STRUCTURED FINANCE ASSOCIATION

Research Corner

June 30, 2020

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Research Corner - Market Signals

Recovering from the initial COVID-19 liquidity shock. Financial institutions raised $25 billion of capital through the securitization markets in June. Although June's volume represented the first uptick in new issue bonds since February, supply remains lean. Year to date, the supply of new non-agency RMBS, ABS, CLOs and CMBS reached $175 billion, less than 60% of the supply recorded in the comparable periods of 2018 and 2019.

The dynamic of robust investor demand, supported by Fed's unprecedented steps in very rapid fashion over the past few months, and limited new issue supply lifted bond prices from crisis levels well before the first TALF subscription date and despite a still great deal of uncertainty over the sustainability of a recovery. In fact, given the dearth of supply, it's not uncommon for a new deal to be upsized and oversubscribed. Given the interrelatedness of the primary and secondary markets, positive sentiment in the primary market has supported prices in the secondary market. For higher-rated bonds in the most liquid sectors, the price spread between buyers and sellers have returned to pre-COVID levels; spreads for lower rated bonds and for bonds in less liquid sectors are also moving in the same positive direction, albeit at a slightly slower pace. We expect this technical support in prices to continue in the near term, barring a meaningful negative shift in credit fundamentals.

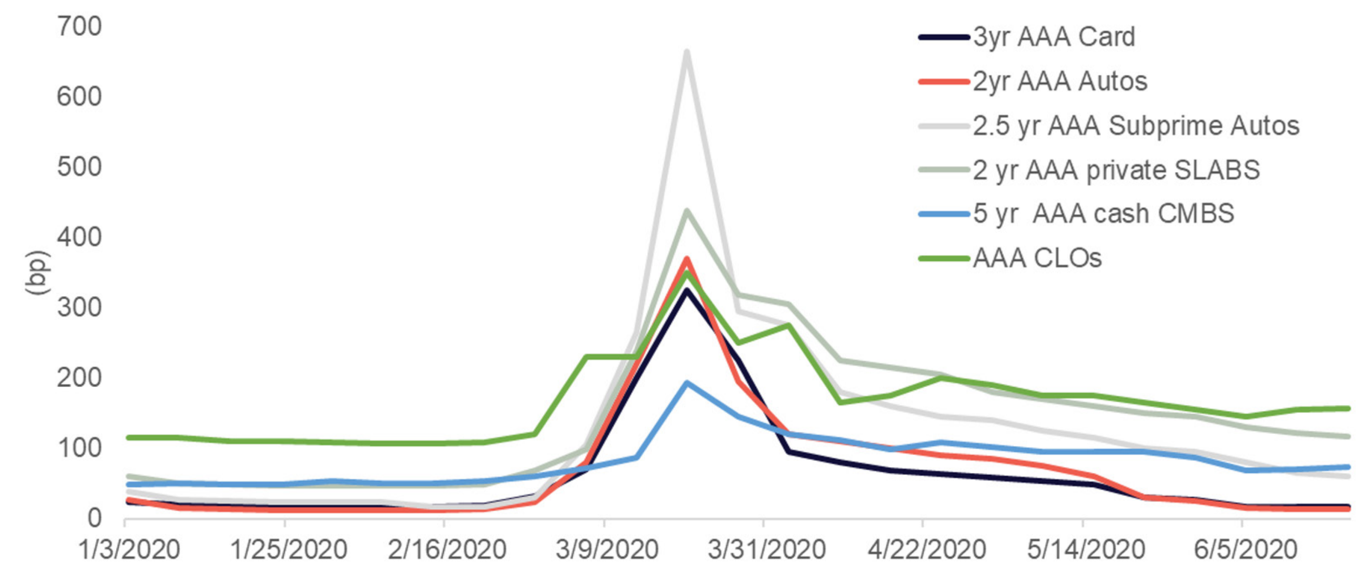
What we're watching – For the week ending June 20, 1.48 million Americans newly filed for unemployment benefits, a slight improvement from the week of June 13 when 1.54 million people entered joblessness. As of June 13, over 19.5 million Americans drew unemployment benefits. Since the enactment of the CARES Act in March, these benefits have been more generous in terms of quantity and duration. A person who files for unemployment today may be able to receive benefits until the end of the year. For some of those weeks, the unemployed worker will receive a substantially higher amount than what is received through regular unemployment benefits.

