



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of June 30, 2020

MARKET COMMENTARY

The Economy

Economic data continues to reflect the extreme impact of the COVID-19 pandemic, though there have been a few surprises to the upside. Retail sales had a powerful month of consumer spending with vehicle sales, restaurant receipts, clothing and building materials. Future homebuyers have been motivated as mortgage applications had a positive 9-week streak and mortgage rates remain low. On business spending, durable and capital goods surpassed expectations on vehicle sales and transportation parts orders. Jobless claims have been stubbornly high week over week, indicating lengthy spells of unemployment.

Structured Markets

ABS issuance in June regained footing with \$19bn of new deals pricing compared to just \$8bn in May. Once again, auto issuance dominated the primary market with \$12.4bn of issuance. Spreads across all major ABS indices were significantly tighter through June as investors looked to put cash to work in stable sectors such as consumer ABS. Despite high levels of unemployment, overall collateral performance in the traditional ABS segments (prime auto, credit cards and equipment) remain well within cumulative loss expectations and credit enhancement levels remain robust.

Corporate Credit Market

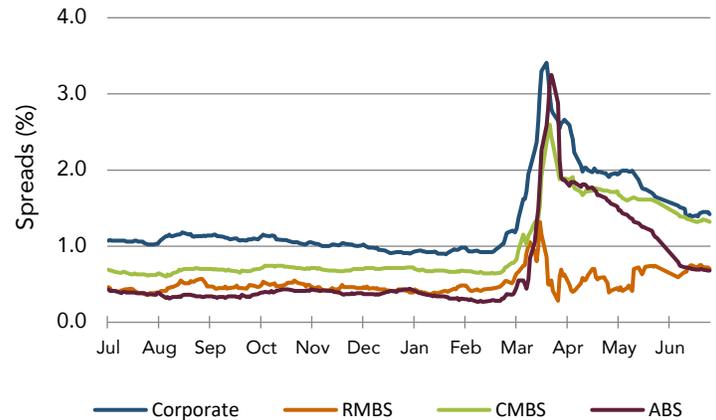
Despite the global uptick in COVID-19 cases, corporate bond spreads tightened 24 basis points (bps) to end at 150 bps through June. Primary issuance came in at 174bn with the pace of issuance slowing down in the back end of the month due to the extended holiday weekend and market tone.

Government Market

The 2-yr decreased by 1 bp while the 5-yr yield decreased by 2 bps for the month of June. The 10-yr and 30-yr yields increased by less than 1 bp each for the month.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.20%
Int. Gov/Credit	0.62%
Aggregate	0.63%
1-3 Yr US Tsy	0.04%
3-5 Yr US Tsy	0.13%
5-10 Yr US Tsy	0.11%
10-20 Yr US Tsy	0.12%
20+ Yr US Tsy	0.13%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.96%	1.89%	2.18%
Financials	2.38%	2.30%	1.92%
Industrials	1.78%	1.72%	2.30%
Utilities	1.72%	1.67%	2.34%
RMBS	-0.09%	-0.13%	1.36%
CMBS	1.62%	1.52%	1.72%
ABS	1.07%	1.03%	0.85%
Agencies	0.30%	0.24%	0.81%

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