



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of September 30, 2020

MARKET COMMENTARY

The Economy

The post-lockdown recovery has lost momentum as the country gets back to work and school with varying levels of success. Yet bright spots remain, for instance housing. Treatments are more effective, and a vaccine is closer every day as we learn to adapt. We expect no lockdown from the rising case count now underway. The election is now front and center on investors' minds but remains too close to call which will likely soften investor confidence and the momentum needed to continue the pace of recovery to date.

Structured Markets

CMBS new issue levels remain low y/o/y and were down m/o/m to \$3.8bn private label (non-agency) and \$9bn of agency supply. Non-agency spreads tightened across the board. Delinquency rates have trended down with aggressive forbearance/modification activity. Agency spreads were mixed +/- 5 basis points (bps).

Corporate Credit Market

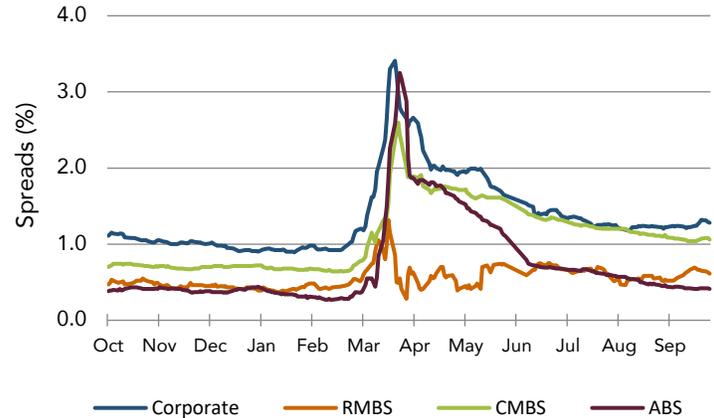
Tenuous progress on stimulus talks and a global uptick in COVID-19 cases forced corporate bond spreads wider during the month. The Bloomberg Barclays Corporate Index moved out 6 bps to end at 136 bps in September. Month-to-date primary issuance came in at \$165bn versus initial estimates of \$65-75bn. Early estimates indicate \$75-80bn in new issues for October.

Government Market

The 2-yr yield was unchanged and the 5-yr yield increased by 1 bp for the month of September. The 10-yr and 30-yr yields decreased by 2 bps respectively in September.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

| | Total Return MTD |
|-------------------|------------------|
| 1-3 Yr Gov/Credit | 0.01% |
| Int. Gov/Credit | -0.01% |
| Aggregate | -0.05% |
| 1-3 Yr US Tsy | 0.02% |
| 3-5 Yr US Tsy | 0.03% |
| 5-10 Yr US Tsy | 0.19% |
| 10-20 Yr US Tsy | 0.37% |
| 20+ Yr US Tsy | 0.39% |

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

| | Total Return MTD | Excess Return* MTD | Current YTM |
|-------------|------------------|--------------------|-------------|
| Corporates | -0.29% | -0.40% | 2.05% |
| Financials | -0.33% | -0.42% | 1.77% |
| Industrials | -0.25% | -0.37% | 2.15% |
| Utilities | -0.38% | -0.52% | 2.29% |
| RMBS | -0.11% | -0.14% | 1.29% |
| CMBS | 0.34% | 0.28% | 1.44% |
| ABS | 0.13% | 0.10% | 0.53% |
| Agencies | 0.09% | 0.04% | 0.67% |

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