In addition to the regular average weekly unemployment benefit of $333, which is available in most states for 26 weeks, today's unemployed worker is also eligible for an additional $600 weekly benefit through the Federal Pandemic Unemployment Compensation Program until July 31. If a person has exhausted regular unemployment benefits, they are eligible for the Pandemic Emergency Unemployment Compensation for an additional 13 weeks. This program expires on December 31, 2020. For workers in the gig economy who don't normally qualify for regular unemployment insurance, the Pandemic Unemployment Assistance, which also expires on December 31, is available for 39 weeks. This benefit is also available for some who exhaust the Pandemic Emergency Unemployment Compensation.

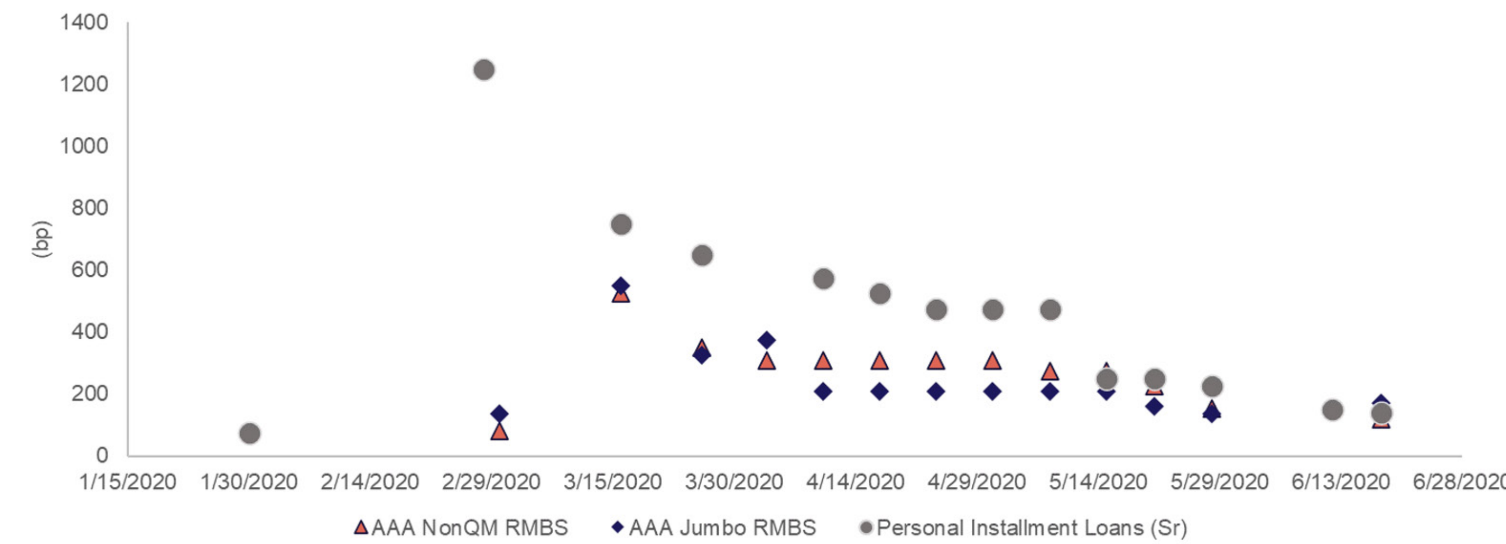
These unemployment benefits and other government sponsored payments have had a substantial impact on personal income. After rising 10.8% in April, personal income fell by 4.2% in May. April's rise was boosted by economic impact payments that paid eligible households a one-time payment of at least $1200. As these payments were mostly distributed by May, we did not see the same boost to income for the month. Setting aside the impact of these one-time payments, we would have seen personal income fall by 6.1% in April and rise by 1.5% in May as unemployment benefits increased for the month.

