



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF OCTOBER 31, 2018

Market Commentary

THE ECONOMY

- Risk assets have taken a hard hit in October with US and global stocks leading the way lower due to trade war concerns and potential sanctions on Saudi Arabia stemming from the death of journalist Jamal Khashoggi. A meaningful flight to quality has yet to appear, as the yield of the 10-year US Treasury benchmark was modestly higher over the month (after spiking nearly 20 basis points to 3.25% in early October). Since that recent peak in 10-year rates, market expectations of the Fed tightening pace now point to just three hikes in the year ahead (versus four previously), reflecting concerns that tariffs could be taking a toll on growth.

STRUCTURED MARKETS

- The ABS primary market had its most active month of 2018, with pricing just over \$31bn of new ABS deals in October. This comes on the heels of the lightest month of issuance (September) in 2018 with only \$15.6bn of deals pricing last month. Autos led primary issuance in October with just under \$16.7bn of issuance. Esoteric ABS had another strong month with just under \$8bn of issuance. The sector also produced the 3rd largest ABS deal of the year (\$1.6bn). This deal was the first Esoteric ABS deal to be publicly registered with the SEC, further paving the way for more programmatic issuance in the sector. The active primary markets pushed secondary spreads modestly wider across all major ABS sectors through October.

CORPORATE CREDIT MARKET

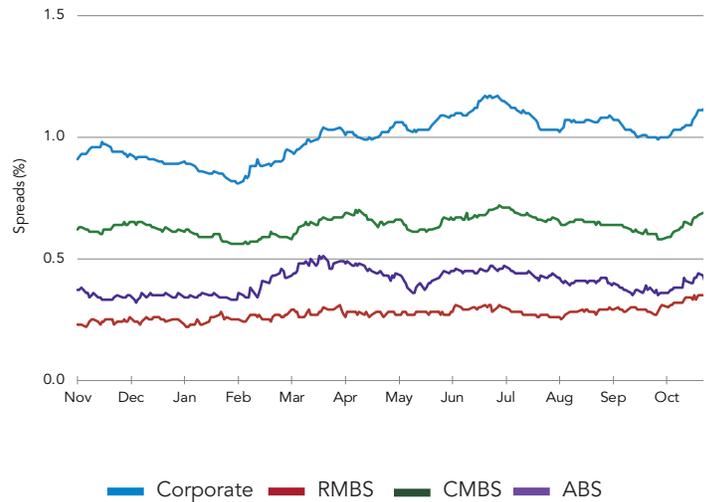
- Corporates widened 13 basis points (bps) to end at 118 bps in October. Peak auto cycle concerns, another round of emission scandals and downward ratings pressure from the rating agencies were factors that led autos to underperform. Nevertheless, auto spreads did recover slightly toward the end of the month on China's proposal to reduce vehicle purchase tax and better than expected earnings out of the US OEMs. Supply was muted as the expectation that self-funding banks would issue post-earnings blackout never fully materialized. There was \$89bn in primary issuance throughout the month, with the bulk driven by Industrial M&A supply.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 5 bps and 2 bps, respectively, for the month of October. The 10-yr yield increased by 8 bps and the 30-yr yield increased by 19 bps for the month of October.

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SPREADS TO TREASURIES



BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.11%
Int. Gov/Credit	-0.14%
Aggregate	-0.79%
1-3 Yr US Treasury	0.14%
3-5 Yr US Treasury	0.09%
5-10 Yr US Treasury	-0.17%
10-20 Yr US Treasury	-1.20%
20+ Yr US Treasury	-3.20%

SECTOR DATA FROM BLOOMBERG BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	-1.46%	-0.80%	4.27%
Financials	-0.82%	-0.47%	4.15%
Industrials	-1.78%	-1.02%	4.33%
Utilities	-1.66%	-0.50%	4.30%
RMBS	-0.63%	-0.37%	3.74%
CMBS	-0.55%	-0.44%	3.74%
ABS	0.07%	-0.06%	3.28%
Agencies	-0.63%	-0.46%	3.51%

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