

# Santander GO Short Duration Dollar

1 / 2021

## Fund commentary

At the end of January, the fund had a duration of 0.66yrs, a spread duration of 0.78yrs, and a reporting yield of 0.29%. The ICE BAML 1-3yr Corporate OAS increased 1bp from 47bps to 48bps; the 2yr UST traded in a range of 0.11-0.14%, ending the month at 0.11%.

Although momentum faded at stretched valuations, January was another good month for risk assets in the face of further political tensions. We experienced a bear steepening of the treasury curve on the increased pace of vaccinations, stronger growth in the second half of 2020, and rising inflation expectations. Short term markets were stable over the month as spread assets edged even tighter, leading to attractive opportunities being few and far between. We added to our credit exposure through 1-2yr floaters as well as money market instruments which provided some opportunities compared to their corporate bond counterparts. As a result of the current environment of all time low spreads and rates, as well as our views on longer rates moving higher, we sold out of our longer 2.5 – 3 year fixed rate spread product which was trading at levels that were not providing much yield cushion.

Going forward, our views on IG credit and US rates remain much the same. We expect longer rates to trend higher, although the front end will remain anchored with downward pressure on the very front end of the curve with no meaningful pickup in bill supply in the near term. US Corporate health looks solid as earnings results came in better than expected. Fundamentals should continue to improve as the vaccine gets rolled out. However, valuations are expensive with momentum fading, and current spread levels are at their all-time tights. We will focus our credit purchases on shorter (1-2 year) fixed rate maturities and 3 month Libor floating rate notes (FRNs) out to September 2023. We will maintain our duration positioning but prefer to do so via credit as we see little value adding US treasuries at current levels.

In terms of positioning, we will selectively add IG credit as well as 6 month - 1 year Commercial Paper and Certificates of Deposit. We will focus our additional floating rate credit purchases on 1-2.75 year maturities. At current rate levels, we will not look to add to our duration positioning.

Some trades to highlight over January:

20 month Natwest fixed rate

18 month Athene floater

13 month Korean Development Bank floater

Add CP/CD :

o 1 year Goldman Sachs International (CP)

o 1 year Qatar National Bank (CD)

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- o 1 year Woori Bank (CD floater)
- o 11 month AT&T (CP)
- o 9 month ENEL Finance (CP)

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