Santander Private Banking

Santander Asset Management

Market Outlook 2022

Investing in a world in transition

Contents

Investing in a world in transition

As we approach the end of 2021, financial conditions remain favourable. The global economy is bouncing back with its fastest growth rate in nearly 50 years. Equity markets have been buoyant, boasting strong returns on the back of outstanding corporate earnings. Credit spreads remain tight, and solid net flows to both public and private markets are supported by a lack of alternatives in risk-free rates.

Looking ahead to 2022, our macroeconomic outlook is positive. However, risks to economic prospects are on the rise **as policy trade-offs become more complex.** Investors and policymakers will have to get to grips with a **macro environment that is transitioning from the positive tailwinds of strong government and regulatory support** to a more uncertain scenario of complex dynamics for growth and inflation.

Our outlook is not immune to negative shocks. The recent news about an emerging Covid variant (Omicron) reminds us we should not rule out negative scenarios. While we expect markets to remain volatile as more information surfaces about Omicron and how resistant it is to vaccines, we trust science and human ingenuity will quickly come up with an innovative way to overcome the threats of the pandemic.

One of the most urgent challenges is how to meet the goals set in the Paris Agreement on climate change. **Achieving net-zero emissions globally means accelerating the transition to clean energies,** which creates real investment opportunities despite the potential for supply disruptions and spikes in energy prices. The changes taking place to achieve net zero by 2050 represent **the largest investment opportunity on our radar.** The transition will not be smooth, creating winners and losers; but the investor community must work together to make sure the world moves towards a net-zero landscape.

Active investment management is paramount. The difficult macro landscape could provide good opportunities even if capital market returns are likely to be more volatile. Portfolios need to pivot as economies and markets transition to new paradigms. **Attractive investment opportunities are expected in innovation, sustainability and private markets.**

We remain focused on giving our clients the best advice and expertise. **Our advisers and private bankers are at your service to explain the most efficient ways to adjust portfolios in these times of transition.**

We thank you once again for your trust and for allowing us to address your investment, financing and wealth planning needs.

Yours sincerely,

Víctor Matarranz
Global Head
Santander Wealth Management & Insurance Division

Key Messages 2022

The cycle continues after the recovery

The resilience of the global economic recovery on which we built our base case scenario for 2021 has been underpinned by a solid growth backdrop that brings us within shooting distance of pre-crisis levels. **The world is firmly approaching back to normal as activity indicators continue to improve and are lagging only in countries where immunization is low.** The effectiveness of vaccines has been key in this recovery, which began with great vigor in manufacturing and is now transitioning into the services sector. **The recovery has been so robust that 2021 ends with major problems of excess demand that are causing unprecedented stress in global supply chains.** However, the spread of a new virus variant (Omicron) with a high number of mutations could have a negative effect on the recovery dynamics described above.

The recovery in financial markets has been even more remarkable than the economic recovery and it is difficult to find a financial asset that has not far-exceeded pre-pandemic price levels. In some cases, such as commodities or equities, the revaluation has been truly spectacular, benefiting from both the favorable interest rate environment and the strength of the economic rebound. **Economies and investors are looking beyond the recovery and questioning the sustainability of the cycle and the variables that are experiencing the greatest degree of uncertainty (with special focus on the vaccine-resistant capacity of the new Covid variant).**

Positive macro outlook faces paradigm shifts

We maintain a positive macroeconomic base case for 2022 based on a gradual adjustment in global supply chains, a slow decline in inflationary pressures and the continuance of growth rates above pre-Covid averages. However, this normalization process entails major challenges in the main economic blocs as it involves important paradigm shifts.

In the **United States,** fiscal spending must pass the baton of growth momentum to a private sector supported by strong savings rates and a favorable labor market. In **China,** the authorities are trying to pilot a transition to a model that is less dependent on the real estate sector and is more balanced (Common Prosperity). And in **Europe,** the energy transition and post-Brexit uncertainties may jeopardize the continuance of the favorable monetary conditions that have been so vital to the recovery.

The economic cycle momentum remains positive but we will have to be vigilant to the difficult political equilibriums implicit in these changes in the growth model. The main risk to our positive base case (in addition to virus mutations) lies in a non-transitory inflation environment that tightens global interest rate curves.

We expect policy rates to rise slowly, lagging nominal growth and leaving real negative returns for both cash and investment grade bonds.

Investment opportunities for markets in transition

The investment community has savored risk asset returns over the past 18 months but remains concerned about the returns of risk-free assets, rising inflation, and slowing growth. Shifting economic and market paradigms are forcing investors to look for investment solutions to tackle the challenges of the transitions in which major financial assets are immersed.

Investors focused on capital protection and income have recently added an additional concern to the scarcity of returns in fixed income markets: the possibility that the inflation spike may be less transitory than initially thought. In this context, we continue to emphasize **the need to remodel investment portfolios that diversify beyond traditional fixed income and incorporate a more active management component.**

For **investment mandates with higher risk tolerance,** the concern centers on high levels of valuation and leverage coupled with the slowdown in corporate growth and earnings. In this context, a **global geographic focus and increased diversification with exposure to private markets** and alternative assets are increasingly essential. The **transition to sustainability** also implies significant investment opportunities as well as **innovation** favored by the continuous disruptive environment of new technologies.

Top opportunities: Investing in markets in transition

Stay invested as long as growth is above trend

Economic momentum is decelerating but our forecasts still point to **GDP growth significantly higher than average.** Risk assets (credit and equities) are very sensitive to economic activity and should continue to outperform safer alternatives (cash and government bonds). The recovery is incomplete, and it is **still early in the cycle to de-risk portfolios,** but at the same time the **most rewarding phase of the economic cycle for markets is already over.** The world has moved beyond peak economic and earnings growth and peak policy support, and therefore it is too late to increase risk. Investors should concentrate in transitioning towards defensive positions going forward (that should be reinforced in the event of an immunological setback).

Consider companies with pricing power

The not-so-temporary spike in inflation is creating winners and losers in terms of the **ability to defend all-time-high profit margins.** We recommend an overweight in sectors like **financials** that benefit from the trend towards rising rates and favor companies that have **pricing power** built on the ability to pass on input costs to the consumer. **Innovative companies** face less competition and technological disruption is opening many interesting opportunities for revenue growth. Investing in **energy transition and sustainability** could offer great potential to capture growth in the shift to a lower growth environment.

Increase inflation protection of portfolios

Economies are not going back to the 70s and we do not believe the world is heading into stagflation. However, we expect inflation to be **significantly higher than in the recent past.** Breakeven inflation expectations for the next decade are above central banks´ targets and real rates are priced to remain negative every year over the same period. **Investors should focus on real returns** and explore real assets and investment diversification searching for inflation protection.

Focus on sustainability as an opportunity

Regulation and society are demanding a strong commitment to achieve NetZero targets. Sustainability is probably the **single most important trend and opportunity in our radar,** as investment flows from public and private sectors are going to be significantly affected by environmental factors and social considerations. It is an opportunity to focus on companies creating solutions and adapting their business models to the new environment.

Search for flexible fixed income solutions

Be prepared for **volatility** in bond markets as monetary policies transition into less accommodation. We maintain our preference for **credit risk** (corporate defaults are expected to remain very low) but we foresee the need to **pivot towards other types of risks** as the cycle progresses and spreads tighten (high yield risk premiums are already low). Searching for yield and managing complex markets for bonds requires a lot of expertise, so we would consider **flexible fixed income solutions** that can profit from the potential increase in volatility.

Incorporate alternative investments

Investors are transitioning into private markets in order to **broaden the opportunity set and capture the illiquidity premium.** Flows, deal-making and returns remain robust. Private equity and private debt portfolio managers have the flexibility and can help exploit multiple opportunities in the environment of markets and economies in transition that we envision for the coming years. The **scarcity of yield in listed securities is forcing investors to look beyond traditional asset classes** and listed markets.

01 The cycle continues after the recovery

The recovery of the global economy on which we built our base case scenario for 2021 has been endorsed in a solid growth framework that brings us closer to pre-crisis levels across multiple geographies and sectors. Our near-term outlook is based on three main drivers:

- **The economic cycle maintains growth above trend**
  Activity levels and mobility continue to improve and only experience lags in countries where immunization is incomplete. The effectiveness of vaccines has been and continues to be key in this recovery, which started with great vigor in manufacturing and has then been transferred to the services sector.

- **Markets could experience volatility as policy support is phased**
  The recovery has been extraordinarily supported by ultra-expansionary policies that are no longer justified and are beginning to be withdrawn. Economic growth will depend less on stimulus and should be organic with a greater role for the private sector. We expect higher levels of volatility in the face of potential negative macro data as we cannot count on the unconditional support of fiscal and monetary policies.

- **Spike in prices is temporary but inflation will remain elevated**
  The recovery has been so strong that 2021 ends with significant excess demand problems that are causing unprecedented stress in global supply chains and record inflation levels in recent decades. We see this inflationary upturn as temporary, but at the same time we believe that the global economy has entered a cycle of higher inflation levels than in the last decade.

The resilience of the global economy on which we based our base case scenario for 2021 has been endorsed in a **solid growth framework that brings us closer to pre-crisis levels in multiple geographies and sectors.** Aggregate data from Bloomberg Economics (graph 1.1) shows that in 2Q21, global growth was only 2% below the level the economy would have reached if the pandemic had not broken the growth trend of the previous years.

Ample fiscal and monetary support, job preservation support in many countries and recovery funds implemented in 2020, have provided sufficient foundation for the economies to grow again on their own. In terms of demand, we can speak of two parts to the recovery. **Initially there was an increase in demand for goods and, later, the recovery of the services sector, directly related to the increase in mobility.** Graph 1.2 shows how manufacturing confidence fell considerably less and recovered faster than that of services. According to the World Economic Outlook from the International Monetary Fund (IMF) released in October 2021, **global growth for 2021 is expected to reach 5.9% and 4.9% in 2022.**

The sudden global **economic slowdown has had important consequences for world trade.** The tacit equilibrium that was built over the years in logistics chains has been broken, as the strong upturn in demand has been much faster than the capacity of the productive apparatus to meet those needs. This, together with bottlenecks in maritime transport due to the inability to overcome the rapid recovery, closures in Asian ports caused by renewed confinement during the year, or lack of manpower in some United States ports are among the various problems that are still on the mend. Still, as seen in graph 1.3, world trade regained its pre-pandemic level in early 2021.

The broken equilibrium of demand and supply hit industrial production and that has affected prices -inflation- around the world (graph 1.4). We have been witnessing a sharp increase in electricity demand as factories are increasing capacity to meet demand, and there is shortage of many components and intermediate goods that put further pressure in prices.

Our base case scenario for 2021 has been endorsed as economies have quickly recovered to pre-crisis levels

We expect that the shift in spending on goods toward services will continue in 2022 as mobility continues to improve

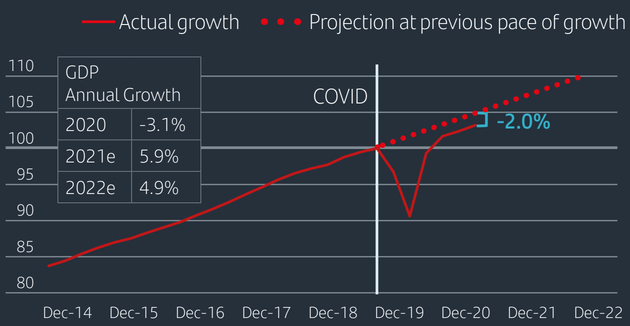
Restrictions and bottlenecks have created unprecedented frictions in supply chains and inflationary spikes

Global economic recovery is nearly completed

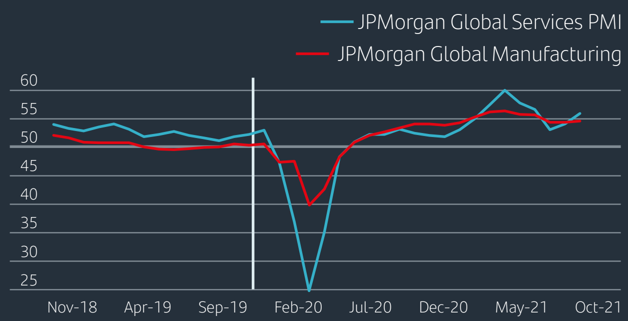
Source: Bloomberg, WTO and Santander. Data as of 11/15/2021

A V-shaped recovery for GDP, business confidence, trade and inflation

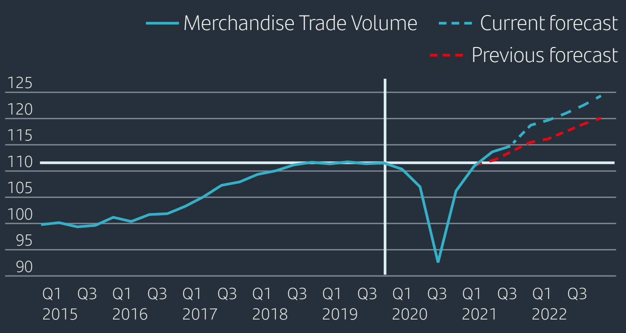
1.1 World GDP (Dec 19=100)



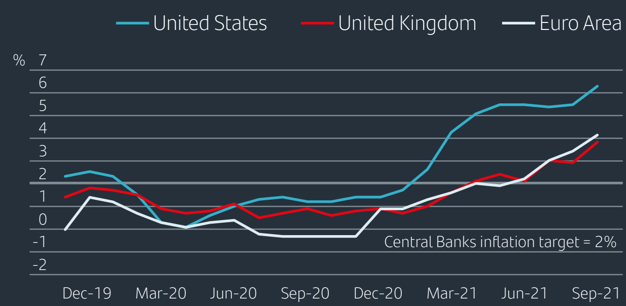
1.2 Global Purchasing Managers Index (Economic sentiment index)



1.3 World merchandise trade volume, 2015-2022



1.4 Headline inflation in developed countries



In 2021 we have witnessed a massive vaccination campaign throughout the world, aimed at tackling the pandemic in the best possible way. Developed countries were the first to have access to the greatest number of vaccines in the first quarter of the year, and then developing countries began to receive some supply. Countries such as Israel and Chile stood out for the speed at which the vaccination-age population was inoculated. **European countries and the United States have reached vaccination levels of over 70%, which compares with around 45% worldwide** (graph 1.5). This is explained mainly by low vaccination rates in Africa. Still, the effectiveness of the vaccines have been shown to wane over time and a third dose, a booster, is needed to maintain control over COVID-19. Moreover, the thought of reaching "herd immunity" when 70% of the population was inoculated doesn't seem to be the case anymore. **Several countries have already started vaccination for kids** (5-11 year) and is more accurate to think that a range of 80-100% is the target to reach effective immunization.

The vaccine has not prevented further infections, but what it has achieved is that the number of deaths is not as high as it was in 2020. Graph 1.6 shows how new waves of infection have been occurring in each country, with the latest wave now increasing. As a higher percentage of the population has been vaccinated and better infection numbers have been observed, **mobility restrictions have been lifted in the vast majority of countries,** and the services sector, especially the hospitality industry, has been allowed to return to near-normal conditions. Travel has been resuming, first intra-regional travel and then long-haul travel. The pandemic is clearly better than it was by the end of 2020 as there is greater knowledge of the virus, there is greater immunization, and the pre-crisis order has been practically re-established. The fight for the global eradication of the pandemic has a positive balance at the end of 2021 (effectiveness of vaccines, advances in treatments, etc.) but there are also reasons to remain alert (resistance of a segment of the population to vaccines, lack of access to vaccines in less developed countries and the emergence of new variants). The markets will have to remain attentive to epidemiological developments in the run-up to 2022.

