Santander Private Banking

July 2024

Quarterly Report

The labor market holds the key

This quarterly report examines the dynamics of the labor market in the context of the broader macroeconomic scenario, which continues to surprise investors and analysts. Our analysis suggests a **low probability of recession, which is compatible with moderate interest rate cuts.** However, this scenario will depend on the dynamics of the **key variables in the labor market: the balance between labor supply and demand,** which will affect the level of economic activity, and **wage pressures, which will determine the behavior of services inflation.** In 2024, central **banks will lower rates, albeit in a more moderate manner,** given that economies are at full employment and the urgency of rate cuts has decreased.

This economic context provides investors with a wide range of investment options at their disposal, the most balanced of recent decades. The **potential for building balanced portfolios** is high, given the possibility to combine **four basic ingredients: the real risk-free rate** (short-term government bonds), **protection against adverse shocks** (volatility hedges and long duration bonds), **cyclical earnings recovery** (European equities) **and narratives of technological disruption** (U.S. equities). This wide range of options allows each investor to tailor portfolios to their specific risk/return needs.

The labor market holds the key

01 Strong labor market extends the cycle

The moderate economic slowdown has been cushioned by fiscal stimulus and the strength of the labor market, despite the rise in interest rates. **Excess savings accumulated during the pandemic are nearly exhausted and household consumption now depends largely on the fundamentals derived from the labor market: real income and employment levels.** There are no signs of significant job destruction despite 30 months of inverted yield curve and peak restrictive monetary policies. The final verdict will depend on labor market dynamics.

02 Back to square one

The labor market has returned to its pre-pandemic equilibrium, with the major imbalances in supply and demand for jobs no longer present. If confirmed, this trend would lead central banks to move toward more neutral monetary policy coordinates. Interest rate cuts are coming, but expectations for monetary easing are moderating.

03 Optimal environment for building balanced investment portfolios

A scenario of easing monetary policy and a rebound in corporate earnings offers a variety of investment opportunities. If this economic outlook is confirmed, there are several ways for investors to balance portfolios and position themselves successfully across multiple markets. Investors do not need to take on large concentrations or increase their risk budgets to have a high probability of achieving their investment objectives over various time horizons.

01 Employment holds up well

The resilience of global economic growth to interest rate increases continues to amaze economists and analysts. The cost in terms of economic growth and job destruction of the biggest interest rate hike in recent decades has so far been very limited. **If the balance holds, it will have been one of the most successful soft landings in the history of the global economy.** It is challenging to identify another period where central banks have successfully managed to lower inflation without dragging economies into recession. The robustness of the labor market seems to be a crucial factor in this unusual scenario and deserves closer examination.

Recessions have typically occurred 18 months after the most restrictive period of monetary policy

The graph below illustrates the behavior of monthly job creation in the world's largest economy, the United States, in the context of the tightening of monetary policy. The starting point coincides with what is known as an inverted yield curve, which occurs when investors perceive that the next move by central banks will be to cut rates, and, therefore, short-term rates are higher than long-term rates. **The inverted yield curve is widely considered to be a reliable indicator of a recession, with an average lead time of about 18 months.** This is evidenced by the five rate hike cycles shown in the chart, in which a deteriorating job creation environment ultimately damaged consumer confidence and the economy slowed or fell into recession. The red line depicts the current cycle and shows a different dynamic, with monthly job creation remaining well above its long-term average after 27 months of an inverted yield curve.

Employment growth in the U.S. continues above average despite 27 months of yield curve inversion

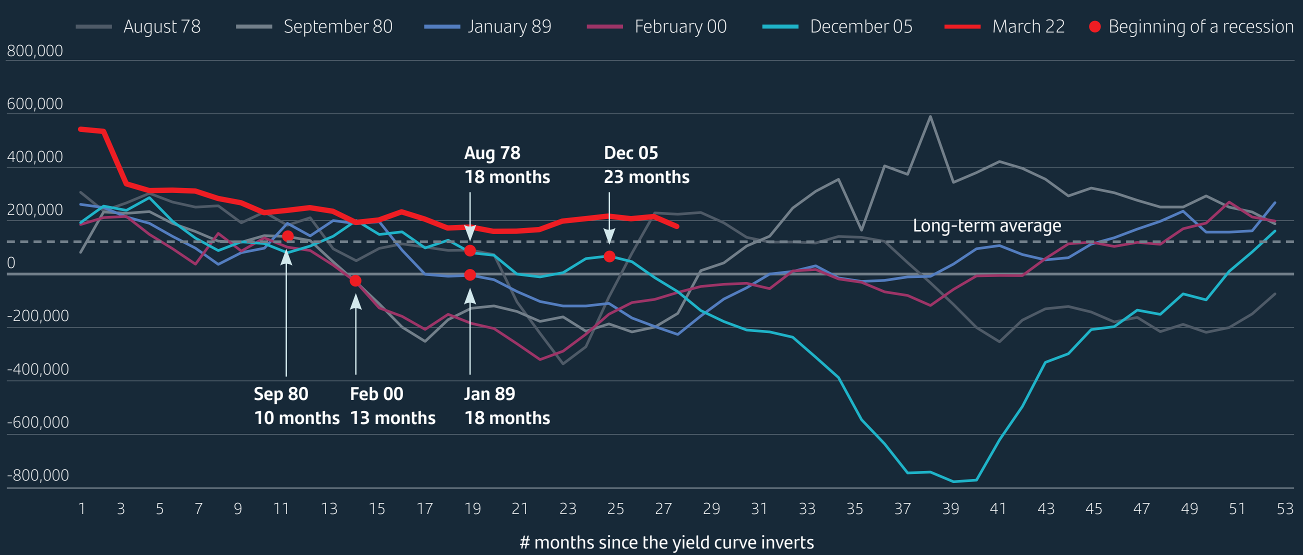
This **resilient behavior of the labor market is not exclusive to the U.S. economy.** For instance, despite weak growth in the last six quarters, the **unemployment rate in the Eurozone is at a historic low.** There are several reasons for this, including less effective monetary policy transmission and atypical behavior of the labor market. Another factor that may be contributing to the greater longevity of the cycle may have its origin in the expansive fiscal policy that has allowed governments to counteract the negative effects of monetary restriction. Regardless of the cause or combination of causes, **we are witnessing a labor market that is much more resistant to efforts by central banks to cool the economy.**

The exceptional job creation is the primary factor driving the soft-landing narrative that is currently dominating the markets

U.S. monthly job creation after the peak of monetary tightening in each cycle

Source: Bloomberg. Data as of 6/30/2024

Employment is holding up well this cycle



Growth expectations improve

The lower propensity of firms to cut jobs may reflect a **gradual improvement in business confidence.** These surveys are among the most closely watched leading indicators by analysts, as they have considerable predictive value for investment and employment growth in subsequent quarters. The critical level of business confidence that separates acceleration from deceleration is fifty.

Business confidence indicators have returned to signal economic expansion

In the charts below, we can see how economic growth expectations for the current year deteriorated throughout 2023, in parallel with a deterioration in business confidence PMI surveys. In the case of the US economy, a turning point occurred in mid-2023. In the case of the European economy, this recovery is more incipient, with the PMI index bottoming out in the last quarter of 2023 and the **turnaround in growth expectations** occurring more recently.

