Santander Private Banking

July 2023

Quarterly report

Pause in sight but longer adjustment

After the calibration phase of the most accelerated process of interest rate hikes in recent decades, it is time for central bankers to ask themselves: is the dose of monetary tightening sufficient to bring inflation back on target, or is there still some more work to be done? Most of the sources of inflationary pressure seem to have been stifled, but price pressures in services still persist in a tight labor market environment. We believe that inflation concerns will gradually shift to growth and that, during the third quarter, interest rates will reach their highest levels. The process of rate cuts will begin soon in the emerging bloc, but in developed economies we will probably have to wait until 2024. The economic adjustment is very moderate and we do not believe that the signs of economic slowdown justify an abrupt pivot in monetary policy. The adjustment process is moderating and lengthening over time.

This environment of a prolonged pause in interest rates and a smooth and gradual adjustment of the economy is favorable for the repositioning of investment portfolios (attractive yields and diversified sources of return). Moreover, we are witnessing an extraordinary momentum in technology (Artificial Intelligence) and energy disruption opportunities. The pause in interest rate hikes is a good time to reposition investment portfolios.

Pause in sight but longer adjustment

01 Pausing soon (but higher for longer)

Price pressures are clearly on a downward trend but work remains to be done on the core and services inflation fronts. This, coupled with a high dose of monetary tightening already in place, should allow central banks to justify a pause in rate hikes. However, rate cuts will be delayed until the cooling of the labor market becomes more evident. This sets up a scenario of higher rates for longer than expected by the market. It is a most delicate moment for central banks and-in the balance of doubts about potential errors- we believe that the pause is the best decision to make during the third quarter of 2023.

02 A moderate and staggered adjustment

Economic growth was surprisingly resilient in the first half of 2023. In the meantime, major geopolitical and economic risks have been removed or have at least diminished. We have revised up growth estimates for 2023 but the bad news is that the slowdown is shifting to 2024 and economic growth will remain anemic for some time. We are witnessing a very moderate and staggered economic adjustment relative to other monetary tightening cycles. Our view is moderately optimistic (low growth and a low probability of crisis or high intensity adjustment).

03 Opportunities to rebalance portfolios

We believe that this macroeconomic scenario (high rates and moderate economic adjustment) combined with attractive valuation levels creates a favorable environment for the construction of diversified portfolios. A pause in rate hikes has historically been an ideal time to invest in fixed income instruments. In addition, some segments and geographies of the equity markets are trading at attractive multiples, and we are witnessing very promising disruption opportunties in AI and energy transition.

01 Pausing soon (but rates staying high for longer)

In previous market outlooks, we discussed the broad effects of "the big rate reset" and referred to "the moment of calibration" to highlight the need for a major adjustment in monetary policy to combat the upturn in inflation. Looking ahead to the third quarter, we want to emphasize that the pause in interest rate hikes is in sight as central banks are beginning to perceive a **better balance between the risk of inflationary pressures and the risks of economic slowdown.**

This fine-tuning phase in monetary policy is proving to be extremely complex due to the uniqueness of this economic cycle marked by the disruption of the pandemic. It is difficult to establish similarities with previous patterns of business cycles, since the latter is marked by the shocks experienced during the lockdowns and the subsequent reopening. The magnitude of the demand shock, the fiscal stimuli applied to compensate for the economic standstill, the collapse of supply chains and trade of goods, and the difficulties in attracting workers back to the labor market after the reopening, are examples of some of the factors that distort the analysis when projecting the future evolution of the main macroeconomic magnitudes. **This economic cycle is clearly different because it is marked by the uniqueness of the pandemic.**

In the graphs below we can see how **emerging and developed economies are at a different stage in terms of monetary policy.** The left graph shows that emerging economies were fast to change their monetary policy bias and realize the need to aggressively raise interest rates to combat inflation. The magnitude of the tightening has been much greater than that experienced in the rest of the economies, with **cumulative increases of more than 10% in Chile and Brazil.** This speed in starting to raise interest rates has allowed, in relative terms, the inflection point in inflation to manifest itself earlier and their central banks have been able to already pause rate hikes for a few months. **As to the developed economies, there is still work to be done for the monetary authorities to pause interest rate hikes,** which is why the market is anticipating further increases. In the case of the Federal Reserve and the ECB, the interest rate peak is expected to be reached during the third quarter with an additional hike in the United States and two more in the Eurozone. **In the UK, inflationary pressures have yet to show signs of abating** and the pause is not expected to be reached until the fourth quarter with five additional hikes before.

The upward adjustment in interest rates has been of a n unprecedented magnitude in the last 40 years

The monetary policy cycle is more advanced in emerging economies where central banks have in pause for several months

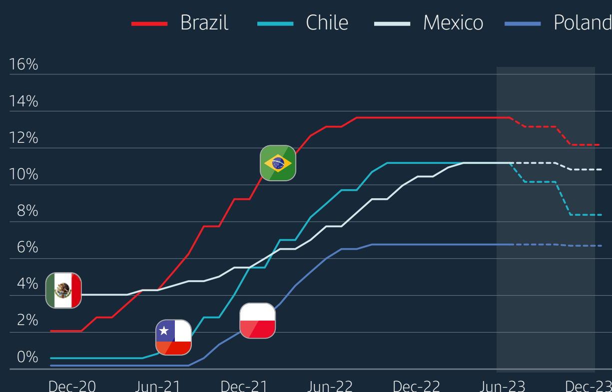
The unusual nature of the current economic cycle coupled with the lags in monetary policy should prompt developed central banks to pause and evaluate next steps

The upward adjustment of interest rates by central banks has been notable for its magnitude and speed.

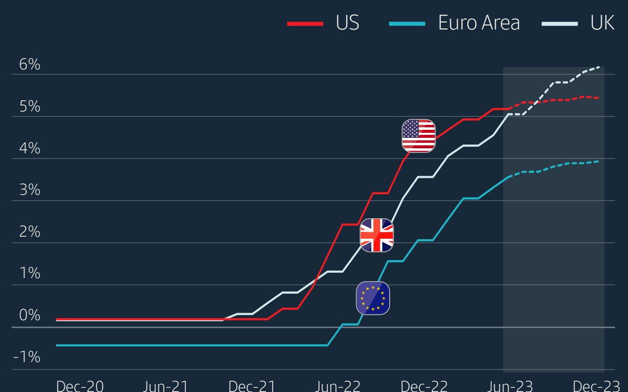
Source: Bloomberg WIRP (for developed countries) and Bloomberg Economic Forecasts (for emerging countries). Data as of 6/30/2023

Emerging countries have been on pause for months now. Now it is the turn of the developed countries with the Federal Reserve leading the way

Emerging Economies - Benchmark Official Interest Rates



Developed Economies - Benchmark Official Interest Rates



Inflation retreats, except in services

Central banks, led by the Federal Reserve, have made clear in recent months the top priority they give to controlling inflation in their interest rate decisions. The fact that the monetary authorities underestimated inflationary pressures at early stages adds to the fact that they want to avoid at all costs another mistake by ending the fight against inflation prematurely. This is why, in **order for the necessary policy course to be changed, the evidence of inflationary trends must be indisputable.**

The charts below allow us to assess progress in the fight against inflation by breaking it down into its components. **In the United States we observe a very clear downward trend** since June 2022 when the peak of 9.0% was reached. The reduction to 4.0% in May 2023 has come about thanks to the clear downward trend in the energy, goods and food components. **Services inflation is where improvements are not yet evident due to upward pressures from wages and rents.** This is driving the lag in the inflation metrics that the Fed tracks in more detail (Personal Consumption Expenditure deflator - PCE and core) with the elevated pace of wage increases being of most concern, given the strength in employment data. While we expect a downward trend in rental prices in the coming months, we **believe that reaching the 2% target is going to take longer than the market expects due to the tight labor market. Evidence from past episodes suggests it will take around two years to bring core inflation down by half from its peak level.**

The right chart shows the analysis of the **Eurozone** data where a **temporary delay in the downward trend of inflation is due in part to the more direct impact of the price tensions derived from the conflict in Ukraine.** This is why the inflation peak was higher (10.6%) and also why the current level (6.1%) is above than in the United States. Analysis by components shows a major contribution from goods and services, but we believe that this is consistent with a lag and not evidence of a different inflation problem in the Eurozone. The case of the **UK** is somewhat different as this economy is affected by **differential factors associated with Brexit** that have caused greater tightness in the labor market. The fact that UK core inflation continues to rise suggests a longer path for the Bank of England to pause on rate hikes. The geography where price developments are most favorable is **China,** which is **again exporting disinflation to the rest of the world** with sharp falls in its producer prices.

