THE MERGANSER FLASH

FIXED INCOME INSIGHTS

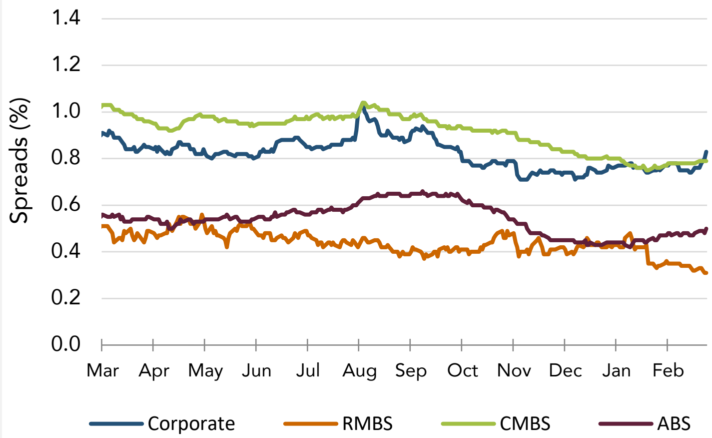
As of February 28, 2025

MERGANSER CAPITAL MANAGEMENT

MARKET COMMENTARY

- US Treasury (UST) yields 6-months and beyond declined in February, as the bond market flashed concerns regarding an economic downturn. Earlier in the month, UST yields increased following the release of hotter than expected CPI data for January. This was ultimately outweighed by market participants' consternations regarding the effect of the Trump administration's policies on growth, which drove yields significantly lower. Lower than expected consumer sentiment and decreasing existing home sales were additional catalysts for the move lower. The 2-year, 10-year and 30-year UST yields decreased by 21, 33, and 30 basis points (bps), respectively, driving positive total returns for many Investment Grade fixed income strategies. The Bloomberg US Aggregate index returned 2.20%. Futures markets ended the month predicting between 2 and 3 rate cuts in 2025.
- Among Investment Grade spread sectors, sentiment was generally risk-off in February with spreads widening and risk-bearing securities underperforming USTs. Corporate credit underperformed USTs by 55 bps. Utilities, industrials, and financials underperformed by 68, 61, and 40 bps, respectively. Looming tariffs weighed on industrial spreads, which widened amid uncertainty regarding the impact on manufacturing and costs. Utility spreads reflect continued uncertainty around the impact of the California wildfires on utilities operating there, as well as those with heightened environmental risks. After modestly tightening during the first three weeks of the month due to attractive relative value and greater insulation from the new administration's policy shifts, financial spreads ended the month approximately 6 bps wider.
- Among securitized sectors, Agency RMBS was the star performer, outpacing USTs by 16 bps. Spreads tightened amid lower UST yields and lower interest rate volatility. This was supplemented by market participants seeking alternatives to corporate credit, where spreads continue to hover near historic tights. 30-year and 15-year Agency RMBS outperformed by 19 and 24 bps, respectively.
- CMBS underperformed USTs by 5 bps. February was the largest month of Non-Agency issuance in 3 years, with approximately $20 billion of new deals pricing. This biased spreads wider, but the typically higher beta sector held firm given its domestic focus during a month in which market participants were largely focused on geopolitical tensions and trade policies.
- ABS underperformed USTs by 4 bps. The sector's relative performance was hampered by the rate reduction bond subsector, where many index constituents are tied to California utilities. Later in the month, an industry conference was held in Las Vegas, which is likely to prompt a volley of new issuance in March.

SPREADS TO TREASURIES



Source: Bloomberg

US TREASURY YIELD CHANGES

	YTM	Change From Previous Month
3 Month	4.29%	+0.01%
1 Year	4.08%	-0.07%
2 Year	3.99%	-0.21%
3 Year	3.97%	-0.27%
5 Year	4.02%	-0.31%
10 Year	4.21%	-0.33%
30 Year	4.49%	-0.30%

Source: Bloomberg

BLOOMBERG SECTOR PERFORMANCE

	Total Return	Excess Return*	YTM
Corporates	2.04%	-0.55%	5.08%
Financials	1.65%	-0.40%	5.01%
Industrials	2.20%	-0.61%	5.10%
Utilities	2.44%	-0.68%	5.25%
RMBS	2.55%	0.16%	4.85%
CMBS	1.57%	-0.05%	4.86%
ABS	0.97%	-0.04%	4.55%
Agencies	1.34%	0.00%	4.30%

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