



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of December 31, 2019

MARKET COMMENTARY

The Economy

Economic data for December largely supported the Fed's stable positioning. Employment data continued to exceed market expectations with solid job additions, boosted in part by the end of the General Motors strike. Sales of new homes reached the best three months in over a decade, while residential construction and housing starts were also positive. Business investment remained tepid with flat capital goods and durable goods orders. The Fed's intervention in the repo market was sufficient to reduce year-end volatility, but uncertainty remains as to how to build a permanent solution.

Structured Markets

As expected, the ABS primary market was very light in December with only \$4.1bn of new deals pricing. Total 2019 ABS issuance came in above most estimates at \$248bn. More than half of 2019 issuance was in Auto ABS with just over \$125bn of Auto deals pricing. This is a small increase from 2018 Auto issuance of \$116bn. The more Esoteric ABS sectors continue to be a growing part of the primary market, while more traditional Credit Card issuance decreased about 33% in 2019 compared to 2018. Auto and Credit Card spreads widened in December, but YTD were modestly tighter. Esoteric ABS spreads were slightly wider through December. Lower quality Esoteric ABS were the worst performers within ABS subsectors through 2019 and were the only ABS index category to post negative excess returns for the year. Lower quality Auto ABS were the best performers in 2019 posting the largest excess returns out of the major indices.

Corporate Credit Market

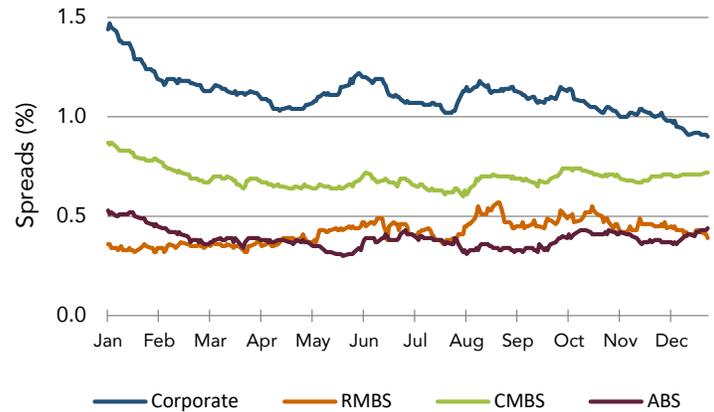
2019 was a banner year across most risk assets and the Bloomberg Barclays Corporate Index was no exception. Positive developments in trade negotiations drove the index 12 basis points (bps) tighter to end the year at 93 bps. December supply of just \$24bn was typical for the holiday month, but a notable rebound compared to December 2018's supply of \$9bn. 2019 issuance totaled \$1,205bn. Looking ahead, 2020 street estimates call for roughly a 5-10% drop in supply.

Government Market

The 2-yr yield decreased by 4 bps while the 5-yr yield increased by 7 bps for the month of December. The 10-yr and 30-yr yields increased by 14 bps and 18 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 © 2020.

SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.24%
Int. Gov/Credit	0.13%
Aggregate	-0.07%
1-3 Yr US Tsy	0.22%
3-5 Yr US Tsy	0.02%
5-10 Yr US Tsy	-0.43%
10-20 Yr US Tsy	-1.74%
20+ Yr US Tsy	-2.89%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.32%	1.19%	2.86%
Financials	0.43%	0.92%	2.63%
Industrials	0.36%	1.35%	2.96%
Utilities	-0.47%	0.98%	3.04%
RMBS	0.28%	0.34%	2.54%
CMBS	-0.25%	0.02%	2.48%
ABS	0.11%	-0.05%	2.05%
Agencies	0.12%	0.38%	2.34%

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