Santander Asset Management

Santander GO Global Equity ESG

Marketing Communication

6 / 2023

Fund commentary

Market developments:

Global equity markets powered on in the month of June (+3.6% in EUR, +6.1% in USD), adding another leg to the already strong year-to-date performance. Strength in US economic data points more than offset softer patches in Europe and China, providing another lifeline to stocks. But the extraordinary market leadership warrants caution under the hood. AI as a turbocharger for the risk-on swing is starting to lose some steam, which puts the lens back on the rest of the market, characterized by divergent trends. Commodity plays lagged as worries about weakening demand and a tepid China recovery kept investors at bay. Several profit warnings, in the chemicals space specifically, have indeed come through, citing destocking and poor volume trends. Yet, at the same time, Industrials has been a preferred alternative to still get some cyclical exposure in a global economy that continues to hold off bigger downsides. To us that flags that either data will start to slowly recover, thereby justifying overall equity resilience, or data points deteriorate further and seep into equity fundamentals more broadly. Highly concentrated risk-on rally's typically foreshadows a pullback, however we are more sanguine at this stage. Still robust US data will likely provide a floor to equities, making a broadening out of returns a credible scenario.

Largest holdings:

Claiming the top spot once again as our largest active position is Eli Lilly, a large US pharma which one of the strongest track records in the industry in terms of product innovation including in large therapeutic areas such as Alzheimer's disease, obesity and diabetes. In second place we find Alphabet, which remains our favorite play within digital advertising and search, which also seems well-positioned to benefit from the increased demand for AI in all layers of the technology stack. Closing our top-3 active positions 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.

Performance:

June was a difficult month for our strategy from a relative point of view, lagging the benchmark. At the sector level, our underweights in Utilities, Consumer Staples and Financials helped performance most, while Consumer Discretionary,

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Technology and Healthcare clearly lagged during the month. On a stock level, Deere & Co. was the largest contributor to performance, helped by expectations that farm machinery equipment sales might actually hold up better than previously assumed. Whether it's the old fleet age necessitating new combines and tractors, or specific macro issues such as drought conditions lifting corn and soybean prices higher, sentiment for the Ag names has improved. Housing- and construction-related pockets within the Industrials space also rebounded in June. Whether it was the rise in US housing starts, higher building permits and an improved NAHB housing index, data points in this otherwise rate-sensitive area of the market, turned positive, which helped our holding Trane Technologies, a large climate control/HVAC manufacturer.

On the flipside, after a good run year-to-date, Sony Group underperformed during June, where an accumulation of tiny overhangs (e.g., timing portfolio reforms, higher spending in entertainment and image sensors, uncertainty around the Microsoft/Activision deal) hurt the stock more rather than a large company specific issue at play. Within Consumer Discretionary, Tesla continued its rally, partly on inking several EV charging deals with competitor automotive OEMs, partly on the AI frenzy. Since we sold Tesla earlier in the year, the current spike up does hurt our relative performance. Furthermore, Alphabet faced a number of broker downgrades, many of which citing current

valuation reflecting a fair balance between AI-related upside and digital advertising downside, the latter we don't necessarily agree with given the easier upcoming comp period. Weakness in some of our Healthcare stocks were other primary causes of our June underperformance. UnitedHealth reported a rise in outpatient activity levels, which likely will drive medical loss ratio's higher, pulling the managed care sector as such lower. Also AstraZeneca lagged in June, where expectations for the Phase-III trial of its dato-DXd lung cancer drug might've been running a bit too high.

Portfolio changes:

During the month of June we have sold our remaining position in Alibaba Group, which has been an unfortunate call from our end, as we expected the stock to outperform on the back of the China post-Covid recovery, the return of strong eCommerce trends and Alibaba's portfolio transformation. However, on all sides this continues to disappoint, so we take our loss and redeploy it back into positions where we have much higher conviction such as Amazon and LVMH. The latter has been a new addition to the portfolio, which we picked up after the recent correction, and is an enticing way to get exposure to a broad portfolio of strong growing luxury brands and best-in-class execution, trading at an attractive FCF yield. Furthermore, we've taking some weight out of some recent laggards with weak momentum (UnitedHealth, Unilever, Thermo Fisher) in order to firm up positions in higher conviction holdings (Costco, STMicro, Linde).

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Management expectations:

The continuous delay of an US recession, still fine earnings results and the AI fever has left market bears in the dust. Also strong data in interest sensitive parts of the economy such as housing, surprised to the upside. However, free lunches do not exist and the flipside of these stronger economic data points likely means stickier inflation, and therefore, higher for longer rates. Moreover, market domination in the hands of just a few Tech companies simply cannot be healthy, nor sustainable. Hence, after the recent animal spirits mood, some market consolidation seems to make sense. Even better would be a broader and more symmetric risk positioning across other pockets of the market, also rewarding other companies outside of Tech that have strong balance sheets and good operational track records. To best benefit from such a scenario, the drum-rolls of our strategy will keep playing the same rhythm: Quality beats.

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