

STRONG 2Q GDP DATA (AGAIN)

Lucas Maynard*

lucas.maynard.da.silva@santander.com.br
+5511 3553 7495

- **GDP climbed 1.2% QoQ-sa (+3.2% YoY) in 2Q22, above market consensus of +0.9% QoQ-sa (+2.8% YoY) and in line with our forecast (+1.1% QoQ-sa, +3.1% QoQ-sa).** This result implies an encouraging carryover of 2.6% to 2022, consolidating strong 1H22 GDP performance and imparting significant upside risks to our current forecast of +1.9% GDP growth this year.
- **On the supply side, widespread growth, as expected. Services continued to strengthen, climbing 1.3% QoQ-sa (our call: +1.2% QoQ-sa), boosted by consolidation of the economy's reopening process coupled with expansion in the real wage bill.** Industrial output gained steam, rising 2.2% QoQ-sa (our call: +0.5% QoQ-sa), owing to a continued strengthening of manufacturing (+1.7%) and construction (+2.2%), along with a rebound in mining (+2.2%). Lastly, farm output partially rebounded from the poor performance seen previously and expanded 0.5% QoQ-sa (our call: +1.2% QoQ-sa).
- **On the demand side, domestic absorption had a strong print, partially offset by the external sector.** Household consumption climbed 2.6% QoQ-sa (our call: +0.8% QoQ-sa), based mainly on increasing disposable income and household spending of accumulated savings, while investments rebounded 4.8% QoQ-sa (our call: +2.7% QoQ-sa), recovering from the previous steep decline. Government spending disappointed, retreating 0.9% QoQ-sa (our call: +0.3% QoQ-sa). Meanwhile, the external sector reported a poor performance, with exports decreasing 2.5% QoQ-sa (our call: -2.7% QoQ-sa), while imports jumped 7.6% QoQ-sa (our call: +5.1%).
- **This result places the economy 3.0% above the pre-pandemic benchmark (4Q19) and only 0.3% below the all-time high seen in 1Q14.** Moreover, we calculate a closing output gap, hovering at roughly +0.6% and reaching a positive print for the first time since 2014. In the short term, the tepid carryover led by June's activity data along with the weakening indicated by our proprietary indicator (IGet family) supports a forecast of cooling activity in 2H22. Our 3Q22 GDP growth tracking stands at +0.2% QoQ-sa. That said, we see significant upside risks to our 1.9% GDP growth forecast for 2022. For 2023, our baseline scenario contemplates a 0.6% retreat of real activity, but we see the balance of risks biased to the upside, given a still resilient labor market and expectations of real wage bill expansion.



Figure 1 – GDP Breakdown*

	2Q22e		2Q22		Roll 4Q	4Q19*	Carry **	
	Weights	% YoY	% QoQ	% YoY	%	%	%	
GDP	100%	3.1	1.1	3.2	1.2	2.6	3.0	2.6
Supply								
Farm Output	7%	1.5	2.8	-2.5	0.5	-5.5	0.3	-1.7
Industry	19%	-0.2	0.5	1.9	2.2	0.1	2.6	1.3
Mining	25%	-6.6	0.1	-4.0	2.2	0.5	-2.4	-2.4
Manufacturing	51%	0.4	1.7	0.5	1.7	-2.9	0.9	0.2
Construction	12%	7.0	0.8	9.9	2.7	10.5	12.5	7.0
Utilities	12%	3.5	-2.4	10.8	3.1	3.7	9.0	9.8
Services	59%	4.5	1.2	4.5	1.3	4.3	3.7	3.4
Retail	22%	1.5	1.8	1.3	1.7	-0.1	3.9	1.3
Transports	5%	8.0	0.7	11.7	3.0	10.9	11.8	8.8
Information	5%	3.0	1.6	4.6	2.9	9.6	15.1	2.3
Financial	9%	-1.0	0.0	1.0	1.4	-0.6	4.5	0.4
Other Services	22%	12.7	2.3	13.6	3.3	12.3	4.4	10.1
Rents	14%	0.2	0.2	0.5	0.3	0.7	5.1	0.6
Public Services	24%	3.8	1.2	1.1	-0.8	2.2	-2.2	1.0
Demand								
Consumption	61%	3.0	0.8	5.3	2.6	3.4	1.9	3.7
Government	19%	2.3	0.3	0.7	-0.9	2.5	-1.7	0.7
Investments	19%	-1.5	2.7	1.5	4.8	3.5	18.8	-0.7
Exports	20%	-5.0	-2.7	-4.8	-2.5	2.3	3.6	1.6
Imports	-19%	-4.0	5.1	-1.1	7.6	2.0	3.2	-1.6

Sources: IBGE, Santander estimates. * We set up our pre-crisis mark at 4Q19. ** Carryover calculated to 2022.

