

A Month in the Markets



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AUGUST 2019

We are pleased to provide our latest edition of 'A Month in the Markets', which looks at the impact the previous month has had on the Santander Atlas range.

Market Overview

During July stock markets moved higher as global central banks signalled a shift to more accommodative monetary policy. In the US, the S&P 500 hit a new all-time high on 26 July 2019 as US equities outperformed other developed markets.

US

The US second-quarter corporate earnings reporting season kicked off with mixed results. US data was mixed, with June retail sales higher than anticipated and industrial production in line with expectations. The Federal Reserve (Fed) cut interest rates for the first time in ten years as the market predicted, however, the market did not take a good stance when Chairman Jerome Powell stated the move was a "mid-cycle adjustment in policy". Despite the S&P 500 retreating on the back of this statement, the Index ended the month in positive territory of 0.54%.

Asia

China's growth rate slowed to 6.2% year-on-year in the second quarter despite industrial production, retail sales and investment all beating expectations. The Hang Seng Index fell over the month on the back of increased trade tensions and political unrest in Hong Kong. The Bank of Japan left interest rates unchanged but signalled it will respond aggressively to any economic weakness caused by events abroad, leading to a gain in the Yen.

Europe

The European Central Bank (ECB) signalled an openness to future rate cuts as the economic outlook of the Eurozone gets "worse and worse", according to ECB President Mario Draghi.



John Mullins
Portfolio Manager

This comes off the back of the manufacturing recession which has hit Germany particularly hard. The announcement raised the possibility that benchmark interest rates could be cut as early as September, but the ECB has also said it is looking at other options, including extending their quantitative easing programme to boost the economy.

UK

In the UK, Boris Johnson won the Tory leadership election becoming the leader of the Conservative Party and consequently the Prime Minister of the United Kingdom. The FTSE 100 ended the month up 1.19%, against a backdrop of continued macroeconomic deterioration. June's UK inflation rate was unchanged at +2.0% year-over-year, in line with consensus expectations, as well as with the Bank of England's inflation target. The pound dropped to a two-year low as the possibility of a no-deal Brexit continues to increase, emulating similar volatility to emerging market currencies as Brexit looms.

Gold

Gold has posted its third monthly price gain, as bullion has drawn investors in due to Fed cuts as economic growth slows and geopolitical frictions intensify.

Portfolio Management

In **Atlas Growth** we tilted our US equity allocation towards more defensive sectors through the purchase of the iShares US Minimum Volatility ETF. Elsewhere in the portfolio, we initiated a position in Emerging Market bonds through the NN Emerging Market Debt Fund.

In **Atlas Income** we tilted our US equity allocation towards more defensive sectors through the purchase of the iShares US Minimum Volatility ETF. To maintain the level of risk of the portfolio, the increase of US equities was financed by a reduction of the RWC Global Equity Dividend Fund. The allocation to fixed income remained unchanged.

Outlook

We have become concerned about the outlook for asset prices and have reduced risk while maintaining high levels of diversification and protection within portfolios. As we have mentioned in previous editions, while US economic growth has slowed, the outlook remains more positive than the rest of the world, more so in contrast to below trend economic performance in Europe and China. We also see potential for return in specific pockets of the broader stock market and continue to find short-term opportunities across equities, bonds and currencies. Indeed, big movements in asset prices provides fertile ground for dynamic asset allocation and plenty of opportunity at the more granular sector, region, and thematic level. That being said, it is our strong view that markets are in the latter stage of the economic cycle and finding the balance between return generation and downside protection will be the key to success for the rest of 2019.

As such, we continue to closely manage risk levels across all portfolios and expect there will be times where short-term volatility presents challenges to portfolio asset allocation, as we have seen across markets over the last few years. Given that we are in quite a mature phase of the economic cycle and assets are not cheap, we are aware of the increased likelihood of short-term price moves. Therefore, we will look to tactically reduce risk levels on portfolios if our indicators suggest further periods of heightened volatility are imminent. During these times, a well-diversified and global approach to investing is crucial and this is what we continue to implement across portfolios.

What is our 'Projected Income' for the Atlas Income Portfolio?

The **Atlas Income** portfolio minimum yield target is calculated on a Projected Yield basis, where the target level of yield (at least 4% but not guaranteed) is applied to the net asset value of the fund at the start of its accounting year. The fund is on track to deliver this month a pence per unit of 0.84 for II share class and 1.23 for IA share class respectively and to deliver the remainder of the fund's income for the accounting year ending 31 July 2019 in order to achieve the Projected Yield.

John Mullins – Portfolio Manager, Santander Asset Management UK Ltd



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The Santander Atlas Income portfolio is a sub-fund of Santander Managed Investments OEIC, a non-UCITS scheme that is authorised in the UK by the Financial Conduct Authority (FCA).

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