



Research Corner  
May 18, 2020

## Research Corner - Market Signals

With TALF FAQs released, the market moved one step closer to program launch. Secondary market spreads for TALF-eligible ABS improved another 5-15 bp for the week while non-TALF asset classes continued to see little to no change on very limited trading. In the first week of May, the securitized market welcomed a flurry of new deals totaling \$4.6 billion, which included the first CMBS conduit, CMBS SASB, and student loan ABS deals since March.

### What we're watching....

Another 2.9 million Americans became newly unemployed for the week ending May 9, down 6% from the week before, the slowest pace of decline since this number peaked at 6.9 million back in March. More than 36 million people have filed for unemployment since March. With output expected to remain constrained for the remainder of the year, high unemployment is likely until then. The Congressional Budget Office expects the unemployment rate to climb to 16% in Q3 and remain elevated at 11.7% through Q4.

With unemployment at a new post-WW II high, demand for new autos has plummeted. Data from the Bureau of Economic Analysis shows that total vehicle sales dropped to 8.8 million units in April, (seasonally adjusted annual rate) a new low for the series which began in 1976. At today's depressed level, calls for a reboot of the 2009 Car Allowance Rebate System, also known as the Cash for Clunkers program, have become more frequent. This 2-month program found pent-up demand in the system by incentivizing Americans to trade in their "clunkers" for a \$4500 credit towards a new car purchase. The program, while imperfect, is credited with reversing the freefall in new car sales and igniting what became an 11-year expansion.

Pre-COVID, consumer loan performance has tracked unemployment closely. It remains to be seen whether this relationship will still hold during an unemployment extreme, such as what we are experiencing today. Consumer assistance initiatives as mandated by the CARES Act, such as the one-time Recovery Rebate, which can raise after-tax income by as much as [16%](#) for lower income households, and extended unemployment benefits, may help households service some of their debt. Lender-offered payment plans will also assist by offering consumers short-term payment relief and can be particularly helpful to low- and mid-income earners who have been [twice](#) as likely to have lost their jobs due to the COVID-19 crisis. Debt payment plans will also help stem losses in the ABS pools that financed the impacted loans.

### Secondary Market Spreads (bp)

|           | 3yr Card | 2yr Auto | 2yr Subprime Auto | 2yr Private SLABS | AAA 5yr Cash CMBS | AAA CLOS |
|-----------|----------|----------|-------------------|-------------------|-------------------|----------|
| 1/30/2020 | 16       | 11       | 20                | 47                | 53                | 116      |
| 2/28/2020 | 31       | 23       | 30                | 68                | 60                | 120      |
| 3/6/2020  | 71       | 80       | 105               | 99                | 72                | 230      |
| 3/13/2020 | 201      | 220      | 265               | 239               | 87                | 230      |
| 3/20/2020 | 326      | 370      | 665               | 439               | 125               | 350      |
| 3/27/2020 | 226      | 195      | 295               | 319               | 136               | 250      |
| 4/3/2020  | 96       | 120      | 275               | 305               | 120               | 275      |
| 4/14/2020 | 81       | 110      | 180               | 225               | 90                | 165      |
| 4/17/2020 | 68       | 100      | 160               | 215               | 105               | 175      |
| 4/24/2020 | 63       | 90       | 145               | 205               | 109               | 200      |
| 5/1/2020  | 58       | 85       | 140               | 180               | 105               | 175      |
| 5/8/2020  | 53       | 75       | 125               | 170               | 96                | 175      |

Source: Deutsche Bank Research

|           | AAA 3yr Non QM RMBS | AAA 3yr Jumbo RMBS |
|-----------|---------------------|--------------------|
| 3/1/2020  | 80                  | 135                |
| 3/16/2020 | Low 500s            | Mid 500s           |
| 3/26/2020 | Mid 300s            | Low to mid 300s    |
| 4/3/2020  | Low 300s            | Mid to Hi 300s     |
| 4/10/2020 | Low 300s            | Low 200s           |
| 4/17/2020 | Low 300s            | Low 200s           |
| 4/24/2020 | Low 300s            | Low 200s           |
| 5/1/2020  | Low 300s            | Low 200s           |
| 5/8/2020  | Hi 200s             | Low 200s           |

