Santander Private Banking

July 2021

Quarterly Economic Outlook

Recovery reaches cruising speed

The vaccination process is progressing rapidly in developed economies and economic activity is returning to normal. Reopening economic indicators are surprisingly strong, and growth could reach record levels in the next quarters due to pent-up demand.

Growth is expected to remain strong in the short term and inflation to be high — although temporary — according to central banks. Their transition from thinking to talking and eventually tightening monetary conditions should not imply a major drawback for the business cycle. Global rates are still far below a neutral level, but periods of transition in monetary policy are often associated with upticks in market volatility.

The scenario should remain constructive for risk assets. Much of the good news is already discounted in current valuations so we expect less directionality in markets and recommend some neutrality in risk assets. After reaching cruising speed in record time, markets could experience some turbulence in the second half of the year.

Key messages for Q3 2021

US consumers' financial health supports a surge in spending

After a very difficult year, consumers are financially optimistic and ready to increase their spending. The U.S. economy, flush with COVID-19 stimulus money and coupled with success with the nationwide vaccination campaign, is gathering so much steam that its gains will drive the global economy. The average consumer in developed economies enjoys good financial health and we expect solid consumption demand in the coming quarters as the global economy advances towards a new self-sustained phase.

Central Banks are thinking and talking about tightening

The markets are getting ready for a shift in monetary policy as the economic recovery and inflation outlook are both higher than anticipated a few months ago. Central Banks are beginning to prepare markets for a progressive withdrawal of stimulus and the tapering of bond purchases will soon be discussed and implemented.

The cycle is moving really fast: Time for a pause?

The markets have priced in the positive impact of the reopening at high speed and have rewarded the assets and sectors most sensitive to the economic recovery. We expect less directionality in the behavior of risky assets and we are therefore moving towards a more neutral weighting in risk allocation in portfolios. Exceptional levels of growth and low interest rates continue to discourage a flight to liquidity.

01 US consumers' financial health supports a surge in spending

After a very difficult year, consumers are financially optimistic and ready to increase their spending. The U.S. economy, flush with COVID-19 stimulus money and a succesful nationwide vaccination campaign, is picking up steam and leading the world towards a stronger economic growth. **Consumers in developed economies enjoy a degree of financial health that will foster a solid consumption demand in the coming quarters** as the global economy advances towards a new self-sustained phase.

Generous stimulus programs have cushioned the impact of the pandemic in household economies

The US economy has continued to show signs of cyclical strength in a context marked by substantial progress in vaccination, which has led to a further relaxation of the few restrictions left in place in some states. **The service sector is now beginning to take over as the main driver of activity,** as can be seen in the May ISM services sector activity index reading (reaching 64 points, a new all-time high in the series), as pent-up demand, aided by lax financial conditions and the fiscal stimulus in place, continues to drive the pace of activity, with GDP expected to recover its pre-pandemic level by the end of the current quarter.

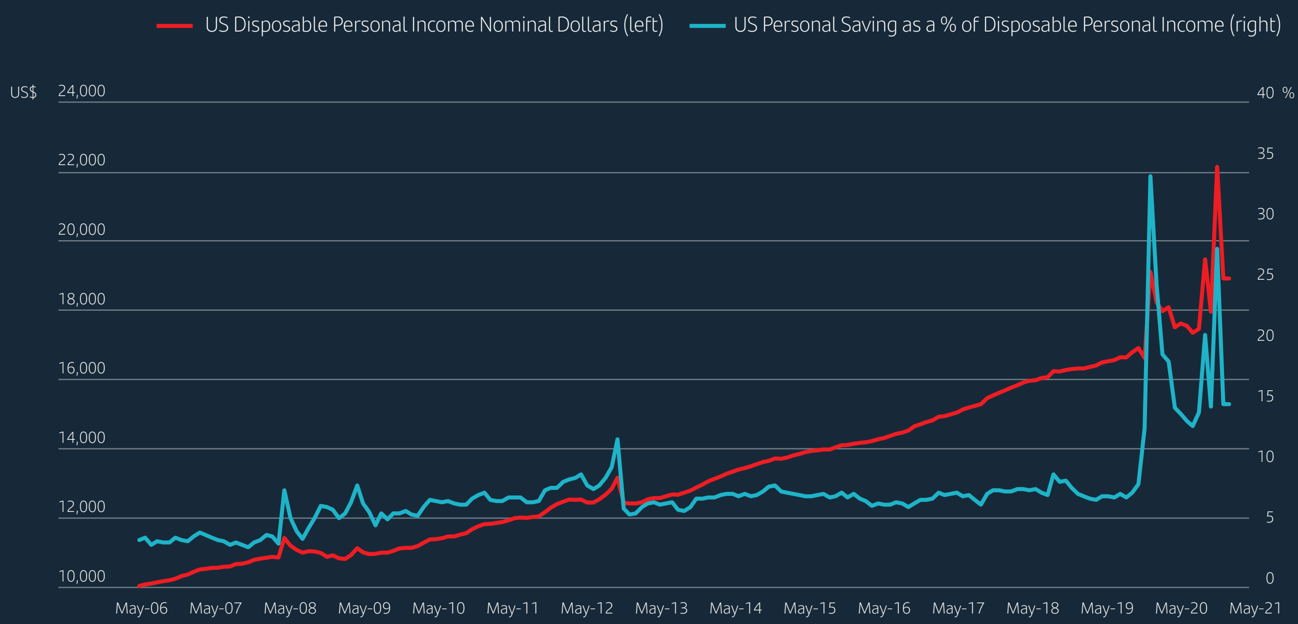
Going forward, the potential for US households to spend some of the $2.3 trillion of excess savings they've accumulated since March 2020 should turbocharge growth across the rest of the year and keep it well above trend in 2022. Excess pandemic savings will be the primary spending driver, but portfolio and home price appreciation will help at the margin. All in all, savings and increases in financial asset and real property prices have driven an unprecedentedly rapid increase in household net worth as a share of GDP to support a surge in consumption. **The US consumer has benefited the most from fiscal incentives, but consumption in other regions should enjoy strong tailwinds in the coming quarters as a result of reopening.**

Excess savings and positive wealth effects support strong consumption growth in the coming quarters

Household saving rate and disposable income are at record levels

Source: Bureau of Economic Analysis, Bloomberg and own elaboration. Data is seasonally adjusted.

At an aggregate level personal finances show strength after the pandemic



Post-lockdown stampede by consumers

Since consumers in aggregate didn't take on more debt, balance sheets are strong and savings could spur consumption. **The reopening of the consumer service sector is therefore likely to result in a burst of pent-up spending** as people return to restaurants, theaters, sports events, and travel. That's very different from the normally financially conservative post-recession behavior from consumers who, even as employment recovers, tend to remain cautious about spending. This is a different cycle.

As more people become vaccinated, comfort levels and pandemic behaviors are gradually shifting. The survey from The Cleveland Fed shows how consumer comfort levels have changed in these last months. Since early April, the percent of consumers who were increasing savings and cash holdings while refraining from large purchases is decreasing. This improvement in consumer comfort is reflected in real-time high-frequency data. The Google Mobility survey shows an **improvement of mobility in retail and recreation places since the beginning of the year.** It was 25% below pre-pandemic levels at the beginning of the year and now is just 5% below pre-pandemic level.

Data from the OpenTable online reservation network used to make reservations in restaurants shows that after the collapse in March 2020 when restaurants were completely empty or shut down the total daily seated dinners has been improving and is now almost the same as pre-pandemic levels in 2019. Mobility indicators such as hotel occupancy and air travel passenger volume, which are also the most sensitive, are also improving after decreasing in March 2020. Since January 2021, it has been on a strong upward path. Occupancy at hotels is now at 60%, compared to 20% at the beginning of the pandemic. The surge in hotel demand is paired with the increasing airline passenger volumes, which has been rapidly recovering but is still at 27% below pre-pandemic levels.

Mobility indicators show the US consumer is back to the shopping mall, restaurants and airports

Easing of pandemic restrictions is very likely to provide a boom to global consumption trends

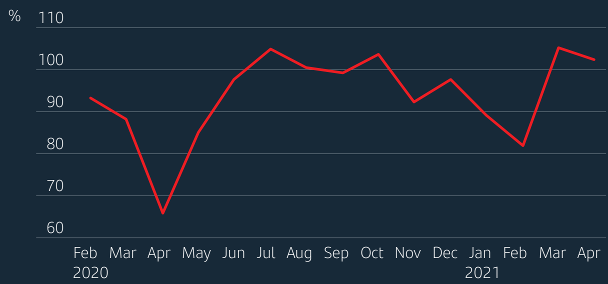
The US consumer is back and the rest of the world should follow

Source: Google LLC "Google COVID-19 Community Mobility Reports", OpenTable, TSA, Bloomberg and own elaboration

Pivoting from work-from-home to back-to-office and back to spend

Back to shop
(Google Mobility retail and recreation indicator)

Back to drive
(US Federal Highway Administration Vehicle Miles Traveled)



Back to travel
(US TSA Checkpoint Numbers Total Traveler Throughput)

Back to dine
(US seated diners compared with Feb'20)

Job openings signal that the recovery in labor markets will continue

The employment recovery continues and the discussion of labor data has rapidly switched. Not long ago, employment was about 10 million below the pre-pandemic level and the main issue was how to get all those workers back on the job. Now **business surveys are full of comments about labor shortages and how employers are struggling to fill vacancies.** This does not match with the fact that employment is still down about 8 million people and the labor market is struggling to get back to the pre-pandemic equilibrium.

