

# Securitized Product Market Update



## MAY 2022: OUTLOOK AND IMPLEMENTATION

	MAY 2022	YTD Change
ABS Returns	0.31%	- 3.32%
Yield	3.37%	2.24%
CMBS Returns	0.21%	-7.58%
Yield	3.80%	1.92%
MBS Returns	1.11%	-7.29%
Yield	3.46%	1.17%

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

- ▶ Total returns were positive this month, driven by the rally in Treasury rates. The U.S. Treasury curve tightened, as shown by the 2-year U.S. Treasury note rallying by 16 basis points (bps) to yield 2.56%, and the 10-year Treasury note rallying by 9 bps to yield 2.84%. Securitized product spreads firmed up in general during the last week of the month. A settling rates curve and wider spread product nudged investors to put money to work. 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 and liquidity costs.
- We see value in select high quality CMBS offerings as spreads widened in May.

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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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**Investing is subject to risk, including the risk of possible loss of principal.**

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