Santander Private Banking

April 2021

Quarterly Outlook

Strong recovery opens the debate on rates

The widespread immunization we've all been waiting for is starting to materialize. Disparity in vaccination and uneven varied fiscal and monetary stimulus imply that the speed at which countries will return to normality will also be varied. The United States and China, the world's leading economies, are making noteworthy progress, which has been reflected in improving growth outlooks for 2021.

Strong recovery is also confirmed by rising business confidence surveys and has provoked tension in fixed-income markets as long-term interest rates are reaching higher levels. The perfect scenario for investors (end of the crisis and tax relief for risk assets, and low interest rates for conservative fixed-income assets) is starting to deteriorate as the need to keep interest rates low to maintain the economy afloat is expected to last less than initially thought.

Our report analyzes equity market behavior during reflation and economic reactivation periods in the past, and confirms that the current environment still favours credit assets and equities over liquidity and long-term bonds. We maintain our recommendation of investment portfolios sensitive to economic recovery, cyclical rotation and assets that hedge against higher inflation.

Key messages Q2 2021

Record (but uneven) recovery

The positive economic recovery scenario has been reinforced by two factors: vaccine effectiveness and the extension of fiscal stimulus programs. Even as the pandemic drags on, the global economy has proven remarkably resilient and advances towards a new self-sustaining phase.

Markets are thinking about interest rate levels

Developed countries' central banks have reiterated the commitment to keep interest rates low until recovery is complete. Markets are starting to think about the impending end of stimulus packages and rising interest rates (in Brazil and other emerging countries). Inflation will temporarily spike in the coming months.

Cyclical rotation and reflation

A backdrop of strong economic and business gains coupled with (still) low interest rates remains ideal for risk assets. We maintain a cyclical bias for credit assets and sector rotation towards stocks sensitive to economic recovery. We consider extreme monetary tightening as the biggest risk to this scenario.

01 Record (but uneven) recovery

The main economic recovery scenario we anticipated for 2021 is playing out as expected, despite back-to-back waves of the virus in several geographies.

The vaccines' successful immunization (especially with the most vulnerable groups) is making all the difference. Vaccines are becoming available and administered at very different rates across geographies; still, the speed and large variety of effective vaccines is a triumph unlike any other.

The UK and the US have made the most progress in vaccinating their at-risk populations (over 65 years of age). As a result, they will be able to relax lockdown measures sooner in the second quarter of 2021 and grow more this year. Data from Europe show vaccination got off to a very slow start at the beginning of the year. However, we anticipate it will gain significant momentum in the second quarter, which will give way to staggered reopening in the third quarter. Vaccination has been very slow in Latin America and several emerging countries (with the noteworthy exception of Chile), which is going to have economic consequences. Mexico and Brazil are suffering a particularly intense new wave of infection; this is dragging mobility indicators down, and second- and third-quarter economic activity is likely to be flat.

Vaccines have, therefore, been key and the best news since the start of this year (along with the authorities' commitment to fiscal stimulus to support households and families throughout the difficult and complex normalization process).

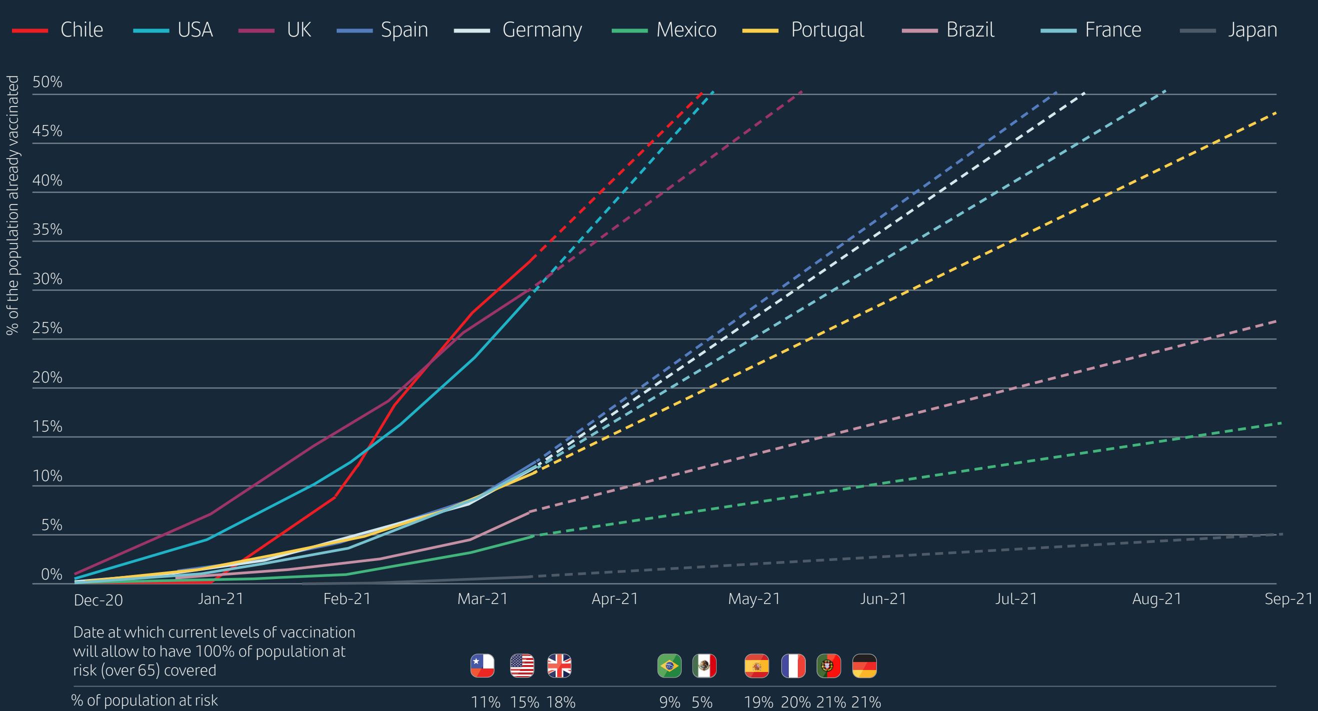
The big news in 2021 is the vaccines' high effectiveness rate that has led to significant relief in hospital tension

Each country's rate of economic recovery is closely linked to its vaccine rollout

Progress in vaccination in different countries

Source: https://ourworldindata.rog/covid-vaccinations and own elaboration.

Objective of immunizing 100% of population at risk is already achieved or within reach in many countries



The different amount of fiscal stimulus packages of countries that took unprecedented measures in 2020 is having a major effect on the speed and vigour of recovery. **So far, programmes have helped counter part of the damage spurred by lockdowns.** The IMF estimates that, without such extraordinary policies, growth would have been three-times slower and more jobs would have been lost.

The US's tax relief measures have been turning heads as the new Democratic administration implements several of President Biden's election promises. On 11 March, the Senate passed the American Rescue Plan Act (ARPA) to provide USD 1.9 trillion (8.5% of US GDP) in relief. The programme adds to the USD 0.9-trillion plan the Trump administration announced in December and to the CARES Act to inject nearly USD 2.2 trillion in 2020. Japan and the UK have also enacted additional programmes.

However, as the graph below shows, **higher fiscal stimulus and lower tax revenue because of the economic downturn results in significant deficit in every other country,** especially if compared with figures from a "normal" year like 2019. The US and other countries with additional stimulus programmes will continue running high deficits at least this year.

Consensus estimates for economic growth for this year can be classed in two very different groups. One is the group of countries that managed to meet **three key variables in reopening their economies:**

- **Virus containment,** where China and South Korea stand out.
- Progress in **vaccine distribution and immunization of the general public,** particularly significant in the US, Chile and the UK.

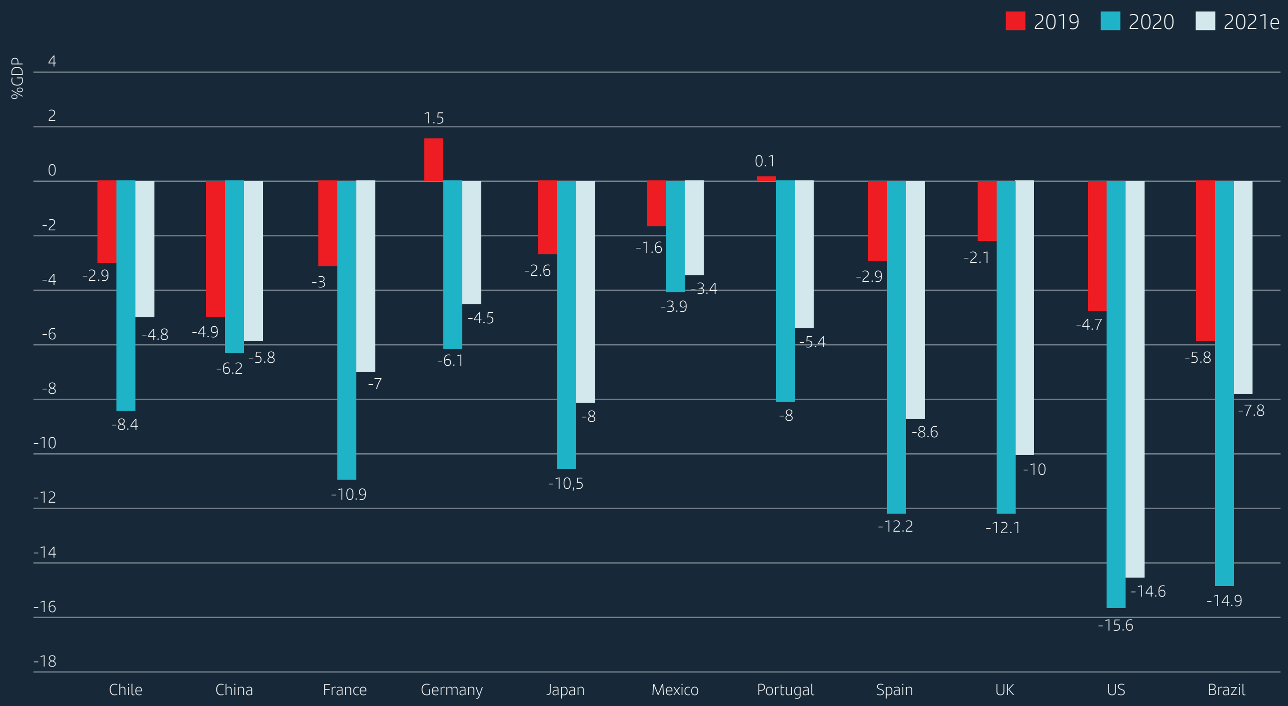
Fiscal stimulus programmes have also proved effective in immunizing the economy against the harmful effects of lockdowns