In the United States, inflation has been falling for 11 consecutive months thanks to moderation in food, energy and goods prices

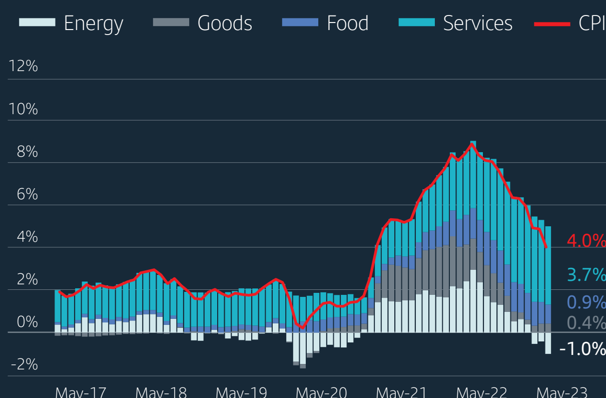
Price pressures in the services sector remain and the improvement in core inflation is still inconclusive

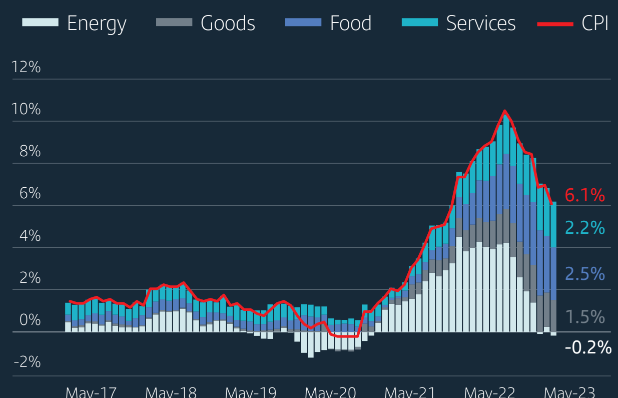
The downward trend in inflation is lagging in Europe and this conditions the delay of the pause by the ECB and Bank of England

CPI inflation. Contribution by components

Source: Bloomberg. Data as of 6/13/2023

In the United States, the last battle is services inflation. In the Eurozone, with the exception of energy, the other components are still elevated





The market must be patient when expecting rate cuts

Anchored long-term inflation expectations and the downward trend of many of inflation components will help trigger the pause

The evolution of inflation is generally favorable but there are two factors that are contributing to a **longer path towards the 2% target than initially expected**. In the United States, the slower improvement is driven by the strength of the labor market and in Europe the lag stems from the intensity of the impact of the war in Ukraine. In the coming months, we expect to see progress on these fronts and that will allow the end of the interest rate hikes to materialize. There is still some way to go before we can conclude that price levels have returned to equilibrium, but our belief is that **the magnitude of the adjustment, the stability in long-term inflation expectations and the clear downward trend in many components should justify activating the pause in interest rate hikes along the third quarter.**

Reduced availability of liquidity and credit add to rate hikes in contributing to the cooling of the economy

In addition, central banks are well aware of the **long lags with which the effects of monetary policy are felt by the economy** and that interest rates are not the only channel of monetary tightening. In this regard, experts warn of the **additional economic cooling effects of** central banks' **withdrawal of liquidity** (the so-called "quantitative tightening") and the tightening caused by the **reduced availability of credit,** as evidenced by the recent turmoil in the US medium-sized bank sector.

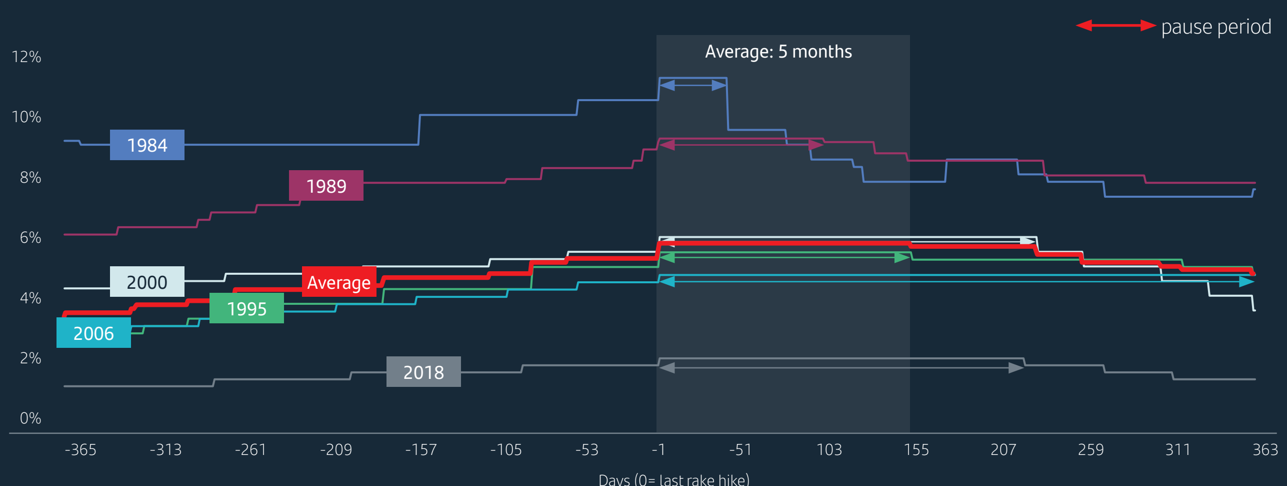
The unusual nature of the current economic cycle coupled with the lags in monetary policy should prompt central banks to pause and evaluate next steps

We expect central banks to soon clear up the unknown of what is the terminal interest rate that marks the peak of rate hikes, but that will lead to a new effort to **clear up another unknown: the timing of rate cuts.** The levels discounted by the yield curves after the hawkish tone of recent central bank messages are already sufficiently restrictive to trigger an economic slowdown in those sectors of the economy where inflationary pressures persist. But **interest rates may have to remain at elevated levels for a longer period than the market expects.** The chart below shows that, in previous tightening cycles, the Fed kept rates on hold for an average period of five months before implementing the first rate cut. Given the slow pace of adjustment in the labor market and the lags with which the effects of the rate hike are being transmitted to the economy, we believe that interest rates are likely to remain elevated for a longer period than usual. **Monetary tightening may be close to peaking, but investors should not expect an imminent U-turn.**

U.S. Federal Reserve Monetary Cycles since 1984

Source: Bloomberg. Data as of 6/14/2023

Historically, the Fed has had policy pauses of about five months before beginning to cut rates



02 A moderate and staggered adjustment

If there is one phenomenon that has been as surprising as the rapid rise in inflation in 2022, it has been **the resilience of economic activity in most countries so far in 2023, despite the interest rate hikes** by central banks (the fastest and most aggressive since the 1980s) and the fall in purchasing power due to inflation. There are at least **five factors that explain the resilience of economies to interest rate hikes:** the gradual normalization of supply shocks following the pandemic and the war in Ukraine, the savings accumulated during this period, the expansive fiscal policies pursued by several governments, the reduction in labor supply and the lagged effects of the tightening of monetary conditions.

