



Research Corner
June 22, 2020

Research Corner - Market Signals

Positive sentiment continues. After improving for 11 consecutive weeks, secondary market bid-ask spreads for triple-A cards and prime auto ABS leveled off this week. Spreads on subprime autos and private student loan ABS, which have lagged the overall rebound, improved a meaningful 15 bp and 8 bp, respectively, as investors sought to purchase bonds with higher yield. Nonetheless, at today's levels, spreads on subprime autos and private student loan ABS remain about 2.5 times greater than pre-COVID levels. Primary market activity remained brisk in June; issuance now stands at \$11 billion of new ABS, non-agency RMBS, CMBS and CLOs. Combined auto ABS and CLOs represent 55% of this month's issuance so far. Credit card ABS has been absent from the new issue market since February. The dearth of supply has supported the strong secondary market rally in this sector post-COVID.

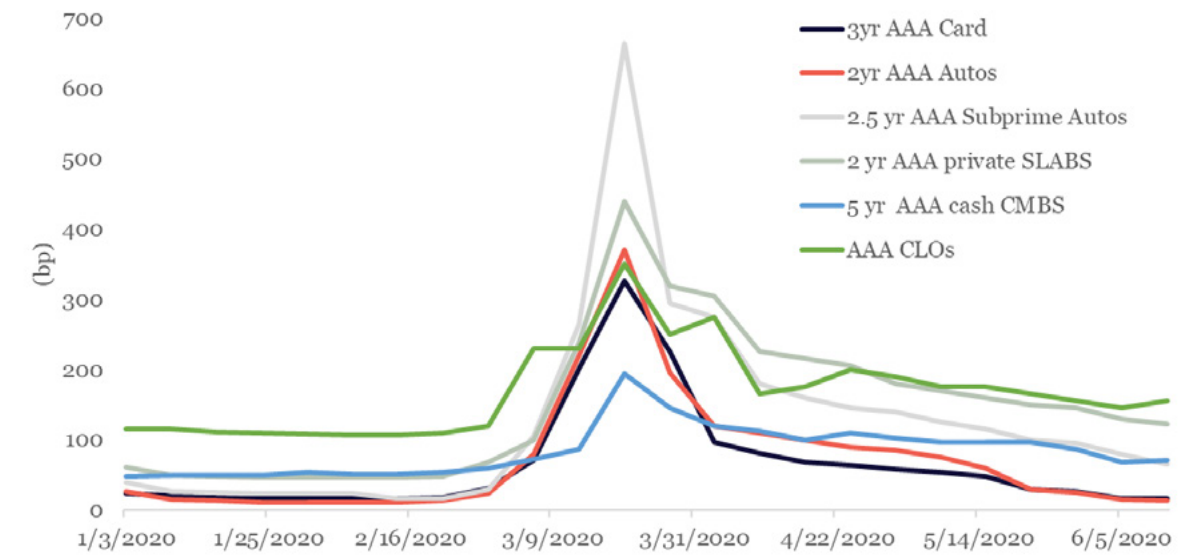
What we're watching

The COVID-19 pandemic continues to evolve rapidly. Traditional indicators that track economic and industry performance on a monthly or quarterly basis provide a less-than-complete picture of where we've been, much less of where we're heading. As we enter a new stage of the pandemic, with new coronavirus cases rising and municipalities poised to implement new targeted shutdowns, the need for more real-time, or high frequency, data to understand the real economy impact has been more pressing. We highlight two below.

