



Research Corner
May 1, 2020

Research Corner - Market Signals

The primary and secondary markets for TALF-eligible ABS continued to see improvements.

Spreads on the most liquid triple-A TALF-eligible products improved by 5-10 bp on the week, moving closer to pre-COVID levels. As was the case last week, spreads on CMBS and CLOs continued to weaken. This reflects heightened credit stress facing both asset classes due to COVID-related market disruptions. CLOs, in particular, have been under pressure as the rating agencies downgrade loan collateral. In fact, S&P's [downgrade/upgrade ratio](#) for leveraged loans reached a new high of 11.4:1 surpassing the 2009 ratio of 8.45:1.

At the end of April, new issue activity had reached \$13 billion, with most of the issuance coming to market after TALF details were released. Despite the flurry of late month activity, issuance in April was down 76% year over year. For the period between January and April 2020, issuance reached \$135 billion, 30% less than what was tallied for the same period in 2019.

What we're watching....

Initial jobless claims fell for the fourth consecutive week, in the week ending April 25, to 3.8 million, a drop of 603,000 from the week before. Since March 21, over 30 million Americans have filed for unemployment. With this level of unemployment and the impact of social distancing, consumer spending has been hit hard. Newly released data from the U.S. Census shows that sales from retail and food services are down 6% from 2019, with the most impacted sectors being clothing, furniture, restaurants and autos. Not surprisingly, the University of Michigan's Index of Consumer Sentiment dropped 12% in March. Although an improving labor market will certainly help falling consumer sentiment, this University of Michigan study shows that for 61% of U.S. households the drop in confidence was related to the pandemic itself and not the subsequent fallout on personal finances. It is expected then that a rise in confidence, which fuels consumer spending, will be driven by medical progress and an improved labor market and not just a rising stock market.

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

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

Source: Market Compilation

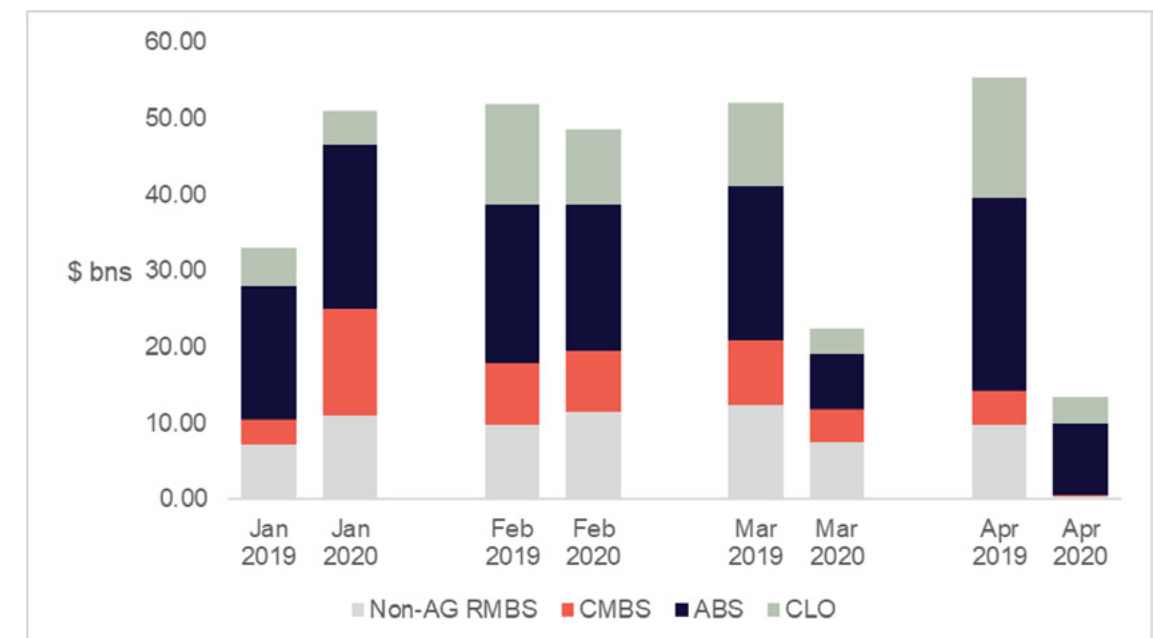
Personal Installment Loans (Sr)	
2/28/2020	76
3/13/2020	1250
3/20/2020	750
3/27/2020	675
4/3/2020	650
4/14/2020	575
4/17/2020	525
4/24/2020	475

Source: Market Compilation

New Issue (\$ bns)

	Non-AG RMBS	CMBS	ABS	CLO
1/20/2020	11.05	14.03	21.49	4.48
2/20/2020	11.49	7.94	19.36	9.89
3/20/2020	7.47	4.31	7.26	3.41
4/20/2020	0.32	0.27	9.25	3.56

