

Santander AM Euro Corporate Bond

1 / 2025

Fund commentary

The year started with a positive tone for risk markets, with S&P 500 up by 2.7% and SXXP 600 by 6.29%. On the other hand, we saw rates go up in Europe and mostly stable to slightly lower in the US. There was plenty of volatility in Euro rates during the month, with 10-year Bund closing at 2.46% (+0.09%) although intramonth it reached 2.65% and the 2 years (more anchored) closing at 2.12% (+0.04%) although intramonth touching 2.319%.

January was a month of central bank meetings, with the ECB cutting their respective reference rates by 0.25%, leaving the deposit rate at 2.75%. Lagarde expects inflation to stabilize close to 2% during the year, due to wage moderation although it sees risks to growth (the 4Q GDP level at 0% wasn't good for the Eurozone), that in time should moderate as the effects of the restrictive policy start to impact real wages and improve demand.

The day before, the FED maintained its reference rate stable 4.25%-4.50%, in a unanimous vote after 3 consecutive cuts over the past meetings. The press conference could be seen as hawkish, given that they removed the phrase that inflation is moving towards its goal, confirmed that the labor market is solid with a stable unemployment rate and Powell stating that there is no hurry to keep adjusting monetary policy.

As for credit markets, they enjoyed a good start of the year with spreads tightening by 10bps down to 90bps for Euro Investment Grade, with most sectors reaching close to minimum levels. We witnessed the recovery of sectors such as Autos that lagged during the latter part of 2024, with the star sector of last year (Real Estate) very much stable in January. On a country level, France (Banks) and Germany (Autos) behaved quite well also recovering strongly. Both periphery and core behaved in a similar way during the month. The Euro HY market also tightened by 10bps, probably more affected by any tariffs that could be imposed and not benefiting from the strong start of the year in terms of flows, like we've seen in Euro IG.

As usual for January and after a drought in December, the primary market was quite active, with close to €110Bln being printed and new issue premiums that became more scarce as the month developed.

The fund posted a positive performance during the period as tighter spreads offset slightly higher government yields. The fund outperformed its benchmark due to the higher exposure to the market with all sectors showing a positive return. Given the seasonality, the fund was quite active on primary market.

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The Fund had a YTM of 3.19%, a Modified Duration of 4.58, which compares to 3.21% and 4.46 respectively for its benchmark, at the end of the period.

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