Santander Asset Management

Marketing Communication

Santander GO Global Equity

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Fund commentary

Market developments:

We need more than two hands to count all the twists and turns of this past month's macro and policy news flows, with global equity markets ultimately settling higher (+0.9% in EUR; +4.3% in USD). It seems that whatever the scare is, be it tariff headlines, Section 899, the Israel-Iran attacks, and so on, stocks quickly shrugged off nervousness and moved on. One of the drivers of this renewed optimism is the expectation of a less bad outcome on 9 July, the supposed tariff deadline that will show whether trade threats are mere brinkmanship or will actually be followed through. So far, though, we've seen little progress except some headlines on, for example, rare earth materials, easing of Tech sanctions and relaxation of clampdowns on student visas, which is admittedly constructive yet not very comprehensive. It's also noteworthy that the hype aroundEuropean equities has calmed down somewhat, as catalysts might have largely played out, while the US is back in vogue driven by Industrials and Big Tech outperformance. With the tariff pause deadline around the corner, most likely accompanied with a bout of fireworks, it makes sense to have a wait-and-see stance for now.

Largest holdings:

Our top active position is RELX, a defensive information and data analytics company that owns a huge portfolio of high-quality medical, legal and scientific journals. We also believe that RELX can be an important beneficiary of AI as the demand for accurate and trustworthy data will only increase, a key tenet of RELX's business that seems underestimated by the market. German industrial Siemens Energy is our second-largest active weight and is a metaphorical Swiss army knife when it comes to energy solutions including gas turbines, grid networks and wind turbines. Its order book has grown materially across all divisions, leading to a much better sustainable growth and return profile, which we believe is not yet fully priced by investors. Haleon Plc rounds off our top-3 active weights, a consumer health OTC company with a superior growth profile driven by its pure-play focus and premiumization efforts. After coming out of GSK/Pfizer, Haleon has plenty of opportunity to further grow margins and use its cash flows for debt paydown and shareholder returns.

Performance:

In June, the portfolio had a positive absolute return, yet could not fully keep up with the benchmark. Sector-wise, our positioning in Industrials and Real Estate helped performance best. The sectors Consumer Staples and Financials struggled most.

In terms of stock selection, energy transition play Siemens Energy again contributed most to performance. Since its results announcement, the stock has continued its rally as the strong order book and recent data points suggest there is more upside potential ahead, especially given consensus still sits too low in terms of margin and cash flow estimates.

Taiwan Semiconductor (TSMC) also continued its run higher, as recent outlook commentaries by its customers suggest the AI theme is not close to slowing down soon. As oversupply concerns are ebbing away, it seems the potential for AI-related order cuts has also diminished.

Relatedly, cloud networking company Arista Networks contributed nicely to its performance as well. At its 'Demystifying AI' event, management talked about the high demand for bandwidth as hyperscalers shell out networking spend, resulting in strong uptake for Arista's networking connectors and server networking products for the coming years.

On the flipside, consumer healthcare company Haleon lagged during the month, though nothing specific seemed to be at play. If anything, consensus expectations might be a tad on the high side for Haleon, explaining some recent selling pressure. In general, a lack of short-term catalysts makes the space a bit dull to own, reflected in the rotation out of defensives as such.

Reinsurance broker Marsh McLennan also continues to detract, as recent concerns about pricing pressure in brokerage as well as macro uncertainty in consulting lingers. Fundamentals are still constructive but given relatively high valuation levels, some profit taking has occurred.

Finally, Unilever struggled in June, partly due to sector outflows in favor of cyclicals, but also due to weakening consumer sentiment that might ultimately lead to loss of pricing growth among staples retailers. Unilever also announced the upcoming listing of its ice-cream business, called Magnum, which should help lift margins for the company overall.

Portfolio changes:

In June, we sold our position in UBS Group following the more stringent capital requirements it has to meet in the future, which most likely dilutes its shareholder-return potential, the latter having being a key part of the investment thesis. We added to BBVA, JPMorgan and Intercontinental Exchange instead. We also threw in the towel on Builder's FirstSource as we continue to see pressure on the US building and construction supplier market. With mortgage rates still at elevated levels and competition heating up, we see more negatives than positives for the company ahead. We added Jabil Circuit to the portfolio, an electronics device manufacturer, which we like as an attractively valued play on white-box networking equipment for the hyperscalers. We trimmed our positions in Haleon and Unilever to fund the purchase of Jabil. Lastly, we added MercadoLibre to the portfolio, which is a fast-growing LatAm eCommerce platform that generates high ROIC and strong cash flows.

Management expectations:

For as long as fundamentals are not breaking, stocks continue to dismiss any signs of concern. At this stage, few seem to be contemplating a so-called 'melt-up' scenario – one in which, after the recent rally, the risk-reward trade-off worsens as we head into summer. We do know that tariffs are here to stay and will come out higher than at the start of the year, ultimately having a real impact on companies and consumers. Yet stocks have re-rated to (near) all-time highs, which is a tricky set-up, in our view. Especially Big Tech cannot do anything wrong at the moment as investors have been reassured by the earnings resilience and idiosyncratic drivers for the space. The broader structural story, however, remains: US exceptionalism is still eroding as the burden of twin deficits grows larger, resulting in a narrower trade within the US itself (Big Tech) and gives more capital flow potential to other regions. Being long Quality has been a pain trade so far this year, despite the challenging macro backdrop, which is quite unusual in a historical context. We remain skeptical about the sustainability of the current happily-ever-after mindset, hence we continue to defend our prudent portfolio positioning