Think Investments

Autumn 2020

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

Headlines about the impact of Covid-19 on all aspects of our lives have, sadly, become the norm over the last six months. Investing is no different, which may lead some people to question whether exposing their money to the ups and downs of the investment markets is a good idea when they could have it in a savings account.

Saving versus investing is an everlasting debate, not to mention a very personal one. Ultimately it'll depend on your specific circumstances: how long you plan to set your money aside, what you need it for and how you feel about balancing the risk of losing some or all of your money with achieving potentially higher levels of growth. There are also more objective points to consider and we look at both in this issue.

We examine some of the issues you may need to consider personally as an investor in these challenging times, particularly if you're now wondering whether you still have the right investment strategy and mix of savings and investments for your circumstances.

Finally, we focus in on the impact of Covid-19 on investment markets and the UK economy, as well as government actions to limit that impact. As I write, the likelihood of a sharp recession is more and more probable, but history tells us that recovery usually follows. The real question is what form that recovery will take, how long and where the opportunities can be found.

Mehdi Kadhim
Chief Executive Officer,
Santander Asset Management UK

A health check for your investments

Headlines declaring the impact of the Covid-19 pandemic on the investment markets may leave you wondering if you need to make changes or whether investing is still a good idea.

The investing basics

At times like these it can be a good idea to remind yourself of the basic principles of investing. These may have influenced your initial decision to invest and, in the long-run, it seems unlikely they'll be changed by Covid-19. While past performance isn't a guide to future performance, these principles are all tried and tested for investing over the longer term (typically five years or more).

- Investments tend to do better than savings when it comes to keeping up with rising prices.
- Growth over time tends to smooth out short-term ups and downs no matter how extreme they may seem when you're going through them.
- Spreading your investments over different asset classes, geographic regions and types helps manage your risks by increasing the likelihood that if some of your investments are going down others will be doing better.

Has anything changed for you?

Covid-19 may, however, have affected your personal financial situation and that could have an impact on your investing strategy and the mix of investments and savings that's now right for you. Here are some examples. A professional financial adviser could support you on all of them if needed.

1. **Your priorities**
If your income has fallen, if you've been placed on furlough or been made redundant for example, then you may have had to dip into your savings. In that case, once you're back to full time earning, you may feel it's a priority to focus on replenishing those as a priority. Covid-19 may also have caused you to reassess your life priorities in other ways. If that's the case, you may need to review your financial plans to make sure they continue to meet your goals.

2. **Your timescales**
If you're planning to take income from your investments in the near future you may need to consider if that's still realistic. When the markets are low it takes more of your fund to provide the same level of income than if your investments are worth more. That can increase the risk of your fund running out sooner than you thought. Your options might include delaying when you plan to take income or looking at any other potential sources which might not be affected in the same way.

3. **How you feel about risk**
All investments carry some risk. The general rule is the higher the level of risk, the higher the potential returns, and there is always some risk that you may get back less than you invest. The key is finding a balance between risk and potential returns that you're comfortable with. If you're feeling concerned about the ongoing impact of Covid-19 on your investments that is understandable. But it may not mean you need to change your investment strategy or current mix of savings and investments. If the right balance of risk and reward for you has changed at a more fundamental level though, then action may be needed.

A unique situation

As a nation we've never faced anything quite like the Covid-19 pandemic and the measures the government has taken in response. It's perfectly natural to be concerned about the potential impact on your investments and to question whether you should be making any changes.

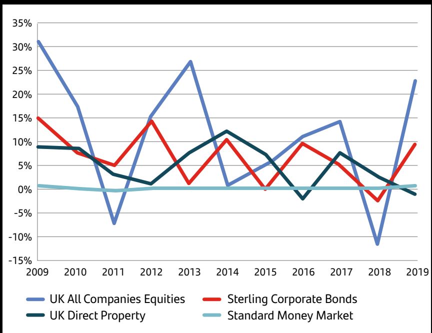
If you're taking an investment health-check, here we highlight some things you might want to consider. If you're unsure about what to do, you might want to seek support from a professional financial adviser.

Keeping your mind on what matters

However distracting the headlines might be, it's important to keep your mind on what matters: the basic rules and your own personal circumstances.

A mix of savings (for shorter-term goals and in case of emergencies) and investments (for longer-term goals) is appropriate for most of us. The right balance for you at any point in time will always depend on your own situation.

This graph shows annual returns from money markets (broadly equivalent to cash savings), UK corporate bonds, UK property and UK equities from 2009 to 2019. It shows how they each performed in different ways over this period.



Source: Morningstar, based on the Investment Association yearly sector average returns, December 2019.

Remember, past performance is not a guide to future performance.

Article provided by Santander Asset Management UK for Santander investment customers.

A commitment to build for the future

Lockdowns around the world gave our planet some respite from human activity. Reports of improvements in air quality and nature blooming all featured in our news feeds. Business reputations also grew or were tarnished based on how they treated employees and customers in challenging times.

