



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

As of May 31, 2020

### MARKET COMMENTARY

#### The Economy

Economic data continues to reflect the extreme impact of the COVID-19 pandemic, though there is some hope in underlying trends. For example, continuing jobless claims have surpassed 25 million but the number of initial jobless claims has fallen for seven consecutive weeks from a peak of 6.9 million in March. Similarly, consumer confidence, which had been in free fall, showed its first sign of stabilization in May and the future expectations sub index rose for the second month in a row. Economic data will largely continue to be weak, but as states continue to “open,” we expect some improvements that reflect the slow rebound in economic activity.

#### Structured Markets

Just \$2bn of new issue non-agency CMBS priced in April and May combined, versus \$20bn last year. These deals reflect pre-COVID originations, generally with little to no retail or hotel exposure where current stress is most acute. Delinquency rates for retail and hotel have quickly risen to 10% and 20% and are expected to worsen. New issue AAA spreads are around +145, roughly 2x recent tightens but have recovered ~50% from recent wides. Spreads have started to rally again with the most recent move tighter in IG Corporates. Agency CMBS with more Fed support has seen \$8bn new issue in April and May versus \$36bn last year and spreads are within 5 basis points (bps) of pre-COVID levels.

#### Corporate Credit Market

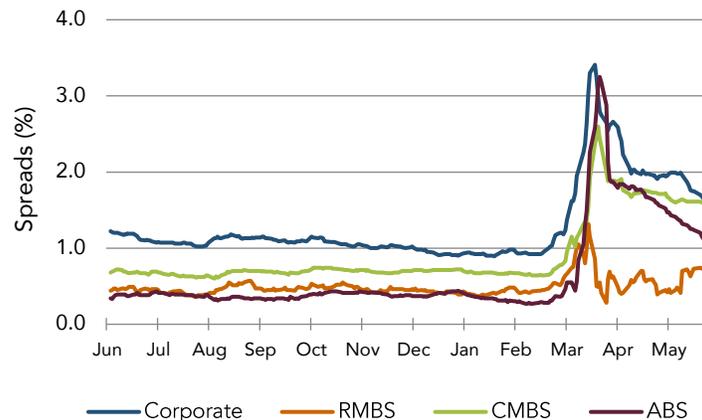
Risk assets extended their rally in May on optimism that economic activity is gathering steam and that additional stimulus will be available to bolster the recovery. The Bloomberg Barclays Corporate Index tightened 28 bps to end at 174 bps in May. Total supply for the month came in at \$261bn with negative concessions pointing to sustained demand for primary issuance.

#### Government Market

The 2-yr decreased by 4 bps while the 5-yr yield decreased by 6 bps for the month of May. The 10-yr and 30-yr yields increased by 1 bp and 12 bps, respectively, for the month.

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### SPREADS TO TREASURIES



### BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.33%
Int. Gov/Credit	0.76%
Aggregate	0.47%
1-3 Yr US Tsy	0.08%
3-5 Yr US Tsy	0.26%
5-10 Yr US Tsy	0.25%
10-20 Yr US Tsy	-0.67%
20+ Yr US Tsy	-1.99%

### BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.56%	1.81%	2.42%
Financials	1.34%	1.37%	2.28%
Industrials	1.94%	2.26%	2.48%
Utilities	-0.43%	0.13%	2.49%
RMBS	0.12%	0.03%	1.40%
CMBS	1.06%	0.86%	2.00%
ABS	1.09%	1.01%	1.31%
Agencies	0.55%	0.51%	0.88%

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