Santander
Asset Management

Santander AM Euro Corporate Bond

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Fund commentary

The month of January started strong with renewed activity following the normal holiday season slowdown. The year started positively benefitting from year end news such as Brexit, the US fiscal stimulus and the COVID 19 vaccine distribution.

During the month we had some volatility, in a post-election world starting with the Capitol episode, the Senate surprising results, with equity markets reaching new highs, credit spreads tightening and rates steepening. We also had a reversal of the market moves in all these asset classes on vaccine uncertainty, new COVID 19 variants, with many countries across the world imposing stronger restrictions, and ultimately the lower mobility will certainly lead to poorer Q1 GDP numbers and sentiment continues to be mixed.

One the most important events of the month, was the $1.9Trn fiscal package presented by Joe Biden, with focus on infrastructure and climate change, but alarming investors with the raise of taxes on the corporate sector. Later on Janet Yellen dismissed some of the fears on taxes, for as long as the pandemic remains. We also had the important FED speech by Jerome Powell putting a brake on the rising yields after rumors of tapering started to emerge.

In Europe, the ECB also startled the market with the statement "if favorable financing conditions can be maintained with asset purchases flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full", raising doubts on the criteria to measure these financing conditions. There was also some concerns on the dispersal of next generation funds, and its delays.

On the political side Italy was the center of attention, after the former Prime Minister Renzi took back its ministers from the coalition government led by Conte leading to its resignation. Now the President Mattarella needs to find a solution with either Conte, with a new renewed government with different alliances, or maybe with a technocratic government with different personalities, with the name Mario Draghi already coming to the spotlight. The market reaction wasn't too worrisome given that its discounts that new elections won't be necessary and a viable solution will be found.

We the reporting season on its way, currently numbers haven't disappointed and companies are in "bondholder mode". The most important focus will be their guidance because Q4 2020 was "still good" in terms of restrictions. That said Euro IG spreads have been quite resilient, and in January we saw 1pb widening on the overall index (ER00) and 5bps tightening in Euro HY.

Supporting the IG market is of course the ECB, that bought €4.9Bln (net purchases) in a month with €3.9Bln in redemptions via its CSPP and also €1.47Bln through the PEPP (2 months). The Euro HY market is currently being benefited from stronger inflows and lower default expectations.

The fund had a similar performance than its respective benchmark, but performing better on the industrial segment (namely Autos and Services) offsetting the worst performance in the financial segment. The Fund was active on the primary market, namely Italian Utilities such as ACEA and 2iRete Gas, was also started to increase in Healthcare in names such as Thermo Fisher, Becton Dickinson or Danaher and Consumer/Retail such as Carlsberg or Tesco. We intend to start reducing slowly some of the beta in Financials or in longer duration names, given the flatness of credit curves. The Fund ended the month with an YTW of 0.57 and a Duration of 5.37 vs 5.48 in December years invested at 98%.