

Santander GO Short Duration Dollar

6 / 2022

Fund commentary

At the end of June, the Santander account had a duration of 0.48yrs, a spread duration of 0.55yrs, and a reporting yield of 2.75%. The ICE BAML 1-3yr Corporate OAS was up 16bps to 104bps; the 2yr UST traded in a range of 2.56-3.44%, ending the month at 2.95%.

Volatility continued during the month with both rates and spreads experiencing significant moves. Ultimately it was a month of two halves. Initially hawkish central bank rhetoric coincided with inflationary data prints leading to the move significantly higher in rates across the globe. The Fed hiked the funds rate by 75bps for the first time since 1994, even after previously stating that they had planned to only hike by 50bps. A 'leak' via the WSJ 2 days prior to the meeting was the catalyst for the market to reprice the curve higher. The second half of the month saw the risk off tone filter through into credit spreads as recessionary fears continued to build. This also caused rates to ratchet back lower again.

With the likelihood of a soft landing seeming less and less likely, we decided to shorten up our portfolios from both a duration and spread duration perspective. Clearly there is a lot of uncertainty at all levels of the market led by a Federal Reserve coming to terms with how wrong they have been. Therefore, we will stick to keeping new purchases shorter, specifically in the 6month part of the curve, and build cash. In the Santander account, we trimmed some of our duration and spread duration, however, some of this has been offset by consistent outflows. We will move the duration of the portfolio down to closer to 0.4 years as we see fit. With regards to hikes, we cannot rule out 75bp hikes at the next two meetings, although we may see more cuts priced in later next year leading to a flatter or inverted rate curve.

In terms of positioning, at current levels we will focus future purchases on 6-12month part of the fixed and floating rate curve, particularly in CP/CDs. We will also allow cash to build in the portfolio.

Some trades to highlight over June:

Buy 15mo Pacific Life fixed rate

Buy 14mo Berkshire Hathaway Energy fixed rate

Buy 7mo Toyota fixed rate

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

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