Vaccination has changed the pandemic scenario in 2021. However, booster shots will be required as with seasonal flu, and COVID-19's status will transition from pandemic to endemic

Activities such as travel and leisure are again near-normal in most countries although some restrictions are being put in place as a new wave of infections is emerging

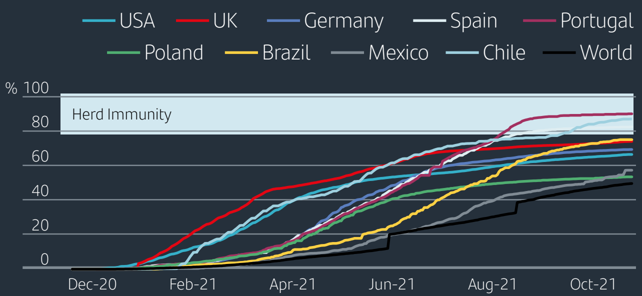
The Omicron variant increases again the uncertainty about reopening

Life goes on after COVID-19

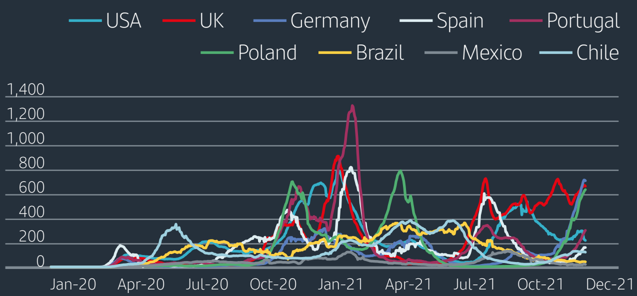
Source: Hannah Ritchie, Edouard Mathieu, Lucas Rodés-Guirao, Cameron Appel, Charlie Giattino, Esteban Ortiz-Ospina, Joe Hasell, Bobbie Macdonald, Diana Beltekian and Max Roser (2020) - "Coronavirus Pandemic (COVID-19)". Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/coronavirus' [Online Resource]. Data as of 11/28/2021

Vaccination rates are reaching higher levels but waves of contagions will emerge from time to time

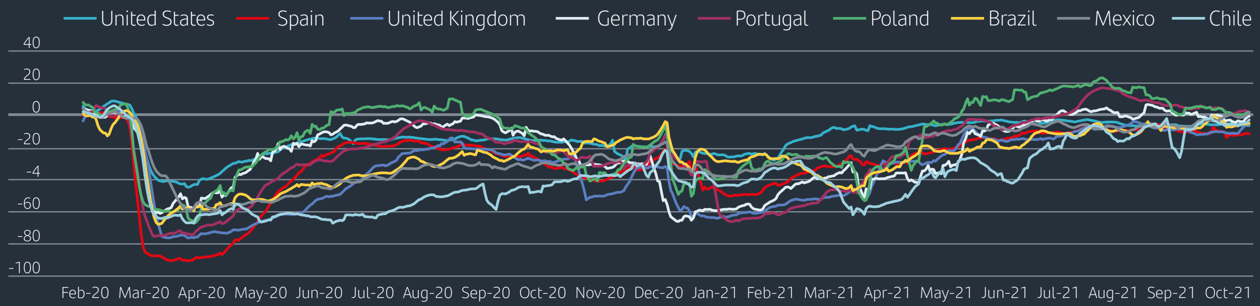
1.5 Vaccination as a share of population



1.6 COVID Cases per million by country



1.7 Google mobility



For financial and commodity markets, 2021 has been a continuation of the recovery that began in 2020. The strength of this recovery has been remarkable, especially for equity markets. Looking at graph 1.8, it is noteworthy that already by June 2020 the S&P 500 had regained the levels of December 2019 and by August 2020 it exceeded the highs seen in February, just before the onset of the pandemic. In 2021 it continues to reach new highs. Global equities have behaved quite similarly to U.S. equities. In Europe, the recovery has taken a little longer as December 2019 levels were reached at the beginning of 2021 but returns this year have been as high as that of the US indices. Emerging markets, on the other hand, although they also recovered pre-pandemic levels around August 2020, have been strongly affected in 2021 by the poor performance of the Chinese and Korean stock markets, affected by the credit problems of real estate companies.

The recovery of the markets has been faster and stronger than that of the economy

As for **commodity markets,** as can be seen in graph 1.9, it has been a **year of strong price increases, especially for fossil fuels, which has resulted in a general rise in electricity prices worldwide.** So-called "soft commodities" **such as cotton or coffee have also seen significant increases.** The CRB commodity index, which fell by nearly 10% in 2020 has seen an increase of over 30% in 2021.

The favorable low interest rate environment coupled with the economic recovery has particularly benefited equity markets

The yields of developed countries' sovereign bonds, after remaining at very low levels for a good part of 2020, have been rising as the economy has been solidifying its recovery. Only in the case of the US 10-year bond, as can be seen in graph 1.10, has the yield not yet reached the level at which it stood at the end of 2019.

The recovery in terms of credit markets is complete as corporate bond spreads have also returned to pre-crisis levels.

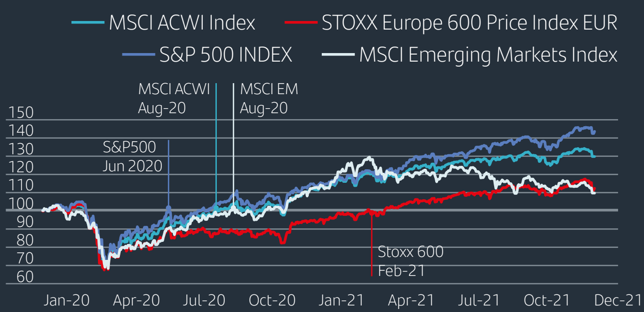
Credit spreads have tightened back to pre-pandemic levels

Financial markets performance in the past two years

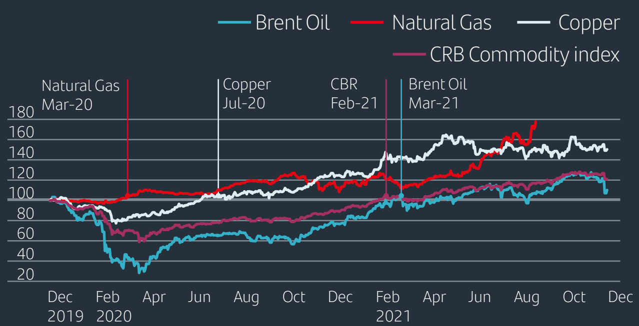
Source: Bloomberg and own elaboration. Data as of 11/28/2021

Markets have anticipated the recovery thanks to generous stimuli

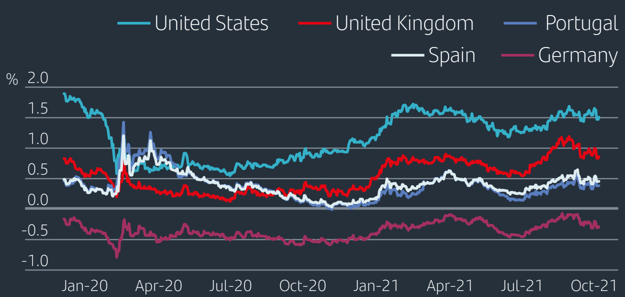
1.8 Stock markets evolution (Dec 2019=100)



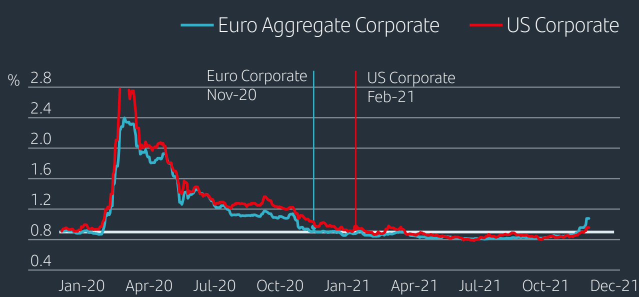
1.9 Selected commodity markets (Dec 2019=100)



1.10 10-Year Government Bond yields in developed markets



1.11 Investment grade corporate spreads



02
Positive macro outlook faces paradigm shifts

We maintain a positive macroeconomic base case for 2022 based on a gradual adjustment in global supply chains, a gradual decline in inflationary pressures and the continuation of growth rates above pre-Covid averages. This process of normalization entails major challenges in the main economic blocs as it implies important paradigm shifts. In particular, we will be monitoring the following transitions at the macroeconomic level:

- **Shift in monetary policies: Beginning of the rate hike cycle**
  Fixed-income investors will have to face the gradual normalization of interest rates that is already underway in emerging economies and will gradually extend to developed economies by 2022, with the exception of the Euro Area and Japan.

- **Governments prioritize sustainability in their policies**
  Fiscal spending remains high in Europe and the United States, but with a special emphasis on energy transition and climate change. In China, there is also a transition to growth less dependent on real estate leverage and with a greater focus on social and financial stability.

- **Shift to lower growth rates**
  Economic growth is facing an inevitable slowdown and major changes in its sector and geographic composition. The economic cycle momentum remains positive but we will have to be attentive to the difficult political trade-offs implicit in these changes in the growth model. The main risk to our growth prospects lies in a non-transitory inflation environment that could force central banks to tighten global interest rate curves.

- **The new Omicron variant poses a risk to our base case scenario**

Positive macro outlook faces paradigm shifts

Our central economic scenario is based on global growth to continue approaching pre-pandemic levels, although the resurgence in Covid cases in several regions could create some headwinds in the months ahead. GDP **growth is expected to be over 5% in the major developed economies in 2021 and above 4% in 2022.** In normal times, these would indicate unsustainable booms. But under the present circumstances they represent economic bounce back and post-COVID catch-up. **We are projecting slowing but above trend global growth in 2022** with quarterly GDP growth converging to around the trend pace by the end of next year. Slowdowns always give financial markets something to worry about – do they mean the next downturn is looming? Is another stall or recession likely? We believe that the answer to both of those questions is "no". Rather, this pattern of strong, but slowing growth, is simply a reflection of post-COVID dynamics. The global economy is at an inflection point in terms of the pace of growth, but it should remain above trend – and certainly not a major cyclical downturn. There are **four main factors behind our optimistic view on economic growth** for the next quarters:

The global economy is at an inflection point in terms of the pace of growth, but should remain above trend

1) Strong pent-up demand and labor markets

Unlike during the Global Financial Crisis – when worries about moral hazard complicated efforts to bail out homeowners and banks – the economic sectors most affected by the pandemic elicited sympathy. As a result, governments in developed economies rolled out a slew of measures to support workers and businesses. Thanks to generous fiscal transfers, **households have accrued significant savings** (especially in the US) and at the same time personal debt obligations as a share of disposable income are near their lowest on record thanks to ultra-low interest rates. But the most important factor supporting steady private sector demand is the continued potential for growth in employment. Despite the rapid economic recovery, US employment remains 4 million below its pre-pandemic peak and the labor participation rate remains depressed (see graph below). Both the quits rate and the job openings rate are well above their pre-pandemic levels and there is still room for the labor market to grow. **The global recovery in jobs is joining rising consumer confidence and services sector normalisation in painting a favorable picture of the economy for the coming 12 months.**

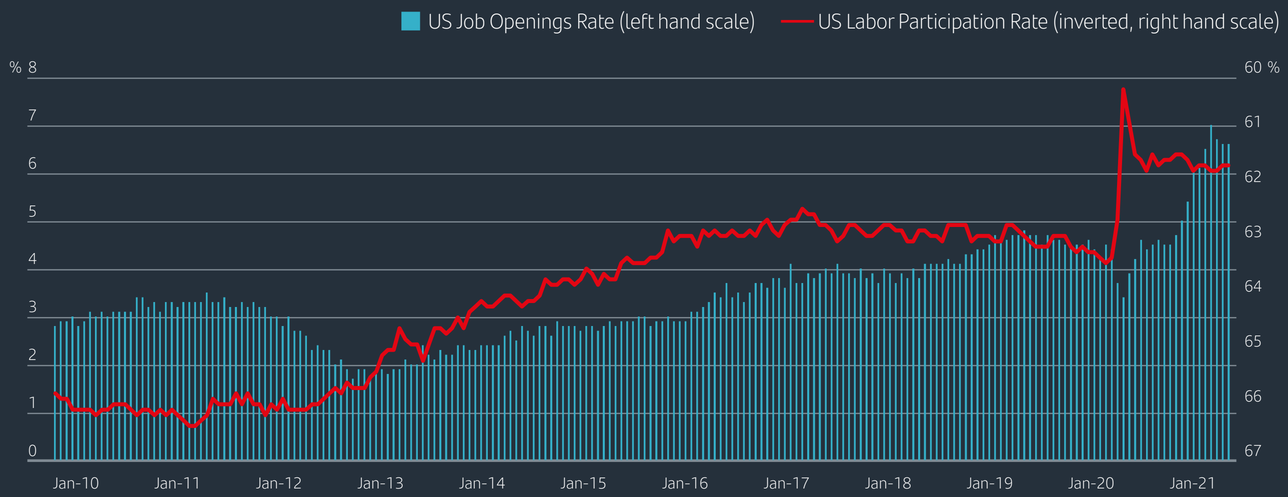
Strong household spending, inventory restocking and growth in capital spending should support economic activity globally

There is room for improvement in the labor market worldwide and firms are eager to hire with plenty of job openings

2.0.1 Consumption is supported by strong labor market recovery

Source: Bloomberg and US Bureau of Labor Statistics. Data as of 10/31/2021

There is still some slack in labor markets and room for recovery in the next 12 months



2) Slow recovery of supply side bottlenecks

The global supply chain was not equipped to handle the dislocations caused by the pandemic. The combination of just-in-time inventory systems and distant supplier networks ensured that bottlenecks in one part of the global economy quickly filtered down to other parts of the economy. **Business inventories are near all-time lows, implying substantial need for restocking,** if only companies can get the goods they need on time. Commentary from experts in the semiconductor and shipping sectors suggest the shortages and bottlenecks could ease in the coming months (see graph showing inflection points in both shipping costs and memory chip prices). In an auspicious sign, US auto sales jumped to 13.1 million in October from 12.3 million in September. These **supply-demand mismatches are expected to subside in the course of 2022** as consumption patterns normalize, inventories are restocked, and trade bottlenecks, in particular the supply of shipping containers, are resolved.

Supply-side pressures should abate over the coming months as semiconductor availability improves, transportation bottlenecks and energy prices recede, and labor market shortages ease

3) Less pressure on headline inflation rates

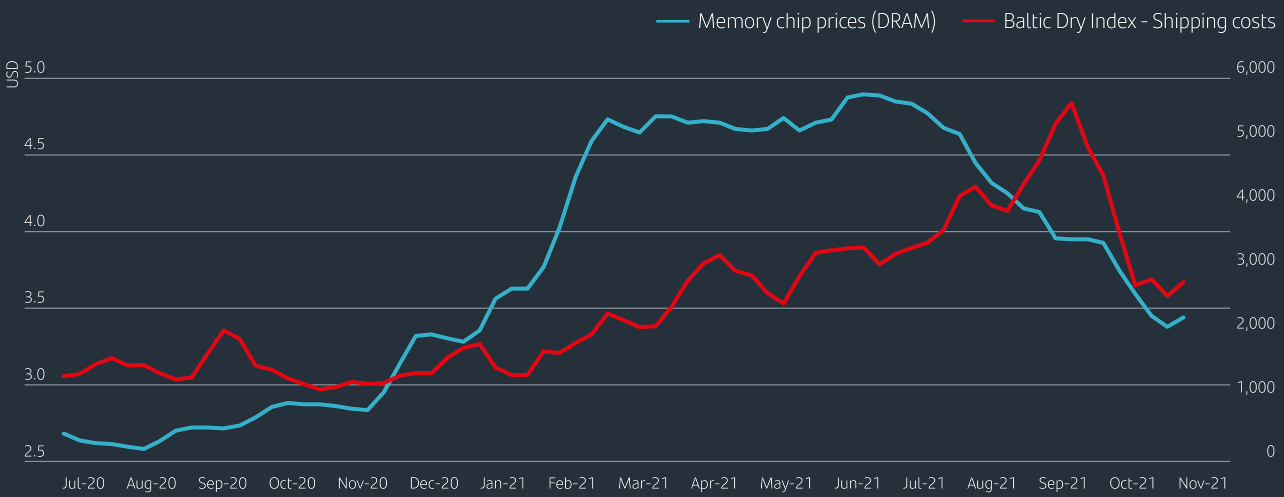
In our base case scenario we think that much of the recent increase in inflation will be transitory and will fall back in 2022 as economies reopen more fully. Enduring supply issues related to commodities, industrial inputs and labor will likely keep inflation elevated through the first half of 2022. However, **we expect base effects to reverse and the impact of one-off price increases amid reopening pressures to fade through 2022.** Central banks in most developed markets share this view and are using it to justify maintaining their relaxed stance on monetary policy. Recent changes to their inflation mandates and operating frameworks have made this easier and imply that they will allow inflation. Even so, they may not be able to ignore the latest inflation trends completely, especially if financial markets start to fret more about them or if they become more fully reflected in measures of inflation expectations. We believe that most major central banks in the G-20 will manage the next two-to-three year period flexibly to ensure that growth is sustained, and inflation does not accelerate, even if it averages slightly higher than central bank targets for a little while. But the probability of policy missteps remains high, and **investors need to be aware about the main risk to our base case being higher and more persistent inflation over the next 12 months.**

Investors fears have turned from pandemic risks to inflation fears (from GDP to CPI), but we expect a peak in prices to occur in the first quarter of 2022

2.0.2 Supply chain bottlenecks: Past the worst?

Source: Bloomberg. Data as of 11/28/2021

A recent decline in shipping costs and semiconductor prices suggests bottlenecks are receding



4) Moderate reduction on fiscal and monetary conditions

Policymakers need to walk a tightrope between acting patiently to support the recovery and at the same time preparing to act quickly if inflation expectations show signs of de-anchoring. **Central banks are looking beyond temporary inflationary pressures and are trying to avoid tightening policies prematurely until there is more clarity on underlying price dynamics.** The monetary cliff does not look particularly steep according to interest rate forward curves in G7, but it now looms over the economy. The next question after tapering is when the Fed will raise interest rates: we expect that to happen in the second half of 2022 as the labor market gets closer to full recovery. Monetary and financial conditions will tighten as central banks adopt a neutral stance and as they look to remove pandemic-era liquidity and interest rate support. **If the tightening is gradual and well communicated – thus, avoiding financial market surprises – we do not expect it to derail growth.** Fiscal policies in the developed economies are beginning to adhere to sustainable medium-term frameworks and although the current level of budget deficits is untenable, the **reduction in spending is moderate and economies will likely avoid a fiscal cliff in 2022.** Fiscal and monetary policies should adjust as growth stabilizes. Recovering economies will have less need for accommodative policy. Over the next two years, the focus of fiscal policy will shift from stabilization goals to the strengthening of long-term growth potential and debt sustainability.

