



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF MAY 31, 2016

### Market Commentary

#### THE ECONOMY

- International macro sentiment cooled slightly after a strong run driven by highly accommodative central banks. While energy prices continued to rise due to supply disruptions in Nigeria and Canada, metals prices fell on slightly weaker data out of China.
- In the US, previously weak sectors showed signs of life as manufacturing and retail data improved sequentially (in contrast to retail earnings guidance, which remains weak). Modestly weaker labor market indicators were offset by underlying wage growth. As a result of the underlying data and comments by the Fed, the market has begun to view June as "in play" for an increase in the Fed Funds rate. We continue to view the potential for exogenous shocks from policy mistakes abroad as a continued risk, but current economic conditions in the US remain supportive overall.

#### STRUCTURED MARKETS

- The tone in the asset backed market was decidedly more positive during May. Despite a flurry of new issuance in the sector, strong demand across the capital stack caused many deals to price at the tight end of price talk and in some instances inside of initial price guidance. The risk-on appetite from investors, combined with sharply lower issuance YTD and light secondary inventory levels, has created a very favorable technical in the sector leading to tighter spreads in the secondary market. Furthermore, the concession between primary and secondary spreads is at the widest levels in years, also contributing to the strong technical in the sector.

#### CORPORATE CREDIT MARKET

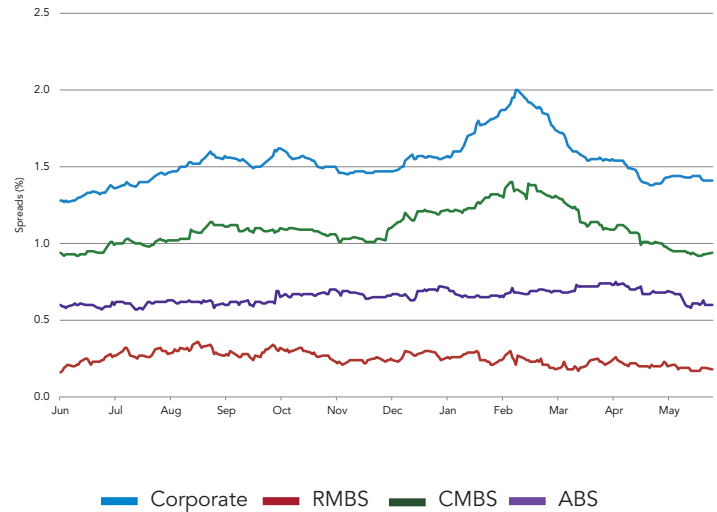
- The Barclays Corporate Index widened 3 basis points (bps) through May 31st due to a pickup in primary supply. Despite the volatility in rates following the Fed meeting, M&A driven issuance and looming Brexit referendum, corporate spreads have remained fairly range bound through the month. Of course exceptions exist, with technology widening on the heels of Dell's six part \$20B deal to fund its upcoming EMC acquisition.
- May's total issuance came out to \$175B and beat the prior all-time record of \$156B (May 2015). Looking ahead, The Street expects roughly \$90-100B in supply for June.

#### GOVERNMENT MARKET

- 2-yr yields increased by 10 bps in May, while the 5-yr and 10-yr yields increased 8 bps and 1 bp respectively. 30-yr yields decreased by about 3 bps.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.07%
Int. Gov/Credit	-0.11%
Aggregate	0.03%
1-3 Yr US Treasury	-0.11%
3-5 Yr US Treasury	-0.21%
5-10 Yr US Treasury	-0.14%
10-20 Yr US Treasury	0.32%
20+ Yr US Treasury	0.86%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.08%	-0.14%	3.14%
Financials	0.12%	0.13%	2.88%
Industrials	-0.29%	-0.38%	3.25%
Utilities	0.85%	0.62%	3.28%
RMBS	0.13%	0.16%	2.37%
CMBS	0.13%	0.24%	2.43%
ABS	0.09%	0.19%	1.53%
Agencies	-0.04%	0.01%	1.77%

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