



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF APRIL 30, 2018

### Market Commentary

#### THE ECONOMY

- The economic outlook remains on track through 1Q. Inflation ticked up on the month in-line with economist estimates due to both higher energy prices and reduced deflationary pressures from wireless services. Despite the increase, fears of runaway inflation remain muted, but market consensus is for reaching the 2% target faster than was expected 6 months ago. The Fed remains on pace to lift rates two more times in 2018 (in June and September), with some upside risk for three, as the effects of fiscal stimulus may outpace the tightening impacts of reduced monetary accommodation.

#### STRUCTURED MARKETS

- After a period of spread widening since early February, asset backed spreads in the secondary market have stabilized and were modestly tighter on the month. While technicals were largely favorable in April on lower overall supply, some issuers had to widen guidance on certain new issue classes to get the deals done. The investor appetite and hunt for yield was strong in April with approximately \$3.5 billion of esoteric issuance.

#### CORPORATE CREDIT MARKET

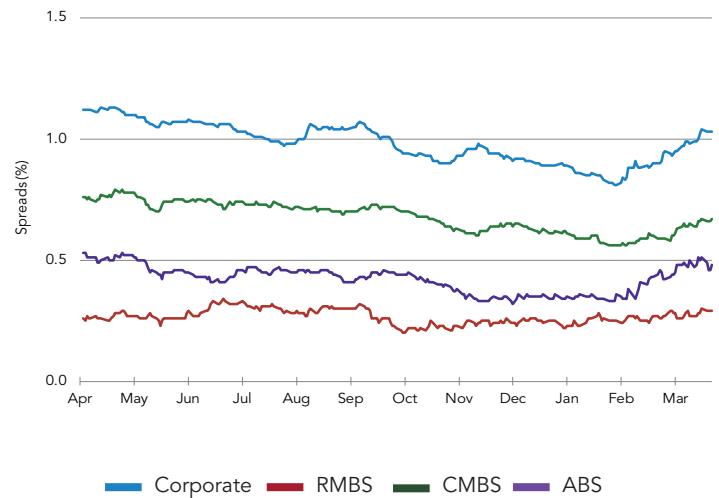
- Corporate spreads retraced some of the weakness earlier in the year given the abatement in technical selling pressures, easing geopolitical tensions and strong 1Q18 earnings. The Bloomberg Barclays Corporate Index tightened approximately 2 basis points (bps) to end at 108 bps in April. Higher all-in yields on the back of higher two-year Treasuries and relative credit curve flatness were tailwinds to front-end corporate technicals during the month. Primary supply came in at approximately \$118 billion and was driven by bank issuance at minimal concessions.

#### GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 22 bps and 24 bps, respectively, for the month of April. The 10-yr and 30-yr yields increased by 21 bps and 15 bps, respectively, for the month of April.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.10%
Int. Gov/Credit	-0.52%
Aggregate	-0.74%
1-3 Yr US Treasury	-0.18%
3-5 Yr US Treasury	-0.63%
5-10 Yr US Treasury	-1.07%
10-20 Yr US Treasury	-1.52%
20+ Yr US Treasury	-1.98%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-0.93%	0.05%	3.91%
Financials	-0.75%	0.05%	3.81%
Industrials	-1.01%	0.03%	3.96%
Utilities	-1.04%	0.21%	3.95%
RMBS	-0.50%	0.18%	3.44%
CMBS	-0.69%	0.14%	3.47%
ABS	-0.04%	0.13%	2.93%
Agencies	-0.68%	-0.14%	3.11%

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