Far from disappearing, labor tensions continued to be present in the US during the month of May. 559,000 net jobs were created, up from 278,000 in April, but below the 650,000 expected. **Unemployment rate fell to 5.8% (down from 6.1% in April) and wages accelerated to 2% year-over-year,** adding pressure due to frictional factors on business margins. Supply, not demand, remains the main drag on the US labor market: the drop in the ISM Manufacturing employment sub-index (50.9 in May vs. 59.6 in March) reflects it. With record high vacancies, issues such as childcare (due to school closures), or the effect of supplemental unemployment benefits, are restricting hiring.

Job openings in April soared to a record 9.3 million as the economy rapidly recovered from its pandemic bottom. The graph below shows how the **recovery in the unemployment rate is slowing down as a result of the difficulties to fill vacancies.** However, our baseline forecast assumes that job growth will continue to be strong in the next two years in the US (with Europe lagging behind) and that the economy should move closer to full employment.

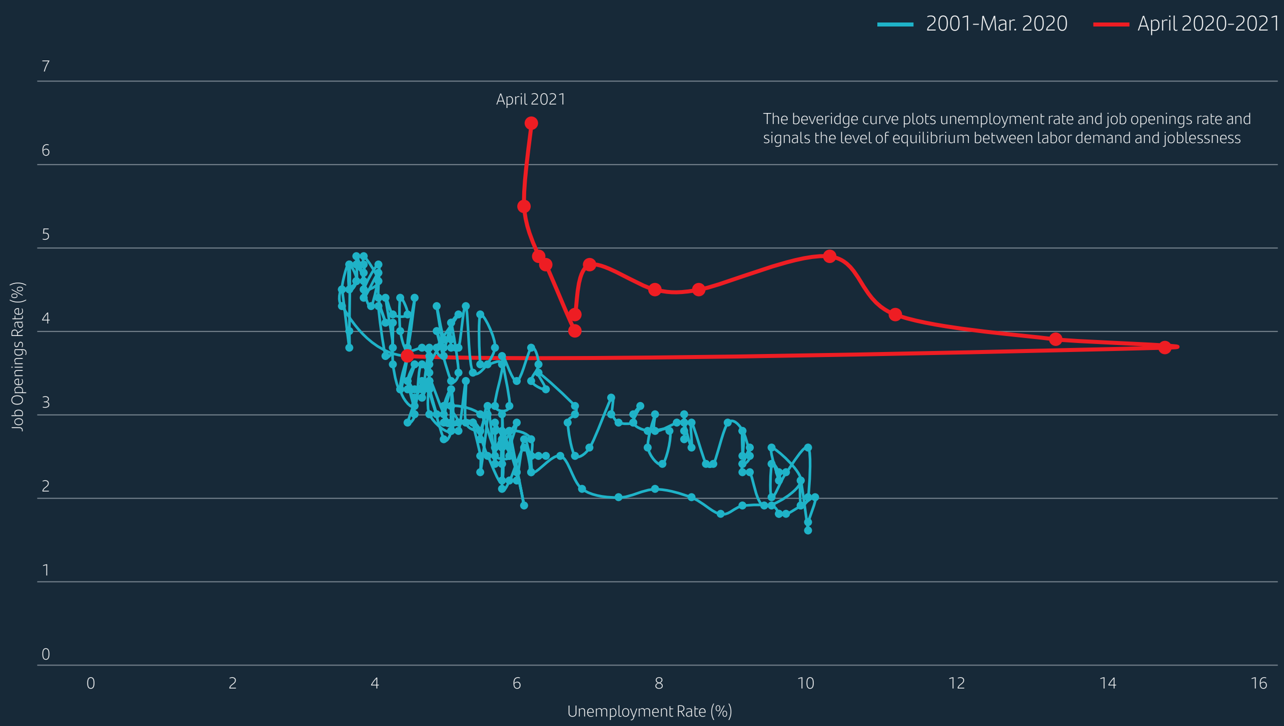
Businesses remain optimistic about their recovery, but supply disruptions and labor shortages have begun to boost prices and hinder output

The US employment boom is just getting started and remains on track to eliminate remaining pandemic unemployment in the next two years

Job openings rates at record levels are a sign of confidence in the recovery

Source: Bloomberg and own elaboration.

Temporary congestions and bottlenecks limit job growth in the short term



Reopening will bring record economic growth in 2021

The pandemic recession was *sui generis* thanks to the unprecedented policy measures carried out to limit its damage. For the first time in more than 50 years, the rate of nominal disposable income growth accelerated during a recession. Oddly enough and from a financial point of view, **this crisis has been positive for the average US consumer as government transfers swelled household income while social distancing measures curtailed spending.**

In its latest report the Federal Reserve has increased its forecast from 6.5 to 7% for the rate at which the US economy would expand in 2021 and maintained a solid growth rate estimate above 3% for 2022. **In Europe, the economic growth will be supported by the highest public investment levels as a share of gross domestic product in more than a decade.** That will be driven in part by the **Next Generation EU package,** which is meant to start paying out in the summer once member states get their recovery plans signed off by the Commission. **In the UK the consensus is also positive** and economists believe that a more rapid easing of restrictions, a successful vaccine rollout and the government's expansionary budget in the short term are likely to increase the speed of recovery.

Today, even as **Covid-19 continues to be a problem for developing economies,** the more developed economies are on the verge of a post-pandemic boom. The speed and strength of the recovery seem very unfamiliar when compared to previous economic cycles, but if we analyze other periods of massive non-financial disruption such as wars and pandemics, GDP does bounce strongly. Natural disasters temporarily interrupt economic activity while leaving intact the underlying demand and supply of goods and services. Once the disaster passes, the economy recovers faster than with a typical recession.

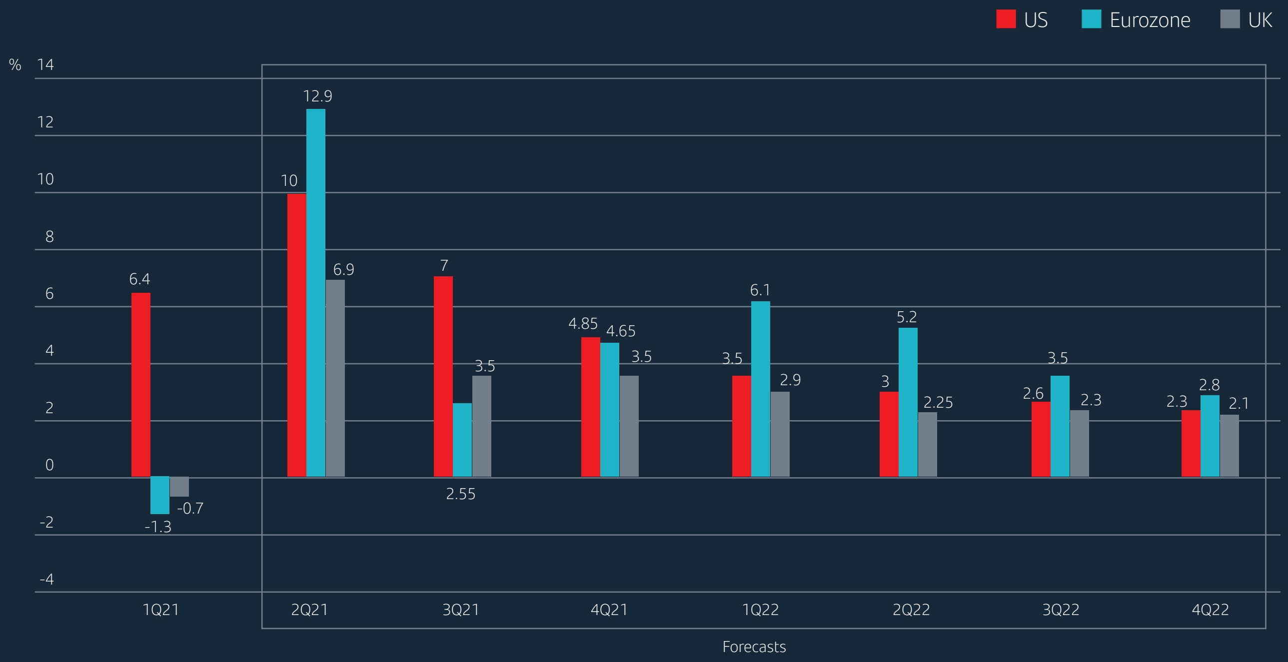
Economic activity has accelerated and will remain strong throughout 2021. The uptick in activity is the result of vaccination progress, economic re-opening and large-scale fiscal stimulus

We expect strong economic growth in the coming quarters as a result of the stash of excess savings and pent-up demand, combined with fiscal stimulus and favorable financial conditions

Consensus in economic forecasts point to strong growth in the coming quarters

Source: Bloomberg and own elaboration.

Progress in vaccination is providing a boost to reopening economies



02 Central Banks are thinking and talking about tightening

Base effects and supply/demand mismatches resulting from economic re-opening have caused inflation to spike during the past few months. **The question is whether overlapping factors of supply shortages, increased demand and more spending power are temporary, or will prove to be more persistent.** For now, the rebound is mostly affecting those sectors of the economy reopening from enforced shutdowns, reflecting on oil prices and supply chains that have not yet shaken off their shortages.

The headline Consumer Price Index (CPI) for April confirmed that inflationary pressures are intensifying. On a 12-month period, CPI jumped from 2.6% to 5.0% in May 2021. It was the third time since March 2020 that the index surpassed the average target of 2% of the FED. From this pronounced increase, we estimate that half of it was due to base effect while the other half was an increase of inflationary pressures.

