Private Bank

Global Equity Strategy

July 8, 2020

Q2 Earnings Preview: Establishing the Low

Joe Fiorica, CFA
Global Equity Strategist
+1-212-559-3473
joseph.fiorica@citi.com

Steven Wieting
Chief Investment Strategist
and Chief Economist
+1-212-559-0499
steven.wieting@citi.com

- Before logging off in droves and commencing their hard-earned staycations, investors in the US will be looking to Q2 earnings season which unofficially begins with many of the big banks on Tuesday, July 14th. Headline numbers are likely to be dismal, with profits expected to have fallen nearly 45% in Q2 (Figure 1). **We would not be surprised if the actual profits decline is even larger in magnitude, driven by a few outsized losses.**
- Outright losses are likely in sectors like energy and consumer discretionary (Amazon's earnings contribution to the sector is much smaller than its market cap share), while industrials firms are expected to post earnings at around 11% of 2019 levels – an 89% YoY decline.
- High-frequency economic indicators over the past few months suggest that the worst lockdown effects were likely felt in March and April, with reopenings gradually building in May and June. We expect Q2 will mark the low for economic activity and profits, establishing a base that will likely drive sharp rebounds in percentage terms in the first half of 2021 (Figure 2).
- **COVID-Defensives like IT are likely to demonstrate their immunity to the shutdown.**
- **Federal Reserve liquidity should help offset the effects of tightening bank lending standards.**
- **Sufficiently positive surprises among the most beaten down sectors could lead to short-covering rallies as investors would be forced to reprice less dire earnings expectations.**

Figure 1: Q2 Consensus EPS by Sector (YoY)

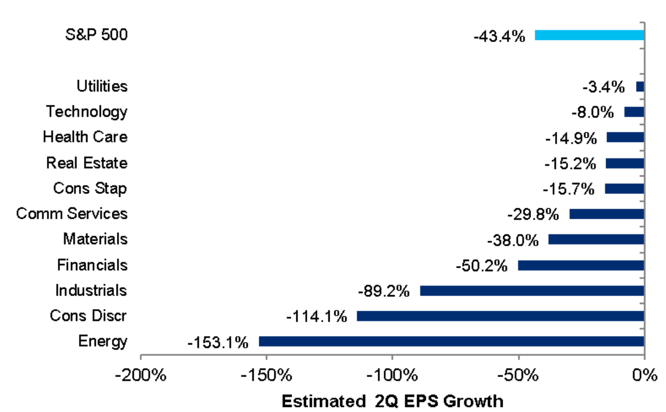
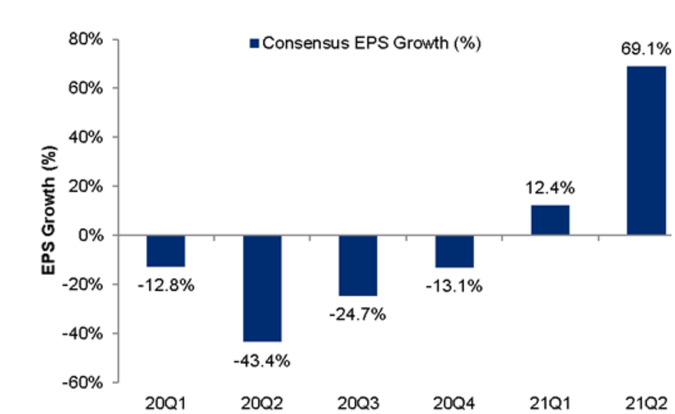


Figure 2: Quarterly Consensus EPS Growth (YoY)

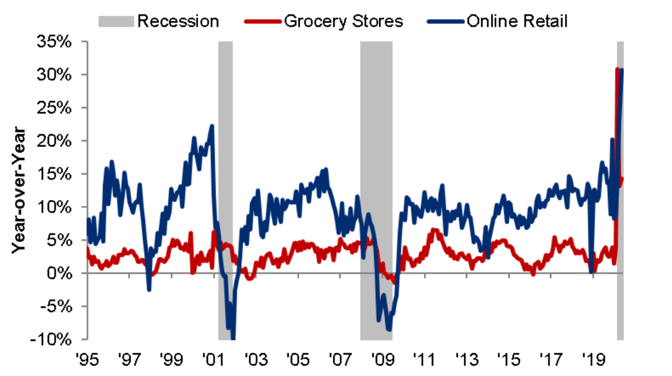


Source: Refinitiv as of July 7, 2020.

