Santander Asset Management

Santander GO Global Equity ESG

2 / 2022

Fund commentary

Market developments

Following the unexpected and tragic escalation of the Russia/Ukraine situation at the end of February, global equity markets have surprisingly held their ground. The initial negative market reaction and subsequent cross asset moves were quickly offset by a sharp rebound. However, as incremental news flows on the conflict worsen and rippling effects to global growth are rising, equity markets are not out of the woods yet. Spiking energy and commodity prices further adds fuel to inflation concerns and potentially result in more broad-based demand destruction, clearly increasing the risk of so-called "stagflation". This might actually trigger central banks to reduce their hawkishness, being more cautious with the pace of rate hikes. All in all, the month of February was already quite weak from a performance point of view, down over 3%, but with the current Russia/Ukraine conflict obviously making equity markets more nervous at the moment.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being Bank of America, which will likely benefit from interest rates moving higher now the Federal Reserve has signaled it will start tapering in the near-term. Our second largest active weight is AstraZeneca, which has one of the strongest product pipelines in Pharmaceuticals, while at the same time having low risk to patent expiries. Cheniere Energy completes our top-3 active positions, which is our preferred pure-play on significantly rising US LNG exports.

Performance

In February, our strategy slightly underperformed relative to the benchmark. Strong stock picking in Healthcare, Energy and Information Technology added most to performance, but was offset by weaker performance in Industrials, Consumer Discretionary, Materials and Consumer Staples. The main positive contributor to performance was Cheniere Energy, a pure-play LNG company, clearly benefiting from rising LNG exports out of the US, which was also reflected in very strong earnings results. AstraZeneca showed very promising data on both its Enhertu and Lynparza cancer treatments, opening up the way for significant earnings potential going forward. Micron Technology also had a strong performance, driven by higher NAND memory pricing. Our holding in machine tool maker Sandvik, however, suffered from its small exposure to Russia, something we think is priced in and not hurt the longer-term investment case, but clearly weighs on stock performance currently. We also had a detraction in performance from Advance Auto Parts, where management flagged a slightly decelerating growth outlook. Finally, Allianz was also weak in the month of February as it was hurt by a financial settlement from a civil lawsuit in the US.

Portfolio Changes

During the month of February, we have added Crown Holdings to the portfolio, which is a US can manufacturer used for beverages, food and specialty packaging. With the structural shift away from glass and plastic bottles, Crown Holdings is well positioned to benefit. The company's strong FCF generation, improving ROIC and supportive ESG credentials moved us to take a position. In order to fund this position, we took some weight out of Linde and DSM as they are relatively expensive Materials names. We also sold our position in Merck as we are much less convinced of the potential of its anti-Covid pill now its competitor Pfizer has shown superior clinical data for its competing product. Other small changes to the portfolio include a reduction in the weight of Trane Technologies in favor of Signify, where we see more upside potential. Finally, we also lowered our weight in Advance Auto Parts after a great run and used the proceeds to add to Amazon and Booking Holdings.

Management expectations

We have a more cautious outlook for developed market equities as macro risks have clearly increased. Even though the Omicron wave is dissipating and we might be close to peak supply chain constraints, the heightened geopolitical risks associated with the Russia/Ukraine conflict are likely to have negative ripple effects on global growth. This might urge central banks to actually walk back on their policy normalization path and delay fast, steep rate hikes to avoid a concerning "stagflation" scenario. Despite valuations coming down in recent weeks, we are more cautious near-term given ongoing inflation concerns and the impact on equity fund flows from broader geopolitical uncertainty. Our strategy has firmed up on our Quality exposure as to navigate the current environment as best as possible.