# Securitized Product Market Update

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

## APRIL 2023: OUTLOOK AND IMPLEMENTATION

| | April 2023 | YTD Change |
|---|---|---|
| **ABS Returns** | 0.50% | 2.37% |
| **Yield** | 4.92% | -0.22% |
| | | |
| **CMBS Returns** | 0.86% | 2.69% |
| **Yield** | 5.11% | -0.19% |
| | | |
| **MBS Returns** | 0.52% | 3.06% |
| **Yield** | 4.48% | -0.23% |

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

► April brought calm to the rates markets, with Treasury yields and the maturity curve very stable. The U.S. Aggregate bond market produced a 0.61% return. Credit spreads for securitized product, including ABS, CMBS, and RMBS, tightened during the month. The agency MBS market was the only securitized sector to experience wider spreads; this was due to the amount of supply expected to hit the markets after the FDIC takeover of several large regional banks. ABS and RMBS new issues still benefit from solid demand. CMBS, despite the negative news headlines on CRE, saw some new issuance during the month that was met with good demand.

### Fundamentals

- The unemployment rate is now near historical lows – 3.5%.
- Although job openings have ticked slightly lower to 9.6 million, we are still at 20-year highs.
- Workers continued to benefit from wage gains across the board, especially lower-quintile earners.
- Delinquencies are trending higher across all consumer asset classes (i.e., autos and unsecured loans). However, the delinquency increase is more pronounced for lower-scoring FICO borrowers.
- Housing prices remain under pressure as higher mortgage rates continue to weigh on affordability.
- CMBS fundamentals are challenged due to rising financing costs and shrinking deal activity. Higher interest rates do not bode well for CRE valuations.
- We have seen several CRE equity sponsors hand in the keys on office properties as their valuations depreciated due to higher rates.

### Technicals

- Thus far this year, strong flows into money market accounts and inflows into fixed income have been a positive.
- Muted new issue supply – especially for CMBS and RMBS – was a positive technical for the month.
- All three asset classes have issued less supply than in 2022, with CMBS down a whopping 80% year-over-year.

### Valuations and Implementation

- Credit spreads across securitized products remain attractive versus investment grade corporate alternatives.
- We took advantage of the wider spreads in April by adding new issue ABS paper that will be accretive to performance throughout 2023.
- We were selective within RMBS during the month and continue to prefer non-agency residential exposure as credit performance remains stable, prepayments stay muted, and credit spreads are still wide of averages.
- We selectively added new issue senior-tranche CMBS, as it trades cheaper than single A- and BBB-rated corporates on a spread basis.

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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.