For Professional Advisers Only

Notes From The CIO

4 May 2022

SEMPER CAPITAL MANAGEMENT

- The Fed hiked their target Fed Funds rate by 50 bps this afternoon and announced their balance sheet reduction plan, which includes runoff of $35 billion of Agency MBS monthly. Later in the year, we expect mortgage refinancing volumes to decline from increasing mortgage rates, and believe that will likely result in the Fed having to sell some MBS to make up for declining runoff of its MBS holdings

- Chairman Powell's Q&A session which discounted the risk of an even more aggressive 75 bps hike that some market participants had begun to contemplate led to a sharp rally in rates and equities

- After firming up for much of April, Non-Agency RMBS market sentiment declined as volatility in other risk assets moved sharply higher, although April RMBS performance was generally very strong versus High Yield, Treasuries, and Agencies. Last week's 20% HPA print, strength in the most recent remittance data, and the ~50 bps rise in LIBOR and SOFR as a result of today's hike should all incrementally support the RMBS sector

- The CRT sector survived elevated gross issuance for the first 4 months of the year, generally showing positive performance in April. Tuesday's latest Fannie Mae CAS CRT deal didn't go as well as hoped for, likely because of its timing in advance of the Fed meeting and some aggressive pricing from Fannie. We continue to expect new issuance for the remainder of the year to moderate, which we expect to be a positive for the sector

- All of the housing and economic data that we are seeing continues to be favorable for the Next Gen seasoned RMBS that Semper continues to prefer versus both newer issues and pre-financial crisis Legacy bonds