Santander

Think Investments

Summer 2022

Together with

Santander Asset Management

Welcome

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

There's so much happening in the world right now, from the Ukraine conflict to rising living costs and inflation, to the continuing effect of the pandemic. If you're thinking about how these events might impact your investments you're not alone. This issue of Think Investments aims to answer some of your questions and concerns.

While we're taking steps away from the crisis phase of the pandemic, its impact is expected to be felt for a long time to come. One such impact has been a dramatic rise in financial fraud and scams. We look at some examples to be aware of and share some tips to help you keep your personal data and money safe.

The war in Ukraine has created a humanitarian crisis with a global response. The ripple effects of the war have also spread globally, with economic implications challenging the pandemic recovery. Our mid-year review considers what this might mean for investors during the rest of 2022 and over the longer term.

Finally, we all hope for growth when we invest but there are different ways of going about trying to achieve that growth. Value and growth stocks are two options which can each have a role to play in different market conditions.

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Awareness is your best defence against fraud and scams

A surge in financial fraud and scams was an unfortunate consequence of the pandemic and lockdowns. The increased online activity gave fraudsters more opportunity to target consumers.

More than two years on, the threat remains as serious as ever. And so do the financial and emotional consequences of falling victim. No one ever thinks it will happen to them, but sadly it's incredibly common. Some 4.6 million people fall victim to fraud every year, with around 700,000 suffering 'profoundly' due to heavy financial losses, according to the UK Victims' Commissioner.[1]

For scams the figures are even higher. Research by Citizens Advice suggests 36 million people, more than two-thirds of UK adults, were targeted by a scammer in the first half of 2021. Over 55s were more likely to be targeted but under 35s were more likely to fall victim.[2]

Fraud or scam?

In everyday use, the words fraud and scams are used interchangeably. However, we think it's useful to use clear definitions. **Fraud happens to you, scams happen with you.**

Fraud is wrongful or criminal deception intended to result in financial or personal gain. Fraudsters access a customer's account or take money without the customer's permission.

A scam is a type of fraud, but where customers are tricked in to taking actions themselves, which then gives a fraudster access to accounts and money.

Fraudsters gain the customer's confidence and make them believe that the actions they're being asked to take are for a legitimate purpose.

1 Victims Commissioner, 13/10/21 2 Chartered Trading Standards Institute, 14/6/21

There are always new scams to watch out for

The nature of scams evolves all the time as fraudsters find new, creative, and increasingly sophisticated ways of targeting potential victims.

Criminals cleverly impersonate another person or company in almost all of the scams we see. They'll pretend to be from your bank, the police, government organisations, one of your friends or family, online retailers, delivery companies, your builder, your solicitor, an investment firm, the list goes on. They'll also contact you through any means possible – telephone calls, text messages, WhatsApp, emails, social media accounts, social media messaging services, websites.

In most cases, the criminal will have gathered some information from you without you even realising. For example, you receive a call or text message from Royal Mail asking you to complete some details for an undelivered parcel or an NHS covid text asking you to update your details. The details entered may appear harmless, but the fraudster will use this personal information about you to appear genuine when they strike at a later time.

Criminals sometimes use a tactic called 'number spoofing' where they make it look as if their telephone number or text is from a person or company you know – they can even make them appear in the same thread alongside genuine messages. This is to give false reassurance that they are really who they say they are. And in all cases, they're trying to get you to act urgently or without thinking – to click on a link, reveal security/card/personal information, make a payment, withdraw cash, buy something – all so they can get your money.

A common example is the Amazon Prime scam. In scams like these, potential victims receive a call or email asking for them to take action. It could be to cancel an automatic subscription, to advise you of a recent fraud spend on your amazon account or asking you to simply update your details. At a later date, the criminals use this payment and the personal information that's been shared to pretend to be a bank or the police, and socially engineer their victims in to making large transfers or withdraw cash. They may even say that they are investigating a fraud on your account and ask you if you have possibly divulged any information recently, for example to a cold call from Amazon to help legitimise their concern.

Whatever the reason, they'll create a sense of urgency, a reason to panic to stop you from thinking straight. They may tell you that you've been a victim of an attempted fraud or had an overpayment that needs to be returned. They may even give you details of a false spend on your account which you don't recognise, or that your account is no longer secure and that you need to take urgent action. They'll insist that, in order to keep your money safe or prevent further losses, you need to move your money to a 'safe' or newly opened account or divulge security details to stop the fraud.

