



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF NOVEMBER 30, 2017

Market Commentary

THE ECONOMY

- Hurricane related noise has diminished, revealing economic data regressing to patterns similar to the summer, with modest economic growth, tightening labor conditions and underwhelming inflation relative to the Fed's target. Inflation in particular, which has remained 40+ basis points (bps) below the 2% target since February, continues to befuddle the Fed. Despite this, the Fed remains poised to hike rates another 25 bps at their December meeting as all other signs point toward continued measured economic improvement. Tax reform continues to be the major driver of sentiment.

STRUCTURED MARKETS

- The ABS market experienced another very active month of new issuance in November, with a total of about \$21.3bn of deals pricing month to date. Similar to previous months, autos led the way in the primary market with about \$11bn in deals pricing. Subprime auto deals continue to be well received by the market, as investors continue to search for additional yield in lower credit quality collateral. The equipment sector experienced its largest month of new issuance year to date, with just under \$2.9bn of deals pricing in November. Additionally, we have seen continued strong demand in more esoteric sectors with just over \$5.1bn in deals pricing in such off-the-run sectors.

CORPORATE CREDIT MARKET

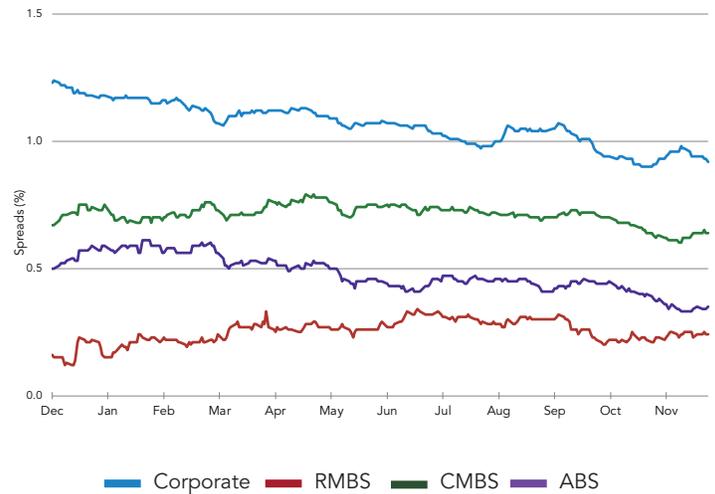
- The Bloomberg Barclays Corporate Index widened 2 bps to end at 97 bps for the month of November. The broad-based widening was attributed to concerns about tax reform passage, supply fatigue and certain idiosyncratic credit issues within Industrials. However, the House passage of the tax overhaul mid-month abated the slow but consistent widening during the first half of November. Primary supply was robust in the days leading up to the holiday weekend, bringing November issuance to approximately \$121bn. YTD investment grade supply has already surpassed 2016's record issuance of \$1.3T.

GOVERNMENT MARKET

- The 2-yr, 5-yr and 10-yr yields increased by 18 bps, 12 bps and 3 bps respectively, while the 30-yr yield decreased by 5 bps for the month of November.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.22%
Int. Gov/Credit	-0.31%
Aggregate	-0.13%
1-3 Yr US Treasury	-0.21%
3-5 Yr US Treasury	-0.40%
5-10 Yr US Treasury	-0.34%
10-20 Yr US Treasury	-0.14%
20+ Yr US Treasury	0.80%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.15%	-0.03%	3.28%
Financials	-0.12%	0.09%	3.06%
Industrials	-0.19%	-0.11%	3.37%
Utilities	0.14%	0.09%	3.39%
RMBS	-0.14%	0.04%	2.94%
CMBS	-0.33%	0.03%	2.85%
ABS	-0.09%	0.11%	2.16%
Agencies	0.00%	0.21%	2.47%

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