

Santander GO Global Equity ESG

6 / 2022

Fund commentary

Market developments

Global equity markets experienced a very tough month of June, dropping over 6%. The US Federal Reserve's more aggressive stance in getting inflation under control and the subsequent lift-off in interest rates seems to have caused even more recession worries. With leading economic indicators and consumer data points weakening, the broader commodity complex has come under pressure as well. With so much universal bearishness across markets, valuation multiples have clearly de-rated. At the same time, during June we did see signs of life in the growth corner of the market as some believe rates eventually have to come down again once inflation starts to normalize at lower levels. Clearly, we are not there yet and we don't think a strong market rebound is imminent. As we enter earnings reporting season, the next shoe to drop is likely a reset of still too rosy earnings expectations. This might be the final leg down in equities before we arrive at a tradeable inflection point.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being AstraZeneca, which has one of the strongest product pipelines in Pharmaceuticals, while at the same time having low risk to patent expiries. Our second largest active weight is Cheniere Energy, which is our preferred pure-play on significantly rising US LNG exports. US Pharma company Eli Lilly & Co. completes our top-3 active positions, one of the strongest innovators in the pharma space which is reflected in a very promising drug pipeline as well.

Performance

From a relative point of view, June has been a strong month for our strategy, significantly outperforming the benchmark. Year-to-date, the strategy also shows decent outperformance relative to the benchmark. Strong stock picking in Healthcare and Energy, in particular, added most to performance. Main positive contributors were our pharma holdings Eli Lilly and AstraZeneca and managed care provider UnitedHealth, as Healthcare remains the relative safe haven sector amongst defensives. We also saw good performance contribution from Cheniere Energy, benefiting from higher LNG prices, as well as car parts retailer AutoZone on the back of continued commercial momentum. We saw some performance detractor in Industrials driven by weakening PMIs and softening residential activity trends, hurting capital goods companies across the board including our holding in farm equipment maker AGCO Corp and Dutch lighting player Signify.

Portfolio Changes

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During the month of June, we have trimmed some cyclical exposure while continued to bottom-fish for high quality names that would raise the overall ROIC, FCF and Sustainability profile of the portfolio. We have reduced our weight in Bank of America and added to Visa. As eCommerce trends continue to be weak, we have sold eBay. We also sold our position in Texas Instruments in order to reduce the more at-risk exposure within the semiconductor space. Instead, we re-allocated those proceeds into Colgate, AutoZone, GlaxoSmithKline and Check Point Software as to firm up our position in more defensive, high Quality companies.

Management expectations

We remain cautious on our outlook for developed market equities as macro risks are clearly elevated. As demand destruction is kicking in, global economic growth is slowing down significantly. We think that the possibility of an economic recession in parts of the world is rising, in Europe in particular, as there is still no end in sight with regards to the Ukraine war and the knock-on effects this has across markets. Consumer strength is also moderating from very high levels with especially consumer confidence turning outright bearish. To prepare ourselves against a further weakening of the economic backdrop, we have firmed up on our exposure to high quality companies with strong operational track records, some of which are now starting to trade at very attractive valuations. As we enter earnings season and await management forward-looking commentary, we remain vigilant and on the look-out for bright spots to capitalize on with our strategy.

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