

# Securitized Product Market Update



## FEBRUARY 2023: OUTLOOK AND IMPLEMENTATION

	February 2023	YTD Change
ABS Returns	-0.85%	0.55%
Yield	5.29%	0.15%
CMBS Returns	-1.87%	0.72%
Yield	5.36%	0.06%
MBS Returns	-2.64%	0.57%
Yield	4.76%	0.05%

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

- ▶ The yield curve went sharply higher in February after some negative inflation news and a very strong jobs report. The 2-year U.S. Treasury reached its highest yield in 17 years and the 10-year U.S. Treasury approached 4%. This led to negative returns across all securitized markets. Credit spreads were mixed, with some of the more interest rate-sensitive sectors widening with higher rates. Demand for new issue spread product remained healthy as buyside accounts looked to put dollars to work in a significantly higher yield environment. The technical picture for securitized product remains very positive: all three asset classes have issued less supply than in 2022. CMBS and RMBS continue to have very muted supply numbers compared to last year.

### Fundamentals

- The unemployment rate has fallen to 3.4%, while current job openings have jumped up to 11 million – 1.92 open jobs for every unemployed person.
- 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.
- The CRE office model is being tested due to the work-from-home trend, which has permanently changed the future demand of office space.

### Technicals

- Thus far this year, strong flows into money market accounts and flows into fixed income have been a positive.
- Muted new issue supply – especially for CMBS and RMBS – was a positive technical for the month.

### Valuations and Implementation

- High-quality securitized assets are now yielding 5.5% to 8.0%. We continue to emphasize short average life securitized paper within our portfolios due to its relative value versus corporates.
- We took advantage of higher yields and spreads in February to add investment grade ABS mezzanine paper that we believe 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.
- In CMBS, we prioritize liquidity over marginal spread pickup and favor names with large deal sizes and well-capitalized sponsors in CMBS SASB investment grade securities.

# Securitized Product Market Update

**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.**

**AR 2778267 3/2023**

**For Institutional Investor Use**