The new US administration has already increased spending adding fuel to the fiscal stimulus already in place

Fiscal Deficit

Source: IMF WEO April 2021 and own elaboration.

Large amounts of fiscal stimulus imply important deficit increases



- **Amount and quick activation of fiscal stimulus plans to cope with the impact of lockdowns** on market players, also particularly significant in the US.

The combination of the above variables is driving **indicators at a global level both for** real economy (industrial manufacturing, international trade, retail) and also in terms of confidence to show significant improvement, **suggesting that growth in the next quarters -and in 2021 as a whole- will be higher than ever, following the worst economic slump in history caused by the pandemic.** The macro environment for the rest of the year continues to look favorable. Pent-up consumer demand will be released once lockdowns end. Households have just begun to spend it at their pre-pandemic pace and appear to be eager to get back to activities that have been affected by the restrictions. Businesses are holding onto their cash for now but they will have to replenish inventories and make other investments to meet the expected surge in demand. The financial system has plenty of liquidity and ready for a revival of loan demand to provide a productive outlet for the excess deposits.

The graph below shows how steady and quick vaccination has led to major changes in growth outlooks. A clear example is Chile, which started vaccinating a month after countries in Europe. We expect an acceleration in U.S. growth revisions from the consensus of economists to Fed consensus of economists to the levels estimated by the Fed at its last meeting (6.5%). We also expect growth revisions in the United Kingdom to continue to rise, and later in the third quarter, confirmation of the recovery in the Eurozone. As the different economies start to regain track it remains to be seen what the speed of recovery of each sector will be. Infrastructures in the US, as an example, will probably perform very well due to the Biden programs put in place.

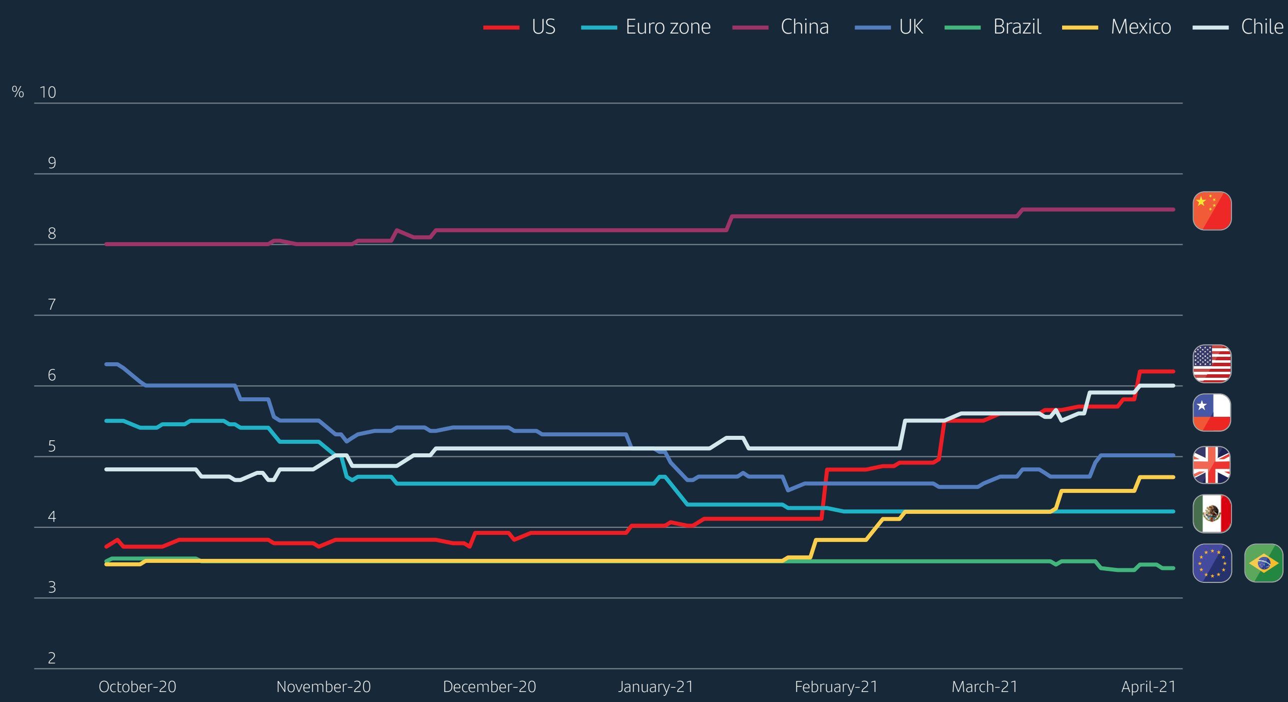
The speed of recovery depends on three variables: pandemic containment vaccination and fiscal spending

Growth estimates have improved in countries that have been better at managing the crisis: China and the US

Consensus estimates for GDP Growth in 2021

Source: Bloomberg Consensus and own elaboration.

Growth estimates improve more in countries where vaccination has been fast



Besides the factors listed above, which address the negative effects of the pandemic, the extraordinary growth expected this year largely owes to the base effect in contrast to the previous year's drop. Not only a strong rate of growth is key, but also **it is crucial to bear in mind when economies are expected to return to pre-pandemic levels.** As the first country hit by the pandemic, China was also the first to get back to pre-crisis figures. That said, it is yet to be seen a complete recovery of consumption that seems to be running behind other components of the economy such as investment that can be managed by the government to a great extent.

Countries such as Chile or the US will reach those levels in the first half of 2021, while other countries are expected to do so in the second semester of this year. A best-case scenario for countries like Spain, Portugal and Mexico will be a return to 2019 year-end levels towards the end of 2022. **During 2020, there was intense debate about the shape of the recovery and whether it would resemble a "V", "U" or "L". In the end, the global recovery appears to be more like a "V" given the speed with which it has occurred in the major economies (China and the United States).**

The IMF, in its World Economic Outlook published in April 2021, has revised up its growth estimate for this year by 0.8% to 6.0% and by a further 0.2% for 2022. The OECD, in its OECD Economic Outlook, Interim Report March 2021, has raised its global growth forecast by over 1% to 5.6%. These are the highest annual global economy growth figures seen in -at least- the past fourty years. That said, stark differences remain between countries. Thanks to unprecedented policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. Our central macroeconomic narrative is driven by an improving pandemic situation and the resulting normalization of economic activity, supported by very accommodative monetary and fiscal policies. These provide hope for an orderly reflation.

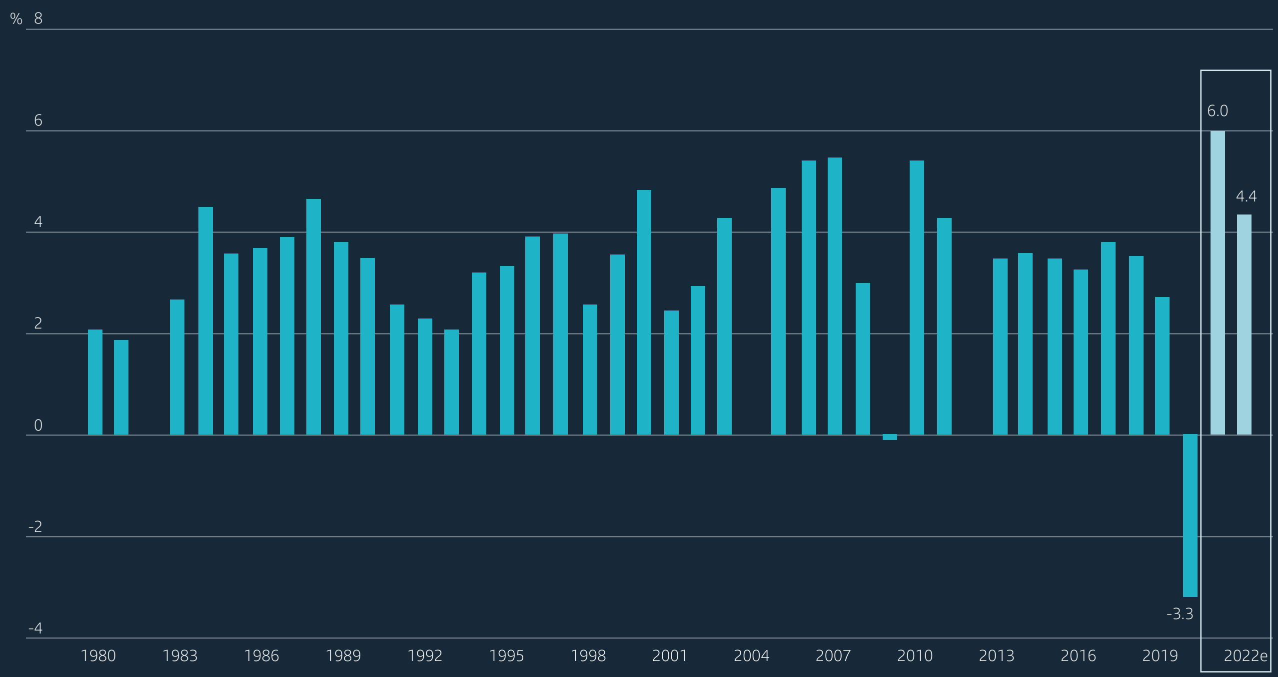
High conviction on economic recovery. Strong business confidence indicators and more than 3 billion dollars in consumer savings support growth

Expected levels of growth for 2021 are the highest for the world economy since the IMF started publishing series in 1980

World GDP Growth

Source: IMF.

