



MERGANSER
CAPITAL MANAGEMENT

THE MERGANSER FLASH

FIXED INCOME INSIGHTS

AS OF JULY 31, 2017

Market Commentary

THE ECONOMY

- After the second Fed rate hike of 2017 in June, July economic data has done little to alter the market outlook for the Fed to take a pause. Decidedly weaker-than-expected retail sales figures, downward revisions to US GDP for the first half of 2017 and mixed inflation and housing data all provide good cover to slow the tightening regime. Concern over a debt ceiling resolution has also increased and is the likely driver of a temporary inversion of the US Bills curve.

STRUCTURED MARKETS

- Following the July 4th holiday, ABS new issuance picked up significantly, with a total of just over \$14.6B in deals having come to market. The primary market has been particularly strong in the auto and equipment sectors, with about \$6.7B and \$2.3B of new issue activity, respectively. Despite concerns regarding used vehicle valuations, investor demand remains high for prime auto paper, with many deals pricing at the tight end of the initial guidance. However, in the sub-prime auto space, new issues have priced towards the wider end of initial price guidance, but have still found investor appetite from those looking for higher yielding paper.

CORPORATE CREDIT MARKET

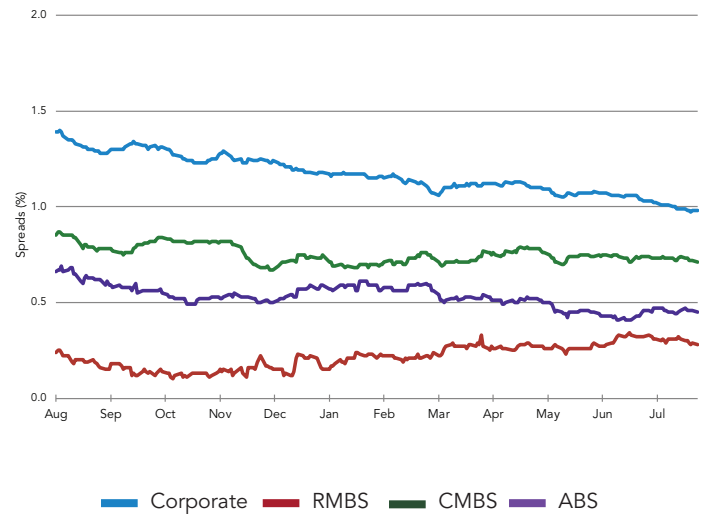
- In the absence of major news, corporate credit continued its grind tighter, compressing roughly 6 basis points (bps) through July to end at 102 bps. Valuations appear rich, considering most sectors are at or near their multi-year tightness on both an absolute and duration-adjusted basis. Supply through the month came in at approximately \$120B, mostly driven by banks exiting their second quarter earnings blackout.

GOVERNMENT MARKET

- The 2-yr and 5-yr yields decreased by 3 bps and 5 bps, respectively, for the month of July. The 10-yr yield decreased slightly by 1 bp, while the 30-yr yield increased 7 bps.

This commentary has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular issuer, security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This commentary contains or incorporates by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors. No part of this article may be reproduced in any form, or referred to in any other publication, without the express written permission of Merganser Capital Management © 2017.

SPREADS TO TREASURIES



BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.26%
Int. Gov/Credit	0.46%
Aggregate	0.43%
1-3 Yr US Treasury	0.21%
3-5 Yr US Treasury	0.36%
5-10 Yr US Treasury	0.42%
10-20 Yr US Treasury	0.04%
20+ Yr US Treasury	-0.69%

SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.73%	0.61%	3.11%
Financials	0.73%	0.52%	2.90%
Industrials	0.72%	0.62%	3.20%
Utilities	0.83%	0.87%	3.32%
RMBS	0.45%	0.24%	2.82%
CMBS	0.62%	0.26%	2.65%
ABS	0.27%	0.05%	1.86%
Agencies	0.50%	0.29%	2.15%

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