

Santander GO Global Equity ESG

4 / 2024

Fund commentary

Market developments:

Curve balls from geopolitics in the Middle East to hawkish rates talk to some cracks in the mega caps. It all seemed a bit too much for equity markets to digest, ending the month lower (-2.8% in EUR; -3.7% in USD), the worst month since September last year. As anxiety around a potential war between Israel and Iran took hold initially, the tail risk of a full escalation seems contained, at least for now, after both sides claimed a measured 'win'. As such, the dust settled a bit before other macro factors impacted markets such as a somewhat hawkish Fed messaging, with recent inflation data making imminent rate cuts a lot less likely all of a sudden. Meanwhile, the circus of earnings results is in full swing and, fortunately, most came out better than expected. Even though the outlook guidance for the rest of the year has been fairly neutral, the fear around downgrades has also lessened. Underneath the surface we do see a slight change in market preferences, with the momentum cohort giving way to particular defensive but also commodity cyclical pockets of the market. With our Quality style, we aim to strike a balance between running our highest conviction winners whilst reallocating towards other areas where renewed momentum seems to appear.

Largest holdings:

Our top active position is Alphabet, as we believe that with its leading positions in Search, Cloud and the investments into its AI platform, Alphabet has a long runway for growth with attractive returns. To us, Alphabet looks undervalued and is currently not treated as an AI winner, which we think is unjustified. AstraZeneca is our second largest active position, a UK pharma company that enjoys one of the strongest product pipelines in pharmaceuticals, while at the same time having low risk to patent expiries. 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:

In the month of April, the portfolio had a weak absolute performance, but ended with a slight outperformance versus the benchmark. Sector-wise, our positioning in Healthcare, Technology and Industrials helped performance most, while

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Financials and Energy lagged during the month. On a stock level, Alphabet continued its ascent after providing a clean set of results, beating estimates across the board including Search, YouTube, Cloud and Advertising. Not only topline improved to +15% during the quarter, also cost controls helped improve profit margins. Another positive surprise was the initiation of a cash dividend in addition to its \$70 billion share buyback program. Also AstraZeneca had strong quarterly results, demonstrating the bogey print in Q4 2023 was more of a negative one-off than the norm. This time we saw strong growth and beats across most key biopharma and oncology franchises, leaving it strongly positioned to raise full-year guidance. Investor focus will now likely shift towards the company's Investor Day in May where an update to its three-year growth update will be provided. Finally, climate control manufacturer Trane Technologies again announced good earnings results, flagging most of the beat on topline growth and margins is coming from its exposure to datacenters which need to cater for all that extra AI driven electricity demand, and consequently, also the applied chiller and thermal management systems that Trane provides. On the flipside, in April we've seen some performance detraction in Home Depot as the overall higher rate environment reflected negatively on home builders and DIY stores. Nonetheless, Home Depot continues to see decent traffic across its stores, driven by strength in its Pro business, offsetting weakness in big ticket categories such as kitchen & bath and appliances. In advancing its Pro business, Home Depot has acquired several companies such as SRS and IDG to target the non-cash-and-carry segment within Pro. The flipside of this strategy, however, has been the suspension of buybacks, higher leverage and some margin pressure. Another weak performer during the month has been SLB, which reported an unexcited set of results, in-line with expectations, with management reiterating the same message of strong growth ahead. However, it seems the overhang of the upstream spending cycle potentially peaking, continues to keep a lid on the stock. We actually think higher gas activity, increased digital content and more deepwater projects will position SLB very favorably within the energy services industry over the next few years.

Portfolio changes:

In April, we added Fortescue to the portfolio, a well-run Australian iron ore mining company. With iron ore prices well above Fortescue's all-in cash cost level, the FCF generating capability of the company seems underestimated by the market. The company also pays a very attractive dividend and trades at a very cheap valuation. We funded the purchase of Fortescue by trimming our position in names such as Linde and Haleon. Furthermore, we've also slightly reduced several expensive holdings such as Keyence, Visa and Costco and reallocated towards names with higher FCF yields including AstraZeneca and Dell Technologies.

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Management expectations:

With one of the biggest market anchors around rate cuts becoming less certain, it remains to be seen if the market can look through that and give equities a pass on a less bullish rate dot plot. In fact, with US Treasury two-year yields topping 5% again, a potential hawkish move by the Federal Reserve is suddenly a credible scenario too. Consequently, an even stronger dollar, long duration risk off moves and Europe back into play, as a cheap alternative to the US, were some of the shifts in the market that occurred. So far, earnings reports show resilience, with margins still holding up against a softer topline growth backdrop. Clearly, in some areas of mega cap land a lot of high expectations have been pulled forward and seems priced in, but elsewhere earnings are shaping up quite decently, providing support for a slow economic recovery scenario. We do acknowledge stagflation worries have resurfaced lately, evidenced in "Magnificent 7" fatigue, some splintering within that group even, and a shift towards defensives and commodities. At this stage we remain in the "higher for-longer" rate camp, meaning our quality tilted portfolio remains well balanced and relatively agnostic to other market factor exposures.

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