The likelihood of an economic recession in 2023 has been significantly reduced but the balance remains fragile

In addition, three important risks to growth have been cleared as **doubts about energy supply in Europe this winter have been** dispelled, the US Congress has reached an agreement to lift the federal debt ceiling until 2025 **and the Chinese authorities have abandoned the Covid-zero policy** that forced continuous lockdowns of the population. These factors have contributed to a shift in expectations for economic growth in 2023 from the first quarter of this year as can be seen in the left graph below. While at the beginning of the year the consensus of economists estimated negative growth in Europe and practically zero growth in the United States as the most likely scenario, current estimates only envisage a few quarters of contraction that are not likely to derail a slight economic growth for the year as a whole. **We have moved to expect an economic contraction in 2023 to a smooth adjustment with only a few quarters of negative growth.**

Europe has succeeded in securing energy supply, the United States has reached a fiscal agreement, and China has abandoned the policy of lockdowns

The counterpart to this improvement in economic expectations for the current year is a deterioration of growth estimates for 2024. **The adjustment has softened in 2023, but the slowdown is very likely to carry over into 2024, extending the duration of this anemic growth phase.** Among the factors that may contribute to the economic slowdown persisting over time we would highlight the impact of higher costs on real estate financing and the depletion of excess savings accumulated during the pandemic. Similar events in history show a low probability of a soft landing of the economy following a monetary policy tightening as significant as that recently experienced by the major global economies (with the exception of Japan). Monetary conditions appear -to us- to be unambiguously tight, especially in light of recent banking strains and tighter credit conditions.

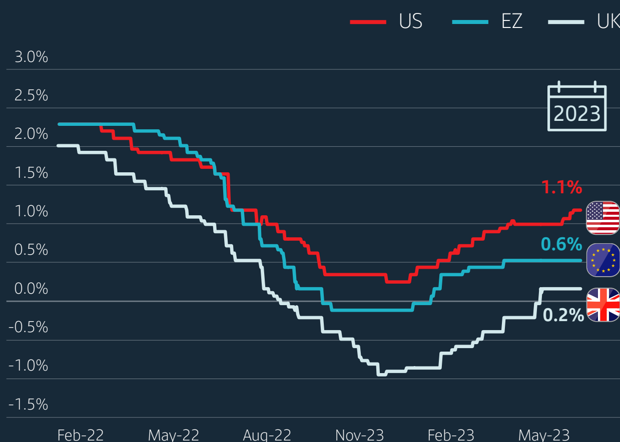
Positive growth surprises in 2023 will not continue in to 2024 as some of the negative effects of monetary tightening are delayed

Evolution of GDP growth forecasts for 2023 and 2024

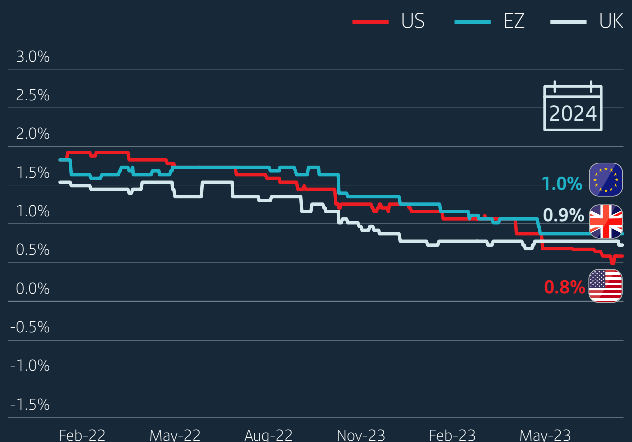
Source: Bloomberg Economic Forecasts. Data as of 6/13/2023

Improving economic data have led to upward revisions in growth in 2023 and to a postponement of the adjustment to 2024

A moderated adjustment



... although a phased one



Divergence between manufacturing and services

Another peculiarity of this economic cycle is the **divergent performance of the manufacturing and services sectors.** The breakdown of leading and coincident indicators shows renewed weakness in the production of goods in contrast to a strong dynamism in services activity. One possible explanation lies in the post-pandemic normalization process that led to an initial phase of extraordinary growth in goods demand when the reopening was still incipient. **Families have been moderating their demand for goods and have been shifting it towards the services** they could not enjoy during the confinements.

Those sectors most sensitive to interest rates have been the first to show evidence of slowing down

This strength of the demand for services is evident in the **evolution of economic growth by sectors in the United States** (see left graph below). The investment component has contracted in three of the last four quarters, which is in contrast with the positive evolution of private consumption. **The part of the U.S. economy that is more sensitive to interest rates (residential and capital goods investment) has been adjusting and contracting for several quarters, while the part most sensitive to employment and consumer confidence is still showing strength.** Among the reasons for the resilience of consumption are the high percentage of fixed-rate mortgages and the remaining savings derived from fiscal stimuli. The economic adjustment in the U.S. is being stretched out over time, focusing on the investment components in 2023, and delayed until 2024 on the consumer side. Another factor that has contributed to cushioning the slowdown in 2023 lies in the **continuation of fiscal stimulus** thanks to the approval of the Inflation Reduction Act and the debt ceiling agreement.

A recession is likely to be avoided but by a very small margin and at the cost of lengthening the adjustment period

In **Europe,** the dynamism of the external sector has helped mitigate the more direct effects of the conflict in Ukraine and the loss of household purchasing power. While the risk of energy supply shortages has been averted and first-quarter data was better than expected, the **scenario for growth remains complex.** The delay in the tightening of interest rates, the greater weight of the manufacturing sector in Europe and leading indicators point to a complex outlook for growth in the coming quarters. As for **China,** the boost to activity resulting from the abandonment of the Zero-Covid policy during the first months of the year does not seem to be having a prolonged effect. It will be **necessary for the Chinese authorities to boost the economy with further monetary and fiscal stimulus** to prevent a slowdown in the recovery.

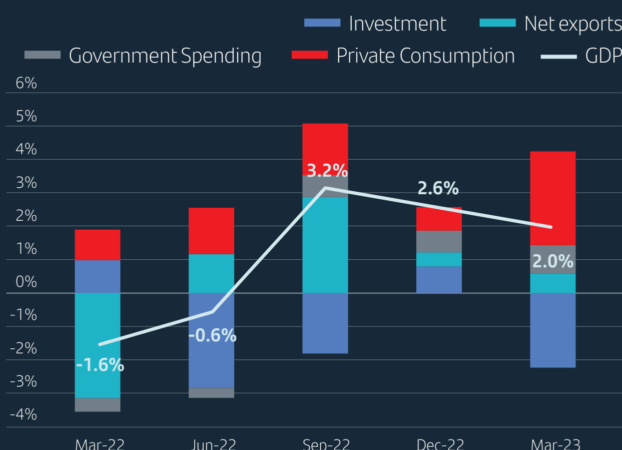
Leading indicators in China and Europe show that part of the adjustment has shifted to 2024

Quarterly GDP growth. Contribution by components

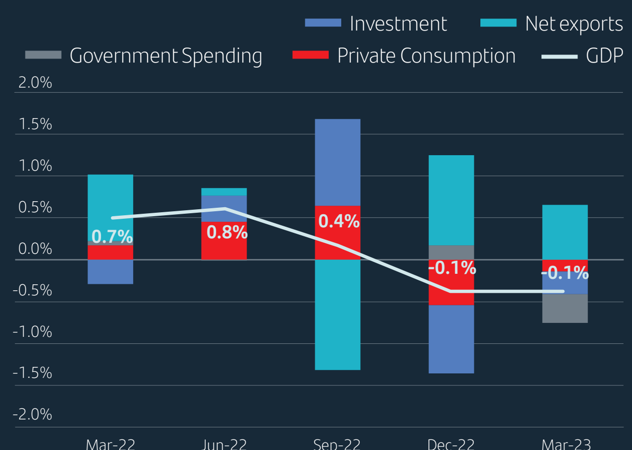
Source: Bloomberg. Data as of 6/6/2023

A phased adjustment, with non-simultaneous recession/deceleration in the components of GDP would lead to a low-intensity adjustment rather than a crisis

United States (quarterly annualized)



Eurozone



Expect neither a recession nor a recovery

Our **central scenario in terms of growth is one of moderate caution given the need for a cyclical adjustment to mitigate the inflation imbalance** which is the major concern for monetary authorities. We continue to give a low probability to a high intensity contraction similar to those experienced during previous economic crises prior to the pandemic (technology bubble and financial crisis). This consideration is based on **the absence of high financial imbalances in the private** and banking **sectors,** as this cycle has been characterized by low levels of leverage. We only detect weakness in very specific sectors such as real estate in the office segment due to the increase in the cost of financing, and in the public sector where the bulk of the increase in debt has been concentrated and where a fiscal consolidation exercise will be necessary in the medium term. In the short term, **we consider it unlikely that the markets will force an accelerated austerity exercise in public finances,** as demonstrated by the recent agreement to lift the debt ceiling in the United States.

