Santander Asset Management

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A Month in the Markets

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In this latest edition our Head of Multi-Asset Solutions UK, Stefano Amato, looks at how key themes impacted markets in August: concerns over the spread of the Delta variant, ongoing supply chain disruptions and higher rates of inflation in many regions.

Market Overview

Most major global stock markets were positive in August despite ongoing concerns about the spread of the Delta variant of COVID-19, ongoing supply chain disruptions and higher rates of inflation in many regions. The US led the way, with strong performance in the technology sector helping to push the major stock market indices to new record highs.

Stefano Amato
Head of Multi-Asset Solutions UK

Markets in Europe, Japan and the UK also performed well as economies continued to reopen and business activity moved closer to normality. Asia Pacific and the emerging markets were underperformers, though still slightly positive, while China's stock markets recorded negative returns over the month as the government continued its crackdown on technology companies.

Europe and the UK

Throughout the summer, the UK, much like other economies around the world, faced disruption caused by supply chain issues and staff shortages. Overall, the economic news was promising: business confidence was at its highest level since April 2017,[1] house prices were 11% higher in August than one year ago,[2] and private job creation was strong. Both the manufacturing and services sectors continued to see growing activity during the month,[3] but at a slower rate than in July. This was due to snarled supply chains, insufficient staff levels and materials shortages. Inflation continued to sit slightly higher than the Bank of England's target, but fell to 2.1% from its previous level of 2.5% as retailers cut prices and held summer sales.[4]

In Europe, the economic recovery continued with business activity growing at one of the strongest rates recorded over the past 20 years in August.[5] This performance came despite being slightly dented by supply chain issues, with the services sector expanding at a faster rate than the manufacturing sector. For the second consecutive month, companies looked to fill staff vacancies at a rate not seen for 21 years.[6] Even so, business confidence was subdued as the Delta variant of COVID-19 and the uncertain path of the pandemic became a cause for concern. Inflation sat at elevated levels, reaching a 10-year high of 3%[7] as the cost of energy, food and industrial goods surged.

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US

In the US, the economic recovery continued as business activity saw further growth.[8] Similar to the UK and Europe, the rate of growth was tempered by a similar set of circumstances: supply chain disruption, material shortages and the spread of the Delta variant. For much of the year, the US was riding a wave of strong consumer confidence and increasing activity, but renewed concerns about the pandemic appeared to dampen moods in August.

Consumer confidence fell to its lowest level in six months,[9] in part due to the Delta variant but also because of rising costs of food and fuel, which helped to push inflation to 4.2% - its highest level for 30 years.[10] With both employment levels and inflation rising, the US Federal Reserve hinted that it may begin to wind down some of the support measures introduced at the beginning of the pandemic later this year, but stressed that it is not about to raise interest rates.

Asia and Emerging Markets

Once again, stock markets in the Asia Pacific region underperformed the rest of the world,[11] driven in part by the Chinese Government's crackdown on technology and gaming companies, as well as a resurgent virus. As the major economic focal point of Asia Pacific, what happens in China often has an impact on the rest of the region.

With the world's second largest economy experiencing a slowdown in growth and its government introducing regulatory changes that affect fast-growing technology companies, this took a toll on domestic stock markets as well as those of its neighbours. Manufacturing activity in China continued to expand over the month, but at a slower pace than in the past, as COVID-19 restrictions and higher prices for raw materials began to bite.[12] Conversely, the services sector contracted sharply. In its most recent round of regulatory changes, the government cut the amount of time players under the age of 18 can spend on online games to an hour at weekends,[13] which was seen as yet another blow to financial companies.

Meanwhile, Japan continued to struggle. Industrial output fell as car manufacturing slowed down due to rising COVID-19 cases.[14] Nevertheless, there was a degree of positivity as an official reading of the country's economic growth between April and June came in at 1.3%[15] compared with a slump of 3.7% in the previous three months.

Outlook

While the spread of the Delta variant and rising COVID-19 infection rates around the world remain a concern, we continue to have a positive outlook for stock markets and economies. Governments and central banks remain supportive and it is increasingly clear that the higher levels of inflation that we have seen are likely to be a temporary by-product of economic reopening. The potential for rising interest rates remains an issue that we continue to monitor, but we expect central banks to hold off on such measures for the time being.

