Santander Latin American Corporate Bond

4 / 2025

Fund commentary

It was a challenging month for assets due to the impact of the US tariff shock, which introduced a risk-off tone in the market. The asset class posted a negative return, primarily driven by a significant widening of LatAm corporate spread levels by an average of 44 basis points, while Treasury yields remained flat throughout the month.

In April, the U.S. announced significant tariff increases, raising the average tariff to 22-25% from 2.5%, the highest level since the early 20th century. This makes imports 20-22% more expensive, effectively acting as a fiscal tightening of 2.2-2.4% of GDP. Historically, such fiscal tightening has led to significant slowdowns in GDP growth.

Confidence indicators show clear effects of the tariff shock, with rising consumer inflation expectations and declining consumer and business confidence. However, hard data presents a mixed picture. U.S. GDP fell by 0.3% QoQ annualized in Q1 2025, primarily due to a surge in imports ahead of the tariff implementation. This led to a highly negative contribution from the external sector, partially offset by positive contributions from inventories and domestic demand.

The tariffs are expected to exert upward pressure on core CPI, with forecasts suggesting a potential rise of up to 2.5% by the end of 2025. While the immediate impact on core inflation has been muted, factors such as core services inflation and used car prices indicate potential for future increases. Core inflation is anticipated to rebound from the weak monthly rise in March, with risks skewed towards higher inflation in the coming months.

The tariff-induced inflationary pressures complicate the Federal Reserve's monetary policy decisions. Markets have adjusted their expectations from four to three rate cuts in 2025. Despite rising core inflation, the Fed may proceed with rate cuts in the second half of 2025.

In line with the broad market, our fund experienced a negative return but was able to outperform its benchmark despite the risk-off scenario. It had positive relative performance in sectors such as Airlines, Chemicals, Media, and Auto Parts. However, this good relative performance was partially offset by negative relative contributions from sectors such as Oil & Gas, Electric, and Banks.

The top contributors were TNEMAK 31s, TECOAR 31s, and BANORTE perps, while the bottom contributors were GTE 29s, GEOPAR 30s, and ALFACL 51s.

Despite the turbulence in the markets, there were some issuers that came to the market in the first and last parts of the month. There were deals from Celulosa Arauco ($500mm), Bancomext ($500mm), Orbia ($1.0bn), COFIDE ($400mm), Hunt Oil ($630mm), BCP ($750mm), Nexa Resources ($500mm), and Banco Votorantim ($500mm).

Geopolitical tensions have recently escalated, likely sustaining market volatility. Latin American corporates appear well-positioned to navigate a more challenging macroeconomic environment, but it remains essential to focus on the most robust credits. Spreads have shown signs of weakening throughout the year, potentially pressuring the asset class. Additionally, the recent US tariff shock is expected to further exacerbate uncertainties surrounding global trade, contributing to increased volatility. Nevertheless, the current levels of Treasury yields continue to offer some protection should spreads continue to widen.