



Research Corner
May 8, 2020

Research Corner - Market Signals

The primary and secondary markets for TALF-eligible ABS incrementally improved on the week; secondary market spreads remain 3-7x higher than January levels. Spreads on CMBS and CLOs also improved, as spreads on non-TALF asset classes saw little to no change on very limited trading. In the first week of May, one deal came to market, the \$438 billion Palmer Square Loan Funding 2020-1, a static CLO. TALF's impact on CLOs has been limited as only new issue static CLOs, which make up about 5% of the CLO market, are eligible for TALF.

What we're watching....

The number we've all been anxiously awaiting has arrived – the unemployment rate surged to 14.7% in April. After falling for 10 consecutive years, we are now facing a level of joblessness not seen post World War II. While the employment carnage is slowing – the current level of initial unemployment claims is less than half of the level recorded five weeks ago – the impact on consumer credit is just beginning to be revealed. Recent CFPB data shows that demand for consumer loans has slowed significantly. The drop off in demand will likely go beyond mortgages, autos, and credit cards. Universities may see fall enrollment drop by a meaningful 20% as students faced with the grim prospect of more online classes in the fall, without a change in tuition, decide to postpone. While it is too early to see a meaningful rise in losses in ABS pools, early indicators of a troubled consumer are evident. New data from S&P shows extensions in auto ABS are on the rise as borrowers seek payment relief on their auto loans. To the extent that these will translate into losses, ABS structures will be stressed. Rising credit risk has also prompted large domestic banks to start tightening lending standards, according to new data from the Fed's Senior Loan Officer Survey. This will be most felt by creditworthy borrowers with less than stellar credit scores seeking credit at the time when they need it most.

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

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

Source: Market Compilation

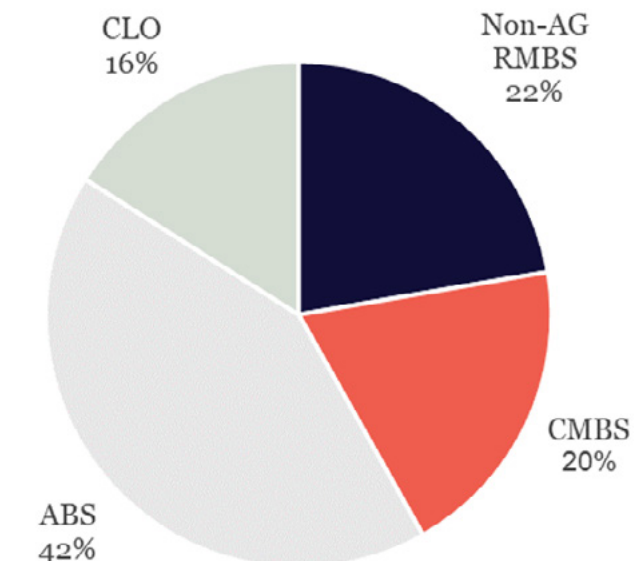
Personal Installment Loans (\$r)	
2/28/2020	76
3/13/2020	1250
3/20/2020	750
3/27/2020	675
4/3/2020	650
4/14/2020	575
4/17/2020	525
4/24/2020	475
5/1/2020	475

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	0	0	0.44

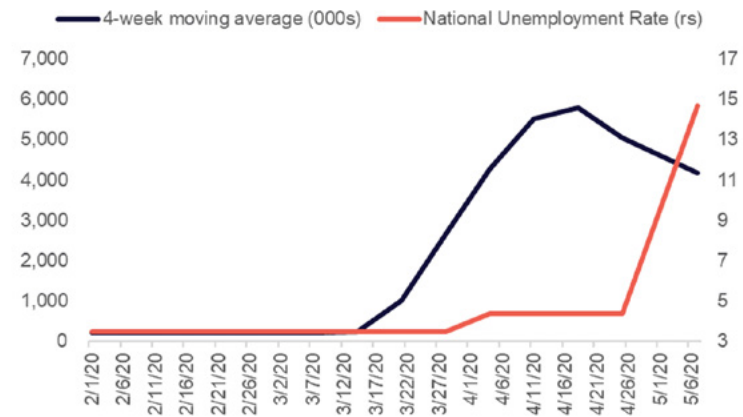
New Issue Composition YTD 2020 - \$136 bn