Take Five to protect your money

Take Five is a simple, effective way to help protect yourself against financial fraud. It encourages you to **stop** for a moment, **challenge** what you're being asked to do and **protect** your money or personal data by taking action to check or report anything suspicious.

You can find out more at **takefive-stopfraud.org.uk**

Keeping your money and personal data safe

The sheer range of threats can make all of this seem overwhelming and frightening. But the good news is that it doesn't take long to ensure your defences against scams are robust. The more you know about the different types of fraud and scams, the better you'll be able to protect yourself. For many more tips on beating scams, read our guides at **Santander.co.uk/personal/support/fraud-and-security/spotting-fraud-or-scams**

If you think you've been scammed, or something has happened that puts you at risk of it, contact your bank immediately.

You can contact Santander on 0330 9 123 123.

Help protect yourself with our top tips:

1. Pay close attention to the warnings that banks provide when you're making a payment. These are designed to help make sure your payments are made safely and protect you from being scammed.
2. Beware of cold calls. Organisations such as banks, HMRC and government agencies never call people out of the blue asking them to transfer or withdraw money out of their account.
3. When making a payment, take the time to complete extra checks to make sure the payee and the payment are genuine, such as researching companies and verifying that the person or organisation is who they claim to be.
4. Always think carefully before making a payment, especially if it's a lot of money for you. Speak to someone you trust first, like a friend or family member, before sending your money.
5. Change online passwords regularly, avoid using the same ones for each account and make them a stronger password by using phrases or different types of characters.
6. If it sounds too good to be true, it probably is. Trust your instincts.

From pandemic to war: what now for investors?

When investment experts set out their predictions for 2022 at the turn of the year, the outlook was still dominated by the Covid-19 crisis.

Since then the picture has changed dramatically. Russia's invasion of Ukraine has stoked geopolitical tensions and rocked markets, dampening hopes of a robust recovery from the pandemic. The International Monetary Fund (IMF) warned in March that the conflict is a 'major blow to the global economy that will hurt growth and raise prices', pointing to a combination of slower growth and accelerated inflation.[3]

The economic ripples of conflict

The human tragedy we're witnessing in Ukraine is clear to see and the ripples of the conflict are spreading globally. The impact can be seen in three areas in particular, according to the IMF.

- Inflation, being driven up by higher commodity and energy prices resulting from the war.
- Implications for neighbouring economies, with trade and supply chains disrupted.
- Reduced business confidence and increased investor uncertainty, pushing asset prices down and causing a tightening of financial conditions.

Central banks have responded. March saw the US Federal Reserve raise interest rates for the first time in three years, adding that further hikes were on the way. It's also reducing broader support for the US economy put in place during the pandemic as it seeks to keep inflation down.[4]

3 IMF – How War in Ukraine Is Reverberating Across World's Regions, 15/3/22
4 Reuters – Fed policymakers say dramatic rate hikes may be ahead,18/3/22

The pandemic is still a major factor

While the pandemic may no longer be dominating news headlines it's still influencing the global outlook. Restrictions may be easing in most developed countries as we learn to live with Covid-19, but the situation is quite different in much of the developing world.

Just 13% of people in low-income countries had been vaccinated as of March 2022, compared with nearly 70% in high income areas, according to the UN High Commissioner for Human Rights.[6] Such a two-speed recovery means the economic rebound from the pandemic will be far slower in developing nations, the World Bank has said.[7]

What does it mean for investors?

While past performance is not a guide to future performance, we've seen time and again that the relationship between geopolitical events and investment markets is weaker than investors might expect.

In the shorter term, the effect of the Ukraine conflict on prices does mean that markets and economic growth are directly affected. If interest rates continue to increase in response to rising inflation, borrowing for both companies and households becomes more expensive.

Markets and investors will therefore be watching the central banks closely over the coming weeks and months as they decide how to deal with ongoing inflation spikes.

Over the longer term, though, current events should have little bearing on outcomes for a well-diversified investment portfolio that's been selected with your personal needs, objectives and attitude to risk in mind.

It's worth noting, uncertain times may also present opportunities. For example, certain companies, sectors and assets tend to fall out of favour when markets are falling, providing a chance to buy them at lower prices and benefit from recovery when it begins.

