

Notes From The CIO

7 June 2021



- RMBS sectors remain firm with increasingly strong fundamental support. Housing data continues to come in strong, with home price appreciation now running +13% year-over-year. Supply/demand imbalances persist, while affordability remains good with rising incomes and mortgage rates still close to 3%. Strong loan performance continues with about 60% (Legacy loans) to 80% (Jumbo 2.0 loans) of loans formerly in COVID Forbearance having cured. Positive loan performance trends in conjunction with higher embedded HPA and supply/demand imbalances in housing markets continue to support the argument for positioning in subordinated RMBS securities
- Refinancing activity in most agency and non-agency sectors has peaked/declined marginally with the exception of Non-QM. Non-QM refinancing activity has risen sharply over the last few months, a reflection of less mortgage rate sensitivity, more focus by originators, and strong borrower quality. With today's higher bond prices, this can be a negative for investment grade bonds and bonds with less call protection, but a positive for mezzanine bonds benefiting from this growing delevering
- CRT mezzanine bonds have benefited from the near term lack of new issue supply. Following the FHFA's report that CRT bonds have been overly generous to bondholders, and a pending Supreme Court ruling that may have FHFA leadership implications, Freddie Mac appears to have slowed the pace of issuance, while Fannie Mae has yet to issue new CRT since spring 2020. As an example, the B2 tranche of Freddie Mac's last new deal from March is trading at a 4 to 5 point premium to par, while the M2 and B1 securities have each appreciated 2-3 points since issuance
- Mortgage Insurance CRT bonds, which along with Agency CRT are levered to the housing fundamentals, have quietly seen significant spread tightening over the last few months after lagging RMBS overall since Q1 2020. Given the positive fundamentals described above, the strong underwriting observable in post-COVID mortgage originations, and the wide spreads in the sector, MI CRT looks poised to outperform other RMBS subsectors

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