

Santander GO Global Equity ESG

2 / 2023

Fund commentary

Market developments

After a euphoric mood at the start of the year, enthusiasm in global equity markets eased somewhat in February (flat in EUR, -2% in USD). Interestingly, better than expected macro data during the month underscored the battle on inflation might not be settled yet. Moreover, with the much-feared recession not yet truly materializing either also means the end of peak rates is also likely delayed, meaning central banks will keep conditions tight for the time being. With macro still the dominating force of market direction and after the recent equities re-rating, it seems most investors err on the side of caution at this stage. Absent any imminent recession, equity drawdown risk might decline too perhaps, hopefully putting investors' focus back towards bottom-up stock picking and credible self-help stories to find alpha. Since we still walk a fine line navigating a multitude of market anxieties, it's best to sit still, or at least remain very selective on where to join in.

Largest holdings

At the top spot as our largest active position is Thermo Fisher, a US life sciences toolmaker with arguably the best operating track record in the healthcare tool space. In second place we find Visa, running the world's largest electronic payments network and beneficiary of improving cross-border travel spend. UK pharma company AstraZeneca, enjoying one of the strongest product pipelines in pharmaceuticals, completes our top-3 active positions.

Performance

Despite flat absolute returns, in February our strategy outperformed the benchmark from a relative point of view. At the sector level, Energy, Technology and Materials contributed most to performance, while Consumer Discretionary and Financials lagged during the month. On a stock level, STMicroelectronics again contributed most, continuing its run after good results and increased guidance. Also, Meta Platforms continued its ascent, investors rewarding the company's change in tac regarding its overspend on developing the Metaverse and instead focusing on returns. In a slight reversal back into European defensives, both publisher RELX and pharma company AstraZeneca benefited too over the course of February, contributing nicely to performance. On the flipside, disappointing results from Chinese

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eCommerce behemoth Alibaba, in particular on topline growth, hurt performance during the month. However, with the Lunar New Year now passed and post-Covid spending returning in China, we still think Alibaba will benefit greatly. Another detractor in February proved to be Alphabet, which continues to trade in a limbo as long as digital advertising spend remains lackluster.

Portfolio changes

In terms of trading, we sold our holding in Colgate Palmolive as we feel the story lacks any meaningful catalysts, has little valuation support and we simply see better alternatives elsewhere. We also sold game developer Electronic Arts as we sense that post the World Cup football and lack of new game releases makes it difficult for the stock to outperform. We did start a new position in pharma company Novo Nordisk, one of the key players in the field of diabetes and obesity medicines, and renowned for its strong operational and financial track record. Other than that, we had little changes in the portfolio, except taking some profits in our semi exposure and redeploying that back into SMFG, Microsoft and Meta Platforms.

Management expectations

As it stands, some of the recent equity rally may hold as long as growth stays resilient. But that's exactly where the crux lies: we have too many conflicting macro data points to confidently point us at either direction. What we do know is that equities in general, and the US market in particular, is trading at probably too rich multiples. With inflation proving stickier than many hoped and expected, most equities are starting to price in a rather quick reversal to more normalized levels, something we see as unlikely to happen in the near term. For a further market re-rating we still have a few tall hills to climb. As mentioned in our previous commentaries, we think China remains the wildcard of hope with recent upticks in its PMIs, meaning the 'factory engine of the world' is slowly coming back to life. Whether this comes with a roar remains to be seen, but certainly can have a positive trickle-over effect for other economies as well. Our cautious positioning in the higher quality areas of the market seems to be back in favor again, hence an approach we clearly want to hang onto.

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