Santander Asset Management

Marketing Communication

Santander AM Euro Corporate Bond

10 / 2026

Fund commentary

October was another volatile month for fixed income markets, shaped by the interaction between geopolitical risk, higher energy prices, renewed inflation concerns and growing fiscal uncertainty in France. Risk sentiment deteriorated sharply at several points during the month, particularly as tensions around the Strait of Hormuz pushed oil prices higher and concerns over technology and artificial-intelligence valuations triggered a broader flight to quality.

Government bond markets were supported by defensive flows towards month-end. In the United States, the Federal Reserve kept its policy rate unchanged at 3.75%-4.00%, while acknowledging that inflation remained elevated and economic activity continued to expand at a solid pace. In Europe, the ECB also left rates unchanged, with the deposit rate at 2.50%. While inflation and energy risks kept the possibility of further tightening alive, tighter financial conditions and growing concerns over the impact of higher energy prices on growth provided increasing support to sovereign duration towards month-end.

France remained the main source of European idiosyncratic risk. Fiscal concerns and political uncertainty drove the OAT-Bund spread to very elevated levels during the month and affected French financial and corporate issuers. Moody's decision to maintain France's Aa3 rating, albeit with a negative outlook, provided some relief towards month-end.

Against this backdrop, Euro investment grade spreads widened by 14bp during October to 103bp, while the index yield declined from 4.26% to 4.20% as lower underlying rates partly offset the deterioration in credit spreads. Non-financial spreads widened by 13bp to 100bp, while financials underperformed, widening by 17bp to 109bp. Core credit lagged the periphery, largely reflecting the greater widening in French issuers: core financials widened by 18bp compared with 15bp for peripheral financials, while core non-financials widened by 13bp compared with 12bp in the periphery.

Spread widening was broad-based across investment grade ratings, with relatively limited differentiation between A and BBB credit. Single-A spreads widened by 14bp to 95bp and BBB by 16bp to 118bp. Dispersion was much more pronounced below investment grade: Euro high yield widened by 59bp to 359bp, with its yield rising to 6.84%. Within the rating buckets, BBs widened by 37bp to 236bp and single-Bs by 87bp to 475bp, while CCC spreads increased very sharply.

Sector performance remained differentiated. Real Estate was the weakest Euro IG sector, widening by 21bp to 140bp, reflecting its sensitivity to higher funding costs and sovereign-rate volatility. Media widened by 19bp to 106bp,

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Insurance by 18bp to 129bp, and Banking and Automotive by 17bp to 107bp and 126bp, respectively. Energy was the most defensive sector, widening by only 7bp to 93bp, supported by stronger cash generation among integrated energy companies and refiners. Persistently high oil prices nevertheless remained a broader macroeconomic headwind through their impact on inflation, household purchasing power and corporate input costs.

Primary-market conditions remained constructive despite the volatile secondary-market backdrop. October European issuance was below the level recorded in October 2025, but year-to-date volumes remained at record levels. Demand improved towards month-end, with books around 3.2 times covered, while corporate new issues outperformed outstanding bonds despite somewhat higher new-issue concessions. French companies represented a significant share of corporate supply and were still able to access the market. Expected issuance in November will provide an important test of the technical backdrop, being the last month before liquidity dries up ahead of the festivities.

Fund flows became less supportive at the margin. European high-grade funds experienced a fifth consecutive week of outflows at the end of October, with Euro-focused IG funds particularly weak and redemptions concentrated in short-duration strategies and traditional mutual funds. However, the picture did not point to wholesale credit de-risking: IG ETF demand remained positive, year-to-date high-grade flows were still firmly positive and investors increasingly favored longer-maturity credit. Strong inflows into government-bond and money-market funds nevertheless highlighted growing competition from safer sources of yield.

Overall, October illustrated the importance of carry and duration diversification in Euro IG. Credit spreads widened, but lower government yields brought the Euro IG yield to 4.20%, leaving all-in yields at levels that continue to offer a meaningful income cushion. Credit fundamentals and rating trends remained broadly stable, while primary markets continued to absorb sizeable supply. We therefore retain a constructive but selective stance, favoring higher-quality carry and issuer-specific opportunities rather than relying on aggressive further spread compression.

The fund delivered a positive return over the month, driven by the aforementioned factors. Performance was slightly above the benchmark over the period. From a sector perspective, all sectors had a positive contribution during the month with Banking as the largest contributor followed by Utilities, Consumer Goods and Healthcare.

At the end of the period, the fund had a yield to maturity (YTM) of 4.30% and a modified duration of 4.49, compared with 4.27% and 4.36, respectively, for its benchmark.

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