



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF NOVEMBER 30, 2015

Market Commentary

THE ECONOMY

- US economic activity remained just positive enough to maintain a rate hike in 2015 base case. Inflation remained elusive and retail sales disappointing, but a strong jobs report resulted in a Fed that seems poised to raise rates in December unless economic indicators weaken before the meeting. GDP growth for 3Q was revised up to 2.1%, removing some of the potential upside for 4Q GDP.
- QE programs abroad continue to be in full swing, with ECB President Mario Draghi building support for continued monetary easing. China's economic trajectory depressed commodity prices further, with many metals touching multi-year lows. With rising geopolitical tensions, we continue to have a cautious stance on global growth.

STRUCTURED MARKETS

- According to Merrill Lynch Index data, all ABS sub-segments produced positive excess returns during the November reporting period. Coupon income was the primary source of performance as spreads were largely unchanged. Equipment issues topped the list at 19 basis points (bps), followed by autos at 15 bps and credit card receivables at 10 bps.
- ABS spreads to swaps remain at multiyear wides heading into the final weeks of 2015, primarily due to market liquidity dynamics and uncertainty surrounding the first Fed rate hike in more than six years.

CORPORATE CREDIT MARKET

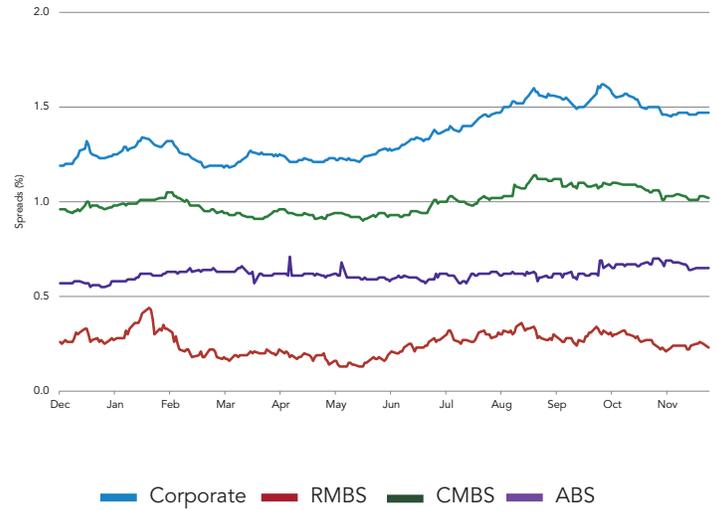
- Corporate spreads tightened 5 bps through November, with financials leading the pack at 8 bps. Weaker guidance from retailers has driven credit investors to remain cautious going into the holiday season as the strong dollar and higher-than-expected inventory buildup may weigh on corporate earnings.
- Supply for the month was \$102.9B with YTD issuance at \$1.25T or 11% above this time last year. The street is calling for \$30-50B in new issues for the month of December. Barring any major credit headlines, we believe spreads will be range-bound through the end of the year.

GOVERNMENT MARKET

- The yield curve flattened in November, as rates on the 2-year climbed 21 bps. The 5-year was up 13 bps, while the 10-year and 30-year rose only 6 bps and 5 bps respectively.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.20%
Int. Gov/Credit	-0.26%
Aggregate	-0.26%
1-3 Yr US Treasury	-0.25%
3-5 Yr US Treasury	-0.38%
5-10 Yr US Treasury	-0.42%
10-20 Yr US Treasury	-0.44%
20+ Yr US Treasury	-0.87%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.22%	0.24%	3.50%
Financials	0.10%	0.50%	3.05%
Industrials	-0.37%	0.12%	3.72%
Utilities	-0.39%	0.13%	3.74%
RMBS	-0.14%	0.15%	2.72%
CMBS	-0.19%	0.15%	2.66%
ABS	-0.16%	0.10%	1.71%
Agencies	-0.30%	0.02%	1.87%

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