Santander Asset Management

Santander Go Emergian Asian Equity

3 / 2026

Marketing Communication

Fund commentary

Market Review:

Asian equities fell slightly in the first quarter. After strong gains in both January and February, there was a sharp sell-off in March as the US and Israel launched air strikes against Iran. Investor sentiment weakened amid the escalating conflict in the Middle East and a sharp rise in energy prices. Concerns that higher energy costs could feed through into inflation and impact growth weighed on risk appetite. Energy-importing countries were hardest hit amid the rise in oil prices, particularly India and Indonesia, as higher energy costs, supply-chain disruptions and increased risk aversion weighed on sentiment. China was also weak and underperformed. Conversely, Korea was strong, despite a slump in March, as investors chased the technology sector on positive earnings momentum and interest in AI in the first two months of the quarter. Taiwan also performed well on a similar theme, while Thailand also produced strong returns and outperformed.

Drivers of Fund Performance:

The fund posted negative returns but modestly outperformed the benchmark during the period. At the market level, the underweight to India had a notably positive effect. Stock selection in Taiwan contributed positively. On a sector basis, selection was a strong contributor, largely due to very strong returns in information technology (IT) in Taiwan which offset detraction in consumer discretionary. In terms of stock performance, the strongest returns came from the positions in Samsung Electronics, Delta Electronics and ASE Technology. The weakest performers were the underweights to TSMC and SK Hynix, and the off-benchmark position in MakeMyTrip.

Portfolio Activity:

During the month, we added to our stake in Samsung Electronics as it continues to benefit from the shortage in memory supply. We also bought shares in Jiangsu Zhongtian Technology as the company benefits from ongoing investments in grid infrastructure. Another new addition was Taiwan Union Technology, an upstream supplier in the PCB market where demand continues to be driven by increasing investments into AI. We took profits in Samsung C&T and Hon Hai Precision, and exited our position in Shenzhou International.

Market outlook:

- The closure of the Strait of Hormuz to international shipping in recent weeks presents a serious threat to regional growth as reserves of fuel are limited and higher prices will put upward pressure on inflation, which in turn will depress disposable incomes and consumption over time. Higher inflation may in turn pressure local central banks into a more restrictive monetary stance, which could further dampen activity.

- Markets seem to be assuming that the disruption to oil supplies will be measured in weeks rather than months and that a de-escalation of fighting will happen before long, in line with recent commentary from the US president. However, this more benign roadmap is far from certain, and the range of possible outcomes remains very wide given the unpredictability of warfare.

- As well as the heightened geopolitical risks over the last month, we have also recently started to see a very stark divergence in performance across markets between the perceived winners and losers from AI adoption. While more questions are being asked about the merits of all the AI investment spending, the release of more powerful AI models this year by the likes of Anthropic has meant markets are also starting to price in a much more dramatic wave of potential business disruption. Software and online platform companies are under the greatest scrutiny and seeing the greatest share price pressure. However, it is unclear at present what the new, winning, business models will look like, and which companies are best placed to survive and thrive with this new technology. We remain invested in key technology names across Korea and Taiwan, but our active overweights are not aggressive given current valuations.

- In China, the domestic economic backdrop in China remains fragile and deflationary, the earnings picture is very mixed, and an export slowdown in 2026 could exacerbate deflationary forces. Allocations are concentrated in industrial leaders with global competitiveness and export strength, particularly in batteries, power equipment, and construction machinery; commodity exposures such as gold and copper; healthcare innovators with strong licensing pipelines and CDMO leadership; selective AI and internet franchises—favouring private sector platforms with credible monetization prospects; and dividend yield strategies targeting companies with improving shareholder returns.

- In India, domestic fund flows remain very robust, supporting valuations, but foreigners have been net sellers as attention and flows have turned to the technology-heavy North Asian markets. Higher oil prices and supply shortages also put India in a more vulnerable position given the country's trade deficit and limited energy reserves. Even after the market's underperformance, valuations in India remain relatively rich, given the fairly lacklustre growth backdrop, and we remain underweight. We remain highly selective in this market, with exposures concentrated in the private banks, telcos, and consumer discretionary names that benefit from the recent cut in GST.

- The outlook for the ASEAN market remains uncertain. If geopolitical tensions resolve, a resumption of US rate cuts and the resulting weaker dollar should continue to bolster overall risk appetite across the region. However, the limited drivers of economic growth may persist in dampening investor interest, particularly if enthusiasm for AI remains elevated.

- With the recent correction in markets, aggregate price-to-earnings multiples for regional equities have moved back towards the middle of the longer term trading range from previously more stretched levels. We are still well above levels reached in previous regional crises or recent market lows, so there could still be material downside if events in the Middle East deteriorate further or the oil shock is very prolonged. Along with a resolution of the current energy disruptions, market performance is also increasingly tied to AI, through semiconductor supply-chain stocks in Korea and Taiwan, and internet stocks in China.

- Continued momentum in AI-related capex spending globally and improvements in the monetisation outlook for these businesses remain key to the future performance of Asian equities, perhaps even more so at present than local economic developments in the region. Although technology-related earnings forecasts for 2026 look well underpinned currently, recent volatility in US-listed AI stocks shows what could happen if sentiment on the global AI-capex cycle were to moderate more decisively in 2027 or beyond.

- The macroeconomic backdrop for markets remains very volatile and the range of outcomes is wide, but we continue to see attractive longer-term opportunities across Asian equities and we will look to take advantage of any material sell-off in our preferred stocks across the region to position for an eventual recovery in investor sentiment.