Santander
Private Banking

April 2022

Quarterly Market Outlook

The global economy faces a new inflationary challenge

The invasion of Ukraine has altered the geopolitical equilibrium with significant uncertainty and disruption in global trade, energy, and diplomatic fronts. History shows that markets react with resiliency to geopolitical shocks unless the probability of recession rises significantly.

This type of environment is full of dilemmas for monetary policy. On the one hand, rising long-dated inflation expectations give the central banks a greater incentive to tighten quickly. On the other hand, rapidly tightening financial conditions increase the risk that interest rates may move too aggressively and push the economy into recession. Investors should factor in a rising interest rate environment and evaluate duration risk in their portfolios as central banks switch their focus to fighting inflation.

Positive corporate earnings, above-trend growth and still accommodative financial conditions continue to support positioning in risk assets. However, recessionary risks have increased and investors should pay more attention to building well-diversified portfolios that are more resilient to a backdrop of rising inflation. In the current state of high volatility, it is important to remain vigilant, focus on the medium and long term, maximize portfolio diversification, and keep the portfolios aligned to each investor's risk profile.

Key messages for Q2 2022

Markets recover from geopolitical shocks

The invasion of Ukraine represents a geopolitical change of enormous magnitude and creates numerous sources of uncertainty (war, energy, inflation, trade, etc.). However, history shows us that in the face of events of similar magnitude, financial markets usually experience rapid recoveries. The exceptions to this rule are realized when there is a change from geopolitical to economic uncertainty. Investors should focus on economic fundamentals rather than being distracted with market noise.

Central banks pivot towards tightening

Tight labor markets and rising inflation are forcing developed central banks to pivot towards tightening monetary policy. We expect the Fed and Bank of England to accelerate this hiking cycle (the European Central Bank lagging behind) in order to position rates in restrictive territory sooner rather than later in order to suppress persistent inflation. Tightening cycles tend to be favorable for equity investors (and challenging for fixed income investors), while monetary conditions are still accommodative and economic growth is above trend.

Late cycle investing playbook requires focus on inflation

Investors should not focus on the geopolitical noise and concentrate on evaluating whether the deterioration in leading indicators and financial conditions remain at moderate levels. We continue to reinforce the need to boost inflation protection in portfolios. Increasing the exposure to real assets, searching for alternative strategies or flexible investment solutions in fixed income (in order to diversify from duration risk) are to be considered. Investors should boost diversification, focus on companies with pricing power and look for opportunities in geographies and sectors with active managers.

01 Markets are resilient to geopolitical shocks but not to recessions

The invasion and subsequent sanctions on Russia bring an enormous dose of uncertainty and volatility into economic decision-making, heightening the risk to the global outlook

The invasion of Ukraine is one of the most significant changes in the geopolitical world order since 9/11. **This conflict is an extreme external shock that will have many geopolitical and economic ramifications over the next decades.** Since 1945, the world has done a remarkably good job of preventing wars between great powers and making the costs of unprovoked aggression extremely high. In a matter of days, Russia has upended this system. Countries across the globe — especially in Europe — are already rethinking their entire foreign, energy and trade policies policy, and that's just the beginning. Every government will be watching closely to see what unfolds in Ukraine and whether the global response to Russia is able to deter even greater escalation.

Cutting Russia out of the economic system will reverberate internationally and there will be important consequences in global trade flows

In response, **the the European Union, U.S., Canada, Japan, and the United Kingdom have imposed unprecedented sanctions on Russia** that have crippled its financial institutions, sending its economy and the ruble into a tailspin. It's even targeted Putin personally and some of his inner circle. The reaction by Western governments was probably an even bigger surprise than the outbreak of war so close to the heart of Europe. By not allowing Western firms to deal with big Russian banks (except in the energy trade) and expelling them from the global-payments system (SWIFT), the flow of money across borders is seizing up. Action against Russia's central bank means it cannot gain access to much of its vast $630 billion pile of foreign reserves. The ruble has fallen by more than 50% this year as capital flees, threatening soaring inflation. Share prices have collapsed, and multinationals are leaving. **The West has deployed an economic weapon that was, until recently, unthinkable.**

The invasion of Ukraine has the potential to become a paradigm shift on the scale of 9/11

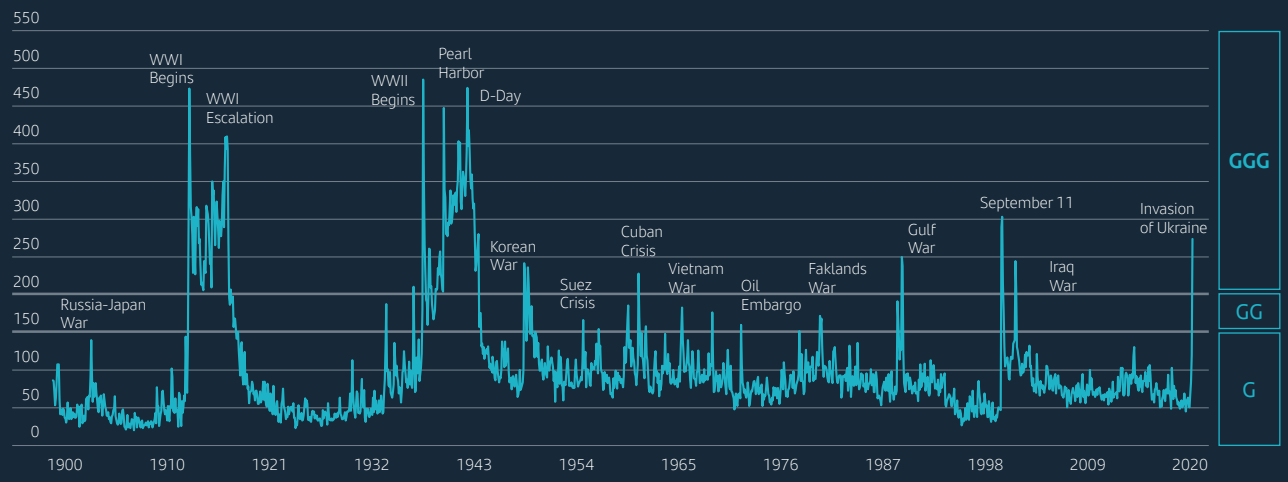
Caldara and Iacoviello's Geopolitical Risk Index (GPR) allows us to gauge the relevance of this event by benchmarking headlines related to geopolitical tensions, wars, and acts of terrorism. As can be seen in the GPR index, **the invasion of Ukraine is a major event in terms of risk as a result of several geopolitical factors,** such as the direct involvement of a superpower, the size and geographical position of Ukraine, the intensity of the conflict, and the sheer number of refugees. Second only to the two world wars, and of a similar magnitude to 9/11.

According to the International Monetary Fund (IMF) data as of December 2021, Russia accounts for just 2% of the world's total output, despite its enormous energy exports.

Geopolitical Risk Index (GPR)

Source: Data downloaded from https://www.matteoiacoviello.com/gpr.htm on March 21, 2022

The invasion of Ukraine is an event with broad geopolitical repercussions



G- Geopolitical event with minor media impact GG - Geopolitical event with medium media impact
GGG - Conflict of high importance on a geopolitical scale and high media impact

Ukraine's share of global GDP is even less significant with just 0.2%. Russia is a transcontinental behemoth with 146 million people and a huge nuclear arsenal, as well as a key supplier of the oil, gas, and raw materials that keep the world's factories running. But unlike China, which is a manufacturing powerhouse and intimately woven into intricate supply chains, Russia is not among the top 10 economies worldwide. Italy, with half the people and fewer natural resources, has an economy that is twice the size. Poland exports more goods to the European Union than Russia. However harsh the effects of the economic consequences of this conflict, **the immediate impact most likely be nowhere near as devastating as the sudden economic shutdowns first caused by the coronavirus in 2020.**

Oil, natural gas and other commodity prices are the principal channel through which the invasion of Ukraine affects the global economy

The main link between the Russian invasion and the world economy is through the prices of oil, natural gas and other commodities and industrial products. A report* from Bain & Company shows of what Russia and Ukraine, and Belarus in some cases, export to the rest of the world. Together they account for 12% of total oil exports, 25% of nickel exports, 28% of wheat exports, 28% of natural gas exports and about 28% of potash (used for fertilizer). Although Europe has been saying for years that it needs to decrease dependence on Russian energy, Moscow is the EU's largest supplier of oil and natural gas. Europe could survive if Russia were to cut off supplies, but it would not be cheap or easy.

The global economy's capacity to absorb the shock of the war in Ukraine depends on the supply of raw materials

In this regard, we have seen how the Member States have had a single, cohesive response in terms of energy dependence and the transition to renewable energies. On March 8, the European Commission launched the RepowerEU program that will seek, first and foremost, to diversify gas supply and accelerate the deployment of renewable gases (bio methane and green hydrogen), to boost the transition to solar and wind, and to replace gas in power generation and heating.

