



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of October 31, 2019

MARKET COMMENTARY

The Economy

October brought a slight decline in geopolitical risks, with the US-China trade negotiations progressing towards a 'phase 1' deal and the UK delaying exit until a general election vote in December. Recent economic data shows a possible slowdown in domestic demand in both retail sales and durable goods orders, however, job gains have remained resilient. The housing market is mixed with solid weekly mortgage applications and gradually increasing home prices but disappointing home sale figures. The FOMC cut rates another 25 basis points (bps) at the October meeting, yet further cut expectations point toward early next year.

Structured Markets

Private label CMBS issuance is on track to match the post-crisis high from 2015. Growth in single asset/borrower and commercial real estate CLO's has offset declines in traditional conduit issuance. The CMBS market priced \$12 billion of private label supply in October, including the largest post-crisis deal, a \$5.6 billion single borrower transaction. Traditional conduit issuance was light at under \$2 billion. Spreads have been rangebound around YTD averages.

Corporate Credit Market

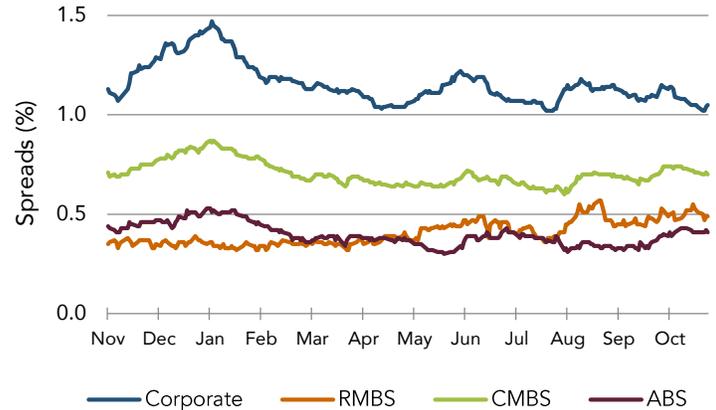
The Bloomberg Barclays Corporate Index tightened 5 bps to end at 110 bps through October 31st. The lack of issuance during earnings blackout coupled with net-positive, high-grade flows continues to support the technical grind tighter. Long duration and down in quality bonds outperformed as investors embraced potential progress in trade negotiations and central bank intervention in the face of slowing global growth. Primary issuance was light at \$77 billion but the expectation is that more supply will come out as companies exit earnings blackout.

Government Market

The 2-yr yield decreased by 10 bps while the 5yr yield decreased by 2 bps for the month of October. Meanwhile, the 10-yr and 30-yr yields increased by 3 bps and 7 bps, respectively, for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.35%
Int. Gov/Credit	0.40%
Aggregate	0.30%
1-3 Yr US Tsy	0.33%
3-5 Yr US Tsy	0.30%
5-10 Yr US Tsy	0.22%
10-20 Yr US Tsy	-0.43%
20+ Yr US Tsy	-0.89%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.61%	0.60%	2.86%
Financials	0.77%	0.63%	2.64%
Industrials	0.54%	0.57%	2.96%
Utilities	0.51%	0.72%	2.96%
RMBS	0.35%	0.09%	2.45%
CMBS	0.33%	0.08%	2.29%
ABS	0.27%	-0.05%	1.96%
Agencies	0.52%	0.31%	2.27%

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