All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For illustrative purposes only. Past performance is no guarantee of future results. Real results may vary

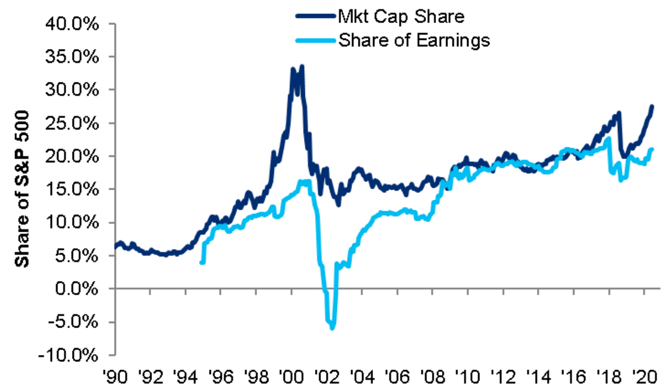
COVID-Defensives like IT are likely to demonstrate their immunity to the shutdown. The wide divergence in the profits landscape by sector likely reflects the unique reality of this virus-driven recession. While retail sales typically falls during recessions, certain segments like grocery stores and online retailers have benefitted from record-breaking spending growth in April and May (Figure 3). Turning to IT, the sector has drawn comparisons to the 90s tech bubble amid increasing share of the broader market. However, fundamentals continue to justify such lofty market share, as the growing dominance of tech companies in our everyday lives is likely to result in a higher portion of the economy being controlled by these seemingly unstoppable firms (Figure 4).

Figure 3: Select retailers likely to benefit from hoarding and increased online shopping



Source: Haver and Census Retail Sales Survey as of July 7, 2020.

Figure 4: IT concentration likely reflecting a larger share of future EPS

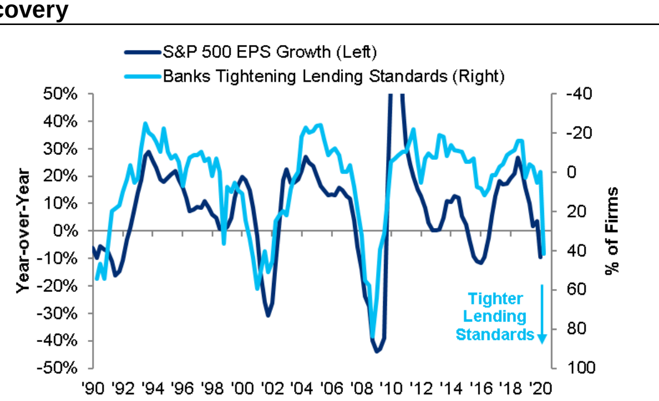


Source: Factset as of July 7, 2020.

Fed liquidity can support balance sheets as well as markets. A sharp tightening in bank lending standards typically raises the cost of capital for all but the most rock-solid balance sheets (Figure 5). However, any pullback in lending by private sector banks in the first half of this year has been more than offset by the Federal Reserve's unprecedented suite of liquidity proprgams, which has dramatically lowered borrowing costs for even the riskiest counterparties. Access to capital markets to finance severe but ultimately temporary virus-related disruptions should encourage investors that most firms will be able to raise enough cash to survive the next several quarters.

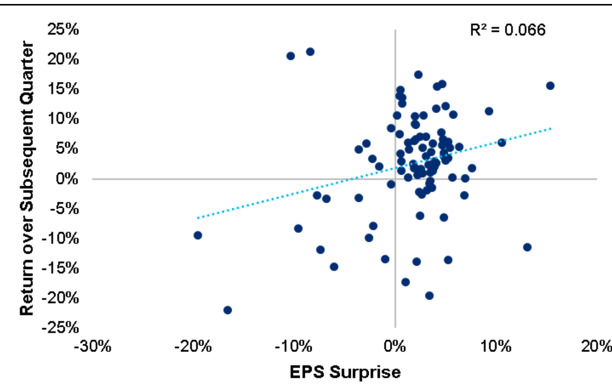
Do beats mean positive returns? Anyone who has watched an intraday chart in the moments following a company's earnings report knows that quarterly results can have an immediate impact on share prices. But how does the aggregation of all these beats and misses translate to index-level returns during earnings season? There appears to be a weak relationship at best between S&P 500 EPS surprises and subsequent returns (Figure 6). Perhaps more important is forward guidance, as ultimately what markets care about is the cash flow companies can deliver down the road, not in the immediate past. However, to the extent that current earnings signal a future trend, they can still be invaluable sources of information. Given that so many firms suspended guidance amid the virus-related uncertainty earlier this year, explicit forward guidance and the tone of earnings calls will be especially crucial to watch this quarter.

