# Securitized Product Market Update

## OCTOBER 2022: OUTLOOK AND IMPLEMENTATION

| | October 2022 | YTD Change |
|---|---|---|
| **ABS Returns** | -0.84% | -5.85% |
| **Yield** | 5.46% | 4.74% |
| **CMBS Returns** | -1.60% | -13.23% |
| **Yield** | 5.65% | 3.77% |
| **MBS Returns** | -1.42% | -14.89% |
| **Yield** | 5.11% | 3.74% |

**Source: Bloomberg U.S. Aggregate Bond Index**

**Past performance is not indicative of future results.**

► A theme appeared this month that has essentially played out all year. U.S. Treasury rates backed up again with the 2-year and 10-year U.S. Treasury yielding 4.48% and 4.05% at month-end. As a result, total returns were negative across the board. Spread product continued to weaken, with the back-up in rates caused by investor concerns over an impending recession and its overall impact on credit. Spread levels across all asset types are approaching pandemic spread levels. Uncertainty breeds opportunity – today, we can invest in high quality assets in the 6% to 8% yield range. We continue to invest in high-quality securitized assets to take advantage of these wider spread levels and higher yields.

### Fundamentals

- A low unemployment rate of 3.7% and current job openings, still at an elevated ten million-plus, mitigate the effects of higher rates on the consumer.
- Workers continued to benefit from wage gains across the board, 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 are slowing as sharply higher mortgage rates raise affordability questions.
- CMBS fundamentals are challenged due to rising financing costs and shrinking deal activity. Higher interest rates do not bode well for CRE valuations.

### Technicals

- Negative fixed income mutual fund flows continue to put pressure on spread product overall.
- As an offset, higher interest rates will slow down issuance for securitized product.

### Valuations and Implementation

- High-quality securitized assets are now yielding 6% to 8%. 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 benefit from de-leveraging.
- We continue to prefer non-agency residential exposure as credit performance remains stable, prepayments are muted, and the structures provide greater opportunity versus their agency counterparts.
- 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.

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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.