For Professional Advisers Only

Notes From The CIO

5 November 2021

SEMPER
CAPITAL MANAGEMENT

- The high level of gross new issuance across RMBS sectors – about $5 to $6 billion per week since early October - including Agency CRT, Jumbo 2.0, Non-QM has softened new issue spreads significantly over the last several days, anywhere from 10 to over 100 basis points despite strong collateral and deal structures

- Secondary activity in non-agencies has slowed as investors focus on another several weeks of significant new issue supply

- One exception to recent softness has been Single Family Rental bonds – new issues have priced at relatively strong levels and secondary trades have also exhibited price strength

- We see this end-of-year phenomenon as a great buying opportunity, setting up the RMBS sector for the prospect of spread compression and strong price action in early 2022 in our view

- The large concentration of short average lives and floating rate coupons in RMBS is increasingly attractive as the Fed begins their announced QE tapering later this month, the next step in moving towards neutral monetary stimulus

- Thursday's/Friday's rate rally doesn't change our view that the curve will rise and inflation will persist – given housing's history of being an inflation hedge we continue to invest in bonds highly dependent on housing fundamentals