Santander Asset Management

Santander AM Euro Corporate Bond

Marketing Communication

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Fund commentary

September was a difficult month for fixed income markets, dominated by a sharp rise in sovereign yields, renewed inflation concerns and escalating tensions in the Middle East. Higher energy prices, driven by the conflict involving Iran and risks to energy supply routes, reinforced a higher-for-longer rates narrative and weighed on duration across global markets.

In the United States, the Federal Reserve delivered a 25bp rate hike and maintained a restrictive stance, keeping markets focused on inflation risks despite some softer macro data later in the month. Treasury yields moved sharply higher, with long-end yields reaching multi-decade highs, becoming the main driver behind weaker fixed income returns globally.

In Europe, the ECB also raised rates by 25bp to 2.50%, while continuing to highlight the inflationary risks linked to energy prices. Although markets reduced expectations for additional near-term hikes towards month-end, the overall message remained hawkish. At the same time, concerns over France's fiscal outlook and political uncertainty triggered a significant widening in the OAT-Bund spread, adding a distinct European risk premium.

Against this backdrop, Euro IG credit weakened but remained relatively orderly. The Euro IG index widened by 11bps during the month, finishing September at 89bps. Financials widened 12bps to 92bps, while non-financials widened 10bps to 87bps. Importantly for peripheral credit investors, the widening was broadly similar across regions. Peripheral non-financials widened 9bps compared with 10bps for core issuers, while peripheral financials widened 12bps, in line with core financials. This resilience suggests that the deterioration in French sovereign risk did not materially spill over into peripheral corporate credit markets.

Sector performance was more differentiated. Real Estate was the weakest-performing sector, widening 20bps, followed by Automotive (+15bps) and Banking (+13bps). By contrast, Energy proved relatively resilient, widening only 4bps, while Consumer Goods, Healthcare and Technology & Electronics also outperformed the broader market. The widening was more pronounced lower down the rating spectrum, with BBB spreads widening 13bps compared with around 40bps for BB and single-B credit.

Despite the volatile backdrop, credit fundamentals remained broadly constructive. Rating activity was generally supportive, with several positive rating actions across European issuers, particularly within the banking sector. The overall picture remained one of stable corporate balance sheets rather than a deterioration in credit quality.

Primary market activity was exceptionally strong, and September became one of the busiest issuance months on record in Europe. Companies continued to front-load funding plans ahead of potentially higher funding costs, while investor demand remained healthy and order books were generally well supported.

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Fund flows weakened as the month progressed. Strong inflows at the beginning of September gave way to outflows as the rates sell-off intensified, with high yield experiencing the largest redemptions. Nevertheless, demand remained skewed towards higher-quality credit, with investors favoring investment grade over riskier segments of the market.

Overall, September was primarily a rates-driven sell-off rather than a credit event. While Euro IG spreads widened moderately, the dominant driver of negative returns was the sharp rise in underlying government bond yields. Credit fundamentals remained broadly stable, primary markets stayed open and peripheral corporate credit continued to perform in line with, or slightly better than, core markets despite the increase in European political and fiscal risks.

The fund delivered a negative return over the month, driven by the aforementioned higher market yields and wider credit spreads. Performance was below the benchmark over the period. From a sector perspective, all sectors had a negative contribution during the month with Banking as the largest detractor.

At the end of the period, the fund had a yield to maturity (YTM) of 4.51% and a modified duration of 4.76, compared with 4.34% and 4.39, respectively, for its benchmark.

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