Santander Asset Management

Marketing Communication

Santander Go Emerging Markets Equity

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Fund commentary

Market Review:

Emerging market (EM) equities posted negative returns in July, underperforming the MSCI World Index which was marginally positive (in dollar terms). The AI-led rally that has driven EM performance throughout much of 2026 showed further signs of fatigue as Korea and Taiwan led markets lower. Growing concerns over the sustainability of hyperscaler capex spending, rising competition from China and elevated Korean market leverage, fuelled heightened volatility in July. This came against the backdrop of a weaker dollar, firmer commodity prices and renewed conflict in the Middle East, which pushed energy prices higher.

Following the Korean market's surge in performance over most of 2026, July was characterised by significant volatility, ending the month as the worst performing EM. Memory makers SK Hynix and Samsung Electronics led the decline, as worries over US hyperscaler capex were compounded by increasing competition from China and the unwinding of leveraged AI-related positions. Similar factors weighed on Taiwan, which also underperformed broader EM, although to a lesser degree than Korea, given the more crowded and leveraged AI-related positioning in the latter market. The Taiwanese market also saw profit-taking in AI-related stocks despite strong underlying fundamentals and resilient economic data. Korea and Taiwan were the only two markets to underperform the index over the month, underlining why developments in these two markets continue to dominate EM investor attention. Combined, they now represent almost 50% of the benchmark and are increasingly dictating the direction of overall EM performance.

The Qatar, Saudi Arabia, South Africa and Chile markets outperformed in July, despite posting negative absolute returns in dollar terms. India modestly outperformed, as the market benefited from the rotation out of AI-related stocks, although this was somewhat counterbalanced by concerns over sustained elevated oil prices and a weak currency. Brazil also outperformed, benefiting from the rotation from AI-linked stocks, firmer commodity prices and lower inflation. China was the strongest performing major EM, benefiting from the shift in investor positioning out of Korea and Taiwan, with banks and internet stocks among the primary beneficiaries. Economic activity remains weak, however, with growth driven by exports while domestic demand and housing continue to deteriorate. The best performing markets over the month were Poland, Indonesia and Colombia, which all posted double-digit returns in dollar terms.

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Oil exporter Colombia benefited from significant earnings upgrades and continued positive news flow following right-wing candidate Abelardo de la Espriella's victory in the presidential election.

Drivers of Fund Performance:

The fund posted a negative return and underperformed the benchmark in July.

At the market level, our exposures in China, Taiwan, and Korea detracted during the period given the pullback in technology names across these regions. From a sector perspective, technology names were the biggest drags, followed by financials and the underweight in consumer discretionary.

In terms of stock performance, the strongest returns came from the holdings in DBS Group (Singapore), Zijin Gold (China) and Wuxi Apptec (China). The weakest performers were the positions in Sinoma Science & Technology (China), ASE Technology (Taiwan) and Jiangsu Zhongtian Technology (China).

Portfolio Activity:

During the month, we took profit on our exposures in Samsung C&T, SK Square and Naura Technology. We initiated positions in ICBC (China), KB Financial (Korea) and added to our holdings in ICICI Bank (India). The new positions across regional financials help provide a balance in the portfolio across growth and value names.

Market outlook:

Middle East geopolitics remain fragile. Following the collapse of the Memorandum of Understanding between Iran and the US, the Strait of Hormuz has effectively closed again. We continue to believe that it is in both sides interests to de escalate tensions and re-open the Strait over the summer. However, subsequent oil market normalisation will take time and energy demand will be supported by inventory rebuild. On a longer horizon crude oil supply should be lifted by the UAE's departure from OPEC and potential sanctions relief that enables Iran to increase its exports. Many EM countries entered the current geopolitical shock with high real rates, strong balance of payments positions and reduced reliance on foreign capital. The Middle East conflict and resultant oil shock put potential easing cycles on hold and led to rate hikes in some EM. A lasting ceasefire would reduce inflationary pressures and improve the outlook for EM rates; however, EM central bank policy is likely to be constrained by any Fed action.

Asian equities remain increasingly driven by the AI cycle, but July highlighted the risks of excessive concentration. A sharp reversal in crowded AI-related positions triggered significant volatility, particularly in North Asia, even as the broader regional index proved relatively resilient. We believe the key debate for markets is shifting from near-term AI demand strength to the sustainability and monetisation of the massive investment being made across the AI ecosystem.

Korea and Taiwan remain at the centre of the AI investment theme. Semiconductor, memory and technology companies continue to benefit from strong earnings, robust order books and ongoing AI infrastructure spending by global hyperscalers. However, valuations had become stretched and positioning crowded, contributing to the sharp correction seen in July. While near-term earnings visibility remains strong, we expect higher volatility as investors debate the durability of margins and demand beyond 2027. We continue to see selective opportunities but remain disciplined on valuation and risk/reward.

China presents a more balanced opportunity set. While AI, semiconductors and technology self-sufficiency remain important structural themes, investor enthusiasm had become concentrated in these areas. Recent market rotation has improved opportunities elsewhere, including internet platforms, consumer staples, industrial and healthcare companies, many of which continue to trade on depressed valuations despite improving shareholder returns and attractive cash distributions.

India has demonstrated relative resilience, supported by strong domestic fund flows and signs of stabilisation in economic activity. However, valuations remain demanding, while higher oil prices and uncertainty around the long-term implications of AI for the software-services sector temper our enthusiasm. We remain selective and underweight at the market level.

ASEAN markets have benefited from the rotation away from technology, with Indonesia, the Philippines and Thailand supported by attractive valuations and financial sector exposure. Nevertheless, soft domestic growth, higher oil prices and external macro risks mean opportunities remain selective. Overall, we remain constructive on the long-term AI opportunity in Asia, but are increasingly focused on diversification. We favour high-quality beneficiaries of structural AI adoption while balancing exposures with attractively valued domestic and non-tech opportunities across the region.

After July's market correction, aggregate EM valuations look reasonable; EM is now trading below its long-term average earnings multiple. Underlying earnings growth continues to be focused in the AI hardware supply chain, which is seeing ongoing positive earnings revisions. Excluding Korea and Taiwan, EM earnings revisions are essentially flat. Market performance this year has reflected the narrowness in earnings growth. Near term, the key risk for EM remains the conflict in the Middle East and the extent to which events carry longer-term economic and market consequences. Other areas to monitor include the evolution of the AI supply-demand balance, policy uncertainty associated with the Trump administration, US-China relations, the conflict in Ukraine and US geopolitical ambitions elsewhere.