The German Bund closed at 0.3%.

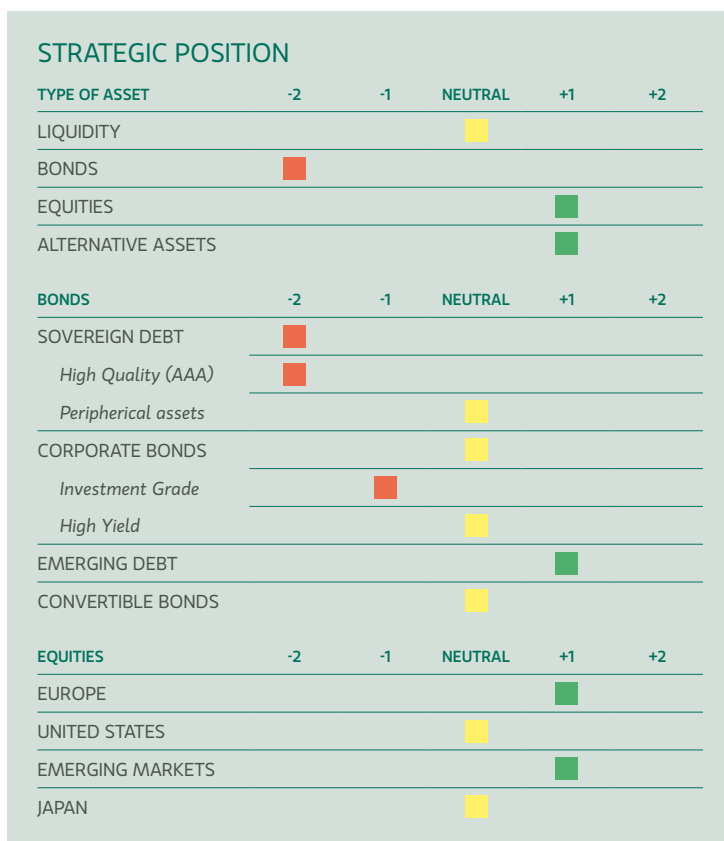
In the US, the announcement of the increased frequency of interest rate hikes was reflected on the short part of the curve (+10 BP for 2-year, 2.53%), while the 10-year bonds closed unchanged in June at 2.86%.

Very little movement in currency markets. The US interest rate increase compensated for peripheral political tensions - government changes in Italy and Spain - and the Euro/dollar exchange rate closed at 1.168 EUR/USD in June, almost unchanged. The same stability was found in the EUR/GBP exchange rate, awaiting progress in Brexit negotiations, at 0.88 GBP/EUR.

For the commodities market, OPEC's decision to increase crude production did not get in the way of the price of Brent rising 2.4% in June, to \$79.4/barrel, +30% in four months and near highs reached four years ago. The large trade tensions were not reflected in the price of gold: -3.5% in June to \$1,253.2/ounce.

HOW TO POSITION OURSELVES IN THE CURRENT ENVIRONMENT

Risks are going up, but equities are the best choice



Increased risk

During the last month, risks have intensified. In particular, there are two external factors that could cause a quicker deterioration of the current economic cycle that we believe is still growing: protectionism and increased energy costs.

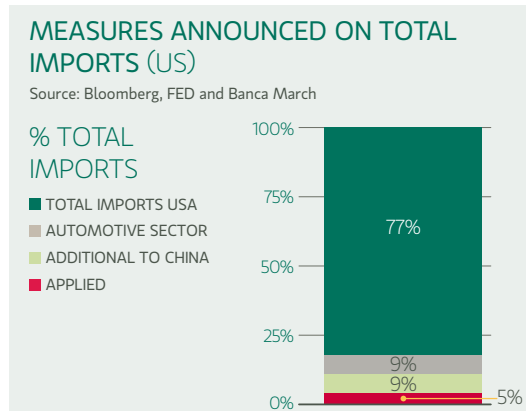
Trade tensions will continue to rise...

Starting with the first, trade tensions between the US and the other economic powers, far from going down, have continued to get stronger and we have witnessed it worsen with greater trade restrictions.

...even though, at the moment, the measures applied have little direct economic effect...

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Since January, we have witnessed threats from the US President, but little by little these threats are starting to turn into concrete measures that also bring about a response from other economies. For the moment, the direct effect these measures have on economic growth is still small; as an example, the increase in the already applied tariffs represent only 5% of total US imports.



