Santander Asset Management

Autumn investment outlook

As 2020 draws to a close, the impact of efforts to suppress COVID-19 still loom large over the global economy, but it's not the only factor investors have been watching.

The UK economy officially entered recession in July. Between March and September 2020, nearly 700,000 jobs were lost, according to data from the Office for National Statistics (ONS), and UK unemployment was at its highest level for two years (4.1%).[1]

As part of his Winter Economy Plan announced in September, the Chancellor of the Exchequer, Rishi Sunak, continued to support businesses and protect jobs using public money, extending and developing various existing measures into 2021.[2] This was in the face of an autumn rise in the COVID-19 infection rate and a retightening of social restrictions to stem it.

The downs and ups of the economic cycle

A recession is defined as economic growth (measured by Gross Domestic Product or GDP) falling for two successive quarters. While recessions are often triggered by a major event, as this one has been by the COVID-19 pandemic, they are part of a continuous economic cycle that influences the prevailing climate for investors.

Past performance is not a guide to future performance, but we can reasonably expect recovery to follow the recession in time, although timing for this is harder to predict.

The four stages of a cycle

1. Peak
The economy hits a high point.

2. Contraction
Growth in the economy is going down.

3. Trough
The contraction comes to an end.

4. Expansion
The economy is on the up again.

The impact of uncertainty

COVID-19 has created significant uncertainty for many of us:

- Job security
- The possibility of a cut in pay or hours
- Having to perhaps dip into savings

Significant uncertainty often has an impact on the economy, as it means people may be less likely to spend money.

Beyond COVID-19

While it may sometimes feel like it from the news, COVID-19 is not the only factor of relevance to investors and that may influence markets into early 2021. Situations can change quickly and new factors emerge, but at the time of writing this article in October 2020, some of the key themes include:

1. Brexit transition

The agreed Brexit transition period between the UK and the EU ends on 31 December 2020 and cannot now be extended. One area of uncertainty is the extent to which the UK may be subject to tariffs (tax charges) and border checks in the future, as these would potentially drive prices up and cause supply delays, adding to the impacts of COVID-19.

2. US Presidential Election

Whether Republican Donald Trump or Democrat Joe Biden occupies the Oval Office from January 2021 will influence the US economy for the next four years. As the largest economy in the world that will have a big influence on the global economy too. The S&P 500 Index tends to increase during an election year and, despite global lockdowns leading to falls across the investment markets, it recovered and passed its pre-pandemic high in August.[3]

2. US/China relations

Markets fell earlier in the year as President Trump openly blamed China for the COVID-19 pandemic and threatened new trade tariffs.[4] A key ongoing issue is the independence of technology, with battlegrounds so far including Huawei's involvement in providing 5G and the influence of the popular Chinese developed TikTok app. Some reports suggest that a significant trade separation of these two economic superpowers could cost the global technology sector as much as $3.5tn over the next five years.[5]

Opportunities are out there

It's important to remember that whatever is happening there are always opportunities.

- If you invest when markets are lower you get more units for your money which means you have more units benefit from any future market growth.

- Regular investing lets you work with the ups and downs as you buy units when markets are both higher and lower, smoothing out the differences over time.
- Spreading your money across different asset classes means you can benefit from the fact that some assets may be doing better than others at a particular point in time, providing the benefits of asset correlation.

Time in the market is key

While it can be difficult to ignore the noise around short-term market ups and downs and focus on the long-term view, it's often a good idea to do just that.

If you sell when markets are low you may get back less than originally invested and miss the potential growth when the markets recover. Over the long-term, growth tends to smooth out the short-term ups and downs, although investment returns will depend on when you invest and then take your money out again. Though it should be remembered that future performance is not guaranteed.

Keep up-to-date

We give regular updates on what is happening in the markets and the outlook for investors. You can find these at **santanderassetmanagement.co.uk**.

[1] ONS - Labour market overview, UK: September 2020
[2] The Guardian - Hong Kong falls deeper into recession; US factory orders tumble - as it happens, 4 May 2020
[3] Forbes - S&P 500 hits another record closing high after strong economic data, 21 August 2020
[4] The Guardian - Hong Kong falls deeper into recession; US factory orders tumble - as it happens, 4 May 2020
[5] Forbes – Don't underestimate the rise in US-China tech tensions, 3 September 2020

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. Shares, Bonds, Property, Cash and Alternatives are all examples of asset classes.

Index: A way of tracking the overall performance of a basket of individual investments of a similar type. For example, the FTSE 100 index tracks the performance of Shares in the 100 largest companies by market value on the London Stock Exchange.