

Santander Latin American Investment Grade ESG

6 / 2025

Fund commentary

Another positive month for the asset class, which benefited from lower Treasury yields, while LatAm corporate spread levels marginally declined. During the month, the 10-year Treasury yield decreased to 4.23% from 4.40%, while the 30-year Treasury yield declined to 4.77% from 4.93%. LatAm corporate spreads slightly tightened by around 11 bps.

The US economy showed signs of a potential slowdown in the second half of the year, following an expected GDP rebound in the second quarter. The manufacturing and services ISM indices fell in May, indicating a deceleration in business investment. Non-farm payrolls increased by 139k in May, slightly above expectations, but revisions for the previous two months were downward by 95k. The U.S. Court of Appeals for the Federal Circuit granted a temporary stay on the CIT's ruling that invalidated President Trump's tariffs, keeping the average tariff rate at around 14% until at least July 31st. Economic indicators pointed to downside risks for growth, with jobless claims showing an uptrend and core CPI indicating no underlying upward pressures in core inflation. The Conference Board consumer confidence index and jobless claims were key references, with consumer expectations pointing to lower consumption growth in the second half of the year.

Money markets adjusted their expectations for Fed Funds rate cuts to 2.5 from 1.7 two weeks prior, driven by signs of weakening private consumption.

During the month, the fund recorded another positive month in absolute terms and performed in line with its benchmark. It had positive relative performance in sectors such as Banks, Pulp & Paper, and Electric. However, this good relative performance was offset by negative relative contributions from sectors such as Media, Food, and REITs.

The top contributors were SUZANO 31s, AES 30s, and ALFAA 44s, while the bottom contributors were ENELIM 26s, JBSSBZ 30s, and BSANCI 31s.

The LatAm corporate market experienced an active month in the primary market. Several deals came to the market, with Cemex (\$1.0bn), Vista and FS Bioenergia (each \$500mm), Banco Macro (\$400mm), Banco Santander Brasil (\$500mm), LatAm Airlines (\$800mm), Raizen (\$750mm), Scotiabank Peru (\$400mm), Yinson (\$1.2bn), and Banco Davivienda (\$500mm).

Although trade tensions and geopolitical events have somewhat de-escalated, we should remain vigilant on the evolution of the global macro landscape as some key risks remain present. We still consider that LatAm companies have

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strong fundamentals that should allow them to continue navigating a challenging global scenario. However, it's critical to remain vigilant on different industry risks in order to maintain an adequate balance.

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