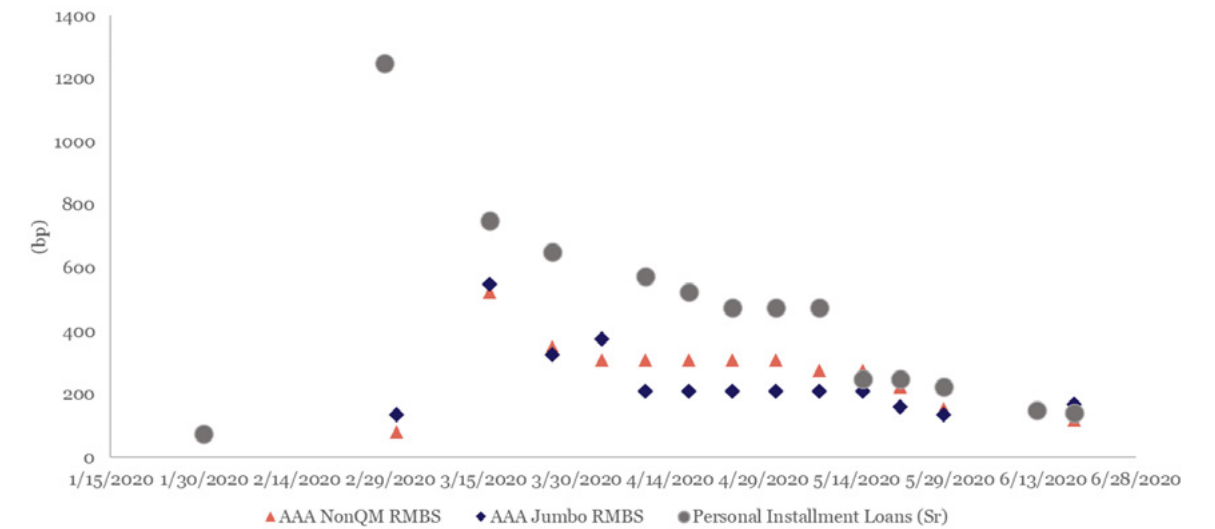
In April, the New York Fed created the [Weekly Economic Index \(WEI\)](#) an index of ten daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate. After bottoming at -11.48% on April 25, the WEI climbed to -8.39% on June 18, an improvement but still well below the +1.50% average level reported in January. For the June 18 improvement, the New York Fed cites as evidence [increases in electricity output \(the highest year-over-year gain since December\), fuel sales, railroad traffic, and tax withholdings, as well as a decrease in initial unemployment insurance \(UI\) claims.](#)

Another high-frequency data source is the [Opportunity Insights Economic Tracker](#). This [tool](#) is built using anonymized data from several private companies, such as credit card processors and payroll firms. From this data, a Harvard University based research team constructs publicly available, easily accessible statistics on consumer spending, employment rates, and other indicators by county, industry, and (pre-crisis) income level. June 10 data shows that while overall spending has rebounded, as evidenced by the 17% bounce in May retail sales reported by U.S. Census Bureau, spending from high-income consumers has lagged middle-income and low-income consumers. Spending for high-income consumers is down 17% since January compared to -10% for middle-income, and -4% for low-income. Given that the top 10% of households by income contribute almost 50% all consumption, this trend, if it were to continue, would challenge the prospect for a strong economic recovery. This continued uncertainty in the economy is reflected in credit availability as mortgage lenders pulled back on lending across the lending spectrum, as report by the Mortgage Bankers Association's Mortgage Credit Availability Index.