Source: Deutsche Bank Research

What We're Watching

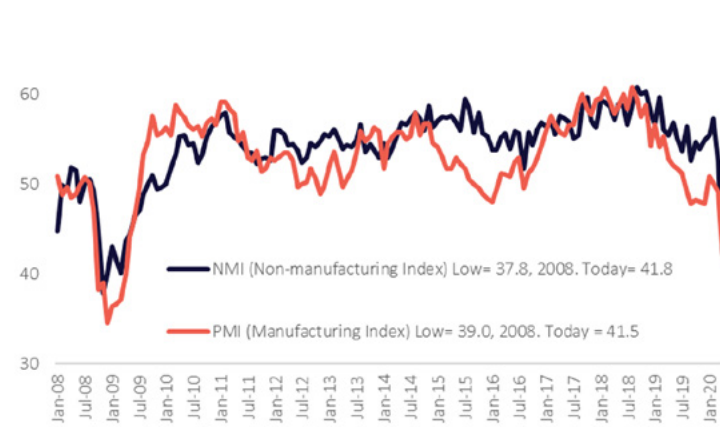
April 2020 National Unemployment Rate Reaches new post-World War II high of 14.7%



Initial Jobless claim 4wk moving average = 4.2 million

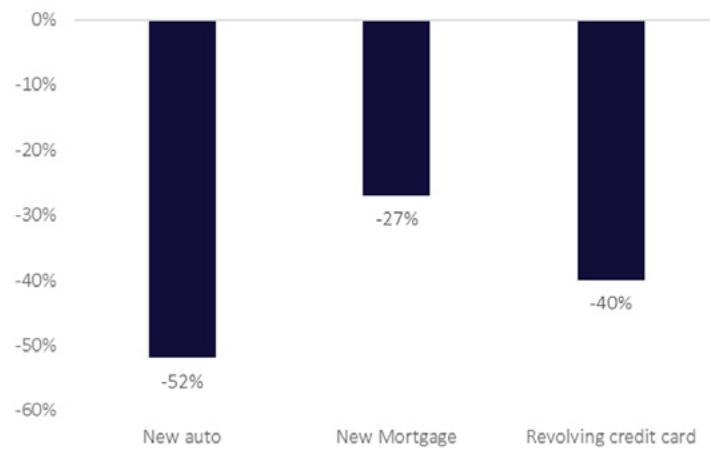
Source: fred.stlouisfed.org

ISM: April Manufacturing and Non-Manufacturing Indices slowed for 2nd consecutive month



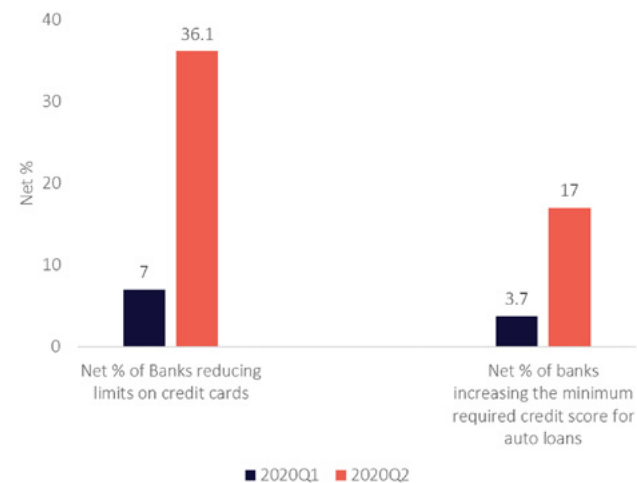
Source: [Institute for Supply Management](http://institute.org)

CFPB: Loan applications plummet in March, led by autos



Source: [CFPB](http://cfpb.com)

Fed: More banks tighten credit for cards and auto loans in Q2



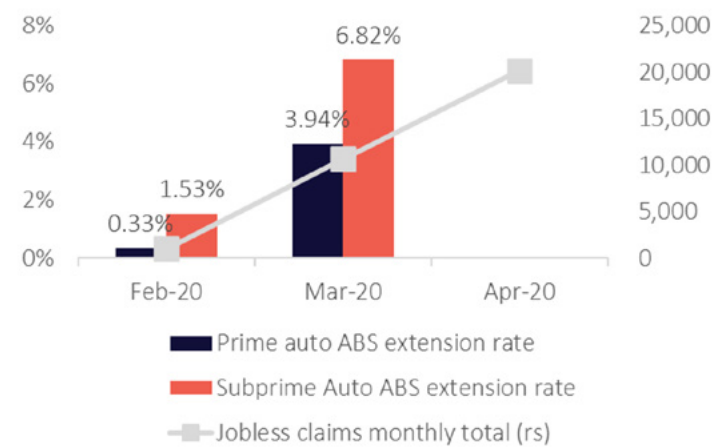
Source: [Federal Reserve](http://federalreserve.gov)

Inside HigherEd: Colleges could lose 20% of students in fall enrollment

All Students Surveyed	
College bond high school seniors who've made alternative plans	10%
College students who are unlikely to return in fall	26%
Incoming freshman deciding to take gap year	3%
No interest in online education	60%
Minority High School Seniors	
"Too soon to say" whether will attend college in the fall	41%
Minority College Students	
Unlikely to return in fall	32%

