Santander
Asset Management

Santander GO Absolute Return

3 / 2021

Fund commentary

March was generally a positive month for most asset classes with a continuation of the themes seen in February driving performance. Equities, credit and European sovereigns mostly recorded positive performance, as positive economic data, the progress on the vaccine rollout and the large fiscal stimulus in the US and Europe proved supportive. The US Yields climbed whilst gold declined as investors increasingly bet on a stronger economic recovery.

Starting with sovereign bonds, US saw their government debt losing ground for the third month in a row. Yields on 10yr Treasuries rose by +34bps in March as the positive economic news and the good step in vaccination are leading to an increased optimism, as well as a potential return of inflation. Conversely in Europe March has not been bad: German Bunds returned -0.04% as a whole, but 2-year and 10-year yields fell whilst 30-year yields increased, leading to a steepening of the curve whilst peripheral Government bonds outperformed with Italian BTPs (+0.5%) and Spanish Bonos (+0.4%) tightening their spread.

At the top of the monthly table were equities with March marking a very strong performance and European indices experiencing the largest advances. Over the month, the DAX (+8.9%), the FTSE MIB (+7.9%) and the STOXX 50 (+7.9%) all saw solid gains in total return terms, while Auto's were the best performing sector and Basic Resources lagging. In US the S&P 500 grew by +4.4% on a total returns basis while tech stocks lagged (Nasdaq up +0.4% and NYSE FANG+ down by -4.4%). EM indices were even further back with the MSCI EM Equities depreciating -1.5% over the period.

Commodities did not do so well with both WTI (-3.8%) and Brent Crude (-3.1) down due to some concerns over the global rise of Covid-19 cases. After a positive start to the year copper took a pause with a -3.8% return. Precious metals continued to suffer with gold falling -6.1% as higher real rates and expected monetary policy normalization are contributing negatively on performances.

In the FX sphere, the US dollar has continued to strengthen as investors have moved to price in potential hikes from the Federal Reserve thanks to the fresh fiscal stimulus. The dollar index was up + 2.6% in March. On the other hand, the Turkish Lira has plummeted over the last month, with a -10.0% decline against the US Dollar after President Erdogan moved to replace the central bank governor.

Portfolio Review:

The Portfolio performance were close to parity as the positive contributions from some of the strategies in our Macro pillar were offset by the return in the Hedging pillar. Overall contribution in the Relative value (or Satellite) pillar were slightly negative.

Our “risky asset” positions in the Macro pillar were among the top performers– our long in the European Equities and Us Equities and the long position in Global inflation all added to performance whilst on the downside our long Japanese equity exposure and long EM duration positions.

With equity markets having finished in positive territory for the month our Macro Hedging pillar suffered during March with the majority of the out-performance coming from our Equity Volatility hedge.

The performance of the Relative Value pillar was positive across all sub pillars except the Equity one that drove the overall pillar in negative. In our Quant bucket, the Cross-Asset basket did nicely, mainly driven by FX positions and in particular long Norwegian Krone and Swedish Krona positions whilst the Commodity, Inflation & Volatility sub-pillar generated good returns thanks to our long Non-European breakeven positions. Finally, our Equity sub-pillar experience a negative month, although there was considerable dispersion in performance amongst our various positions.

On the downside, our Equity sub-pillar had a difficult month: our US and Asian Opportunities, Online World and Social distance basket were the largest detractors as the reflation wave was strong and hit some sectors with renewables and tech under pressure.

In terms of portfolio activity, equity exposure fell from 17% at end-February to 14.5% by end-March with the reduction in exposure coming from our active decision to reduce our equity weighting and from our call options becoming less valuable and moving out of the money. The EMU is back to being our largest exposure as we like the region value tilt and US is not far as the strong growth should support the markets. Our overall duration decreased from 1.4 years to -0.2years: we have maintained a diversified geographic allocation with a preference for Australia whilst we further increased our net short exposure to the US and moved to net short in Europe too. Our spread duration rose from 2.1 years to 2.2 years with a preference to investment grade exposure. We decreased our overall commodity positions to 5.2% from about 6.2%. As the fiscal boost should temporary prevail on the imbalances we have closed our net short position in US Dollar moving from -8.7% to approx. +9.3% whilst we slightly increased our exposure to Canadian Dollar and the British Pound.

Investment Pillar	Performance Contribution
Views of the World	+0.50%
Hedges	-0.58%
Long/Short ideas	-0.17%
Corporate Bonds	-0.00%