Santander Asset Management

Santander AM Euro Corporate Bond

Marketing Communication

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Fund commentary

The month of December was marked by central bank meetings and key economic data as the year ended. Market moves were driven more by adjustments in interest rate expectations than by any change in sovereign risk perceptions. Equity markets ended the year with positive returns (SXXP +16.66%/S&P +16.39%) with SXXP up by 2.73% in December, while S&P was slightly down by 0.05% over the month.

In the US, the Federal Reserve cut interest rates by 25bps, down to 3.50%-3.75% range, while emphasizing that future decisions will depend on incoming data. At the same time, stronger growth forecasts led investors to question how quickly further rate cuts might take place in 2026, putting some upward pressure on longer-term yields.

In Europe, the ECB left rates unchanged (as expected) and confirmed that it is likely approaching the end of the tightening cycle, although it continues to stress a cautious, meeting-by-meeting approach.

During the month, US economic data pointed to moderating growth and a gradually cooling labor market. Activity indicators remained subdued outside AI-related investment, while employment growth slowed and unemployment edged higher, despite still-low jobless claims. Inflation readings were distorted by temporary factors, making near-term trends difficult to interpret. In the Eurozone, momentum initially improved, led by strength in services and exports, before softening toward year-end.

Moody's November default report showed 14 corporate defaults, above the five-year monthly average of 11. However, the year-to-date total remained below last year's figure, with 116 defaults through November compared to 133 previously. Looking ahead, Moody's forecasts a 2%–6% default rate over the next year, with a base expectation of 2.5%, down from the current 4.3% rate.

As for the Euro credit market, it showed resilience in December, despite the upward movement in government bond yields and the typical slowdown in activity towards year-end. Euro IG spreads ended the year at 78bps, tightening by 3bps over the month (-22bps YTD). While higher rates weighed on returns the asset class finished the year on a constructive note, with 3% total returns. During the month, non-financial issuers tended to perform slightly better than financials, while more interest-rate-sensitive segments, such as subordinated debt and hybrids, showed higher volatility. European high yield stood out positively, benefiting from steady investor demand and spread tightening over the month (-17bps). CDS indices also improved, with both iTraxx Europe and XOVER closing December at lower levels (50bps & 241bps respectively), signaling a stable credit risk environment. From a flow perspective, December saw some selective outflows from European investment grade funds, while high yield proved more resilient. Importantly, 2025 ended as a very strong year for credit inflows overall, providing a supportive backdrop for the asset class as we move into 2026.

The fund posted a negative return, penalized by higher government bond yields that were not offset by slightly tighter spreads; all sectors contributed negatively with Banking and Utility being the most relevant. In terms of relative performance, it underperformed its benchmark. Low activity during the month in which we made some room for the expected primary activity in January

At the end of the period, the fund had a yield to maturity (YTM) of 3.25% and a modified duration of 4.52, compared to 3.33% and 4.46, respectively, for its benchmark.