Santander Asset Management

Marketing Communication

Santander Financial Credit

1 / 2026

Fund commentary

January was characterized by elevated geopolitical uncertainty, heavy primary issuance and heightened interest-rate volatility, yet financials credit proved resilient, supported by strong fundamentals and sustained investor demand. As with broader credit markets, performance was driven more by shifts in risk sentiment and rates than by any deterioration in issuer credit quality. After a volatile start to the year, conditions stabilized into month-end as risk appetite improved and primary markets continued to clear comfortably.

European financials outperformed non-financials over the month, in line with the broader euro credit trend of modest spread tightening. Senior financial spreads ended in January slightly tighter (-6bps), while subordinated segments exhibited higher volatility but delivered solid excess returns, with Tier 2 tightening by 7bps while AT1/RT1 market tightened by 22bps. Performance across core and peripheral financials was broadly similar, reflecting confidence in balance-sheet strength across jurisdictions, to note the positive review by S&P of three Greek banks.

Higher-beta instruments — notably AT1, RT1 and Tier 2 — were more sensitive to swings in macro sentiment but benefited from strong carry demand and limited secondary selling pressure.

Primary supply was heavy, consistent with seasonal patterns, but well absorbed across the capital structure. Issuance was skewed toward subordinated formats, reflecting both issuer capital optimization and strong investor appetite for yield. Primary concessions remained modest, order books were covered multiple times, and new issues generally tightened after pricing. Despite expectations of a lull during earnings season, issuance remained active into late January, underlining the depth of demand. Into blackout periods, technical conditions improved further, reinforcing secondary market support.

The early stages of the FY25 earnings season validated the sector's credit strength. European banks broadly met or exceeded financial targets, supported by resilient revenues, disciplined cost control and stable asset quality. Capital ratios remain comfortably above regulatory requirements, with management buffers intact despite distributions and some regulatory-driven CET1 volatility. Loan performance remains benign, with low cost of risk across most franchises, while profitability metrics continue to normalize at levels supportive of capital generation. For insurers, January was quieter on results, but capital positions remain robust and regulatory headwinds appear manageable and largely pre-priced.

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Financials traded against a backdrop of shifting central bank expectations and political uncertainty. In the US, the Fed remained on hold while markets assessed the implications of President Trump's nomination of Kevin Warsh as Fed Chair. In Europe, the ECB maintained a patient stance, with no changes anticipated for the next meeting in early February. Political developments in France and fiscal uncertainty in Japan contributed to short-lived volatility but did not materially alter the credit outlook for financial institutions.

The Fund experienced positive performance over the month, largely due to the tightening of spreads. The portfolio is now fully invested, with both composition and asset allocation finalized. Throughout the period, final adjustments were made as inflows stabilized, resulting in a NAV of $112 million at month-end. In the primary market, two new issues were added—Societe Generale and Unicredit—which were deemed attractive. Additional purchases took place in secondary markets, including Euro peripheral names such as Portuguese BCP and Spanish Caixabank, with a focus on retail domestic exposure. As spreads continued to tighten, the Fund strategically increased its holdings in LT2 instruments within the USD market, securing yields above 5%. Only one sale was made during the month, disposing of a Societe Generale low-coupon position that had tightened and presented reduced value. In terms of sectors, the Fund end the month invested 86% in Banks, 9% in Insurance and 3.5% in Financial Services. By Geography UK, France and Spain are main regions accounting for 50%; in Latam the fund's 5% exposure is distributed via 3 issuers (Bancomer, Banorte and BCI). The top 3 issuers are Societe General, Barclays and Intesa San Paolo. The Fund ended the month with a YTM of 6.9 %, YTW of 5.26% and duration to worst of 3.29 years, with 1.2% in cash, BB+ average rating and invested across 131 securities.

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