



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF DECEMBER 31, 2017

### Market Commentary

#### THE ECONOMY

- As expected, the Fed hiked rates 25 basis points (bps) at their December meeting as continued growth offset inflation data that continues to languish. The tax code revisions passed in December are now a wildcard in the economic landscape, with the cascading short term and long term impacts yet to be fully understood. For now, most economists view the macro level impacts of the tax package to be neutral to mildly positive.

#### STRUCTURED MARKETS

- During the first half of December, the ABS primary market experienced about \$8.3bn of new issuance across 20 different deals. Esoteric ABS sectors led the way, with about \$4bn across 12 different deals coming to market, indicating that ABS investors continue to have a strong appetite for higher yielding sectors. Subprime Auto new issuance also continues to be well received by the market, with just under \$1bn across three different deals pricing. No new deals priced in the second half of December due to the typical holiday slowdown.

#### CORPORATE CREDIT MARKET

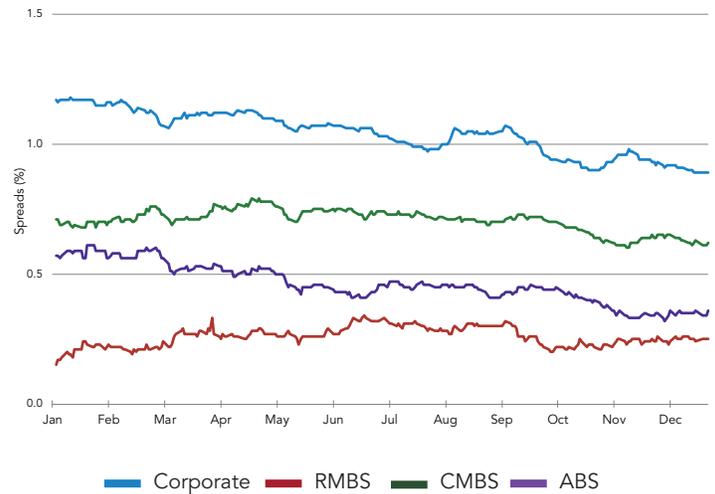
- Investment grade corporates capped off a banner year by closing at post-crisis tight. The Bloomberg Barclays Corporate Index tightened 5 bps in December to end at 93 bps. Despite the new issue machine trickling to a halt during the holiday season, the cumulative issuance for the year was approximately \$1.4tn (an 8% increase YoY). Certain aspects of the tax reform, such as repatriation and interest expense deduction caps, may serve as headwinds to corporate supply heading into the new year.

#### GOVERNMENT MARKET

- The 2-yr and 5-yr yields increased by 10 bps and 7 bps, respectively. The 10-yr yield was flat and the 30-yr yield decreased by about 9 bps in December.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.03%
Int. Gov/Credit	0.11%
Aggregate	0.46%
1-3 Yr US Treasury	0.01%
3-5 Yr US Treasury	-0.04%
5-10 Yr US Treasury	0.11%
10-20 Yr US Treasury	0.63%
20+ Yr US Treasury	1.81%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.91%	0.50%	3.25%
Financials	0.58%	0.34%	3.07%
Industrials	1.06%	0.59%	3.33%
Utilities	1.11%	0.41%	3.36%
RMBS	0.33%	0.16%	2.91%
CMBS	0.29%	0.20%	2.86%
ABS	0.02%	0.00%	2.26%
Agencies	0.11%	-0.04%	2.54%

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