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Notes From The CIO

19 April 2022

SEMPER
CAPITAL MANAGEMENT

- Non-Agency RMBS have generally firmed up this month, following Q1's spread widening that led to negative performance – albeit less negative than the longer duration corporate and high yield sectors and broad bond market indices

- Agency Credit Risk Transfer subordinated B1 and B2 bonds have moved up in price from their late March lows, as the sector moved past the record Q1 gross issuance, even as the Bloomberg Aggregate Index is down another -3% in performance this month

- The supply wave seems to have ebbed somewhat – it was the sharp rise in gross issuance that began the sector's spread widening last fall. With the 30 year mortgage rate above 5% now, we expect a sharp decline in mortgage origination, which will lead to less gross supply in RMBS

- Lower gross supply, combined with continued strong housing fundamentals – analysts still project above trend home price appreciation to persist – and the lower duration and floating rate feature of so much of the RMBS sector should provide increasing support to RMBS prices

- We look for seasoned bonds, which Semper has long favored given their higher credit enhancement and strong borrower credit fundamentals to perform increasingly well relative to newer profiles