Expected growth for 2021 is the highest in at least 40 years



02 Markets are thinking about interest rates

This cycle of economic recovery is markedly different to traditional cycles for taking roots from a health crisis (as opposed to financial or macroeconomic imbalances) and the scale of stimulus packages. That's why **recovery will be quicker than in previous cycles,** and services will likely recover with the same intensity as manufacturing once immunization is achieved. This has been evident in China's economic performance, while a similar shift is expected in the US in Q2. In the US, consumption is rising due to the financial buffer households have built through saving, both by spending less due to movement restrictions and the direct tax relief offered by the Treasury.

Economic experts are probing how this accumulation of pent-up demand will affect inflation once restrictions are lifted. Inflation figures for the coming months will reflect a significant seasonal upturn due to the base effect drawn from the comparison with the crestfallen data for Q2 2020 and the price increases in commodities and oil.

Concern over future price fluctuation has caused a radical shift in implied inflation forecasts in bonds markets (the so-called breakeven inflation). This tightening has been notably key in developed economies where vaccination campaigns are moving quicker. As the graph below shows, in the US the **upturn in inflation forecasts is matched by an increase in nominal long-term interest rates.** We see reflation - higher rates and yields - as positive on balance. **Reflation is desirable as long as it reflects higher growth and earnings expectations (implying stable real interest rates) rather than only higher inflation (implying higher real rates).**

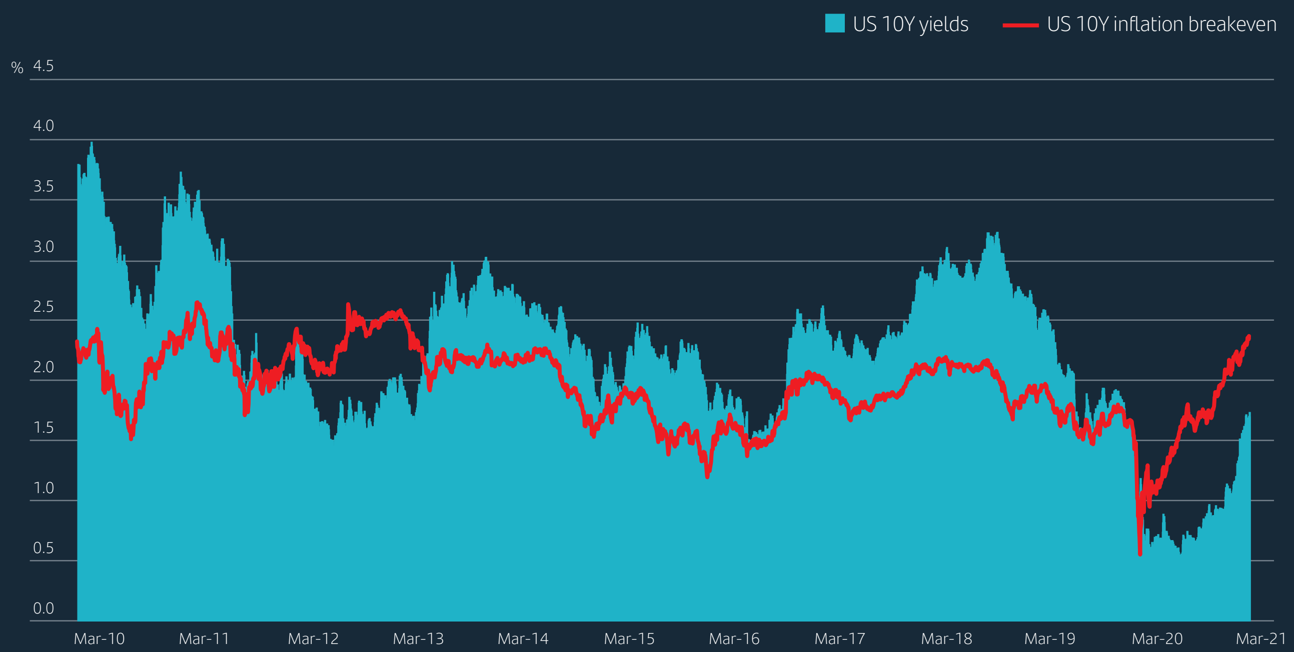
In the early stage of the business cycle, as confidence in economic recovery builds, investors start to demand greater compensation for holding long-term bonds, inflation expectations rise and the yield curve steepens

The Fed has reassurred investors that the preconditions to raise interest rates—full employment, inflation moderately above 2% for a while—are some way off

Fixed Income Markets start a "normalizing" process

Source: Bloomberg and own elaboration.

Relief stemming from recovery translates into reflation and some monetary tension



Although the short-term rise in inflation is evident, we believe it's a one-off and a dramatic shift in the balance of pricing levels is unlikely. **New inflation forecasts are based on better macroeconomic outlooks,** rising commodity prices and shortages in the manufacturing industry. As and when growth returns to normal, we expect to see forecasts stabilize at 2.5% (the highest of 25 years). In the following chart we can see how medium-term inflation expectations (breakeven) in the medium term cause investors to demand a temporary premium thus increasing the yields of long-term debt relative to short-term debt (the slope). This is the case in the U.S., where the slope has steepened in response to better economic prospects, and the inflation breakeven has reacted accordingly.

The upturn in inflation is circumstantial and will stabilize by year-end

In the case of Brazil, on the contrary, there are real inflationary pressures that have forced the central bank to raise rates despite the fragile economic recovery and a questionable vaccination process.

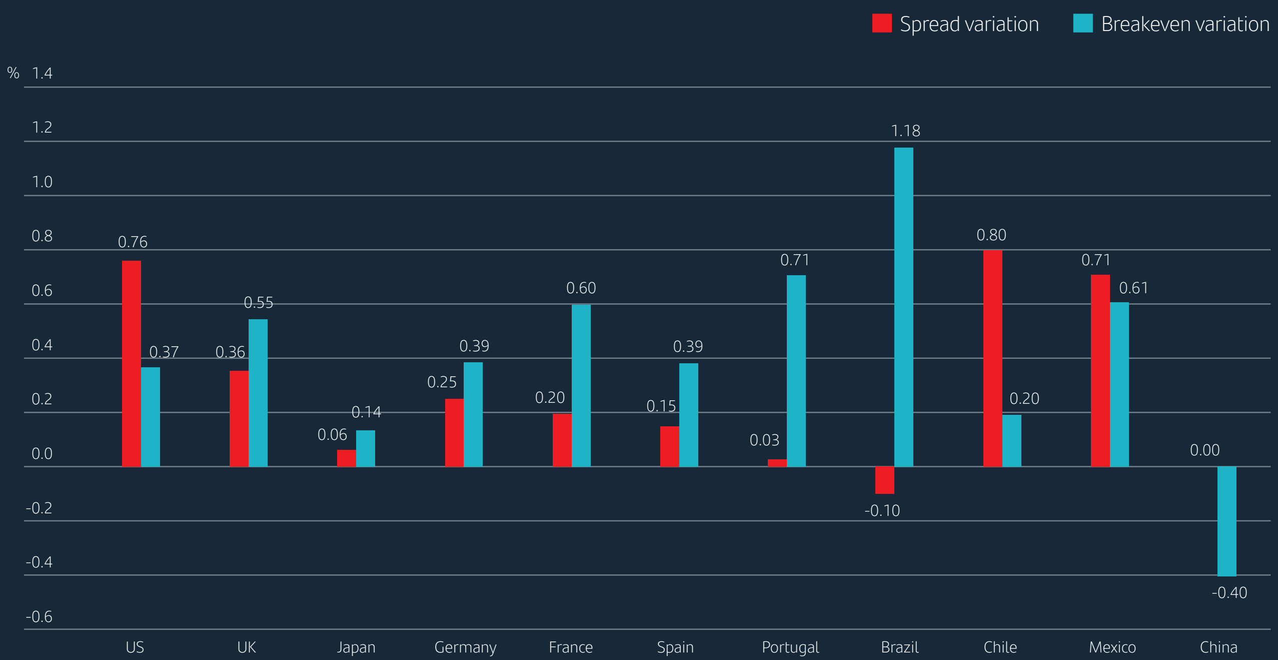
Some economic experts have expressed concerns over excessive fiscal support in the US, which could overheat the economy and inflation. We believe this to be low risk as **employment in the US is still far from previous decades' averages,** so there's no bottleneck (except for specialized sectors such as semiconductor manufacturing) to cause inflation pressures in developed economies. Excess capacity, output gaps, improving trade flows and international competition are all deflationary, leaving inflation lower than central bankers' targets. **We expect inflation to level off after summer** and by the end of the year hit around 2% in the US and 1% in the Eurozone. Thus, for inflation to rise dangerously above the Fed's target, the US would likely need to see a persistently strong and positive output gap, and/or a major upward shift in expectations among consumers and firms.

