



Quarterly



Perspectives

Q4 2024

This publication aims to provide an insight into the changing economic environment and importantly, how this has impacted financial markets and investments. Our Multi-Asset Solutions team at Santander Asset Management UK share their thoughts on the market outlook and how they have adapted investment portfolios to position our clients for the road ahead.



Summary of Quarterly Perspectives content:

- Review of the final quarter of 2024
- Investment performance of different asset classes
- Our expert's opinion on the investment outlook
- How have our multi-asset fund managers changed their portfolio positioning based on the outlook and our tactical asset allocation
- Summary of the quarterly perspectives

Outlook **at a glance**

Current view: ✓ Positive ■ Neutral ✗ Negative

Quarterly change since previous outlook: ▲ Upgrade ➤ Unchanged ▼ Downgrade

Asset classes	Current view	3 month change	At a glance
 Shares	✓	➤	We currently hold a positive view on shares globally. Although we forecast central banks to keep interest rates higher for longer due to inflation remaining sticky, we remain confident in our base-case scenario of growth stabilisation for economies globally which will likely have a positive impact on company earnings.
 Bonds	■	➤	We are happy to take on additional risk within our funds and are therefore overweight shares relative to bonds. We prefer high yield bonds, as they are currently offering attractive returns for the associated risk.
 Cash	✗	➤	While cash is still attractive in the short term, we have used our cash holdings to invest in more shares, given their recent performance and our positive outlook for the asset class. Cash is unlikely in the medium to longer term to provide consistent real (after the effects of inflation) returns.

Regional stock markets	Current view	3 month change	At a glance
 US	✓	➤	We hold a positive view of US shares. However, we have trimmed our exposure in the wake of the post-election rally. Although we have reduced our allocation to US shares across the funds, we are still holding an overweight position relative to fund benchmarks.
 UK	✓	➤	We continue to believe the UK market is attractively valued relative to its longer-term historical average and compared to other developed markets and therefore hold a positive view of UK shares.
 Europe	✓	➤	The European Central Bank (ECB) was the first of the three major central banks to cut interest rates in 2024 and went on to cut interest rates four times to combat tough economic conditions. We hold a positive view on European shares on the back of attractive company valuations and our expectation of rate cuts by the ECB this year.
 Japan	✓	➤	As the number of tourists to Japan increases and domestic real wage levels rise, we anticipate that the Service sector will be the primary beneficiary, leading to a lasting enhancement in corporate earnings.

Reviewing the final quarter of the year

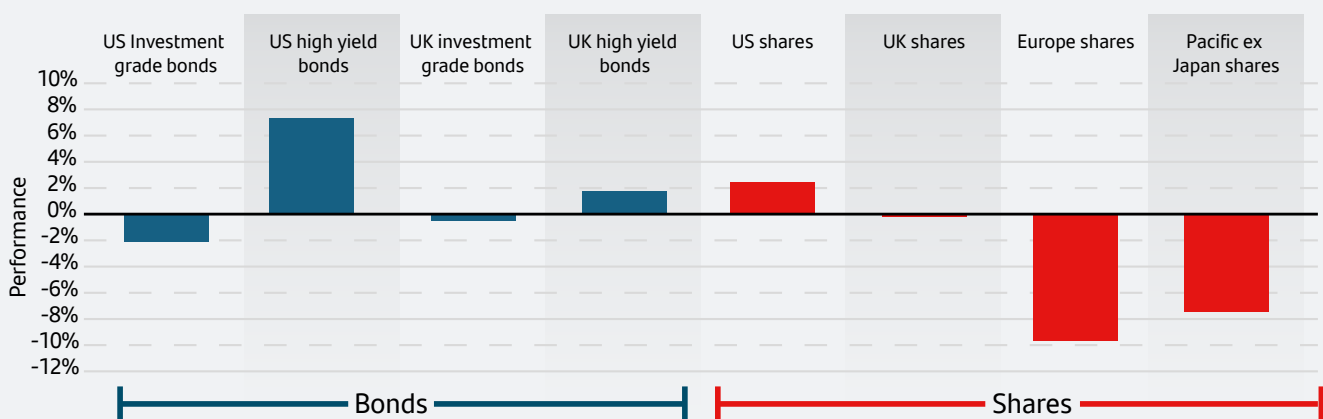
Global stock markets posted a mixed set of returns over the final quarter of the year. More interest-rate cuts from the world’s major central banks helped to underpin positive market sentiment for much of the period. Despite cutting rates three times in 2024, less-supportive comments¹ from the US Federal Reserve (Fed) in December unsettled investors and led to some profit taking in the final weeks of the year. Both the ECB² and the Bank of England (BoE)³ also cut rates during the period, although there were signs of a moderate pick-up in inflation in many countries, including the US,⁴ eurozone⁴ and UK.⁴

Despite the US leading the pack in terms of returns, the global economic outlook remained subdued. While the US economy was notably resilient,⁴ China’s economy continued to face weak consumer sentiment⁵ and problems continue to persist in its domestic property market. Growth in Europe,⁶ the UK⁷ and Japan⁸ remained relatively fragile, while India⁹ showed further signs of a slowdown.

