A Month in the Markets

DECEMBER 2021

In this latest edition our Head of Multi-Asset Solutions UK, Stefano Amato, looks at how key themes impacted markets in November: concerns about the Omicron variant, vaccine efficacy and maintained high inflation rates.

Market Overview

Nearly two months of positive momentum in global stock markets came to an abrupt halt near the end of November as concerns about inflation and the Omicron variant of COVID-19 weighed on sentiment. Meanwhile, US Federal Reserve Chairman, Jerome Powell, signalled that the central bank may need to bring an end to its quantitative easing programme sooner than expected given the strong economy and high levels of inflation.

Stefano Amato
Head of Multi-Asset Solutions UK

Against this backdrop, most major markets generated negative returns over the month. China was the worst performer of the major markets, followed by Japan, the broader Asia Pacific region, the emerging markets and Europe.

UK and Europe

Inflation and the COVID-19 pandemic continued to be the biggest areas of concern for the UK economy and investors alike in November. While life appeared to be returning to normality, the emergence of the Omicron variant was something of a setback. The UK Government's response stopped short of ordering people to work from home, though it did bring back mask requirements and travel restrictions. The economic fallout from the pandemic remains with inflation increasing to 3.8%[1] as prices for housing, dining out and transport all spiked. Rising prices continued to be a major issue for businesses in November, with a survey by the Confederation of British Industry finding that costs for private businesses increased at their fastest rate since 1998.[2]

Europe was no different. Inflation in the eurozone jumped to a higher than expected 4.9% in November, and the highest since the trade bloc's records began in 1997. [3] High

[1] Office for National Statistics - Consumer price inflation, UK: October 2021, 17/11/21
[2] Reuters -UK services industry sees record cost inflation - CBI, 30/11/21
[3] The Guardian - Inflation in eurozone soars to 4.9% – highest since euro was introduced, 1/12/21

gas prices and the cost of imported goods were the biggest contributors to the surge in prices. Despite this, business activity accelerated in November after a mild setback in October, and job creation was strong.[4]

US

The US economy finds itself in an interesting position. On the one hand, job creation is strong,[5] wages are rising and stock markets have been hitting record highs.[6] In fact, there is so much confidence in the labour market that 4.4 million people quit their jobs in September in what is being called the 'great resignation.'[7] On the other hand, there are dark clouds on the horizon: inflation is high at 6.2%,[8] and consumer confidence is eroding, having hit a 10-year low in November.[9]

All of this suggests that the US Federal Reserve (the Fed) – the country's central bank – may need to move sooner, rather than later, to keep the economy in check. The Fed has already signalled that it may speed up its 'taper' of asset purchases[10] – also known as quantitative easing – while the economy is strong. There are also expectations that interest rates will begin to rise in the spring after the Fed has finished its tapering process.[11]

Asia and emerging markets

China was a major focal point in the Asia Pacific region in November as surging inflation and subdued demand took their toll. The cost of goods leaving Chinese factories has increased substantially in recent months causing a ripple effect around the world. This has come in the shape of higher prices but it has also pushed up consumer price inflation in China itself. In October, China's inflation rate hit 1.5%, double the rate of the previous month and the highest since September 2020.[12] As a result, manufacturing activity in China grew at a slower rate over the past month as higher prices and shrinking employment hit demand.[13]

Outlook

We continue to have a cautiously optimistic view of economies and stock markets. We maintain an awareness that we are likely to see some volatility and challenging conditions in the months ahead. While markets have performed well this year, there is a sense that they are becoming more fragile as time goes on. This is particularly prominent given the possibility that recent spikes in inflation could become permanent and central banks begin to raise interest rates. Moreover, the emergence of the Omicron variant has reiterated the risks stemming from the pandemic are still here and can have an effect on stock markets, even if minor.

Overall, we continue to prefer shares over bonds and developed markets over emerging markets. Within shares, we favour European and US shares, but for different reasons. We favour Europe for the large number of value-oriented companies, while we like US shares for the opportunities in growth-oriented and technology companies.

All data as at 30 November 2021.

[4] Markit Economics - Faster eurozone economic upturn marred by record inflationary pressures and COVID-19 worries, 23/11/21
[5] CNBC - Job creation roars back in October as payrolls rise by 531,000, 5/11/21
[6] Trading Economics - United States Stock Market Index, 25/11/21
[7] CNBC - Workers quit jobs in record numbers as consumer sentiment hits 10-year low, 12/11/21
[8] The Guardian - What is happening with inflation in the US, and how worried should you be? 24/11/21
[9] Markets Insider - Why consumer sentiment just hit a 10-year low even as stocks, housing prices, and the broader economy are at record highs, 14/11/21
[10] Reuters - Powell places faster bond-buying taper on Fed's Christmas table, 30/11/21
[11] CNBC - Powell says Fed will discuss speeding up bond-buying taper at December meeting 30/11/21
[12] CNN - Powell places faster bond-buying taper on Fed's Christmas table, 10/11/21
[13] Reuters - China's Nov factory activity slips back into contraction - Caixin PMI, 1/12/21

Important Information

This material is for information purposes only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Past performance is not a guide to future performance.

Opinions expressed within this document, if any, are current opinions as of the date stated and do not constitute investment or any other advice; the views are subject to change and do not necessarily reflect the views of Santander Asset Management as a whole or any part thereof.

Issued by Santander Asset Management UK Limited (Company Registration No. SC106669). Registered in Scotland at 287 St Vincent Street, Glasgow G2 5NB, United Kingdom. Authorised and regulated by the Financial Conduct Authority (FCA). FCA registered number 122491. You can check this on the Financial Services Register by visiting the FCA's website www.fca.org.uk/register.