THE MERGANSER FLASH
FIXED INCOME INSIGHTS
AS OF FEBRUARY 28, 2017

MERGANSER CAPITAL MANAGEMENT

Market Commentary

THE ECONOMY

- Economic indicators have begun to show hard evidence of increased confidence flowing through to economic activity. Core retail sales increased 0.7% and core CPI increased to 2.3% YoY, both well ahead of expectations. Inflation remains within striking distance of the Fed's targets, adding to the upward pressure on ultrashort interest rates. Market expectations for the first rate hike in 2017 shifted forward during the month on the back of the generally stronger economic data and heightened inflation expectations. The market implied probability of a March hike increased dramatically to end the month, rising from less than 50% to 72% in a matter of hours. We continue to expect bouts of volatility as the new administration ponders potentially disruptive policy shifts.

STRUCTURED MARKETS

- Positive investor sentiment in February combined with retail and institutional fund inflows kept ABS spreads moving tighter throughout the month. Including deals that are currently in the marketing phase, YTD supply of $28B is likely to exceed last year's pace.
- Demand is nothing short of robust with both programmatic and esoteric issuer types seeing their deals multiple times oversubscribed and being executed at or below the tight end of initial price guidance.

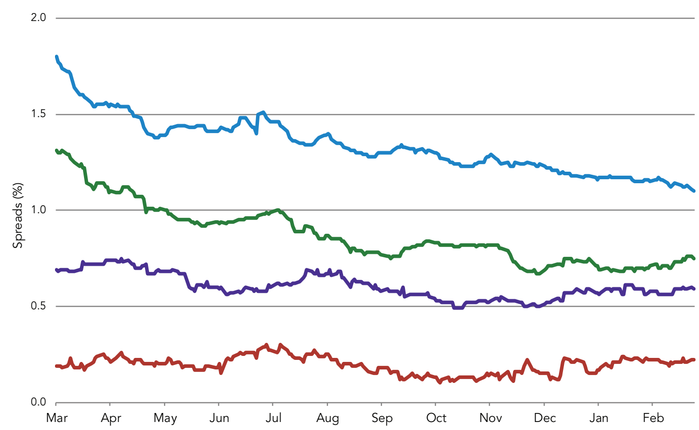
CORPORATE CREDIT MARKET

- The US Corporate Index tightened 6 basis points (bps) through the end of February. Financials and Industrials experienced 8 bps and 6 bps of respective tightening, while Utilities moved in 2 bps on the back of large rate moves on the last day of the month. Despite concerns surrounding potential border tax adjustments on corporate profitability, Industrials were buoyed by Moody's long-awaited upgrade of General Motors to Investment Grade.
- Primary market priced $91B in February, just shy of the expectations for the month. Going forward, M&A driven issuance is likely to be lighter given deal fallouts in Health Insurance and Consumer Products space.

GOVERNMENT MARKET

- During February, 2-yr and 5-yr yields increased 6 bps and 2 bps respectively, while the 10-yr and 30-yr yields decreased 6 bps and 7 bps respectively.

SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.16%
Int. Gov/Credit	0.46%
Aggregate	0.67%
1-3 Yr US Treasury	0.10%
3-5 Yr US Treasury	0.21%
5-10 Yr US Treasury	0.62%
10-20 Yr US Treasury	1.09%
20+ Yr US Treasury	1.61%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.15%	0.49%	3.26%
Financials	1.02%	0.50%	3.04%
Industrials	1.22%	0.51%	3.34%
Utilities	1.09%	0.20%	3.45%
RMBS	0.48%	0.03%	2.85%
CMBS	0.22%	-0.28%	2.75%
ABS	0.14%	0.00%	1.87%
Agencies	0.61%	0.23%	2.07%

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