For Professional Advisers Only

Notes From The CIO

8 March 2022

SEMPER CAPITAL MANAGEMENT

- Bond market technicals remain challenging, reducing volumes and widening bid/ask spreads across all sectors. The 10-year Treasury has been moving sharply nearly every day, and in our view the flatter curve is a reflection of bouts of geopolitical risk-off rather than near term economic concerns. Inflation remains elevated and will face upward pressure from the broad impact of oil prices. The Fed will seek to strike a balance given geopolitical events, making it most likely in our view that they will stick with 25 bp rate hikes beginning next week

- After a few years of downward pressure on the large portion of floating rate coupons in the RMBS sector, coupons will begin resetting higher, increasing yield

- Spreads in RMBS have now widened roughly 50 bps to 150 bps for investment grade profiles and 100 to 200+ bps for below investment grade profiles. Many if not most RMBS sectors are yielding well above corporates at comparable credit rating levels, generally with less rate sensitivity and arguably more robust structures and fundamentals. Combined with continued housing and loan performance strength, we view this as a strong relative value opportunity. We are seeing evidence of a declining forward calendar for RMBS supply, the initial trigger for the spread widening that began last fall

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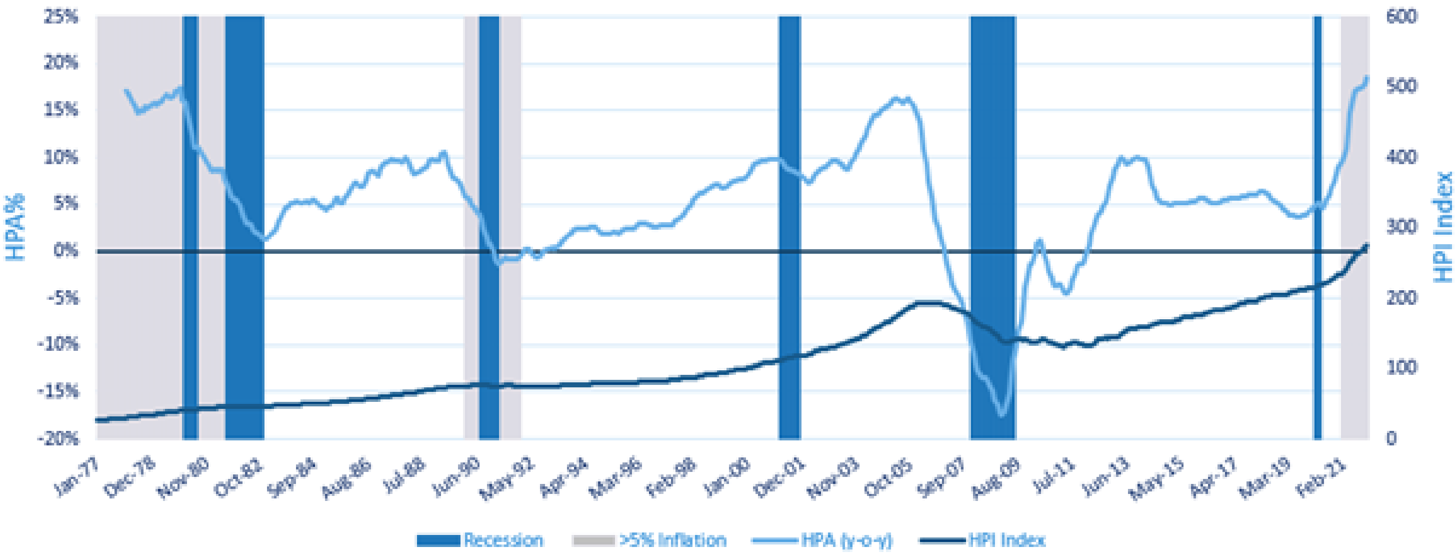
- Home price appreciation and growing home equity are among our favorite sources of credit strength and protection against losses in RMBS. The below graph highlights the fact that home prices have generally risen through both inflationary and recessionary periods, of course with the exception of the Great Financial Crisis which was the outlier, as it was housing driven

HOME PRICE APPRECIATION DURING INFLATION AND RECESSION



Source: Nomura Group, Bloomberg