A Month in the Markets

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JANUARY 2021

In this latest edition our Portfolio Manager John Mullins looks at how key themes impacted markets in December: COVID-19, Brexit and the aftermath of the US Presidential Election.

Market Overview

Once again there was one dominant theme driving global stock markets over the past month: COVID-19. While there were other major political and financial events throughout December, such as an agreement between the UK and European Union on future trade after Brexit and the confirmation of Joe Biden's election as US President, it was surging COVID-19 cases in much of the world that had the biggest influence on investment portfolios.

John Mullins
Portfolio Manager

US

Despite a series of legal challenges and attempts by the Donald Trump campaign to overturn the election result, the Electoral College confirmed Joe Biden's presidential victory in December. With COVID-19 cases surging, US Congressional leaders passed a long-awaited $900bn fiscal relief package designed to help the economy survive the pandemic. This was the second-largest package of its kind in US history, after the $2.2tn deal passed at the beginning of the pandemic in March 2020.

The relief package was approved at a time when the US economic recovery was in a precarious position. The unemployment rate increased during December, with 787,000 people filing for benefits in the week before Christmas and the total number of people unemployed standing at 25.7 million.

Despite renewed COVID-19 restrictions and rising job losses, US stock markets continued to rise over the month, with the S&P 500 ending December on a record high. The key drivers were technology stocks and companies that benefit from consumer spending.

Europe and the UK

Following over four years of negotiations, the UK and European Union announced a trade agreement on Christmas Eve, with just days to spare. The new deal means there will be no taxes on goods traded between the UK and the European trade bloc, although it does mean businesses will need to complete customs declarations when importing and exporting goods.

Europe and the UK continued to record surging COVID-19 cases over the month, with concerns rising as a new variant of the virus emerged in South East England. This prompted countries around the world to suspend flights and arrivals from the UK just days before Christmas.

The most notable of these was France, which shut the port of Calais for 48 hours and caused a major backlog of cargo trucks in Dover.

In both the UK and Europe, the economic situation was mixed. In the UK, the services sector remained weak as lockdown measures took their toll once again. However, manufacturing activity proved more resilient as businesses brought forward orders to beat the end of the Brexit transition period. European manufacturing activity was also strong, but the services sector remained in decline due to social distancing measures.

Asia and Emerging Markets

Parts of Asia reported much lower rates of COVID-19 than the US and countries in Europe, but Japan and South Korea faced a resurgence over the month. Asian countries in general proved more effective at containing the virus in 2020, but Japan saw the number of its daily reported infections surpass 3,000 for the first time in December. South Korea also recorded more than 1,000 daily cases for the first time.

China's economy, meanwhile, continued to improve. Another month of growth in its manufacturing sector helped the economy return to pre-pandemic levels, although overall economic growth for 2020 will likely be the weakest for 30 years. Overall, stock markets in Asia outperformed those in North America and Europe over the month, mostly driven by the results of the US Presidential Election Joe Biden's presidential victory – which is seen as positive for trade in the region – as well as a weaker US dollar.

Portfolio Management

Our portfolio positioning was largely unchanged over December. We see attractive potential in Shares, specifically in emerging markets. We also added some exposure to European and US Shares across some portfolios to benefit from the so-called 're-opening trade' once COVID-19 restrictions are eased.

In Bonds, we continue to hold European Investment Grade Corporate Bonds and also hold core Government Bonds in some portfolios. However, because we believe Government Bonds offer reduced diversification benefits at the moment, we also continue to hold Gold and counter-cyclical currency exposures, i.e. those that may be likely to perform well even when the economy is suffering.

Outlook

The outlook for global stock markets and economies is tethered to the outlook for the COVID-19 pandemic. With infection rates rising in many parts of the world and two new variants having emerged in the UK and South Africa, it has added pressure on governments worldwide to roll out vaccination programmes as quickly as possible while maintaining protective measures, such as social distancing. The combination of widespread vaccinations and a likely seasonal drop-off of infections in the spring should allow economies to re-open in the summer.

In the meantime, our broad expectation is that central banks and governments will continue to support economies for the foreseeable future, which will be positive for stock markets. Against this backdrop, we are cautiously optimistic and continue to invest in Shares given our view that there will be significant pent-up consumer demand when restrictions are eventually lifted.

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 last 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 Il 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 4 January 2021.

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