Year-Over-Year New Issue Comparison (Jan-Apr)

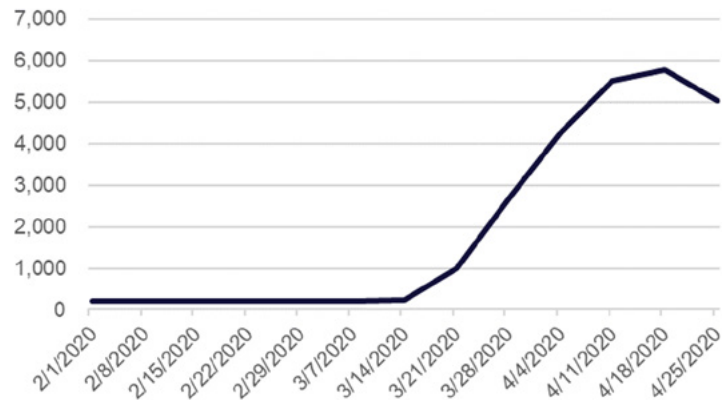


Source: Deutsche Bank Research

What We're Watching

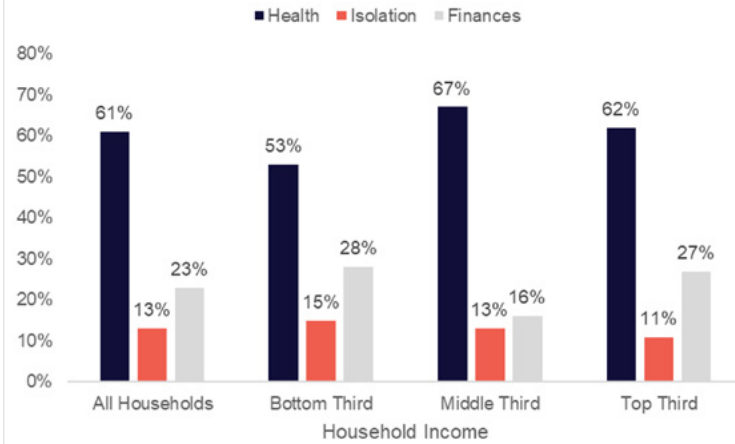
Initial jobless claims improve for third week in a row
4wk moving average = 5.003 mm

4-week moving average (000s)



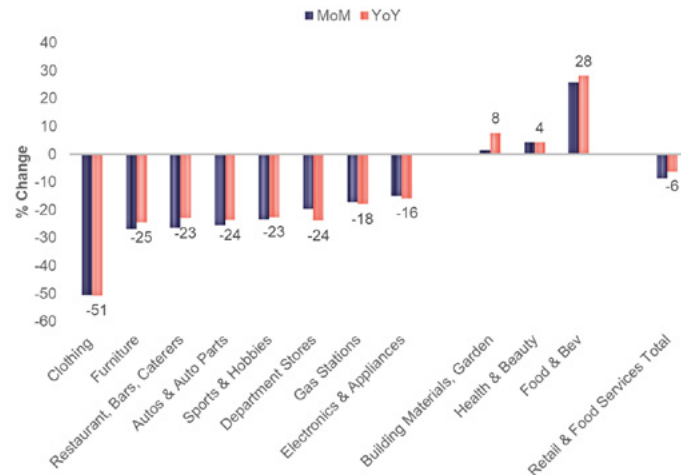
Source: fred.stlouisfed.org

University of Michigan Survey of Consumer Sentiment:
Consumer Confidence will be restored when consumers are convinced that virus is contained and not improving economy



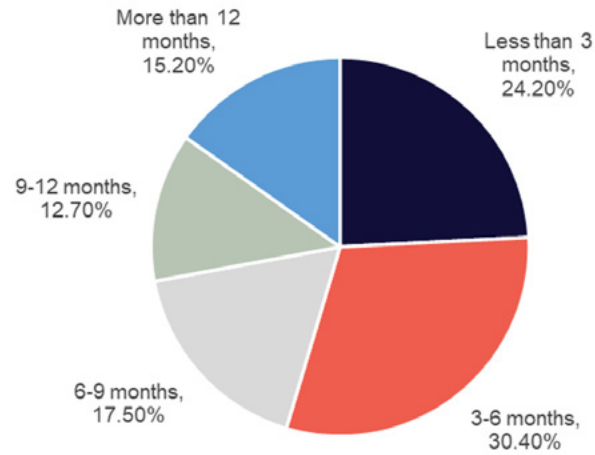
Source: University of Michigan 2020

Sales for retail & food services down 6% YoY, led by clothing, furniture, restaurants, and autos. Food & beverage stores see +28% YoY increase



