Market outlook 2025

Steering markets normalization

All data and figures in
texts and graphs are as of
November 20th, 2024.

Samantha Ricciardi
CEO of SAM

Dear investor,

It is our pleasure to share with you our 2025 Market Outlook, with analysis from our global team and local experts. Their in-depth knowledge of local assets and global trends enables us to make informed strategic decisions. Our goal is clear: to provide you with a solid global view, complemented by local analysis to help you build portfolios aligned with your objectives.

As we move into 2025, it is crucial to reflect on the current environment, which has become clearer after the uncertainties of recent years. The lengthening of the global economic cycle and more moderate inflation in the U.S. and Europe point to a favorable scenario for global asset diversification, in which we favor risk assets and, in particular, U.S. equities and corporate bonds.

On the other hand, AI is starting to have a real impact on innovation, productivity, new ways of interacting with customers, etc. Our estimations of economic variables, asset research and investment process and decisions are already including it, without overlooking other trends that shape the future, such as population aging and longevity and the necessary transition in energy sources.

In this report, we share with you our analysis and our five investment ideas for 2025:

1. U.S. equities.

2. European corporate bonds.

3. Latam fixed income.

4. U.S. Dollar.

5. Generative AI 2.0, broadening the investment to the whole ecosystem.

We also address the key structural trend of integrating private market investing into portfolios, which strengthens risk-adjusted returns and provides a competitive advantage for our clients. The democratization of these assets is broadening their reach beyond the institutional arena to a more diverse investor base.

We recognize the risks inherent in the environment, from unexpected economic factors to geopolitical tensions, not forgetting China's leading role in its evolution. We are prepared to monitor these challenges and act swiftly when necessary.

Our team is at your disposal to further explore the topics in this document and to help you take advantage of the opportunities presented by a market in the process of normalization.

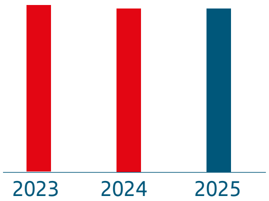
Thank you for your trust.

Steering markets normalization

José Mazoy, PhD
Global Chief Investment Officer at SAM

Growth

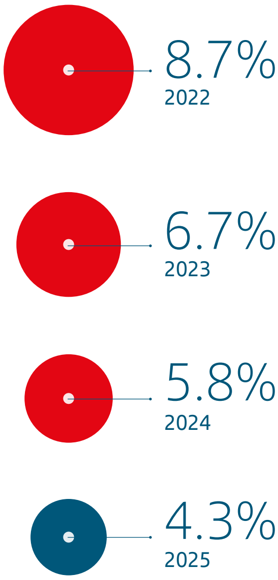
The global economy will continue to grow in 2025. We expect the pace of GDP growth to be around 3% for the fourth year in a row.



Growth will be positive in all geographies.

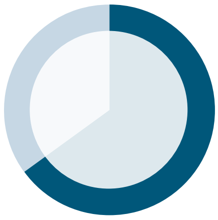
100%
IMF World Economic Outlook projects positive growth in all countries.

Inflation



World inflation, according to the IMF's World Economic Outlook.

Monetary policy normalization

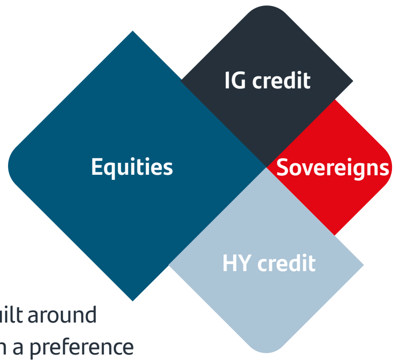


65%
of major central banks are cutting rates.

> See page 9

Investments opportunities

Our central scenario expects positive medium-term returns across all global assets and favors equities and credit.



Portfolios should be built around **diversification,** with a preference for risk assets.

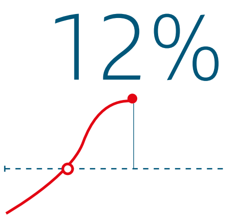
Looking ahead to 2025, we face a more balanced global environment in terms of growth, inflation and monetary policy, which evolve at a different pace by country. By also including long-term trends such as demographic change, regionalization versus globalization, energy transition and artificial intelligence (AI), we identify 5 key investment ideas for 2025 and a structural trend in asset management:

1. U.S. equities

Stabilized growth coupled with inflation on track to Fed's targets, favors the continuation of monetary policy normalization. This, combined with positive corporate earnings estimates, reinforces our conviction for U.S. equities as the main driver of a diversified portfolio. In addition, we believe that technology companies will continue to capitalize on AI investment, while other companies will also take advantage of the extended economic cycle to contribute to earnings growth, widening market breadth.

We expect a soft landing in the U.S., towards GDP growth rate around 2%

We expect U.S. earnings to grow in 2025 above historical average



2. Eurozone and UK corporate bonds

A positive, albeit moderate, growth environment in Europe and a normalization of inflation and monetary policies make corporate bonds attractive. Increasing portfolio duration and betting on positive carry offers value, supported by confidence in the health of the corporate sector as reflected in the credit spreads.

3.30%

ICE BoFA Euro Corporate index yield

5.55%

Bloomberg Sterling Aggregate Corporate ISMA index yield

3. Latam fixed income

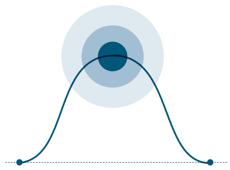
The degree of monetary normalization varies by geography.

Brazil

The central bank has resumed monetary tightening. We maintain a positive view on monetary assets, with rates still attractive and an uncertain fiscal environment limiting upward trends in the stock market and the currency.

Expected peak for the Selic rate

12.75%



Mexico

We favor duration extension in long-term government bonds, supported by a still-tight monetary policy that we expect to gradually ease.

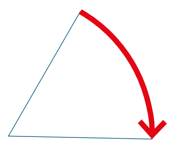
Real reference rate above 5%

5%

Chile

We believe corporates and government bonds will be favored by the attractive entry point offered by current rates, with inflation converging and rate cuts expectations in 2025.

Monetary policy rate could decrease to 4.25%



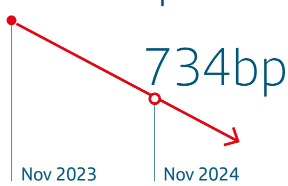
4.25%

Argentina

Sovereign bonds in USD, with a risk premium below 800 basis points, remain an attractive opportunity for 2025.

EMBI risk premia

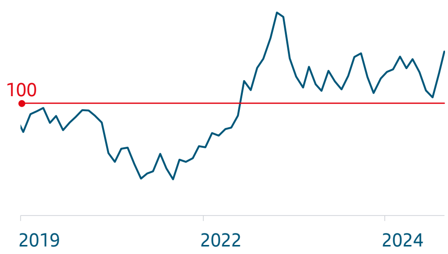
2400bp



4. U.S. Dollar

In an environment of potential geopolitical risks, coupled with a more protectionist bias in U.S. policies, we continue to have a positive view on the dollar.

USD index versus major currencies (DXY)



5. Generative AI 2.0 - Broadening investment to the whole ecosystem

Looking to the future, Generative AI 2.0 has become a key catalyst for growth because of its ability to transform industries and redefine productivity. The milestone achieved by OpenAI in launching ChatGPT in November 2022, and surpassing the 100 million users in January in 2023 sparked significant enthusiasm among investors, boosting valuations and stock prices of big tech companies. Once the initial enthusiasm has been digested, the focus must be broadened toward how the adoption of generative AI technologies will impact productivity and growth more broadly. According to McKinsey (1), the impact of generative AI could add trillions of dollars to the global economy. Their latest research estimates it could contribute between 2.6 and 4.4 trillion USD annually. To put in context what these figures represent, it should be said that the UK's GDP in 2023 was 3.3 trillion USD. In terms of productivity growth it could add annually between 0.5% and 3.4%.

Without losing sight of the big technology sector, it is key to analyze what the impact of the implementation of generative AI begins to be throughout the ecosystem.

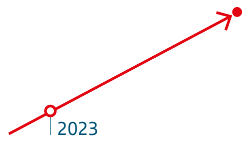
In recent years, generative AI has been surpassing levels of human capabilities performance in various tasks. Stanford University's AI Index report (2) highlights advances in generative AI relative to human standards in nine key indicators indicating that it has outperformed human performance in: Image classification (2015); basic reading comprehension (2017); visual reasoning (2020) and natural language inference (2021). However, some more complex cognitive tasks, such as visual commonsense reasoning and advanced mathematical problem solving, remain challenging. For example, in an experiment conducted by BCG Consulting (3), using GPT-4 for creative product innovation, participants' performance improved by up to 40%. However, in business problem-solving tasks, performance declined by 23%, indicating that the greatest potential lies in complementing human intelligence with AI. This shows that "some will win more than others." Those activities with more content linked to where Generative AI is more advanced can already benefit.

To identify those industries, and companies, in which the activities that are most enriched by generative AI have the greatest weight is to identify those that may have the greatest potential to boost their profits and contribute to economic growth. McKinsey's most recent projections (1) indicate a significant impact in the following sectors:

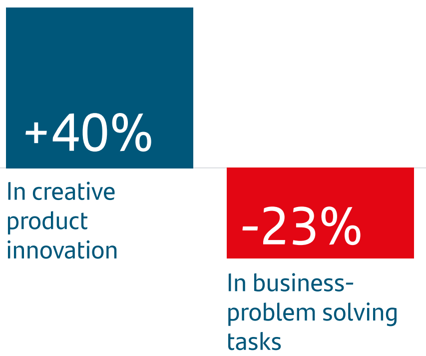
Annual contribution of Generative AI 2.0 to global GDP according to McKinsey

2.6 - 4.4

trillion USD



Participants' performance when using GPT-4



High-Tech

Revenue could increase by 4.8% to 9.3% (240 billion to 460 billion USD).

Banking, Pharmaceuticals and Medical products

These industries are poised to benefit from increased operational efficiency and innovation and their revenue could increase by up to 4%.

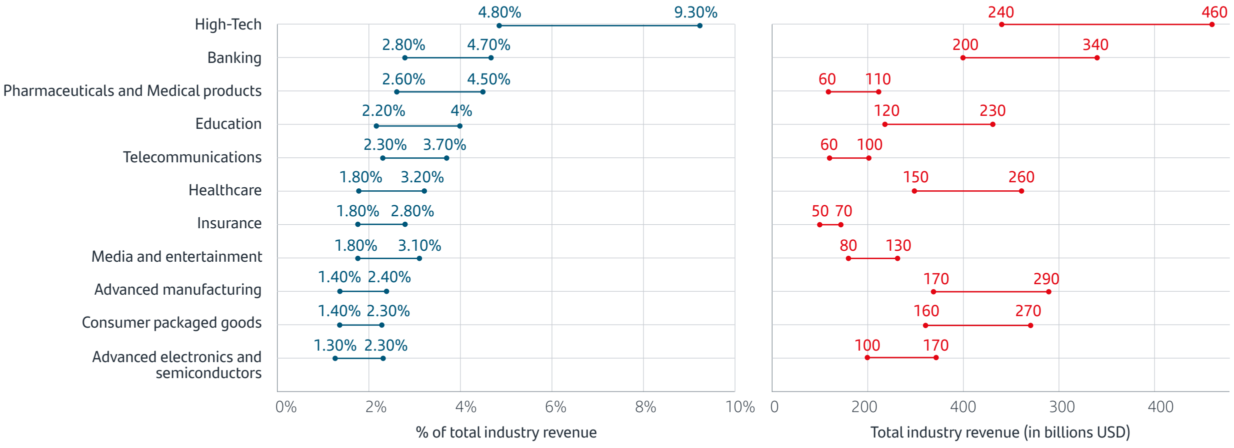
Education

Enhanced personalized learning solutions and content creation are expected to drive growth, with the sector increasing revenue by more than 2%.

(1) McKinsey & Company. The economic potential of generative AI: The next productivity frontier. June 2023. (2) AI Index Report 2024 by Stanford University. (3) How People Can Create—and Destroy—Value with Generative AI. BCG, 2023.

Anticipated impact of Generative AI on revenue by industry

Source: McKinsey & Company, 2024 AI Index report



Generative AI can also help address demographic challenges by improving productivity in economies with aging populations and a decline in the workforce. Developed countries with service-oriented economies are likely to experience the greatest gains in their GDP. At the same time, many G7 countries continue migrating from manufacturing to services, better positioning themselves to take advantage of generative AI.

This success story is not without potential obstacles, including costs, regulation, environmental impact and the limitations of the data used to train the models. The pace of development and implementation of generative AI in the ecosystem will have to be matched to the own capacities of the industries that produce and use it.

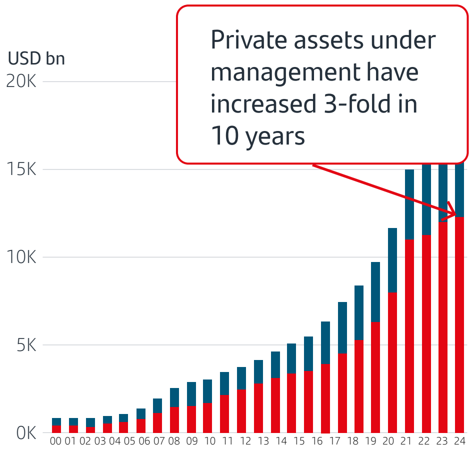
Identifying investment opportunities in the broader ecosystem of generative AI has to be done in a comprehensive framework that allows investors to position themselves strategically and with a non-short-term horizon in this transformative trend.

The 2025 scenario calls for active and diversified management, adapted to a low volatility environment that favors derivative-based strategies to balance risks and capture opportunities. We are ready to navigate this environment with informed decisions and strategic vision.

Structural trend in asset management: Private markets

The integration of private markets into portfolios strengthens the risk-return trade-off, offering a competitive advantage to our clients. The democratization of these assets, driven by financial innovation, a more accessible regulatory framework, greater transparency and financial education, is extending their reach beyond the institutional sphere to a more diverse investor base.

Within private markets, our preference is for private real estate as an asset with duration and recurring income, which in a normalized interest rate environment should benefit. Within the real estate sector, we particularly favor the co-living segment. This model, which maximizes income with low operating costs, is ideal for young people and digital nomads in high-cost cities.



Source: Prequin

01

Global view

Global investment scenario

Delfina Pérez, CIIA
Head of Markets
Strategy at SAM

Luiz Felix, PhD
Global Head of Asset
Allocation at SAM

In recent years, the global economy and financial markets have faced a series of disruptive events that brought us into turbulent waters—unknown scenarios filled with uncertainty. Starting from a situation where the Eurozone was grappling with the abnormality of negative interest rates, the world had to confront an unprecedented health crisis. This demanded extraordinary monetary and fiscal measures and caused a breakdown in supply chains. Later, an inflationary shock arose that required monetary tightening on a scale not seen since the '70s. Visibility was limited, and strategic decisions were made cautiously, aiming to stay on course while frequently adjusting the direction.

Sustained global economic growth and moderating inflation support investment in risk assets

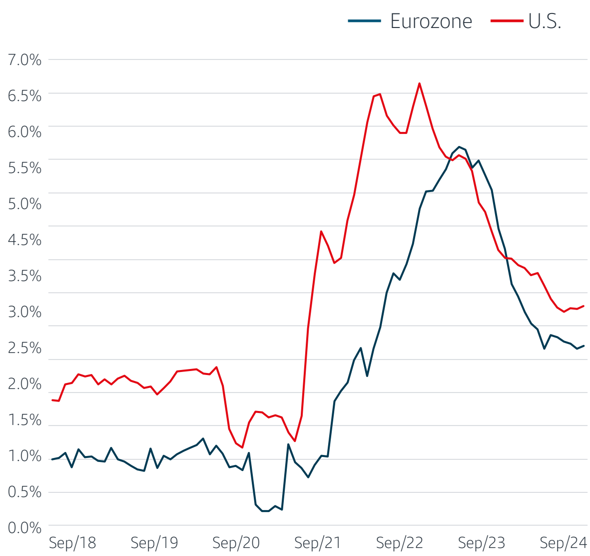
We are now moving towards a more normalized environment with clearer horizons. This scenario allows us to adopt investment strategies with a longer-term focus and make decisions where fundamentals regain prominence, once again serving as the compass to achieve return and risk objectives.

The investment scenario we anticipate for 2025 is based on solid global economic growth of around 3%, supported by strong fundamentals in the two key pillars of GDP: consumption and investment. At the same time, we believe inflation in major developed countries will continue to decline toward central bank targets—a path largely traveled already, that enable them to begin normalizing interest rates in 2024. We expect rates to continue falling in 2025 toward more neutral levels before entering pause.

The combination of stable, solid growth and less restrictive monetary policy creates a highly favorable environment for investing, particularly for strategies that favor risk assets, such as equities and credit. We believe portfolios should be built around diversification, as all global asset classes have the potential to deliver positive medium-term returns. Risk assets offer greater upside potential, while conservative assets contribute more stability to portfolios. Tailoring diversification to the investor's risk profile will determine the extent of exposure to each asset class.

Core inflation in the U.S. and in the Eurozone

Source: Datastream



Percentage of major central banks* easing

Source: LSEG Datastream and Santander AM

* Australia, Brazil, Canada, China, Chile, Colombia, Czeck Republic, Denmark, Eurozone, Indonesia, India, Japan, New Zealand, Norway, Poland, Russia, South Africa, Sweden, Switzerland, Turkey, UK, U.S.

In our investment scenario, corporate earnings are expected to grow at attractive levels. For the S&P500, we estimate growth of around 12%, above the historical average, while for the European Stoxx 600, we anticipate growth of 8%, slightly below the historical average. In emerging markets, our estimates point to earnings growth of 14.5%, exceeding the 20-year average.

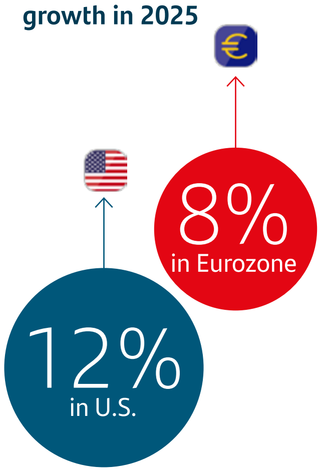
A key differentiator in 2025 is our expectation for a significant increase in the number of U.S. companies contributing to positive earnings growth. In 2024, S&P 500 earnings growth was primarily concentrated in the so-called "Magnificent Seven"*. The current environment is favorable for more cyclical sectors and markets—those with higher leverage and greater sensitivity to interest rates—to also contribute to earnings generation.