Figure 5: Looser credit conditions tend to support an EPS recovery



Source: Haver as of July 7, 2020. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only. Past performance is no guarantee of future returns. Real results may vary

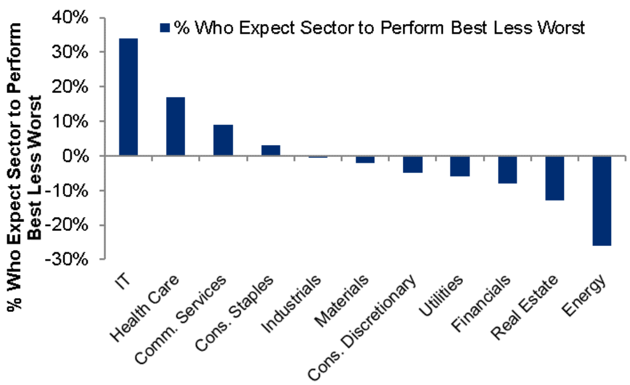
Figure 6: EPS Surprises and Subsequent Quarterly Returns



Source: Factset as of July 7, 2020, using quarterly data from 1997-2020.

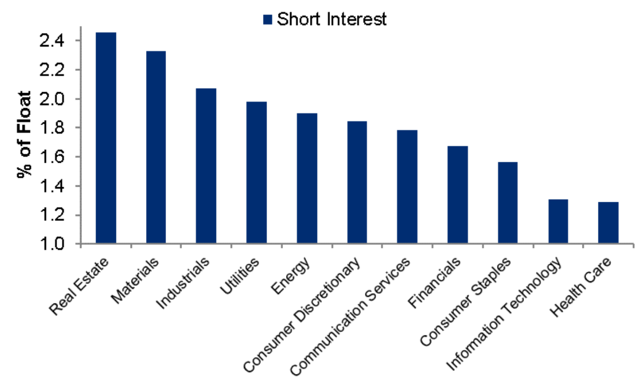
Positioning matters: While markets at the index level have increasingly priced in a "V" shaped earnings recovery, it is worth considering sector-level positioning heading into earnings season. Investors remain more cautiously positioned in areas most affected by COVID, still favoring large tech and ecommerce names that seem to be completely unaffected by any headline or sign of economic disruption (Figure 7). Meanwhile, bears have concentrated their downside bets on COVID-cyclical sectors like real estate, materials, and industrials (Figure 8). Sufficiently positive surprises among these beaten down sectors could lead to short-covering rallies as investors would be forced to reprice less dire earnings expectations.

Figure 7: Investors expect "Stay at Home" is here to stay



Source: Citi Research – US Equity Strategy as of July 7, 2020.

Figure 8: Short Interest by Sector



Source: Factset as of July 7, 2020.

Asset Allocation Definitions

Asset classes	Benchmarked against
Global equities	MSCI All Country World Index, which represents 48 developed and emerging equity markets. Index components are weighted by market capitalization.
Global bonds	Bloomberg Barclays Capital Multiverse (Hedged) Index, which contains the government -related portion of the Multiverse Index, and accounts for approximately 14% of the larger index.
Hedge funds	HFRX Global Hedge Fund Index, which is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
Commodities	Dow Jones-UBS Commodity Index, which is composed of futures contracts on physical commodities traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The major commodity sectors are represented including energy, petroleum, precious metals, industrial metals, grains, livestock, softs, agriculture and ex-energy. The Thomson Reuters / Core Commodity Index is designed to provide timely and accurate representation of a long-only, broadly diversified investment in commodities through a transparent and disciplined calculation methodology.
Cash	Three-month LIBOR, which is the interest rates that banks charge each other in the international inter-bank market for three-month loans (usually denominated in Eurodollars).

Equities	
Developed market large cap	MSCI World Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in 23 developed markets. Large cap is defined as stocks representing roughly 70% of each market's capitalization.
All Country Ex US	MSCI All Country ex US, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the equity market performance of the large cap stocks in all countries excluding the US.
US	Standard & Poor's 500 Index, which is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.
Europe ex UK	MSCI Europe ex UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in each of Europe's developed markets, except for the UK
Eurozone	Euro Stoxx 50 is a stock index of large cap Eurozone stocks. Its aim is to measure the performance of 50 of the largest Eurozone domiciled stocks.
Emerging Markets	MSCI Emerging Markets Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure stock performance 24 Emerging Market countries.
UK	MSCI UK Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in the UK
Japan	MSCI Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure large cap stock performance in Japan.
Asia Pacific ex Japan	MSCI Asia Pacific ex Japan Large Cap Index, which is free-float adjusted and weighted by market capitalization. The index is designed to measure the performance of large cap stocks in Australia, Hong Kong, New Zealand and Singapore.
Developed market small and mid-cap (SMID)	MSCI World Small Cap Index, which is a capitalization-weighted index that measures small cap stock performance in 23 developed equity markets.

