

Santander AM Euro Corporate Bond

6 / 2025

Fund commentary

The month of June continued to be positive for risk markets, despite the episodes of volatility on the geopolitical front, namely with the war escalating in the middle east, that led to a spike in oil prices rising concerns around inflation once again.

Thankfully, the ceasefire lifted some pressure, and the focus resumed back to tariff front. In this environment, we witnessed the Equity market going up in the US with S&P500 up by 4.96%, but in Europe we saw the SXXP down by 1.33%. In the meantime, the EUR continues to appreciate vs the USD.

The market focus is now set on the timing of FED cuts in the second half of the year. At the latest meeting, the FED let rates unchanged in the 4.25%-4.50% range, in a unanimous decision, while lowering its GDP forecast for 2025 by 0.3% down to 1.4% and at the same time rising the underlying inflation forecast to 3.1%.

In Europe the ECB, lowered rates at the beginning of the month leaving the deposit rate at 2%, indicating that they are reaching the end of the cycle. The new macro projection set inflation at 2% for 2025 (previously 2.3%) and 1.6% for 2026 (previously 1.9%), while they see GDP growing by 0.9% in 2025 and 1.1% in 2026.

In this environment, Euro credit markets performed positively over the month, with IG spreads tightening by 7bps, that offset a slight rise in rates. The Energy sector was the main performer, tightening by 11bps and Euro IG spread levels surpassed the 2nd of April levels, now trading at 90bps vs government.

The month was marked by heavy primary issuance, that recorded the best June ever with more than €110Bn printed between corporates and financials. This environment of heavy issuance seems to be the new normal, with plenty of refinancing coming due 5 years past the boom in issuance in Covid years but, given the lack of paper in the market it has been easily absorbed, not affecting secondary spread levels. This is mainly because fund flow continues to be very present in IG and has remained resilient.

The fund posted a positive performance on the back of tighter credit spread offsetting higher government yields. The fund slightly underperformed its benchmark due to the outperformance of cyclical issuers. In terms of sectors all, except Media, Capital Goods and Leisure, had a positive contribution, with Banking, Utility and Insurance at the top three. The fund was again active on primary market.

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The Fund had a YTM of 3.11%, a Modified Duration of 4.57, which compares to 3.15% and 4.55 respectively for its benchmark, at the end of the period.

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