The reduced level of private sector leverage favors a moderated economic adjustment in this cycle

The **strength of the labor market is the main support for growth and is a differentiating factor with respect to other economic cycles.** In the graphs below we can see there is absence of signs of weakness in metrics such as job creation, employment confidence and unemployment levels. The reasons behind this resilient employment performance are **demographic** (slower growth and aging of the population), **behavioral** (lower propensity to lay off by companies due to difficulties in filling vacancies after the reopening) and **political** (immigration restrictions in the US and UK).

U.S. private consumption continues to be supported by strong job creation and savings built up during the pandemic

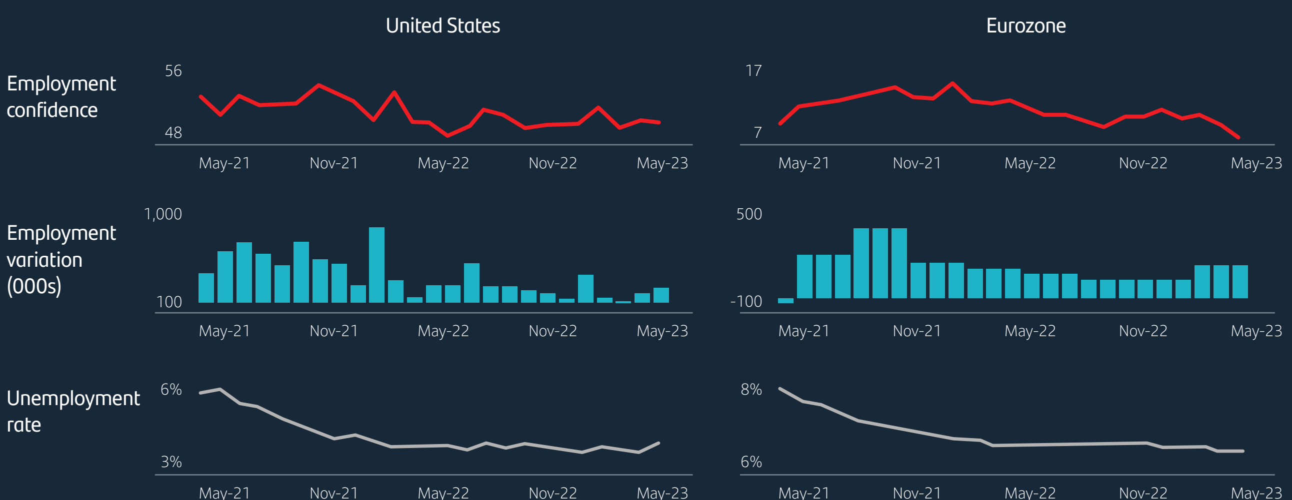
We consider it likely that the delayed effects of restrictive monetary policy will begin to manifest themselves in the coming quarters so we expect a scenario of weak economic growth. The accumulation of negative leading indicators (inverted yield curve, manufacturing confidence indicators, credit and liquidity contraction, among others) is shaping an adverse scenario for economic growth. This economic cycle is full of idiosyncratic factors that are moderating, delaying and staggering the growth adjustment needed to balance inflation. **The first half of 2023 has surprised positively in terms of growth, but this dynamic is difficult to maintain in a context of persistent inflation and tight monetary policy. We believe global growth will remain fragile through the remainder of this year and in 2024.**

We foresee a context of very low economic growth due to the combination of monetary and credit restrictions

Labor market indicators over the past 24 months have supported consumption

Source: Bloomberg. Data as of 5/31/2023

Confidence in future employment begins to weaken but job creation remains firm and unemployment rate is at historic lows



03 A more balanced environment

After a negative 2022 in macroeconomic and market terms, the first half of 2023 was characterized by a decline in risk perception on several fronts. Inflation is moderating as supply side price pressures from goods, food and energy have receded but, on the demand side of the equation, additional work remains to be done on wage pressures and on cooling a robust services sector. Inflation expectations remain anchored. The main risks that threatened the scenario a few months ago (energy supply in Europe, debt ceiling in the United States, escalation of the war in Ukraine, and so on) have been removed or postponed. **Economic growth is clearly anemic, but the likelihood of a major recession is receding** as there are no major imbalances in the private sector and the discussion on the need to stabilize public finances has been postponed.

Monetary tightening and growth risks have evolved downward, making the investment environment more visible

Minimizing risks and holding excessive liquidity positions may be natural after a severe market downturn, but leads to underperformance if investors do not put money to work. Always taking into account the investment horizon and objectives, and respecting risk profiles, investment positioning requires assuming certain doses of volatility in order to optimize returns. **Our belief is that the current environment is not risk-free but provides a balance of returns and risks which is appropriate for the construction of diversified portfolios.**

The risk-return trade-off has improved with respect to that existing prior to the interest rate adjustment

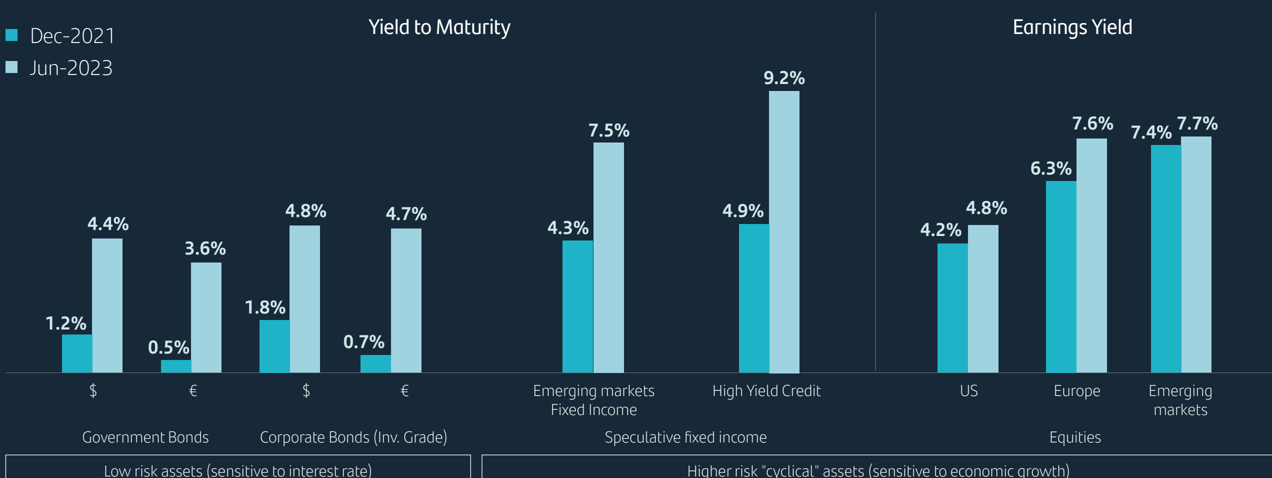
The main argument for this moderately optimistic view so as not to be on pause when it comes to investing and putting excess liquidity to work lies in the **general improvement in valuation levels as a result of the readjustment in interest rates and asset prices over the last year and a half.** This radical shift in asset valuations is very visible in the graph below, where we compare the level of yields available for investment in different assets before the rate reset (December 2021) and at present (June 2023). For fixed income, the future return on assets is measured by discounting coupons and principal, and in the case of equities it is calculated by calculating the yield on current earnings. A generalized improvement in expected yields is observed as a result of rates and valuation adjustments. **This repricing is particularly pronounced in assets with a lower risk profile and higher interest rate sensitivity.** As an example, the yield to maturity of the average US$ corporate bond has improved from 1.8% to 5.1%. Both the risk premium for assuming duration risk and the spread that remunerates credit risk have improved, allowing for a **better balance in the remuneration of risk in fixed-income assets.**

