For Professional Advisers Only

Notes From The CIO

31 January 2022

- The rising yield curve fueled by the Fed's continuing pivot to a less accommodative stance, global macro uncertainty, and a heavy new issue supply calendar have pushed spreads wider and prices lower across most fixed income markets in January. Through 1/28/22, the Bloomberg Aggregate, Corporate, High Yield, and 1-3 Year Aggregate indices are down -2.13%, -3.34%, -2.80%, and -0.70% respectively

- This negative broad market sentiment is also being felt in the Non-Agency market. Strong housing fundamentals and low interest rate sensitivity have supported prices, but a heavy new issue calendar in several RMBS sectors including Agency CRT, Jumbo 2.0, and Non-QM is pressuring new issue spreads and to a lesser extent secondary spreads

- The supply pressure is most acutely seen in the Agency CRT sector, where 2022 supply is expected to be double 2021 supply, heavily front end loaded. The new Fannie Mae CAS deal expected to be announced today has seen initial spread indications widened by 30 – 75 basis points across the mezzanine and subordinated classes and is likely to widen further as investors demand greater pricing concessions in the midst of supply technical and broader market volatility

- On top of the 2021 Q4 technically driven spread widening, the further weakness we have seen in recent days is likely to lead to even more attractive investment opportunities from both a price appreciation and yield standpoint. Based on current remittance data further strength in loan performance and deal delevering, while the Fed's likely initial rate hike in mid-March will begin to ratchet-up the current yield for the next generation RMBS market's large concentration of floating rate coupons as coupons are reset higher over one-month LIBOR and SOFR, which will move higher in concert with the Fed Funds rate