Santander Asset Management

Santander Latin American Investment Grade ESG

Marketing Communication

1 / 2025

Fund commentary

In January, the asset class showed positive performance, in line with stable Treasury yields and flat corporate spreads. The 10-year Treasury yield slightly decreased to 4.53% from 4.57%, while the 30-year yield remained flat at 4.79%.

During the month, the US economy demonstrated solid growth, highlighted by a significant increase in non-farm payrolls, which rose by 256k, the highest in nine months. This strong labor market performance, coupled with robust retail sales and industrial production data, underscored the resilience of economic activity. Core CPI inflation for December rose by 0.23% month-over-month, aligning with the Federal Reserve's medium-term target of 2% year-over-year. Despite this, the Fed opted to pause rate cuts, awaiting further confirmation of stable inflation trends.

The 4Q24 GDP growth slowed to 2.3% quarter-over-quarter annualized, below expectations, primarily due to weaker business investment, although private and public consumption remained strong. The weakness in investment growth in 4Q24 GDP introduces some short-term downside risks for payroll growth in cyclically sensitive industries. This should be transitory, as we expect investment to bounce back.

The fund posted a positive absolute return during the month but slightly underperformed its benchmark. It had a strong relative performance in sectors such as Banks, Retail, and REITs. However, this good relative performance was offset by negative relative contributions from sectors such as Food, Iron/Steel, and Chemicals.

The top contributors were TELEFO 31s, FUNOTR 30s, and SUZANO 31s, while the bottom contributors were CENSUD 45s, SQM 51s, and INTERC 56s.

January was an active month in the primary markets, with 16 issuers coming to the market, totaling around $12.4bn in issuance. Some of the main issuers were JBS ($1.75bn), YPF ($1.1bn), Codelco ($1.5bn), Banco Bradesco ($750mm), Liverpool ($1.0bn), Fibra Uno ($800mm), and Kallpa ($500mm).

Looking forward to 2025, the movement of US Treasury yields is anticipated to be the main factor influencing returns. This is because the spreads on Latin American corporate bonds are currently at historically narrow levels, offering little scope for further tightening. Despite this, we are confident in the robustness of Latin American corporations and believe that the initial yield levels will continue to underpin strong performance throughout this year.

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