

Santander GO Global Equity ESG

7 / 2022

Fund commentary

Market developments

Global equity markets experienced a strong rebound in July, increasing around +10%. The S&P500, for example, saw its best month since November 2020 and even the best July since 1939. Even though all sectors closed higher, the market rally was primarily driven by a significant reversal of some of the poor performers year-to-date such as the Consumer Discretionary sector, which was up almost +20% during the month, as well as a relief on solid Big Tech earnings results. Fundamentally, however, macro conditions haven't changed much with recession fears still looming. Economic signals remain mixed at best with persistently high inflation taking a hit on consumer demand and management commentary turning more cautious overall. Furthermore, the end game for Europe's energy situation and its knock-on effects are far from clear. We believe market optimism might be premature, hence we remain firmly positioned high up on the Quality curve.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being AstraZeneca, which has one of the strongest product pipelines in pharmaceuticals, while at the same time having low risk to patent expiries. Our second largest active weight is Cheniere Energy, which is our preferred pure-play on significantly rising US LNG exports. US pharma company Eli Lilly & Co. completes our top-3 active positions, and is one of the strongest innovators in the pharma space which is reflected in a very promising drug pipeline as well.

Performance

From a relative point of view, July has been a tough month for our strategy, underperforming the benchmark. Year-to-date the strategy has shown decent outperformance relative to the benchmark, though. Strong stock picking in Energy and Real Estate added most to performance in July. Main positive contributors in the Energy sector were Cheniere Energy, given high LNG prices, as well as Neste Oyj, on the back of impressive earnings results from its renewable biofuel division. Within Real Estate, our holding in CBRE Group, a real estate services company, bounced back nicely. On the flipside, however, our underweight in Consumer Discretionary was a performance detractor given the strong rally in this sector during the month of July. In addition, our holding AutoZone gave back some performance too. We also witnessed a reversal within the Healthcare sector, where we saw a clear rotation out of some of the year-to-date winners such as AstraZeneca and Eli Lilly.

Portfolio Changes

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During the month of July, we traded very little, only slightly trimming our positions in Elevance Health and AstraZeneca and redeployed that back into Costco, a high quality Staples holding.

Management expectations

We remain cautious on our outlook for developed market equities as macro risks are clearly elevated. As demand destruction is kicking in, global economic growth is slowing down significantly. We think that the possibility of an economic recession in parts of the world is rising, in Europe in particular, as there is still no end in sight with regards to the Ukraine war and the knock-on effects this has across markets. Consumer strength is also moderating from very high levels with especially consumer confidence turning outright bearish. To prepare ourselves against a further weakening of the economic backdrop, we have firmed up on our exposure to high quality companies with strong operational track records, some of which are now starting to trade at very attractive valuations. As we move through earnings season and listen to management forward-looking commentary, we remain vigilant and on the look-out for bright spots to capitalize on with our strategy.

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