Santander Asset Management

Marketing Communication

Santander GO Absolute Return

1 / 2025

Fund commentary

Market Review:

It was a disappointing end to the year with a cross-asset sell-off that took the shine off what was overall an excellent year for returns. A hawkish pivot at their December meeting meant markets moved to price in only another 50bps of rate cuts in 2025, with this view being compounded by signs that inflation is proving to be quite sticky at levels above the Fed's target. And lurking in the background are potential tariffs from the new Trump administration, which may have an inflationary impact if they are ever enacted. Geo-political concerns continue to fester and we expect these to continue throughout 2025.

Looking in more detail at the equity side, the MSCI World Equity Index returned -2.6% in US terms, with the S&P 500 almost in line and falling -2.4%. European markets significantly outperformed for the first time in quite a while as the Euro Stoxx 50 actually rose +1.9%, but it's worth pointing out that the broader Euro Stoxx 600 actually fell -0.4%. There was a major divergence in country performance - the French CAC40 rose +2%, the German DAX was up +1.4%, the Italian FTSE MIB was up +2.3% but the Spanish IBEX was down -0.4% and the Scandinavian markets all recorded negative returns. The UK's FTSE100 was another loser, falling -1.4% whilst the Swiss SMI also recorded a -1.4% loss.

As mentioned above, continued slight upward surprises in inflation data, decent US growth and a more hawkish-than-expected Fed December meeting kept the US fixed income markets under considerable pressure. After rising over 50bps in October, investors experienced another 40bps rise in 10-year yields which rose from end-November's of 4.17% to finish the year at 4.57%. Similar moves were seen in the US 30-year yield, although US 2-year yields only rose 9bps from 4.15% to 4.24%. Although the ECB delivered another 25bps rate cut, European yields could not escape the upward pressure and German 10-year Bund yields rose 28bps from 2.09% to 2.36%. UK yields continued to struggle against a backdrop of an upward turn in inflation and the long-end of the UK curve saw 30-year yields rise 38bps to 5.13%.

Overall, the US Treasury Bond index fell -1.7%, whilst the Euro Government Bond index fell -1.5%. As noted, the UK Gilt index was the big loser, depreciating -2.5%. 10-year Japanese yields continued their ongoing rise, moving from 1.05% to 1.10%, whilst the JPM EM Bond index performed in line with other major global bond markets, losing -1.5%. On the credit side, investment grade credit spreads were slightly wider, with the Itraxx Main credit index finishing the month 2bps wider at +58bps. There was also a slight widening of High Yield spreads and the Itraxx Crossover index has Euro High Yield spreads at +313bps from +298bps previously. Overall, the Bloomberg Euro Agg Corporate Index lost -0.4%, whilst the Bloomberg US Agg Corporate index underperformed, losing -1.9%. In the High Yield space, the Bank of America US High Yield Index also underperformed, recording a loss of -0.4%, and its Euro counterpart (Bank of America Euro High Yield Index) carved out a gain of +0.6% for the month.

Turning to currencies, the US Dollar continued to appreciate on the prospect of rates remaining higher for longer. The US Dollar Index rose +2.6%, giving a gain for 2024 of just over 7%, and the Euro lost ground against the Dollar, dropping -2.1% during the month. However, the Euro also depreciated -0.4% against the British Pound but gained +2.8% against the Japanese Yen. EM currencies struggled against the backdrop of a stronger US Dollar and the JPM Emerging Markets Currency index depreciated -2.6% in December.

Finally, on the Commodity side, it was again a very mixed story as the West Texas oil price gained +4.4% but Brent lost -0.2%. Gold gave up some of its recent gains, dropping -0.7% in December but it's still up over 27% year-to-date, while Copper lost -2.7% during the month. Generally, the Precious Metals index lost -1.5%, the Industrials Metals index dropped -2.9% but the Agricultural Index gained +3%. Overall, the Bloomberg Commodity index appreciated +1% during December.

