



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of May 31, 2025

MARKET COMMENTARY

- US Treasury (UST) yields increased in May as the Trump administration's "One, Big, Beautiful Bill Act" gained momentum, reflecting investors' concerns regarding its impact on the US government's credit risk. Moody's lowered its credit rating for the US government to Aa1 on May 16th, bringing its rating in line with S&P and Fitch, but having little impact on Treasury demand. Budget talks and tariff negotiations appear to have been catalysts for rate increases across the curve, with the 2-year, 10-year and 30-year UST yields increasing by 29, 24 and 25 basis points (bps), respectively.
- Concurrently, President Trump unleashed a volley of delays and adjustments to the tariffs originally announced on Liberation Day, sparking strong risk-on sentiment across capital markets. US Investment Grade (IG) fixed income spreads generally tightened, with most sectors outperforming like-duration USTs.
- Corporate credit outperformed USTs by 127 bps. Industrials, utilities and financials outperformed by 139, 120 and 109 bps, respectively, as spreads recovered significantly and ended the month approximately where they started the second quarter. While market participants have become more sanguine on tariffs, we believe there is more volatility to come, and this certainly isn't reflected in current valuations. Additionally, higher UST yields attracted "yield buyers" from the sidelines, which continues to be a technical force pressuring spreads tighter.
- CMBS outperformed USTs by 46 bps. Non-Agency and Agency outperformed by 60 and 33 bps, respectively. Risk-on sentiment caused a significant rebound in private label supply, including office, where spread levels remain wide to year-end. From our perspective, limited supply of benchmark ten-year paper led to increased demand for longer-duration deals.
- ABS outperformed USTs by 38 bps. High-quality ABS still offers compelling relative value versus other IG sectors, attracting extremely strong demand in May. Accordingly, new issuance totaled approximately \$34 billion with most deals heavily oversubscribed, and spreads tightening from initial price talk.
- Agency RMBS outperformed like-duration USTs by 19 bps. Conventional 30-year paper underperformed by 13 bps due to the increase in UST yields, while Conventional 15-year paper outperformed by 37 bps as investors sought shorter duration securities.

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 © 2025.

SPREADS TO TREASURIES



Source: Bloomberg

US TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	4.33%	+0.05%
1 Year	4.10%	+0.25%
2 Year	3.90%	+0.29%
3 Year	3.86%	+0.27%
5 Year	3.96%	+0.24%
10 Year	4.40%	+0.24%
30 Year	4.93%	+0.25%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	-0.01%	1.27%	5.21%
Financials	0.13%	1.09%	5.10%
Industrials	-0.03%	1.39%	5.25%
Utilities	-0.38%	1.20%	5.43%
RMBS	-0.91%	0.19%	5.15%
CMBS	-0.26%	0.46%	4.91%
ABS	0.02%	0.38%	4.62%
Agencies	-0.35%	0.21%	4.29%

*Monthly performance of Bloomberg US Aggregate Index sectors vs. duration-matched Treasuries