



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

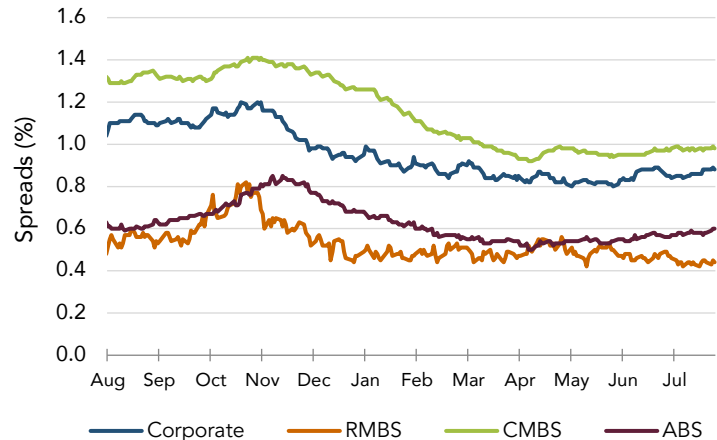
As of July 31, 2024

### MARKET COMMENTARY

- Following the broader weakness in June, fixed income markets regained their footing in July with most spread sectors outperforming Treasuries.
- Both the CPI data earlier in the month and the PCE release on July 26th show that inflation continues to cool, boosting the odds of a September rate cut. Certain categories such as rents, used car prices and airfares, all of which have remained stubbornly high, are now showing signs of moderation.
- The first reading of U.S. real GDP for Q2, which showed a 2.8% year-over-year growth rate, also contributed to the strong market tone. A significant driver of this growth was personal spending, indicating that households are continuing to consume despite dwindling personal savings and a softer labor market.
- The big four banks, which serve as a barometer for the health of the U.S. economy, kicked off earnings season with solid results that generally beat estimates. While credit card delinquencies continue to rise, management teams continue to characterize this as a normalization to historical trends as opposed to deterioration.
- Among structured sectors, Agency RMBS was the standout performer during the month. The expectation that the Fed's next move will be a cut has contributed to declining volatility and brought back better demand from money managers and banks. The reduction in volatility has shifted the relative attractiveness of certain coupons but resulted in conventional 30-year paper tightening the most.
- Within ABS, July was another strong month of issuance with ~\$29B of deals pricing MTD. We continue to see strong demand from investors for high quality ABS paper in autos, credit cards, and equipment as a good source of relative value. Most deals were heavily oversubscribed, and issuers were able to upsize their bond offerings and tighten in spread levels, a telltale sign of a well-functioning market.

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### SPREADS TO TREASURIES



Source: Bloomberg

### TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	5.28%	-0.07%
1 Year	4.75%	-0.37%
2 Year	4.26%	-0.50%
3 Year	4.06%	-0.49%
5 Year	3.91%	-0.46%
10 Year	4.03%	-0.37%
30 Year	4.30%	-0.26%

Source: Bloomberg

### BLOOMBERG SECTOR PERFORMANCE

	Total Return MTD	Excess Return* MTD	YTM
Corporates	2.38%	0.08%	5.14%
Financials	2.18%	0.12%	5.15%
Industrials	2.44%	0.02%	5.12%
Utilities	2.79%	0.24%	5.25%
RMBS	2.64%	0.42%	4.88%
CMBS	2.05%	0.07%	5.10%
ABS	1.36%	0.07%	4.91%
Agencies	1.61%	0.07%	4.51%

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