Santander Asset Management

Marketing Communication

Santander GO Global Equity ESG

11 / 2023

Fund commentary

Market developments:

Towards year-end it seems all bets are off with a broad-based rally pushing global equity markets within touching distance from its previous summer highs (+6% in EUR; +9% in USD). A deflationary narrative and central bank dovishness triggered a sell-off in 10-year US Treasury yields, allowing for volatility to retrace lower and a widespread market re-rating beyond the conventional Quality plays within technology and communication services. Investors indeed already binning the 'higher-for-longer' rate narrative, and even piling into rate cut expectations, brought back life into unloved parts of the market such as real estate and financials. Conversely, with the Israel/Hamas conflict grabbing less headlines, the geopolitical risk premium partially unwound as well, causing the broader commodity complex and oil, in particular, to underperform. All in all, the scenario of rates edging lower was probably due for a while, something we've reflected in our recent positioning as well, but we do remain wary of smoke signals that could cause another round of investor panic attacks.

Largest holdings:

Alphabet is the largest active position in the portfolio, with the shares still reasonably valued. With leading positions in Search, Cloud and the investments into its AI platform, we believe Alphabet has a long runway for growth with attractive returns. Publishing and data analytics firm RELX is our second largest active position, where we believe that the company can be an important beneficiary of AI as the demand for accurate and trustworthy data only increases, something underestimated by the market. Moreover, its high quality portfolio of scientific journals will minimize the risk of university customers to easily switch off, evidenced by the recent signing of attractive long-term deals. Visa completes our top-3 active positions, as we believe it continues to benefit from the secular shift away from cash as well as from the rebound in cross-border transactions. We also still like the name as we do not think that there will be significant impact from the renewed discussion on interchange fees.

Performance:

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In the month of November, the portfolio had a strong absolute performance, yet could not keep up with the benchmark from a relative perspective. Sector-wise, our positioning in Energy and Industrials helped performance most, while Consumer Discretionary and Technology lagged during the month. On a stock level, German chip maker Infineon rallied after posting solid earnings results including a less gloomy outlook for 2024 than feared by the market. In contrast to several other automotive chip suppliers, Infineon still expects good demand for its silicon carbide (SiC) modules, justifying its expansion plans in this area in the coming years. A bullish capital markets day of Schneider Electric was rewarded with a strong move up in its share price, guiding for a much stronger growth outlook in the coming years than consensus assumed. German exchange provider Deutsche Boerse also organized an investor day in November, laying out bullish targets and explaining the disputed SimCorp deal more in-depth, which was welcomed by investors.

On the flipside, security software provider Fortinet dropped after missing for the second time in a row, pointing at a slowdown in product growth, disappointing billings and also lowering guidance for next fiscal year. The company did announce a change in its go to market strategy by pivoting towards its faster growth SecOps and cloud-based SASE business as a way to offset a slowing hardware firewall market. Energy service operator Schlumberger also disappointed during the month as it came down in sympathy with weaker oil prices, on the back of demand worries, a build-

up in global inventories and some easing on the geopolitical front in the Israel-Hamas conflict, in particular. Finally, managed care provider UnitedHealth detracted in November as it simply could not keep up with the more pro-cyclical market rally.

Portfolio changes:

In November, we added UBS Group to the portfolio as to increase our exposure to European Financials now we expect interest rates to peak soon. We also believe the ultimate value creation potential from its merger with Credit Suisse might be higher than the market assumes, a deal with very favorable terms for UBS. The combined entity is expected to have a very solid position in all the major markets, though the actual operational integration will take some time. We financed this transaction by trimming our positions in both SMFG and Allianz. Furthermore, in our attempt to make the portfolio more interest rate sensitive we slightly reduced our positions in names such as Eli Lilly, Novo Nordisk and Unilever, while adding to the likes of Thermo Fisher, CBRE and Home Depot.

Management expectations:

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At this stage we shouldn't rush to fully embrace the current euphoria just yet. Not too long ago, central banks across the globe were blamed for raising rates too late, which urge them to aggressively put the inflation genie back in the bottle. The breaking, or at least bending effect of this, still has to show up. At least for now we do indeed see inflation moving back to target levels, making a stronger case for a more normalized rate environment, though at different paces on a regional basis. So far 2023 has felt like a year of constantly preparing for the worst, which never truly materialized. Underneath the surface we do sense investor anxiety around shaky earnings outlooks, capital structures and balance sheets remains. Despite the many complex interplays on the macro, micro and geopolitical level, it has paid off to keep it relatively simple and sticking to large cap Quality. Going into 2024 we do think the narrow default market leadership may unwind a bit, moving us to dust off more untouched areas of the market to find alpha.

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