

Santander GO Short Duration Dollar

2 / 2023

Fund commentary

At the end of February, the Santander account had a duration of 0.56yrs, a spread duration of 0.58yrs, and a reporting yield of 5.07%. The ICE BAML 1-3yr Corporate OAS was flat at 75bps; the 2yr UST traded in a range of 4.04-4.82%, ending the month at 4.82%.

For February, Santander returned 20.0bps. We saw a relatively swift reversal in front end rates on the back of very strong economic data. Whilst the Fed expectedly hiked 25bps early in the month, we actually saw the 2-year treasury initially rally before the barrage of data. The march higher kicked into gear with a "gangbuster" January Nonfarm Payroll number. A considerable upside surprise on retail sales was sandwiched between various inflation numbers, including CPI and PCE, that also came in noticeably above market consensus. On top of the US data, the Eurozone recorded their own hotter than expected inflation prints. By the end of the month, the 2-year treasury had risen 62bps, the terminal rate was at 5.40%, and not even 1 rate cut was priced in for this year. Plenty of Fed officials continued with their view that rates will need to be kept higher for longer but inevitably that played second fiddle to the economic data. Despite the moves in rates, credit held in firm as issuers had no problems placing their new issue deals. The move higher in all-in yields was met with strong demand which kept spreads very steady over the month.

We have moved the portfolio longer in duration through both treasuries and new issue credit. We are cognizant that the current momentum is to higher rates as the market grapples with how much more tightening the Fed needs to administer. Inflation has shown that it is not coming down as quickly as expected, yet some of this may be skewed by a couple of data points as well as seasonal effects. Additionally, the job market remains very tight as many large service and non-financial corporations continue to struggle to hire enough workers. Either way, by being that much closer to the end of the hiking cycle, and on the back of strong data, adding some duration on the margin is warranted to move us beyond our "neutral" level of 0.5years. We still prefer to do this through higher quality duration as corporate fundamentals and outlooks deteriorate slightly.

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In terms of positioning, we will focus our credit purchases on select attractive 6 – 12-month commercial paper and Yankee certificates of deposits, and opportunistically add 2 year and 3 year new issues in a controlled manner. We have also taken advantage of cheapening in Agency spreads due to higher issuance levels and we will continue to add as we see fit.

Some trades to highlight over February:

Buy 3yr MUFG New Issue

Buy 3yr Treasury

Buy 2yr Credit Agricole New Issue

Buy 2yr John Deere New Issue

Buy 2yr Treasury

Buy 12mo Societe Generale CP

Buy 12mo Natwest CP

Buy 12mo 3M CP

Buy 12mo Federal Home Loan Agency

Buy 6mo TransCanada CP

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