Source: [Inside Higher Ed](http://insidehighered.com)

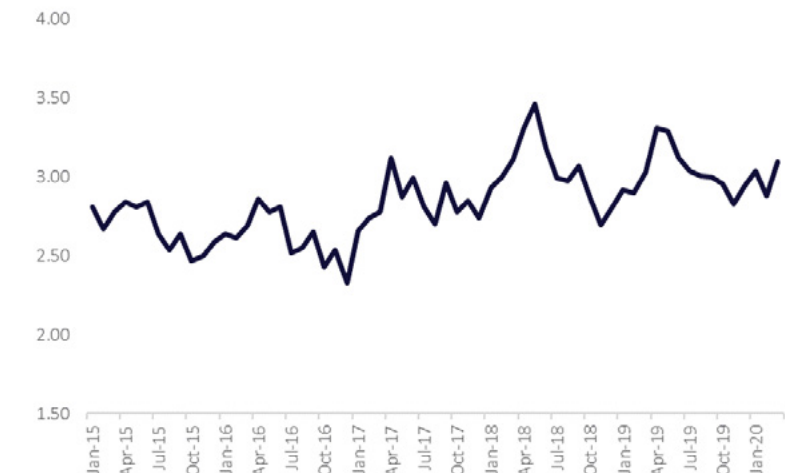
S&P: Auto ABS extensions rate rise with jobless claims as borrowers seek payment relief



Source: [S&P Global Ratings](http://spglobal.com)

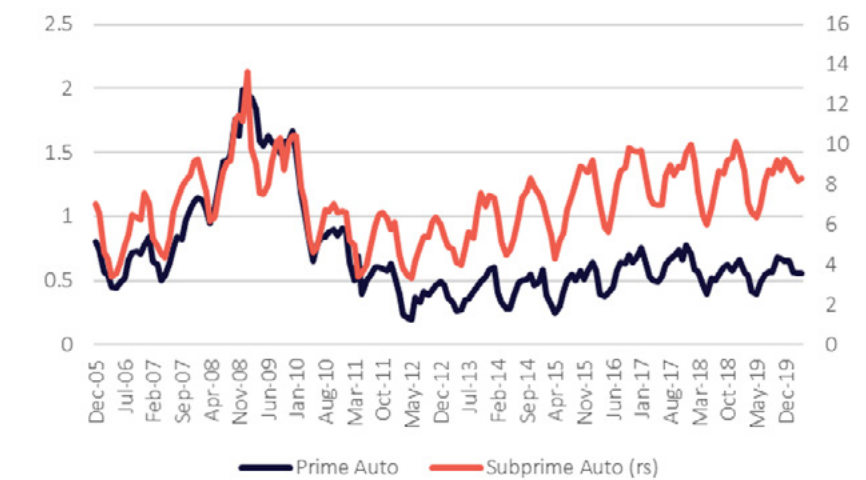
ABS Performance - Monthly Indices

Prime Credit Card Chargeoffs (%)



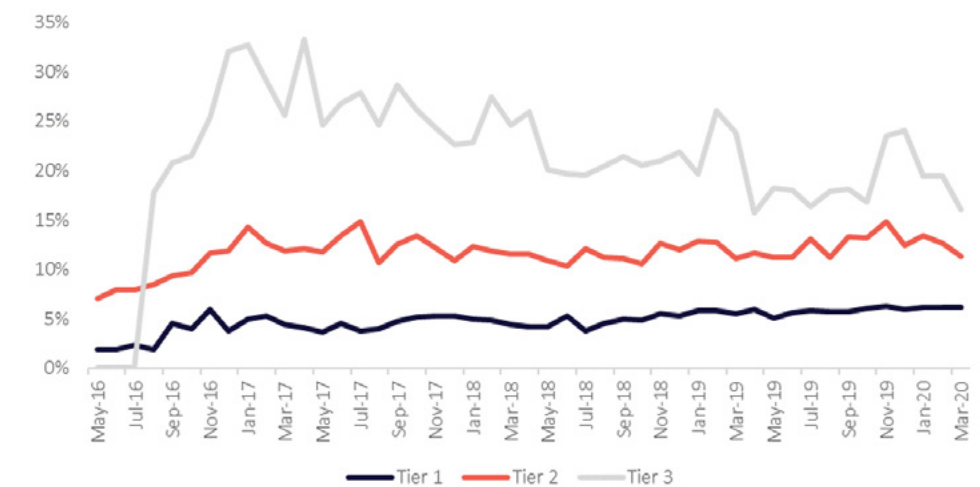
Source: [Fitch Ratings](http://fitchratings.com)

Auto ABS annualized net loss rate (%)



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

Personal Installment Loans - Ann.Net Loss Rate



Source: [KBRA](http://kbra.com)