

# Santander Latin American Investment Grade ESG

10 / 2025

## Fund commentary

The asset class delivered another month of positive returns, supported by a modest decline in U.S. Treasury yields. The 10-year yield fell from 4.15% to 4.08%, while the 30-year yield declined from 4.73% to 4.65%, contributing to favorable duration exposure. However, Latin American corporate spreads widened by 9 basis points, partially offsetting the gains from rates.

US consumer confidence eroded steadily, driven more by labor market anxiety than inflation, with surveys like the Conference Board and Michigan Expectations Index pointing to weaker consumption ahead. Business sentiment was mixed, and hiring momentum softened, as ADP data and payroll diffusion indices suggested.

Inflation data offered modest relief, with core CPI rising just 0.23% MoM, below expectations. Softer shelter and used car prices helped ease market concerns, and futures markets responded by pricing in two additional rate cuts by year-end, with a terminal rate just above 3% by 2026. However, the Fed's tone remained cautious, emphasizing data dependency and signaling that further easing is not guaranteed. Treasury yields eased slightly post-CPI but remained range-bound, while credit markets held firm amid stable financial conditions and no signs of renewed stress in regional banks.

Policy and trade developments added nuance to the macro backdrop. The U.S. halved tariffs on select Chinese imports, modestly easing trade tensions. Meanwhile, financial system indicators—such as Fed lending and repo markets—showed no signs of strain, supporting a calm liquidity environment. Overall, October reinforced the soft-landing narrative: growth is slowing but not collapsing, inflation is cooling gradually, and financial conditions remain supportive. For fixed income investors, this environment favors a balanced approach—selective duration extension and cautious credit exposure, with close attention to labor and inflation dynamics.

During the month, the fund delivered a slightly positive return but underperformed its benchmark. Positive relative performance came from sectors such as Banks and Food. However, these gains were offset by negative relative contributions from Oil & Gas, Electric, and Iron & Steel.

The top contributors were ALFACL 51s, CENSUD 45s, and AMXLMM 40s, while the bottom contributors were RAIZBZ 54s, RAIZBZ 37s, and ORBIA 31s.

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October saw a handful of Latin American corporate deals come to market, including Tecpetrol (\$750 million), Volcan (\$750 million), Grupo Energía de Bogotá (\$500 million), BCP (\$500 million), InRetail Shopping Malls (\$375 million), Threelands Energy (\$330 million), and PRIO (\$700 million). Despite the more moderate pace of issuance, demand remained strong across transactions, with good levels of oversubscription reflecting persistent investor appetite for the asset class.

The macroeconomic environment continues to warrant close monitoring, with persistent uncertainties around growth, inflation, and policy direction shaping investor sentiment. Despite these headwinds, the asset class has demonstrated resilience, supported by declining U.S. Treasury yields and a stable demand backdrop. Investor appetite remains strong, contributing to relatively low spread levels compared to historical averages. At the same time, absolute yields remain in attractive territory, offering compelling carry and total return potential.

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