



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF MARCH 31, 2015

### Market Commentary

#### THE ECONOMY

- US economic data have been mixed in March. The month started with favorable readings of the job market (non-farm payrolls up 295,000 and unemployment rate down to 5.5%) and ISM Manufacturing Index remaining in expansionary territory. As March progressed, however, consumer sentiment, retail sales, housing starts and durable goods orders all fell short of market expectations. News from China in early March included an uninspiring growth forecast of 7%, which appears to have increased expectations of monetary easing from the Bank of China. Combined with Fed Chair Janet Yellen's comments following this month's FOMC meeting, the outlook persists for global rates remaining low longer.
- European QE is in full swing after the ECB began its bond purchasing program on March 9<sup>th</sup>. Each month, the ECB will be buying €60B in an effort to foster an economic liftoff in the euro zone. As a result, all-in yields above 1.5% are incredibly rare (estimated less than 5% of European investment grade credit above that level).

#### STRUCTURED MARKETS

- Despite a quiet finish to the first quarter, consumer ABS spreads have tightened across all sub-segments, with the largest moves seen in the lower rated subprime auto securitizations. We continue to find attractive relative value opportunities in the senior and subordinated tranches of heavy equipment and auto deals.
- The pace of new issuance is slightly behind Q1 2014, with approximately \$53B coming to market compared with \$56B for the same period last year. Due to continued strong vehicle sales in the US, auto ABS deals have dominated much of the new issuance activity and we expect this trend to persist.

#### CORPORATE CREDIT MARKET

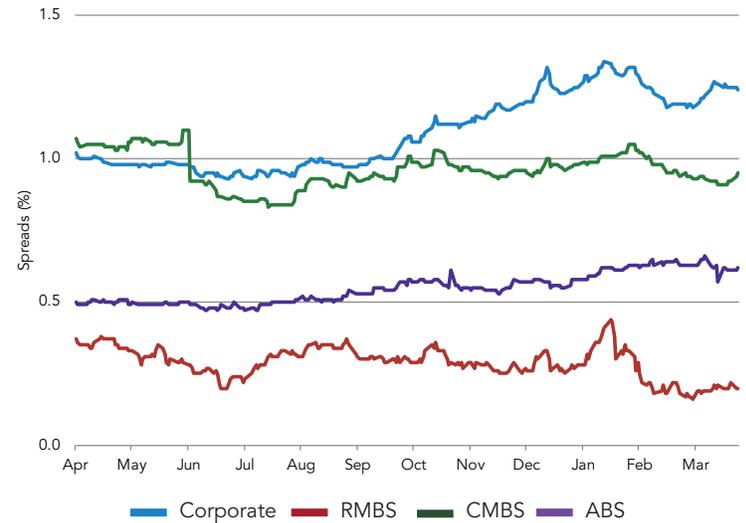
- Corporate issuance continued at a torrid pace in March, following the busiest February on record. March issuance totaled \$142B, making it the second heaviest month of new issuance ever (surpassed only by September 2013). Specialty pharmaceutical company Actavis led the way with a \$21B multi-tranche deal to fund its acquisition of Allergan. The heavy flow of new paper, combined with renewed volatility in oil prices and the interest rate rally, pushed spreads wider across sectors. Corporate spreads are six basis points (bps) wider month to date with industrials, utilities and financials all reflecting the weakness.
- The busy new issue calendar has created more liquidity in the corporate market and modestly wider spreads offer an opportunity to increase our allocation to the sector at attractive levels.

#### GOVERNMENT MARKET

- Treasury yields began the month of March by trending upwards, with 10-year and 30-year rising by as much as 25 bps. This was driven in large part by the better than expected nonfarm payrolls report. However, this move would be fully retraced in the latter part of the month, as the Fed telegraphed a more dovish stance on raising the Federal Funds Rate. Yields ended the month modestly lower. The 5-year dropped 13 bps from beginning of month levels, while the 2-year, 10-year and 30-year dropped 5-7 bps.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.23%
Int. Gov/Credit	0.49%
Aggregate	0.46%
1-3 Yr US Treasury	0.24%
3-5 Yr US Treasury	0.70%
5-10 Yr US Treasury	0.88%
10-20 Yr US Treasury	0.98%
20+ Yr US Treasury	1.20%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.32%	-0.43%	2.92%
Financials	0.43%	-0.23%	2.61%
Industrials	0.30%	-0.48%	3.06%
Utilities	-0.01%	-0.89%	3.12%
RMBS	0.37%	-0.07%	2.40%
CMBS	0.63%	0.06%	2.15%
ABS	0.41%	0.10%	1.36%
Agencies	0.50%	0.03%	1.68%

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