



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF DECEMBER 31, 2018

Market Commentary

THE ECONOMY

- Risk remains “for sale” as global macro concerns and gridlock in Washington led to continued market volatility. Treasury yields beyond 5 years fell by more than 25 basis points (bps) on a flight to quality. The Fed raised rates despite pressure from the Executive Branch, but reduced expectations for further rate increases as economic headwinds mount. The economy remains on stable footing but the expectations for global growth are clearly lower than 6 months ago.

STRUCTURED MARKETS

- As expected, the ABS primary market slowed down in December with only \$6.7B in new issuance. Once again, Autos made up the bulk of issuance with just under \$4B. Esoteric issuers continue to find attractive financing rates with approximately \$1.9B in esoteric ABS pricing. No credit card or equipment ABS deals were brought to market. ABS spreads widened modestly through the month. With much more significant spread widening and volatility across other IG fixed income sectors, ABS turned out to be a relatively strong performer through some of the most extreme and prolonged market volatility we have seen in recent years across capital markets.

CORPORATE CREDIT MARKET

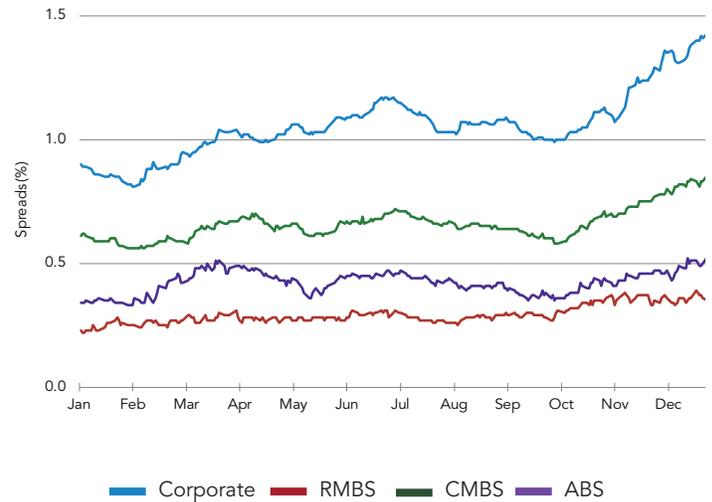
- Credit missed the holiday cheer with corporate spreads widening 16 bps to end at 153 bps in December. Equity volatility, seasonal lack of liquidity and political uncertainty factored into the weakness during the month. Supply was noticeably light due to \$8.3B in primary issuance, bringing total issuance for the year to \$1.15T. For reference, 2018 saw a 14% drop from 2017’s record setting supply of \$1.33T. Subject to benign market conditions, there is a backlog of expected issuance in the new year given street estimates for January issuance at around \$120-140B.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields each decreased by 30 bps for the month of December. The 10-yr yield also decreased by 30 bps, while the 30-yr yield decreased by 28 bps for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.78%
Int. Gov/Credit	1.34%
Aggregate	1.84%
1-3 Yr US Treasury	0.81%
3-5 Yr US Treasury	1.62%
5-10 Yr US Treasury	2.38%
10-20 Yr US Treasury	3.85%
20+ Yr US Treasury	5.59%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.47%	-1.06%	4.20%
Financials	1.22%	-0.83%	4.09%
Industrials	1.50%	-1.19%	4.26%
Utilities	2.34%	-0.98%	4.21%
RMBS	1.81%	-0.15%	3.39%
CMBS	1.62%	-0.40%	3.44%
ABS	0.79%	-0.08%	3.06%
Agencies	1.42%	-0.16%	3.17%

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