However, the confirmation of the most recent threats (additional tariffs on China and automobile imports) will deepen trade tensions with negative effects with more direct impact on the international value chains and, as a result, on world economic growth.

...new trade agreement negotiations will increase market volatility.

We continue to believe that we are facing tough negotiations between these blocks, especially between the US and China, who holds approximately half of the US trade debt. A final solution must be negotiated because any other option is bad for everyone since greater trade barriers reduce productivity and increase inflation. The problem is determining whether the agreement will be finalised before the US Senate and House of Representative elections in November, or if, as is likely, we will first see an increase in threats from the Trump Administration. What is clear is that this type of negotiations will continue to create short-term volatility.

The other risk factor is the new rise in the price of crude oil...

The other risk factor mentioned is the higher cost of oil, which is already surpassing inflation. In June, the CPI rose in the Eurozone to +2% year-to-year, in Spain to +2.3% and in the US to +2.8% in May, which causes uncertainty about the negative effect on the growth of economies that are more dependent on energy imports (as is the case for the Eurozone, and Spain, in particular). Also, it reduced visibility on the gradual exit strategy from the expansive monetary policies of the Central Banks.

The OPEC Summit held last month met expectations when it decided to increase the theoretical crude production to 1M bpd, which in practice will mean an increased supply of between 600,000 and 800,000 barrels/day. Despite this, the price of oil in international markets has not gone down as expected, and in the case of Brent, it closed June at nearly \$80/barrel.

Production difficulties in countries like Venezuela, due to its current economic crisis, and in other cases like Libya, where militant attacks on oil terminals reduced supply, have continued to strain the crude market. We should add that the US withdrawal from the Iran nuclear deal and the return of international sanctions also brought consequences: the US government threatened sanctions on all companies that, starting November 5th, continue doing business with Iran, which includes the purchase of oil. This could take part of Iranian production out of the market, which amounts to 3.8M bpd (4% of world consumption).

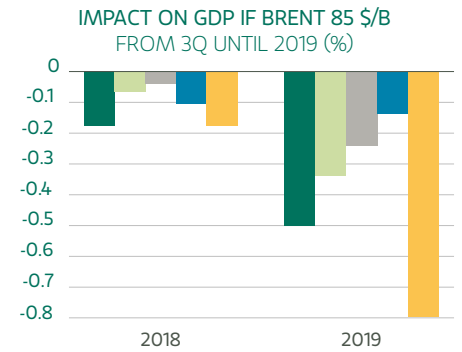
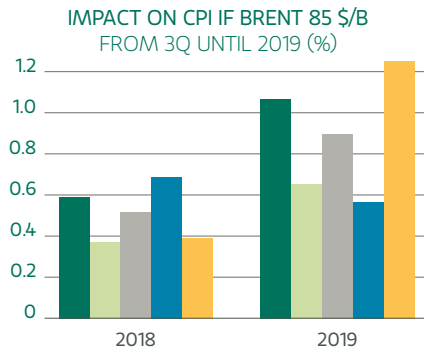
...the price of Brent above \$85/barrel would force us to change our predictions.

As indicated in previous reports, the greatest risk to the world economy comes from the fact that supply difficulties can continue to strain oil prices over the next few months. Even though we believe there is a reduced likelihood that energy prices continue rise at this rate, a situation in which the price of Brent were to reach \$85/barrel and stay there would force us to substantially change our economic forecast for the next quarters.

ESTIMATED EFFECTS SHOULD OIL PRICES CLIMB TO \$85 AND REMAIN AT THAT LEVEL

Source: Oxford Economics and Banca March

■ SPAIN ■ USA
■ EURO ZONE ■ CHINA
■ WORLD



**The situation is more complex for the second half of the year, but with supporting factors...
...the world economic cycle continues growing...**

