Santander Asset Management

Marketing Communication

Santander GO Global Equity ESG

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Fund commentary

Market developments:

A slight positive return for global equity markets (+0.3% in EUR; +2.6% in USD) masked an otherwise turbulent month of August. Japan was at the epicenter of the initial market rout after the Bank of Japan announced a slight rate hike, triggering large outflows with the so-called Yen carry trade unwind. In conjunction with a tepid US payrolls report and the first cracks in the AI theme, markets globally quickly moved into panic mode. Calm returned, though, as incoming data dismissed any meltdown fears in fundamentals and equities quickly returned higher to finish the month in green. As markets recovered from the lows, this was largely driven by defensive sectors, helped by a decrease in real yields. Sectors such as healthcare, staples and real estate outperformed notably, while areas within consumer discretionary, commodities and higher beta industrials lagged. Overall, we do think the market now finds itself again as being slightly too optimistic on the Fed's rate cutting pace, providing a potential volatile backdrop.

Largest holdings:

Our top active position is AstraZeneca, 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. Its leading franchises in therapeutic areas such as oncology, cardiovascular diseases and immunology enables it to have strong growth potential for the coming years. Haleon is our second largest active weight and is a consumer health OTC company with a superior growth profile driven by its pure-play focus and premiumization efforts. After coming out of GSK/Pfizer, Haleon has plenty of opportunity to further grow margins and use its cash flows for debt paydown and shareholder returns. Cyber security play Check Point Software completes our top-3 active positions, where we see a number of catalysts on the horizon including its product refresh cycle, the interconnection across its products coming to fruition and the company's positioning of its Infinity AI Copilot functionality.

Performance:

In August, the portfolio had a positive absolute return, comfortably ahead of the world index. Sector wise, our positioning in Technology, Healthcare and Industrials helped performance most, while we did not see any material detraction from other sectors.

In terms of stock selection, Eli Lilly's contributed most to our excess performance. It had a large beat and raise earnings result, showing its weight-loss and diabetes products Zepbound and Mounjaro products are also gaining traction outside the US, with competition still years behind. Moreover, very promising results of its tirzapetide medication might lead to a so-called prevention label on type-2 diabetes, which would be a major positive catalyst.

Cyber security firm Fortinet's earnings results finally turned the corner. Strong topline and margin performance, driven by solid FortiGuard security subscription uptake, in combination with somewhat better billings growth, helped restore confidence in the story, sending the shares higher.

AstraZeneca had good results out too, adding conviction it can reach its longer-term sales target, driven by a rich and diversified range of late-stage pipeline drugs. As we get more de-risking events around these products in the coming period, we believe Astra can close its valuation gap versus peers.

Consumer healthcare company Haleon Plc also continued its ascent as results indicate volume growth is back on track and its portfolio is gaining market share. A recovery in the vitamin, minerals and supplements (VMS) business as well as its oral dental products bodes well for further growth, especially as the company enters a period of easier comps.

On the flipside, we have seen detraction in Alphabet shares as the US DoJ is potentially aiming for a break up of Google including Search. In case that happens, Google would clearly lose its integrated infrastructure and data-sharing capabilities across its apps and platforms, which are large drivers of its cash flow generation engine. Even though the outcome of the DoJ suit remains uncertain, investors are reluctant to completely dismiss this overhang.

Japanese financial conglomerate Sumitomo Mitsui (SMFG) also struggled in August, not able to recoup losses at the start of the month when the Japanese market corrected significantly. Given policy normalization on the side of the BoJ, improvements in corporate governance and further upside to ROE, we do remain constructive on Japanese banks such as SMFG.

Portfolio changes:

In August, we trimmed our positions in Alphabet and Hitachi. The former as the regulatory risks are increasing with the DoJ putting additional pressure on Alphabet, while with Hitachi we are taking profits after a strong run. Proceeds have been used to add to more US interest sensitive names such as Builders FirstSource and CBRE Group.

Management expectations:

The summer period is notoriously tricky, with less liquid markets often causing very erratic price action. August was no exception, seeing sharp corrections and new highs. As it comes to the US, with growth softening, not collapsing, and inflation receding further, markets have been moving back into frothy mode again by expecting the Fed to deliver more rate cuts in the short term than what's realistically likely. Although borrowing costs have come down, we still see scant evidence of a pick-up in activity levels in the interest sensitive parts of the market. Improving data points for cyclical areas, such as on manufacturing PMIs and China real estate, are thus needed though for more broadening out in equity markets. Furthermore, as several popular themes around AI and anti-obesity drugs are looking tired and momentum is waning, we stay cognizant of a potential change in market leadership. While on the margin we have added slightly more into the less expensive corners of the market, we remain up the Quality curve in terms of positioning.