For Professional Advisers Only

Notes From The CIO

28 September 2021

SEMPER CAPITAL MANAGEMENT

- Equity and interest rate volatility has returned to the capital markets, and RMBS has continued to be firm. New issue activity remains robust, and has performed well
- Freddie Mac issued their most recent new issue this week, with structural changes that in our view make seasoned deals more fundamentally attractive as a result of their more robust structural features. The new deal's B2 class is more callable and has less structural protection against future deferral and modification related losses. The B2 was priced 75 basis points wider than the last B2 new issue at issuance
- We believe that outstanding subordinate bonds are in general increasingly attractive from a structural, fundamental (as a result of imbedded HPA and de-leveraging) and total return standpoint
- Following the FHFA's recent changes to Agency CRT capital treatment, Fannie Mae announced they would return to the market – we expect CRT new issue volume in Q4 to be comparable to the first three quarters combined, with full year gross issuance volume of about $10-$12 billion. CRT supply has been leaving the market at roughly $1 billion per month from paydowns. Additionally, Freddie Mac recently tendered for about $1.6 billion of outstanding bonds

- The Agency sector's duration has been rapidly extending with the recent rise in rates – the MBS Index now has a duration of 4.4 years – while non-Agencies continue to be less negatively convex and more stable. We expect the short average lives and floating rate characteristics of much of the RMBS sector to result in increasingly strong relative performance versus Agencies (and other fixed income profiles) if rates continue on this path. We are back to mid-June levels on the 10-year Treasury, but still 30 basis points below March levels

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