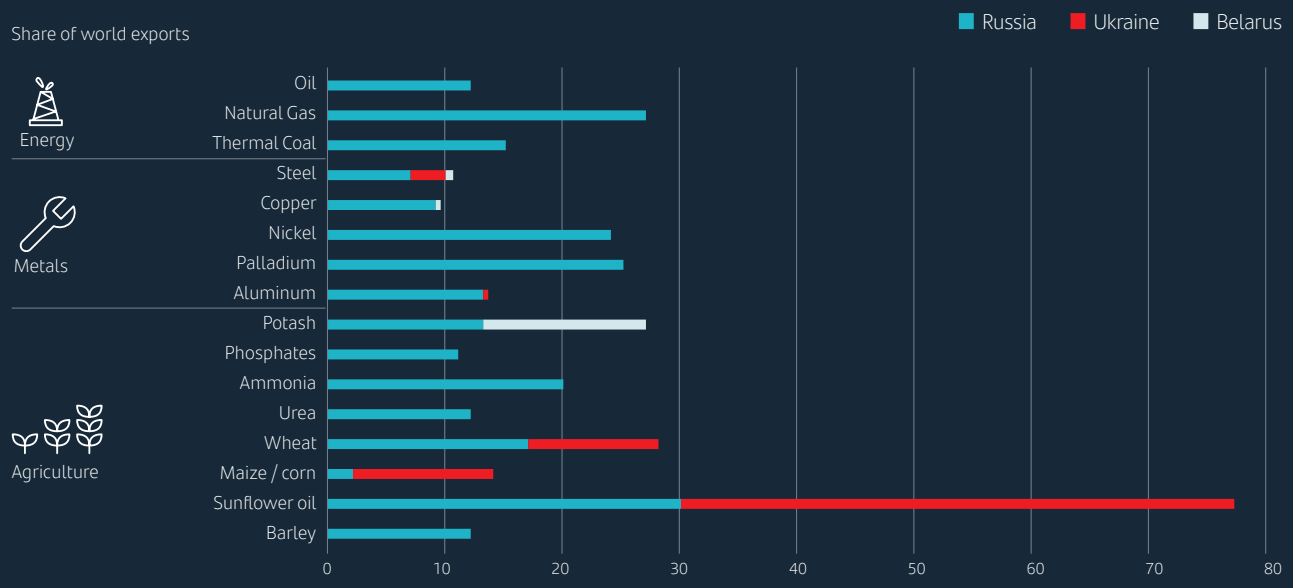
Reconfiguring the energy supply chain is disruptive and causes spot oil prices to surge. However, the market believes that once this transition is over, the dislocation will end and a new equilibrium will be reached

As became clear from the pandemic, **minor interruptions in one region can generate major disruptions far away.** Isolated shortages and price surges— whether of gas, wheat, aluminum or nickel — can snowball in a world still struggling to recover from the pandemic. The additional stresses may be relatively small in isolation, but they are piling on economies that are still recovering from economic blows inflicted by the pandemic.

Russia, Ukraine and Belarus importance in global commodity markets

Source: Bain & Company. Geopolitical shock/Ukraine-war: possible impacts on Wealth & Asset Management. March 2022

Russia and Ukraine are key exporters of global food, industrial, and energy commodities



* Geopolitical shock/Ukraine-war: possible impacts on Wealth & Asset Management March 2022.

In the next section we will analyze the impact that this geopolitical risk event will have on the main economic variables in terms of slower growth and higher inflation. We will also review the impact of similar historical events on the financial markets and in particular on the equity market. The table below we reflects the initial and subsequent (next 12 months) impact on the S&P 500 stock index (as the most representative stock index and having the longest historical series) during certain events of high geopolitical risk. No one knows if things will escalate or if this will turn out to be a one-time event, but **investors can learn from how markets have reacted to geopolitical events in the past.** The first observation when analyzing the data has to do with the initial negative impact on global stock markets has stemming from the spike in uncertainty that these conflicts bring. The table below shows that, on average, the U.S. stock market experienced a 16% correction during these events (from start to peak), confirming the sensitivity of investors to conflicts or insecurity.

After a geopolitical shock, investors aggressively reduce stock market positions, causing average corrections of 16%

When the winds of war blow over the markets, investors seek refuge from an increase in risk premiums. **The natural behavior at the outbreak of a conflict of geopolitical dimensions is a spike in volatility with aggressive selling of the most profitable and risky assets.** Volatility rises sharply in this context and stock market traders seek cover in the so-called safe-haven assets, i.e. those securities which, even in times of uncertainty, tend to maintain their valuation. Examples of these include gold, fixed income funds and hard currencies which, during similar events, experience strong rallies in the periods when stock markets declined. The reaction of investors to the invasion of Ukraine has followed this pattern (appreciation of gold and the U.S. dollar), with the exception of high credit quality fixed income (affected by the rebound in inflation).

In this initial phase of volatility and uncertainty, safe-haven assets perform positively

However, with the numbers in hand, it appears that the markets recover quickly after the initial shock. If we analyze the performance of the S&P 500 12 months after the start of a conflict, we can see that on average the markets have recovered and accumulated an average appreciation of 8%. After bottoming out, it doesn't take long for the indices to regain their vigor and right now the factors are in place for Russia's invasion of Ukraine to follow this trend. Although, this year the specters of inflation remain in the shadows and can give rise to any surprise.

However, markets tend to recover very quickly (average of 15 days) to the levels prior to the geopolitical risk event

The impact of geopolitical risks on the markets

Source: Geopolitical Risk Index (GPR) and Santander. March 2022

The lasting effect of geopolitical shocks on markets depends on the economic impact

		Pearl Harbor	Korean war	Suez crisis	Cuban Missile Crisis	Vietnam war	Oil embargo	Iran crisis	Gulf War	9-11 attacks	Iraq war	11M Madrid	Syria / North Korea	Average impact
		1941	1950	1956	1962	1968	1973	1979	1990	2001	2003	2004	2017	
Severity of the conflict	Geopolitical* (G)	GGG	GGG	GG	GGG	GG	GG	GG	GGG	GGG	GGG	G	G	
	Economic impact (E)	E	E	EEE	E	E	EEE	EE	EE	EEE	E	E	E	
Market impact (S&P500)	Initial impact (drawdown)	-18%	-8%	-21%	-4%	-7%	-44%	-17%	-14%	-32%	-5%	-8%	-10%	-16%
	Lasting impact (12 month price variation)	-0%	11%	-10%	30%	10%	-35%	26%	28%	-17%	27%	8%	14%	8%
	GDP contraction (YoY decrease)			-5% Energy crisis			-6% Energy crisis			-3% Dot.com crisis				

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E - Conflicts with short term economic effects EE - Moderate economic impact events EEE - Events with severe economic consequences

* Based on the geopolitical risk index (GPR), all events above 200 are given GGG, those between 150 and 200 are GG and the others are G (see graph on page 3). The classification of economic impacts is based on the level of business confidence (manufacturing ISM). (E) slight impact >50, (EE) intermediate impact (between 40 and 50) and negative impact (EEE) with the indicator falling below 40 and adding a decline in GDP in the year following the event.

The 9/11 attacks on the Twin Towers, the Korean War, and the Cuban Missile Crisis are **examples of extremely serious geopolitical events in which the markets recovered quickly from the initial shock.** In the case of the 9/11 attacks the initial impact was of -32%. The New York Stock Exchange was closed for a week right after. Even so, it took only 3 weeks for the S&P 500 to regain it's pre-crisis level. The Cuban Missile Crisis brought the world to the brink of nuclear war in October 1962. The standoff lasted 13 days. During that two-week period the U.S. stock market was surprisingly calm, losing only 4%. The Korean War began in the summer of 1950 and ended in the summer of 1953. In that time, the S&P 500 was up 18% annualized, or nearly 65% overall.

The resilience of stock markets to geopolitical events only deteriorates if there is contagion to confidence in continued economic growth

However, there are **exceptions in circumstances where geopolitical risk is mixed with other factors**, such as energy shocks during the Suez Crisis in 1956 and the 1973 Oil Embargo, or market crises like the one that occurred after the dot.com bubble burst in 2000. In these events, geopolitical risk interacted with other risks (energy or financial) and was one of the catalysts of major economic recessions that greatly affected stock markets. The best example is the Yom Kippur War of 1973, in which Israel and the Arab countries clashed, leading to an oil embargo on the West, where the stock market index had to wait four years to recover as a deep global recession was experienced.

It seems more difficult for stock markets to breathe a sigh of relief when raw material supply problems come into play

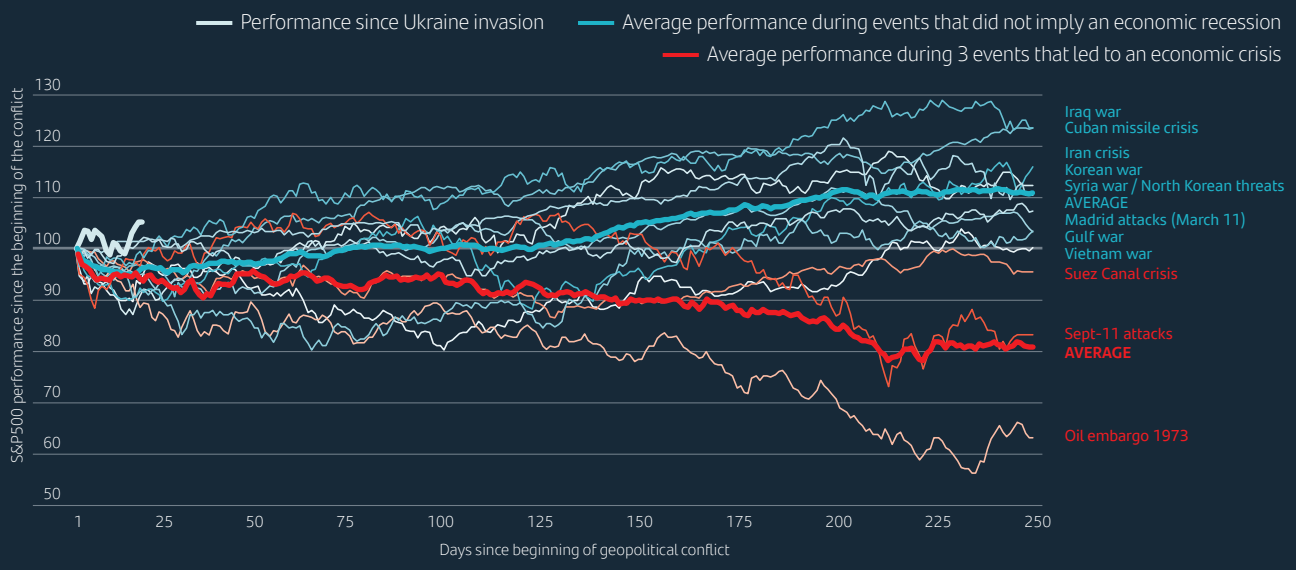
In the specific case of the invasion of Ukraine, stock markets in developed markets have taken three weeks to recover to pre-February 24 levels, confirming the general rule that equities recover quickly from military or terrorist conflicts. However, we will have to be vigilant that there is no wider economic slowdown through the transmission belt of the inflationary rally. Our economic thesis for this year continues to be that the levers of consumption and investment will be able to counter monetary and geopolitical headwinds. Global economic growth, therefore, although slowing, would remain above potential in 2022 as a whole.