These programs, along with widely available lender debt repayment plans, have directly and substantially helped unemployed workers bridge COVID-related financial hardships. However, the impact of even these programs are, as intended, limited and cracks are starting to appear. The high-frequency, self-reported Household Pulse Survey, a new weekly survey administered by the U.S. Census Bureau that quantifies how people's lives have been impacted by the COVID-19 pandemic, shows that 16% of all renters did not pay May's rent while 2% deferred. The number of renters that did not pay their rent was higher in the low income groups. The same survey shows that 7% of all mortgage holders did not pay their mortgage in May and 5% deferred. Deferral was higher in the high-income groups. Renters, unlike mortgage holders, have not benefited from any government supported forbearance policies.

Secondary Market Spreads

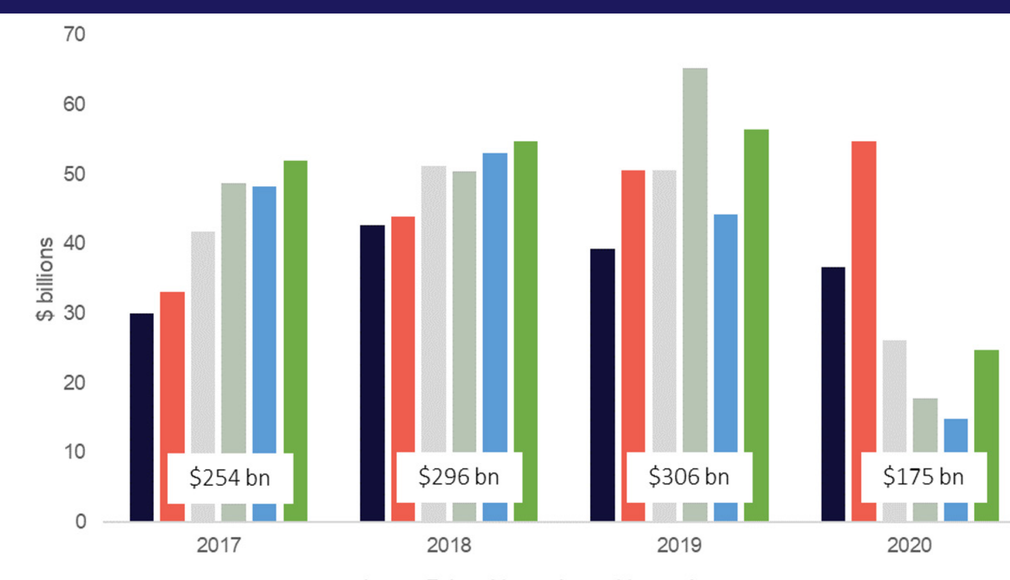


Source: Deutsche Bank Research



Source: Market Compilation

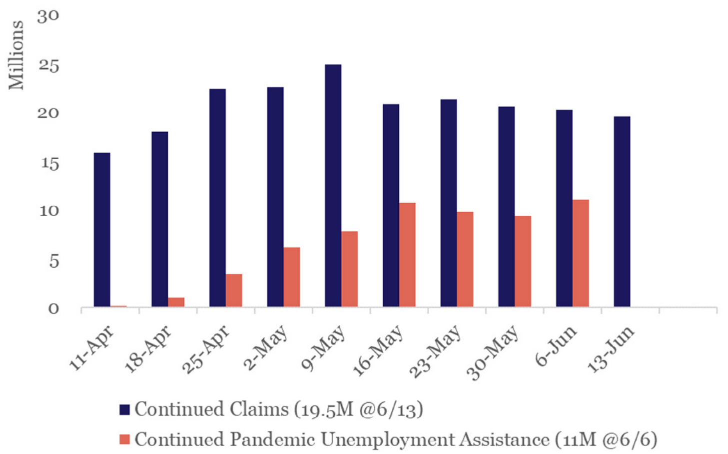
New Issue Activity



Source: Deutsche Bank Research

What We're Watching

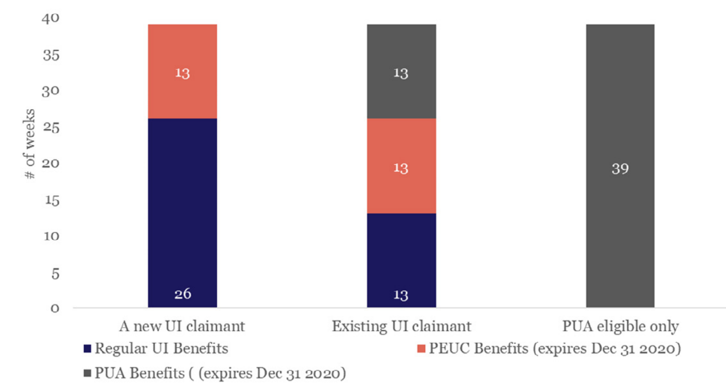
Initial jobless shows little improvement @1.48M (as of 6/20); Continued Claims at 19.5M (as of 6/13); PUA makes up 54% of continued claims (as of 6/6)



