For Professional Advisers Only

# Notes From The CIO

**22 June 2021**

SEMPER
CAPITAL MANAGEMENT

- The Non-Agency RMBS sector has remained steady in June, ignoring Treasury market and Agency MBS market volatility created by last week's Fed meeting results, including the increased expectation for nearer-term hawkish Fed actions. The Fed increased the Interest on Excess Reserves by 5 basis points, the first sign of a lessening in stimulative Fed policy. This may result in some upward pressure in SOFR and other short term rates, a positive for floating rate RMBS coupons and a positive for RMBS portfolio yield

- The one sector showing significant strength in June has been Agency CRT, the sector most closely linked to housing fundamentals. All signs point to continued strengthening of the housing sector, especially with mortgage rates remaining low, supply falling short of demand, and demographic trends driving demand for housing. CRT Paydowns will be ~$1 billion again during the upcoming remittance period, creating strong reinvestment demand. Freddie Mac has belatedly announced their next new issue STACR CRT deal, which is expected to add ~$500 million to perhaps $1 billion of supply. Combined with light dealer inventories going into quarter end, this sector's strength is likely to continue

- While the 10-Year Treasury has stayed in a range of about 1.45% to 1.60% for several weeks, and actually rallied following the Fed meeting, the 2-Year Treasury yield has risen by 10 bps, signaling a shift in monetary policy expectations

- Agency MBS fared worse. The sector has underperformed Treasuries all month, and this underperformance accelerated post-Fed. The market seems to be anticipating that tapering will happen within Agencies before Treasuries. The Agency MBS Index has underperformed the Aggregate Index by 100 bps month to date, with only a small portion of that attributable to a 10 bps decline in intermediate rates