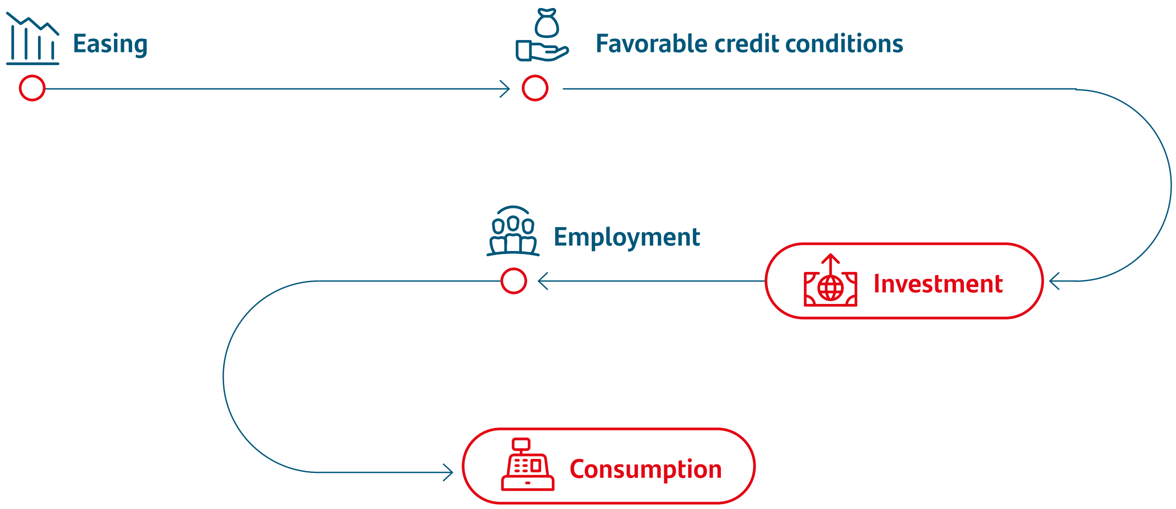
In our view, declining interest rates and economic growth also explain the equity market valuations that some investors consider too demanding. Historically, during periods of economic growth, valuations tend to progressively exceed their averages, reflecting a reduction in the risk premium. Excluding the major technology companies, the valuations of the rest of the market are around their historical averages, providing them with additional upside potential.

We expect technology companies to continue generating earnings and margins above market averages. AI is an unstoppable, transversal, and transformational trend that has already become a reality, giving us confidence in the sector's sustained earnings generation and justifying its valuations. This trend will also benefit companies and sectors that adopt Generative AI 2.0 to streamline their production processes and enrich their business models.

The solid fundamentals of the corporate sector will be further supported by increasingly favorable financial and credit conditions, reflected in the downward trend in default rates. Global economic growth, strong corporate balance sheets, and historically attractive yields explain the high demand for corporate bonds, which we expect to continue, keeping credit spreads at their lowest levels in recent years. Our favorable view on credit is based on the attractiveness of yields, which we expect to remain around current levels, providing steady returns for portfolios.

We estimate solid corporate earnings growth in 2025





* The Magnificent Seven are: Alphabet, Amazon, Apple, Microsoft, Meta, NVIDIA and Tesla.

We also see stability in sovereign bond yields, as markets have already priced in the bulk of rate cuts from the current easing cycle by the Fed and the ECB. As a result, the expected returns for this asset class would align closely with current yields. After a period where the correlation between bonds and equities was "abnormally" positive, sovereign bonds have regained their role as stabilizers and safe-haven assets in portfolios.

Our investment scenario is not without risks, which we have identified and are actively monitoring. On the economic front, stronger-than-expected growth could impact our outlook on central banks and interest rates. Conversely, weakening economies could shift focus to corporate earnings and valuations of risk assets. These alternative scenarios could arise from purely economic factors or geopolitical developments, such as the new Trump administration in the U.S. with a Republican majority in Congress. Key policies are likely to center around tax cuts, tariff increases, and immigration control.

For now, pending further details on these policies, our analysis suggests they do not significantly alter the fundamentals underpinning our investment strategy. However, we do anticipate the USD to benefit in many currency pairs, a trend we will factor into our geographic exposure adjustments within portfolios.

Looking ahead to 2025, the gradual normalization of economies and markets offers a clearer and more predictable scenario compared to recent years. Piloting this normalization requires active and continuous management. Our strategy focuses on leveraging this more stable environment while closely monitoring risks to adapt swiftly to any changes that may arise during the normalization process.

The environment is favorable for investment in carry assets

2.35%

10Y German government bond yield

5.20%

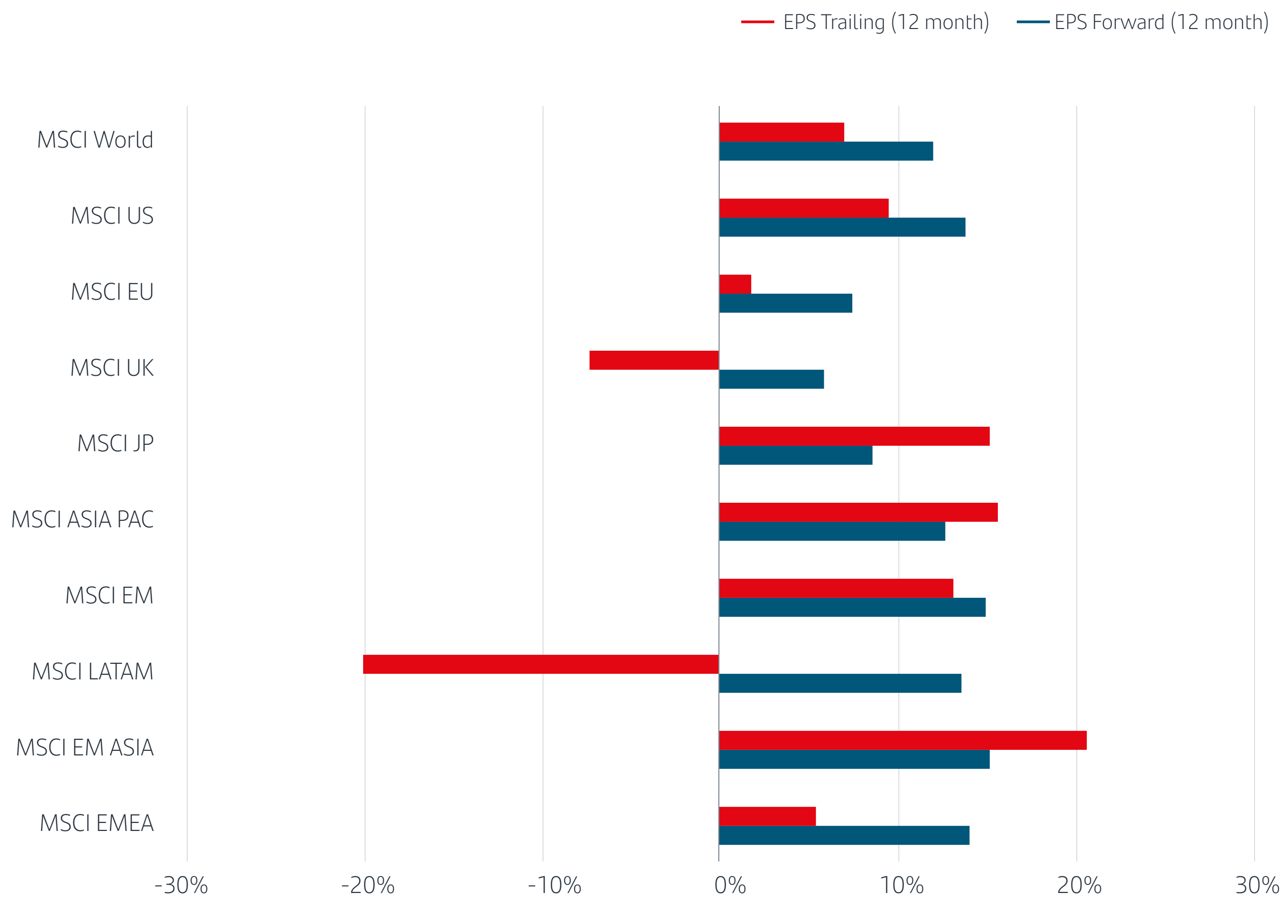
ICE BofA U.S. Corporate USD index yield

6.80%

ICE BofA Global High Yield USD index yield

Earnings growth broadens by markets and sectors

Source: LSEG Datastream and Santander AM



Investment scenario

Central scenario | Alternative scenarios

Probability 60%

Soft-landing and CBs easing to neutral (Mid cycle)

Our base investment scenario is based on the extension of the economic cycle. The expectation for global economic growth is around 3%, with convergence among the major economies, and inflation gradually returning to levels more in line with central bank targets. Central banks are still in the process of normalizing interest rates towards more neutral levels. Expected returns in this scenario are generally positive for all global asset classes, with higher returns for equities and credit. The policies of the new Trump administration do not represent a material change in the scenario.

Probability 20%

Strong markets and economies. CBs easing but still restrictive (Late cycle)

This alternative investment scenario envisions markets and economies that surprise positively, providing more potential for returns on risk assets. The central banks' response materializes in fewer interest rate cuts and a monetary policy that pauses at restrictive interest rate levels. The policies of the U.S. Republican government provide additional support to the pro-cyclical sentiment of economies and markets. This scenario favors risk assets over fixed-income assets.

Probability 15%

U.S. Trade Policy derailing global growth

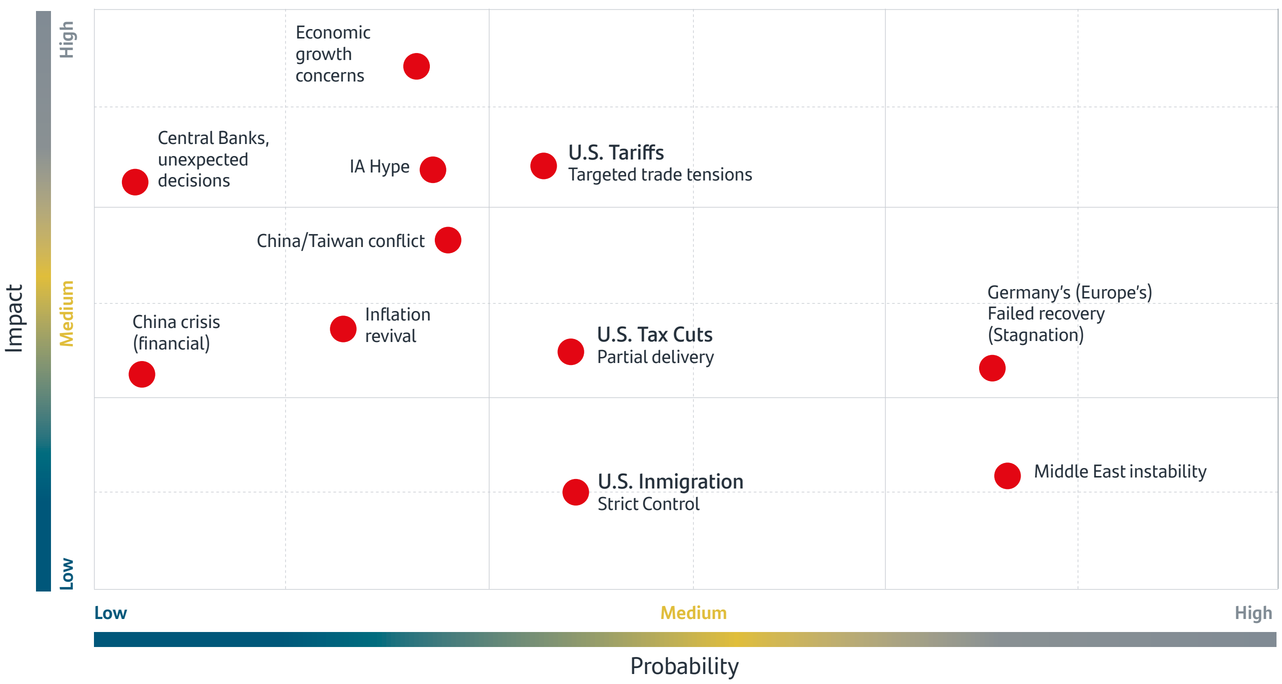
This scenario reflects the materialization of the potential negative effects of the new U.S. president's trade policies. The introduction of high tariffs and even the threat of imposing high tariffs, on U.S. imports, could lead to significant downward revisions of growth, higher inflation and increased uncertainty, which would negatively impact risk assets globally, especially those outside the U.S. USD-denominated fixed income could face higher yields due to the increase of inflation expectations.

Probability 5%

Hard-landing and CBs accommodative (Recession)

This scenario reflects a gradual global economic slowdown due to weakness in both consumption and investment. Central banks would accelerate their pace of interest rate cuts to stimulate demand and thus avoid a recession. This scenario is favorable for safe assets such as sovereign bonds.

Risks map



Global macro outlook

Agustín Carles , CFA
Head of Global Macro at SAM

U.S.

As the year comes to a close, we expect the GDP growth of the U.S. economy to be around 2.7% in 2024, which will be the third consecutive year with rates close to 3%, therefore above the potential, which is estimated to be around 2%.

Despite these last few years of growth exceeding potential, we believe that the cycle is not yet close to its end. On the contrary, in absence of significant external shocks, this expansionary cycle should extend to 2025, although with somewhat more moderate GDP growth than that of the last three years.

We think that the cycle is not really exhausted mainly because, as key medium-term fundamentals such as the household savings rate or the share of profits of non-financial companies show, the financial position of both the former and the latter remains quite healthy. This explains why the credit conditions that banks are applying to both sectors have been loosening, especially since the Fed the process of hiking rates at the end of 2023.

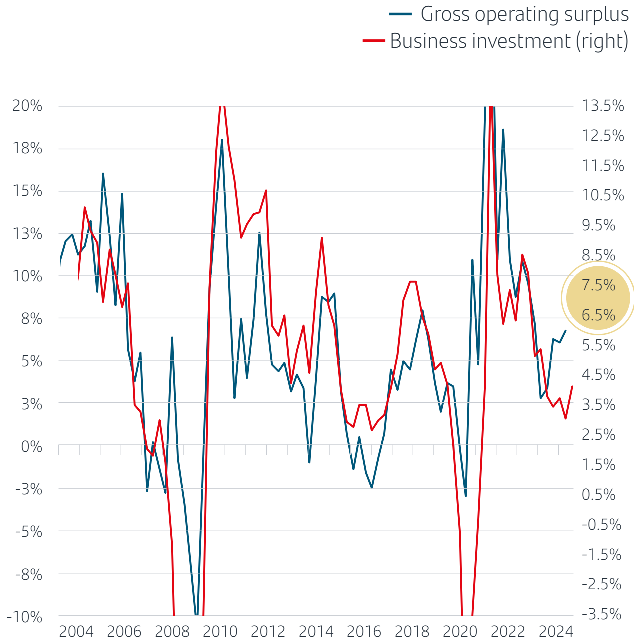
In this context of a healthy situation in the private sector and credit conditions that will probably continue to loosen, we believe that business investment will grow at a reasonable pace, thereby supporting employment and, through this, also private consumption. For all these reasons, we estimate GDP growth for 2025 of 2.2%, around the trend rate, but lower than that of the last three years given that certain extraordinary driving factors (especially immigration) will no longer have the prominence they have had since 2022.

2025 Base scenario:

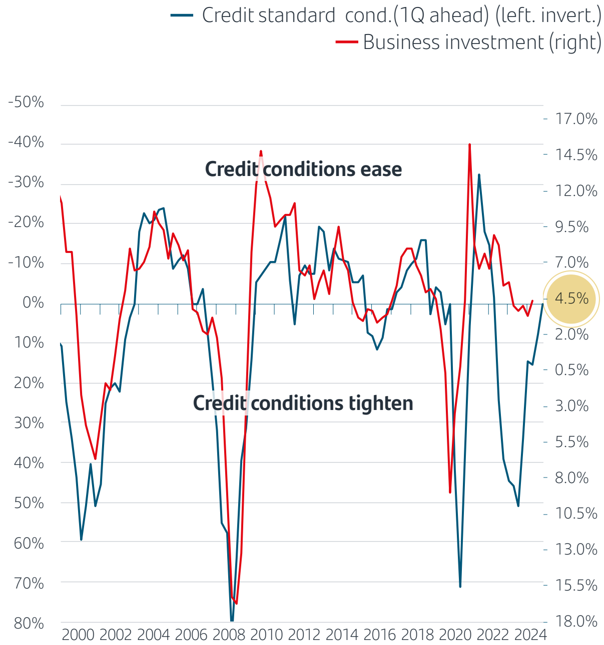
GDP
2.2%

Fed funds terminal rate
3.50% - 3.75%

U.S.: Business investment and gross operating surplus of non-financial corporates (yoy growth)
Source: Bloomberg and Santander AM



U.S.: The improvement in credit conditions favors business investment
Source: Bloomberg and Santander AM



Regarding inflation, in absence of significant external shocks, we believe that the core inflation (that is, the relevant one for the Fed) will maintain the downward trend that it has been registering in the last two years. Specifically, we think that the current growth in private consumption (reasonable, but not high) together with the absence of supply restrictions will allow core CPI inflation to continue falling from the current 3.3% year-on-year to around 2.5% in the middle of 2025 and closer to 2% at the end of the year.

This economic scenario of GDP growth around potential and inflation gradually approaching the Fed's target of 2% will pave the way to maintain a path of gradual rate cuts, which we believe will be at 25 basis points pace, but not in all the FOMC meetings. It is true that the Fed started with a first cut of 50 basis points in September, but we believe that the growth outlook is strong enough not to require strong and rapid monetary easing. In this sense, we believe that Fed Fund rates will end up stabilizing in the second half of next year at around 3.5%/3.75%.

Trump's electoral proposals

What kind of shocks could really alter this central scenario? The one that we see as most significant would be, without a doubt, the one that would entail the adoption of disruptive policies for growth and/or inflation by the new U.S. administration.

It is not yet known what specific policies will finally be carried out, but those announced in the electoral campaign, as proposed, would affect our central scenario. Specifically, there are three types of measures that could have a significant impact, and not only in the U.S. but globally: tax cuts, immigration restrictions and higher tariffs. Furthermore, the final impact on growth and inflation is different for each measure, so the joint effect of the three would seem, in principle, quite uncertain.

