Santander Corporate Coupon

Marketing Communication

3 / 2026

Fund commentary

March was marked by a further increase in geopolitical uncertainty, heightened volatility in financial markets and a significant repricing of monetary policy expectations. The escalation of tensions in the Middle East, including disruptions to energy supply routes, led to a sharp rise in oil and gas prices, contributing to a more cautious tone across global risk assets.

The Federal Reserve maintained rates unchanged but adopted a more cautious tone, highlighting upside risks to inflation linked to energy prices. Market expectations shifted materially over the month, with investors scaling back expectations of rate cuts and beginning to price a more prolonged restrictive stance, with even the possibility of further tightening in certain scenarios.

In Europe, the ECB also left policy unchanged, but communication became increasingly hawkish. Policymakers highlighted the inflationary risks stemming from higher energy prices and acknowledged growing uncertainty around the growth outlook. Expectations shifted toward potential rate hikes later in the year rather than cuts. At the same time, economic data softened, with weaker survey indicators and declining confidence pointing to a more fragile growth backdrop.

Government bond markets in the US experienced a notable repricing during the month, with yields moving higher across the curve as markets adjusted expectations for monetary policy. The move was particularly evident in the front end, reflecting a more cautious Federal Reserve stance and increased inflation risk linked to higher energy prices. This led to a bear-flattening dynamic, with shorter maturities more directly impacted by the shift in rate expectations.

US credit markets were weighed down by the sharp rise in Treasury yields and the broader repricing in rates expectations during March. While overall US IG spreads widened by 5 bp over the month, the front end of the market was weaker, with the 1–3 year segment widening by 12 bp. Within the fund's 1–5 year focus, spread widening was more contained than in longer-dated credit, but still clearly above the broader market average, reflecting a more cautious tone in the shorter-dated part of the curve.

Shorter-dated credit continued to offer some relative resilience from a total return perspective, as lower duration helped cushion the impact of higher Treasury yields. Even so, performance was still negative across the bucket, with the move driven more by rates than by a major deterioration in fundamentals.

Primary market activity remained open but selective, with investors favouring high-quality names and shorter maturities when issuance windows were available. Demand for the 1–5 year segment was supported by the combination of attractive carry and lower duration risk, even as overall market conditions remained volatile. Demand remained selective but supportive, particularly for high-quality issuers, and new issues were generally well absorbed when market conditions stabilized.

As for the Fund, like the market, it delivered negative performance during the month, although it behaved slightly better than its benchmark. The fund underperformed in Financials, while it did better in Industrials and Utilities. On a curve basis, the fund outperformed in the 3-5 year maturity bucket underperforming in the less than 3 years. The activity was scarce during the month, given the increased volatility but we did participate in some new issues such as Amazon, BMW or ING, selling some expensive bonds to finance the purchases. The fund ended the month, with a YTW of 4.66 and duration of 2.69 years vs the benchmark, 4.58 YTW and 2.71 years of duration.