



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF SEPTEMBER 30, 2016

### Market Commentary

#### THE ECONOMY

- Global markets were modestly weaker as the post Brexit rally started to lose steam. Growth remains tepid in the US and QE measures are failing to bring economic lift off to developed economies abroad. Although the FOMC decided to maintain the current Fed Funds Rate at its September meeting, there were multiple dissenting votes, bringing the probability of a rate hike by year end to just under 50%. As central banks around the world continue to pursue aggressive monetary stimulus, we remain concerned that the diminishing returns of QE may result in increased volatility.

#### STRUCTURED MARKETS

- Following the typical summer slowdown, September has proven to be an inflection point for CMBS issuance with \$5B in supply coming during the first few weeks of the month and a slew of other deals in the pipeline. Generally speaking, the shorter average life senior tranches have seen stronger demand compared with the lower rated classes. This front-end demand has pushed spreads tighter by 5-7 basis points (bps) for the month and is perhaps a reflection of future Fed hike concerns.
- We have observed that the spread differential between agency CMBS and the private label segment appears too tight relative to the historical relationship.

#### CORPORATE CREDIT MARKET

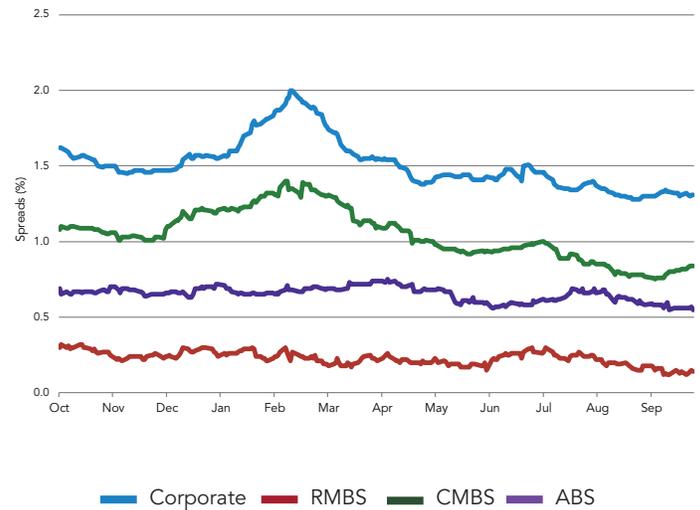
- The Barclays Corporate Index widened 2 bps through September 30th, as spreads leaked wider across sectors in the face of robust issuance. After a relatively busy month in August, the new issuance market swelled to more than \$146B, thanks to persistently low rates and seemingly insatiable appetite for USD investment grade debt. M&A driven issuance was a leading driver of issuance proceeds, illustrated by Shire PLC's \$12B multi-tranche issue that is rated just above the grade. Performance following pricing, however, has been lackluster due to limited new issue concession and the heavy calendar.

#### GOVERNMENT MARKET

- 2-yr and 5-yr yields have decreased 4 bps and 5 bps respectively, while 10-yr and 30-yr yields increased 1 bp and 8 bps respectively.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.11%
Int. Gov/Credit	0.13%
Aggregate	-0.06%
1-3 Yr US Treasury	0.12%
3-5 Yr US Treasury	0.24%
5-10 Yr US Treasury	0.16%
10-20 Yr US Treasury	-0.50%
20+ Yr US Treasury	-1.74%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.25%	-0.02%	2.84%
Financials	-0.19%	-0.14%	2.66%
Industrials	-0.23%	0.04%	2.91%
Utilities	-0.62%	-0.09%	3.00%
RMBS	0.28%	0.19%	2.06%
CMBS	-0.17%	0.46%	2.08%
ABS	0.26%	0.14%	1.37%
Agencies	-0.16%	-0.18%	1.60%

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