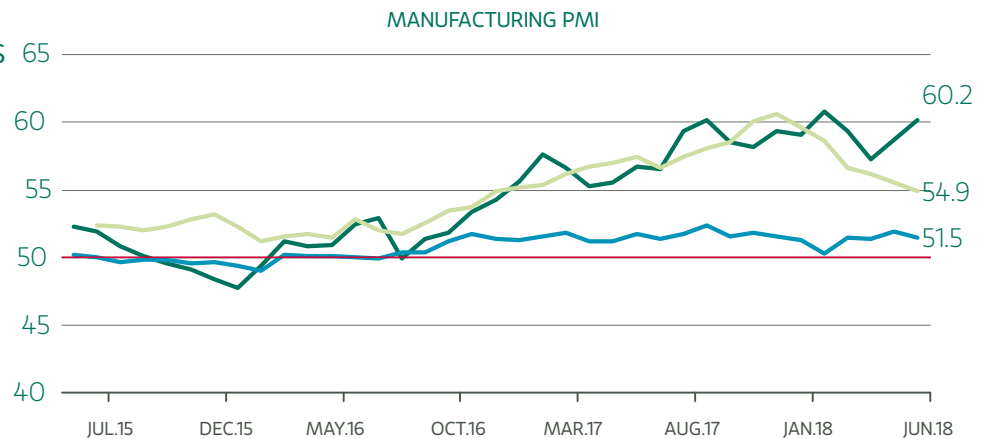
We are finding ourselves, therefore, in a complex situation for the second half of the year, since uncertainties are now higher than they were a few months ago. However, there are also factors that offset these bigger risks, that make us maintain exposure to equities in portfolios.

On the one hand, it is important to point out that there is no perceptible strong deterioration in economic fundamentals. If we look at the main Business confidence indicators (graph "Manufacturing purchasing managers confidence"), they sit comfortably on the side of growth and are in line with world growth continuing to its dynamism over the next months. Even in economies like that of the US, in June, the Business confidence indicators show improvement in activity.

MANUFACTURING PURCHASING MANAGERS CONFIDENCE

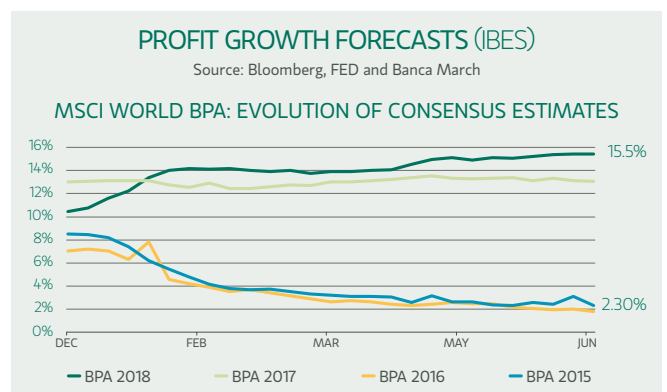
Source: Bloomberg and Banca March

— US — CHINA
— EUROZONE — THRESHOLD



...and corporate profits are increasing.

But even more relevant is the growth perceived in corporate profits, which are the main factor that will support equities. Worldwide, it is expected that profits will increase +15.5% this year for companies in the MSCI AC World. These forecasts, despite growing political uncertainty, have not only stayed stable, but have even been increased.

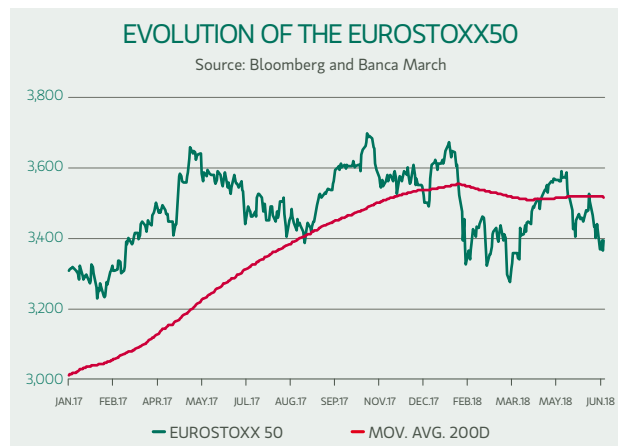


In July, Q2 results will be start to be published...

This month we hope to confirm the encouraging viewpoints when Q2 results are reported starting July 12th, when the big names in the US finance sector will start to publish their numbers.

...which should help stocks. We, therefore, leave exposure to equities unchanged.

In this context, we recommend maintaining exposure to equities in your portfolios since we continue to believe it is the asset with the best Risk/Return ratio. We believe that the volatility that will increase over the next months should offer opportunities to purchase at the bottom of the range that has taken over European equities since the start of 2017 (for Eurostoxx50, the forecasted range is 3,200/3,600).



For fixed income, we continue to recommend additional caution: short-terms and less exposure to credit.

