Santander Asset Management

A Month in the Markets

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We are pleased to provide our latest edition of 'A Month in the Markets', which gives our review and outlook of markets over the month.

Market Overview

John Mullins
Portfolio Manager

October started with an optimistic view on the COVID-19 pandemic and the road to a vaccine, as well as generally positive sentiment about what a strong win for the Democrats in the US Election might have on stock markets. By the end of the month, however, stock markets were rattled by the resurgence of COVID-19 cases in the US and Europe, as well as worries about the outcome of the US Election.

US

There has been little doubt that the US economy has seen significant improvement since its slump earlier this year. Unemployment has been falling, with the number of Americans continuing to claim unemployment benefit dropping to 7.8 million, from a peak of 24.9 million back in May this year. Meanwhile, the Bureau of Economic Analysis reported during the month that gross domestic product (GDP) increased at an annualised rate – i.e. the rate at which growth would increase over a year if the current change remained constant – of 33.1% between July and September. It was up 7.4% compared with the previous quarter. The previous record was a 3.9% quarterly increase in 1950.

Throughout October, all eyes were on the US Election as the campaign entered its closing weeks. Once again, polls continued to show Joe Biden holding a commanding lead over President Donald Trump. As the odds of a Joe Biden victory have shortened, stock markets have become less fearful of corporate tax increases and government spending, and have instead focused on the prospect of a much-needed financial support package for those affected by the pandemic.

Europe and the UK

In the UK, the economic news in October was largely positive. The housing market bounced back strongly after activity plummeted during the spring lockdown. UK mortgage approvals in September jumped to a 13-year high, according to the Nationwide Building Society, while UK house prices appreciated by 5% per annum in the same month, compared to the same period in 2019. Europe also saw promising economic figures.

Similarly, Europe saw significant growth in its manufacturing sector in October, driven largely by German factories. That said, the European Central Bank (ECB) noted in the final week of the month that economic momentum was deteriorating faster than expected. As a result, it may provide additional support for the economy in December if needed.

The ECB's comments were not surprising given that it became clear that COVID-19 case numbers were moving in the wrong direction across Europe as well as the UK. While governments had initially ruled out another round of lockdowns to curtail the virus's spread, it became increasingly clear that these would be necessary during the autumn and winter months.

Asia and Emerging Markets

Countries in Asia continued to see a stronger economic recovery over the month. Manufacturing activity in South Korea and China was particularly strong. China saw its sixth straight month of expansion in its factory sector, while South Korea saw its activity grow at its fastest pace in two years. Over in Japan, there were expectations that the economy was recovering from the slump that it saw in the second quarter, its worst since the Second World War. However, the recovery has been seen to be fragile, and there were expectations that the government would need to announce a new financial support package.

Emerging Markets, meanwhile, saw mixed fortunes. For example, in Brazil, which has been among the hardest hit by COVID-19, the International Monetary Fund expects Brazil's economy will shrink by 5.8% this year, which is not as bad a contraction as it initially predicted. However, the country remains sensitive to a second wave of the pandemic and could face problems with its large amount of public debt. Many of the Latin American countries were hit hard by COVID-19, but case numbers were beginning to fall in October. Indonesia, the largest economy in Southeast Asia, also struggled. It has had the worst COVID-19 outbreak in the region and its economy is predicted to shrink for the first time since the 1998 Asian financial crisis.

Portfolio Management

Over the month we decided to reduce our position in US company shares and move this into Emerging Market stock markets. We also took the decision to reduce our position in core Fixed Income holdings and opted to invest in Japanese yen-denominated assets and Gold, for additional diversification in portfolios. This is because we believe that, as yields on Government Bonds fall to low levels – and their prices rise – they offer reduced diversification benefits.

Outlook

Autumn was widely predicted to be a challenging time given the likelihood of a second wave of the COVID-19 pandemic. With the UK and many European countries introducing new lockdown measures, there will undoubtedly be further economic damage as non-essential businesses close and activity slows down.

As we enter uncharted territory once again, the impact on the economy will be determined by the length of the lockdown and the financial support measures that will follow. Another major factor is whether the US follows Europe in introducing new lockdowns.

We continue to have a neutral position to risk because of the current situation around the world. The path of the virus over the winter months is unknown and could prove to be much worse than the spring, with the possibility of a vaccine still months away. While the economic picture appeared to be somewhat healthy at the end of the summer, the spike in COVID-19 cases has made it much more uncertain and for this reason we are not comfortable taking undue risk against this backdrop.

John Mullins – Portfolio Manager, Santander Asset Management UK

Projected Income

For our latest update on the **Santander Atlas Income Portfolio** see overleaf.

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

The **Santander Atlas Income Portfolio's** 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 (NAV) of the Fund at the start of its accounting year.

As we communicated in previous updates this year, due to unforeseen significant deterioration in market conditions, the smoothed Pence Per Unit (PPU) has been reduced and set for the new fund year which started on 1 August 2020 at 0.55 PPU , for the II share class, which represents a projected annual yield of 3.15% (not guaranteed).

Given the current market conditions have not improved materially since the PPU was set for the fund year, we can confirm that the smoothed PPU payment remains the same for the current month. If the payments need to be adjusted up or down throughout the year as a result of receiving more or less income than expected, we will communicate with you throughout the fund year via our **A Month in the Markets**, or with a separate income update if required, as previously. If you have any concerns or require additional information please do not hesitate to email us at IFAEnquiries@santanderam.com.

Data as at 2 November 2020.

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