The economic context dominates the market response to geopolitical shocks

Historical performance of the US stock market during major geopolitical events

Source: Bloomberg. Data as of 03.31.2022

S&P 500 has fared better during the Ukraine invasion compared with other geopolitical events in the past



02 A new inflationary shock creates a dilemma for central banks

Throughout 2021 we began to see much higher levels of inflation globally than those observed in recent years prior to the pandemic. Much of this rise could be explained by the base effect (the comparison with the low inflation seen in 2020), and also by rising prices due to a series of imbalances in the supply chain. Supply, which was at peak levels, was unable to offset the very strong demand of the recovery.

All things equal, expectations were for inflation to start moderating at the onset of this year. The spread of the Omicron variant in Asia and Oceania, which has recently led to severe restrictions on mobility in several Chinese cities, led to a new tightening of supply chains in recent weeks, after several months of some easing. As a result, the likelihood of a normalization of the situation in value chains during the first half of the year is reduced and rising prices will continue reflecting it. The Ukraine invasion adds to the scene as disruptions in the commodities' supply from Russia, Ukraine and Belarus are also pushing prices up. **The magnitude of the economic slowdown going forward will depend largely on the depth and duration of the commodity price shock and supply disruption. The variable most sensitive to the conflict is inflation, and the multitude of channels (fertilizers, staples, metals, fossil fuels, etc.) through which inflationary pressures are spreading is a cause for concern.** The coming months are going to be particularly tense in the release of inflation data and we do not rule out double-digit readings with very high levels of volatility in the yield curves.

In the chart below, we can see the **strong rebound in core inflation data** (which excludes energy and food) in the U.S., Eurozone and UK. Upside inflation surprises could open the door to a faster pace of rate hikes than markets have already discounted, especially if persistently high inflation starts to push up longer-term inflation expectations. Despite their recent rise, **longer-term expectations remain well-anchored for now,** while households' sizable average savings cushion puts them in a better position to withstand rising prices. We expect inflation

The year-over-year inflation rate has reached levels not seen in decades, and puts pressure on central banks to reinforce their price stability credentials

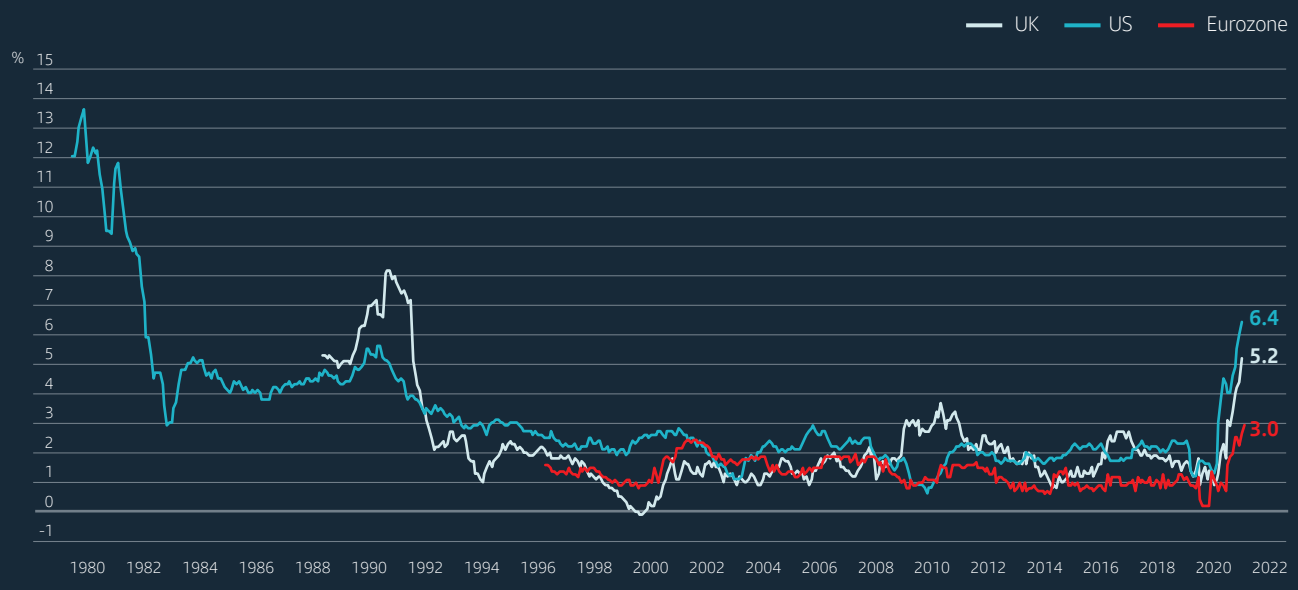
Inflationary pressures may continue given the multiple disruptions in energy, food, and industrial metals

For the time being, long-term inflation expectations are anchored, but we must be very attentive to their evolution in the coming months

Core inflation since 1980

Source: Bloomberg. Data as of February 2022 and preliminary data for March in the Eurozone

The current levels of inflation are the highest in the past four decades



data to continue to rise in the coming months but are confident that long-term inflation expectations will not deviate significantly from the 2% target of the Federal Reserve, the European Central Bank and the Bank of England.

The economic projections for growth and inflation in December 2021 were made based on a scenario in which the momentum of economic growth, after a year of very strong recovery in 2021, meant that the forecasts for 2022 were still high and that a relatively calm year of normalization was expected. Likewise, inflation, which was already at high levels in the second half of 2021, was likely to start to ease in the first half of 2022. Three months later **we find ourselves with a very different reality and we must adjust our projections to estimate the cost of the conflict in terms of lower growth and higher inflation.**

The geopolitical shock has invalidated the assumptions underlying the growth and inflation forecasts for 2022

To analyze the impact of the change of scenario on macroeconomic variables, we will start from the first review (see chart below) carried out by the Federal Reserve (Fed) and the European Central Bank (ECB). If we first analyze the cost in terms of economic slowdown, we observe that both the Fed and the ECB have only moderately revised growth for 2022 and have kept growth for 2023 practically unchanged. While it is true that the Eurozone has not yet closed the negative output gap resulting in a recession caused by the pandemic and that it still has some way to go, it is striking that the adjustment of the projection is minor, especially considering the economic impact this shock might have for the region. **It is likely that these central bank estimates of slowing growth are optimistic (especially for Europe), but we are nevertheless still moving in the direction of a slowdown rather than a recession.**

Under the current scenario we can expect considerable downwards revisions to growth. As initial growth estimates for 2022 were high, slowdown is more likely than recession

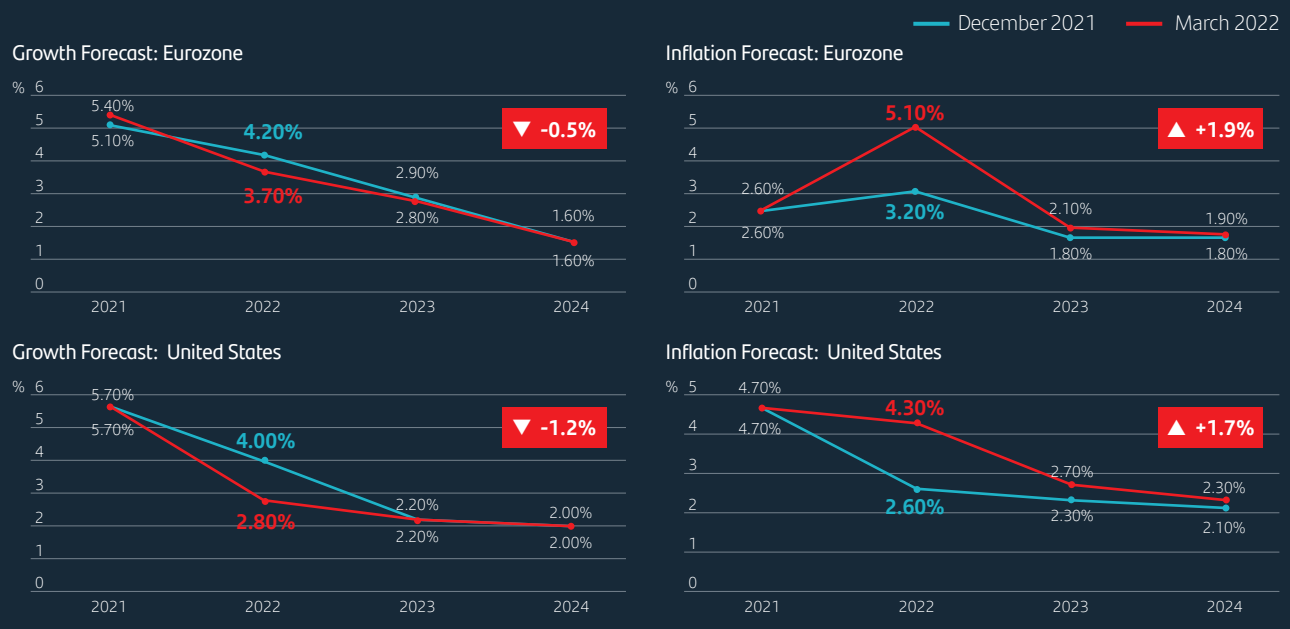
As for inflation, we note that the central banks have made a significant upward revision for 2022, with both the ECB and the Fed expecting a similar increase of around 2%. Looking forward into 2022 and 2023, monetary authorities still expect inflation to moderate significantly. This **scenario of transitory inflationary upturn is not free of high uncertainties** derived from the labor market situation in the United States (with very low levels of unemployment that raise the risk of price tension in wages) and the fragility of the energy market in Europe. **We undoubtedly find ourselves in an environment of extreme complexity and uncertainty for monetary policy decision-making by central banks at a global level.**