In terms of fixed income, we recommend a cautious position and we continue to recommend staying out of government debt in the developed world (only Italy, at a moment of tension with IRR>2% for 2-year bonds, could offer the possibility of getting positive returns on EUR government debt). Over the next months we will experience an uptick in inflation and as political uncertainty goes down in Europe, we keep our expectations that long-term rates will rise to 0.9% in Germany for 10-year bonds and 3.2% in the US.

Therefore, we confirm the preference for short-terms and recommend you continue to have low exposure to credit. Faced with this, we continue to recommend emerging debt despite recent declines, since we believe the current price is a good opportunity for relative carry in this asset class.

We recommend gaining profits from the position of the dollar.

Finally, in the currency market and as indicated in previous reports, a Euro to dollar exchange rate close to 1.15EUR/USD is enough for us to reduce exposure to the dollar. We believe that the factors that have weakened the Euro against the dollar to current levels (1.15EUR/USD) are temporary (less dynamism in the Eurozone activity data and increased political fears). In the medium-term, we have forecast that the Euro to dollar exchange rate will be closer to 1.20 EUR/USD and for that reason, we recommend covering exposure to the US currency in your portfolio.

Joan Bonet Majó
Pedro Sastre
Paulo Gonçalves
Banca March Market Strategies Team

EURIBOR

	LAST	1MONTH	YTD	1YEAR
1 MONTH	-0.37	-0.37	-0.37	-0.37
3 MONTHS	-0.32	-0.32	-0.33	-0.33
6 MONTHS	-0.27	-0.27	-0.27	-0.27
12 MONTHS	-0.18	-0.18	-0.19	-0.16

CURRENCIES

	LAST	1MONTH	YTD	1YEAR
EUR/USD	1.1684	1.167	1.201	1.138
EUR/GBP	0.885	0.878	0.888	0.880
EUR/CHF	1.157	1.149	1.170	1.092
EUR/JPY	129.4	126.9	135.3	127.7

GOVERNMENT BONDS

		LAST	1MONTH	YTD	1YEAR
USA	2 YEARS	2.53	2.43	1.88	1.37
	5 YEARS	2.74	2.70	2.21	1.85
	10 YEARS	2.86	2.86	2.41	2.27
	30 YEARS	2.99	3.03	2.74	2.81
GERMANY	2 YEARS	-0.67	-0.66	-0.63	-0.56
	5 YEARS	-0.30	-0.27	-0.20	-0.23
	10 YEARS	0.30	0.34	0.43	0.45
SPAIN	2 YEARS	1.02	1.03	1.26	1.23
	5 YEARS	0.40	0.46	0.40	0.32
	10 YEARS	1.32	1.50	1.57	1.53
	30 YEARS	2.51	2.63	2.85	2.82
UK	2 YEARS	-0.24	0.02	-0.35	-0.25
	5 YEARS	0.72	0.61	0.44	0.36
	10 YEARS	1.03	0.95	0.72	0.69
	30 YEARS	1.28	1.23	1.19	1.25
	30 YEARS	1.74	1.70	1.76	1.87

CORPORATE BONDS (1 YEAR SPREAD)

	LAST	1MONTH	YTD	1YEAR
AA	-0.23	-0.22	-0.26	-0.20
A	-0.18	-0.19	-0.21	-0.14
BBB	-0.06	-0.08	-0.12	-0.04

COMMODITIES

	LAST	1MONTH	YTD	1YEAR
BRENT	79.44	77.59	66.87	47.31
GOLD	1253.2	1298.5	1303.1	1249.3

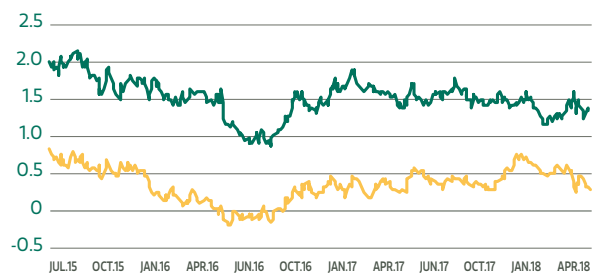
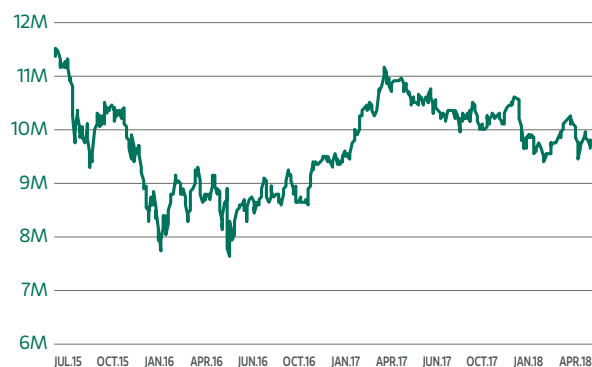
EQUITY INDICES

