Santander Private Banking

July 2022

Quarterly Market Outlook

Focus on quality while growth outlook is uncertain

The first half of this year has delivered a number of adverse shocks that dramatically raised inflation while significantly weighing on growth.

We believe that volatility and uncertainty will remain high until there is an inflection point in the rising path of inflation. Until then, investors will be questioning whether the increase in interest rates that central banks have implemented thus far is sufficient to control inflation. The risk is that by tightening policy aggressively even as growth is threatened by the conflict, central banks could trigger a recession. The credibility of central banks is at stake as inflation at 40-year highs poses the toughest of policy challenges.

As uncertainty about interest rates and growth persists, investors may want to maintain portfolios with moderate levels of risk focused on quality: profitable companies with strong cash flow generation, low debt and liquidity needs and high and stable margins. Diversification in real assets (commodities, direct real estate, etc.), private markets, capital protection structured products and absolute return strategies will be key in this complex investment environment.

Key messages for Q3 2022

Central banks' credibility at stake

Fixed income markets have made a profound adjustment to incorporate a new scenario in which monetary conditions have ceased to be ultra loose. Still, inflation keeps ticking higher, and this is introducing a new factor of uncertainty: the market is wondering about the level of demand that needs to be removed to ease price pressures. We believe that inflation data should start to moderate in the coming quarters as key base effects are removed, but this scenario has points of fragility that may lead to a scenario of interest rate hikes beyond market estimates. Central banks stake their credibility in this complex environment as they face dilemmas in meeting conflicting targets.

Cracks in the growth outlook

The deterioration in leading indicators is becoming widespread and the high levels of growth expected at the beginning of the year are starting to fade to levels that open the debate of a potential recession in the next twelve months. The continuity of the economic cycle will depend on the level of monetary tightening and the level of deterioration in consumer and business confidence. We analyse several sources of fragility that could trigger a scenario of greater economic slowdown: energy shortages in Europe, gridlock and financial conditions in the United States and the crisis in the real estate market in China.

Defensive bias and diversification

Rising inflation poses a major challenge for asset allocation as it negatively affects both bonds and equities. Risk management is key in this environment of macro and geopolitical uncertainty until the scenario about interest rates and growth becomes clearer. Investors may want to consider maintaining portfolios with a low-risk budget, diversification in real assets (commodities and real estate) and alternative investments. Focus on balance sheet quality and resilient dividends and cashflows in company selection, and risk management via structured products and absolute return strategies.

1.1 Tackling inflation is the #1 priority

The conflict in Ukraine has been a major geopolitical and economic shock, and analysts and investors are still gauging the magnitude of its full repercussions. The hope that the war could be resolved in the short term by some agreement that both sides might consider reasonable is diminishing in likelihood as positions become more entrenched. In addition, the sanctions imposed by Western countries on Russia in response to the war aggression are expanding and their effects on trade flows and the corporate world are spilling over into the global economy. At the same time, global supply chains have been further strained with the imposition of new lockdowns in several regions of China. The **geopolitical and economic context is one of maximum uncertainty and this has led to a growing degree of nervousness in the markets, which have corrected sharply in the first half of the year.**

In this report we will summarise the changes that are taking place in the main economic and financial spheres in order to assess their implications through the lens of investment opportunities. In this first chapter we will analyse the **implications in terms of price stability and interest rates,** and in the second chapter we will discuss the **repercussions in terms of economic slowdown.** In the last section we will analyse the impact of these two trends on the financial markets and the **conclusions to be drawn when rebalancing investment portfolios.** The world has experienced relevant changes in a multitude of geopolitical and economic variables and almost all of these variations have a marked negative sign.

The first derivative of the conflict in economic terms has been the extraordinary upturn in inflation and the consequent change of direction in the monetary policy of the vast majority of global central banks. As can be seen in the graph below, the Fed, the Bank of England and the ECB have all begun (or announced) the process of adjusting interest rates. The messages from monetary policy makers have caused the market to adjust the interest rate curves and reflect that in a short period of time interest rates will be at or above the neutral zone. Economic growth over the last fifteen years has had the tailwind of interest rates below this level of neutrality (estimated at around 3% for the US economy and 2% for the Eurozone and the United Kingdom). **Economic agents are watching with concern as interest rate curves begin to weigh the probability that the process of interest rate hikes will have to move into restrictive territory** in order to curb the increase in inflation expectations.

The war conflict becomes entrenched and with it, the likelihood that its economic effects will be transitory decreases

Inflation at 40-year highs poses the toughest of policy challenges

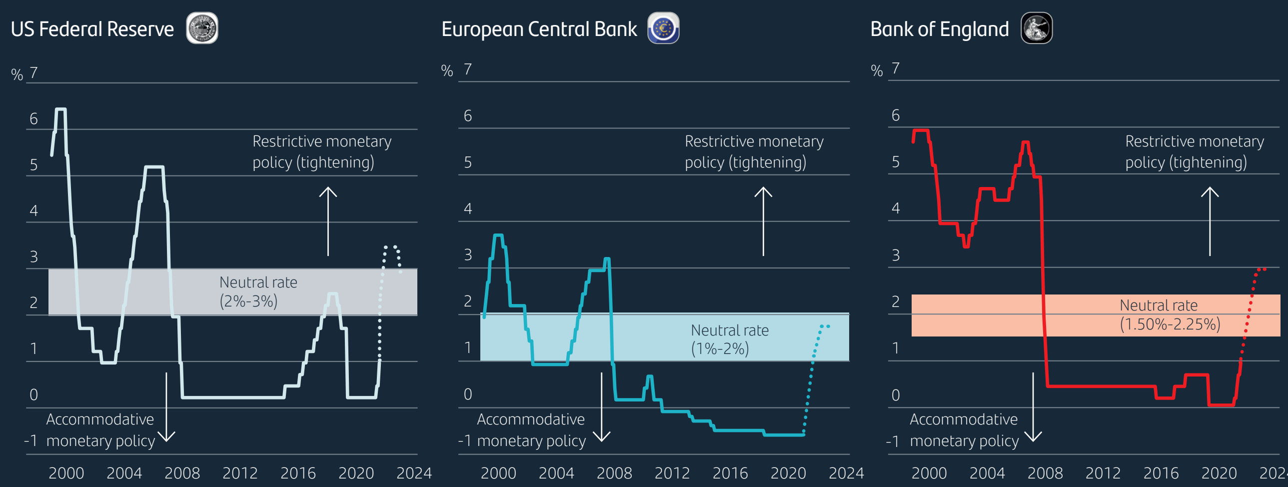
Monetary policy choices are extremely complex and central banks credibility is becoming increasingly fragile

Fears are mounting that neutral might not be enough. Interest rate uncertainty remains extremely high

Inflation is forcing central banks to push rates above the neutral rate to moderate excessive demand pushing prices up

Source: Bloomberg. Data as of 31/05/2022

Monetary policy will become restrictive for the first time since the global financial crisis



1.2 Inflation peak is postponed to Q4

In this process of interest rate normalisation, **central banks have concluded the initial phase of neutralising expansionary policies** (raising interest rates to the neutral zone and withdrawing bond purchase programs). This adjustment of interest rate expectations has been one of the fastest in history with the consequent impact on volatility and price cuts in bond prices. The key to monetary policy decisions in the coming months will be determined by the behavior of inflation. **If price pressures persist, central banks will have no choice but to continue monetary tightening in order to restrain excessive demand.** Any additional upward movement in the yield curve is going to imply a tradeoff vs. economic growth and deteriorate further corporate and consumer confidence.

The Fed is accelerating the pace of interest rate hikes to reach tight levels before the end of the year

The decision by the US Federal Reserve (Fed) to ignore its previous forward guidance and raise 75 bp (the sharpest hike since 1994) is a sign of the hawkish turn. This was explained by Jerome Powell at the press conference following the FOMC meeting on June 15, making clear the Fed's desire to keep interest rates in slightly restrictive territory in the coming months. **The European Central Bank (ECB) has also moved to tighten monetary policy, with Lagarde recently announcing an ECB rate hike in July and another in September.** The Fed's decision was followed by the Swiss National Bank raising its policy rate for the first time in 15 years (+0,5% uplift), and by the Bank of England (0.25% raise to 1.25%). **The priority for central banks is now to control inflation.**

ECB is taking the necessary steps to move away from negative interest rates by the end of 3Q22

Achieving a balance between price stability and full employment in the current context is an increasingly complex task. The current inflationary episode has many non-recurring culprits (Covid-19 and the health policies used to combat it, excessive stimulus, the consequences of the war in Ukraine, the acceleration of the transition to a greener economy, etc.) affecting an economy with little room for maneuver (globalised "just in time" manufacturing supply chains, scarce spare capacity in many raw materials...). **As these transitory effects are mitigated and base effects are eliminated, inflation rates should peak in the coming months.** Barring further energy shocks we expect headline inflation to peak at the end of the third quarter but price pressures will continue until 2023.

