



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF MARCH 31, 2019

Market Commentary

THE ECONOMY

- Concerns of global macroeconomic weakness heightened during the month as Brexit gridlock, signs of weakening in Germany, and data out of China surprised to the downside. With the Fed signaling more support for the market than anticipated, market participants have determined that the “Fed put” remains alive and well with balance sheet reduction and rate hikes both on hiatus. US economic data remains mixed and noisy, as shutdown impacts are potentially skewing data, including a notably weak retail sales report for February (with higher than average revisions higher for January), offset by a firm employment environment.

STRUCTURED MARKETS

- YTD CMBS supply is down year over year, driven by single asset single borrower and traditional conduit deals. Low supply amidst a market hungry for duration and yield after the Fed’s dovish pivot allowed spread to rally with other risk assets. Benchmark new issue 10-year AAA conduit priced in the low 80’s, versus low 100’s in December. BBB- rebounded to the low 300 area versus high 300 area. This should aid new supply going forward. February’s weak non-farm payroll (20k) leaves the three month moving average at a still strong 186k. Given strong consumer sentiment and a more dovish Fed, we look for further evidence of a slowdown in the labor market before concluding that slower GDP growth has changed the trajectory of fundamentals.

CORPORATE CREDIT MARKET

- The Bloomberg Barclays Corporate Index tightened 1 basis point (bps) to end at 119 bps for the month of March. Despite violent rate moves post-Fed, risk assets continued their tepid rally on steady, albeit noisy, economic data and an accommodative Fed. Financials were the weakest positive performer given potential profitability pressures stemming from a flat/inverted curve environment. Primary supply for the month came in at \$117b with the bulk of issuance driven by Industrials.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 25 bps and 28 bps, respectively, for the month of March. The 10-yr and 30-yr yields decreased by 31 bps and 27 bps for the month of March.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.66%
Int. Gov/Credit	1.35%
Aggregate	1.92%
1-3 Yr US Treasury	0.62%
3-5 Yr US Treasury	1.24%
5-10 Yr US Treasury	2.08%
10-20 Yr US Treasury	3.70%
20+ Yr US Treasury	5.38%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	2.51%	0.24%	3.63%
Financials	1.92%	0.12%	3.46%
Industrials	2.73%	0.30%	3.71%
Utilities	3.27%	0.25%	3.70%
RMBS	1.46%	-0.11%	3.08%
CMBS	1.75%	0.02%	3.01%
ABS	0.72%	0.02%	2.70%
Agencies	1.63%	0.27%	2.90%

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