

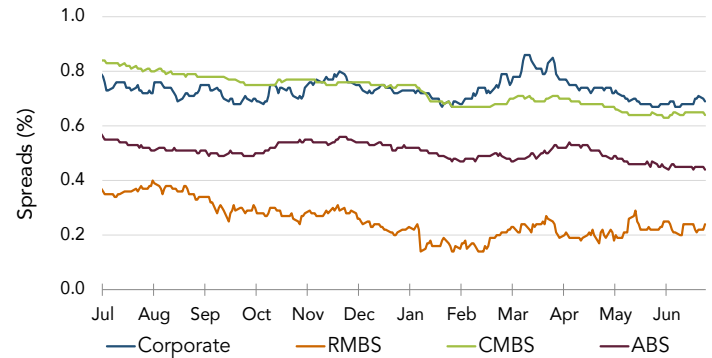
THE MERGANSER FLASH

Fixed Income Insights

MARKET COMMENTARY

- The US Treasury (UST) yield curve flattened in June, with the 2-year and 10-year yields increasing by 17 and 3 basis points (bps), respectively, and the 30-year yield decreasing by 2 bps. Tensions between the US and Iran cooled, with the announcement of an initial agreement to end the conflict and reopen key energy supply routes, driving energy prices and inflation expectations lower. The Federal Reserve (Fed) kept rates steady at its June meeting, but the accompanying Summary of Economic Projections was notably more hawkish. Later in the month, resilient US labor data reinforced the hawkish tilt. Futures markets ended the month predicting between one and two rate hikes in 2026. Risk sentiment was mixed across US Investment Grade (IG) fixed income markets, with the major sectors of the Bloomberg US Aggregate index performing on either side of like-duration USTs.
- Corporate credit underperformed like-duration USTs by 18 bps. Industrials and utilities underperformed by 31 and 8 bps, respectively, while financials outperformed by 4 bps. Despite modest spread widening in June, index levels continue to remain near historically tight valuations. Fundamentally, we still believe that macro risks remain inconsistent with current valuations. That said, from our perspective, investors are increasingly cognizant of corporate-specific issues such as heavy supply, increasing M&A risks, and weakness among lower income consumers. Issuance from domestic banks and REITs was relatively quiet, anchoring financial spreads, as investors struggled to digest tremendous industrial issuance. BDC spreads continued to grind tighter despite an uptick in redemption headlines.
- Among securitized sectors, CMBS was the top performer, outpacing like-duration USTs by 9 bps, and effectively reversing May's underperformance. Overall spreads were roughly flat, even as new issues widened from initial price talk. Non-Agency issuance is on track for a post-GFC record, while Agency issuance is up year-over-year (YoY) but still trailing the era of pandemic-related stimulus.
- ABS outperformed by 7 bps. Approximately \$34 billion of new deals priced, bringing year-to-date ABS issuance to \$212 billion (up 20% YoY). Deals have broadly been well received, with most transactions tightening spreads from initial price talk due to strong oversubscription. As a result, investors have increasingly turned to the secondary market to meet demand for short duration, high-quality ABS, which drove secondary market spreads tighter in June.
- Agency RMBS underperformed by 7 bps. Spreads on 30-year conventional MBS stayed near historical tightness, with the current coupon basis hovering around 110 bps and trading largely rangebound during the month. On a relative basis, 30-year mortgages outperformed 15-year due to the carry advantage. With 30-year mortgage rates still near 6.5%, refinancing incentives remain limited, creating a technical tailwind for the sector.

SPREADS TO TREASURIES



Source: Bloomberg

US TREASURY YIELD CHANGES

	YTM	MoM Change
3 Month	3.81%	+0.14%
1 Year	3.98%	+0.21%
2 Year	4.17%	+0.17%
3 Year	4.18%	+0.13%
5 Year	4.23%	+0.09%
10 Year	4.47%	+0.03%
30 Year	4.95%	-0.02%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	0.19%	-0.18%	5.19%
Financials	0.26%	0.04%	5.09%
Industrials	0.11%	-0.31%	5.22%
Utilities	0.39%	-0.08%	5.32%
RMBS	0.22%	-0.07%	4.97%
CMBS	0.16%	0.09%	4.88%
ABS	0.21%	0.07%	4.64%
Agencies	0.12%	-0.01%	4.39%

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

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