

# Santander Latin American Corporate Bond

2 / 2023

## Fund commentary

If January gave the impression that 2023 was going to bring constant recovery to markets following the challenges of 2022, then February was quick to remind investors that there are still many hurdles to overcome. Fund performance was negative in the period in both absolute and relative terms as the asset class felt the pressure of both interest rate movements and credit spread widening with US treasury rates selling off to November levels amid disappointing data releases and investment appetite once again turning more conservative.

Unsurprisingly, the strong interest rate movement meant that our overweight positions were the most affected. Brazil and Mexico both contributed to the negative performance while Chile was relatively positive given the current underweight position. Sector wise was similar with Food and Mining, two of the fund's biggest sector underweights, bringing the most positive relative contribution while Banks and Electric disappointed for contrary reasons.

The best performing bond in the month was Panama's Multibank (MULT 28) which was issued at end of January and tightened more than 50bps in February despite the investment climate. Other bonds such as AES 27 and VOTORA 27, two of the biggest holdings, were almost flat in the period despite the interest rate pressures. The bottom contributors were Brazil's CSN 32 and AMAGGI 28, the former selling off after a strong January performance as well as Mexico's BBVASM 33 which is the fund's current top holding.

After a flurry of new issues in January, market conditions meant that there was only one company that came with a new issuance in February. Braskem came with a \$1bn 10-year issue that we participated in.

Concerns over inflation and its impact on the Fed's decision making with regards to interest rates continues to be the main driver of performance in the corporate credit market. Much of the potential downside seems to be priced into US treasuries with the 10-year yield already back at 4%, the focus in March may come back to fundamentals and the recent sell-off has created many attractive entry points for Latam credit.

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