



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF JULY 31, 2019

### Market Commentary

#### THE ECONOMY

- The Fed cut rates by 25 basis points (bps) after data releases in July showed the US economy remains on stable enough footing to not require the blunt force intervention of a 50 bps cut. Second quarter GDP was 100 bps below first quarter at 2.1%, but ahead of expectation as consumer spending remained strong, offsetting reduced business investment. The divergence between consumer and business spending remains a source of concern as business pessimism can bleed into consumer confidence. The election of Boris Johnson as UK Prime Minister promises to stoke further Brexit-driven volatility.

#### STRUCTURED MARKETS

- CMBS issuance in July was manageable as summer settles in and activity slows. Conduit and Agency CMBS volumes are in line with 2018 YTD figures. Single Asset/Borrower activity is down versus 2018 but is expected to pick up and, as always, is lumpy. The CLO subsector continues to show significant growth but is still rather small at ~\$11bn YTD. Spreads widened in June on fears of slowing growth but rallied back in July on hopes of a rate cut. With the large move in 10-year rates this year, long term fixed rate borrowing costs are again below 4% for stabilized commercial real estate which could spur additional activity.

#### CORPORATE CREDIT MARKET

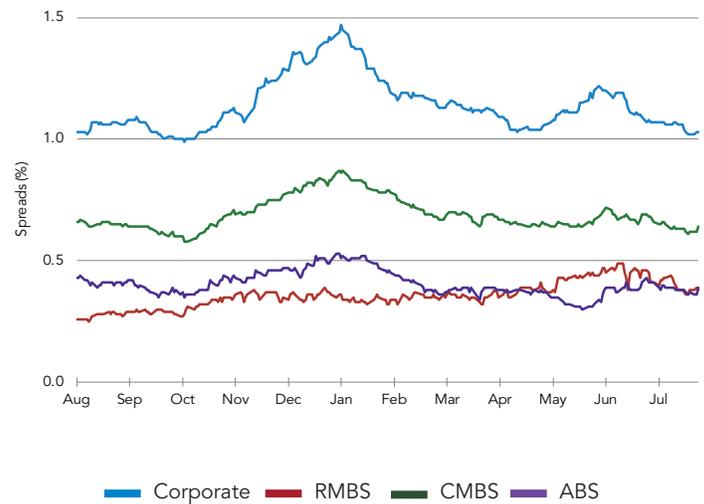
- The Bloomberg Barclays Corporate Index tightened 5 bps to end at 108 bps. Accommodative posturing out of global central banks, relatively benign corporate earnings and the continued search for yield sustained the continued rally in corporate spreads during the month. Approximately \$94bn came through the new issue machine during the month versus \$62bn in July 2018. Domestic and Yankee financials drove much of the supply given post-blackout activity and bail-in related issuance structures.

#### GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 12 bps and 6 bps, respectively, for July. In addition, the 10-yr increased by 1 bp and the 30-yr decreased by less than 1 bp for the month.

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#### SPREADS TO TREASURIES



#### BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.06%
Int. Gov/Credit	-0.03%
Aggregate	0.22%
1-3 Yr US Treasury	-0.12%
3-5 Yr US Treasury	-0.28%
5-10 Yr US Treasury	-0.18%
10-20 Yr US Treasury	0.14%
20+ Yr US Treasury	0.16%

#### SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.56%	0.63%	3.17%
Financials	0.41%	0.51%	2.98%
Industrials	0.56%	0.61%	3.26%
Utilities	1.24%	1.25%	3.25%
RMBS	0.40%	0.43%	2.66%
CMBS	0.21%	0.37%	2.56%
ABS	-0.02%	0.08%	2.32%
Agencies	0.19%	0.28%	2.57%

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