Energy prices and your pocket

Many of us are already feeling the financial impact of rising energy prices. According to the Resolution Foundation's annual Living Standards Outlook for 2022, typical household incomes may suffer the sharpest fall since the mid-1970s.[5]

Should you take action?

There can be a strong temptation to make hasty investment changes in response to what's happening in the world at any given moment. But anticipating where the market will go in the future is all but impossible, given that no-one knows what will happen next.

So, if you don't need access to your investments in the near future, this is likely to be a time to screen out the noise, stay patient, not react and perhaps review your portfolio to make sure it remains sufficiently diversified. If you need access to your investments soon, your longer-term plans have changed or you're worried they might be going off track, it may be a good idea to seek professional financial advice.

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

Back to basics

In times of turmoil you may find it helpful to remind yourself of the principles of investing. Visit **santanderassetmanagement.co.uk/retail-investor/markets-insights/principles-of-investing**

5 Santander – State of Play, 10/3/22
6 UN – UN rights chief leads call for global COVID-19 vaccine equity, 10/3/22
7 FT – Two-speed pandemic recovery will worsen inequality, World Bank warns, 11/1/22

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

Growth and value stocks can each play a part in investing

For many of us, investing tends to have one quite simple objective: to grow an existing pot of money. But while we generally have an idea of where we want to get to and why, there are several different ways of achieving it.

One common debate is whether to invest in growth stocks or value stocks. There's a strong case for each, as well as things you should keep in mind before investing in either. But what exactly are growth stocks and value stocks, how do they behave in different markets and what might they bring to a portfolio?

Searching for value

The idea behind value investing is to put your money in assets trading at prices that appear cheap relative to their real underlying value.

Value investors are sometimes described as 'contrarians'. They'll look for companies that are underperforming others in their sector and/or where the share price has fallen for a reason that doesn't reflect its real value. A fund manager who is a value investor will examine such companies to understand the reasons behind their current situation and the extent to which they believe a robust upturn is on the cards.

The father of value investing

The value investing approach was set out in 1949 by Benjamin Graham, whose seven principles for identifying strong value stocks include finding companies with assets at least one and half times higher than their liabilities, and that are currently paying dividends.[8]

The main advantage of value investing is that investors can get strong returns from correctly identifying companies that are underperforming relative to their real value. But it isn't always easy to do. For example, the long period of low interest rates and other central bank support after the 2008 global financial crisis helped many companies to perform strongly even when their underlying value may not have justified it.

Backing winners for growth

Growth investors, by contrast, select companies regardless of their current share price. Their aim is to invest in businesses that are positioned to grow faster than the market, even if the share price is already high. This usually means the investor sees opportunities for those companies to increase their earnings and dividends.

Growth stocks are often relatively early-stage companies seen as having significant growth potential. They usually reinvest profits to fuel further growth, rather than distributing them to shareholders in the form of dividends.

The advantage of growth stocks is that they can potentially do particularly well in long periods with low interest rates. This happened in the years after the global financial crash, when central banks were offering financial support to markets. On the downside, however, growth stocks can be expensive and vulnerable to sharp price falls when growth slows down.

A balanced portfolio can bring the best of both worlds

Value investing may come back into favour as interest rates rise. That's because higher interest rates typically cause stock market prices to fall, providing greater incentive to find discounted 'value' stocks. But the good news is that you don't have to choose between the two approaches. In fact, their tendency to act differently at various stages of the market cycle means value and growth investing can work well together as part of a diversified investment portfolio.

Value and growth stocks respond differently to the ongoing market cycle

Economic or market cycles tend to be in one of four stages at any given time: peak, recession, trough and expansion (or recovery). The long peak or 'bull market' that followed the financial crisis was good for growth stocks, as central banks supported markets by cutting interest rates and buying stocks themselves.

Value stocks, by contrast, were more difficult to find during that period because it was harder to find undervalued companies.

But value stocks may become more popular again as rising interest rates (potentially) pull share prices down and give value investors a chance to look for companies that have become unfairly discounted.

As with all investments your capital is at risk and you may get back less than you invest. Investments should be held for the medium to long term (5+ years), unless there is a fixed term that applies.

8 Financial Express – Value Investing: How Benjamin Graham's seven criteria for selecting value stocks can make you rich, 3/3/20

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