Developed market stocks outperformed emerging markets during the period, continuing a trend we’ve seen for most of the year. Alongside the US, Singaporean and Japanese stock markets were quite strong in local-currency terms. Europe (excluding the UK) and, to a lesser degree the UK, produced negative returns, owing to signs of sluggish economic growth and increasing political turmoil in the key markets of France and Germany. Most emerging market shares were weak but Taiwan was a notable exception as its market continued to benefit from a strong technology cycle.

As bond yields picked up over the quarter, especially in December, bond markets posted a mixed bag of returns. Only the returns from riskier global high yield bonds and global corporate bonds made positive total returns. The rise in yields reflected the uptick in inflation levels and investors’ recognition that interest-rate cuts in 2025 were likely to be limited in scope and frequency. The US 10-year Treasury yield rose above 4.6%¹⁰ in the final days of the quarter, its highest level since April. Eurozone, UK and Japanese government bond markets also fell.

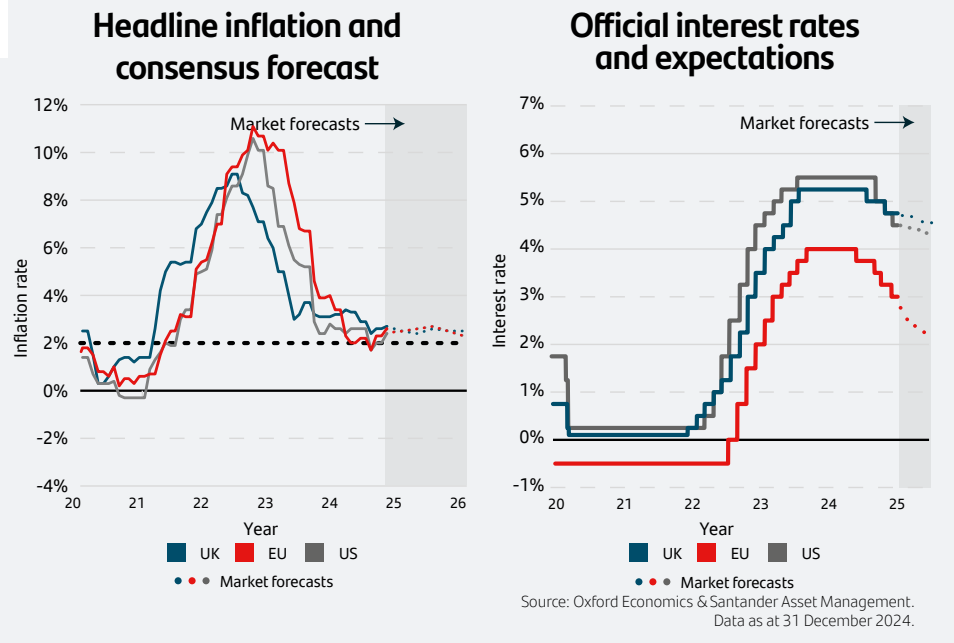
4th quarter asset class performance



Source: Investing.com. Bond returns are in Pound Sterling, share returns are in their respective local currencies.
 US Investment grade bonds: Bloomberg USD Liquid Investment Grade Corporate USD. US high-yield bonds: Bloomberg U.S. Corporate High Yield USD. UK investment grade bonds: ibovx £ non-gilts. UK high yield bonds: ICE BofA Sterling Developed Markets High Yield Index.
 US shares: S&P 500. UK shares: FTSE 100. Europe shares: MSCI Europe. Pacific ex Japan shares: MSCI ASIA EX JP. Data as at 31 December 2024.

Inflation and interest rates

Inflation and interest rates have been dominating the financial news lately, and for good reason. Understanding these measures is crucial to making informed investment decisions, as they can help explain why your portfolio may be behaving in a certain way. The two charts below provide a view of historic and current trends in these areas, helping you to better understand what's going on in the current economy.



When interest rates go up, it becomes more expensive to borrow money, which can lead to a decrease in consumer spending and economic growth. This can cause shares and bonds to lose value and make it harder for companies to generate profits, which can ultimately hurt your investment returns. However, raising interest rates can be a powerful tool for tackling inflation. The slowdown in spending helps to reduce the upward pressure on prices that contributes to inflation. While rising interest rates may have a negative impact, it can play an important role in keeping inflation in balance.