Bonds	
Developed sovereign	Citi World Government Bond Index (WGBI), which consists of the major global investment grade government bond markets and is composed of sovereign debt, denominated in the domestic currency. To join the WGBI, the market must satisfy size, credit and barriers-to-entry requirements. In order to ensure that the WGBI remains an investment grade benchmark, a minimum credit quality of BBB–/Baa3 by either S&P or Moody's is imposed. The index is rebalanced monthly.
Emerging sovereign	Citi Emerging Market Sovereign Bond Index (ESBI), which includes Brady bonds and US dollar -denominated emerging market sovereign debt issued in the global, Yankee and Eurodollar markets, excluding loans. It is composed of debt in Africa, Asia, Europe and Latin America. We classify an emerging market as a sovereign with a maximum foreign debt rating of BBB+/Baa1 by S&P or Moody's. Defaulted issues are excluded.
Supranationals	Citi World Broad Investment Grade Index (WBIG)—Government Related, which is a subsector of the WBIG. The index includes fixed rate investment grade agency, supranational and regional government debt, denominated in the domestic currency. The index is rebalanced monthly.
Corporate investment grade	Citi World Broad Investment Grade Index (WBIG)—Corporate, which is a subsector of the WBIG. The index includes fixed rate global investment grade corporate debt within the finance, industrial and utility sectors, denominated in the domestic currency. The index is rebalanced monthly.
Corporate high yield	Bloomberg Barclays Global High Yield Corporate Index. Provides a broad-based measure of the global high yield fixed income markets. It is also a component of the Multiverse Index and the Global Aggregate Index.
Securitized	Citi World Broad Investment Grade Index (WBIG)—Securitized, which is a subsector of the WBIG. The index includes global investment grade collateralized debt denominated in the domestic currency, including mortgage -backed securities, covered bonds (Pfandbriefe) and asset-backed securities. The index is rebalanced monthly.

Other miscellaneous definitions	
Asset Backed Securities (ABS)	A security whose income payments and hence value are derived from and collateralized (or "backed") by a specified pool of underlying assets such as consumer credit card debt or auto loans.
Commercial Mortgage Backed Securities (CMBS)	Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security that is secured by mortgages on commercial properties, instead of residential real estate.
High Yield Corporate Bonds (HY)	High yield corporate bonds are bonds with a credit rating less than BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.
Investment Grade Corporate Bonds (IG)	Investment grade corporate bonds are bonds with a credit rating equal to or above BBB- (S&P) or Baa3 (Moody's), and are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations.
CAPE	Cyclically Adjusted Price to Earnings Ratio is an equity valuation measure calculated by taking the price divided by the average of ten years' earnings, adjusted for inflation. The ratio is designed to smooth variations in profit margins over the business cycle.
SAAR	Seasonally adjusted annual rate is a rate adjustment used for economic or business data, such as sales numbers or employment figures, that attempts to remove seasonal variations in the data

Disclosures

In any instance where distribution of this communication ("Communication") is subject to the rules of the US Commodity Futures Trading Commission ("CFTC"), this communication constitutes an invitation to consider entering into a derivatives transaction under US CFTC Regulations §§ 1.71 and 23.605, where applicable, but is not a binding offer to buy/sell any financial instrument.

This Communication is prepared by Citi Private Bank ("CPB"), a business of Citigroup, Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through Citigroup, its bank and non-bank affiliates worldwide (collectively, "Citi"). Not all products and services are provided by all affiliates, or are available at all locations.

CPB personnel are not research analysts, and the information in this Communication is not intended to constitute "research", as that term is defined by applicable regulations. Unless otherwise indicated, any reference to a research report or research recommendation is not intended to represent the whole report and is not in itself considered a recommendation or research report.

This Communication is provided for information and discussion purposes only, at the recipient's request. The recipient should notify CPB immediately should it at any time wish to cease being provided with such information. Unless otherwise indicated, (i) it does not constitute an offer or recommendation to purchase or sell any security, financial instrument or other product or service, or to attract any funding or deposits, and (ii) it does not constitute a solicitation if it is not subject to the rules of the CFTC (but see discussion above regarding communication subject to CFTC rules) and (iii) it is not intended as an official confirmation of any transaction.

Unless otherwise expressly indicated, this Communication does not take into account the investment objectives, risk profile or financial situation of any particular person and as such, investments mentioned in this document may not be suitable for all investors. Citi is not acting as an investment or other advisor, fiduciary or agent. The information contained herein is not intended to be an exhaustive discussion of the strategies or concepts mentioned herein or tax or legal advice. Recipients of this Communication should obtain advice based on their own individual circumstances from their own tax, financial, legal and other advisors about the risks and merits of any transaction before making an investment decision, and only make such decisions on the basis of their own objectives, experience, risk profile and resources.