The major change to the macro scenario centers on an elevated pickup in inflation by 2022 and a subsequent moderation in 2023

Growth forecasts for 2022 decline while inflation forecasts rise

Source: European Central Bank and Federal Reserve projections as of March 2022

Despite the possibility of further downward revisions, growth is still above trend



A good example of the **current dilemma faced by central banks** can be analyzed in terms of the latest minutes and decisions of the Federal Reserve, whose reaction is being questioned. The solid performance of the u.s. economy and the fact that it has reached a positive output gap, restricts the Fed's ability to act, given that the starting point is an overly expansionary monetary policy. According to data from the Bureau of Labor Statistics (BLS), the labor markets are strong (unemployment rate of 3.8% and strong levels of job creation and unfilled vacancies). With the U.S. economy an unemployment low and suffering the most significant inflationary rebound in four decades 3.6%, **Fed policymakers are compelled to reinforce their price stability credentials and quickly withdraw monetary stimulus measures.**

Low unemployment levels and worrisome readings of rising inflation are forcing central banks to adopt a hawkish bias in their decision making

The Fed knows it cannot look to the recent rally in commodity prices as it would have done in the past. Their rise has raised the risks associated with stronger and stickier second-round effects. Such effects would be associated with a de-anchoring of inflationary expectations, which in turn would make inflation much harder to tame. Indeed, the latest readings on long-term, breakeven-based inflationary expectations have risen in recent weeks, and are now well above 2% (around 2,40%, the highest level since 2014). According to the Fed's March Minutes ("Dot Plot") the number of rate hikes it expects to make this year from 3 to 7. But this bullish bias was subsequently reinforced by **hawkish comments from Jerome Powell and other Fed leaders causing an acceleration of expectations to 9 total hikes this year and 3 more in 2023.** Given that the Fed cut its neutral rate (the rate at which monetary policy is neither accommodative nor restrictive) to 2.375% this means that the economy may soon face tight monetary conditions.

The Federal Reserve (Fed) has started the rate hike cycle and is guiding the market towards a rate level above the neutral rate over the next 12 months

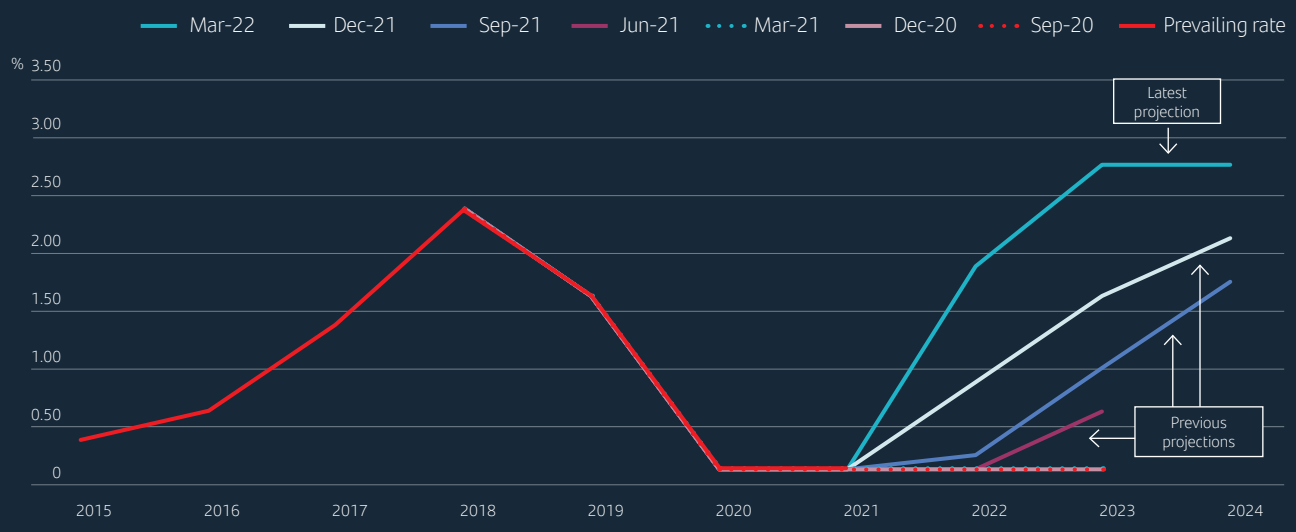
The chart below shows how the Fed has shifted to a much more hawkish bias in its interest rate projections. **The Fed is on a difficult path as it must raise rates fast enough to keep long-term inflation expectations anchored, but on the other hand they want to avoid accelerating the slowdown.** For the Fed, maintaining its credibility with a long sequence of rate hikes that does not crash the economy, real estate, and stock market is going to prove a major challenge. Central banks find themselves in a dichotomy where if they fail to meet rate hike expectations they lose credibility, but if they tighten excessively they can be held liable of triggering a recession.

Monetary policy decisions in this context of economic slowdown and rising inflation are extremely complex

Fed's benchmark rate projections* (Fed Funds)

Source: Federal Reserve. Data as of 03.16.2022

The Federal Open Market Committee (FOMC) members have increased their expected speed of this hiking cycle



*Median mid-point of quarterly Federal Open Market Commitee (FOMC) projections.

For the first time since the 1970s and early 1980s, **this time major Western central banks, led by the Federal Reserve, are unlikely to come to the rescue to prevent a larger economic slowdown, as it is accompanied by a positive inflation shock.** This increases the risk of weaker growth or even recession in developed economies and damage to financial markets.

The starting point of this hiking cycle is quite different from previous ones, as inflation has never been so high, and with upside risk, and rates so low

Investors are nervous about the ongoing process of initiating tighter monetary policies and their potential impact on financial markets. Let's analyze the **behavior of markets in previous rate hike cycles** to try to clarify which scenario might be most likely. In the table below we have summarized the main data from previous tightening cycles and how the two main bond and equity markets performed. This approach assumes that the current circumstances are similar to those of a normal cycle, and this assumption is not true for several **variables that are very different from those of previous cycles.** First, **inflation is at a four-decade high** and has been caused by a series of imbalances exogenous to the business cycle, so interest rate increases would have a somewhat different reaction function. Secondly, **benchmark rates are at minimum levels,** so the amount of ammunition that the Federal Reserve, can accumulate in order to lower rates in a future slowdown is more limited than at other times.

Market forecasts in the US point to a rate hike cycle similar to the historical average in intensity and duration

If we compare the current rate hike cycle (based on market estimates) with the average of previous cycles, we find similarities in terms of intensity (moderate hike of 2.75%) and duration of the hike process (18 months). Compared to the previous cycle (the one that started in December 2015), the rate adjustment process is likely to be much faster, derived from the current very high inflation levels that put pressure on the Fed to place rate levels in non-expansionary zones unusually quickly. **Stock market investment does not seem to suffer during the upward cycles of interest rate hikes as they are justified by a positive situation in terms of growth variables.** On average, the u.s. stock market has risen by 4.8% in the three months following the first rise and by 12.9% in the year since, while the performance of fixed-income indices has been less positive with an abundance of negative readings. **Recent history seems to indicate that equity investment performs positively in the early stages of interest rate hikes.**

In normal cycles of rising interest rates (not stagflationary), equities behave much more favorably than bonds

The Fed

Source: Bloomberg and Santander

Initial phases of tight monetary policies are negative for bonds but positive for stocks

							Level of indicators at the start of the increases		Market reaction three months from the first increase		Market reaction from the start to the end of the hiking cycle	
Fed hiking cycles	Start	End	Period (months)	Initial rate	Final rate	Total hikes (bps)	Economic Activity (Manufacturing ISM)	Year-on-year inflation	S&P 500	u.s. fixed income*	S&P 500	u.s. fixed income*
1983-1984	May-83	Aug-84	15	9.63%	11.75%	212	56	3.5%	9.7%	1.7%	2.6%	8.0%
1986-1987	Dec-86	Sep-87	9	6.00%	7.25%	125	51	1.1%	3.3%	0.3%	32.9%	-2.9%
1994-1995	Feb-94	Feb-95	12	3.25%	6.00%	275	57	2.5%	1.2%	0.1%	4.3%	1.8%
1999-2000	Jun-99	May-00	11	5.00%	6.50%	150	56	2.1%	6.7%	-0.9%	3.5%	2.4%
2004-2006	Jun-04	Jun-06	24	1.25%	5.25%	400	61	3.3%	1.3%	-2.4%	11.3%	5.9%
2015-2018	Dec-15	Dec-18	36	0.50%	2.50%	200	49	0.7%	6.5%	-0.6%	22.6%	6.3%
Average			18	4.27%	6.54%	227	55	2.2%	4.8%	-0.3%	12.9%	3.6%
2022-2023**	mar-22	?	?	0.25%	3.00%	275	59	7.90%				

*Bloomberg US Aggregate Bond Index.
** Seven rate hikes in 2022 and up to four in 2023. Forecasts released at the last meeting of the Federal Open Market Committee (FOMC). March 16, 2022.