A new strong figure for real GDP. Data released today pointed to a solid climb of +1.2% QoQ-sa (+3.2% YoY) in 2Q22, topping market consensus (+0.9% YoY, +2.8% YoY) and in line with our forecast (+1.1% QoQ-sa, +3.1% YoY). The economy reached a level 3.0% above the pre-pandemic benchmark (set at 4Q19) and only 0.3% below the all-time high seen in 1Q14. Moreover, we calculate a closing output gap, hovering at roughly +0.6% and reaching a positive print for the first time since 2014. Finally, we calculate a statistical carryover of 2.6% to 2022 led by the 2Q22 figure, consolidating strong 1H22 GDP performance and imparting significant upside risks to our current +1.9% forecast of GDP growth this year.

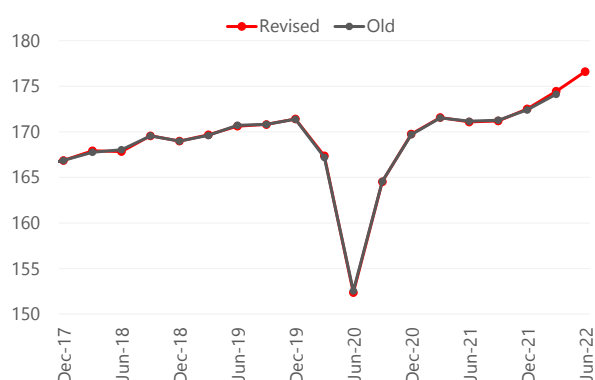
On the supply side, widespread growth, as expected. Indeed, the breakdown points to growth at the margin for 11 of the 12 subsectors. Total services continued to strengthen, climbing 1.3% QoQ-sa (our call: +1.2% QoQ-sa), boosted by consolidation of the economy's reopening process coupled with expansion in the real wage bill. Zooming in the details, retail (+1.7% QoQ-sa; our call: +1.8%) and other services (+3.3% QoQ-sa; our call: +2.3%) continued to strengthen, in the wake of the normalization of mobility, leading to increasing disposable income and the spending of accumulated savings. Information services (+2.9% QoQ-sa; our call: +1.6%) bounced back from the previous drop, while public services disappointed (-0.8% QoQ-sa; our call: +1.2%), since we expected the consolidation of provision of non-mercantile health and education services to boost the sector. Lastly, transport surprised to the upside (+3.0% QoQ-sa; our call: +0.7%), the ninth gain in a row, also reaping the fruit of the reopening normalization and of goods-demand expansion. The strong recovery of services in 1H22 placed the sector 3.7% above the pre-pandemic benchmark and led a 3.4% carryover to 2022. Total industry gained steam, jumping 2.2% QoQ-sa (our call: +0.5% QoQ-sa), with positive surprises in the composition. This result was owing mainly to continued strengthening of manufacturing (+1.7% QoQ-sa; our call: +1.7%) and construction (+2.7% QoQ-sa; our call: +0.8%), with the latter marking a healthy streak of eight consecutive gains despite increasing cost pressures and rising interest rates. Meanwhile, utilities surprised to the upside and showed a strong performance (+3.1% QoQ-sa; our call: -2.4%), and mining bounced back from the previous drop with a healthy print (+2.2% QoQ-sa; our call: +0.1%). Thus, total industry surpassed the pre-pandemic benchmark by 2.6%, and we calculate a strong carryover of +1.3%. Lastly, farm output contributed positively with a partial rebound of 0.5% QoQ-sa (our call: +1.2% QoQ-sa) from the previous weak print.



