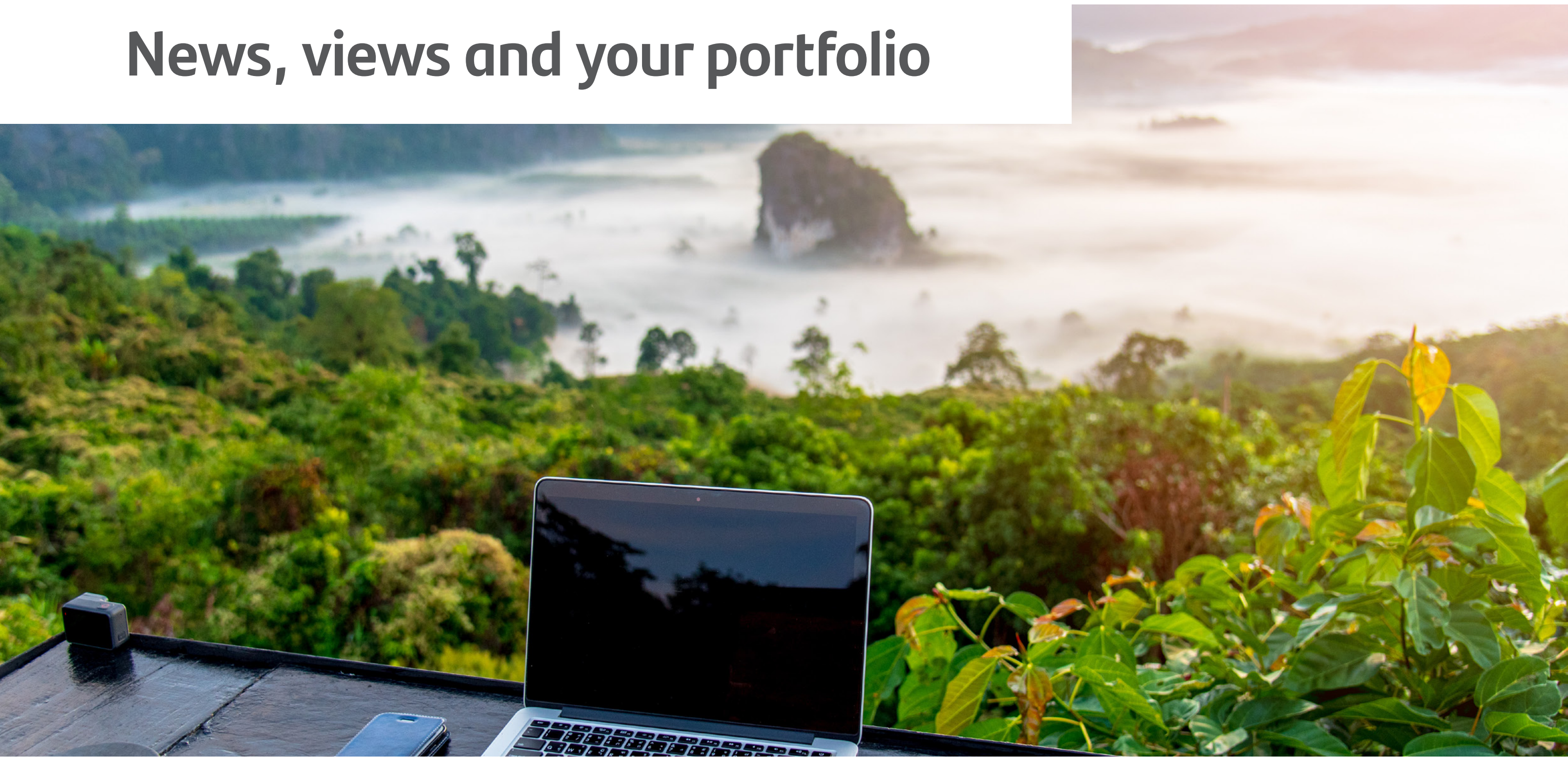
Santander Asset Management

News, views and your portfolio



We've seen a seemingly relentless news flow of political turbulence and the global impact of the COVID-19 pandemic over the past few months. It's natural to feel concern, but if you're investing for the long-term, how much does today's news really matter?

