



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF JUNE 30, 2019

Market Commentary

THE ECONOMY

- While little data supported a rebound in macroeconomic outlook from May, optimism surrounding a supportive Fed and reduced trade war rhetoric improved the balance of sentiment. After drawing Mexico into the crosshairs in the ever-expanding scope of tough talk on trade, President Trump has, for now, walked back on escalating tariffs. Market participants are now focusing on the next batch of sentiment data to ascertain the amount of lasting damage done by trade war rhetoric on capital spending and hiring. We continue to monitor threats from Washington for signs of divergence from the current playbook of cycles of escalation/de-escalation.

STRUCTURED MARKETS

- The ABS primary market had another strong month of issuance with about \$21.3bn of new deals pricing in June. Once again, Auto ABS led June issuance in the primary market with \$10bn in new deals pricing. Credit card issuance remains very light with only \$1.2bn hitting the primary market. In the secondary market, Auto and Other AAA ABS outperformed their lower quality counterparts through June. However, lower quality subordinated Credit Card ABS slightly outperformed its AAA senior peers. Generally, secondary credit spreads were modestly wider across all major investment grade ABS sectors.

CORPORATE CREDIT MARKET

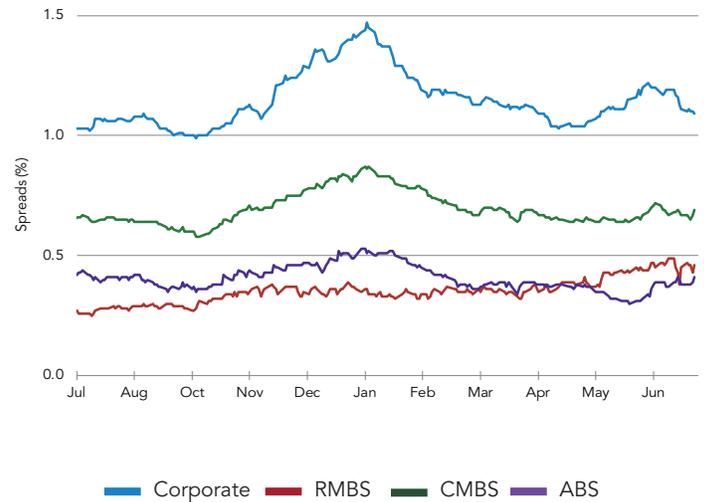
- Corporate spreads tightened 14 basis points (bps) to end at 115bps for the month of June. The relief rally during the month was a function of accommodative central bank posturing out of the US and Europe and renewed optimism ahead of the G20 summit. The primary engine issued approximately \$82bn, bringing YTD new issuance to \$632bn (13% decline YoY).

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 17 bps and 15 bps, respectively, for the month of June. In addition, the 10-yr and 30-yr yields decreased by 12 bps and 4 bps, respectively.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

| | Total Return MTD |
|----------------------|------------------|
| 1-3 Gov/Credit | 0.56% |
| Int. Gov/Credit | 1.07% |
| Aggregate | 1.26% |
| 1-3 Yr US Treasury | 0.52% |
| 3-5 Yr US Treasury | 0.88% |
| 5-10 Yr US Treasury | 1.22% |
| 10-20 Yr US Treasury | 1.46% |
| 20+ Yr US Treasury | 1.32% |

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

| | Total Return MTD | Excess Return* MTD | Current YTM |
|-------------|------------------|--------------------|-------------|
| Corporates | 2.45% | 1.44% | 3.16% |
| Financials | 2.00% | 1.08% | 2.96% |
| Industrials | 2.72% | 1.68% | 3.25% |
| Utilities | 2.06% | 0.93% | 3.31% |
| RMBS | 0.72% | 0.02% | 2.70% |
| CMBS | 1.00% | -0.01% | 2.54% |
| ABS | 0.42% | -0.13% | 2.21% |
| Agencies | 0.63% | -0.15% | 2.51% |

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