On the demand side, substantial strengthening of domestic absorption but with the external sector weighing on activity. Household consumption stood out again, climbing 2.6% QoQ-sa (our call: +0.8% QoQ-sa), reflecting the increase of goods and services demand in the period. The strengthening of consumption in 1H22 — despite inflationary pressures — was owing to: (i) strong recovery in the labor market (employment + income); (ii) government stimulus; and (iii) household spending of accumulated savings. Investments were up 4.8% QoQ-sa (our call: +2.7% QoQ-sa), a strong rebound from the previous steep decline, owing to continued improvement in construction along with an expansion of capital goods absorption in commodities-related sectors. Government spending disappointed with a tepid figure of -0.9% QoQ-sa (our call: +0.3% QoQ-sa). Lastly, the external sector reported a poor performance and weighed on overall activity, with exports decreasing 2.5% QoQ-sa (our call: -2.7% QoQ-sa), while imports jumped 7.6% QoQ-sa (our call: +5.1%).

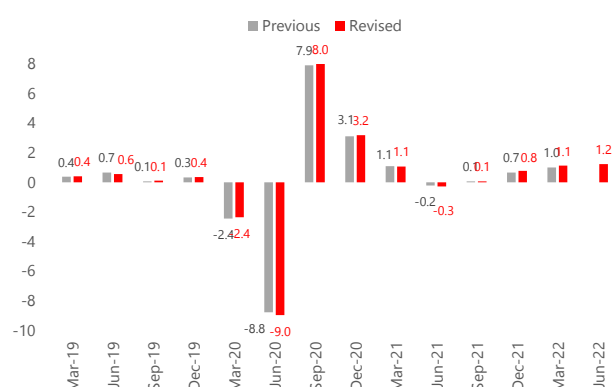
As aforementioned, we see an increasing likelihood that GDP could grow above 1.9% this year. The 2Q result places the economy 3.0% above the pre-pandemic benchmark and only 0.3% below the all-time high seen in 1Q14. Moreover, according to our calculations, the strength of domestic activity took the output gap into positive terrain (roughly +0.6%) for the first time since 2014, and we expect it to remain positive until mid-2023. Regarding 2H22, we expect domestic activity to sour once the effects of a tighter monetary policy start to kick in. In the short term, the tepid carryover led by 2Q22's results, along with the weakening indicators in our proprietary IGet family for July and mid-August, supports the likelihood of a deceleration. Our 3Q22 GDP growth tracking stands at +0.2% QoQ-sa. Regarding 2023, our baseline scenario contemplates a 0.6% retreat of real activity, but we see the balance of risks biased to the upside, given a still resilient labor market and expectations of real wage bill expansion. **For details on Santander's economic activity outlook, please refer to our last reports¹.**

Figure 2 – GDP (sa, index 1995 average =100)



Sources: IBGE, Santander.

Figure 3 – GDP (sa, % QoQ)



Sources: IBGE, Santander.

¹ Santander Brazil Economic Activity: “Chartbook: Further improvements in 2022, as 2023 remains challenging” – July 20, 2022 – Available on: <https://bit.ly/Std-chart-econact-jul22>

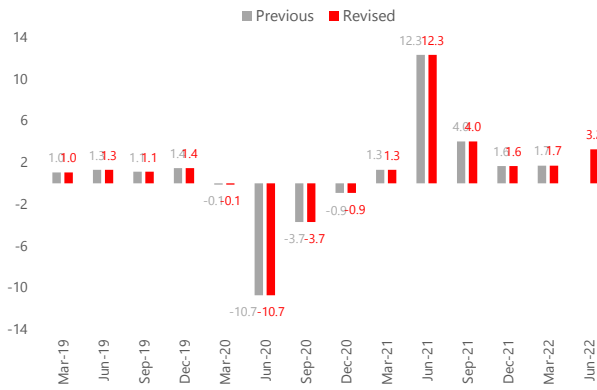
Santander Brazil Special Report: “Tightest Financial Conditions since 2009” – August 11, 2022 – Available on: <https://bit.ly/Std-special-081122>

Santander Brazil Special Report: “Resilience Factors for GDP Growth: What Has Changed Since January” – June 30, 2022 – Available on: <https://bit.ly/Std-special-GDP-062922>

Santander Brazil Special Report: “A Model to Forecast Probability of Recession in Brazil” – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