Exceptionally loose monetary and fiscal policy has done what it was intended to do, and conditions continue to be supportive for growth

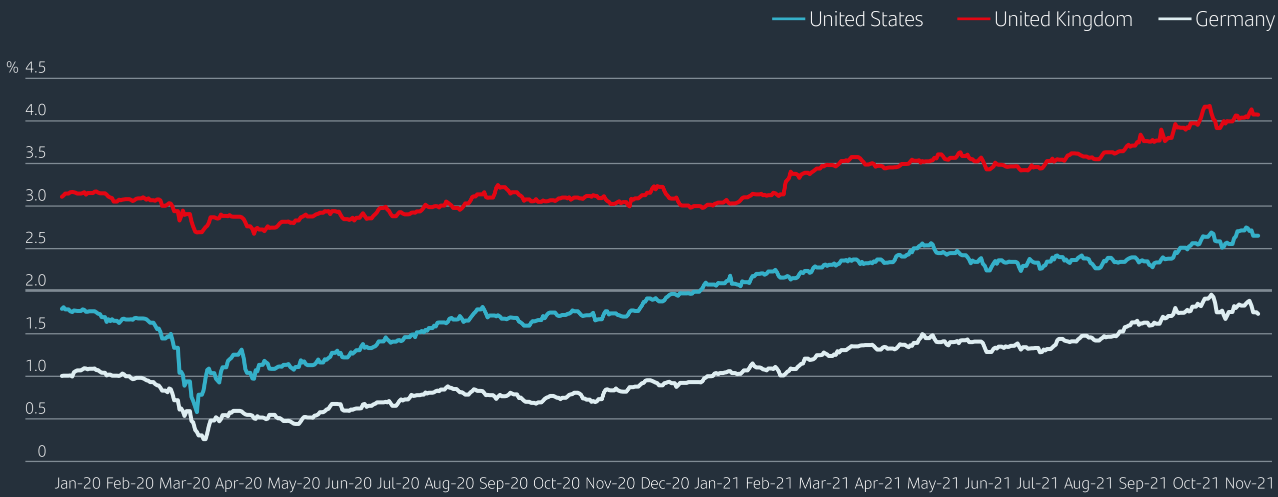
In short, **we believe that the global economic outlook remains positive. That will allow for economic growth to be above the average of the last decade.** The very moderate reduction in monetary and fiscal stimuli and the healthy financial situation of the private sector will enable the United States and Europe to underpin global growth and compensate for the slowdown in China. **This positive dynamic in the coming quarters will not be free from episodes of doubt and uncertainty as profound model changes are taking place in multiple geographies.** The macroeconomic equilibrium may be called into question by the markets as transitions from one growth paradigm to another take place. In the following chapters, our analysis teams will delve deeper into the consequences of a reversal of the credit, monetary, fiscal and trade stimuli that have enabled such a rapid and effective economic recovery. The global economy is approaching full recovery from the pandemic crisis and maintains the momentum of growth towards 2022, but we will need to be alert to the sources of tension in the various areas where a transition in the growth model is taking place.

Market concerns regarding stagflation will probably peak in the coming months but investors will have to get to grips with a radically different macro environment with less policy support and more uncertainty regarding growth and inflation outlook

2.0.3 10 Year inflation breakevens have increased in line with inflation expectations

Source: Bloomberg and Santander. Data as of 11/22/2021

Bonds are reacting negatively to upward inflation as it erodes purchasing power



SUSTAINABILITY: Society demands a transition to new paradigms

José Mazoy
SAM Global CIO

Sustainable investing is no longer a niche area; it is going mainstream. Assets in dedicated sustainable investing strategies are one of the highest growth segments of the wealth management industry. This demand looks poised to accelerate — driven by societal and demographic changes, increased regulation and government focus, and greater investment conviction. To achieve the **goals of the Paris Climate Agreement** and restrict further increase in global average temperatures to well below 2°C, human society needs to reach net-zero emissions of long-lived greenhouse gases by midcentury. This great transformation will only be possible if we replace, at scale, the global economy's productive asset base with non-polluting technologies.

More than 190 nations reached a deal at the United Nations summit in Glasgow that aims to accelerate greenhouse-gas-emissions reductions across the world and reduce fossil fuels (although it only agreed on the need to "phase down" rather than "phase out" coal). The summit managed to reach agreement on issues such as how countries report their emissions and rules for global carbon markets. The agreement sets new rules for trading carbon credits between countries, allowing governments to achieve their emissions goals by funding greenhouse-gas-reduction projects in another country. Officials expect the rules will lay the foundation for an international carbon market.

The number of countries that have pledged to achieve net-zero emissions has grown rapidly over the last year and now covers over 80% of global emissions of CO_2 (see graph 2.1.1).

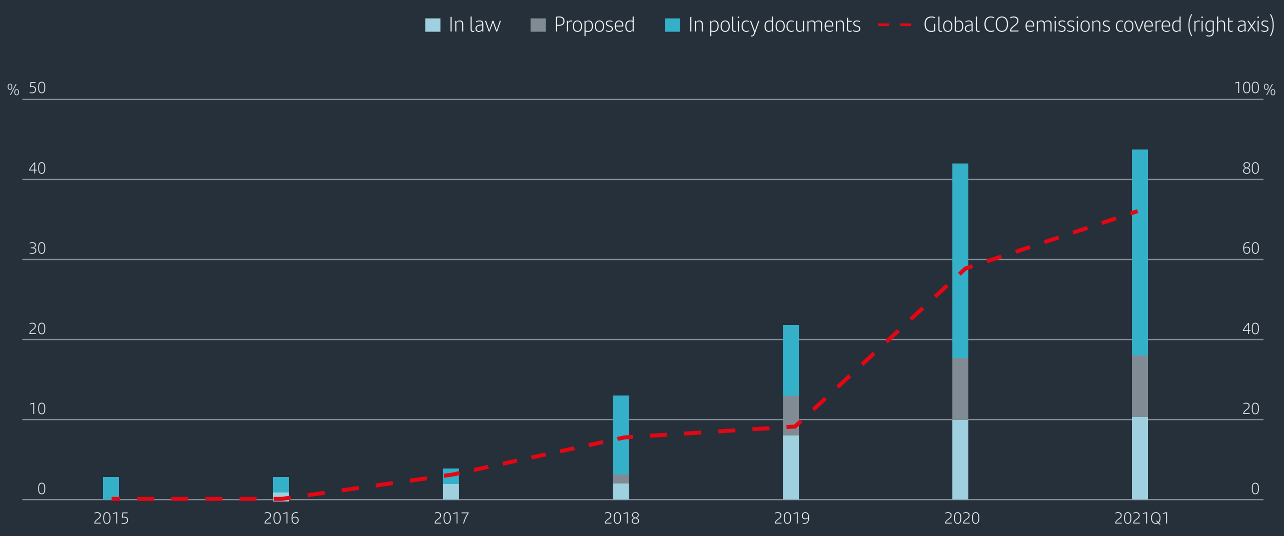
Climate risk is investment risk, and the narrowing window for governments to reach net-zero goals means that investors need to start adapting their portfolios today

There is a common will to address decarbonization. The world is looking for financing and investing solutions to accomplish it

2.1.1 Number of national net zero pledges and share of global CO_2 emissions covered

Source: International Energy Agency

World governments are increasingly committing to strengthen emissions pledges



In 2018 that number was just 15%. Governments are finally serious about ESG and are beginning to walk the talk. While the heavy lifting will have to be done by the private sector, **both the U.S. bipartisan infrastructure bill and the Next Generation EU fund will support the transition with sizable spending** on "green" infrastructure over the next five years (Table 2.1.2).

The recent framework put out by the White House through the **Build Back Better** (BBB) Act, still pending approval by the House and the Senate, includes US$ 555Bn for investments in clean energy and fight against climate change. 57% of those funds will be allocated for tax credits across different manufacturing sectors, mainly transport and residential. Another significant part of the bill will be directed towards clean energy technologies and federal clean energy procurement.

BBB framework means a massive allocation of funds to transitioning sectors such as electric vehicles, hydrogen production, alternative energy or carbon capture. It also means a huge opportunity for the financial sector as a driver of change.

Together with the already passed Infrastructure Bill, which is mainly focused on energy transition initiatives, the Biden administration clean energy framework represents an ambition but also a commitment. Over the next five to ten years, the world will not only focus on pledges, but more importantly on accountability and delivery .

The same applies to **EU Recovery and Resilience Facility,** the key instrument at the heart of **Next Generation EU** to help the EU emerge stronger and more resilient from the current crisis and make European economies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transition. This is called the 'Twin Transitions: Green and Digital'. Each national plan will have to include a minimum of 37% of expenditures dedicated to climate action and environmental reforms.

The opportunity is now and is global. The role of the financial sector in this transition is crucial, channeling the money from investors to the companies perfoming a successful sustainable transition and to the economies most committed to it. **ESG transitioning, not only green but also social, is the largest opportunity in our investment radar and the theme for the next decade.**

Government pledges alone are not sufficient to meet the clean energy goals by 2050. We need the private sector to join and speed up this transition

The changes that are developing as we speak to tackle the challenges for a net zero world by 2050 represent the largest opportunity on our investment radar

2.1.2 United States and European Union plans for investment place an important amount of funds for green transition

Source: The White House, Bloomberg NEF, Bruegel and Santander

The Build Back Better plan includes many climate initiatives

	United States (Bn$)		European Union (Bn$)	
	Infrastructure Bill (**passed**)	Build Back Better (**pending**)	EU Recovery and Resilience Facility*	Total (Bn$)
Green Transition	77	555	250	882
Tech Infrastructure	65		112	177
Social	**1**	**955**	**62**	**1,018**
Physical Infrastructure	341	150	0	491
Other	64	90	118	272
Total	548	1,750	542	2,840

**Total from national plans already presented and approved. Amount in USD. EURUSD =1.126*
The Facility can go up to max. 723M EUR

US: Economy needs to adapt to less fiscal stimulus in the future

Michelle Chan
SPB USA - Macro Strategist

The coronavirus crisis caused a much larger increase in fiscal stimulus than the global financial crisis. It was crucial to cushion households and companies from Covid-19, and to speed the recovery. Nevertheless, the fiscal support was uneven among countries, with almost 90 per cent of the active fiscal support pumped by **advanced economies and China. As a result, advanced economies have been able to recover at a much faster pace than emerging economies, which have less fiscal policy support** in addition to slower vaccination rollouts.

As opposed to the fiscal response from the Great Recession of 2007 to 2009 which ended prematurely and was insufficient to promote a steady recovery, during this pandemic crisis, **US government has spent over 25% of GDP so far on direct fiscal stimulus, well above other countries.** For instance, in the Eurozone, the eight largest countries have spent an average of 9%. **The massive fiscal stimulus resulted in a faster economic rebound in the United States compared to other countries.**

Moreover, this time, most of the US fiscal stimulus was concentrated in lower-income household fiscal transfers, which are the ones that have a higher propensity to consume. Excess savings have built up with the massive fiscal stimulus and this is supporting consumption despite the expiration of the extended unemployment benefits. **The transition from public sector spending to private sector investing and consumption is slowly taking place.** Additionally, household net worth, which is the value of all the non-financial and financial assets owned by households less the value of all outstanding liabilities, is at the highest level since 1980. Strong labor markets, high savings rates

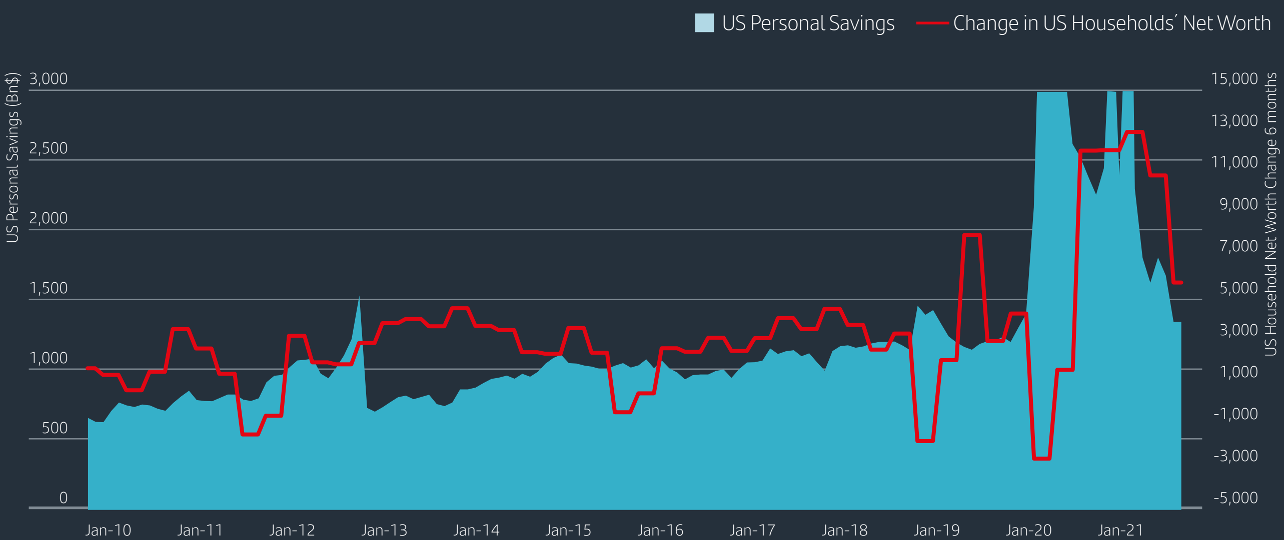
On November 5th the House of Representatives passed a $1trn bill to repair and upgrade America's ageing infrastructure

A $1.75trn bill dedicated to social and climate priorities such as universal preschool and clean-energy subsidies could also be approved and reduce/ counterbalance the fiscal drag

2.2.1 Economic growth in the US is strongly supported by favorable consumption fundamentals

Source: Bloomberg. Data as of 10/31/2021

Household net worth and personal savings have recently grown at their highest rate on record



and increases in household wealth all give support to private sector consumption in the coming quarters (graph 2.2.1).

As a matter of fact, **personal consumption expenditure (PCE) is the motor of US growth, accounting for about 70% of economic activity.** The majority of PCE is services consumption, which accounts for 60%, while goods consumption represents the remaining 40%. US consumption had a V-shaped recovery, it is already above pre-pandemic level, but it has been uneven. The recovery was driven by the consumption of goods, particularly durable goods that jumped +17.7% from pre-pandemic levels, while non-durable goods increased +13.9% from pre-crisis levels. On the other hand, services consumption has been recovering at a slower pace and it is still -1.8% below pre-crisis levels.

Consumption is supported by pent-up demand, the continuous fiscal support and the staggering wealth gains from the bull equities and property markets

As can be seen in graph 2.2.2, **a massive fiscal stimulus played a relevant role in the rapid V-shaped recovery of US. Furthermore, US fiscal stimulus is still not over: after passing a $550 billion infrastructure bill in November, the government is trying to approve a social stimulus package of almost $2 trillion,** i.e., 8% of GDP. Although the fiscal programs are not over, the peak of fiscal accommodation seems to have passed. Even if President Biden manages to pass most of his additional social plan, economists estimate a fiscal drag around -3% over the next year. Nevertheless, in the near term, there are still some important tailwinds for growth. First, the decrease of the Delta cases as well as further medical improvements. The increase of global vaccinations and the new antiviral drug from Pfizer should result in lower hospitalizations and deaths. These medical improvements should support further recovery in sectors such as travel, entertainment and services consumption, which were severely hit by the pandemic. Second, as mentioned before, household balance sheets remain robust. Third, firms need to rebuild depleted inventories and increase capex from historically depressed levels. The later should support growth even as demand decreases. These tailwinds should counterbalance the fiscal drag expected for next year.

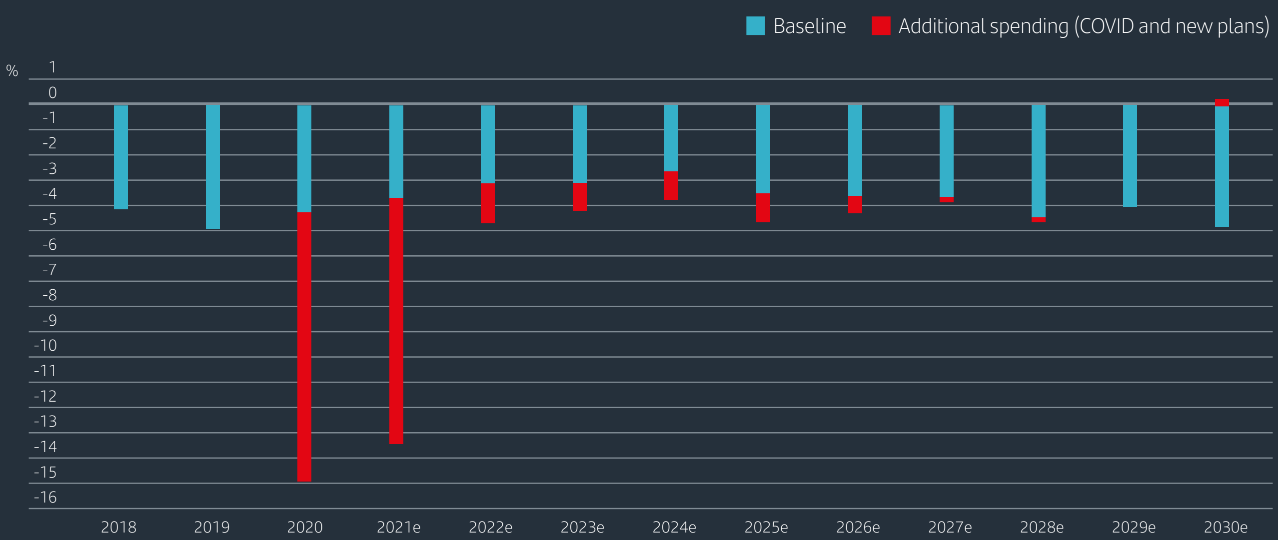
The pivot toward tighter fiscal policy is likely to be slow and mitigated by strong private consumption on the back of very favorable labor and wealth effects dynamics

Having this in mind, **according to the November Bloomberg News Survey economists expect US growth to slow from 5.5% in 2021 to 3.9% in 2022, which is still a robust growth taking into consideration that US growth potential is around 2%.** Growth should be stronger in the first half of the year as the reopening, pent-up saving, and inventory cycle dynamics play a greater role vis-à-vis the fiscal drag. For the second half, as the tailwinds diminish and the fiscal drag becomes larger, US growth should decelerate.

