

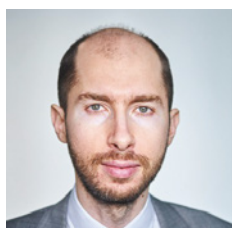
# A Month in the Markets



Private  
Banking

By Stefano Amato

April 2022



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## Month of March

### Market Review

March was a month of two halves for global stock markets. Initially, markets continued along the negative trajectory set in February<sup>1</sup>, as investors grappled with continued inflation, interest rate rises and Russia's ongoing invasion of Ukraine. High reliance on Russian exports in areas such as wheat production and oil resources contributed to price rises<sup>2</sup>, particularly in Europe. But the midway point of the month<sup>3</sup> signalled a reversal in sentiment, as investors seemingly got to grips with the new investment environment. Many developed market indices finished the month in positive territory.

From a sector perspective, energy stock prices rose sharply as demand continued to outstrip supply.<sup>4</sup> During the first half of March sectors that have previously been viewed as overvalued declined as investors reassessed valuations and weighed the prospects of higher interest rates and their effect on future cash flows.<sup>5</sup> As sentiment improved, these sectors gained in value and finished the month in positive territory along with the main indices.<sup>6</sup>

### UK and Europe

UK and European stock markets weathered an early storm in March to end the month on a higher note. However, both economies were mired by the rise in inflation<sup>7</sup><sup>8</sup> and subsequent cost of living pressures<sup>9</sup>.

In the UK, the Bank of England increased interest rates for the third consecutive time<sup>10</sup>, as it sought to mitigate the sharp rise in inflation, which has been exacerbated by the Russian invasion. In mid-March, rates returned to their pre-pandemic levels of 0.75%<sup>11</sup>. European policymakers continued to hold firm, with European Central Bank (ECB) President Christine Lagarde reiterating her stance of deferring any rate rise until late 2022, once the ECB's existing bond-purchase scheme has run its course<sup>12</sup>.

### US

In mid-March, the US Federal Reserve (Fed) raised interest rates for the first time since 2018<sup>13</sup>. It nudged up by a quarter percentage from near zero and signalled further rate rises to come throughout the year.

Employment data supported the Fed's lean towards tighter monetary policy. This data indicated continued job growth across the country, as more workers returned to the workforce following the global pandemic<sup>14</sup>.

President Joe Biden challenged domestic oil companies to increase production in an effort to lower soaring gasoline prices<sup>15</sup>. In addition, the president announced a plan to release one million barrels of the US strategic oil reserve each day to further relieve the pressure on prices<sup>16</sup>.

Despite the measures, the energy sector continued to outperform wider stock markets and achieved performance of nearly 40%.<sup>17</sup>

PLEASE REMEMBER THAT ALL INVESTMENTS CARRY VARYING DEGREES OF RISK TO YOUR MONEY. THE VALUE OF INVESTMENTS AND ANY INCOME FROM THEM CAN GO DOWN AS WELL AS UP AND YOU MAY GET BACK LESS THAN THE FULL AMOUNT YOU INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS.

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## Asia Pacific

Asian stock markets continued to bear the brunt of the global pandemic, as several countries remained in pursuit of a zero-COVID-19 strategy. China particularly suffered with this, as an outbreak of the Omicron variant sent the country's financial hub, Shanghai, into an extended lockdown<sup>18</sup>. Other cities and towns experienced similar restrictions throughout the month.<sup>19</sup> China's manufacturing purchasing managers' index (PMI) fell to 48.1 in March, as productivity in the region slowed dramatically, further clogging global supply chains.<sup>20</sup>

In Japan, the Bank of Japan (BoJ) continued courting a weaker domestic currency, with the yen value falling significantly over the month<sup>21</sup>. The BoJ also seemingly signalled it had no intention of raising interest rates at this stage, as inflation levels across the country are far lower than those in other global markets.<sup>22</sup>

## Outlook

While markets may have rallied towards the latter half of March<sup>23</sup>, in our opinion there is still a great deal of uncertainty around the outcome and impact of the Russia-Ukraine conflict, as well as the global economy more generally. Particularly in Asia, where the Omicron variant is having a more lasting effect, we anticipate supply chain issues to continue, or even worsen, in the short-term. This should lead to further pressure on prices.

Inflation and rising interest rates across major global economies may threaten the potential for investment returns, particularly within fixed income markets. We believe this can likely determine market direction in the coming months.

1 Refinitiv, 31/03/2022

2 OEC World, 31/03/2022

3 Refinitiv, 31/03/2022

4 Refinitiv, 31/03/2022

5 Trading View, 31/03/2022

6 Trading view, 31/03/2022

7 Office for National Statistics, 23/03/2022

8 Trading Economics, 31/03/2022

9 The Guardian, 30/03/2022

10 Reuters, 11/03/2022

11 Reuters, 11/03/2022

12 Reuters, 17/03/2022

13 Financial Times, 16/03/2022

14 U.S. Bureau of Labor Statistics, 01/04/2022

15 The Guardian, 31/03/2022

16 The Guardian, 31/03/2022

17 Refinitiv, 31/03/2022

18 The Guardian, 01/04/2022

19 BBC News, 05/04/2022

20 Trading Economics, 31/03/2022

21 Reuters, 04/04/2022

22 Reuters, 04/04/2022

23 Trading view, 31/03/2022

# Portfolio positioning

For the following funds ranges:

- Santander Atlas Portfolios
- Santander Multi Index
- Santander Portfolio Investments (Santander Max 100% Shares, Santander Max 30% Income Shares and Santander Max 60% Shares Income Portfolios)
- Santander Vista Model Portfolios

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Within our portfolios, we retain a cautious stance on assets at the riskier end of the spectrum. It is our view that stock markets have limited upside potential from their current levels. We believe they remain susceptible to challenges in the markets, such as further rate rises and uncertainty over Russia and Ukraine. With that in mind, we have lowered our allocation towards global stocks, following a period of positive performance last year.

We remain cautious on credit spreads – an indication of the risk premium of investments – and central bank activity more generally. Therefore, our overall allocation to cash increased accordingly across portfolios.

# Portfolio positioning



For the following funds within the Portfolio  
Investments range: -

- Santander Max 30% Shares Portfolio
- Santander Max 50% Shares Portfolio
- Santander Max 70% Shares Portfolio

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The systematic models\* have continued to seek protection among fixed income assets within the tough environment that we're witnessing in the markets. Corporate bonds have been particularly favoured against those more volatile sub-asset classes that have been directly affected by the conflict, for example, European shares (excluding UK).

The funds have increased their exposure in corporate bonds and short duration fixed income, while their positions in government bonds have been kept mostly unchanged. Within stock markets, UK shares have continued to be rewarded by the Momentum\* component of the model after a difficult start to March, increasing the allocation to the UK gaining relevance against overseas stock markets included in the fund.

The last rebalance of the funds at the end of the month resulted in an underweight allocation to credit and UK shares. Whilst, for most of the funds, the less volatile government bonds are now overweight versus benchmark.

*\* For more information on Risk Parity and Momentum please refer to the Fund's Prospectus which can be found within our Fund Centre here.*

## Important Information

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