Source: [Department of Labor](#)

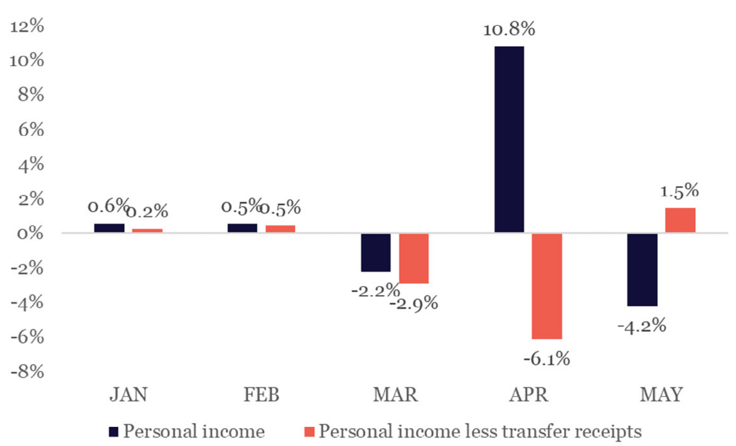
Unemployment insurance benefits explained

Regular UI benefits for at least 39 weeks at an average of $333 per week through a combination of programs: Regular UI + PEUC + Extended Benefits + PUA. All UI claimants receive additional $600 per week until Jul 31, 2020



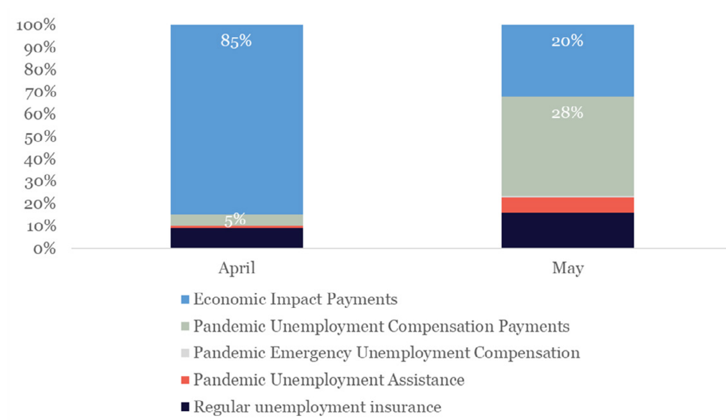
Source: [Center on Budget and Policy Priorities](#)

One-time economic income payments push personal income higher in April. Limited impact in May.



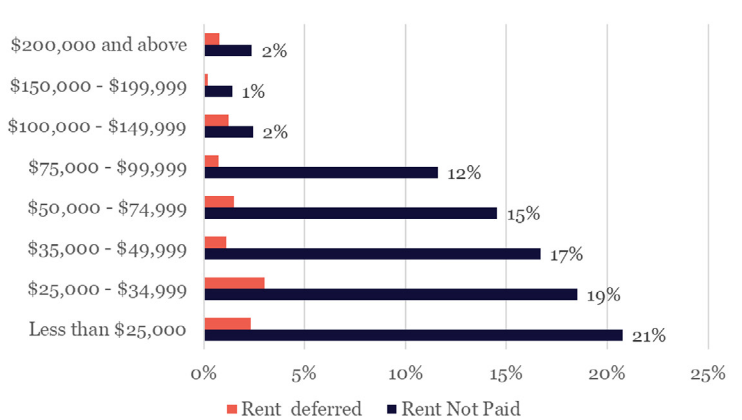
Source: [Bureau of Economic Analysis](#)

Economic income payments boosted personal income in April; Unemployment insurance rises in May



