



Research Corner
June 8, 2020

Research Corner - Market Signals

Primary and secondary securitization markets continue to march forward

Secondary market bid-ask spreads on triple-A cards and prime auto ABS, the most liquid of the ABS asset classes, have returned to early-January levels. Spreads on subprime autos and private student loan ABS improved incrementally on the week but remain 2.5 to 3 times higher than January levels. New issuance for the month of May reached \$20 billion as CMBS, CLO and ABS each contributed about \$6 billion. Non-agency RMBS saw \$3 billion of new bonds in the month. While a welcome improvement over April's anemic level of \$13 billion, May's total volume is less than half of levels seen in January or February.

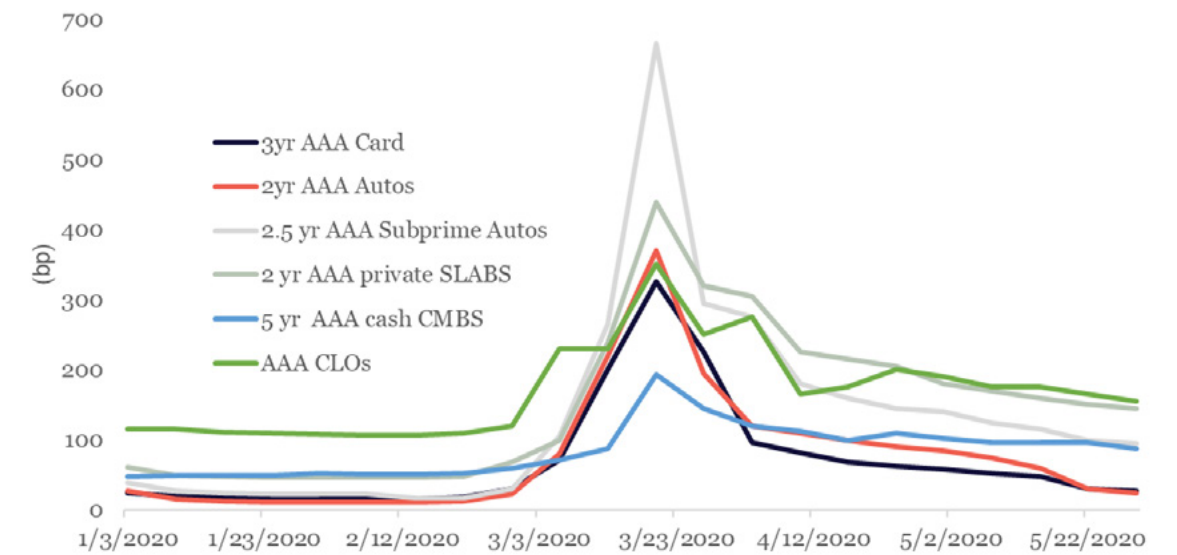
What we're watching – The element of surprise

By far the biggest news last week was the surprising improvement in the headline unemployment rate, which dropped from 14.7% in April to 13.3% in May, thanks to the addition of 2.5 million jobs. With over 8 million Americans losing their jobs during May, the consensus of economist polled projected a headline rate of 19.8%. Some of the disparity may be explained by a misclassification of data. As was the case for the April employment report, the Bureau of Labor Statistics acknowledged that data collection has been challenged by the pandemic with some workers being classified as "employed absent from work" when they should have been classified as "unemployed on temporary layoff". The BLS has noted that absent this misclassification the unemployment rate would have been 16.1% (not seasonally adjusted). The U-6 unemployment rate, which is also affected by this misclassification, declined from an all-time high of 22.8% to 21.2%. This metric includes the underemployed, the marginally attached (defined as persons who are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months) and discouraged workers.

