



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF JUNE 30, 2017

Market Commentary

THE ECONOMY

- After raising rates during the month for the second time this year, the Fed looks poised to take a pause as concerns about inflation losing steam have taken hold. Of note, the Fed telegraphed its intended methodology for its balance sheet reduction which is likely to begin sometime in 2017. Consumer spending continues to underwhelm but the labor market remains robust with unemployment at 4.3%.

STRUCTURED MARKETS

- CMBS issuance stayed relatively strong with another \$8B of private label supply in June. Stable spreads with strong IG fund flows and still steady economic growth continue to offset low absolute yields and multi-year tight spreads. A weaker than expected May jobs report and now three consecutive soft inflation prints give ammunition to the argument for a slower pace of rate hikes. So far the market has absorbed rate hikes, the decline in oil prices, and retail troubles in stride.

CORPORATE CREDIT MARKET

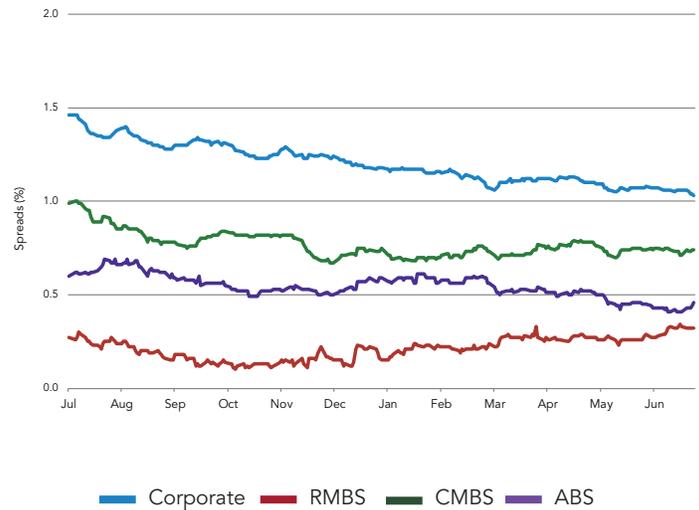
- Corporate spread movement was fairly muted through much of June but ultimately managed to compress 4 basis points (bps) to end the month at 109 bps. The only sector to show any volatility has been Energy, due to the sharp sell-off in the price of oil, which hit a 10-month low of \$42.53/bbl on June 21st (down approximately 22% from highs earlier this year). Still, the combination of strong demand across the corporate sector and credit enhancing moves by many energy issuers over the past 18 months has kept the spread reaction to a minimum relative to the substantial drop in oil. The primary market has slowed moderately as we approach summer but 1H16 has been the largest on record for issuance volume through six months.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased 10 bps and 14 bps respectively for the month of June. The 10-yr yield increased 10 bps for the month of June, while the 30-yr yield decreased 3 bps.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.04%
Int. Gov/Credit	-0.18%
Aggregate	-0.10%
1-3 Yr US Treasury	-0.08%
3-5 Yr US Treasury	-0.25%
5-10 Yr US Treasury	-0.53%
10-20 Yr US Treasury	-0.41%
20+ Yr US Treasury	0.49%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.31%	0.51%	3.19%
Financials	0.22%	0.47%	2.99%
Industrials	0.33%	0.53%	3.28%
Utilities	0.46%	0.59%	3.38%
RMBS	-0.40%	-0.20%	2.87%
CMBS	-0.34%	0.04%	2.71%
ABS	-0.07%	0.02%	1.90%
Agencies	-0.14%	0.04%	2.19%

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