Yields implied by asset valuations have improved significantly in recent quarters

Current yields on assets have improved considerably in the last 18 months

Source: Bloomberg. Data as of 06/13/2023

Fixed income is expected to regain its role as a diversifier in 2023 as we believe the relationship between bond and stock price movements will be restored



Rates pause favors fixed income returns

For investors, the current environment is not only more favorable from the perspective of higher yields but also from the renewed possibility of diversification. This consideration is based on the fact that -at present- **there is a better balance between the returns of fixed income and equity instruments.** Eighteen months ago the low interest rate environment (or negative in some cases) implied very low returns for conservative fixed income assets and forced low risk profile investors to explore less familiar and riskier investment alternatives. **The normalization of monetary policies has allowed those conservative investors to avoid having to deviate from their risk profiles to earn reasonable returns.**

A better balance among the returns of all assets allows for a better diversification in investment portfolios

The diversification potential of fixed income within portfolios has been reinforced and this is positive for financial allocation decisions in portfolios. Traditionally, the price of high credit quality bonds tends to behave in an uncorrelated manner to that of equities and this allows to reduce the level of risk in balanced portfolios. But this attribute deteriorates at depressed interest rate levels and at times of inflationary shock such as the one experienced in 2022. We believe that once interest rates have returned to (or exceeded) neutral levels and the inflation scenario normalizes, investors can once again benefit from the diversification benefits offered by fixed income instruments.

High quality bonds currently offer cost-effective insurance against deteriorating economic conditions

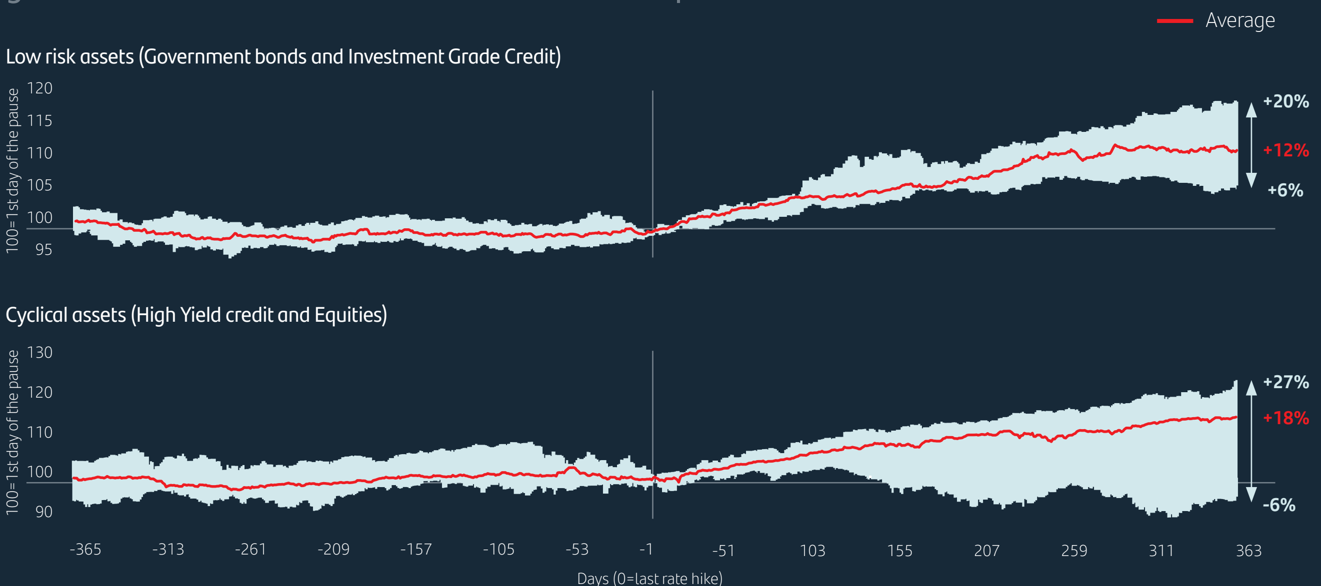
Moreover, **the moment when monetary tightening is paused coincides with an optimal timing to invest in quality fixed income instruments.** This can be seen in the graph below, which shows the range of returns of two types of asset classes (those low risk assets, sensitive to rate movements and high risk assets which are more volatile and sensitive to the economic cycle) in the twelve months before and after the moment when the Federal Reserve stops raising rates. This analysis looks at the range of returns obtained during the six periods of monetary policy tightening experienced since 1994. We can see that **in the case of investment in low risk assets (US Treasury bonds and high credit quality corporate fixed income), the range of returns is always positive in the twelve months after the pause** which is in contrast with the twelve months prior to the pause where returns are penalized by rate hikes.

The impending pause in interest rate hikes is an adequate entry point for fixed income investment

Returns on different U.S. assets in the year following the rate pause

Source: Bloomberg. Data as of 6/13/2023. Historical data since 1984

Although on average returns are positive for all assets, the dispersion in riskier assets is much greater. Low risk assets offer a better risk-reward profile



Mix cyclical caution with innovation

While the scenario for fixed income investment is historically favorable in periods following the end of rate hikes, the same cannot be said for equities. In the lower chart on the previous page we can see that **the range of equity investment returns is wider than that of low risk assets and includes episodes of negative returns that coincide with cycles in which restrictive monetary policy caused contractions at the macro (recession) and micro (falling profits) levels.** Our conclusion is that based on historical analysis of returns following a pause in interest rate hikes, the environment is more favorable for fixed income investment in terms of return vs. risk taken.

Lack of visibility on earnings and growth adjustment supports cautious positioning in cyclical assets

This **cautious positioning in equities is not only based on relative valuation vs. fixed income but also stems from the lack of visibility on the size of the cyclical adjustment in which we are immersed.** We believe that the slowdown in this cycle is likely to be fairly moderate in intensity, but we prefer to moderate exposure to cyclically sensitive assets until there is more certainty on the magnitude of the adjustment in earnings. In general, companies' results beat expectations in the first quarter of the year, but there is a risk of downward revisions to earnings estimates in the following quarters. **We maintain our preference for investing in sectors and companies with lower sensitivity of their sales to the economic cycle and with lower valuations.**

Time to position cyclically for recovery pushed back to 2024

The performance of equity indices during the first half of the year was surprising (returns of more than 15% in the main markets) given the context of higher interest rates and lower growth expectations. This revaluation has been supported by fundamental factors (adjustment of valuations in 2022, a consensus of the market on defensive positioning and better than expected earnings in the first quarter) and also by the **surprising and disruptive potential of innovations in artificial intelligence (gen AI).** The graph below shows, we are probably in a moment of technological disruption of historic magnitude (technology indexes have had a return that exceeds the rest of the companies by more than 20%) similar to the development of internet or smartphones. We do see high long-term growth potential stemming from artificial intelligence but believe current valuations in certain tech stocks to be stretched. **We are facing a technological disruption event of historic magnitude, but in terms of investment it is necessary to exercise caution and seek the best advice.** History shows us that it is not always the companies that innovate first that are the most successful in the long term.

