Santander Asset Management

Santander GO Global Equity ESG

Marketing Communication

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Fund commentary

Market developments

Shock waves hit global equity markets after the sudden demise of Silicon Valley Bank in March, subsequently followed by several other high profile bank fallouts and fear of 'contagion effects'. Yet, after the initial turbulence, a degree of calm descended over markets with volatility down to prior levels and even stabilization across bank stocks. In fact, equity markets closed the month flat (in EUR) to slightly up (in USD), quite surprising given the state of market affairs just a few weeks prior. With the 'flight to Quality', investors are now effectively in a wait-and-see mode as they assess the forthcoming consequences of recent events. In our opinion, though, financials accidents such as Silicon Valley Bank, Signature Bank and also Credit Suisse, and the way central banks responded, can shape a dangerous precedent. In the coming months we will likely see more problems around credit tightening such as in auto financing and commercial real estate that will find their way into the real economy too, followed by renewed weakness in leading indicators and, ultimately, earnings revisions. It's not that financial conditions suddenly turned awful, but the global economy is definitely still walking a tight rope. Therefore, we argue for patience and stick to our Quality remit.

Largest holdings

Claiming the top spot as our largest active position is UK pharma company AstraZeneca, enjoying one of the strongest product pipelines in pharmaceuticals, while at the same time having low risk to patent expiries. In second place we find Alphabet, which remains our favorite play within digital advertising and search, which is making the right strategic choices in focusing on returns rather than growth at all cost. Thermo Fisher, a US life sciences toolmaker with arguably the best operating track record in the healthcare tool space, completes our top-3 active positions.

Performance

March was a strong month for our strategy with both a positive absolute return and also excess return versus the benchmark. At the sector level, Financials, Technology and Communication Services contributed most to performance, while Real Estate and Consumer Staples lagged during the month. On a stock level, Alphabet finally saw a decent bounce and contributed most to performance, as it showed continuous strong market share data on search, easing fears it will quickly cede share to ChatGPT enabled competing search tools. Another strong performer was AMD, where recent management commentary indicated the broadening of its product portfolio on CPU, GPU but also AI will help positive momentum and share gains well into next year. Also Meta Platforms continued its ascent, investors rewarding the company's change in tac regarding its overspend on developing the Metaverse and instead focusing on returns. Furthermore, in a surprise announcement, Chinese eCommerce behemoth Alibaba announced a massive reorganization, effectively splitting its business into six independently run operating entities. And although there is a fair amount of skepticism around this plan plus it will not solve its immediate business challenges, the market did reward the company for its intent to unlock value.

In terms of negative performance contributors during March, it was no surprise our holdings in the banking (Bank of America, SMFG) and real estate space (CBRE Group) were pummeled by contagion fears given the sudden rapid fallout of several banks in the US as well as Credit Suisse in Europe. A negative second order effect of this was also visible in higher levered names such as beverage can maker Crown Holdings, which also hurt performance during the month.

Portfolio changes

In terms of trading, we sold our holding in Tesla. Even though the stock has rallied significantly year-to-date, we feel fundamentals are weakening, in particular in one of Tesla's key markets China, whilst valuation is still very stretched. Another name we exited in March has been Aspen Technology, which rebounded nicely but surpassed our price target, which we simply couldn't justify anymore, especially not giving the weaker backdrop for Aspen's core energy exposure. We did start a new position in AECOM, an engineering and infrastructure consultancy firm, based in the US, and a key beneficiary of many recent 'Acts' related to climate and infrastructure spending. We also initiated a position in Infineon, one of the key global players in power semi's, having broad exposure across the automotive, consumer and industrial complex, and is still trading at a very attractive valuation. We actually took some profits in its peer STMicro, after a very good run, where we see rising expectations for margin sustainability becoming overly optimistic. Other than that, we have made some tweaks to our Financials positioning, which we used as source of funds to add to more defensive exposure in Healthcare, to AstraZeneca and UnitedHealth, in particular.

Management expectations

With first quarter earnings around the corner, it seems consensus estimates imply earnings might bottom soon. We are, however, more skeptical and think there's more room to catch down as we move through the year as negative operating leverage from falling prices seems underestimated. We think the market continues to cling on the higher-than-expected growth thesis, but the confluence of inverted yield curves, still strong labor markets, weak commodity prices, tighter bank lending standards and a potential new 'bogeyman' being commercial real estate, it's probably best to err on the side of caution. In any case, in contrast to what market multiples imply, the growth 'foie gras' has neared its end. Still, despite some turbulence, markets have been surprisingly resilient so far actually, a type of complacency that we do not share. This is also reflected in our positioning, which remains prudent and still on the defensive side as we expect more air will let out of the balloon in the coming period.