Inflation should remain relatively strong for the remainder of the year – we expect that core PCE (Personal Consumption Expenditures) price index will end 2021 close to 2% - but the current upward pressure on prices will prove transitory. Our analysis suggests that while inflation pressures are going to be a near-term challenge, **fundamentals do not corroborate a persistent inflation scenario,** namely: (i) history shows that supply chain pressures tends to ease after 16 months, (ii) China's credit growth is slowing down and may bring some relief to the global inflation pressures coming from commodity prices, (iii) US output gap is still large and is not expected by the Congressional Budget Office (CBO) to close before 2025, and lastly, (vi) base effects are estimated to play a role at the beginning of next year placing a downward pressure on the 12 month period.

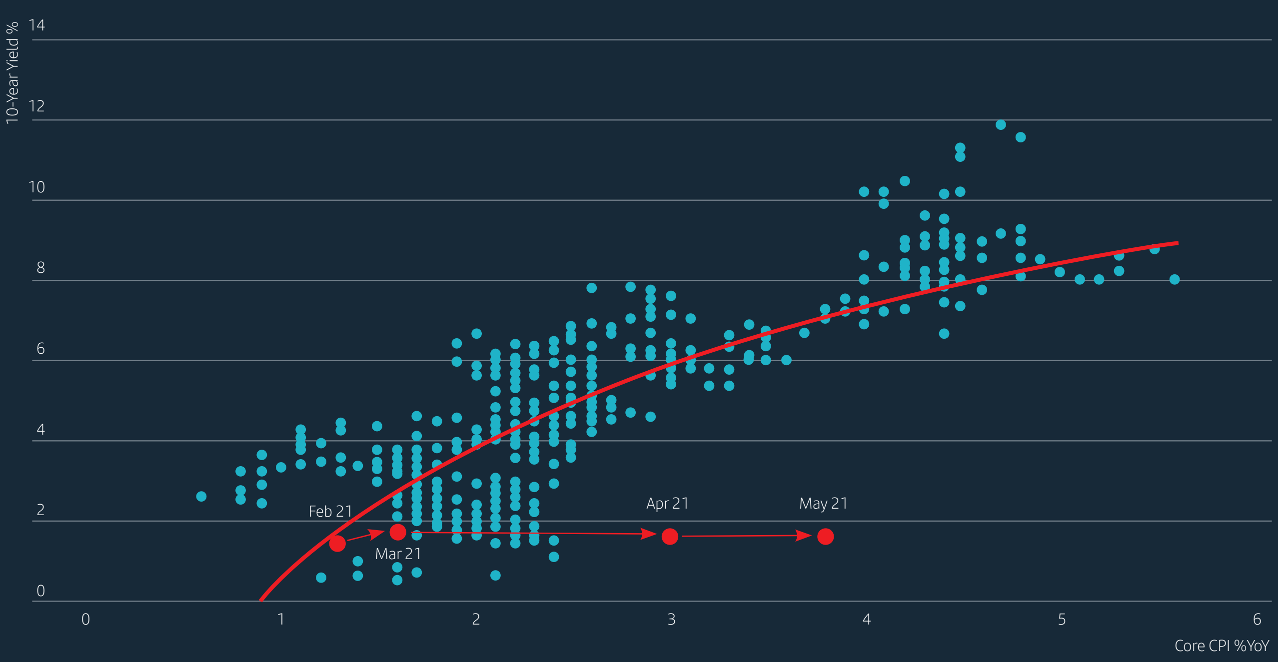
As consumer-price inflation surged in recent months, US and European government bond yields haven't followed

Inflation in emerging economies is proving more worrying as they rely more on commodity prices and bond markets put more pressure on monetary authorities

The correlation between inflation and rates is ignored by markets

Source: Bloomberg and own elaboration.

US bond markets react without tensions to the rise of inflation



From not thinking about thinking to talking about talking. Stage 1: Tapering

High inflation and surging inflation expectations will test the Fed's resolution during the next few months, but we think that the Fed will probably stick to its guns and refrain from tightening policy until its labor market objectives are met.

The first step that monetary authorities will take in the process of withdrawing the dovish policies will be reducing its bond-buying stimulus ("tapering"). The Fed will start tapering its asset purchases when significant progress has been made towards its maximum employment target. **We expect the Fed to initiate discussions about when to taper its asset purchases over the course of this summer.** Then, asset purchase tapering will be announced at the December 2021 FOMC meeting with purchases set to decline as of the beginning of 2022. The Fed plans to give markets plenty of advance notice before it begins tightening and avoid triggering the sort of market turmoil or "taper tantrum" that followed the Fed announcement of planning to scale back a similar bond-buying program in 2013.

Many economists question whether the Fed should still be buying mortgage-backed securities given the strength of home sales and the benign financial conditions (see graph below). **The market will have to face the fact that central banks will soon reduce the size of their support to the economy** and the reduction of asset purchases and liquidity programs support will be the first step in that direction.

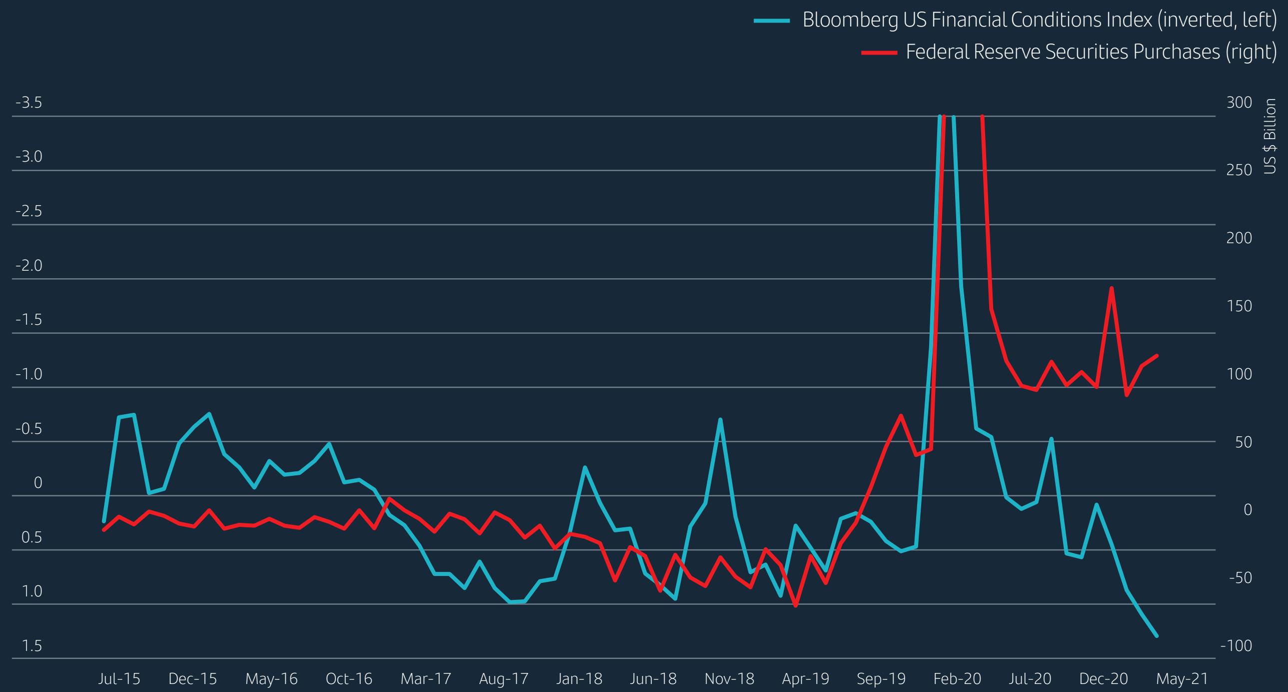
The strength of the economic recovery and the housing market is triggering a debate at the Fed on reducing its bond-buying stimulus

The Fed plans to give markets plenty of advance notice and will be patient with tightening its policies to ensure that it doesn't overreact and slow the pace of the economic recovery

Improvement in financial conditions has not led to a tapering of QE bond buying

Source: Bloomberg and own elaboration.

The timing is approaching for the Fed to reduce asset purchases



Stage 2: Tightening will occur sooner than expected

Federal Reserve officials have long said that a key condition for raising interest rates is a return to maximum employment. Their evolving views about how much job growth that is needed could lead them to roll back support for the economy sooner than previously expected. The Fed's definition of maximum employment calls for an unemployment rate between 3.5% and 4.5% and a full recovery of the labor force participation rate to its pre-pandemic level. We calculate that average monthly payroll growth of around 400k would cause the economy to reach "maximum employment" by the end of 2022. Given the strength of the economy and the record level of job openings, **it is very plausible that before the end of next year, the Fed officials may run out of arguments to postpone the decision to raise rates.**

The recent shift by the Fed in its June meeting is a signal that the markets should get ready about more thinking and talking about tightening

The **outcome of the latest Fed meeting was somewhat more hawkish than expected,** but totally in line with current economic outlook and financial conditions. The market was surprised to see changes in the outlook of interest rates ("dot plot"). The median interest rate forecast for 2023 now shows two hikes of 0.25% each compared to none in the previous FOMC meeting in March. In particular, now 13 out of 18 Fed members are expecting hikes by 2023.

