

Santander AM Euro Corporate Bond

4 / 2025

Fund commentary

The month was marked by the Trump announcement of new tariffs on April 2nd (Liberation Day), resulting in tariff levels not seen in a century. These tariffs will be applied broadly to almost every country, including a reciprocal 10% baseline tariff and significantly higher tariffs for other countries (e.g., 20% for the EU). There were responses from several countries, mainly China, leading to increased tariffs (up to 145%) and retaliatory measures, escalating into a trade conflict. Eventually, some de-escalation occurred for certain products, which improved sentiment. The 90-day pause (excluding China), positive negotiation signs, and retracting remarks about Powell's destitution allowed markets to recover much of their losses in the last two weeks of the month.

Equity markets saw the S&P500 decrease by 0.76% and the SXXP by 1.21%. Crude Oil fell 18.56% to \$58.21, while Gold increased by 5.27%. The US 10-year Treasury remained steady at 4.16%, but the German 10-year bond dropped to 2.44%. Short-term rates showed sharper declines, with the US 2-year Treasury down to 3.6% (-0.28%) and the German 2-year bond down to 1.69% (-0.36%), indicating expectations for more central bank cuts.

During the month, the ECB meeting on April 17th resulted in a 25bps rate reduction. The deposit rate is now 2.25%, and the market is close to considering a 1.5% level as a possibility towards the end of the year. As for the FED, no meeting occurred with Powell concerned about the impact that tariffs could have on inflation, and there is a need to keep inflation contained. The market is pricing around 3 cuts until year end.

In terms of Macro data, we've seen deterioration of consumer and business confidence in the US, and 1Q GDP number of -0.3% qoq that denotes the increase in imports in anticipation of tariffs. In the EU, the 1Q GDP number was +0.4% qoq, positively surprising (0.2% expected) and above what fundamentals and business confidence were indicating.

As for credit markets, Euro IG spreads widened by 16bps to 110bps, but also recovering from intra-month highs of 124bps. The sectors most affected were Insurance (beta) and Autos (affected by tariffs), while defensive sectors such as Telecoms or Utilities did quite well. In this regard, the periphery having more exposure to defensive sectors in non-financials did better than core. Euro HY widened by 42bps to 370bps (+59bps YTD). The primary market volumes were low but also recovered towards mid-month highlighting issuance from French (banks issuing senior preferred) and US issuers (Alphabet, Visa).

The fund posted a positive performance on the back of lower government yields not fully offset by credit spreads that widened during the month but close far from the wides after "Liberation Day". The fund outperformed its benchmark

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due to its higher duration. In terms of sectors, all had a positive contribution, with Banking, Utility and Consumer Goods the top three. The fund was again active on primary market.

The Fund had a YTM of 3.12%, a Modified Duration of 4.53, which compares to 3.18% and 4.46 respectively for its benchmark, at the end of the period.

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