Month in the Markets

By Stefano Amato

January 2022

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Month of December

Market Review

As 2021 drew to a close, most of the world's major stock markets generated positive returns for investors. Despite some turbulence at the start of December, the so-called Santa Claus rally emerged once again. This helped lift global markets across the board, especially in the US.[1]

When the month began, concerns about inflation and the pandemic dominated the news. Travel and leisure stocks were again impacted by the emergence of the Omicron variant of COVID-19. Governments around the world strengthened travel restrictions – albeit briefly in some cases – in an effort to slow the spread.

Approaching Christmas and New Year, encouraging data on hospitalisations linked to Omicron helped most stock markets recover lost ground. Improved government preparation and vaccine uptake mean we do not think Omicron will affect markets as much as previous variants have.

Against this backdrop, most of the world's major stock markets delivered solid single-digit positive returns (in local currency terms). The US led the way, followed by Europe, the UK and Japan.[2] China was notable however, for delivering negative returns over the month.[3]

UK and Europe

In the UK, the economy was in a generally good condition. Manufacturing output was on the rise,[4] but tighter restrictions blunted business activity and caused retail sales to fall.[5] Economic growth in the third quarter was revised down from 1.3% to 1.1%, with overall output still 1.5% less than at the end of 2019.[6] Meanwhile, inflation reached 5.1%, the highest for 10 years.[7] This prompted the Bank of England to increase its benchmark interest rate to 0.25%.[8]

In Europe, businesses and consumers began the month facing many of the same issues linked to the pandemic. This included snarled supply chains, rising inflation and staff shortages, though there were signs this supply chain crisis was easing in December.[9] The shortage of materials, and low demand meant Europe's manufacturing was unchanged from November.[10] Inflation increased to 4.9% in November, the highest recorded in the trading bloc.[11]

US

The US continued to be in a solid economic position over the month. While there was slightly slower growth in the manufacturing sector,[12] consumer confidence was on the rise.[13] The overall unemployment rate fell to 4.2% in November, the lowest since the pandemic began.[14] Furthermore, initial claims for unemployment benefits finished the year close to pre-pandemic levels.[15]

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Private Banking

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Despite the Bank of England raising rates during the month, the Federal Reserve (the Fed) held off hiking rates despite rising inflation. The Fed instead announced that it will accelerate an end to the central bank's pandemic-era support of the economy. It also signalled the potential for three interest rate hikes in 2022.[16]

Asia Pacific

The world's second-largest economy, China, continued to struggle over the month with jitters in its property sector and rising levels of debt. Property developer China Evergrande was put in default by S&P after failing to make bond payments.[17] There were some small positives, though. After six months of falling activity, China's manufacturing activity returned to growth in December.[18]

China's central bank, known as the People's Bank of China, also cut its one-year loan rate from 3.85% to 3.8%. This bid to encourage growth comes as the economy grew by 4.9% in the third quarter, the lowest increase in a year.[19]

Outlook

We continue to look ahead with a cautiously optimistic view of the global economy and stock markets. As the pandemic continues, governments and health agencies are better equipped to fight the virus. For individuals, vaccines are doing their part in reducing serious illness and central banks continue to support financial markets. This is a positive for investors.

With that view in mind, we favour shares over bonds. We believe that higher inflation and rising interest rates create a negative environment for fixed income investors. Within shares, we continue to favour European over US shares for the value opportunities that we see. Nevertheless, we still believe there are strong growth stories among American companies. Although supply chain issues and concerns over the impact of the Omicron variant of COVID-19 remain, it appears that much of the disruption is behind us. It is therefore unlikely in our opinion that we will see the same degree of restrictive measures that were put in place early in the pandemic.

Portfolio Management for our multi-asset fund of funds and the Santander Vista Model Portfolio's

Over the month, we reduced the overweight position in shares across some portfolios in December. This reflected our concerns about inflation, the Omicron variant and the potential for stock market volatility. This entailed reducing our weighting towards developed market shares and re-investing the proceeds from this reduction into investment-grade bonds. Our weighting towards emerging market shares remained neutral.

1 https://www.marketwatch.com/story/santa-claus-rally-is-off-to-best-start-in-20-years-heres-what-history-says-about-the-stock-markets-performance-when-rally-starts-this-well-11640630360

2 https://www.theguardian.com/business/2021/dec/31/ftse-100-bounces-back-despite-covid-to-finish-143-up-in-2021

3 https://www.schroders.com/en/insights/economics/monthly-markets-review---november-2021/

4 https://www.markiteconomics.com/Public/Home/PressRelease/e8bdeca53491463a81a02d6b9c8eb4e0

5 https://www.markiteconomics.com/Public/Home/PressRelease/3df254eab77545dd81b23614d66723dc

6 https://www.ons.gov.uk/economy/grossdomesticproductgdp

7 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2021

8 https://www.theguardian.com/business/2021/dec/16/bank-of-england-raises-interest-rates-to-025

9 https://www.wsj.com/articles/supply-chain-problems-show-signs-of-easing-11637496002

10 https://www.markiteconomics.com/Public/Home/PressRelease/fbff346b33ff422a8b78963179ff9118

11 https://ec.europa.eu/eurostat/documents/2995521/11563387/2-30112021-AP-EN.pdf

12 https://tradingeconomics.com/united-states/manufacturing-pmi

13 https://www.conference-board.org/topics/consumer-confidence

14 https://tradingeconomics.com/united-states/unemployment-rate

15 https://www.cnbc.com/2021/12/30/unemployment-claims-end-2021-near-pre-pandemic-levels.html

16 https://www.theguardian.com/business/2021/dec/15/us-federal-reserve-expected-to-speed-up-end-of-pandemic-support

17 https://www.reuters.com/world/china/sp-dumps-chinese-property-giant-evergrande-into-default-2021-12-17/

18 https://www.reuters.com/world/china/china-dec-factory-activity-unexpectedly-accelerates-official-pmi-2021-12-31/

19 https://www.cnbc.com/2021/12/20/chinas-central-bank-cuts-1-year-loan-prime-rate.html

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.

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