Think Investments

Spring 2022

Together with Santander Asset Management

Welcome

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

The last two years have been challenging for many of us in different ways. Now, as we move into spring, with the gradual return of longer, brighter days, we all hope this year will be easier. The new season brings new potential for better days ahead.

With the end of the tax year approaching, it's a natural time to review your investments. In our first article this issue, we recap the benefits of ISAs and ask, could this be a good time to consider whether you're making the best use of your annual ISA allowance?

Where investment markets face challenges there are often positive opportunities too and we go on to take a look at some of the potential challenges and opportunities for investors in 2022. We anticipate the pandemic will continue its influence, while sustainability will play a key role.

We might not be able to remove the challenges presented by the pandemic, geopolitical events or economic movements, but we can be prepared for them. In our final article we look at how portfolio managers use a range of methods and data sources to make sure investments remain resilient through different market conditions.

We hope you find Think Investments helpful and interesting. You might recall in the last issue we asked for your views on moving from paper to a digital format. Thank you to everyone who took the time to complete the survey. We're working through your responses and will share our findings in our next edition.

Mehdi Kadhim
Chief Executive Officer,
Santander Asset Management UK

Making the most of your annual ISA allowance

As we approach the end of the tax year, it's a good time to make sure you're taking full advantage of your annual ISA (Individual Savings Account) allowance.

You may already have an ISA but it's possible you could be making more of it. For example, you might have money set aside in cash savings which could be working harder for you.

Investments or cash savings?

It's important to have some cash savings set aside that you can access easily for unexpected costs or if you're unable to work for a while. Enough to cover your essential outgoings for three to six months is generally agreed to be a good target. If you're planning a large expense in the next five years, like a holiday or a wedding, you may prefer cash savings to investing. If you're setting money aside for a longer period – five years or more – stock market-based investments give you the opportunity to earn returns that may outpace inflation. Yes, investments go down as well as up, but having time to ride out some of those ups and downs could make the most of your money over the longer term.

While cash savings do not carry the risks investments do, it might provide growth at a much slower rate. Inflation rose significantly over 2021 and continues to remain on the higher side into 2022. Interest rates may begin to rise for savers too. But it also means higher prices, which reduce the buying power of your money over time. If your money doesn't grow at least at the same rate as inflation it will lose value in real terms, especially over the longer term.

Taking money out of your ISA

Apart from ISAs that offer flexible features, any money you withdraw from your ISA will lose its tax-efficient status and if repaid back into an ISA, will count towards your current tax year's ISA limit.

ISA facts and figures

You can put **£20,000** into ISAs each tax year (in the 2021/22 and 2022/23 tax years).

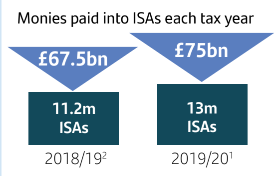
There are different types of ISAs such as **cash** or **stocks and shares ISAs** to choose from.

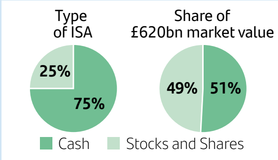
Cash ISA Stocks and Shares ISA

You can give your children or grandchildren a helping hand for the future by putting up to **£9,000** into **Junior ISAs** for each child in the 2021/22 tax year. The £9,000 limit can be paid into a cash Junior ISA or a stocks and shares Junior ISA or a mixture of the two. The Junior ISA must be opened by a person with parental responsibility for the child but anyone can pay into it.

Junior ISA

Stocks and shares ISAs only account for around **25%** of ISAs taken out each year but they represent **almost half** of all money held in an ISA.





ISAs and taxation

The main function of an ISA is to shelter your money from tax on any income or growth. Depending on your circumstances this can be more of a benefit for money held in a stocks and shares ISA than a cash ISA. Outside of an ISA or other tax shelter (a pension, for example), stocks and shares investments may be subject to:

Tax on interest: non and basic rate taxpayers can earn up to £6,000 interest from cash savings or investments each year without paying tax (£5,000 starting rate for savings and £1,000 personal savings allowance). Higher rate taxpayers can earn up to £500 (personal savings allowance). Anything above that is taxed at your marginal rate (the rate of income tax you pay on your next pound earned). Additional rate taxpayers don't qualify for any savings allowance so will pay tax on any interest earned. Depending on your personal circumstances, if the total amount of interest you receive in any tax year exceeds any personal savings allowance to which you are entitled, you may have additional tax to pay at the applicable rate. Any additional tax payments will need to be directed to HMRC. Further information is available on **gov.uk**, by searching for 'Personal Savings Allowance'.

Tax on dividends: In the 2021/22 tax year individuals can earn up to £2,000 a year in dividends tax-free. Anything above that will be charged at 7.5% p.a. for basic rate taxpayers, 32.5% p.a. for higher rate taxpayers and 38.1% p.a. for additional rate taxpayers. This applies even if you decide to reinvest any dividend income you receive back into your investment.

