Santander Asset Management

Marketing Communication

Santander Corporate Coupon

9 / 2026

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 the 2-year Treasury rising 55bps to 4.89% and the 10-year Treasury increasing 53bps to 5.28%, becoming the main driver behind weaker fixed income returns during the month. Economic data remained broadly supportive of the Fed's cautious stance, with strong payrolls, resilient consumer spending and inflation indicators pointing to a robust economy.

Against this backdrop, US investment grade credit weakened but remained relatively orderly. The broad US IG index widened by 4bps during the month, finishing September at 84bps, while posting a total return of -2.63% as higher Treasury yields weighed heavily on performance. The widening intensified towards month-end following a more risk-off market tone, although spread moves remained modest relative to the magnitude of the rates sell-off.

Performance across the market reflected the dominance of duration. For shorter maturities, the US IG 1-5 Year index widened by 8bps to 62bps and delivered a total return of -1.18%, significantly outperforming longer-duration segments of the market. This resilience highlights the benefits of lower interest-rate sensitivity during a month characterized by a sharp upward repricing of Treasury yields. The market also exhibited a modest flight-to-quality bias, with higher-rated issuers generally outperforming lower-quality segments.

Sector performance was more differentiated. Higher-quality areas of the market proved relatively resilient, while lower-rated credit underperformed as investor sentiment became more cautious during the second half of the month. The widening was more pronounced lower down the quality spectrum, with US High Yield spreads widening 49bps to 312bps and generating a total return of -2.49%.

Despite the volatile backdrop, credit fundamentals remained broadly constructive. Economic activity continued to support issuer fundamentals, while corporate balance sheets remained generally healthy. The overall picture remained one of stable credit quality rather than a deterioration in fundamentals.

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Primary market activity remained robust as issuers continued to access funding markets despite higher yields. Companies remained active in bringing supply to market, while investor demand continued to favour higher-quality investment grade credit.

Fund flows weakened as the month progressed. As the Treasury sell-off intensified and risk sentiment deteriorated, investors increasingly favored higher-quality assets and shorter-duration exposure, while lower-quality segments of the credit market experienced greater pressure.

As for the fund, like the market it suffered from an aggressive rate movement upwards, that led to negative positive performance during the month. The fund slightly underperformed the market, mainly because of the futures positioning in rates, that we hold to keep duration similar to the reference benchmark. In terms of segments the fund did worse in Financials but better in non-financials, especially in Technology, Capital Goods and Energy. On the primary market, we would only highlight the Santander UK new issue where we participated. The fund ended the period with 5.61 YTW and 2.78 years of duration vs 2.69 years of its benchmark.

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