



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF JANUARY 31, 2018

### Market Commentary

#### THE ECONOMY

- Economic data largely in-line with expectations has maintained the positive economic outlook for the coming year. Inflation at target remains elusive but most metrics have stabilized. Market implied inflation expectations, however, have moved steadily higher. The tax code revisions remain a wildcard in the economic landscape, with the cascading short-term and long-term impacts yet to be fully understood. So far, most corporate plans for increased after-tax profits have been focused on shareholder and employee distributions rather than capital spending.

#### STRUCTURED MARKETS

- CMBS has participated in the risk-on rally across the board to start the year. The first conduit deal of the year priced recently with benchmark 10-year AAA's at +66, vs 4th quarter deals in the range of +75-93. New issue BBB- priced at +305, vs 4th quarter deals at 340-450. Tax reform and an expanding economy are supportive of underlying property fundamentals. Relative to other sectors, recent underperformance points to continued tightening/flattening of the credit curve absent a macro shock.

#### CORPORATE CREDIT MARKET

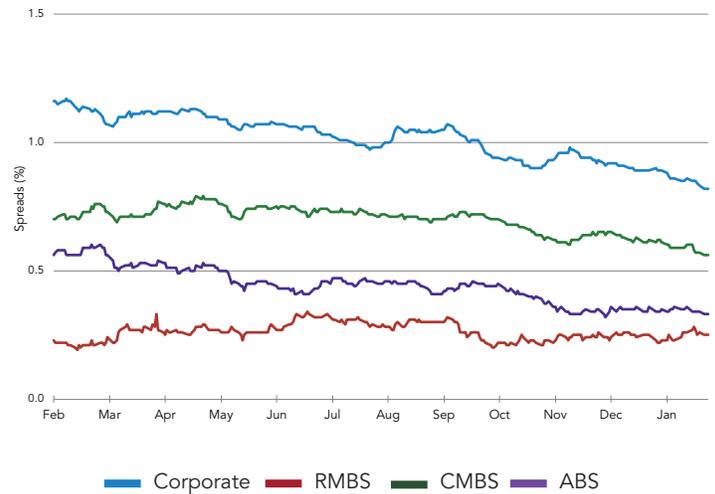
- Corporate credit started off the year on a strong footing with the Bloomberg Corporate Index tightening approximately 8 basis points (bps) through January. Basics, Energy and Communications drove the relative outperformance while Financials, Consumer Cyclical and Capital Goods underperformed on a mix of idiosyncratic credit issues and supply deluge during the month. Approximately \$133B in primary priced during the month and was heavily skewed to financials exiting earnings blackout.

#### GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 26 bps and 31 bps, respectively, for the month of January. The 10-yr and 30-yr yields increased by 30 bps and 20 bps, respectively.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.27%
Int. Gov/Credit	-0.88%
Aggregate	-1.15%
1-3 Yr US Treasury	-0.31%
3-5 Yr US Treasury	-0.98%
5-10 Yr US Treasury	-1.83%
10-20 Yr US Treasury	-2.66%
20+ Yr US Treasury	-3.28%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.96%	0.73%	3.45%
Financials	-0.96%	0.41%	3.30%
Industrials	-0.90%	0.89%	3.52%
Utilities	-1.43%	0.71%	3.55%
RMBS	-1.17%	-0.15%	3.20%
CMBS	-1.09%	0.36%	3.12%
ABS	-0.29%	0.04%	2.48%
Agencies	-0.64%	0.30%	2.76%

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