The US and Eurozone have a lot of idle capacity, and central banks have expressed their desire to prioritize full employment over price stability

Inflation breakeven* variation vs. US 10-2Y spread variation (bp)

Source: Bloomberg and own elaboration.

Fixed income investments faces two headwinds: rate increases and inflation



* France, Portugal, Mexico and China: YoY inflation.

The G4's monetary authorities (Federal Reserve, European Central Bank, Bank of England and Bank of Japan) have reaffirmed pledges to keep interest rates low until recovery is complete. Fed Chair Jerome Powell and the Federal Open Market Committee (FOMC) were clear at their March meeting that interest rate hikes would be delayed until 2023. The graph below shows the variation in average forecasts of the Fed members between the December'20 and March'21 meetings. We can see how the Fed sees a shift towards much stronger economic growth in 2021, with the resulting boost to employment and a moderate upturn in inflation. However, the markets paint a different picture about official interest rates and are beginning to question the Federal Reserve's patience with raising short-term rates. **The futures markets will start to discount gradual hikes by the end of December 2022 and place the Fed rates at 1.1% by 2023 year-end, which is at odds with the Fed's guidance.**

The Fed has bought itself some breathing room by insisting that the inflation that accompanies reopening over the next few months is likely to be prove transitory

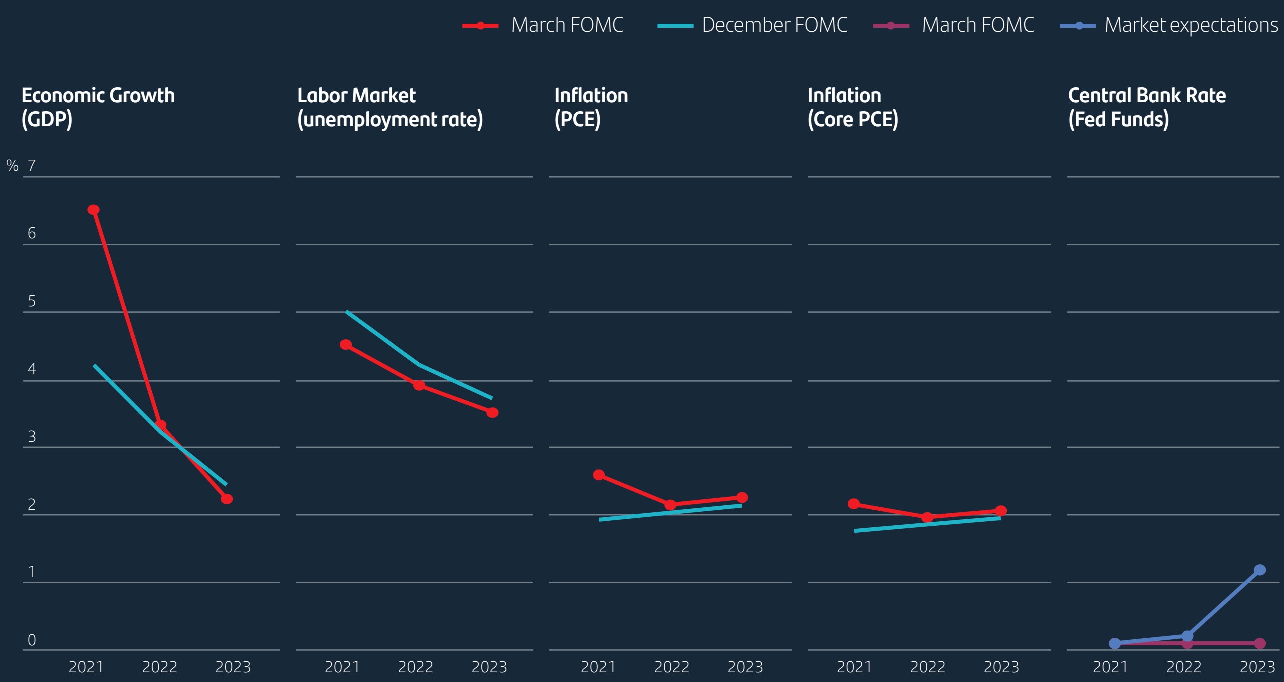
The Fed's meeting minutes and its leaders' statements have reassured the market in recent weeks by stating that it's too soon to think about a sustained upturn in inflation, not to mention their firm commitment to keep expansive monetary conditions until employment fully recovers from the blow of the pandemic. Although unemployment is down at 6%, it's still 2.5% above pre-covid levels, with the greatest impact on unskilled labour. Average job creation for Q1 in the US came in at slightly above 500,000, which would require **at least six quarters of similar growth to recover the 9.5 million jobs lost due to the crisis.** The Fed is facing an uphill task if it wants to put off rate hikes in the positive economic landscape it foresees. Over the coming 6 to 12 months, a comparatively sanguine perspective on inflation supports a bullish view on stocks and an overweight stance towards equities within a multi-asset portfolio. While the Fed is likely to shift in a hawkish direction compared with its current projections, it is highly unlikely to become meaningfully more hawkish than current market expectations unless economic growth and the recovery in the labor market is much stronger than the Fed or the market is projecting.

The Federal Reserve must address how to communicate the QE tapering at 2021 year-end to the market, not to mention the timing of the first hike in the second half of 2022

FOMC March Economic Projections

Source: Federal Reserve and own elaboration.

Markets are pricing in rate increases in 2022. Fed still doesn't



In the medium-term, **we do not foresee inflation in developed economies reaching 1970 levels because the jobs market and output gap are still way off their maximum.** Persistently high inflation is unlikely if the economy has idle resources available for use. For now, our outlook points to a meaningful recovery in inflation this year, perhaps to above-target levels even without factoring in transitory supply-chain effects, but probably not to levels that investors deem to be "out of control."

The situation in Latin America and emerging countries like Turkey is more complex in terms of monetary tightening. In Brazil, rising oil prices and currency depreciation are pushing inflation upwards. The upward trend of interest rates in those countries adds a touch of concern due to the impact on the cost of financing vast public debt. S&P's recent downgrade of Chile's rating (AA- to A+) and a change in outlook for Colombia (jeopardizing the investment grade) highlight the negative impact on public finances.

We still expect Eurozone and US interest rates to remain at rock-bottom in the coming months, as well as a moderate tightening of curve slopes and inflation expectations as bond yields and growth estimates rise simultaneously. In the current reflationary environment, the best strategy within fixed-income portfolios continues to be overweight low-duration assets maximizing credit exposure where the spread makes a large portion of the yield.

We consider the normalization of interest rates typical on the back of a sweeping improvement in global and US growth forecasts. The upturn in inflation is likely to have a temporary impact given the excess idle capacity in the economy. Monetary authorities will have to take great care with their announcements so the market can take stock of the fact that stimulus withdrawal and interest rate hikes are a normal part of economic cycle maturity.

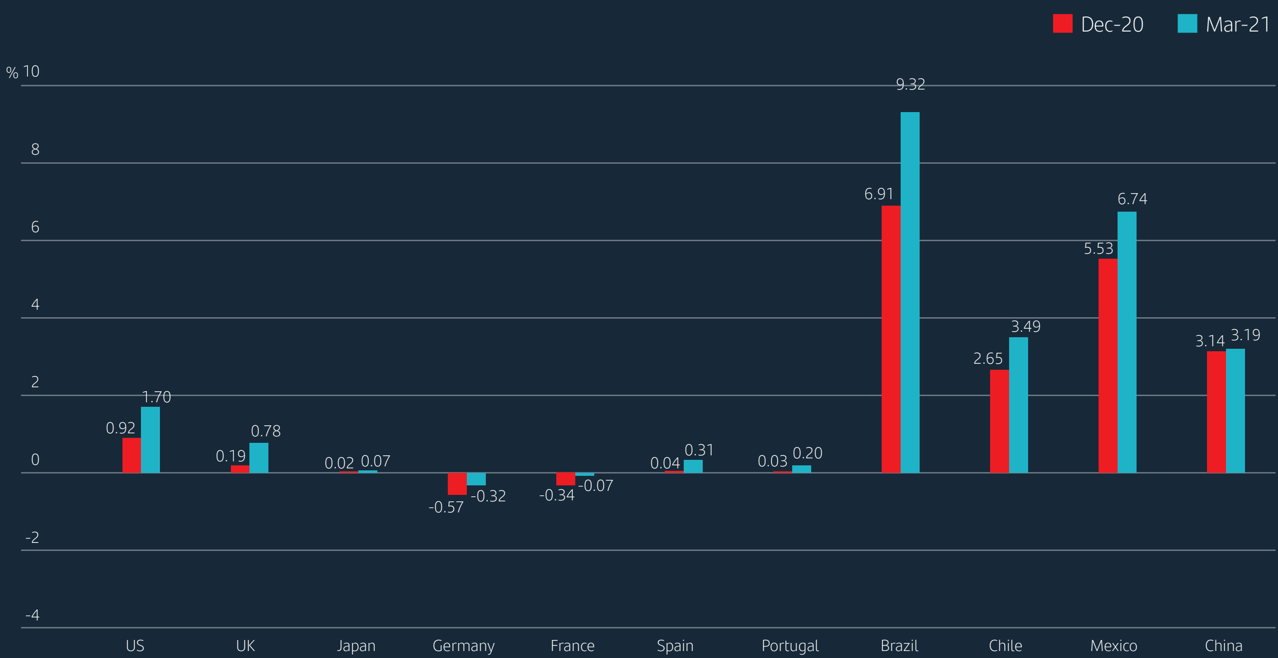
Emerging countries' central banks have less room for manoeuvre in postponing rate hikes against upturns in inflation

The assumption of continued loose financial conditions is supporting asset prices around the world

10-Year government bond yields

Source: Bloomberg and own elaboration.