The strength of the labor market is becoming more important as a key factor supporting consumption now that the excess savings from the pandemic

A closer examination of the financial health of economic agents reveals areas of concern, including a potential shift in fiscal impulse or the **depletion of excess savings generated by pandemic-era stimuli.** In the United States, the latter affects lower-income families in particular, whose financial situation is more sensitive to interest rate increases because they are more dependent on short-term financing (credit card and auto loans). **As long as the labor market remains robust, the deceleration in consumption should be gradual, given the recent improvement in real wages and the reasonable financial situation of more affluent-income households.**

The other element, **fiscal spending, could imply a slowdown in growth, given the need to balance public finances** after the major role played by the relief and investment stimulus programs adopted by governments in recent years. This factor has been particularly important for the US economy thanks to the industrial policy programs of the Joe Biden administration. The fiscal impulse is likely to evolve into an element of economic cooling, although the electoral calendar is likely to postpone the debate on these issues until 2025. Looking further ahead, the need for a deep adjustment in public spending and a reduction in high deficits is one of the main sources of macro vulnerability.

The main risk remains a potential reversal of fiscal policy as markets eventually lose faith in debt sustainability

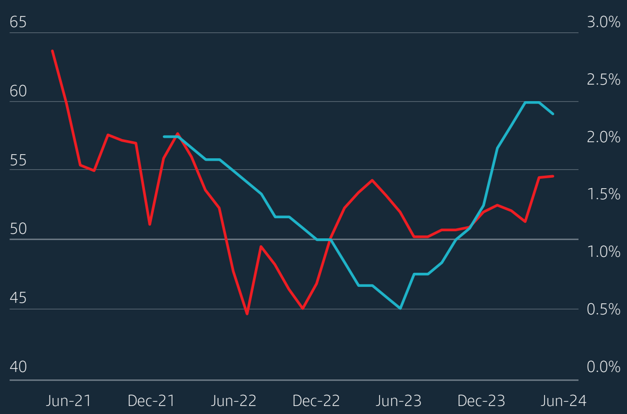
Business confidence and Bloomberg economic growth forecasts for 2024

Source: Bloomberg. Data as of 6/30/2024

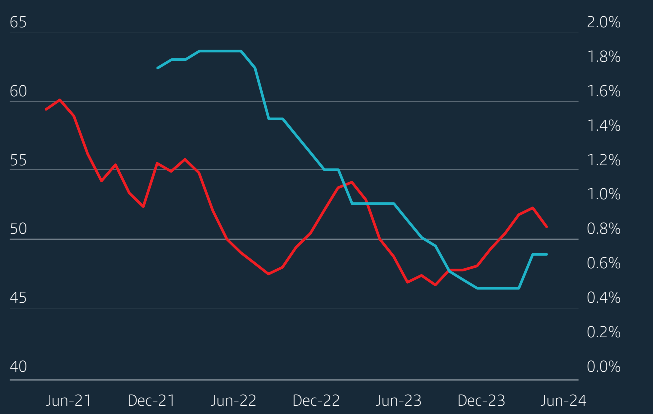
The recovery of business confidence provides support for economic growth

PMI Composite* (left)   GDP growth forecast for 2024 (right)

United States



Euro Zone



* PMI Composite of manufacturing and services indexes

A fragile yet valid expansive cycle

Markets with a more cyclical behavior (greater sensitivity to the growth variable) have reacted more positively in the first half of 2024 as the specter of recession has receded from the radars of economic indicators. **Consensus forecasts from economists and international organizations reflect stable growth at coordinates close to or slightly below cruising speed.** Economies appear to have overcome the shock of the pandemic and have recovered or surpassed pre-Covid levels of spending and investment.

The expansion cycle moves on but lingering among a late-cycle macro backdrop with latent recession risks

With the potential for recovery from the effects of the pandemic now closed, the economies are back to end-of-cycle parameters with low unemployment and high utilization of productive capacity. The potential for a vigorous rebound in activity is limited, so **we must be attentive to the signals from leading indicators,** especially employment indicators. In this regard, the unemployment rate is receiving a great deal of attention as a break in the **Sahm rule** (see chart below) is nearby. This rule specifies that if there is a cumulative increase in the unemployment rate of more than 0.5% over a 12-month period it historically implies that an economic contraction will occur. **Job creation is still holding its own as we have seen above, but we will have to be very attentive to future indicators** given the moderate parameters in which the economy is moving.

While the lagged effects of tighter monetary policy will continue to moderate activity, supply-side dynamics like job creation and rea wages should continue to support growth

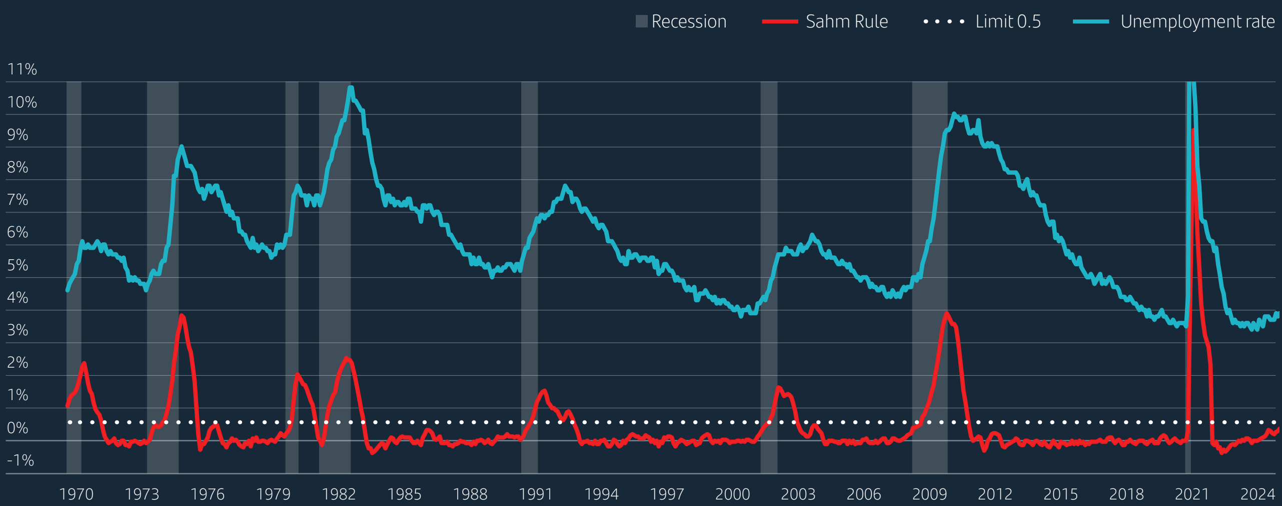
The "final verdict" on the longevity of the cycle is in the hands of companies who must decide whether to see the glass as half full and resume growth in investment or half empty (opting for cost cutting). The ability to boost profits by raising prices and margins is already limited and company managers must choose between increasing volumes (by investing in capacity expansion) or improving efficiency by reducing headcount. In this context, the extent of rate cuts and the potential for efficiency improvements derived from the implementation of artificial intelligence and robotics in production processes may lead economic agents to boost investment and bet on growth. The low leverage levels of companies and their high cash flow generation are additional factors that would support the commitment to growth. The global economy appears to have more runway in the near term, but the upside for expansion is limited.

Companies have exhausted the ability to expand margins by increasing prices and must choose between increasing capacity or reducing costs

Cumulative deterioration of unemployment (Sahm's rule) as a leading indicator of recession

Source: Bloomberg. Data as of 6/30/2024

From minimum unemployment levels, Sahm rule approaches 0.5 pp. Sign of recession?



*The Sahm recession indicator signals the onset of a recession when the three-month moving average of the national unemployment rate increases by 0.50 percentage points or more relative to the minimum of the three-month averages of the previous 12 months.

