



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF JUNE 30, 2015

Market Commentary

THE ECONOMY

- US economic data showed some signs of modest improvement after months of lackluster results. Retail sales were relatively robust for the first time in three months, first quarter GDP was finalized with a revision up to -0.2% and employment numbers remained robust. On the margin, a September hike looks more likely than it did a month ago, but is by no means assured.
- All eyes are on the intensifying standoff in Europe as the populist Greek government makes a last ditch gambit to garner a better deal from creditors through a referendum vote set for July 5th, which many are calling a vote on Euro membership. China's stock market plummeted during the month after months of unsustainable gains and the People's Bank of China continued to loosen various policy measures to cushion the blow.

STRUCTURED MARKETS

- Despite healthy CRE fundamentals and a favorable long-term supply/demand technical environment, CMBS spreads moved wider during the month in sympathy with other risk assets and the broader sell-off in credit.
- New conduit issuance has picked up considerably in Q2 and most deals are pricing at the wide end of initial guidance, further pressuring bonds trading in the secondary market.

CORPORATE CREDIT MARKET

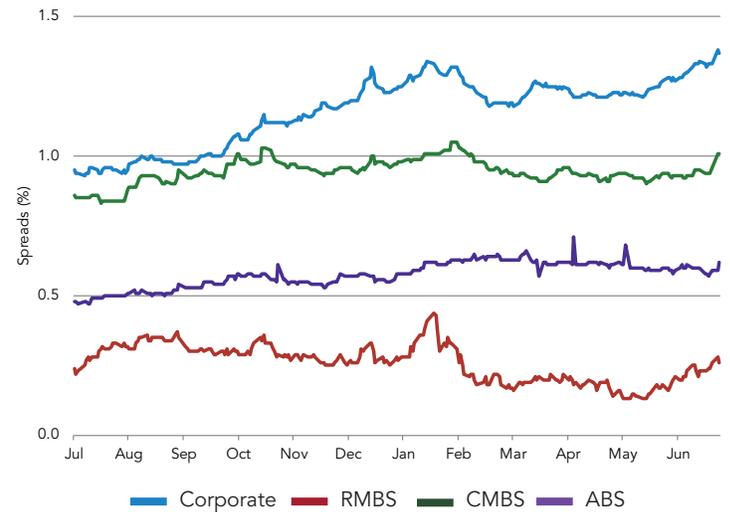
- A combination of factors, including concerns surrounding Greece's ongoing status in the EU, cash outflows stemming from rising rates and market saturation following heavy corporate issuance over prior months, all led to negative pressure on spreads through the last week of June. Spreads were 8 basis points (bps) wider through June 26th, only to move wider still on the news that talks between Greece and the ECB had fallen apart, forcing a week-long bank holiday and assuring a payment default on the €1.6B, which Greece was obligated to pay the IMF on June 30th. In all, corporate spreads are 12 bps wider for the month, shared relatively evenly across industrial, utility and financial sectors.
- With second quarter earnings reports scheduled to soon commence, combined with the softer tone in the market, corporate issuance is likely to cool in July. Should corporate spreads remain under pressure, we are biased to add exposure in the secondary market at certain points on the curve.

GOVERNMENT MARKET

- Longer Treasury rates continued to climb in June, with yields on the 30-yr and 10-yr rising 19 and 17 bps respectively. The 5-yr was up 10 bps while the 2-yr was flat for the period.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.03%
Int. Gov/Credit	-0.60%
Aggregate	-1.09%
1-3 Yr US Treasury	0.03%
3-5 Yr US Treasury	-0.29%
5-10 Yr US Treasury	-1.17%
10-20 Yr US Treasury	-1.84%
20+ Yr US Treasury	-4.14%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-1.84%	-0.60%	3.35%
Financials	-1.50%	-0.64%	2.97%
Industrials	-1.96%	-0.59%	3.52%
Utilities	-2.33%	-0.49%	3.66%
RMBS	-0.76%	-0.21%	2.78%
CMBS	-1.02%	-0.44%	2.47%
ABS	-0.06%	0.04%	1.42%
Agencies	-0.67%	-0.18%	1.83%

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