Interest rate increases in emerging economies are more worrying



03 Cyclical rotation and reflation

Market trends in late 2020 and the first quarter of 2021 have been a classic example of post-crisis recovery. In the previous section we mentioned long-term interest rates have increased as market players now think that Central Bank rates will stay low for a shorter period than previously expected. **The good news about economic recovery are bad news for holders of long-term fixed-income securities due to the inverse correlation between higher rates and bond prices.** The graph below shows, very long-term bond prices (e.g., +20-year US Treasury Bond ETF) fell more than 13% in the first quarter, one of the most significant corrections in history. Broader bond indices (which cover shorter-term government bonds and corporate bonds) have also plummeted. For instance, the Bloomberg Barclays US Aggregate Bond Index was down 3.4% in the quarter. Bond indices slumped less in the Eurozone because of a slightly flatter curve and the market's positive reaction to Mario Draghi's new government in Italy.

We remain cautious about government bonds in light of structural adjustments for higher inflation, growth and less support from central bank bond purchases

We consider staying underweight in long-term fixed income in the coming months is best on the assumption that yields will continue to rise on the long end of the curve. Historically, it has been better to hold fixed income in post-crisis recovery situations through more pro-cyclical instruments and more credit risk. A cautious positioning with regards to duration risk is warranted with more reliance on credit. Long-term yields will face upward pressure first from strong growth, and later from higher inflation. Therefore, we still recommend diversifying in high-yield bonds (rated below investment grade). In the first quarter of 2021, they were the only fixed income instrument to have positive yields, which we think will likely continue with further signs of economic reactivation and fewer business closures. Holding emerging market debt may also be an opportunity worth considering in the coming months as vaccination progresses and monetary tensions subside in Turkey, Brazil and other countries.

The pursuit of assets linked to the cycle's recovery continues to drive investment in credit-related securities, especially with high yields

Prices of long-term bonds have gone through a sharp correction

Source: Bloomberg (NAV ETF iShares Treasury 20+ Year ETF - TLT). As of 3/19/21.

A quarter to forget for investors of long-term bonds

Investment portfolios should also ponder the benefits of holding more global stocks than bonds. **We still think stocks are more attractive, even though they outperformed in the quarter** (the MSCI World Index was up 5%). In March, stock markets saw more volatility as many investors called into question whether **gains hinged on lower interest rates.** Although the current situation is a far cry from past recoveries and inflation, we maintain that rising interest rates at the beginning of the cycle and robust economic recovery and business profits is suitable for investing in stocks. Confidence in the recovery is growing, around the world and the markets are pricing-in the post-pandemic economy. Even if inflation is showing signs of normalising and bond yields are rising, this should not threaten equity markets. Rising yields are a normal part of the recovery as long as there is no meaningful tightening of financial conditions that could damage the economic healing. The recent back-up in long-term bond yields could destabilize stocks in the short term. However, as long as bond yields do not rise enough to trigger a recession, we believe stocks will shrug off the effect of higher yields.

Stocks are the best performing securities during recoveries, but rising interest rates and monetary policy easing will mean higher volatility

The following table shows a chronological analysis of stocks when long-term interest rates rise in the US. By and large, **US stocks have gone up (average gains of 20.9% with the higher interest rates and 7.4% in the following 12 months) when interest rates rise by more than 100 basis points.** Exceptions were due to peaks in the cycle and high interest rates (early 2000s) or to weak recoveries from economic crises (late 2001). We have a high degree of conviction that the economy will avoid a downside surprise in the next twelve months, thanks to the success of the vaccination effort and measures undertaken to limit defaults by households and businesses.

History proves that stock indices can have positive returns when interest rates rise if rates are still low and the recovery cycle has not reached maturity

US Stock Market (S&P 500) performance in periods of increases of US 10 Year yields

Source: Bloomberg and own elaboration.

Periods of rising yields have usually benefited the stock market

Periods in which US 10Y Treasury Bonds interest rates have risen							
Start date		Ending date				Stock market performance	
Date	Starting level	Date	End of period level	Highest level of rates	Maximum rebound (basis points)	In that period	Next 12 months
Sep-86	7.08%	Oct-87	10.13%	10.23%		14%	-2%
Oct-93	5.24%	Nov-94	8.01%	8.03%	260	-1%	29%
Jan-96	5.53%	Jun-96	7.06%	7.06%	154	9%	32%
Oct-98	4.20%	Jan-00	6.75%	6.75%	213	48%	-7%
Nov-01	4.29%	Apr-02	5.43%	5.43%	125	3%	-25%
Jun-03	3.17%	Jun-06	5.23%	5.23%	174	24%	19%
Dec-08	3.21%	Apr-10	3.99%	3.99%	189	31%	12%
Oct-10	2.39%	Feb-11	3.74%	3.74%	135	14%	2%
Jul-12	1.44%	Jan-14	3.03%	3.03%	141	36%	11%
Jul-16	1.43%	Oct-18	3.23%	3.23%	127	35%	2%
Aug-20	0.55%	Mar-21	1.72%	1.72%	112	18%	
Average					**163**	**20.9%**	**7.4%**

According to the graph of very long-term interest rates on 10-year US Treasury Notes below, **rates have been rising very moderately and are still too low to hurt the economy.** The graph also shows stock index returns at each upward (red) and downward shift of interest rates. Average **stock index returns when interest rates rise (+20.9%) are much higher than when they fall (+3.4%).** This is not surprising, since interest rates normally rise in economic booms and tend to fall ahead of expected economic crises or recessions.

Interest rates are still very low, and we are still far from critical levels that could impair share value

Markets are still benefiting from excellent monetary conditions, and increased household saving, fiscal stimulus and vaccination seem to be shoring up economic recovery substantially. The Fed wants to keep US monetary conditions accommodative with rates close to zero in anticipation of a broad economic recovery. If rates continue to rise moderately (under 2.5% for long-term interest rates), the Fed does not raise rates and inflation forecasts stay below 3%, we consider stock markets can absorb the impact from tighter monetary policy. **Equities are still more attractive than bonds and are backed by business confidence, earnings growth and purchasing interest from investors.** Global earnings forecasts point to nearly 20% growth over the next 12 months and analysts are still revising up forecasts, but the key is whether the equity market has priced in all the earnings growth.

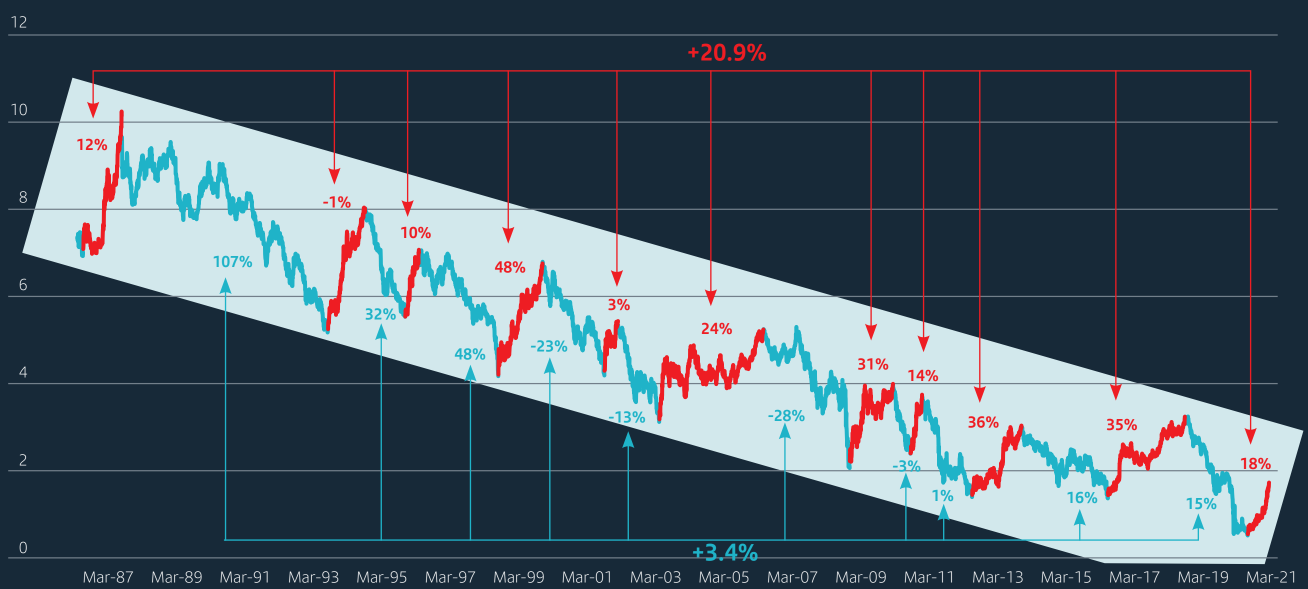
Arguments supporting overweighting stocks are not as clear as a few months ago, but the lack of alternatives in fixed-income and solid earnings growth continue to provide support for equities

High-growth companies' share prices are more sensitive to rising interest rates, which is partly why they have underperformed on general indices. Doubts about the regulation of Chinese tech companies and Biden's tax increases to pay for higher infrastructure spending have also had a negative effect.

