Santander Asset Management

Santander GO Global Equity ESG

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Fund commentary

Market developments

Despite headlines around the Ukraine alternating between hope and fear, global equity markets slowly started their way up again in the month of March. Since the war started, sector performance unsurprisingly tilted in favor of Healthcare, which is not directly impacted by consumer or inflationary exposure. Energy and Mining performed strongly too, obviously benefiting from the underlying commodity moves. Meanwhile, in the US we saw the "2s10s" yield curve inverting, meaning short-term interest rates exceed long-term rates, which is typically a warning signal for economic trouble ahead. However, other economic indicators do not point to an imminent recession, with equity markets actually rising as economic expansion still carries on for some time. Moreover, the EU "2s10s" yield curve steepened, as inflation is pushing up longer end yields with the ECB more focused on trimming QE before hiking rates. Finally, China reminded us Covid worries should not be entirely dismissed, again adhering to a strict zero-Covid policy in several major cities, presenting risk to its growth outlook. All in all, equity markets are not out of the woods yet, reflected in market sentiment still remaining quite shaky at the moment.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being Cheniere Energy, which is our preferred pure-play on significantly rising US LNG exports. Our second largest active weight is AstraZeneca, which has one of the strongest product pipelines in Pharmaceuticals, while at the same time having low risk to patent expiries. Bank of America completes our top-3 active positions, which will likely benefit from interest rates moving higher now the Federal Reserve has started its tapering policy and increased interest rates.

Performance

In March, our strategy outperformed relative to the benchmark. Strong stock picking in Healthcare, Consumer Discretionary and Communication Services added most to performance, but was somewhat offset by weaker performance in Financials, Real estate and Industrials. The main positive contributor to performance was AGCO, an American farm equipment maker benefiting from rising soft commodity prices, boding well for further farmer spending in an already sold-out market. Another strong performer has been Eli Lilly, helped by pending approvals for highly promising products, whilst also being seen as a quality safe haven largely unaffected by broader macro worries. On a similar note, AstraZeneca also performed strongly again in March, seen as a high quality defensive stock to own in this uncertain environment. On the flipside, however, our holding in consumer finance play Capital One suffered amid rising concerns of credit normalization and a more uncertain outlook for the US consumer. We also had a detraction in performance from Bank of America, with US yield curve inversion by the market interpreted as a potential signal for an economic recession, which would hurt diversified banks in the end too. Finally, renewed supply chain concerns spreading across the automotive complex, resulting in yet another IHS downgrade on expected car production numbers, causing our holding in Sensata Technologies to struggle throughout the month.

Portfolio Changes

During the month of March, we have added RELX to the portfolio, which is a high quality provider of science, risk and data analytics, perhaps best known for owning publisher Elsevier. The company's strong FCF generation, high ROIC, supportive ESG credentials and defensive characteristics moved us to take a position. As a source of funding, we decided to take cyclical Industrials risk off the table by selling our holding in Sandvik. We also sold our position in Sensata as the outlook for car sales has continued to deteriorate, clouding the earnings prospects for Sensata too. Instead, we see much better prospects for Zebra Technologies, which runs a quality franchise in warehouse automation and logistics, generates high ROICs, shows excellent FCF generation and trades at very attractive levels again after a steep sell-off. Furthermore, we also sold our position in online retailer ASOS as we've grown less convinced of the potential to turn around its struggling business in the current environment. Other changes to the portfolio include a reduction in the weight of Bank of America and Micron in favor of both Crown Holdings and Cheniere Energy, where we see more upside potential. Finally, we also took a new position in Check Point Software, a US cyber security company, as we believe the demand for its products could rise substantially on the back of current geopolitics.

Management expectations

We have a more cautious outlook for developed market equities as macro risks have clearly increased. Global growth still looks resilient, though, and we don't think an economic recession is imminent. Moreover, although consumer strength is moderating, especially in the US, it remains a reason for optimism with US households and US corporates still carrying lots of cash on their balance sheets. However, at this stage we do have to prepare for a scenario where the economic spillover from the Ukraine invasion is more severe than thought as well as staying vigilant on looming demand destruction from surging inflation. We also must not forget about Covid just yet with several strict lockdowns in China resurfacing once again. All in all, despite valuations having reached more normalized levels, we remain more cautious near-term given ongoing inflation concerns and the impact on equity fund flows from broader geopolitical uncertainty. Our strategy has firmed up on our Quality exposure as to navigate the current environment as best as possible.