03 Investors should focus on increasing inflation protection

In the previous sections, we have reached two conclusions: In terms of geopolitics, **investors should focus on the evolution of economic variables** and, in terms of monetary policy, **cycles of rising interest rates tend to be favorable for equity investment (and negative for fixed income) except in stagflationary contexts.** In this last section, we focus on four key main messages to guide investors in the short and medium term through this more complex scenario in which these two sources of uncertainty (geopolitical and monetary) coexist.

Ou expectations of lowe growth and higher inflation is still far from stagflation parameters

1) Keep calm and focus on the economy

The war conflict has led to a spike in economic uncertainty. The probability of a global recession over a 12-month horizon has gone from very low to somewhat significant. Our central outlook sees a **likely slowdown in the global economy of around 1% and a rise in short-term inflation of more than 2%,** compared to the assumptions at the beginning of the year. This change **does not amount to a stagflation scenario because current growth rates are above the average growth levels of the last decade** (with the exception of China).

We recommend maintaining exposure levels to risk markets as long as the probability of a slowdown clearly exceeds that of a recession

Our proposal to investors is to keep their portfolios aligned with their risk profile and only reduce risk if signs of economic slowdown reach critical levels.

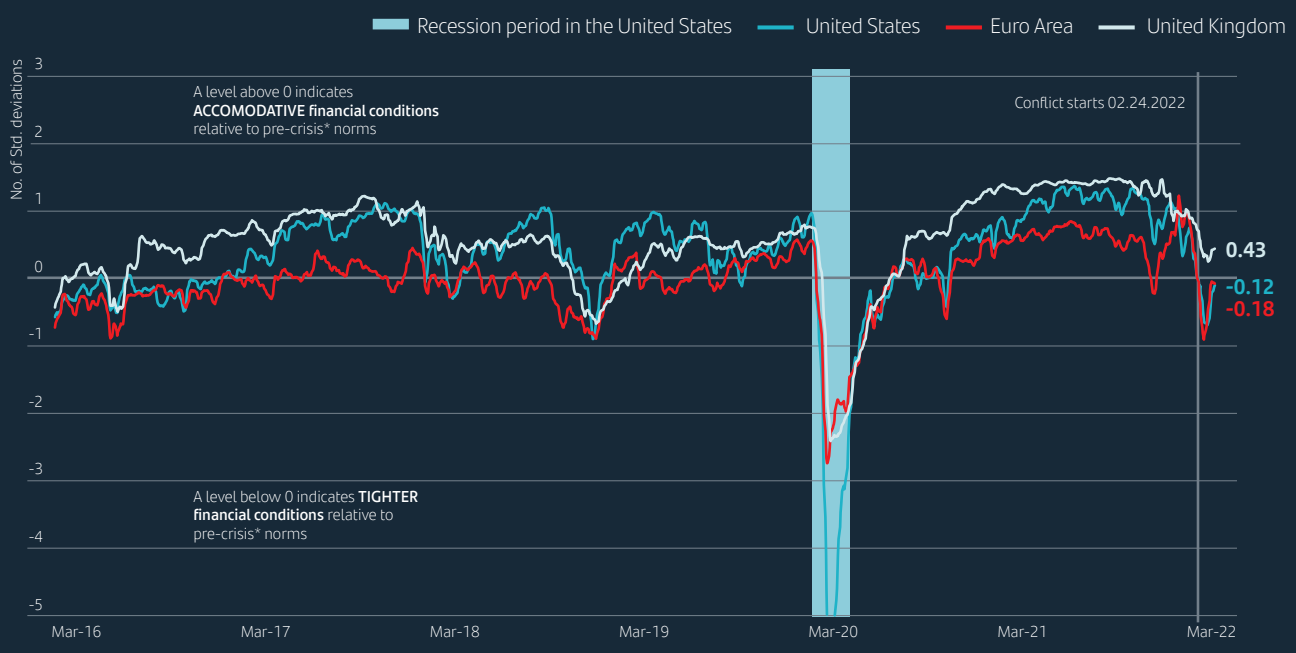
One of the most reliable indicators for determining the momentum of the global economic cycle are **financial conditions** (chart below). We can see how it is **still far from the critical levels that precede periods of economic recession (marked by the shaded area)** and how it has seen an improvement in its readings in the last two weeks. Investors in corporate bonds are currently taking a positive view of the economic cycle and the ability of companies to generate cash flows to meet debt maturities.

Key indicators are still indicative of solid macro and earnings growth

Bloomberg Financial Conditions

Source: Bloomberg and NBER for recession periods. Data as of 3.31.2022

Financial conditions can be a good indicator of an economic downturn



* Pre-crisis period 1994 to July 1, 2008.

The leading indicator that is generating the most controversy in terms of its negative reading as a predictor of an upcoming recession is derived from **the flattening of the U.S. interest rate curve.** As a result of the spike in short-term interest rates, some short parts of the curve have higher interest rates than long-term rates. Normally rate curves are positively sloped (long rates higher than short rates), and when inverted can be indicative of an upcoming recession. The short end of the curve is driven by Fed actions (anticipating aggressive rate hikes in coming quarters), while the long end of the curve moves more in-line with growth forecasts. At the moment, both short and long rates are rebounding, but we will be watching for scenarios where the curve continues to invert (specially if this coincides with a downward trend in long-term rates). Another indicator we will be paying special attention to are **long-term inflation expectations** (see chart below) to monitor for further monetary tightening that would force a scenario of higher interest rate hikes. We believe that the level of rate hikes implied by the dollar, euro, and sterling curves do not pose a danger to economic growth, but are close to the levels at which monetary policy becomes restrictive.

The flattening of the US Treasuries curve has -in the past- been an indicator of an increased probability of recession, but for the time being it is more of a warning than an alarm

For the time being, economic indicators as a whole show that we are facing a slowdown process in magnitudes still far from a recession. In this context, our central scenario continues to be the maintenance of the economic growth cycle and a good performance (albeit with diminishing returns) of the riskiest assets (equities and credit).

We must be especially alert to the possibility of de-anchoring of long term inflation expectations from the 2% target

2) Increase the level of inflation protection

The main consequence of the conflict in Ukraine is a very high spike in inflation in the short-term through multiple channels (i.e. oil, electricity, food, metals). The long-term consequences of the impact of sanctions are likely a higher cost in the price of energy and a multitude of goods and services. In this context we detect **factors that could imply a structurally higher level of inflation than what we have enjoyed in recent decades.**

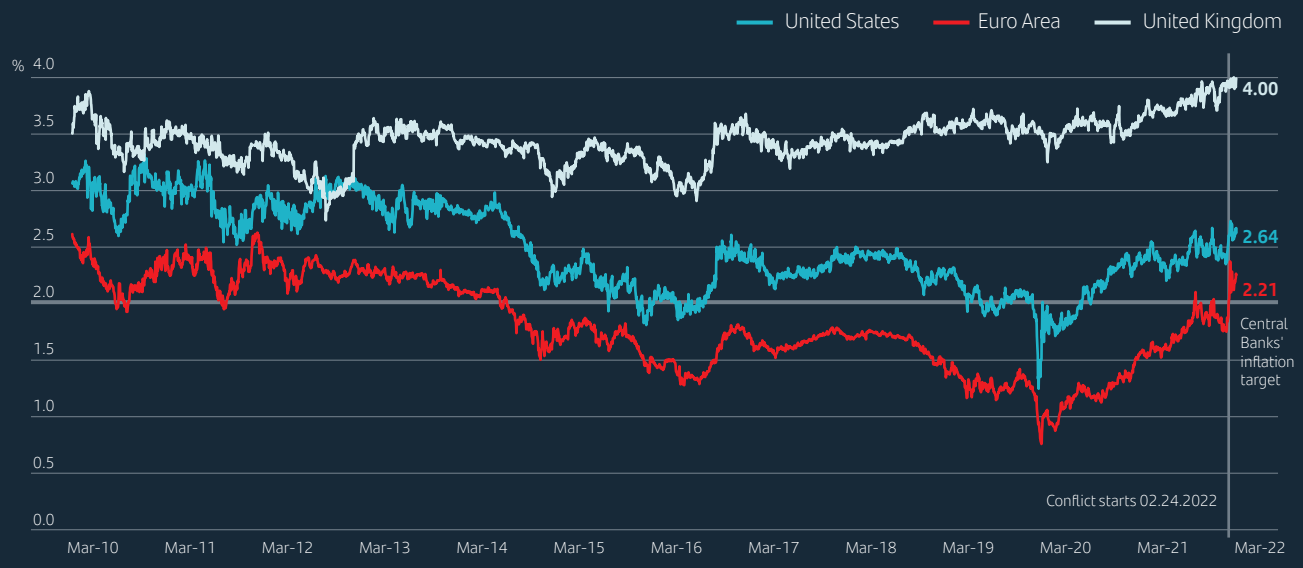
Despite increasing downside risks, our central scenario still offers upside potential for both credit and equities

One of these factors is **de-globalization,** as governments and companies are encouraging the search for alternatives to strengthen security of supply despite higher costs. Another

Long-term inflation expectations*

Source: Bloomberg. Data as of 03.31.2022

Mid to long-term inflation expectations are still anchored



*Inflation Swap Forward 5Y5Y: This is the 5-year, 5-year inflation swap rate. This rate is a common measure, which is used by central banks and dealers, to look at the market's future inflation expectations.

is **decarbonization,** as the transition to renewable energies and an electrified economy is necessary, but costly in the short term. This could generate what is called "Greenflation" in the materials that play an important role in this emissions reduction process.

