Santander Asset Management

Marketing Communication

Santander GO Global Equity ESG

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Fund commentary

Market developments:

And lift off! In a so-called “everything rally”, an already party-like year for global stock markets ended with fireworks in December (+3.6% in EUR, +4.9% in USD). This time around, the long-awaited broadening out of the market finally came to fruition, seeing investors chasing returns in more ways than a handful of the usual suspects. It also means almost every wall of worry throughout the year has been mounted and dismissed. As many were laser-focused on all the warning shots at the start of the year, leading stories on themes like AI and GLP-1, distracted positively from all those rumblings beneath the surface. And as the year progressed, the happy tunes of solid growth, falling inflation, strong labor dynamics and, consequently, rate cuts in 2024 have been playing loudest. This beta chasing behavior marked an end to a remarkable, and at times even a confusing and perplexing, bull market year. In terms of our portfolio, we ended the full year 2023 with strong absolute and relative returns. Now that we move into 2024, we would also like to see markets shifting more from macro to micro, with company fundamentals back at the center of attention.

Largest holdings:

Alphabet remains our top active position, with the shares still reasonably valued. With leading positions in Search, Cloud and the investments into its AI platform, we believe Alphabet has a long runway for growth with attractive returns. Visa is our second largest active position, as we believe it continues to benefit from the secular shift away from cash as well as from the rebound in cross-border transactions. We also still like the name as we do not think that there will be significant impact from the renewed discussion on interchange fees. Thermo Fisher completes our top-3 active positions, a US life sciences toolmaker with arguably the best operating track record in the healthcare tool space. In combination with compelling valuation and signs that end-market weakness is bottoming out, means the set-up for Thermo Fisher to outperform is attractive.

Performance:

In the month of December, the portfolio had a strong absolute performance, yet could not keep up with the benchmark from a relative perspective. Sector-wise, our positioning in Consumer Staples and Real Estate helped performance most, while Healthcare, Financials, Materials and Energy lagged during the month. On a stock level, real estate services company CBRE Group benefited from the market rotation into more rate sensitive stocks. With yields dropping and rate cuts looming, market activity, especially in commercial real estate, might bounce back, triggering renewed investor interest in this beaten down pocket of the market. Despite high valuation, Costco Wholesale once again confirmed its status as a quality operator, showing December sales surpassing expectations and accelerated store traffic, pushing the stock higher once more.

On the flipside, Cheniere Energy was weak given a mild winter and already high gas storage levels. This will likely not necessitate new large spot orders that the company benefited from last year. We still see a very supportive environment for LNG demand and contracting over the long-term, nonetheless, so we view the recent weakness as a glitch rather than a fundamental worry. Insurance broker Marsh McLennan also underperformed during the month as the market clearly favored more beaten down, traditional bank exposure at the expense of insurers that already performed well year-to-date. Finally, managed care provider UnitedHealth detracted in December as it simply could not keep up with the more pro-cyclical market rally, while the company's capital markets day was received with a muted response as it did not provide any meaningful new news.

Portfolio changes:

In December, we added Bank of America back to the portfolio as to increase our exposure to US Financials. Now the Fed pivot for multiple rate cuts in 2024 comes more into play, this will likely benefit traditional banks which continue to trade at very low multiples. We financed this transaction by selling our position in Sumitomo Mitsui Financial, which has had a great run but where the suspension of the yield curve control by the BoJ is becoming priced in. We also threw in the towel on staples company Unilever, where the new CEO presented a disappointing roadmap to kickstart growth and expand margins, which no longer supports our thesis to hold onto the name. Another new name to the portfolio is Waters Corp., a life sciences company that seems to be past the worst, even in its Chinese biotech franchise. The risk return profile is starting to look really interesting here for this Quality company. Furthermore, in our attempt to make the portfolio more interest rate sensitive we slightly reduced our positions in high-fliers such as Alphabet, Microsoft, RELX and Meta Platforms, while adding to the likes of JPMorgan and Home Depot.

Management expectations:

It remains to be seen whether the dovish Fed messaging has been either spot on, or too premature and slightly political. In any case, for the market it didn't matter as it rewarded the message with a big roar up. A huge unwind of, inter alia, commercial real estate, regional banks, and Tech unicorns actually saw concentration power of the "Mag7" ceding share to the rest of the universe. Whether this is justified or not, given still shaky fundamentals, at least these moves give way to rebuilding breadth and health in equity markets, in our humble opinion. As we pointed out before, a continuous nervous macro driven market lifted higher by only a few mega stocks is unsustainable, hence some normalization was bound to happen. We've indeed grown more hopeful it's now time for other pockets of the market to shine, though do not fully buy into a completely new market rotation. By now we feel like the market is pricing in a lot of good things already. With the bar set high as we enter 2024, a note of caution is therefore justified. Designed to be agnostic to most macro environments, though, with our Quality driven investment style we confidently look at what comes next.