It's true that stock markets can respond quickly to major world events, especially where they come as an unexpected shock, but it's not always the case. When there is a reaction it can be a positive or a negative one. And that reaction can be relatively short-term.

For example, the S&P 500 Index - the main US stock market - fell 34% between 19 February and 23 March last year as the pandemic took hold.[1] Yet by early June 2020 it had more than regained the ground lost in March, rallying by 44%.[2]

Fear of the unknown

Investment experts will form their own views on significant developments with potentially longer-term impacts, such as the rolling out of COVID-19 vaccines and the subsequent easing of restrictions, adjusting investor portfolios as they consider appropriate to match.

This means that such developments are likely to be 'priced in' to individual stock valuations and decision-making. As long as things proceed in line with collective expectations markets are then unlikely to move much in short-term response to related daily news 'noise'.

Sudden sharp ups or downs are more likely when events are unexpected or create a particularly unstable or unpredictable environment, such as we saw at the very start of the pandemic. That's because it takes investors a bit of time to process and come to terms with them.

Managing expectations

How markets respond to events can lead to surprising outcomes. For example, it would have been natural to assume that markets would fall in response to the storming of the US Capitol on 6 January. It caused shockwaves around the world and temporarily delayed the ratification of Joe Biden as President-elect. But the S&P 500 Index continued to rise that day and the Dow Jones Industrial Average Index closed at a record high.

One explanation is that the events made no difference to short-term political or economic expectations, while US markets were also boosted by the news that the Democrats had won both Senate seats in the Georgia run-off. This increases the likelihood of more financial aid across the country to address the economic impact of the COVID-19 pandemic.[3]

Whatever your personal views on this, the point is that a range of factors will be in play at any point in time and that makes predicting exactly how a market may respond to daily news events, and basing investment decisions on that, a very risky business indeed.

Lessons from recent history

While past performance is not a guide to future performance, some recent examples illustrate how allowing investment decisions to be dictated by headlines could be a costly mistake.

Investors fearing a full-scale crash sold out of Shares in huge numbers during the Global Financial Crisis in 2008. Those that remained invested were rewarded for their patience with a bull market that started in March 2009 and only ended when the COVID-19 pandemic unfolded in March 2020.[4]

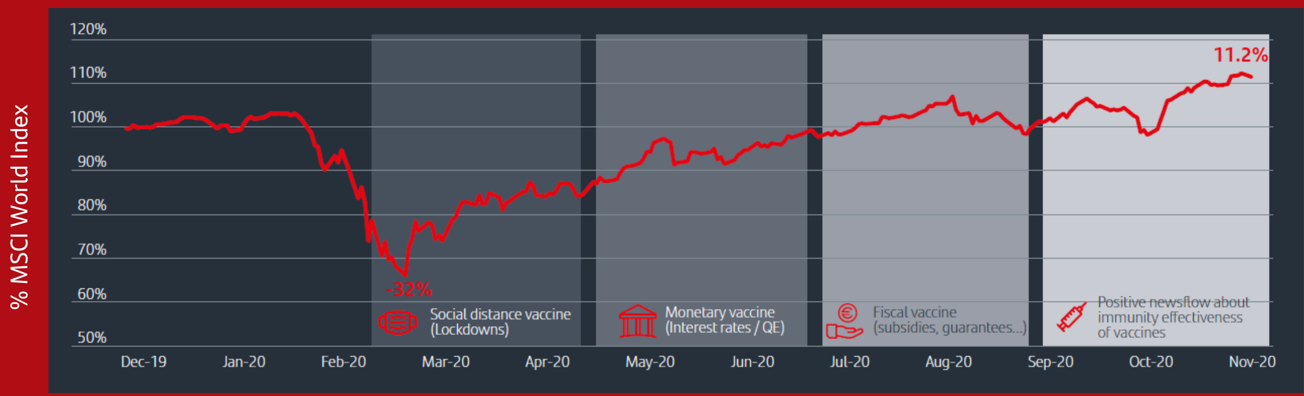
One reason for the resilience of stock markets over that period and for the highs reached even in summer 2020 as economies reeled from the effects of the COVID-19 pandemic is the effect of central bank policies. These have included low interest rates and the creation of new money through quantitative easing, which help limit market ups and downs as well as encouraging investment in riskier assets such as Shares.[5]

Across Europe, government support packages in response to the pandemic range between 30% and 45% of gross domestic product (GDP), with around 20% of GDP in Latin American countries and 10% in Asia.[6]

Time in the market is what matters

At Santander Asset Management, we've identified four distinct stages to the pandemic related market crash and subsequent recovery in 2020. Not only does this illustrate the influence of government and central bank actions, it also shows how staying invested during market shocks can be the best course of action.