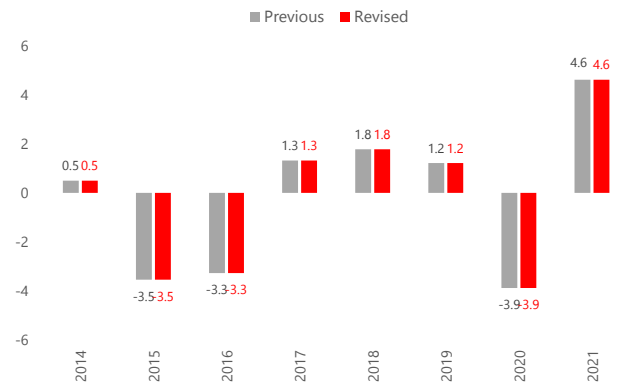


Figure 4 – GDP (nsa, % YoY)



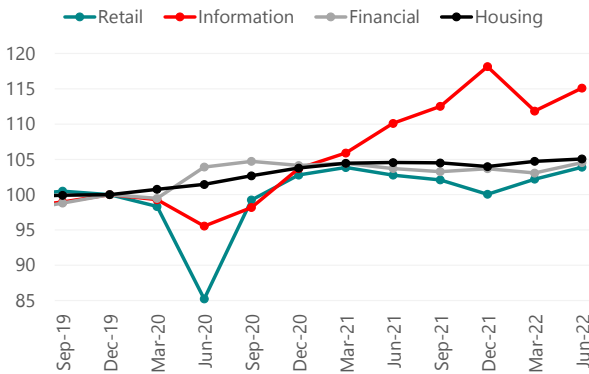
Sources: IBGE, Santander.

Figure 5 – GDP (Full-Year %)



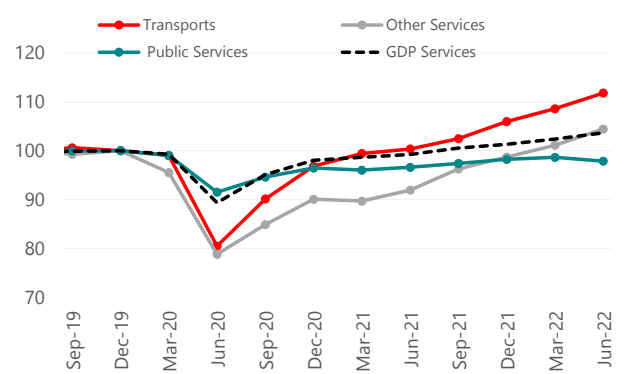
Sources: IBGE, Santander.

Figure 6 – Segments of Services (sa,4Q19=100)



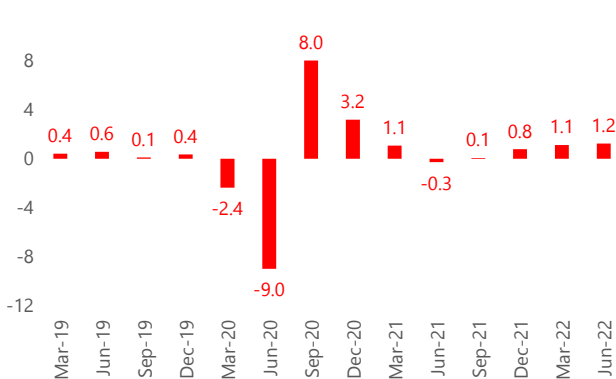
Sources: IBGE, Santander.

Figure 7 – Segments of Services (sa, 4Q19=100)



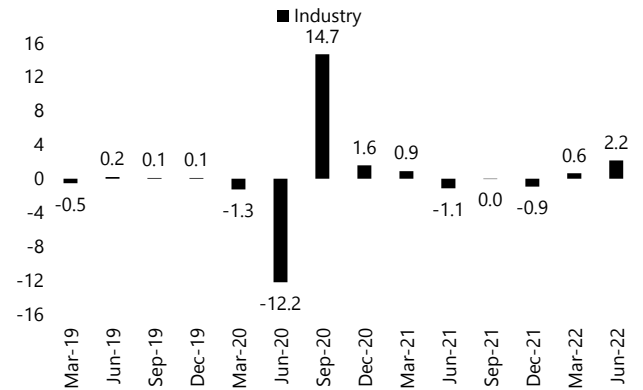
Sources: IBGE, Santander.

Figure 8 – Total GDP (QoQ-sa, %)



Sources: IBGE, Santander.

