

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

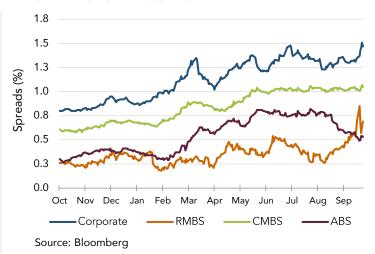
As of September 30, 2022

MARKET COMMENTARY

- US Treasury yields climbed higher in September as Fed Chair Jerome Powell reaffirmed the Fed's commitment to stamping out inflation with a 75 basis point increase to the target rate.
- A surprise announcement of fiscal stimulus in the face of high inflation from new UK Prime Minister Liz Truss set off a bout of significant volatility across global markets and forced the Bank of England's hand to steady markets.
- Within investment grade spread sectors, Agency RMBS spreads widened drastically amid continued interest rate volatility. It was the sector's worst month of performance on record. Nominal spreads have reached an attractive entry point, especially given the sector's government guarantee.
- Corporate credit spreads leaked wider during the month as market participants recalibrated their expectations regarding monetary policy and pulled back from trading during a typically high-volume month. In fact, primary issuance during September fell well short of expectations and failed to exceed \$100 billion for the first time in 10 years. Despite the drop in supply, spreads widened across sectors - financials saw the largest move higher, followed by industrials and utilities.
- CMBS continued to follow the tone and direction of the macroeconomic environment, which has turned increasingly negative. Short CMBS spreads are attractive, but investors seem to be waiting for a pause in interest rate volatility. Longer spreads are biased wider given they represent a leveraged bet on economic growth. The slow new issue market was a technical tailwind for spreads during September.
- ABS spreads tightened during September due to light new issuance and a flight to quality at the front of the curve. Towards the end of the month, both spreads and liquidity were challenged.

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SPREADS TO TREASURIES



TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	3.25%	+0.35%
1 Year	3.93%	+0.45%
2 Year	4.28%	+0.79%
3 Year	4.29%	+0.77%
5 Year	4.09%	+0.74%
10 Year	3.83%	+0.64%
30 Year	3.78%	+0.48%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	-5.26%	-1.42%	5.68%
Financials	-4.45%	-1.38%	5.83%
Industrials	-5.58%	-1.42%	5.60%
Utilities	-6.20%	-1.61%	5.64%
RMBS	-5.05%	-1.91%	4.83%
CMBS	-3.11%	-0.25%	5.17%
ABS	-1.16%	0.13%	4.83%
Agencies	-2.15%	-0.11%	4.45%

^{*}Month-to-date performance of spread bearing bonds versus duration-matched Treasuries