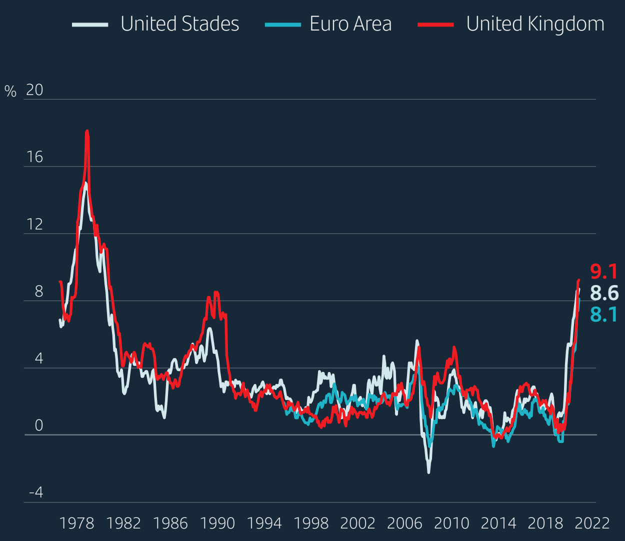
Core inflation is more under control in the eurozone but there are no signs of a slowdown yet

Inflation levels and recent trends call for restrictive monetary policy measures

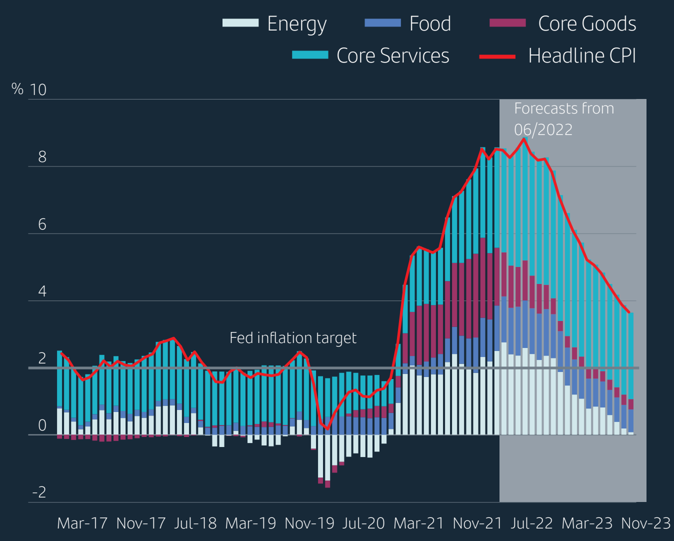
Source: Santander Asset Management estimates. 31/05/2022

The next few months are key in determining whether there is an inflation turning point

Headline CPI



US CPI contributions from differents components



1.3 Labour markets are tight

As can be seen in the chart below, **inflation in previous decades has been persistently below the official 2% target that both the Fed and the ECB have as a benchmark for price stability.** This was especially evident during the tenures of Draghi and Yellen in the decade following the Global Financial Crisis where deflationary tendencies implied a gap of -2% in the US and -8% in the Eurozone. The vigorous recovery of demand after the confinements, generous fiscal stimulus programs and global supply disruptions have caused cumulative inflation during the current Powell and Lagarde terms to be well above the trend rate of 2%. **The sharp rebound in inflation in the aftermath of the Ukraine conflict has exhausted the safety margin that allowed central banks to engage in expansionary policies.** The key for future monetary policy decisions will lie in the degree to which the sources of price stress are transferred to the economy in general and the labor market in particular. **All attention is on the evolution of wages and core inflation.**

The room of manoeuvre in terms of price stability has disappeared

Inflation is shifting from core to non-core goods and services (as reopening and pent-up demand meets limited supply), affecting different geographies in non-identical ways depending on their characteristics and policies. Inflation data for the month of May continued to show that the dynamics of price tightening remain elevated. **The main problem is that these inflationary dynamics are occurring in a very tight labour market that was already showing wage tensions due to a shortage of skilled labour.** Unemployment levels are at historic lows in developed economies especially in the United States, Germany and the United Kingdom. The increase in wages in the latest job report in the United States is 5.2% and it will be difficult to moderate this wage pressure if inflation is higher and there is such a high supply of unfilled positions. Currently, there is an open job vacancy rate of 7% (an all-time high) which is almost double the unemployment rate of 3.6% (the lowest since the 1960s). **The United Kingdom is another example of an economy where the labour market is tight and very sensitive to inflationary trends.** The level of unemployment fell to 3.7% (the lowest since 1974) and the number of vacancies exceeds unemployment levels for the first time in history. Central banks will be paying close attention to the second-wave effects of inflation on the labour market.

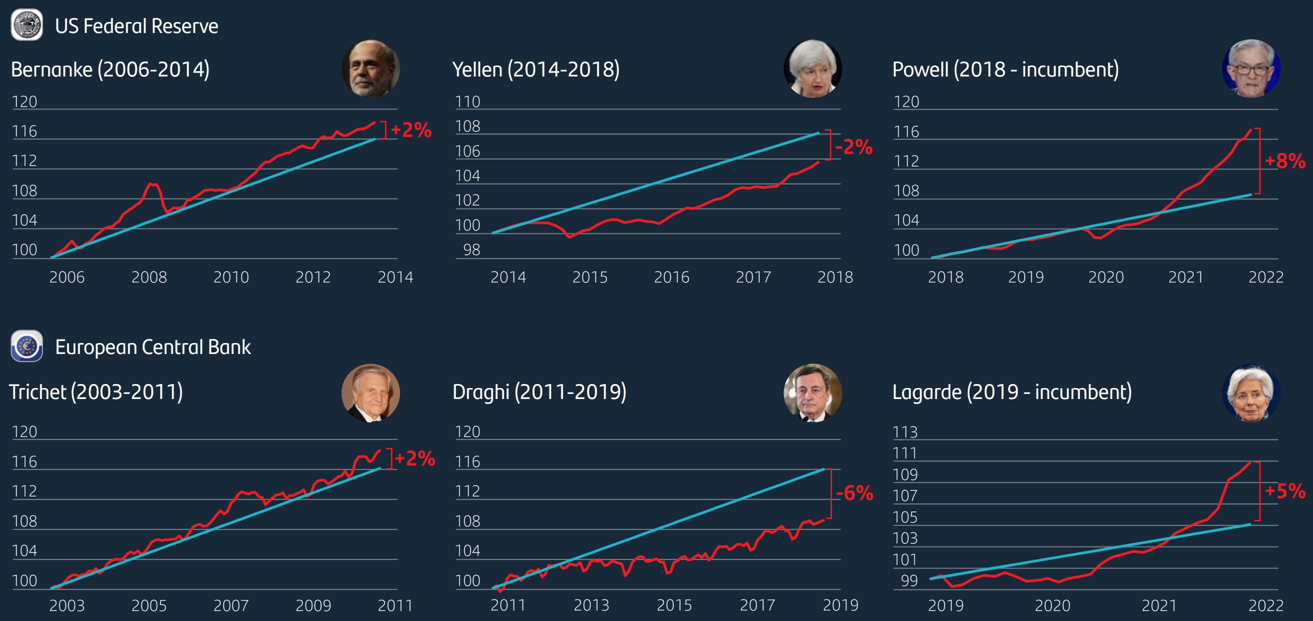
Any further deviation in the spike in inflation will have to be offset with a higher degree of monetary tightening

Historically record low levels of unemployment make it difficult to avoid a pass-through of inflation from wages

Fed and ECB both have a mixed track record of keeping inflation on track with the 2% target

Source: Bloomberg and in-house. Data as of 31/05/2022

Both Powell and Lagarde are running the risk of losing their price stability credibility



1.4 Monetary policy is challenging

Monetary policy decisions on both sides of the Atlantic are becoming increasingly complex, as the central bank playbook of previous decades does not apply to the current economic situation. Market sensitivity to rising interest rates and inflation surprises is extremely high as a result of the pronounced period of accommodative monetary policy. Monetary authorities face stagflationary risks and, with the gap between actual and target inflation being so large, **growth will likely have to be sacrificed for the sake of greater price stability.**

Central banks face a difficult balancing act between growth and price stability with their credibility at stake

The Fed must tighten monetary policy decisively until demand levels decline gently and labour market tightness is reduced. The Fed must explain all of this openly and rebuild credibility by bringing monetary policy into a truly tight environment. If it does not, high inflation will persist and inflation expectations will rise, meaning that a deeper recession will become the only viable path to price stability. The key is going to be for inflation expectations not to de-anchor after 2023. The bottom left chart shows **the worrying trend in 2-year inflation expectations in the United States.** As long as those expectations exceed 4% (doubling the Fed's 2% target level), monetary policy must remain tight if the Fed is to preserve its credibility as a stablizer of prices. **The more the Fed dawdles, the worse the conflict between its competing goals of stable prices and low unemployment will become down the road.**

The Fed may have to keep raising rates to stamp out inflation, causing suffering on both Wall Street and Main Street

The ECB faces an even more difficult dilemma as the side effect of tightening monetary policy adds financial pressure on indebted countries. Government finances will be squeezed both by rising rates and by the widening spreads in a context of quantitative tightening. The bottom right graph shows the widening of spreads between German government bonds (Bunds) and those of the peripheral economies of southern Europe. The ECB has sought to address fears that the eurozone is on the verge of another debt crisis, saying that it is working on a new tool to counter rising borrowing costs in the region's weaker economies. **The ECB's credibility is at stake as they implement decisions that imply monetary tightening while preserving financial stability and avoid fragmentation in the Eurozone.**

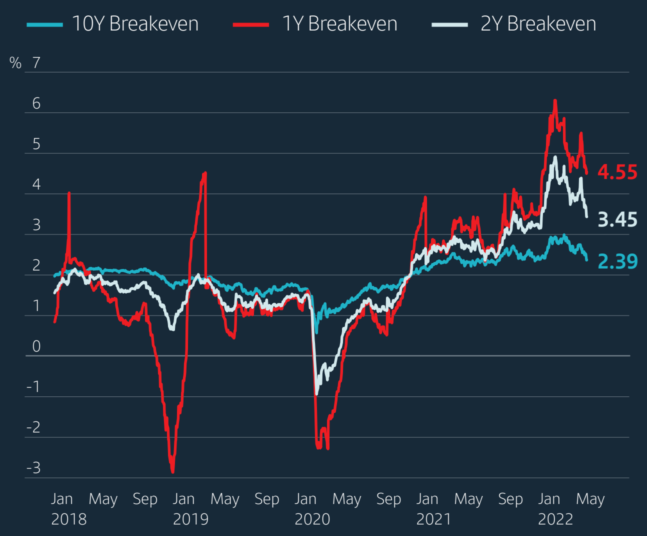
The ECB must balance the risks of fragmentation with the need to curb the pickup in inflation