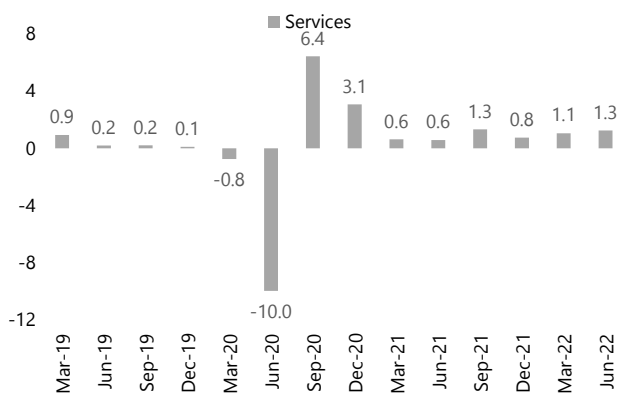
Figure 9 – Industry (QoQ-sa, %)



Sources: IBGE, Santander.

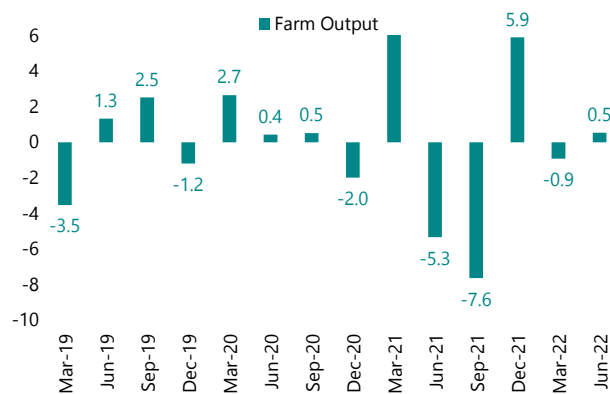


Figure 10 – Services (QoQ-sa, %)



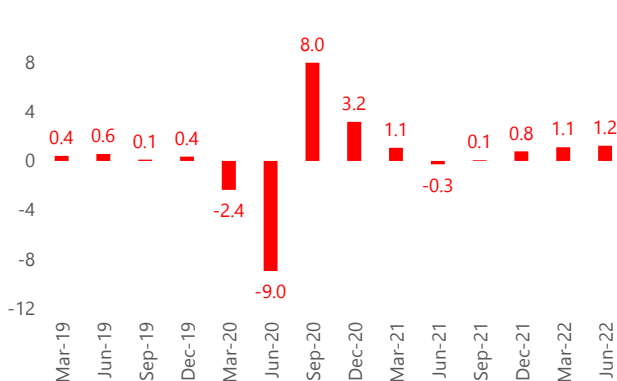
Sources: IBGE, Santander.

Figure 11 – Farm Output (QoQ-sa, %)



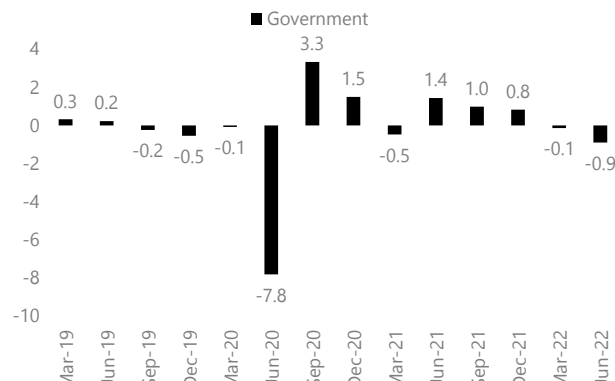
Sources: IBGE, Santander.

Figure 12 – Household Consumption (QoQ-sa, %)



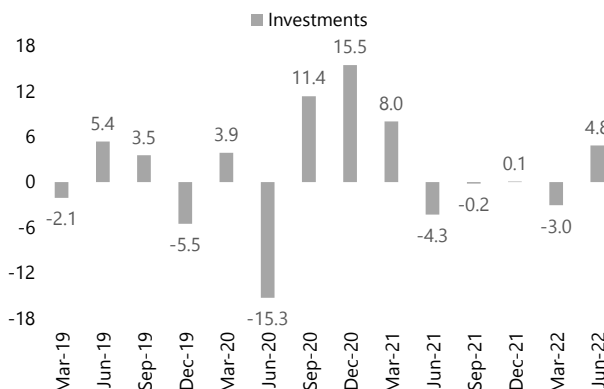
Sources: IBGE, Santander.