In the 2022/23 tax year, the dividend allowance of £2,000 will remain the same, however the dividend tax rate will increase by 1.25% across all bands from April 2022, to help fund health and social care costs.

Capital gains tax (CGT): In the 2021/22 tax year the annual CGT allowance is £12,300. After this amount, tax is payable on gains from any assets you sell or give away. However, there are exceptions to this, for example gifts to your husband, wife, civil partner or a charity. For more information check **gov.uk**

Making the right choices for you

Investments do go down as well as up and past performance is not a guarantee of future performance. However, history shows that they do tend to generate higher returns than cash savings over periods of five years or more. Having a diverse portfolio, spread across a range of asset types, sectors and geographic regions can also help manage the risk that comes with investing. A balanced portfolio reduces the likelihood of your whole portfolio moving up or down at the same time. Investing regularly is another way to manage risk as you'll be buying investments at different prices.

Cash savings and stocks and shares investments each have a role to play. How you split your money between them will depend on your own circumstances, including how you feel about taking a risk with your money for possibly higher returns. The potential for investment growth and tax advantages may mean that your money could be working harder for you in a stocks and shares ISA.

Could you be making more of your ISA allowance by using it for investing?

If you're not sure of the best options for you then you may find speaking to a financial adviser helpful.

1 HMRC – ISA Statistics, June 2021
2 HMRC – ISA Statistics, June 2020

Markets face challenges in 2022 but there are opportunities too

New variants of Covid-19 and continuing inflation pressures may test the markets this year, but the bid to reach net zero carbon emissions and improve infrastructure present real opportunities for investors.

Despite the challenges faced across 2021, markets were largely resilient overall. However, the pandemic continued its influence, particularly with the rapid spread of the Omicron variant towards the end of the year.

GDP growth is predicted to continue but at a lower rate

The International Monetary Fund (IMF) predicts global economic growth in 2022 of 4.9%, down from 5.9% in 2021. Factors include supply chain issues in developed countries as demand outstrips supply, while less developed countries struggle to access vaccines and other resources to help them cope with the pandemic. UK gross domestic product (GDP) of 5.0% is forecast, down from 6.8% in 2021. That's slightly behind the US (5.2%, down from 6.0%) but ahead of the Eurozone (4.3%, down from 5.0%).[3]

Inflation is an issue in most developed economies

Prices for gas, transport and housing (with the added impact of Stamp Duty Land Tax being gradually reinstated from July) all increased during 2021, with inflation reaching 5.1% in November – its highest level for 10 years.[4] The OBR (Office for Budget Responsibility) has predicted inflation will rise to 4.4% this year and could peak close to 5%.[5]

The picture is similar in Europe, where inflation reached an unexpected high of 4.9% in November,[6] and America, where inflation hit 6.8% in November – a near 40-year high – driven by increases in food, fuel and housing costs.[7]

3 IMF – World Economic Outlook October 2021,12/10/21
4 ONS – Consumer price inflation, UK: November 2021, 15/11/21
5 OBR – Overview of the October 2021 Economic and fiscal outlook, 27/10/21
6 Eurostat – Inflation in the euro area, 30/11/21
7 Guardian – US inflation surges to 39-year high of 6.8%, 10/12/21

Taking a global view

The US, UK and Europe are all making massive investments in new infrastructure, with a focus on digital capabilities and sustainability, while China is seeking to reduce its dependence on the property sector.

Europe is at a crossroads as it continues to navigate the pandemic but has a huge opportunity in the form of NextGenerationEU, an €800 billion fund to create a 'greener, more digital and more resilient Europe'.[8] Sustainability is a priority for the EU with €1 trillion allocated to make Europe the first carbon neutral continent by 2050.[9]

Recovery in the **US** has been supported by vast quantities of government money being pumped into the economy. While the peak of this has now passed, 2022 will still see financial stimulus including $550 billion to improve infrastructure.[10]

China quickly bounced back from the pandemic but has faced other challenges, specifically tighter government regulations limiting technology firms and major property developer, Evergrande, defaulting on corporate bond debt.[11] The aim for 2022 is stabilising the economy, moving away from these sectors and increasing the focus on environmental, social and governance (ESG) investing.[12]

Net zero is likely to be a key investment trend for 2022

The UN Climate Change Conference (COP26), which was held in Glasgow late last year, focused the world's attention on the urgent need to tackle the climate crisis. It also highlighted the scale of work being undertaken by companies, asset managers and governments around the world to achieve net zero by 2050 or sooner. This will translate to investment opportunities across a range of sectors and countries. ESG investing is increasingly being considered as a precondition to long-term value creation. ESG can be good for business, good for investors and good for the planet. In fact, we think sustainability is probably the single most important investment trend and opportunity for 2022.[13]

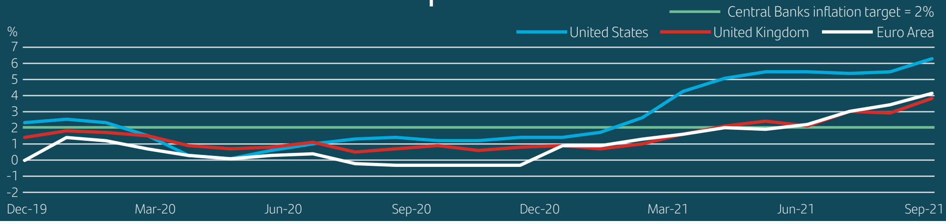
More of the same?

