Securitized Product Market Update

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

AUGUST 2022: OUTLOOK AND IMPLEMENTATION

	August 2022	YTD Change
ABS Returns	-0.66%	-3.94%
Yield	3.71%	2.99%
CMBS Returns	-2.55%	-8.98%
Yield	4.41%	2.53%
MBS Returns	-3.42%	-9.07%
Yield	3.35%	1.98%

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

► Total returns were negative this month, with longer duration asset classes within securitized sectors underperforming the most. The U.S. Treasury 2-year/10-year curve continued to invert, ending the month at a negative 30 basis points (bps). We are still positive on the U.S. consumer and mortgage credit, which drives our investment thesis and overweight to both sectors. We feel both sectors are priced attractively for the risks. We are currently booking yields in the 4.50% to 5.50% range for short-average-life investment grade assets.

Fundamentals

- The unemployment rate, unchanged at 3.5%, and current job openings, still at an elevated 11 million, mitigate the effects of higher rates on the consumer.
- Workers see continued 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.
- Housing prices slowing as 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, our consumer loan-backed bonds offer value.
- 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 add up-in-quality residential exposures as prepayments remain muted.
- In CMBS we prioritize liquidity over marginal spread pickup and recommend names with large deal sizes and well-capitalized sponsors in CMBS SASB investment grade securities.

Newfleet Asset Management
One Financial Plaza
Hartford, Connecticut 06103
877-332-8172

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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