Investors are wondering about the future impact in terms of inflation due to geopolitical changes (supply disruptions, de-globalization, security and energy transition...)

In this context, **investors could incorporate a higher degree of inflation protection in the composition of their portfolios** by selecting strategies and assets with different characteristics that imply different roles in a diversified portfolio. One of the most interesting options in the current context is **commodities,** which are highly sensitive to inflation and high volatility, but a relatively low correlation with equities and bonds. In addition, they offer the attraction of serving as a hedge against a resurgence of geopolitical conflict (as we have seen in the last quarter). **Investments in infrastructure or listed real estate** have a very attractive inflation-adjustment capacity (although there is risk of having a high correlation with equities and high levels of volatility). Other options within the fixed income range are **floating rate loans** (moderate volatility but higher credit risk in tail events) or **short-dated inflation-linked bonds** to avoid the risk of sensitivity to interest rate hikes.

The major paradigm shift for the investor is to focus on returns net of inflation and the need to diversify portfolios with alternative strategies

Finally, diversification into alternative assets (private equity, real estate, etc.) remains an attractive source of return and diversification in the current context.

3) Remain cautious on long-duration bonds

We consider it interesting to keep the average duration of fixed income portfolios low as we still foresee a risk that expectations of interest rate hikes will increase, and inflation could continue to surprise on the upside in the coming quarters.

The chart below illustrates the current complex environment for investors in government bonds (bonds with the best credit quality but the greatest sensitivity to interest rate movements). **The gradual reduction in bond yield levels has limited the ability of bond prices to absorb the impact of interest rate movements.** This is why the government bond index has experienced the largest drop in its history, despite the fact that the tightening of the yield curve has been lower than in past episodes. Monetary policy actions (quantitative easing) aimed at reducing

Investors could increase exposure to real assets with the ability to generate positive returns in a rising inflation scenario

U.S. treasuries drawdown* is the worst in recent history

Source: Bloomberg US Treasury Index, (LUATTRUU Index for drawdown calculations). Data as of 03.31.2022

Fixed income has been hit hard by the recent rayies in interest rates

* A drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund.

the level of interest rates across the curve have limited conservative investors in protecting themselves from inflationary environments and rate increases.

Low interest rates have left bond investors with very little capacity to absorb shocks from rising inflation and interest rates

In this context, we believe it is interesting to **opt for flexible fixed income strategies** that allow less dependence on duration risk to generate positive returns.

4) Look for companies with resilient margins

The main consequence of this geopolitical shock is a significant increase in commodity prices. **It is therefore necessary to differentiate between the sectors and geographies that are benefiting and suffering from this new reality.**

Although the environment of slowdown, rising inflation, and higher interest rates has negative connotations in terms of lower profits and valuation, there are sectors that benefit. Companies supplying raw materials and components (semiconductors) with imbalances in terms of supply shortages, have the capacity to pass on any pressure on their margins to price increases. The chart below shows, for the moment, **how there has been no significant revision in profit generation expectations for S&P 500 companies.** Analysts continue to believe that double-digit corporate earnings growth is possible in 2022 and 2023, and as the right chart below shows, the level of expected GDP growth of 2.8% for 2022 also justifies that level of earnings generation.

Despite geopolitical uncertainty our near-term outlook for equities is positive on the back of still-solid earnings performance

The current energy price crisis also highlights that the medium and long-term solution is to move forward with the **energy transition,** accelerating the penetration of renewable energies - which will reduce dependence on fossil fuels - and developing smart and resilient energy grids. All of this opens up a wide range of investment opportunities that are accelerated by government programs, such as those recently announced by the European Union.

We see investment opportunities in energy transition, innovation themes (robotics, foodtech, scarce resources, cybersecurity...) and sectors with the ability to pass on rising cost to customers

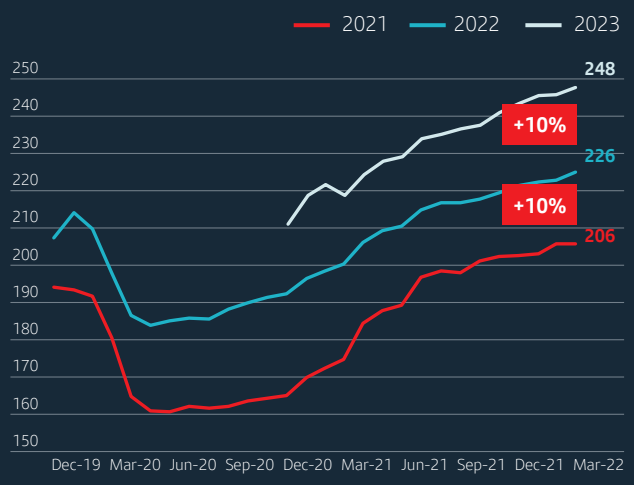
We still see attractive opportunities in the **financial sector** (which benefits from cycles of rising interest rates in the early stages when demand for loans has not yet suffered) and to **geographic areas that benefit from rising commodity prices** (particularly Latin America). In terms of innovation themes, we see **favorable growth prospects for leading companies in cybersecurity, energy transition, robotics, circular economy, scarce resources and foodtech.**

Expectations for economic growth and corporate earnings in the U.S.

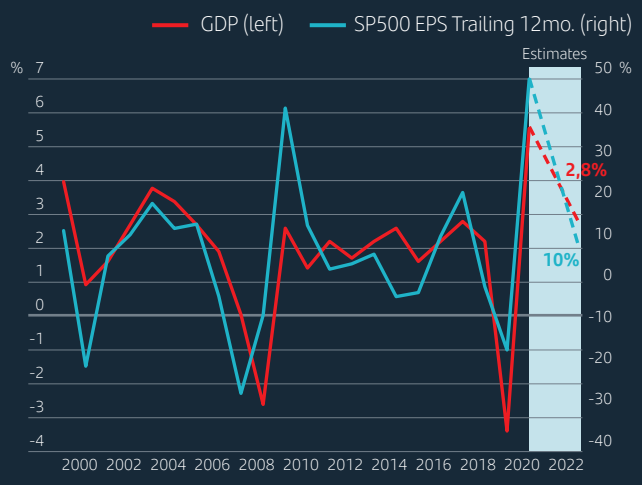
Source: Factset. Data as of 03.31.2022. Bloomberg. Forecasts 2022: Fed for GDP and Bloomberg consensus for S&P 500 EPS

The Fed expects the economy to grow 2.8%, and analysts expect earnings to grow at 10%

Expected earnings per share (EPS) of the S&P 500 evolution



Correlation between economic growth and corporate profits



Appendix: Tables.

Returns of main assets in last 10 years.

Source: Bloomberg.

Data as of 03/31/2022

							Returns		Annualized returns	
	2016	2017	2018	2019	2020	2021	YTD	3 years	5 years	10 years
Short-term (USD) [1]	**0.4%**	**1.0%**	**1.9%**	**2.2%**	**0.4%**	**0.1%**	**0.0%**	**0.7%**	**1.1%**	**0.6%**
Short-term (EUR) [2]	**-0.3%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.5%**	**-0.5%**	**-0.1%**	**-0.5%**	**-0.4%**	**-0.2%**
Global Fixed Income [3]	**2.1%**	**7.4%**	**-1.2%**	**6.8%**	**9.2%**	**-4.7%**	**-6.2%**	**0.7%**	**1.7%**	**1.0%**
Fixed Income (USD) [4]	**2.6%**	**3.5%**	**0.0%**	**8.7%**	**7.5%**	**-1.5%**	**-5.9%**	**1.7%**	**2.1%**	**2.2%**
Sovereign (USD) [5]	1.1%	1.1%	1.4%	5.2%	5.8%	-1.7%	-4.2%	1.0%	1.3%	1.3%
Corporates (USD) [6]	6.1%	6.4%	-2.5%	14.5%	9.9%	-1.0%	-7.7%	3.0%	3.3%	3.6%
High Yield (USD) [7]	17.1%	7.5%	-2.1%	14.3%	7.1%	5.3%	-4.8%	4.6%	4.7%	5.7%
Fixed Income (EUR) [8]	**3.3%**	**0.7%**	**0.4%**	**6.0%**	**4.0%**	**-2.9%**	**-5.4%**	**-0.4%**	**0.7%**	**2.6%**
Sovereign (EUR) [9]	3.2%	0.2%	1.0%	6.8%	5.0%	-3.5%	-5.3%	0.0%	1.0%	3.0%
Corporates (EUR) [10]	4.7%	2.4%	-1.3%	6.2%	2.8%	-1.0%	-5.0%	-0.1%	0.7%	2.6%
High Yield (EUR) [11]	6.5%	6.2%	-3.6%	12.3%	1.8%	4.2%	-4.1%	2.6%	2.8%	5.6%
Emerging Global Fixed Income (USD) [12]	**9.9%**	**8.2%**	**-2.5%**	**13.1%**	**6.5%**	**-1.7%**	**-9.2%**	**0.7%**	**1.9%**	**3.6%**
LatAm (USD) [13]	16.3%	10.6%	-4.9%	12.3%	4.5%	-2.5%	-5.4%	0.5%	1.8%	3.2%
MSCI World (USD)	**5.3%**	**20.1%**	**-10.4%**	**25.2%**	**14.1%**	**20.1%**	**-5.5%**	**13.1%**	**10.5%**	**8.8%**
S&P 500 (USD)	9.5%	19.4%	-6.2%	28.9%	16.3%	26.9%	-4.9%	16.9%	13.9%	12.4%
MSCI Europe (EUR)	-0.5%	7.3%	-13.1%	22.2%	-5.4%	22.4%	-5.9%	6.0%	3.4%	5.3%
MSCI Emerging Markets (USD)	8.6%	34.3%	-16.6%	15.4%	15.8%	-4.6%	-7.3%	2.6%	3.6%	0.9%
MSCI Asia Pac. ex-Japan (USD)	6.8%	37.0%	-13.9%	19.2%	22.4%	-2.9%	-5.7%	6.2%	6.9%	5.8%
MSCI Latin America (USD)	27.9%	20.8%	-9.3%	13.7%	-16.0%	-13.1%	26.1%	-0.7%	0.6%	-4.2%

