

Santander Latin American Corporate Bond

6 / 2022

Fund commentary

Fund performance in June was negative on both a relative and absolute basis erasing year to date gains due to higher risk perception and volatility the overhang of the persistent inflation and global recession risks continued to impact the asset class. US treasury yields sold off during the month on growing concerns about persistent inflationary pressures, the intensification of the restrictive monetary policy by the Federal Reserve and the potential recession in the United States and Europe continue to add pressure on the emerging fixed income markets. The risk of a global recession is substantially lower, given the expectation that Asia will continue its recovery.

Across the LATAM region, headline and core inflation remain at elevated levels. Both inflation and activity data have surprised to the upside leading to upward revisions to our growth forecasts across the region. Going forward, however, we do expect activity to slow down more significantly in the second half of 2022. Inflation, on the other hand, is unlikely to peak until Q3 '22, which will force most LatAm central banks to tighten monetary conditions at an even more accelerated pace in the short term and then a potential pause might happen.

The fund made some gains in Colombia and Peru where it maintains an underweight position and was negative impacted by our overweight in Brazil and Mexico. From a general sector perspective, there was strong outperformance in both Telecommunications, Beverages, Oil & Gas, Food, Pipelines and Mining, while Electric, Energy, Iron & Steel and Auto-parts where the underperformers.

The negative performance came mainly from Brazil and Mexico in particular sectors which were impacted by investor sentiment. In Brazil Commercial services, Retail, Oil & Gas and Agricultures where the underperformer sectors, that suffered from continued inflation shocks, weakening macro expectations and concerns as the October elections get closer. In Mexico, Banks, Oil & Gas, Electric and Auto-parts sector underperformed impacting our performance.

Conditions for primary market issuance remain challenging with only one company coming to the market in June. Protein company, JBS, placed a three-tranche issue of \$3bn to refinance existing debt. We chose not to participate as the offer looked rich compared to the existing bond curve. Post issuance performance was weak at month end.

During June we saw negative returns on main EM credit indexes, mainly driven by credit spread widening and higher US treasury yields. EM corporates outperformed sovereigns and local currency while IG outperformed HY corporates. LATAM corporates and sovereigns underperformed CEMBI and EMBI.

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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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