Fiscal expansion

↑ Growth ↑ Inflation

Less inmigration

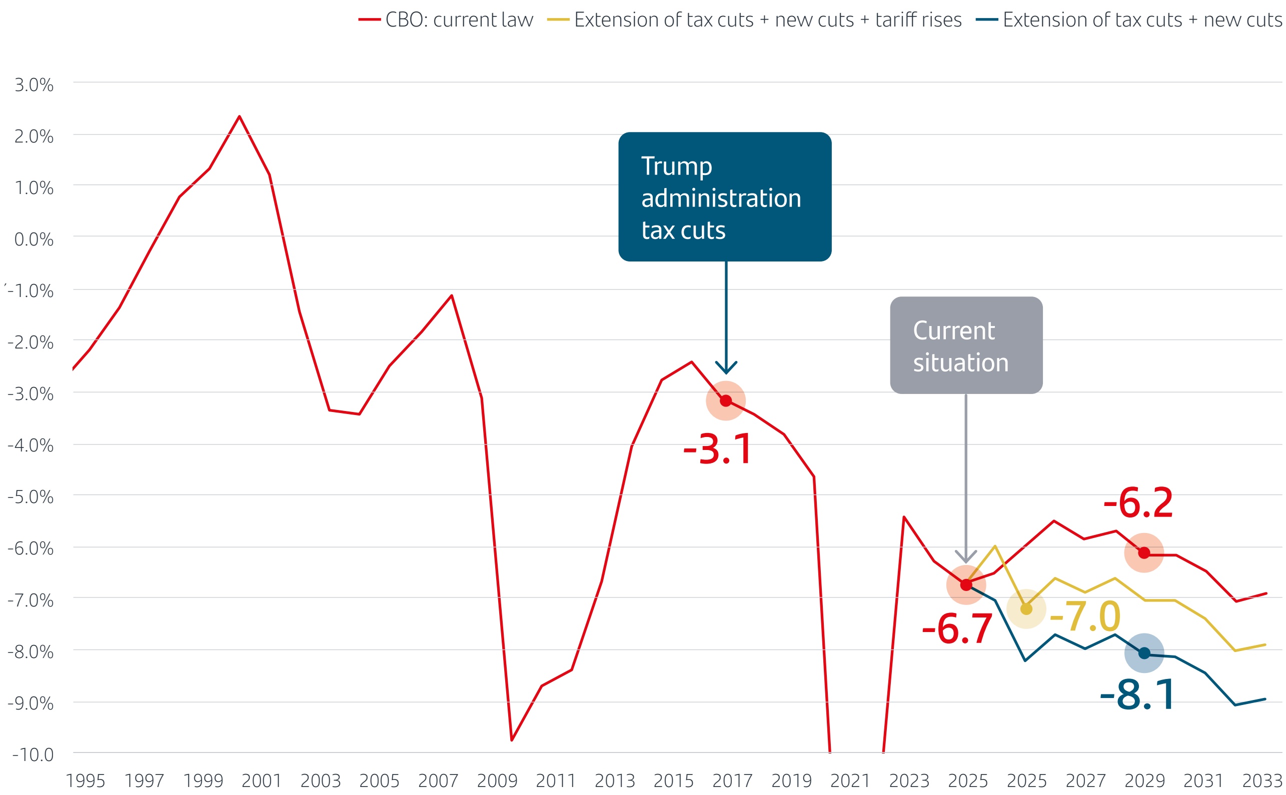
↓ Growth ↓ Inflation

Higher tariffs

↓ Growth ↑ Inflation

U.S. deficit as % of GDP: Congressional Budget Office (CBO) base scenario versus alternative scenarios depending on potential Trump measures

Source: CBO, Bloomberg and Santander AM



First of all, in terms of fiscal measures, the extension of the 2017 tax cuts that were set to expire in 2025 stands out above all, as well as the implementation of new tax cuts. In total, they would represent an amount of 2% of GDP, which would be positive for growth, but obviously negative for the public deficit. Adding the possible impact of this fiscal package to the current forecasts of the U.S. Congressional Budget Office (CBO), the public deficit would end up stabilizing around 8% in the coming years, an excessively high level.

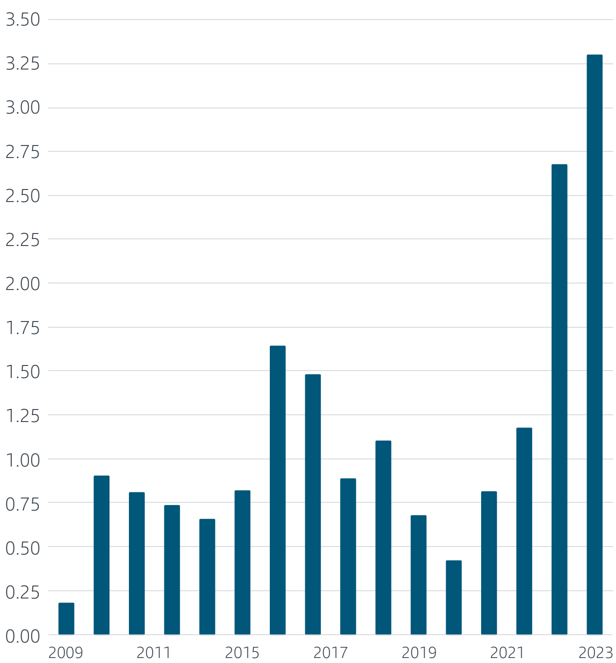
Secondly, immigration restriction measures would have the opposite effect of expansive fiscal policy: lower growth and lower inflation. Unprecedented immigration since 2022 has been a key factor behind GDP growth of close to 3% over the past three years. However, there are signs that immigration has been slowing down in recent months, something that will probably be accentuated if additional restriction measures are actually taken. This is precisely one of the main reasons why we believe that GDP growth will no longer remain around 3%, but closer to 2%.

Finally, the third and most important measure in terms of possible impact on growth is, without a doubt, the sharp increase planned in tariffs: from the current 2%, Trump has announced increases of up to 60% for China and 20% for the rest of the world. These are rates that have not been known either in the U.S. or in the rest of the world for many decades.

Taking the 2018-19 so-called "trade war" as a reference, tariffs rose from the initial 1.5% to only 3%, although Trump threatened to raise them to around 10%. That small final increase (or perhaps the threat of 10%) was enough to trigger a sharp decline in both global business confidence (including, with some delay, that of the U.S.) and global trade growth. If even greater increases are now being considered, it is understandable why these measures are the ones that pose the greatest downward risk to our global growth scenario, including the U.S. one as well.

Net immigration as estimated by the U.S. Congressional Budget Office (millions of people)

Source: CBO and Santander AM



Actual tariffs collected as a share of imports (%)

Source: Bloomberg and Santander AM

Eurozone

After five quarters of stagnation, the Eurozone economy finally began to register positive GDP growth rates at the beginning of 2024, even surprising with 0.4% quarterly (around 1.5% annualized) in the third quarter of the year. Despite this, business confidence indicators, which had been improving in the first part of the year, have deteriorated in recent months to the point of being consistent with GDP growth close to zero again, and even clearly negative in some countries, especially in Germany.

We estimate core inflation and ECB's Deposit rate at around 2%

Given these recent mixed signals, which scenario do we see most likely for the Eurozone in 2025? We believe that, despite this recent worsening of business confidence, there are fundamentals that point to a definitive recovery of GDP growth towards rates of 0.3%/0.4% quarterly throughout 2025. Among them, we highlight two: firstly, the relaxation that has occurred in 2024 in credit conditions for consumption and for companies, but especially for mortgages; and secondly, the strong rise in real household income due to the sharp drop in inflation, which is a clear factor supporting consumption.

Then, what is the reason for this recent deterioration in business confidence? We believe that it is a reflection of the sharp worsening that has occurred throughout 2024 in business profits (and with it, in business investment), motivated by the contraction of margins caused, in turn, by the strong increase in unit labor costs in a context of falling inflation.

However, as unit labor costs have finally begun to moderate, we believe they will no longer be a headwind for business investment by 2025. This, added to the tailwinds that we have already said are represented by both real household income and credit conditions, will allow Eurozone economy to consolidate a more solid recovery as the year progresses.

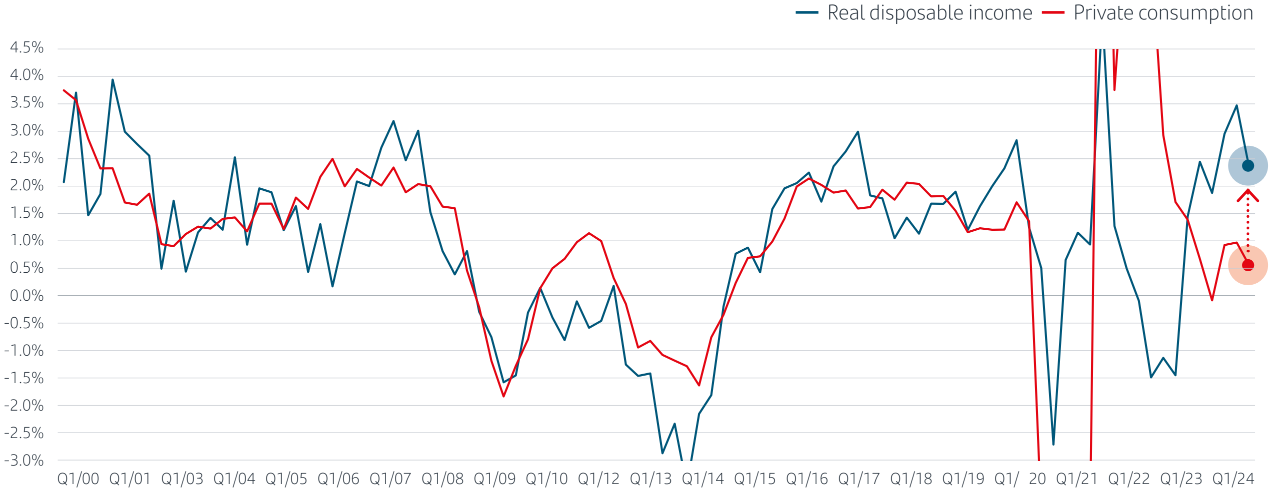
Specifically, after a possible weak growth in the last part of 2024 and at the beginning of 2025, we expect a return to quarterly rates of 0.3%/0.4% in the second half of 2025, which would allow GDP to finally grow in the whole of 2025 at 1.1% compared to 0.7% in 2024.

Regarding inflation, we do not see significant upward risks, so we believe that the core CPI will end up closing 2025 around 2% compared to around 2.8% at the end of 2024. In this environment, we believe that the ECB will continue to cut rates towards around 2%.

The most obvious risks that we see in this scenario would be those coming from the adoption of a very aggressive tariff policy in the U.S., since this would have (as it had in the trade war of 2018 and 2019) a strong impact on business confidence in the whole area as well as on the growth of trade worldwide.

Eurozone: consumption and households disposable income in real terms (yoy growth)

Source: Bloomberg and Santander AM



China

The Chinese economy will register GDP growth in 2024 of around 4.5% compared to 5.5% the previous year, which means accentuating a trend towards moderation in growth that has lasted almost 15 years since the peak of almost 11% in 2010.

This continued slowdown in growth has a structural character that is explained by the inevitable slowdown in investment since it reached a weight of 45% of GDP in 2012. This percentage represents not only a historical maximum in China, but also worldwide in, at least, the last 50 years.

Although the weight has been reducing due to the fact that investment has moderated its growth rate, the reality is that it is still too high, around 42%. And within investment, the residential (or in general, real estate) component stands out above all, as shown by the fact that the inventory-to-sales ratios are at their highest levels in the last 10 years.

With the aim of softening the current rate of contraction in real estate investment (around 10%), the authorities have launched at the end of 2024 a series of monetary stimulus measures (lower mortgage rates, reduction of restrictions to the purchase of a second home, central bank support to finance mortgages, etc.) as well as fiscal (local government spending on the purchase of homes and land, etc.). Although these measures may slow down the current rate of decline in the real estate sector, we do not believe that they will change the underlying trend of the Chinese economy.

First, because the monetary stimulus measures are not new, but have been in place for several years now with hardly any results and, furthermore, because the room to maneuver of fiscal policy is really limited, given that the public deficit is currently at 7% of GDP (one of the highest in the world) and public debt, at 80%, is already one of the highest in the emerging world.

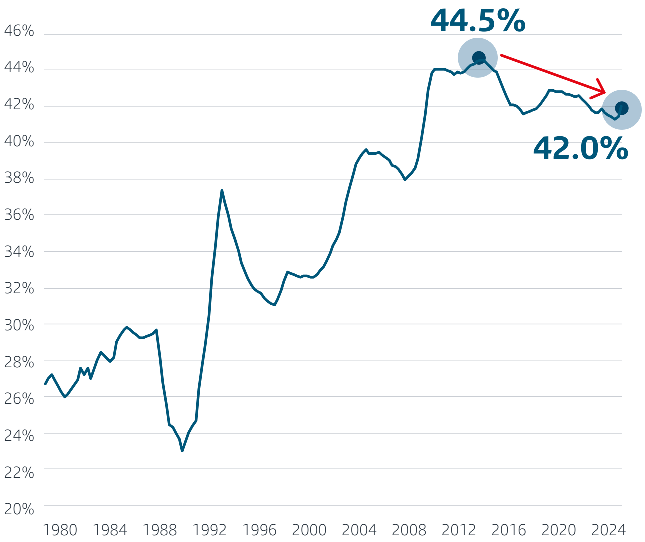
Second, because these measures stimulate demand and, as we have already pointed out, the underlying problem of the economy is not a lack of demand but rather an excess of investment supply. And third, because the debt of households and companies is already at historical highs and is also one of the highest in the emerging world.

For all of the above, we believe that, despite these measures, 2025 will once again be a year of some slowdown compared to 2024, but we do not see a hard landing. Specifically, we estimate a GDP growth of 4.4% compared to 4.5% in 2024. We do not see a hard landing because this excess investment, although still very significant, is financed entirely with domestic savings, which means that, contrary to the majority of emerging crises of the last 30 years, the Chinese economy is not vulnerable to an eventual loss of confidence from foreign investors.

Excess investment, particularly in the real estate, will continue to reduce potential GDP growth

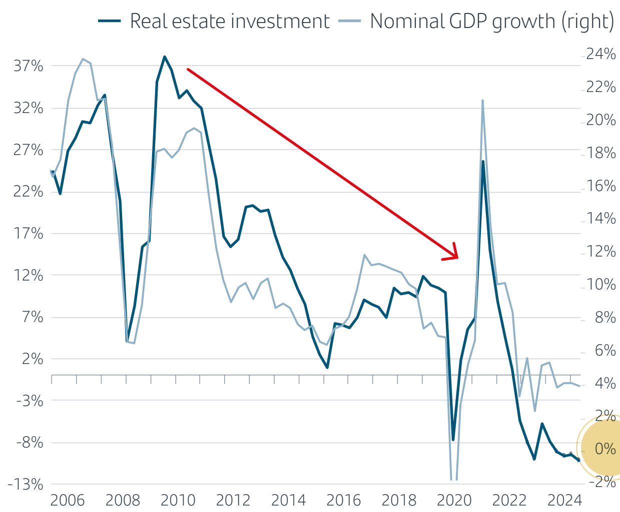
Weight of investment in GDP

Source: Bloomberg and Santander AM



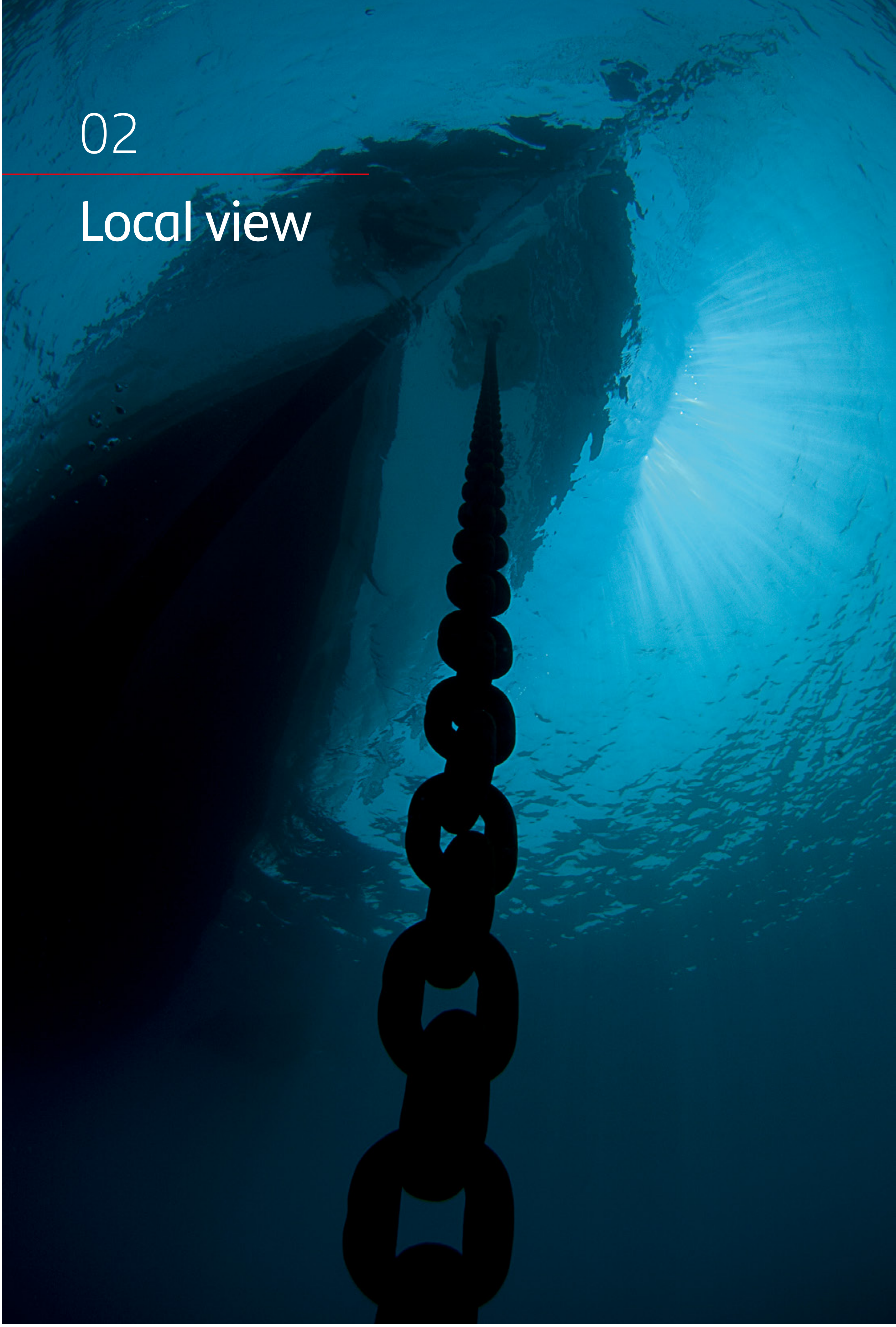
Real estate nominal investment and nominal GDP (yoy growth)

Source: Bloomberg and Santander AM



02

Local view



U.S.

