A Month in the Markets

OCTOBER 2021

In this latest edition our Head of Multi-Asset Solutions UK, Stefano Amato, looks at how key themes impacted markets in September: fears over slower economic growth, rising inflation and potential interest rate hikes.

Market Overview

September is historically a negative month for stock markets and this year was no different.[1] Global stock markets mostly struggled over the month as a number of concerns took their toll on investors. These included fears of slower growth, rising inflation, potential interest rate hikes, global supply chain disruptions and the continued spread of COVID-19 – in particular, the Delta variant of the virus.

Stefano Amato
Head of Multi-Asset Solutions UK

Against this backdrop, every major stock market fell over the month except for Japan and the UK. China's stock market suffered the biggest drop, followed by the US, Asia Pacific excluding Japan, and the emerging markets. Japan recorded a solid gain for the month, while the UK was also up slightly.

Europe and the UK

The economic rebound continued in the UK, although there were signs that the rate of growth was slower in September than in previous months. Both the manufacturing and services sectors grew, but at a slower pace than in August.[2] For manufacturers, the slower growth was largely due to supply chain disruptions, material shortages and the higher cost of goods. The services sector, which includes restaurants, travel and leisure companies, grew at a slightly slower pace than August, driven by higher consumer confidence and more people taking domestic holidays.

Nevertheless, there were worries about rising inflation and workforce shortages, as well as the effect this might have on the economy. This included the truck driver shortage that caused some petrol stations to run out of fuel[3] in the second half of the month. With inflation running at 3.2%,[4] the Bank of England hinted that interest rates may have to rise as soon as 2022.[5]

In Europe, the recovery continued as consumer activity returned to pre-pandemic levels.[6] High vaccination rates and an easing of restrictions meant that consumers felt more confident about leaving their homes to go shopping, travel and visit restaurants. While consumer confidence was high, businesses were meanwhile becoming more concerned about supply chain bottlenecks,[7] rising costs due to unprecedented demand, and the spread of the

Delta variant. Despite inflation reaching a decade high of 3% in August,[8] the European Central Bank hinted that it is unlikely to raise interest rates any time soon given the potential for a slowdown in growth.[9]

For Germany, it was the end of a political era as the country's federal election would determine the replacement for Angela Merkel, who had been Chancellor since 2005 but decided not to run for re-election. However, coalition talks were still ongoing among the biggest parties in the Bundestag at month end.

US

Throughout much of 2021, the US economy has been in a steady state of recovery. While the economy remained on a solid footing in September, it was clear that a combination of supply chain constraints, peaking demand and expectations of a future slowdown were starting to take their toll. Consumer confidence fell to a seven-month low[10] as COVID-19 cases were rising, while business activity expanded at its slowest pace in the past 12 months.

While the labour market continued to strengthen, there are still sections of the workforce that are unemployed due to the pandemic. There was also an unexpected spike in new jobless claims at the end of September.[11] Similar to other parts of the world, the US is facing rising inflation, which currently stands at 5.3%.[12] The Federal Reserve has hinted at the possibility of raising interest rates and gradually reducing its bond buying programme in the coming months.[13]

Asia and emerging markets

Despite being one of the first countries to recover from the pandemic, China has more recently been grappling with a slowdown in momentum. The manufacturing sector has had to deal with many of the same issues as the rest of the world, namely supply chain bottlenecks and rising costs, but has also been affected by electricity rationing.[14] After a significant slowdown in August, manufacturing activity contracted in September.[15] Meanwhile, the Chinese Government continued with its regulatory crackdown, which has so far targeted technology, gaming, education and property companies.[16] Supply chain disruptions are being felt elsewhere in Asia Pacific, with Japan's industrial output having fallen for two months in a row.[17]

While many parts of the world are trying to deal with too much inflation, for much of the past year Japan has seen too little. But that may be changing. Figures released in September showed that core consumer prices in Japan went up for the first time in 12 months in August.[18]

Outlook

Similar to previous months, we continue to have a mainly positive outlook for stock markets and economies, and prefer shares over bonds. While there are concerns about the spread of the Delta variant and rising COVID-19 infections as we head into autumn and winter, the continued rollout of vaccines around the world should help economies reopen and return to normal levels of activity. Nevertheless, there are legitimate concerns about disruptions in the global economy, rising inflation, interest rate hikes and a potential slowdown of economic growth which could result in some volatility along the way. Given this environment, we continue to monitor stock markets and economies, and are positioned to respond to events as they arise.

All data as at 1 October 2021.

[1] Markets Insider - September is historically the worst month of the year for stocks, but recent strength suggests the market could buck the trend, 31/8/21
[2] Markit Economics - August upturn as UK house price growth increases to 11%, 8/21
[3] BBC news - Petrol driver shortage: No improvement in supplies, say retailers, 30/9/21
[4] Office for National Statistics – Inflation and price indices, 15/9/21
[5] The Guardian - UK interest rate rise in 2022 becoming more likely, says Bank chief, 27/9/21
[6] Today UK News - Eurozone consumer activity returns to pre-pandemic levels, 29/9/21
[7] Markit Economics - Eurozone flash PMI points to slower growth as bottlenecks curb activity and input price gauge hits 21-year high, 23/9/21
[8] Eurostat - Inflation in the euro area, 1/10/21
[9] CNBC - European stocks reverse gains to close lower amid inflation jitters; Rubis down 8%, 10/9/21
[10] The Conference Board - Consumer Confidence Fell Further in September, 28/9/21
[11] Reuters - California muddies U.S. weekly jobless claims; labor market recovering, 30/9/21
[12] Trading Economics - United States Inflation Rate, 8/21
[13] Reuters - Fed's Evans sees taper close, expects rate hike in 2023, 27/9/21
[14] CNBC - China's manufacturing activity unexpectedly shrinks in September, services offer support, 29/9/21
[15] Trading Ecnomics - China NBS Manufacturing PMI, 9/21
[16] Reuters - Factbox: China crackdown wipes hundreds of billions off top companies' values,16/9/21
[17] Reuters - Japan's factory output extends declines on car production cuts, 30/9/21
[18] Reuters - Japan CPI halts 12-month decline, still well below BOJ target, 24/9/21

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 information relating to investments is based on research and analysis we have carried out or bought 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.

Santander and the flame logo are registered trademarks. santanderassetmanagement.co.uk.