



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF JANUARY 31, 2016

### Market Commentary

#### THE ECONOMY

- Concern about a global recession is building as stress in China and Brazil in particular are top of mind. Commodity markets have continued falling after a weak end to the year, heightening concerns about shrinking balance sheets of net commodity exporting economies.
- Domestically, the economic picture remains solid but muted. Manufacturing and retail sales continue to be weaker than a typical expansionary period, but the strength of the labor market continues to carry the US economy outside of recessionary levels as evidenced by 4Q GDP of 0.7%. An exogenous shock to the labor market, while not the base case, presents a risk to the domestic economic picture.

#### STRUCTURED MARKETS

- While most risk assets have been challenged during the first few weeks of 2016, consumer ABS has proven to be a safe haven with spreads holding firm. Demand has been strongest for the top-tier programmatic auto and credit card issuers at the shorter end of the curve.
- The primary market started the year on a positive note as most deals have launched at the tighter end of the initial price talk. Despite this, year-to-date supply has totaled just \$10bn, compared with \$19bn for the same period last year. Indeed, volatility has been the main driver for the slower pace of issuance and this trend could persist in the weeks and months ahead as sponsors contemplate their funding priorities.

#### CORPORATE CREDIT MARKET

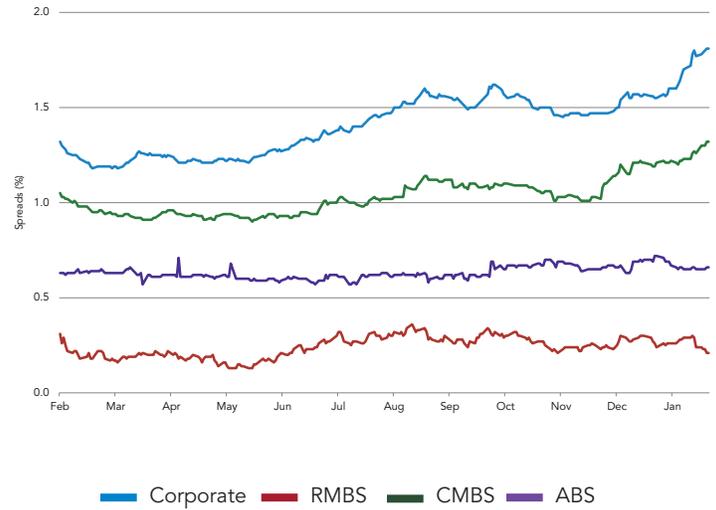
- January was not an auspicious start to 2016, given 26 basis points (bps) of widening in corporate spreads (energy sector led the pack with 101 bps). Despite strong payroll numbers, markets turned for the worse when WTI and Brent Crude hit sub-\$30/bbl and circuit breakers forced Chinese regulators to halt trading on fears of overselling. Markets have quieted down somewhat from weakness earlier in the month. However, investors remain cautious on prospects as the companies reporting for 4Q15 have indicated weakness in topline growth.
- Total deal issuance through January was \$126bn with a 60/40 split between non-financials and financials. The issuance calendar was dominated by Anheuser-Busch InBev, which came to market with a \$46bn multi-tranche deal (second largest to Verizon's \$49bn) in order to finance the acquisition of SABMiller.

#### GOVERNMENT MARKET

- Treasury yields declined in January, led by a drop of 43 bps in the 5-yr. The 10-yr fell 35 bps for the month, while the 2-yr and 30-yr both fell 27 bps.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.52%
Int. Gov/Credit	1.22%
Aggregate	1.38%
1-3 Yr US Treasury	0.61%
3-5 Yr US Treasury	1.78%
5-10 Yr US Treasury	2.85%
10-20 Yr US Treasury	3.49%
20+ Yr US Treasury	5.23%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.35%	-2.05%	3.62%
Financials	0.69%	-1.40%	3.04%
Industrials	-0.05%	-2.54%	3.92%
Utilities	2.23%	-0.83%	3.63%
RMBS	1.30%	-0.39%	2.47%
CMBS	1.51%	-0.54%	2.74%
ABS	1.02%	0.21%	1.53%
Agencies	1.15%	-0.31%	1.78%

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