



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

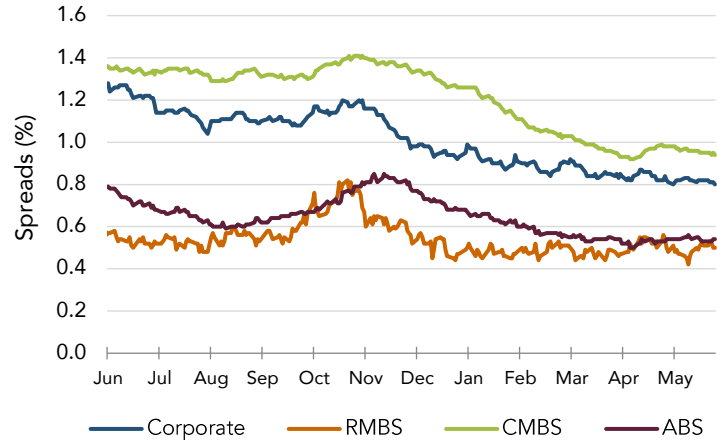
As of May 31, 2024

### MARKET COMMENTARY

- Following a spike in April, US Treasury (UST) yields fell over the first half of May. Early in the month, yields rallied on softer than expected jobs data for April. On May 15th, yields declined further following inflation data for April that revealed that Core CPI decelerated for the first time in six months, fueling speculation of a September rate cut. Federal Reserve (Fed) officials responded with commentary emphasizing their data dependence and "higher for longer" stance, causing yields to rebound somewhat higher. Ultimately the 2-Year, 10-Year and 30-Year UST yields decreased by 16, 18, and 14 basis points (bps), respectively.
- According to Bloomberg US Aggregate index data, most Investment Grade (IG) spread sectors outperformed USTs in May. Among corporate credit, financials outperformed the most, followed by utilities and industrials. Banks led financials as investors snapped up paper due to attractive spreads, particularly relative to other subsectors of the corporate credit market.
- Agency RMBS led the structured sectors with 49 bps of excess return, as spreads tightened on lower volatility. The 30-Year basis tightened by 15 bps, while the 15-Year basis tightened by 2 bps.
- CMBS also outperformed USTs. Agency CMBS produced 16 bps of excess return, vs. 52 bps for non-Agency. After widening in April, Agency spreads tightened amid limited supply and strong demand for government guaranteed paper. Non-Agency spreads also ground tighter. Year-to-date non-Agency issuance has been dominated by Single Asset Single Borrower (SASB) deals, whose property characteristics are more appealing in an uncertain commercial real estate environment.
- ABS modestly outperformed USTs. Despite continued heavy supply (approximately \$33 billion) during the month, spreads generally tightened by 2-4 bps, with new issues oversubscribed from investors seeking high quality alternatives to USTs. Notably, the largest ABS deal of the year (\$3.3 billion) was met with strong demand from investors.

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### SPREADS TO TREASURIES



### TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	5.40%	+0.01%
1 Year	5.18%	-0.06%
2 Year	4.87%	-0.16%
3 Year	4.68%	-0.20%
5 Year	4.51%	-0.21%
10 Year	4.50%	-0.18%
30 Year	4.65%	-0.14%

Source: Bloomberg

### BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	1.87%	0.30%	5.52%
Financials	1.74%	0.41%	5.56%
Industrials	1.91%	0.23%	5.48%
Utilities	2.11%	0.30%	5.59%
RMBS	2.00%	0.49%	5.34%
CMBS	1.54%	0.34%	5.60%
ABS	0.93%	0.12%	5.42%
Agencies	1.04%	0.07%	5.01%

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