Figure 13 – Government Consumption (QoQ-sa, %)



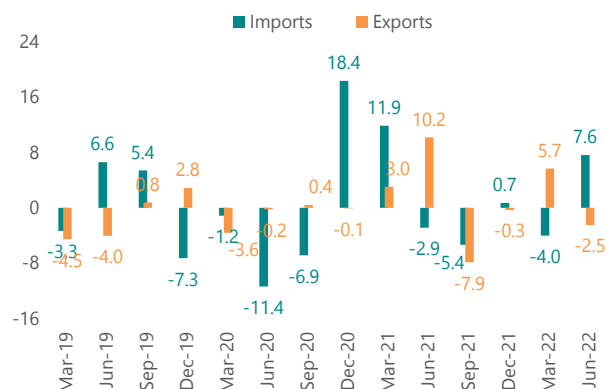
Sources: IBGE, Santander.

Figure 14 – Investments (QoQ-sa, %)



Sources: IBGE, Santander.

Figure 15 – External Sector (QoQ-sa, %)



Sources: IBGE, Santander.



Figure 18 – GDP Quarterly Contributions

	% QoQ-sa							Quarterly Contributions (p.p)						
	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2
GDP	3.2	1.1	-0.3	0.1	0.8	1.1	1.2	3.2	1.1	-0.3	0.1	0.8	1.1	1.2
Supply														
Taxes	4.2	2.4	-1.5	1.1	0.2	0.2	0.7	0.7	0.3	-0.2	0.2	0.0	0.0	0.1
Farm Output	-2.0	7.1	-5.3	-7.6	5.9	-0.9	0.5	-0.1	0.7	-0.4	-0.4	0.2	-0.1	0.0
Industry	1.6	0.9	-1.1	0.0	-0.9	0.6	2.2	0.3	0.2	-0.2	0.0	-0.2	0.1	0.4
Mining	-3.6	4.1	4.4	-1.7	-1.9	-2.8	2.2	-0.1	0.2	0.2	-0.1	-0.1	-0.1	0.1
Manufacturing	4.9	-0.9	-3.2	-1.1	-1.8	1.7	1.7	0.4	-0.1	-0.3	-0.1	-0.2	0.2	0.2
Construction	0.4	4.2	1.4	4.4	1.7	1.0	2.7	0.0	0.1	0.0	0.1	0.0	0.0	0.1
Utilities	-4.5	0.3	0.5	-0.9	1.5	6.5	3.1	-0.1	0.0	0.0	0.0	0.0	0.2	0.1
Services	3.1	0.6	0.6	1.3	0.8	1.1	1.3	2.0	0.4	0.3	0.8	0.5	0.6	0.7
Retail	3.6	1.0	-1.0	-0.7	-2.0	2.1	1.7	0.5	0.1	-0.1	-0.1	-0.3	0.3	0.2
Transports	7.4	2.7	0.9	2.1	3.4	2.5	3.0	0.3	0.1	0.0	0.1	0.1	0.1	0.1
Information	5.6	2.1	4.0	2.2	5.0	-5.3	2.9	0.2	0.1	0.1	0.1	0.2	-0.1	0.1
Financial	-0.6	0.3	-0.7	-0.4	0.4	-0.6	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Other Services	6.1	-0.4	2.5	4.7	2.5	2.4	3.3	0.8	-0.1	0.3	0.6	0.3	0.3	0.4
Rents	1.1	0.7	0.1	-0.1	-0.5	0.7	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Public Services	2.0	-0.4	0.6	0.8	0.8	0.4	-0.8	0.3	-0.1	0.1	0.1	0.1	0.1	-0.1
Demand														
Consumption	3.1	0.4	-0.3	1.0	1.0	0.5	2.6	2.0	0.2	-0.2	0.6	0.6	0.3	1.6
Government	1.5	-0.5	1.4	1.0	0.8	-0.1	-0.9	0.3	-0.1	0.3	0.2	0.2	0.0	-0.2
Investments	15.5	8.0	-4.3	-0.2	0.1	-3.0	4.8	2.8	1.6	-0.8	0.0	0.0	-0.6	0.9
Exports	-0.1	3.0	10.2	-7.9	-0.3	5.7	-2.5	0.0	0.5	2.3	-1.6	-0.1	1.1	-0.5
Imports	18.4	11.9	-2.9	-5.4	0.7	-4.0	7.6	-3.2	-2.3	0.5	1.0	-0.1	0.8	-1.4
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	1.2	1.1	-2.4	-0.1	0.2	-0.5	0.8
Domestic	-	-	-	-	-	-	-	5.1	1.7	-0.7	0.8	0.8	-0.3	2.4
External	-	-	-	-	-	-	-	-3.2	-1.8	2.8	-0.6	-0.2	1.9	-2.0

Sources: IBGE, Santander.

