



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

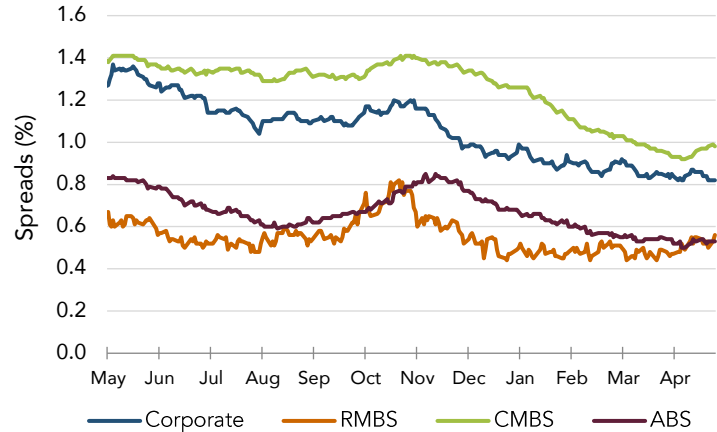
As of April 30, 2024

MARKET COMMENTARY

- Investors' exuberance regarding imminent interest rate cuts soured in April as the US economy remained resilient and inflation data came in hotter than expected. Federal Reserve (Fed) officials responded with a smattering of commentary that cast doubt on the Fed's ability to cut rates in the near term. US Treasuries (USTs) sold off and yields spiked. The 2-Year, 10-Year and 30-Year UST yields increased by 42, 48 and 44 basis points (bps) during the month, respectively.
- Market expectations regarding interest rate cuts shifted drastically, with futures markets currently pricing in an approximately 8% chance of a cut in June, down from 60% at the end of March. The market's consensus of the timing of the first cut was also pushed from June to December.
- According to Bloomberg US Aggregate index data, performance among Investment Grade (IG) spread sectors was mixed. Corporate credit outperformed USTs, with spreads continuing to grind tighter despite a record amount of issuance year-to-date (YTD). The increase in yields attracted "yield buyers", especially at the long end of the curve. From our perspective, 30-year IG corporate credit spreads are exceptionally rich.
- ABS modestly outperformed USTs. ABS spreads have tightened meaningfully YTD, somewhat diminishing the relative value that the sector offered at the beginning of the year. The market priced over \$27 billion of new issues during the month. Most deals were oversubscribed, but not to the same degree that we observed in the first quarter given tighter spreads and smaller new issue concessions.
- Agency RMBS underperformed USTs. The sector was once again hampered by increasing interest rates and rate volatility. Spreads widened across the board, with the 15-Year and 30-Year basis increasing by approximately 10 and 8 bps, respectively.
- CMBS also underperformed USTs. Spreads for the more credit sensitive non-Agency subsector reversed some of their first quarter rally, while Agency spreads tightened. There was a technical element to both of those moves, as non-Agency issuance is up 172% and Agency issuance is down 2% year-over-year.

This commentary has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular issuer, security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This commentary contains or incorporates by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors. No part of this article may be reproduced in any form, or referred to in any other publication, without the express written permission of Merganser Capital Management © 2024.

SPREADS TO TREASURIES



Source: Bloomberg

TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	5.39%	+0.03%
1 Year	5.24%	+0.21%
2 Year	5.04%	+0.42%
3 Year	4.88%	+0.47%
5 Year	4.72%	+0.50%
10 Year	4.68%	+0.48%
30 Year	4.78%	+0.44%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	-2.54%	0.22%	5.73%
Financials	-1.82%	0.25%	5.80%
Industrials	-2.86%	0.20%	5.68%
Utilities	-3.19%	0.24%	5.79%
RMBS	-3.03%	-0.61%	5.56%
CMBS	-1.78%	-0.06%	5.85%
ABS	-0.61%	0.08%	5.56%
Agencies	-1.06%	0.06%	5.18%

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