



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF APRIL 30, 2016

Market Commentary

THE ECONOMY

- International macro sentiment remained bullish amidst highly accommodative central banks and growing market consensus that China will successfully support its economy. Commodity prices continued to recover, with oil and iron ore both up more than 15% on the month.
- In the US, economic indicators maintained similar trajectories as manufacturing and retail data remained weak, while the labor market and inflation indicators continue to prove the first rate hike as appropriate. The market currently expects the next rate hike will take place in September, resulting in some potential volatility if the Fed acts earlier than expected. We view the potential for exogenous shocks from policy mistakes abroad as a continued risk, but current economic conditions in the US remain outside recessionary levels with 1Q GDP estimated to be 0.5%.

STRUCTURED MARKETS

- Against a backdrop of risk-on sentiment in the market and limited new issue activity, CMBS performance has been positive for the April reporting period. Since March 30th, 10-yr new issue AAA spreads have narrowed approximately 13 basis points (bps) while the lower quality BBB- part of the capital stack narrowed 65 bps, a clear indication that investors are adding risk and the near-term outlook for the sector is positive.
- With respect to underwriting, we find that 2016 deal level metrics have stabilized and improved marginally on a year-over-year basis. Interestingly, this has coincided with a reduction in the number of smaller originators contributing loans to conduit deals.

CORPORATE CREDIT MARKET

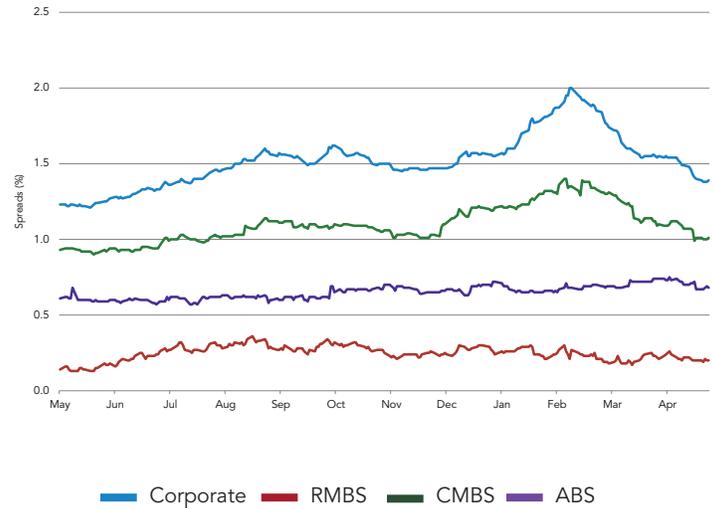
- The Barclays Corporate Index tightened 18 bps in April, with high beta sectors once again leading the broad based credit recovery. The spread compression was partially attributed to technical factors (dealer short covering and low primary volume) and optimism that bearish sentiment in commodity credit has finally capitulated. Although there remain opportunities within IG credit, we believe some individual names and sectors have become tighter than fair value and remain cautious about adding at current levels.
- New issuance volume through April was light at \$89B (vs initial \$100B guidance). We expect supply to pick up again in May with over \$120-130B in issuance.

GOVERNMENT MARKET

- Yields increased across the curve in April. 5-yr yields increased the most with a 9 bps change. 2-yr, 10-yr and 30-yr yields all increased ~6 bps in April.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.14%
Int. Gov/Credit	0.27%
Aggregate	0.38%
1-3 Yr US Treasury	0.04%
3-5 Yr US Treasury	-0.07%
5-10 Yr US Treasury	-0.08%
10-20 Yr US Treasury	-0.26%
20+ Yr US Treasury	-0.53%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.37%	1.53%	3.08%
Financials	0.86%	0.94%	2.86%
Industrials	1.67%	1.86%	3.16%
Utilities	0.98%	1.21%	3.33%
RMBS	0.16%	0.16%	2.36%
CMBS	0.38%	0.43%	2.40%
ABS	0.24%	0.21%	1.50%
Agencies	0.26%	0.29%	1.71%

*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries