



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

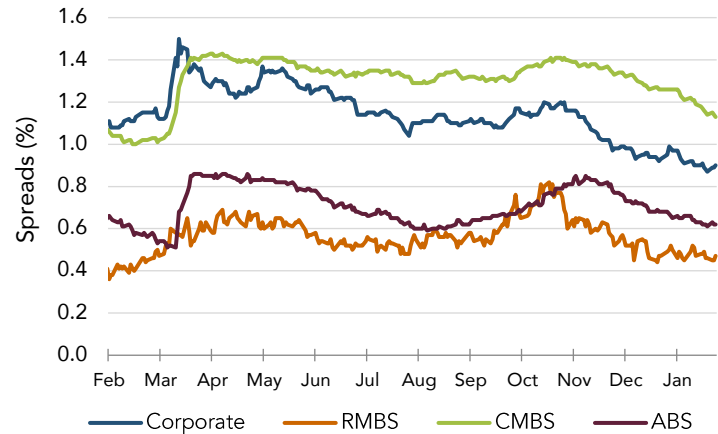
As of January 31, 2024

MARKET COMMENTARY

- The Federal Reserve (Fed) held rates steady in January, marking the fourth consecutive meeting without a policy change. The Fed's press release stated, "the Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving substantially toward 2 percent". Market participants struggled to interpret the precise meaning of "greater confidence". US consumer sentiment improved in January amid growing optimism regarding the outlook for inflation and household incomes. US Treasury (UST) yield changes were mixed. The 2-year yield decreased by 4 basis points (bps), while the 10-year and 30-year yields increased by 3 bps and 14 bps, respectively. In investment grade fixed income, spread sectors generally outperformed USTs except for Agency RMBS.
- Corporate credit spreads continued to grind tighter as expectations for a successful soft landing and rate cuts gained momentum and investors exhibited a desire to lock in higher yields. Among corporate credit subsectors, utilities outperformed the most, followed by financials and industrials. From our perspective, corporate credit spreads are pricing in little room for error for the path of inflation and economic growth.
- Among structured sectors, CMBS outperformed the most as Non-Agency spreads tightened dramatically. The expectation of rate cuts this year has positive implications for the sector. Agency CMBS spreads were essentially flat for the month.
- ABS spreads also continued to grind tighter. After a quiet December, there was a burst of new issuance in January and investors displayed strong demand, with most deals being significantly oversubscribed.
- Agency RMBS underperformed USTs as the sector was hampered by interest rate increases, particularly out the curve. The exception was shorter duration 15-year paper, which outperformed

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SPREADS TO TREASURIES



Source: Bloomberg

TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	5.36%	0.03%
1 Year	4.71%	-0.06%
2 Year	4.21%	-0.04%
3 Year	3.98%	-0.03%
5 Year	3.84%	-0.01%
10 Year	3.91%	0.03%
30 Year	4.17%	0.14%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	-0.17%	0.44%	5.11%
Financials	0.30%	0.51%	5.19%
Industrials	-0.41%	0.38%	5.05%
Utilities	-0.37%	0.64%	5.17%
RMBS	-0.46%	-0.18%	4.80%
CMBS	0.72%	0.64%	5.19%
ABS	0.47%	0.25%	4.91%
Agencies	0.27%	0.13%	4.45%

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