Santander Asset Management

Santander GO Global Equity ESG

9 / 2024

Marketing Communication

Fund commentary

Market developments:

Central bank action front and center, first in the US, then followed by a large stimulus plan in China, pushing markets another leg higher (+1.0% in EUR; +1.8% in USD). The large 50 basis points Fed rate cut was a reinforcement of the disinflation theme and marksthe start of a new rate cutting cycle. And as investors assessed how many cuts are now already priced in, market leadership began to broaden out. Shortly after, a jumbo China stimulus package accelerated this market regime change, dubbed as a “Panda Rally”, tilting more in favor of year-to-date laggards. This coordinated stimulus effort propelled sentiment towards beaten down Chinese equities, but essentially to all pockets leveraged to China such as the metals complex and luxury goods companies. Both central bank actions indicate that growth has to be safeguarded, almost at any cost, thereby moving the market more firmly into the ‘soft landing’ camp. We do believe this rally has more to room to run, though we remain reluctant to go “all-in” on this as hope is priced in much quicker than actual on-the-ground improvements.

Largest holdings:

Our top active position is Haleon Plc, a consumer health over-the-counter (OTC) company with a superior growth profile driven by its pure-play focus and premiumization efforts. After being spun out of GSK/Pfizer, Haleon has plenty of opportunity to further grow margins and use its cash fl ows for debt paydown and shareholder returns. Cyber security play Check Point Software is our second largest active position,where we see a number of catalysts on the horizon including its product refresh cycle, the interconnection across its products coming to fruition and the company’s positioning of its Infinity AI Copilot functionality. 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. We believe the medical tool sector is past the worst and sees most of its end-markets accelerating from here.

Performance:

In September, the portfolio had a positive absolute return, though slightly lagging the world index. Sector-wise, ourpositioning in Industrialsand Technologyhelped performance most, while the sectors Financials, Healthcare and Consumer Discretionary lagged.

In terms of stock selection, iron ore miner Fortescue Metals contributed most to our excess performance as the China stimulus package, partly aimed at reviving its ailing property sector, helped boost sentiment on the broader metals complex. In case these packages follow-through to the real economy, there's more upside for iron ore prices to move higher, clearly benefiting Fortescue.

Builders FirstSource also had a strong month as Fed rate cuts lowers US mortgage rates to the extent it will likely lead to higher residential construction and home improvement activity. Even though big builders have been consistent all year, the smaller and custom builders will likely see most relief from rate cuts an be a source of increased demand.

On the flipside, we saw AstraZeneca pulling back slightly after a good run. Trial results for its Dato-DXd treatment for breast cancer were positive, but perhaps less so than expected, causing a slight sentiment dip in the stock. However, the good efficacy and safety results compared to the existing treatment in the market will make it highly likely the FDA will approve Dato-DXd, nonetheless.

JPMorgan also struggled in September as investors try to assess the eventual impact rate cuts will have on US banks. Usually lower rates are better for bank capital, but less so for earnings, hence it will really depend on the overall asset composition and rate sensitivity how this equation will pan out. Therefore, after a solid run year-to-date, investors are now back into a wait-and-see attitude.

Portfolio changes:

In September, we sold our remaining position in energy service provider Schlumberger in order to add more to defensive names in the portfolio such as Haleon and Deutsche Telekom. Furthermore, we added Unilever back to portfolio again as we are now more convinced its restructuring efforts will pay off, resulting in better topline and margin performance. We have also taken profits in Keyence, a premier industrial automation company from Japan, which is high quality but has gotten too expensive as well. Instead, we started a new position in First Solar, which is a key beneficiary of IRA stimulus and China tariffs. These are considered game changers that places First Solar in a unique position to capitalize on, lifting margins and cash flow generation a lot higher.

Management expectations:

As the rate-cutting narrative gathers steam and the 'soft landing'scenario becomes consensus, stocks that have earlier been weighed down by weak balance sheets should see a lift. We see that already reflected in the outperformance of lower quality stocks, especially in cyclical areas and the small/mid cap space. However, many uncertainties remain, whether it's US elections, tariff risks or escalating geopolitics in the Middle East. Pushing through measures that fix equity markets is something different from fixing the fundamentals. Borrowing from the future to deliver in the present seems a risky proposition. And given global equity markets are again in touching distance from all-time highs, every data point will be looked at under a microscope. In the portfolio, we did add to attractively valued stocks with China exposure that now have a clearer road of recovery ahead of them. At the same time, we keep a cool head in navigating macro complexities while putting most conviction in quality stocks that seem mostly agnostic to such outcomes.