Marketing Communication

Santander GO Global Equity

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Fund commentary

Market developments:

December did not provide the hoped for 'Santa Rally' as global equity markets finished the year relatively soft (-0.4% in EUR; +0.8% in USD). Towards year-end we observed a modest rotation and broadening of the market, though AI-fueled Big Tech concentration remained the defining feature of stock moves. Hard questions about the AI capex arms race have started at the margin, with an increased focus on the borrowing needs of companies to finance this buildout. The debate is now shifting from infrastructure spend to execution and how companies can translate AI into measurable financial gains. Gradually, we've seen defensives clawing back some performance from cyclicals, but more is needed before this can be considered a genuine comeback. In general, AI and advanced manufacturing, defense spending and energy needs are increasingly converging, bringing geopolitical power moves back to the center of attention. The surprise attack on Venezuela at the start of the year is the latest front burner of this. All in all, it seems the new year will continue to bring volatility and reality checks that will test prevailing bullish narratives.

Top 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, it has a long runway for growth with attractive returns. Thermo Fisher is our second-largest active weight. Thermo is a US life sciences toolmaker with arguably the best operating track record in the healthcare tool space. We believe the medical tool sector is past the worst and sees most of its end-markets accelerating from here. UK pharma company AstraZeneca rounds off our top-3 active positions. AstraZeneca has leading franchises in therapeutic areas such as oncology, cardiovascular diseases and immunology, enabling it to have strong growth potential for the coming years.

Regional spread:

We have relatively neutral regional weights. Recently, we moved slightly lower in weight in Europe, as we see political turmoil in select countries might lead to higher credit rates. We have added to our US weight but remain underweight North America. We have a neutral position in Asia-Pacific, with a slight underweight of Japan and an overweight position in Emerging Asia.

Performance:

In December, the portfolio had a slight positive absolute return, yet lagging the benchmark. Sector-wise, our positioning in Technology and Consumer Staples helped performance best. The sectors Industrials and Consumer Discretionary, however, struggled most.

In terms of stock selection, software company Salesforce contributed best to performance. After struggling for most of the year, fighting the 'AI loser' narrative, Salesforce continued to print decent results and provide compelling proof points that AI products are gaining more traction among its customers.

Spanish bank BBVA also did well in December. Its share price reacted positively after the bank failed to get sufficient support to acquire Banco de Sabadell. Investors are relieved that the bank could avoid a costly and uncertain integration. Subsequently, BBVA announced a near EUR 4 billion share buyback program, which will be executed in several tranches.

North American gold miner Newmont performed strongly too, as a result of continued strength in the gold price. Additionally, rumors of its potential acquisition of peer Barrick Corp. have been moved to the background, making investors less concerned about capital allocation.

On the flipside, Sony Group underperformed in December. Investors worry that the upcoming Netflix-Warner Bros. deal might negatively impact Sony's Pictures business. As Netflix adds HBO and other libraries, it can rely less on third-party licensing, putting pressure on Sony's ability to sell premium film and series packages.

AutoZone detracted from performance too as results disappointed. Management also indicated a larger-than-expected investment plan that initially comes at higher cost, eroding margins in the short term, something investors did not like.

Finally, Alphabet's share price corrected modestly in the month after a strong rally since May, but fundamentals remain very much intact as the company is now regarded as an AI winner following its successful launch of Gemini-3.

Portfolio changes:

In December, we initiated a new position in Dollar General, the largest dollar store chain in the US. After years of disappointing execution, management successfully embarked on a new strategy to take out costs and reduce shrink (theft). We believe there is more to go in terms of margin expansion and stock re-rating potential. We also added General Motors (GM) to the portfolio as the removal of emission control in the US supports GM's pickup and large SUV sales. There are multiple catalysts ahead to drive further margin expansion. Another addition has been medical tools company Danaher as we want to diversify our exposure to the recovery in tools spending within Healthcare. Finally, we took a stake in software play Synopsys as the company benefits from AI spend, especially as the integration of Ansys broadens the opportunity set and allows the company to generate higher free cash flow overall. We exited our position in Netflix, however, as we question the merits of the Warner Bros deal, which we view as expensive and potentially value destructive. Other names that we trimmed in December include AutoZone, Eli Lilly, Sony Group, Arista Networks and AbbVie.

Management expectations:

Over the course of the past year the bullish AI narrative prevailed once again, helping equities overall to climb multiple walls of worries. Geopolitical events did cause occasional volatility, but were generally quickly offset by a resilient global economy and strong corporate earnings. A shift away from market narrowness to broadening can likely only hold if capital spending broadens out too, beyond AI alone, as provisions from the OBBB Act will start to kick in and provide a boon to the wider US economy. Together with the Fed being in rate cutting mode, and with many major economies pumping more money into the system, this means risky assets will remain in favor for now. Emerging markets received a lot of love given low valuation and the benefits from a lower dollar, in addition to AI also boosting Asian stocks. Europe, however, continues to be seen as too fragmented and overly focused on regulation rather than innovation, a view we think is excessively pessimistic as various stimulus programs should see growth reaccelerate the coming year. Concerning our investment style, Quality investing has been a pain trade for active managers, but post de-rating the window has now opened to be more constructive, especially as investors are growing more worried about 'peak-of-cycle' market behavior.