2.2.2 Aggressive fiscal pandemic relief programmes have allowed the US economy to recover at a record pace

Source: Congressional Budget Office (CBO) and Santander. Data as of 11/22/2021

The peak of the fiscal stimulus is over but deficits are projected to remain high



China: government focus pivots to financial stability

Agustín Carles, CFA
SAM - Head of Macro Research

Since the beginning of the pandemic, the evolution of the Chinese economy has been quite different from that of most of the rest of the world's economies. Not only because it was the first to enter recession (1Q2020), but because it recovered to its pre-crisis level in the following quarter. Even more surprising, because it was the only country in the world that at the end of 2020 had already regained the GDP level if there had been no crisis. Fast and tight control of contagions at the outbreak of the crisis, as well as the implementation of extraordinarily expansionary fiscal, monetary and credit measures, explain much of this evolution.

Chinese economy has enjoyed a rapid V-shaped recovery but the rebound has been uneven

However, since the beginning of 2021, once the economy had fully normalized, the pace of growth has clearly slowed down and the **economy has resumed its 10-year gradual deceleration trend.** Thus, from 10.7% in 2010, GDP gradually reduced its growth rate to 6% in 2019.

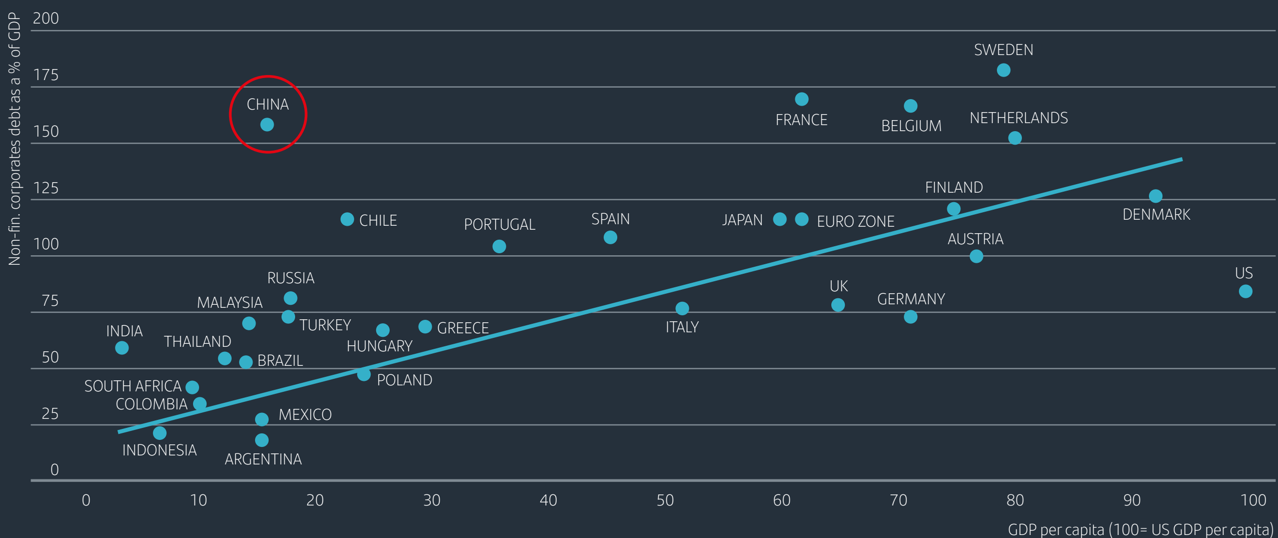
What is behind this growth slowdown that has been in place in the last 10 years prior to the pandemic and now seems to have resumed? Double-digit growth after the Great Financial Crisis (GFC) was due to the **strong expansion of investment,** with a consequent increase in corporate debt that served to finance that investment. As a result of this growth pattern, investment came to weigh around 45% of GDP, while **corporate debt has reached a level of 160% of GDP**. Those figures are not only record highs for China, but also very high by international standards (graph 2.3.1), not only today, but also for the past 50 years.

China is focusing in a “dual-circulation strategy” remaining part of the “international circulation” of global trade, but emphasizing “domestic circulation” (building of a vibrant economy at home while reducing dependence on others)

2.3.1 Non-financial corporate debt as a % of GDP and GDP per capita 2021

Source: IMF and Santander Asset Management

Chinese economy main weakness is excessive non-financial corporate debt



**GDP per capita in this chart assumes that the GDP per capita of the United States = 100. As an example China`s GDP per capita is 15% relative to that of the United States.*

For this reason, in view of the **lack of sustainability of this growth model,** the economic authorities tried to reduce these imbalances through a gradual moderation of credit growth, especially to companies. The COVID-19 crisis blew this process of credit slowdown. However, once the economy returned to its pre-pandemic trend, this process resumed and, given that both investment and corporate debt levels are still very high, it will not be reversed.

Among the measures taken by the government, specifically for the real estate sector, China implemented a deleveraging campaign called "three red lines" where a) property firms' liabilities shouldn't be more than 70% of assets, b) net debt shouldn't exceed equity and c) cash should be at least equal to short-term borrowings. This year, **Evergrande, one of largest real estate developers -and the most indebted one- was unable to borrow further and failed to meet its obligations**. The crisis was averted but financial stability is more important than ever for China.

So is the Chinese economy running out of growth levers? First of all, it should be borne in mind that investments were only able to reach this weight in GDP because domestic savings have been very high (since it has been the latter that has financed the former). The flip side of this high savings has been a very low level of consumption (graph 2.3.2) which should increase its current weighting of 40% GDP to levels more in line with international standards (above 50%). The authorities' credit policies are aimed precisely at changing this growth mix, no longer based on investment but on consumption. Thus, while corporate debt is currently at a level similar to that of 2017, household debt, while still quite low, has increased from 40% to 65% in that period.

For this reason, although the necessary **adjustments in both corporate debt and investment are going to make it inevitable that China's growth rate is going to continue to moderate** in the coming years, we believe that, consumption will at least partly compensate for the lower prominence of investment. Risks of a hard landing in this change in the growth are not out of the question, but very not likely. First, because so far **authorities have shown clear signs of effectively maneuvering the activity** through their economic policies. And second, because, despite their imbalance, we do not see as likely an uncontrolled adjustment in investment. And, unlike in other economies in the past, it has been domestic savings and not external savings that are behind this imbalance.

Policymakers appear to put a growing weight on objectives other than short-term GDP growth, including income distribution, financial stability, and decarbonization

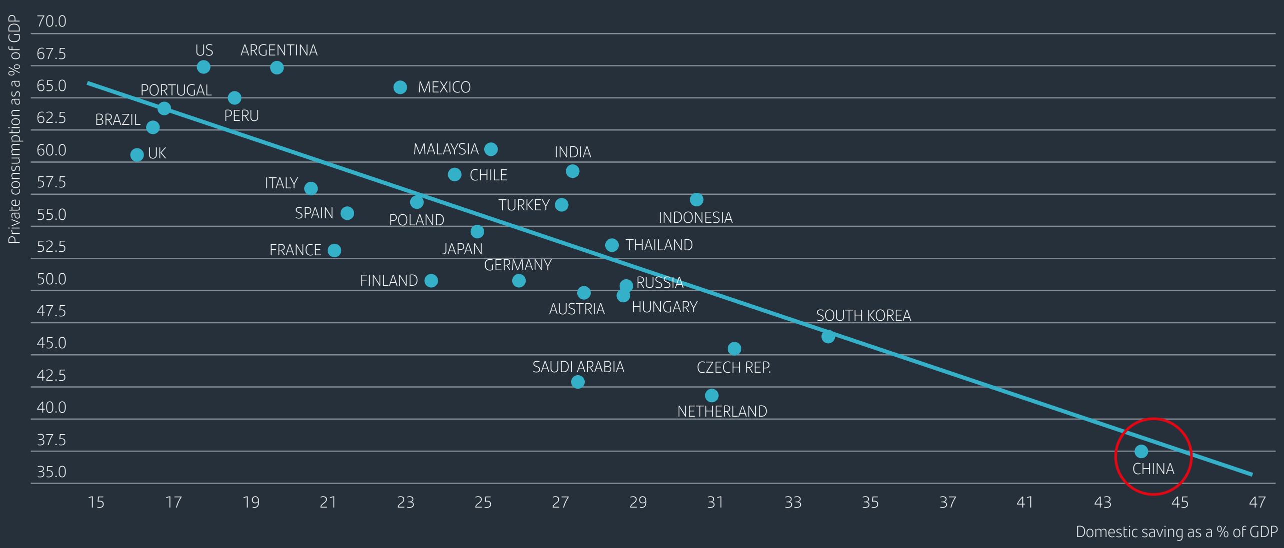
China´s manufacturing sector has powered ahead but consumer spending has lagged behind adding to the chronic weakness of private consumption

China is aiming for greater self-reliance promoting consumption, local production and investing in technology that increases domestic supply chains

2.3.2 Private consumption and domestic saving as a % of GDP in 2020

Source: IMF and Santander Asset Management

China has a historic reliance on high savings to fund strong investment needs



Europe: The opportunity of policies to focus in the long-term

Alfonso García Yubero, CIIA, CESGA®, CEFA
SPB Spain - Head of Investment Strategy

So far in the 21st century, the actions of the authorities of the European Union and the Euro Area, specifically in fiscal and monetary matters, have been characterized by reactivity and short-termism rather than proactivity and perspective. A few examples of actions with a sense of urgency rather than a vocation for legacy, of good and bad decisions, are (i) the 25 bp interest rate hike (to 4.25%) undertaken by the European Central Bank in July 2008, just over two months before the worsening of the Great Financial Crisis (GFC); (ii) the forcefulness with which Brussels urged peripheral member states to focus on fiscal austerity in 2011-2013, when the economic orthodoxy of countercyclicality recommended the opposite, or (iii) the deployment of stimulus through numerous facilities of various kinds to alleviate the deep economic dent of COVID-19.

As we head to 2022, we believe that **Europe is at a crossroads** marked by the **deployment of the Recovery Funds** (Next Generation EU) and the **new post-pandemic normality.** It is a sizeable opportunity -and a challenge- for the European institutions to make a good use of those funds and take advantage of the ongoing green transition to take the lead of the sustainability change.

The **first challenge is to raise potential growth in the region** (see graph 2.4.1), the key to increasing well-being and reducing inequality, whose disappointing trajectory since 2007 -in the run-up to the Great Financial Crisis (GCF)- shows it is currently below 2% and below the levels of 15 years ago.

European policymakers have in the past suffered from an excessive focus on immediate problem solving and a lack of far-sighted strategies

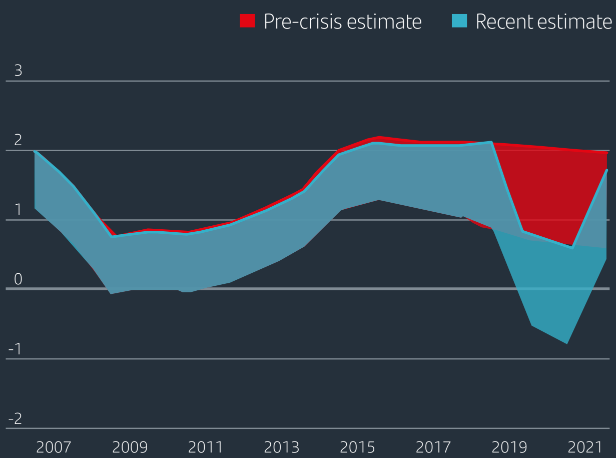
The EU recovery plan can turn the immense challenge of supporting the recovery into an opportunity to invest in the future and promote innovation

2.4.1 Raising potential growth as a key to greater prosperity

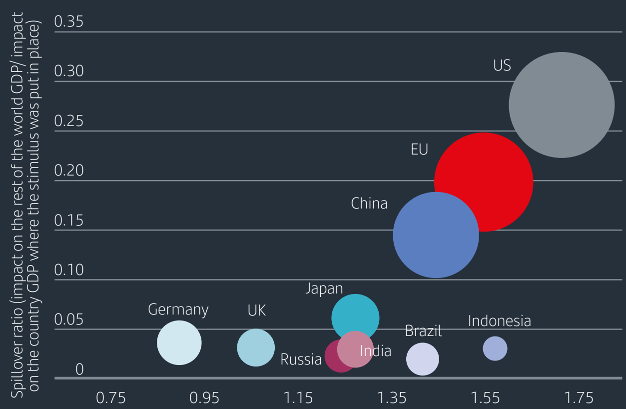
Source: ECB and Oxford Economics

The high fiscal multiplier in Europe is an opportunity to optimize the effectiveness of the Recovery Funds

Euro Area - Potential growth range (% annual average variation)



Fiscal multiplier* and indirect effects



**The fiscal multiplier is how many units GDP increases when there is a fiscal expansion of one unit).*
Size of the bubble = size of the economy in current USD.

Of its three explanatory variables, improving **demographic dynamics** within a reasonable time horizon seems utopian, but we do find grounds for optimism in the productivity and capital stock factors. After a period of quasi-stagnation in the last decade, the leap in **productivity,** the main thermometer of prosperity, which would result from now on from the fact of having crossed the adaptation threshold (around seven years) of the latest technological leap, could be significant. Regarding **investment in capital,** the mobilization of Next Generation EU funds, with a priority focus on investment (energy transition, digital and ageing/dependency management), and the low level of growth in investment from the GCF, could have a significant multiplier effect on growth. In short, **there are arguments for predicting that in the next decade we will see an increase in potential growth.**

Europe has a unique opportunity to increase the level of investment that would over time expand Europe's R&D capital stock

The **second challenge facing Europe is to close the technological performance gap with the US,** a gap that the market has reflected in a clear outperformance by the US companies over the last two decades. **It is not something utopian.** We must bear in mind that the new technological leap in which we are immersed rests on artificial intelligence and robotics, with a focus on the digitization of industrial processes. And in the manufacturing industry, software is a necessary but not sufficient condition to solve the digitalization equation. In addition, extensive experience in the hardware sector and the establishment of long-lasting relationships with customers are necessary as the basis for a deep understanding of the business, something that many European companies have competitive advantages. The difference between the current and the previous technological leap is that the first one (early 21st century) was more focused on the consumer through the internet.

National investment plans must devote at least 37% of their outlay to climate-related objectives and a further 20% to digital initiatives

The figures show that **Europe is indeed leading the way in "responsible capitalism".** In the list of the 100 companies that best met ESG criteria in 2021, more than half of the total and three of the top five were European. **Sustainability is a priority objective of the European Union.** The EU's "Green Deal" involves the mobilization of 1 trillion euros with the aim of being the first carbon neutral continent by 2050. As the President of the European Commission, Von der Leyden, pointed out at the time, it is something "equivalent to the arrival of man on the moon". And in this field, Europe also has several leading companies in the field of energy transition.

Europe is facing the opportunity to lead the way in terms of energy transition

2.4.2 More than EUR 800 billion to forge a new Europe

Source: European Council/Council of the European Union

Alignment with EU priorities, addressing country-specific challenges, supporting the ecological transition and promoting digital transformation are the main lines of action

03
Investment opportunities in markets in transition

Investors are pleased with the returns achieved by risky assets during the recovery, but are concerned about risk-free yields, rising inflation and slowing growth.

The paradigm shift is forcing investors to take a hard look at their investments to combat the challenges of the transitions in which the major financial assets are immersed. We see the following as key areas of focus for investment in the coming quarters:

- **Remain invested with a more defensive bias**
  The most favorable phase of the cycle for the markets (peaks in growth and stimulus support) has already passed.

- **Need to incorporate active management**
  The cycle continues, but faces a phase of higher volatility, where active risk management and prioiritising diversification will be key.

- **Maximize flexibility in fixed income**
  The twin challenges of low rates and inflation imply the need to redesign investment portfolios and diversify beyond traditional fixed income.

- **Incorporate a focus on sustainability**
  In a low-growth environment, the transition to a zero-emission world represents a huge opportunity.

- **Select companies with pricing power**
  Focus on innovative companies and with pricing power in order to offset the effect of rising input costs on margins.

- **Diversify into alternative assets**
  Investing in private markets has generated very high returns and allows diversification into different sectors of the economy.