Expect high levels of volatility in fixed income markets as central banks face important dilemmas

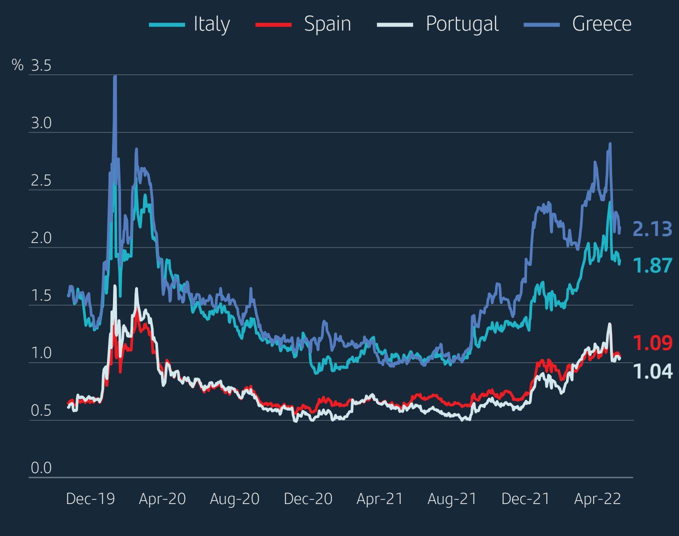
Source: Bloomberg. Data as of 30/06/2022

Key variables: Inflation expectations in the US and fragmentation risks in Eurozone

US Inflation breakeven for 1, 2 and 10 years



European 10Y government bond spreads vs. German bund



2.1 "Softish" landing or recession

Global economic growth projections are being revised on an ongoing basis as slowing factors accumulate. FY2022 began with strong growth momentum, very favourable financial conditions, consumption supported by an expanding labour market and recovering services spending. But **the geopolitical, inflationary and monetary shocks are taking their toll on economic growth and the potential for the expansion cycle to continue has been significantly reduced.**

The geographical area that is being most affected by the slowdown is Europe, given its proximity to Russia and Ukraine and the fact that it is more directly impacted by economic sanctions. Europe started out with very favourable growth expectations at the beginning of the year (projected at 4.0%) that have been abruptly revised (the Bloomberg consensus of economists now expects only 2.8% growth for the Eurozone). However, this level of **growth remains vulnerable to two potential adverse shocks: an energy embargo and an increase in the risk premiums of Southern European economies.**

The main potential risk to the projections is that energy exports from Russia to Europe could cease altogether. The impact of such a shock is difficult to quantify but could be severe if it were to occur through a sudden interruption of imports from Russia at a time when stock levels have not yet recovered and there is limited scope to switch rapidly to alternative sources of supply. The upcoming EU embargoes on coal and seaborne oil imports from Russia also pose problems and could be more disruptive than expected if there is a prolonged supply shortage. According to a study conducted by the Bank of Spain[1], **in the event of a total embargo on energy supplies by Russia, there would be a decline in growth in the European Union of between 2.5% and 4.2% of GDP and an increase of between 1.6% and 2.7% in the inflation rate.** Oil and gas account for a considerable share of total energy consumption in the EU and their increases have a very important psychological effect on consumers. This is one of the reasons why, **despite the strength of the labour market, the deterioration in consumer confidence has been so significant,** as shown in the graph below.

The global expansionary economic cycle faces the dual challenge of a slowdown and a tightening of monetary policies

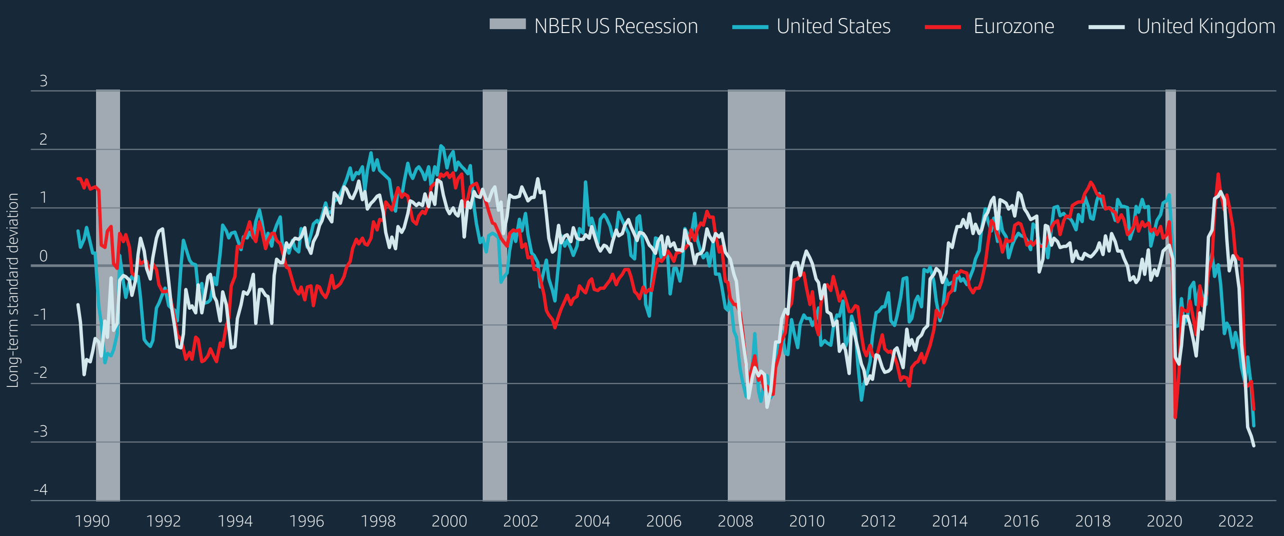
The economic expansion in Europe is even more fragile because of the Damocles sword of energy dependence

Inflation is eroding personal income and this shock in the cost of living is affecting consumer confidence

The deterioration in consumer confidence has been surprising in its speed and magnitude

Source: Bloomberg and in-house. Data as of 30/06/2022

The fragility of confidence is particularly significant in the Eurozone and the United Kingdom



1. Javier Quintana, Boletín Económico Banco de España: "Economic consequences of a hypothetical trade closure between Russia and the European Union"

2.2 China is facing growth dilemmas

The Chinese economy has experienced a challenging six months with the resurgence of COVID, regulatory uncertainty, real estate market difficulties and the global economic slowdown following the invasion of Ukraine. **The "zero-Covid" policy involving strict confinements is taking a heavy toll toll in terms of growth and social unrest.** The graphs below show how economic indicators have deteriorated to levels similar to the start of the pandemic as household confidence has plunged to the lowest levels in years. Monetary easing measures have so far had no impact on credit demand from the corporate sector. First quarter growth was better than expected but evidenced a significant slowdown in manufacturing investment, while both **real estate investment and retail sales contracted from a year earlier. The worsening of the private sector sentiment suggests that credit demand is unlikely to recover imminently.**

Chinese government faces a dual growth dilemma of maintaining "zero-Covid" policy and regulating the real estate sector

The market consensus expects 4.3% growth by 2022 versus a government target of 5.5%. The economic data, as can be seen in the charts show more moderate levels of growth than in the past, especially highlighting the sharp pace of deceleration in real estate investment. More than a dozen companies in the sector have defaulted in recent months. Home sales have slowed, prices have fallen and banks are currently reluctant to lend to them despite the government's insistence. Credit growth is the slowest since 2015. Barring major lockdowns, China's economy will likely bottom around mid-2022. We expect a muted recovery in the second half of the year, despite an acceleration in policy easing.

The real estate sector, once an engine of the economy, is still in the midst of a major slowdown

Despite the significant slowdown in its economy, **China has a differential factor compared to other countries: it has greater room for manoeuvre when it comes to implementing monetary and fiscal stimulus measures.** As the Communist Party Congress approaches this autumn, it is highly likely that a major package of growth-boosting measures will be approved. President Xi Jinping will want to put his best foot forward for re-election at the Congress, which should decide whether to extend his term of office for another five years. The implementation of the Common Prosperity Plan and its wide range of regulatory measures have put economic growth on the back burner, but the slowdown is likely to make it necessary to prioritise economic recovery in the short term.