US Stock Market (S&P 500) performance in periods of increases and decreases in US bond yields (10 Year Gov't bonds)

Source: Bloomberg and own elaboration.

Periods in which long-term yields increase normally occur when GDP growth is positive and strong and stock markets are up



World stock indices performed well but varied significantly between industries and regions. In particular, there was **intense rotation towards more cycle-sensitive stocks (which are identified with "normalization" or "back-to-work) that took a severe hit during lockdowns.** The graphs below show the best performing industries so far in 2021 (energy and finance), which precisely had the worst performance in 2020. The industries that performed the best during lockdown on the back of digitalization (technology) and increased spending on health (pharmaceuticals), have performed poorly this year. The indices that have gained the most from the recovery are those with overweight in cyclical industries, small caps and value: Dow Jones Industrial (+8.3%), EuroStoxx 50 (+10.8%) and Russell 2000 (+12.7%).

The market cycle is moving even faster than the economic recovery cycle because of the enormous stimulus

Rotation towards industries hit the hardest by business shutdowns due to the pandemic was a key recommendation in our investment strategy document for 2021, and we feel it may continue to be beneficial in the rest of the year. We see market volatility as opportunities to build on this pro-cyclical positioning, as long as the source of bad news is higher yields as a result of an improving macroeconomic environment. Many of the blue chip stocks from 2020 are trailing cyclical stocks significantly because, despite no gap in economic growth this year, they still have a significant valuation gap. We believe investing in stocks, particularly those in cyclical industries and with positive outlooks, and **diversifying in innovative trends** (Future Wealth) may continue to provide attractive returns in the coming quarters.

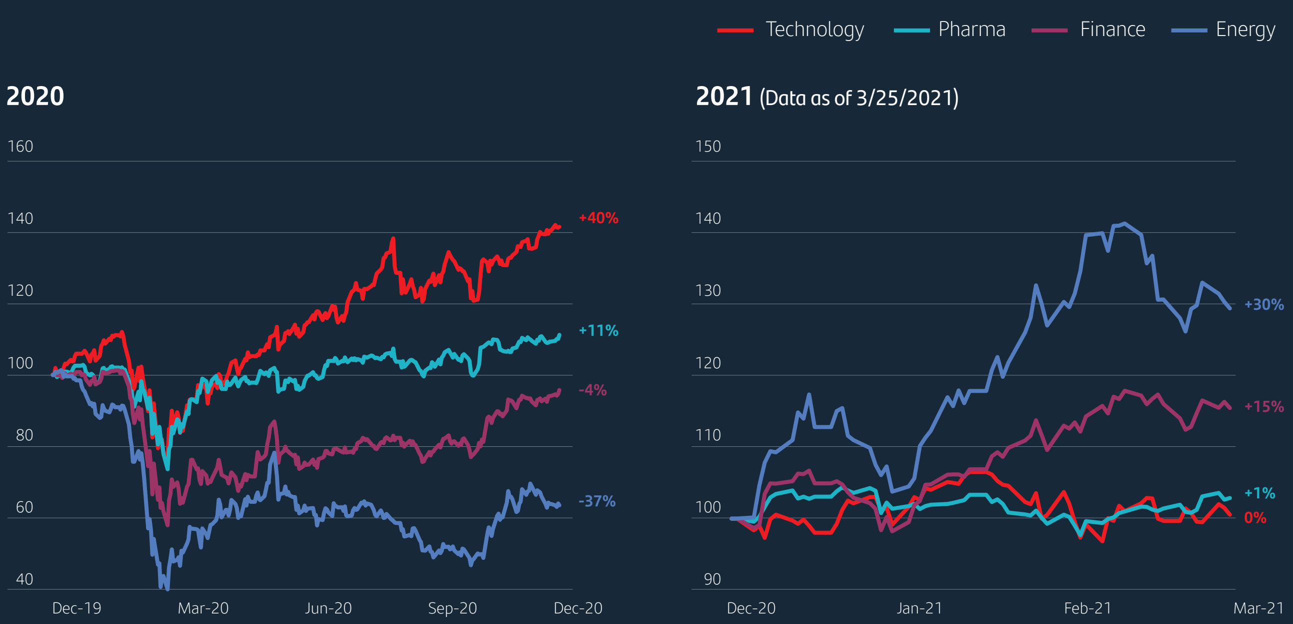
Though risk assets continue to benefit from the economic recovery tailwinds, we recommend a high degree of diversification (innovation, private markets, gold, alternatives, etc.) in light of such an unusual backdrop

Still, it is important to pay close attention to how the market will fare in a not so distant future of no fiscal and monetary stimulus support. The features of the cycle we are in are very different to what we've experienced in past decades, and stocks stocks' valuations are very high and sensitive to a change in interest rates and inflation. Today's high equity risk premium largely reflects the exceptionally low level of bond yields. If bond yields were to move up, the equity risk premium would shrink. While we do think that bond yields will rise by more than expected in the long run, the path to higher yields is likely to be a slow one. The bull market in stocks will end when central banks begin to worry over rising inflation or when the recovery loses steam, financial conditions worsen or the economic recovery loses steam.

S&P 500 - Selected sectors returns in 2020 and 2021

Source: Bloomberg and own elaboration.

Economic reopening has led to a rotation towards those sectors that underperformed in 2020 (Energy and Finance)



Appendix

Returns of main asset class in the last 10 years

Source: Bloomberg and Santander.

	Returns							Annualized returns		
	Jan-21	Feb-21	Mar-21	1Q 21	YoY	2019	2020	3 years	5 years	10 years
Short-term (USD) [1]	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**	**2.2%**	**0.4%**	**1.4%**	**1.2%**	**0.6%**
Short-term (EUR) [2]	**0.0%**	**0.0%**	**0.0%**	**-0.1%**	**-0.5%**	**-0.4%**	**-0.5%**	**-0.4%**	**-0.4%**	**-0.1%**
Global Fixed Income [3]	**-0.9%**	**-1.7%**	**-1.9%**	**-4.5%**	**4.7%**	**6.8%**	**9.2%**	**2.8%**	**2.7%**	**2.3%**
Fixed Income (USD) [4]	**-0.7%**	**-1.4%**	**-1.2%**	**-3.4%**	**0.7%**	**8.7%**	**7.5%**	**4.7%**	**3.1%**	**3.4%**
Sovereign (USD) [5]	-0.2%	-0.8%	-0.7%	-1.8%	-1.3%	5.2%	5.8%	3.8%	2.1%	2.3%
Corporates (USD) [6]	-1.3%	-1.7%	-1.7%	-4.6%	8.7%	14.5%	9.9%	6.2%	4.9%	5.0%
High Yield (USD) [7]	0.3%	0.4%	0.1%	0.8%	23.7%	14.3%	7.1%	6.8%	8.1%	6.5%
Fixed Income (EUR) [8]	**-0.5%**	**-1.6%**	**0.1%**	**-1.9%**	**3.2%**	**6.0%**	**4.0%**	**2.5%**	**1.9%**	**4.1%**
Sovereign (EUR) [9]	-0.6%	-1.9%	0.1%	-2.3%	2.2%	6.8%	5.0%	2.9%	2.0%	4.6%
Corporates (EUR) [10]	-0.1%	-0.8%	0.2%	-0.7%	8.8%	6.2%	2.8%	2.4%	2.3%	3.9%
High Yield (EUR) [11]	0.6%	0.8%	0.7%	2.1%	22.4%	12.3%	1.8%	4.1%	4.9%	6.4%
Emerging Global Fixed Income (USD) [12]	**-0.8%**	**-1.4%**	**-1.3%**	**-3.5%**	**13.6%**	**13.1%**	**6.5%**	**4.8%**	**5.2%**	**5.4%**
Latam (USD) [13]	-2.3%	-2.2%	-1.3%	-5.7%	17.0%	12.3%	4.5%	2.3%	5.0%	4.8%
MSCI World (USD)	**-1.1%**	**2.5%**	**3.1%**	**4.5%**	**51.8%**	**25.2%**	**14.1%**	**10.8%**	**11.4%**	**7.7%**
MSCI USA (USD)	-1.0%	2.5%	3.6%	5.1%	56.7%	29.1%	19.2%	15.3%	14.4%	11.7%
MSCI Europe (EUR)	-0.8%	2.4%	6.1%	7.8%	32.6%	22.2%	-5.4%	4.4%	4.9%	3.9%
MSCI Asia Pac. Ex Japan (USD)	4.0%	1.2%	-2.7%	2.5%	54.2%	15.4%	22.5%	6.4%	11.5%	4.1%
MSCI Latin America (USD)	-6.8%	-3.1%	4.0%	-6.1%	46.0%	13.7%	-16.0%	-8.8%	1.3%	-6.9%

[1] Barclays Benchmark Overnight USD Cash Index; [2] Barclays Benchmark 3mEUR Cash Index; [3] Bloomberg Barclays Global Aggregate Total Return Index Value Un; [4] Bloomberg Barclays US Agg Total Return Value Unhedged USD; [5] Bloomberg Barclays US Intermediate Treasury TR Index Value Unhedged U; [6] Bloomberg Barclays US Corporate Total Return Value Unhedged USD; [7] Bloomberg Barclays US Corporate High Yield Total Return Value Unhedged USD; [8] Bloomberg Barclays EuroAgg Total Return Index Value Unhedged EUR; [9] Bloomberg Barclays EuroAgg Treasury Total Return Index Value Unhedged EUR; [10] Bloomberg Barclays Euro Aggregate Corporate Total Return Index Value Unhedged EU; [11] Bloomberg Barclays Pan-European Aggregate High Yield TR Index Value Unhedged; [12] Bloomberg Barclays EM USD Aggregate Total Return Value Unhedged; [13] Bloomberg Barclays Emerging Markets Latam Total Return Value Unhedged USD

Equities

Source: Bloomberg and Santander.

