

# Santander AM Euro Corporate Bond

2 / 2024

## Fund commentary

The risk markets were in good mood during the month, with S&P 500 and StoxxEurope600 reaching all-time highs. At the same time, the counterbalance came from the rise in yields in rate markets, while curves flattened, with 2-year Treasury reaching 4.62% (+0.41%) and the 10-year Treasury reaching 4.25% (+0.34% MTD). Similar movements in the German curve, but more pronounced flattening with 2-year Bund 2.9% (+0.47%) and the 10-year Bund reaching 2.411 (+0.245% MTD).

After these rates adjustment, it seems the market has finally corrected itself from the overpriced rate cut expectations of late 2023, shifting rate cut expectations to May/June for the FED and June for the ECB, from March/April. The market is now looking for new directions from macro data and upcoming Central Banks meetings in March.

On the macro side, we would highlight: US GDP growth in 4Q23 at 3.2% (annualized), with Atlanta Fed forecasting 3% for 1Q24; January monthly change of non-farm payrolls to 353k; ISM's that surprised positively in January and loosening of credit standard conditions that continue to improve although still restrictive. In Europe the PMI's also surprised on the upside at 48.9 from 47.9, but the improvement came from services and not manufacturing. Peripheral continue do quite well, with the economies more skewed to this component.

Would also highlight the February EZ inflation number from the 1st of March, that came at 3.1% higher than the 2.9% expected and should keep the ECB clearly on hold until June.

As for the credit market, Euro IG credit spreads tightened by 9bps down to 121bps (Govt OAS), with financials doing a bit better tightening by 10bps. The Euro HY did quite well and followed the US trend tightening 39bps down to 346bps. The IG market, although suffering from negative returns during the month, benefited from inflows into the asset class, with investors aiming to lock in higher yields levels.

The primary market remained strong with close to €80Bln of bonds printed, but slower than January with the reporting season slowing it down slightly. The concessions though have diminished, with new issue premiums being quite small given the high oversubscription of new issues.

As for the fund, it posted a negative performance during the month but outperforming its benchmark by 11 basis points. Sector wise, only the Supranational and Sovereign exposure held posted a positive performance during the period, with Utility and Banking showing the worst performance in absolute terms; relative to its benchmark the outperformance

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was mainly driven by the Capital Goods, Healthcare and Banking exposure. In terms of curves, the outperformance was due to the higher exposure in the front end. The inflows stabilized compared to January and the Fund ended the period with a YTM of 3.74%, a Modified Duration of 4.47 which compares to 3.93% and 4.45 respectively for the benchmark.

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