Santander Asset Management

Santander GO Global Equity ESG

10 / 2022

Fund commentary

Market developments

In another very macro driven market, global equities rebounded significantly in the month of October, up over 6%. The market seems to have a “pivot” on its brain, meaning the US Federal Reserve may be inching towards a slower pace of rate hikes, perhaps already early next year, causing equities to rally. However, this view seems more based on hope than facts as both inflation and labor market data points remain unsupportive of a softer Fed messaging. Moreover, October was again an eventful month where we saw the resignation of the UK PM Liz Truss, a directionless China Party Congress outcome and continued high inflation prints across Europe. In addition, a string of notable earnings misses added to concerns around the outlook for 2023, where estimates still seem to be too high. Still, all this wasn’t enough for another leg down in equity markets, indicating the bounce is more technical in nature rather than driven by improving fundamentals. Our stance is that we’re not out of the woods yet from a macro point of view, hence remain cautiously positioned with a clear preference for stronger balance sheet stocks that are high up the Quality curve.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being US pharma company Eli Lilly & Co., which is regarded as one of the strongest innovators in the pharma space, reflected in a very promising drug pipeline, particularly on Alzheimer’s disease. Our second largest active weight is UnitedHealth Group, a US health insurer leading the charge in providing value-based care within the US healthcare system. Cheniere Energy completes our top-3 active positions, which is our preferred pure-play on significantly rising US LNG exports.

Performance

Although October has been a strong month from an absolute perspective, it was less so from relative point of view, underperforming the benchmark. However, year-to-date the strategy still shows a relatively flat performance compared to the benchmark. Strong stock picking in Healthcare and sector positioning in Utilities and Real Estate added most to performance in October. The main positive contributor in Healthcare was Elevance Health, which continued to see solid Medicare enrollment as well as high retention rates in its commercial business, resulting in higher earnings guidance by management. In October, another good contributor was Visa, giving a reassuring business outlook underpinned by still solid US payment trends and steady cross-border travel volumes. Within the Financials sector, the best performing stock was Bank of America, posting solid results due to strong net interest income growth as it benefits from higher short-term rates. While watchful for rising credit losses, management also indicated consumer deposits remain healthy and can cushion a weaker economic environment. On the flipside, we detracted mainly in Energy due to our underweight in oil & gas Majors, but also a weaker set of results from Neste Oyj. Within Materials, our position in Crown Holdings, a US beverage can maker, detracted from performance, on the back of surprisingly weak results and

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subsequent lowering of its guidance. Poor hedging against higher energy costs and a sudden demand drop for beverage cans explained most of the weakness. Finally, within Communication Services both Alphabet and Meta Platforms sold off after results showed both a deteriorating digital advertising market and tougher cost environment.

Portfolio Changes

During October, we traded very little and only switched positions in the farm equipment space from AGCO to Deere & Co. as we believe the former will likely suffer more from rising energy costs and difficult component sourcing. We still like the overall end-market exposure of both stocks, supported by strong farmer fundamentals, but think Deere & Co.'s product and geographical exposure is better positioned to benefit from that.

Management expectations

The US Fed still seems to hold the key for equity markets, but it's dancing a delicate dance. It both needs to remain firm on curbing inflation and not allow financial conditions to ease too much, while at the same time show an exit path away from further rate hikes. Once we hit the point where yields start to stabilize or even start to drop, equities will likely benefit, something the market was already overly eager to bet on the past month, in our opinion. At this stage it is, however, far from clear how much damage the economy has to stomach from central bank policies and by how much corporate earnings will have to be reset next year. Fortunately, we're finally seeing the worst of supply chain disruptions behind us and core goods inflation stabilizing, but overall inflation levels remain stubbornly high and more broad-based across the economy. Moreover, valuations are not yet near trough levels and with a highly uncertain trajectory of earnings estimates, so therefore the set-up for equities remains tricky. From a more tactical point of view, we shouldn't rule out a scenario of a Fed pivot, something which can arguably extend October's market relief rally. Hence, following a barbell approach where we can quickly shift gears if needed to, remains our preferred route to market. Our exposure to a diverse mix of quality companies with strong operational track records has played out well in terms of portfolio robustness and relative performance.

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