The information contained in this Communication is based on generally available information and, although obtained from sources believed by Citi to be reliable, its accuracy and completeness cannot be assured, and such information may be incomplete or condensed. Any assumptions or information contained in this Communication constitute a judgment only as of the date of this document or on any specified dates and is subject to change without notice. Insofar as this Communication may contain historical and forward looking information, past performance is neither a guarantee nor an indication of future results, and future results may not meet expectations due to a variety of economic, market and other factors. Further, any projections of potential risk or return are illustrative and should not be taken as limitations of the maximum possible loss or gain. Any prices, values or estimates provided in this Communication (other than those that are identified as being historical) are indicative only, may change without notice and do not represent firm quotes as to either price or size, nor reflect the value Citi may assign a security in its inventory. Forward looking information does not indicate a level at which Citi is prepared to do a trade and may not account for all relevant assumptions and future conditions. Actual conditions may vary substantially from estimates which could have a negative impact on the value of an instrument.

Views, opinions and estimates expressed herein may differ from the opinions expressed by other Citi businesses or affiliates, and are not intended to be a forecast of future events, a guarantee of future results, or investment advice, and are subject to change without notice based on market and other conditions. Citi is under no duty to update this document and accepts no liability for any loss (whether direct, indirect or consequential) that may arise from any use of the information contained in or derived from this Communication.

Investments in financial instruments or other products carry significant risk, including the possible loss of the principal amount invested. Financial instruments or other products denominated in a foreign currency are subject to exchange rate fluctuations, which may have an adverse effect on the price or value of an investment in such products. This Communication does not purport to identify all risks or material considerations which may be associated with entering into any transaction.

Structured products can be highly illiquid and are not suitable for all investors. Additional information can be found in the disclosure documents of the issuer for each respective structured product described herein. Investing in structured products is intended only for experienced and sophisticated investors who are willing and able to bear the high economic risks of such an investment. Investors should carefully review and consider potential risks before investing.

OTC derivative transactions involve risk and are not suitable for all investors. Investment products are not insured, carry no bank or government guarantee and may lose value. Before entering into these transactions, you should: (i) ensure that you have obtained and considered relevant information from independent reliable sources concerning the financial, economic and political conditions of the relevant markets; (ii) determine that you have the necessary knowledge, sophistication and experience in financial, business and investment matters to be able to evaluate the risks involved, and that you are financially able to bear such risks; and (iii) determine, having considered the foregoing points, that capital markets transactions are suitable and appropriate for your financial, tax, business and investment objectives.

This material may mention options regulated by the US Securities and Exchange Commission. Before buying or selling options you should obtain and review the current version of the Options Clearing Corporation booklet, Characteristics and Risks of Standardized Options. A copy of the booklet can be obtained upon request from Citigroup Global Markets Inc., 390 Greenwich Street, 3rd Floor, New York, NY 10013 or by clicking the following links,

http://www.theocc.com/components/docs/riskstoc.pdf and
http://www.theocc.com/components/docs/about/publications/november_2012_supplement.pdf and
https://www.theocc.com/components/docs/about/publications/october_2018_supplement.pdf

If you buy options, the maximum loss is the premium. If you sell put options, the risk is the entire notional below the strike. If you sell call options, the risk is unlimited. The actual profit or loss from any trade will depend on the price at which the trades are executed. The prices used herein are historical and may not be available when you order is entered. Commissions and other transaction costs are not considered in these examples. Option trades in general and these trades in particular may not be appropriate for every investor. Unless noted otherwise, the source of all graphs and tables in this report is Citi. Because of the importance of tax considerations to all option transactions, the investor considering options should consult with his/her tax advisor as to how their tax situation is affected by the outcome of contemplated options transactions.

None of the financial instruments or other products mentioned in this Communication (unless expressly stated otherwise) is (i) insured by the Federal Deposit Insurance Corporation or any other governmental authority, or (ii) deposits or other obligations of, or guaranteed by, Citi or any other insured depository institution.

Citi often acts as an issuer of financial instruments and other products, acts as a market maker and trades as principal in many different financial instruments and other products, and can be expected to perform or seek to perform investment banking and other services for the issuer of such financial instruments or other products. The author of this Communication may have discussed the information contained therein with others within or outside Citi, and the author and/or such other Citi personnel may have already acted on the basis of this information (including by trading for Citi's proprietary accounts or communicating the information contained herein to other customers of Citi). Citi, Citi's personnel (including those with whom the author may have consulted in the preparation of this communication), and other customers of Citi may be long or short the financial instruments or other products referred to in this Communication, may have acquired such positions at prices and market conditions that are no longer available, and may have interests different from or adverse to your interests.