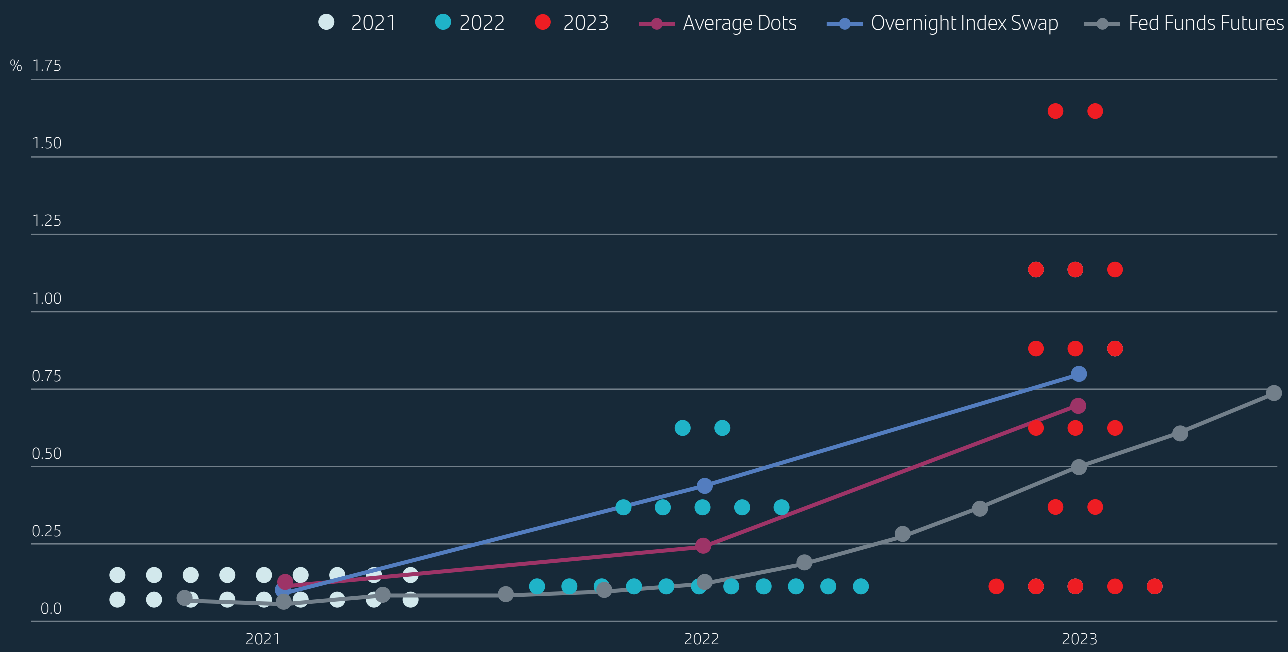
Policymakers outside the US are facing many of the same issues that the Fed is —namely, rapidly recovering economies coming out of the pandemic, inflation overshoots, and surging asset prices. In the case of the ECB, the most important factor is the timing of the end of asset purchases (PEPP). **We expect the ECB to begin preparing the market for the end of PEPP heading into the December 2021 ECB policy meeting.** The first rise in Eurozone interest rates is still very far away.

While the market may not like a moderately hawkish tone, monetary and financial conditions however continue to be extremely supportive for the economy and markets

Future interest rate expectations: Comparing Fed dots to market and consensus views

Source: Bloomberg and own elaboration.

No reason to panic: the first hike is not scheduled until 2023 and markets were already pricing it



Stage 3: Tapering of fiscal stimulus is also a future concern

President Joe Biden has moved swiftly since taking office on January 20 by signing a $1.9 trillion COVID-19 stimulus act with another round of stimulus checks, unemployment benefits, support for small businesses, and resources to help schools reopen safely. Soon after, **Biden unveiled an ambitious plan to improve the country's infrastructure** and transition to greener energy: the **American Jobs Plan.** In April, the new administration also introduced the American Families Plan, the aim of which is to use credits and financial aid to enhance and expand the current benefits in place for education, children, and childcare.

President Biden is attempting to build bipartisan support for his $2.3 trillion infrastructure plan, which calls for a series of tax increases on corporations to cover its cost. He has also proposed raising taxes on high-income households to pay for a separate $1.8 trillion proposal focused on education and antipoverty measures. Many of the proposed tax increases would pare back or alter elements of the 2017 tax law, passed when Republicans controlled the government. While Democrats narrowly control both chambers of Congress, the party faces challenges in passing the infrastructure plan as Republicans oppose tax hikes before the midterm elections in November 2022. In the medium term, we believe that it will be necessary to rebalance the excessive level of public deficit by reducing spending or raising taxes. The **market will have to assimilate a lower level of fiscal support from 2022 onwards.**

In Europe, the process of approving and implementing the Next Generation EU Recovery Plan is moving forward and the **Eurozone economy will have positive fiscal support over the next twelve months.** Investors in European markets will be able to count on fiscal and monetary support for a longer period than on the other side of the Atlantic. In the United Kingdom, the fiscal stimulus package equivalent to 12.5% of its GDP will eventually have to be scaled back and the deficit brought back into line.

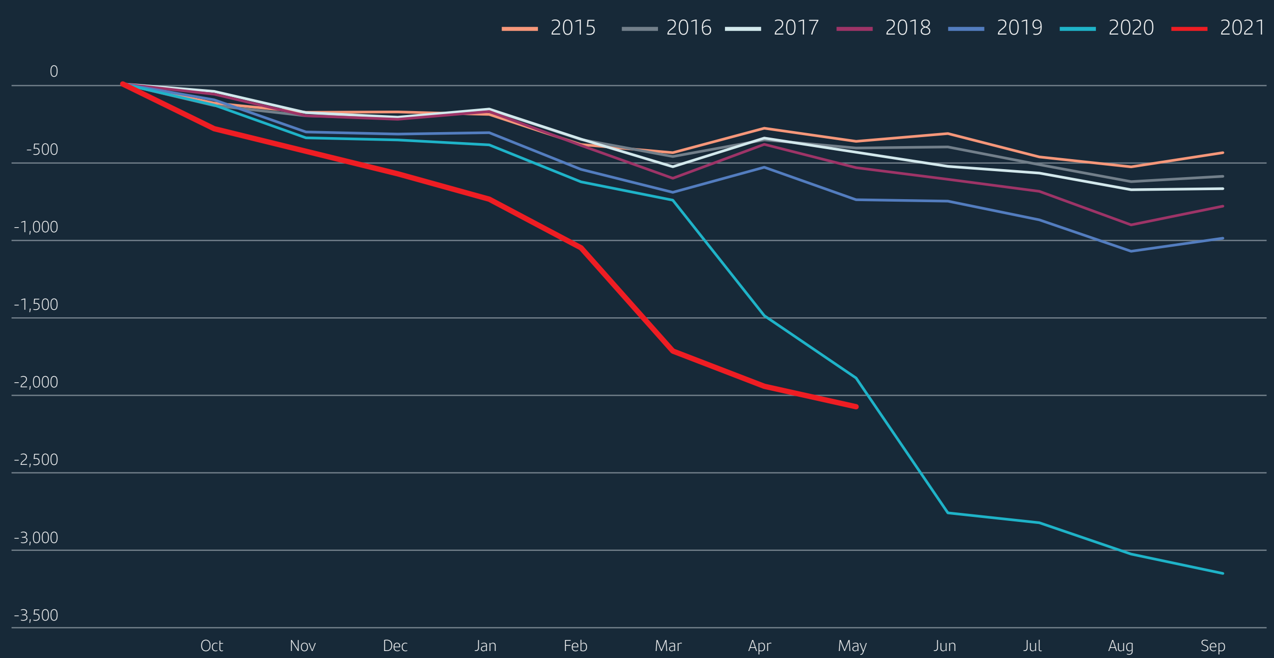
Biden has begun his term with an ambitious fiscal plan that will be difficult to pass because of its large amount and the high tax increases it entails

The economic cycle will need to face four hurdles in order to move forward: inflation, tapering and monetary and fiscal tightening

US Treasury Federal Deficit (Cumulative Fiscal Year to Date in US$ Bn)

Source: Bloomberg and own elaboration.

The current fiscal path is not sustainable going forward



03 The cycle is moving really fast: Time for a pause?

The four stages of the economic cycle are also referred to as the business cycle. These four stages are expansion, peak, contraction, and trough. During the expansion phase, the economy experiences relatively rapid growth, interest rates tend to be low, production increases, and inflationary pressures build. The global economy experienced a very sharp contraction last year and a lot of words could be used to describe what happened in the global economy as a result of the externality of the pandemic, but the most fascinating feature is how quickly everything has happened because of the phenomenal pace of this cycle. **The downturn was the fastest on record, and much of the same can be said of the recovery.** The speed of the recovery can be analyzed by the graph below which highlights how the recovery in credit risk terms (bond spreads) associated with a lower likelihood of bankruptcies has happened at 3x the pace of previous cycles. **Companies have been able to repair their balance sheets and access credit markets at pre-pandemic levels of funding** as a result of the improved optimism on the economy and the size of economic stimulus put in place.

Some analysts are comparing the strengths of this recovery to the one experienced after the previous pandemic in 1919. The 'Roaring Twenties' was a decade (approximately 1921–29) of growing prosperity in the Western world, fed by deferred spending, a boom in construction, and the rapid expansion of consumer goods, such as automobiles and electric home appliances. These factors materialized on the back of WWI devastation and, crucially, the H1N1 'Spanish flu' pandemic. As such, several analysts and academics have been drawing parallels with that historical period, suggesting the **post-Coronavirus recovery could be characterized by an economic boom** like the one we are experiencing in many economies in this quarter.

