



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF JULY 31, 2016

### Market Commentary

#### THE ECONOMY

- The first month post Brexit was marked by rallies in most risk assets as uncertainty has given way to optimism that there will be stimulus from central banks around the world. Domestic economic data remains uninspiring, likely keeping the Fed in a wait-and-see mode until more definitive signals are received both on the domestic front and abroad. 2Q GDP surprised to the downside at 1.2%, well below the level necessary to reach 2% growth for full year 2016 after 1Q growth also disappointed at 0.8%. While the ECB held off on adding new stimulus, the door remains wide open for the ECB and other central banks abroad to take unprecedented measures to support economic growth and/or prevent recessions and deflation. We remain cautious that there remains a heightened risk of policy missteps, both domestically and abroad.

#### STRUCTURED MARKETS

- Demand for structured products has been insatiable, particularly in high quality ABS. Counter to the typical summer doldrums, July saw a flurry of new issue activity with over \$22B in deals coming to market, representing the second busiest month of the year and bringing total YTD issuance to within 12% of last year's pace.
- We expect ABS to see high demand as money managers look to invest cash balances in top-tier assets due to uncertain growth prospects at home and abroad.

#### CORPORATE CREDIT MARKET

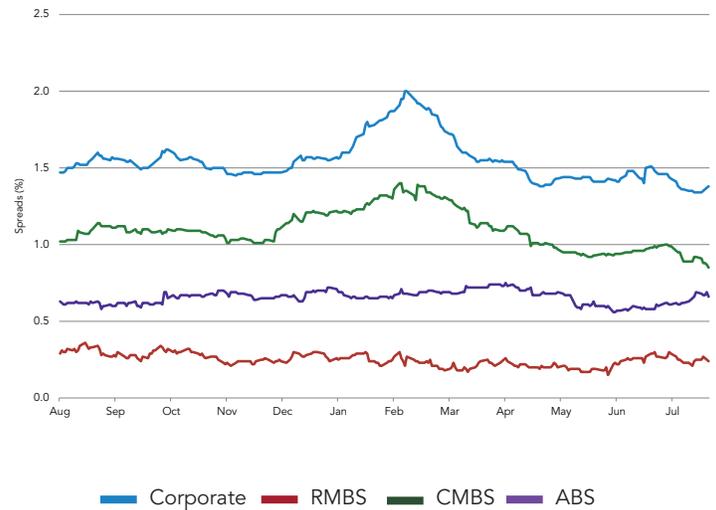
- The Barclays Corporate Index tightened 11 basis points (bps) through July with Industrials and Financials compressing roughly 10 bps each. Overall market tone was fairly risk-on with spreads retracing through their pre Brexit tights. Despite the rally, front-end corporate curves remained fairly challenging and flat due to technical pressures.
- Despite second quarter earnings blackout, new issuance through the month still came in at approximately \$93B. Looking ahead, issuers will likely continue to evaluate funding conditions and come to market opportunistically.

#### GOVERNMENT MARKET

- 2-yr and 5-yr yields increased by 7 bps and 2 bps respectively, while 10-yr and 30-yr yields actually decreased 2 bps and 10 bps respectively through the month of July.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.02%
Int. Gov/Credit	0.28%
Aggregate	0.63%
1-3 Yr US Treasury	-0.06%
3-5 Yr US Treasury	-0.02%
5-10 Yr US Treasury	0.21%
10-20 Yr US Treasury	0.77%
20+ Yr US Treasury	2.43%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.46%	0.95%	2.77%
Financials	1.20%	0.91%	2.57%
Industrials	1.56%	0.99%	2.85%
Utilities	1.67%	0.81%	2.90%
RMBS	0.20%	0.14%	1.98%
CMBS	0.97%	0.83%	2.02%
ABS	-0.08%	-0.07%	1.37%
Agencies	0.32%	0.16%	1.55%

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