

Santander GO Short Duration Dollar

7 / 2025

Fund commentary

At the end of July, the Santander account had a duration of 0.65yrs, a spread duration of 0.65yrs, and a reporting yield of 4.50%. The ICE BAML 1-3yr Corporate OAS rallied 5bps to 49bps; the 2yr UST traded in a range of 3.70-3.96%, ending the month at 3.96%. For July, Santander returned 29.0bps.

The month began with a stronger than expected June jobs number and was followed by uncertainty surrounding both tariffs and the future of Fed Chair Powell, culminating in US rates moving higher across the curve. However, at the time of print, we saw rates rally and spreads widen at the beginning of August, driven by a weak July labour market report and tariff announcements ahead of the August 1st deadline. The labour report highlighted a significant 258k downward revision in May and June employment growth, overshadowing July's figures. The first look at 2Q GDP revealed output growth recovery after contracting in 1Q. Beneath the headline, however, it appears that domestic demand growth remained cool last quarter. The combination of soft July labour data and cooling domestic demand growth should test FOMC's resolve to wait and see the inflationary effect impact from tariffs. We continue to believe the next move from the FOMC will be to lower rates and foresee 0-2 rate cuts in 2025. We recommend maintaining a portfolio duration of 0.55 – 0.70 years.

We maintain a positive outlook on investment-grade (IG) credit, supported by robust fundamentals and positive earnings. Q2 earnings have exceeded consensus estimates, with both sales and EPS surpassing expectations across broader sectors, and leverage ratios showing sequential improvement. Earnings call commentary indicates corporate confidence in mitigating tariff impacts on profits. However, the main risk lies in 2026 forecasts, particularly regarding margins due to anticipated tariffs, which may delay spending and hiring decisions. Although we observed modest widening in credit spreads in late July and early August, valuations remain relatively tight. August and September tends to be seasonally weak on supply, partly due to summer holiday breaks and ongoing headline volatility as negotiations on trade terms continue. As such, we may see further widening, which we view as a buying opportunity. We find value in 1-2 year fixed-rate IG corporates and 2-3 year final maturity callable banks which offer a favourable carry/income profile compared to cash.

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Going forward we aim to maintain a portfolio duration of 0.55 - 0.70 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.

Trades to highlight:

Buy 2.5NC1.5yr MUFG fixed rate

Buy 2yr Caterpillar floater new issue

Buy 2yr Treasury

Buy 2NC1yr Mizuho fixed rate

Buy 1yr BNS YCD floater

Buy 1yr Deutsche Bank YCD fixed rate

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