



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF OCTOBER 31, 2017

Market Commentary

THE ECONOMY

- While economic data remains noisy due to hurricane related disruptions, data less sensitive to these effects remains modestly expansionary. The gradual unwind of the Fed balance sheet has begun without material market movements and the Fed is positioned to likely hike rates once more in December, despite continued noise in inflation data. The major driver of sentiment has become the shifting probability and form of meaningful tax reform.

STRUCTURED MARKETS

- CMBS supply continues to be well absorbed. Low volatility and a low rate environment allow spreads to continue to grind tighter. AAA's are at multi-year tights. Strong corporate earnings, along with strong manufacturing and jobs data, provide underlying fundamental support. Retail headwinds remain but CMBS spreads continue to largely shrug it off. The most recent news from high profile retailers only affected the lowest-rated pieces of seasoned credit derivatives.

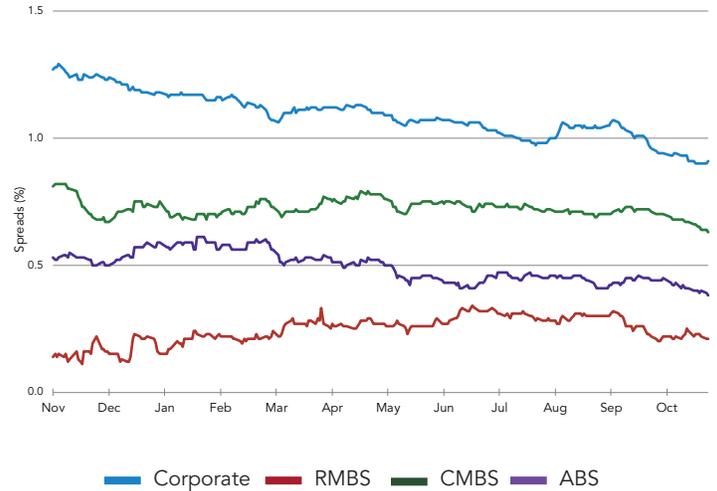
CORPORATE CREDIT MARKET

- The Barclays Corporate Index hit their 10-yr tights by tightening 5 basis points (bps) to end at 95 bps in October. Primary supply in the month was \$125B, split evenly between financials and non-financials. Looking at upcoming issuance, the front-loaded calendar should provide some respite in the month of November.

GOVERNMENT MARKET

- The 2-yr, 5-yr and 10-yr yields increased by 12 bps, 8 bps and 5 bps respectively, while the 30-yr yield increased by 2 bps for the month of October.

SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.03%
Int. Gov/Credit	-0.01%
Aggregate	0.06%
1-3 Yr US Treasury	-0.07%
3-5 Yr US Treasury	-0.15%
5-10 Yr US Treasury	-0.19%
10-20 Yr US Treasury	-0.12%
20+ Yr US Treasury	-0.07%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.40%	0.53%	3.16%
Financials	0.31%	0.43%	2.95%
Industrials	0.43%	0.56%	3.25%
Utilities	0.62%	0.74%	3.33%
RMBS	-0.03%	0.04%	2.86%
CMBS	0.39%	0.55%	2.72%
ABS	0.06%	0.13%	2.02%
Agencies	-0.04%	0.06%	2.33%

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

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