IRS Circular 230 Disclosure: Citi and its employees are not in the business of providing, and do not provide, tax or legal advice to any taxpayer outside Citi. Any statement in this Communication regarding tax matters is not intended or written to be used, and cannot be used or relied upon, by any taxpayer for the purpose of avoiding tax penalties. Any such taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

Neither Citi nor any of its affiliates can accept responsibility for the tax treatment of any investment product, whether or not the investment is purchased by a trust or company administered by an affiliate of Citi. Citi assumes that, before making any commitment to invest, the investor and (where applicable, its beneficial owners) have taken whatever tax, legal or other advice the investor/beneficial owners consider necessary and have arranged to account for any tax lawfully due on the income or gains arising from any investment product provided by Citi.

This Communication is for the sole and exclusive use of the intended recipients, and may contain information proprietary to Citi which may not be reproduced or circulated in whole or in part without Citi’s prior consent. The manner of circulation and distribution may be restricted by law or regulation in certain countries. Persons who come into possession of this document are required to inform themselves of, and to observe such restrictions. Citi accepts no liability whatsoever for the actions of third parties in this respect. Any unauthorized use, duplication, or disclosure of this document is prohibited by law and may result in prosecution.

Other businesses within Citigroup Inc. and affiliates of Citigroup Inc. may give advice, make recommendations, and take action in the interest of their clients, or for their own accounts, that may differ from the views expressed in this document. All expressions of opinion are current as of the date of this document and are subject to change without notice. Citigroup Inc. is not obligated to provide updates or changes to the information contained in this document.

The expressions of opinion are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future results. Real results may vary.

Although information in this document has been obtained from sources believed to be reliable, Citigroup Inc. and its affiliates do not guarantee its accuracy or completeness and accept no liability for any direct or consequential losses arising from its use. Throughout this publication where charts indicate that a third party (parties) is the source, please note that the attributed may refer to the raw data received from such parties. No part of this document may be copied, photocopied or duplicated in any form or by any means, or distributed to any person that is not an employee, officer, director, or authorized agent of the recipient without Citigroup Inc.’s prior written consent.

Citigroup Inc. may act as principal for its own account or as agent for another person in connection with transactions placed by Citigroup Inc. for its clients involving securities that are the subject of this document or future editions of the Quadrant.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer’s credit rating, or creditworthiness, causes a bond’s price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Bond rating equivalence
Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal ratings are also used by other market participants to indicate credit quality.

Bond credit quality ratings		Rating agencies	
Credit risk	**Moody's[1]**	**Standard and Poor's[2]**	**Fitch Ratings[2]**
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

1 The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3 to show relative standing within the category.
2 The ratings from AA to CC by Standard and Poor's and Fitch Ratings may be modified by the addition of a plus or a minus to show relative standing within the category.

(MLP's) - Energy Related MLPs May Exhibit High Volatility. While not historically very volatile, in certain market environments Energy Related MLPS may exhibit high volatility.

Changes in Regulatory or Tax Treatment of Energy Related MLPs. If the IRS changes the current tax treatment of the master limited partnerships included in the Basket of Energy Related MLPs thereby subjecting them to higher rates of taxation, or if other regulatory authorities enact regulations which negatively affect the ability of the master limited partnerships to generate income or distribute dividends to holders of common units, the return on the Notes, if any, could be dramatically reduced. Investment in a basket of Energy Related MLPs may expose the investor to concentration risk due to industry, geographical, political, and regulatory concentration.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

Asset allocation does not assure a profit or protect against a loss in declining financial markets.

The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Past performance is no guarantee of future results.

International investing entails greater risk, as well as greater potential rewards compared to US investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Factors affecting commodities generally, index components composed of futures contracts on nickel or copper, which are industrial metals, may be subject to a number of additional factors specific to industrial metals that might cause price volatility. These include changes in the level of industrial activity using industrial metals (including the availability of substitutes such as manmade or synthetic substitutes); disruptions in the supply chain, from mining to storage to smelting or refining; adjustments to inventory; variations in production costs, including storage, labor and energy costs; costs associated with regulatory compliance, including environmental regulations; and changes in industrial, government and consumer demand, both in individual consuming nations and internationally. Index components concentrated in futures contracts on agricultural products, including grains, may be subject to a number of additional factors specific to agricultural products that might cause price volatility. These include weather conditions, including floods, drought and freezing conditions; changes in government policies; planting decisions; and changes in demand for agricultural products, both with end users and as inputs into various industries.

