Santander

Think Investments

Summer 2023

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

Everyone has their own reasons for investing. Our needs and goals are personal, which is why speaking to a professional financial adviser before making any decisions can often be a good idea. As a Senior Financial Planning Manager at Santander, my aim is always to help my customers make the right choices for them.

Customers ask me a lot of good questions as we work together on their plans. I share some of these, and how I answer them, in our first article.

I always highlight to my customers the benefits of spreading their money in line with their investment goals, across different asset classes, industries and regions of the world.

This diversification is one of the golden rules of investing. Our second article looks at why it matters and the role indices like the FTSE 100 can play in that.

Back in March, the Chancellor Jeremy Hunt delivered his Budget statement. In our final article we look at some key take-aways and how they could lead to investment opportunities in the UK.

As always, we hope you find Think Investments an interesting and helpful read.

Dawn Reedy
Senior Financial Planning Manager, Santander

What investors really want to know

Whether you've been investing for years, or are right at the beginning of your journey, a professional financial adviser could help you navigate your way to your financial goals and future dreams.

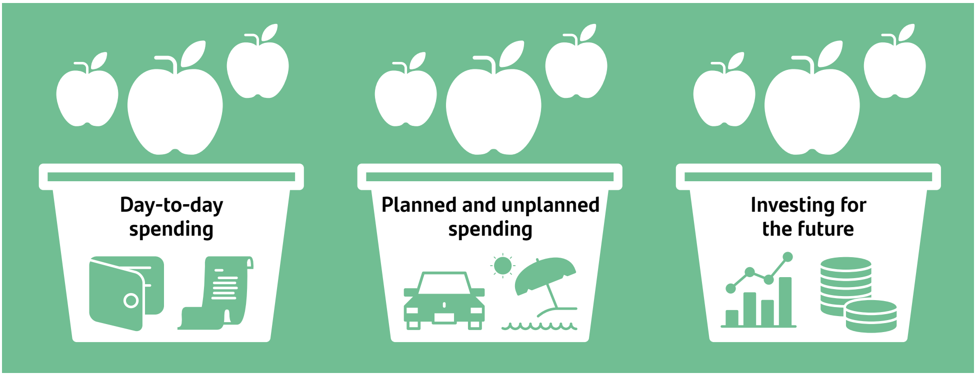
Dawn Reedy, a Senior Financial Planning Manager at Santander with 13 years' experience as a financial adviser, shares the types of questions she's often asked by customers and how she goes about answering them.

What can I do to make my money grow?

This is a common question to ask if you're new to investing and might have money in one or two savings accounts. While rising interest rates may mean cash savings are paying more than they have for a long while, inflation is still outstripping that growth. So the first thing is to help you understand that money in savings is losing its value in real terms.

Then we'd discuss how to best structure your finances in a way you're comfortable with. Initially you should aim to repay your debt or make sure you can afford your agreed repayments. Savings are a good way to meet short-term goals and you should aim to have at least three to six months' of outgoings in an emergency fund. If all that's in place, then it could be time to consider investing.

To illustrate this, I draw three boxes on a page, each of which contains a 'pot.' The first is for day-to-day spending, paying household bills and credit card debts. The second is all about planned and unplanned spending as well as saving up for a bigger expense, such as a new car or big holiday. When it comes to the third pot - longer-term goals and building wealth for the future – you could think about investing. This can be a real lightbulb moment.



Will I lose my money?

With so much ongoing uncertainty in the world, it's understandable that you'd want to know if you might end up worse off.

When it comes to investing, it's my job to find the level of risk you're comfortable taking with your money. With Santander, the safest option involves a very low-risk investment which will not fall below a certain level. I select investments with your circumstances, objectives and attitude to risk in mind and guide you through that process.

If you're already invested, I'd ask you to think back to the goals you set when you first started investing, and consider whether you've met that goal yet. If you've not, I'd remind you investing is for the longer-term so if you don't need the money now and the investments are still appropriate for you, then it may be best to leave it invested. I'd reassure you to stay calm and not make any knee-jerk decisions, even if what's going on in the world can feel unsettling. If you take your money out now and put it in cash you may not reach those objectives.

The exception here is if your personal circumstances have changed, and you need money to make ends meet. But taking money out of investments earlier than planned should only ever be a last resort, as you could end up with less than you put in.

I'd also remind you that a downturn is often followed by a recovery, which you could miss out on. The key is keeping a long-term perspective. I'd ask you to look ahead, exercise patience and focus on the bigger picture.

How much am I likely to make?

If you ask me this question, I'll ask you what you're looking to achieve. If you have a specific amount of growth in mind over a certain period we can look at the drivers behind that growth and how to achieve that while being realistic.

An alternative to investing a lump sum, could be to consider investing a regular monthly amount, to achieve your goals. This can make a real difference, helping to smooth out the impact of market highs and lows.

How is my money managed?

If you invest through Santander, your money may go into one or more investment funds. These are managed by professional fund managers. With Santander's Investment Hub, you can also keep an eye on how your investments are doing and manage your money at any time online with the support of our Investment Hub Team.

