Santander GO Global Equity ESG

Marketing Communication

12 / 2024

Fund commentary

Market developments:

In December, the initial euphoric “Trump trade” made way for a more hawkish Federal reserve messaging, leaving global equity markets with a slight negative return for the month (-0.6% in EUR; -2.3% in USD). New highs for more speculative assets such as Bitcoin and a retail buying mania in US Tech came at the expense of virtually all other sectors, indicating a level of frothiness in the market that eventually got a reality check towards year-end. Traditionally, the few weeks of trading in December makes it difficult to judge whether such movesmerely reflect year-end risk positioning or actual economic foreshadowing of what’s to come. However, higher for longer yields and a reflationary macro tape does cast doubt whether the anticipated rate dot plot is still too optimistic, hence the Fed’s more sober tone for 2025 rate expectations and subsequent recalibration of market returns.

Largest holdings:

Our top active position is Deutsche Telekom, a well-run German telecom operator with stable cash flows domestically and enjoying growth potential in the US through its holding in T-Mobile USA. Haleon is our second largest weight, 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 improve shareholder returns. Cheniere Energy, a pure-play US LNG exporter, completes our top-3 active positions. Cheniere’s book of business is largely long-term fixed-fee based, resulting in strong and durable cash flows that allows the company to improve its capital structure by paying down debt and increasing shareholder returns.

Performance:

In December, the portfolio had a negative absolute return, though still beating the benchmark. Sector-wise, ourpositioning in Technology and Energy helped performance most, while the sectors Industrials and Healthcare lagged.

In terms of stock selection, Tech infrastructure powerhouse Broadcom rallied significantly on a much better outlook than expected. The company not only pointed at a USD$60-90 billion addressable market for AI servers for its existing customers, but also sees plenty of growth potential for other Cloud customers as they develop AI training capabilities.

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Alphabet also performed strongly during the month, after it unveiled a new version of Gemini 2.0, its multi-modal AI model. The improvement in model performance to enhance AI training capabilities and use cases looks promising, pushing the DoJ overhang around a potential company break -up somewhat to the background.

Finally, Japanese entertainment giant Sony Group contributed nicely to performance, mainly on the back of an improving outlook for its gaming and network services segment. With the coming spin-off of its Financials division, Sony is becoming a cleaner story, which is clearly appreciated by investors.

On the flipside, we saw performance detraction from Builders FirstSource, as higher yields are hurting the overall US construction outlook. Although US housing fundamentals are still favorable, given a large undersupply in housing stock, mix pressure from smaller and less complex homes complicates margin expansion somewhat.

The tragic shooting of UnitedHealth's Insurance CEO, at the start of the company's capital markets day, caused the stock to slip significantly. To some this "symbolic takedown" refers to the simmering anger many citizens have about the US healthcare. Although we don't think UnitedHealth, or any other managed care provider, is really to blame for this specifically, it might trigger a renewed discussion on the healthcare system at large, providing an overhang to the insurance sector.

Portfolio changes:

In December, we took our weight down in the luxury segment by reducing LVMH, while adding further to US financials such as Ameriprise and PayPal. We also took some profits in Broadcom and Cadence Design to add Oracle to the portfolio, where we think revenues will accelerate over the next few years on much better Cloud momentum.

Management expectations:

US exceptionalism ruled the markets once again, posting returns well ahead of the rest of the pack. Towards year-end, market breadth dwindled again as well, however, with daily advancers versus decliners reaching all-time records. Whether this is sustainable remains to be seen, but at least for now high bond yields and a strong US dollar remain market anchors. Despite 2024 providing strong equity returns, it wasn't smooth sailing. And with plenty of geopolitical turmoil and "Trumponomics" policy uncertainty around, we expect markets will be on edge as we enter 2025. It's not unlikely that the US will keep in the lead, but some convergence versus the rest of the world seems overdue. If a 'waterbed' analogy is of any help, reduced froth in crowded parts of the market potentially helps broadening out into less owned parts such as cyclical value and European stocks. With next earnings season around the corner, we'll get a glimpse of what the coming year might bring.

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