Portfolio Review:

December was a negative month for the portfolio, with the Fed taking a hawkish stance on rates as economic data continued to show signs of resilience. Most of the performance detraction came from the exposure to European peripherals, exposure to Italian and Spanish government debt where yields rose and to a lesser extent from US duration exposure. Credit exposure was slightly negative with a slight widening of spreads. Equities detracted, mainly led by the exposure to Europe and Japan, and to lesser extent from US. Gold also suffered during the month, which is our main exposure in commodities.

Performance from duration was the main negative driver for the portfolio returns, as yields moved higher over the month, with risk of inflation and a continued Fed hawkish stance affecting market sentiment. The main detraction in performance came from the European peripheral exposure, mainly from exposure to Italy and Spanish government debt positions, as yields move higher over December. In US, which is also one of our key duration exposure also suffered but to a lesser extent, while exposure to EM debt was largely flat. In terms of the duration positioning, we continue to maintain our constructive long duration stance with an overall duration exposure, with a duration exposure of 4.4 years. Positioning wise, we have a higher duration exposure to European peripherals, as we expect the ECB to be on a more aggressive easing cycle to balance the weakness in European growth conditions. We also keep a significant exposure to US duration but remain cautious where the Fed remain more data sensitive with regards to rate cuts. We also maintain some exposure to Emerging Market debt, focused in regions such as LATAM, Central and Eastern Europe.

With credit spreads slightly wider over the month, credit exposure overall performed slightly negatively, mainly coming from the exposure to IG credit. Subordinated debt exposure has a small positive gain. Position wise we still continue to maintain an overall cautious positioning for our credit allocation, maintaining a conservative spread-duration profile, with a spread duration of 1.5 years. We continue to keep the exposure bias in credit towards IG credit and a much more limited exposure to subordinated debt, with an overall exposure bias to Europe vs US.

Performance from the exposure to equities was negative for December, with equity markets being affected by the risk of slower pace in rate cuts in US. From the equity exposure, most of negative performance came from the exposure to Europe and Japan, and to a lesser extent from the exposure to US exposure. EM equities were slightly positive. We have largely maintained the equity exposure over December, where previously we had increased the overall equity exposure for the portfolio, mainly in US, over Trump's protectionist, pro-business stance. In Europe, we think the current very negative economic momentum can start to improve with the ECB cutting cycle acceleration. A weaker Euro also provides a positive catalyst in the economic recovery, and potential decline in geopolitical tensions. Overall, for the equity allocation, we continue to keep a bias to US equities, with a more limited exposure to Europe, Japan and Emerging Markets, with an overall equity exposure of 25.6%.

US equity selection was overall positive, with positive selection from discretionary and industrials mainly. During the month, we added some exposure to pharma names and reduced exposure to biotech. We added exposure to a large mega cap tech name and maintained long exposure to domestic names, beneficiary of Trump win. European equity selection was also positive, led by industrials, discretionary and staples, with IT, communications and materials detracting. During the period, we kept reducing defensive sectors, adding to very undervalued names in discretionary and staples, more linked to a possible rebound in Chinese demands thanks to fiscal stimulus (luxury, spirits and autos).

Performance from commodities was overall negative. Our main commodity exposure is to gold which performed negatively as gold prices declined during December. We increased again tactically the exposure to gold, to keep as hedge in the portfolio. In commodities, we are keeping a very small exposure to oil but remain tactical short term, given supply/demand dynamics and geopolitical risks.

Market Outlook:

As we move into 2025, the global economic outlook is expected to stay benign, supported by an accommodative monetary policy stance from the two major Central Banks (US, Europe). The US economy is expected to moderate due to cooling domestic demand and labour market conditions. We expect this disinflationary trend to continue as domestic demand slows, provided there are no shocks to energy prices or disruptions to the supply chain. We expect a downward path for policy rates, however, changes in policy direction after the elections could make the rate path less predictable next year, especially if markets have to absorb more debt. Europe is positioned for a modest recovery, with strategic investments in focus. Lower ECB rates and rising real incomes will support a gradual recovery towards potential growth. Inflation will continue to move lower, and hit the ECB target by mid-2025. From an asset allocation perspective, this backdrop remains supportive of risky assets, as this prolonged late cycle is accompanied by accommodating central bank policies and abundant liquidity that supports risk sentiment. We therefore favour a mildly positive risk stance going into 2025.