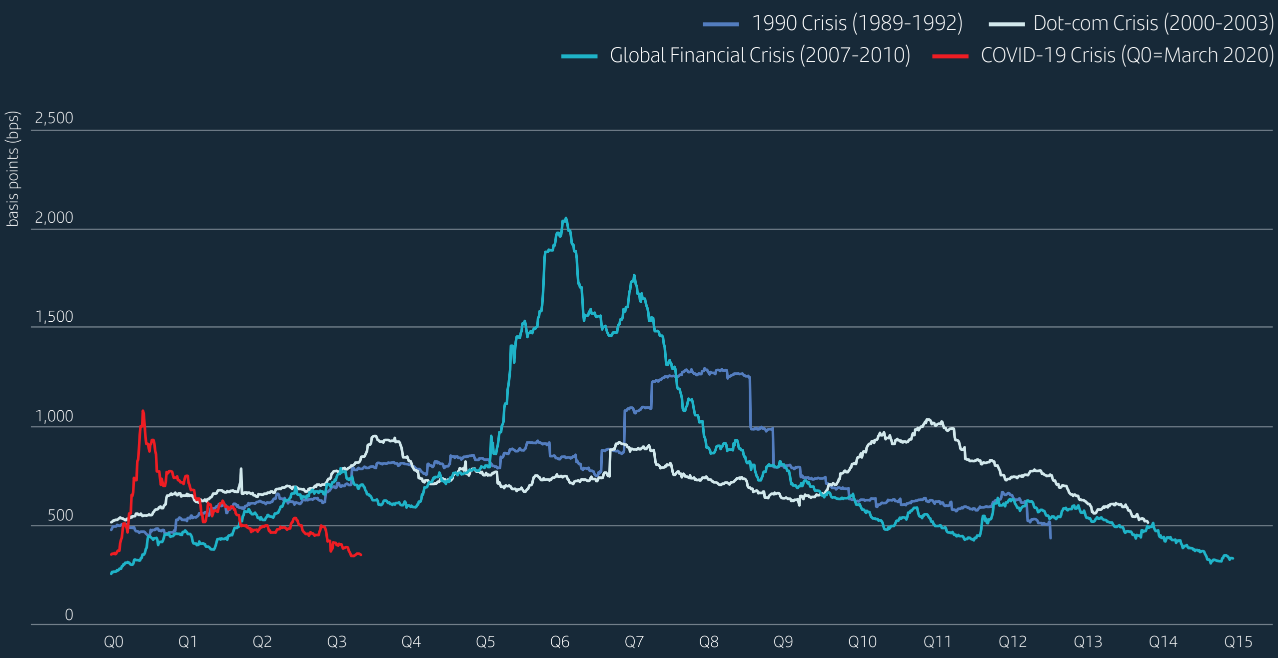
Economic shocks produced by exogenous factors lead to cycles where the recovery is more robust and with temporary bottlenecks

The optimistic view: A roaring 20s fueled by psychological factors and strong productivity gains on the back of investments towards a more digital and greener economy

High yield bond spreads have returned to pre-pandemic levels in record time

Source: Bloomberg (CSI BARC Index = BarCap US Corp HY - US 10 Year Treasury) and own elaboration.

The current recovery in credit markets has been much faster than in previous cycles



Plenty of growth at the micro level: Earnings are booming

Corporate earnings have rarely looked this good and recovered so quickly after a recession. The graph below shows how **earnings have recovered pre-crisis levels in just four quarters, while in the previous three downturns the recovery period was three times longer.** Credit conditions are excellent and profitability has recovered despite the fact that many service sectors and markets have not enjoyed the full effect of reopening.

During the first quarter of the year, most companies in the S&P 500 surpassed analysts' profit expectations and the final earnings figures are at all-time high. US companies are expected to grow their earnings around 50% in the first half of the year. The momentum of earnings upward revisions is very strong as a record of 86% of companies reported results in the first quarter that were better than expected, according to Refinitiv. Going back to 1994, companies have beaten earnings estimates by an average of 4%, but **this earnings season, companies have posted profits that have been 23% above expectations.** The year-over-year growth numbers were very strong in Q1, partly reflecting the easy comparisons to the last year. The easy comparisons issue will be even more pronounced in Q2 as the corresponding 2020 period represented the pandemic's severest impact. For Q2 2021, the estimated earnings growth rate for the S&P 500 is 61.9%.

The strongest international earnings growth is occurring in cyclical sectors such as energy, financials, industrials and materials, which benefited the most by the improvement in the real economy. **This trend is favoring regions that have the most exposure to these cyclical sectors, namely Europe and Japan, where cyclical sectors represent 55% of the market.** As an example, the earnings growth rate for the European STOXX 600 index for Q1 2021 was 95% and analyst expect 49% growth for the year as a whole. The market can rely on earnings growth in the next quarters, but the guidance into next year 's earnings imply a significant slowdown.

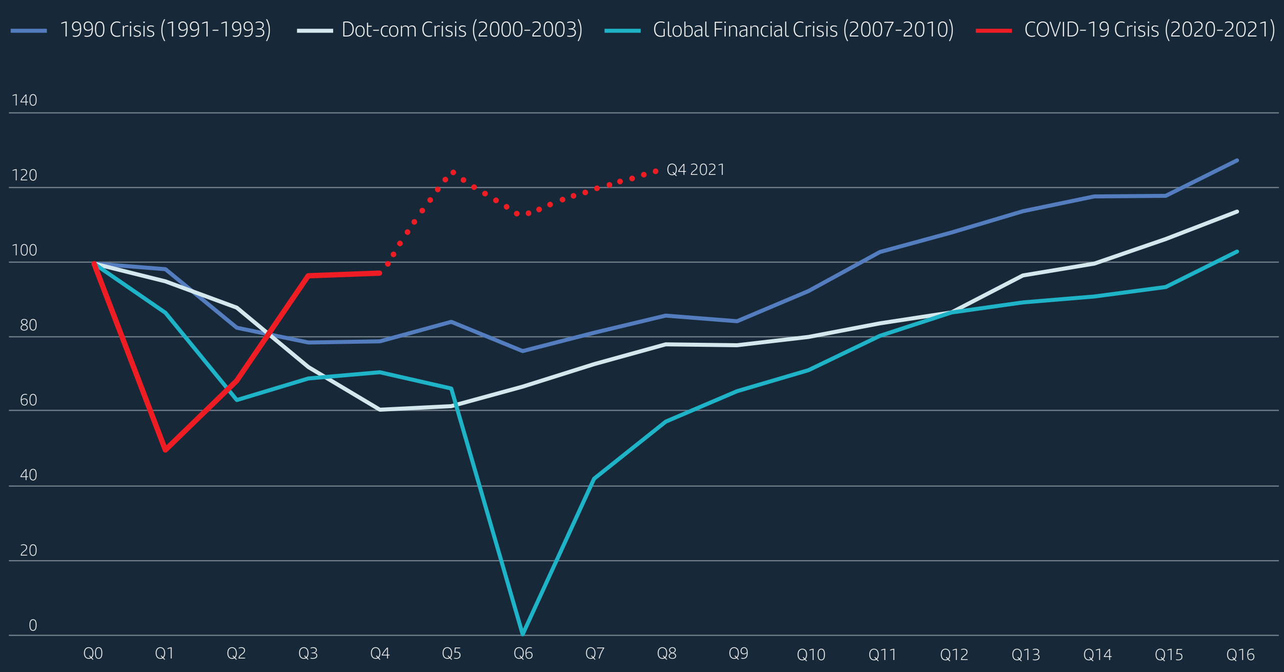
Economic and earnings growth is to remain robust demand for services is expected to exceed the demand for goods and global trade flows are soaring

Earnings momentum is set to continue its strength in the second quarter, but it will probably mark the peak in terms of relative growth

S&P 500 – Comparison of earnings recovery with previous three economic crises

Source: Bloomberg, S&P Global Ratings and own elaboration.

In the current cycle earnings recovery was accomplished in just four quarters



What a difference a year makes

Markets do not have a problem with lack of support in terms of economic or earnings growth. **The recovery is not disappointing in any way either at the macro or micro level.** The main problem that investors face is that markets have discounted the full strength of this recovery. The full spectrum of risk assets have experienced a record rally from the lows of 2020. The S&P 500 Index posted its best 12-month performance in history between March 23, 2020, and March 23, 2021, gaining 74.8%.

The market has become meaningfully overvalued and price-to-earnings multiples are above historical levels. In the graph below we plot the cyclically adjusted price earnings ratio (CAPE) from the beginning of the economic cycle to the end and compare the current recovery to all the previous cycles. Usually at the beginning of the cycle, investors face a lot of uncertainty and are not willing to invest at high multiples. As a result the normal trend is to start the cycle with low valuations (earnings multiples) and as the economy recovers and approaches full employment risk appetite increases and so does the earnings valuations. **This cycle is different once again in terms of valuation, and investors have been willing to accept high multiples very early into the cycle.**

Such high prospective multiples imply either an elevated confidence in continuing growth or a resolute belief that near-term earnings will be better than the consensus numbers. **We believe market gains may be more modest and hard to realize in the second half of the year—**especially since stocks already have climbed to record valuation levels. The bond market also appears overvalued, as real Treasury yields—the difference between Treasury yields and inflation expectations—are firmly negative. It is hard to envision this given the strong expectation that the economy will quickly return to full employment.