Inflation and interest rates outlook

As we look ahead to 2025, our base-case scenario for global markets is normalising economic conditions with growth stabilising around trend levels. We think this will include falling interest rates, as monetary policy moves from restrictive to neutral in response to inflation coming under control in the US, UK and eurozone.

In the US, we believe a recession has been avoided due to the stabilisation of economic growth and inflation falling closer to the Fed's 2% target. In the UK, we expect inflation to remain 'sticky', which is when prices stay high for an extended time despite changes in economic conditions. We believe this stickiness will be driven by higher wages and housing costs. Therefore, we are now expecting between 0.5% and 1% of interest rate cuts from the BoE in 2025.

Share outlook

In the US, we are anticipating the strong performance of the US stock market to continue in early 2025, spurred by the impact of Donald Trump's election. The sentiment of the president-elect's agenda has been pro-business, with deregulation and corporate tax cuts being floated as potential policies. We expect this to provide positive momentum for US shares at least until Trump's inauguration in January.

Although we believe that inflation in the UK will struggle to reach the BoE target of 2%, therefore decreasing the expectation of rate cuts from the central bank in 2025, we continue to believe the UK market is attractively valued relative to its longer-term historical average and compared to other developed markets.

We are conscious of the risk that global economic growth could slow and global inflation could accelerate. This may result in central banks straying from the market's current expectations for cuts to interest rates. However, we remain confident in our base-case scenario of growth stabilisation for economies globally.

Bond outlook

Baffled by bonds?

Visit our [Basics on Bonds](#) page for more information.

At current yield levels, bonds remain attractive. We continue to prefer bonds issued by companies, known as corporate bonds, over government bonds, as they offer higher yield. When a bond that a company has issued (to pay a debt obligation or fund its expansion in a certain area, for example) reaches its end date, the company may need to refinance by issuing a new bond to the market to replace the funds provided by the matured bond. In 2024, many investment-grade (IG) (higher-rated) corporate bond issuers were able to refinance without any concerns. For issuers of high-yield (HY) bonds (perceived to be riskier than IG bonds), we have also seen many companies able to refinance while remaining financially healthy. Going forward, there is the risk that HY issuers may not be able to refinance at the current interest rate levels. However, we did not see defaults above average levels in 2024, indicating that companies are generally in a stable financial position and able to meet their debt obligations. Therefore, we remain confident in our preference for higher quality corporate bonds.

Our tactical asset allocation

Our tactical asset allocation represents our views on the financial markets based on the current market conditions and our own market outlook over the coming months. The following table demonstrates how our current positioning is either underweight, overweight or neutral when compared to a funds benchmark. Generally, an underweight position means that we think an asset class will perform worse than others, so we hold less of it. Holding an overweight position means that we think an asset class will perform better, so we hold more of it. A neutral position means that we think an asset class will perform similarly to others, so we will hold a similar amount to the benchmark allocation.

	October	November	December
Shares			
UK	●	●	●
US	●	●	●
Europe	●	●	●
Emerging Markets	●	○	○
Japan	●	●	●
Pacific Region (Excluding Japan)	●	●	●
Bonds			
Government Bonds	●	○	○
Investment Grade Credit	●	●	○
High Yield Bonds	●	●	●
Emerging Markets Bonds	●	○	○
Money Market			
Cash	●	●	●

● Very Overweight
 ● Overweight
 Neutral
 ● Underweight
 ● Very Underweight

The table captures our preferences over the duration of the three months shown.

Summary

- Global stock markets posted a mixed set of returns over the final quarter of the year.
- As we look ahead to 2025, our base-case scenario for global markets is normalising economic conditions with growth stabilising.
- We expect fewer rate cuts from the BoE in 2025 than originally expected, we believe this will likely be between 0.5% and 1%.
- We are anticipating the strong performance of the US stock market to continue in early 2025.
- Shares performed well in 2024; we have a positive view on shares going forward.
- We are happy to take on additional risk within our funds and are therefore overweight shares relative to bonds.

Find out more

Learn more, visit our website [here](#) for more insights into financial markets.

Note: Data as at 14 January 2025.

¹ Financial Times, 19 December 2024

² Reuters, 12 December 2024

³ Financial Times, 7 November 2024

⁴ Trading Economics, 31 December 2024

⁵ Financial Times, 18 October 2024

⁶ Financial Times, 30 October 2024

⁷ BBC, 23 December 2024

⁸ Reuters, 9 December 2024

⁹ Trading Economics, 31 December 2024

¹⁰ CNBC, 31 December 2024

Important Information

For retail distribution.

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