Source: US Census Bureau, March 2020 data

Dallas Fed Survey: 54% of Texas Businesses expect to return to typical levels within 6 months



Source: Federal Reserve Bank of Dallas, Texas Business outlook Surveys

S&P: US Leveraged Loan Downgrade to Upgrade Ratio Reaches new record high of 11.4:1



Source: S&P Global

MBA: Mortgage lending standards tightened in March across all loan types

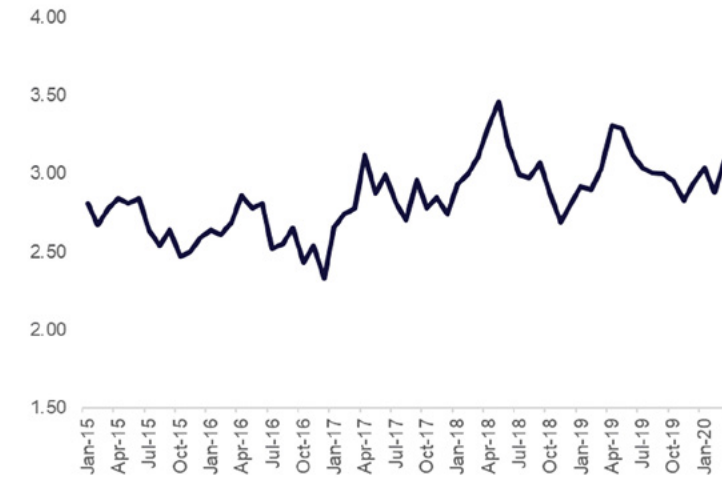
Mortgage Credit Availability Index, Index Level by Month (NSA, 3/2012=100)



Source: Mortgage Bankers Association; Powered by Ellie Mae's AllRegs Market Clarity

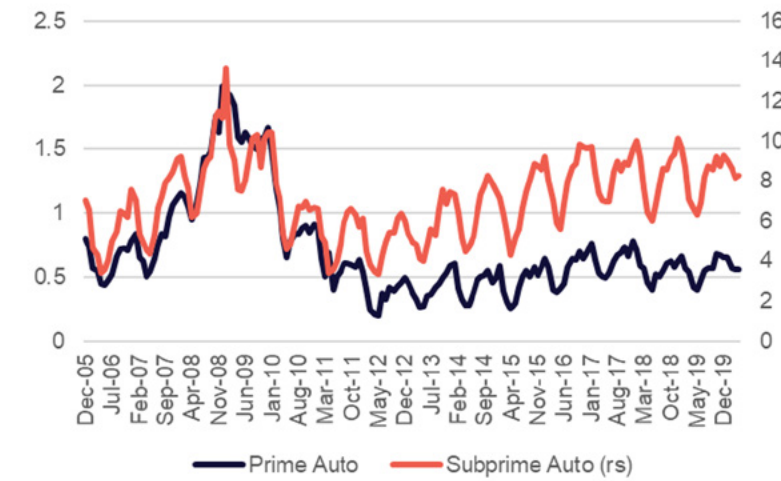
ABS Performance

Prime Credit Card Chargeoffs (%)



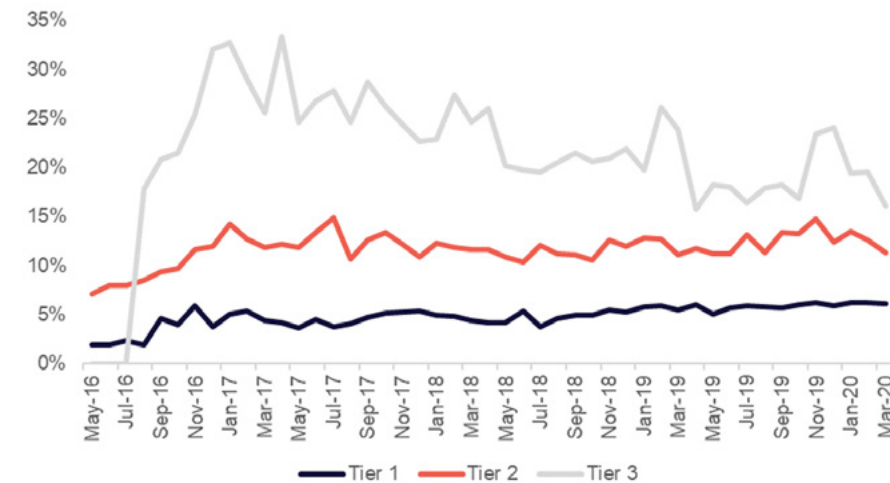
Source: Fitch Ratings

Auto ABS annualized net loss rate (%)



Source: S&P Global

Personal Installment Loans - Ann. Net Loss Rate



Source: KBRA