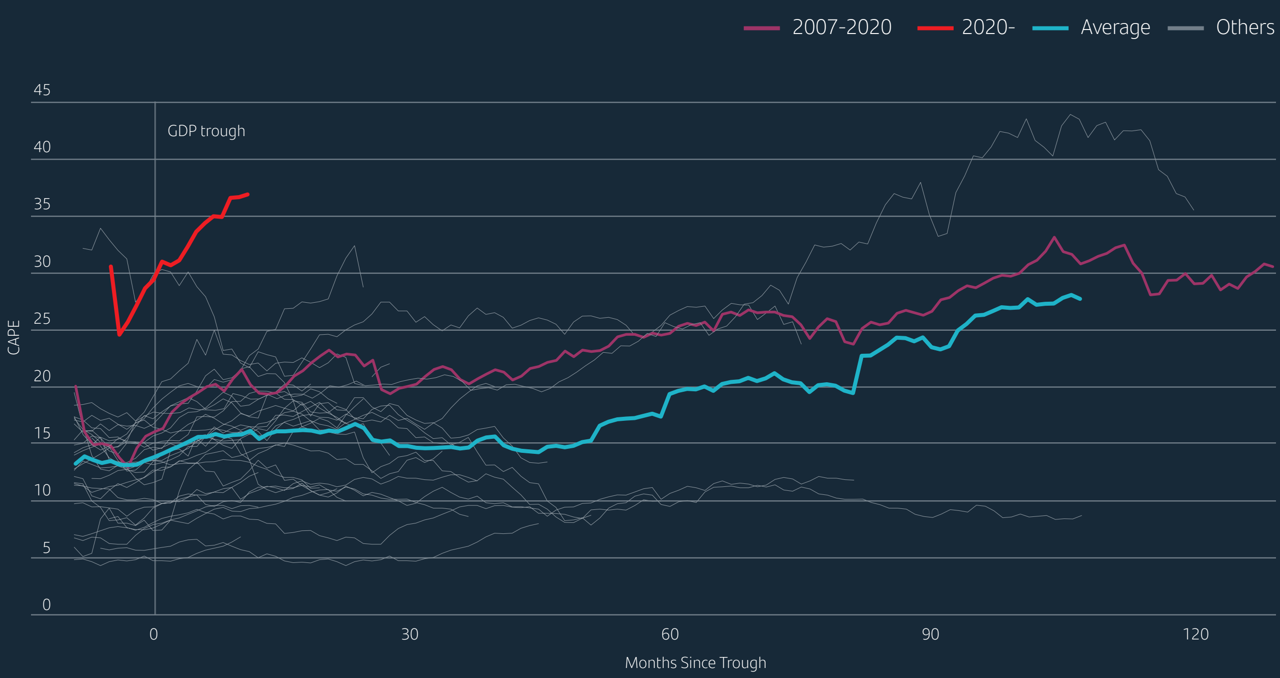
The price/earnings graph demonstrates the extraordinary speed of this recession and recovery, compared to previous cycles

The downturn was the fastest on record, and much of the same can be said of the recovery. Many metrics show the economy and the markets have advanced to mid-cycle and continue to move at very high speed

S&P 500 – Comparison of earnings multiples (CAPE Price Earnings Ratio) with previous market cycles

Source: Bloomberg, Robert Shiller and own elaboration.

Investors usually begin cycles with low valuations. This time is different



Positive news flow is peaking: Time to reduce risk taking

Financial markets are just starting to adjust to the reality that, eventually, **monetary and fiscal policy will no longer be a strong tailwind to growth and could soon become a headwind.** This is all a bit counterintuitive, but the upshot is that with the economic recovery in full swing, monetary and fiscal policy can no longer be as accommodating, and stock, bond and other asset markets could correct under any setback.

The combination of a Chinese credit slowdown, a potential transition in the driver of growth away from goods into services, and a shift in the tone from global central banks could provoke an increase in market volatility in the second half of the year.

There have been between one and two corrections of 5% to 10% per year over the past three decades. Over the same period, there has been on average a correction of 10 to 20% every 2 years and a correction of at least 20% every 10 years coinciding with changes in the economic cycles and recessions. An interesting fact is that in 2021 the market has not yet experienced a correction of more than 5%.

Currently, the market sentiment is very optimistic, technical factors appear stretched, volatility is low, and the options market has more participants trading on the upside than hedging against the downside. **Our indicators show a market that is very complacent regarding potential risks and although there needs to be a trigger for a correction, we perceive that a less aggressive positioning is warranted after such a solid recovery.** As the following graph shows, if we believe that this cycle is similar to the previous one, the market could face a period of increasing volatility in the following quarters.

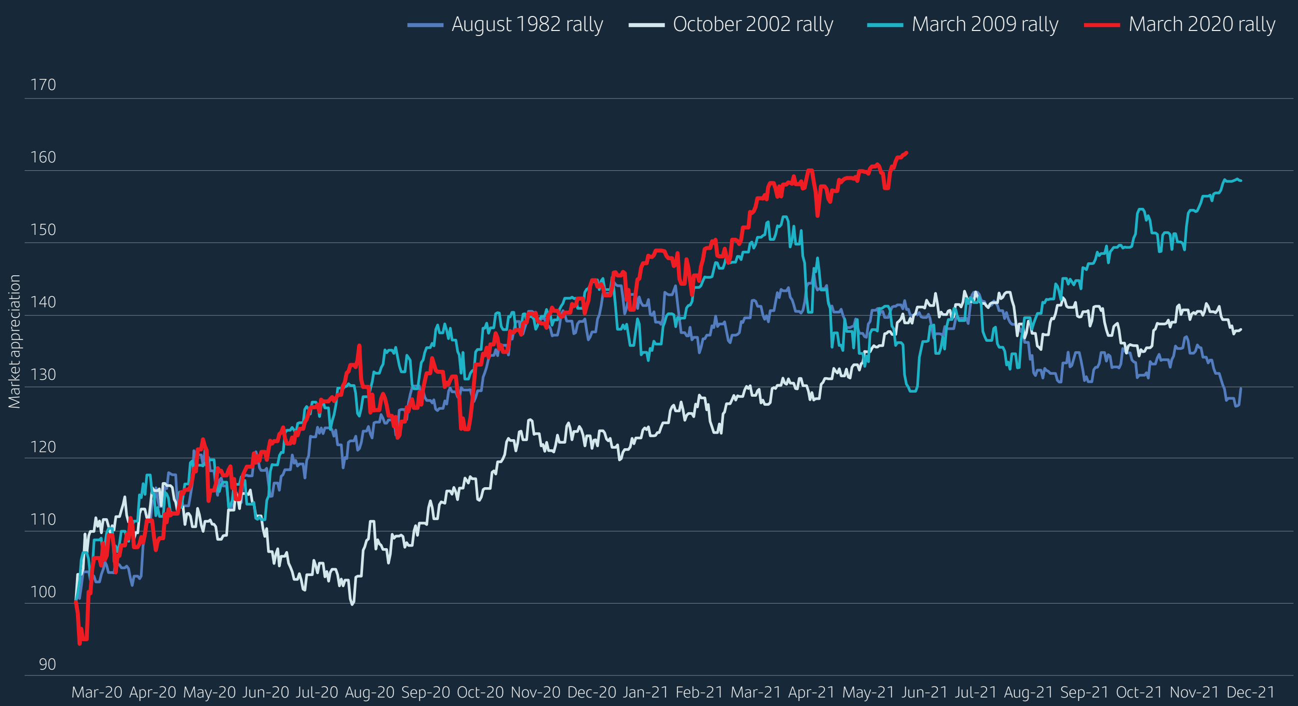
The market is vulnerable to a weaker-than-expected expansion, higher-than-expected inflation readings or unforeseen geopolitical tensions

With markets having discounted the recovery that is now taking shape, they have to execute, and with that comes execution risk and potential surprises that are not fully priced

S&P 500 – Comparison of stock market appreciation vs. other cycles

Source: Bloomberg and own elaboration.

The stock market recovery has reached cruise speed



Appendix: Tables

Returns of main assets in last 10 years

Source: Bloomberg and Santander.

