



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

## FIXED INCOME INSIGHTS

AS OF MARCH 31, 2018

### Market Commentary

#### THE ECONOMY

- The Powell-led Fed raised rates as expected in March, with a modest improvement in economic outlook relative to the previous meeting. Fears of runaway inflation have largely abated, but market consensus is for reaching the 2% target faster than was expected 6 months ago. The Fed remains on pace to lift rates two more times in 2018, with some upside risk for three, as the effects of fiscal stimulus may outpace the tightening impacts of reduced monetary accommodation.

#### STRUCTURED MARKETS

- CMBS spreads out the curve have been leaking wider with other products, but the credit curve is flatter relative to year end as subordinate bonds are still in favor. The labor market remains supportive and CMBS cash flows were not directly impacted by talk of trade wars. More directly impactful was the growing list of domestic retail bankruptcies, but this was not unexpected. YTD private label supply of around \$20 bn was up 70% from last year when risk retention rules were just being implemented. This was driven by the Single Asset/Single Borrower market, which saw a remarkable \$9.6 bn of issuance (vs \$3 bn ytd '17). This was roughly the same amount as the traditional 'conduit' sector. Agency CMBS issuance was up a more muted 20%.

#### CORPORATE CREDIT MARKET

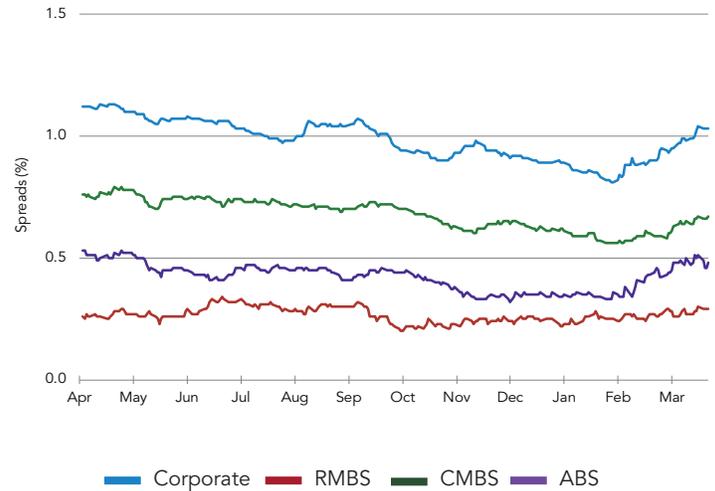
- President Trump's tariff announcements sparked fears of a pending trade war and roiled markets in March. Corporate spreads were no exception, given the 10 basis points (bps) of widening during the month. The continuation of front-end selling was primarily driven by overseas accounts and increases in overall dollar funding costs. Month-to-date primary volume came in at approximately \$124 bn, with the bulk of it bolstered by M&A mega deals.

#### GOVERNMENT MARKET

- The 2-yr yield increased by 2 bps for the month of March. Meanwhile, the 5-yr, 10-yr and 30-yr yields decreased by 8 bps, 12 bps and 15 bps, respectively, for the month of March.

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#### SPREADS TO TREASURIES



#### BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Gov/Credit	0.16%
Int. Gov/Credit	0.36%
Aggregate	0.64%
1-3 Yr US Treasury	0.20%
3-5 Yr US Treasury	0.51%
5-10 Yr US Treasury	1.00%
10-20 Yr US Treasury	1.84%
20+ Yr US Treasury	3.13%

#### SECTOR DATA FROM BARCLAYS AGGREGATE

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.25%	-0.91%	3.75%
Financials	0.00%	-0.86%	3.65%
Industrials	0.36%	-0.91%	3.80%
Utilities	0.49%	-1.16%	3.80%
RMBS	0.64%	-0.14%	3.30%
CMBS	0.39%	-0.35%	3.28%
ABS	0.18%	0.00%	2.79%
Agencies	0.44%	-0.15%	2.93%

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