Santander Asset Management

Santander GO Global Equity

Marketing Communication

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Fund commentary

Market developments:

Tailwinds of trade deal announcements, earnings beats and AI momentum spurred a further comeback of global equity markets (+3.9% in EUR; +1.3% in USD). It seems the diversification away from the US is moderating with Big Tech hot again, in particular after the stellar results from several leading AI players. As Europe has no similarly sized exposures to such themes, nor the same equity retail crowd, the region has been treading water. Moreover, there was mixed response to the EU-US trade deal, with the 15% tariff rate slightly worse than expected. And even though such deals might be better than no deal at all, tariffs in general still have a negative impact on profits, given the reduced ability to absorb costs but also the demand impact as prices rise. This was also visible in Japan, where hope quickly faded after the trade deal announcement. In other words, the actual costs of tariffs rather than the fear of where they will land will now become the new reality faced by countries and companies. Even though markets seem to have quickly priced in tariff talk, we should not get complacent about it as the ramifications longer term are too important to ignore.

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. German industrial Siemens Energy is our second-largest active weight and is a metaphorical Swiss army knife when it comes to energy solutions including gas turbines, grid networks and wind turbines. Its order book has grown materially across all divisions, leading to a much better sustainable growth and return profile. 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 solid growth in cross-border transactions. We also do not think that there will be significant impact to its business model from stablecoins as Visa still provides the orchestration layer to facilitate all types of payments.

Performance:

In July, the portfolio had a strong positive absolute return, flat against benchmark. Sector-wise, our positioning in Healthcare and Communication Services helped performance best. The sectors Industrials and Financials, however, struggled most.

In terms of stock selection, Alphabet contributed best to performance. It is increasingly confident AI can act as a tailwind for its Search business rather than a threat, visible in overall query growth and user growth in its AI Overviews and Gemini app. Meanwhile, other areas such as YouTube and Google Cloud (GCP) continue to grow strongly as well. Consequently, capex spend will move even higher the coming years, but all reinvested at high returns as well.

After months of weak trading, Thermo Fisher seems to have found its way up again, spurred by solid results and an improving outlook across its life sciences and biopharma segments, offsetting some weakness in analytical instruments. Thermo also believes China stimulus and efforts to boost its biotech industry will help grow sales meaningfully in the region.

In sympathy with other AI plays, Arista Networks also moved higher on news flows that Cloud capex will continue to be strong. The stock is not cheap, but the announced spend by its main customers Oracle, Microsoft and Meta means a rising tide lifts all boats, also easing market concerns about potential share loss of Arista.

On the flipside, cybersecurity firm Check Point posted disappointing result, sending the stock down significantly. As contract deals were delayed, billings growth came in lower than expected. Ultimately, the company has to show better performance on its base firewall software business and product refresh cycle to restore conviction on overall growth acceleration.

Insurance broker Marsh McLennan also continues to detract, with in-line earnings results not taking away market concerns that topline growth is slowing. Even though Marsh runs a quality franchise across reinsurance brokerage and consulting, and valuation looks more attractive after the recent pullback, management needs to prove it can continue to grow in a less supportive price environment too.

Finally, consumer healthcare company Haleon again lagged during the month, after its results could not meet high consensus expectations. Topline growth, in particular, seems to be slowing, forcing management to also lower its growth guidance for 2025. Even though oral care did just fine, its respiratory division lagged as retailers reduced inventory and Haleon also lost some share in its painkiller and multivitamin brands.

Portfolio changes:

In July, we added Japanese machinery company Komatsu to the portfolio. Komatsu's product mix consists largely of mining and construction equipment, sold into a large installed base across the globe. Over the years, Komatsu has improved its business by focusing more on higher margin after-market services. Management indicated it would focus more on FCF going forward and given very attractive valuation, we decided to take an initial position. We used some of our defensive holdings such as Unilever, Haleon and Marsh McLennan as sources of funds. Ride hailing giant Uber has also been added as a new position. After years of fierce competition, we believe Uber has come out victoriously, showcasing its operational excellence and best-in-class platform. Despite the strong stock run, we think Uber's sales and cash flow growth potential is still underestimated by the market. We exited our stake in Union Pacific instead, as we believe the proposed acquisition of Eastern railroad Norfolk Southern will bring significant legal and network challenges with it, essentially invalidating the investment thesis we had on Union Pacific. Moreover, during the month of July we also trimmed positions in the likes of Home Depot, Accenture and RELX in favor of adding to Amazon and Thermo Fisher.

Management expectations:

With earnings season in full swing, it has once again become clear that the AI theme seems unstoppable. With heavy weights such as Microsoft, Alphabet and Meta coming out with strong results and rosy outlooks, positive sentiment and strong capex momentum is set to continue, dominating index moves in sympathy. Yet, realizing a narrow group of stocks are responsible for this strength, the risk is that exhaustion signals can build up quickly. Therefore, any signs of inflation and yield breakouts could have serious knock-on ramifications on equity markets. Also, no matter how trade deals are framed, they are inflationary by default, and so is the increase in government spending. Such inflationary impulses and not letting long-end rates spiral higher, are part of the delicate game of chess being played between spending and growing the economy. As long as the water is warm, people keep swimming, but we need to be mindful of overcrowding and the velocity of moves that come with it once things turn sour. Year to-date, Quality stocks have underperformed on average, which is quite unusual compared to similar historic volatile periods. Still, we believe prudent positioning is the most appropriate strategy from here.