

Santander Latin American Corporate Bond

4 / 2022

Fund commentary

April brought the most challenging month of the year so far for Latin American Fixed Income amidst a general investment sentiment shift. US treasuries continued to sell off with the 10-year yield moving from 2.33% to 2.93% throughout the period as the world continues to grapple with high inflation and global supply chain pressures. While the asset class suffered along with the others and the fund performed negatively on an absolute basis, there was some slight relative outperformance in the period versus benchmark.

The relative outperformance in the month came mainly from the underweight positioning in duration where longer tenor bonds felt the pressure of the interest rate movements. This was particularly the case in Mexico where, despite having a strong overweight position in the country, the underweight position in duration meant that the relative performance in the country was more or less flat.

Elsewhere, unsurprisingly given the general direction of the market, we underperformed in areas where we hold overweight positions such as Brazil, and outperformed in those where we are underweight such as Chile, Peru and Colombia. Pampa Energia was the highest performing credit in the period aided by Argentina's positive conversations with the IMF and increasing oil prices. The other top performer was Brazilian utility provider Aegea who successfully tendered their 2024 bonds at what we deemed to be an attractive level.

The bonds which suffered the most in the month were mainly those with longer maturities that we hold such as Ecopetrol, Inter Chile and Gerda. In addition, our large positions in Pulp & Paper players Suzano and Klabin also contributed to the downside with the negative reaction to the sector perhaps related to the covid lockdowns in China, although Pulp prices continue to trend upwards as demand continues to outpace supply.

There was an effort from companies to return to the primary market in April amidst increasing rates and continued volatility with just over \$2bn issued across 5 issuers. We were selective with our investment here, choosing only to participate in the \$600m 7-year issue from Natura, the holding company of Natura cosmetics, which offered an attractive relative value over the existing Natura bond.

While interest rates were the main driver of returns this month, we also saw some credit spread widening which should transpire to bring more investment opportunities when rates stabilise. There are still some bumps in the road but we continue to invest in the companies with solid fundamentals and low liquidity pressures who will capitalise earliest when the investor risk appetite returns.

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This fund has a prospectus which is drafted in English and can be obtained from www.santanderassetmanagement.com

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