Looking past the recovery, investors need to pay attention to the shifting macro dynamics and look for opportunities in the different market transitions. The most important change in the current investment paradigm is the transition to higher uncertainty in terms of monetary policy framework. As inflationary pressures begin to build up and economies recover fully, central bankers are running out of justifications to keep rates at such low levels and markets need to factor in an environment of rate increases going forward. The 2022 investment environment will be different in several important aspects from the past two years, and the high probability of the Fed raising rates is perhaps the most important one. **Bond markets have begun to feel the stress of this build up of monetary tensions,** but given the circumstances, they have been relatively tame.

We expect a higher inflation regime in the medium term although we see the US normalizing policy rates by the end of 2022 and Europe staying put even longer. Taken into consideration how inflation has pushed real interest rate deep into negative ground **forces investors to increase the level of inflation protection in their portfolios and boost diversification in the search for real yield and returns.** The coming months will be a difficult balancing act for central banks and provide a volatile environment for bond investors. Given the complexity of the environment and the need to invest in less conventional instruments, **we would consider investing in fixed income through flexible funds** and investment vehicles that can manage volatility to optimize returns in portfolios.

Investment specialists will look to deconstruct traditional fixed-income diversification frameworks given a realistic assessment of what range of returns highly rated bonds can deliver. **Corporate bonds in the high yield spectrum have provided a source of positive returns, but spreads have tightened to below precrisis levels.** We continue to recommend short duration strategies but, as markets begin to factor in the beginning of the tightening in the US, some opportunities may arise if the slope of the curve steepens. **As the economic cycle progresses investors should begin to reduce the overweight in credit risk towards less economic sensitive instruments.** In the coming quarters we may exploit selective opportunities in emerging markets as the risk-return profile has improved significantly and the risk of tightening in monetary policy is more discounted than in developed markets. Structured products (offering different degrees of capital protection) and emerging markets bonds (which are ahead in terms of rates tightening) could provide some diversification benefits as we transition into an environment of rising rates and abnormal inflation.

Investors should prepare to navigate unfamiliar terrain as both markets and the macro landscape undergo dramatic transformations

As unprecedented fiscal and monetary policy support fades, we favor a defensive duration stance in fixed income

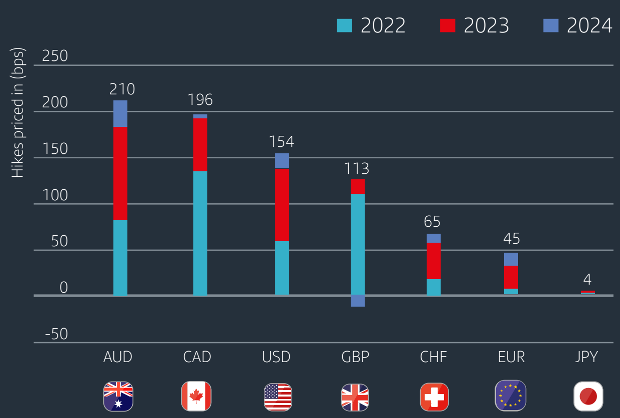
Real yields are negative across developed country markets implying negligible returns for core bond portfolios

3.0.1 Implied interest rate market hikes for the next three years

Source: Bloomberg. Data as of 11/24/2021

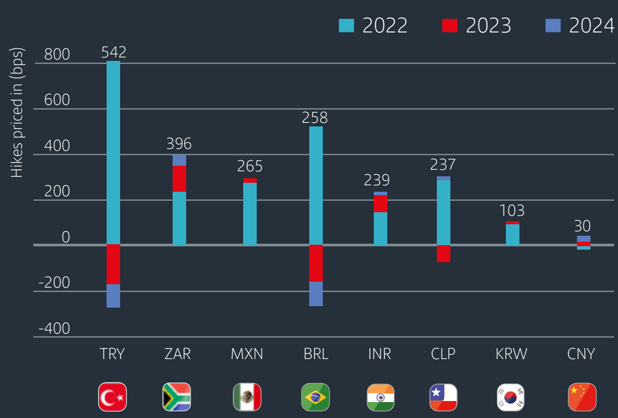
Investors face the transition to a less benign interest rate scenario

Developed markets



	AUD	CAD	USD	GBP	CHF	EUR	JPY
Current policy rate	0.10%	0.25%	0.13%	0.10%	-0.75%	-0.50%	-0.05%
2021 hikes in bps	0	0	0	0	0	0	0

Emerging markets



	TRY	ZAR	MXN	BRL	INR	CLP	KRW	CNY
Current policy rate	15.0%	3.50%	5.00%	7.75%	4.00%	2.75%	0.75%	2.20%
2021 hikes in bps	0	25	100	575	0	225	50	

The good news for 2022 is that growth should be solid and that provides support for earnings and credit risk. The bad news is that policy is tightening and many risk premiums are compressed versus comparable periods. In an environment of ongoing economic growth and negative -or low- real yields, we remain constructive on equities in our asset allocation portfolios. **In addition to low competition from fixed income alternatives, equity markets have been enjoying the support of better-than-expected quarterly earnings reports.** To be fair, the recent earnings season has also shown that almost every industry is affected by the current supply chain issues. Increased consumer demand, a tight labor market and COVID-19-related restrictions have put strong pressure on global supply chains and significantly increased input prices. But the resilience of companies in terms of their profit margins has been surprising to market participants.

Equities transition to lower growth and higher input costs but we still expect positive earnings growth as corporates absorb the first wave of margin compression

We maintain a positive outlook on corporate earnings for the following quarters. In our view, investors are underestimating the strength of economic fundamentals, which support higher nominal GDP growth in this cycle. Household and corporate balance sheets began the expansion in a position of strength thanks to generous economic stimulus, fiscal drag is not poised to be as fierce of a headwind in 2022, and significant shortages are boosting incentives for businesses to invest in capex. **Despite inflation there are compelling reasons why stock markets are proving so resilient and trade close to all-time highs.** Third-quarter earnings surprised to the upside, global supply chain pressures seem to slowly improve, and onerous corporate tax hikes have been postponed. The outlook for equities remains constructive as economic activity remains very elevated, capex intentions are still bullish and flows into global equity markets remain strong.

The opportunity set and upside for equities is less appealing as a result of market appreciation, but valuations still hold on a relative basis

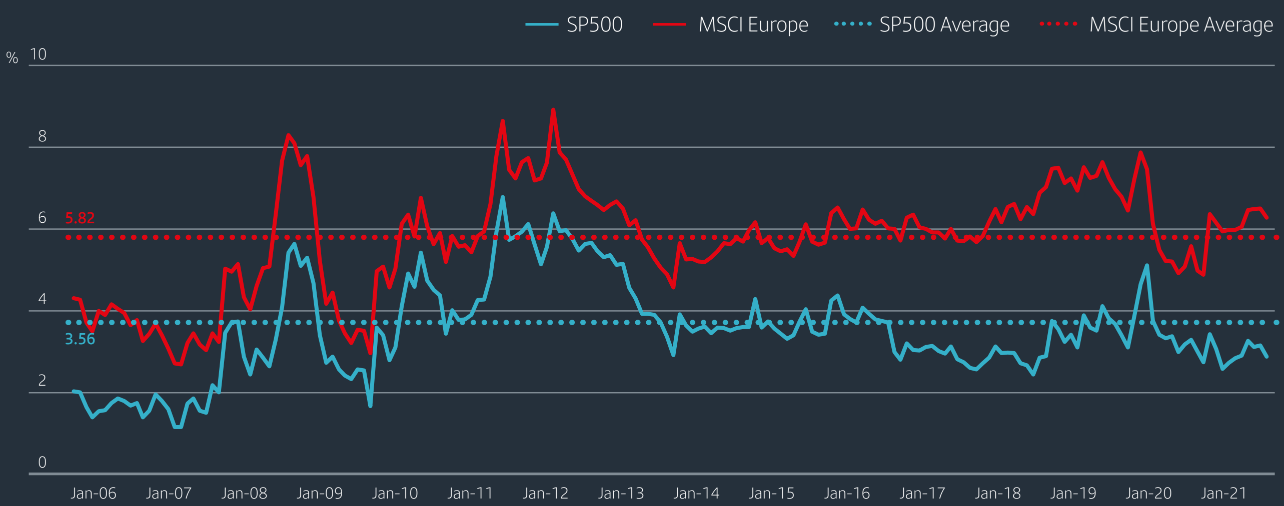
The big drivers of rising profit margins in recent years –stagnant input and labor costs, decreasing interest expense and historically low tax rates – look at risk of going into reverse going forward, but the deterioration in 2022 seems moderate. **We maintain our preference for equities among the main asset classes on a strategic basis, as we see valuations as reasonable after taking into account the expected path of interest rates.** The graph below illustrates how equities continue to enjoy a fair risk premium over bonds both in Europe and USA. But we believe a backdrop of rising cost pressures makes it **key to differentiate across regions, sectors and companies.** Selecting stocks with **pricing power in the current scenario of inflationary uncertainty will be critical** in achieving positive returns.

Investors could consider delaying the decision to risk-off their portfolios as long as monetary conditions are supportive and growth expectations remain above normal

3.0.2 Equity Risk Premium (1/PER - 10 Year Bond Yield)

Source: Bloomberg and Santander. Data as of 10/31/2021

Thanks to solid corporate earnings growth equities still offer relative valuation support



In an **environment of economies in transition where real and nominal interest rates are likely to remain anchored at low levels,** we think it makes sense to seek to maximize the opportunity in traditional fixed income strategies with **flexible mandates** aimed at taking advantage of the full global opportunity set. It would also make sense, in our view, to **look for alternatives beyond traditional fixed income, such as private credit and real assets.**

Investors could look to select alternative investment strategies that are suited to their risk tolerance and that complement their existing portfolio. Alternatives may be able to help investors construct portfolios with higher risk-adjusted returns throughout the economic cycle. Alternative investment strategies are designed to tap into idiosyncratic return drivers and they may help investors manage portfolio risk through diversification benefits, increase overall portfolio returns, or both. Hard assets (private real estate, gold, and broad commodities) have proven resilient (generating positive real returns) during periods of rising inflation and in the 12-months following high inflationary periods, on average. Record deal volumes, historically low interest rates and huge amounts of dry powder is a combination for explosive alternative asset industry growth. **We would consider an opportunity for sophisticated clients to pivot their portfolios into private markets in order to capitalize on the illiquidity premium and the expanded opportunity set.**

We believe **sustainability is a driver of prosperity** as it is the foundation of better consumer engagement, productive and retained talent, sizeable market opportunities, and wider access to capital. Businesses cannot ignore it in the way they create value, investors are making allocation decisions accordingly, and governments are and should be pushing for regulation that favors such investments. **The economic opportunity of sustainability is being grasped by investors** worldwide and we have upgraded our product offering with a whole range of ESG solutions.

Innovation is also a key driver of growth and returns as economic sectors and societies continue to undergo a great deal of disruption as a result of technological and sociodemographic changes. We continue to recommend an overlay positioning in thematic investing emphasizing opportunities in energy transition, artificial intelligence (semiconductors), cybersecurity and healthcare innovation. **As economies and markets transition into new paradigms, investors could consider investment options in innovation, sustainability, diversification and active management and avoid the trap of negative real interest rates.**

We believe growth and inflation (even more) may run hotter this cycle so investors should increase inflation protection in their portfolios

Explore the opportunities provided by innovation and the transition from brown to green (sustainability)

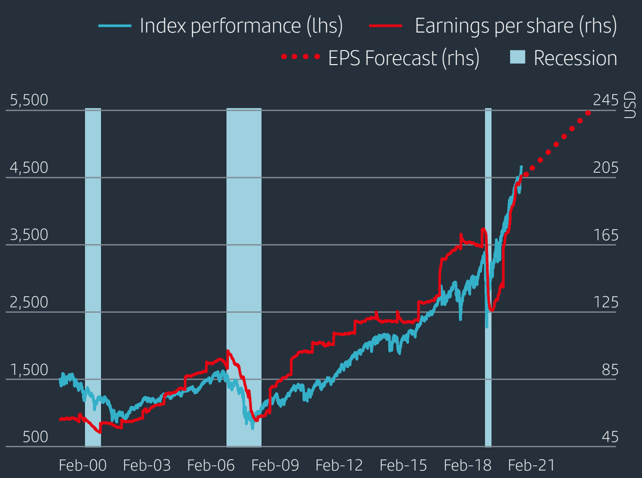
Investors could consider options in the alternative space in order to take advantage of the illiquidity premium

3.0.3 Long-term correlation between equity returns and corporate earnings growth

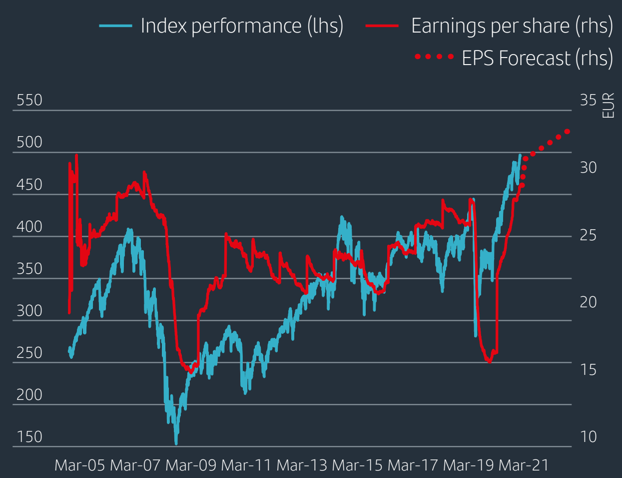
Source: Bloomberg and Factset. Data as of 11/09/2021

Outperformance of US versus European stock markets has been driven by superior earnings growth

US stock market (S&P 500)



Europe stock market (Stoxx 600)



FIXED INCOME: Bond investors muddle through rising rates

José Rodriguez, CFA
SPB Fixed Income Strategist

Fixed income markets are currently weighing several potential peaks — peak growth, peak inflation and peak policy support. These potential macro developments could have different implications for bond markets. In contrast, adjustments to inflation forecasts have been less bond friendly. Although inflation is widely expected to remain transitory, and as such remains our base case scenario, high energy prices and supply bottlenecks could keep inflation stickier for longer. As troubling as the incoming inflation prints are, the market will continue to take some comfort from more limited evidence that inflation is becoming embedded in expectations.

Markets are starting to discount the first rate hikes in the US by the end of 2022 but investors are only assuming somewhat more than six interest rate hikes for the entire rate hike cycle. In the past, the Fed has taken around ten to twelve interest rate hikes over a cycle. The market therefore expects that the central bank will have to act less restrictively than in the past in order to achieve its monetary policy goals, but this scenario could be challenged going forward. The confirmation of Jerome Powell as Fed chairman reinforces the consensus view of at least two rate hikes in 2022. **We anticipate a market turbulences as the current low negative rates (see graph below) imply important purchasing power losses for the most conservative investors.** Yield curves could experience swings driven by changes in term premiums and the impact of a more aggressive path of tightening.

In the case of European government bonds, given their currently full valuations we expect a **potential repricing of euro bonds, but negative net government supply should limit any Bund decline.** Positioning in periphery bonds still seems like a reasonable opportunity given that monetary and fiscal policy remain very accommodative (Spain and Italy will receive large shares of the Next Generation EU (NGEU) funds until 2026).

A great majority of all investment grade bonds trade below the market's expectation for inflation over the next 10 years

A continued normalization of the labor market over the coming 6-12 months argues in favor of Fed rate hikes next year

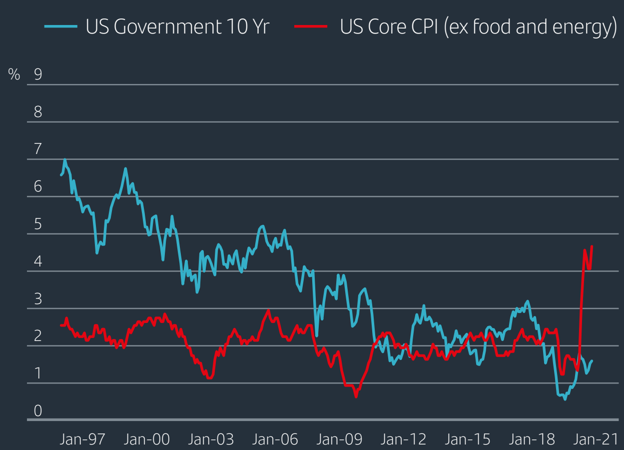
There are not a lot of positive real income opportunities in the largest part of the bond market, exacerbating the challenge of generating income in our low but rising rate environment

3.1.1 Government bond yields are too low vs. inflation

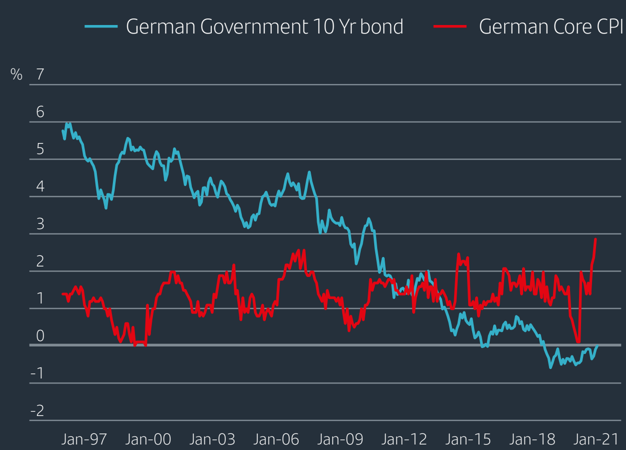
Source: Bloomberg. Data as of 10/31/2021

Investors face negative real returns given the current spike in inflation

US 10 Year Treasury yield vs. core inflation



German 10 Year Bund yields vs. core inflation



Most of the scenarios implied by a rising rate environment give rise to negative expected returns for most maturities. As a consequence, **it makes sense to keep portfolio duration low, high diversification into alternatives with positive carry and preference for active managers that can add value in periods of volatility.** Tighter monetary policies will pressure global bond yields higher over the next 6-12 months, but not equally. Stay underweight countries where tapering and rate hikes are more likely (the US, the UK, Canada, New Zealand) relative to countries where policymakers will move much more slowly (euro area, Australia, Japan).

