A Month in the Markets

MARCH 2021

In this latest edition our Portfolio Manager John Mullins looks at how key themes impacted markets in February: COVID-19 vaccination programmes, US unemployment rates and Asia Pacific's rebound in global trade.

Market Overview

John Mullins
Portfolio Manager

It was a somewhat bumpy period for investors in February as Bond markets fell in the second half of the month. Despite concerns about new COVID-19 variants spreading rapidly around the world, there was evidence that vaccination programmes were starting to reduce hospitalisations. This raised hopes that economies may begin to reopen later in the year, which would likely spur economic growth.

Investors anticipated that such growth could cause inflation and interest rates to rise. This, in turn, had a negative effect on Bonds and technology companies, which are sensitive to higher rates. Notwithstanding the sell-off in the final week, global stock markets on average still managed to deliver small positive returns for the month.

US

The US faced many of the same challenges as other developed countries with the pandemic continuing through the winter months, while vaccinations were being rolled out across the country. The jobless rate remains at historically high levels, with more than 700,000 people applying for unemployment benefits each week. Nevertheless, business activity was on the rise throughout the month, with the services sector seeing the highest growth for nearly six years and the manufacturing sector also seeing strong growth.

Europe and the UK

Economic activity in the UK and Europe continued to suffer during the month as lockdown restrictions took their toll. In the UK, the Office for National Statistics reported that the unemployment rate increased to 5.1% in the final three months of 2020, the highest level in nearly five years. The services sector, which includes restaurants and customer-facing retail businesses, saw a further decline in activity as shops remained closed. The manufacturing sector was in better shape, although supply chain disruptions caused by lockdowns and post-Brexit shipping delays dampened growth slightly. There was good news as the vaccination rollout progressed, with more than 20 million people having received their first dose by the end of February.

In Europe, there were concerns about the limited rollout of vaccines and the slow implementation of its COVID-19 financial relief programme. Activity in the services sector fell at its fastest rate since November – its second-steepest decline since the spring 2020 lockdown. The manufacturing sector fared better, with output rising at its highest pace since October 2020. A major driver of this growth came from Germany's construction and manufacturing companies, which recorded strong demand.

Asia and Emerging Markets

In Asia Pacific, many countries have benefited from a rebound in global trade as the world has adjusted to the pandemic, as well as their tendency to be more successful at containing the spread of the virus. China likely saw reduced manufacturing output in February as factories typically scale back operations during the Lunar New Year holiday. However, the country continued to experience strong demand for its exports and remains one of the strongest economies in the world.

Taiwan is also on a strong footing and has forecast that its economy will grow by 4.6% in 2021, its fastest pace since 2014. Taiwan is a major exporter of computer chips and is benefiting from high global demand for technology products. In Japan, there was strong demand from China for its technology exports, but the domestic economy has struggled after the government implemented new COVID-19 restrictions. The country's economy is expected to shrink in the first three months of the year as efforts to contain the virus are likely to dampen business activity.

Outlook

As countries ramp up their vaccination programmes, the outlook for markets and economies will be tied to the path of the pandemic. At present, it appears that the vaccines are helping to drive down infection rates, which should allow economies to re-open and business activity to resume. We expect central banks and governments to continue to support economies and this should be good for stock markets. However, much of the outlook for the months ahead will be dependent on increasing economic growth and whether or not we begin to see rising inflation. If it rises too quickly, then central banks may have to hike interest rates, which would be negative for stock markets. We will continue to monitor the situation and adjust our asset allocation accordingly to suit economic and market conditions.

Data as at 2 March 2021.

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 information relating to investments is based on research and analysis we have carried out or brought for our own use and may have been made available to other members of the Santander Group which, in turn, may have acted on it. 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.

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.

Santander Asset Management UK Limited (Company Registration No. SC106669) is 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.