The information contained herein is not intended to be an exhaustive discussion of the strategies or concepts mentioned herein or tax or legal advice. Readers interested in the strategies or concepts should consult their tax, legal, or other advisors, as appropriate.

Diversification does not guarantee a profit or protect against loss. Different asset classes present different risks.

Citi Private Bank is a business of Citigroup Inc. ("Citigroup"), which provides its clients access to a broad array of products and services available through bank and non-bank affiliates of Citigroup. Not all products and services are provided by all affiliates or are available at all locations. In the U.S., investment products and services are provided by Citigroup Global Markets Inc. ("CGMI"), member FINRA and SIPC, and Citi Private Advisory, LLC ("Citi Advisory"), member FINRA and SIPC. CGMI accounts are carried by Pershing LLC, member FINRA, NYSE, SIPC. Citi Advisory acts as distributor of certain alternative investment products to clients of Citi Private Bank. CGMI, Citi Advisory and Citibank, N.A. are affiliated companies under the common control of Citigroup.

Outside the U.S., investment products and services are provided by other Citigroup affiliates. Investment Management services (including portfolio management) are available through CGMI, Citi Advisory, Citibank, N.A. and other affiliated advisory businesses. These Citigroup affiliates, including Citi Advisory, will be compensated for the respective investment management, advisory, administrative, distribution and placement services they may provide.

Citibank, N.A., Hong Kong / Singapore organised under the laws of U.S.A. with limited liability. This communication is distributed in Hong Kong by Citi Private Bank operating through Citibank N.A., Hong Kong Branch, which is registered in Hong Kong with the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities with CE No: (AAP937) or in Singapore by Citi Private Bank operating through Citibank, N.A., Singapore Branch which is regulated by the Monetary Authority of Singapore. Any questions in connection with the contents in this communication should be directed to registered or licensed representatives of the relevant aforementioned entity. The contents of this communication have not been reviewed by any regulatory authority in Hong Kong or any regulatory authority in Singapore. This communication contains confidential and proprietary information and is intended only for recipient in accordance with accredited investors requirements in Singapore (as defined under the Securities and Futures Act (Chapter 289 of Singapore) (the "Act")) and professional investors requirements in Hong Kong(as defined under the Hong Kong Securities and Futures Ordinance and its subsidiary legislation). For regulated asset management services, any mandate will be entered into only with Citibank, N.A., Hong Kong Branch and/or Citibank, N.A. Singapore Branch, as applicable. Citibank, N.A., Hong Kong Branch or Citibank, N.A., Singapore Branch may sub-delegate all or part of its mandate to another Citigroup affiliate or other branch of Citibank, N.A. Any references to named portfolio managers are for your information only, and this communication shall not be construed to be an offer to enter into any portfolio management mandate with any other Citigroup affiliate or other branch of Citibank, N.A. and, at no time will any other Citigroup affiliate or other branch of Citibank, N.A. or any other Citigroup affiliate enter into a mandate relating to the above portfolio with you. To the extent this communication is provided to clients who are booked and/or managed in Hong Kong: No other statement(s) in this communication shall operate to remove, exclude or restrict any of your rights or obligations of Citibank under applicable laws and regulations. Citibank, N.A., Hong Kong Branch does not intend to rely on any provisions herein which are inconsistent with its obligations under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, or which mis-describes the actual services to be provided to you.

Citibank, N.A. is incorporated in the United States of America and its principal regulators are the US Office of the Comptroller of Currency and Federal Reserve under US laws, which differ from Australian laws. Citibank, N.A. does not hold an Australian Financial Services Licence under the Corporations Act 2001 as it enjoys the benefit of an exemption under ASIC Class Order CO 03/1101 (remade as ASIC Corporations (Repeal and Transitional) Instrument 2016/396 and extended by ASIC Corporations (Amendment) Instrument 2020/200).

In the United Kingdom, Citibank N.A., London Branch (registered branch number BR001018), Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, is authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The contact number for Citibank N.A., London Branch is +44 (0)20 7508 8000.

Citibank Europe plc is registered in Ireland with company registration number 132781. It is regulated by the Central Bank of Ireland under the reference number C26553 and supervised by the European Central Bank. Its registered office is at 1 North Wall Quay, Dublin 1, Ireland. Ultimately owned by Citigroup Inc., New York, USA. Citibank Europe plc, UK Branch is registered as a branch in the register of companies for England and Wales with registered branch number BR017844. Its registered address is Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. VAT No.: GB 429 6256 29. It is authorised by the Central Bank of Ireland and by the Prudential Regulation Authority. It is subject to supervision by the Central Bank of Ireland, and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

Citibank Europe plc, Luxembourg Branch is a branch of Citibank Europe plc with trade and companies register number B 200204. It is authorised in Luxembourg and supervised by the Commission de Surveillance du Secteur Financier. It appears on the Commission de Surveillance du Secteur Financier register with company number B00000395. Its business office is at 31, Z.A. Bourmicht, 8070 Bertrange, Grand Duchy of Luxembourg. Citibank Europe plc is registered in Ireland with company registration number 132781. It is regulated by the Central Bank of Ireland under the reference number C26553 and supervised by the European Central Bank. Its registered office is at 1 North Wall Quay, Dublin 1, Ireland.

