

Santander GO Short Duration Dollar

3 / 2021

Fund commentary

At the end of March, the fund had a duration of 0.62yrs, a spread duration of 0.75yrs, and a reporting yield of 0.35%. The ICE BAML 1-3yr Corporate OAS widened 9bps from 43bps to 52bps; the 2yr UST traded in a range of 0.12-0.16%, ending the month at 0.16%.

Inflation was once again the focus for markets this month. Despite the Fed signaling that they are on hold through 2023, higher inflation expectations and strong economic data may pressure the Fed to begin altering their message. The market continues to push back and price a more aggressive hiking schedule. We saw this effect the corporate bond market which, coupled with a heavy new issue calendar, led to some spread widening. This impacted the 2-3year part of the curve more than the 1 year and in space which remained suppressed due to favourable money market technicals. We added to our credit exposure through 1-2 year maturities, also taking advantage of cheaper new issues.

Our Fed view is that rate hikes will not begin until sometime in 2023, however, we recognize the possibility of an earlier liftoff which the market is pricing. The recent steepening of the curve has made longer maturity securities a bit more attractive, but we are not advocating a sizable outright add to treasuries at these levels and prefer to own duration via credit. With expectations of extremely strong growth in 2021 and lower supply in the second half of the year, we are constructive on IG credit. We expect fundamentals to continue to improve, and leverage to decline as earnings grow. Although we recognize the possibility of name specific risks, and shareholder friendly activity as companies begin to spend historically high levels of cash, we believe these risks are idiosyncratic in nature. With the widening of spreads from heavy March supply and a steeper curve, 2- 2.5 year fixed rate paper looks particularly attractive in our roll down model.

In terms of positioning, we will maintain a long duration position by purchasing IG credit, focusing on 2 – 2.5 year maturity fixed rate bonds and 2-3 year FRNs.

Some trades to highlight over March:

- 3yr Charles Schwab new issue floater
- 2yr Atmos new issue floater and fixed rate
- 2yr Air Products and Chemicals fixed rate
- 16 month Athene floater
- 16 month Tokio Marine fixed rate
- 1yr Alabama Power fixed rate
- 1yr Exxon fixed rate

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This fund has a prospectus which is drafted in English and can be obtained from www.santanderassetmanagement.com

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