For Professional Advisers Only

Notes From The CIO

8 August 2022

SEMPER CAPITAL MANAGEMENT

- RMBS outperformed again last week, once again led by the more liquid Agency CRT sector. RMBS prices generally were steady to modestly higher, in sharp contrast to U.S. Treasuries, which reversed course after July's sharp rally. The Fed seemed to caution the bond market from assuming that its inflation work was nearing completion and rates had already peaked

- Investment Grade and more senior profiles, for example Agency CRT M2s again outperformed more subordinated profiles. We expect the universe of smaller, more bespoke bonds further down the capital stack to catch up, even if other risk assets weaken

- Increasingly, the new paradigm of slower new issue supply seems to be translating into higher demand for both new issue and secondary bonds. This has been further supported by stable bond fund flows. While more volatility across risk assets is to be expected, RMBS may be a volatility dampener, boueyed by high yield and carry, lower rate sensitivity, and still strong housing fundamentals

- Agency CRT new issues have recently been announced virtually weekly, with smaller sized tranches consistent with a decline in mortgage origination, and with Fannie Mae and Freddie Mac generally retaining the subordinated classes normally sold to investors, relieving pressure on current subordinated bonds. Today's new STACR CRT new issue was between 4 to 10 times subscribed for each of the three available senior and mezzanine tranches, despite pricing spreads much tighter than initial indications. Agency CRT levels in the secondary market have tightened in response to the strong demand seen in the new issues