

A month in the markets



Private
Banking

By John Mullins

September 2020



John Mullins

Portfolio Manager,
Santander Asset
Management UK Ltd.

Month of August

Market Review

August was a month when business activity in many countries continued to recover following the economic shutdown brought on by the COVID-19 pandemic. While economic activity was increasing once again, infection rates began to spike, albeit with less severe consequences than in the spring months.

It was a good month for stock markets as most major indices around the world delivered positive returns. In the US, the S&P 500 Index reached a record high, exceeding the previous record set back in February.

US

Throughout August, there was good news about the US economy. Midway through the month, the US Federal Reserve reported that industrial production went up by 3% in July. This marked the third consecutive month of growth after the sharp decline seen in the spring, when the economy slowed down due to the COVID-19 pandemic. Similarly, the Commerce Department reported in August retail sales had also increased for the third consecutive month in July, lifting retail sales to their highest level since 1992, albeit at a slower pace than the previous month, as consumers bought fewer cars.

The good news about the economy was somewhat offset by growing concerns that cases of COVID-19 continued to spike throughout the month as businesses continued to re-open. The US surpassed six million cases near the end of the month, with infection rates surging in Midwestern states such as Iowa and South Dakota. However, death rates have so far not followed suit.

At present, the major political and economic events affecting stock markets in the US are the presidential campaign and concerns about Congress's failure so far to agree on further financial support during the pandemic.

Europe and the UK

In August the UK was confirmed as being in recession (when the value of the goods and services the economy produces falls for two quarters in a row) after experiencing the biggest economic slump on record. It fell by 20.4% between April and June (compared to the activity during the first three months of the year). There were signs of improvement in August, although

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.

A month in the markets



Private
Banking

By John Mullins

September 2020

it was clear that many businesses were still struggling. The Office for National Statistics reported that retail sales had risen above pre-pandemic levels in July, exceeding sales numbers seen in February. Meanwhile, UK manufacturing output expanded at its fastest rate for six years, according to the August IHS Markit/CIPS UK Manufacturing Purchasing Managers' Index (PMI), which measures activity in the sector.

In Europe, the economy continued to show signs of improvement. Manufacturing output across the Eurozone grew for the second consecutive month. That said, there were concerns that the recovery might be slowing down after the IHS Markit flash composite PMI – which measures an average of manufacturing and services data – revealed that business growth for the month was slightly slower than in July. Meanwhile, inflation in the Eurozone fell to -0.2% in August, the first time it has been negative since May 2016. Such a decline in prices may prompt more economic support from the European Central Bank.

Asia and emerging markets

Asian economies continued to see a rebound in activity, led by a strong manufacturing sector in China. New orders for Chinese exports went up for the first time this year and factories in the world's second-largest economy increased output to keep up with strong demand. However, the good news in China did not necessarily extend to other parts of Asia. Manufacturing activity increased in Taiwan, but fell in the Philippines, Vietnam and Malaysia.

In Japan, Prime Minister Shinzo Abe announced his resignation in August owing to the inflammatory disease ulcerative colitis. While Japanese stock markets performed well over the month, inflation remained

stubbornly low at 0%, raising the possibility that deflation – when prices begin to fall – may return. Japan's economy experienced weak demand, both domestically and in export markets.

In the Emerging Markets, there are concerns that the economic recovery is faltering. Bloomberg Economics suggests that economic activity in emerging markets fell faster than in advanced economies when the pandemic hit, with a slower recovery. Latin America was among the most badly hit regions, with Argentina and Colombia experiencing a much lower recovery on a larger decline than other economies.

Portfolio Positioning

Given the strong performance we have seen in stock markets over the past few months, our portfolio positioning is neutral. In terms of portfolio activity over the month, we changed some of the positions we had in European stocks back into US stocks.

Outlook

Looking ahead to the coming months, our outlook is largely unchanged from last month. The COVID-19 pandemic remains a major uncertainty that is unlikely to be resolved until a vaccine is found. We are seeing a spike in COVID-19 cases around the world as economies open up, although it has been somewhat reassuring that death rates have not followed the infection rate. Should there be positive news about a vaccine in the coming months, we expect this to help stock markets move even higher.

Another uncertainty is the outcome of the US Presidential Election. While early polls have shown Joe Biden of the Democratic Party with a large lead, the race may be closer than expected. A Donald Trump and Republican Party victory would be positive for markets, while a Joe Biden victory with the Republicans in control of the Senate would also be positive.

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.

The views expressed in this document are of John Mullins and the Multi Asset Solutions Team at Santander Asset Management UK Limited, are subject to change and do not necessarily reflect the views of Santander Asset Management UK Limited or Santander UK plc (as a whole or any part thereof).

Santander UK plc. Registered Office: 2 Triton Square, Regent's Place, London, NW1 3AN, United Kingdom. Registered Number 2294747. Registered in England and Wales. www.santander.co.uk. Telephone 0800 389 7000. Calls may be recorded or monitored. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our Financial Services Register number is 106054. Santander and the flame logo are registered trademarks.