Santander Asset Management

Marketing Communication

Santander GO Global Equity

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Fund commentary

Market developments:

As many prepared for a tough summer, global equity markets still marched on, though more in slow motion mode in August (+0.3% in EUR; +2.6% in USD). The "sell America" trade seems long gone by now as strong earnings momentum continued to drive the AI gravy train, with dovish Fed expectations further running the show in the US. Markets in Europe were mixed, though, with the periphery outperforming core Europe, notably France where political instability is back on the radar, but also some fatigue on German stimulus. In general, sector leadership was balanced between cyclicals and defensives with laggards and short-cycle stocks making a comeback on rate cut hopes, but also improving fundamentals in pummeled sectors such as healthcare. Given the summer rally so far, policy noise still being present and September traditionally a tougher month, there is no need to go all-in. Unfortunately, our cautious stance has not been able to match the summer melt-up, hurt by the rotation into rate sensitive laggards and lower quality echelons of the market.

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 position and is 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. Thermo Fisher completes our top-3 active positions, and is a well-managed leader in the highly fragmented Life science tool space.

Performance:

In August, the portfolio had a flattish absolute return, slightly lagging the benchmark. Sectorwise, our positioning in Consumer Discretionary and Consumer Staples helped performance best. The sectors Industrials and Financials, however, struggled most.

In terms of stock selection, Alphabet contributed best to performance. It is increasingly confident AI can act as a tailwind for its Search business rather than a threat, visible in overall query growth and user growth in its AI Overviews and

Gemini app. Meanwhile, other areas such as YouTube and Google Cloud (GCP) continue to grow strongly as well. Consequently, capex spending will move even higher in the coming years, but all reinvested at high returns as well.

Sony Group hit an all-time high as it successfully pushes through portfolio transformation and margin improvements, resulting in a narrowing of the conglomerate discount. Its strong market position in gaming, anime and music leads to an overall better growth and return profile.

Finally, car parts retailer AutoZone contributed nicely to performance. With new car sales still subdued given high prices, consumers continue to spend more on old-car maintenance instead, helping AutoZone stock to move higher. The company is also well on-track to reach 300 mega hubs at full build out as well as opening new distribution centers with new technology to deepen SKU availability.

On the flipside, data and risk analytics company RELX detracted in August, mainly on a warning

put out by Gartner on a slowdown in research output growth, potentially caused by AI. However, in contrast to many software and IT services companies where AI indeed might pose a threat, RELX is already seeing tailwinds from AI. Its Legal and journals business, in particular, where accuracy and fidelity of data are crucial, show accelerating growth from its AI initiatives.

Siemens Energy also pulled back from recent highs, even though there are no specific points of concern. After a positive preliminary update in July, actual results did not again surprise, hence there was some profit taking after a very strong run year-to-date. We still see Siemens Energy as one of the best plays on the electrification theme, with consensus expectations still too low in the outer years.

Finally, Hitachi underperformed after a somewhat disappointing earnings report. Even though headline profits were in-line with expectations, the digital systems & services business (DSS) was hurt by weak performance in the overseas GlobalLogic and Vantara storage divisions. As we do still see strong growth in the energy segment and infrastructure digitalization, we expect the pullback to be short-lived.

Portfolio changes:

In August, we started a new position in BNP Paribas, where the investment thesis centers around its diversified earnings model, new growth initiatives, capital return prospects and still cheap valuation, especially relative to European peers. To fund this purchase, we decided to sell our stake in Sumitomo Mitsui Financial (SMFG), which in recent years re-rated towards to the highend of its historical range. There are a number of things still to like about SMFG, but we feel it is already priced in, hence see a better risk-reward with BNP Paribas. We also decided to sell our remaining position in Accenture as we see near-term risk from constrained IT budgets as well as longer-term uncertainties around the implications of AI for IT services business models. Other trades in August include the trimming of year-to-date winners such as Nvidia and Siemens Energy in order to add to several Healthcare positions such as Eli Lilly, Thermo Fisher and AbbVie.

Management expectations:

A bubble reality check gives us reasons for some discomfort. Ballooning US debt as a result of the OBBB, cuts in government R&D hurting productivity, tariffs being inflationary by default, constant attacks on the independence of the Federal Reserve, questioning the reliability of economic data such as labor statistics, the US government taking direct stakes in companies (e.g., Intel), are all examples that keeps us on edge. By any measure, however, equity markets remain in party mode with credit spreads also being very tight. These are hardly the circumstances requiring easing monetary policy, yet the Fed might be prepared to start cutting rates, a scenario investors seem all-in on. Increased short-termism remains the market operating fabric with any concerns brushed away quickly. Thus, the pain trade from here could be if the Fed decided not to cut at all, or at least less so than many hope for, effectively taking away the punch bowl as the party starts heating up. There's only a bit of Shakespeare needed to create drama, which is something we cannot rule out. A lively autumn lies ahead, but perhaps playing a different tune this time.