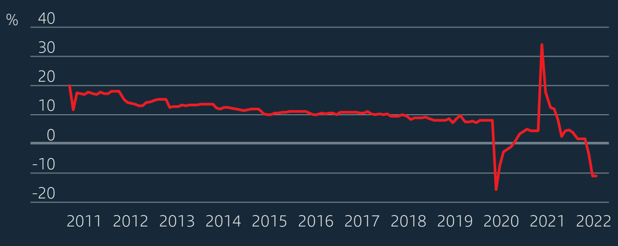
China has room for fiscal and monetary stimulus measures but needs to act urgently to revitalise a private sector that is increasingly reluctant to invest

China needs to revive its economy and stimulus plans are expected to be approved ahead of Xi Jinping's reelection

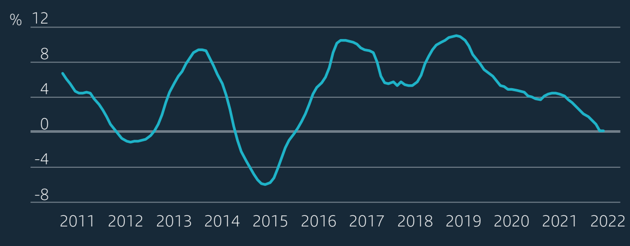
Source: Bloomberg and in-house. Data as 31/05/2022

Real estate, consumption and credit reflect the consequences of the zero-Covid policy

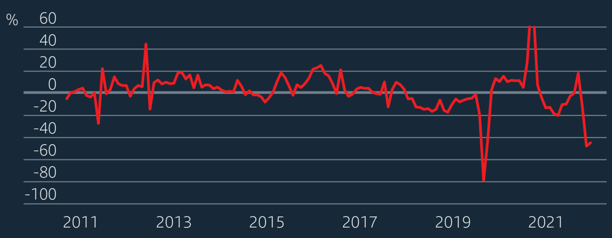
China Retail Sales Value YoY



Newly Built Commercial Residential Buildings Prices YoY Average



China Automobile Sales YoY



China Property - Sales of Residential Buildings YoY

2.3 The US economy needs to cool down

The U.S. economy does not share Europe's energy fragility or China's real estate and healthcare issues, but neither is it escaping the global slowdown. The main origin of deterioration in growth expectations is to be found in monetary and financial conditions' tightening. The charts below show that, a decline of these metrics (confidence and monetary conditions) usually precedes a slowdown. **Investors are wondering whether the Fed will be able to balance inflationary pressures at a moderate cost in terms of lower employment and growth: the famous "soft landing"** as expected by the own Fed's growth and employment projections (unemployment uptick of only 0.2% in 2023 while inflation is reduced by half to 2.6%) released on June 15th.

Of the 12 previous Fed tightening cycles since the 1950s, nine ended with a recession, official figures show. In 1961-66 interest rates rose steadily without a recession, but inflation slowed only temporarily, and a recession eventually came in 1970. Perhaps the most successful soft landing was engineered in 1983-84, although the economy had just recovered from two recessions. At present, the labour market is excessively tight and inflation levels are far from the 2% target. The Fed can do nothing to ease global supply chain problems and the risk is that it will have to overcompensate for its failure to tackle inflation sooner. **The greater the initial deviation of inflation and unemployment from the target, the more the Fed will have to do to cool the economy and the lower the chances of a soft landing.** Excessive post-pandemic fiscal spending was one key reason for the economy to overheat. The Biden Administration's difficulties in passing legislation and the expected loss of control of the Congress at the November elections minimise the possibility of future fiscal stimulus.

The **latest economic data shows sharp declines in key sectors, such as real estate** (housing starts fell sharply in May). Weakness is also showing in private consumption data, as evidenced by the latest retail spending figure, which also showed a decline and is leading to sharp cuts in Q2 growth projections. One widely followed forecast, the Federal Reserve Bank of Atlanta's GDPNow indicator, estimates that GDP will sharply slowdown in the second quarter. The slowdown is picking up speed.

A strong jobs market is not enough to compensate for the damaged caused by soaring inflation on real personal spending

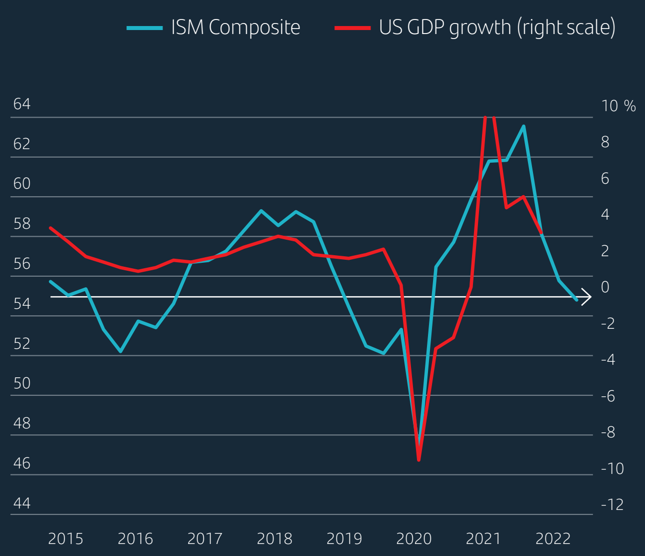
History shows that the Fed doesn't have a very good track-record in engineering "soft landings"

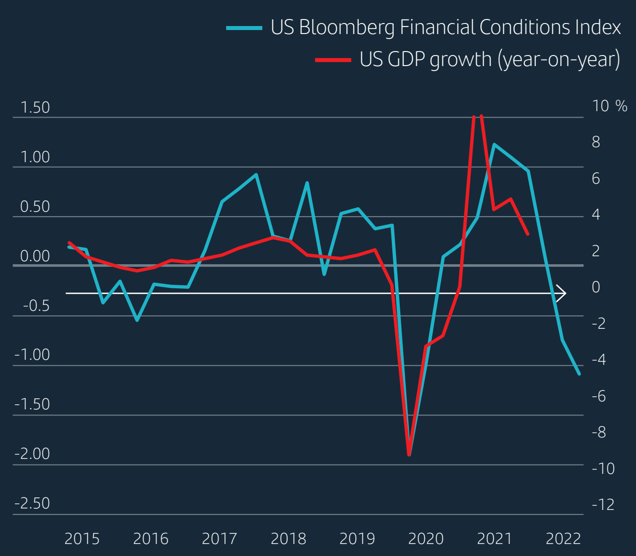
Economic growth is now a casualty, and not a driver, of monetary policy choices. Biden is facing gridlock and further fiscal stimulus is very unlikely

Leading indicators point to a continuity in the slowdown process

Source: Bloomberg and in-house.

Deteriorating financial conditions will eventually affect economic growth





2.4 Time to monitor the slowdown

Growth projections from economists and international agencies still place the global economy on a growth path for 2022 and 2023. However, the probability of a recession in the major economies over the next 12 to 18 months has risen and **the current growth outlook is markedly fragile.** Without yet estimating that a recession scenario is inevitable, **we see it timely to monitor some leading indicators for increasing signs of a slowdown.**

In the table below we have tried to summarise some of the most relevant indicators. In **fixed income markets,** analysts pay close attention to the **slope between long and short rates and the credit spread.** When the slope of the curve flattens and inverts (as happened briefly in April) it would signal that the tightening of monetary policies (rising rates on the short end of the curve) is going to cause a major slowdown which will force the central bank to cut rates going forward (which is why long-term interest rates are lower). The **upwards trend in credit spreads** is also a symptom, as the higher cost of borrowing can be passed on to an increase in corporate insolvency ratios. **Indicators on market sentiment are very negative** (volatility, financial conditions and investor sentiment), while **confidence indicators are mixed: positive on the business side and negative on the consumer side.**

The strength of employment growth and the resilience of corporate margins and profits are the arguments most cited by analysts with a more constructive view of the cycle. For the time being, the general view of the indicators does not point to an irreversible deterioration of the U.S. economy, which is the determining factor in the evolution of the world economic cycle. Another aspect worth mentioning is that that **no major imbalances are perceived in the most cyclical sectors of the economy** that would make a generalised adjustment necessary, so that if a recession were to occur, it would not be the same intensity as during the technology boom (excess business investment) or the financial crisis (excess residential investment).

The consensus of analysts is still betting on economic growth, but there are several areas of fragility

The most worrying indicators are those displayed by the fixed income markets (flattening of the curve and credit spreads)

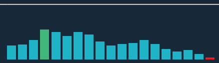
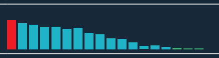
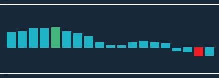
Corporate profits and job creation still show resilience and the cyclical sectors do not exhibit major areas of imbalance

Leading indicators point to further slowdown in the economy

Source: Bloomberg and in-house. Data is 12 months up to May or June 2022

Financial and interest rate indicators give the most negative signals

● Positive trend ● Deterioration ● Risk

	Indicator	Evolution in the last 12 months	Last reading		5 Year average	Comment
Sentiment indicators	Manufacturing ISM		53	Deterioration	56.2	Still above the critical level of 50 but with a clear downward trend
	Consumer confidence expectations		66.4	Risk	99.0	The rising cost of living is having a significant impact on consumer confidence
Labor Market	Wages		5.2%	Risk	3.8%	Low unemployment means that higher inflation expectations are passed on to wages
	Unemployment		3.6%	Positive trend	5.0%	Job creation data is still strong and very high vacancy ratios signal a very tight labor market
Financial indicators	Bloomberg Financial Conditions		-1.08	Deterioration	0.31	Credit availability and market liquidity are beginning to deteriorate as expectations of rising interest rates increase
	Sentix US investors confidence		-23	Risk	56	Headlines about recession and bear markets have taken their toll on investor sentiment
Fixed Income	10-2 spread (US Treasury)		5.1	Risk	55	The flattening of the curve reflects that monetary tightening is beginning to deteriorate the growth outlook
	Credit spread		236.04	Risk	218	Increased recession probabilities are putting upward pressure on credit spreads
Equity	Earnings growth 2022		10%	Positive trend	8%	Companies are still reluctant to lower earnings but the downward pressure in corporate margins is increasing
	Volatility		29.5	Deterioration	19.9	Volatility levels reflect a high degree of uncertainty and the S&P500 has corrected more than 20%

July 2022

3.1 Dire straits for asset allocators

The increase of inflation, the tightening of monetary policy, and as a result, a slower economic growth, are shaping up as a perfect storm affecting all markets (with the exception of some commodity prices). The accumulated negative returns in the fixed income indices in the first half of the year, is one of the lowest in the historical data. While it is not unusual in times of high volatility for riskier fixed income segments (those that include low credit quality issuers - high yield - or emerging countries) to experience falls of more than 10%, this is the first time in recent market history that this has happened in high credit quality government bonds. The sharp rebound in interest rates and the low safety cushion of fixed income yields has resulted in an investor in US Treasury bonds accumulating a negative return of 10% (-15% for an investor in European government bonds). **This market environment is being particularly dramatic for more conservative investors** who rely more on bonds in their investment portfolios.

