



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of April 30, 2020

MARKET COMMENTARY

The Economy

April brought continued monetary and fiscal policy response, which provided a tailwind to financial markets after a historically volatile month of March. Congress passed \$484bn in additional funding for the Paycheck Protection Program established in March to help small businesses and now hospitals. The Fed announced \$2.3tn in expanded funding facilities aimed at the municipal bond market, large and small businesses. The economic data released throughout the month was stale as the nation remains in economic lockdown and most states are entering their COVID-19 surges. After the peak on March 27, weekly unemployment claims continued to roll in at unprecedented levels throughout April, yet hopefully continue to trend downward. Economic data is expected to deteriorate in the coming weeks as we look for signs of slowing cases, increased testing and further containment.

Structured Markets

The ABS primary market reopened in April following a month-long stand still due to the developing COVID-19 pandemic. Eleven ABS deals totaling \$9.6bn of issuance priced in April, led by \$5.3bn in prime auto loan issuance. Most deals were well received by investors and issuers were able to price most tranches with spreads tighter than initial price guidance (albeit at historically wide credit spreads). No new issue ABS has been funded through the Federal Reserve's TALF facility so far, but we do expect to see some TALF-eligible issuance in coming months. April's secondary market liquidity has returned from its March hiatus, and ABS buyers have emerged with lots of cash to put to work. As a result, credit spreads across most of the major ABS indices have tightened to more normalized levels. All eyes now turn forward to monthly reporting on collateral performance as the world re-calibrates to a new economic "normal".

Corporate Credit Market

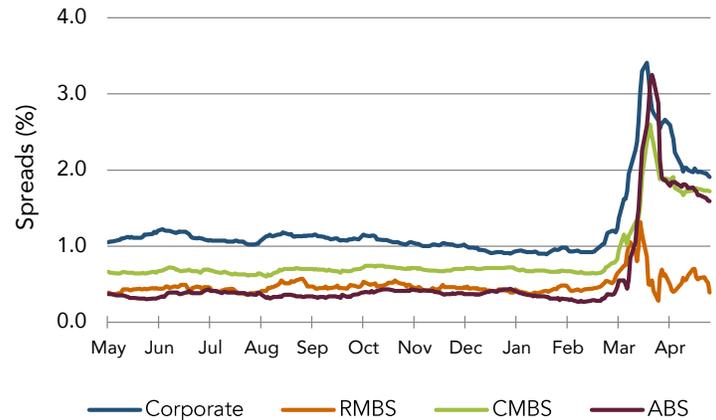
Corporate spreads staged a significant rally on the back of meaningful fiscal and monetary support. The Bloomberg Barclays Corporate Index tightened 70 basis points (bps) to 202 bps in April. As funding conditions improved, corporate issuers looked to the primary market to shore up liquidity with roughly \$293bn in new issues during the month.

Government Market

The 2-yr decreased by 5 bps while the 5-yr yield decreased by 2 bps for the month of April. The 10-yr and 30-yr yields decreased by 3 bps and 4 bps, respectively, for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.63%
Int. Gov/Credit	1.41%
Aggregate	1.78%
1-3 Yr US Tsy	0.13%
3-5 Yr US Tsy	0.24%
5-10 Yr US Tsy	0.50%
10-20 Yr US Tsy	2.08%
20+ Yr US Tsy	2.02%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	5.24%	4.55%	2.69%
Financials	3.97%	3.46%	2.55%
Industrials	5.45%	4.69%	2.78%
Utilities	8.92%	7.96%	2.54%
RMBS	0.64%	0.48%	1.00%
CMBS	1.22%	0.80%	2.17%
ABS	1.34%	1.17%	1.78%
Agencies	1.16%	0.81%	1.67%

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