Santander
Asset Management

Santander GO Global Equity ESG

12 / 2022

Fund commentary

Market developments

Santa Claus did not hand out gifts to global equity markets in December as we exited the month over 4% lower. This final leg of the year seemed to be a copy paste of how 2022 has been playing out all along: furiously volatile and, on average, downbeat. The interplay between inflation versus rates and growth versus recession is still ongoing with no decisive winner emerging. The Federal Reserve's recent hint of a more dovish stance going into 2023 was followed up by CPI reports showing a slight deceleration of inflation – a signal that indeed the worst might be behind us. However, the shift in focus towards economic implications and the corporate earnings trajectory from a higher rate level is still looming above the market. Moving out of a period of stable growth, a globalized economy, low rates and towards a more polarized and uncertain one means near term visibility is clear as mud. In this scenario, valuation discipline and a quality focus is important as ever. We're still of the opinion market valuations do not correctly reflect the unfavorable mix of earnings downgrades and recession risk ahead. On the margin we reshuffled our portfolio to where we do feel like the risk/reward trade-off is more attractive such as in European defensives and beneficiaries of a China re-opening scenario.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being UK pharma company AstraZeneca, enjoying 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 UnitedHealth Group, a US health insurer leading the charge in providing value-based care within the US healthcare system. 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, completes our top-3 active positions.

Performance

From both an absolute and relative perspective, returns were negative in December. Unfortunately, our strategy also ended the year with a negative performance compared to the benchmark. In December, strong stock picking in the Healthcare and Consumer segments were offset by weaker returns in cyclical areas such as Energy, Financials and Technology. The main positive contributor in December was consumer healthcare company Haleon as a favorable US ruling makes it now much less likely for the company to face a negative impact from the Zantac litigation. Pharma company AstraZeneca also traded favorably on the back of positive news flow around positive late-stage trial readouts for several pipeline drugs, particularly related to oncology. On the flipside, Cheniere Energy underperformed during December, mainly due to plummeting gas prices given a weaker demand drop, high storage levels and mild winter weather. Microprocessor maker Advanced Micro Devices (AMD) also detracted during the month, suffering from an overall difficult tape for chip stocks following Micron's weak results and cautious outlook. Other weak performers in December include consumer-related stocks such as Costco Wholesale and Alphabet, both bearing the brunt of a slowly deteriorating consumer and advertisement spending outlook.

Portfolio Changes

In terms of trading, we reduced our holding in Apple as we expect iPhone units and services growth to decelerate in 2023. Instead, proceeds were used to double our position in Haleon now it's more likely the company will escape any provisioning related to Zantac, removing a key overhang for the stock. We also took some profits in Eli Lilly given its extended valuation and reallocated into Unilever where fundamentals are improving and valuation still looks really attractive. Finally, we started a new position in Sumitomo Mitsui Financial as we think the recent surprise doubling of the bond yield cap by the Bank of Japan makes Japanese financials more interesting.

Management expectations

Awaiting more confirmation of lower inflation indeed materializing, most centrals banks might be in for a slowdown of rate hikes in 2023. Nonetheless, the new neutral rate level – wherever that may end up – remains firmly higher than what we've seen in many years. Also, we simply don't know how the delayed economic response from rate hikes will eventually pan out and whether the recent deceleration in inflation data points are head fakes or not. With market valuations not anywhere close to trough levels to reflect these uncertainties, risk is still to the downside. Too many pockets in the market simply have not seen real multiple compression with negative revisions looming entering 2023. As we look for opportunities, the cadence of the China re-opening will be one of the big themes of the coming year. When China sneezed, the whole world caught a cold, but the reverse is likely true as well. Areas of interest to play this are the consumer space as well as the materials and more capital intensive segments, which are now more firmly on our radar screen. As we have written before, prudence is still warranted given current macro. To navigate this environment portfolio robustness is needed. Focusing on a diverse mix of quality companies with strong operational track records is, therefore, something we continue to do with our investment strategy.