Santander Wealth Management & Insurance: "We expect opportunities in innovation, sustainability and private markets"

- Santander Wealth Management and Insurance expects "attractive investment opportunities" next year in innovation, sustainability and private markets.

- The central macroeconomic scenario for 2022 is based on a gradual adjustment in global supply chains, a steady decline in inflationary pressure and growth rates that should remain above pre-covid levels.

- However, the recent emergence of a potentially more contagious virus variant (Omicron) means we cannot rule out less-likely negative scenarios.

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Santander Wealth Management & Insurance, that includes Grupo Santander's private banking, asset management and insurance businesses, expects interesting opportunities next year in stock markets and areas such as innovation, sustainability and private markets. *"In an environment of transition and disruption, active investment management is paramount"* said **Global Head of Santander Wealth Management & Insurance Víctor Matarranz** in his opening letter to the 2022 Market Outlook report titled "Investing in a world in transition".

The report highlights the need to position investments in sustainability: "Regulation and society are demanding a strong commitment to achieve net-zero targets. Sustainability is probably the most important trend and opportunity on our radar, as investment flows from the public and private sectors will be significantly affected by environmental factors."

It also suggests alternative investments to diversify portfolios and enhance the risk-return balance. "Investors are transitioning into private markets in order to broaden the opportunity spectrum and capture the illiquidity premium. Private equity and private debt portfolio managers have the flexibility to exploit diverse opportunities in markets and economies that we envisage will remain in transition over the coming years. The lack of yield from listed securities is forcing investors to look beyond traditional asset classes."

The report highlights that while single-digit (under 10%) returns are likely in the stock markets in 2022, they will still be higher than those from bonds and cash. Though earnings estimates remain solid, a slowdown is expected given the high growth in previous quarters. The company is positive about the financial industry — which is in a good position to make the most out of expected interest rate hikes — and the healthcare industry. A new era of innovation is driving value creation in such areas as cybersecurity, energy transition, artificial intelligence and internet of things (IoT), with opportunities for high growth and robust margins.

Santander Asset Management

Santander Private Banking

The company expects the central macroeconomic scenario to remain positive for 2022, based on a gradual adjustment of global supply chains, a steady decrease in inflationary pressure and growth rates that are expected to remain above pre-covid levels. However, the spread of a new covid variant (Omicron) with a high number of mutations could have an adverse effect on such recovery. According to Víctor Matarranz, *"Investors and policymakers will have to get used to a macro environment that is transitioning from the positive tailwinds of strong government and regulatory support to a more uncertain scenario of complex dynamics for growth and inflation."*

The Wealth Management unit believes clients should remain invested according to their risk profile for as long as the economic cycle expansion phase lasts. Though momentum is slowing, forecasts continue to point towards above trend GDP growth (more than 5% this year and over 4% in 2022). It also advises managing the impact of inflation, pursuing real returns, adopting flexible investment strategies in fixed income and selecting companies with pricing power and resilient margins.

"The main risk to our positive base case (in addition to virus mutations) lies in a non-transitory inflation environment that could tighten global interest rate curves. We expect interest rates to slowly rise, staying below inflation, which will leave real negative returns for both cash and investment grade bonds", the report highlights. In the central scenario, it envisages higher inflation than the pre-pandemic period for the next two years and the start of a moderate period of rate hikes (US by 2022 year-end and the Eurozone by 2023).

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