Santander Asset Management

Marketing Communication

Santander GO Global Equity ESG

4 / 2023

Fund commentary

Market developments:

Never a dull moment in global equity markets, though this month's muted price action proved the opposite (flat in EUR, +2% in USD). Beneath the surface we have seen quite some stock dispersion on the back of 2023 first quarter earnings results, with misses punished severely and only strong beats getting rewarded. With over 50% of companies having reported thus far, it seemed most earnings reports did clear a low bar and backstopped markets for now after renewed macro and banking jitters from the previous month. Interestingly, many mega cap Tech and longer duration names continued their comeback offsetting much of the damage from 'old economy' complexes that have been struggling year to date. Also, the strong performance of, for example, high end luxury and conventional defensive stocks is concurrent with an overall shift into quality pricing power plays and 'flight to safety'. Indeed, companies sound cautious on demand and see cracks forming, with some seeing their all-time high backlog drying up rapidly meaning less room for pricing from here onwards. On the positive side, many do flag China recovery and inflation as tailwinds while also sounding more sanguine about the overall credit situation despite the recent banking stress. Hence, reporting season might have taken out the sting, it doesn't move the debate much whether we can 'skip a downturn' later this year.

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. RELX, an information and data analytics company owning a huge portfolio of high quality medical, legal, and scientific journals, completes our top-3 active positions.

Performance:

April was a decent month for our strategy with both a positive absolute return and also a slight excess return versus the benchmark. At the sector level, Communication Services, Healthcare and Materials contributed most to performance, while Energy and Technology lagged during the month. On a stock level, Eli Lilly was the largest performance contributor after posting another strong earnings report, helped in particular by strong sales for its Mounjaro antidiabetic medication. Meanwhile the company is entering a period of multiple pipeline readouts as well as launches of first of a kind drug compounds. Another strong performer was consumer health company Haleon Plc, which saw a resurgent flu season boost sales of respiratory health and pain relief brands such as Beechams and Panadol. Also, Meta Platforms continued its comeback, investors rewarding the company's change in tac by focusing on returns, whilst its earnings report also mentioned an impressive rebound in growth for the first time in a year. Furthermore, AstraZeneca also joined the club of good earnings reporters as its quarterly beat puts the company on track to exceed full year guidance, with all key franchises performing well and higher R&D spend on as many as 30 new Phase-III trials to broaden its oncology footprint.

In terms of negative performance contributors during April, STMicro handed back some of its strong performance from earlier in the year as concerns around the company currently 'overearning' resurfaced after its earnings results. In itself results looked very strong, but some feel its operating at peak margin levels, which is unsustainable. Although we have sympathy for that view, and also the reason we've lowered our position in STMicro recently, we still think the prospects for the company look really good and are not concerned some of its key end-markets such as automotive will suddenly drop off a cliff. Another winner from last month that saw its fortunes reverse in April has been Alibaba Group, with investors losing hope the announced large restructuring will materialize anytime soon. At the same time, the company faces competitive threats in its eCommerce business while the Cloud division keeps printing red numbers, hence concerns the market clearly dislikes but of which we think is more than priced in by now given Alibaba's very attractive valuation.

Portfolio changes:

During the month of April we have only made some minor changes to either take some profits in strong performers (AMD, Meta Platforms) or simply to lower our risk profile in areas exposed to the construction end-markets (Trane Technologies, Signify, Home Depot) and in refining (Neste Oyj). Proceeds were shifted into high quality defensives such as UnitedHealth, Novo Nordisk and RELX.

Management expectations:

Interestingly, Europe seems to have become a relative safe haven with the US facing more specific risks ahead such as a large come down from massive Covid liquidity, risky commercial real estate, the regional banks saga, debt ceiling debates as well as continued political divisions. The valuation differential between both regions with the US on 18x forward earnings versus 12x for Europe, might argue in favor for Europe since a long time. Still, large issues at play in the US such as a hard landing or a severe contraction in credit markets, undoubtedly spills over to Europe too, outweighing any modest tailwind it gets from China reopening and 'easy comps' currently. Since we don't own a crystal ball on interest rate pathways and where they might peak out, or even start to ease down, we do think it makes sense to see an extended pause in any rate movement at some point. The status quo is fragile, and the flurry of data points do imply calmer rate markets and equity market staying somewhat in 'limbo'. This means investors like ourselves remain comfortable to stick around in the quality corner for longer.