Rising interest rates are at the heart of the current correction as evidenced by the greater punishment suffered by long duration bonds and growth stocks (the Nasdaq's decline is almost 10% greater than that of the S&P500). Ultra-expansionary monetary policy (QE) measures that minimised long-term interest rates propelled the valuation of assets with cash flows far into the future. It is these same assets that are now suffering the opposite effect as those distant coupons and dividends are discounted at higher interest rates. We started the year with a cautious view for fixed income but our outlook is becoming more constructive as the risk of monetary tightening has begun to be priced in, and yields on global investment grade credit have reached the highest levels in a decade.

Another exceptionally unusual aspect has been **the ineffectiveness of diversification between bond and equity investments, with both components experiencing declines of more than 10% for the first time in history** (see chart below). Traditional diversified portfolios, the best known being the "60/40" portfolio (60% stocks and 40% bonds) have typically performed positively in one of their two components. Investors need to look beyond traditional diversification strategies to balance portfolios.

The current correction is particularly dramatic for conservative profiles as the epicenter is in the bond market

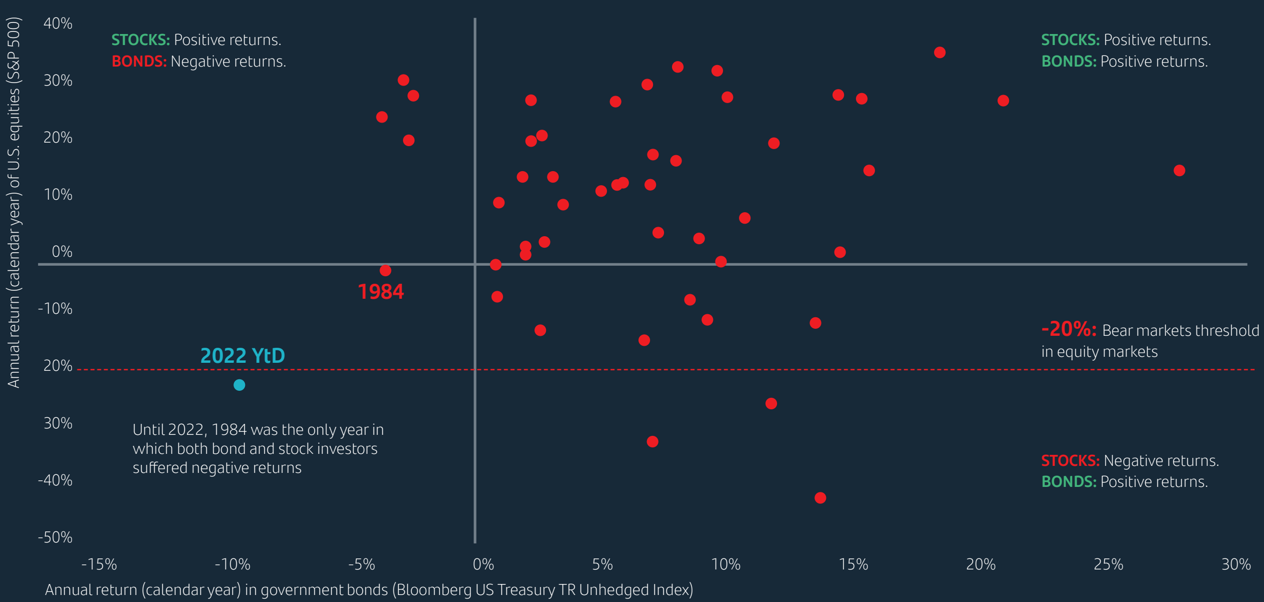
Monetary disease: paradigm shift in monetary policies implies a tough adjustment to long-dated assets

The decreasing effectiveness of classical diversification between bonds and stocks adds another factor of complexity to portfolio management

Annual returns of a US$ investor in equities (S&P500) and fixed income (U.S. Treasuries)

Source: Bloomberg and in-house. Data as of 30/06/2022

Never in recent history has there been such an adverse scenario for a portfolio diversified between equities and bonds



3.2 Investors need to focus on inflation

Central banks need to focus on fighting inflation and so do investors. The next few months are going to be critical in the evolution of inflation as a critical variable for investor sentiment, with our central scenario being that there will be a change in trend by the end of the third quarter. However, as we have discussed in previous chapters, there is a **non-negligible probability of alternative scenarios of more persistent inflation if tensions in energy markets continue** into the winter, in line with the recent gas supply cuts by Russia.

The effect of rising inflation is direct and adverse on assets with nominal value and returns as we have observed abruptly in recent months. **To reduce inflation risk, one must accept a certain amount of market risk as it is necessary to enter the world of investing in real assets.** There are no free lunches in the sense of inflation protection and no volatility. Investing in cash only provides security in the very short term. While holding cash protects against loss of principal, it does not protect against loss of purchasing power. Investing in inflation-linked bonds provides some medium-term hedging but is a complex instrument with high duration risk that needs to be minimized to be effective.

Some academics argue that **equities are a good hedge against inflation as companies can eventually pass on increased costs to consumers and real equity returns have been consistent over time.** Therefore, equity market returns are neutral to inflation over the very long term. But while this relationship may hold in the long run, **inflation appears to have a significant effect on stock prices in the short run.** We can see this impact in the chart below where we see that there is a **high negative correlation between inflation levels and stock market valuation in the United States.** As the level of inflation increases, markets tend to demand a higher risk premium for equity investments. Therefore, valuation multiples (measured in this case through the Shiller cyclically adjusted P/E ratio) tend to depress with the consequent price adjustment in equities. In addition, current levels of earnings multiples in the United States are well above historical levels and if high inflation levels persist, there is a high risk of correction. This adjustment is smaller if current earnings levels can be maintained (current margins are much higher than the average of the last ten years), and **the risk of multiple deflation is also reduced in the case of European equities trading at much lower valuations.**

Markets will remain volatile until they reach an equilibrium regarding rates and inflation outlook

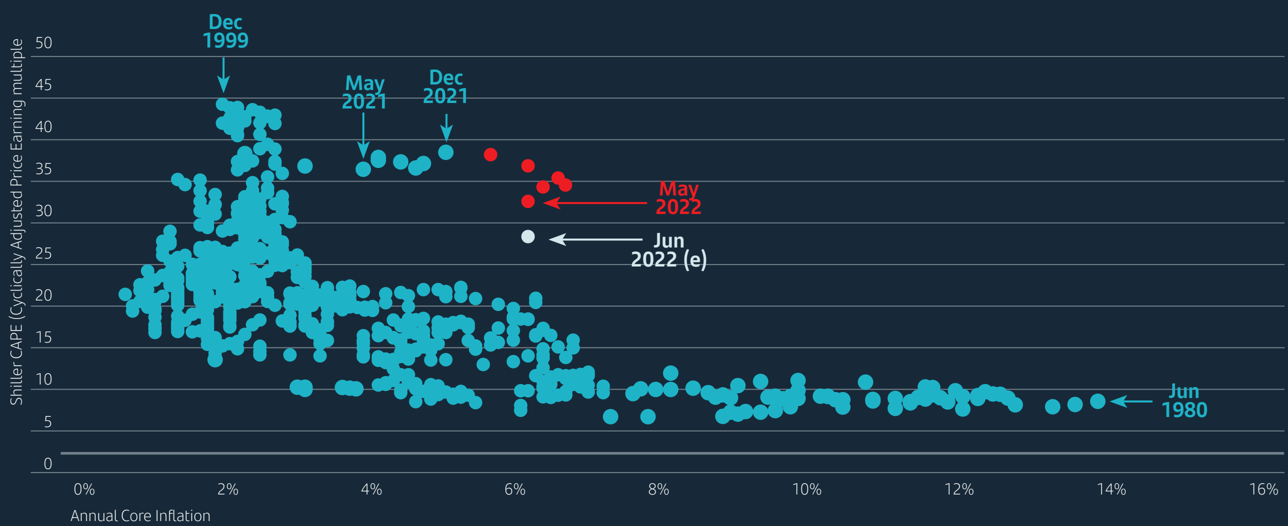
A soft or a "softish" landing is feasible, but will require supply shocks to wane and demand to stay resilient

The stock market is a suitable asset to protect against inflation in the long term but in the short term it is susceptible to a valuation adjustment

Correlation between core inflation and stockmarket valuation (CAPE Shiller ratio)

Source: https://www.multpl.com/shiller-pe and Bloomberg. Data as of 30/06/2022

Earning multiples deflate as inflationary outlook deteriorates



3.3 Earnings to sing the economy´s blues

If we analyse the drop in equities in the first half of the year, we can see that practically the entire adjustment has been due to a contraction of multiples (or relative valuation, method that seeks to compare companies under standardised financial metrics) (the level of earnings has been maintained but the market has adjusted the level of valuation). In the graphs below we can see how **the market still estimates that the companies can obtain double digit growth in 2022 and slightly lower in 2023.** This trend in stable corporate margins applies to both European and U.S. stocks. However, **market strategists question this resilience of earnings estimates in a context such as the one experienced since the start of the conflict in Ukraine.** Since the beginning of 2022, there have been quite a few events that should have an impact on earnings growth: consumer demand is weakening as negative real wage growth undermines consumer confidence and cuts consumer purchasing power, commodity prices have soared, and supply disruptions are exacerbated by the shutdowns in China and the war in Ukraine. Finally, the strength of the dollar is going to negatively affect the profits of US multinational companies. All of this points to a **weakening of earnings momentum in the second half of 2022.** Investor sentiment will probably remain weak until markets reach more clarity on the two key investment variables: interest rates and growth.