We maintain our emphasis on finding yield with limited duration risk, focusing on credit

Credit exposure in fixed income portfolios continues to be critical given low risk return appeal of government bonds and the high likelihood of global defaults overall will likely remain below historical averages, assuming continued economic recovery and relatively benign funding conditions. The COVID-19 pandemic has left a legacy of high government and corporate indebtedness, which will create repayment risks when growth and earnings prospects weaken or liquidity wanes. Given **current low spreads in investment grade bonds** we are becoming more cautious about the exposure to this segment of the credit market as **the era of balance sheet improvement is over.** We favor investing in real assets that could benefit from transitory but rising inflation expectations, specially short-term TIPS.

Keep calm and keep the carry in High Yield but be ready to pivot into investment grade when duration risks start to diminish

We continue to maintain an overweight in high yield issuers based on our central scenario of above average economic growth and the continuation of asset purchases programs by the Fed and ECB during most of the coming four quarters. In this scenario there is a strong likelihood of a continuation of spread contraction and outperformance of high yield versus investment grade bonds. **For the second half of the year, we could contemplate an opportunity to pivot the overweight in high yield credit towards investment grade and begin to reduce the underweight in duration.**

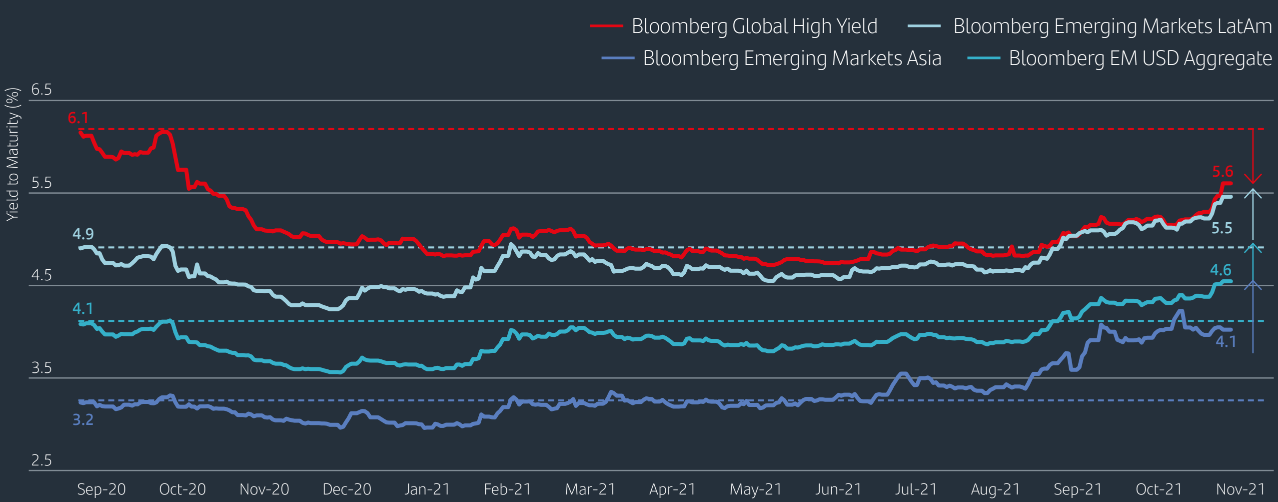
Emerging market debt curves are steep, so they factor in a high degree of tightening as their central banks seem to look ahead of the curve. Unlike developed economies, central banks in some emerging nations have not been able to treat inflation as transitory. With consumer prices far in excess of central banks' targets, most EM policymakers have responded by increasing their official rates this year. There are indications **that emerging markets price pressures may be starting to ease and that could trigger an opportunity to position portfolios to issuers in this higher yielding space.**

Opportunities are beginning to appear in emerging markets, though downside economic risk tied to inflation and political risks remain

3.1.2 Yield to Maturity evolution of Global High Yield vs. Emerging Markets bonds in the past 12 months

Source: Bloomberg. Data as of 11/28/2021

High Yield investors have enjoyed strong returns in 2021 as spreads have compressed



EQUITIES: Stocks face transition to lower growth

Carlos Shteremberg, CFA
SPB Equity Strategist

The next 12 months will be defined by a period of transition from high earnings growth to lower earnings growth, and from policy-fueled growth to organic growth. Although supportive fiscal and monetary policies have been the main driver behind equities in 2021, that support has flowed through to rising **earnings expectations, which have entirely accounted for this year's positive performance.** As the graphs below show, there has been no multiple expansion in this year´s rally. While it's true that equity markets remain expensive compared to history, their valuations are actually quite reasonable when compared to bonds yields. Valuation spreads between the two asset classes are in line with long term averages. We believe that although rates will increase over the next 12 months, they will remain low. The combination of low and rising rates will continue to **force otherwise-conservative investors to take additional risk and direct flows to equities,** which should be supportive of valuations through at least the end of 2022.

Earnings growth may ease to a more sustainable pace next year, but the level is expected to remain robust

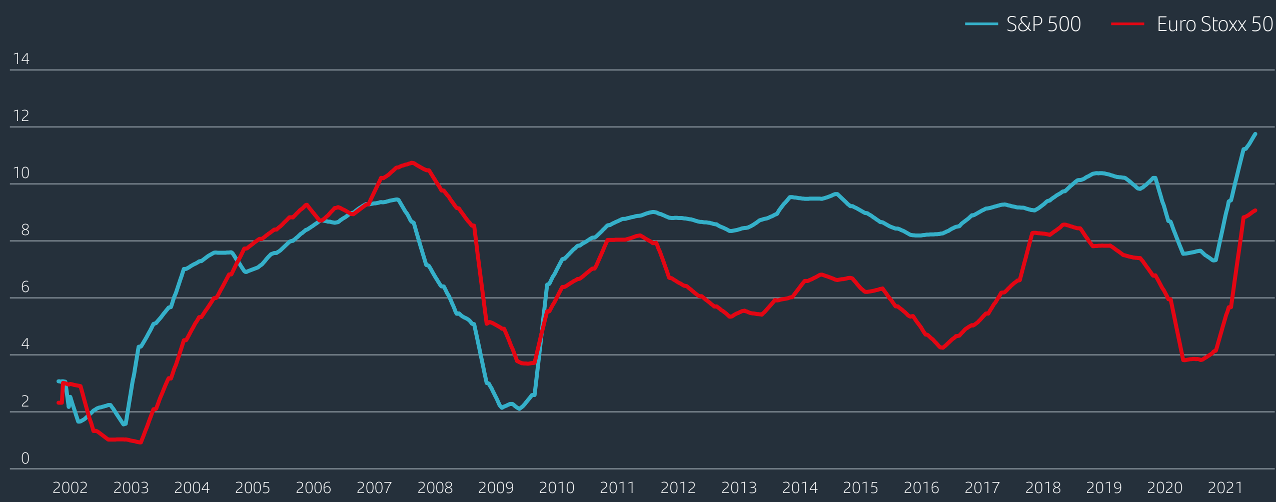
Given robust earnings expectations and high positive correlations between earnings and index prices, **2022 bodes well for equity investors if these growth estimates hold.** Although there are reasons to believe that they will (high accumulated savings, pent-up demand for services, and still-accommodative policy), they depend on inflation being transitory as central banks argue. The relative performance of equities after a rise in inflation depends partly on the starting point. Equities tend to outperform other asset classes when inflation rises from a low starting level (CPI below 2%). However, if the rise in inflation comes from a starting point where inflation is already above the historical median, equity performance tends to suffer. **Outside of a scenario of decelerating growth combined with very high and rising inflation, equities can be expected to outperform while economic and earnings growth remain strong.**

While it's true that equity markets remain expensive compared to history, their valuations are actually quite reasonable when compared to bonds yields

3.2.1 US companies enjoy higher margins than European peers

Source: Bloomberg and Santander. Data as of 11/22/2021

Margins of the the "new economy" (innovation, pricing power and quality) in the US outgrow those of the "old economy" (financials, utilities) in Europe



Stocks have so far largely ignored a worsening rout in bond markets, as robust earnings and **lack of investment alternatives in other asset classes continue to drive risk appetite. Stocks are likely to generate mid-single digit returns next year, but that will continue to outperform the returns offered by bonds and cash.** But stocks will generate much lower returns compared with those enjoyed by investors over the past year. The era of abundant liquidity is coming to an end and equity markets trading at record highs will need to rely on earnings growth to continue performing well.

Although **earnings growth estimates remain robust, it is only natural that they decelerate from the astronomically high levels seen in the third quarter.** This should not necessarily scare investors as historically, during periods of earnings growth deceleration, positive returns could be obtained. Still, periods of earnings growth deceleration have historically been accompanied by increased volatility and increased sector dispersion. As this dynamic unfolds, **investors would benefit from active management as a more slowly-rising tide will no longer lift all boats.** In addition, as earnings decelerate, growth sectors should become more attractive while value will lose their shine. However, we have a **positive view on the financial sector** and particularly banks as they are well positioned to take advantage of rising rates. **Similarly, we have a positive view on the dynamics of margins' sustainability, growth and innovation in the health sector.**

At the micro level, **identifying firms with pricing power is crucial for investors as corporate margins could begin to feel the pressure** from rising commodity and energy prices and difficulties in hiring and retaining talent in the workforce as labor markets are become increasingly tight. If inflation becomes less transitory than the market expects, firms with digital business models and less dependence on physical supply chains could outperform. Also, as shortages are ubiquitous, we maintain a preference for industries that are positioned upstream in the supply chain. We also **continue to consider some exposure to themes that are leveraging on innovation and enjoying exceptional rates of growth** like cybersecurity, energy transition, artificial intelligence and internet of things.

While the fate of Evergrande Group, China's second largest property developer, remains uncertain, our view is that the government will devise a restructuring plan. We have recently upgraded our outlook on Chinese equities.

Despite inflation pushing up costs, corporate profit margins hit multi-year highs in the third quarter

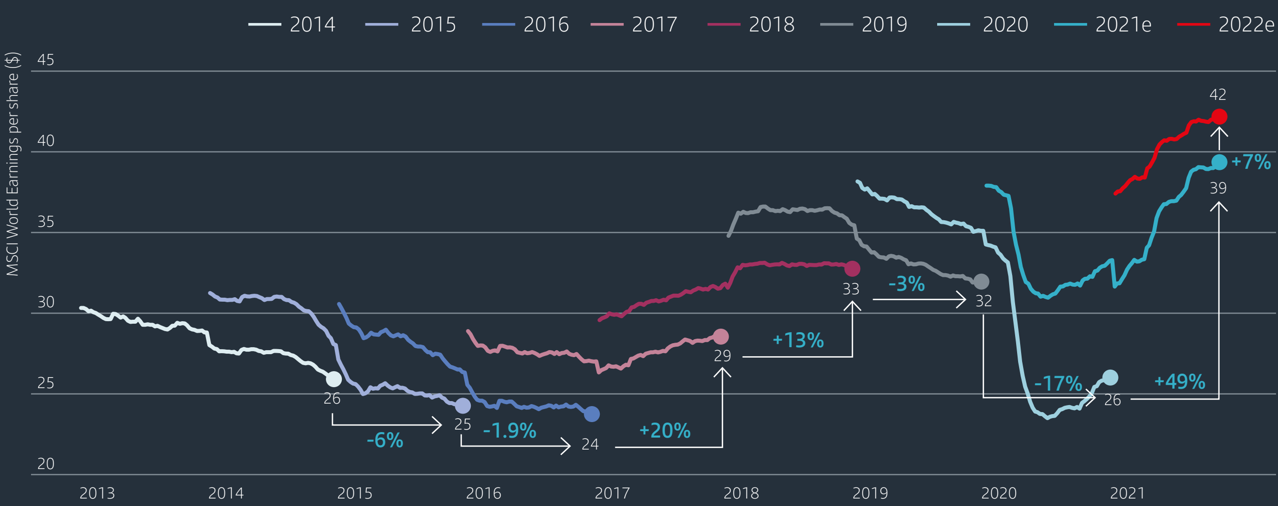
The era of abundant liquidity is coming to an end and stock markets trading at record highs will need to rely on continuous earnings growth

Our sector overweights are a mixture of Value (Financials) and Growth (Health Care/Communication Services in the US)

3.2.2 Equity market rally in 2021 has been boosted by record earnings recovery

Source: Bloomberg and Factset. Data as of 11/10/2021

Earnings growth expectations for 2022 are 7% globally (6% in Europe and 8% in the US)



The graph represents analysts' earnings per share (EPS) estimates over time. Estimates for 2020, for example, began in mid-2019. The dot represents the final EPS for that year, 26 in this case. Comparing this to the expected closing EPS for 2021, which is 39, implies a 49% growth in EPS. For 2022, current estimates assume 7% growth vs. 2021.

ALTERNATIVES: Investors continue to transition into private markets

Borja Díaz-Llanos
SAM Head of Alternatives

Isidro Fernandez
SPB Head of Alternatives

In a market environment where equity valuations continue to soar to all-time highs and interest rates sit at all times low, the importance of adding alternative investments to a diversified multi asset portfolio becomes a necessity. **The increased demand for alternatives following the onset of the pandemic reflects investors' desire to seek differentiated and enhanced sources of return and yield.** In the year following the pandemic, private debt fundraising has been on a continuous uptrend, with capital inflows for the sector in 2021 standing at $130 billion, on track to exceed 2020 total for $153 billion. When analyzing historical returns for private debt, we find performance continues to be competitive with that of public markets over the past 20 years, producing significant outperformance while reducing volatility.

Recent vintages of private equity funds have produced outstanding returns (graph 3.3.1), as managers benefitted from the short-lived dislocation caused by the pandemic to deploy record levels of dry powder and also benefit from the quick recovery to become large sellers of portfolio companies at attractive valuations. Private equity managers´ flexibility to deploy capital as well as divest holdings at an optimal time without worrying about liquidity, give alternative managers an upper hand over traditional investing.

Institutional investors' allocations to alternatives have increased across the board, having more than doubled in the last 10 years. According to Preqin, global investments in private equity and private debt will double by 2025, at a CAGR of 15%, across all alternative asset classes (graph 3.3.2). A large portion of this growth is expected to come from private banking clients, as the asset class expands beyond the institutional investor landscape and becomes more accessible and transparent.

Alternative assets have been gaining ground in recent years, as investors look for new ways to get returns

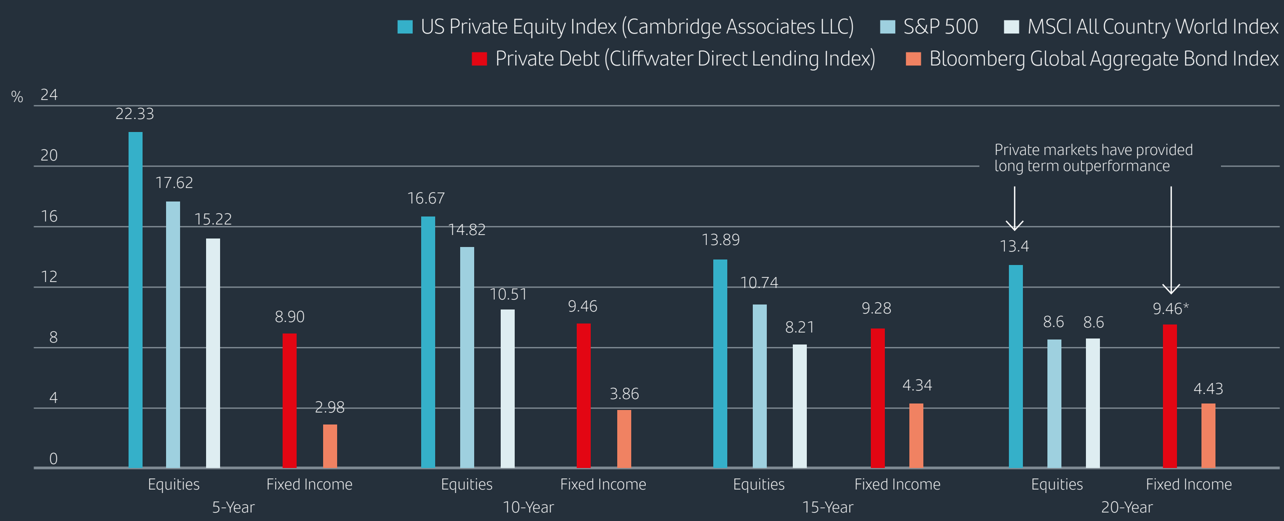
Private market asset classes can play an increasingly important role with their potential to enhance returns and help mitigate risk through diversification

Private equity has outperformed over long periods of time and may provide risk diversification benefits and portfolio resiliency through market cycles

3.3.1 Private Markets Performance vs. Traditional Asset Classes

Source: Cambridge Associates, Cliffwater, Bloomberg and Santander. Data as of 06/30/2021.

