Santander Asset Management

Santander Go Asian Equity

Marketing Communication

4 / 2025

Fund commentary

- Asia ex-Japan markets rose in April and outperformed developed markets. They sold off early in the month after so-called "Liberation Day" saw the implementation of extensive tariffs against the US's trading partners. Subsequently, markets recovered as Donald Trump paused most of the tariffs for 90 days.

- All index markets rose, with the exception of China, and the smaller markets of Thailand and the Philippines produced the strongest returns. India also rallied, following a correction over the past six months, as its central bank cut interest rates again. Progress in trade discussions with the US and a weaker US dollar also aided returns.

- China was weak due to larger-than-expected US tariff hikes and retaliation from the Chinese government, which led to a sharp correction. However, the market had partially recovered by the end of the month as US-China tensions eased.

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

- At the market level, allocation had a negative effect on returns, with the underweight exposure to Taiwan detracting the most. Stock selection contributed positively, however, largely due to returns in Korea.

- At the sector level, selection was weak in healthcare and consumer discretionary, offsetting positive returns in materials.

- Regarding stock performance, the strongest returns came from Hanwha Aerospace (Korea), Shandong Gold Mining (China) and Singapore Telecommunications (Singapore).

- The weakest performers were the holdings in WuXi AppTec (China), Shenzhou International (China), and Meituan (China).

- Through all of April's volatility, the key investment debate over the last month has been whether the aggressive US tariffs are here to stay, or whether they should be viewed much more 'tactically', as a part of a bargaining process that is designed to extract concessions from trading partners and corporates, but where there is limited tolerance for real economic pain.

• With the subsequent announcement on May 12th that the US and China are both dropping tariffs dramatically during a 90 day cooling-off period, it seems that the latter, more benign, outcome is now far more likely. In this scenario, if these lower tariffs and trade deals are finalised quickly then this would be far less disruptive to the global economy and the longer term damage to the global trading system and financial flows would be contained.

• The announcement of the apparent 'truce' between China and the US on the trade front is already being taken positively by markets. Equity markets are rallying in May on the news, especially those stocks and sectors most exposed to potential tariff disruption, while the US dollar is strengthening and gold prices retreating, as some of the risk premia priced into US markets normalises. Given all the twists and turns we have seen in US policy in the first few months of this new administration, investors are likely to remain nervous about the risk of more flare-ups in coming months, while hard data will be watched closely to gauge whether recent uncertainty has inflicted any real damage on consumer spending or corporate investment that could still trigger a slowdown in global growth into the second half of the year.

• Within China, we would expect to see further supportive policy measures in the coming weeks and months to counter any drag on GDP growth from weaker exports later this year. Fiscal deficit targets have already been increased in 2025, providing a modest stimulus to the economy, with policymakers still committed to their 4.5% growth target this year. In addition, we have seen targeted consumer subsidies to encourage spending, further rate cuts and the continued easing of policies to help support the residential property market. Although the economic backdrop in China remains fragile, and an export slowdown could exacerbate deflationary forces, China has more policy flexibility than many regional economies to help soften the blow. Furthermore, the enormous breadth of the local equity market offers a greater diversity of bottom-up opportunities than in most other markets.

• Among the export-oriented stocks and within the technology sector, our focus remains on companies that demonstrate clear market leadership, product innovation and pricing power. These are the businesses that will likely have greater scope to pass tariff costs on, protect market share and margins and sustain growth. However the US stance on tariffs evolves, Asia will remain a key manufacturing hub for the US market. Even under the weight of far higher tariffs, it is not realistic for many industries to relocate to the US. Where valuations are compelling for best-in-class exporters, we may add to positions, with a view to a longer-term recovery in share prices, as the tariff impact gradually fades and the underlying growth of these companies re-emerges.

- With the recent recovery in markets, aggregate valuations for regional equities are slightly above longer-term average levels and are no longer pricing in much downside risk from a global downturn or serious tariff war. After the initial bounce on the cut in US tariffs, the direction of markets is likely to be dependent on the final outcome of trade negotiations around the world, whether US economic growth can hold up heading into next year, and whether China follows through with supportive policy to boost domestic demand. A marked slowdown in global growth would put earnings forecasts at risk across the region and undermine valuation support, while on the more positive front, Asian currencies have strengthened in recent weeks against the US dollar, and if this continues at a time when the Federal Reserve starts to cut rates, as expected in the second half of 2025, then the liquidity backdrop for regional markets would be much improved, supporting valuations.

- Although the macro backdrop for markets remains volatile, and the range of outcomes wide, we continue to see very attractive longer-term opportunities across Asian equities. Our preferred stocks have strong financial positions, typically with net cash balance sheets, to cope with any short-term disruptions, while 'self-help' measures are increasingly evident as buybacks and dividend payouts rise across almost all regional markets.