Santander Asset Management

# Santander Financial Credit

Marketing Communication

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## Fund commentary

April was marked by continued geopolitical uncertainty, elevated energy price volatility and ongoing adjustments in monetary policy expectations. The conflict in the Middle East, particularly around the Strait of Hormuz, remained a key driver of sentiment, contributing to persistent inflation concerns and reduced macro visibility. Market conditions were volatile in the first half of the month, as energy prices surged and rates moved higher. Sentiment improved into month-end, supported by intermittent ceasefire developments and a gradual recovery in risk appetite.

In the US, the Federal Reserve kept rates unchanged, maintaining a data-dependent stance amid mixed macro signals and inflation pressures linked to energy prices. Markets continued to shift toward a higher-for-longer policy outlook, with reduced expectations for near-term rate cuts. In Europe, the ECB also held rates steady while highlighting the balance between rising inflation risks and a weakening growth backdrop. Government bond markets experienced significant volatility, with yields moving higher early in the month before stabilizing at elevated levels.

Against this backdrop, European financials credit rebounded following the widening observed in March. Spreads tightened over the month, broadly in line with the move in euro investment grade, with senior financials tightening by around 15bps. Subordinated debt outperformed, with Tier 2 tightening by c.19bps, benefiting from beta compression and improved risk sentiment.

AT1 was the strongest performing segment within the capital structure, tightening by c.54bps over the month. Banks outperformed insurance, with spreads tighter by around 56bps versus 38bps for insurers, largely reflecting technical factors and the typical lag in insurance subordinated performance during periods of market recovery. USD-denominated AT1 continued to outperform EUR, supported by stronger global demand and more favorable relative value.

A key positive technical for the AT1 market during the month was the clarification around the Swiss regulatory framework. The decision not to proceed with previously proposed changes to AT1 instruments—particularly around coupon restrictions and call features—removed a significant overhang for the asset class. This supported a strong rebound in UBS AT1 and reinforced broader investor confidence in the subordinated bank capital space.

Primary market activity remained robust but uneven, driven by market windows and the earnings blackout period. After a strong start to the month, issuance slowed temporarily before reopening opportunistically. Subordinated issuance remained a key feature, with several AT1 transactions successfully executed despite the volatile backdrop. BNP Paribas ($1.5bn AT1 at 7.2%) and Rabobank (€750m AT1 at 5.5%) were well received with strong order books, while later in the month BBVA also accessed the market with a $1bn AT1. These transactions confirmed that investor appetite for yield and carry remains strong, even in a more volatile macro environment.

Earnings season further reinforced the sector's fundamental strength. European banks reported solid profitability, strong capital generation and stable asset quality, with only limited evidence of deterioration despite increased macro uncertainty. While some banks added management overlays linked to geopolitical risks, the overall credit picture remains robust.

Overall, April marked a recovery phase for financials credit, with spread tightening and strong performance in subordinated instruments, particularly AT1. The combination of supportive technicals and the removal of regulatory uncertainty helped restore confidence in the asset class. However, the macro backdrop remains uncertain, and elevated rates and geopolitical risks continue to cap the potential for further tightening in the near term.

The Fund benefitted from the diminished market volatility and experienced positive performance over the month, almost recovering from the March drop. This positive performance was driven mainly by tighter credit spreads while range bounded ending slightly higher over the month. The Fund slightly underperformed the market, given its more defensive position in duration, evidenced mainly in the 5–7-year maturity buckets. The main regions such as UK and France are where the fund underperformed, but the diversifiers such as Spain, Mexico, Austria, Belgium and Greece did quite well, although not enough to offset the later.

Over the course of the month, the fund focused on doing some relative value trades, trimming positions that had performed very well in the recovery, switching to other names that presented better value. For example, we added some positions in the Insurance segment, that lagged the recovery in comparison to banks in names such as Allianz, AXA, La Mondiale and CNP, in Banks we added on UBS after clarification from the regulator, and added in more defensive retail oriented banks such as BBVA, Santander, ABN, while trimming some UK names. In primary, the fund participated in some new AT1 issues, of BNP Paribas and Rabobank and in the LT2 space of Banco Santander and Goldman Sachs, both issuing in Euros on the same day.

In terms of sectors, the Fund end the month invested 82% in Banks, 11% in Insurance. By Geography UK, France and Spain continue to be the main regions accounting for 47% and in Latam the fund as 65% exposure distributed via 3 issuers (Bancomer, Banorte and BCI). The top 3 issuers are UBS, Societe General and Banco Santander.

The Fund ended the month with a YTM of 6.86% vs 6.75%, YTW of 5.55% vs 5.83% and duration to 3.38 years v 3.16 years, with 4.7%, BB+ average rating and invested across 152 (+11) securities.