02 Persistent services inflation

In the first chapter of this report, we analyzed how labor market dynamics have been the main support for the continuity of the expansionary cycle by sustaining elevated levels of household spending. We now turn to examine **the implications of this economic momentum for inflation and the outlook for monetary policy** in a context in which investors started the year with elevated expectations of rate cuts. Once again, we believe that the labor market can provide the key to this analysis, and we begin by focusing on the balance between labor supply and demand.

The charts below illustrate the so-called **Beveridge curve (also named UV), which shows the relationship between the unfilled job vacancy rate (V) and the level of unemployment (U)** in both the United States and the Euro area. The graph shows the enormous impact of the pandemic, which caused a remarkable rise in the unemployment rate. This was offset by the reopening of the economy, which made it enormously difficult for companies to find workers, pushing the unfilled vacancy rate to an unprecedented high. This **mismatch between labor supply and demand** was responsible for the surge in wages -and inflation- during the reopening, along with price tensions in energy and commodity markets, exacerbated by the invasion of Ukraine.

Gradually, the labor market seems to have revolved to more normal coordinates and the dynamics are returning to the pre-pandemic regression line. This adjustment is more advanced in the United States than in Europe because of migration flows. **The high number of immigrants entering the US labor market (the share of foreign-born workers has increased from 18.1% to 18.6% in 2023) has been a crucial factor in mitigating labor market imbalances.** In the euro area, the contribution of migration flows to labor supply growth has been lower, with less impact on progress in reducing the share of unfilled vacancies. Despite the weakness of European economic growth (effectively zero in 2023), the unemployment rate is at historically low levels. **Demographic trends are one key factor behind the more muted growth impulse in Europe.**

The pandemic shock was a major source of inflationary pressure. However, most mismatches between labor supply and demand have been resolved

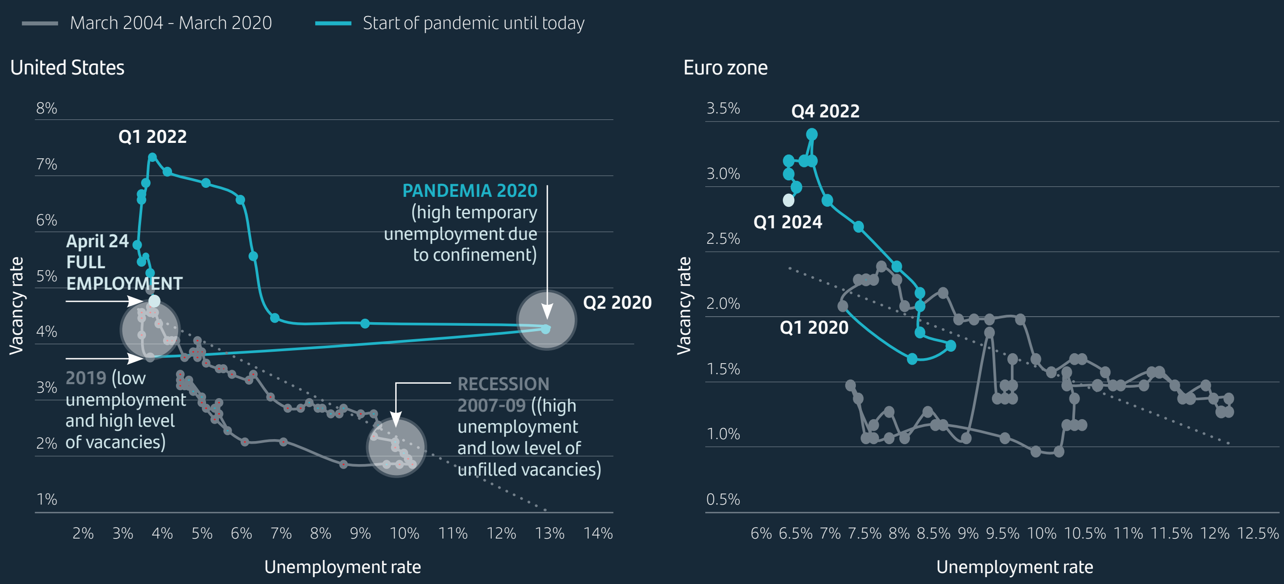
The potential for non-inflationary growth in the labor market is limited as the economy is near full employment

The arrival of immigrant workers has eased labor shortages and moderated wage growth more in U.S. than in Europe

Beveridge curve: relationship between vacancy rate and unemployment rate

Source: Bloomberg. Data as of 6/30/2024

Labor market nears equilibrium between supply and demand, although full employment levels maintain pressure on wages



Wages are the variable to monitor

Progress in reducing inflation has been significant, and recent readings are one-third of the peak reached in 2022. This undoubted progress has allowed some central banks to begin the process of normalizing restrictive monetary policies. However, a more detailed analysis of the components shows that **the progress is not broad-based, but rather restricted to better readings in goods, transport, and energy, while price pressures in services remain elevated.** As an example, core services inflation in the United States, which is key to the Federal Reserve, was still at 5.3%YoY at the end of May according to the Bureau of Labor Statistics release.

The delay in easing wage pressures is in a tight labor market is the key concern of central banks

The charts below show the **slow progress in wage moderation in both the United States and the euro area, which is still close to 4%** in both regions. The correlation between the trend in this variable and the unfilled job vacancy rate is remarkably high, so **a significant reduction in wage pressures will only be achieved if the imbalances between labor supply and demand are further reduced.** Developed economies are in an environment of high capacity utilization and low unemployment, which increases the sensitivity of inflation to increases in demand.

Rents are another decisive factor contributing to price pressures, as supply is tight in the residential real estate market

The **reluctance of the housing component of the CPI to decline is another decisive factor behind the slow moderation of inflationary pressures in the US.** The housing sector is be showing signs of supply constraints like those in the labor market and is an additional source of concern for central banks in achieving their inflation targets. Structural frictions in the labor market (declining birth rates) and in real estate (supply shortages) are making it difficult for monetary authorities in developed countries to achieve their 2% inflation target.

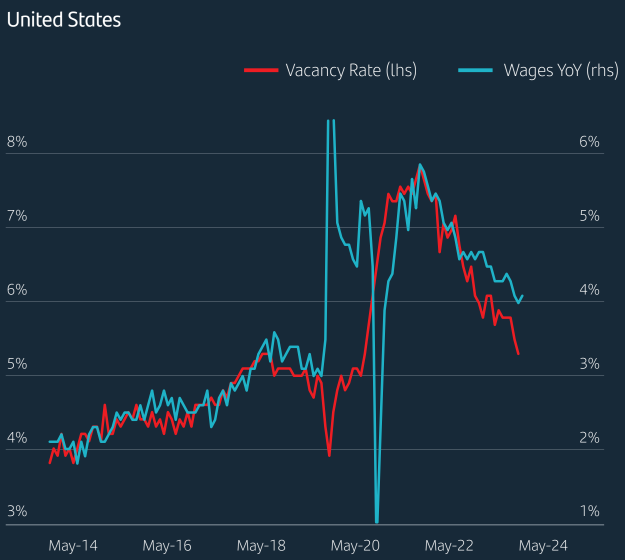
In the medium term, we expect a positive contribution to productivity from the introduction of innovative technologies

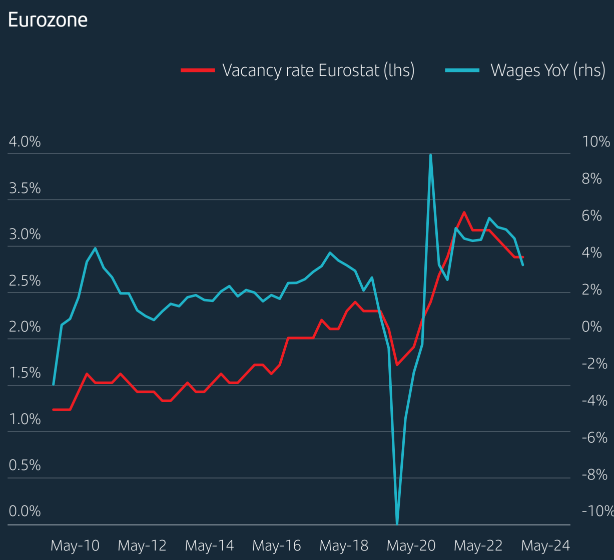
Technological innovations (robotics and artificial intelligence) could contribute significantly to easing inflationary pressures to the extent that they lead to productivity improvements and lower demand for labor. These disruptions would have a positive influence on increasing the level of non-inflationary activity in economies, but we believe that their **impact is unlikely to be immediate.**

Relationship between job openings and wage growth

Source: Bloomberg. Data as of 6/30/2024.