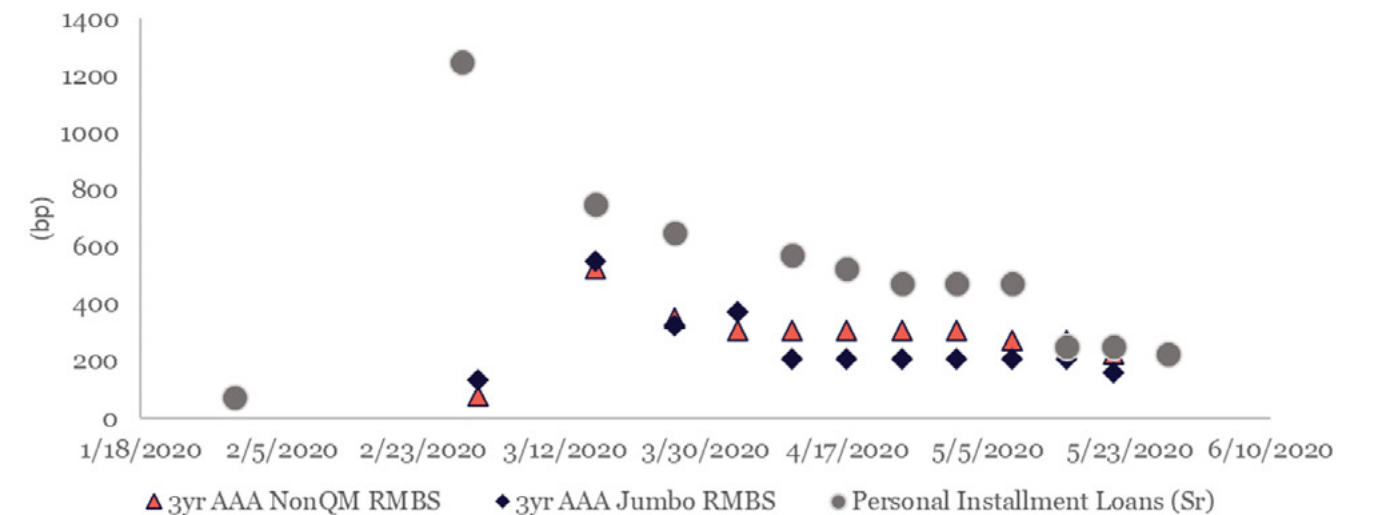
Weekly initial jobless claims show that another 1.9 million Americans became unemployed in the week ending May 30. While this number has declined for nine consecutive weeks, this number is still three times higher than the high reached during the 2008 crisis. Since March 21, 42 million Americans have newly filed for unemployment insurance. In a drill down into the data, the Brookings Institute reports that "the impacts of the downturn are not being felt evenly across the country, nor even within states". Claims were most widespread in tourism hubs (Las Vegas, Myrtle Beach and New Orleans) and in areas that went into lock-down early (Youngstown and Toledo in Ohio and Riverside-San Bernardino, California). This a point worth noting as the civil unrest rolling through our country, unevenly impacting cities, will further challenge recovery in these harder hit areas. With such a high level of economic uncertainty, personal savings rate rose to 33%, the highest level in 39 years. This may be attributable to a pullback in personal spending, which has dropped to a 6-year low.

The May Manufacturing ISM® Report On Business®, which reports economic activity in the manufacturing sector printed a 1.6% increase in the composite PMI, led by increases in New Orders, Production and Employment. Although, at 43.1%, the metric indicates that the manufacturing sector overall is still contracting, some sectors are starting to report growth. Of the 18 manufacturing industries that are included in the report, six that reported growth in May — in the following order — are: Nonmetallic Mineral Products; Furniture & Related Products; Apparel, Leather & Allied Products; Food, Beverage & Tobacco Products; Paper Products; and Wood Products. Similarly, the NMI reported a 3.6% increase in non-manufacturing activity, to 45.4%, led by a 15% increase in Business Activity, a 9% rise in New Orders and a 1.8% growth in Employment. Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; Public Administration; and Information all reported growth for the month.

