



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF SEPTEMBER 30, 2018

Market Commentary

THE ECONOMY

- Emerging markets stabilized in September after a rocky August. While many of the catalysts of August's volatility remain, markets emerged from the summer quiet with more confidence in the resilience of international macro conditions. Domestically, economic data remains consistent as the short-term impacts of fiscal stimulus continue. The Fed unceremoniously hiked rates in September to a range of 1.75%-2.00% and is likely to raise rates again in December barring a meaningful macroeconomic disruption.

STRUCTURED MARKETS

- The CMBS primary market was relatively muted in September. Private label (non-agency) supply was light at \$4.4bn MTD, the lowest level of the year as single asset/borrower activity took a break. Agency supply remained active with an above average \$7.3bn. Spreads continue to tighten with no impact from Hurricane Florence or on-going trade disputes. The Fed looks poised to continue raising rates and increased GDP growth estimates. Inflation remains on target and the labor market remains strong, all of which support fundamentals. These forces are again pulling long Treasury rates higher, making CMBS yields more attractive for certain investors, particularly insurance accounts which tend to have large commercial mortgage holdings. As a result, the non-agency credit curve has flattened to the tightest level in seven years.

CORPORATE CREDIT MARKET

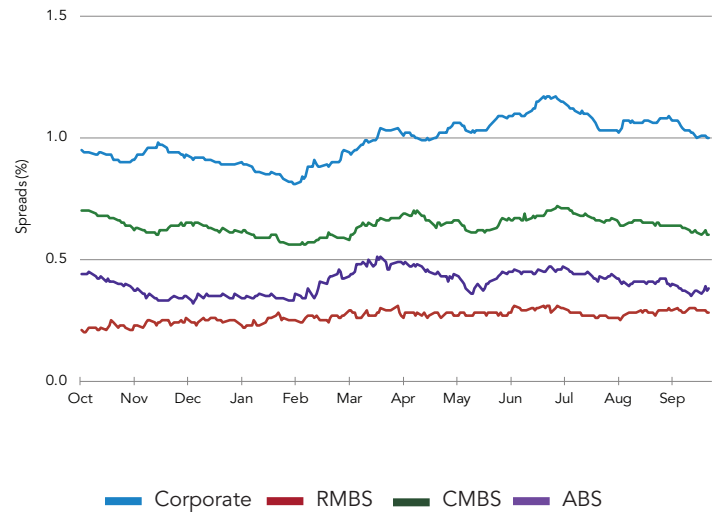
- Corporate spreads tightened 8 basis points (bps) to end at 106 bps in September. Flat all-in-yields and broader appetite for dollar-denominated risk were positive tailwinds for front-end bonds despite heavy primary supply and another round of repatriation selling. Approximately \$139bn of new issues priced throughout the month with a healthy skew to Industrial supply.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 20 bps and 23 bps, respectively, for the month of September. The 10-yr increased by 22 bps and the 30-yr yield increased by 21 bps for the month of September.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.07%
Int. Gov/Credit	-0.40%
Aggregate	-0.64%
1-3 Yr US Treasury	-0.12%
3-5 Yr US Treasury	-0.53%
5-10 Yr US Treasury	-1.06%
10-20 Yr US Treasury	-1.92%
20+ Yr US Treasury	-3.05%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.36%	0.78%	4.06%
Financials	-0.34%	0.50%	3.97%
Industrials	-0.29%	0.94%	4.10%
Utilities	-0.94%	0.66%	4.12%
RMBS	-0.61%	0.11%	3.59%
CMBS	-0.49%	0.29%	3.57%
ABS	-0.04%	0.11%	3.16%
Agencies	-0.18%	0.38%	3.36%

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