	LAST	1MONTH	YTD	1YEAR
MSCI WORLD*	505.2	-0.70%	-1.53%	24.00%
SP500	2718.37	0.48%	1.67%	47.65%
EUROSTOXX50	3395.6	-0.32%	-3.09%	9.50%
TOPIX	1730.89	-2.61%	-4.77%	32.91%
IBEX35	9622.7	1.66%	-4.19%	-2.82%
FOOTSIE100	7636.93	-0.54%	-0.66%	13.45%
MSCI BRAZIL	1647.27	-8.45%	-18.57%	-25.70%
MSCI CHINA	87.35	-5.63%	-2.24%	38.78%
MSCI EMERGING	1069.52	-4.57%	-7.68%	6.75%

* All Countries

EURIBOR 12 MONTHS (3 YEARS)

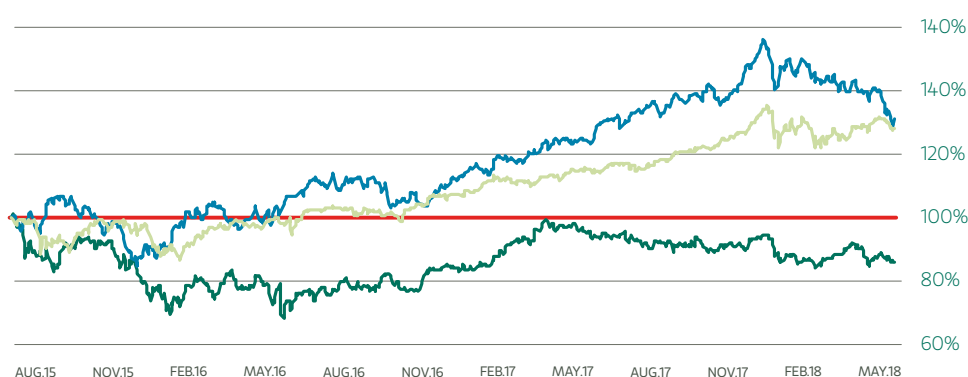
EUR/USD (3 YEARS)

TEN YEAR GOVERNMENT YIELDS (SPAIN VS GERM.)

IBEX (3 YEARS)


Source: Bloomberg

EQUITY INDICES PERFORMANCE (3 YEARS)

