



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF AUGUST 31, 2019

Market Commentary

THE ECONOMY

- Following the Fed rate cut of 25 basis points (bps) on July 31st, US/China trade war rhetoric resumed in earnest and overshadowed the economic data underpinning the Fed's decision to keep the July cut to a minimum. Risk assets sold off markedly and a flight to quality drove US Treasury rates to their lowest level in three years. Uncertainty surrounding US/China trade and the path to Brexit has led to weaker sentiment, while economic measures (such as employment, retail sales and inflation) continue to reflect a healthy US economy.

STRUCTURED MARKETS

- The ABS primary market had a relatively light month of issuance with \$18.3bn of deals pricing in August. Once again, Auto issuance led the way with about \$8.5bn of new deals pricing. Issuance in the more esoteric ABS sectors remains strong with \$4.3bn in deals pricing in August. In the secondary ABS market, more traditional sub-sectors such as Autos and Credit Cards experienced very muted spread movement and slightly positive excess returns, while other ABS sub-sectors experienced modest spread widening and negative excess returns.

CORPORATE CREDIT MARKET

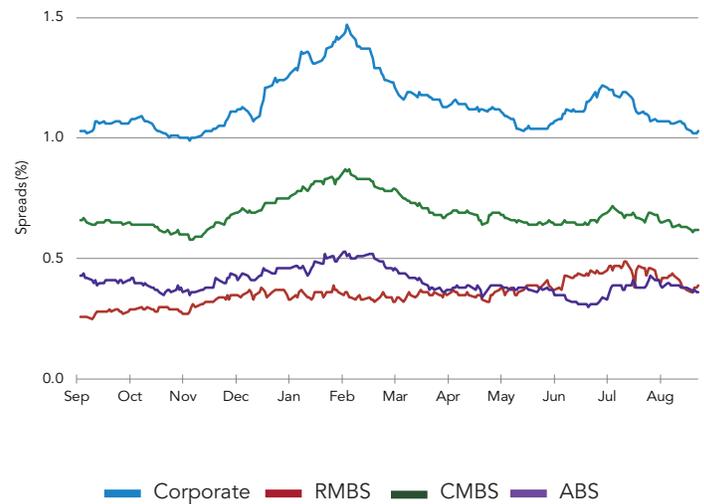
- The Bloomberg Barclays Corporate Index widened 12 bps to end at 120 bps in August. From pro-Democracy protests in Hong Kong to ongoing trade war headlines, markets gyrated on heightened volatility during the month. Lighter primary volume of around \$80bn month to date (versus \$87bn in August 2018) was somewhat of an offset. Looking ahead, the new issue machine will likely pick up in earnest following the Labor Day weekend.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 37 bps and 44 bps, respectively, for the month of August. In addition, the 10-yr and 30-yr yields decreased by 52 bps and 56 bps, respectively, for the month.

This commentary has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular issuer, security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This commentary contains or incorporates by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors. No part of this article may be reproduced in any form, or referred to in any other publication, without the express written permission of Merganser Capital Management © 2019.

SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.81%
Int. Gov/Credit	1.77%
Aggregate	2.59%
1-3 Yr US Treasury	0.82%
3-5 Yr US Treasury	1.79%
5-10 Yr US Treasury	3.22%
10-20 Yr US Treasury	6.59%
20+ Yr US Treasury	10.82%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	3.14%	-1.05%	2.83%
Financials	2.48%	-0.63%	2.64%
Industrials	3.33%	-1.23%	2.93%
Utilities	4.53%	-1.39%	2.89%
RMBS	0.89%	-0.63%	2.28%
CMBS	2.38%	-0.23%	2.17%
ABS	1.09%	0.15%	1.91%
Agencies	2.22%	0.01%	2.18%

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