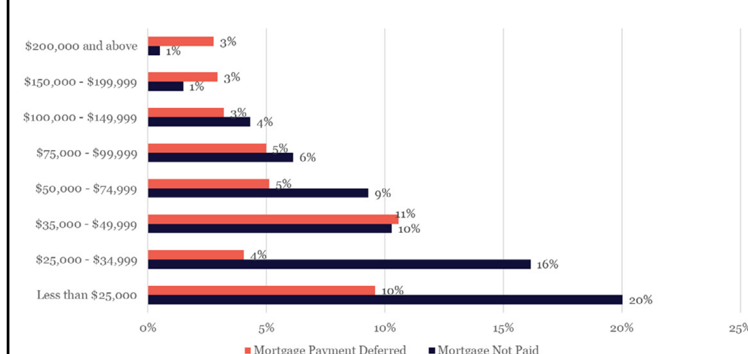
Source: [Bureau of Economic Analysis](#)

Household Pulse Survey - 16% of all renters did not pay and 2% deferred May's rent; higher in low income groups



Source: [U.S. Census Bureau Household Pulse Survey](#)

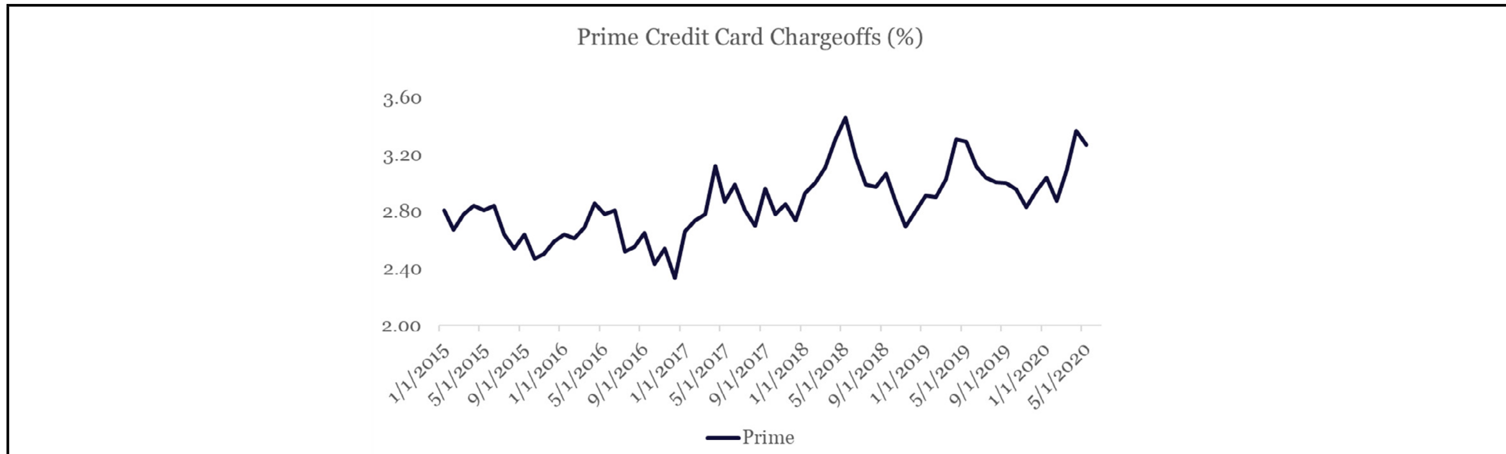
Household Pulse Survey - 7% of all mortgages holders did not pay and 5% deferred May's mortgage payment; more usage of mortgage deferrals in higher income groups



