Santander Asset Management

Santander GO Absolute Return

1 / 2021

Fund commentary

In spite of some wild markets over the past week of the month, January overall has seen a remarkably stable start to the year for most asset classes.

However, all has not been smooth in financial markets, with a number of companies such as GameStop seeing their share prices soar as a result of traders from the Reddit forum WallStreetBets. GameStop has been the most prominent example, seeing a +1625% rise over the last month, though others such as Blackberry (+113%), AMC Entertainment Holdings (+525%) and Express (+559%) have all surged higher. Meanwhile Bitcoin recorded a 4th consecutive monthly gain as the cryptocurrency rose a further +19.5% in January.

Oil topped the leaderboard in January, with both Brent crude (+7.6%) and WTI (+7.2%) seeing large gains over the month and climbing to their highest levels since the pandemic began. Though there's still risks to oil prices from further lockdowns denting global economic demand, they've been supported thanks to reductions in supply, with Saudi Arabia announcing at the start of the month that they'd unilaterally cut output by 1 million barrels per day in February and March. This strong performance for oil comes off the back of it being one of the worst performers in 2020, when both WTI and Brent crude were down by more than -20% over the year.

At the other end of the performance table were European equities, particularly in southern Europe, with the Greek Athex (-7.4%) seeing the worst monthly performance in total return terms, as Spain's IBEX 35 (-3.9%) and Italy's FTSE MIB (-3.0%) similarly lost ground.

That said, other regions' equity markets fared noticeable better, with indices in Asia such as the Hang Seng (+3.9%), the Nikkei (+0.8%) andthe Shanghai Comp (+0.3%) all posting gains on the month. US tech companies also performed well as the NASDAQ advanced +1.4%.

Another asset class that suffered in January were sovereign bonds, which fell back across multiple countries, particularly as the results of the Georgia Senate runoff in the US gave the Democrats control of the Senate and opened up the prospect of significantly larger fiscal stimulus. Indeed, US Treasuries were down -1.1%, with 10yr yields rising to their highest levels since March 2020 following the election

results. Other countries saw slides as well however, with gilts (-1.7%), bunds (-0.5%) and BTPs (-0.7%) all moving lower.

Finally in FX, the Japanese Yen has been one of the worst performers among the DM currencies, seeing its largest monthly decline against the US dollar (-1.4%) in over a year. EM currencies have also continued to struggle into the new year, with the Brazilian Real (-5.3%), Argentine Peso (-3.8%), the Russian Ruble (-1.8%) and the South African Rand (-3.2%) all weakening against the US dollar.

Portfolio Review:

The Portfolio posted a month of positive performance in January, driven by alpha generation from our Relative Value pillar. As equity markets corrected late in the month, our hedges protected the portfolio and added to overall portfolio performance.

Our Equity, Spread and Commodity, Inflation & Volatility sub-pillars drove the performance of the Relative Value pillar. On the Equity side, the best performer was our relatively new Hydrogen position (long a basket of stocks focusing on the area of hydrogen energy vs short the S&P 500). Other positions that performed nicely were our US Opportunities (a basket of our favourite US stocks), Decarbonisation (a basket of stocks focussed on reducing their carbon footprint) and Asian Opportunities (a basket of our favourite Asian stocks). In the Spread sub-pillar our Defensive and Financial names did well whilst in the Commodity, Inflation & Volatility sub-pillar our non-precious metals position did well. Our view of the World pillar was a slight detractor: on the downside our long US Treasuries, long Europe ex-EMU equities and long IG Credit and long HY positions all suffered as US bond yields rose and credit spreads widened. Instead our long EM equities, long global inflation-linked and short US Dollar position all contributed positively. On the Thematic side, all ideas had positive performance.

In terms of portfolio activity, equity exposure fell from 24.3% at end-December to 16.5% by end-January. This decline was mainly as a result of the convexity of the portfolio, with put options coming closer to being exercised and decreasing total equity exposure. We decreased our exposure to the US equities and the Emerging Markets are now our largest exposure. Our overall duration increased from 2.3 years to 2.5 years: we have maintained a well-diversified geographic allocation with a preference for Australia whilst we reduced our overall exposure to the US. Our spread duration rose from 1.5 years to 2 years with a preference to investment grade exposure. We increased our overall commodity positions to 7.3% from about 6.9%. We have reduced our net short position in US Dollar moving from net short -17.7% to approx. -9.4% whilst we slightly increased our exposure to some defensive currencies and increased our exposure to the British Pound.

Performance Contribution

Views of the World: -0.14%

Hedges : +0.20%

Long/Short ideas : +0.47%

Corporate Bonds: +0.00%