What is my money invested in?

At Santander we can spread your money across different asset classes – such as shares, corporate bonds and government bonds – as well as across different industries and regions of the world. Customers are often surprised to hear how diversified investment funds can be. Finding the level of diversification which is appropriate for customers, can be an important part of investing.

Do I have to go ahead with your proposal?

My answer to this is a resounding 'no'. If you think investing isn't right for you now, I'd advise you not to do it. You have to feel comfortable with investing and you are not obliged to invest until you're ready.

It might take a few meetings for you to decide whether and how to invest and that's absolutely fine. We take your investment journey at your pace and most importantly treating each customer individually.

You'll only pay an advice fee if and when you go ahead with my advice and the investments we've discussed.

What is diversification?

Diversification is one of investing's golden rules. It means spreading your money across different asset classes to help smooth out market ups and downs and manage your risks.

Diversification matters because it means when some of your investments aren't doing so well, others could potentially be performing better. It's this effect that helps to smooth out those ups and downs over the longer-term and manage your risks.

Examples of different asset classes include cash, bonds, property and shares. Then you can diversify across the different options within each asset class. This could be over different sectors or different countries and regions around the world. For example, if you buy shares, you buy across a range of different sectors such as financials, resources, healthcare and energy. You could be invested in industries ranging from financial services and technology to consumer goods and healthcare.

Looking to the longer-term

While effective diversification helps keep you on track to meet your goals over the longer-term, it can be tempting to take a short-term view and put more of your money into investments that are currently performing well.

The UK's FTSE 100 index has been a recent example of this. It outperformed most major world indices in 2022, ending the year with a 0.9% gain[1] while European markets suffered losses and the US Dow Jones and S&P 500 indices were down 8.8% and 19.4% for the year[2].

By February 2023 the FTSE 100 index had reached a record high[3], breaking through the 8,000-point barrier. This was despite the current challenging economic environment in the UK. It's important to note that past performance is not a predictor of future performance.

1 The Guardian – FTSE 100 ends 2022 slightly up despite global turmoil, 30/12/2022
2 CNBC – Stocks fall to end Wall Street's worst year since 2008, S&P 500 finished 2022 down nearly 20%, 30/12/2022
3 Evening Standard – FTSE 100 breaks 8000 for first time in history, 15/02/2023

How does the FTSE 100 compare to other indices?

One reason the FTSE 100 did better than many other well known indices in 2022 was its heavy weighting towards companies in the energy and financial sectors. These performed strongly at a time of higher energy prices, inflation and interest rates.

The US S&P 500, on the other hand, fell by around 20% during 2022. It counts tech giants such as Apple, Alphabet (owner of Google), Microsoft and Amazon among its biggest constituents, and was dragged down in 2022 by the impact on this sector of high inflation[4].

Technology companies had benefited significantly from low interest rates over the previous decade. The S&P 500 did well as a result, meaning it performed better than the FTSE 100 during that time. But as the economic environment changed in 2022, the big stock market indices were affected in very different ways.

An index is a way of measuring the overall performance of a set group of companies, assets or stocks. They can be used as benchmarks for how certain industries or economies are performing. The FTSE 100 is the one often mentioned in discussions of the UK economy.

Taking a closer look

Understanding the reasons why some investments perform better than others at different times, and perhaps in ways you might not expect, can help keep you on track when temptation strikes. Along with reminding yourself that diversification is about having the right overall balance to achieve your longer-term goals.

One of the most important things to know about the FTSE 100 is that while it's an index of the 100 largest companies trading on the London Stock Exchange, it's formed of businesses with operations all over the world. Just over 80% of their combined revenue comes from overseas markets, and some of the biggest companies - such as Shell, BP, AstraZeneca and HSBC - are those with global operations[5].

It's also a weighted index, which means each holding is weighted by how much it's worth, rather than equally. When you invest in the FTSE 100 your money is concentrated in a relatively small number of very large companies. And because many of these are global, it can rise or fall regardless of what's happening in the UK economy.

Eggs, baskets and indices

Investing in an index like the FTSE 100* gives you a degree of diversification, but if that's all you invested in, you'd have a much higher exposure to certain sectors than others. It might mean you've got more eggs than is right for your circumstances in that single index basket.

Even by spreading your money across different indices, you can increase the breadth and depth of the types of investments, sectors and global regions you invest in. This could also help with managing your risk of losses in the event of one or two sectors or regions falling sharply.

Experts on your side

The benefits of diversification can be even greater with a professional looking after your money, such as an investment fund manager or a financial adviser. They have the knowledge, resources and experience to advise how to diversify investments over the longer-term. That all helps with keeping you on track towards your goals at a level of risk you're comfortable with.

A few key holdings can influence index performance

The FTSE 100's record high in February 2023 was driven by the huge profits reported by energy firms including Shell and BP, which are among the index's biggest five holdings[6]. This might seem attractive when those sectors are performing well, but it will be less so during a downturn or when other sectors, to which the index is not exposed, are thriving.

