Santander Asset Management

Santander Go Asian Equity

Marketing Communication

1 / 2025

Fund commentary

- Emerging Asia ex-Japan stocks rose mildly in January, but underperformed developed markets in aggregate. While a softer dollar was helpful, ongoing tariff risks as US President Donald Trump took office weighed on markets.

- Korea was the strongest index market as it rebounded from poor performance in December. Taiwan also produced positive returns and outperformed. China rose and did slightly better than the index, despite ongoing uncertainty about Trump's proposed tariffs on US imports of Chinese goods.

- India fell and underperformed owing to concerns about fading economic growth. Thailand, Malaysia and the Philippines also fell.

- The fund posted a positive return and slightly outperformed the benchmark over the month.

- At the market level, allocation contributed positively, especially the small off-benchmark exposure to Australia. Stock selection weighed mildly on returns, with weakness in Korea and China.

- At the sector level, selection was a slightly positive factor, particularly in materials.

- Regarding stock performance, the strongest returns came from the positions in Newmont Corporation, Singapore Telecommunications and JD.com.

- The weakest performers were the zero weighting in PDD Holdings, the underweight to TSMC and the overweight to Tencent.

- Risk appetite in Asian equity markets will likely continue to ebb and flow in response to US financial conditions and Trump's tariff policy. As the new trade war begins, the market generally expects higher inflation and upward pressure on the US dollar and interest rates. This, in turn, will put pressure on Asian currencies and reduce the room for manoeuvre of regional central banks, which are eager to cut interest rates to support domestic demand.

- In China, markets will likely continue to fluctuate on developments in US-China tensions. Domestically, 2025 will be a year for policy delivery. Given the persistent challenges of demand-supply imbalance and deflationary pressure, more policy support –from fiscal to monetary to property – is needed to boost the economic recovery and equity market performance. Longer-term, China will need to implement effective structural and economic reform in order to shake off its prolonged weakness.

- In Taiwan, the market will likely remain hostage to the performance of technology stocks, which dominate its indices. The recent release of DeepSeek's R1 added more uncertainty to the sector outlook as it raised questions about the necessity of massive AI infrastructure capex. Growth in the broader consumer technology supply chain also remains subdued, although the cost breakthrough by DeepSeek is expected to accelerate AI application for edge AI, which should be positive for the sector. We believe the Taiwan market will remain highly volatile in the near term. Outside of technology, talk of higher US tariffs on Asian imports further complicates the picture for Taiwan.

- Korea faces multiple challenges, including political uncertainty and a slowing economy. Potential US tariffs are also an issue given the economy's heavy reliance on exports. Nevertheless, tough market valuations and the weak currency should provide an easier path in 2025.

- Economic momentum in India has slowed due to disruptions from weather and last year's general election. This economic backdrop, coupled with stretched valuations, suggests that returns may disappoint in the near term. However, the longer-term potential in India remains very positive. Healthy domestic growth, geopolitical tailwinds, the scope to increase market share in global manufacturing at the expense of China, and steady domestic fund inflows are all positive factors.

- Across the rest of the region, ASEAN markets will likely be depressed by the stronger dollar and reduced expectations for rate cuts.

- In light of the diminishing hopes for more US rate cuts, as well as the increasing tariff risk, investors in Asia are likely to remain cautious in their positioning. This will only change, in our view, once there is more clarity on the details of Trump's trade policy and the Chinese authorities' policy stance in 2025.