



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF MAY 31, 2018

Market Commentary

THE ECONOMY

- Recent domestic data (namely lower than expected wage growth) have largely quieted fear of runaway inflation but market consensus is for reaching the 2% target faster than was expected in late 2017. The Fed remains on pace to lift rates two more times in 2018 (in June and September), but recent volatility in Emerging Markets and Europe has the potential to delay any hikes beyond June. Political risks abound and the market has not yet found a clearing level for the value of this risk yet.

STRUCTURED MARKETS

- CMBS issuance rebounded recently after a slow April. YTD non-agency issuance of \$27 billion was up 30% y/o/y. Agency issuance of \$47 billion remains robust but is on track to be lower in '18 vs '17. Credit spreads continued to tighten despite broader market volatility as higher UST rates attracted yield buyers. The outlook for positive earnings and historically low unemployment supports CRE fundamentals while inflation fears remain subdued.

CORPORATE CREDIT MARKET

- The Bloomberg Barclays Corporate Index widened 7 basis points (bps) in May to end at 115 bps. Despite the seemingly range-bound spread movement through most of the month, the bulk of the widening occurred in the latter half given political turmoil in Europe and the prospect of a global trade war. Total primary issuance during the month came in at approximately \$119 billion.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 6 bps and 10 bps, respectively, for the month of May. The 10-yr and 30-yr yields decreased by 10 bps and 10 bps, respectively, for the month of May.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

Total Return MTD

1-3 Gov/Credit	0.37%
Int. Gov/Credit	0.60%
Aggregate	0.71%
1-3 Yr US Treasury	0.37%
3-5 Yr US Treasury	0.67%
5-10 Yr US Treasury	1.02%
10-20 Yr US Treasury	1.36%
20+ Yr US Treasury	2.18%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.54%	-0.44%	3.88%
Financials	0.42%	-0.39%	3.78%
Industrials	0.58%	-0.46%	3.92%
Utilities	0.69%	-0.54%	3.90%
RMBS	0.70%	-0.05%	3.37%
CMBS	0.80%	-0.01%	3.38%
ABS	0.41%	0.03%	2.86%
Agencies	0.49%	-0.14%	3.08%

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