AS OF MARCH 31, 2026

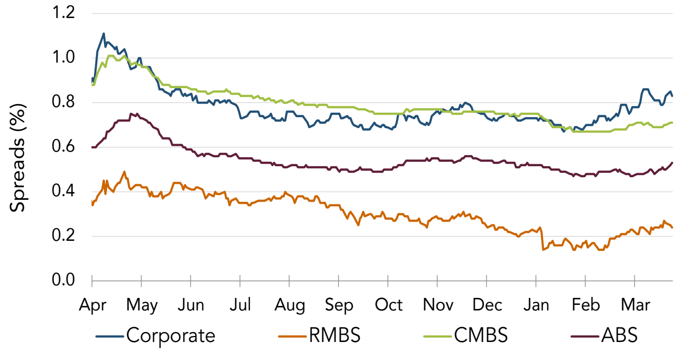
THE MERGANSER FLASH

Fixed Income Insights

MARKET COMMENTARY

- War in the Middle East sent energy prices surging higher in March, sparking concerns regarding inflation across Investment Grade (IG) fixed income markets. Risk-sentiment oscillated frequently in March amid the Trump administration's rapidly shifting communications regarding their game plan for the conflict with Iran. Market participants' attention shifted to the Strait of Hormuz, through which 20% of the world's oil supply typically travels. The increase in energy prices and uncertainty regarding the end of the conflict stoked fears of inflation, sending US Treasury yields dramatically higher and resetting expectations for monetary policy. The 2-year, 10-year and 30-year UST yields increased by 42, 38 and 30 basis points (bps) during the month, respectively.
- Corporate credit underperformed like-duration USTs by 8 bps. Financials and industrials underperformed by 18 and 4 bps, respectively, while utilities outperformed by 2 bps. While we believe that spreads still present as largely unattractive, there are emerging pockets of value that we are taking advantage of in this weaker spread environment. While investors remain somewhat complacent on several ongoing macro factors including tariffs, regulation, and geopolitics, they are increasingly aware of more corporate specific issues like rising M&A risks, consumer weakness and specific sector issuance technicals.
- Among securitized sectors, ABS underperformed by 7 bps. New issue volume totaled approximately $29.5 billion. With the market volatility we have seen this month, new issue deals have progressed much slower than what we are used to seeing. Additionally, many tranches within ABS deals priced right at or even wide to their initial price talk levels (something we have rarely seen recently in high quality ABS). Spreads widened over the course of the month as market volatility persisted, driven by uncertainty surrounding the Middle East conflict and stress in private credit markets.
- CMBS underperformed by 12 bps. Private label CMBS issuance is running 2x prior 10 year average for Q1; still on the heels of strong SASB and CRE CLO deal flow. There is a sense that CRE, while not immune to rising rates, is not the center of the storm of macro/geopolitical risks.
- Agency RMBS underperformed by 28 bps. Following the administration's early January announcement of $200 billion in GSE purchases to support housing affordability, mortgage spreads tightened sharply, leaving parts of the market looking overvalued. Since then, the MBS basis has retraced back to pre-announcement levels amid rising geopolitical uncertainty and elevated rate volatility.

SPREADS TO TREASURIES



Source: Bloomberg

US TREASURY YIELD CHANGES

	YTM	MoM Change
3 Month	3.67%	+0.02%
1 Year	3.66%	+0.18%
2 Year	3.79%	+0.42%
3 Year	3.82%	+0.44%
5 Year	3.94%	+0.44%
10 Year	4.32%	+0.38%
30 Year	4.91%	+0.30%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	-1.98%	-0.08%	5.14%
Financials	-1.71%	-0.18%	5.05%
Industrials	-2.09%	-0.04%	5.16%
Utilities	-2.20%	0.02%	5.30%
RMBS	-1.65%	-0.28%	4.83%
CMBS	-1.30%	-0.12%	4.65%
ABS	-0.80%	-0.07%	4.40%
Agencies	-1.03%	-0.10%	4.13%

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