

Santander GO Global Equity ESG

2 / 2024

Fund commentary

Market developments :

Stocks continued to power ahead with global equity markets ending the month of February significantly up (+4.6% in EUR; +4.3% in USD). Hotter than expected inflation figures, geopolitical tensions and interest rates ticking back up, didn't exactly rattle the markets. And even with some of the "Magnificent 7" such as Apple and Tesla dropping off the chariot, AI and anti-obesity related names remain investor's favorites. Nvidia, for example, kept the AI dream alive with a mighty results 'beat and raise', reigniting the momentum trade further. On the other end, cyclicals are still struggling, preventing the market from broadening out. At the same time, we also see inventories across the board normalizing, a freight downcycle that is coming to an end and overall demand staying resilient at a low level. This means we should already prepare the troops for a market reshuffling, as at some point a deconsolidation in market leadership becomes inevitable.

Largest holdings:

Our top active position is Visa, 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. Thermo Fisher is our second largest active position, which is a US life sciences toolmaker with arguably the best operating track record in the healthcare tool space. In combination with compelling valuation and signs that end-market weakness is bottoming out, means the set-up for Thermo Fisher to outperform is attractive. Alphabet completes our top-3 active positions, 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.

Performance:

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In the month of February, the portfolio had a strong absolute performance and was also slightly positive versus the benchmark. Sector-wise, our positioning in Communication Services, Consumer Staples and Healthcare helped performance most, while Energy and Consumer Discretionary lagged during the month. On a stock level, Meta Platforms performed well after very strong results as its Reels initiatives to drive digital ad demand, its much higher cash returns for shareholders as well as Meta's investments into AI-related infrastructure and how that help drive the core business were all well-appreciated by the market. It was also another month for Eli Lilly on rising optimism around its GLP-1 products targeting obese patients, a market where growth prospects keep on being adjusted upwards. Industrial and automation play Schneider Electric also continues to power on, posting strong results that validated its higher-growth-for-longer thesis, partly fueled by providing energy-efficient electrical equipment that goes into energy-hungry datacenters.

On the flipside, we see notable detractor in Sony Group as the performance of its gaming business is sputtering as of late, offsetting good progress made in other parts of the business such as the imaging sensors, entertainment and music segments. The scale of the restructuring announced for gaming was larger than expected, sending the stock price down. Another detractor in February was Finnish biofuel refiner Neste Oyj, which see lower margins ahead as a result of refinery start-up issues in Singapore and the US, but also weaker than expected credit prices for its biofuel products. Finally, beverage can maker Crown Holdings underwhelmed investors with a surprise cut to guidance materially below consensus expectation, without given a lot of details, denting credibility in the process.

Portfolio changes:

In February, we sold our holding in Signify as the growth thesis that underpinned the investment case continues to be challenged. Chinese competition and low pricing power will linger on for longer, making the stock a value trap. We used proceeds to increase our weight in Hitachi Ltd. Another stock we sold during the month has been Crown Holdings as we think both fundamentals and visibility into the business have deteriorated, in combination with credibility issues current management that we believe can be an overhang on the stock for longer. We have allocated the proceeds over higher conviction names such as Check Point Software and Trane Technologies. Lastly, we added Mercedes-Benz as a new name to the portfolio, a deep-value play with a focused strategy on the high-end of the automotive market including a realistic roadmap in its roll-out of EVs.

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Management expectations:

Some argue the market rally is beginning to look 'tired' as technicals are starting to wear out, but we are unsure. Although it does make sense for stocks to take a breather, emerging strength in soft data points such as PMI/ISM figures, might be additional sources of upside for future earnings growth that can go beyond the mega cap stocks only. Financials markets are generally guided by earnings and fundamentals, but also by sentiment and animal spirits. At the risk of overextending momentum, we find ourselves striking a delicate balance between running the winners and sound risk management. From here, we do want to see improving growth data, especially in the more cyclical areas of the market, which can lead to a healthy de-concentration of returns. Those data points are slowly coming through, yet not enough to convince investors a market rotation is imminent. In any case, whatever direction of travel might unfold in front of us, with our largely macro-agnostic and Quality driven investment style, we confidently look at what comes next.

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