As has been the case for more than a year, the pandemic is still the focal point for economies and stock markets, and the situation remains uncertain. That said, it appears we are beginning to learn to live with the virus and this means it is having less of an impact on financial markets than in the past. Vaccination programmes have had a significant impact, although it is still not known how long immunity will last and whether there will be further waves of the virus or a need for rounds of booster shots.

Projected Income

For our latest update on the **Santander Atlas Income Portfolio** see page 3.

Portfolio Management

Over the past month we made few changes within our clients' portfolios as we felt that the positioning was appropriate for the current environment. We continue to take risk in return for potential gains by investing in shares, with a moderate overweight position relative to the index. We favour shares in the US, Europe and Japan, although underperformance in Japan has given us reason to review this position. In bonds, we are underweight relative to the index, with our preference for these holdings being in European fixed income. We still hold gold in some portfolios for its diversification benefits and have a thematic investment in the security sector.

Santander Atlas Income Portfolio update

The **Santander Atlas Income Portfolio's** long-term investment objective is to provide a target income of 4% (not guaranteed) with the potential for capital growth, whilst operating within a defined volatility range. It aims to pay a monthly smoothed income throughout the fund year (which runs from 1 August to 31 July) to help meet the income of investors.

For the financial year of the fund ending on 31 July 2021 (paid at the end of August), we can now confirm that we paid a final balancing payment of 1.19 PPU for the II share class and 2.07 PPU for the IA share class as communicated in our August Income Update. The historic income for 2020/21 was 3.44% for the II share class and 3.49% for the IA share class. While this is below the target income objective for the fund, as explained in previous updates, this is a reflection of the unprecedented change in market conditions.

While the **Santander Atlas Income Portfolio** has the appropriate flexibility and investment tools to provide a competitive level of income in varying market conditions, the highly uncertain market environment we are currently operating in means we foresee market challenges in the year ahead. For this reason, we are setting a projected level of income which we believe is prudent and achievable in the current climate.

The new financial year for the **Santander Atlas Income Portfolio** started on 1 August 2021. Based on the Net Asset Value (NAV) on that day, we project an annual income of 3.30% (not guaranteed). Each individual investor will have their own personal income based on the price of the units on the day they invested. As the projected levels of income are lower than the fund's target, we will continue to monitor closely, and as markets evolve assess whether this has any longer-term impacts on the fund.

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 within these monthly updates, or with a separate income update if required. If you have any concerns or require additional information please do not hesitate to email us at IFAEnquiries@santanderam.com.

All data as at 1 September 2021.

[1] Lloyds Bank - Job prospects at highest level since 2018 as business confidence remains robust, 06/21
[2] Nationwide - August upturn as UK house price growth increases to 11%, 08/21
[3] Markit Economics - Recovery loses momentum as supply constraints hit output growth in both the manufacturing and service sectors, 23/8/21
[4] Office for National Statistics – Inflation and price indices, 18/8/21
[5 and 6] Markit Economics - Eurozone flash PMI holds close to 15-year high, job market booms, 23/8/21
[7] Trading Economics - Euro Area Inflation Rate, 8/21
[8] Trading Economics - United States Composite PMI, 8/21
[9] The Conference Board - Consumer Confidence Fell in August to Lowest Level since February, 31/8/21
[10] Bureau of Economic Analysis - Personal Income and Outlays, 27/8/21
[11] Reuters - Asia shares ease as weak China data weighs, 31/8/21
[12] Trading Economics - China NBS Manufacturing PMI, 8/21
[13] BBC - China cuts children's online gaming to one hour, 30/8/21
[14] Reuters - Japan's July factory output slips as COVID-19 hits car production, 31/8/21
[15] BBC - Japan's economy bounced back ahead of the Olympics, data shows, 16/8/21

Important Information

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

Subscriptions to a portfolio may only be made on the basis of the current Prospectus and the Key Investor Information Document (KIID), as well as the latest annual or interim reports, which can be obtained free of charge on request, and the applicable terms and conditions. Please refer to the 'Risk Factors' section of the Prospectus for all risks applicable to investing in any portofio and specifically this portfolio.

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