Santander Asset Management

Marketing Communication

Santander Latin American Corporate Bond

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Fund commentary

The asset class had another positive month, benefiting from lower U.S. Treasury yields, particularly in the short and medium part of the curve, while the long end remained at elevated levels. The 10-year Treasury yield decreased from 4.37% to 4.23%, whereas the 30-year yield rose slightly from 4.90% to 4.93%. Latin American corporate spreads widened modestly by 7 basis points but remained at tight levels.

In August, U.S. inflation data showed a modest acceleration. July's core CPI rose 0.3% month-over-month, slightly above the pace aligned with the Federal Reserve's 2% target. Core goods inflation was steady, while services inflation increased due to volatile airline fares. Shelter inflation remained unchanged. Customs duties surged to an annualized $230 billion, now 5.8% of federal revenues. If the effective tariff rate reaches 18%, duties could surpass corporate taxes. This tariff-driven tightening is estimated at 1.8% of GDP.

Labor market data showed continued softening. Non-farm payrolls rose by 73,000 in July, below expectations, with downward revisions to prior months. Unemployment is gradually rising, and indicators like the "Jobs Hard to Get" index suggest further strain. Initial jobless claims and sentiment data pointed to rising slack. Retail sales increased 0.3% in real terms, but weak confidence and subdued services spending indicate fragile household demand.

Q2 GDP was revised up to 3.3% annualized, driven by strong investment in equipment and intellectual property, especially in AI-related sectors. This strength reflects a mix of tariff-driven front-loading and structural demand. However, tight credit conditions and weakening sentiment suggest investment momentum may slow. ISM data showed contraction in both manufacturing and services, reinforcing headwinds for business activity.

Monetary policy expectations shifted toward easing. Markets focused on the August FOMC minutes and Powell's Jackson Hole speech for guidance. The data trajectory supports market expectations for three 25bp rate cuts in the second half of 2025, beginning in September.

During the month, the fund recorded another positive month in absolute terms but slightly underperformed its benchmark. It had positive relative performance in sectors such as Electric, Banks, and REITs. However, this good relative performance was offset by negative relative contributions from sectors such as Telecommunications, Airlines, Oil & Gas.

The top contributors were ALFACL 51s, GEOPAR 30s, and SAAVIE 35s, while the bottom contributors were MOVCHI 31s, TECOAR 31s, and RAIZBZ 37s.

August has historically been a relatively quiet month for new issuance, and this year was no exception. The only notable deal was a US$1 billion retap by Grupo Nutresa, consisting of US$500 million of additional 8.0% Senior Notes due 2030 and US$500 million of additional 9.0% Senior Notes due 2035.

Although trade tensions and geopolitical risks have moderated, the global macroeconomic landscape continues to warrant close attention due to lingering uncertainties. Throughout the year, despite several market-moving developments, the asset class has demonstrated resilience and remains on track for solid performance in 2025. Latin American corporates continue to show strong fundamentals, supporting their ability to navigate external challenges. Still, staying alert to sector-specific risks is key to maintaining a balanced and informed outlook.