[1] Barclays Benchmark Overnight USD Cash Index; [2] Barclays Benchmark 3mEUR Cash Index; [3] Bloomberg Barclays Global Aggregate Total Return Index Value Unhedged USD; [4] Bloomberg Barclays US Agg Total Return Value Unhedged USD; [5] Bloomberg Barclays US Intermediate Treasury TR Index Value Unhedged SD; [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 EUR; [11] Bloomberg Barclays Pan-European Aggregate High Yield TR Index Value Unhedged EUR; [12] Bloomberg Barclays EM Aggregate Total Return Value Unhedged USD; [13] Bloomberg Barclays Emerging Markets LatAm Total Return Value Unhedged USD

Equities indices.

Source: Bloomberg.

Data as of 03/31/2022

		Last Price	Change 12 months	Last 10 years Low	Range	High	Return 2020	2021	YtD	Annualized returns 1 year	3 years	5 years	10 years
US	S&P 500	4,530		1,310		4,766	16.3%	26.9%	-4.9%	14.0%	16.5%	13.9%	12.4%
	DOW JONES INDUS.	34,678		12,393		36,338	7.2%	18.7%	-4.6%	2.4%	9.7%	10.9%	10.1%
	NASDAQ	14,221		2,827		15,645	43.6%	21.4%	-9.1%	1.8%	22.0%	19.2%	16.5%
Europe	Stoxx 50	3,711		2,257		3,818	-8.7%	22.8%	-2.8%	9.7%	5.6%	3.3%	4.2%
	Eurozone (EuroStoxx)	3,903		2,119		4,298	-5.1%	21.0%	-9.2%	-1.8%	4.9%	2.2%	4.6%
	Spain (IBEX 35)	8,445		6,090		11,521	-15.5%	7.9%	-3.1%	-4.2%	-3.3%	-4.2%	0.5%
	France (CAC 40)	6,660		3,017		7,153	-7.1%	28.9%	-6.9%	6.2%	7.2%	5.4%	6.9%
	Germany (DAX)	14,415		6,264		15,885	3.5%	15.8%	-9.3%	-4.8%	7.3%	3.2%	7.6%
	United Kingdom (FTSE 100)	7,516		5,321		7,749	-14.3%	14.3%	1.8%	7.8%	0.9%	0.5%	2.7%
	Italy (MIB)	25,021		12,874		27,347	-5.4%	23.0%	-8.5%	3.6%	5.2%	4.1%	4.6%
	Portugal (PSI 20)	6,037		3,945		7,608	-6.1%	13.7%	8.4%	19.5%	4.7%	3.8%	0.8%
	Switzerland (SMI)	12,162		5,850		12,876	0.8%	20.3%	-5.5%	10.3%	8.4%	7.0%	6.9%
LatAm	Mexico (MEXBOL)	56,537		34,555		56,537	1.2%	20.9%	6.1%	17.8%	9.0%	3.1%	3.6%
	Brazil (IBOVESPA)	119,999		40,406		126,802	2.9%	-11.9%	14.5%	0.9%	7.7%	13.1%	6.4%
	Argentina (MERVAL)	90,960		2,257		90,960	22.9%	63.0%	8.9%	85.4%	40.2%	35.0%	42.2%
	Chile (IPSA)	4,937		3,439		5,855	-10.5%	3.1%	14.6%	10.4%	-2.1%	0.6%	0.6%
Asia	Japan (NIKKEI)	27,821		8,543		29,453	16.0%	4.9%	-3.4%	-3.4%	9.0%	8.0%	10.7%
	Hong Kong (HANG SENG)	21,997		18,630		32,887	-3.4%	-14.1%	-6.0%	-23.4%	-9.4%	-1.8%	0.7%
	South Korea (KOSPI)	2,758		1,755		3,297	30.8%	3.6%	-7.4%	-12.4%	8.3%	5.0%	3.2%
	India (Sensex)	58,569		16,219		59,307	15.8%	22.0%	0.5%	20.1%	14.6%	14.6%	12.9%
	China (CSI)	4,223		2,140		5,352	27.2%	-5.2%	-14.5%	-17.6%	2.0%	4.1%	5.6%
World	MSCI WORLD	3,053		1,178		3,232	14.1%	20.1%	-5.5%	3.9%	12.7%	10.5%	8.8%

Equities by factor and sector.

Source: Bloomberg.

Data as of 03/31/2022			Change	Last 10 years			Return			Annualized returns				Ratios	
		Last Price	12 months	Low	Range	High	2020	2021	YtD	1 year	3 years	5 years	10 years	PE Ratio	Divi-dend Yield
	MSCI World	3,053		1,178		3,232	14.1%	20.1%	-5.5%	8.6%	12.7%	10.5%	8.8%	17.91	1.80
Factor	MSCI World High Dividend Yield	1,438		810		1,447	-3.0%	12.6%	-0.6%	6.4%	5.5%	4.9%	4.9%	13.73	3.48
	MSCI World Momentum	3,689		1,000		3,978	28.3%	14.6%	-5.7%	7.6%	15.8%	16.0%	13.5%	18.72	1.23
	MSCI World Quality	3,713		1,000		4,058	22.2%	25.7%	-8.5%	11.8%	17.8%	16.1%	13.2%	21.68	1.52
	MSCI World Minimum Volatility	4,591		1,782		4,730	2.6%	14.3%	-2.9%	9.5%	8.1%	8.8%	9.5%	20.49	1.94
	MSCI World Value	11,750		4,695		11,827	-1.2%	21.9%	-0.7%	10.6%	9.3%	7.9%	8.4%	13.46	2.75
	MSCI World Small Cap	650		224		705	16.0%	15.8%	-6.5%	-1.1%	11.2%	9.7%	10.1%	17.10	1.84
	MSCI World Growth	8,759		2,327		9,693	33.8%	21.2%	-9.6%	9.2%	19.1%	16.6%	13.1%	27.97	0.76
Sector	Energy	307		164		428	-31.5%	40.1%	30.6%	15.0%	-2.6%	-0.1%	-0.5%	9.09	3.62
	Materials	574		229		590	19.9%	16.3%	2.6%	10.1%	14.7%	11.5%	6.6%	11.90	3.41
	Industrials	509		169		509	11.7%	16.6%	-6.2%	8.2%	12.7%	10.8%	10.5%	18.43	1.77
	Consumer Discretionary	595		137		595	36.6%	17.9%	-10.6%	13.9%	21.5%	17.3%	14.8%	22.85	0.90
	Consumer Staples	465		190		465	7.8%	13.1%	-3.6%	13.7%	10.2%	8.0%	8.9%	20.75	2.47
	Health Care	518		137		518	13.5%	19.8%	-3.4%	18.9%	15.6%	13.7%	13.7%	17.46	1.62
	Financials	257		89		263	-2.8%	27.9%	-1.5%	13.0%	12.1%	8.7%	9.5%	12.54	2.67
	Information Technology	682		100		682	43.8%	29.8%	-10.2%	28.1%	31.5%	27.0%	19.8%	26.55	0.83
	Real Estate	517		222		517	-5.0%	28.7%	-5.8%	21.4%	9.0%	9.2%	8.3%	29.03	2.75
	Communica-tion Services	204		78		220	23.0%	14.4%	-10.5%	7.0%	16.6%	11.0%	9.6%	18.46	1.29
	Utilities	327		147		331	4.8%	9.8%	1.3%	9.3%	8.8%	8.9%	7.7%	19.64	3.22

Government Bonds.

Source: Bloomberg.

