AS OF FEBRUARY 28, 2026

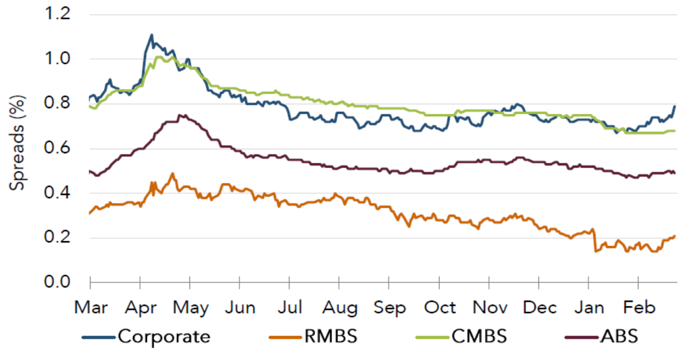
THE MERGANSER FLASH

Fixed Income Insights

MARKET COMMENTARY

- Tariff uncertainty and geopolitical tensions generally pushed US Treasury (UST) yields lower in February as investors flocked to lower risk assets. On February 20th the US Supreme Court ruled against President Trump's Liberation Day tariffs, indicating he had exceeded his authority. President Trump quickly responded with a new round of tariffs on imports, making the long-term implications of trade policy increasingly unclear. AI-related volatility in the technology sector caused a flight to quality, increasing demand for safe-haven assets. On the last day of the month, the US and Israel initiated strikes against Iran, intensifying risk-off sentiment among investors that is likely to result in wider spreads when the market reopens on March 2nd. The 2-year, 10-year and 30-year UST yields decreased by 15, 30 and 26 basis points (bps) during the month, respectively. Futures markets ended the month predicting approximately two 25 basis point rate cuts in 2026.
- Corporate credit underperformed like-duration USTs by 77 bps. Utilities, industrials and financials underperformed by 90, 77 and 73 bps, respectively. The underperformance was led by technology and other sectors with potential negative impacts of AI such as insurance brokers and BDCs. Corporate credit spreads, while 11 bps wider, remain largely rangebound, but with increasing dispersion. We continue to prefer a defensive posture as compressed valuations favor lower risk opportunities.
- Among securitized sectors, ABS outperformed by 3 bps on heavy new issuance ahead of the annual asset backed conference in Las Vegas. The new issue supply was met with strong demand, with deals launching at tighter spreads than initial price talk. Spreads on secondary positions were unchanged to slightly wider as investors sold paper to fund new issue purchases.
- Agency RMBS underperformed like-duration USTs by 8 bps amid increased interest rate volatility and modestly wider option adjusted spreads. Bank demand for Agency RMBS remains tepid, and both Conventional 30-Year and Conventional 15-year paper modestly underperformed for the month.
- CMBS outperformed by 6 bps despite a pickup in new issue activity in Non-Agency. Within SASB, expectations for continued heavy data center issuance caused spreads to widen between the initial price talk and final pricing for primary market issuance. Year-to-date issuance of Agency CMBS remains strong, and spreads were flat to modestly wider this month.

SPREADS TO TREASURIES



Source: Bloomberg

US TREASURY YIELD CHANGES

	YTM	MoM Change
3 Month	3.66%	+0.00%
1 Year	3.48%	+0.01%
2 Year	3.38%	-0.15%
3 Year	3.38%	-0.21%
5 Year	3.50%	-0.29%
10 Year	3.94%	-0.30%
30 Year	4.61%	-0.26%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	1.29%	-0.77%	4.73%
Financials	0.92%	-0.73%	4.60%
Industrials	1.46%	-0.77%	4.77%
Utilities	1.53%	-0.90%	4.92%
RMBS	1.67%	-0.08%	4.38%
CMBS	1.28%	0.06%	4.23%
ABS	0.87%	0.03%	3.98%
Agencies	1.13%	0.06%	3.75%

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