Extremely high vacancy rates are adjusting and wage growth, while high, is also more muted





A very moderate cycle of interest rate cuts

Our analysis of the evolution of the various components of inflation shows a stabilization between 2% and 3% in the coming quarters, with the **housing and labor markets being the critical components to monitor.** These advances have been significant enough to convince more central banks of developed countries (Switzerland, Sweden, Canada, Eurozone...) **to begin the process of reducing their official interest rates.** The market expects the Bank of England and the Federal Reserve to soon join the club of monetary authorities that are easing monetary conditions.

The downward interest rate adjustment will be more moderate than expected earlier in the year

However, **the market has significantly adjusted both the intensity and urgency of the rate cuts considering the improvement in economic growth expectations.** The charts below show that the ECB has already implemented an initial rate cut and how the market expects the Fed to start delivering rate cuts before the presidential election in November. The reason for the reduction in expectations for monetary easing (at the beginning of the year, the market was expecting four more 25bp rate cuts) is the slowdown in the moderation of services inflation. The term **"data-dependent"** has increasingly been used in central bank statements to explain that the **cuts are conditional on more considerable progress in the moderation of services inflation.**

Each rate cut will need to be justified by the progress made in bringing inflation back to the targeted 2%

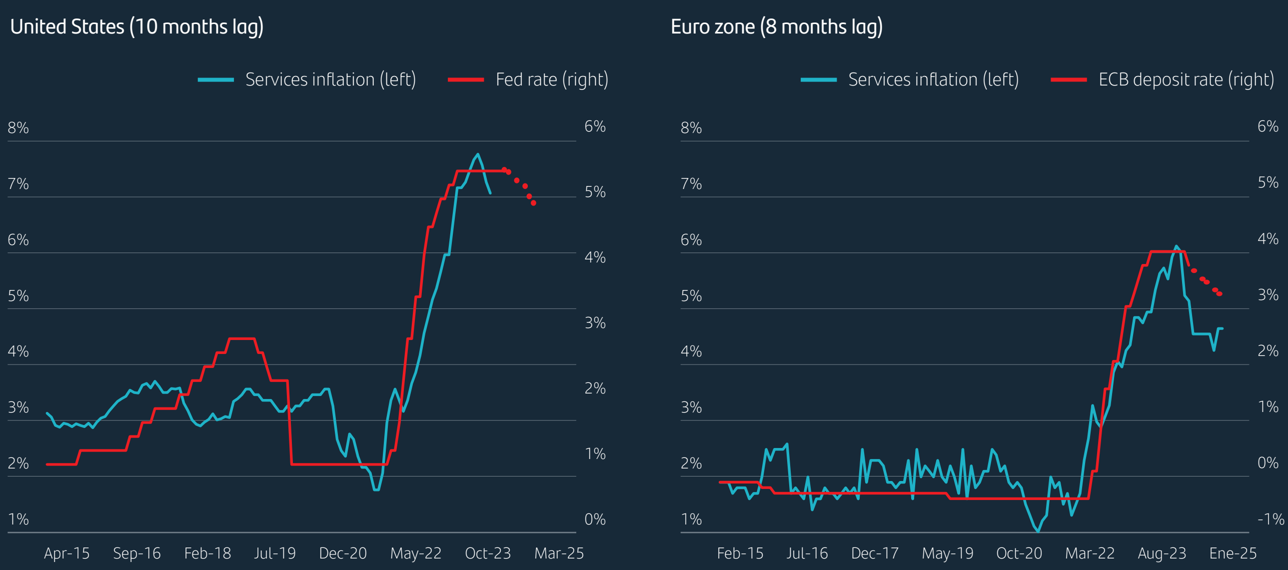
We believe that there will be progress in the cyclical adjustment of wages and rents, which should allow the monetary authorities to make advances in positioning their intervention rates at levels closer to neutrality. **The cycle of monetary policy adjustment starts from the maximum level of restriction to a neutral zone, but it will be a very gradual process and conditional on there being evidence of progress towards the 2% inflation target.** At the same time, the discussion of what the new equilibrium level of monetary policy should be considering new trade, demographic, and technological dynamics is beginning to gain traction. Both the Fed and the monetary authorities in Europe are unlikely to question the 2% inflation target in the short term, but experts are beginning to question this level as a benchmark for price equilibrium in the current economic context.

With interest rates higher than in the previous cycle, monetary policy is likely to pivot to a new equilibrium level

Services inflation (YoY) and central bank intervention rates

Source: Bloomberg. Data as of 6/30/2024

Monetary authorities remain vigilant about persistent inflationary pressures in the services sector



03 Opportunity to balance portfolios

Although the global macroeconomic environment remains suboptimal, characterized by core inflation still above central banks' targets and a very nascent cyclical recovery in some economies and some degree of moderation in others, recent dynamics have shown improvement compared to previous quarters. Nevertheless, significant sources of geopolitical uncertainty persist, including elections, tensions between China and the United States, and conflicts in Ukraine and the Middle East. Specifically, the market reaction to election results in India, Mexico, and Europe highlight the potential for spikes in volatility and uncertainty. On the economic front, concerns center on persistent inflation and deteriorating fiscal stability in many countries. Despite these challenges, **we believe the current environment presents a favorable combination of investment opportunities for building balanced portfolios, supported by stable economic growth and a downward trend in interest rates.** Investors should maintain strong diversification and position portfolios for a range of economic and market scenarios.

The current scenario provides investors with the opportunity to construct portfolios tailored to their objectives without an excessive bias towards any single asset. For investors focused on minimizing risk, combining the positive returns of short-term fixed income with opportunities in longer maturities, high-quality corporate bonds, and more complex fixed income strategies would be desirable. Investors with a longer investment horizon can benefit from combining the more stable returns of fixed income with the potential earnings recovery in equities and growth from innovation themes.

