

Santander Corporate Coupon

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, but some relief in Treasury markets with confidence rising on the possibility of easing from the FED. During the 1st half of the month, 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 premiums.

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 a slight widening of 2bps in spreads of the US IG market up to 81bps, after reaching a historical low of 75bps intra month (since 2006). The 1-5 year bucket, where the fund is focused also widened by 2bps to 58bps, although it trades "far" of the 2021 minimum levels of 41bps. The small widening comes on one hand from contagion of Euro IG because of the foreseen political instability in France and also following a worse Equity market overall in the second half of the month. Still US HY fared better tightening by 4bps unlike EU HY that widened by 16bps, but the tightening came mainly from worse rating categories B and CCC. We should expect a strong month of primary during September.

As for the fund, like the market it enjoyed positive performance, benefiting from lower rates and carry roll down. Still the fund underperformed the market, given its defensive positioning with less exposure to credit given the tight spreads. The 3-5-year bucket where the fund is underweight overperformed, with the carry positions in the 0 to 3 years not offsetting this. In terms of segments financials were in line, but the underperformance from non-financials. In terms of changes, with the summer break period there were fewer changes with diminished volumes from primary markets,

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but still adding some defensive names such as Caterpillar, Simon Property or SEB. The fund ended the month with a YTM of 4.45% and duration of 4.2 years vs the benchmarks YTM of 4.38% and duration of 2.73 years.

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