



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF NOVEMBER 30, 2018

Market Commentary

THE ECONOMY

- Risk assets continued to weaken in November as the reemergence of Brexit risks, trade war concerns and weakening growth outlook gave investors pause. A full-fledged flight to quality has yet to completely materialize, as Treasury yields only fell modestly. In contrast, market expectations of a Fed hike in December moved from a near certainty to some lingering doubts. The short-term effects of fiscal stimulus seem to be wearing off, leaving a modest growth economy with at-target inflation.

STRUCTURED MARKETS

- The market took a large, long-awaited retailer bankruptcy filing in stride after years of worrying about the outcome. This should accelerate the 'winners and losers' in the mall sector and we are starting to see owners 'turn in the keys' earlier than previously expected. November was the busiest month of the past year for new issue yet both private label and agency CMBS new issuance volumes are running close to flat versus last year. After reaching multi-year tightness earlier in the year, CMBS spreads have been widening during Q4 in sympathy with other risk markets and the credit curve has steepened. To this point, interest rate increases have been a reaction to a strong economy which should buoy fundamentals, but increasing worries over inflation, fund flows and trade wars could pose a challenging technical going forward.

CORPORATE CREDIT MARKET

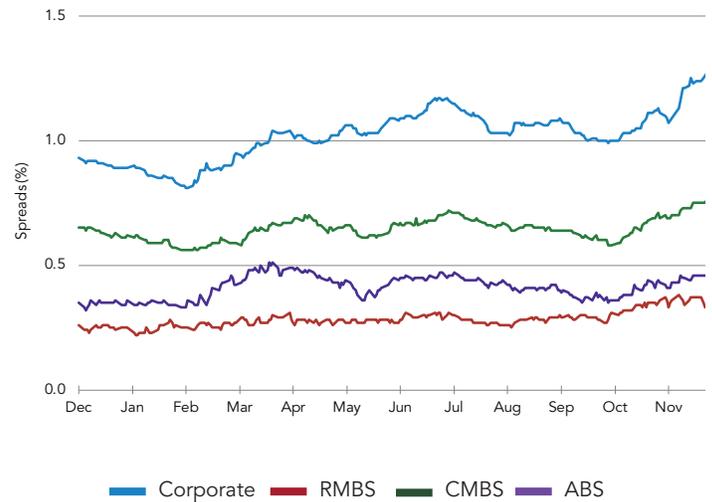
- Risk assets underperformed during the month. Corporate OAS widened 12 basis points (bps) to end at 137 bps. Macro concerns surrounding Brexit and Italian budget negotiations were headwinds while idiosyncratic credit issues added to the weakness, as markets wrestled with the implications of increasing leverage in the "BBB" cohort, plummeting crude prices and potential liabilities associated with the California wildfires. While the new issue market was quiet during the most volatile days in November, supply ended in line with expectations at \$89bn.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 8 bps and 16 bps, respectively, for the month of November. The 10-yr yield decreased by 16 bps and the 30-yr yield decreased by 10 bps for the month of November.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.29%
Int. Gov/Credit	0.45%
Aggregate	0.60%
1-3 Yr US Treasury	0.36%
3-5 Yr US Treasury	0.69%
5-10 Yr US Treasury	1.16%
10-20 Yr US Treasury	1.66%
20+ Yr US Treasury	1.91%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.17%	-1.20%	4.36%
Financials	-0.12%	-1.01%	4.25%
Industrials	-0.16%	-1.24%	4.41%
Utilities	-0.45%	-1.73%	4.40%
RMBS	0.90%	0.00%	3.65%
CMBS	0.66%	-0.26%	3.68%
ABS	0.38%	-0.02%	3.27%
Agencies	0.34%	-0.36%	3.50%

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