For Professional Advisers Only

Notes From The CIO

30 August 2022

- Non-Qualified Mortgage securitizations (Non-QM), one of the last holdouts in the Non-Agency MBS (RMBS) stabilization/spread compression that has occurred over the last several weeks, have outperformed significantly in the last two weeks. As a result of the sharp interest rate increase during the first half of 2022, the lag between mortgage originations and securitization activities caused a mismatch between the deals' collateral coupon and required new issue economics. The weighted average coupon of these new issues' collateral has now begun to rise, supporting healthy economics for new issues. Spreads from AAA down to mezzanine classes have been tightening, and deal subscription levels have risen sharply. On average these borrowers have credit scores in the 725 to 750 range.

- In response to the Fed's decision, coupon rates for the sectors' large concentration of floating rate coupons, including Agency Credit Risk Transfer (CRT) and Mortgage Insurance (MI) bonds reset nearly 75 basis points higher last week. These higher coupons continue to support higher yield to maturity and cash flows to investors.

- Overall fixed income market volatility – both in terms of Treasury yields/swap rates and general spreads - has ramped up again in the face of continued Fed hawkishness. The RMBS market has firmed significantly since early July, but given how undervalued it was in our view at the beginning of the summer combined with the strength we continue to see in both borrower performance and RMBS credit fundamentals, we believe that RMBS performance can continue to be better on a relative basis.