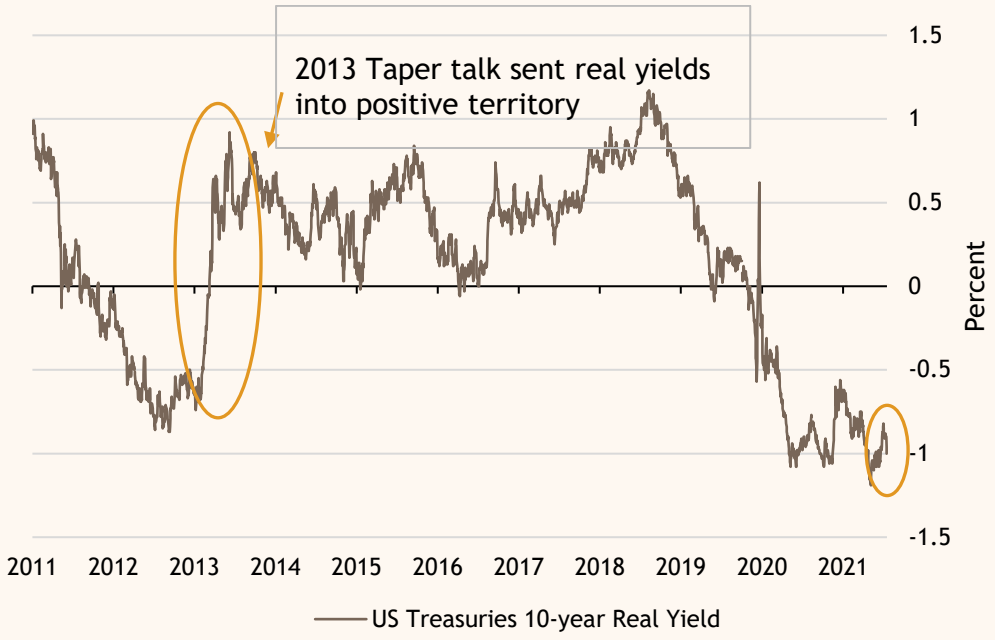
Key Economic Figures/Events of the Week

- As inflation is now on everyone's mind, US CPI data and Fed minutes were the most awaited news this week. US Treasury 10-year yield hovered in the range of 1.51-1.58% this week, finishing lower than a week ago. Despite concerns over the economic growth slowdown and high inflation, sentiment had an uplift by the end of the week, buoyed by better-than-expected earnings, as third-quarter financial reports started to pour in.
- While core CPI in the US grew in line with expectations in September, at 0.2% month-over-month, headline inflation increased 0.4% month-over-month, more than expected. While prices for used cars, airline and hotels continue to decline, there's some evidence that inflation is becoming broader based. Hence the concern that Fed's reaction may come in too late, which may lead to the urge to raise interest rates faster and thus slow down growth even more. This is reflected in real yields falling following the release of CPI data.

Real yields drop despite taper talk



Source: Bloomberg

- IMF has revised down its latest GDP forecasts this week, amid supply chain issues globally and continuing health crisis due to the Covid-19 pandemic in developing countries. While worldwide the 2021 GDP prediction has only been marginally cut to 5.9% from 6.0% forecasted in July, some countries have seen a much larger downgrade. Notably, US forecast has been cut to 6.0% from 7.0% predicted three months ago.

- Fed minutes were published this week and finally some information regarding tapering has been conveyed. The preliminary plan is a USD 10 billion reduction in Treasury purchases and USD 5 billion reduction in mortgage-backed securities each month starting presumably in November. That means the process should be concluded by mid-2022. We believe this would be a reasonable plan, which should not significantly impact liquidity on the market. Not much can intervene now and in the way of announcing tapering before the end of the year, in light of higher-than-expected inflation figures, more so that the latest unemployment data showed a slight improvement: weekly jobless claims fell by 36'000 to 293'000 applications. Pre-covid, the figure stood at around 200'000.

Strategy

Several Chilean issuers have hit the primary market this week and we received allocations in retailer Falabella (BBB/BBB) and utility company Colbun (BBB/BBB). We also acquired new 7-year bonds by Russian Metalloinvest (BBB-/BBB-), which has recently been upgraded to investment-grade status by Moody's amid strong cash flow generation and low leverage. We continue to favor credit quality in the current environment, and the deals offered some primary market premium. We also participated in the tap of long-dated bonds of the government of Colombia (maturing 2049) but didn't receive an allocation due to our yield limit. We do not intend to tactically increase duration at this point, but we believe the deal would have been attractively priced at 5.2% yield.

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

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