



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF JULY 31, 2015

### Market Commentary

#### THE ECONOMY

- The US economic picture remains hazy as retail sales were weaker than anticipated, yet housing numbers remained largely positive. Employment data remains on the stronger side, but by no measure robust, as weak labor force participation and slower real wage growth offset the unemployment rate falling to a new post-crisis low of 5.3%. With second quarter GDP growth at 2.3% and first quarter GDP revised to a positive 0.6% from negative 0.2%, the Fed's base case of a 2015 hike is still intact. However, we remain cautious that the economic recovery lingers on unstable ground and is vulnerable to exogenous shocks.
- After Greece capitulated on nearly all fronts to avoid being forced from the euro zone, the market shifted focus to the evolving picture in China. While stocks rebounded toward the beginning of the month, weak unofficial economic data and skepticism of the 7% official GDP growth release reignited fears in commodity and equity markets.

#### STRUCTURED MARKETS

- ABS securities backed by FFELP student loans continue to make headlines and Moody's has now watchlisted a total of 120 different tranches, representing \$37 billion in outstanding principal. Due to the uncertainty surrounding future ratings actions, secondary market trading continues to be pressured and spreads have gapped out markedly in recent weeks.
- Credit card ABS collateral trends continued to show improvement in July with both charge-off rates and 60+ delinquencies matching their all-time lows. Notwithstanding the superior credit performance, spreads in the sector continued to be pressured by global macro headlines and now stand at the widest experienced during the "Taper Tantrum" of 2013.

#### CORPORATE CREDIT MARKET

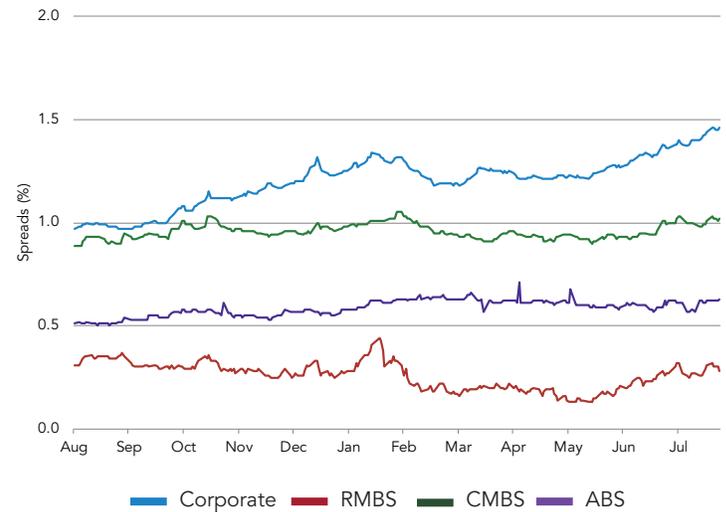
- There was no relief for July credit spreads, even with Greece's fiscal debacle temporarily falling to the wayside. Corporate spreads widened 11 basis points (bps) in July, as markets reacted negatively to China's stock market selloff, the continued torrent of IG supply and overall weakness in commodities. The global rout in commodities continued to negatively impact spreads in metals and energy issuers, with MTD spreads widening 75 bps and 23 bps, respectively.
- July was a very busy month with respect to new issuance, with \$128B of new corporate debt pricing, a new July record and the 5th largest all-time. M&A was still the name of the game, as several notable deals came to market, including Intel (to fund its purchase of Altera), UnitedHealth and CVS. After more than \$830B of corporate supply YTD, IG issuance is up roughly 25% in 2015.

#### GOVERNMENT MARKET

- Treasury yields were markedly lower to begin the month, but retraced to their starting levels after news of a potential Greece deal. Rates declined once again in the latter half of the period, with the 30-yr down by 30 bps. The 10-yr and 5-yr fell 24 bps and 18 bps respectively, while the 2-yr declined 3 bps.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.06%
Int. Gov/Credit	0.36%
Aggregate	0.70%
1-3 Yr US Treasury	0.05%
3-5 Yr US Treasury	0.39%
5-10 Yr US Treasury	0.98%
10-20 Yr US Treasury	2.03%
20+ Yr US Treasury	3.73%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.67%	-0.51%	3.34%
Financials	0.75%	-0.10%	2.93%
Industrials	0.55%	-0.74%	3.53%
Utilities	1.39%	-0.34%	3.60%
RMBS	0.63%	-0.09%	2.68%
CMBS	0.65%	0.03%	2.42%
ABS	0.19%	0.02%	1.45%
Agencies	0.35%	-0.18%	1.85%

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