Santander Asset Management

Marketing Communication

Santander Latin American Corporate Bond

2 / 2024

Fund commentary

February proved to be a good month for the asset class, as the increase in Treasury yields was more than offset by a further decline in Latam corporate spreads. The 10-year Treasury yield increased to 4.25% from 3.91%, while the 30-year yield surged to 4.38% from 4.17%. However, the CEMBI Latam corporate spread declined to 303 bps from 332 bps during the month, supporting good performance of the asset class.

In February, the market continued reducing the number of rate cuts expected in 2024 to three from around six at the beginning of the year. In January, monthly core inflation increase was clearly above expectations, driven by the surprise in core services inflation. This, coupled with strong economic indicators, has resulted in the expectation that the FED will reduce rates at a more moderate pace than initially expected.

The fund had a positive absolute return during the month but slightly underperformed on a relative basis. The fund benefited from the strong performance of holdings in the O&G sector, Food, Commercial Services, and Electric. However, our positioning in sectors such as Airlines, Telecommunication, and Chemicals took a toll on our relative performance. In terms of performance by country, we had relative good performance in Brazil, Colombia, and Mexico but a negative contribution from Peru and Argentina.

Outperformers were FECCN 28s, BRFSBZ 50s, SAMMIN 31s, and PRUPAR 31s. The main laggards during the month were long-duration bonds such as AMXLMM (37s and 49s), IENOVA 48s, and JBSSBZ 53s. Our relative performance was also impacted by our holdings in AES 30s (Panama), PEMEX 33s, and VALEBZ 33s.

Activity in the primary market declined compared with the prior month. There were $3.4bn in new deals from names such as RAIZBZ, CMPCCI, CSNABZ, FUNOTR, GTE, and BCICI. BCI, one of the largest banks in Chile, was the first Chilean bank tapping the international markets with an AT1 perp bond.

Although the volatility in Treasury yields has persisted during the first couple of months of 2024, we remain optimistic that this should be a good year for the asset class. The US economic indicators could remain strong during the first half of the year, but at some point we should see a slowdown in economic activity considering the weakness perceived in business investment indicators. This should provide room to the FED to continue cutting rates.