

Santander Latin American Corporate Bond

12 / 2025

Marketing Communication

Fund commentary

The asset class delivered positive returns in December, despite an increase in U.S. Treasury yields. The 10-year U.S. Treasury rose from 4.01% to 4.17%, while the 30-year increased from 4.66% to 4.84%, creating a less supportive duration backdrop. However, on average, Latin American corporate spreads tightened by around 15 basis points at the index level, and this broad-based compression—together with strong carry—more than offset the negative impact from higher rates. As a result, the asset class proved resilient despite an environment of rising U.S. Treasury yields, closing the month with positive returns.

December data reinforced the view of a U.S. economy that is cooling gradually rather than deteriorating sharply, with labor-market indicators continuing to soften at the margin. Non-farm payroll growth remained subdued, stabilizing around 50–75k, once temporary distortions related to the government shutdown and public employment are stripped out. Job creation remained heavily concentrated in healthcare, while cyclical sectors tied to investment outside AI stayed weak, reflecting sluggish capital spending dynamics. The unemployment rate edged higher to 4.6%, consistent with still-depressed consumer confidence readings, even as jobless claims remained unusually low—largely due to seasonal distortions—highlighting the mixed signals across labor-market gauges.

Monetary policy was a key focal point in December. The Federal Reserve delivered a widely expected 25bp rate cut, and the absence of a hawkish tone allowed front-end rates and long-end yields to drift modestly lower, keeping market pricing below the path implied by the dots. The main surprise from the meeting was a notable upward revision to 2026 GDP growth, driven by stronger productivity assumptions and a post-shutdown rebound, even as the Fed left its unemployment projections unchanged—underscoring that the easing cycle remains anchored in soft labor-market dynamics. At the same time, unusually low recent core inflation readings were viewed with caution, as data-collection issues during the shutdown likely distorted the signal. Overall, December reinforced a backdrop of moderating growth, contained inflation risks, and a Fed biased toward gradual easing, supportive for duration but still sensitive to incoming labor and inflation data early in 2026.

During December, the fund delivered a positive absolute return, although it slightly underperformed its benchmark. Strong relative contributions came from the Banks, Iron & Steel, and REITs sectors, where both security selection and carry supported performance. These gains were offset by weaker relative performance in Oil & Gas, Telecommunications, and Chemicals, which underperformed during the month. Despite the modest relative

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underperformance in December, the fund outperformed its benchmark on a full-year basis, underscoring the effectiveness of its sector positioning and investment discipline over the year.

The top contributors were SAMMIN 31s, SAAVIE 35s, and CSNABZ 28s, while the bottom contributors were RAIZBZ 54s, RAIZBZ 37s, and RAIZBZ 32s.

December saw a more limited level of Latin American corporate new issuance, consistent with typical year-end seasonality. Activity was led by MercadoLibre, which accessed the market with a US\$750 million transaction, alongside a US\$180 million tap of IRSA Inversiones' 8% 2035 senior notes

The macroeconomic environment continues to warrant close monitoring, as softer U.S. labor-market trends, subdued consumption momentum, and a Federal Reserve that has clearly shifted into an easing phase shape the global fixed income backdrop. While U.S. Treasury yields moved higher during December, the combination of broad-based spread tightening and strong carry proved supportive for emerging markets, particularly Latin American credit. Despite lingering uncertainties around global growth and uneven momentum in China, the asset class demonstrated resilience, underpinned by sound macro fundamentals, credible policy frameworks, and healthy external balances across the region. Technical conditions remained constructive into year-end, with solid demand helping absorb supply and support valuations. Overall, LatAm fixed income closed the year on a strong footing, well positioned to benefit from carry and selective spread opportunities as markets transition into early 2026.

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