

Santander Financial Credit

3 / 2026

Fund commentary

March was characterized by a sharp increase in geopolitical risk, significant volatility in rates markets, and a more pronounced repricing of monetary policy expectations. The escalation of tensions in the Middle East – particularly involving the US, Israel and Iran – dominated market dynamics throughout the month, with repeated disruptions to energy infrastructure and uncertainty around the Strait of Hormuz driving oil prices above \$100/bbl.

The market reaction was volatile rather than directional: sharp swings between risk-on and risk-off were observed, with rates, equities and credit reacting to headlines on a near-daily basis. Overall, the bias was toward higher yields and wider spreads as inflation concerns re-emerged.

In the US, macro data remained mixed, while inflation continued to show persistence, particularly in the context of rising energy prices. The Federal Reserve kept rates unchanged but maintained a cautious and relatively hawkish tone, emphasizing uncertainty and reduced visibility on the inflation path. Markets scaled back expectations for rate cuts, with a “higher for longer” narrative becoming more entrenched.

In Europe, the ECB also held rates but shifted communication in a more hawkish direction, highlighting upside risks to inflation from the energy shock. Market pricing moved materially over the month, with expectations shifting toward potential hikes in 2026 and even near-term tightening scenarios being discussed.

Government bond markets sold off over the month, particularly in the front end, with Bund yields moving back toward (and briefly above) 3%. The move was driven by a combination of higher inflation expectations and central bank repricing, creating a challenging backdrop for spread products.

Against this backdrop, European financials credit widened over the month, broadly in line with the move in broader investment grade. Senior financials proved relatively resilient, with moves generally contained (+12bps), while subordinated instruments underperformed. Tier 2 spreads widened on average 18bps with significant dispersion across issuers, and AT1 remained the most volatile part of the capital structure, widening 48bps with moves driven both by macro beta and idiosyncratic factors. Although the widening was big, the CoCo's asset class widened less than European HY that widened by 63bps over the month. USD AT1 continued to slightly outperform EUR and GBP at times widening

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by 42bps vs 46bps and 44bps for EUR and GBP, supported by stronger demand from global investors, while shorter call structures underperformed.

Primary market activity was more uneven compared to previous months, reflecting the volatile backdrop. Periods of elevated uncertainty led to temporary pauses in issuance, with some weeks seeing very limited supply (e.g. ~€3bn), as issuers stayed on the sidelines. However, windows reopened opportunistically, and overall activity remained constructive. Notably, AT1 issuance continued despite volatility, with deals from issuers such as HSBC and Danske Bank successfully placed and well absorbed by the market. Order books remained solid, confirming that investor demand for yield and carry persists, although new issue concessions increased slightly compared to earlier in the year.

From a fundamental perspective, the sector remains robust. Earnings releases across European banks continued to show solid profitability, supported by resilient net interest income and strong capital generation. Asset quality remains broadly stable, with no material deterioration despite increased macro uncertainty.

However, certain themes attracted market attention, including private credit exposures and isolated credit events (e.g. MFS), which contributed to spread dispersion but did not alter the overall constructive fundamental picture.

Overall, March's spread widening and volatility was primarily driven by macro and geopolitical developments rather than any deterioration in credit fundamentals. European financials continue to benefit from strong balance sheets, comfortable capital buffers and resilient earnings.

The Fund was not immune to market volatility and experienced negative performance over the month, driven both by wider credit spreads and higher rates. That said, it outperformed the market during the month, given the more conservative duration profile outperforming in the 5-to-10-year maturity buckets, the positioning in Insurance was also "beneficial", with the sector outperforming banks and the Tier 2 exposure with less sensitivity to spreads, and greater exposure to USD bonds.

Over the course of the month, with the fund receiving inflows, we selectively added some positions that screened cheap, adding LT2 with Yields above 5% (ABN, HSBC, BPCE, Deutsche Bank), in AT1 added UBS, Commerzbank, Eurobank, Swedbank or Societe General and from LATAM we also added Banorte and Insurance we added La Mondiale and Phoenix (now Standard Life).

From the primary market we participated in the HSBC USD new issues, adding the 6.75% and 7% coupon bonds callable in 2031 and 2035 respectively. The fund ended the month with a NAV of \$149Mln, suffering from some outflows at the end of the month, but we adjusted the portfolio accordingly without any issues, and even slightly above valuation prices.

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In terms of sectors, the Fund end the month invested 82% in Banks, 9% in Insurance. By Geography UK, France and Spain continue to be the main regions accounting for 47% and in Latam the fund as 5.5% exposure distributed via 3 issuers (Bancomer, Banorte and BCI). The top 3 issuers are Barclays, Societe General and Deutsche Bank.

The Fund ended the month with a YTM of 6.75% vs 6.35%, YTW of 5.83% vs 5.03% and duration to 3.16 years 3.25%, with 8% in cash, BB+ average rating and invested across 141 (+1) securities.

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