Santander Asset Management

Marketing Communication

Santander Select Defensive

10 / 2026

Fund commentary

October ended with gains across Eurozone and US fixed income markets, while equities delivered a mixed performance, with European markets outperforming. Energy prices rose sharply, driven by a higher geopolitical risk premium in the Middle East, although supply levels remained unaffected. On the macroeconomic front, growth remained resilient on both sides of the Atlantic, while inflation continued to be influenced by energy prices, with no meaningful signs of second-round effects. Against this backdrop, both the Fed and the ECB kept interest rates unchanged and reiterated their data-dependent approach. In fixed income, yields declined broadly, particularly at the long end of the curve. France underperformed amid renewed concerns over its fiscal outlook, although contagion to peripheral markets remained limited. In European credit, spreads widened moderately despite continued investor appetite. In equities, a supportive earnings season was partly overshadowed by concerns over the technology sector's ability to generate adequate returns on its elevated investment levels, prompting some rotation into other sectors. European equities ended the month higher and outperformed the main US indices, which posted declines. Finally, the US dollar remained firm against the euro, with EUR/USD ending the month below 1.12.

During October, we adjusted the portfolio's equity exposure by implementing a hedging strategy on the S&P 500, aimed at partially protecting the portfolio against potential episodes of volatility ahead of the US midterm elections. This hedge, together with the performance of US equities over the period, resulted in a lower overall equity allocation. We closed the month with an equity exposure of 19.6%, 1 percentage point below the previous month-end.

In fixed income, we closed the bullish optionality strategy on the 10-year US Treasury implemented in the previous month, locking in part of the gains, and re-established exposure through futures on the same underlying. We also took advantage of movements in government bond markets to partially reduce our exposure to eurozone peripheral sovereign debt while increasing our allocation to German government bonds, reinforcing the portfolio's defensive profile. We ended the month with an overall duration of 3.15 years, broadly unchanged from the previous month-end.

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