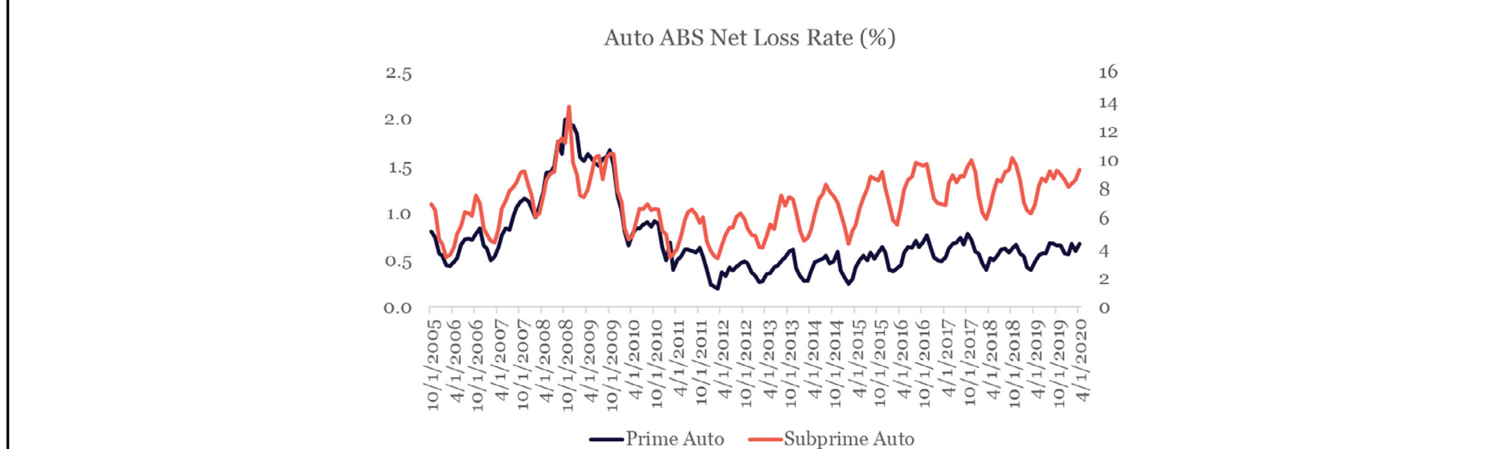
Source: [U.S. Census Bureau Household Pulse Survey](#)

ABS Performance - Monthly Indices

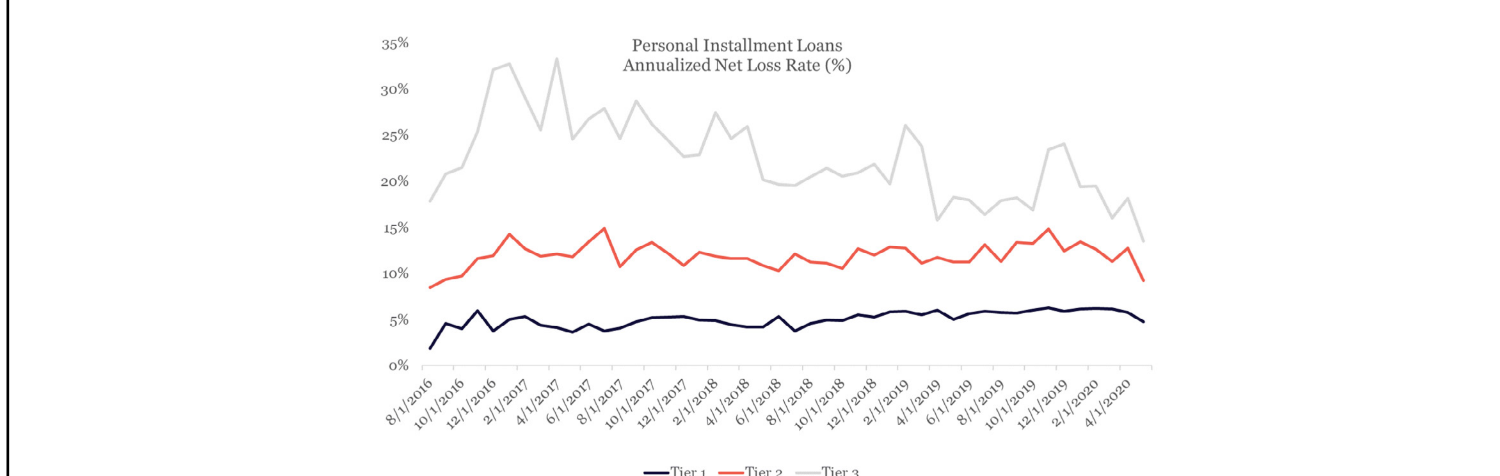
Consumer relief programs have kept ABS loss rates stable; interrupting, at least for now, the historically strong relationship between joblessness and ABS credit performance. The impact has been visible in other metrics though. For credit cards, an increase in the relief uptake has resulted in an almost 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.](#)



Source: Fitch Ratings



Source: S&P Global



Source: KBRA