It is also worth asking whether the bad news has already been discounted, as multiples tend to run ahead of growth. A case in point is the strong market performance in 2020 due to the expansion of multiples in anticipation of a post-pandemic rebound in earnings growth. Within the stock and sector selection strategy **in equities it is necessary to be selective and focus on companies with the greatest ability to manage margin compression in this slowing growth environment.** Within fixed income, it also makes sense to reduce exposure to the most cyclically sensitive segments. **Given that tighter financial conditions are on the horizon, high yield bonds may not be as attractive as they have been in recent years.** However, if we look at the metrics that measure the strength of corporate balance sheets, we do not see elevated risks across the board. Unlike in other cycles (the financial sector in the GFC or the technology sector in the dot-com crisis), there have been no major excesses of investment and leverage in companies at a global level. But experience shows that in times of slowdown it is better to focus on issuers that can cope with an upturn in funding costs. **Navigating the current uncertainties regarding growth and inflation requires a more cautious positioning of portfolio.**

The macro slowdown has so far not translated into a downgrade in earnings growth expectations

The current repricing is taking most of the overvaluation out of the market, but current levels are vulnerable to any deterioration in corporate fundamentals

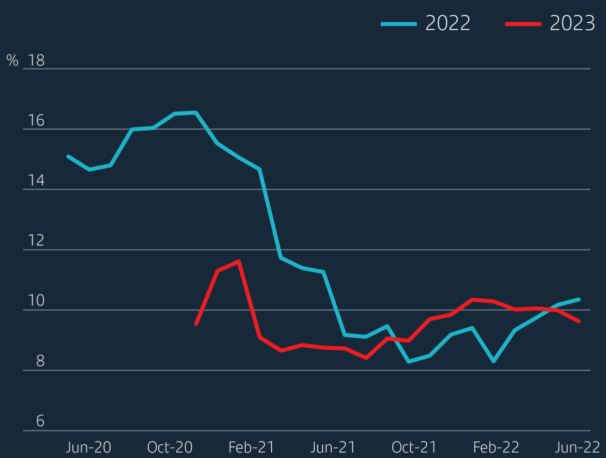
The fragility of economic growth makes it advisable to reduce cyclicality and have less exposure to lower quality credit

Analysts have been reluctant to downgrade earnings despite the change in macro conditions

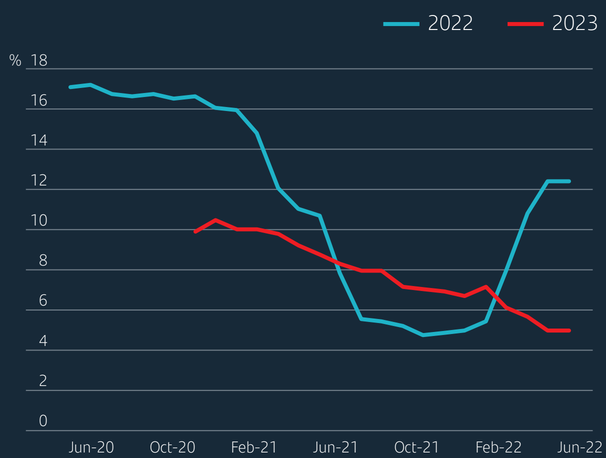
Source: Bloomberg and in-house. Data as of 30/06/2022

Margins going forward should face downward pressures as input costs are soaring

S&P 500 - Earnings estimates



Stoxx 600 Europe - Earnings estimates



3.4 Time to invest in quality

We believe that the scenario of high uncertainty and increasing fragility of markets and economies requires a greater focus on defensive assets, prioritizing diversification and quality in the selection of securities and strategies. It is time to play defense: investors might prefer to refrain from increasing risk until the outlook of inflation and growth becomes clearer. In less than two quarters, investors have suffered one of the biggest geopolitical shocks and the biggest change of course in monetary policies in recent decades. **On the positive side, the market is now more aware of the risks,** the terms stagflation and recession have become recurrent in analyst comments and the market could react strongly should positive surprises materialise. **The downside is that in the event that a recession does eventually occur there is likely to be additional declines in equity markets** (the average decline of the S&P500 during recessions is 31% as seen in the chart below).

We retain a cautious outlook ahead, as central banks prioritise inflation control at the expense of growth

We believe the current environment requires a focus on quality stocks that typically have more resilient financial metrics. In periods of recession, these stocks tend to outperform the index as they are better able to navigate the economic slowdown. In the last four recessions, global quality stocks have outperformed the global index (ACWI) three months before and three months after the onset of a recession. Another segment of equities that has historically outperformed relatively in times of downturn is represented by companies **that pay higher dividends and have strong balance sheets.** We continue to prefer a positioning with a bias towards sectors that benefit from rising inflation (financials, industrials, and materials) or defensive sectors (pharmaceuticals). Given its positive operating leverage, strong cash flow generation and relative undervaluation, the energy sector remains attractive. Investors may want to consider exposure to innovation themes with high growth rates and resilient margins, such as energy transition and internet of things. Clients with a more conservative risk profile might wish to consider exposure to these trends with **structured products that partially protect capital.**

In times of economic turbulence, people have tended to turn to real assets as tangible stores of value

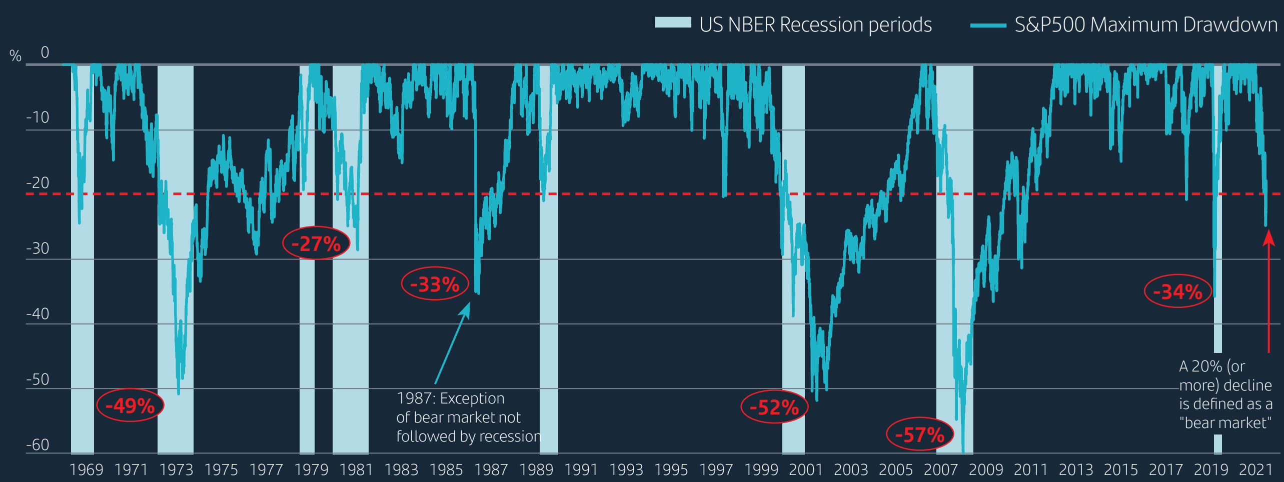
The current complex scenario, which is having a negative impact on both fixed income and equities, implies **the need to incorporate other assets and strategies in order to maintain an adequate level of diversification.** We continue to see value in absolute return strategies and vehicles that allow direct investment in real estate or alternative assets (private equity and private debt) with the possibility of taking advantage of the correction in the markets to position themselves in companies with a growth profile for the next cycle.

Positive correlation between bonds and stocks calls for higher levels of diversification into alternative strategies and real assets

Economic recessions and bear markets in the recent history of United States

Source: Bloomberg. Data as of 30/06/2022

Bear markets (with few exceptions) normally pair with recessions



Appendix: Tables.

Returns of main assets in last 10 years.

Source: Bloomberg.

