Month in the Markets

By Stefano Amato

December 2021

Stefano Amato

Head of Multi Asset Solutions

Month of November

Market Review

Nearly two months of positive momentum in global stock markets came to an abrupt halt near the end of November as concerns about inflation and the Omicron variant of COVID-19 weighed on sentiment. Meanwhile, US Federal Reserve Chairman, Jerome Powell, signalled that the central bank may need to bring an end to its quantitative easing programme sooner than expected given the strong economy and high levels of inflation.

Against this backdrop, most major markets generated negative returns over the month. China was the worst performer of the major markets, followed by Japan, the broader Asia Pacific region, the emerging markets and Europe.

UK and Europe

Inflation and the COVID-19 pandemic continued to be the biggest areas of concern for the UK economy and investors alike in November. While life appeared to be returning to normality, the emergence of the Omicron variant was something of a setback. The UK Government's response stopped short of ordering people to work from home, though it did bring back mask requirements and travel restrictions. The economic fallout from the pandemic remains with inflation increasing to 3.8%[1] as prices for housing, dining out and transport all spiked. Rising prices continued to be a major issue for businesses in November, with a survey by the Confederation of British Industry finding that costs for private businesses increased at their fastest rate since 1998[2].

Europe was no different. Inflation in the eurozone jumped to a higher than expected 4.9% in November,[3] and the highest since the trade bloc's records began in 1997. High gas prices and the cost of imported goods were the biggest contributors to the surge in prices. Despite this, business activity accelerated in November after a mild setback in October,[4] and job creation was strong.

US

The US economy finds itself in an interesting position. On the one hand, job creation is strong,[5] wages are rising and stock markets have been hitting record highs.[6] In fact, there is so much confidence in the labour market that 4.4 million people quit their jobs in September[7] in what is being called the 'great resignation.' On the other hand, there are dark clouds on the horizon: inflation is high at 6.2%,[8] and consumer confidence is eroding, having hit a 10-year low in November.[9]

All of this suggests that the US Federal Reserve (the Fed) – the country's central bank – may need to move sooner, rather than later, to keep the economy in check. The Fed has already signalled that it may speed up its 'taper' of asset purchases[10] – also known as quantitative

Month in the Markets

Private Banking

By Stefano Amato

December 2021

easing – while the economy is strong. There are also expectations that interest rates will begin to rise in the spring after the Fed has finished its tapering process.[11]

Asia Pacific

China was a major focal point in the Asia Pacific region in November as surging inflation and subdued demand took their toll. The cost of goods leaving Chinese factories has increased substantially in recent months causing a ripple effect around the world. This has come in the shape of higher prices but it has also pushed up consumer price inflation in China itself. In October, China's inflation rate hit 1.5%, double the rate of the previous month and the highest since September 2020.[12] As a result, manufacturing activity in China grew at a slower rate over the past month[13] as higher prices and shrinking employment hit demand.

Outlook

We continue to have a cautiously optimistic view of economies and stock markets. We maintain an awareness that we are likely to see some volatility and challenging conditions in the months ahead. While markets have performed well this year, there is a sense that they are becoming more fragile as time goes on. This is particularly prominent given the possibility that recent spikes in inflation could become permanent and central banks begin to raise interest rates. Moreover, the emergence of the Omicron variant has reiterated the risks stemming from the pandemic are still here and can have an effect on stock markets, even if minor.

Overall, we continue to prefer shares over bonds and developed markets over emerging markets. Within shares, we favour European and US shares, but for different reasons. We favour Europe for the large number of value-oriented companies, while we like US shares for the opportunities in growth-oriented and technology companies.

Portfolio Activity

We made only minor changes to portfolios over the past month as we believe we are currently well-positioned for current market and economic conditions. Even though we maintain a positive view on shares and prefer them over bonds, the market fragility we have seen has given us cause to put in place some protection within some of our portfolios, through what are known as 'options' on US and European shares (options are financial contracts that give us the right, but not obligation, to buy or sell an underlying asset at a pre-agreed price). The options structure we have put in place in portfolios is designed to protect portfolios if markets fall below a set threshold. It works as an insurance against drawdowns, reducing but not eliminating, the impact of markets falling below a certain level. We also reintroduced exposure to emerging market shares across some portfolios, after removing this position in September 2021.

1 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/october2021

2 https://www.reuters.com/markets/europe/uk-services-industry-sees-record-cost-inflation-cbi-2021-11-30/

3 https://www.theguardian.com/business/2021/nov/30/inflation-in-eurozone-soars-to-49-highest-on-record

4 https://www.markiteconomics.com/Public/Home/PressRelease/122a04ae1ea44aca97b8a7b8a74083fa

5 https://www.cnbc.com/2021/11/05/jobs-report-november-2021.html

6 https://tradingeconomics.com/united-states/stock-market#:~:text=Historically%2C%20the%20United%20States%20Stock,36565.73%20in%20November%20of%202021.

7 https://www.cnbc.com/2021/11/12/consumer-sentiment-hits-10-year-low-while-workers-quit-jobs-in-record-numbers.html

8 https://www.theguardian.com/business/2021/nov/24/what-is-inflation-meaning-explained-us-economy-what-happens-how-worried

9 https://markets.businessinsider.com/news/stocks/consumer-sentiment-10-year-low-stocks-housing-economy-hit-records-2021-11

10 https://www.reuters.com/markets/us/powell-yellen-head-congress-inflation-variant-risks-rise-2021-11-30/

11 Powell says Fed will discuss speeding up bond-buying taper at December meeting - CNBC

12 China CPI and PPI: The world's second largest economy has a big inflation problem - CNN

13 https://www.reuters.com/markets/europe/chinas-nov-factory-activity-slips-back-into-contraction-caixin-pmi-2021-12-01/

Note: The Portfolio Investments and Atlas Portfolios are Multi-asset, globally diversified portfolios. Although the portfolios may share similar underlying investments in terms of asset and fund selection, they will differ in terms of the way the funds are managed and the proposition in which they are held. Please refer to the Key Investor Information Document (KIID) for details on the objectives of the individual funds. If you have any questions relating to specific differences of the Portfolio Investments or Atlas Portfolios fund ranges, please contact your Private Banker.

The views expressed in this document are of Stefano Amato and the Multi Asset Solutions Team at Santander Asset Management UK Limited, are subject to change and do not necessarily reflect the views of Santander Asset Management UK Limited or Santander UK plc (as a whole or any part thereof).

LIFE 1057 DEC 21 H