Figure 19 – GDP Yearly Contributions

	% YoY							Yearly Contributions (p.p)						
	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2
GDP	-0.9	1.3	12.3	4.0	1.6	1.7	3.2	-0.9	1.3	12.3	4.0	1.6	1.7	3.2
Supply														
Taxes	0.0	2.3	16.6	6.2	2.2	0.5	1.6	0.0	0.3	2.3	0.9	0.4	0.1	0.2
Farm Output	1.3	6.5	0.1	-9.0	-0.8	-8.0	-2.5	0.1	0.7	0.0	-0.5	0.0	-0.7	-0.2
Industry	0.9	3.3	16.6	1.3	-1.3	-1.5	1.9	0.2	0.6	3.2	0.3	-0.2	-0.3	0.4
Mining	-6.4	-3.0	6.9	3.5	4.5	-2.4	-4.0	-0.2	-0.1	0.4	0.2	0.2	-0.1	-0.2
Manufacturing	4.8	5.6	25.3	-0.7	-6.9	-4.7	0.5	0.4	0.5	2.4	-0.1	-0.7	-0.4	0.1
Construction	-3.4	2.4	13.5	10.9	12.2	9.0	9.9	-0.1	0.1	0.3	0.2	0.3	0.2	0.2
Utilities	-2.5	2.0	1.5	-4.6	0.7	7.6	10.8	-0.1	0.0	0.0	-0.1	0.0	0.2	0.2
Services	-1.9	-0.7	11.0	5.8	3.3	3.7	4.5	-1.2	-0.4	6.4	3.4	2.1	2.2	2.7
Retail	2.7	4.5	20.8	2.8	-2.9	-1.5	1.3	0.3	0.6	2.7	0.4	-0.4	-0.2	0.2
Transports	-2.9	0.5	25.3	13.1	9.3	9.4	11.7	-0.1	0.0	0.8	0.4	0.3	0.3	0.3
Information	3.6	5.2	15.4	14.8	13.8	5.5	4.6	0.1	0.1	0.4	0.4	0.4	0.2	0.1
Financial	4.0	4.9	-0.1	-1.3	-0.4	-1.6	1.0	0.2	0.3	0.0	-0.1	0.0	-0.1	0.1
Other Services	-9.8	-7.4	16.6	13.5	9.7	12.6	13.6	-1.3	-0.9	2.1	1.8	1.3	1.6	1.8
Rents	3.7	3.7	3.1	1.7	0.2	0.3	0.5	0.3	0.3	0.2	0.1	0.0	0.0	0.0
Public Services	-3.4	-4.2	5.5	2.9	2.0	2.9	1.1	-0.6	-0.6	0.8	0.4	0.3	0.4	0.2
Demand														
Consumption	-3.1	-1.7	10.5	4.2	2.1	2.2	5.3	-2.0	-1.0	6.2	2.6	1.4	1.4	3.3
Government	-3.3	-3.9	5.8	3.5	2.8	3.3	0.7	-0.7	-0.7	1.1	0.6	0.6	0.6	0.1
Investments	13.2	17.8	33.1	18.8	3.4	-7.2	1.5	2.4	3.5	6.1	3.6	0.6	-1.3	0.3
Exports	-4.3	1.0	14.2	4.0	3.3	8.1	-4.8	-0.7	0.2	3.2	0.8	0.6	1.6	-1.0
Imports	-3.5	7.5	20.3	20.6	3.7	-11.0	-1.1	0.6	-1.4	-3.7	-3.8	-0.8	2.1	0.2
MEMO (Contribution)														
Inventories (proxy)	-	-	-	-	-	-	-	-0.5	0.7	-0.7	0.1	-0.8	-2.6	0.3
Domestic	-	-	-	-	-	-	-	-0.3	1.8	13.4	6.8	2.6	0.6	3.7
External	-	-	-	-	-	-	-	-0.1	-1.3	-0.4	-3.0	-0.1	3.7	-0.8

Sources: IBGE, Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

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