



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of January 31, 2020

MARKET COMMENTARY

The Economy

January began with an easing of geopolitical risks as an agreement of a Phase One deal between the US and China was signed and further escalation of tariffs was avoided. The housing market saw strong existing home sales and housing starts, with the limited supply of homes leading to continued modest home price appreciation. The Coronavirus, originating in Wuhan, China, spread rapidly across the globe in the past month, erasing gains in world equity markets in a flight to safety. While the response to the disease has been swift and broad based, the efficacy of the intervention is yet untested as fatalities continue to grow, leading China to delay the reopening of financial markets following the New Year holiday by several days.

Structured Markets

The CMBS market closed out 2019 on a strong note with nearly \$13bn private label supply in December capping off at \$115bn for the year (+27% vs 2018). This carried over to a strong start to 2020 with \$6bn YTD highlighted by another large (\$3+bn) single borrower industrial portfolio. New issue ten-year AAA spreads moved noticeably tighter to mid-70's in January, after lagging corporates in Q4 when they averaged +95. Agency supply has been slower, up 7% for 2019 and just \$5bn YTD as they adjust to new conservator regime and origination targets.

Corporate Credit Market

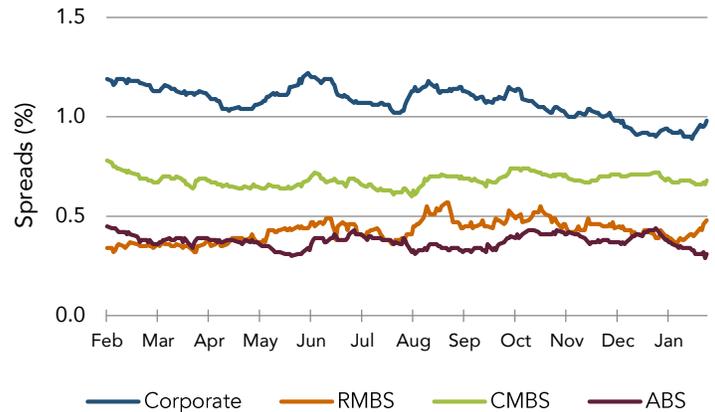
The Bloomberg Barclays Corporate Index widened 9 basis points (bps) to end at 102 bps for January. The weakness was attributed to global pandemic concerns surrounding the Coronavirus outbreak. On the supply front, market participants digested \$150Bn in issuance that priced at flat to negative new issue concessions.

Government Market

The 2-yr decreased by 26 bps while the 5-yr yield decreased by 38 bps for the month of January. The 10-yr and 30-yr yields decreased by 41 bps and 39 bps, respectively, for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.55%
Int. Gov/Credit	1.42%
Aggregate	1.92%
1-3 Yr US Tsy	0.55%
3-5 Yr US Tsy	1.43%
5-10 Yr US Tsy	2.65%
10-20 Yr US Tsy	5.28%
20+ Yr US Tsy	6.99%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	2.34%	-0.80%	2.60%
Financials	1.94%	-0.44%	2.35%
Industrials	2.38%	-1.01%	2.71%
Utilities	3.75%	-0.54%	2.74%
RMBS	0.70%	-0.53%	2.26%
CMBS	2.49%	0.38%	2.07%
ABS	0.99%	0.32%	1.67%
Agencies	1.60%	-0.15%	2.08%

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