Disruption stemming from the growth of AI applications is distorting the behavior of markets

Year-on-year performance differential of the technology sector vs. the S&P 500

Source: Bloomberg and in-house calculations

At times of technological disruption, stocks in this sector outperform the market by more than 20%

New technology	Internet	Portals	SMS, e-mail	Search engines	eCommerce	Smartphones	Social Media	Streaming Work-from-home	GenAI
Relevant companies	Cisco Netscape	Yahoo! Terra	Nokia Blackberry	Google Lycos	Amazon Ebay	Apple Samsung	Facebook Twitter	Zoom Netflix	Microsoft Nvidia

Appendix:
Tables.

Returns of main assets in last 10 years.

Source: Bloomberg.

Data as of 03/31/2023

Del número anterior

							Returns	Annualized returns		
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**YTD**	**3 years**	**5 years**	**10 years**
Short-term (USD) (1)	**1.0%**	**1.9%**	**2.2%**	**0.4%**	**0.1%**	**1.7%**	**1.1%**	**1.0%**	**1.4%**	**0.9%**
Short-term (EUR) (2)	**-0.4%**	**-0.4%**	**-0.4%**	**-0.5%**	**-0.5%**	**0.1%**	**0.6%**	**-0.1%**	**-0.2%**	**-0.2%**
Global Fixed Income (3)	**7.4%**	**-1.2%**	**6.8%**	**9.2%**	**-4.7%**	**-16.2%**	**2.9%**	**-3.6%**	**-1.4%**	**0.1%**
Fixed Income (USD) (4)	**3.5%**	**0.0%**	**8.7%**	**7.5%**	**-1.5%**	**-13.0%**	**2.5%**	**-3.0%**	**0.8%**	**1.3%**
Sovereign (U[illegible]	1.1%	1.4%	5.2%	5.8%	-1.7%	-7.8%	2.0%	-2.4%	1.0%	0.9%
C[illegible]	6.4%	-2.5%	14.5%	9.9%	-1.0%	-15.8%	2.8%	-0.6%	1.5%	2.2%
[illegible]	7.5%	-2.1%	14.3%	7.1%	5.3%	-11.2%	2.7%	5.8%	3.0%	4.0%
[illegible]	**0.7%**	**0.4%**	**6.0%**	**4.0%**	**-2.9%**	**-17.2%**	**1.7%**	**-5.0%**	**-2.1%**	**0.7%**
[illegible]	0.2%	1.0%	6.8%	5.0%	-3.5%	-18.5%	2.1%	-5.8%	-2.2%	1.0%
[illegible]	2.4%	-1.3%	6.2%	2.8%	-1.0%	-13.6%	1.4%	-1.7%	-1.3%	1.0%
[illegible]	6.2%	-3.6%	12.3%	1.8%	4.2%	-11.1%	2.7%	4.7%	1.0%	3.6%
Emerging [illegible] (USD) (12)	**8.2%**	**-2.5%**	**13.1%**	**6.5%**	**-1.7%**	**-15.3%**	**1.7%**	**0.1%**	**0.2%**	**2.0%**
LatAm (USD) (13)	10.6%	-4.9%	12.3%	4.5%	-2.5%	-13.2%	1.3%	2.5%	-0.6%	1.6%
MSCI World (USD)	**20.1%**	**-10.4%**	**25.2%**	**14.1%**	**20.1%**	**-19.5%**	**6.0%**	**13.8%**	**6.0%**	**6.8%**
S&P 500 (USD)	19.4%	-6.2%	28.9%	16.3%	26.9%	-19.4%	5.5%	15.5%	8.9%	9.9%
MSCI Europe (EUR)	7.3%	-13.1%	22.2%	-5.4%	22.4%	-11.9%	7.2%	13.1%	4.1%	4.2%
MSCI Emerging Markets (USD)	34.3%	-16.6%	15.4%	15.8%	-4.6%	-22.4%	3.1%	5.8%	-3.4%	-0.5%
MSCI Asia Pac. ex-Japan (USD)	37.0%	-13.9%	19.2%	22.4%	-2.9%	-17.5%	3.5%	9.1%	0.9%	3.7%
MSCI Latin America (USD)	20.8%	-9.3%	13.7%	-16.0%	-13.1%	-0.1%	3.6%	11.7%	-6.2%	-5.3%

(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 03/31/2023

		Last Price	Change 12 months	Low	Last 10 years Range	High	Return 2021	Return 2022	Return YtD	Annualized returns 1 year	3 years	5 years	10 years
US	S&P 500	4,051		1,598		4,766	26.9%	-19.4%	5.5%	-10.6%	15.5%	8.9%	9.9%
	DOW JONES INDUS.	32,859		14,810		36,338	18.7%	-8.8%	-0.9%	-5.2%	13.7%	6.4%	8.5%
	NASDAQ	12,013		3,329		15,645	21.4%	-33.1%	14.8%	-15.5%	15.6%	11.2%	13.9%
Europe	Stoxx 50	3,914		2,605		3,914	22.8%	-4.4%	7.2%	5.5%	13.2%	5.7%	3.8%
	Eurozone (EuroStoxx)	4,285		2,603		4,298	21.0%	-11.7%	13.0%	9.8%	15.7%	5.0%	5.0%
	Spain (IBEX 35)	9,207		6,452		11,521	7.9%	-5.6%	11.9%	9.0%	11.4%	-0.8%	1.5%
	France (CAC 40)	7,263		3,739		7,268	28.9%	-9.5%	12.2%	9.1%	18.4%	7.0%	6.9%
	Germany (DAX)	15,522		7,914		15,885	15.8%	-12.3%	11.5%	7.7%	16.5%	5.1%	7.1%
	[illegible]	7,620		5,577		7,876	14.3%	0.9%	2.3%	1.4%	11.1%	1.5%	1.7%
	[illegible]	[illegible]21		15,239		27,478	23.0%	-13.3%	14.0%	8.0%	17.0%	3.8%	5.8%
	[illegible]	[illegible]		3,945		7,608	13.7%	2.8%	5.2%	-0.2%	14.8%	2.2%	0.3%
	[illegible]	[illegible]		7,683		12,876	20.3%	-16.7%	2.8%	-9.3%	6.3%	4.8%	3.5%
[illegible]	[illegible]	[illegible]		34,555		56,537	20.9%	-9.0%	11.8%	-4.1%	16.6%	3.3%	2.1%
	[illegible]	[illegible]13		40,406		126,802	-11.9%	4.7%	-5.5%	-13.6%	11.6%	4.0%	6.3%
	[illegible]	251,639		2,976		253,549	63.0%	142.0%	24.5%	176.6%	117.7%	51.9%	53.9%
	Chile (IPSA)	5,309		3,439		5,855	3.1%	22.1%	0.9%	7.5%	17.0%	-0.9%	1.8%
Asia	Japan (NIKKEI)	28,041		13,389		29,453	4.9%	-9.4%	7.5%	0.8%	13.7%	5.5%	8.5%
	Hong Kong (HANG SENG)	20,415		14,687		32,887	-14.1%	-15.5%	3.2%	-7.2%	-4.1%	-7.5%	-0.9%
	South Korea (KOSPI)	2,477		1,755		3,297	3.6%	-24.9%	10.8%	-10.2%	13.0%	0.3%	2.1%
	India (Sensex)	58,669		18,620		63,100	22.0%	4.4%	-3.6%	0.2%	27.3%	12.2%	12.0%
	China (CSI)	4,047		2,146		5,352	-5.2%	-21.6%	4.5%	-4.2%	3.3%	0.7%	5.0%
World	MSCI WORLD	2,760		1,434		3,232	20.1%	-19.5%	6.0%	-9.6%	13.8%	6.0%	6.8%

Del número anterior

Equities by factor and sector.

Source: Bloomberg.

