THE MERGANSER FLASH
FIXED INCOME INSIGHTS
As of March 31, 2020

MERGANSER CAPITAL MANAGEMENT

MARKET COMMENTARY

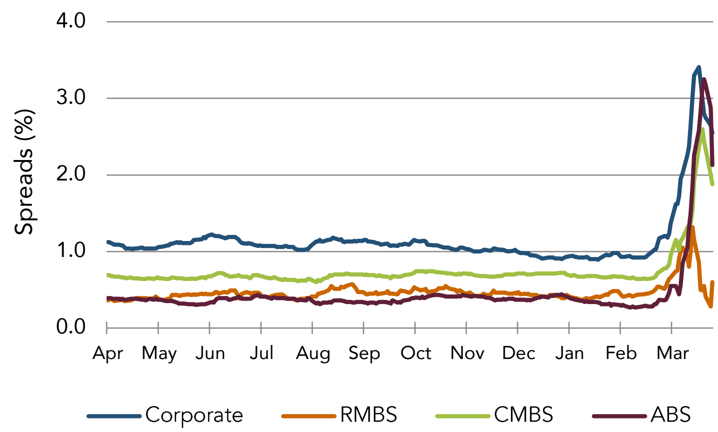
The Economy
Throughout the month of March, we have seen extreme volatility across all markets triggering both high and low circuit breaker levels, historic daily interest rate swings, rapid tightening of financial conditions and strains in credit market functioning. The Fed responded aggressively by reinstating several expanded policy tools, from open-ended QE to funding facilities in support of the flow of credit/liquidity in the money market, corporate credit and ABS markets. Next up was the fiscal response, valued at $2.8 trillion in aid ranging from checks to households, temporary tax deferrals, loans to businesses and funding for the Fed's lending facilities. Initial Jobless Claims spiked the most on record to 3.28 million with future weeks anticipating similar prints. Ahead we look for the swift implementation of monetary and fiscal stimulus, with an eye on potential waves of painful economic data to come.

Structured Markets
The non-agency CMBS new issue market is frozen as the market awaits clarity on which tenants and owners will make lease and mortgage payments as lock-downs take effect. High profile deals such as a multi-billion dollar loan on Las Vegas casinos have been ‘hung’. Freddie continues to issue multi-family deals (KF77 announced 4/1) aided by Fed buying of agency CMBS but apartments will not be immune from tenants’ inability to pay rent. Both Freddie and Fannie have announced abatement programs for affected property owners, we await details on ‘take-up’. Selling from mortgage REIT liquidations has pressured technicals in credit sensitive bonds. Recent vintage non-agency AAA spreads are in the high 100’s (bp spread) and have recovered from the 300 area and BBB’s are around 10%. The announcement by the Fed of the restart of the TALF ABS program has provided support to the secondary market and underscored the importance of the asset backed market in providing funding to the consumer. We expect primary market issuance under the program to begin in the next few months.

Corporate Credit Market
March was one of the worst months on record across all risk assets as investors hit the panic button given the uncertainty surrounding the COVID-19 outbreak’s impact on global growth. The corporate index widened 150 basis points (bps) to 272 bps through the month of March. The introduction of global fiscal and monetary stimulus provided some measure of relief with the corporate index moving 101 bps off the wides toward the end of the month. Despite market conditions, the primary market set all-time records in issuance as companies shored up liquidity ahead of a challenging operating environment in the weeks ahead. Total issuance for the month was $261bn, which beat the previous supply record of $175bn.

Government Market
The 2-yr decreased by 67 bps while the 5-yr yield decreased by 56 bps in the month of March. The 10-yr and 30-yr yields decreased by 48 bps and 35 bps, respectively, for the month.

SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.31%
Int. Gov/Credit	-0.44%
Aggregate	-0.59%
1-3 Yr US Tsy	1.29%
3-5 Yr US Tsy	2.17%
5-10 Yr US Tsy	3.08%
10-20 Yr US Tsy	4.38%
20+ Yr US Tsy	6.24%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-7.09%	-10.40%	3.56%
Financials	-5.62%	-8.39%	3.30%
Industrials	-7.70%	-11.19%	3.71%
Utilities	-8.19%	-12.30%	3.45%
RMBS	1.06%	-0.22%	1.34%
CMBS	-3.13%	-5.74%	2.37%
ABS	-2.07%	-3.42%	2.40%
Agencies	-2.61%	-4.77%	1.87%

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