



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF FEBRUARY 28, 2018

Market Commentary

THE ECONOMY

- Economic data remains supportive of a moderate growth trajectory while signals of higher potential inflation caused significant market consternation during the month. While average hourly earnings growth hit a near term high, the market remains divided as to how transient the effect might be. Inflation data has thus far remained contained, but the market appears concerned that inflation might be poised to rise after certain one-time effects from the first half of 2017 are fully in the rear view mirror. The Fed remains on track to raise rates in March while timing beyond March remains uncertain.

STRUCTURED MARKETS

- The ABS primary market has started the year off on a strong note with about \$43bn of new issuance YTD and about \$18.9bn of new issuance in February with the auto segment leading the way. The front end of the asset backed market has softened in sympathy with the corporate market as investors have taken advantage of wider spreads in short high-grade corporates. The volatility financial markets experienced during the month has had a very minor impact on spreads for AAA cards, prime autos and heavy equipment. However, deep subordinate tranches in subprime autos have widened on the order of 20-30 basis points (bps) where liquidity is the thinnest.

CORPORATE CREDIT MARKET

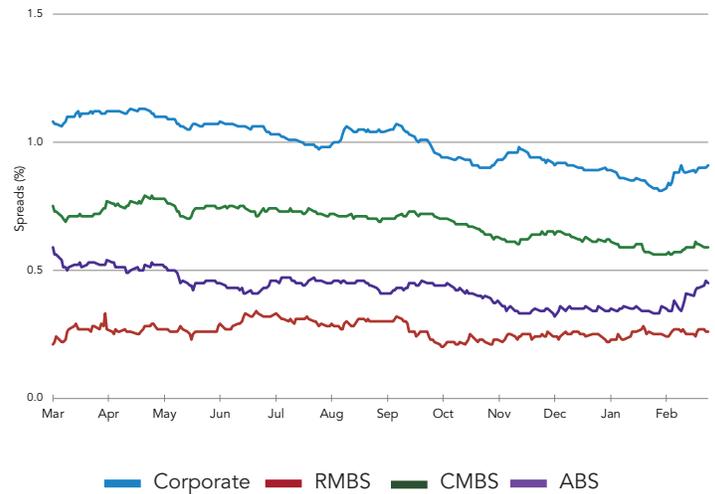
- Volatility made a comeback in February with equities experiencing some of the largest drops on record. The weakness permeated into corporate credit as spreads widened 10 bps during the month. Front-end spreads were especially hard hit due to heavy selling in the one to two-year part of the curve. With respect to the primary market, MTD volume came in at \$94bn with a significant pickup in supply during the latter half of the month. Looking ahead, issuance is expected to be light as repatriation has taken many issuers out of their debt funding needs, however, M&A remains a wildcard.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 11 bps and 13 bps, respectively, for the month of February. The 10-yr and 30-yr yields increased by 16 bps and 19 bps, respectively.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.09%
Int. Gov/Credit	-0.46%
Aggregate	-0.95%
1-3 Yr US Treasury	-0.04%
3-5 Yr US Treasury	-0.26%
5-10 Yr US Treasury	-0.67%
10-20 Yr US Treasury	-1.62%
20+ Yr US Treasury	-3.12%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-1.62%	-0.61%	3.70%
Financials	-1.26%	-0.56%	3.57%
Industrials	-1.78%	-0.66%	3.76%
Utilities	-1.95%	-0.45%	3.78%
RMBS	-0.66%	-0.11%	3.36%
CMBS	-0.62%	-0.09%	3.30%
ABS	-0.27%	-0.20%	2.74%
Agencies	-0.52%	-0.09%	2.91%

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