Data as of 30/06/2022							Returns			Annualised returns
	2016	2017	2018	2019	2020	2021	YTD	3 years	5 years	10 years
Short-term (USD) (1)	**0.4%**	**1.0%**	**1.9%**	**2.2%**	**0.4%**	**0.1%**	**0.2%**	**0.6%**	**1.1%**	**0.7%**
Short-term (EUR) (2)	**-0.3%**	**-0.4%**	**-0.4%**	**-0.4%**	**-0.5%**	**-0.5%**	**-0.2%**	**-0.5%**	**-0.4%**	**-0.2%**
Global Fixed Income (3)	**2.1%**	**7.4%**	**-1.2%**	**6.8%**	**9.2%**	**-4.7%**	**-13.9%**	**-3.2%**	**-0.6%**	**0.1%**
Fixed Income (USD) (4)	**2.6%**	**3.5%**	**0.0%**	**8.7%**	**7.5%**	**-1.5%**	**-10.3%**	**-0.9%**	**0.9%**	**1.5%**
Sovereign (USD) (5)	1.1%	1.1%	1.4%	5.2%	5.8%	-1.7%	-5.8%	-0.3%	0.9%	1.0%
Corporates (USD) (6)	6.1%	6.4%	-2.5%	14.5%	9.9%	-1.0%	-14.4%	-1.0%	1.3%	2.6%
High Yield (USD) (7)	17.1%	7.5%	-2.1%	14.3%	7.1%	5.3%	-14.2%	0.2%	2.1%	4.5%
Fixed Income (EUR) (8)	**3.3%**	**0.7%**	**0.4%**	**6.0%**	**4.0%**	**-2.9%**	**-12.1%**	**-3.7%**	**-0.9%**	**1.9%**
Sovereign (EUR) (9)	3.2%	0.2%	1.0%	6.8%	5.0%	-3.5%	-12.3%	-3.6%	-0.6%	2.2%
Corporates (EUR) (10)	4.7%	2.4%	-1.3%	6.2%	2.8%	-1.0%	-11.9%	-3.3%	-0.9%	1.8%
High Yield (EUR) (11)	6.5%	6.2%	-3.6%	12.3%	1.8%	4.2%	-14.3%	-1.8%	0.1%	4.4%
Emerging Global Fixed Income (USD) (12)	**9.9%**	**8.2%**	**-2.5%**	**13.1%**	**6.5%**	**-1.7%**	**-17.1%**	**-3.5%**	**-0.3%**	**2.5%**
LatAm (USD) (13)	16.3%	10.6%	-4.9%	12.3%	4.5%	-2.5%	-16.7%	-4.9%	-1.2%	1.8%
MSCI World (USD)	**5.3%**	**20.1%**	**-10.4%**	**25.2%**	**14.1%**	**20.1%**	**-21.2%**	**5.3%**	**5.8%**	**7.5%**
S&P 500 (USD)	9.5%	19.4%	-6.2%	28.9%	16.3%	26.9%	-20.6%	8.8%	9.3%	10.8%
MSCI Europe (EUR)	-0.5%	7.3%	-13.1%	22.2%	-5.4%	22.4%	-15.5%	1.7%	1.3%	4.6%
MSCI Emerging Markets (USD)	8.6%	34.3%	-16.6%	15.4%	15.8%	-4.6%	-18.8%	-1.7%	-0.2%	0.7%
MSCI Asia Pac. ex-Japan (USD)	6.8%	37.0%	-13.9%	19.2%	22.4%	-2.9%	-15.7%	2.1%	3.3%	5.3%
MSCI Latin America (USD)	27.9%	20.8%	-9.3%	13.7%	-16.0%	-13.1%	-4.2%	-10.5%	-4.3%	-5.3%

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

Equities indices.

Source: Bloomberg.

Data as of 30/06/2022

			Change	Last 10 years			Return			Annualised returns			
		Last Price	12 months	Low	Range	High	2020	2021	YtD	1 year	3 years	5 years	10 years
US	S&P 500	3,785		1,379		4,766	16.3%	26.9%	-20.6%	-11.9%	8.5%	9.3%	10.8%
	DOW JONES INDUS.	30,775		13,009		36,338	7.2%	18.7%	-15.3%	-11.9%	4.8%	7.6%	9.1%
	NASDAQ	11,029		2,940		15,645	43.6%	21.4%	-29.5%	-24.8%	10.9%	12.4%	14.2%
Europe	Stoxx 50	3,450		2,479		3,818	-8.7%	22.8%	-9.7%	-3.0%	2.5%	2.0%	3.8%
	Eurozone (EuroStoxx)	3,455		2,326		4,298	-5.1%	21.0%	-19.6%	-15.5%	-0.4%	0.1%	4.3%
	Spain (IBEX 35)	8,099		6,452		11,521	-15.5%	7.9%	-7.1%	-6.7%	-4.4%	-5.0%	1.3%
	France (CAC 40)	5,923		3,292		7,153	-7.1%	28.9%	-17.2%	-10.4%	2.1%	3.0%	6.4%
	Germany (DAX)	12,784		6,772		15,885	3.5%	15.8%	-19.5%	-17.8%	0.7%	0.7%	7.1%
	United Kingdom (FTSE 100)	7,169		5,577		7,749	-14.3%	14.3%	-2.9%	1.9%	-1.5%	-0.4%	2.6%
	Italy (MIB)	21,294		13,891		27,347	-5.4%	23.0%	-22.1%	-16.0%	0.1%	0.7%	4.1%
	Portugal (PSI 20)	6,045		3,945		7,608	-6.1%	13.7%	8.5%	20.2%	5.2%	3.2%	2.6%
	Switzerland (SMI)	10,741		6,388		12,876	0.8%	20.3%	-16.6%	-11.4%	2.5%	3.8%	5.9%
LatAm	Mexico (MEXBOL)	47,524		34,555		56,537	1.2%	20.9%	-10.8%	-6.6%	3.0%	-1.0%	1.7%
	Brazil (IBOVESPA)	98,542		40,406		126,802	2.9%	-11.9%	-6.0%	-19.1%	-0.9%	9.4%	6.1%
	Argentina (MERVAL)	88,450		2,323		92,288	22.9%	63.0%	5.9%	34.0%	28.7%	32.2%	43.8%
	Chile (IPSA)	4,950		3,439		5,855	-10.5%	3.1%	14.9%	16.4%	-0.7%	0.8%	1.2%
Asia	Japan (NIKKEI)	26,393		8,695		29,453	16.0%	4.9%	-8.3%	-3.3%	6.7%	5.7%	11.4%
	Hong Kong (HANG SENG)	21,860		19,112		32,887	-3.4%	-14.1%	-6.6%	-15.8%	-8.5%	-3.2%	1.2%
	South Korea (KOSPI)	2,333		1,755		3,297	30.8%	3.6%	-21.7%	-27.2%	3.1%	-0.5%	2.3%
	India (Sensex)	53,019		17,236		59,307	15.8%	22.0%	-9.0%	0.8%	10.1%	11.4%	11.8%
	China (CSI)	4,485		2,140		5,352	27.2%	-5.2%	-9.2%	-6.8%	4.5%	4.1%	6.2%
World	MSCI WORLD	2,546		1,251		3,232	14.1%	20.1%	-21.2%	-17.0%	5.1%	5.8%	7.5%

Equities by factor and sector.

Source: Bloomberg.

Data as of 30/06/2022

			Change	Last 10 years			Return			Annualised returns				Ratios	
		Last Price	12 months	Low	Range	High	2020	2021	YtD	1 year	3 years	5 years	10 years	PE Ratio	Divi-dend Yield
	MSCI World	2,546		1,251		3,232	14.1%	20.1%	-21.2%	-15.6%	5.1%	5.8%	7.5%	14.92	2.24
Factor	MSCI World High Dividend Yield	1,303		884		1,447	-3.0%	12.6%	-10.0%	-6.8%	1.5%	2.4%	4.2%	12.20	3.89
	MSCI World Momentum	3,021		1,061		3,978	28.3%	14.6%	-22.8%	-17.5%	6.4%	10.1%	11.2%	11.73	2.86
	MSCI World Quality	3,085		1,063		4,058	22.2%	25.7%	-24.0%	-16.1%	9.4%	11.0%	11.5%	17.44	1.90
	MSCI World Minimum Volatility	4,146		1,898		4,730	2.6%	14.3%	-12.3%	-6.5%	2.9%	5.9%	8.4%	17.65	2.36
	MSCI World Value	10,388		5,039		11,827	-1.2%	21.9%	-12.2%	-6.6%	4.3%	4.7%	7.6%	11.39	3.38
	MSCI World Small Cap	539		232		705	16.0%	15.8%	-22.6%	-22.0%	4.0%	4.8%	8.8%	14.17	2.33
	MSCI World Growth	6,901		2,457		9,693	33.8%	21.2%	-28.8%	-22.4%	8.2%	10.0%	11.0%	22.28	1.03
Sector	Energy	381		164		448	-31.5%	40.1%	24.0%	5.8%	-1.8%	0.9%	0.3%	6.97	4.06
	Materials	474		229		590	19.9%	16.3%	-17.5%	4.5%	13.5%	10.9%	7.8%	8.95	4.29
	Industrials	398		177		509	11.7%	16.6%	-21.8%	3.9%	11.4%	9.5%	11.2%	15.25	2.28
	Consumer Discretionary	405		141		595	36.6%	17.9%	-31.9%	7.0%	19.7%	16.5%	15.5%	18.73	1.41
	Consumer Staples	419		204		465	7.8%	13.1%	-9.8%	7.5%	9.1%	7.2%	8.9%	19.87	2.64
	Health Care	465		149		518	13.5%	19.8%	-10.3%	9.0%	14.9%	12.2%	13.5%	16.49	1.74
	Financials	212		97		263	-2.8%	27.9%	-17.5%	5.9%	10.4%	7.6%	10.4%	10.91	3.49
	Information Technology	479		103		682	43.8%	29.8%	-29.7%	14.8%	28.9%	25.8%	20.9%	20.79	1.09
	Real Estate	416		247		517	-5.0%	28.7%	-19.7%	10.2%	8.8%	8.4%	8.1%	24.17	3.32
	Communication Services	147		86		220	23.0%	14.4%	-27.8%	-2.0%	15.2%	11.2%	9.2%	15.53	1.52
	Utilities	307		154		331	4.8%	9.8%	-6.2%	10.1%	7.8%	8.1%	7.7%	17.98	3.47

Government Bonds.

Source: Bloomberg.