Equities

Equity is our preferred asset class for 2025. A strong economic environment, more neutral monetary policies and growing corporate earnings support this positive view. In addition, technology will continue to generate above-market average returns while Trump's policies will likely drive a favorable environment with lower regulation and taxes, adding potential to the market. Security companies and mid-cap domestic driven (reshoring) have additional appeal.

Eurozone

Euro corporate bonds

In an environment of low growth, gradual moderation of inflation and normalization of official rates, carry remains attractive but needs to be combined with duration. We believe investment grade credit is the best way to do this: carry more attractive than sovereigns, solid corporate fundamentals and strong investor demand.

UK

Sterling corporate bonds

Higher quality (investment grade) corporate bonds offer average yields above 5.5%. With inflation having dipped below its 2% target, base rates forecast to fall to 3.75% and steady economic growth, the asset's risk-return trade-off looks attractive.

Brazil

Money market

The Selic rate will continue rising in the coming months and, although it might decline in the 2H25, it would still be relatively high. Along with this, the uncertainty related to local fiscal policy should remain high, preventing a more sustainable trend in fixed rates, equities and the currency.

Mexico

Sovereigns

Our best idea for 2025 is in government long-term bonds. Inflation has come down gradually since mid-2022 and current monetary policy is excessively restrictive, with real rates above 5%. We expect the ongoing policy easing to continue during the year, favoring higher duration.

Chile

Sovereigns and corporate bonds

Current levels provide a good entry point and attractive carry in real and nominal rates. The good financial balance of companies, activity growing mildly around 2%, together with converging inflation, would allow for additional rate cuts in 2025, supporting the asset class.

Argentina

Sovereigns in USD

We favor sovereigns in USD. The government's current priorities regarding fiscal policy and external sector stability, combined with a new agreement with the IMF, would pave the way for the opening of the international debt market, dispelling fears of default, which would lead to a lower risk premium.

U.S.

Trump 2.0 takes the helm of a strong U.S. economy

Francisco Simón , CFA
Responsible of Investment Strategy and Asset Allocation at SAM

The investment outlook for the U.S. in 2025 is favorable, with solid growth and inflation in line with the Fed's targets. This supports risk assets, such as equities and credit, with positive return expectations across all asset classes.

Equities

The current economic environment continues to support investment in U.S. equities. Solid projected growth underpins S&P500 earnings growth of 12%, above the historical average. Furthermore, monetary policy remains in a normalization phase, with interest rates trending toward more neutral levels, which benefits companies with higher leverage and cyclical sensitivity. In 2025, we anticipate broader participation in corporate earnings contributions. The current environment is conducive for more cyclical sectors and markets with higher leverage and greater interest rates sensitivity to also contribute to earnings. At the same time, we expect technology companies to continue to generate earnings and margins above market averages. While valuations appear demanding, they reflect both the resilience of these companies and the current economic cycle, factors we expect to continue supporting them. Planned policies, such as lower corporate taxes and deregulation of the new Trump administration, create a favorable backdrop for risk assets, though uncertainties stemming from protectionist trade policies could moderate optimism in the economic cycle and temper current market sentiment.

2025 earnings growth in the U.S. is expected to be above the historical average

12%

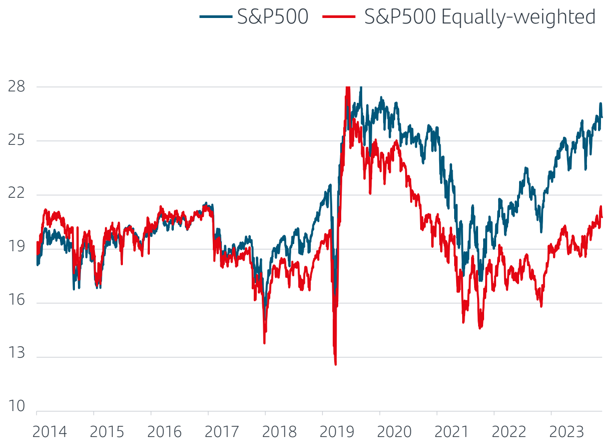
Fixed income

Money market

The normalization of U.S. monetary policy will continue into 2025, bringing the Fed rates toward a neutral range of 3.5% to 3.75%. While the money market offers a favorable risk-return combination, looking ahead, returns will be increasingly lower.

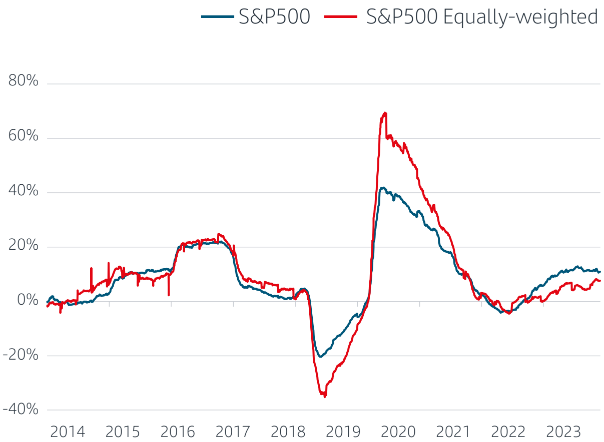
U.S. equity market valuation: P/E ratio

Source: Bloomberg and Santander AM



S&P500: Earnings per share (yoy)

Source: Bloomberg and Santander AM



Sovereigns
U.S. sovereign bonds present a positive outlook for 2025, as current yields appear attractive, and markets are pricing in a terminal monetary policy level that aligns better than some months ago with our growth and inflation expectations and the Fed's view. We anticipate a steepening of the yield curve, with short-term rates declining more than long-term rates, which advises to take duration. The resilience of the economy and policies from the Trump administration could lead to a slower normalization process, keeping rates higher for longer, while a significant economic downturn could result in much lower yields, though we see this scenario as less likely. In our base case, we expect sovereign bond yields to remain in line with current market levels.

Inflation-linked bonds would protect us against an increase of inflation fueled by inflationary policies

Inflation-linked bonds
Our outlook in 2025 is positive. Current real yields are attractive, and we expect them to gradually decline as the Fed continues its monetary policy normalization. Meanwhile, breakevens, currently near or slightly below historical averages, are likely to remain supported by the economic cycle and the strength of the U.S. economy. Additionally, Trump administration policies, which may have an inflationary bias, could keep inflation expectations elevated at historically high levels relative to recent trends, making them more attractive versus nominal bonds.

Corporate bonds will be supported by the extension of the economic cycle, sound corporate fundamentals and a solid investor demand

Credit
The base case scenario of an extended economic cycle, with growth moving toward potential and a monetary policy shifting from restrictive to neutral, supports investment in U.S. corporate bonds. Corporate fundamentals remain strong, with low default rates and access to financing at attractive rates, helped by credit spreads at historically low percentiles. The less restrictive monetary policy of the Fed also contributes to a lower overall financing cost. Furthermore, strong demand for this asset class, driven by historically attractive yields, supports current valuations, which, although appearing expensive, are more reasonable in the context of a continued cycle, strong fundamentals and high market demand.

Currency

The outlook for the USD is positive, supported by current elevated interest rates. The market has already priced in a terminal level for the Fed policy around 3.5-3.75%, meaning future rate cuts will be limited, keeping U.S. rates relatively high compared to other central banks. Additionally, policies from the Trump administration aimed at fostering greater U.S. economic growth, especially relative to the rest of the world, further support the USD. This environment benefits the USD, particularly against currencies more vulnerable to global political uncertainty and economies with low or riskier growth prospects.

10Y Treasury breakeven
Source: Bloomberg and Santander AM

USD Spot Index (DXY)
Source: Bloomberg and Santander AM

Eurozone Germany Spain

Opportunity by valuation and rates

Jacobo Ortega , CEFA
Chief Investment Officer at SAM Europe

Equities

Eurozone

In recent months, weak economic growth data (mainly due to low business investment and high private savings) compared to the strong performance of the U.S., the possible implementation of new trade tariffs following Trump's victory, and political instability in France and Germany have been the main obstacles for European equities compared to global and U.S. indices, despite maintaining a positive performance over the year.

In an environment of earnings estimates that appear to have bottomed out and even point to near double-digit growth for 2025, we can argue that European equities are at historic lows in terms of valuation relative to U.S. equities. But if this market cycle has taught us something, it is that valuation is a necessary but not sufficient condition. To close the gap and improve its relative performance, the Eurozone needs a catalyst to unlock the potential that lies beneath.

Finally, we believe the market positioning remains relatively short relative to its historical average, so we recommend maintaining exposure to the region, favoring a bottom-up combination of those stocks and sectors that benefit from both a cyclical recovery and secular structural growth themes, with those that offer high returns on capital employed and still trade at attractive valuations.

European markets continue to widen their valuation differentials with respect to other geographies

As market positioning is in general low, we believe that positive news on the political front, as well as in terms of growth, should partially close this gap

Germany

Recently, German equities have been relatively affected from political headwinds. The coalition government has broken up and a general election scenario now seems to be on the horizon and potentially a more pro-cyclical fiscal policy. In any case, the next few months will be key to gaining visibility on the development of this scenario.

Meanwhile, valuation for the DAX is at very reasonable levels. It´s true that EPS revisions have suffered but are showing signs of bottoming. Germany would be a key beneficiary of a ceasefire in Ukraine, as it has suffered the most from the increase in European energy costs and the impact on industrial production since the beginning of the conflict. We believe that German equities should be well positioned for a relative catch up as soon as we get some clarity in these issues, especially from the political front.

IBEX 35: P/E ratio

Source: Datastream and Santander AM

Spain

Spanish equities are on track to close an excellent year of performance in absolute and relative terms, outperforming most European indices. These good returns are underpinned by the improved earnings performance of Spanish companies, so that, in valuation terms, the IBEX 35 continues to trade at low valuation levels compared to other developed markets.

Our view for 2025 is that, based on the currently low valuation levels, good relative earnings performance and better economic growth rates relative to Europe, the IBEX 35 remains well positioned for good absolute and relative performance. In this regard, the continuation of the good earnings trends in both financials and utilities (both have a large weighting in the index) will be key, dynamics that we expect to continue.

We recommend to approach the opportunity in European markets by combining stocks and sectors that have leverage to both the cycle and secular structural growth themes (AI, energy transition, nearshoring, population aging and well-being) with those that obtain high returns on capital employed and with attractive valuations

Fixed income

Money market

During 2025 we will continue to see the path of rate cuts by the ECB. While the direction is clear, the uncertainty will come from the pace of cuts (both in terms of frequency and size) and what the terminal rate for the cycle will be. In this scenario, we continue to believe that returns will be positive, but reinvestment levels will continue to fall. Conservative clients should be thinking about positioning themselves for this environment, lengthening durations as much as possible.

Sovereigns

An environment with lower interest rates still favors investment in government bonds, even if much of it is already priced-in. We prefer Spanish government bonds over French government bonds due to better macro data, constructive evolution of debt trend and better investor demand, while France still faces an uncertain political future that potentially hinders reforms, potentially leading to rating downgrades by the agencies.

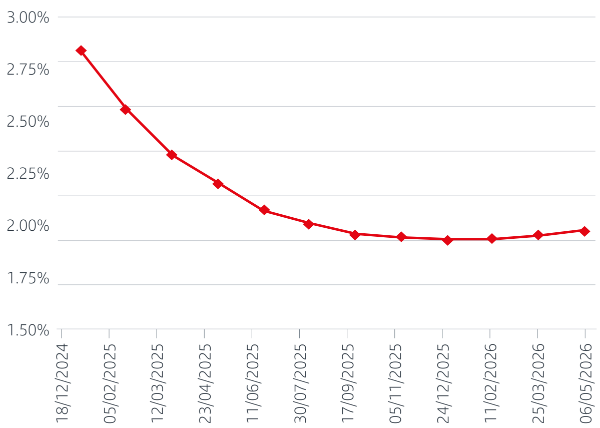
The steepening movement of the 2-20 curve could continue during the year due to the combination of expected interest rate cuts by central banks and the effects of a more expansive fiscal policy in the U.S. affecting the long end of the Treasury curve, and subsequently to the Eurozone.

Inflation-linked bonds

This year we have seen how inflation has been progressively declining towards target levels. However, the last leg of the fight against inflation may be the most difficult to overcome as

€STR forwards

Source: Bloomberg and Santander AM



German curve slope: 10Y yield - 2Y yield

Source: Bloomberg and Santander AM

several members of the ECB have warned on numerous occasions. We believe that investing in inflation-linked bonds can protect us from an alternative scenario of higher inflation in which inflation-linked bonds should behave better than nominal, without sacrificing the hypothetical upside coming from falling rates.

In a context of falling rates, we continue to see an opportunity to both capture coupons in short term maturities and extend durations, anchoring positive real rates

Credit

We maintain a constructive view on the asset. We do not see the moderate economic growth environment as significantly impairing the repayment capacity of companies, which will also benefit from falling rates. Investors' increased demand for returns via yields will continue to benefit inflows into the asset class, containing spread widening movements. Finally, once yield curves normalize in 2025, we could see duration extension strategies to find higher yields.

We still see more value in European investment grade vs. U.S., due to the higher level of credit spreads versus sovereigns, as well as shorter duration and better rating trends.

Within the European market, peripheral economies continue to gain relevance, with recent sovereign rating upgrades seen slowly translated to the corporate sector leading to better relative performance. We believe that this trend may continue in the coming year, being a relative opportunity to consider for those who have the ability to distinguish between issuers.

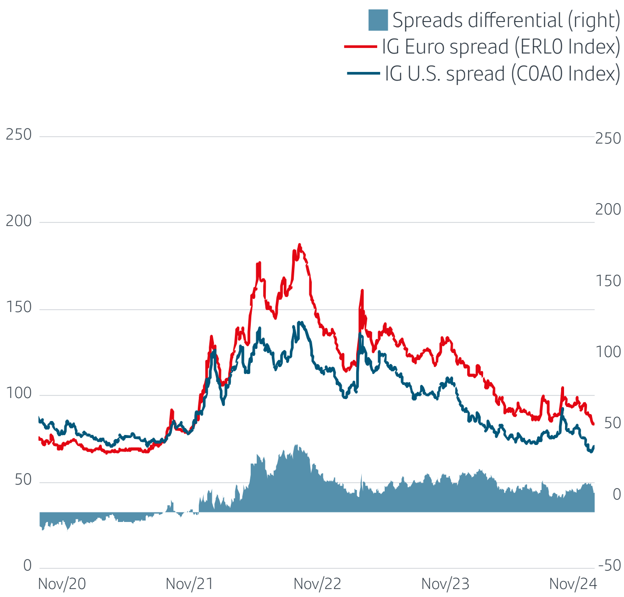
We consider that both credit and peripheral sovereign debt are assets to have in portfolios

Currency (EURUSD)

Over the past two years, the EURUSD rate has remained in the narrow range of 1.05-1.12$/€, reflecting the directional synchronization of Fed and ECB movements. The attractive relative carry of USD rates has allowed the USD to continue to trade above its fair value. The U.S. elections outcome and the foreseeable measures of the new administration, together with the political uncertainties in the Eurozone, are pushing the USD to the lower end of the range. In our opinion, the USD can continue to appreciate, and we see a reference range at 1.0-1.12$/€, while we do not rule out greater volatility in the cross compared to the last two years.

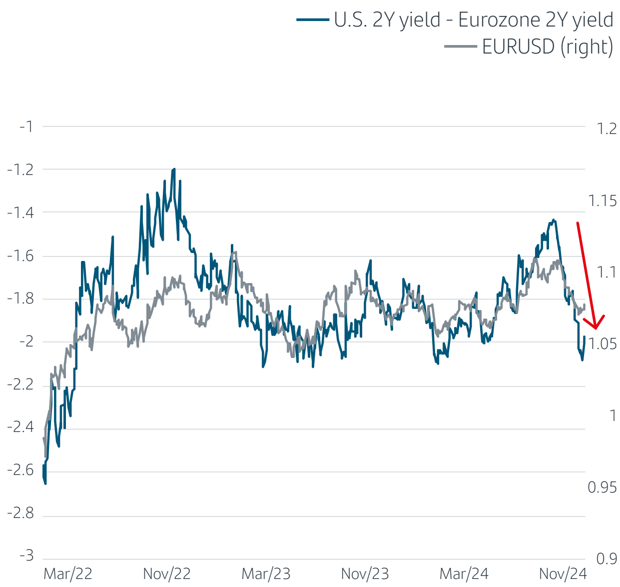
IG credit spread the U.S. and in the Eurozone

Source: Bloomberg and Santander AM



EUR/USD and 2Y rate spread between U.S. and Eurozone

Source: Bloomberg and Santander AM



Poland

Time to unlock potential

Szymon Borawski-Reks, CFA
Chief Investment Officer at Santander TFI

In 2024 the performance of the local assets was heavily impacted by global rate cuts expectations which were fluctuating significantly as well as by geopolitics. After a relatively weak year for both Polish equities and fixed income we should see better performance in 2025. Now, when the results of the U.S. elections are known and to a large extent priced in we see a chance for relief. Polish economy is expected to accelerate driven by consumption and investments with support from substantial European Union transfers. We see reasons to be optimistic about Polish equities due to valuation discount to other emerging markets, improvement in earnings momentum and attractive dividend yield. In fixed income we believe that money market as well as medium and long term bonds are attractively priced in as NBP should resume rate cuts in 2Q 25. Declining inflation should allow for lower rates.

Equities

We see reasons to be optimistic about Polish equities. The first of these is the P/E ratio for the WIG index which is currently at low levels, below its long-term average. Additionally, we note the disparity in the valuation of the Polish equity market relative to other emerging markets, partly due to the proximity of war in Ukraine. The valuation discount should not deepen further and potential cease-fire scenario could be perceived positively.

Secondly, the economy is getting better and GDP growth is expected to improve. Support in this regard will also come from substantial European Union budget transfers to Poland. Therefore we also expect improvement in terms of the earnings momentum. After several quarters of deterioration, companies are expected to reverse negative trends.

We also highlight the highest dividend yield for the WIG index in many years (>5.5%). The dividend stream is expected to be even larger next year, representing funds that are likely to be reinvested in the stock market.