Source: Market Compilation

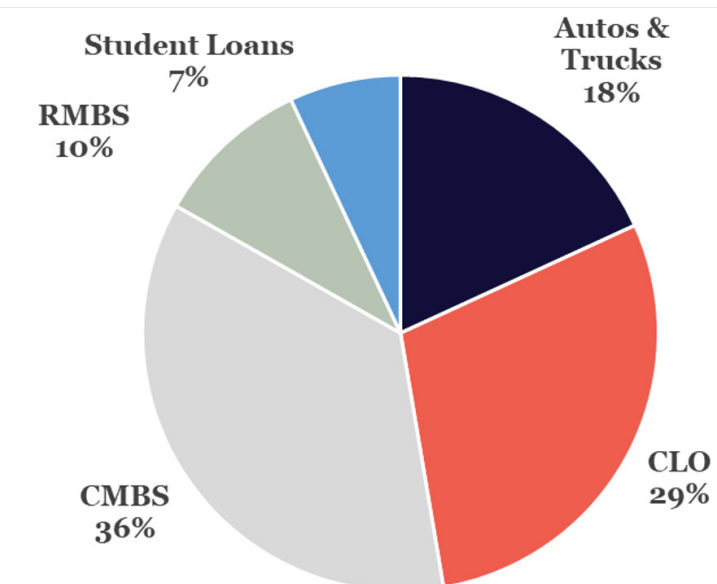
| Personal Installment Loans (Sr) |      |
|---------------------------------|------|
| 2/28/2020                       | 76   |
| 3/13/2020                       | 1250 |
| 3/20/2020                       | 750  |
| 3/27/2020                       | 675  |
| 4/3/2020                        | 650  |
| 4/14/2020                       | 575  |
| 4/17/2020                       | 525  |
| 4/24/2020                       | 475  |
| 5/1/2020                        | 475  |
| 5/8/2020                        | 475  |

Source: Market Compilation

### New Issue (\$ bns)

|        | Non-AG RMBS | CMBS  | ABS   | CLO  |
|--------|-------------|-------|-------|------|
| Jan-20 | 11.05       | 14.03 | 21.49 | 4.48 |
| Feb-20 | 11.49       | 7.94  | 19.36 | 9.89 |
| Mar-20 | 7.47        | 4.31  | 7.26  | 3.41 |
| Apr-20 | 0.32        | 0.27  | 9.25  | 3.56 |
| May-20 | 0.46        | 1.66  | 1.16  | 1.35 |

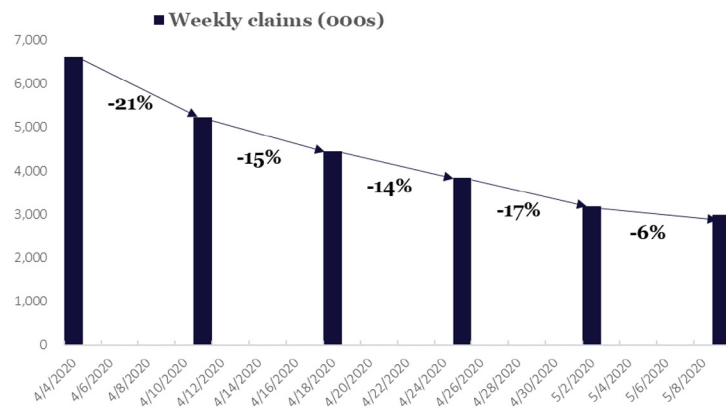
### New Issue Composition - May YTD 2020 - \$4.6 bn



Source: Deutsche Bank Research

# What We're Watching

3.6 million Americans filed for unemployment for week ending May 9, down 6% from previous week



Initial Jobless claim 4wk moving average = 3.6 million  
Total unemployed since March = 36 million

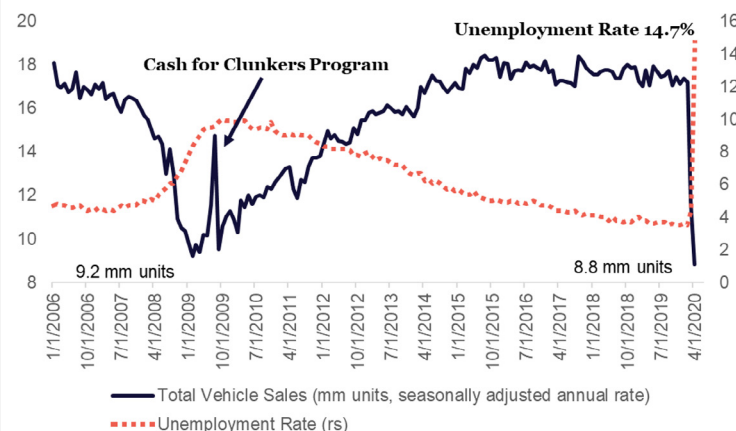
Source: [fred.stlouisfed.org](http://fred.stlouisfed.org)