Data as of 30/06/2022

					10 years						
	Rating	Interest rate			Change	Last 10 years					Yield curve
	(S&P)	C. Bank*	2 years	10 years	12 months	Low	Range	High	YtD	YoY	10-2 years
Developed											
U.S.	AA+	1.75%	2.95%	3.01%		0.53%		3.14%	150	179	0.06
Germany	AAA	-0.50%	0.65%	1.34%		-0.70%		1.93%	151	180	0.69
France	AA	-0.50%	0.55%	1.92%		-0.40%		2.56%	172	202	1.36
Italy	BBB	-0.50%	1.20%	3.26%		0.54%		6.08%	209	264	2.07
Spain	A	-0.50%	0.97%	2.42%		0.05%		6.86%	186	216	1.45
United Kingdom	AA	1.25%	1.84%	2.23%		0.10%		3.02%	126	166	0.39
Greece	BB+	-0.50%	n.d.	3.62%		0.61%		25.46%	228	301	n.d.
Portugal	BBB	-0.50%	0.98%	2.42%		0.03%		11.20%	195	224	1.43
Switzerland	AAA	-0.25%	0.03%	1.02%		-1.05%		1.06%	117	142	0.99
Poland	A-	6.00%	7.84%	6.90%		1.15%		6.90%	325	522	-0.94
Japan	A+	-0.10%	-0.06%	0.23%		-0.27%		0.86%	16	21	0.29
Emerging Markets											
Brazil	BB-	13.25%	13.51%	13.07%		6.49%		16.51%	223	352	-0.44
Mexico	BBB	7.75%	9.39%	9.05%		4.49%		9.16%	148	215	-0.34
Chile	A	9.00%	#N/A N/A	#N/A N/A		2.19%		6.26%	n.d.	n.d.	n.d.
Argentina	CCC+	52.00%	n.d.	n.d.		0.00%		0.00%	n.d.	n.d.	n.d.
Colombia	BB+	7.50%	10.10%	11.55%		4.85%		11.55%	335	n.d.	1.44
Turkey	B+	14.00%	23.14%	n.d.		6.21%		23.00%	n.d.	n.d.	n.d.
Russia	NR	9.50%	#N/A N/A	n.d.		5.55%		15.99%	n.d.	n.d.	n.d.
China	A+	2.86%	2.25%	2.82%		2.51%		4.58%	4	-4	0.57
India	BBB-	4.90%	6.53%	7.45%		5.84%		8.86%	99	125	0.92

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

Currencies.

Source: Bloomberg.

Data as of 30/06/2022

	Last Price	Change 12 months	Last 10 years Low	Range	High	YtD	Annualised returns 1 year	3 years	5 years	10 years
EUR/USD	1.0484		1.05		1.39	8.5%	13.5%	2.8%	1.8%	1.9%
EUR/GBP	0.86		0.70		0.92	-2.3%	-0.1%	1.3%	0.4%	-0.7%
EUR/CHF	1.00		1.00		1.24	3.6%	9.5%	3.5%	1.8%	1.8%
EUR/JPY	142		96		148	-8.0%	-7.6%	-4.8%	-2.0%	-3.4%
EUR/PLN	4.70		4.04		4.70	-2.4%	-3.8%	-3.3%	-2.0%	-1.1%
GBP/USD	1.22		1.22		1.71	11.1%	13.6%	1.4%	1.3%	2.6%
USD/CHF	0.96		0.88		1.03	-4.4%	-3.6%	0.7%	0.0%	-0.1%
USD/JPY	136		78		136	-15.2%	-18.6%	-7.4%	-3.7%	-5.2%
USD/MXN	20.12		12.13		24.17	2.0%	-1.5%	-1.5%	-2.2%	-4.0%
USD/ARS	125.22		4.59		125.22	-18.0%	-23.6%	-30.3%	-33.3%	-28.3%
USD/CLP	918		471		918	-7.2%	-20.7%	-9.6%	-6.2%	-5.7%
USD/BRL	5.26		1.98		5.75	6.1%	-5.7%	-9.9%	-8.9%	-9.2%
USD/COP	4.155		1.763		4.155	-1.8%	-9.3%	-8.2%	-6.0%	-8.1%
USD/CNY	6.70		6.05		7.16	-5.1%	-3.5%	0.8%	0.3%	-0.5%
EUR/SEK	10.72		8.34		10.93	-4.0%	-5.4%	-0.5%	-2.0%	-2.0%
EUR/NOK	10.32		7.29		11.48	-2.9%	-1.3%	-2.1%	-1.5%	-3.1%

Commodities.

Source: Bloomberg.

Data as of 03/31/2022

	Last Price	Change 12 months	Last 10 years Low	Range	High	Return 2020	2021	YtD	Annualised returns 3 years	5 years	10 years
Crude Oil (Brent)	115.0		21		120	-23.0%	51.4%	48.5%	21.3%	35.0%	5.9%
Crude Oil (W. Texas)	105.8		19		115	-20.5%	58.7%	37.4%	21.8%	33.0%	7.6%
Gold	1,807.3		1,060		1,971	24.4%	-3.5%	-1.2%	8.5%	13.2%	4.1%
Copper	8,258.0		4,561		10,375	25.8%	25.2%	-15.0%	11.3%	11.6%	2.4%
CRB Index	291.1		117		317	-9.7%	38.5%	25.3%	17.2%	19.2%	0.8%
Rogers International	3,934.2		1,560		4,345	-7.7%	41.1%	23.1%	18.4%	22.6%	4.6%
Natural Gas	248.3		30		306	-7.7%	315.9%	61.3%	77.7%	82.7%	n.d.

"Periodic table" of asset returns.

Asset Class	Reference Index	Calendar Year Returns 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
US Equities	S&P 500 TR	20.9% Japan Equities	54.4% Japan Equities	16.7% Spain Government	12.1% Japan Equities	14.8% Global High Yield	37.3% Emerging Market Equities	2.6% Spain Government	31.5% US Equities	18.4% US Equities	36.5% Commodities	25.7% Commodities
Japan Equities	Topix TR	19.3% Global High Yield	32.4% US Equities	13.7% US Equities	6.4% Europe Equities	12.0% US Equities	22.4% Global Equities	2.4% Eurozone Government	28.2% Europe Equities	18.3% Emerging Market Equities	28.7% US Equities	-0.2% Liquidity
Spain Equities	Ibex35 TR	18.2% Emerging Market Equities	27.8% Spain Equities	10.3% Eurozone Government	1.6% Spain Government	11.2% Emerging Market Equities	22.2% Japan Equities	-0.4% Liquidity	27.7% Global Equities	15.9% Global Equities	23.2% Europe Equities	-4.8% Japan Equities
Emerging Markets Equities	MSCI EM TR	18.1% Europe Equities	26.7% Global Equities	10.3% Japan Equities	1.4% US Equities	9.7% Commodities	21.8% US Equities	-1.2% Europe IG	18.4% Emerging Market Equities	8.0% Global High Yield	21.8% Global Equities	-5.3% Spain Equities
Europe Equities	Eurostoxx50 TR	16.0% US Equities	21.5% Europe Equities	8.6% Spain Equities	0.3% Eurozone Government	7.5% Global Equities	11.3% Spain Equities	-3.3% Global High Yield	18.1% Japan Equities	7.4% Japan Equities	12.7% Japan Equities	-11.2% Eurozone Government
Commodities	Commodity RB TR	15.8% Global Equities	11.0% Spain Government	8.3% Europe IG	-0.1% Liquidity	4.8% Europe IG	10.2% Global High Yield	-4.4% US Equities	16.6% Spain Equities	4.4% Spain Government	10.8% Spain Equities	-11.9% Spain Government
Global Equities	MSCI World TR	13.2% Europe IG	8.0% Global High Yield	4.9% Global Equities	-0.5% Europe IG	4.2% Spain Government	9.2% Europe Equities	-8.7% Global Equities	13.7% Global High Yield	3.0% Eurozone Government	1.4% Global High Yield	-12.3% Europe IG
Europe IG	ERL0 TR	5.5% Spain Government	2.3% Europe IG	4.0% Europe Equities	-0.9% Global Equities	4.0% Eurozone Government	2.5% Europe IG	-10.7% Commodities	11.8% Commodities	2.7% Europe IG	-0.5% Liquidity	-16.7% Global High Yield
Liquidity EUR	Eonia TR	4.6% Eurozone Government	0.1% Liquidity	0.1% Liquidity	-3.5% Spain Equities	3.7% Europe Equities	1.7% Commodities	-11.5% Spain Equities	8.6% Spain Government	-0.5% Liquidity	-1.1% Europe IG	-17.6% Emerging Market Equities
Global High Yield	HW00 TR	2.8% Spain Equities	-2.3% Eurozone Government	-0.1% Global High Yield	-4.2% Global High Yield	2.6% Spain Equities	1.1% Spain Government	-12.0% Europe Equities	6.3% Europe IG	-3.2% Europe Equities	-2.5% Emerging Market Equities	-17.9% Europe Equities
Spain Government	SPAIN 10 YR	0.2% Liquidity	-2.6% Emerging Market Equities	-2.2% Emerging Market Equities	-14.9% Emerging Market Equities	0.3% Japan Equities	-0.4% Liquidity	-14.6% Emerging Market Equities	3.0% Eurozone Government	-9.3% Commodities	-2.7% Eurozone Government	-20.0% US Equities
Eurozone Government	GERMANY 10 YR	-3.3% Commodities	-5.0% Commodities	-17.9% Commodities	-23.4% Commodities	-0.3% Liquidity	-1.4% Eurozone Government	-16.0% Japan Equities	-0.4% Liquidity	-12.7% Spain Equities	-3.1% Spain Government	-20.5% Global Equities

\+ Returns -

*Data as of 30/06/2022
*Total return indices track both the capital gains as well as any cash distributions, such as dividends or interest, attributed to the components of the index.

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