Santander Asset Management

Santander GO Short Duration Dollar

Marketing Communication

9 / 2025

Fund commentary

At the end of September, the Santander account had a duration of 0.60yrs, a spread duration of 0.62yrs, and a reporting yield of 4.16%. The ICE BAML 1-3yr Corporate OAS index rallied by 2bps to 49bps; the 2yr UST traded in a range of 3.47-3.67%, ending the month at 3.61%. For September, Santander returned 39.5bps.

Similar to August, the month began with a weaker than expected nonfarm payrolls number and was followed by the BLS releasing preliminary benchmark revisions indicating that 911k fewer jobs were added between April 2023 and March 2024, suggesting labour markets were weaker than originally thought. This data all but solidified the markets expectations of the Fed cutting rates at the September meeting, in which they delivered a 25bp ease that Fed Chair Powell described as a "risk management" decision. The median outlook in the SEPs for interest rates signaled two more cuts in 2025, one in 2026, and one in 2027, with rates projected at 3.25%-3.50% by the end of next year. In the week after the FOMC meeting, the final GDP report for the second quarter showed the U.S. economy grew 3.8% annualized, driven by an acceleration in consumer spending particularly from wealthier individuals. As a result of the most recent data, we believe the FOMC will lower rates 1-2 more times in 2025.

We still maintain a positive outlook on investment-grade credit, supported by robust fundamentals and positive earnings but continue to view the main risk lies in 2026 forecasts and potential tariff impacts. Although much of the recent earnings growth was driven by AI spending, balance sheets remain strong. As a result, credit spreads continued to trade at their recent tight levels throughout the month even with September coming in as the 5th highest IG issuance month on record at $215bn.

Going forward we aim to maintain a portfolio duration of 0.55 - 0.65 years. Our focus will be on purchasing 1-2yr fixed-rate corporate securities and select 2-3 year callable banks that offer a decent carry profile. We will trade high-quality duration and selectively add longer credit to express our rate views. At the time of writing the US government entered into a shutdown after Congress failed to pass a funding bill. While we are less concerned about the impact on the economy of the shutdown, we will monitor this situation and note that we will see delays in key economic data releases.

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Trades to highlight:

Buy 2nc1yr Royal Bank of Canada fixed rate

Buy 1yr Centerpoint fixed rate

Buy 1yr VW CP

Buy 6mo PEG fixed rate

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