



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of August 31, 2020

MARKET COMMENTARY

The Economy

August brought about a Congressional stalemate in the Phase IV fiscal negotiations, leaving millions of Americans with uncertain unemployment benefits and creating more downside risk to consumption. Housing continues to be a bright spot, reflecting pent-up demand and a structural shift from urban to suburban communities. With a lean inventory of existing homes there is elevated demand for construction of new homes. Homebuilders sentiment is at an all-time high for August. Housing starts and building permits are close to and surpassed pre-pandemic levels. Initial unemployment claims unexpectedly jumped mid-month to 1.1 million claims, reversing the declines in prior consecutive weeks, yet labor market conditions have continued to improve overall.

Structured Markets

The ABS primary market priced \$17.5bn of new issuance in August. Esoteric ABS deals led the primary market with \$9.5bn of issuance, followed by auto ABS with \$5.4bn of issuance. Demand for new issue ABS remains strong as most deals have been well oversubscribed when brought to market. As a result, spreads in primary and secondary markets across all major subsectors tightened through August. Lower quality esoteric and auto ABS were the strongest performers through the month.

Corporate Credit Market

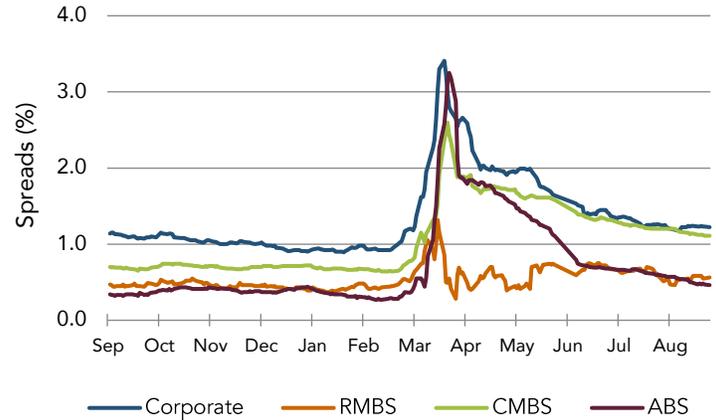
The Bloomberg Barclays Corporate Index tightened 3 basis points (bps) to end at 129 bps through August 31st. With much of the earnings season behind us, many companies reported better-than-expected sales and earnings (albeit from a very low base due to COVID-19 related impacts to estimates). Primary issuance volume was robust with \$142bn MTD versus expectations of \$65-75bn heading into this month.

Government Market

The 2-yr and 5-yr yields increased by 3 bps and 6 bps respectively for the month of August. The 10-yr and 30-yr yields also increased by 18 bps and 28 bps, respectively, in August.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.04%
Int. Gov/Credit	-0.12%
Aggregate	-0.81%
1-3 Yr US Tsy	-0.02%
3-5 Yr US Tsy	-0.12%
5-10 Yr US Tsy	-0.53%
10-20 Yr US Tsy	-3.14%
20+ Yr US Tsy	-4.47%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-1.38%	0.05%	1.99%
Financials	-0.60%	0.28%	1.68%
Industrials	-1.56%	0.05%	2.11%
Utilities	-2.87%	-0.75%	2.25%
RMBS	0.04%	0.09%	1.23%
CMBS	0.14%	0.56%	1.49%
ABS	0.25%	0.30%	0.58%
Agencies	-0.27%	0.10%	0.68%

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