Santander Asset Management

Santander Latin American Corporate Bond

1 / 2021

Fund commentary

And the rally took a breath, when we were getting very used to it since Q2 2020! Our markets got a small correction in a period we have seen yield curve steepening. The increase in covid-19 contagion cases in Europe with further mobility restrictions combined with a lower than expected speed on the start of vaccination campaigns have weighted on investors sentiment. Latin America also showed increased cases and restrictions were put in place. The implicit risk behind that is the concern on 2021 growth being revised downward. It looks preliminary to drawn such conclusion as the initial difficulties and logistics obstacles to kick off vaccination campaigns may gain traction sooner as we already see in some countries like Israel, UK and USA. In Latin America, main countries are already vaccinating their population and with good advances in recent weeks. Those Covid-19 related concerns have more than offset the outcome of US elections with Democrats winning majority in both Houses and high expectations of additional and meaningful fiscal packages to boost US economy recovery.

Within such context, corporates were more resilient than sovereigns both in general EM indexes as well as in Latin America space. In addition, HY indexes had better performance than IG, which were impacted by US Treasuries sell-off. Financials and Metals & Mining were the positive performers in CEMBI Global sectors, while Oil&Gas was the worst performer sector globally.

Latin American currencies devalued in such scenario in spite of a good month for commodities being gold, zinc and to a lesser extent iron as the only exceptions. It deserves to be mentioned the strong rise in Oil prices as market incorporates maintenance or increased production cuts while there were impressive price increases in agriculture commodities that have raised temporary short-term concerns on inflation in some Latin American countries.

Our fund had negative performance on an absolute term, but a good one relative to benchmark and peers. The favorable contribution in the month primarily came from the underweight position in Argentina and in Oil&gas mainly because we hold much less YPF than the benchmark. The company surprisingly announced an exchange offer not only for its 2021 bond but for a total of USD 6.2 bln with unattractive terms for bondholders. In spite of multiple improving rounds, bondholders are reluctant to accept the offer as the company would have means to meet its obligations if not restricted to access dollars. No other major highlight by sectors as several of them contributed on relative terms. The laggard was Banking sector where we saw some profit taking on Brazil and Mexico long-end and perpetual bonds that rallied significantly in precedent months. Banking sector will present an interest dynamic in 2021 with loan portfolios growth, expected asset quality deterioration as relief programs get to an end and likely lower provisions as apparently several institutions anticipated them during 2020. Duration wise we had positive contribution on short and belly, which was partially offset by our exposure to Petrobras long-end.

Primary market was intense, extremely active with dozens of deals coming to the market most of them to refinance short-term debt. We have also seen sustainability/green bonds coming to the market and first time issuers like Brazilian grain processor and logistics group Amaggi that debuted with a USD 750mm, 7yr sustainability bond @ 5.25% and Mercado Libre, printing two tranches: USD 400mm, 5yr @ 2.375% and USD 700mm, 10yr @ 3.125%.

In spite of the still challenging recovery path and increased pressure on sovereigns higher indebtedness we see the our asset class with good prospects for 2021, with vaccination programs starting to gain traction, its impacts on confidence that may be translated in growth recovery. Furthermore, the abundant global liquidity and ongoing inflows to emerging market economies also evidenced by the dynamism in primary market reinforces our view of a promising year for Latin American corporate credit. Our fund ends January with interesting 4.8% YTW, 412 bps G-spread, 5.1 yrs duration, well diversified within 115 bonds and average rating of BB-.