



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of October 31, 2020

MARKET COMMENTARY

The Economy

Despite COVID surge, positive economic momentum continued in October, led by solid housing data. Existing home sales surpassed pre-COVID levels, while single-family housing starts and building permits posted sizable gains. TSA airline checkpoint volumes surpassed 1 million passengers in October, an important mobility indicator not reached since March. Consumer confidence and retail sales are strong, reflecting possible delayed back-to-school spending and discretionary shifts from services to premium essential goods. As always, uncertainties lie ahead (some will be resolved sooner than others) with the US election, and virus resurgence prompting restrictions globally. We expect stimulus post-election, size and scope to be determined by the outcome.

Structured Markets

The ABS primary market had another strong month of issuance with \$28.5bn of deals pricing in October. Auto issuance led the market with \$13.5bn of new deals pricing. Esoteric ABS sectors also had a strong month of issuance with \$12.2bn of deals pricing. Down-in-quality Esoteric and Auto ABS were once again the top performing ABS sub-sectors through October as investors continue to chase incremental yield.

Corporate Credit Market

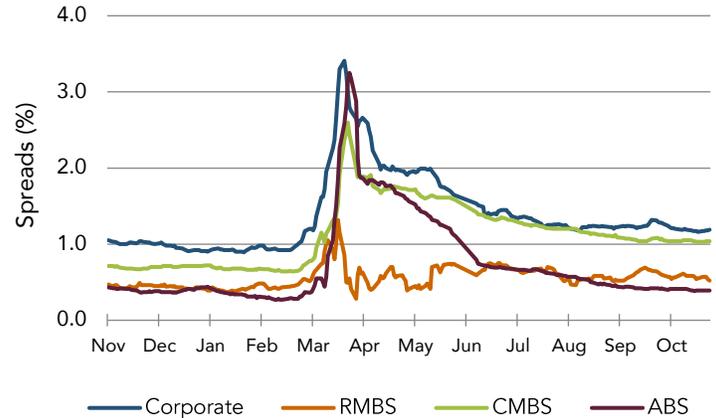
Despite concerns over another potential round of global lockdowns, election volatility and lack of progress on stimulus talks, the Bloomberg Barclays Corporate Index continued its march tighter during the month. Corporate spreads tightened 10 basis points (bps) to end at 125 bps through October 30th. With over \$84bn priced in the month, primary supply beat initial October estimates of \$75-80bn.

Government Market

The 2-yr yield increased by 3 bps and the 5-yr yield increased by 11 bps for the month of October, while the 10-yr and 30-yr yields increased by 20 bps and 21 bps, respectively.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.02%
Int. Gov/Credit	-0.22%
Aggregate	-0.45%
1-3 Yr US Tsy	-0.04%
3-5 Yr US Tsy	-0.26%
5-10 Yr US Tsy	-0.97%
10-20 Yr US Tsy	-2.59%
20+ Yr US Tsy	-3.08%

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.18%	0.99%	2.07%
Financials	0.20%	1.01%	1.75%
Industrials	-0.33%	0.95%	2.20%
Utilities	-0.43%	1.15%	2.35%
RMBS	-0.04%	0.12%	1.34%
CMBS	-0.46%	0.13%	1.53%
ABS	0.01%	0.09%	0.53%
Agencies	-0.29%	0.11%	0.70%

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