For Professional Advisers Only

Notes From The CIO

11 May 2022

SEMPER
CAPITAL MANAGEMENT

- Following a month of firmer spreads across RMBS, the relentless risk off environment that has gripped the capital markets after a very brief bout of euphoria following last Wednesday's Fed meeting, RMBS and all Structured products have become immersed in this weakness

- Last Tuesday's Fannie's new issue CRT deal had tepid demand, and this week's Freddie Mac new CRT deal was very poorly subscribed and traded poorly after deal pricing. Secondary market bids across CRT and other RMBS are significantly weaker, although we are seeing low levels of trading and certainly no forced selling. We have entered into another period of technical widening which feels like February/March which we view as a strong opportunity given the improving fundamentals across the RMBS market

- Investment grade, floating rate profiles are yielding as much as 5% or more, while mezzanine floating rate profiles are yielding 7% to 10% or more. Given the steady credit improvement we're seeing across most RMBS sectors and across loans generally, the resulting relative value is increasingly attractive, not to mention the rapidly rising carry from the Fed's recent and expected rate hikes

- Our portfolios have had over 80 credit rating upgrades year to date, reflective of the growing credit support of seasoned profiles in CRT, Non QM, Jumbo 2.0, and SFR

- While near term performance is likely to be tempered, the outlook for lower new issue supply, continued positive HPA and further credit improvement for seasoned bonds in our view is setting the stage for a very different environment in the second half of the year