For Professional Advisers Only

Notes From The CIO

18 May 2022

- New issue volumes in RMBS remained robust through April, and YTD gross issuance set a new record. Issuance was muted last week, and while we're not through the heavy pipeline of new issue supply which has been one major factor in upward pressure on credit spreads, it continues to look like supply will slow into the second half 2022 as higher mortgage rates slow housing turnover and refinancing activity grinds to a minimum

- While yields are lower than in the days immediately following the last Fed meeting, the Fed's increasingly hawkish tone can result in more price pressure for fixed rate bonds and more coupon upside for floating rate profiles. We continue to favor floating rate profiles in next generation sectors

- While legacy bonds are generally floating rate, the higher durations of many subprime mezz profiles, often with embedded leverage and coupon ceilings should be significantly impacting prices given the outsized run-up in yields this year. Their prices have appeared fairly stable, on very limited trading given the much lower liquidity in this subsector. This week we have seen a large number of these legacy mezz bonds marked down approximately 15% to 20% by pricing services, reflecting the violent sell off in rates.

- While we continue to find certain senior legacy profiles attractive, often with upside optionality to forbearance and other potential recoveries, we have continued to avoid legacy bonds that we believe can have material downside risk from rising rates, and instead continue to focus on next generation products with superior structures, collateral, liquidity, and alignment of interest with issuers.