Santander Asset Management

Marketing Communication

Santander Latin American Investment Grade

2 / 2026

Fund commentary

The asset class delivered positive returns in February, supported by a meaningful decline in U.S. Treasury yields. The 10-year U.S. Treasury fell from 4.24% to 3.94%, while the 30-year declined from 4.87% to 4.61%, creating a more supportive duration backdrop. Latin American corporate spreads widened by approximately 27 basis points on average at the index level, partially offsetting the benefit from lower rates. However, the combination of declining Treasury yields and strong carry more than compensated for the spread widening, allowing the asset class to close the month with positive returns.

US fourth-quarter GDP growth came in at 1.4% annualized, weighed down by a temporary drag from federal spending following the October shutdown. As those effects unwind, growth could mechanically rebound toward 2%, but underlying momentum remains modest. Consumer confidence improved in February, yet levels remain consistent with consumption growth closer to 1.5–2% rather than the stronger pace observed in mid-2025.

Labor market dynamics continue to point to stabilization rather than reacceleration. January payrolls rose 130,000, but underlying private job gains remain centered near 50,000 on a multi-month basis. Cyclical sectors have shown tentative improvement, supported by firmer manufacturing surveys and signs that equipment investment may have strengthened late last year.

Inflation and policy developments added complexity to the outlook. Core CPI rose 0.3% month-on-month in January, above the pace fully consistent with the Fed's target, with firm core goods inflation partly reflecting tariff-related volatility. The reintroduction of a 15% across-the-board tariff has shifted part of the macro narrative toward fiscal stabilization, as higher revenues partially offset deficit pressures. Financial markets continue to price multiple rate cuts this year, though current data are more consistent with limited easing and a prolonged policy hold. For fixed income investors, the February backdrop suggests moderate growth, contained but uneven inflation pressures, and a Fed inclined toward patience, leaving rates sensitive to incremental shifts in labor and inflation data rather than signaling a decisive policy pivot.

During February, the fund posted a negative absolute return and underperformed its benchmark. Positive relative contributions came from the Electric, Banks, and Telecommunications sectors. These gains were more than offset by weaker relative performance in Oil & Gas, primarily due to the negative impact of Raízen, as well as in Food and

Iron/Steel, which underperformed during the month. Overall, sector selection weighed on relative performance in what was a more challenging market environment.

The top contributors were AMXLMM 40s, NIAENE 34s, and SUZANO 31s, while the bottom contributors were RAIZBZ 54s, RAIZBZ 34s, and SIGMA 44s.

February saw a more measured pace of Latin American corporate issuance following January's strong start, with primary market activity largely concentrated in selective transactions and retaps. The only notable new deal came from El Puerto de Liverpool (BBB-/BBB+), which issued $500 million, while additional supply from Forsea, Avianca, and Edenor came primarily through tap transactions. Overall issuance was modest and well absorbed, reflecting continued investor selectivity and stable technical conditions despite broader market volatility.

As we remain in the early stages of the year, the macro backdrop will continue to be shaped by the evolution of U.S. growth and inflation, the timing and pace of monetary easing, and broader global dynamics, including trade developments and China's growth trajectory. In addition, elevated geopolitical risks have the potential to materially influence key variables—ranging from commodity prices to inflation expectations and risk premia—adding an additional layer of uncertainty to the outlook and reinforcing the likelihood of episodic 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 environments. At the same time, tight valuations leave limited room for error, reinforcing the importance of disciplined credit selection and active risk management. Overall, we maintain a positive outlook for the asset class over the year.