

Santander Corporate Coupon

2 / 2023

Fund commentary

After the very strong start of the year, the month of February brought a shift back to the inflation problem, putting pressure in most risk markets. That said there were some diverging patterns, with the S&P500 going down by 2.61% but the StoxxEurope600 going up by 1.74%.

On the rates side, yields went up on both sides of the Atlantic with 10-year Bund reaching 2.65% (+36bps) and 10-year Treasury reached 3.926% (+41bps), with both curves experiencing flattening and inverting even more, currently the 2y-10y is close to 49bps in Germany and 90bps in the US.

The key topics for these movements come on one hand, from the upward revision of inflation data in the US and, on the other, from both payroll and consumption data that surprised on the upside.

These factors point to stronger GDP growth in 1Q23, putting more pressure on inflation and, in turn, more hikes from the FED. At the end of February, the market was currently pricing in 3 more 25bps hikes up to June.

In Europe, we had improved business confidence indicators that are a result of the sharp fall in gas prices, with storage levels at the high end of the range for the season, and the end of Covid restriction in China.

Turning to the ECB, the market was pricing at the end of February a terminal deposit rate of 3.75% implying another 5/6 hikes during the year.

As for the US IG market, credit spreads have widened slightly by 5bps but still quite resilient in comparison to equity markets. The 1 to 5 years where the fund is focused widened by 3bps during the month. The flows in US credit markets have slowed somewhat, especially in HY that started to witness outflows, that contrast with 8bps of tightening of spreads. The primary market was strong with \$147Bln printed in the US with companies pushing forward their issuance ahead of further rate hikes.

As for the fund, like its benchmark it posted negative performance during the month and having similar performance to the later. The fund was active in the primary market, trying to capture some of the new issue premium and used this to neutralize duration in relation to its benchmark. We added 13 new bonds to the funds in issuers such as Oracle, T-Mobile, Pepsico or AT&T and sold mostly issues from 2023 and 2024 maturities and credit ETF. The fund ended the period, with 4.81 YTW vs 5.47 YTW of its benchmark and 2.67 years of modified duration vs 2.68 years of its benchmark.

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For product information, please contact Santander Asset Management Luxembourg S.A. (43, Avenue John F. Kennedy L-1855 Luxembourg - Grand Duchy of Luxembourg), management company of the UCITS under the supervision of the Commission de Surveillance du Secteur Financier (CSSF). The depositary and administrator of the UCITS is JP Morgan SE, Luxembourg Branch (6, route de Treves, L-2633 Senningerberg - Grand Duchy of Luxembourg).

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