Interest in investment that supports good environmental, social and governance (ESG) practices was already growing before Covid-19 and the experience may have got more people thinking about it. It's certainly something we take very seriously at Santander and we're working hard to build ESG considerations, in a meaningful way, into all that we do.

The Santander businesses are dedicated to working with teams across all units to develop actionable plans that focus on longer-term ESG commitments to help people and businesses prosper.

An example of this is the Santander UK ESG supplement that accompanies the annual report and provides a data-driven summary of sustainability performance over the year.

Access the full report, along with other information on our commitments to sustainability, at **santandersustainability.co.uk**

What's on the investing horizon?

2020 was predicted to be a year of little or no growth, with weak productivity amid ongoing uncertainty over the UK's future relationship with the EU.

That's what economists surveyed by the Financial Times thought back in January.[1] In the event, that turned out to be quite optimistic. By the middle of March all such forecasts were rendered meaningless as the Covid-19 pandemic hit. The UK's economy fell by a record 20.4% in April,[2] as efforts to contain the virus saw economic activity come to a virtual standstill.

As the Covid-19 impact continues to unfold, inflation began falling too, with the Consumer Prices Index (CPI) driven down by a sharp fall in fuel prices, while clothing and footwear prices also fell as economic activity ground to a halt during the Covid-19 lockdown. Whether that fall in inflation is sustained, or begins to reverse as lockdown measures continue to be eased, will only become clear with time.

Recovery can take different forms

The question now isn't whether the UK will go into recession, but how severe that recession will be. The Bank of England has predicted that the UK economy could shrink by 14% in 2020, the biggest such contraction in 300 years.[3] But the Bank of England also holds out hope of a relatively sharp recovery that could see the UK economy return to something like its pre-pandemic shape by the end of 2021.[4]

1 www.ft.com/content/7c0be33e-28d8-11ea-9305-4234e74b0ef3
2 www.theguardian.com/business/2020/jun/12/britains-gdp-falls-204-in-april-as-economy-is-paralysed-by-lockdown
3 www.cityam.com/bank-of-england-deputy-warns-of-risks-to-boes-upbeat-forecast/
4 www.cityam.com/bank-of-england-deputy-warns-of-risks-to-boes-upbeat-forecast/

Easing the impact of Covid-19

- The Bank of England cut interest rates twice in the space of one week in mid-March, to 0.25% and then to 0.1% (an historic low) as it sought to ease fears over the economic impact of the pandemic.[5]
- The Bank of England also announced measures including £200bn of quantitative easing (QE) in March, with a further £100bn in June, in a bid to reassure investors and reduce borrowing costs.[6]
- Government interventions included a job retention scheme that saw almost nine million UK employees placed on 'furlough'.[7] However, with the scheme due to come to an end in October, the long-term picture is far from clear with concerns that widespread redundancies and business collapses may still be on the horizon.

There are different views on when the eventual recovery will occur and what shape it will take.

The more optimistic forecasts point to a **V-shaped recovery**, in which a sharp dip in economic activity is followed by a similar sharp return to normality. This is a best-case scenario that sees the end of restrictions heralding a spending boom that helps businesses quickly get back on their feet.[8]

Alternatively we could be in line for a **U-shaped recovery**, where the rebound from a sharp economic slump takes much longer.

Another possibility is what's being referred to as a **'Swoosh' shaped recovery**. In this scenario, the sudden dip is followed by a quick rebound that soon levels off into a much slower return to pre-pandemic conditions.

Taking the long view

As the past few months have reminded us, making predictions can be a futile exercise. However, for long-term investors, the length and depth of the recession and the nature of the recovery probably won't make a great deal of difference. If you're planning to stay invested for at least the next five years and already have a portfolio that is sufficiently diversified, with a mix of different investments which won't all go up or down at the same time, you're as well placed as anyone to navigate choppy waters like these.

It's also the case that stock markets have in recent years been driven as much by factors such as quantitative easing (QE), interest rates and currency movements as by the traditional economic indicators.

So as we watch how the next few months pan out, it's worth keeping in mind that investment markets and economies are not the same. And for long-term investors in particular, staying patient, maintaining a diversified portfolio and keeping an eye on the big picture will help ensure your financial plans stay on track.

Quantitative easing explained

The Bank of England creates 'new' money which is then used to buy government and corporate bonds (loans to the government or private companies). It's intended to boost spending, keep interest rates low so people can borrow money and limit the ups and downs of the investment markets to encourage investing.

5 www.bbc.co.uk/news/business-51962982
6 www.theguardian.com/business/2020/mar/26/bank-of-england-warns-of-long-term-damage-to-economy
7 BBC – More than one in four workers now furloughed – 9 June 2020
8 www.weforum.org/agenda/2020/05/z-u-or-nike-swoosh-what-shape-will-our-covid-19-recovery-take/

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