

# A month in the markets



Private  
Banking

By John Mullins

August 2020



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## Month of July

### Market Review

Both developed and emerging countries saw improvements in consumer and business activity as they continued to reopen their economies, but this was balanced against the potential for a rise in COVID-19 cases. As expected, the spread of the virus and its side effects on both businesses and individuals dominated headlines and kept investors nervous of a possible second wave.

Major indices performance was mixed over the month. While US and China were positive, UK and Europe declined in value when measured in their respective currencies.

Within Fixed Income, yields declined with both European Sovereign and Corporate Debt rising in value – prices fall as yields rise.

## US

The US was quick to reopen its economy in the spring, which led to stronger consumer and business activity, although it continues to remain below pre-COVID-19 levels. Consumer spending on goods saw a better improvement than spending on services. In terms of the latter - social distancing measures are likely keeping many customers away from establishments such as hotels and restaurants. Meanwhile, the Commerce Department reported that Gross Domestic Product (GDP), which measures the value of goods and services in the economy, fell by 9.5% during the second quarter.

However, one drawback of the US re-opening effort was a spike in COVID-19 cases. Previously southern US states such as Arizona, Florida and Texas were the major hotspots, but California became the state with the most cases. There have also been sharp increases among states in the Midwest. The spike in cases, along with rising uncertainty surrounding November's upcoming Presidential Election, have caused the USD to weaken against major counterparts in recent months. With the virus still not adequately contained and the US elections looming we anticipate possible volatility in the US market.

## Europe and the UK

European Union (EU) leaders came to a historic agreement in July on a EUR 750 billion package designed to help member countries repair their economies. Elsewhere, the Purchasing Managers' Index (PMI) for the month of July, which measures business activity, showed that European manufacturing activity expanded for the first time since early 2019. However, the effects of the pandemic translated into businesses reporting

PLEASE REMEMBER THAT ALL INVESTMENTS CARRY VARYING DEGREES OF RISK TO YOUR MONEY. THE VALUE OF INVESTMENTS AND ANY INCOME FROM THEM CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN THE FULL AMOUNT YOU INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS.

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substantially reduced profits, and often big losses for the second quarter as expected. In addition, the EU reported that GDP fell by 11.9% in the second quarter – the fastest rate on record.

The UK also saw its manufacturing sector move into expansion territory in July following several months of contraction. That said, the numbers show an expansion compared to a low base and it will take several months of growth to make up for the output that has been lost since the start of the pandemic. Similar to many regions, the UK began to see a rise in COVID-19 cases in July and introduced new lockdown restrictions in parts of northwest England.

## Asia and emerging markets

In the case of Emerging Markets, some countries began to see an increase in COVID-19 infections despite previously seeing success in suppressing the virus. This has resulted in extended lockdowns in Indonesia and the Philippines, and a renewed lockdown in the Australian state of Victoria. China has also seen clusters of cases in the northwest of the country, leading to local lockdowns and extra measures being introduced.

Even so, the world's second-largest economy reported that its GDP grew by 3.2% in the second quarter compared to a year ago. Much of this growth is owing to the easing of lockdown conditions and government measures to boost the economy, which were better than initially expected. Meanwhile, tensions between China and many of its trading partners were on the rise again, with US President Trump threatening to ban social media app TikTok unless its owner agreed to sell it to Microsoft.

Stock markets in Emerging Market economies generally performed well over the month, with the weak USD being a key driver.

In the case of Japan, the Ministry of Finance reported that exports fell by an annualised 26.2% in June compared with the previous year, as global demand for cars and other goods continued to be weak. Similar to many other countries, Japan saw a resurgence of COVID-19 cases in July and this played a role in causing its stock market to fall in the second half of the month.

## Portfolio Positioning

Over the month of July we maintained the positioning of a meaningful allocation to stock markets as before, while adding to defensive strategies including share put options and in select portfolios we have added Gold.

## Outlook

At this point in the pandemic, our outlook remains largely the same as last month. With many countries beginning to see an increase in COVID-19 cases and the US Presidential Election race expected to stoke further market volatility as Election Day draws closer, our view is cautious. We continue to be selective in which assets to hold and implement tactical trades to exploit market opportunities.

Our current positioning is overall neutral in risk while some portfolio ranges have added Gold exposure to capture possible safe haven rallies. On a regional basis, we continue to favour Europe as we think that the recovery deal in terms of grants to member states will further help with common area economy and support assets. In the US, we think that technology is still attractive, driven by strong balance sheets and an inherent defensiveness of the Nasdaq index that can protect in a possible second wave.

**Note:** The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

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