Securitized Product Market Update

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

JUNE 2022: OUTLOOK AND IMPLEMENTATION

	JUNE 2022	YTD Change
ABS Returns	-0.46%	- 3.77%
Yield	3.78%	2.65%
CMBS Returns	-0.76%	-8.28%
Yield	4.07%	2.19%
MBS Returns	-1.60%	-8.78%
Yield	3.77%	1.48%

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

► Total returns were negative this month, driven by the rise in Treasury rates and wider spreads. The U.S. Treasury curve backed up, as evidenced by the 2-year U.S. Treasury note increasing by 40 basis points (bps) to yield 2.95%, and the 10-year Treasury note increasing by 17 bps to yield 3.01%. Spreads were wider across the board in June as investors' fear of an impending recession drove risk premiums higher. In general, shorter duration higher-quality assets outperformed longer duration lower-quality assets for the month. We are still positive on the U.S. consumer and mortgage credit, which are driving our investment thesis and overweight to both sectors. We are currently booking yields in the 4.50% to 5.50% range for short-average-life investment grade assets.

Fundamentals

- The unemployment rate falling to 3.6% and current job openings remaining near 11 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 raise affordability questions.
- CMBS fundamentals holding up, but we expect maturity extensions due to rising borrowing costs.

Technicals

- Negative fixed income mutual fund flows continue to put pressure on spread product overall.
- Higher rates impact future MBS and RMBS supply forecasts.
- QT implementation leaves the private MBS market as the supply shock absorber.
- CMBS supply now forecast lower due to volatility-induced slowdown.

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.
- CMBS has underperformed similar rated investment grade assets on a year-to-date basis. We do see value appearing in the higher-rated parts of single asset-single borrower CMBS transactions.

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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.

Newfleet Asset Management's industry trends and observations are the result of research conducted by the portfolio management / research team. These observations reflect their industry expertise and have been prepared using sources of information generally believed to be reliable; however, their accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice.

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

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