



Market Commentary

THE ECONOMY

- Emerging market turmoil dominated headlines in what would otherwise be a quiet month as deteriorating political and economic environments in Turkey, Argentina and Venezuela all stoked fears that emerging markets remain vulnerable. Domestically, economic data remains consistent as the short-term impacts of fiscal stimulus continue. The market now views a rate hike in September as a near certainty with increasing probability of another in December.

STRUCTURED MARKETS

- The ABS primary market slowed down as expected in August with approximately \$17bn of new deals pricing making August the lightest month of issuance in 2018 year-to-date (YTD). Similar to other months in 2018, Auto ABS issuance led the way with just over \$9bn. Esoteric sectors continue to be a consistent part of the ABS primary market with just over \$3.5bn in new issuance. Several subprime auto issuers have responded to an increased investor risk appetite and attractive funding costs by issuing "BB" and "B" tranches. Secondary spreads continued to modestly tighten or remain flat across the major ABS asset classes as investors continue to show strong appetite for ABS exposure across the investment-grade quality spectrum.

CORPORATE CREDIT MARKET

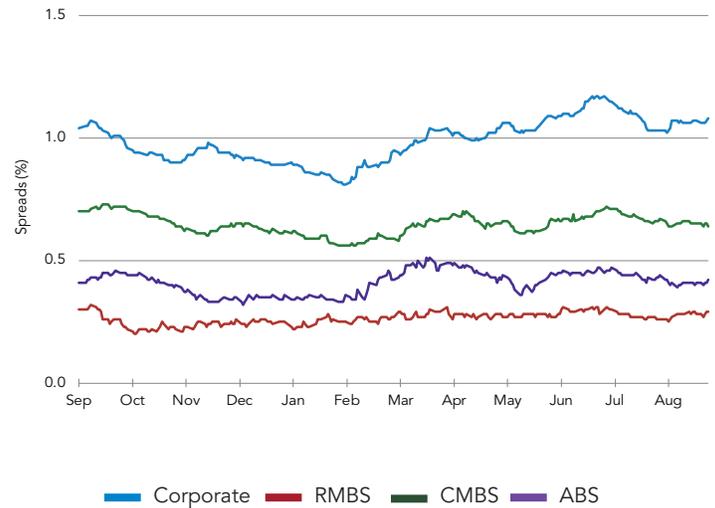
- Volatility made a comeback in August as emerging market concerns resurfaced. While the most vulnerable of emerging markets experienced meaningful widening, the Bloomberg Barclays corporate OAS was fairly well-contained with only 5 basis points (bps) of widening to end at 114 bps. Issuance came in at approximately \$83bn with a skew to multi-tranche Industrial M&A funding. Expectations are for September supply to be consistent with the seasonal uptick post-summer, ~\$125bn.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 4 bps and 11 bps, respectively, for the month of August. The 10-yr decreased 10 bps while the 30-yr decreased by 6 bps for the month of August.

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 © 2018.

SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.35%
Int. Gov/Credit	0.59%
Aggregate	0.64%
1-3 Yr US Treasury	0.33%
3-5 Yr US Treasury	0.59%
5-10 Yr US Treasury	0.98%
10-20 Yr US Treasury	1.33%
20+ Yr US Treasury	1.60%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.49%	-0.42%	3.94%
Financials	0.62%	-0.16%	3.84%
Industrials	0.38%	-0.58%	3.99%
Utilities	0.87%	-0.27%	3.99%
RMBS	0.61%	-0.14%	3.43%
CMBS	0.98%	0.19%	3.42%
ABS	0.43%	0.08%	3.01%
Agencies	0.56%	-0.04%	3.20%

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