For conservative clients with low risk tolerance and short investment horizons, positive real returns can be achieved by combining risk-free rates with moderate-risk options. A strategy for optimizing low-risk portfolios is to invest in structured products with capital protection or in high credit quality corporate bonds (Investment Grade). The charts below illustrate the favorable timing for investment in high-quality fixed income, as nominal yields to maturity (around 5% in USD and 4% in EUR) exceed inflation expectations for similar maturities. **The likelihood of generating real returns with a low-risk budget is the highest in the last 15 years.**

Despite inherent risks in the macro environment, the trends for growth and inflation are both improving

The range of options for balancing portfolios aligned to different investment objectives is the widest since the 2008 financial crisis

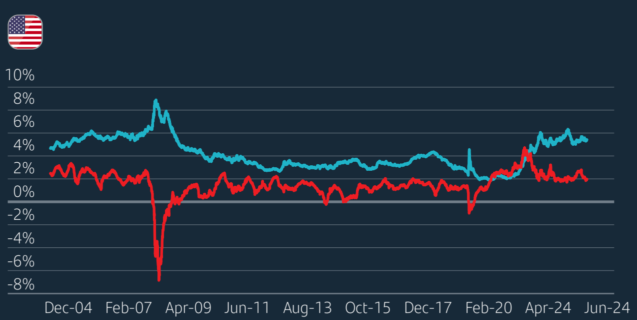
The probability of generating real returns with a low-risk budget is the highest it has been in the last 15 years

Nominal and real yield on investment grade corporate bonds (in US$ and €)

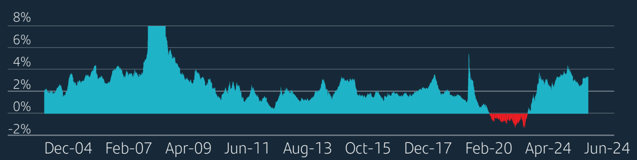
Source: Bloomberg. Data as of 6/30/2024

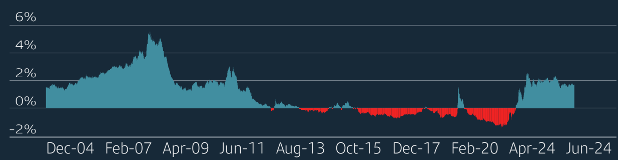
Real corporate bond yields outpace inflation

Corporate bonds yield to maturity (YTM) — Medium-term inflation expectations



Real yields (net of inflation) on high credit quality corporate bonds





For the U.S.: Bloomberg U.S. Corporate Investment Grade Index.

For Europe: Bloomberg Pan-European Investment Grade Index.

A broader investment opportunity set

In the first half of the year, the strongest performers were the most cyclical assets, including low quality credit and equity. The decreasing probability of a recession and surprising results from technology companies, especially those heavily exposed to artificial intelligence, were the drivers of this positive performance. **In both fixed income and equities, positive returns were concentrated in a few specific market sectors.**

In **fixed income, there has been a disparity of returns of different bond categories.** Bonds sensitive to the narrowing of credit spreads (high yield) outperformed, while instruments more sensitive to interest rate movements showed reduced returns with long-duration government bonds being the most affected. **In the months to come, expect that the start of interest rate cuts will expand the positive performance to all fixed income categories.**

In equities, **a large part of the elevated index returns over the past few quarters has been driven by the technology sector.** For the second half of this year, **we expect less concentration and more dispersion in sector returns as earnings growth becomes more widespread.** Historically, the return differential between the US and European stock markets has been significant (around 3% per year), due to higher earnings growth in US companies.

The graphs below show this historical earnings generation differential in favor of U.S. companies. First quarter 2024 earnings season corroborated this trend, with an +8% growth for the S&P 500 and -6% for European Stoxx 600 companies, thanks to the momentum in the technology sector Nasdaq companies achieved a 30% improvement in earnings. That said, **analysts project a cyclical earnings recovery in Europe over the next few quarters. This, coupled with more attractive valuation levels, justifies a rebalancing of geographic investments.**

Relative valuations are also supportive, with European equities trading at one of the largest discounts to the valuation multiples of their US peers (2.3x standard deviations below the long-run average).

We expect both duration and credit spread to add value to fixed income portfolios in the coming quarters

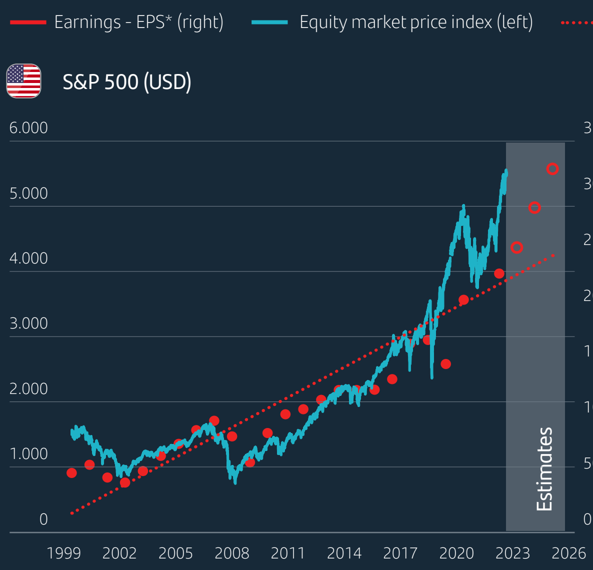
We expect the intense concentration of US equity returns to normalize in the second half of 2024 thanks to a more generalized recovery in corporate profits

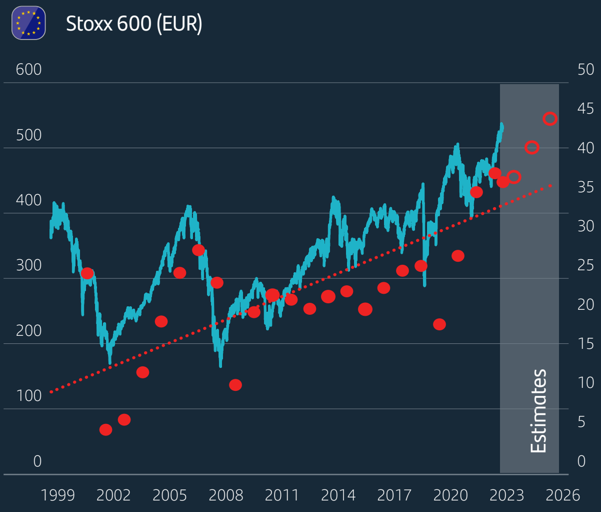
The anticipated cyclical upturn should enable European equities to narrow the gap in earnings growth when compared to U.S. equities

Correlation of long term equity returns and corporate earnings

Source: Bloomberg. Data as of 6/30/2024

Analysts anticipate a cycle of strong earnings growth in the stock market





*EPS: Earnings per share.

Avoid concentrating bets or chasing returns

In our central scenario for the upcoming quarters, investors could benefit from the combined positive impact of monetary policy easing and a cyclical earnings recovery. Although these effects will be moderated, their combination is unusual and could contribute positively to the returns of both fixed income and equity portfolios. Therefore, **our suggestion would be for investors to maintain a neutral asset allocation without excessive concentration in any sector or geography.**

The market could continue to perform well if the beginning of rate cuts and improving earnings are confirmed

The charts below display yields to maturity for corporate bonds and earning yields for equities denominated in USD and EUR. Our analysis indicates that the performance of corporate bonds and equities varies depending on geographical factors. In the United States, corporate bond yields outperform equities, with a current positive yield spread. This is in line with historical averages. Conversely, in Europe, equity returns are outperforming their historical averages and are also above corporate bond yields. **The income component offered by corporate bonds is the highest it has been in the last fifteen years in both euros and US dollars. This presents an opportunity to combine them efficiently with equity returns in a favorable earnings recovery period.** On a global basis, bond yields may compare favorably to earnings yields on stocks, but equities provide an inflation hedge which can be extremely valuable in a higher growth, higher inflation environment.

A diversified portfolio comprising a balanced mix of assets and geographies may prove an effective strategy for enhancing return contribution to portfolios

Equity investments should be geographically balanced to take advantage of better valuations in Europe and emerging markets, and higher growth in US equities, driven by their leadership in technology and artificial intelligence. The valuation of S&P 500 companies might pose a challenge to future revaluations due to demanding earnings multiples (the P/E ratio for the next twelve months stands at the 84th percentile historically). However, adjusting the valuation for variables like earnings growth and shareholder returns via buybacks shows that the S&P 500 valuation is not excessively demanding by historical standards.