Data as of 03/31/2023

			Change	Last 10 years			Return			Annualized returns				Ratios	
		Last Price	12 months	Low	Range	High	2021	2022	YtD	1 year	3 years	5 years	10 years	PE Ratio	Divi-dend Yield
	MSCI World	2,760		1,434		3,232	20.1%	-19.5%	6.0%	-9.6%	13.8%	6.0%	6.8%	16.09	2.23
Factor	MSCI World High Dividend Yield	1,340		969		1,447	12.6%	-7.4%	0.0%	-6.8%	9.1%	2.4%	3.0%	13.08	3.90
	MSCI World Momentum	3,155		1,214		3,978	14.6%	-17.8%	-1.9%	-14.5%	10.7%	7.4%	10.2%	12.29	2.78
	MSCI World Quality	3,446		1,183		4,058	25.7%	-22.2%	9.2%	-7.2%	15.1%	10.9%	11.3%	19.97	1.82
	MSCI World Minimum Volatility	4,323		2,099		4,730	14.3%	-9.8%	1.3%	-5.8%	7.7%	5.5%	7.2%	17.10	2.63
	MSCI World Value	11,060		6,013		11,827	21.9%	-6.5%	0.0%	-5.9%	15.2%	4.8%	6.4%	12.04	3.52
	[illegible]	[illegible]		283		705	15.8%	-18.8%	3.0%	-10.5%	17.1%	4.2%	7.5%	15.60	2.35
	[illegible]	[illegible]		2,823		9,693	21.2%	-29.2%	13.5%	-11.1%	15.1%	10.1%	10.7%	23.74	0.99
[illegible]	[illegible]	[illegible]		164		464	40.1%	46.0%	-3.7%	7.6%	38.2%	6.8%	2.9%	8.10	4.67
	[illegible]	[illegible]		229		590	16.3%	-10.7%	4.8%	-13.0%	19.0%	6.0%	5.7%	13.44	3.57
	[illegible]	[illegible]		212		509	16.6%	-13.2%	6.0%	-7.4%	14.9%	4.6%	7.7%	17.54	2.12
	[illegible]	[illegible]		181		595	17.9%	-33.4%	14.1%	-25.4%	10.7%	4.8%	8.6%	19.13	1.52
	Consumer Staples	449		232		465	13.1%	-6.1%	2.9%	-2.6%	9.3%	5.9%	6.3%	19.11	2.65
	Health Care	478		185		518	19.8%	-5.4%	-2.5%	-2.1%	13.2%	10.5%	10.5%	17.46	1.81
	Financials	226		124		263	27.9%	-10.2%	-2.3%	-8.8%	17.2%	3.5%	6.6%	10.12	3.55
	Information Technology	563		112		682	29.8%	-30.8%	19.4%	-23.0%	13.5%	12.4%	15.6%	24.56	0.97
	Real Estate	384		260		517	28.7%	-25.1%	-0.9%	-20.5%	5.5%	1.9%	3.3%	23.51	4.20
	Communica-tion Services	149		94		220	14.4%	-36.9%	16.0%	-29.6%	2.3%	1.5%	3.4%	16.11	1.42
	Utilities	312		165		331	9.8%	-4.7%	0.0%	-5.9%	7.5%	6.9%	6.5%	15.92	3.71

Del número anterior

Government Bonds.

Source: Bloomberg.

Data as of 03/31/2023

	Rating (S&P)	Interest rate			Change	10 years						Yield curve
						Last 10 years						
		C. Bank*	2 years	10 years	12 months	Low	Range	High	Month	YtD	YoY	10-2 years
Developed												
U.S.	AA+	5.00%	4.12%	3.55%		0.53%		4.05%	-37	204	121	-0.57
Germany	AAA	3.00%	2.78%	2.37%		-0.70%		2.65%	-28	255	182	-0.41
France	AA	3.00%	2.92%	2.88%		-0.40%		3.12%	-24	268	190	-0.04
Italy	BBB	3.00%	3.28%	4.23%		0.54%		4.72%	-25	306	219	0.95
Spain	A	3.00%	3.04%	3.41%		0.05%		4.77%	-19	284	197	0.36
United Kingdom	AA	4.25%	3.46%	3.52%		0.10%		4.09%	-31	255	191	0.06
Greece	[illegible]	3.00%	n.d.	4.30%		0.61%		15.42%	-14	296	163	n.d.
[illegible]	[illegible]	[illegible]	2.82%	3.22%		0.03%		6.73%	-29	276	187	0.41
[illegible]	[illegible]	[illegible]	[illegible]	1.24%		-1.05%		1.58%	-20	139	66	0.05
[illegible]	[illegible]	[illegible]	[illegible]	6.05%		1.15%		8.34%	-48	241	86	0.04
[illegible]	[illegible]	[illegible]	[illegible]	0.35%		-0.27%		0.86%	-16	28	13	0.40
[illegible]												
[illegible]	[illegible]	[illegible]	[illegible]	12.81%		6.49%		16.51%	-64	197	120	0.84
Mexico	[illegible]	[illegible]	10.43%	8.87%		4.49%		9.85%	-46	130	60	-1.56
Chile	A	11.25%	6.49%	5.17%		2.19%		6.79%	n.d.	n.d.	n.d.	n.d.
Argentina	CCC-	78.00%	n.d.	n.d.		0.00%		0.00%	n.d.	n.d.	n.d.	n.d.
Colombia	BB+	12.75%	10.45%	11.94%		4.88%		13.79%	-132	375	n.d.	1.49
Turkey	B	8.50%	11.96%	n.d.		6.21%		23.00%	n.d.	n.d.	n.d.	n.d.
Russia	A+	2.64%	2.37%	2.85%		2.51%		4.58%	-6	8	7	0.48
India	BBB-	6.50%	7.17%	7.29%		5.84%		8.86%	-14	83	45	0.11

Del número anterior

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

Currencies.

Source: Bloomberg.

Data as of 03/31/2023

	Last Price	Change 12 months	Low	Range	Last 10 years High	Return YtD	1 year	3 years	5 years	Annualized returns 10 years
EUR/USD	1.0903		0.98		1.39	1.8%	-1.5%	-0.4%	-2.4%	-1.6%
EUR/GBP	0.88		0.70		0.92	0.6%	4.4%	-0.4%	0.0%	0.4%
EUR/CHF	1.00		0.97		1.24	-0.6%	2.5%	2.1%	3.4%	2.0%
EUR/JPY	145		114		148	3.4%	-7.2%	-6.4%	-2.0%	-1.8%
EUR/PLN	4.67		4.04		4.86	0.2%	-0.6%	-1.0%	-2.1%	-1.1%
GBP/USD	1.24		1.12		1.71	2.6%	-5.7%	-0.1%	-2.4%	-2.0%
USD/CHF	0.91		0.88		1.03	1.2%	1.0%	1.6%	0.9%	0.4%
USD/JPY	133		97		149	-1.5%	-8.6%	-6.8%	-4.4%	-3.4%
USD/MXN	18.09		12.13		24.17	7.8%	9.8%	9.6%	0.1%	-3.8%
USD/ARS	208.58		5.19		208.58	-15.1%	-46.8%	-32.4%	-37.3%	-31.0%
USD/CLP	790		472		969	7.8%	-0.5%	2.6%	-5.2%	-5.0%
USD/BRL	[illegible]		2.00		5.75	3.6%	-6.9%	0.6%	-8.3%	-8.8%
US[illegible]	[illegible]		1.824		4.940	5.0%	-18.4%	-4.2%	-9.6%	-8.9%
[illegible]	[illegible]		6.05		7.31	0.5%	-7.6%	1.1%	-1.8%	-1.0%
[illegible]	[illegible]		8.54		11.37	-1.1%	-7.8%	-0.6%	-1.8%	-2.9%
[illegible]	[illegible]		7.60		11.48	-7.2%	-14.0%	1.0%	-3.1%	-4.0%

Del número anterior

Commodities.

Source: Bloomberg.