CBO: 2020 Projections – Unemployment expected to remain elevated through 4Q; Output constrained

|                                | Q1         | Q2        | Q3        | Q4          |
|--------------------------------|------------|-----------|-----------|-------------|
| Real GDP (% change QoQ)        | -0.9       | -11.8     | 5.4       | 2.5         |
| Real GDP (% change, YoY)       | -3.5       | -39.6     | 23.5      | 10.5        |
| GDP (\$Trillions)              | 21.6       | 19.1      | 20.1      | 20.7        |
| <b>Unemployment Rate (Avg)</b> | <b>3.8</b> | <b>14</b> | <b>16</b> | <b>11.7</b> |
| Interest Rate 3-Mo T-Bills (%) | 1.1        | 0.1       | 0.1       | 0.1         |
| Interest Rate 10-Yr Tsy (%)    | 1.4        | 0.6       | 0.7       | 0.7         |

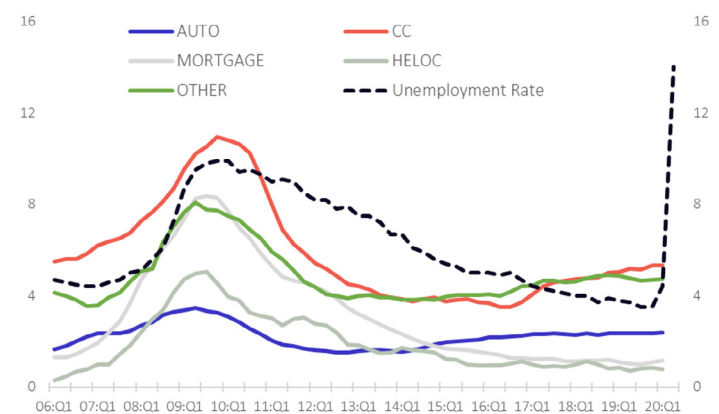
Source: [Congressional Budget Office](http://Congressional Budget Office)

BEA: Total vehicle sales plummet to new low, as unemployment reaches new high. Would Cash for Clunkers 2.0 restart demand?



Source: [U.S. BEA retrieved from FRED](http://U.S. BEA retrieved from FRED)

Pre-COVID data shows 90+ day delinquencies of consumer loans closely tracks unemployment. In extreme levels of unemployment, does this relationship still hold?



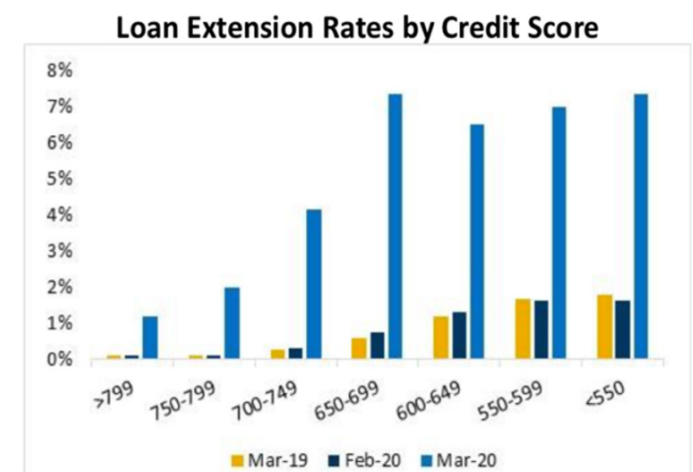
Source: [New York Fed Consumer Credit Panel/Equifax, BLS](http://New York Fed Consumer Credit Panel/Equifax, BLS)

For unemployed, ability to service debt affected by cost of living; Impact of \$600 Unemployment Supplement and Relief Checks will vary by state

|              | Unemployed (mm) | Purchasing Power of \$600 |
|--------------|-----------------|---------------------------|
| California   | 3.3             | 523                       |
| Pennsylvania | 1.5             | 613                       |
| New York     | 1.4             | 518                       |
| Texas        | 1.3             | 619                       |
| Michigan     | 1.2             | 645                       |
| Florida      | 1.2             | 601                       |
| Georgia      | 1.1             | 649                       |
| Ohio         | 0.9             | 675                       |
| New Jersey   | 0.8             | 531                       |
| Illinois     | 0.7             | 609                       |