Data as of 6/30/2021						Returns				Annualized returns
	Apr-21	**May-21**	**Jun-21**	**YtD**	**YoY**	**2019**	**2020**	**3 years**	**5 years**	**10 years**
Short-term (USD) (1)	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**	**2.2%**	**0.4%**	**1.2%**	**1.1%**	**0.6%**
Short-term (EUR) (2)	**0.0%**	**0.0%**	**0.0%**	**-0.2%**	**-0.5%**	**-0.4%**	**-0.5%**	**-0.4%**	**-0.4%**	**-0.1%**
Global Fixed Income (3)	**1.3%**	**0.9%**	**-0.9%**	**-3.2%**	**2.6%**	**6.8%**	**9.2%**	**4.2%**	**2.3%**	**2.1%**
Fixed Income (USD) (4)	**0.8%**	**0.3%**	**0.7%**	**-1.6%**	**-0.3%**	**8.7%**	**7.5%**	**5.3%**	**3.0%**	**3.4%**
Sovereign (USD) (5)	0.4%	0.3%	-0.1%	-1.1%	-1.2%	5.2%	5.8%	4.0%	1.9%	2.2%
Corporates (USD) (6)	1.1%	0.8%	1.6%	-1.3%	3.3%	14.5%	9.9%	7.8%	4.8%	5.2%
High Yield (USD) (7)	1.1%	0.3%	1.3%	3.6%	15.4%	14.3%	7.1%	7.4%	7.4%	6.6%
Fixed Income (EUR) (8)	**-0.7%**	**-0.1%**	**0.4%**	**-2.3%**	**0.4%**	**6.0%**	**4.0%**	**2.6%**	**1.4%**	**3.9%**
Sovereign (EUR) (9)	-1.1%	0.0%	0.5%	-3.0%	-0.2%	6.8%	5.0%	3.0%	1.4%	4.3%
Corporates (EUR) (10)	0.0%	-0.1%	0.4%	-0.4%	3.6%	6.2%	2.8%	2.6%	2.0%	3.7%
High Yield (EUR) (11)	0.4%	0.3%	0.6%	3.6%	11.9%	12.3%	1.8%	5.0%	4.9%	6.5%
Emerging Global Fixed Income (USD) (12)	**1.3%**	**0.9%**	**0.7%**	**-0.6%**	**6.3%**	**13.1%**	**6.5%**	**6.7%**	**4.8%**	**5.4%**
Latam (USD) (13)	2.1%	1.0%	1.0%	-1.8%	8.5%	12.3%	4.5%	5.0%	4.2%	4.8%
MSCI World (USD)	**4.5%**	**1.3%**	**1.4%**	**12.2%**	**37.0%**	**25.2%**	**14.1%**	**13.0%**	**12.7%**	**8.4%**
MSCI Europe (EUR)	1.6%	2.1%	1.6%	13.6%	25.1%	22.2%	-5.4%	5.4%	6.0%	4.7%
MSCI Emerging Markets (USD)	2.4%	2.1%	-0.1%	6.5%	38.1%	15.4%	15.8%	8.7%	10.4%	1.7%
MSCI Asia Pac. ex-Japan (USD)	2.8%	1.5%	-0.3%	6.8%	39.3%	19.2%	22.4%	11.9%	13.8%	6.7%
MSCI Latin America (USD)	3.2%	7.8%	2.4%	6.9%	40.4%	13.7%	-16.0%	1.9%	2.8%	-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 and Santander.

Data as of 6/30/2021

		Last Price	Change 12 months	Last 10 years Low	Range	High	Return Month	YtD	YoY	Annualized return 1 year	3 years	5 years	10 years
U.S.	S&P 500	4,298		1,131		4,298	2.2%	14.4%	16.3%	40.8%	16.5%	15.7%	12.5%
	DOW JONES INDUS.	34,503		10,913		34,529	-0.1%	12.7%	7.2%	33.7%	12.4%	14.3%	10.8%
	NASDAQ	14,504		2,415		14,504	5.5%	12.5%	43.6%	44.2%	24.5%	24.9%	18.0%
Europe	Stoxx 50	3,513		2,160		3,513	2.1%	13.0%	-8.7%	17.5%	4.9%	4.8%	3.2%
	Eurozone (EuroStoxx)	4,064		2,119		4,064	0.6%	14.4%	-5.1%	25.7%	6.2%	7.5%	3.6%
	Spain (IBEX 35)	8,821		6,090		11,521	-3.6%	9.3%	-15.5%	22.0%	-2.9%	1.7%	-1.6%
	France (CAC 40)	6,508		2,982		6,508	0.9%	17.2%	-7.1%	31.8%	6.9%	9.2%	5.0%
	Germany (DAX)	15,531		5,502		15,531	0.7%	13.2%	3.5%	26.2%	8.1%	10.1%	7.7%
	United Kingdom (FTSE 100)	7,037		5,128		7,749	0.2%	8.9%	-14.3%	14.1%	-2.7%	2.0%	1.7%
	Italy (MIB)	25,102		12,874		25,171	-0.3%	12.9%	-5.4%	29.6%	5.1%	9.5%	2.2%
	Portugal (PSI 20)	5,035		3,945		7,608	-2.8%	2.8%	-6.1%	14.7%	-3.1%	2.5%	-3.7%
	Switzerland (SMI)	11,943		5,529		11,943	5.1%	11.6%	0.8%	18.9%	11.5%	8.4%	6.8%
LatAm	Mexico (MEXBOL)	50,290		33,503		51,210	-1.2%	14.1%	1.2%	33.3%	1.8%	2.0%	3.2%
	Brazil (IBOVESPA)	126,802		40,406		126,802	0.5%	6.5%	2.9%	33.4%	20.3%	20.0%	7.3%
	Argentina (MERVAL)	62,372		2,257		62,372	5.2%	21.8%	22.9%	61.2%	33.8%	33.7%	33.9%
	Chile (IPSA)	4,331		3,439		5,855	-0.6%	3.7%	-10.5%	9.4%	-6.5%	1.7%	-1.0%
Asia	Japan (NIKKEI)	28,792		8,435		29,179	-0.2%	4.9%	16.0%	29.2%	8.9%	13.1%	11.4%
	Hong-Kong (HANG SENG)	28,828		17,592		32,887	-1.1%	5.9%	-3.4%	18.0%	-0.1%	7.1%	2.6%
	South Korea (KOSPI)	3,297		1,755		3,297	2.9%	14.7%	30.8%	56.4%	12.3%	11.0%	4.6%
	India (Sensex)	52,483		15,455		52,483	1.0%	9.9%	15.8%	50.3%	14.0%	14.4%	10.8%
	China (CSI)	5,224		2,140		5,352	-2.0%	0.2%	27.2%	25.5%	14.2%	10.6%	5.5%
World	MSCI WORLD	3,017		1,104		3,017	1.4%	12.2%	14.1%	37.0%	13.0%	13.0%	8.5%

Equities by style and sector

Source: Bloomberg and Santander.

Data as of 6/30/2021			Change		Last 10 years		Return			Annualized return				Ratios	
		Last Price	12 months	Low	Range	High	Month	YtD	YoY	1 year	3 years	5 years	10 years	PE Ratio	Divi-dend Yield
	MSCI World	3,017		1,104		3,017	1.4%	12.2%	14.1%	38.6%	13.0%	13.0%	8.5%	20.61	1.67
Style	MSCI World High Dividend Yield	1,397		797		1,412	-1.0%	8.8%	-3.0%	24.6%	6.0%	5.8%	4.4%	14.29	3.48
	MSCI World Momentum	3,663		878		3,663	1.1%	7.3%	28.3%	34.1%	17.1%	17.9%	14.0%	18.64	1.28
	MSCI World Quality	3,678		889		3,678	3.7%	13.9%	22.2%	39.0%	20.5%	18.8%	14.0%	24.44	1.36
	MSCI World Minimum Volatility	4,434		1,673		4,434	1.0%	7.1%	2.6%	19.6%	10.0%	8.8%	9.7%	21.03	2.00
	MSCI World Value	11,126		4,423		11,283	-1.4%	14.7%	-1.2%	39.2%	8.4%	10.1%	7.6%	15.12	2.63
	MSCI World Small Cap	690		202		690	0.2%	14.9%	16.0%	54.5%	12.1%	14.7%	10.5%	23.60	1.46
	MSCI World Growth	8,890		2,103		8,890	4.5%	11.1%	33.8%	41.6%	21.2%	19.8%	13.5%	31.86	0.74
Sector	Energy	290		164		428	3.0%	32.4%	-31.5%	42.1%	-7.2%	-0.4%	-1.5%	14.95	4.25
	Materials	549		229		573	-4.1%	11.3%	19.9%	45.8%	12.1%	15.1%	4.7%	13.58	2.48
	Industrials	490		152		498	-1.6%	12.2%	11.7%	45.5%	12.5%	13.6%	9.7%	23.63	1.54
	Consumer Discretionary	556		119		556	2.3%	10.2%	36.6%	50.8%	19.4%	19.4%	14.5%	27.38	0.84
	Consumer Staples	432		172		434	-0.3%	5.2%	7.8%	20.9%	10.0%	7.0%	8.9%	21.35	2.78
	Health Care	476		124		476	3.0%	9.9%	13.5%	24.3%	15.8%	12.5%	13.1%	18.82	1.62
	Financials	243		84		251	-3.4%	20.7%	-2.8%	54.0%	9.2%	13.2%	8.3%	12.81	2.36
	Information Technology	594		87		594	6.9%	13.1%	43.8%	45.2%	28.8%	29.9%	20.0%	30.43	0.77
	Real Estate	469		194		469	2.0%	16.8%	-5.0%	31.2%	8.8%	6.9%	7.3%	30.52	2.70
	Communica-tion Services	208		77		208	2.4%	16.7%	23.0%	47.8%	21.6%	11.0%	9.2%	22.18	1.16
	Utilities	297		147		308	-2.9%	-0.2%	4.8%	14.6%	9.1%	7.2%	6.2%	18.26	3.56

Sovereign Bonds

Source: Bloomberg and Santander.

