



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF OCTOBER 31, 2015

### Market Commentary

#### THE ECONOMY

- Divergent economic trajectories continued as domestic economic data remained modestly positive and pessimism abroad continued to build. Employment and housing data remains expansionary, but consumers largely took a pause from spending in September as retail sales weakened. While headline GDP growth of 1.5% is lackluster, the lack of inventory points toward a stronger fourth quarter. Inflation, even when removing the impact of energy, remains elusive. Looking forward, the base case remains a rate hike during 2015, though the market is discounting this outcome.
- China engaged in another round of monetary easing in response to the first official GDP growth figure below 7% since the financial crisis (and second since 1999). The debate on China's ability to navigate a hard landing looms large in the market. Commodity markets remain volatile, with some recovery in metals on the month. We continue to have a cautious stance on global growth.

#### STRUCTURED MARKETS

- Third quarter earnings results for ABS sponsors have been generally positive, indicating continued strong collateral performance, however several sponsors with auto lending platforms noted an uptick in delinquency and charge-off rates on a QoQ basis.
- Given the positive supply technical, new issue credit card ABS offers some of the best relative value in the segment. As an example, a major issuer came to market recently, issuing 3 and 5-yr fixed rate notes. The 5-yr priced at swaps + 70, a full 37 basis points (bps) behind the platform's most recent comp which came in the end of May.

#### CORPORATE CREDIT MARKET

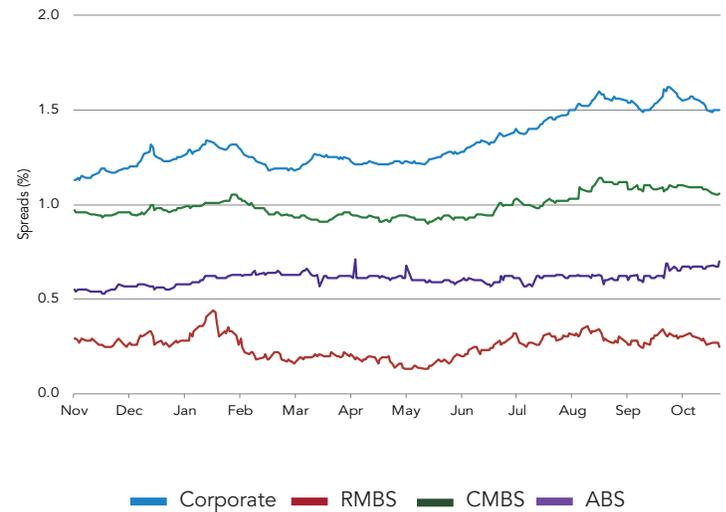
- Corporate spreads tightened 12 bps through October, helped mostly by a broad based recovery in metals and mining and energy (73 bps and 12 bps of tightening respectively). Nevertheless, overall spreads remained 28 bps wider YTD. Although macro concerns (e.g. Fed rate hike and China's slowdown) were fairly muted in October, corporate issuers faced a spate of idiosyncratic headline risks (e.g. EMC/Dell and ABIBB/SABLN).
- Issuance was robust with IG Corporates pricing roughly \$104bn in the month – bringing YTD supply to \$1.1bn or 19% higher on a YoY comparison. The supply was well received, as new issues traded as much as 15 bps tighter at the break. With the street calling for \$100bn in November, spreads may leak wider on heavy supply.

#### GOVERNMENT MARKET

- Treasury yields were range-bound for much of October before ending the month higher. Rates on the 5-yr rose 16 bps, while the 10-yr and 2-yr both climbed about 10 bps. The 30-yr rose 7 bps for the period.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

|                      | Total Return MTD |
|----------------------|------------------|
| 1-3 Gov/Credit       | -0.03%           |
| Int. Gov/Credit      | -0.10%           |
| Aggregate            | 0.02%            |
| 1-3 Yr US Treasury   | -0.10%           |
| 3-5 Yr US Treasury   | -0.41%           |
| 5-10 Yr US Treasury  | -0.59%           |
| 10-20 Yr US Treasury | -0.72%           |
| 20+ Yr US Treasury   | -0.52%           |

#### SECTOR DATA FROM BARCLAYS AGGREGATE

|             | Total Return MTD | Excess Return* MTD | Current YTM |
|-------------|------------------|--------------------|-------------|
| Corporates  | 0.42%            | 0.88%              | 3.43%       |
| Financials  | 0.29%            | 0.72%              | 2.97%       |
| Industrials | 0.52%            | 1.00%              | 3.63%       |
| Utilities   | 0.16%            | 0.63%              | 3.67%       |
| RMBS        | 0.07%            | 0.37%              | 2.64%       |
| CMBS        | -0.17%           | 0.25%              | 2.53%       |
| ABS         | -0.22%           | -0.06%             | 1.56%       |
| Agencies    | 0.13%            | 0.42%              | 1.74%       |

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