World stock market (MSCI World Index) recovery in 2020



Sources: Bloomberg and Santander Private Banking Data as at 30 November 2020.
Global Outlook 2021: Recovery and Disruption - December 2020.

Investors who sold out in March 2020 would have locked in their losses and missed out on the recovery. By contrast, investors who stayed invested and continued to add to their portfolios over that period stood to benefit from their money buying more units of investments when prices were on the lower side.

Diversification can help to protect your portfolio

One of the most important steps in managing any investment risk is ensuring your portfolio is diversified. By spreading your investments across different asset classes, sectors and global regions, you can limit the impact of whatever sharp ups and downs may be driven by daily news. Even if one industry sector or region experiences a fall, a diversified portfolio is likely to also be invested in sectors and regions that are on the up, smoothing out the overall impact.

One of the benefits of having a professional investor like Santander Asset Management running your portfolio is that they have the knowledge, resources and experience to understand the real and likely longer-term effect of events on portfolios and to respond accordingly. They can help you to manage downside risk and benefit from the potential upsides of events, rebalancing over time to keep in line with your objectives and risk profile.

Your individual circumstances are important

Whilst it can make sense to sit tight and ride out market volatility, the natural reaction may be to sell an investment when the price has fallen and the news environment is challenging. However, decisions taken when markets have fallen may have a longer-term impact on the ability of your investments to achieve your financial goals, whether that is growth or income. A professional financial adviser can help you to navigate these kinds of challenges.

What can investors expect in 2021?

Here's what our experts at Santander Asset Management have to say:

- Recovery from the impact of COVID-19 is a given. It's just the shape and time to recover from it that's under discussion.
- Government and central bank support for this recovery will continue.
- We forecast low interest rates will also continue but we may see inflation rise in the short-term.
- The pandemic is accelerating change that was already underway because of technology, how the global population is developing and how consumers are behaving.
- Short-term ups and downs are expected to continue as markets adjust to all that's going on.
- Sustainable investing is predicted to continue to increase in importance. More and more people want to see their money going towards investments that are both profitable and reflect their values.
- Effective diversification means taking account of both the pandemic recovery as well as future trends, and opportunities to enhance portfolios.

Learn more

Stay up-to-date with our latest **Markets and Insights** on our website.

[1] Innovest – The Continued Flaws of Market Timing: Lessons from the Coronavirus Pandemic, 23/7/20
[2] Forbes – S&P 500 Turns Positive, Fully Recovering Coronavirus Losses, 8/6/20
[3] MarketWatch – Why the stock market rallied even as a violent mob stormed the Capitol, 6/1/21
[4] CBS News – The 11-year bull market is dead. Here's what a bear market means, 12/3/20
[5] Moneyweek – Central banks turn on the money hose, 10/8/19
[6] Santander Asset Management – Market outlook 2020: recovery and disruption, December 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.

Bonds: A Bond is a loan issued by a government or a company. When you buy a Bond, the issuer promises to pay a certain amount of income until the Bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the Bond. This is known as creditworthiness.

Diversification: Spreading your money across different investments to help manage risk.

Gross Domestic Product (GDP): The value of goods produced and services provided in a country during a calendar year.

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.

Inflation: Measures the increase in price of selected goods and services in an economy over a period of time.

Property: Property may be difficult to sell and can demonstrate significant declines in value due to changes in economic conditions and interest rates.

Portfolio: a group of investments that are managed together to meet a particular objective.

Shares (often referred to as Equities or Stocks): In investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the Shares themselves.

Important Information

This material is for information only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

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