THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF APRIL 30, 2015

MERGANSER CAPITAL MANAGEMENT

Market Commentary

THE ECONOMY

- US economic data was weak in April, with continued claims of weather impacts throughout. The month started with an uninspiring labor market update as non-farm payrolls were up only 126,000 and the unemployment rate remained at 5.5%. Retail sales, while higher than the previous month, continued to trend below expectation and the expansionary effects of lower energy costs for the consumer remain elusive. Even with low expectations, first quarter GDP growth came in below expectations at 0.2%. The expectations for rising rates in the US continue to be pushed back as the implied probability of a June rate hike has declined well below 50%.
- In addition to its cut to required reserves, the People's Bank of China is expected to formally announce a credit easing program. European QE continues to depress rates in the Eurozone outside of Greece, where negotiations are ongoing to prevent a Greek default and maintain its membership in the European Union.

STRUCTURED MARKETS

- Although the recent trend of declining underwriting standards has continued, investor appetite for both new issue and legacy CMBS paper remains robust. YTD spreads have tightened across all sub-segments, with the largest moves seen in the lower rated tranches of legacy conduit deals and specific agency related paper (e.g. Freddie K program, DUS). We continue to find attractive relative value opportunities in the front-pay seasoned bonds that may extend due to a confluence of factors, allowing for increased carry and superior total return opportunities.
- Commercial real estate transaction activity was up substantially in the first quarter of 2015 versus the same period last year, driven by a combination of low cap rates, favorable financing conditions and demand from foreign buyers, a sign that the market may be experiencing some froth.

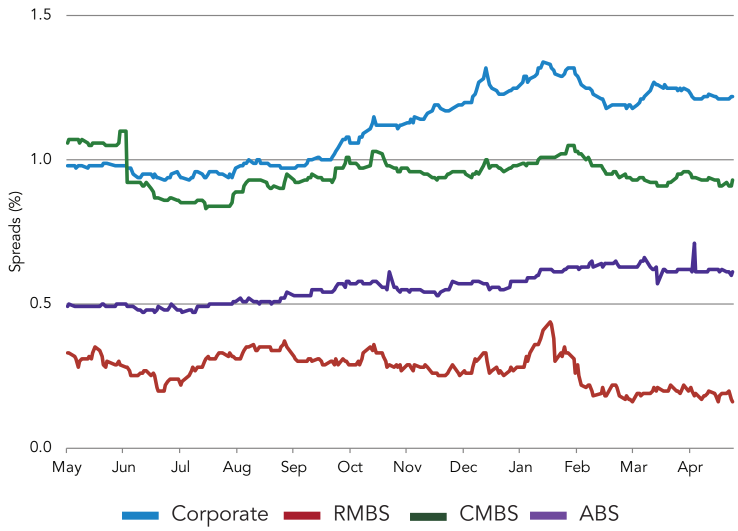
CORPORATE CREDIT MARKET

- Corporate spreads were essentially unchanged in April, tightening just one basis point. First quarter earnings season is more than half complete, with cumulative net profits up modestly year over year on lower revenue versus more pessimistic expectations of a 3% to 5% drop in net earnings. Issuance was quiet for much of the month, consistent with years past, but AT&T and Oracle came to market in late April with a combined $27.5B of new debt that pushed the monthly total to more than $107B, keeping the corporate market on track for another robust year.
- The dissolution of the proposed Comcast/Time Warner Cable merger drove spreads much wider for TWC, causing negative excess returns for the communications sector, while most other corporate sectors enjoyed positive excess returns. M&A activity remains elevated, highlighted by Teva's proposed $40B buyout of Mylan.

GOVERNMENT MARKET

- Treasury rates were range-bound for much of the month, before turning higher in the final week. The yield curve steepened as the 30-yr rose 21 basis points (bps), and the 10-yr rose 11 bps. Front end rates moved less dramatically, with the 5-yr up 6 bps and the 2-yr up 1 bps.

SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.08%
Int. Gov/Credit	-0.04%
Aggregate	-0.36%
1-3 Yr US Treasury	0.05%
3-5 Yr US Treasury	-0.02%
5-10 Yr US Treasury	-0.40%
10-20 Yr US Treasury	-1.11%
20+ Yr US Treasury	-3.42%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.70%	0.09%	3.00%
Financials	-0.38%	0.10%	2.67%
Industrials	-0.80%	0.09%	3.15%
Utilities	-1.31%	0.03%	3.23%
RMBS	0.04%	0.24%	2.46%
CMBS	-0.08%	0.11%	2.20%
ABS	0.08%	0.08%	1.37%
Agencies	0.07%	0.31%	1.70%

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