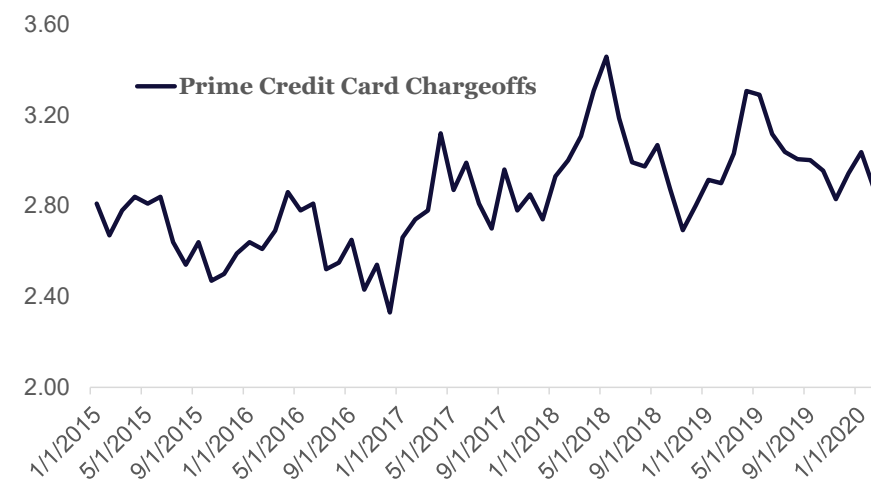
Source: [St. Louis Fed](http://St. Louis Fed)

Ability to service debt depends on consumer relief efforts: "Short-term payment plans are effective loss mitigation techniques [for auto loan ABS]" - KBRA

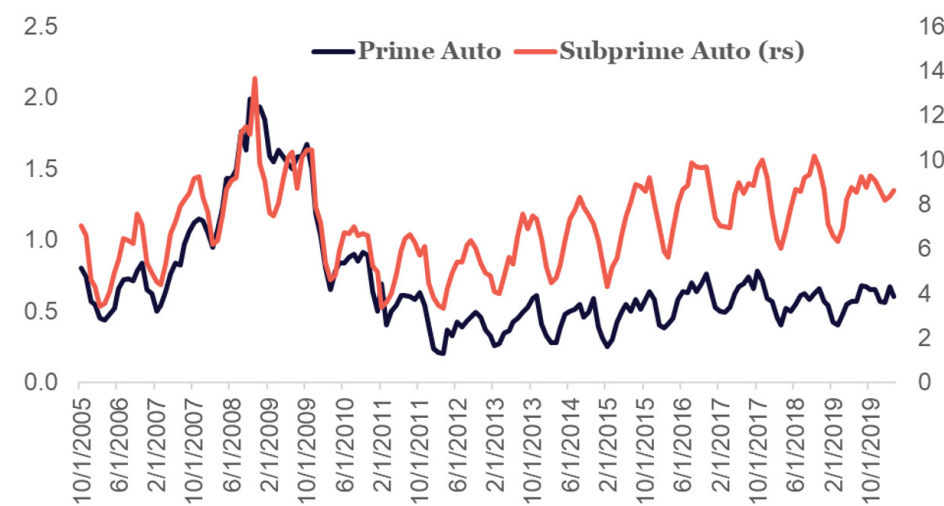


Source: [KBRA](http://KBRA)

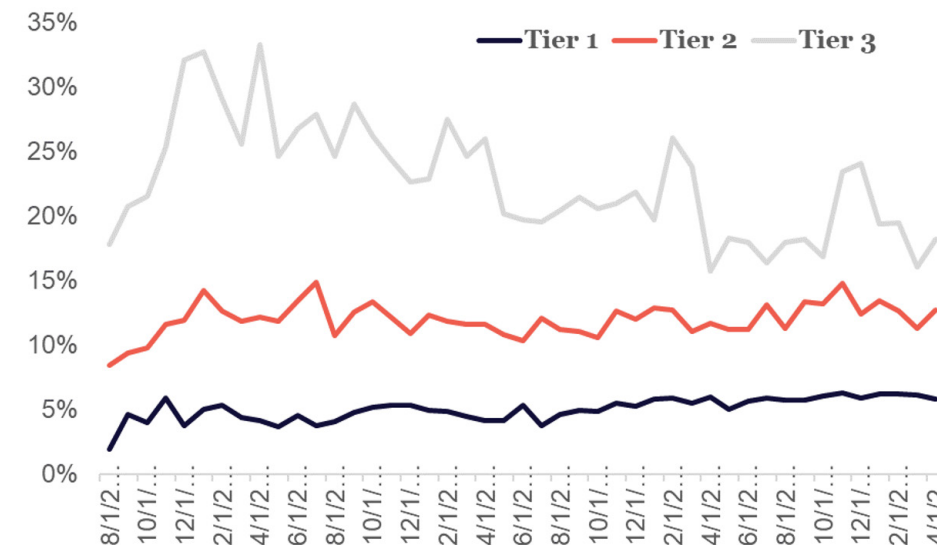
# ABS Performance - Monthly Indices



Source: [Fitch Ratings](http://Fitch Ratings)



Source: [S&P Global](http://S&P Global)



Source: [KBRA](http://KBRA)