

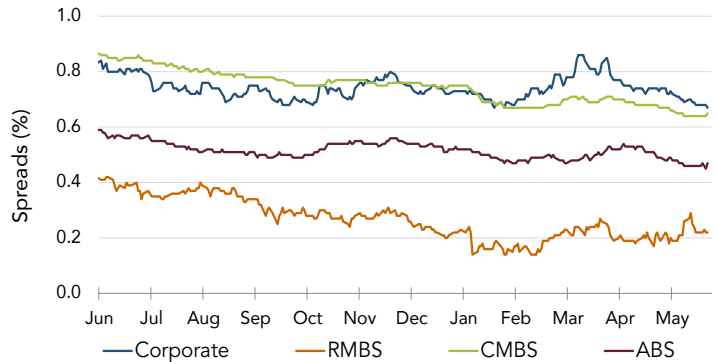
# THE MERGANSER FLASH

## Fixed Income Insights

### MARKET COMMENTARY

- Global rates markets experienced a sharp sell-off in May, driven by escalating geopolitical tensions in Iran, rising stagflation concerns, and a reassessment of Federal Reserve policy expectations. Ongoing and unpredictable shifts in the narrative surrounding the U.S. and Iran drove significant volatility in energy markets, but with the market pricing in a near-term resolution, oil ended the month at the lows near \$90 a barrel. Fixed income investors are demanding higher term premiums to compensate for a broadening array of risks, including shifting Fed policy, stubborn inflation, expanding U.S. fiscal deficits, and heavy corporate bond supply tied to AI-related capex. Against this backdrop, the U.S. Treasury curve sold off sharply, briefly pushing yields to multi-year highs before partially retracing. The 2-year, 10-year, and 30-year UST yields rose by 14, 6, and 1 basis points (bps), respectively.
- Corporate credit had another strong month in May, outpacing like duration USTs by 56 bps. Utilities, industrials, and financials outperformed by 56, 62, and 46 bps, respectively. After widening in March, spreads retraced in April and continued to grind tighter in May, ending the month near historically tight valuations. We continue to look for relative value opportunities across the curve in both primary and secondary markets, but the risk reward proposition appears challenging. Fundamentally, most subsectors within corporate credit are showing resilience, but we believe the growing set of macro risks is not fully appreciated by the market or reflected in current pricing.
- ABS new issue volume totaled about \$38 billion in May, in line with prior months, bringing total year to date issuance to \$178 billion. With few exceptions, demand has remained strong and spreads have tightened from initial price talk levels.
- The CMBS sector, led by Non-Agency, generated 8 bps of excess returns in May. While returns were in line with other securitized sectors, it still trailed the rally in corporate credit, which is generally consistent with its beta profile. Issuance levels remained robust in May, with a flurry of SASB and CRE CLO deals, while traditional conduit transactions remained muted. The shift toward five-year issuance continues to shorten CMBS duration in the Agg, from 5.6 ten years ago to 3.7 today.
- Mortgage performance remained heavily influenced by macro headline risk, particularly related to movements in oil. Spreads were volatile during the month, tightening early before widening mid-month amid increased rate volatility, and then tightening on news of a possible deal to end the Iran conflict. With 30-year mortgage rates surpassing 6.60%, housing activity remains subdued due to affordability constraints and reduced borrower demand, contributing to improved technicals within the sector.

### SPREADS TO TREASURIES



Source: Bloomberg

### US TREASURY YIELD CHANGES

	YTM	MoM Change
3 Month	3.67%	0.01%
1 Year	3.77%	0.06%
2 Year	4.00%	0.14%
3 Year	4.05%	0.16%
5 Year	4.14%	0.14%
10 Year	4.44%	0.06%
30 Year	4.97%	0.01%

Source: Bloomberg

### BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	0.76%	0.56%	5.12%
Financials	0.58%	0.46%	5.03%
Industrials	0.85%	0.62%	5.15%
Utilities	0.81%	0.56%	5.28%
RMBS	0.30%	0.13%	4.93%
CMBS	0.11%	0.08%	4.79%
ABS	0.25%	0.08%	4.51%
Agencies	0.10%	-0.02%	4.28%

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

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.