Data as of 09/30/2022

	Last Price	Change 12 months	Low	Range	Last 10 years High	2021	2022	Return YTD	3 years	5 years	Annualized returns 10 years
Crude Oil (Brent)	77.7		21		120	51.4%	9.7%	-8.5%	52.2%	4.0%	-10.7%
Crude Oil (W. Texas)	74.4		19		115	58.7%	4.2%	-7.3%	54.7%	4.6%	-8.5%
Gold	1.982.6		1.060		1.979	-3.5%	-0.1%	8.6%	6.9%	14.4%	7.5%
Copper	9.001.0		4.561		10.375	25.2%	-13.9%	7.5%	23.6%	10.3%	6.1%
CRB Index	264.4		117		317	38.5%	19.5%	-4.8%	29.5%	10.6%	-3.7%
Natural Gas (USA)	2.1		2		6	34.2%	29.4%	-46.3%	-2.0%	-8.9%	-29.1%
Natural Gas (Europe)	43.7		14		206	130.1%	132.9%	-44.5%	46.1%	41.8%	n.d.

"Periodic table" of asset returns.

Del número anterior

Asset Class	Reference Index	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
		Calendar Year Returns										
US Equities	S&P 500 TR	54.4% Japan Equities	71.3% Eurozone Government	12.1% Japan Equities	14.8% Global High Yield	37.3% Emerging Market Equities	3.3% Spain Government	0.3% US Equities	18.4% US Equities	38.5% Commodities	22.0% Commodities	13.4% Spain Equities
Japan Equities	Topix TR	32.4% US Equities	61.3% Spain Government	6.4% Europe Equities	12.0% US Equities	22.4% Global Equities	0.1% Eurozone Government	0.3% Europe Equities	18.3% Emerging Market Equities	28.7% US Equities	0.1% Liquidity	12.4% Europe Equities
Spain Equities	Ibex35 TR	27.8% Spain Equities	13.7% US Equities	1.4% US Equities	11.2% Emerging Market Equities	22.2% Japan Equities	-0.4% Liquidity	0.3% Global Equities	0.2% Global Equities	23.2% Europe Equities	-2.0% Spain Equities	6.5% Japan Equities
Emerging Markets Equities	MSCI EM TR	26.7% Global Equities	10.3% Japan Equities	-0.1% Liquidity	9.7% Commodities	21.8% US Equities	-1.2% Europe IG	0.2% Emerging Market Equities	8.0% Global High Yield	21.8% Global Equities	-2.5% Japan Equities	6.1% Global Equities
Europe Equities	Eurostoxx50 TR	21.5% Europe Equities	8.6% Spain Equities	-0.5% Europe IG	7.5% Global Equities	11.3% Spain Equities	-3.3% Global High Yield	0.2% Japan Equities	0.1% Japan Equities	12.7% Japan Equities	-9.5% Europe Equities	6.0% US Equities
Commodities	Commodity RB TR	21.1% Spain Government	8.3% Europe IG	-0.8% Global Equities	6.6% Eurozone Government	10.2% Global High Yield	-4.4% US Equities	0.2% Spain Equities	6.4% Eurozone Government	10.8% Spain Equities	-13.2% Global High Yield	3.48% Emerging Market Equities
Global Equities	MSCI World TR	8.0% Global High Yield	4.9% Global Equities	-3.6% Spain Equities	5.7% Spain Government	9.2% Europe Equities	-8.7% Global Equities	0.1% Global High Yield	4.4% Spain Government	1.4% Global High Yield	-14.4% Europe IG	1.8% Global High Yield
Europe IG	ERL0 TR	2.4% Europe IG	4.0% Europe Equities	-4.2% Global High Yield	4.8% Europe IG	2.5% Europe IG	-10.7% Commodities	0.1% Commodities	2.7% Europe IG	-0.5% Liquidity	-17.7% Spain Government	1.8% Spain Government
Liquidity EUR	Eonia TR	0.1% Liquidity	0.1% Liquidity	-10.5% Spain Government	3.7% Europe Equities	1.7% Spain Government	-11.5% Spain Equities	0.1% Spain Government	-0.5% Liquidity	-1.1% Europe IG	-17.8% Eurozone Government	1.8% Eurozone Government
Global High Yield	HW00 TR	-2.6% Emerging Market Equities	-0.1% Global High Yield	-16.3% Eurozone Government	2.6% Spain Equities	1.7% Commodities	-12.0% Europe Equities	0.1% Eurozone Government	-3.2% Europe Equities	-2.5% Emerging Market Equities	-18.1% US Equities	1.3% Europe IG
Spain Government	SPAIN 10 YR	-5.0% Commodities	-2.2% Emerging Market Equities	-14.9% Emerging Market Equities	0.6% Japan Equities	-0.2% Eurozone Government	-14.6% Emerging Market Equities	0.1% Europe IG	-0.1% Commodities	-2.7% Eurozone Government	-18.1% Global Equities	0.6% Liquidity
Eurozone Government	GERMANY 10 YR	-46.6% Eurozone Government	-17.9% Commodities	-23.4% Commodities	-0.3% Liquidity	-0.4% Liquidity	-16.0% Japan Equities	0.0% Liquidity	-0.1% Spain Equities	-3.1% Spain Government	-20.09% Emerging Market Equities	-3.7% Commodities

+ Returns -

*Data as of 03/31/2023
*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 team.
Investment Strategy.

Santander Private Banking.

Legal notice:

This report has been prepared by Santander Wealth Management & Insurance (**"WMI"**), a global business unit of Banco Santander, S.A. (WMI, together with Banco Santander, S.A. and its affiliates, shall be referred to hereinafter as **"Santander"**). This report contains economic forecasts and information gathered from several sources, including third parties. While said sources are believed to be reliable, the accuracy, completeness or current nature of that information is not guaranteed, either implicitly or explicitly, and is subject to change without notice. Any opinions included in this report may not be considered irrefutable and could differ from, or be inconsistent with, opinions (expressed verbally or in writing), advice or investment decisions of other areas of Santander.

This report is not intended to be, and should not be, construed in relation to a specific investment objective. It has been published solely for information purposes and does not constitute investment advice, an offer or solicitation to purchase or sell assets, services, financial contracts or other types of agreements, or other investment products of any type (collectively, the **"Financial Assets"**), and should not be relied upon as the sole basis for evaluating or assessing Financial Assets. Likewise, the distribution of this report to a client, or to a third party, should not be regarded as a provision or an offer of investment advisory services.

Santander makes no warranty in connection with any market forecasts or opinions, or with the Financial Assets mentioned in this report, including with regard to their current or future performance. The past or present performance of any markets or Financial Assets may not be an indicator of such markets or Financial Assets future performance. The Financial Assets described in this report may not be eligible for sale or distribution in certain jurisdictions or to certain categories or investors.

Except as otherwise expressly provided for in the legal documents of specific Financial Assets, the Financial Assets are not, and will not be, insured or guaranteed by any governmental entity, including the Federal Deposit Insurance Corporation. They are not an obligation of, or guaranteed by, Santander, and may be subject to investment risks including, but not limited to, market and currency exchange risks, credit risk, issuer and counterparty risk, liquidity risk and possible loss of the principal invested. In connection with the Financial Assets, investors are recommended to consult their financial, legal, tax and other advisers as they deem necessary to determine whether the Financial Assets are suitable based on such investors particular circumstances and financial situation. Santander, its respective directors, officers, attorneys, employees and agents assume no liability of any type for any loss or damage relating to, or arising out of, the use or reliance of all or any part of this report.

At any time, Santander (or its employees) may align with, or be contrary to, the information stated herein for the Financial Assets; act as principal or agent in the relevant Financial Assets; or provide advisory or other services to the issuer of relevant Financial Assets or to a company connected with an issuer thereof.

The information contained in this report is confidential and belongs to Santander. This report may not be reproduced in whole or in part, or further distributed, published or referred to in any manner whatsoever to any person, nor may the information or opinions contained herein be referred to without, in each case, the prior written consent of WMI.

Any third party material (including logos, and trademarks), whether literary (articles/ studies/ reports, etc. or excerpts thereof) or artistic (photos/graphs/drawings, etc.), included in this report are registered in the name of their respective owners and only reproduced in accordance with honest industry and commercial practices.

Taking your wealth beyond