Private markets have continued to show strong absolute and relative performance



* *Data from 09/30/2004 where the index begins.*

Alternatives are growing not only in size but also in breadth of strategies giving investors plenty of choice to optimize traditional portfolios. For example, within private debt there are many sub-classes, such as senior secured, direct lending, distressed, special situations, mezzanine, etc, and many sub-sectors of specialization, including the most commons of real estate and infrastructure debt, but as well industrial equipment leasing, trade finance, to name a few. This diversification allows investors not only to cater for particular maturities or liquidity windows, but as well for particular target returns, cash yields, geographical diversification, and, in most cases, with low correlation with the public markets as they avoid market volatility. **They also allow for exposure that is not available in public markets.** The breadth and depth of private markets offers many building blocks that can be assembled to meet various objectives or constraints.

The growth in private markets has supported growth in the number of products available, providing investors with greater choice and fit

As clients look for core, diversified solutions in the private markets space, the introduction of semi-liquid multi manager funds has become prevalent. After long being averted in the private capital space, Fund of Funds (FoF) have drawn in significant capital amongst private banking clients. To further support the investment thesis, it's worth noting that the one-year return for FoF through Q1 2021 of 35.1% is ahead of the 33.3% return of private capital as a whole. **An increase in multi-manager mandates has allowed investors to construct their portfolios more efficiently through enhanced portfolio diversification and better risk management.** By better managing portfolio risk through diversification, investors can smooth their income and return streams across multiple alternative asset classes providing for a more attractive risk-return profile.

Investors willing to expand opportunity sets, harness novel sources of risk premia and embrace some degree of active investment can generate higher returns and build efficient portfolios

Investors can also improve their opportunity set in the transition to sustainability with strategies in venture capital and renewable energy sectors. We should not forget that many of the alternative strategies have at their core the transformation of the economy, from fintech to life science. Probably, this is best exemplified by venture capital, and in particular venture capital strategies that help decarbonize the economy with new technology and are key for the energy transition and to achieve net zero emissions by 2050.

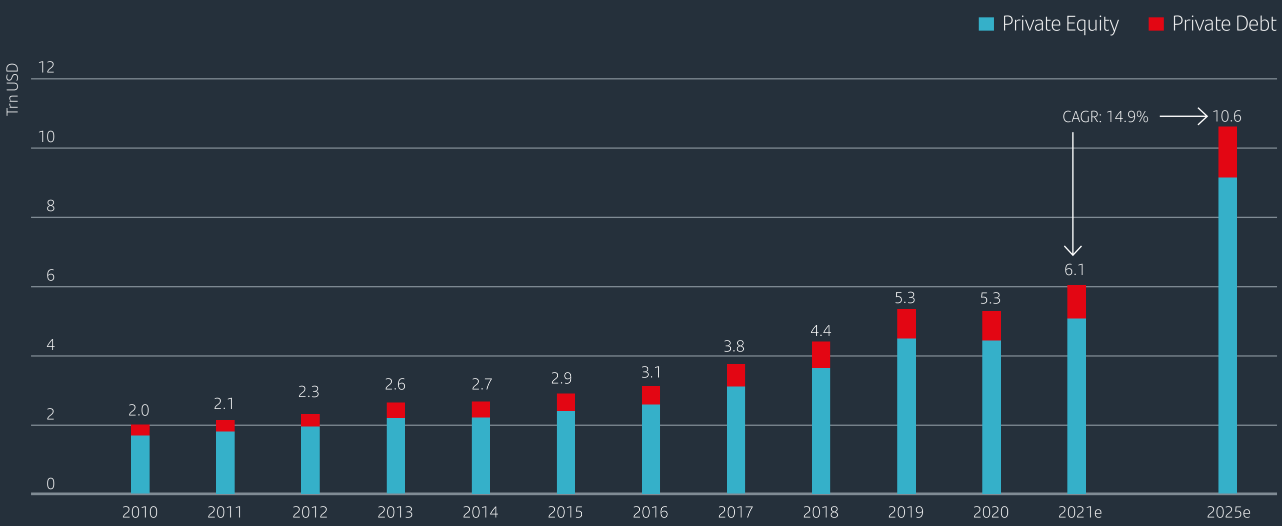
Facing stretched valuations in traditional markets, limited correlation benefits between fixed income and equities, and persistently low bond yields with asymmetric risk, **investors have made a decided turn to alternatives.** Implementing a private markets portfolio requires greater oversight, with particular attention paid to the liquidity profile of investments, their cash flows and a pace of investing consistent with the diversification strategy.

Private markets can provide a high-quality way to access sustainable themes and invest in the long-term opportunities of the transition to net zero

3.3.2 Alternatives are expected to grow at a 15% annual rate

Source: Preqin. Data as of 6/30/2021

Assets under management have doubled in the last decade



ESG: Investors embrace the sustainability opportunity

Ana Rivero, CESGA®, CIIA
SAM - Global Head of ESG

Sustainability and business opportunity are coming together to transform the way companies craft strategy, drive performance, and report results. **Evidence is mounting that company performance regarding environmental, social, and governance (ESG) factors contributes to business success.** ESG investing is increasingly being considered as a precondition to longterm value creation.

An increasing number of investors have been focusing on ESG not only because of its alignment with long-term investing but also because of the added impact bonus of creating positive externalities. Funds focused on environmental, social and governance (ESG) related issues saw their combined assets climb to $3.9 trillion at the end of September. The number of sustainable funds captured in Morningstar's global sustainable universe has grown by more than 51% over the third quarter, reaching 7,486 funds at the end of September.

A big step in the transition towards a greater emphasis in sustainability is the **need to create common standards and language about ESG metrics** to avoid greenwashing, and Europe is leading this process with the Sustainable Finance Disclosure Regulation (SFDR). The **SFDR** requires asset managers to include sustainability (ESG-related) risks in their investment decisions and requests funds to be clearly categorised as to their "greenness" while documenting their objectives, policies, methodologies in prospectuses, websites and periodic reports. A second significant measure has been the requirement for asset managers to measure their adverse impacts on a "comply or explain" basis of their investments at both firm and fund level through a prescribed set of 18 mandatory ESG indicators. According to

Enhanced data and insights make it possible to create sustainable portfolios without compromising financial goals

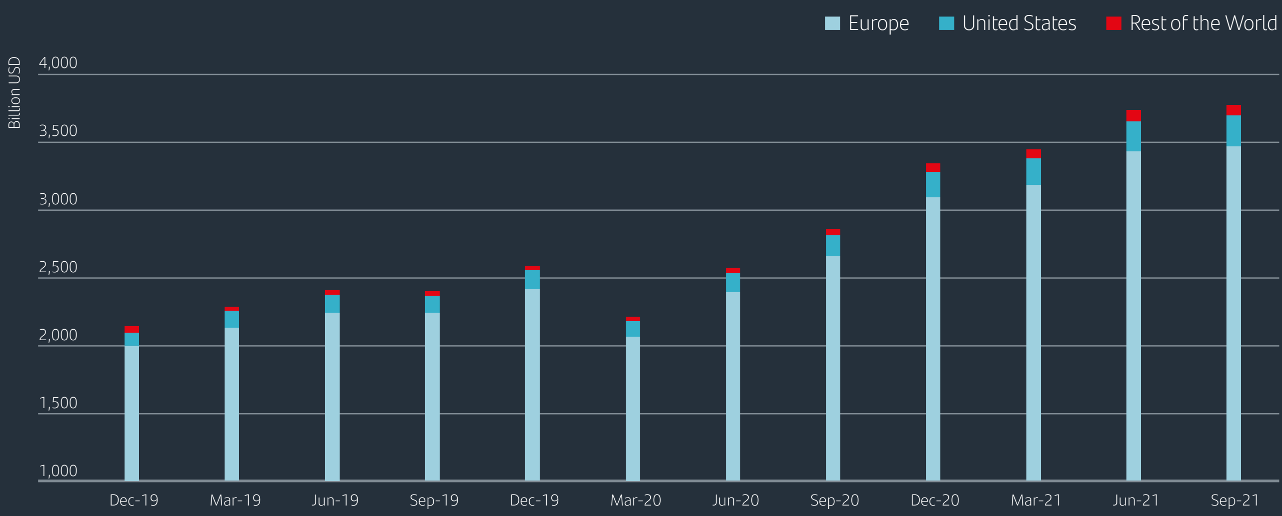
Capital flows and regulators are increasingly forcing the hand of companies to not only publish their own sustainability reports but to include ESG metrics in their financial statements

Investors are beginning to apply a sustainability lens to current and future investments. ESG matters and is a key driver of future performance

3.4.1 Investors are increasingly focusing their attention into ESG and transitioning towards investing in sustainability

Source: Morningstar. Data as of 9/30/2021

Global sustainable mutual fund assets hit a record high at the end of 3Q21



SFDR, firms including fund houses, insurers and pension funds that provide financial products or services in the European Union will have to begin disclosing how sustainable they really are.

The transition from brown to green, the faster adoption of new technologies, and post-pandemic changes in supply chains and preferences similarly will create a range of winners and losers and reinforce the importance of active management in selecting companies in both fixed income and equity mandates. Leaders in the investment community need to engage and educate our clients about the transformational implications of ESG investing in terms of achieving improved long term risk adjusted returns. **ESG is not another regulatory box to tick, it represents an opportunity to unleash companies from the constraints of short-termism and enhance potential returns for our clients.**

The main driver for the surge in sustainable investments since 2015 has been the setting of the **UN Sustainable Development Goals in the framework of the Paris Agreement,** back in COP21, which has become a world reference. Institutional investors have started to adapt their traditional ESG investments to climate targets, mainly requiring contributing to the decarbonization of the economy. The progressive adaptation of the asset managers product offering in order to tackle these needs, together with the implementation of SFDR and some other regulation, such as the EU climate taxonomy, has resulted in **a boom of new climate related mutual funds, enhancing the scope of sustainable investing possibilities for retail investors** as well.

The challenge now is **to educate investors to make informed decisions about the impact that their money can have, besides the financial return they expect.** The good news is that any investor, from the conservative type to the more aggressive ones, can chose to invest responsibly in a sustainable way through a vast universe of mutual funds in every asset class or strategy. Equities, bonds, asset allocation, alternatives; any strategy that fits an investor interest can be performed in a sustainable way with an ESG tilt or filter. And the truth is that massive flows into these assets are paying off. Let's take the German 'twin bonds' strategy: since inception, the twin green bond has systematically earned a premium over the traditional bund.

A new world is shaping before our eyes. New Investment opportunities will fade out if they are not sustainable and thus attractive to institutional capital. Let's seize the opportunity and invest smart.

ESG is not a regulatory or marketing fad, it´s smart investing

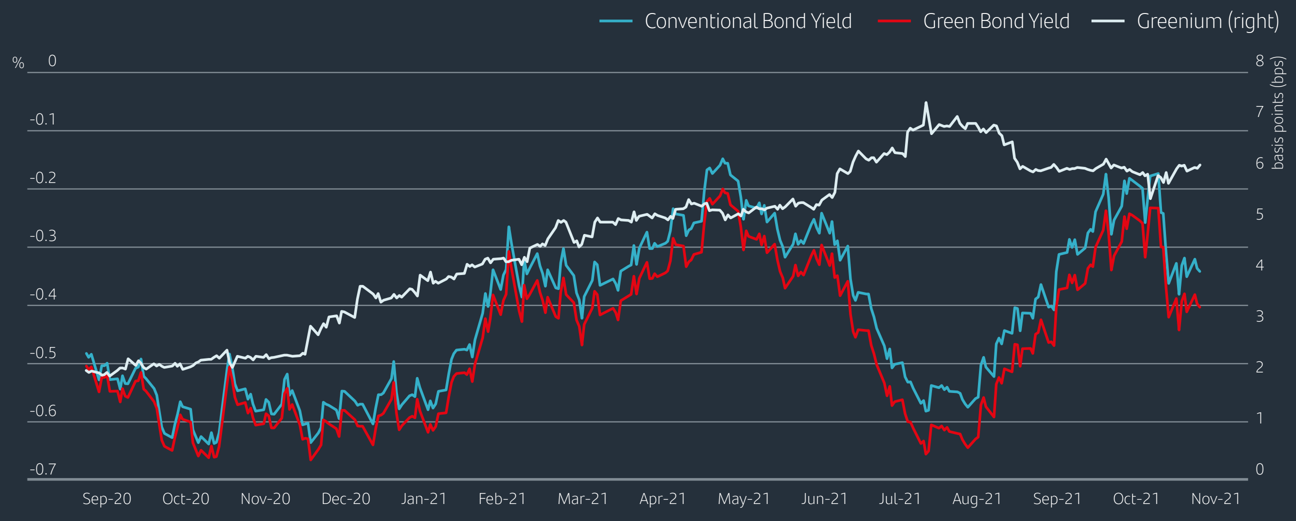
Sustainable investment is suitable for the risk profile and financial objective of each client

Money inflows to sustainable transition offer a huge opportunity for mutual funds to invest in

3.4.2 Opportunities to create value in fixed income – Green Bonds

Source: Bloomberg and Santander Asset Management. Data as of 11/16/2021

"Greenium" – The premium issuers enjoy thanks to green bonds



Appendix: Tables.

Returns of main assets in last 10 years.

Source: Bloomberg and Santander.

Data as of 11/22/2021	Returns							Annualized returns		
	2015	2016	2017	2018	2019	2020	2021	3 years	5 years	10 years
Short-term (USD) (1)	**0.1%**	**0.4%**	**1.0%**	**1.9%**	**2.2%**	**0.4%**	**0.1%**	**1.0%**	**1.1%**	**0.6%**
Short-term (EUR) (2)	**-0.1%**	**-0.3%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.5%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.2%**
Global Fixed Income (3)	**-3.2%**	**2.1%**	**7.4%**	**-1.2%**	**6.8%**	**9.2%**	**-4.5%**	**4.3%**	**3.2%**	**1.8%**
Fixed Income (USD) (4)	**0.5%**	**2.6%**	**3.5%**	**0.0%**	**8.7%**	**7.5%**	**-1.6%**	**5.5%**	**3.6%**	**3.0%**
Sovereign (USD) (5)	1.2%	1.1%	1.1%	1.4%	5.2%	5.8%	-1.7%	3.6%	2.3%	1.7%
Corporates (USD) (6)	-0.7%	6.1%	6.4%	-2.5%	14.5%	9.9%	-1.2%	8.0%	5.4%	4.8%
High Yield (USD) (7)	-4.5%	17.1%	7.5%	-2.1%	14.3%	7.1%	4.3%	7.8%	6.6%	7.1%
Fixed Income (EUR) (8)	**1.0%**	**3.3%**	**0.7%**	**0.4%**	**6.0%**	**4.0%**	**-1.5%**	**3.2%**	**2.0%**	**4.0%**
Sovereign (EUR) (9)	1.6%	3.2%	0.2%	1.0%	6.8%	5.0%	-1.8%	3.8%	2.3%	4.5%
Corporates (EUR) (10)	-0.6%	4.7%	2.4%	-1.3%	6.2%	2.8%	-0.3%	3.0%	2.0%	3.9%
High Yield (EUR) (11)	2.9%	6.5%	6.2%	-3.6%	12.3%	1.8%	4.2%	5.7%	4.5%	7.5%
Emerging Global Fixed Income (USD) (12)	**1.3%**	**9.9%**	**8.2%**	**-2.5%**	**13.1%**	**6.5%**	**-1.6%**	**6.4%**	**4.8%**	**5.3%**
LatAm (USD) (13)	-5.1%	16.3%	10.6%	-4.9%	12.3%	4.5%	-3.0%	4.9%	4.2%	4.4%
MSCI World (USD)	**-2.7%**	**5.3%**	**20.1%**	**-10.4%**	**25.2%**	**14.1%**	**19.7%**	**17.5%**	**13.5%**	**11.1%**
S&P 500 (USD)	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	25.1%	21.0%	16.4%	14.7%
MSCI Europe (EUR)	5.5%	-0.5%	7.3%	-13.1%	22.2%	-5.4%	21.8%	10.5%	6.9%	7.6%
MSCI Emerging Markets (USD)	-17.0%	8.6%	34.3%	-16.6%	15.4%	15.8%	-1.7%	9.2%	8.2%	3.4%
MSCI Asia Pac. ex-Japan (USD)	-9.4%	6.8%	37.0%	-13.9%	19.2%	22.4%	-0.2%	13.1%	11.4%	8.1%
MSCI Latin America (USD)	-32.9%	27.9%	20.8%	-9.3%	13.7%	-16.0%	-14.7%	-6.9%	-2.2%	-5.2%

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

Equities indices.

Source: Bloomberg and Santander.

