

Santander Corporate Coupon

6 / 2025

Fund commentary

The month of June continued to be positive for risk markets, despite the episodes of volatility on the geopolitical front, namely with the war escalating in the middle east, that led to a spike in oil prices rising concerns around inflation once again.

Thankfully, the ceasefire lifted some pressure, and the focus resumed back to tariff front. The secretary of the US Treasury, Scott Bessent informed that the US was planning to extend the pause beyond the 9th of July, but this was refuted by Trump, meaning the uncertainty remains for the EU.

In this environment, we witnessed the Equity market going up in the US with S&P500 up by 4.96%, but in Europe we saw the SXXP down by 1.33%. In the meantime, the EUR continues to appreciate vs the USD.

The market focus is now set on the timing of FED cuts in the second half of the year. At the latest meeting, the FED let rates unchanged in the 4.25%-4.50% range, in a unanimous decision, while lowering its GDP forecast for 2025 by 0.3% down to 1.4% and at the same time rising the underlying inflation forecast to 3.1%.

In Europe the ECB, lowered rates at the beginning of the month leaving the deposit rate at 2%, indicating that they are reaching the end of the cycle. The new macro projection set inflation at 2% for 2025 (previously 2.3%) and 1.6% for 2026 (previously 1.9%), while they see GDP growing by 0.9% in 2025 and 1.1% in 2026.

In this environment, US credit markets performed positively over the month, with IG spreads tightening by 6bps down to 86bps although still 4bps wider YTD. The 1-to-5-year bucket where the fund is focused tightened by 4bps down to 62bps and its trading 3bps wider YTD. The BBB rated issuers lead the tightening with 7bps and the curve terms the long end overperformed. In terms of sectors, we saw recovery in Autos (-11bps) and Energy performed well with 9bps tightening. Most of the performance came from the move down in rates, with weaker data and economic surprises disappointing.

As for the fund, like the market it performed positively behaving in line with its benchmark, even though it's slightly underweight credit, preferring to take rate exposure rather than credit given the tight spreads. Still, the fund performed better in Financials that combined with the futures positioning compensated for the underperformance in non-financials. To note was the overperformance in the Auto sector that compensated for some of the underperformance in non-financials. During the month, the fund was active in primary markets adding new issues of names such as

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Caixabank or Lloyds, and in secondary we added some Telecom names such as Verizon or AT&T that are more defensive. The fund ended the month with a YTM of 4.63% and Modified duration of 2.74 years vs the benchmark 4.59% of YTM and 2.75 years of modified duration.

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