

# Santander AM Euro Corporate Bond

8 / 2025

## Fund commentary

The month of August could be divided into two, and although in the end we saw positive performance for equities (S&P500 +1.91% and SXXP600 +0.74%) we did see risk markets going down in the second half of the month. A similar pattern occurred in rates, and in Europe the month ended with the steepening of curves, with the short end going down and the long end going up. During the 1st half, the market was hopeful on some advance on the resolution of the Russia Ukraine conflict, but renewed budget concerns in France, brought back last year political volatility owes, leading to a rise in long end rates and risk premia.

On the central bank's front, the Bank of England lowered rates by 25 bps to 4.0% on a 5/9 vote and expectations are subdued after inflation data. No meetings from the ECB or FED, but some turmoil in the last, with Trump firing governor Lisa Cook, on allegations that she falsified a mortgage application. Earlier in the month Bessent suggested the FED should cut rates by 50bps in the September meeting. During the Jackson Hole summit, Powell surprised the market with a dovish message and although it revealed concerns on labor and inflation because of tariffs, it stated that with policy in restrictive territory changes in the risk equilibrium could justify an adjustment in policy. From the ECB, the minutes revealed a debate whether more cuts would be needed in 2025 after the last unanimous pause.

As for the credit market, we saw widening of spreads in the Euro IG market up to 83bps, after reaching a low of 75bps intra month (just 2bps shy of 2018 minimum levels). The widening comes on one hand from contagion of the foreseen political instability in France, and the heavy issuance over the last two weeks particularly of French issuers, that are refinancing ahead of any possible market jittery. In terms of segments, Financials underperformed non-financials, with peripheral performing a bit worse (+1bps) in both segments. The IG beta capital parts widened the most, particularly hybrids... but not the beta sectors with both Real Estate and Insurance among the best performing. Euro HY widened by 16bps, but still in quite tight trading in 2% percentile.

The fund posted a slightly positive performance on the back of carry offsetting wider credit spreads. The fund performed in line to its benchmark. All sectors had a similar performance with Banking, Real Estate and Insurance as the best sectors and Telecommunications, Transport and Energy as the worst. The fund was again active on primary market given strong new issue activity in line with historical seasonality.

The Fund had a YTM of 3.12%, a Modified Duration of 4.51, which compares to 3.16% and 4.47 respectively for its benchmark, at the end of the period.

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