Santander Latin American Investment Grade

Marketing Communication

1 / 2026

Fund commentary

The asset class delivered positive returns in January, despite a further increase in U.S. Treasury yields. The 10-year U.S. Treasury rose from 4.17% to 4.24%, while the 30-year increased from 4.84% to 4.87%, maintaining a less supportive duration backdrop. However, Latin American corporate spreads tightened by around 27 basis points on average 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 remained resilient despite the environment of rising U.S. Treasury yields, closing the month with positive returns.

On the policy front, January reinforced expectations of a Fed's prolonged pause rather than an aggressive easing cycle. Inflation data undershot expectations modestly in December, largely due to temporary weakness in core goods prices, while services inflation appears to be normalizing rather than collapsing. At the same time, firmer activity data earlier in the month led markets to scale back expectations for rapid rate cuts, with money markets now pricing between one and two cuts later in 2026, rather than front-loaded easing. For fixed income investors, the January macro narrative supports a backdrop of moderating growth, contained inflation risks, and a Fed inclined to remain patient, leaving duration sensitive to incoming labor and consumption data rather than signaling a clear directional shift in rates.

During January, the fund delivered a positive absolute return, although it slightly underperformed its benchmark. Strong relative contributions came from the Banks, Media, and Mining sectors. These gains were offset by weaker relative performance in Chemicals, Iron/Steel, and Electric.

The top contributors were ORBIA 31s, NEXA 37s, and SCCO 42s, while the bottom contributors were SQM 51s, IENOVA 48s, and FIBRAP 35s.

January saw a typically strong start to the year for Latin American corporate issuance, with supply spanning a broad range of sectors across the curve. Financial institutions led activity, with sizeable transactions from Banco Santander (Chile), Bradesco, Interbank, Banco Macro, and BTG Pactual. Issuance was also active across real estate (Fibra Prologis), utilities (CFE, Sabesp), oil & gas (YPF, Pan American Energy), mining (Codelco, Marcobre), transportation (Avianca, Azul), and telecommunications (Telecom Argentina). Despite the heavy supply typical of the start of the year, transactions were generally well absorbed, underscoring robust investor demand and supportive technicals.

Looking ahead, the macro backdrop will be shaped by the evolution of U.S. growth and inflation, the timing and pace of monetary easing, and broader global factors such as trade dynamics and China's growth trajectory, suggesting a year marked by intermittent volatility rather than a linear path. Against this backdrop, we remain constructive on Latin American fixed income. Although spreads have tightened over the past year, absolute yield levels remain attractive and continue to provide a meaningful cushion against both spread volatility and adverse movements in U.S. Treasury yields. This carry profile supports total return potential, even in more challenging market conditions. At the same time, tight valuations leave little room for error, reinforcing the need for disciplined credit selection and active risk management. Overall, we maintain a positive outlook for the asset class over the year.