

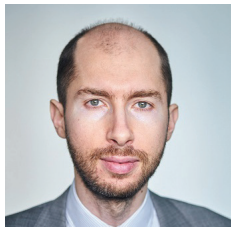
Month in the Markets

By Stefano Amato

October 2021



Private
Banking



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Month of September

Market Review

September is historically a negative month for stock markets and this year was no different.¹ Global stock markets mostly struggled over the month as a number of concerns took their toll on investors. These included fears of slower growth, rising inflation, potential interest rate hikes, global supply chain disruptions and the continued spread of COVID-19 – in particular, the Delta variant of the virus.

Against this backdrop, every major stock market fell over the month except for Japan and the UK. China's stock market suffered the biggest drop, followed by the US, Asia Pacific excluding Japan, and the emerging markets. Japan recorded a solid gain for the month, while the UK was also up slightly.

UK and Europe

The economic rebound continued in the UK, although there were signs that the rate of growth was slower in September than in previous months. Both the manufacturing and services sectors grew, but at a slower pace than in August.² For manufacturers,

the slower growth was largely due to supply chain disruptions, material shortages and the higher cost of goods. The services sector, which includes restaurants, travel and leisure companies, grew at a slightly slower pace than August, driven by higher consumer confidence and more people taking domestic holidays.

Nevertheless, there were worries about rising inflation and workforce shortages, as well as the effect this might have on the economy. This included the truck driver shortage that caused some petrol stations to run out of fuel³ in the second half of the month. With inflation running at 3.2%,⁴ the Bank of England hinted that interest rates may have to rise as soon as 2022.⁵

In Europe, the recovery continued as consumer activity returned to pre-pandemic levels⁶. High vaccination rates and an easing of restrictions meant that consumers felt more confident about leaving their homes to go shopping, travel and visit restaurants. While consumer confidence was high, businesses were meanwhile becoming more concerned about supply chain bottlenecks,⁷ rising costs due to unprecedented demand, and the spread of the Delta variant. Despite inflation reaching a decade high of 3% in August,⁸ the European Central Bank hinted that it is unlikely to raise interest rates any time soon given the potential for a slowdown in growth.⁹

For Germany, it was the end of a political era as the country's federal election would determine the replacement for Angela Merkel, who had been Chancellor since 2005 but decided not to run for re-election. However, coalition talks were still ongoing among the biggest parties in the Bundestag at month end.

US

Throughout much of 2021, the US economy has been in a steady state of recovery. While the economy remained

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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on a solid footing in September, it was clear that a combination of supply chain constraints, peaking demand and expectations of a future slowdown were starting to take their toll. Consumer confidence fell to a seven-month low¹⁰ as COVID-19 cases were rising, while business activity expanded at its slowest pace in the past 12 months.

While the labour market continued to strengthen, there are still sections of the workforce that are unemployed due to the pandemic. There was also an unexpected spike in new jobless claims at the end of September.¹¹ Similar to other parts of the world, the US is facing rising inflation, which currently stands at 5.3%.¹² The Federal Reserve has hinted at the possibility of raising interest rates and gradually reducing its bond buying programme in the coming months.¹³

Asia Pacific

Despite being one of the first countries to recover from the pandemic, China has more recently been grappling with a slowdown in momentum. The manufacturing sector has had to deal with many of the same issues as the rest of the world, namely supply chain bottlenecks and rising costs, but has also been affected by electricity rationing.¹⁴ After a significant slowdown in August, manufacturing activity contracted in September.¹⁵ Meanwhile, the Chinese Government continued with its regulatory crackdown, which has so far targeted technology, gaming, education and property companies.¹⁶ Supply chain disruptions are being felt elsewhere in Asia Pacific, with Japan's industrial output having fallen for two months in a row.¹⁷

While many parts of the world are trying to deal with too much inflation, for much of the past year Japan has seen too little. But that may be changing. Figures released in September showed that core consumer prices in Japan went up for the first time in 12 months in August.¹⁸

Outlook

Similar to previous months, we continue to have a mainly positive outlook for stock markets and economies, and prefer shares over bonds. While there are concerns about the spread of the Delta variant and rising COVID-19 infections as we head into autumn and winter, the continued rollout of vaccines around the world should help economies reopen and return to normal levels of activity. Nevertheless, there are legitimate concerns about disruptions in the global economy, rising inflation, interest rate hikes and a potential slowdown of economic growth which could result in some volatility along the way. Given this environment, we continue to monitor stock markets and economies, and are positioned to respond to events as they arise.

Portfolio Activity

Once again, we have made few changes to portfolios over the past month as we believed that our positioning remained appropriate for the market environment. We continue to take risk by investing in shares across the majority of portfolios, with a preference for Europe, Japan and the US. We have reduced our positioning to China and the emerging markets in some portfolios. This is due to concerns about the Chinese Government's regulatory crackdown. In those portfolios with exposure to bonds, we continue to hold an underweight position as we feel current high prices and low yields provide few compelling attractive opportunities.

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8 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Inflation_in_the_euro_area

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12 <https://tradingeconomics.com/united-states/inflation-cpi>

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17 <https://www.reuters.com/business/japans-aug-factory-output-extends-declines-car-production-cuts-2021-09-30/>

18 <https://www.reuters.com/world/asia-pacific/japan-cpi-stopped-falling-first-time-13-months-still-below-boj-target-2021-09-24/>

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).

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