



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF SEPTEMBER 30, 2017

Market Commentary

THE ECONOMY

- As many expected, the Fed left its target rate unchanged at the September meeting but did provide more clarity into the reduction of its balance sheet, which is set to commence in October at a tempered pace. Rates jumped moderately, as the majority of the FOMC members point to one more rate hike in 2017, though longer rates remain comfortably inside year-to-date trading ranges. Economic releases during the month included positive housing data and an optimistic ISM survey, which came in two points higher than expectations and is well into "expansionary" territory, offset by weak retail numbers (though these were likely skewed by temporary effects from Hurricanes Harvey and Irma).

STRUCTURED MARKETS

- After a slow start to the month, ABS new issuance has picked up significantly, totaling just over \$13bn month to date. Autos have led the ABS primary market in September with just under \$8bn of new issuance, mostly consisting of prime auto loan securitization. Most deals this month have priced tighter than the initial price guidance, a sign that investors are showing strong demand for on-the-run ABS sectors. We have also seen an active primary market (just under \$3bn of new issuance MTD) in more esoteric sectors such as timeshares, whole business securitization and consumer loans. Judging from the large demand for such deals, it is clear that investors remain willing to take on lower credit quality in the hunt for incremental yield.

CORPORATE CREDIT MARKET

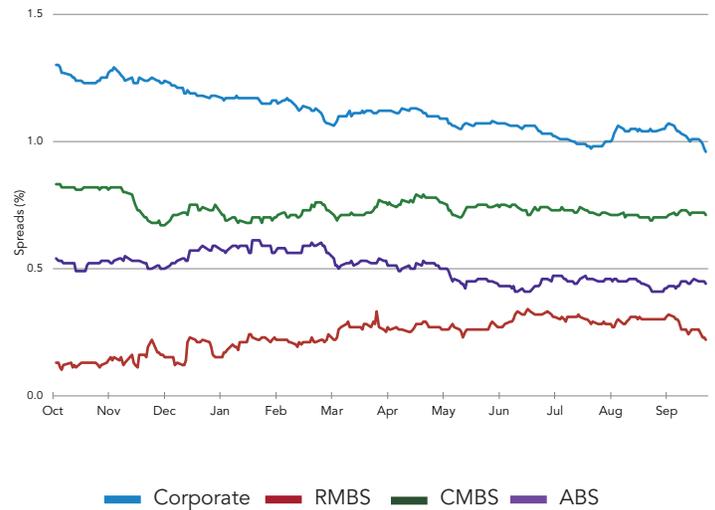
- Light supply towards the latter half of the month and increased demand for investment grade credit drove corporate spreads 9 basis points (bps) tighter through September 30th. According to TRACE data, front-end IG Corporates benefited from favorable rate technicals, given the fairly flat 2 year & 10 year Treasury differential. Primary supply during the month came in at approximately \$130bn, with YTD volume at around \$1.073trn.

GOVERNMENT MARKET

- The 2-yr, 5-yr and 10-yr yields increased by 14 bps, 20 bps and 17 bps respectively, while the 30-yr yield increased by 8 bps for the month of September.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.12%
Int. Gov/Credit	-0.45%
Aggregate	-0.48%
1-3 Yr US Treasury	-0.17%
3-5 Yr US Treasury	-0.58%
5-10 Yr US Treasury	-1.16%
10-20 Yr US Treasury	-1.60%
20+ Yr US Treasury	-2.22%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.17%	0.88%	3.16%
Financials	-0.22%	0.64%	2.94%
Industrials	-0.08%	1.04%	3.25%
Utilities	-0.81%	0.53%	3.34%
RMBS	-0.22%	0.35%	2.81%
CMBS	-0.95%	-0.09%	2.73%
ABS	-0.23%	-0.03%	1.96%
Agencies	-0.45%	0.12%	2.25%

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