4 S&P Global Market Intelligence – S&P 500's top ten stocks lose 37% of market cap in 2022 amid tech decline, 24/01/2023
5 FTSW Russell – Overseas revenues: a boon for FTSE 100 performance, 18/10/2022
6 Forbes – Why Were Tech Stocks Down in 2022 And How Long Will The Slump Last? 19/01/2023

* FTSE 100 has been used for illustrative purposes only

Article provided by Santander Asset Management UK for Santander investment customers.

Investing in the UK economy

Ambitious government plans for alternative energy and technology could open up new opportunities for UK investors.

The UK economy has been through a difficult time, but the Chancellor Jeremy Hunt sounded a more optimistic note about the UK's prospects in his March 2023 Budget speech. The economy would decline 0.2%, he said, but avoid a technical recession where total economic output falls for two quarters in a row. Inflation, then running at just over 10%[7], would be below 3% by the end of the year[8].

A brighter economic picture

This was a better outlook than delivered by the International Monetary Fund (IMF) at the end of January, which said the UK would be the only major economy to shrink in 2023[9].

The Chancellor's speech focused on key areas to generate momentum in the UK economy, with measures aimed at boosting the labour supply through improving childcare support and relaxing rules around pension lifetime and annual allowances for tax. He also outlined plans to improve education. That includes through ongoing skills training, encouraging entrepreneurship and making sure the benefits of economic growth are evenly spread.

Stimulating growth in key industries

The government also ear-marked support for some key industries to stimulate growth in the UK economy.

1 Renewable energy

The UK is already ahead of its European peers on adopting renewable energy, but the Chancellor recognised the need to be more ambitious to achieve net zero goals. The government has allocated £20bn to

7 Guardian – UK inflation falls but remains in double figures, 15/02/2023
8 Gov.UK – Spring Budget 2023 speech, 15/03/2023
9 BBC – UK expected to be the only major economy to shrink in 2023 – IMF, 31/01/2023

developing a Carbon Capture Usage and Storage sector. The Chancellor said this would: "support up to 50,000 jobs, attract private sector investment and help capture 20-30 million tonnes of CO_2 per year by 2030."[10]

2 Nuclear power

The government also announced the reclassification of nuclear power as 'green energy'. This means it will have access to the same investment incentives as renewable energy. There are plans for the government to co-fund companies to develop small nuclear reactors, while establishing 'Great British Nuclear', designed to bring down costs across the nuclear supply chain. This will all support the government's goal of nuclear energy forming one quarter of the UK's electricity supply by 2050.[11]

3 Artificial Intelligence

The Chancellor restated the ambition of many previous governments that the UK should be a "science and technology superpower". In particular, he focused on Artificial Intelligence, launching a new 'sandbox' – essentially a place where entrepreneurs can trial new technologies, helping them through the regulatory process and get to market faster.

4 Quantum technology

Artificial Intelligence needs a lot of computing power to store and analyse data effectively. As part of this, the Chancellor also allocated £900m for developing super-computers and set out a 'quantum strategy', saying: "countries that develop and use quantum technologies will have advantages in terms of productivity, economic growth, health, sustainability, and national security and resilience."[12]

Encouraging investors to the UK market

The Chancellor also covered work that is underway to encourage new domestic and international investment in the UK. This includes the 'Edinburgh Reforms'. These are proposed reforms to give firms more flexibility in how they disclose information about products, designed to make it easing for growing businesses to raise capital in London. A change in rules will also allow UK pension funds more flexibility in how they invest.[13]

All of this raises the prospect of new and varied investment opportunities in the coming months and years. As his Budget plans settle in and start to take shape Chancellor Jeremy Hunt will be hoping that, taken together, these measures can help generate self-sustaining growth and set the UK on a constructive new path.

What does this mean for me?

If you're invested in the UK through one or more investment funds, your fund managers will take the Budget measures into account when making investment decisions, alongside many other economic factors. This is one of the benefits of having experts on your side.

The changes to pension allowances mean you can now potentially invest more than before through a pension and benefit from tax-relief on what you pay in. If you are unsure what this means for you, you may find it helpful to speak to a financial adviser.

Quantum technologies explained

It's very likely you are already familiar with quantum technology without knowing it. Smartphones are a type of quantum technology – they depend on semi-conductors which in turn rely on quantum physics – but fortunately we don't need to understand the details to enjoy the benefits.

These benefits can include faster processing capabilities with more data powers. Quantum technologies can be harder to hack, improving security. They can also provide powerful modelling to accelerate research and development work.

10 Fuel Oil News – Industry welcomes Chancellor's £20bn backing for carbon capture and storage, 15/03/2023
11 Independent – Chancellor reclassifies nuclear power as 'environmentally sustainable', 15/03/2023
12 Gov.UK – National quantum strategy, 15/03/2023
13 ICAEW – Government outlines final reforms to Solvency II regime, 22/11/2022

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