It is advisable to continue diversifying portfolios as much as possible including alternatives and to implement hedging strategies to prepare portfolios for volatility spikes

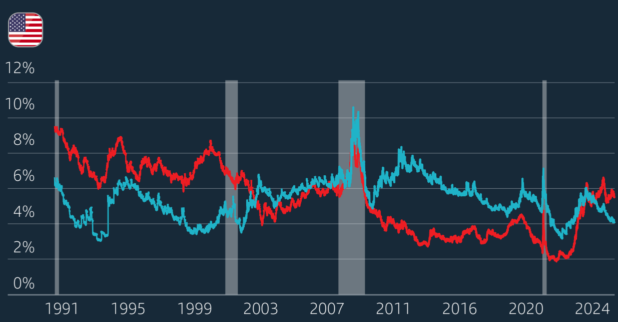
Investors may wish to consider combining this positioning with **hedging strategies,** leveraging low volatility levels, and preparing for potential risk spikes from upcoming elections and/or rising geopolitical risk. Sophisticated investors may also consider **alternative assets** as they can help navigate a shifting interest rate, political and technological landscape.

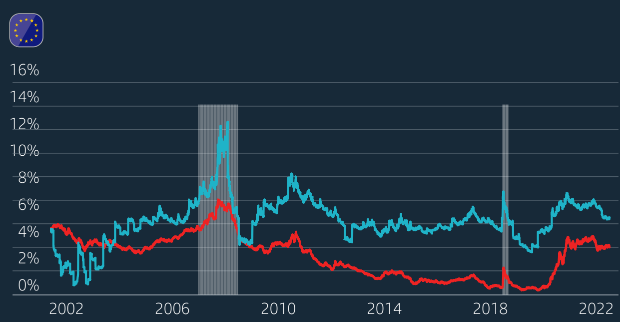
Earnings Yield Gap: Yield spread between fixed income and equities

Source: Bloomberg. Data as of 6/30/2024

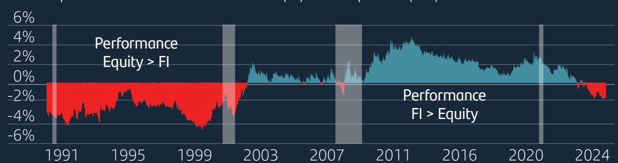
The investor has a great combination of options for constructing and balancing portfolios with different sources of return

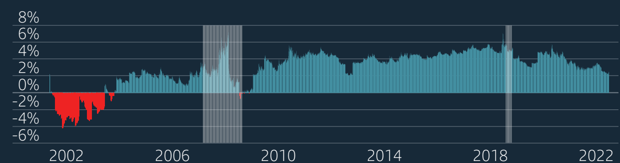
Recession — Yield to maturity corporate bonds (FI) — Equity earnings Yield (EQ)





Yield spread between fixed income (FI) and equities (EQ)





For the U.S.: FI: return of Bloomberg U.S. Corporate Investment Grade, Equity: S&P 500 earnings yield.

For the Europe: FI: return of Bloomberg Pan-European Investment Grade, Equity: Stoxx 600 earnings yield.

Annex tables

Main asset returns over the last 10 years

Source: Bloomberg and own elaboration

Data as of 6/30/2024							Returns				Annualized returns
	2018	2019	2020	2021	2022	2023	YTD	1 Years	3 Years	5 Years	10 Years
Liquidity (USD) [1]	**1.9%**	**2.2%**	**0.4%**	**0.1%**	**1.7%**	**5.2%**	**2.7%**	**5.5%**	**3.2%**	**2.2%**	**1.6%**
Liquidity (EUR) [2]	**-0.4%**	**-0.4%**	**-0.5%**	**-0.5%**	**0.1%**	**3.4%**	**2.0%**	**4.0%**	**1.7%**	**0.9%**	**0.3%**
R. Fixed Global USD [3]	**-1.2%**	**6.8%**	**9.2%**	**-4.7%**	**-16.2%**	**5.7%**	**-3.2%**	**0.9%**	**-5.5%**	**-2.0%**	**-0.4%**
R. Fixed USD [4]	**0.0%**	**8.7%**	**7.5%**	**-1.5%**	**-13.0%**	**5.5%**	**-0.7%**	**2.6%**	**-3.0%**	**-0.2%**	**1.3%**
R. Fixed Governments (USD) [5]	1.4%	5.2%	5.8%	-1.7%	-7.8%	4.3%	0.2%	3.4%	-1.4%	0.3%	1.1%
R. Fixed Corporate (USD) [6]	-2.5%	14.5%	9.9%	-1.0%	-15.8%	8.5%	-0.5%	4.6%	-3.0%	0.6%	2.3%
R. Fixed High Yield (USD) [7]	-2.1%	14.3%	7.1%	5.3%	-11.2%	13.4%	2.6%	10.4%	1.6%	3.9%	4.3%
Euro Fixed Income [8]	**0.4%**	**6.0%**	**4.0%**	**-2.9%**	**-17.2%**	**7.2%**	**-1.2%**	**3.6%**	**-4.5%**	**-2.3%**	**0.4%**
R. Fixed Governments (EUR) [9]	1.0%	6.8%	5.0%	-3.5%	-18.5%	7.1%	-2.0%	2.4%	-5.2%	-2.7%	0.4%
R. Fixed Corporate (EUR) [10]	-1.3%	6.2%	2.8%	-1.0%	-13.6%	8.2%	0.5%	6.4%	-2.3%	-0.8%	1.0%
R. Fixed High Yield (EUR) [11]	-3.6%	12.3%	1.8%	4.2%	-11.1%	12.8%	3.2%	11.1%	1.4%	2.7%	3.4%
R. Global Emerging Fixed Income (USD) [12]	**-2.5%**	**13.1%**	**6.5%**	**-1.7%**	**-15.3%**	**9.1%**	**2.2%**	**8.0%**	**-2.2%**	**0.4%**	**2.5%**
R. Latam Emerging Fixed Income (USD) [13]	-4.9%	12.3%	4.5%	-2.5%	-13.2%	11.1%	3.5%	10.2%	-0.3%	0.6%	2.4%
MSCI World (USD)	**-8.7%**	**27.7%**	**15.9%**	**21.8%**	**-18.1%**	**23.8%**	**11.7%**	**20.2%**	**6.9%**	**11.6%**	**9.2%**
S&P 500 (USD)	-4.4%	31.5%	18.4%	28.7%	-18.1%	26.3%	15.3%	24.6%	10.0%	14.9%	12.9%
MSCI Europe (EUR)	-14.9%	23.8%	5.4%	16.3%	-15.1%	19.9%	5.8%	11.7%	3.9%	7.1%	4.2%
MSCI Emerging Markets (USD)	-14.6%	18.4%	18.3%	-2.5%	-20.1%	9.8%	7.5%	12.5%	-5.1%	2.9%	2.8%
MSCI Asia Pac. Ex Japan (USD)	-13.9%	19.2%	22.4%	-2.9%	-17.5%	7.4%	8.5%	13.0%	-4.4%	3.8%	4.1%
MSCI Latin America (USD)	-6.6%	17.5%	-13.8%	-8.1%	8.9%	32.7%	-15.7%	-5.6%	0.9%	0.0%	-0.3%