			Change	Last 10 years			Return			Annualized return			
		Last Price	12 months	Low	Range	High	Month	1Q 21	YoY	1 year	3 years	5 years	10 years
U.S.	S&P 500	3,973		1,131		3,973	4.2%	5.8%	16.3%	51.3%	14.6%	14.0%	11.6%
	DOW JONES INDUS.	32,982		10,913		32,982	6.6%	7.8%	7.2%	50.5%	11.0%	13.2%	10.3%
	NASDAQ	13,247		2,415		13,247	0.4%	2.8%	43.6%	72.0%	23.3%	22.2%	16.9%
Europe	Stoxx 50	3,323		2,160		3,444	6.4%	6.9%	-8.7%	21.7%	3.9%	3.3%	2.6%
	Eurozone (EuroStoxx)	3,919		2,119		3,919	7.8%	10.3%	-5.1%	40.6%	5.2%	5.2%	3.0%
	Spain (IBEX 35)	8,580		6,090		11,521	4.3%	6.3%	-15.5%	26.4%	-3.7%	-0.7%	-2.1%
	France (CAC 40)	6,067		2,982		6,067	6.4%	9.3%	-7.1%	38.0%	5.5%	6.4%	4.3%
	Germany (DAX)	15,008		5,502		15,008	8.9%	9.4%	3.5%	51.1%	7.5%	8.4%	7.9%
	United Kingdom (FTSE 100)	6,714		5,128		7,749	3.6%	3.9%	-14.3%	18.4%	-1.6%	1.6%	1.3%
	Italy (MIB)	24,649		12,874		24,649	7.9%	10.9%	-5.4%	44.6%	3.2%	6.1%	1.3%
	Portugal (PSI 20)	4,930		3,945		7,678	4.8%	0.6%	-6.1%	21.1%	-3.0%	-0.8%	-4.4%
	Switzerland (SMI)	11,047		5,529		11,047	5.0%	3.2%	0.8%	18.6%	8.1%	7.1%	5.7%
LatAm	Mexico (MEXBOL)	47,246		33,503		51,210	6.0%	7.2%	1.2%	36.7%	0.8%	0.5%	2.4%
	Brazil (IBOVESPA)	116,634		40,406		119,017	6.0%	-2.0%	2.9%	59.7%	11.0%	17.9%	5.5%
	Argentina (MERVAL)	47,982		2,257		54,573	-0.9%	-6.3%	22.9%	96.8%	15.5%	30.1%	30.4%
	Chile (IPSA)	4,898		3,439		5,855	7.1%	17.3%	-10.5%	40.4%	-4.0%	4.4%	0.6%
Asia	Japan (NIKKEI)	29,179		8,435		29,179	0.7%	6.3%	16.0%	54.2%	10.8%	11.6%	11.6%
	Hong-Kong (HANG SENG)	28,378		17,592		32,887	-2.1%	4.2%	-3.4%	20.2%	-1.9%	6.4%	1.9%
	South Korea (KOSPI)	3,061		1,755		3,061	1.6%	6.5%	30.8%	74.5%	7.8%	8.9%	3.8%
	India (Sensex)	49,509		15,455		49,509	0.8%	3.7%	15.8%	68.0%	14.5%	14.3%	9.8%
	China (CSI)	5,048		2,140		5,352	-5.4%	-3.1%	27.2%	37.0%	9.0%	9.4%	4.6%
World	MSCI WORLD	2,812		1,104		2,812	3.1%	4.5%	14.1%	51.8%	10.8%	11.2%	7.7%

Equities by style and sector

Source: Bloomberg and Santander.

			Change	Last 10 years			Return			Annualized return				Ratios	
		Last Price	12 months	Low	Range	High	Month	1Q 21	YoY	1 year	3 years	5 years	10 years	PE Ratio	Dividend Yield
	MSCI World	2,812		1,104		2,812	3.1%	4.5%	14.1%	50.3%	10.8%	11.2%	7.7%	20.99	1.71
Style	MSCI World High Dividend Yield	1,352		797		1,352	5.7%	5.3%	-3.0%	31.1%	4.3%	5.2%	4.2%	14.24	3.49
	MSCI World Momentum	3,428		878		3,441	0.2%	0.4%	28.3%	47.5%	15.9%	17.1%	13.5%	33.26	0.63
	MSCI World Quality	3,322		889		3,322	3.8%	2.9%	22.2%	46.8%	17.3%	15.9%	13.2%	23.48	1.50
	MSCI World Minimum Volatility	4,191		1,673		4,191	4.9%	1.2%	2.6%	21.0%	8.3%	8.2%	9.5%	20.52	2.14
	MSCI World Value	10,626		4,423		10,626	5.7%	9.6%	-1.2%	46.8%	6.7%	9.0%	7.1%	15.97	2.61
	MSCI World Small Cap	658		202		658	2.1%	9.4%	16.0%	81.5%	11.5%	13.6%	9.9%	24.68	1.45
	MSCI World Growth	8,019		2,103		8,019	0.8%	0.2%	33.8%	56.8%	18.5%	17.2%	12.4%	31.84	0.73
Sector	Energy	267		164		428	2.3%	21.8%	-31.5%	57.3%	-6.1%	-0.3%	-2.8%	16.75	4.60
	Materials	522		229		522	3.4%	5.7%	19.9%	71.3%	10.8%	14.3%	4.1%	15.51	2.43
	Industrials	471		152		471	6.0%	7.8%	11.7%	61.7%	10.1%	12.3%	9.2%	24.59	1.47
	Consumer Discretionary	522		119		522	3.4%	3.6%	36.6%	78.8%	18.5%	16.8%	14.4%	28.40	0.81
	Consumer Staples	409		172		411	6.5%	-0.6%	7.8%	22.3%	7.7%	6.0%	9.0%	20.50	2.91
	Health Care	436		124		437	2.4%	0.7%	13.5%	28.9%	13.5%	11.6%	13.0%	17.63	1.72
	Financials	228		84		228	4.5%	13.2%	-2.8%	58.8%	5.3%	11.0%	7.3%	13.78	2.28
	Information Technology	532		87		532	0.7%	1.4%	43.8%	65.0%	26.5%	26.1%	18.5%	29.56	0.82
	Real Estate	426		194		427	4.6%	6.0%	-5.0%	29.2%	6.4%	5.5%	6.5%	29.39	2.86
	Communication Services	191		77		191	1.8%	6.8%	23.0%	58.7%	16.9%	9.4%	8.4%	22.93	1.21
	Utilities	299		147		300	7.8%	0.5%	4.8%	19.2%	10.2%	7.9%	6.5%	18.24	3.40

Sovereign Bonds

Source: Bloomberg and Santander.

	Rating (S&P)	Interest rate			10 years: Change	10 years: Last 10 years			10 years: Interest rates change (bp) 10 years			Yield curve
		C. Bank*	2 years	10 years	12 months	Low	Range	High	Month	1Q 21	YoY	10-2 years
Developed												
U.S.	AA+	0.25%	0.16%	1.74%		0.53%		3.29%	34	-18	107	1.58
Germany	AAA	-0.50%	-0.69%	-0.29%		-0.70%		3.24%	-3	-11	18	0.40
France	AA	-0.50%	-0.66%	-0.05%		-0.40%		3.56%	-4	-16	-3	0.61
Italy	BBB	-0.50%	-0.38%	0.67%		0.54%		7.11%	-9	-74	-86	1.05
Spain	A	-0.50%	-0.49%	0.34%		0.05%		6.86%	-9	-13	-34	0.83
United Kingdom	AA	0.10%	0.10%	0.85%		0.10%		3.43%	3	2	49	0.74
Greece	BB-	-0.50%	n.d.	0.87%		0.63%		34.96%	-24	-60	-81	n.d.
Portugal	BBB	-0.50%	-0.56%	0.23%		0.03%		16.40%	-9	-22	-64	0.79
Switzerland	AAA	-0.75%	-0.81%	-0.30%		-1.05%		2.03%	-8	20	7	0.50
Poland	A-	0.10%	0.04%	1.56%		1.15%		6.13%	-3	-55	-9	1.53
Japan	A+	-0.10%	-0.12%	0.10%		-0.27%		1.21%	-7	11	7	0.22
Emerging												
Brazil	BB-	2.75%	6.55%	9.28%		6.49%		16.51%	79	250	67	2.73
Mexico	BBB	4.00%	4.91%	6.84%		4.49%		9.16%	59	-7	-28	1.93
Chile	A	0.50%	0.60%	3.49%		2.19%		4.80%	52	32	-12	2.89
Argentina	CCC+	38.00%	n.d.	n.d.		0.00%		0.00%	n.d.	n.d.	n.d.	n.d.
Colombia	BBB-	1.75%	n.d.	6.97%		4.85%		8.98%	100	63	-146	n.d.
Turkey	B+	19.00%	18.31%	18.05%		6.21%		20.69%	508	619	493	-0.26
Russia	BBB-	4.50%	5.63%	7.04%		5.55%		12.98%	55	-1	-61	1.41
China	A+	2.94%	2.73%	3.19%		2.51%		4.58%	-9	5	60	0.46
India	BBB-	4.00%	4.67%	6.17%		5.84%		8.87%	-6	-39	3	1.49

*Central Bank lending facility, except in Eurozone countries, where the marginal deposit facility is used.

