



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF JUNE 30, 2016

### Market Commentary

#### THE ECONOMY

- A tumultuous month in Europe was capped by the UK voting 52% in favor of leaving the European Union. While a non-binding vote, a likely disruption to the recovery in Europe and the lack of clarity on what the path forward holds caused a spike in volatility in risk assets and safe haven assets to soar. With few tools left in the toolkit for the ECB, a stabilization of the global economy will likely need to come from numerous central banks moving together, as the effects will be felt far beyond the borders of the UK. We see the risk of policy missteps as heightened during this transitional period.
- As a result of underwhelming data in the US, coupled with the uncertainty abroad, the Fed remained in a holding pattern in June and the market no longer expects a rate hike through the balance of 2016 and well into 2017. The US economy remains stronger than much of the developed world but is unlikely to reach escape velocity without stronger growth abroad.

#### STRUCTURED MARKETS

- Following May's strong performance, sentiment in the ABS market cooled and excess returns were flat to slightly positive. Although volatility spiked toward the end of the month following the UK referendum, the ABS market's reaction was more muted and spreads held firm compared with other higher beta sectors. New issue supply was markedly lower in June totaling just \$9.5B, the lowest monthly print YTD. On-the-run benchmark securities continue to see healthy demand due to their strong liquidity profile and carry advantage.

#### CORPORATE CREDIT MARKET

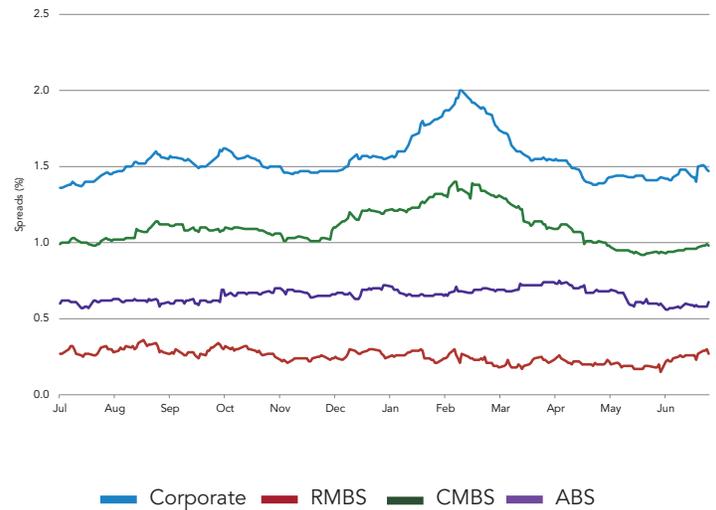
- The Barclays Corporate Index moved out 6 bps in June, with financials widening 11 basis points (bps). Although the moves in equities, FX and rates were fairly violent immediately after the Brexit referendum results, most quoted markets remained relatively muted with the exception of Yankee Banks (30-60 bps of widening). As trade volume picks up, spread weakness may well hit other corporate sectors.
- June was a rather subdued environment for primary issuance at roughly \$87.7B. New issues from month end performed well given central banks' affirmation of loose monetary policy to support global growth. Looking ahead, issuers are likely to evaluate the market on a day-to-day basis due to near-term volatility.

#### GOVERNMENT MARKET

- Yields across the curve decreased in June, led by a 38 bps decrease in the 10-yr. The 2-yr, 5-yr and 30-yr yields decreased 30 bps, 37 bps and 36 bps respectively.

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 © 2016.

#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.60%
Int. Gov/Credit	1.43%
Aggregate	1.80%
1-3 Yr US Treasury	0.60%
3-5 Yr US Treasury	1.49%
5-10 Yr US Treasury	2.52%
10-20 Yr US Treasury	3.95%
20+ Yr US Treasury	6.42%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	2.25%	-0.37%	2.88%
Financials	1.46%	-0.64%	2.68%
Industrials	2.60%	-0.19%	2.97%
Utilities	2.67%	-0.76%	3.00%
RMBS	0.81%	-0.30%	2.07%
CMBS	1.72%	-0.31%	2.12%
ABS	0.83%	0.10%	1.25%
Agencies	1.50%	0.07%	1.52%

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