

Santander AM Euro Corporate Bond

6 / 2022

Fund commentary

The month of June was the 3rd worst month for European Investment grade in terms of returns, only surpassed by Lehman in 2008 and COVID-19 outbreak in 2020. From a credit spread perspective, Euro IG and Euro HY witnessed a 52bps and 167bps widening respectively, with Europe clearly underperforming the US credit market. Rates markets move up on a net basis (exacerbating the drop in returns), as inflation expectations continue to be quite high, but these started to move downwards as the focus turned to recession after disappointing economic data.

The lack of liquidity with the end of the 1st semester before the vacation period did not help.

The main events of the month were the FED, that hiked rates by 75bps. Powell commented that "either a 50bp or a 75bp increase seems most likely at our next meeting". On the ECB meeting, a 25bps hike was announced for the July, being the 1st step after the end of the APP in June. On the 15th of June (1 week after the ECB regular meeting) the ECB held an emergency meeting, after peripheral spreads, in particular Italy significantly widened vs Bunds up to 250bps. The conclusion was that the PEPP reinvestments redemptions will be used in a flexible manner to stop fragmentation issues, but details of a new tool are still in development. In the Sintra annual forum, Lagarde talked about the possibility of a 50bps hike in September.

The geopolitical tensions continue, with the limited supply of gas from Russia to Germany, putting in question the ability of the latter to raise its reserves before the winter.

The Euro IG, primary market was weak but still managed to issue €40Bln, that compares to almost €90Bln in the year before. The new issuance has been focused to a couple of days a week (in periods of market tranquility) with attractive new issue premiums, given the current environment.

The fund like the market posted negative returns over the period, but underperforming it mostly in the last part of the month. Its positioning was not favorable, with the underperformance of 1 to 5 years, where we witnessed the most pressure in terms of spreads with curve flattening. In terms of sectors the fund underperformed in Financials and Real Estate. In terms of changes, we took advantage of the primary market to add some new issues, given the greater new issue premium in names such as Commerzbank (green bond), Caixa Geral Depositos (green bond), Eurofins, AIB (green bond), RCI Banque (green bond). In secondary the focus continues to be on optimizing curves in issuers where these are flat or offer no premium for extending in maturity. The fund ended the period with a YTM of 3.41% and duration of 4.59 years vs the benchmark 3.11% YTM and 4.82 years of duration.

This document is intended to provide information that summarizes the main characteristics of the product and under no circumstances constitutes a contractual agreement, a recommendation, personalized advice, an offer or solicitation. It is recommended that the KIID (Key Investor Information Document) is consulted before taking any investment decision, subscribing or purchasing shares or redeeming investments and the countries where the product is registered for sale: www.santanderassetmanagement.com or via authorised intermediaries in your country of residence. It has not been proven that the data contained in this document meet marketing requirements of all countries of sale as it is an information and not a marketing document. This shares of this product may not be directly or indirectly offered or sold in the United States of America or to or for the benefit of a United States Person.

This fund has a prospectus which is drafted in English and can be obtained from www.santanderassetmanagement.com

For product information, please contact SANTANDER ASSET MANAGEMENT LUXEMBOURG S.A. (6, route de Treves, L-2633 Senningerberg - Grand Duchy of Luxembourg) Management Company under the supervision of Commission de Surveillance du Secteur Financier (CSSF). The Depositary entity and administrator of the funds is JP Morgan Bank Luxembourg S.A. (6, route de Treves, L-2633 Senningerberg - Grand Duchy of Luxembourg).

Investment in mutual funds or other financial products mentioned herein may be subject to investment risks: market risk, credit risk, issuer and counterparty risk, liquidity risk, foreign currency risk and, where applicable, risks pertaining to emerging markets. Additionally, if funds hold their investments in hedge funds, assets, real estate funds, commodities and private equity, it should be noted that these can be subject to valuation and operational risks inherent in these type of assets and markets as well as the risk of fraud or risk derived from investing in unregulated or unsupervised markets or unlisted assets.

Past performance is not indicative of future results. Returns are calculated on a net asset value basis, net of fees and are annualized for periods longer than one year.

It should be clearly understood that any mention of tax depends on the individual circumstances of each investor and may change in the future. It is advisable to seek personalized advice regarding this. The distributor and other financial intermediaries may receive up to 85% of the fund management fee without incurring any additional cost to the customer.

Accounting or market information included in this document has been compiled from sources which SANTANDER ASSET MANAGEMENT LUXEMBOURG S.A. considers reliable but has not confirmed or checked for accuracy or completeness. SANTANDER ASSET MANAGEMENT LUXEMBOURG S.A. assumes no responsibility for any use of the information contained herein.

© Santander Asset Management Luxembourg S.A., All Rights Reserved.