After a relatively weak year we should see better performance of Polish assets in 2025

Fixed income

Money market

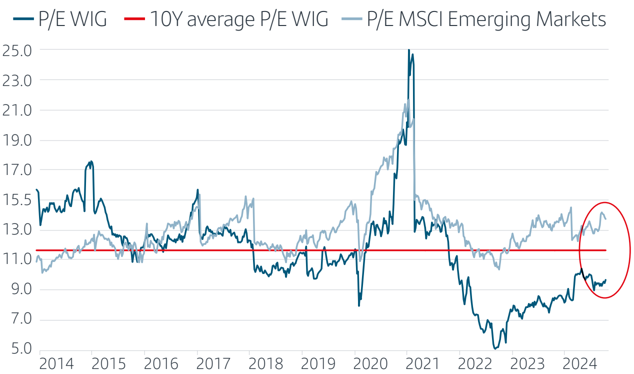
Local funds have been experiencing stable inflows into the most conservative products since the start of 2023. It should continue as cautious central bank warrants still high money market rates and clients choose low volatility products. Therefore we remain positive as this segment should be further supported struturally by inflows.

WIG index dividend yield (%): Highest in a decade

Source: Bloomberg

P/E ratio for Polish equities vs P/E ratio for emerging equities: Atractive valuation of Polish equities

Source: Bloomberg



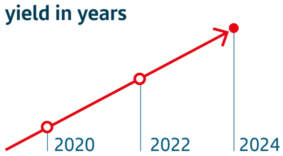
Sovereigns

Local currency government bonds are attractively priced in our opinion as NBP should resume rate cuts in 2Q25. Declining inflation should allow for substantially lower rates while bonds with intermediate and long maturities still offer yields close to the current level of the NBP rate. However, we expect that the local banking sector will remain the largest buyer of bonds as no clear path of budget consolidation may hamper larger international participation. Therefore, we think the yield curve may remain steep and intermediate maturities can outperform.

We note attractive valuation of the Polish equities vs historical levels and significant discount compared to other emerging markets

>5.5%

highest dividend yield in years



Inflation-linked bonds

The Ministry of Finance is returning to the inflation-linked bonds issuance in longer and intermediate maturities. We think that the bonds are currently very attractively priced (real yield around 3%) and, along with the growing outstanding amount and the number of issues, we expect improvement of liquidity and gradual tightening of the real yields providing investors both with attractive carry, as CPI should be still somewhat elevated in 2025, and capital gains.

Credit

The local credit market has potential to grow in size and improve in liquidity in our opinion. So far it has been mostly represented by floating-rate issuance of the largest Polish blue-chip companies –financials, real estate and a few industrials–. Local banks will be the leading issuer as there are needs to issue securities within different layers of capital structure of the banks. On the demand side, we think investment and pension funds will be eager to diversify portfolios away from government securities.

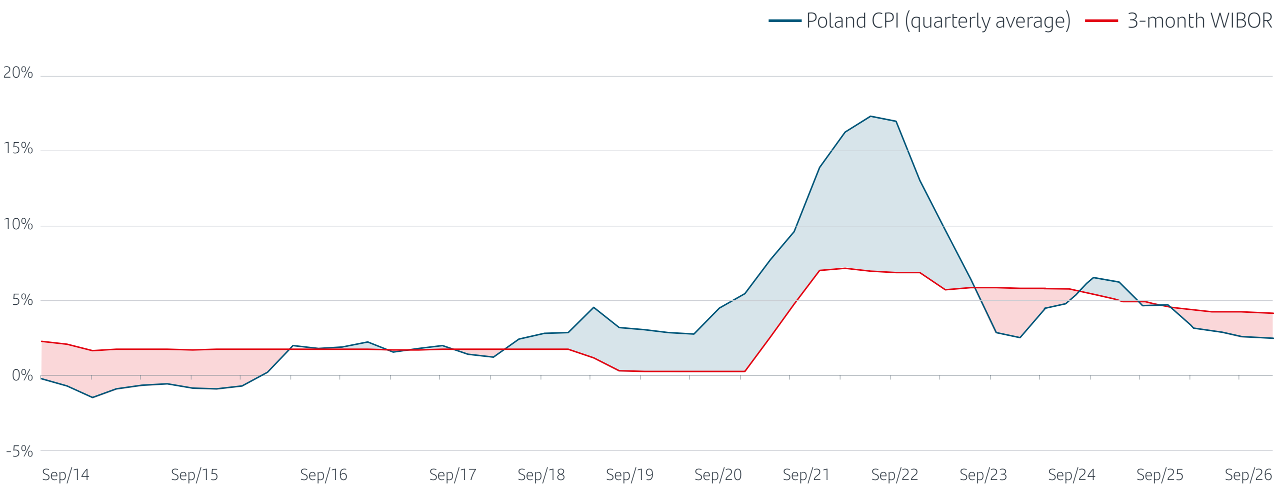
Currency

The factors that drove PLN to strong performance especially against the USD, during the summer of 2024 were in our opinion: hawkish NBP, increased confidence in rate cuts in developed markets and growing momentum of Democratic Party, which was seen as more emerging markets friendly before the U.S. elections. All of these seem to have passed now with weak macro supporting more rate cuts in Europe (including Poland), the victory of the Republican party and, possibly, a cautious Fed if tariffs prove pro-inflationary in the U.S. Therefore we expect stabilization or even slight pressure on local currency.

Local currency government bonds are attractively priced in our opinion as NBP should resume rate cuts in 2Q25

Falling inflation gives room for lower rates from 2Q 25

Source: Bloomberg, Inflation and economic growth projection - November 2024 (NBP)



UK

Growth unlocks every door

James Ind, CFA
Chief Investment Officer at SAM UK

In July, the UK elected its first left-of-centre government for 14 years. Through a turbulent Conservative administration encompassing Brexit, COVID and unprecedented inflation, the UK had managed to outgrow a weak Eurozone. But this came at the cost of large UK budget deficits and surging debt. Ultimately it was stagnant incomes, high mortgage rates and price rises that catalysed a call for change.

The new government has pledged this change will stem from fiscal responsibility and higher economic growth. The crucial question for domestic investors is how and if this can be delivered. Massive infrastructure investment, public service reform and an AI-led industrial policy are the growth strategy centrepieces. The difficult trade-offs are already becoming apparent: after ruling out more government borrowing, infrastructure investment has been funded by significantly higher business taxes, which in turn reduce growth.

So far, and despite better forecast economic growth, UK stocks have under-performed. Whilst the Bank of England has begun to cut rates from their 15-year highs of 5.25%, this has not prevented UK bond markets from producing the worst performance in the developed world and driving up long-term borrowing costs.

All this, however, means UK markets offer increasingly attractive value. If this value can combine with the expected delivery of growth, helped by the tailwinds of a strong world economy and lower inflation, the long-awaited re-rating of UK assets may not be far away.

Equities

To the naked eye, the UK stock market is now outright cheap compared to international peers; its price-to-earnings ratio (how much each company is valued at relative to the amount of profit they generate) being just half that of the U.S. stock market. Allowance must be made, however, for the FTSE 100's heavy focus on the slower growing and less sought-after sectors of Oil, Mining and Household Goods. But this only partly explains the apparent discount sale for UK plc. The other factor is the incredibly low and still falling allocation Britain's big investors, such as pension funds, have to UK shares: just 4%, compared to 50% at the turn of the century.

The new government aims to boost growth via fiscal responsibility, infrastructure investment, and AI-led industrial policy. Funding this from heightened business taxes presents a key headwind

P/E: FTSE 100 vs S&P500

Source: Bloomberg and Santander AM

Bloomberg sterling corporate bond index real yield

Source: OBR, IFS and Santander AM

The government is seeking ways to incentivise more domestic investing, but this will take time. In the short-term it is difficult to see significant FTSE 100 (large company) out-performance so long as investors remain more focused on the opportunities in the tech sector and new economy, which the UK markets lack. As such, we prefer the FTSE 250: mid-sized companies with a better growth trajectory, and which tend to do better when interest rates are falling. For the more patient investor, deep value is likely to play a bigger role in a recovery of the wider market over time.

UK large stocks look cheap but suffer from an abundance of lower growth industries. Smaller companies (FTSE 250) have more upside potential from any boost to domestic growth

Fixed income

Sovereigns

Lower inflation and Bank of England rate cuts would normally translate into a Gilt (UK government bond) rally. This scenario has been derailed by the high level of expected government borrowing, a lack of domestic buyers, and the growing realisation that the era of exceptionally low interest rates the UK enjoyed for a decade until 2021 may never return. Our forecast is for UK base rates not to fall below 3.75% in this cycle. Nevertheless, with Gilts offering yields well above past norms, they can still play an attractive role in conservative portfolios and add diversification to riskier ones.

High government borrowing could offset benefits from lower inflation, capping any recovery in bond prices. Nevertheless, higher rates are attractive for conservative investors and should support the pound against the Euro

Credit

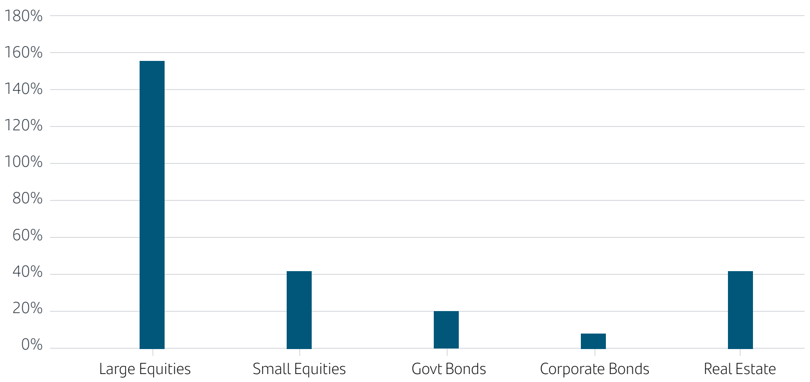
Similarly, higher quality long-term corporate bonds with yields of over 5.5% offer an attractive option for local investors in a lower inflation world. Whilst UK corporate bonds briefly offered higher yields than this during the high inflation era of 2022-2023, they have rarely done so when headline inflation has been below 2% (it touched 1.7% in September). This high "carry" yield in an asset class that has historically produced less than half the volatility of equities, makes for a favourable long-term risk/reward trade-off.

Currency

The relative attractiveness of the pound based on its cheapness (how little purchasing power it has compared to other currencies), the UK's relatively high interest rates, and the potentially more stable approach to public borrowing, has received a setback from concerns about the UK October budget and from political events in the U.S. The strong Trump mandate (clean-sweep win) and likely implications for strengthening the USD have caused the pound to weaken significantly against the USD. Higher growth in the U.S. and "America First" policies are likely to continue to suck capital inwards. Nevertheless, the pound has performed well against most non-U.S. currencies, and we see this trend gently continuing, for example against the Euro, given higher rates of deposit and less uncertainty in the UK.

Out-performance of U.S. over UK in the last 5 years by asset class

Source: Bloomberg and Santander AM



Large equities:
S&P500 vs FTSE 100

Small equities:
Russell 2000 vs FTSE 250

Govt bonds:
Bloomberg U.S. Treasury Index vs FT Actuaries All Stocks

Corporate bonds:
Bloomberg U.S. Corporate Bond Index vs Bloomberg Sterling Corporate Bond Index

Real estate:
MSCI U.S. REIT Index vs FTSE EPRA UK REIT Index

Brazil

Need for restrictive policy in 2025

Mário Felisberto
Chief Investment Officer at SAM Brazil

Brazilian scenario will remain complex throughout 2025, given the need for a restrictive economic policy stance amid challenging fiscal discussions. Although inflation presented a relevant deceleration, it has not returned to the target (3.0%) and is not expected to do so in the coming years. We expect the CPI at 4.3% in 2025. In part, this reflects the sound economic activity indicators, that are still surprising on the upside: GDP is growing at around 3.0% and forecasts point to a modest deceleration to 2.0% in 2025. As a result, there are relevant risks around inflation, especially in a context of still unanchored inflation expectations. In this environment, economic policy needs to be kept in a restrictive mode to lead to a more balanced scenario. Thus, we believe that the policy rate (Selic), current at 11.25% and expected to end 2024 at 11.75%, will peak at 12.75% in the beginning of 2025.

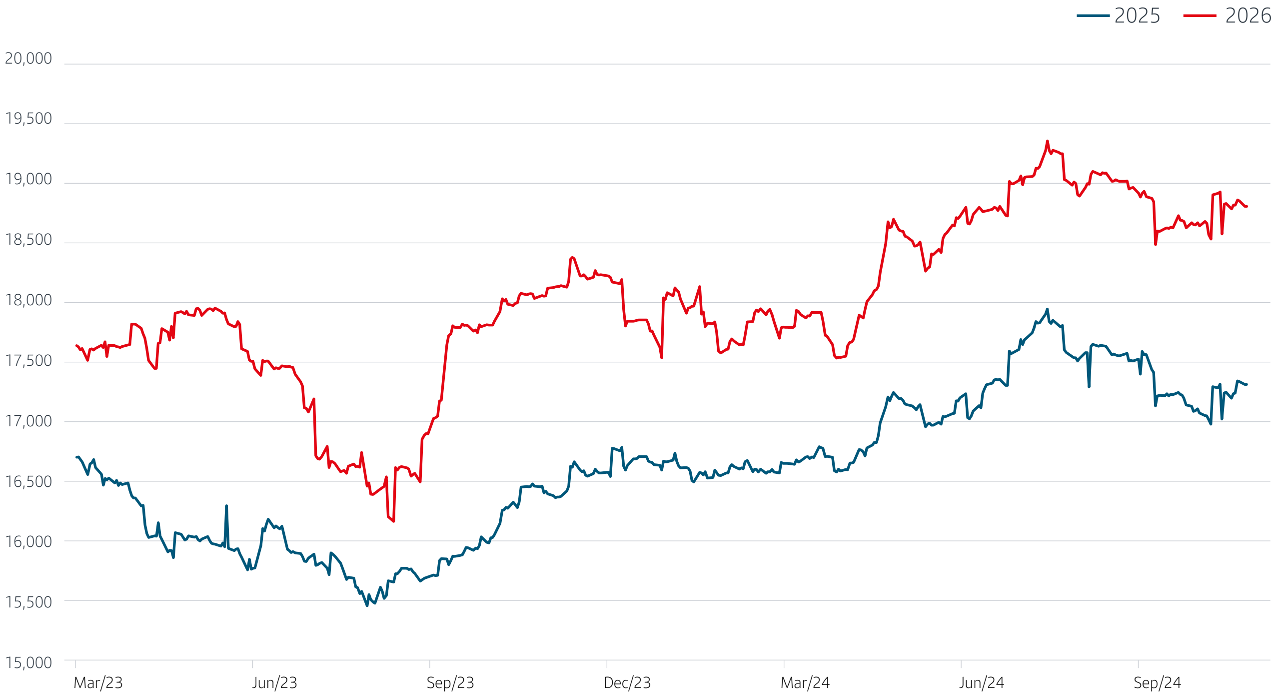
Equities

Brazilian equity fundamentals remain attractive, considering cheap valuations – both relative to peers and historical terms - and still positive earnings perspectives. This is supported by a resilient domestic activity, even considering a smooth deceleration in the next quarters. However, domestic uncertainties are acting in the opposite direction, with the impact of the current tightening cycle and the fiscal outlook. At the same time, global perspectives are not entirely clear for emerging markets assets, as the economic guidelines of the new government in the U.S. and the Chinese economy trend involve relatively high uncertainty. Therefore, we are starting 2025 with a more conservative view for local equities.

Neutral view in local equities, with cheap valuations and positive earnings trend offset by domestic macro risks

Earnings consensus estimates for Ibovespa

Source: Bloomberg and Santander AM



Fixed income

Money market

2025 will be a year of continuing rebalancing for the Brazilian economy. Solid activity and a heated labor market add risks to inflation in the coming quarters, driving the need for additional policy tightening. With lingering uncertainties on the fiscal side, most of the adjustment remains on the monetary policy. We expect policy rate peaking at 12.75% on 1Q25, recognizing upside risk around the baseline scenario and a high degree of uncertainty. As a result, cash positions look attractive on both absolute and risk-return basis for the beginning of 2025.

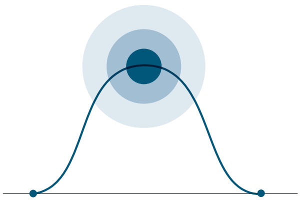
Conservative exposure on both nominal and inflation-linked yield curves due to ongoing policy tightening, despite a high term premium

Sovereigns and inflation-linked bonds

Local yield curves, both nominal and inflation-linked, have already gone through an important upward adjustment given the scenario described above, with current levels suggesting above average term premium considering our baseline scenario. Anyway, given the high level of uncertainty, we have a neutral view for both curves. Different paths for policy rate should be considered, with a bias toward more hawkish ones, given global and local risks, which might keep yield curves under pressure for a while. On a more structural perspective, particularly for portfolios with a clear long-term horizon and ability to navigate through a highly volatile environment, current levels look relatively attractive.

Expected peak for the Selic rate

12.75%



Credit

From a structural perspective, credit markets offer an interesting source of carry and portfolio diversification. At the same time, 2024 was a very positive year for this asset class, with strong demand leading to a significant decline in spreads, especially on the high grade segment. As a result, current levels are pointing to very limited potential for capital gains, although active credit funds might still capture opportunities given their ability to analyze and differentiate across specific industries and issuers.

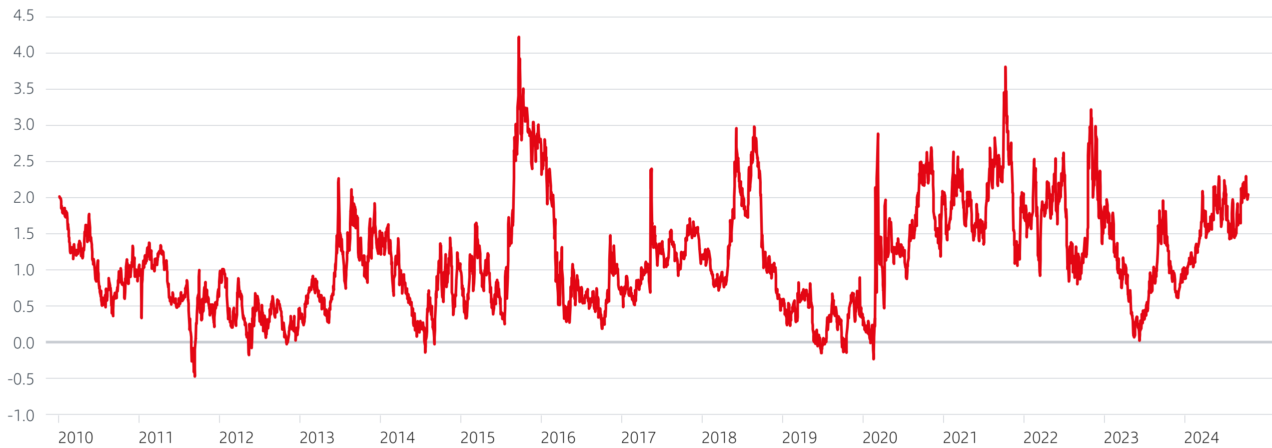
Currency

Brazilian Real (BRL) fundamentals look positive at a first glance. Valuation is cheap in historical terms and the interest rate differential is expected to increase in favor of the BRL, with the Brazilian Central Bank hiking rates while the majority of central banks globally is moving in the opposite direction, cutting rates. Along with this, trade balance is very robust and the general view about external accounts is positive. On the other hand, domestic uncertainties related to the fiscal policy and relevant risks on the global front create a negative backdrop for the BRL.

