Santander Asset Management

Marketing Communication

Santander Go Asian Equity

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Fund commentary

• Asia ex-Japan markets rallied in the second quarter, outperforming developed markets in aggregate. This was despite some sharp market falls at the start of the quarter when President Trump unveiled new trade tariffs. Equity markets subsequently recovered amid the temporary suspension of most tariffs so that trade talks could take place.

• Korea and Taiwan produced the strongest returns by far. Korea benefited from having a new government which promised an easing in regulations around cryptocurrencies and more shareholder friendly policies. Taiwan's market rallied strongly on renewed optimism regarding AI capex and an easing in trade concerns.

• China produced positive returns but lagged the benchmark index. Chinese equities slumped early in the quarter as the US announced huge trade tariffs on Chinese imports into the US. However, they soon recovered as the US administration softened its stance and started trade negotiations.

• The fund posted a positive return, but underperformed the benchmark over the period.

• At the market level, stock selection was weak, most notably in Korea. Regional allocation also had a negative effect, with the underweights to Taiwan and Korea proving to be detrimental.

• At the sector level, stock selection was weakest in information technology (IT). The underweight to the sector also weighed on returns.

• Regarding stock performance, the strongest returns came from the overweight positions in Shandong Gold Mining (China) and Hanwha Aerospace (Korea), and the zero weighting in PDD Holdings (China).

• The weakest performers were the underweight position in TSMC (Taiwan), Philippine Seven Corp (Philippines), and the zero weighting in SK Hynix (Korea).

• We bought shares in Trip.com on a dip in the share price as its business remains stable, with limited impact from increased competition. Another addition was Samsung Fire & Marine Insurance, which is boosting shareholder returns as a result of the 'Value-Up' programme in Korea.

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- We sold shares in JD.com due to the heightened business risk from increasing competition. We reduced the position in BYD Company as its recent price cut dampens the near-term business outlook, in our view. We also exited Hyundai Electric given full valuations and took profits in Tencent to fund other purchases.

- Asian markets exhibited a V-shaped trajectory in the second quarter. They were significantly impacted initially by Trump's "Liberation Day" tariffs, but subsequently rebounded on renewed optimism regarding AI capital expenditure, alleviated trade concerns and a more dovish rate outlook from the US Federal Reserve.
- Tariff and broader policy uncertainty will remain principal concerns for investors in the next few months. However, there is potential for equity flows to be supportive in the region, as a weak US dollar and an unwinding of 'US exceptionalism' could lead to a re-allocation to emerging market equities. The weak dollar and easing currency pressures also open the door for local central banks to ease monetary policy to address softening domestic activity.
- Sentiment towards China will likely remain supported by AI breakthroughs, a positive government stance on the private sector, and low interest rates. However, the market will need to see fundamental improvements in the broader economy before sectors outside of the thematic areas can re-rate.
- The Indian market has been recovering in tandem with the stabilisation of its economy, driven by a coordinated fiscal and monetary policy response. Additionally, limited shipments to the US and the stronger rupee are expected to support the performance of the Indian market in the near term.
- In North Asia, although the renewed optimism around AI capex and moderation of trade concerns could lead to a moderate recovery, these two risk factors are not entirely removed and may limit near-term upside potential. In Korea, however, the improved political landscape, corporate governance reform and attractive valuations suggest more upside potential.
- For ASEAN markets, a weaker dollar may allow central banks to accelerate monetary easing, but macroeconomic uncertainties and trade tariffs will limit market re-rating. Singapore, on the other hand, may fare better as it is more stable than its ASEAN counterparts. This is particularly the case during periods of macroeconomic volatility, thanks to the strong profitability of its banking sector, which comprises 50% of the index.