Secondary Market Spreads

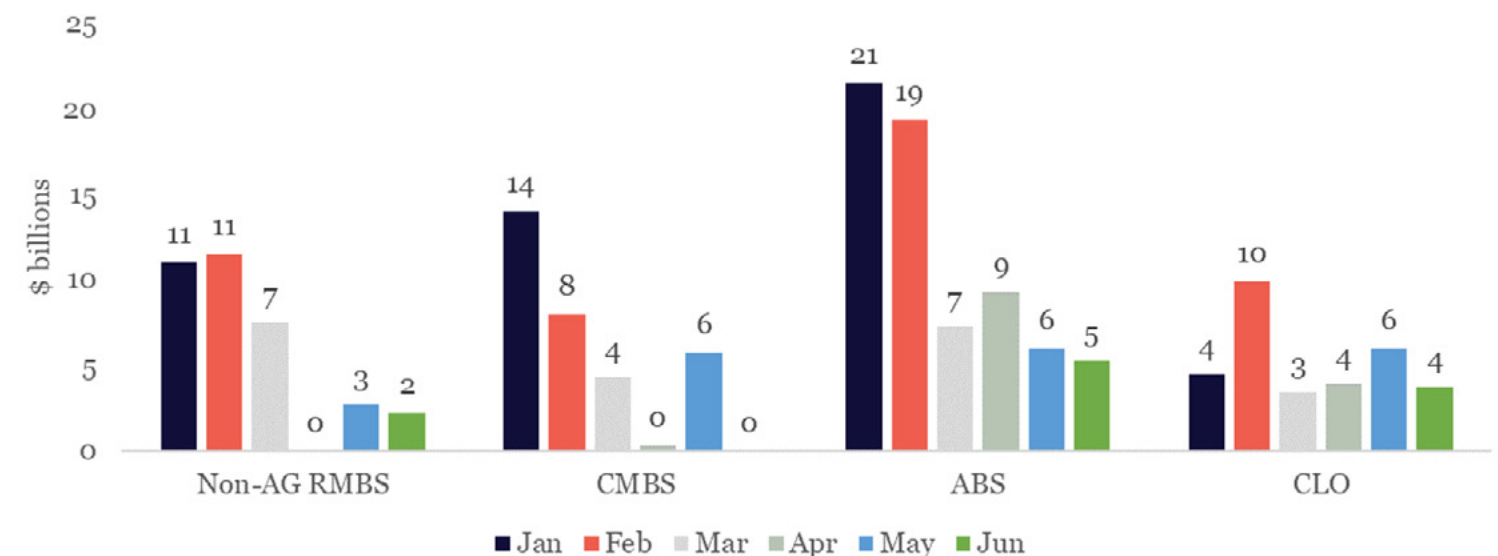


Source: Deutsche Bank Research



Source: Market Compilation

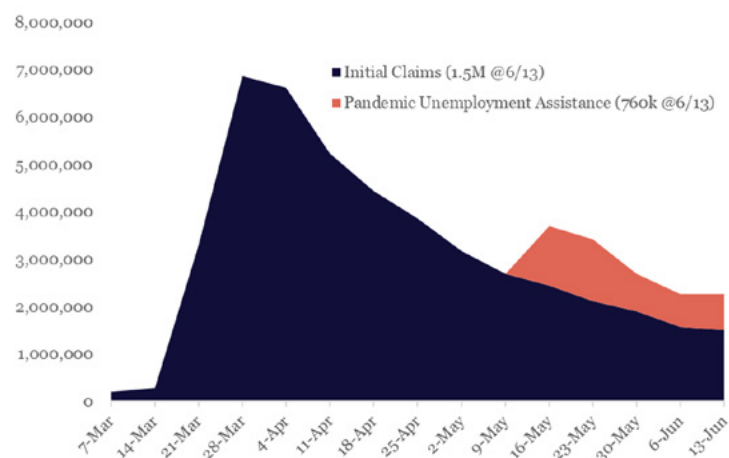
New Issue Activity



Source: Deutsche Bank Research

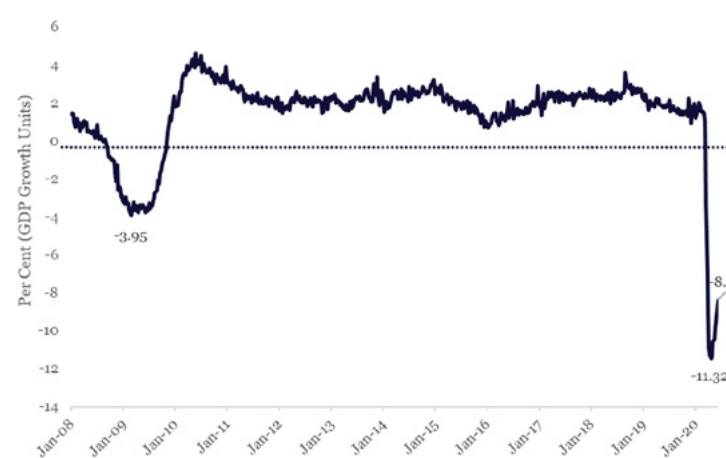
What We're Watching

Initial jobless claims remain stubbornly elevated @ 1.5M; PUA rises 8% on the week