With global and local uncertainties, positive fundamentals might not be enough for a BRL appreciation

3-year government bond term premium: premium between market rates and the expectations for the Selic rate (according to the central bank's survey) is currently at a historically high level, reflecting the uncertainty about the future trend of the Selic rate and the central bank's hawkish bias

Source: Anbima, BCB, Santander AM



Mexico

Trump 2.0.

Rafael Buerba, CFA
Chief Investment Officer at SAM Asset Management*

Mexico faces several challenges. A Trump administration is posing trade worries, but his focus this time is not on NAFTA termination, but on a renegotiation. Further Mexican Peso (MXN) volatility is likely, due to Trump's threats. Implementing tariffs on Mexico may prove hard given the connections across supply chains within North America. On the budget front, fiscal consolidation is welcome. We foresee infrastructure spending moderation and lower interest payments as the main sources of budget savings. The economy should slow down as is often the case with new Administrations' first year, giving room to lower interest rates. Recent constitutional reforms are polemical, but positive resolutions on trade and budget should offset to assure the investment grade rating.

Equities

Following a challenging 2024 of heightened volatility, 2025 has both strong tailwinds and headwinds. Economic growth should moderate but remain positive. Earnings growth should stay resilient, albeit with ample dispersion between winners and losers. Valuation has reached deeply discounted levels versus historical averages, nearing 20-year lows and providing support in times of uncertainty while offering plenty of upside if the horizon clears. The nearshoring narrative remains, unless trade discussions with the Trump administration get surprisingly complicated. Lastly, Banxico's easing cycle remains a cyclical tailwind. All these ingredients seem to tilt the balance to the positive side or at least, create a fertile ground for stock-picking and added-value generation.

Mexican assets performed positively just after Trump's victory. A stronger U.S. economy (benefitting Mexico) and Trump 1.0 experience (when a new free trade agreement was negotiated) may explain the optimism

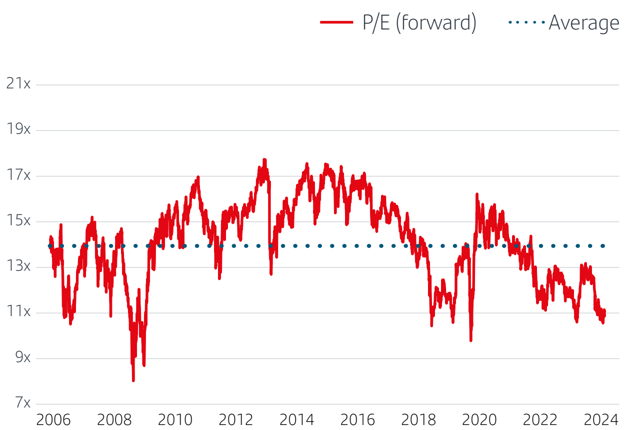
Fixed income

Money market

Overnight rates seem deeply restrictive, but the Central Bank may take a gradual pace in easing. It is also likely that there will be both upwards and downwards adjustments for terminal rate estimates during the year. In this environment, we choose floaters and credit with less than one year maturity (high YTM instruments) as the main component of our 2025 money market strategy.

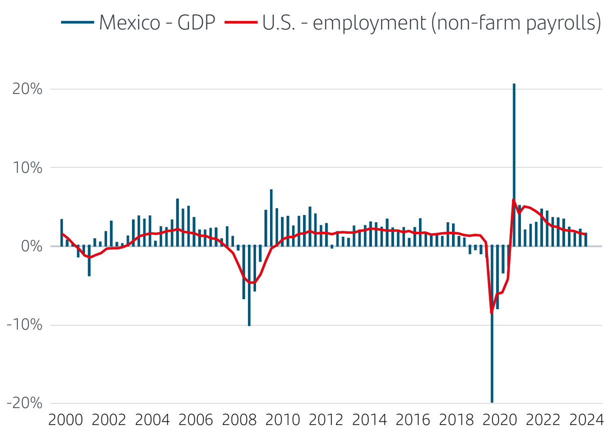
MSCI Mexico: P/E forward 12 month

Source: Bloomberg and SAM calculations



Mexico, deeply linked to the U.S. economy (yoy growth)

Source: Bloomberg and SAM calculations



* SAM Asset Management, S.A. de C.V., S.O.F.I.

Sovereigns

While politics will surely generate volatility, Mexico's reference rate should be lower by 2025-end. This will support the whole sovereign curve, which explains our positive stance on longer duration bonds, especially in the near term. Furthermore, we expect the yield curve to steepen, so once the curve moves to a lower base, our long duration stance would be overweight on maturities between 7-10 years and underweight on longer-term bonds.

Inflation-linked bonds

We have recently seen growing demand for inflation linkers pushing down real rates, likely due to diversification reasons. This together with some investors raising their long term inflation expectations have pushed breakevens to the rich side, on our view. Also, term premiums in the inflation-linked curve are the richest across the fixed income universe. We therefore have a negative view on inflation-linked instruments for 2025.

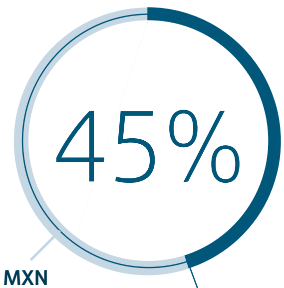
Local credit

We maintain an overweight position on credit for short term portfolios where the strategy is mostly a carry-only approach and we do it on a held to maturity basis. Security selection is based on a bottom-up fundamental and relative value process. On the other hand, for longer investment horizon portfolios, we have a preference on sovereigns vs credit, due to: i) credit spreads are tight on local markets, ii) corporate bonds have lower liquidity. Given our overweight duration preference, sovereigns are more efficient than corporates, as we can find higher duration bonds and are easier to trade for tactical adjustments.

Currency

The MXN was overvalued under real effective exchange rate (REER) models until mid-2024, but recent volatility has prompted a depreciation towards equilibrium. We may see further pressure on the currency in the coming months as both fiscal and trade noise appear. Banxico will keep cutting rates along with the U.S. Fed and if MXN undervaluation turns too extreme (~20-25%), financial authorities may recur to market – friendly interventions. A currency depreciation is a way out to face potential tariffs from the U.S., although there may be more noise than substance.

Mexican Stock Exchange: More global than it seems

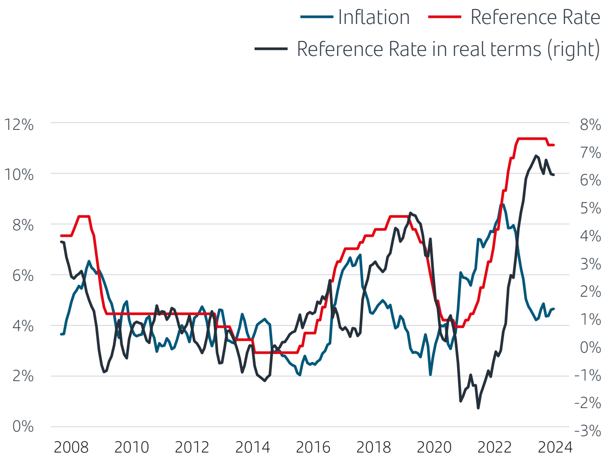


of revenues of Mexican companies are in foreign currency

Banxico's Overnight rate reached 11.25% in 2024, a multiannual high and implying the most attractive real rate in decades. Banxico is set to further cut rates

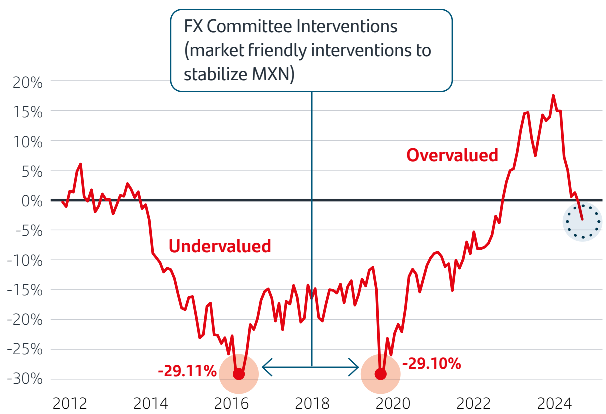
Contained inflation, interest rates are still high

Source: Bloomberg and Santander AM



Real effective exchange rate (REER) USD/MXN vs 10-year average

Source: Bloomberg and Santander AM



Chile

Clear skies ahead and economic tailwinds make 2025 a positive year for Chile

Diego Ceballos
Chief Investment Officer at SAM Chile

Expected GDP growth at 2%, inflation within the Central Bank´s target range, together with additional rate cuts make a positive macroeconomic scenario for 2025. In addition, next year´s elections are expected to happen in a less polarized environment with moderate views, which would help further reduce political uncertainty.

Expected global economic expansion and copper prices over 4.2 USD/lb are favorable external factors for the Chilean Peso (CLP), which act as tailwinds for local assets, further enforcing our positive view for 2025.

Equities

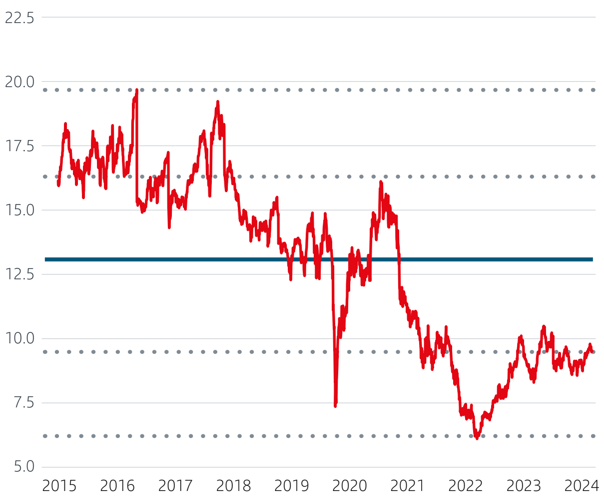
Despite the market´s positive performance of 2024, it lagged developed markets and its Andean peers, leaving the Chilean stocks with very attractive relative multiples. In addition, current multiples are trading at 20% discount levels with respect to its recent history. Earnings growth is expected to grow 17% next year, with local linked sectors leading the way, like consumer staples, financials and small caps. However, materials will depend on lithium prices and the evolution of the Chinese economy.

Chile will have presidential and congress electoral processes in 2025, which could generate some volatility. However, we believe it will result in a reduction of uncertainty, moderate reforms and potentially fiscal cutbacks. Evidence supporting this view are the recent elections with a clear shift towards the more traditional parties.

Good macroeconomic data and the continuation of the expansive phase for the global economy give support for local assets

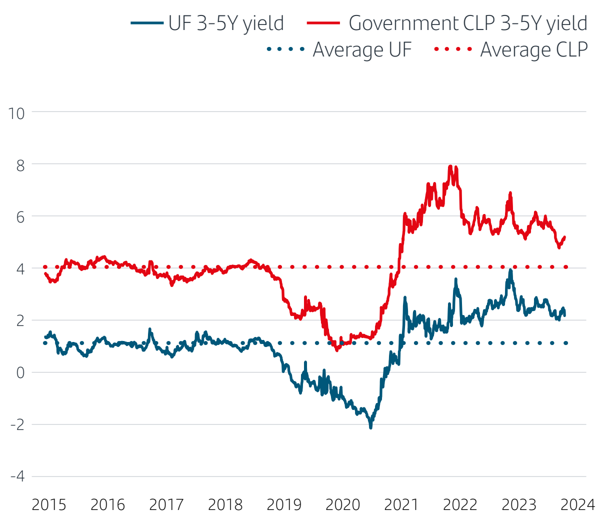
IPSA index: P/E forward 12 month, average and standard deviation

Source: Bloomberg and Santander AM



Government CLP yield, inflation-linked bond yield (UF) and 10-year averages

Source: Riskamerica and Santander AM



Fixed income

Money market

Money market funds' performance will continue to be influenced by the Chilean Central Bank rate cuts. In this regard, we expect 0.75% of rate cuts during 2025 to reach a target rate of 4.25% by the end of the year. We continue to expect a reduction of yields on the short end of the curve, as it did during 2024.

Sovereigns

Local government bonds present an interesting opportunity in 2025, especially in the mid-section of the curve until 10-year maturity levels. This is, in part, due to a reduction of the monetary policy rate towards levels of 4.25% and further demand for longer maturity bonds given an increase in searching for yield appetite. Although it is important to consider the high correlation of this asset class with the U.S. Treasuries and expected rate cuts by the Fed.

Inflation-linked bonds

UF inflation-linked bonds offer protection against unexpected bouts of inflation in the medium term. As inflation breakeven remain anchored at the Central Bank´s target of 3% these bonds performance should have similar performance as nominal bonds. These bonds offer a direct hedge for inflation, thus improving its risk-return profile, making it an attractive investment option against unexpected fluctuations in prices.

Credit

Corporate bond spreads are in line with historical averages, reflecting the strength of the companies despite the defiant conditions, resisting diverse risks such as social riots, pandemics, new constitutional draft processes, increased inflation and higher rates. All this in a low economic growth context and low bond issuance given the absence of large investment projects. All these factors translate to a low risk market for local corporate credit, despite the defiant macroeconomic conditions.

Double digit earnings growth and improvement in the political scenario would help push local equity further

17%

Expected earnings growth in 2025

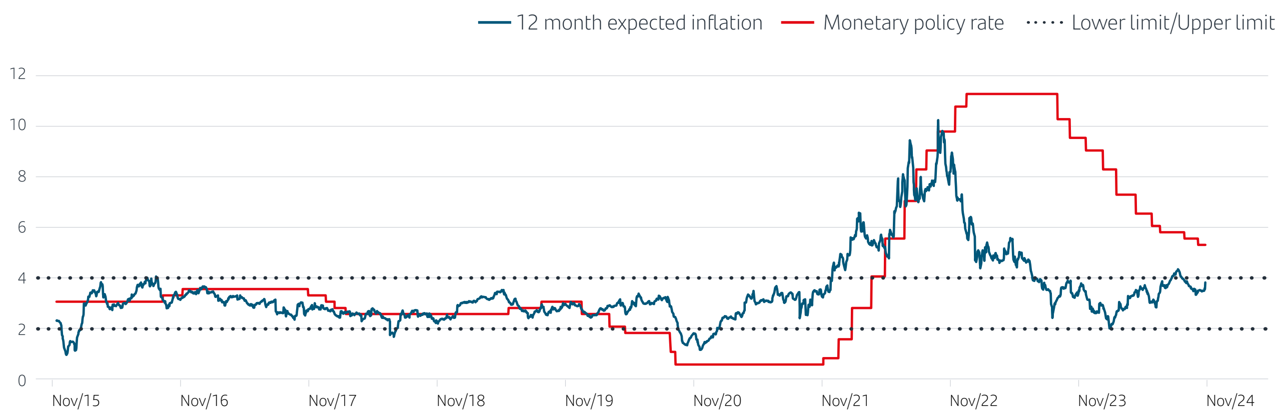
Atractive yields in addition to expected rate cuts give support for local fixed income in 2025

Currency

We hold a favorable view for an appreciation of the CLP relative to the greenback. Copper prices at 4.2 – 4.5 USD/lb levels, together with a higher expected rate differential against U.S. rates given the monetary easing cycle started by the Fed, and the expected reduction in political uncertainty and moderation ahead of the presidential elections, could further aid the appreciative scenario for the Chilean Peso.

Monetary policy rate, inflation range target and 12 month expected inflation

Source: Riskamerica and Santander AM



Argentina

On the path to normalization

Cristian Brau , CFA
Chief Investment Officer at SAM Argentina

President Javier Milei maintained a clear initial diagnosis, identifying fiscal imbalance as the main cause of successive debt and inflation crises. By combining a series of fiscal and monetary measures—pragmatic and at times distant from the dogmatism of the electoral campaign—he achieved consolidated fiscal balance in 1Q24 and eliminated the main sources of money printing. Thus, a process was initiated that month by month anchored nominal expectations, lowering not only inflation estimates for 2024 but also reducing the dispersion of estimates among economists. The recovery of real wages since mid-year, as well as the reappearance of credit, is beginning to positively impact economic activity, initially in consumption. With the main macroeconomic risks losing probability of occurrence, the legislative elections stand out as the main risk to the Argentine call.

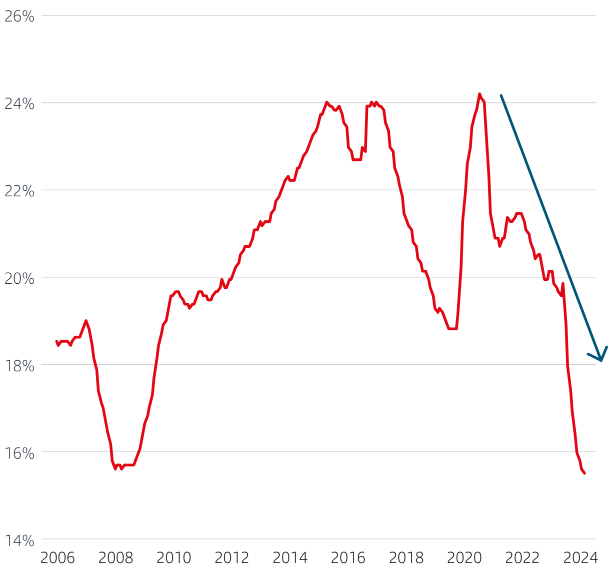
Equities

Equity reacted strongly to the positive surprises generated by the current economic program. Banks stood out by reversing all the fears that existed about them during the electoral process. Observing a 30-year series in USD (adjusted for U.S. inflation), the Merval index is positioned above one standard deviation from the mean, milestones reached during the '90s and the administration of former President Mauricio Macri. The current cycle clearly aims for a transformational agenda (similar to the '90s) while, even in a congressional minority, it managed to implement part of the reform agenda. Multiples do not appear as high as in 2017, although it seems unlikely to see similar performance in 2025 as in 2024.

