

Santander Latin American Investment Grade ESG

11 / 2024

Fund commentary

November was a positive month for the asset class, benefiting from lower Treasury yields. Although spreads showed some signs of fatigue with a moderate increase, this did not prevent the asset class from showing positive returns. The 10-year Treasury yield declined to 4.17% from 4.28%, while the 30-year yield decreased to 4.36% from 4.48%. The average spread level of the CEMBI Latam increased to 271 bps from 259 bps.

The US economy showed mixed signals in November. The services ISM rose to its highest level since July 2022, indicating potential acceleration in business investment growth, while the manufacturing ISM suggested negative growth. Jobless claims fell to their lowest level since April, normalizing after previous distortions. Following Trump's election win, market attention shifted to potential new measures, with fiscal stimulus expected to boost growth, though a trade war could negatively impact growth, rates, and yields. The Federal Reserve cut rates by 25 basis points, and market expectations and long-term yields have risen post-election, reflecting a focus on potential higher GDP growth and inflation.

The fund achieved a positive absolute performance during the month, but it underperformed on a relative basis. We benefited from strong positioning in the Electric and Retail sectors, where the fund has a structural overweight. In the Electric sector, the fund gained from relatively higher duration bonds, while in the Retail sector, it performed well in Chile. There was also good relative performance in the Banks, P&P, and Chemicals sectors. However, this was more than offset by negative relative contributions mainly from the Food, Auto Parts, and Beverages sectors.

The top contributors were AMXLMM 40s, ILCCI 32s, and BFALA 32s, while the bottom contributors during the month were ALFAA 44s, TNEMAK 31s, and CENSUD 45s.

It was not an active month in the primary market. There were issuances from MSU Energy (\$177mm), Sitios Latinoamerica (\$650mm), and Banorte with a dual-tranche deal for a total of \$1.5bn.

As we approach the end of the year, our asset class has delivered solid returns. Looking ahead, we anticipate limited activity in the primary market and potentially lower liquidity in the secondary market. US yields are likely to exhibit some volatility as the market assesses the implications of a potential new Trump administration on the global economy. Despite these uncertainties, we remain constructive on our asset class, confident that the current yield levels are attractive and that Latin American corporates are supported by strong fundamentals.

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