Santander Asset Management

Santander GO Global Equity ESG

3 / 2024

Marketing Communication

Fund commentary

Market developments:

Another month, another high. In March, global equities added a next leg to this year's rally (+3.4% in EUR; +3.2% in USD), ironing out any wobble that passed in the market. Momentum rules, which is now also starting to appear in areas of the market not dominated by popular themes or the super champions league of mega caps. Interestingly, the odd combination of central banks pivoting a rate cut while inflation and labor markets still running a bit too hot, seems to be fully embraced by investors nonetheless. In any case, rate cuts amid a resilient economic backdrop is positive for risky assets and should help the market broadening out. Some caveats to the goldilocks thesis are that investor positioning already seems extended, negative consumer data points are starting to add up and commodity prices are rising again, which, in sum, is a recipe for caution. That's why we need to stay vigilant and valuation disciplined in case of a momentum unwind and rotation into other corners of the market.

Largest holdings:

Our top active position is Alphabet, as we believe that with its leading positions in Search, Cloud and the investments into its AI platform, Alphabet has a long runway for growth with attractive returns. To us, Alphabet looks undervalued and is currently not treated as an AI winner, which we think is unjustified. Thermo Fisher is our second largest active position, which is 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. Visa completes our top-3 active positions, 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.

Performance:

In the month of March, the portfolio had a strong absolute performance, but ended with a slight underperformance versus the benchmark. Sector-wise, our positioning in Healthcare and Communication Services helped performance most, while Financials and Energy lagged during the month. On a stock level, Alphabet experienced a nice rebound on the back of news that Apple potentially wants to license Alphabet's Gemini AI platform. This way, Apple might integrate GenAI features into its upcoming iOS software update due later this year. For Alphabet this is not only positive for stock sentiment, but also an endorsement of its AI technology. Hitachi also enjoyed another good month, fueled by favorable trends in its grid power business, serving the needs of many operators that have to upgrade their infrastructure networks necessary for the energy transition. Furthermore, on the back of rising oil prices, the Energy complex moved higher as well, including our holding in energy services operator Schlumberger.

On the flipside, during March we've seen some performance detraction in Visa as the market rotated into the more balance sheet heavy financials. Also, the Capital One takeout of Discover Financial, a competitor to Visa, sparked some longer-term concerns with investors, though we don't think this will have major implications to the competitive environment overall. Deutsche Boerse also underperformed during the month, though on little news flow, expect slightly weaker industry trading volumes on tougher compares and Deutsche Boerse's larger reliance on cyclical revenue streams. Furthermore, data analytics and publishing firm RELX saw some profit taking after a strong run, though there was not any meaningful company specific news. Peer Thomson Reuters did provide more detail on the GenAI use case in legal services, which we actually view as a positive read-across to RELX over time.

Portfolio changes:

In March, we sold our position in Adobe Software after its forward guidance was disappointing and rising doubts around poor execution. Also some concerns around alternative, competing text-to-video offerings such as OpenAI's Sora are building. Instead, we moved into Dell Technologies, which is a new addition to the portfolio. Dell is an attractively valued infrastructure play on AI servers, while seeing an end to the downcycle of its traditional hardware business. As a result, we believe Dell can easily outgrow its modest long-term growth expectations. In March, we have also added back Sumitomo Mitsui Financial (SMFG) to the portfolio post the interest rate increase in Japan, a historical event we haven't seen for decades. We think the inflation picture in Japan will force the BoJ to move rated up even further, something that will benefit the likes of SMFG.

Management expectations:

Markets do not tend to top out on bad news per se, but instead exhaust themselves due to lack of additional buying in spite of supportive news flow. On the fringes we do see that happening, resulting in a splintering of the "Magnificent7" and a slight shift to second-order derivative plays on themes such as Artificial Intelligence (AI). Also the rally in sectors such as Industrials looks to be stalling, which seems ironic given US PMIs have finally started to move above the 50 level, indicating valuation levels are already there. In contrast, supply/demand imbalances in energy markets and commodities such as aluminum and copper are being reflected in prices moving up, suggesting a potential re-rating in such related sectors. All in all, timing the end to any large momentum run is usually a graveyard call and hard to shoot against, but the mosaic of data points suggest to us that a slight re-allocation to more ignored parts of the market is sensible.