It's likely that many of the factors that influenced the markets in 2021 will continue well into 2022. We can also expect some volatility, particularly if inflation remains high and the central banks start to raise interest rates in a bid to gain control. While Covid-19 variants will remain a challenge, the mass vaccination and booster programmes seen in various countries, including the UK, may limit their economic impact as well as saving lives.

The sustained and continued focus on achieving net zero targets will open up a raft of new investment opportunities in the coming months and years, across infrastructure, technology and beyond.

You can keep up to date with Santander Asset Management's views on the markets at **santanderassetmanagement.co.uk/retail-investor**

Headline inflation in developed countries



8 European Commission – Recovery plan for Europe
9 Santander Asset Management – Market Outlook 2022, 14/12/21
10 Santander Asset Management – Market Outlook 2022, 14/12/21
11 FT.com – Private equity cuts back on China property as Evergrande hits stocks, 13/12/21
12 ING – China's economic policies for 2022 – Stability is the key, 12/12/21
13 Santander Asset Management – Market Outlook 2022, 14/12/21

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

Keeping investment portfolios on course

Whatever's happening in the markets, it pays to have experts looking after your investments.

There are some situations where it's good to have an expert in the background. If you're on a plane you know the pilot is there to keep your flight on course, even if it's being buffeted by turbulence.

The last two years have certainly seen turbulence in the markets and this looks set to continue well into 2022. Most developed economies have recovered from the initial impact of the pandemic, but the threat of new variants remains and this brings uncertainty which markets don't like. Inflation is reaching record highs with the first interest rate rise in three years in the UK and increases predicted in the US.

It's reassuring that investing in a diversified portfolio or multi-asset fund run by investment professionals can help to manage these and other risks over time. Investment professionals use a range of methods and data sources, as well as their own experience and expertise, to make sure investments stay resilient through different market conditions. Just like pilots, they have various measures and levels they can use to make necessary adjustments.

It all starts with asset allocation

Asset allocation, creating the right balance of investments, is a major influence on long-term performance. Rather than how each asset class (bonds, shares etc) performs on its own, what matters is how they perform when combined to form a portfolio.

The portfolio manager's role is to create the optimum asset allocation to meet the objectives of their fund. They will then monitor and adjust the asset allocation over time based on what's happening, or is likely to happen, taking account of economic or geopolitical trends, events such as the pandemic and megatrends like sustainability and digitalisation.

Making investment decisions

Portfolio managers constantly monitor and process a broad range of information from a variety of sources to inform and support their decision making for better outcomes.

Strategic and tactical asset allocation

Asset allocation can work on two levels, both of which have an important role to play.

Strategic the big-picture split between different asset classes.

Tactical smaller, more short-term shifts between and within asset classes, for example US shares instead of emerging market shares. 'Tilting' the portfolio in this way lets portfolio managers take advantage of opportunities and manage risks over the shorter term.

Qualitative and quantitative data can be used in two main ways. First, 'top-down'. This means looking at the big picture first: inflation, economic growth and megatrends. The portfolio managers can then consider which markets, sectors or companies may benefit before looking at them more closely.

The other option is 'bottom-up' analysis; starting with the individual market, sector or company and then taking a detailed look at its strengths, weaknesses, performance and how it might respond to those big picture factors.

Both can play a valuable role and they can be used together for more comprehensive analysis.

Robust asset allocation needs a robust process

Whatever approach or mix of approaches a portfolio manager uses, the most important thing is that the asset allocation and review process is robust and repeatable.

No investment is guaranteed and markets do go down as well as up. However, if a professional portfolio manager has structure, discipline and oversight, that can help to keep your investment on course despite any crosswinds and deliver consistent returns over time.

Quantitative data: numerical performance data for economies, sectors or individual assets. Economic data, for example might include inflation, interest rates and national output (GDP). Portfolio managers can model this data to project likely future performance in various scenarios.

Qualitative data: those factors which can't be reduced to or measured using numbers. They may include market themes such as transitioning to clean energy sources, management approach including commitment to diversity or how much (and how willingly) companies disclose about their practices. The rapid and sustained focus on environmental, social and governance credentials (ESG) has increased the importance of qualitative factors, such as how companies treat their staff and stakeholders, their commitment to sustainability and general reputational issues such as 'greenwashing'.

How does your fund work?

You can find out more about how an investment fund is managed in its fund factsheet. The fund factsheets for Santander Asset Management are available at:

santanderassetmanagement.co.uk/retail-invesor/our-solutions/fund-centre

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