Source: [U.S. Employment and Training Administration, retrieved from FRED](#)

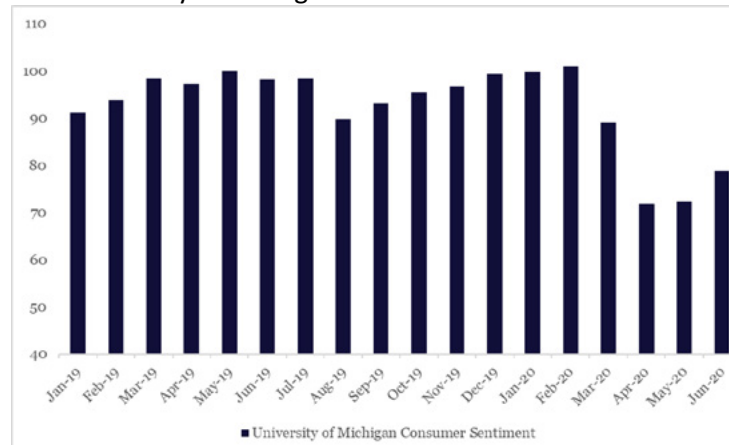
Fed's high-frequency Weekly Economic Index improves for week of June 13



Source: [New York Fed](#)

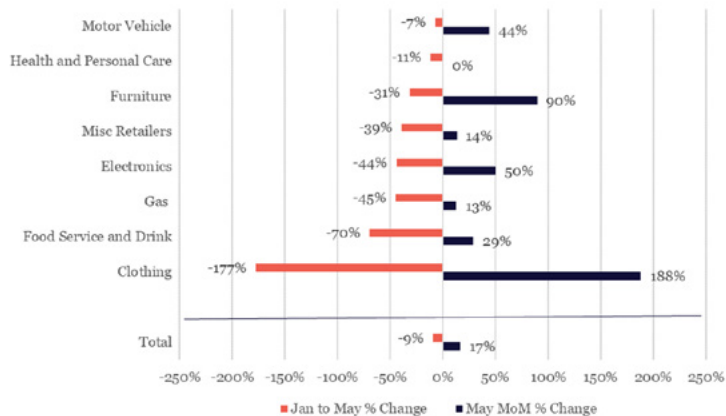
Preliminary results show consumer confidence rising in June due to gains in employment

University of Michigan Index of Consumer Sentiment



Source: [Surveys of Consumers University of Michigan](#)

Retail Sales improved by 17% in May, remains -9% from January. Improvements varied by sector.



Source: [U.S. Census](#)

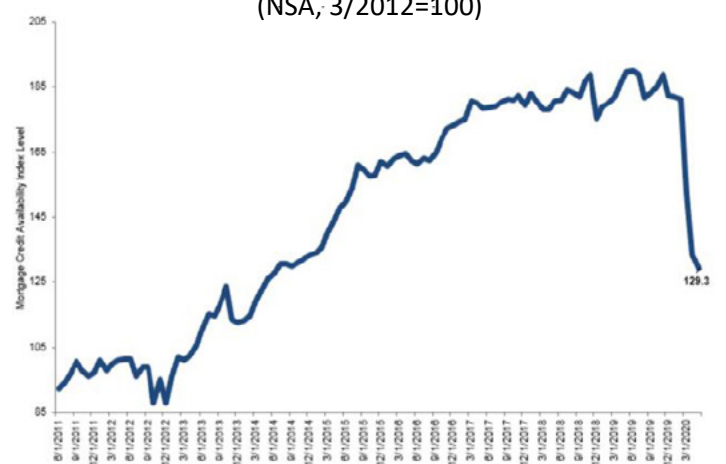
Overall spending has rebounded, but spending by high-income consumers lags (-17% vs. January)



Source: [tracktherecovery.org](#)