Data as of 03/31/2022

	Rating (S&P)	Interest rate			Change	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	YtD	YoY	10-2 years
Developed												
U.S.	AA+	0.50%	2.33%	2.34%		0.53%		3.14%	51	142	71	0.00
Germany	AAA	-0.50%	-0.07%	0.55%		-0.70%		1.93%	41	112	75	0.62
France	AA	-0.50%	-0.02%	0.98%		-0.40%		2.96%	38	132	82	1.00
Italy	BBB	-0.50%	0.28%	2.04%		0.54%		6.08%	33	150	114	1.76
Spain	A	-0.50%	0.21%	1.44%		0.05%		6.86%	32	139	96	1.23
United Kingdom	AA	0.75%	1.35%	1.61%		0.10%		3.02%	20	141	77	0.26
Greece	BB	-0.50%	n.d.	2.67%		0.61%		30.83%	15	205	168	n.d.
Portugal	BBB	-0.50%	-0.05%	1.35%		0.03%		12.03%	35	132	87	1.40
Switzerland	AAA	-0.75%	-0.16%	0.57%		-1.05%		1.06%	34	115	80	0.73
Poland	A-	3.50%	5.49%	5.19%		1.15%		5.44%	111	396	348	-0.30
Japan	A+	-0.10%	-0.03%	0.22%		-0.27%		0.90%	3	20	12	0.25
Emerging Markets												
Brazil	BB-	11.75%	12.16%	11.61%		6.49%		16.51%	5	470	249	-0.55
Mexico	BBB	6.50%	8.31%	8.27%		4.49%		9.16%	33	273	136	-0.04
Chile	A	7.00%	n.d.	n.d.		2.19%		6.26%	n.d	n.d	n.d	n.d.
Argentina	CCC+	44.50%	n.d.	n.d.	n.d.	0.00%		0.00%	n.d.	n.d.	n.d.	n.d.
Colombia	BB+	5.00%	8.67%	9.73%		4.85%		9.73%	20	434	307	1.06
Turkey	B+	14.00%	23.58%	n.d.		6.21%		23.00%	n.d.	n.d.	n.d.	n.d.
Russia	CCu *-	20.00%	15.66%	n.d.		5.55%		15.99%	241	1117	995	n.d.
China	A+	2.84%	2.28%	2.78%		2.51%		4.58%	-1	-36	-37	0.50
India	BBB-	4.00%	5.00%	6.84%		5.84%		8.86%	7	97	81	1.84

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

Currencies.

Source: Bloomberg.

Data as of 03/31/2022

	Last Price	Change 12 months	Last 10 years Low	Range	High	Return 2021	YtD	Annualized returns 1 years	3 years	5 years	10 years
EUR/USD	1.1067		1.05		1.39	-6.9%	-2.7%	-5.7%	-0.5%	0.7%	-1.9%
EUR/GBP	0.84		0.70		0.92	-5.9%	0.2%	-0.9%	-0.7%	-0.3%	0.1%
EUR/CHF	1.02		1.02		1.24	-4.0%	-1.4%	-7.6%	-2.9%	-0.9%	-1.6%
EUR/JPY	135		96		148	3.7%	3.7%	4.6%	2.7%	2.4%	2.0%
EUR/PLN	4.65		4.04		4.70	0.6%	1.2%	0.2%	2.6%	2.0%	1.1%
GBP/USD	1.31		1.22		1.71	-1.0%	-3.0%	-4.8%	0.3%	1.1%	-2.0%
USD/CHF	0.92		0.88		1.03	3.1%	1.2%	-2.1%	-2.5%	-1.6%	0.2%
USD/JPY	122		78		124	11.5%	6.6%	10.8%	3.2%	1.7%	3.9%
USD/MXN	19.87		12.13		24.17	3.1%	-3.2%	-2.7%	0.8%	1.2%	4.5%
USD/ARS	111.01		4.42		111.01	22.1%	8.0%	20.7%	36.8%	48.4%	38.2%
USD/CLP	786		471		855	19.7%	-7.7%	9.3%	5.0%	3.5%	4.9%
USD/BRL	4.74		1.91		5.75	7.3%	-15.0%	-15.8%	6.5%	8.5%	10.0%
USD/COP	3.771		1.763		4.080	19.0%	-7.6%	1.8%	5.8%	5.5%	7.8%
USD/CNY	6.34		6.05		7.16	-2.6%	0.1%	-3.0%	-1.9%	-1.6%	0.1%
EUR/SEK	10.40		8.34		10.93	2.4%	0.0%	0.8%	-0.1%	1.7%	1.7%
EUR/NOK	9.73		7.29		11.48	-4.4%	0.0%	-3.2%	0.2%	1.3%	2.5%

Commodities.

Source: Bloomberg.

Data as of 03/31/2022

	Last Price	Change 12 months	Last 10 years Low	Range	High	Return 2020	2021	YtD	Annualized returns 3 years	5 years	10 years
Crude Oil (Brent)	106.6		21		120	-23.0%	51.4%	37.6%	16.4%	26.9%	-4.9%
Crude Oil (W. Texas)	100.3		19		108	-20.5%	58.7%	30.3%	18.6%	25.8%	-0.9%
Gold	1,949.2		1.060		1,971	24.4%	-3.5%	6.6%	14.7%	16.1%	5.3%
Copper	10,375.0		4.561		10,375	25.8%	25.2%	6.7%	17.0%	20.3%	7.1%
CRB Index	295.2		117		310	-9.7%	38.5%	27.0%	17.1%	16.7%	-1.5%
Rogers International	4,056.9		1.560		4,057	-7.7%	41.1%	26.9%	19.1%	21.5%	2.1%
Natural Gas	126.0		4		126	71.9%	371.2%	40.0%	108.0%	102.4%	n.d.

"Periodic table" of asset returns.

Asset Class	Reference Index	Calendar Year Returns										
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
US Equities	S&P 500 TR	20.9% Japan Equities	54.4% Japan Equities	16.7% Spain Government	12.1% Japan Equities	14.8% Global High Yield	37.3% Emerging Market Equities	2.6% Spain Government	31.5% US Equities	18.4% US Equities	36.5% Commodities	27.1% Commodities
Japan Equities	Topix TR	19.3% Global High Yield	32.4% US Equities	13.7% US Equities	6.4% Europe Equities	12.0% US Equities	22.4% Global Equities	2.4% Eurozone Government	28.2% Europe Equities	18.3% Emerging Market Equities	28.7% US Equities	-0.1% Liquidity
Spain Equities	Ibex35 TR	18.2% Emerging Market Equities	27.8% Spain Equities	10.3% Eurozone Government	1.6% Spain Government	11.2% Emerging Market Equities	22.2% Japan Equities	-0.4% Liquidity	27.7% Global Equities	15.9% Global Equities	23.2% Europe Equities	-1.2% Japan Equities
Emerging Markets Equities	MSCI EM TR	18.1% Europe Equities	26.7% Global Equities	10.3% Japan Equities	1.4% US Equities	9.7% Commodities	21.8% US Equities	-1.2% Europe IG	18.4% Emerging Market Equities	8.0% Global High Yield	21.8% Global Equities	-2.6% Spain Equities
Europe Equities	Eurostoxx50 TR	16.0% US Equities	21.5% Europe Equities	8.6% Spain Equities	0.3% Eurozone Government	7.5% Global Equities	11.3% Spain Equities	-3.3% Global High Yield	18.1% Japan Equities	7.4% Japan Equities	12.7% Japan Equities	-4.6% US Equities
Commodities	Commodity RB TR	15.8% Global Equities	11.0% Spain Government	8.3% Europe IG	-0.1% Liquidity	4.8% Europe IG	10.2% Global High Yield	-4.4% US Equities	16.6% Spain Equities	4.4% Spain Government	10.8% Spain Equities	-5.1% Eurozone Government
Global Equities	MSCI World TR	13.2% Europe IG	8.0% Global High Yield	4.9% Global Equities	-0.5% Europe IG	4.2% Spain Government	9.2% Europe Equities	-8.7% Global Equities	13.7% Global High Yield	3.0% Eurozone Government	1.4% Global High Yield	-5.2% Global Equities
Europe IG	ERL0 TR	5.5% Spain Government	2.3% Europe IG	4.0% Europe Equities	-0.9% Global Equities	4.0% Eurozone Government	2.5% Europe IG	-10.7% Commodities	11.8% Commodities	2.7% Europe IG	-0.5% Liquidity	-5.3% Europe IG
Liquidity EUR	Eonia TR	4.6% Eurozone Government	0.1% Liquidity	0.1% Liquidity	-3.5% Spain Equities	3.7% Europe Equities	1.7% Commodities	-11.5% Spain Equities	8.6% Spain Government	-0.5% Liquidity	-1.1% Europe IG	-5.4% Spain Government
Global High Yield	HW00 TR	2.8% Spain Equities	-2.3% Eurozone Government	-0.1% Global High Yield	-4.2% Global High Yield	2.6% Spain Equities	1.1% Spain Government	-12.0% Europe Equities	6.3% Europe IG	-3.2% Europe Equities	-2.5% Emerging Market Equities	-6.0% Global High Yield
Spain Government	SPAIN 10 YR	0.2% Liquidity	-2.6% Emerging Market Equities	-2.2% Emerging Market Equities	-14.9% Emerging Market Equities	0.3% Japan Equities	-0.4% Liquidity	-14.6% Emerging Market Equities	3.0% Eurozone Government	-9.3% Commodities	-2.7% Eurozone Government	-7.0% Emerging Market Equities
Eurozone Government	GERMANY 10 YR	-3.3% Commodities	-5.0% Commodities	-17.9% Commodities	-23.4% Commodities	-0.3% Liquidity	-1.4% Eurozone Government	-16.0% Japan Equities	-0.4% Liquidity	-12.7% Spain Equities	-3.1% Spain Government	-9.0% Europe Equities

+ Returns -

*Data as of 3/31/2022
*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.

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