

# Santander GO Global Equity ESG

1 / 2023

## Fund commentary

### Market developments

In a turbocharged mood, global equity markets rallied in January, opening the year up +7% (in USD). In our humble opinion, this euphoric move, after a dreadful 2022, should be taken with a pinch of salt. Arguably, central banks are trying to strike a balance between fighting inflation and avoiding a hard economic landing, with the market interpreting recent policy commentary as becoming more dovish. Contrary to the message the stock market is sending, however, many data points such as falling PMIs, tight labor markets, and lower construction spending, suggest the economic environment is still very shaky. Nonetheless, glimmers of hope drive price action for now, with the China re-opening story clearly dominating bullish sentiment. Moreover, a mild winter causing gas prices to drop significantly in no time, helped improve sentiment on European stocks dramatically. But as long as economic indicators, on balance, still point south and big question marks around how severe the earnings recession will be, we remain very selective on where we want to join in on the cyclical drumbeat. Simply rotating in and out in a macro landscape this complex, brings the risk we end up chasing our own tail, something we clearly want to avoid.

### Largest holdings

We've seen some changes to our top holdings, with our largest active position now being STMicroelectronics, a well-run European mixed-signal semiconductor company specialized in power-efficient microcontrollers used in consumer electronics and electric vehicles. We welcome back Alphabet as our second largest active weight, our favorite play within digital advertising and search, which is making the right strategic choices in focusing on returns rather than growth at all cost. Visa, running the world's largest electronic payments network, completes our top-3 active positions.

### Performance

Despite posting strong absolute returns, our strategy lagged in January from a relative perspective compared to the benchmark. In January, being underweight utilities helped most, while strong stock picking in the Technology sector also helped outperform. On a stock level, STMicroelectronics contributed most, rallying after a strong set of results and providing an optimistic guidance on the increased SiC chip demand they're seeing in the automotive space, in particular.

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A strong rebound last year's weaker performers such as Capital One and AMD contributed nicely to performance as well. Unfortunately, weaker returns in Healthcare hurt most during the month of January, with the sector altogether experiencing a steep inflection downwards. At the same time, we also weren't able to fully keep up with the strong rebound in Consumer Discretionary, while not being exposed to the cyclical parts within Materials also detracted from performance. Stocks that detracted most in January include UnitedHealth, AstraZeneca, Eli Lilly and Colgate, all of them doing very well last year, but simply used as a source of cash in the fierce reversal trade at the start of 2023.

## Portfolio Changes

In terms of trading, we started a new position in Alibaba group, the main Chinese eCommerce platform, which has been out of favor for a very long time, but now trading at a very attractive valuation against the background of an increasingly improving China consumer environment. We have used Elevar Health as a source of funds as we see little catalysts for the stock ahead after a great run already. We also added Schneider Electric to the portfolio, which is a high quality French industrial company, manufacturing energy efficient electrical equipment and providing sophisticated industrial automation software. In a slight pro-cyclical alteration of the portfolio, we also added a bit to our positions in Sumitomo Mitsui Financial, Sony Group, Thermo Fisher and STMicroelectronics, while trimming the likes of Eli Lilly, AstraZeneca, Deutsche Boerse and Colgate.

## Management expectations

The wildcard of hope from here remains China, which after spending much of the past years in rolling lockdowns, now is suddenly accelerating its reopening plans. Even though this shift is fraught with uncertainties and the occasional stop-and-go moves, at least the Chinese consumer is out of the doldrums for now, which should have positive global implications too. Elsewhere, mild winter weather and demand destruction means gas storage levels are at high levels in Europe, taking away some of the energy concerns, at least for now, that hampered the region so much in 2022. Meanwhile, after being at the forefront of the post-Covid recovery cycle, the US hiked itself into restrictive territory, the effects of which haven't fully been felt. Despite some promising signs on the direction of inflation as of late, we should be mindful that inflation never miraculously disappeared without a recession. So, from a global perspective, it seems 2 out of 3 major drivers of economic growth are turning for the better, while arguably the largest one stays at risk. In other words, we sense markets keep walking on a tight rope with any unexpected gust of wind potentially pushing stocks back into the abyss. We accept we might lose out in relative terms during steep rallies, but still feel more comfortable with our cautious positioning in the higher quality corner of the market.

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