



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of November 30, 2020

MARKET COMMENTARY

The Economy

The virus continued its global resurgence in November, however, positive developments on vaccine trials emerged alongside potentially resolved election results. High infection rates will likely continue to weigh on yields and risk assets in the near term and vaccine news has largely been priced into the market. Consumer metrics showed a slight slowdown in retail sales and forward-looking sentiment yet consumer balance sheets remain healthy. Manufacturing continued its recovery with strong PMI data from inventory restocking and additional hiring. The housing market remains a bright spot yet a lack of inventory is weighing on sales.

Structured Markets

CMBS supply remains low but is expected to bounce back in 2021. Y/O/Y only agency CMBS is up 20% while key non-agency sectors such as conduit and single asset/borrower are down 40%. Safety in agency product has spreads through pre-COVID levels. Lack of supply has tightened AAA non-agency to pre-COVID levels, while credit lags given fundamental challenges facing CMBS. Valuations reflect idiosyncratic risks and a "K" shape recovery depending on exposures.

Corporate Credit Market

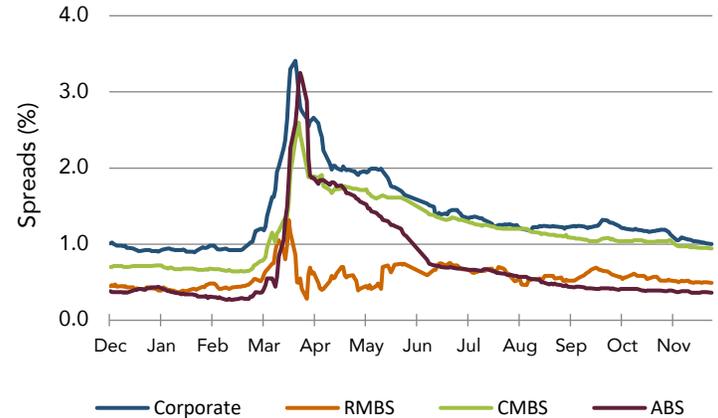
With the bulk of earnings season in the rearview mirror, a vast majority of companies reported better than expected revenue and earnings for 3Q20. Clarity surrounding election outcomes and the slate of vaccine headlines provided a bullish coda to a month marred by rising global COVID cases. As a result, the corporate index rallied another 21 basis points (bps) to end at 104 bps in November (only 11 bps off the pre-COVID tight).

Government Market

The 2-yr yield remained unchanged while the 5-yr yield decreased by 2 bps for the month of November. The 10-yr and 30-yr yields decreased by 4 bps and 9 bps, respectively.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

| | Total Return MTD |
|-------------------|------------------|
| 1-3 Yr Gov/Credit | 0.10% |
| Int. Gov/Credit | 0.50% |
| Aggregate | 0.98% |
| 1-3 Yr US Tsy | 0.04% |
| 3-5 Yr US Tsy | 0.11% |
| 5-10 Yr US Tsy | 0.25% |
| 10-20 Yr US Tsy | 0.82% |
| 20+ Yr US Tsy | 1.27% |

BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

| | Total Return MTD | Excess Return* MTD | Current YTM |
|-------------|------------------|--------------------|-------------|
| Corporates | 2.79% | 2.33% | 1.85% |
| Financials | 1.99% | 1.69% | 1.53% |
| Industrials | 3.12% | 2.61% | 1.96% |
| Utilities | 3.19% | 2.55% | 2.13% |
| RMBS | 0.07% | -0.01% | 1.28% |
| CMBS | 0.78% | 0.60% | 1.41% |
| ABS | 0.15% | 0.11% | 0.50% |
| Agencies | 0.38% | 0.24% | 0.65% |

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