Currencies

Source: Bloomberg and Santander.

	Last Price	Change	Last 10 years			Return			Annualized return		
		12 months	Low	Range	High	Month	1Q 21	YoY	3 years	5 years	10 years
EUR/USD	1.17		1.05		1.48	-2.9%	4.6%	6.3%	-1.6%	1.0%	-6.3%
EUR/GBP	0.85		0.70		0.92	-1.8%	0.6%	-4.2%	-1.1%	2.1%	-1.2%
EUR/CHF	1.11		1.03		1.28	0.9%	2.0%	4.4%	-2.0%	0.5%	-5.6%
EUR/JPY	130		96		148	0.9%	6.6%	9.5%	-0.3%	0.7%	2.8%
EUR/PLN	4.63		3.93		4.63	2.5%	8.9%	1.7%	3.2%	2.9%	4.9%
GBP/USD	1.38		1.22		1.71	-1.1%	4.0%	11.0%	-0.6%	-1.1%	-5.1%
USD/CHF	0.94		0.79		1.03	3.9%	-2.4%	-1.8%	-0.4%	-0.5%	0.7%
USD/JPY	111		76		124	3.9%	1.9%	3.0%	1.4%	-0.3%	9.6%
USD/MXN	20.43		11.50		24.17	-2.0%	8.0%	-13.7%	4.0%	5.6%	20.0%
USD/ARS	92		4.08		92	2.4%	53.6%	42.8%	65.9%	83.9%	183.1%
USD/CLP	719		458		855	-0.9%	-4.4%	-15.9%	6.0%	2.4%	14.8%
USD/BRL	5.63		1.55		5.75	0.5%	39.8%	8.2%	19.4%	16.6%	51.9%
USD/COP	3,704		1,763		4,056	2.7%	13.0%	-8.7%	9.8%	6.9%	26.0%
USD/CNY	6.55		6.05		7.16	1.1%	-5.9%	-7.5%	1.5%	0.4%	0.0%
EUR/SEK	10.24		8.34		10.93	0.5%	-2.5%	-6.3%	-0.1%	3.4%	4.5%
EUR/NOK	10.03		7.29		11.48	-4.1%	1.9%	-12.7%	1.2%	2.0%	8.7%

Commodities

Source: Bloomberg and Santander.

	Last Price	Change	Last 10 years			Return			Annualized return		
		12 months	Low	Range	High	Month	1Q 21	YoY	3 years	5 years	10 years
Crude Oil (Brent)	62,4		21		126	-3.1%	-6.0%	190.7%	-3.4%	18.1%	-19.3%
Crude Oil (W. Texas)	59,2		19		114	-3.8%	-3.1%	188.9%	-3.1%	17.2%	-18.2%
Gold	1,714		1,060		1,971	-0.9%	12.5%	8.2%	9.0%	11.9%	6.3%
Copper	8,786		4,561		9,830	-3.2%	42.3%	77.4%	9.4%	22.0%	-2.1%
CRB Index	185		117		371	-2.9%	-0.4%	51.9%	-1.8%	3.3%	-20.0%
Rogers International	2,517		1,560		4,406	-2.4%	2.5%	51.0%	0.7%	8.3%	-16.3%
Soybean	570		334		697	2.3%	50.4%	62.2%	11.2%	16.1%	1.0%

"Periodic table" of asset returns*

Asset Class	Reference Index
US Equities	S&P 500 TR
Japan Equities	Topix TR
Spain Equities	Ibex35 TR
Emerging Markets Equities	MSCI EM TR
Europe Equities	Eurostoxx50 TR
Commodities	Commodity RB TR
Global Equities	MSCI World TR
Europe IG	ERL0 TR
Liquidity EUR	Eonia TR
Global High Yield	HW00 TR
Spain Government	SPAIN 10 YR
Eurozone Government	GERMANY 10 YR

Calendar Year Returns

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Q1'2021
38.3% Eurozone Government	**28.1%** Eurozone Government	**54.4%** Japan Equities	**71.3%** Eurozone Government	**15.4%** Europe Equities	**14.8%** Global High Yield	**37.3%** Emerging Market Equities	**3.3%** Spain Government	**31.5%** US Equities	**18.4%** US Equities	**10.7%** Europe Equities
7.6% Spain Government	**20.9%** Japan Equities	**32.4%** US Equities	**61.3%** Spain Government	**12.1%** Japan Equities	**12.0%** US Equities	**22.4%** Global Equities	**0.1%** Eurozone Government	**27.7%** Global Equities	**18.3%** Emerging Market Equities	**10.2%** Commodities
2.6% Global High Yield	**19.3%** Global High Yield	**27.8%** Spain Equities	**13.7%** US Equities	**1.4%** US Equities	**11.4%** Commodities	**22.2%** Japan Equities	**-0.4%** Liquidity	**26.8%** Europe Equities	**15.9%** Global Equities	**9.3%** Japan Equities
2.1% US Equities	**18.2%** Emerging Market Equities	**26.7%** Global Equities	**10.3%** Japan Equities	**-0.1%** Liquidity	**11.2%** Emerging Market Equities	**21.8%** US Equities	**-1.5%** Europe IG	**18.4%** Emerging Market Equities	**8.0%** Global High Yield	**6.7%** Spain Equities
2.0% Europe IG	**18.2%** Europe Equities	**21.1%** Spain Government	**8.6%** Spain Equities	**-0.5%** Europe IG	**7.5%** Global Equities	**11.3%** Spain Equities	**-3.3%** Global High Yield	**18.1%** Japan Equities	**7.4%** Japan Equities	**6.2%** US Equities
0.9% Liquidity	**16.0%** US Equities	**20.8%** Europe Equities	**8.3%** Europe IG	**-0.8%** Global Equities	**6.6%** Eurozone Government	**10.6%** Europe Equities	**-4.4%** US Equities	**16.6%** Spain Equities	**6.4%** Eurozone Government	**4.9%** Global Equities
-5.5% Global Equities	**15.8%** Global Equities	**8.0%** Global High Yield	**7.2%** Europe Equities	**-3.6%** Spain Equities	**5.7%** Spain Government	**10.2%** Global High Yield	**-8.7%** Global Equities	**12.6%** Global High Yield	**4.4%** Spain Government	**2.3%** Emerging Market Equities
-7.8% Spain Equities	**13.2%** Europe IG	**2.4%** Europe IG	**4.9%** Global Equities	**-4.2%** Global High Yield	**4.8%** Europe IG	**1.9%** Europe IG	**-10.8%** Europe Equities	**10.1%** Spain Government	**2.7%** Europe IG	**-0.1%** Global High Yield
-8.6% Europe Equities	**2.8%** Spain Equities	**0.1%** Liquidity	**0.1%** Liquidity	**-10.5%** Spain Government	**2.6%** Spain Equities	**1.7%** Spain Government	**-11.5%** Spain Equities	**8,1%** Eurozone Government	**-0.5%** Liquidity	**-0.1%** Liquidity
-13.4% Commodities	**0.2%** Liquidity	**-2.6%** Emerging Market Equities	**-0.1%** Global High Yield	**-14.9%** Emerging Market Equities	**1.7%** Europe Equities	**0.7%** Commodities	**-13.0%** Commodities	**6.2%** Europe IG	**-3.2%** Europe Equities	**-0.7%** Europe IG
-17.0% Japan Equities	**-1.1%** Commodities	**-9.6%** Commodities	**-2.2%** Emerging Market Equities	**-16.3%** Eurozone Government	**0.6%** Japan Equities	**-0.2%** Eurozone Government	**-14.6%** Emerging Market Equities	**5.4%** Commodities	**-9.3%** Commodities	**-1.8%** Spain Government
-18.4% Emerging Market Equities	**-3.8%** Spain Government	**-46.6%** Eurozone Government	**-17.0%** Commodities	**-22.3%** Commodities	**-0.3%** Liquidity	**-0.4%** Liquidity	**-16.0%** Japan Equities	**-0.4%** Liquidity	**-12.7%** Spain Equities	**-6.9%** Eurozone Government

\+ Returns -

*Data as of 3/31/2021
Total return indices track both the capital gains as well as any cash distributions, such as dividends or interest, attributed to the components of the index.

Global Investment Strategy Team

Santander Private Banking

Private Banking

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