



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

As of May 31, 2022

### MARKET COMMENTARY

#### Fixed Income Market Summary

Investment Grade (IG) fixed income experienced another volatile month. Lower than expected corporate earnings in the US and continued COVID-related challenges in China stoked recessionary fears and caused a flight to quality, pushing Treasury yields lower and spreads for most IG bonds wider. Later in the month, market sentiment shifted to risk-on, and spreads retraced their widening, particularly in corporate credit and RMBS, which ended the month tighter. IG fixed income snapped its year-to-date losing streak, generating positive total returns for the month.

#### Structured

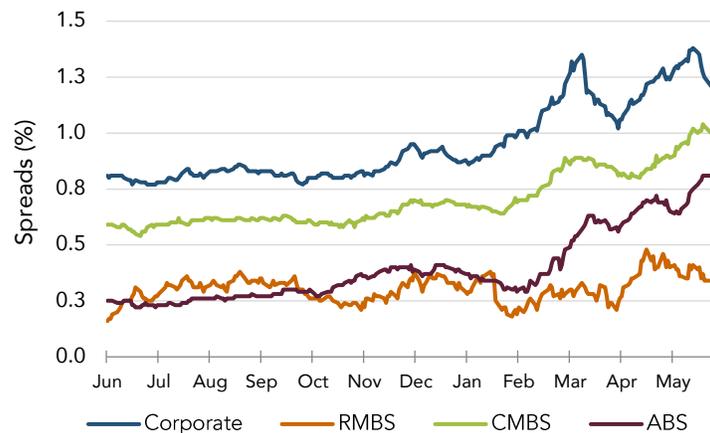
Agency RMBS was the best performing structured subsector as investors sought to take advantage of higher yields. In June, the Federal Open Market Committee (FOMC) will begin reducing its nearly \$9 trillion balance sheet by \$47.5 billion per month by not reinvesting principal payments. Market participants remain focused on whether the FOMC will eventually begin outright sales of mortgages later this year. Conduit CMBS spreads widened meaningfully due to heavy new issue supply and concerns regarding potential stagflation. ABS spreads also widened as new deals were generally completed at weaker levels than initial price talk.

#### Corporate Credit

Corporate spreads tightened rapidly during the final third of the month and corporates outperformed Treasuries. Encouraging retail earnings in the US and dovish commentary from Fed officials contributed to the risk-on environment. Lower quality corporate spreads tightened faster than higher quality. Primary issuance fell short of estimates due to the weaker tone in early May despite robust new issue concessions.

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### SPREADS TO TREASURIES



### TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	1.04%	+0.22%
1 Year	2.05%	-0.01%
2 Year	2.56%	-0.16%
3 Year	2.73%	-0.16%
5 Year	2.82%	-0.14%
10 Year	2.84%	-0.09%
30 Year	3.05%	+0.05%

### BLOOMBERG AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	YTM
Corporates	0.93%	0.79%	4.20%
Financials	0.87%	0.47%	4.13%
Industrials	1.03%	1.00%	4.21%
Utilities	0.48%	0.62%	4.38%
RMBS	1.11%	0.70%	3.46%
CMBS	0.21%	-0.46%	3.80%
ABS	0.31%	-0.26%	3.39%
Agencies	0.54%	-0.01%	2.89%

\*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries