



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF AUGUST 31, 2016

Market Commentary

THE ECONOMY

- Global markets continue to shrug off the uncertainty posed by Brexit as central banks abroad take more dovish stances. 2Q GDP was revised down to 1.1%, remaining well below the level necessary to reach 2% growth for full year 2016. While domestic economic data remains uninspiring, the market is pricing in a greater probability of a rate hike in 2016 as markets have stabilized abroad. We remain cautious that there remains a heightened risk of policy missteps, both domestically and abroad.

STRUCTURED MARKETS

- High quality ABS remains attractive versus other structured products. Losses on credit trusts remain near record lows due to favorable labor market conditions and a lower leveraged consumer. Following a robust July, monthly issuance cooled in August with approximately \$15B in deals coming to market, right in-line with the 3-yr average. Investor appetite for the product remained strong during the month, compressing secondary spreads by 2-5 basis points (bps) for senior bonds and 5-10 bps for subordinated paper.

CORPORATE CREDIT MARKET

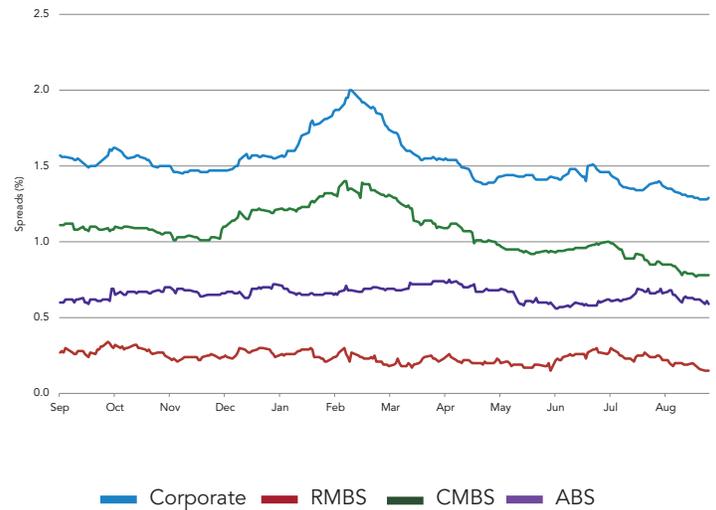
- The Barclays Corporate Index tightened 11 bps through August 31st, with Industrials leading at roughly 11 bps of compression. The market welcomed, with open arms, JPMorgan and Citi's novel callable senior unsecured debt in anticipation of the Fed's finalization of TLAC eligibility rules. Despite conventions of August being a slow month, issuance was robust with roughly \$116B in new deals pricing through the 31st (historically in the range of \$50-60B). Looking ahead to September, the Street is calling for approximately \$125B with a decent chunk driven by unfunded M&A deals.

GOVERNMENT MARKET

- Yields have increased across the curve in August. 2-yr, 5-yr, 10-yr and 30-yr yields increased 15 bps, 17 bps, 13 bps and 5 bps respectively.

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SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	-0.11%
Int. Gov/Credit	-0.26%
Aggregate	-0.11%
1-3 Yr US Treasury	-0.17%
3-5 Yr US Treasury	-0.50%
5-10 Yr US Treasury	-0.79%
10-20 Yr US Treasury	-0.99%
20+ Yr US Treasury	-0.94%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.20%	0.83%	2.80%
Financials	0.19%	0.75%	2.60%
Industrials	0.25%	0.91%	2.88%
Utilities	-0.21%	0.54%	2.96%
RMBS	0.12%	0.31%	2.03%
CMBS	-0.17%	0.46%	2.08%
ABS	0.01%	0.20%	1.45%
Agencies	0.10%	0.50%	1.60%

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