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

Equities

Source: Bloomberg and own elaboration

Data as of 6/30/2024

			Variation	Range last 10 years			Returns			Annualized returns			
		Last price	12 months	Minimum	Range	Maxi-mum	2022	2023	YTD	1 year	3 years	5 years	10 years
EEUU	S&P 500	5,460		1,920		5,460	-19.4%	24.2%	14.5%	22.7%	8.3%	13.0%	10.7%
	DOW JONES INDUS.	39,119		16,285		39,807	-8.8%	13.7%	3.8%	13.7%	4.3%	7.9%	8.7%
	NASDAQ	17,733		4,370		17,733	-33.1%	43.4%	18.1%	28.6%	6.9%	17.0%	14.8%
Europa	Stoxx 50	511		2,701		4,491	-12.9%	12.7%	6.8%	10.7%	4.1%	5.7%	4.0%
	Euro Zone (EuroStoxx)	4,894		2,787		5,083	-11.7%	19.2%	8.2%	11.3%	6.4%	6.9%	4.2%
	Spain (IBEX 35)	10,944		6,452		11,521	-5.6%	22.8%	8.3%	14.1%	7.5%	3.4%	-0.1%
	France(CAC 40)	7,479		4,233		8,206	-9.5%	16.5%	-0.8%	1.1%	4.7%	6.1%	5.3%
	Germany (DAX)	18,235		9,327		18,498	-12.3%	20.3%	8.9%	12.9%	5.5%	7.8%	6.3%
	United Kingdom (FTSE 100)	8,164		5,577		8,275	0.9%	3.8%	5.6%	8.4%	5.1%	1.7%	1.8%
	Italy (MIB)	33,154		16,198		34,750	-13.3%	28.0%	9.2%	17.4%	9.7%	9.3%	4.4%
	Portugal (PSI 20)	6,480		3,945		6,871	2.8%	11.7%	1.3%	9.5%	8.8%	4.5%	-0.6%
	Switzerland (SMI)	11,994		7,808		12,876	-16.7%	3.8%	7.7%	6.3%	0.1%	3.8%	3.4%
LatAm	Mexico (MEXBOL)	52,440		34,555		57,386	-9.0%	18.4%	-8.6%	-2.0%	1.4%	3.8%	2.0%
	Brazil (IBOVESPA)	123,907		40,406		134,185	4.7%	22.3%	-7.7%	4.9%	-0.8%	4.1%	8.8%
	Argentina (MERVAL)	1,611,295		8,188		1,651,417	142.0%	360.1%	73.3%	278.0%	195.6%	107.9%	69.9%
	Chile (IPSA)	6,414		3,487		6,644	22.1%	17.8%	3.5%	10.8%	14.0%	4.8%	5.2%
Asia	Japan (NIKKEI)	39,583		15,425		40,369	-9.4%	28.2%	18.3%	19.3%	11.2%	12.7%	10.0%
	Hong-Kong (HANG SENG)	17,719		14,687		32,887	-15.5%	-13.8%	3.9%	-6.3%	-15.0%	-9.1%	-2.7%
	Corea (KOSPI)	2,798		1,755		3,297	-24.9%	18.7%	5.4%	9.1%	-5.3%	5.6%	3.4%
	India (Sensex)	79,033		23,002		79,033	4.4%	18.7%	9.4%	22.1%	14.6%	14.8%	12.0%
	China (CSI)	3,462		2,338		5,352	-21.6%	-11.4%	0.9%	-9.9%	-12.8%	-2.5%	4.8%
World	MSCI WORLD	3,512		1,547		3,512	-19.5%	21.8%	10.8%	18.4%	5.2%	9.9%	7.2%

Equities by Style and by Sectors

Source: Bloomberg and own elaboration

Data as of 6/30/2024

		Last Price	Last 10 years: Low	Last 10 years: High	Returns: 2022	Returns: 2023	Returns: YTD	Annualized returns: 1 year	Annualized returns: 3 years	Annualized returns: 5 years	Annualized returns: 10 years	Ratios: PE Ratio	Ratios: Dividend Yield
	MSCI World	11,047	4,204	11,047	-18.1%	23.8%	11.7%	20.2%	6.9%	11.6%	9.1%	19.88	1.80
Style	MSCI World High Dividend Yield	2,602	1,352	2,642	-4.7%	9.1%	3.9%	9.3%	4.2%	6.2%	5.3%	13.70	3.71
	MSCI World Momentum	4,534	1,438	4,534	-17.8%	11.8%	26.1%	37.1%	7.4%	12.5%	11.9%	21.77	1.14
	MSCI World Quality	4,927	1,444	4,927	-22.2%	32.4%	17.9%	28.7%	10.2%	15.9%	12.9%	25.50	1.27
	MSCI World Minimum Volatility	4,798	2,395	4,842	-9.8%	7.4%	4.7%	8.4%	2.7%	4.8%	7.0%	17.21	2.37
	MSCI World Value	13,092	6,429	13,252	-6.5%	11.5%	6.2%	13.9%	5.6%	7.4%	5.7%	14.52	2.96
	MSCI World Small Cap	664	318	705	-18.8%	15.8%	1.5%	9.1%	-1.3%	6.8%	6.2%	17.60	2.14
	MSCI World Growth	11,021	3,389	11,021	-29.2%	37.0%	17.2%	26.4%	7.4%	15.1%	12.1%	29.76	0.74
Sector	Energy	498	164	508	46.0%	-2.5%	8.3%	15.6%	19.7%	9.0%	1.5%	11.33	3.77
	Materials	587	229	611	-10.7%	-12.9%	-0.2%	8.0%	2.2%	8.3%	5.6%	18.10	2.67
	Industrials	584	238	597	-13.2%	-18.8%	7.2%	15.7%	6.0%	9.7%	8.1%	21.65	1.73
	Consumer Discretionary	558	215	595	-33.4%	-26.0%	4.3%	9.4%	0.1%	10.0%	9.5%	20.03	1.27
	Consumer Staples	462	260	470	-6.1%	-2.3%	3.4%	1.9%	2.2%	5.2%	5.5%	18.91	2.88
	Health Care	549	236	549	-5.4%	-3.6%	8.0%	11.2%	4.9%	10.0%	8.6%	20.29	1.72
	Financials	295	125	299	-10.2%	-13.9%	10.0%	23.7%	6.7%	9.1%	7.0%	13.30	2.83
	Information Technology	905	147	905	-30.8%	-34.8%	25.1%	38.1%	15.1%	23.3%	19.9%	31.49	0.66
	Real Estate	1,939	1,244	2,450	-25.9%	-9.2%	-3.0%	5.1%	-3.2%	1.6%	4.2%	28.62	4.00
	Communication Services	228	106	228	-36.9%	-31.3%	22.0%	37.2%	3.2%	11.4%	7.0%	19.49	1.02
	Utilities	327	186	343	-4.7%	-0.3%	4.5%	4.8%	3.2%	4.6%	4.9%	15.29	3.71