Data as of 11/22/2021

			Change	Last 10 years			Return			Annualized return		
		Last Price	12 months	Low	Range	High	2019	2020	2021	3 years	5 years	10 years
US	S&P 500	4,698		1,258		4,698	28.9%	16.3%	26.0%	21.0%	16.4%	14.7%
	DOW JONES INDUS.	35,602		12,218		35,820	22.3%	7.2%	17.2%	13.3%	13.4%	12.0%
	NASDAQ	16,057		2,605		16,057	35.2%	43.6%	24.8%	32.1%	24.5%	20.3%
Europe	Stoxx 50	3,769		2,257		3,769	23.3%	-8.7%	21.7%	9.3%	5.9%	5.8%
	Eurozone (EuroStoxx)	4,347		2,119		4,347	24.8%	-5.1%	22.7%	11.6%	7.4%	7.4%
	Spain (IBEX 35)	8,765		6,090		11,521	11.8%	-15.5%	9.5%	-0.6%	0.3%	1.0%
	France (CAC 40)	7,104		3,017		7,104	26.4%	-7.1%	28.5%	12.8%	9.4%	9.5%
	Germany (DAX)	16,142		5,898		16,142	25.5%	3.5%	17.8%	13.1%	8.6%	11.3%
	United Kingdom (FTSE 100)	7,223		5,321		7,749	12.1%	-14.3%	12.6%	1.2%	1.3%	3.3%
	Italy (MIB)	27,270		12,874		27,272	28.3%	-5.4%	23.4%	13.6%	10.8%	6.7%
	Portugal (PSI 20)	5,539		3,945		7,608	10.2%	-6.1%	13.1%	4.6%	4.5%	0.5%
	Switzerland (SMI)	12,511		5,850		12,511	26.0%	0.8%	17.2%	12.5%	9.7%	8.7%
LatAm	Mexico (MEXBOL)	50,811		34,555		53,305	4.6%	1.2%	15.1%	7.2%	2.8%	3.5%
	Brazil (IBOVESPA)	103,035		40,406		126,802	31.6%	2.9%	-12.2%	5.9%	11.2%	6.4%
	Argentina (MERVAL)	85,695		2,257		85,695	37.6%	22.9%	67.3%	41.5%	38.5%	42.5%
	Chile (IPSA)	4,712		3,439		5,855	-8.5%	-10.5%	13.1%	-2.9%	2.0%	1.3%
Asia	Japan (NIKKEI)	29,774		8,455		29,774	18.2%	16.0%	8.5%	11.2%	10.5%	13.6%
	Hong Kong (HANG SENG)	24,951		18,434		32,887	9.1%	-3.4%	-8.4%	-1.4%	2.2%	3.2%
	South Korea (KOSPI)	3,013		1,755		3,297	7.7%	30.8%	4.9%	13.3%	8.9%	5.1%
	India (Sensex)	58,466		15,455		59,307	14.4%	15.8%	22.4%	18.7%	17.8%	13.8%
	China (CSI)	4,912		2,140		5,352	36.1%	27.2%	-5.7%	15.2%	7.4%	6.5%
World	MSCI WORLD	3,220		1,178		3,220	25.2%	14.1%	19.7%	17.5%	13.5%	11.1%

Equities by style and sector.

Source: Bloomberg and Santander.

Data as of 11/22/2021			Change	Last 10 years			Return			Annualized return			Ratios	
		Last Price	12 months	Low	Range	High	2019	2020	2021	3 years	5 years	10 years	PE Ratio	Divi-dend Yield
	MSCI World	3,220		1,178		3,220	25.2%	14.1%	19.7%	17.5%	13.5%	11.1%	20.27	1.67
Style	MSCI World High Dividend Yield	1,390		810		1,422	19.3%	-3.0%	8.2%	6.1%	5.8%	5.7%	13.83	3.65
	MSCI World Momentum	3,987		950		3,987	27.7%	28.3%	16.8%	23.0%	20.1%	16.0%	17.37	1.41
	MSCI World Quality	4,047		966		4,047	36.1%	22.2%	25.3%	26.0%	20.3%	16.0%	25.30	1.32
	MSCI World Minimum Volatility	4,608		1,767		4,635	23.2%	2.6%	11.3%	10.9%	10.5%	10.6%	20.66	1.97
	MSCI World Value	11,497		4,695		11,534	21.7%	-1.2%	18.6%	10.4%	9.2%	9.9%	14.19	2.73
	MSCI World Small Cap	710		218		710	26.2%	16.0%	18.2%	17.1%	13.4%	13.0%	20.79	1.55
	MSCI World Growth	9,869		2,262		9,869	33.7%	33.8%	23.4%	28.4%	21.6%	16.3%	32.74	0.73
Sector	Energy	301		164		428	11.5%	-31.5%	37.4%	-2.0%	-0.5%	0.2%	12.02	4.30
	Materials	557		229		573	23.3%	19.9%	12.8%	16.9%	12.9%	7.6%	12.25	3.24
	Industrials	510		168		510	27.8%	11.7%	16.7%	16.2%	12.6%	12.4%	22.87	1.57
	Consumer Discretionary	620		127		620	26.6%	36.6%	23.1%	27.1%	20.4%	17.6%	29.96	0.83
	Consumer Staples	443		183		443	22.8%	7.8%	7.8%	10.6%	9.0%	9.7%	21.42	2.71
	Health Care	498		134		507	23.2%	13.5%	15.1%	15.8%	14.6%	14.9%	18.98	1.58
	Financials	256		88		263	25.5%	-2.8%	27.6%	13.0%	10.7%	12.0%	12.07	2.52
	Information Technology	683		93		683	47.6%	43.8%	30.1%	38.6%	30.1%	22.3%	31.13	0.73
	Real Estate	492		206		495	23.0%	-5.0%	22.4%	11.2%	9.8%	9.5%	30.80	2.63
	Communica-tion Services	211		78		220	27.4%	23.0%	18.1%	21.3%	13.6%	10.5%	20.00	1.14
	Utilities	308		147		316	22.5%	4.8%	3.4%	9.6%	10.1%	7.7%	18.84	3.45

Government Bonds.

Source: Bloomberg and Santander.

Data as of 11/22/2021

	Rating (S&P)	Interest rate			10 years: Change	10 years: Last 10 years			10 years: Interest rates change (bp) 10 years			10 years: Yield curve steepness
		C. Bank*	2 years	10 years	12 months	Low	Range	High	Month	YtD	YoY	10-2 years
Developed												
U.S.	AA+	0.25%	0.54%	1.58%		0.53%		3.14%	3	67	74	104
Germany	AAA	-0.50%	-0.76%	-0.33%		-0.70%		1.93%	-21	25	26	44
France	AA	-0.50%	-0.80%	0.02%		-0.40%		3.15%	-24	37	36	82
Italy	BBB	-0.50%	-0.33%	0.88%		0.54%		7.11%	-28	35	26	122
Spain	A	-0.50%	-0.67%	0.40%		0.05%		6.86%	-21	35	32	107
United Kingdom	AA	0.10%	0.51%	0.90%		0.10%		3.02%	-11	73	62	39
Greece	BB	-0.50%	n.d.	1.18%		0.61%		34.96%	-14	56	55	n.d.
Portugal	BBB	-0.50%	-0.80%	0.32%		0.03%		16.40%	-20	29	29	112
Switzerland	AAA	-0.75%	-0.79%	-0.22%		-1.05%		1.06%	-16	36	33	57
Poland	A-	1.25%	2.92%	3.28%		1.15%		5.88%	47	206	206	35
Japan	A+	-0.10%	-0.13%	0.08%		-0.27%		0.99%	-2	5	4	20
Emerging Markets												
Brazil	BB-	7.75%	12.09%	11.78%		6.49%		16.51%	-46	485	380	-32
Mexico	BBB	5.00%	6.81%	7.49%		4.49%		9.16%	1	197	172	69
Chile	A	2.75%	5.69%	5.87%		2.19%		6.26%	-39	322	307	18
Argentina	CCC+	38.00%										
Colombia	BB+	2.50%	n.d.	8.06%		4.85%		8.98%	2	267	255	n.d.
Turkey	B+	15.00%	18.21%	19.38%		6.21%		20.69%	34	691	749	117
Russia	BBB-	7.50%	8.76%	8.54%		5.55%		12.98%	41	431	426	-22
China	A+	2.89%	2.49%	2.91%		2.51%		4.58%	-5	-23	-36	42
India	BBB-	4.00%	4.55%	6.35%		5.84%		8.86%	-4	48	44	180

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

Currencies.

Source: Bloomberg and Santander.

Data as of 11/22/2021

	Last Price	Change 12 months	Last 10 years Low	Last 10 years Range	Last 10 years High	Return 2019	Return 2020	Return 2021	Annualized return 3 years	Annualized return 5 years	Annualized return 10 years
EUR/USD	1.1274		1.05		1.39	-2.2%	-8.2%	-7.8%	-0.4%	1.2%	-1.8%
EUR/GBP	0.84		0.70		0.92	-5.9%	-5.3%	-6.0%	-1.8%	-0.3%	-0.3%
EUR/CHF	1.05		1.03		1.24	-3.5%	0.4%	-3.0%	-2.7%	-0.5%	-1.6%
EUR/JPY	129		96		148	-3.2%	-3.5%	2.4%	0.0%	1.8%	2.2%
EUR/PLN	4.69		4.04		4.69	-0.8%	-6.7%	3.1%	2.9%	1.1%	0.5%
GBP/USD	1.34		1.22		1.71	3.9%	-3.0%	-1.9%	1.4%	1.5%	-1.5%
USD/CHF	0.93		0.88		1.03	-1.6%	9.2%	5.2%	-2.3%	-1.7%	0.2%
USD/JPY	114		76		124	-1.0%	5.2%	11.1%	0.4%	0.6%	4.0%
USD/MXN	20.91		12.13		24.17	-3.7%	-5.0%	5.3%	1.0%	0.4%	4.1%
USD/ARS	100.45		4.30		100.45	58.9%	-28.8%	19.4%	40.2%	45.5%	37.2%
USD/CLP	807		471		855	8.4%	5.6%	13.9%	6.5%	3.7%	4.9%
USD/BRL	5.60		1.72		5.75	4.0%	-22.5%	7.2%	13.6%	10.7%	11.9%
USD/COP	3.915		1.763		4.056	0.8%	-4.4%	14.3%	7.0%	4.4%	7.4%
USD/CNY	6.38		6.05		7.16	1.2%	6.7%	-2.2%	-2.7%	-1.5%	0.0%
EUR/SEK	10.13		8.34		10.93	3.4%	4.5%	0.5%	-0.6%	0.7%	0.9%
EUR/NOK	10.06		7.29		11.48	-0.6%	-6.1%	-4.4%	1.1%	2.1%	2.6%

Commodities.

Source: Bloomberg and Santander.

	Last Price	Change 12 months	Last 10 years Low	Last 10 years Range	Last 10 years High	Return 2019	Return 2020	Return 2021	Annualized return 3 years	Annualized return 5 years	Annualized return 10 years
Crude Oil (Brent)	78.6		21		124	24.9%	-23.0%	55.5%	8.3%	17.9%	-10.1%
Crude Oil (W. Texas)	76.1		19		108	34.5%	-20.5%	58.5%	11.8%	17.0%	-8.0%
Gold	1,842.3		1,060		1,971	18.9%	24.4%	-3.8%	14.4%	15.0%	2.6%
Copper	9,646.5		4,561		10,258	3.5%	25.8%	24.2%	15.5%	20.2%	9.6%
CRB Index	235.0		117		322	9.4%	-9.7%	40.1%	8.3%	7.9%	-8.9%
Rogers International	3,206.8		1,560		3,915	11.9%	-7.7%	42.7%	10.5%	13.1%	-4.2%
Soybean	501.5		334		697	6.8%	37.2%	-3.6%	12.7%	7.4%	3.1%

"Periodic table" for asset returns

Asset Class	Reference Index	Calendar Year Returns 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US Equities	S&P 500 TR	**9.6%** Eurozone Government	**20.9%** Japan Equities	**54.4%** Japan Equities	**16.7%** Spain Equities	**12.1%** Japan Equities	**14.8%** Global High Yield	**37.3%** Emerging Market Equities	**2.6%** Spain Equities	**31.5%** US Equities	**18.4%** US Equities	**30.7%** Commodities
Japan Equities	Topix TR	**7.4%** Spain Equities	**19.3%** Global High Yield	**32.4%** US Equities	**13.7%** US Equities	**6.4%** Europe Equities	**12.0%** US Equities	**22.4%** Global Equities	**2.4%** Eurozone Government	**28.2%** Europe Equities	**18.3%** Emerging Market Equities	**23.2%** US Equities
Spain Equities	Ibex35 TR	**2.6%** Global High Yield	**18.22%** Emerging Market Equities	**27.8%** Spain Equities	**10.3%** Eurozone Government	**1.6%** Spain Equities	**11.2%** Emerging Market Equities	**22.2%** Japan Equities	**-0.4%** Liquidity	**27.7%** Global Equities	**15.9%** Global Equities	**16.8%** Global Equities
Emerging Markets Equities	MSCI EM TR	**2.1%** US Equities	**18.1%** Europe Equities	**26.7%** Global Equities	**10.3%** Japan Equities	**1.4%** US Equities	**9.7%** Commodities	**21.8%** US Equities	**-1.2%** Europe IG	**18.4%** Emerging Market Equities	**8.0%** Global High Yield	**16.6%** Europe Equities
Europe Equities	Eurostoxx50 TR	**2.0%** Europe IG	**16.0%** US Equities	**21.5%** Europe Equities	**8.6%** Spain Equities	**0.3%** Eurozone Government	**7.5%** Global Equities	**11.3%** Spain Equities	**-3.3%** Global High Yield	**18.1%** Japan Equities	**07.4%** Japan Equities	**9.0%** Japan Equities
Commodities	Commodity RB TR	**0.9%** Liquidity	**15.8%** Global Equities	**11.0%** Spain Equities	**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 Equities	**5.3%** Spain Equities
Global Equities	MSCI World TR	**-5.5%** Global Equities	**13.2%** Europe IG	**8.0%** Global High Yield	**4.9%** Global Equities	**-0.5%** Europe IG	**4.2%** Spain Equities	**9.2%** Europe Equities	**-8.7%** Global Equities	**13.7%** Global High Yield	**3.0%** Eurozone Government	**-0.3%** Global High Yield
Europe IG	ERL0 TR	**-7.7%** Spain Equities	**5.5%** Spain Equities	**2.3%** Europe IG	**4.0%** Europe Equities	**-0.9%** Global Equities	**4.0%** Eurozone Government	**2.5%** Europe IG	**-10.7%** Commodities	**11.8%** Commodities	**2.7%** Europe IG	**-0.4%** Liquidity
Liquidity EUR	Eonia TR	**-8.2%** Commodities	**4.6%** Eurozone Government	**0.1%** Liquidity	**0.1%** Liquidity	**-3.5%** Spain Equities	**3.7%** Europe Equities	**1.7%** Commodities	**-11.5%** Spain Equities	**8.6%** Spain Equities	**-0.5%** Liquidity	**-0.9%** Europe IG
Global High Yield	HW00 TR	**-14.1%** Europe Equities	**2.8%** Spain Equities	**-2.3%** Eurozone Government	**-0.1%** Global High Yield	**-4.2%** Global High Yield	**2.6%** Spain Equities	**1.1%** Spain Equities	**-12.0%** Europe Equities	**6.3%** Europe IG	**-3.2%** Europe Equities	**-1.0%** Eurozone Government
Spain Government	SPAIN 10 YR	**-17.0%** Japan Equities	**0.2%** Liquidity	**-2.6%** Emerging Market Equities	**-2.2%** Emerging Market Equities	**-14.9%** Emerging Market Equities	**0.3%** Japan Equities	**-0.4%** Liquidity	**-14.6%** Emerging Market Equities	**3.0%** Eurozone Government	**-9.3%** Commodities	**-1.7%** Spain Equities
Eurozone Government	GERMANY 10 YR	**-18.4%** Emerging Market Equities	**-3.3%** Commodities	**-5.0%** Commodities	**-17.9%** Commodities	**-23.4%** Commodities	**-0.3%** Liquidity	**-1.4%** Eurozone Government	**-16.0%** Japan Equities	**-0.4%** Liquidity	**-12.7%** Spain Equities	**-4.34%** Emerging Market Equities

\+ Returns -

*Data as of 11/30/2021
*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.

Global Team

Investment expertise at Santander Wealth Management & Insurance

Asset Management	Private Banking
Jacobo Ortega Cristina Rodríguez Iza, CFA Francisco Simón, CFA	Álvaro Galiñanes, miAX, CEFA Alfonso García Yubero, CIIA, CESGA®, CEFA Felipe Arrizubieta
	Manuel Pérez Duro Isidro Fernandez Nicolás Pérez de la Blanca, CFA, CAIA Carlos Shteremberg, CFA José Rodríguez, CFA Michelle Chan
Mario Felisberto	Gustavo Schwartzmann Christiano Clemente Priscila Deliberalli
Kent Peterson, CFA, FSA David Sterland Haydn Davies Stefano Amato	
Alfredo Sordo Javier Concha	Christian Pieck Pablo Figueroa
Diego Ceballos	Fernando Bustamante Eduardo Gibbs, CFA, CAIA
	Duarte Nunes Paulo Jorge Sa Luis
Nicolás Guaia	Carlos Mansur
José Mazoy Borja Diaz-Llanos Ana Rivero, CESGA®, CIIA Agustín Carles, CFA	Dolores Ybarra Juan de Dios Sánchez-Roselly, CFA Cristina González Iregui Mafalda da Gama, CFA Aralar Pérez Azpiroz

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