Fiscal adjustment is the foundation of the process initiated in 2024 and has led to a cycle of positive surprises

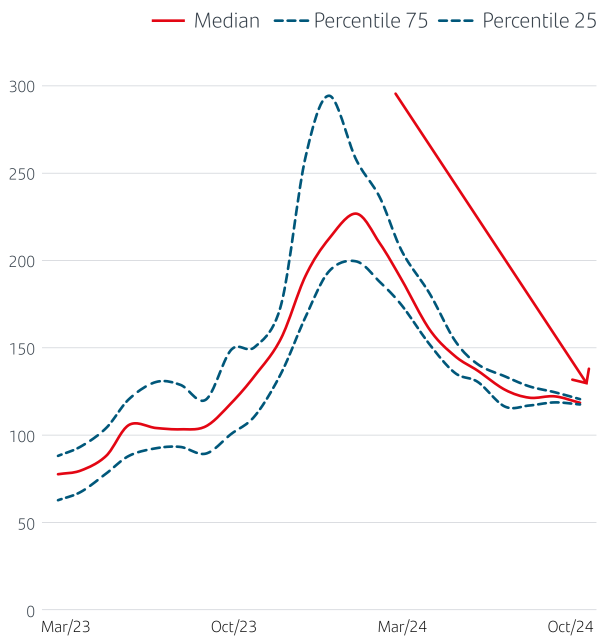
National public spending in the last 12 months as % of GDP

Source: Ministerio de Economía and INDEC and Santander AM



Expected inflation 2024 (%): anchoring expectations

Source: BCRA-REM and Santander AM



Fixed income

Sovereigns in USD

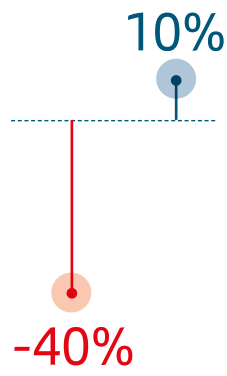
The EMBI fell from levels above 2,400 bps in November 2023 to below 800 bps in November 2024. The current Administration's clear willingness to pay, coupled with an improved payment capacity, contributed to this. Although the external front still presents risks for 2025, returning to international markets to refinance the year's maturities seems possible. Compared to the region and global peers, spread levels still have room to improve as the current path of fiscal prudence consolidates.

Equity valuations anticipated the decline in country risk

Money market and local debt

The anchoring of inflation expectations, along with a change in the country's monetary organization, reduced demand for inflation hedges, taking the real rate from levels of -40% to +10%. Likewise, the money market world gained in terms of flows, while nominal rate products gained momentum. Forward looking, we believe that flows will favor local currency debt over the money market, while we do not expect returns similar to those seen in 2024. In this sense, although the current exchange rate level is seen as a risk for the electoral year we are entering, the normalization of the Peso and interest rate market helps prevent the segment from significantly losing momentum.

Real rate from -40% to +10%



Credit

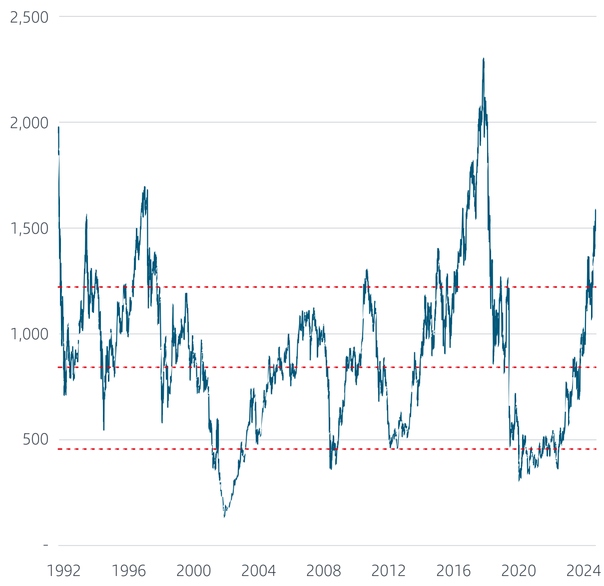
After a first-half of the year dominated by sovereign issuances, the Assets Regularization Regime that began in August generated a flow of USD into the financial system and capital market, quickly transforming it into an opportunity for corporate debt. We expect this asset class momentum to continue into 2025 regarding flows.

Currency

The decline in inflation, along with the accumulation of international reserves, reduced volatility in financial exchange rates. The current level seems appreciated for our history, although in the past, the real exchange rate was able to be more appreciated as it accompanied a process of deregulation and economic opening.

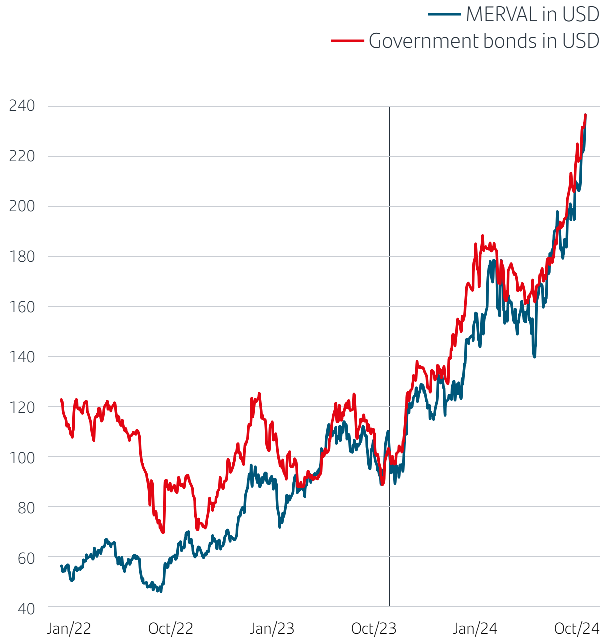
MERVAL index in USD (CPI adjusted)

Source: Bloomberg and Santander AM



MERVAL and Government bonds index in USD

Source: Bloomberg and Santander AM



Japan

Bye-bye deflation: welcome normalization

Tomás García-Purriños , CFA, CAIA
Asset Allocation Senior Strategist at SAM

We expect a gradual recovery in activity during 2025, albeit at still moderate levels. Positive trends in consumption, supported by real wage growth, and the normalization of automobile sector production after several years of disruptions could justify this scenario. Furthermore, a recovery in Chinese production would allow for a reacceleration in Japanese exports.

Even so, it is unlikely to see significant inflationary pressures, providing room for the Bank of Japan -the most delayed among developed countries in adjusting its monetary policy- to continue its interest rate normalization cautiously. This approach would foster a stable economic environment, with only a partial impact on equity valuations, making it a favorable scenario for risk assets.

Markets

In the current scenario, we maintain a relatively constructive outlook for Japanese equities. While it is true that monetary policy normalization could put downward pressure on valuations, particularly in the sectors most sensitive to interest rates, we do not anticipate a severe impact given the Bank of Japan´s cautious approach and the recovering environment.

The main risks to this scenario include trade-related uncertainties stemming from potential tariff policies from the U.S., potential unexpected Bank of Japan's monetary policy decisions during this normalization phase, and some political uncertainty in Japan.

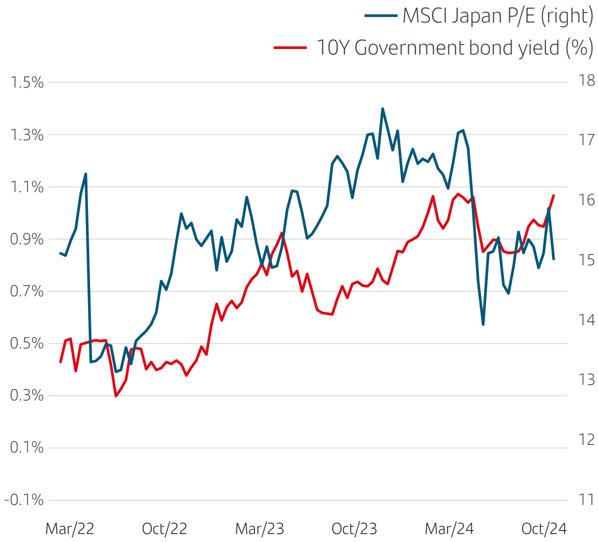
Another factor that could weight negatively on Japanese equities is the evolution of the Yen (JPY). In this regard, although our outlook for the currency is relatively optimistic, our conviction against the USD is not very high. We believe the Yen´s performance relative to the USD will depend more on the Fed´s moves and the economic policies of the new U.S. administration than on the Bank of Japan or the Japanese economy. Naturally, this adds uncertainty to the currency pair. That said, the floor stablished around 160 USD/JPY should hold.

It is unlikely to see significant inflationary pressures, providing more room for the Bank of Japan

The floor stablished around 160 USD/JPY should be a reference

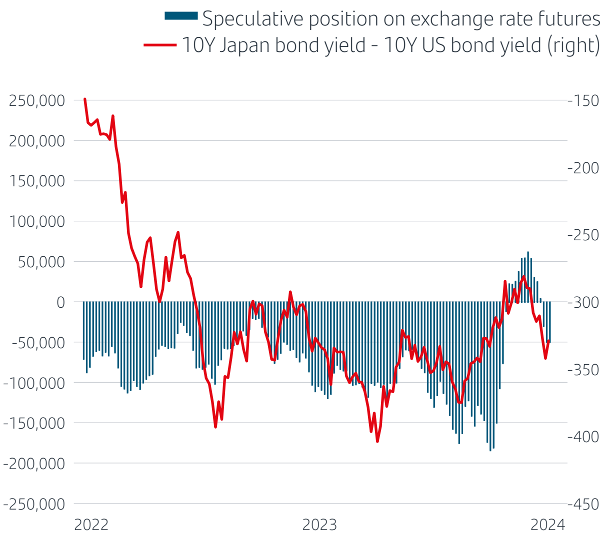
Japan: MSCI Japan P/E and 10Y Government bond yield

Source: Bloomberg and Santander AM



Yen/USD: Speculative position and rates spread

Source: Bloomberg and Santander AM



While expectations for the Yen against the USD are less clear and more dependent on political rather than economic measures, we have greater conviction regarding its performance against the Euro. We maintain an overweight stance on the Yen versus the Euro, justified by a more favorable monetary policy differential for Japan and a stronger growth outlook for the Asian region. Additionally, we anticipate greater political and economic uncertainty in Europe, particularly in the context of renegotiating trade agreements with the U.S.

Emerging markets

Waiting for new opportunities

The recent measures introduced by Chinese authorities, both on the monetary and fiscal fronts, appear to have established a floor for equity valuations, enabling a strong rebound after months of continuous declines. A more liquid environment and reduced uncertainty stemming from expansionary monetary policies support risk assets. However, fiscal measures have yet to fully convince investors, which may necessitate further government interventions. In this context, although the environment has stabilized, markets now expect tangible growth in the economy and corporate earnings upside revisions, likely reflected before in an increase in consumer confidence.

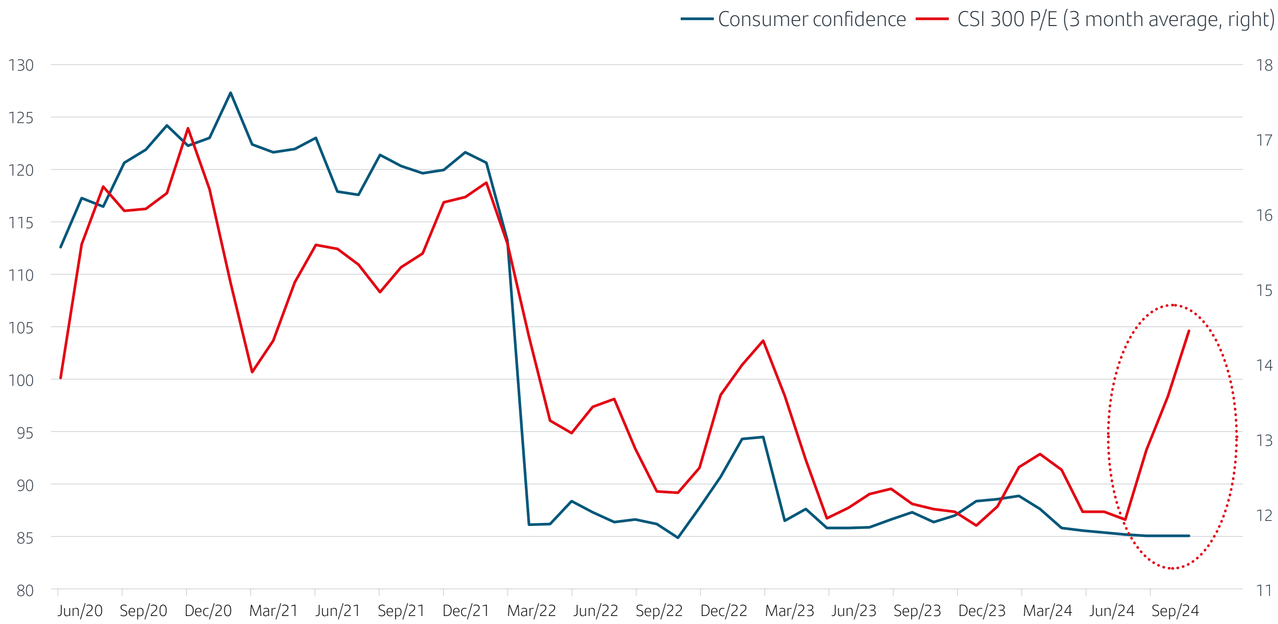
Fiscal measures from China have yet to fully convince investors

The other major region, India, maintains a favorable economic backdrop, though equity valuations remain demanding, limiting the region´s immediate appeal. Nevertheless, the economy holds significant potential and could be a major beneficiary of a potential tightening in the U.S. trade policy against China, positioning itself as a strategic alternative in the global supply chain.

Overall, therefore, we maintain a neutral view on both regions, as the risks are balanced. Regarding developed countries, however, we would be underweighted in both China and India, justified in the context of economic uncertainty, high valuations and relative asymmetries in risk factors.

China: CSI 300 index P/E ratio and consumer confidence

Source: Bloomberg and Santander AM



Commodities

Gold still holds its potential

The outlook for commodities in 2025 presents significant challenges.

In industrial metals, for instance, the climate policies of the Trump administration generate considerable uncertainty in demand expectations. The energy transition entails intensive use of metals, and a slowdown in investments related to this theme would negatively weigh on prices. This is compounded by uncertainty surrounding investment in China, particularly in the real estate sector.

Our forecasts for oil point to an oversupply in 2025, potentially exacerbated by increased U.S. production driven by implementation of measures proposed during the new administration´s political campaign. Additionally, the lack of consensus within OPEC+ on quotas could result in higher production levels.

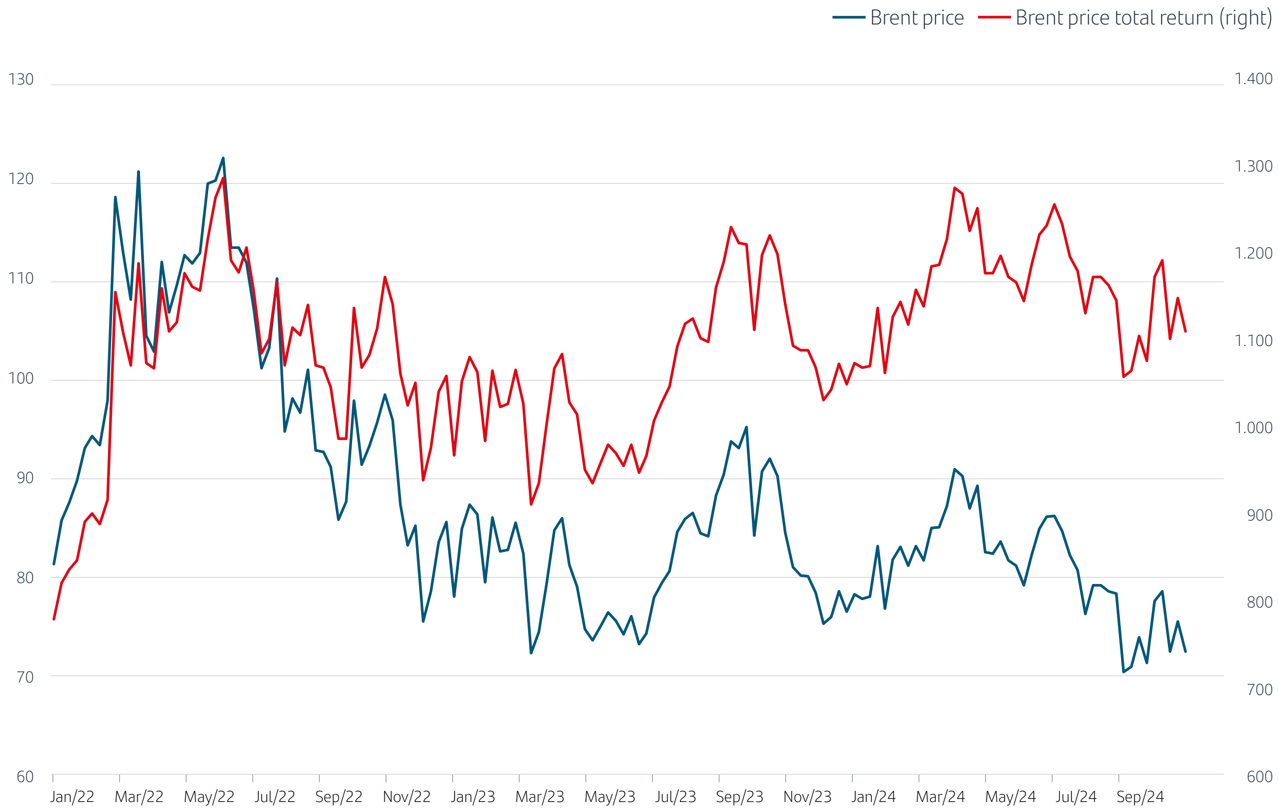
While a positive view on energy as a hedge against risks in the Middle East could be argued, we believe this strategy will be less effective in 2025, as the futures curve is nearly flat. The absence of backwardation, which previously provided a positive carry for long positions offsetting price declines, reduces its appeal.

We prefer gold as a hedge against geopolitical risks. While rising real interest rates could limit its performance, central banks continue to diversify their reserves towards gold, and investor purchases remain at low levels, leaving room for further growth.

We prefer gold as a hedge against geopolitical risks

Brent crude and oil price ($/barrel) and total return

Source: Bloomberg and Santander AM



03

Alternative assets

Market outlook: Private markets

Borja Díaz-Llanos
Global CIO at Santander Alternative Investments

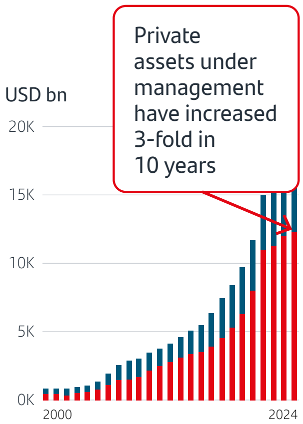
Past evolution and future growth

The alternative assets industry has continued growing in recent years and is now part of the majority of the investment portfolios. Industry assets under management (or AUM) are at record highs, and investor and fund manager interest in alternatives has increased steadily over time.