Data as of 6/30/2021

	Rating (S&P)	Interest rate			Change	Last 10 years			10 years Interest rates change (bp) 10 years			Yield curve
		C. Bank*	2 years	10 years	12 months	Low	Range	High	Month	YtD	YoY	10-2 years
Developed												
U.S.	AA+	0.25%	0.25%	1.47%		0.53%		3.14%	-13	55	81	1.22
Germany	AAA	-0.50%	-0.66%	-0.21%		-0.70%		2.54%	-2	36	25	0.46
France	AA	-0.50%	-0.64%	0.13%		-0.40%		3.39%	-4	46	24	0.76
Italy	BBB	-0.50%	-0.37%	0.82%		0.54%		7.11%	-9	28	-44	1.19
Spain	A	-0.50%	-0.51%	0.41%		0.05%		6.86%	-5	37	-6	0.92
United Kingdom	AA	0.10%	0.06%	0.72%		0.10%		3.02%	-8	52	54	0.65
Greece	BB	-0.50%	n.d.	0.83%		0.63%		34.96%	0	21	-38	n.d.
Portugal	BBB	-0.50%	-0.60%	0.39%		0.03%		16.40%	-7	36	-9	0.99
Switzerland	AAA	-0.75%	-0.78%	-0.25%		-1.05%		1.34%	-5	33	22	0.53
Poland	A-	0.10%	0.29%	1.61%		1.15%		5.91%	-25	38	24	1.32
Japan	A+	-0.10%	-0.09%	0.06%		-0.27%		1.08%	-3	4	3	0.15
Emerging Markets												
Brazil	BB-	4.25%	7.70%	9.09%		6.49%		16.51%	-4	218	214	1.40
Mexico	BBB	4.25%	5.59%	6.98%		4.49%		9.16%	39	144	114	1.39
Chile	A	0.50%	2.05%	4.40%		2.19%		4.80%	26	175	200	2.35
Argentina	CCC+	38.00%	n.d.	n.d.	n.d.	0.00%		0.00%	n.d.	n.d.	n.d.	n.d.
Colombia	BB+	1.75%	n.d.	n.d.	n.d.	4.85%		8.98%	n.d.	n.d.	n.d.	n.d.
Turkey	B+	19.00%	17.63%	16.68%		6.21%		20.69%	-113	417	n.d.	-0.95
Russia	BBB-	5.50%	6.84%	7.20%		5.55%		12.98%	66	235	239	0.37
China	A+	2.93%	2.65%	3.09%		2.51%		4.58%	1	-5	25	0.44
India	BBB-	4.00%	4.90%	6.05%		5.84%		8.87%	3	18	17	1.15

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

Currencies

Source: Bloomberg and Santander.

Data as of 6/30/2021

	Last	Change	Last 10 years			Return			Annualized return		
	Price	12 months	Low	Range	High	Month	YtD	YoY	3 years	5 years	10 years
EUR/USD	1.1858		1.05		1.44	-3.0%	-2.9%	5.6%	0.5%	1.3%	-2.0%
EUR/GBP	0.86		0.70		0.92	-0.4%	-4.1%	-5.4%	-1.0%	0.4%	-0.5%
EUR/CHF	1.10		1.03		1.24	-0.2%	1.4%	3.1%	-1.8%	0.2%	-1.2%
EUR/JPY	132		96		148	-1.7%	4.4%	8.7%	0.6%	2.9%	1.2%
EUR/PLN	4.52		4.00		4.63	1.0%	-0.9%	1.7%	1.1%	0.5%	1.4%
GBP/USD	1.38		1.22		1.71	-2.7%	1.2%	11.5%	1.6%	0.8%	-1.5%
USD/CHF	0.93		0.79		1.03	2.9%	4.5%	-2.4%	-2.3%	-1.0%	0.9%
USD/JPY	111		76		124	1.4%	7.6%	2.9%	0.1%	1.6%	3.2%
USD/MXN	19.94		11.74		24.17	-0.1%	0.1%	-13.3%	0.0%	1.7%	5.6%
USD/ARS	95.72		4.14		95.72	1.1%	13.8%	35.9%	49.0%	44.8%	37.0%
USD/CLP	734		458		855	1.7%	3.2%	-10.6%	3.9%	2.1%	4.7%
USD/BRL	4.97		1.55		5.75	-4.8%	-4.4%	-9.1%	8.6%	9.0%	12.3%
USD/COP	3,752		1.763		4,056	1.1%	9.4%	-0.1%	8.6%	5.1%	7.8%
USD/CNY	6.46		6.05		7.16	1.4%	-1.1%	-8.6%	-0.8%	-0.6%	0.0%
EUR/SEK	10.14		8.34		10.93	-0.1%	0.9%	-3.2%	-1.0%	1.5%	1.1%
EUR/NOK	10.20		7.29		11.48	0.2%	-2.7%	-5.6%	2.3%	1.9%	2.7%

Commodities

Source: Bloomberg and Santander.

	Last	Change	Last 10 years			Return			Annualized return		
	Price	12 months	Low	Range	High	Month	YtD	YoY	3 years	5 years	10 years
Crude Oil (Brent)	75.1		21		124	9.3%	46.8%	83.7%	-1.5%	15.1%	-12.3%
Crude Oil (W. Texas)	73.5		19		108	10.8%	51.4%	87.1%	-0.3%	14.5%	-8.2%
Gold	1,771.6		1,060		1.971	-6.9%	-6.5%	-1.6%	12.2%	9.8%	6.1%
Copper	9,374.5		4,561		10,258	-8.6%	20.7%	55.9%	12.3%	24.0%	-0.2%
CRB Index	213.4		117		343	3.7%	27.2%	54.7%	2.1%	3.2%	-14.1%
Rogers International	2,907.1		1,560		4,034	3.7%	28.3%	59.2%	4.4%	8.5%	-9.5%
Soybean	555.4		334		697	-8.6%	6.7%	58.6%	16.7%	7.1%	2.2%

"Periodic table" of asset returns

Asset Class	Reference Index	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	H1'2021
		Calendar Year Returns										
US Equities	S&P 500 TR	38.3% Eurozone Government	28.1% Eurozone Government	54.4% Japan Equities	71.3% Eurozone Government	15.4% Europe Equities	14.8% Global High Yield	37.3% Emerging Market Equities	3.3% Spain Government	31.5% US Equities	18.4% US Equities	27.2% Commodities
Japan Equities	Topix TR	7.6% Spain Government	20.9% Japan Equities	32.4% US Equities	61.3% Spain Government	12.1% Japan Equities	12.0% US Equities	22.4% Global Equities	0.1% Eurozone Government	27.7% Global Equities	18.3% Emerging Market Equities	16.1% Europe Equities
Spain Equities	Ibex35 TR	2.6% Global High Yield	19.3% Global High Yield	27.8% Spain Equities	13.7% US Equities	1.4% US Equities	11.4% Commodities	22.2% Japan Equities	-0.4% Liquidity	26.8% Europe Equities	15.9% Global Equities	15.3% US Equities
Emerging Markets Equities	MSCI EM TR	2.1% US Equities	18.2% Emerging Market Equities	26.7% Global Equities	10.3% Japan Equities	-0.1% Liquidity	11.2% Emerging Market Equities	21.8% US Equities	-1.5% Europe IG	18.4% Emerging Market Equities	8.0% Global High Yield	13.0% Global Equities
Europe Equities	Eurostoxx50 TR	2.0% Europe IG	18.2% Europe Equities	21.1% Spain Government	8.6% Spain Equities	-0.5% Europe IG	7.5% Global Equities	11.3% Spain Equities	-3.3% Global High Yield	18.1% Japan Equities	7.4% Japan Equities	10.7% Spain Equities
Commodities	Commodity RB TR	0.9% Liquidity	16.0% US Equities	20.8% Europe Equities	8.3% Europe IG	-0.8% Global Equities	6.6% Eurozone Government	10.6% Europe Equities	-4.4% US Equities	16.6% Spain Equities	6.4% Eurozone Government	8.9% Japan Equities
Global Equities	MSCI World TR	-5.5% Global Equities	15.8% Global Equities	8.0% Global High Yield	7.2% Europe Equities	-3.6% Spain Equities	5.7% Spain Government	10.2% Global High Yield	-8.7% Global Equities	12.6% Global High Yield	4.4% Spain Government	7.4% Emerging Market Equities
Europe IG	ERL0 TR	-7.8% Spain Equities	13.2% Europe IG	2.4% Europe IG	4.9% Global Equities	-4.2% Global High Yield	4.8% Europe IG	1.9% Europe IG	-10.8% Europe Equities	10.1% Spain Government	2.7% Europe IG	2.5% Global High Yield
Liquidity EUR	Eonia TR	-8.6% Europe Equities	2.8% Spain Equities	0.1% Liquidity	0.1% Liquidity	-10.5% Spain Government	2.6% Spain Equities	1.7% Spain Government	-11.5% Spain Equities	8,1% Eurozone Government	-0.5% Liquidity	-0.2% Liquidity
Global High Yield	HW00 TR	-13.4% Commodities	0.2% Liquidity	-2.6% Emerging Market Equities	-0.1% Global High Yield	-14.9% Emerging Market Equities	1.7% Europe Equities	0.7% Commodities	-13.0% Commodities	6.2% Europe IG	-3.2% Europe Equities	-0.5% Europe IG
Spain Government	SPAIN 10 YR	-17.0% Japan Equities	-1.1% Commodities	-9.6% Commodities	-2.2% Emerging Market Equities	-16.3% Eurozone Government	0.6% Japan Equities	-0.2% Eurozone Government	-14.6% Emerging Market Equities	5.4% Commodities	-9.3% Commodities	-2.9% Spain Government
Eurozone Government	GERMANY 10 YR	-18.4% Emerging Market Equities	-3.8% Spain Government	-46.6% Eurozone Government	-17.0% Commodities	-22.3% Commodities	-0.3% Liquidity	-0.4% Liquidity	-16.0% Japan Equities	-0.4% Liquidity	-12.7% Spain Equities	-7.9% Eurozone Government

\+ Returns -

*Data as of 6/30/2021
*Total return indices track both the capital gains as well as any cash distributions, such as dividends or interest, attributed to the components of the index.

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