Sovereign Bonds

Source: Bloomberg and own elaboration

Data as of 6/30/2024

	Rating (S&P)	Interest rate			Change	Last 10 years			10 years		Pending
		B. Central	2 years	10 years	12 months	Minimum	Range	Maximum	YTD	At 1 year	10-2 years
Developed											
USA	AA+	5.50%	4.75%	4.40%		0.53%		4.93%	52	44	-0.36
Germany	AAA	3.75%	2.83%	2.50%		-0.70%		2.84%	48	1	-0.33
France	AA-	3.75%	3.12%	3.30%		-0.40%		3.43%	74	28	0.18
Italy	BBB	3.75%	3.53%	4.07%		0.54%		4.78%	37	-3	0.54
Spain	A	3.75%	3.17%	3.42%		0.05%		3.93%	43	-10	0.25
United Kingdom	AA	5.25%	4.22%	4.17%		0.10%		4.51%	64	-14	-0.05
Greece	BBB-	3.75%	2.87%	3.75%		0.61%		15.42%	69	-1	0.88
Portugal	A-	3.75%	2.99%	3.25%		0.03%		4.19%	59	2	0.26
Switzerland	AAA	1.25%	0.75%	0.53%		-1.05%		1.58%	-12	-44	-0.21
Poland	A-	5.75%	5.12%	5.73%		1.15%		8.34%	54	32	0.61
Japan	A+	0.10%	0.37%	1.06%		-0.27%		1.07%	44	45	0.69
Emerging											
Brazil	BB	10.50%	11.74%	12.33%		6.49%		16.51%	197	152	0.59
Mexico	BBB	11.00%	10.73%	9.92%		5.24%		10.20%	96	109	-0.82
Chile	A	5.75%	4.73%	6.24%		2.19%		6.79%	76	87	1.51
Argentina	CCC	40.00%	n.d.	n.d.		0.00%		0.00%	n.d.	n.d.	n.d.
Colombia	BB+	11.25%	9.39%	10.82%		5.39%		13.79%	86	65	1.43
Turkey	B+	50.00%	37.98%	26.52%		6.98%		26.52%	286	857	-11.46
Poland	A-	5.75%	5.16%	5.75%		1.16%		8.37%	55	32	0.59
China	A+	2.44%	1.64%	2.20%		2.20%		4.26%	-35	-46	0.56
India	BBB-	6.50%	6.98%	7.01%		5.84%		8.56%	-18	-17	0.03

* Intervention rate, except in Euro Zone countries, where the marginal deposit facility is used.

Currencies

Source: Bloomberg and own elaboration

Data as of 6/30/2024

	Last Price	Change	Last 10 years			Return	Annualized returns			
		12 months	Low	Range	High	YtD	1 year	3 years	5 years	10 years
EUR/USD	1.0713		0.98		1.34	-3.0%	-1.8%	-3.3%	-1.0%	-2.4%
EUR/GBP	0.85		0.70		0.92	2.3%	-1.4%	-0.4%	-1.0%	0.6%
EUR/CHF	0.96		0.93		1.22	-3.5%	1.5%	4.4%	3.0%	2.3%
EUR/JPY	172		114		172	10.7%	-8.7%	-8.6%	-6.6%	-2.1%
EUR/PLN	4.31		4.04		4.86	0.7%	2.8%	1.6%	-0.3%	-0.4%
GBP/USD	1.26		1.12		1.69	-0.7%	-0.5%	-2.9%	0.0%	-3.0%
USD/CHF	0.90		0.84		1.03	-6.4%	-0.4%	1.0%	1.9%	-0.1%
USD/JPY	161		101		161	-12.3%	-10.3%	-11.6%	-7.6%	-4.5%
USD/MXN	18.32		13.08		24.17	-7.3%	-6.5%	2.9%	0.9%	-3.4%
USD/ARS	911.51		8.21		911.51	-11.3%	-71.8%	-52.8%	-45.9%	-37.6%
USD/CLP	940		572		979	-6.5%	-14.7%	-7.9%	-6.3%	-5.2%
USD/BRL	5.59		2.24		5.75	-13.2%	-14.5%	-3.9%	-7.2%	-8.9%
USD/COP	4.153		1.877		4.940	-7.2%	0.4%	-3.3%	-5.0%	-7.6%
USD/CNY	7.27		6.11		7.32	-2.3%	-0.2%	-3.9%	-1.2%	-1.6%
EUR/SEK	11.35		9.11		11.88	-1.9%	3.7%	-3.7%	-1.4%	-2.1%
EUR/NOK	11.44		8.12		11.86	-1.9%	2.4%	-3.8%	-3.3%	-3.0%

Raw materials

Source: Bloomberg and own elaboration

	Last Price	Variation	Range last 10 years			Profitability			Annualized profitability			
		12 months	Minimum	Range	Maximum	2022	2023	YTD	1 year	3 years	5 years	10 years
Crude oil (Brent)	86.7		18		124	5.5%	-4.6%	11.7%	15.6%	4.2%	5.7%	-2.1%
Oil (W. Texas)	81.5		19		115	6.7%	-10.7%	13.8%	15.4%	3.5%	6.7%	-2.5%
Gold	2,339.6		1,060		2,340	-0.1%	13.4%	12.9%	21.3%	9.7%	11.0%	5.8%
Copper	9,599.0		4,561		10,375	-13.9%	2.2%	12.2%	15.4%	0.8%	10.0%	3.2%
CRB Index	290.5		117		317	19.5%	-5.0%	10.1%	10.9%	10.8%	9.9%	-0.6%
Natural Gas (USA)	2.6		2		5	34.0%	-32.7%	-3.6%	-23.6%	0.0%	-0.6%	-7.1%
Natural Gas (Europe)	34.5		13		106	8.5%	-57.6%	6.6%	-7.1%	-0.1%	27.2%	7.4%

"Periodic table" of asset returns.

Type of Asset	Index	Calendar Year Returns										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD
US Equities	S&P 500 TR	**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	**38.5%** Commodities	**22.0%** Commodities	**28.3%** Japan Equities	**18.1%** Japan Equities
Japan Equities	Topix TR	**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	**28.0%** Spain Equities	**15.3%** US Equities
Spain Equities	Ibex35 TR	**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	**-2.0%** Spain Equities	**26.3%** US Equities	**13.1%** Commodities
Emerging Markets Equities	MSCI EM TR	**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	**-2.5%** Japan Equities	**23.8%** Global Equities	**11.7%** Global Equities
Europe Equities	Eurostoxx50 TR	**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	**-9.5%** Europe Equities	**22.2%** Europe Equities	**11.0%** Spain Equities
Commodities	Commodity RB TR	**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	**-13.2%** Global High Yield	**13.4%** Global High Yield	**10.4%** Europe Equities
Global Equities	MSCI World TR	**4.9%** Global Equities	**-0.5%** IG Europa	**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	**-14%** IG Europa	**9.8%** Emerging Market Equities	**7.50%** Emerging Market Equities
Europe IG	ERL0 TR	**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	**-17.7%** Spain Government	**8.0%** Europe IG	**2.7%** Global High Yield
Liquidity EUR	Eonia TR	**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	**-17.8%** Eurozone Government	**6.9%** Spain Government	**2.0%** Liquidity
Global High Yield	HW00 TR	**-0.1%** Global High Yield	**-4.2%** Global High Yield	**2.6%** RV España	**1.1%** Spain Government	**-12.0%** Europe Equities	**6.3%** Europe IG	**-3.2%** Europe Equities	**-2.50%** Emerging Market Equities	**-18.1%** US Equities	**5.6%** Eurozone Government	**0.5%** Europe IG
Spain Government	SPAIN 10 YR	**-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	**-18.1%** Global Equities	**3.4%** Liquidity	**-1.0%** Spain Government
Eurozone Government	GERMANY 10 YR	**-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	**-20.1%** Emerging Market Equities	**0.0%** Commodities	**-2.1%** Eurozone Government

+ Returns -

*Data as of 6/30/2024
*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.

Private Banking

Álvaro Galiñanes, miAX, CEFA

Alfonso García Yubero, CIIA, CESGA®, CEFA

Felipe Arrizubieta

Kevin Esteban Iglesias

Nicolás Pérez de la Blanca, CFA, CAIA

Carlos Shteremberg, CFA

Jorge Suárez, CFA

Michelle Chan

Olivia Estrugo

Gustavo Schwartzmann

Christiano Clemente

Priscila Deliberalli

Fernando Buendía

Bruno Almeida

Carlos Mansur

Piotr Tukendorf

Míriam Thaler

Javier Martín-Pliego

Juan de Dios Sánchez-Roselly, CFA

Cristina González Iregui

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