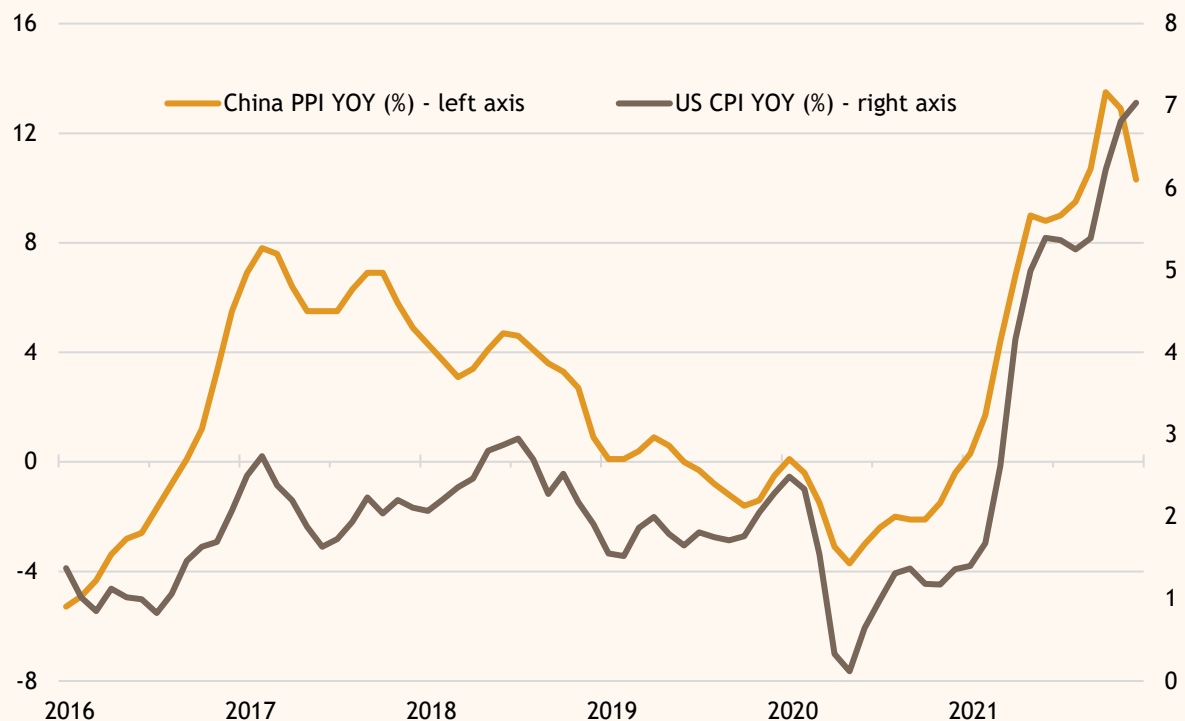


Key Economic Figures/Events of the Week

- This week was all about inflation, as we had the publication of both CPI and PPI data for the US. Despite the highest YOY CPI increase in decades - 7.0%, markets have found some relief in Chief Jerome Powell's conference in the Senate. He tried and apparently succeeded in convincing the markets that Fed can fight inflation without damaging the economy. Other Fed member also spoke this week, and their tone was quite hawkish, and now it seems there's not much that can change between now and the Fed March policy meeting to impede the first rate hike. 10-year US Treasury yield has retreated this week modestly, to 1.70% (as of Thursday close), after reaching as high as 1.76% last Friday (07/01).
- Data showed that core consumer inflation in the US was driven by rental accommodation and used cars. As about producer prices, both US and Chinese indices showed a cooldown in prices, hinting a possible peak in inflation. Chinese producer prices also matter for the US, as they may soon be reflected in US CPI through imports from China.

Historically, China PPI moved closely with US CPI



Source: National Bureau of Statistics of China, US Bureau of Labor Statistics

- World Bank has spoken about their growth expectations for 2022, which suppose a significant slowdown as pent-up demand dissipates and authorities around the globe withdrawal monetary and fiscal stimulus. We believe that overall, markets are now pricing a best-case scenario in terms of economic growth, including the one for the US, and many may get disappointed this year as the growth slowdown becomes reflected in data.

Weekly Investment Insights

- In Brazil, heavy rainfalls have halted mining activities, and sent iron prices significantly higher, as Brazil is currently producing 20% of the global supply. Importantly, heavy floods increase the risk of dam accidents. We believe companies become more cautious after the 2019 Bernardino dam disaster, which killed 270 people and had a big financial and reputational cost on Vale. But the stop in production will likely have a modest short-term negative effect. Other than that, we are currently positive on Brazilian mining companies CSN (BB/Ba2) and Vale (BBB-/Baa3/BBB) and continue to hold them.
- Spreads on Russian and Ukrainian bonds have widened this week on the back of unsuccessful Russia-NATO talks, in fact continuing the negative trend which began since the announcements that Russian troops have been built up at the Ukrainian border. We do not hold any Ukrainian sovereign or corporate debt but have significant holdings in Russian corporate bonds which we continue to hold, despite the fact that they are prone to suffer from some near-term (modest) volatility. We hold them for their strong credit profile and diversification benefits.

Strategy

The positive trend in new deal supply continued this week and it was met with healthy demand from investors. We added several new issues to our holdings, namely Mexican building products company GCC SAB (BBB-), worldwide tech company Prosus (BBB/Baa3), investment company EIG Pearl Holdings (A-/A1) and Chilean food producer Agrosuper (BBB-/Ba1). Fundamentals suggests that credit spreads can move tighter from here for some segments of the market. However, we continue to believe security selection is key in the current environment and maintain a high proportion of high credit-quality bonds in our portfolio, which should be less affected should liquidity deteriorate once Fed resumes to monetary tightening.

We hope you will find this information useful and we will be glad to answer your questions.

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