

Santander GO Short Duration Dollar

10 / 2025

Fund commentary

At the end of October, the Santander account had a duration of 0.66yrs, a spread duration of 0.68yrs, and a reporting yield of 4.14%. The ICE BAML 1-3yr Corporate OAS index moved higher by 1bp to 50bps; the 2yr UST traded in a range of 3.38-3.63%, ending the month at 3.57%. For October, Santander returned 33.7bps.

The U.S. government entered a shutdown on October 1st. As a result, except for one delayed CPI report, little economic data from the federal government was released over the month. Private payroll data from ADP showed a modest increase of 14,250 jobs for the month, following a decline of 32,000 in September, signaling subdued hiring momentum. Despite the shutdown, the BLS recalled workers to prepare the September CPI report, a key input for the Social Security Administration's annual cost-of-living adjustments. Headline and core CPI rose by 0.3% and 0.2% month-over-month respectively, bringing both measures to 3.0% year-over-year. Core goods prices rose by a firm 0.2% m/m, remaining relatively contained despite tariff pressures. Amid the information gap, the Federal Reserve cut interest rates by 25 basis points at its October meeting as expected, setting the target range at 3.75% to 4.00%. The Fed's statement cited moderate economic growth, gradually rising risks to employment, and persistent upward pressure on inflation. During the press conference, Chair Powell pushed back on expectations for another rate cut in December, stressing that further easing would require clear evidence of economic weakness. Additionally, mounting funding market pressures led the Fed to announce an end to quantitative tightening effective December 1, with future Mortgage-Backed Securities proceeds to be reinvested in Treasuries to shorten portfolio duration and better align with the Treasury market. The December meeting is seemingly a coin toss on whether the Fed cuts another 25bps, although we believe the risks are slightly tilted towards them delivering a cut.

We still maintain a positive outlook on investment-grade credit, supported by robust corporate fundamentals and positive earnings. Much of the recent earnings growth was driven by AI and AI adjacent sectors with growth outside of these sectors more tepid. Balance sheets remain strong and credit spreads continued to trade at their recent tight levels throughout the month further supported by healthy technical factors such as continued flows into the space. There are some underlying concerns surrounding the private credit and loan markets, although so far these various incidents seem to be idiosyncratic.

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Going forward we aim to maintain a portfolio duration of 0.55 - 0.70 years. Our focus will be on purchasing 1-2yr fixed-rate corporate securities and select 2-3 year callable banks that offer a decent carry profile. We will trade high-quality duration and longer credit to express our rate views.

Trades to highlight:

Buy 2nc1yr US Bank fixed rate

Buy 2yr Treasury

Buy 1yr CCDJ CP

Buy 11mo TTX fixed rate

Buy 11mo BHP fixed rate

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