



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of February 29, 2020

MARKET COMMENTARY

The Economy

February was dominated by the daily developments of COVID-19. Global containment efforts have yet to demonstrate efficacy, leaving the economic impact unbounded to date. There was a rapid deterioration in financial market sentiment and flight to quality to end the month. Interest rates declined across the curve from 40 basis points (bps) in the front end to 32 bps in the long bond. While the Fed has issued a statement of willingness to provide policy loosening, the Fed also recognized its poor match of policy tools for responding to the risks presented by COVID-19. The question is no longer whether but how much the Fed will reduce rates in the coming meetings.

Structured Markets

The ABS primary market is off to another solid start in 2020 with \$42bn of new deals pricing YTD. Auto ABS issuance continues to be the leader with \$25bn in issuance YTD. Esoteric ABS, most notably Aircraft and Consumer Loans, continue to be well received by investors looking for incremental yield versus the more traditional ABS segments. In secondary markets, ABS credit spreads are tighter across most major indices YTD given the strong investor demand and stability in a time when the United States has been presented with economic uncertainties.

Corporate Credit Market

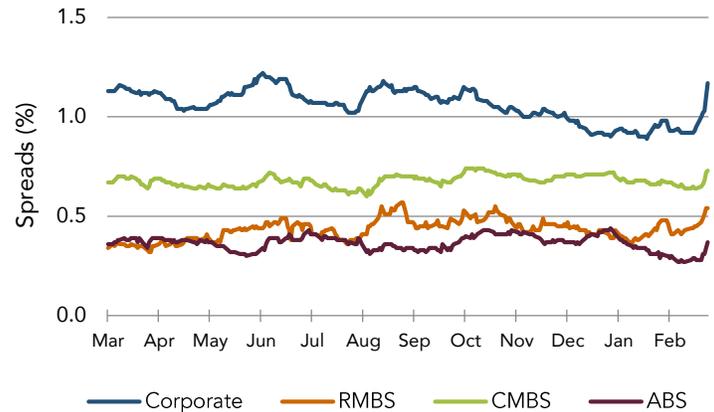
Global pandemic fears around the COVID-19 outbreak caused corporate spreads to widen during the month. The Bloomberg Barclays Corporate Index widened 20 bps to end at 122 bps in February. MTD primary issuance came in at \$94bn but slowed down significantly in the latter half of the month.

Government Market

The 2-yr decreased by 40 bps while the 5-yr yield decreased by 38 bps for the month of February. The 10-yr and 30-yr yields decreased by 36 bps and 32 bps, respectively, for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.82%
Int. Gov/Credit	1.41%
Aggregate	1.80%
1-3 Yr US Tsy	0.90%
3-5 Yr US Tsy	1.68%
5-10 Yr US Tsy	2.69%
10-20 Yr US Tsy	4.93%
20+ Yr US Tsy	6.87%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.34%	-1.76%	2.44%
Financials	1.15%	-1.29%	2.18%
Industrials	1.29%	-2.03%	2.57%
Utilities	2.51%	-1.60%	2.51%
RMBS	1.04%	-0.07%	1.88%
CMBS	1.92%	-0.25%	1.74%
ABS	0.89%	-0.06%	1.31%
Agencies	1.00%	-0.85%	1.82%

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