Source: Bloomberg

 — IBEX REL
 — MSCI EMERGENTES REL
 — SPS500 REL

 DATE AS OF 29TH JUNE 2018

	RETURN				DURATION		PORTFOLIO DISTRIBUTION					CURRENCY EXP.	
	WEEK	MONTH	YTD	YEAR	ACTUAL	1 MONTH AGO	LIQUIDITY	DEPOSITS	FI	EQUITY	ALT. INV.	TOTAL	USD
MARCH MONETARIO FI.	0.00%	0.05%	-0.29%	-0.33%	0.483	0.459	20.78%	18.62%	60.93%	0.00%	0.00%	0.00%	0.00%
MARCH RENTA FIJA CORTO PLAZO FI.	-0.12%	-0.21%	-1.24%	-0.95%	0.463	0.512	7.53%	0.00%	92.58%	0.00%	0.00%	0.00%	0.00%
MARCH PREMIER R.F. C.P. FI.	-0.13%	-0.16%	-0.89%	-0.54%	0.485	0.514	5.32%	0.00%	95.73%	0.00%	0.00%	0.00%	0.00%
MARCH PATRIMONIO C.P. FI.	-0.08%	-0.09%	-0.68%	-0.33%	0.885	0.937	4.10%	0.00%	96.00%	0.00%	0.00%	0.00%	0.00%
FONMARCH FI.	-0.18%	0.10%	-0.52%	0.19%	2.551	2.730	4.89%	0.00%	96.99%	0.00%	0.00%	0.01%	0.00%
MARCH EUROPA BOLSA FI.	-2.49%	-1.29%	-2.07%	-2.08%	0.007	0.003	1.38%	0.00%	0.00%	98.20%	0.00%	36.90%	6.16%
MARCH INTL - VALORES IBERIAN EQUITY	-0.73%	0.50%	0.33%	0.08%	0.0	0.0	2.17%	0.00%	0.00%	98.42%	0.00%	4.21%	3.20%
MARCH GLOBAL FI.	-1.63%	-0.42%	0.77%	3.17%	0.007	0.003	1.29%	0.00%	0.00%	98.10%	0.00%	62.79%	16.74%
MARCH INTL - MARCH VINICATENA	-1.28%	-1.01%	-1.66%	3.92%	0.0	0.0	16.94%	0.00%	0.00%	79.31%	0.00%	52.01%	19.98%
MARCH INTL - THE FAMILY BUSINESSES FUND	-1.52%	-2.62%	-3.88%	0.26%	0.0	0.0	11.73%	0.00%	0.00%	84.66%	0.00%	41.12%	19.04%
MARCH NEW EMERGING WORLD FI.	-1.83%	-4.31%	-6.76%	-1.60%	0.000	0.003	13.95%	0.00%	0.00%	102.85%	0.00%	31.49%	-18.83%
MARCH INTL - TORRENOVA LUX	-0.35%	-0.38%	-2.13%	-2.83%	1.1	1.1	4.51%	0.00%	72.63%	23.02%	0.00%	20.88%	13.21%
TORRENOVA DE INVERS. S.I.C.A.V. S.A.	-0.41%	-0.02%	-1.58%	-1.68%	1.093	1.099	3.27%	0.00%	73.41%	23.30%	0.00%	2.58%	-0.26%
CARTERA BELLVER S.I.C.A.V., S.A.	-0.95%	-0.56%	-1.50%	-0.98%	1.123	1.134	5.64%	0.00%	43.55%	51.68%	0.00%	8.84%	2.73%
LLUC VALORES S.I.C.A.V., S.A.	-1.43%	-0.89%	-0.24%	1.76%	0.008	0.003	13.75%	0.00%	0.00%	86.43%	0.00%	16.15%	8.68%
MARCH PATRIMONIO DEFENSIVO FI	-0.26%	-0.54%	-1.53%	-1.37%	0.000	0.003	1.37%	0.00%	80.97%	11.83%	4.19%	0.02%	0.02%
MARCH CARTERA CONSERVADORA FI	-0.49%	-0.61%	-1.21%	-0.42%	0.000	0.003	9.82%	0.00%	57.78%	28.38%	4.40%	0.06%	-0.06%
MARCH CARTERA MODERADA FI	-0.75%	-0.60%	-0.75%	0.71%	0.000	0.003	10.70%	0.00%	41.02%	46.85%	1.94%	0.27%	-0.27%
MARCH CARTERA DECIDIDA FI	-1.16%	-1.08%	-0.66%	2.27%	0.000	0.003	7.39%	0.00%	10.22%	80.47%	2.31%	0.48%	-0.46%
PLAN PENSION CRECIENTE, F.P.	-0.12%	-0.12%	-1.04%	-0.78%	1.764	1.825	4.30%	0.00%	95.86%	0.00%	0.00%	0.62%	-0.61%
MARCH PENSIONES 80/20, F.P.	-0.56%	-0.12%	-1.05%	0.13%	2.764	2.827	1.84%	0.00%	74.21%	23.96%	0.00%	13.82%	3.21%
MARCH PENSIONES 50/50, F.P.	-0.92%	-0.25%	-0.59%	1.45%	2.341	2.437	7.35%	0.00%	45.75%	47.10%	0.00%	28.96%	7.50%
MARCH ACCIONES, F.P.	-1.78%	-0.47%	0.03%	3.65%	0.008	0.003	5.32%	0.00%	0.00%	94.00%	0.00%	59.55%	16.88%
MARCH AHORRO, F.P.	-0.73%	-0.03%	-0.18%	2.37%	2.904	2.950	1.08%	0.00%	66.11%	33.12%	0.00%	20.84%	6.11%
PLAN OPTIMO, F.P.	-0.90%	-0.13%	-0.39%	2.00%	2.973	3.082	2.77%	0.00%	59.27%	37.73%	0.00%	23.54%	6.42%
MARCH MODERADO EPSV	-0.70%	-0.19%	-0.42%	0.78%	2.575	2.626	4.39%	0.00%	66.97%	31.17%	0.00%	18.12%	4.80%
MARCH ACCIONES EPSV	-1.54%	1.87%	0.84%	2.84%	0.003	0.007	5.10%	0.00%	0.00%	94.34%	0.00%	59.90%	17.33%

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