In Jersey, this document is communicated by Citibank N.A., Jersey Branch which has its registered address at PO Box 104, 38 Esplanade, St Helier, Jersey JE4 8QB. Citibank N.A., Jersey Branch is regulated by the Jersey Financial Services Commission. Citibank N.A. Jersey Branch is a participant in the Jersey Bank Depositors Compensation Scheme. The Scheme offers protection for eligible deposits of up to £50,000. The maximum total amount of compensation is capped at £100,000,000 in any 5 year period. Full details of the Scheme and banking groups covered are available on the States of Jersey website www.gov.je/dcs, or on request.

In Canada, Citi Private Bank is a division of Citibank Canada, a Schedule II Canadian chartered bank. References herein to Citi Private Bank and its activities in Canada relate solely to Citibank Canada and do not refer to any affiliates or subsidiaries of Citibank Canada operating in Canada. Certain investment products are made available through Citibank Canada Investment Funds Limited ("CCIFL"), a wholly owned subsidiary of Citibank Canada. Investment Products are subject to investment risk, including possible loss of principal amount invested. Investment Products are not insured by the CDIC, FDIC or depository insurance regime of any jurisdiction and are not guaranteed by Citigroup or any affiliate thereof.

CCIFL is not currently a member, and does not intend to become a member of the Mutual Fund Dealers Association of Canada ("MFDA"); consequently, clients of CCIFL will not have available to them investor protection benefits that would otherwise derive from membership of CCIFL in the MFDA, including coverage under any investor protection plan for clients of members of the MFDA.

This document is for information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities to any person in any jurisdiction. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially.

Citigroup, its affiliates and any of the officers, directors, employees, representatives or agents shall not be held liable for any direct, indirect, incidental, special, or consequential damages, including loss of profits, arising out of the use of information contained herein, including through errors whether caused by negligence or otherwise.

Asia Pacific

HONG KONG
Hong Kong
852–2868–8688

INDIA
Bangalore
91–80–4144–6389
Mumbai
91–22–4001–5282
New Delhi
91–124–418–6695

SINGAPORE
Singapore
65–6227–9188

Europe & Middle East

CHANNEL ISLANDS
St. Helier, Jersey
44–1534–608–010

ISRAEL
Tel Aviv
972–3–684–2522

MONACO
Monte Carlo
377–9797–5010

SPAIN
Madrid
34–91–538–4400

SWITZERLAND
Geneva
41–58–750–5000
Zurich
41–58–750–5000

UNITED ARAB EMIRATES
Abu Dhabi
971–2–494–3200
Dubai
971–4–604–4644

UNITED KINGDOM
London
44–207–508–8000

Latin America

BRAZIL
Rio de Janeiro
55–21–4009–8905
Sao Paulo
55–11–4009–5848

LATAM OFFICES IN US
Houston, TX
713–966–5102
Miami, FL
305–347–1800
New York, NY
212–559–9155

MEXICO
Mexico City
52–55–22–26–8310
Monterrey
52–81–1226–9401

North America

UNITED STATES
Beverly Hills, CA
213–239–1927
Boca Raton, FL
561–368–6945
Boston, MA
617–330–8944
Chicago, IL
312–384–1450
Dallas, TX
214–880–7200
Denver, CO
303–296–5800
Greenville, DE
302–298–3720
Greenwich, CT
800–279–7158
Houston, TX
832–667–0500
Los Angeles, CA
213–239–1927
Miami, FL
866–869–8464
New York, NY
212–559–9470
Asia
212–559–9155
Latin America
212–559–9155
Orange County, CA
650–329–7060
Palm Beach, FL
800–494–1499
Palo Alto, CA
415–627–6330
Philadelphia, PA
267–597–3000
Phoenix, AZ
602–667–8920
San Francisco, CA
415–627–6330
Seattle, WA
888–409–6232
Short Hills, NJ
973–921–2400
Washington, DC
High Net Worth
202–776–1500
Law Firm
202-220-3636
Westport, CT
203–293–1922

CANADA
Montreal
514–393–7526
Toronto
416–947–5300
Vancouver
604-739-6222