



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of July 31, 2021

## MARKET COMMENTARY

### The Economy

The Delta variant grabbed headlines in July as new cases are accelerating in the US and globally, causing some unease in markets. On the economic data front, new home sales fell for the second consecutive month as shipping bottlenecks and higher input prices have held back project completions. Existing home sales increased for the first time in five months as housing inventory increased slightly, demonstrating continued robust demand. Retail sales had a positive month following the recent pullback after stimulus-induced months of spending. Manufacturing PMI and ISM gauges remain at record highs. Service sector PMI data, although still historically elevated, pulled back in July given labor constraints and high input costs leading to weaker business expectations. In general, economic data showed continued strength in July, despite recurrent headwind themes of labor and supply shortages, supply chain delays and project backlogs.

### Structured Markets

As is typical for July, new issue volumes have slowed but are picking up again. YTD private label is up 90% from Covid-impacted 2020 and 30% vs 2019. This continues to be led by SASB and CRE CLO's, which are up 50% and 120% vs 2019, while conduit, typically the largest sub-sector is down 30% and trails SASB and CRE CLO's. Agency CMBS is up about 50% from 2019. Spreads have widened modestly on rate volatility, and for Agency CMBS in sympathy with continued weakness in Agency RMBS. Capital is available at attractive levels for all sectors while distressed transactions have been muted and asset values continue to rise.

### Corporate Credit Market

Fears around the spiking Delta variant and the possibility of further lockdowns steered the Bloomberg Barclays Corporate Index wider by 6 basis points (bps) to end at 86 bps in July. New issuance came in at \$90.5bn across 51 deals, surpassing estimated supply of \$75bn for the month. The street is calling for roughly \$90bn in primary supply for August, slightly below the 5-yr average for the month.

### Government Market

The 2-yr and 5-yr yields decreased by 7 bps and 20 bps, respectively, during the month of July. The 10-yr yield decreased by 25 bps and the 30-yr yield decreased by 19 bps in July.

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## SPREADS TO TREASURIES



## BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.17%
Int. Gov/Credit	0.77%
Aggregate	1.12%
1-3 Yr US Tsy	0.17%
3-5 Yr US Tsy	0.72%
5-10 Yr US Tsy	1.64%
10-20 Yr US Tsy	3.29%
20+ Yr US Tsy	3.76%

## BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	1.37%	-0.37%	1.97%
Financials	1.07%	-0.23%	1.64%
Industrials	1.44%	-0.45%	2.09%
Utilities	1.93%	-0.24%	2.30%
RMBS	0.63%	-0.19%	1.62%
CMBS	0.93%	-0.13%	1.35%
ABS	0.20%	-0.02%	0.42%
Agencies	0.69%	-0.03%	0.77%

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