Securitized Product Market Update

APRIL 2022: OUTLOOK AND IMPLEMENTATION

	APR 2022	YTD Change
ABS Returns	-0.76%	- 3.62%
Yield	3.40%	2.27%
CMBS Returns	-2.31%	-7.77%
Yield	3.78%	1.90%
MBS Returns	-3.51%	-8.31%
Yield	3.90%	1.61%

Source: Bloomberg U.S. Aggregate Bond Index
Past performance is not indicative of future results.

► Total returns were negative again this month, driven by the backup in Treasury rates. The U.S. Treasury curve experienced another rate jump, with the 2-year U.S. Treasury note climbing by 38 basis points (bps) to yield 2.72%, and the 10-year Treasury note moving higher by 60 bps to yield 2.93%. Though ABS produced positive excess spreads, CMBS and MBS produced negative excess returns. We are still very positive on the U.S. consumer and housing fundamentals, which are driving our investment thesis and overweight to both sectors. We are currently booking yields in the 4% to 5% range for short average life investment grade assets.

Fundamentals

- The unemployment rate falling to 3.6% and current job openings remaining near 11.5 million are strong positives.
- Workers saw strong wage gains across the board, but especially for the lower quintile of earners.
- Delinquencies have begun to normalize, with delinquency rates on the rise across consumer asset classes – but remember that we are coming off historic lows.
- Record-setting housing values and sharply higher mortgage rates bring about future affordability questions.

Technicals

- Negative fixed income mutual fund flows continue to put pressure on spread product overall.
- Higher rates impact future MBS and RMBS supply forecasts.
- Still waiting on the ultimate quantitative tightening implementation and potential impact on MBS supply.
- CRE buyers face lower levered returns from the higher financing costs. On the margin, higher rates could reduce transaction volume – a key driver of CMBS issuance.

Valuations and Implementation

- With yields higher and spreads wider, we see a lot of value in the consumer space, which we are adding prudently to the portfolios.
- Our emphasis continues to be on the front end of the yield curve, where we look to put dollars to work in investment grade amortizing assets and in deal structures that lead to de-leveraging.
- We continue to favor up-in-quality consumer and residential exposures as deal cash flows shrink with higher financing costs. We see value in select CMBS offerings.

Paul Privitera

Director – Institutional

Paul.Privitera@Newfleet.com

Phone: (860) 839-0705

The **Bloomberg U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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