For Professional Advisers Only

# Notes From The CIO

**18 January 2022**

SEMPER CAPITAL MANAGEMENT

- Upward pressure on the Treasury yield curve, swaps, and short rates is in focus. Much of the Non-agency RMBS sector is well positioned to outperform other fixed income in this environment, thanks to strong housing fundamentals, low effective durations, and floating rate coupon profiles

- Despite significant new issuance by Fannie and Freddie to start the year – and the expectation for very large supply in the first half of 2022 - we have seen higher trade prices for some subordinated Agency Credit Risk Transfer (CRT) profiles. These are bonds trading above par with high coupons – that will reset higher as LIBOR/SOFR moves up – and strong credit enhancement. Expectations are for some slowdown in prepayments, leading to likely modest average life extension. This allows the bonds to earn higher carry for longer, elevating current values

- In addition to Agency CRT bonds, other strong housing-related bond profiles with floating rate coupons include Mortgage Insurance CRT, Fannie and Freddie's multifamily housing CMBS CRT programs, a number of Single Family Rental (SFR) floating rate securities, and many CRE CLO and SASB CMBS structures with a significant allocation to pools of multifamily loans

- Many fixed rate Non Qualified Mortgage (Non-QM) and Jumbo 2.0 bonds are also expected to hold up well as rates rise, with their collateral and call features limiting extension risk, while a likely increase in credit upgrades – the product of delevering – can support contracting yield spreads