Private assets under management evolution

There are several reasons that explain this increase. Most of the economy is private, not public. In Europe, only 5% of the companies are listed. However, the overall allocation to private markets is significantly lower. Thus, to gain exposure to the entire economy, investors need to increase their allocation to private markets. Moreover, as private markets develop further, the possibilities of companies and entire sectors of the economy to remain private increases. This has been reflected on both sides of the equation, with less IPOs in the public side, but at the same time a significant growth in secondaries, and M&A activity within private equity firms.

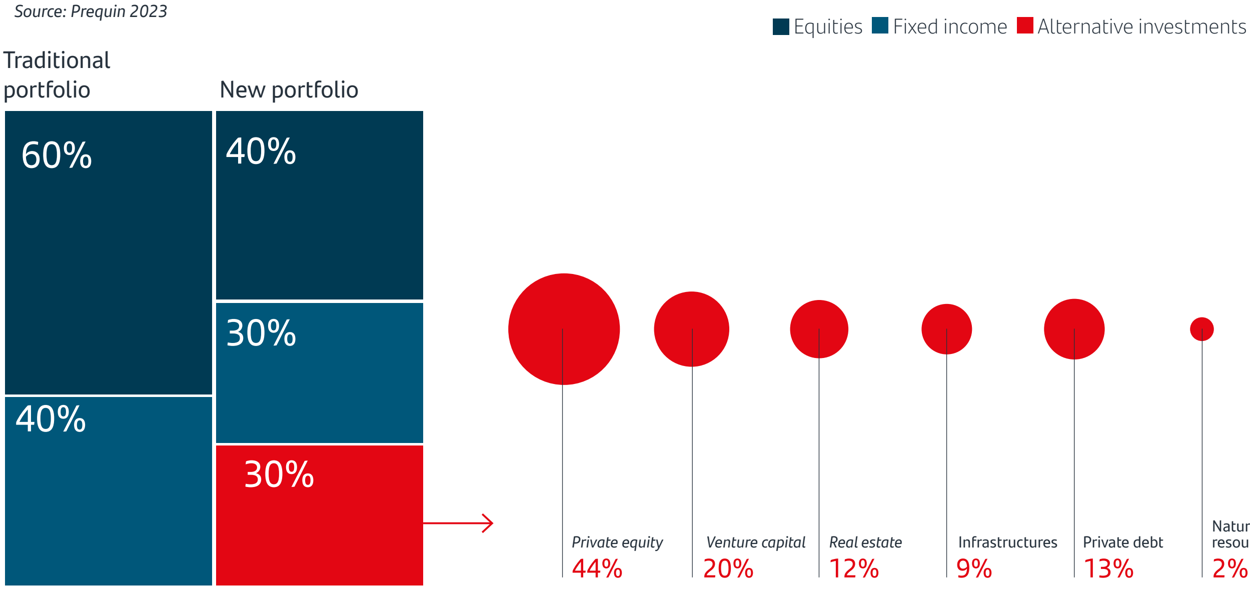
Investors are facing macro and geopolitical uncertainty among rapidly changing financial conditions, entering in a new environment for investing, an environment that demands a new approach to portfolio construction different to the traditional 60/40 portfolio. Alternatives have proven to be an excellent diversifier due to their correlation, and to allow to enhance portfolios to optime either yield, and/or return. Thus, investors have been consistently allocating their allocation to alternatives, further adding to their portfolios Private Equity, Private Real Estate and Private Infrastructure that enhance the equity part of the "60" portfolio, and at the same time adding private credit to the "40" segment of the fixed income portfolio.



Source: Prequin

Inclusion of alternative assets in portfolios

Source: Prequin 2023



Global alternatives AUMs are growing at a faster rate (~9% CAGR) compared to public assets (~4%) and are projected to account for around 30% of the market share by 2032 (Source: PWC, Bain & Company) [1].

This good performance overall of private markets vs their equivalent public markets, correctly capturing the illiquidity premium. Moreover, the illiquidity premium has provided significant benefits to investors by offering higher returns for assets with longer holding periods, effectively discouraging short-term, emotion-driven decisions that often lead to suboptimal investment outcomes. By embracing assets that require patience, investors can capitalize on the premium while steering clear of common behavioral pitfalls such as overtrading or chasing short-term market trends.

Market share for alternative assets by 2032

30%

Democratization of alternative assets

Institutional clients have been established in the private markets space for many years. They are familiar with the asset class and possess good knowledge on the characteristics of private markets and have increased their allocation to alternative during the past years. The significant change that has recently taken place, has been the "democratization of alternatives", with increasing supply and demand of this asset class to wealth clients.

For the past years there has been an educational work been done by the asset managers not only with wealth clients but also with private bankers and advisors. This continued education has allowed for both bankers and clients to better understand the Private Assets and get comfortable enough to sta rt investing in them.

Moreover, many GPs are offering smaller ticket sizes and setting up dedicated teams and specific vehicles to target private banks and open ended funds with liquidity windows, and being fully deployed at the outset is helping clients to avoid the allocation issues created with future capital calls, and to avoid the J Curve. Note that technology is adapting and allowing a smother customer experience as well as enabling the managers and administrative functions to support a growing number of LPs per fund, with all the required operational and administrative support.

While the penetration of alternative investments in the wealth space remains low (c5% of exposure) relative to the institutional space (c25% in Europe), in recent years we have seen how this gap has been narrowing systematically.

Private capital makes up less than 5% of global financing markets

Global private capital AUM
$13 trn
(Source: Pitchbook)

Global fixed income
$103 trn
(Source: SIFMA)

Global equity market cap
$101 bn
(Source: SIFMA)

Global size of banking sector
98 bn
(Source: BIS)

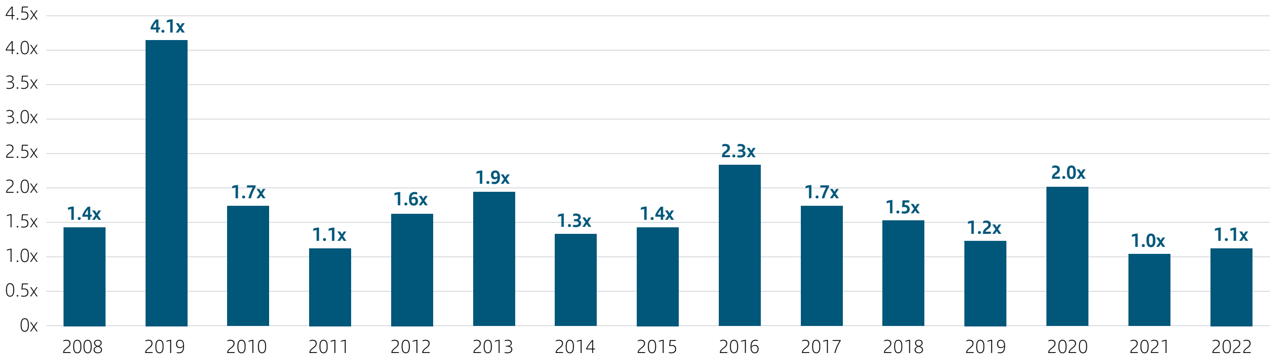
Strategies to weather the current environment

Private equity- Secondaries

High valuations and high interest rates slowed down M&A activity during the past years and hence private equity funds' distributions to LP's. This has presented a great opportunity for secondaries where GP's are being able to source a bigger amount of investments achieving strong discounts, usually higher than the historic average, thanks to the shortage of secondary capital which is especially acute today: for example, the ratio of dry powder compared to deal volume for secondaries in 2022 was 1.1x, meaning that there was just a little over one year of deal flow in dry powder, what translates in pricing advantage for secondaries buyers.

Limited liquidity in the secondary market. Secondaries dry powder (years of transaction volume 2008-2022)

Source: Lexington estimates trasaction volume and Prequin for Dry Volume



Private debt

Though private credit returns have benefited from the high-rate environment, we expect that this asset class will still perform well during the following years as private managers should be able to obtain a significant yield pick-up for the illiquidity premium (2 to 3%, versus equivalent public markets). However, credit selection and active management will be more relevant. We favor those strategies with downside protection (collateral in form of hard assets, securities and/or guarantees).

U.S. private credit performance summary

Source: Lincoln International Pitchbook. Bloomberg, Morgan Stanley Research For S&P 500 Index. Yield here represents average earnings yield calculated as the inverse of the 12-month forward P/E ratio

2015-2024	Private debt	S&P500	HY	Single B BSL
Annualized returns	7.5%	13.7%	4.9%	5.2%
Annualized returns volatility	2.3%	15.6%	8.5%	6.9%
Sharpe ratio	3.3	0.9	0.6	0.8
Yield (2017-Now)	9.8%	5.5%	6.6%	7.1%
Correlation with private debt	-	0.63	0.72	0.82

Overall, private credit is expected to significantly grow over the coming years given the relatively small size it still represents of the overall financing sources of capital (i.e. still benefits from demand/supply imbalance).

To put numbers in perspective, as off 2023, the global fixed income outstanding was $103trn (Source: SIFMA), and the global size of banking sector balance sheets: $98trn (Source: BIS). Thus, the $1.5-3trn of private credit is still a very small fraction with the possibility to multiply severalfold given the flexibility it offers borrowers and variety of private credit strategies.

Infrastructure & energy

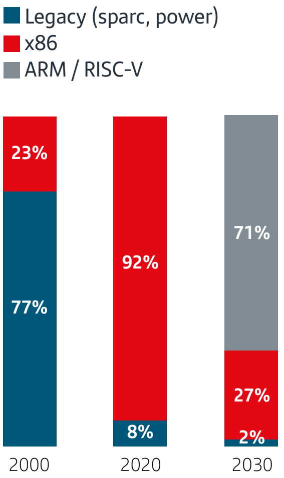
Infrastructure has proven to be a very stable source of returns with very low correlation to other asset classes, and an asset class with excellent inflation protection.

According to McKinsey Global Institute [1], there is a need for $3.3trn a year, in economic infrastructure. This will create an opportunity for infrastructure investors able to invest capital in sectors such as:

- Generation (wind, solar, wave, gas, biomass)
- Utilities (electrification and storage associated with the changing loads on electricity networks originally designed central for a non-digital, non-AI economy but which now have very different load profiles).
- Data-centers – once simply a housing solution for data cloud storage provision the emergence of AI and deep learning technologies are among the more salient developments of our time. The growth in AI is however fundamentally coupled with the infrastructure needed to support these solutions such as data connectivity, transmission, server location facilities and cooling – all needed for this industry to propagate. In itself this will change the face of a number of infrastructure sectors, such as smart mass transportation, self driving vehicles becoming "utility like" and grid technologies managed by machines.
- Other traditional sectors including education, healthcare, security and defense are all facing a period of necessary renewal and augmentation particularly in developed markets.

The data center architecture. Market share

Source: Big Ideas 2021, ARK Report



In the current environment, investors are therefore accessing optimal opportunities in infrastructure via strategies which include:

- Primary equity strategies with higher growth (primary capital or targeting less mature assets which benefit from the above themes) which offer greater illiquidity premia and investment alpha.
- Secondary equity strategies through which investors can assemble high quality targeted portfolios often at discounts and involving a faster investment cycle to return of capital than traditional primary funds.
- Private credit strategies in infrastructure.

Finally, the prioritization of the climate agenda has brough the infrastructure climate related venture asset class into the spot light. This asset class exhibits both the characteristics of venture investing but typically involves investments directly applicable to the energy and infrastructure industry once commercialised. The infrastructure climate VC space was previously extremely niche but is now a highly relevant investment universe utilized by governments, corporates, institutional and wealth investors willing to accept venture type risks.

(1) https://www.mckinsey.com/~/media/mckinsey/business%20functions/operations/our%20insights/bridging%20global%20infrastructure%20gaps/bridging-global-infrastructure-gaps-in-brief.pdf

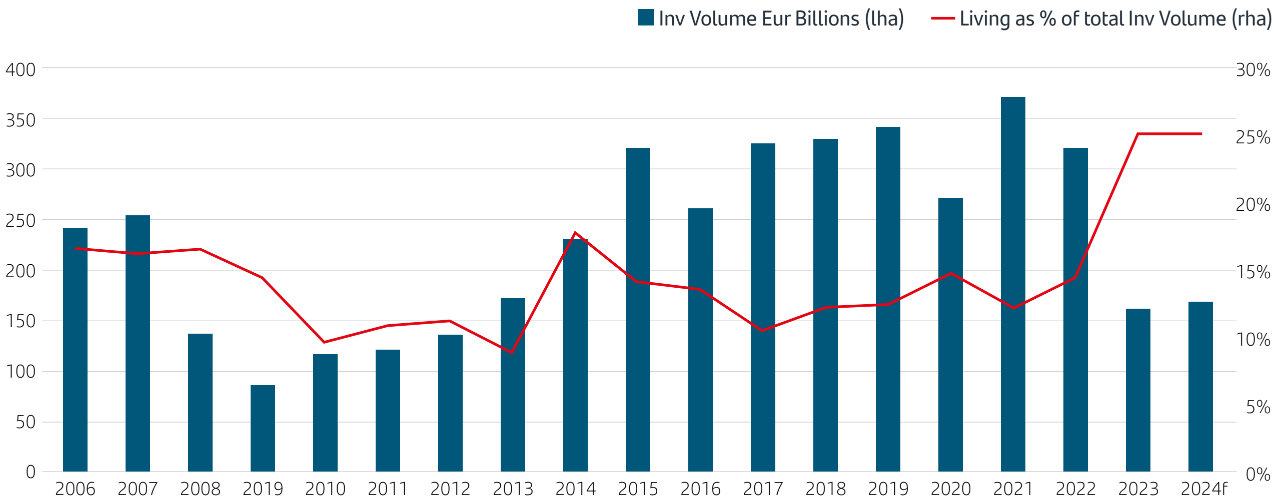
Real Estate

Recently, real estate valuations have been volatile due to the increase in interest rates, and certain subsectors have been even further affected due to changes in socioeconomic dynamic's, like offices and retail stores (working from home vs office, retail stores vs e-commerce). However, we believe that current valuations are, in general terms, attractive, as interest rates decrease, and valuations have priced in these socio-demographic tendencies.

Real Estate Investors are mainly focusing in the living sector across Europe, as the % of transactions grew from a 15% historical average to 25% during 2024 (see below graphic with data from CBRE). As demand for housing across the living spectrum is expected to remain strong, robust rental growth is expected across the main European cities.

Volume of investment in real estate in Europe and % of residential investment

Source: CBRE, 2024



Moreover, "alternative real estate sectors" such as student residences or flex living for young professionals are experiencing extraordinary growth with new formats based on the creation of community experiences and responding to the necessity for affordable places to live and the housing shortage, representing a great investment opportunity in this current economic environment: housing shortages continue across Europe with significant pressures in Southern Europe and specially in Spain (+47% price increase from 2015-2023 according to Eurostat) with annual housing deficits of circa 150K houses per annum attending to the Bank of Spain.

Glossary

€STR: Euro short-term rate.

Backwardation: This situation occurs when the spot price of a commodity is higher than the projected future price for the same asset.

Banxico: Bank of Mexico.

Bottom-up: Analysis that considers the individual economic-financial situation of the company before assessing the effect of the sector's situation and subsequently the macroeconomic situation.

Breakeven: Inflation level that equals the yield of a nominal bond with the yield of its equivalent real bond.

BRL: Brazilian real.

CAGR: The compound annual growth rate is the rate of return that an investment would need to have each year to grow from its initial balance to its final balance, during a given time interval.

Carry: Expected return on an investment assuming that its price does not change.

CBO: U.S. Congressional Budget Office.

CLP: Chilean peso.

DAX: Is an index of 40 selected German blue chip stocks traded on the Frankfurt Stock Exchange.

DXY: Value of the USD in relation to a basket of currencies that includes major world currencies.

ECB: European Central Bank; it is the authority responsible for the monetary policy of the countries of the euro area.

EMBI: Market index elaborated by JP Morgan that serves as a reference to estimate the evolution of the emerging debt market.

EPS: Earnings per share. Figure obtained by dividing, in a given year, the net profit by the total number of shares in circulation.

EUR: Euro.

Fed: Federal Reserve; it is the institution responsible for supervising the U.S. banking system, and for defining and applying the country's monetary policy.

FTSE 100: Is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

FTSE 250: Is a capitalization-weighted index of the 250 most highly capitalized companies, outside FTSE 100, traded on the London Stock Exchange.

Gilt: UK government bond.

GP: Manager making investment decisions in alternative funds.

Investment grade: Bonds issued by companies that, according to external rating agencies, are less likely than others to default on their debts.

LP: Investor in alternative investment funds.

MXN: Mexican peso.

NBP: National Bank of Poland. Authority in charge of controlling the minting and circulation of the Polish currency, zloty.

Nearshoring: The practice of transferring a business operation to a nearby country, especially in preference to a more distant one.

OPEC+: Organization of the Petroleum Exporting Countries. It includes around thirty countries, led by Saudi Arabia among the members of the Organization of Petroleum Exporting Countries, and by Russia at the head of the external allies.

P/E: Price earnings ratio. Measures the relationship between the price of a share in the market and the benefits offered by the company. It is used to measure whether a stock is expensive or cheap at that moment and will give us information about the years it would take to recover the money invested in the company through its profits as long as these remain stable.

PLN: Zloty (Polish currency).

Real terms: Any variable from which the effect of inflation is eliminated.

REER: Real effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or cost index.

Reshoring: The process by which companies bring the production and manufacture of goods back to their original country.

Selic: Brazilian interest rate.

Small caps: Small and medium-sized companies, with low market capitalization. However, they constitute a segment of entities that are interesting for certain investors, given their potential for revaluation, and stock market indices are even created on this type of company.

Treasury: U.S. government bond.

USD: U.S. dollar.

USMCA: United States – Mexico – Canada Agreement: Agreement between Mexico, USA and Canada. This is the agreement that emerged to replace the North American Free Trade Agreement, better known by its acronym NAFTA or NAFTA, whose objective was to facilitate foreign trade between Mexico, the U.S. and Canada.

WIBOR: Warsaw interbank offered rate.

WIG: Warsaw Stock Exchange WIG index includes all companies listed con the main market, excluding companies and investment funds.

Yield: Is the difference between the value that will be returned to me at the maturity of a bond and its purchase price expressed as a percentage.

YTM: Yield to maturity.

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