

Santander AM Euro Corporate Bond

11 / 2024

Fund commentary

The month of November was positive for the markets, with rising equities (S&P 500 +5.73%/ SXXP 600 +0.96%), lower bond yields in Europe and also in the US, with 10-year Bund dropping to 2.09% from 2.39%, while 10 year Treasury to 4.17% from 4.28%.

The month was marked by the US presidential elections, with Trump winning the race for the Republican party, that will have control over both houses. The result triggered a series of movements in the market, that tried to position itself for what's to come, from tariffs to lower corporate taxes or immigration. US corporate spreads reached minimum levels over the past 25 years.

The FED meeting took place after the elections, with Powell lowering rates by 0.25%, to the 4.5%/4.75% range in a unanimous decision, that aims to reduce and control inflation to its 2% target. Later in the month, Powell commented that the economy remains strong and there is no need to rush or lower rates too fast, with monthly data sticking to 0.3% over the last 3 months.

In Europe the political volatility increased, after the coalition government in Germany was broken (with new elections to come on the 23rd of February) and in France there was pressure surrounding the budget approval, that has been the new catalyst behind the rise in French risk premium.

The rise in geopolitical risks, coupled with disappointing confidence data and the threat of trade tensions, drove European rates lower as the growth outlook drops, with the market starting to assign 50% chance of a 50bps cut by the ECB over the next meeting in December.

As for the Euro credit market, it benefited from the lowering of rates, posting positive returns, while spreads remaining quite stable over the month widening by 2bps to 106bps. The periphery performed slightly better vs core, with spreads remaining unchanged in Financials while widening by 2bps in Core. In HY we witnessed some widening of 14bps up to 331bps. The primary market enjoyed similar volumes as in October, with new issue premiums remaining quite low.

The fund posted a positive performance during the period as slightly wider spreads were more than offset by lower government yields. The fund slightly outperformed its benchmark due to the underperformance of short-dated bonds. All sectors had a positive contribution with Banking, Utility and Consumer Goods as the top three. The fund took advantage of the primary market to add some new issues with discount over secondary during the month.

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The Fund had a YTM of 3.07%, a Modified Duration of 4.58, which compares to 3.15% and 4.53 respectively for its benchmark, at the end of the period.

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