Mortgage credit availability dropped 3% in May

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

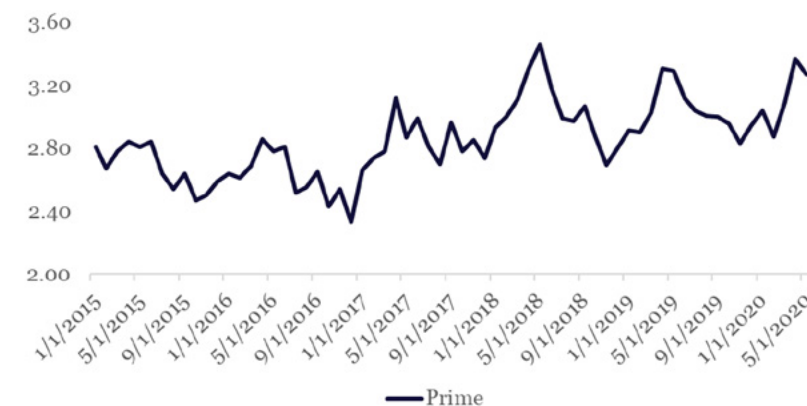


Source: [Mortgage Bankers Association](#)

ABS Performance - Monthly Indices

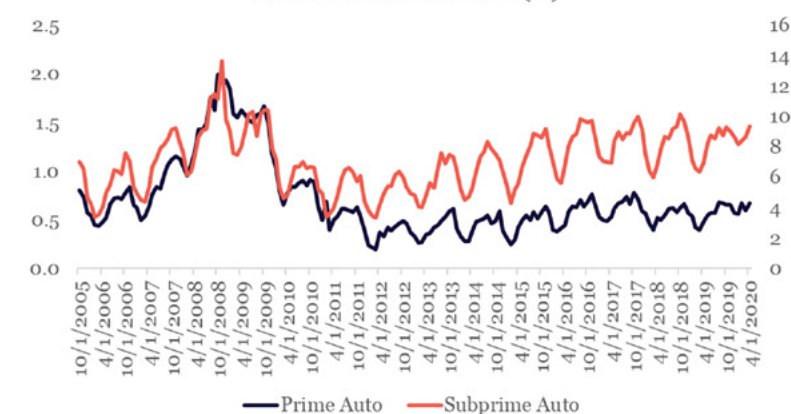
Consumer relief programs have kept ABS loss rates stable, interrupting, at least for now, the historically strong relationship between joblessness and ABS credit performance. The impact has been visible in other metrics though. For credit cards, an increase in the relief uptake has resulted in an almost 10% reduction in monthly payment rate, which is the rate that a borrower pays back the outstanding balance, as reported by Fitch Ratings. For auto ABS, loan deferral or extension rates on subprime pools more than doubled in April from March, as shown in S&P's Auto Loan ABS tracker. For prime pools, the increase was 1.5 times. For more on consumer relief programs, please see our [article](#).

Prime Credit Card Chargeoffs (%)



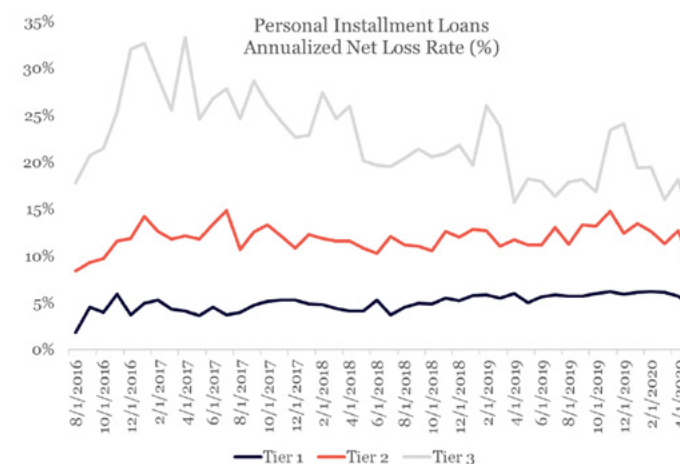
Source: [Fitch Ratings](#)

Auto ABS Net Loss Rate (%)



Source: [S&P Global](#)

Personal Installment Loans Annualized Net Loss Rate (%)



Source: [KBRA](#)