Santander Asset Management

Santander AM Euro Corporate Bond

Marketing Communication

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Fund commentary

August was marked by resilient credit markets despite renewed volatility in government bond yields, persistent geopolitical uncertainty and a more cautious central-bank backdrop. Tensions in the Middle East and energy prices remained key drivers of market sentiment, while investors also focused on Jackson Hole and the possibility of further tightening by both the Federal Reserve and the ECB.

In the US, headline CPI rose 0.1% month-on-month and core CPI in line with expectations. However, Chair Warsh's hawkish tone at Jackson Hole led markets to reprice the probability of a September hike, keeping rate volatility elevated.

In Europe, the ECB debate also became more hawkish. The July meeting minutes showed that some Governing Council members had considered the need for a slightly restrictive policy stance, with several officials open to a hike already in July. While activity data showed moderate resilience, policymakers continued to highlight upside risks to inflation, particularly linked to energy prices.

Government bond markets remained volatile. Yields initially benefited from softer US data, but later moved higher again as energy prices, inflation risks and central-bank communication weighed on duration. By month-end, the US 30-year Treasury yield had reached its highest level since 2007, while in Europe the 10-year Bund closed close to 3.25% and the Spanish 10-year around 3.71%, with the Spain-Germany spread contained near 45 bps.

Euro IG credit remained broadly resilient in spread terms, although total returns were negative due to the move higher in rates. The Euro IG index delivered a total return of approximately -0.25% in August, while spreads widened by only 1 bp over the month. This reinforces the message that weakness came mainly from duration rather than from any deterioration in credit fundamentals.

Sector performance was mixed but orderly. Automotive, Energy and Real Estate held up relatively well, while Media and some longer-duration sectors lagged. Financials and non-financials moved broadly in line, with limited differentiation between core and peripheral issuers. In higher-beta credit, Euro HY remained well supported, with spreads around 256 bps by month-end and still tighter year-to-date.

Corporate earnings provided a supportive fundamental backdrop. European Q2 results showed a clear improvement in both revenues and earnings, with STOXX 600 revenues growing 11.4% year-on-year and EPS rising 22.5%. Companies

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were generally able to defend margins despite higher input costs, although sector performance remained uneven, with Technology and Energy showing the strongest growth expectations and Autos and Leisure facing more pressure.

Primary market activity was seasonally lighter but reopened selectively in the second half of the month. New issuance was generally well absorbed, with demand still focused on high-quality issuers and shorter maturities. Fund flows remained supportive overall, although they moderated toward month-end, particularly in high yield.

Overall, August was a resilient month for Euro IG credit in spread terms, but negative in total return due to higher sovereign yields. Fundamentals remain supported by solid corporate earnings and stable credit quality, while technicals continue to benefit from investor demand for carry.

The fund delivered a negative return over the month, driven by the aforementioned higher market yields, while credit spreads remained anchored. Performance was broadly in line with the benchmark over the period.

From a sector perspective, Automotive, Capital Goods and the exposure to Sovereigns and Supranationals contributed positively, while Banking was the largest detractor, followed by Utilities, Real Estate and Healthcare.

At period-end of the period, the fund had a yield to maturity (YTM) of 3.90% and a modified duration of 4.67.

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