Secondary Market Spreads

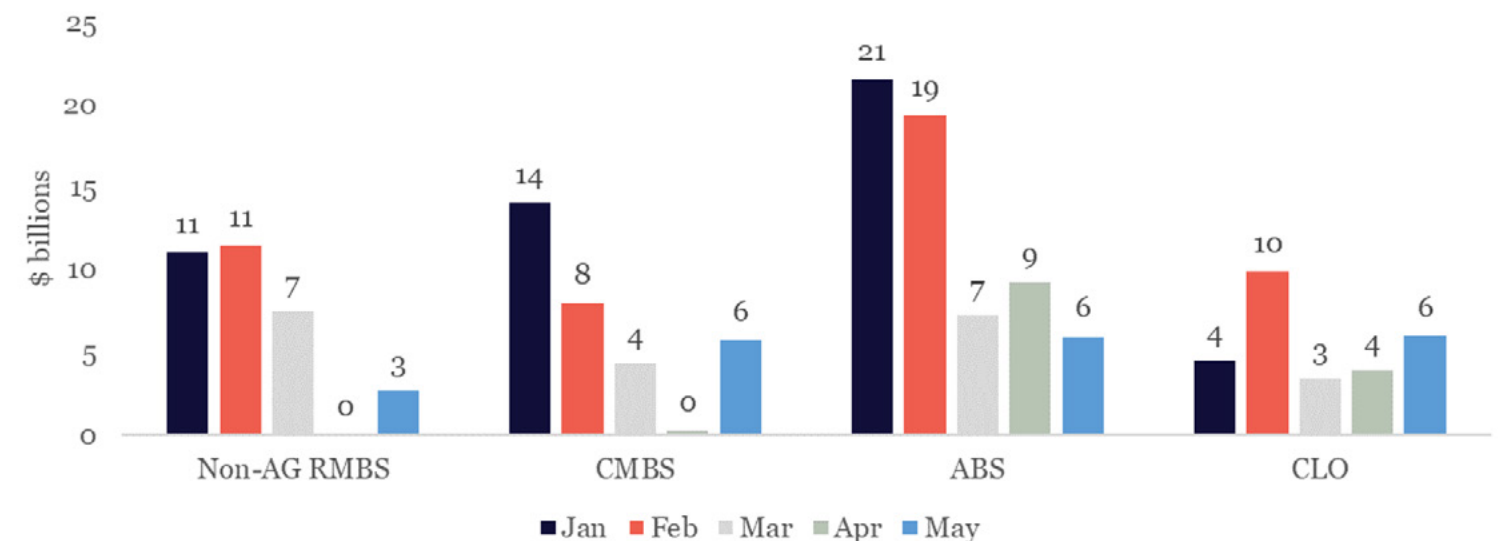


Source: Deutsche Bank Research



Source: Market Compilation

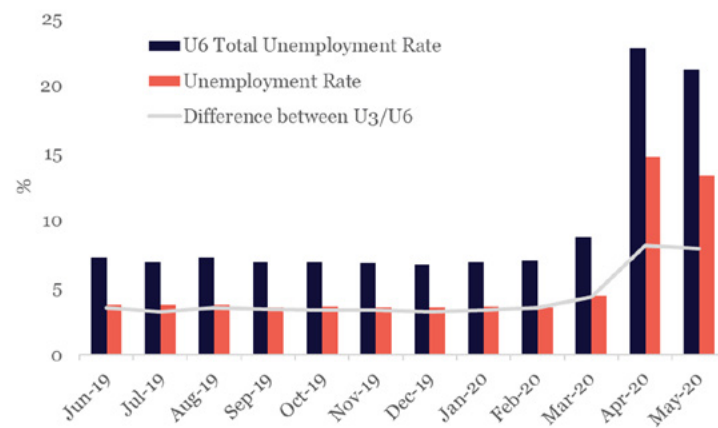
New Issue Activity



Source: Deutsche Bank Research, as of May 19

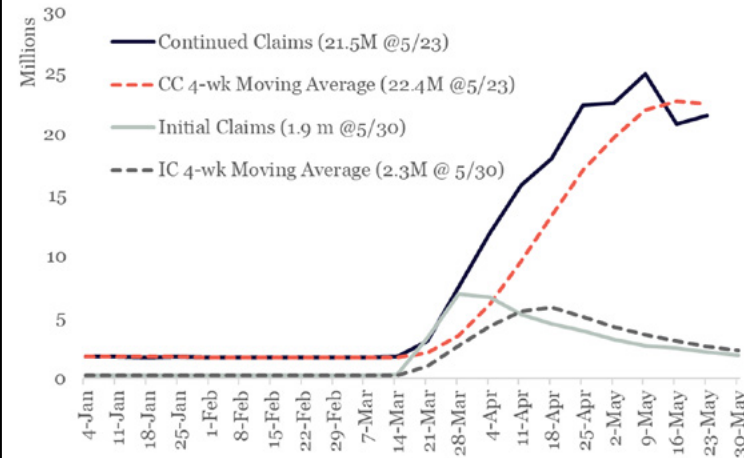
What We're Watching

Headline unemployment rate dips to 13.3%, with caveats
U6 Total Unemployment Rate falls to 21.2%



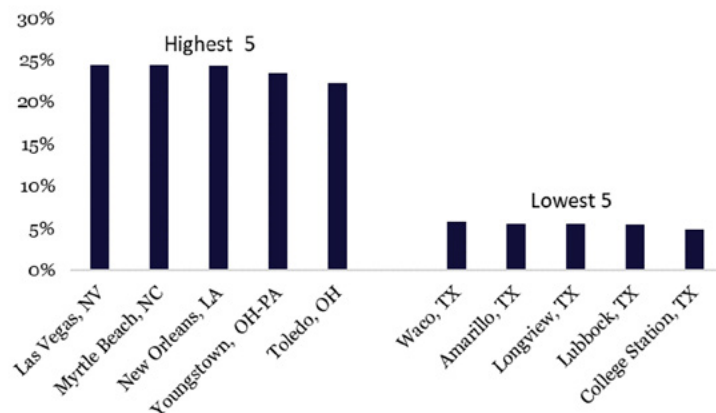
Source: [U.S. Bureau of Labor and Statistics](#)

Continued claims retrace some of last week's improvement;
Initial jobless claims continue to slow



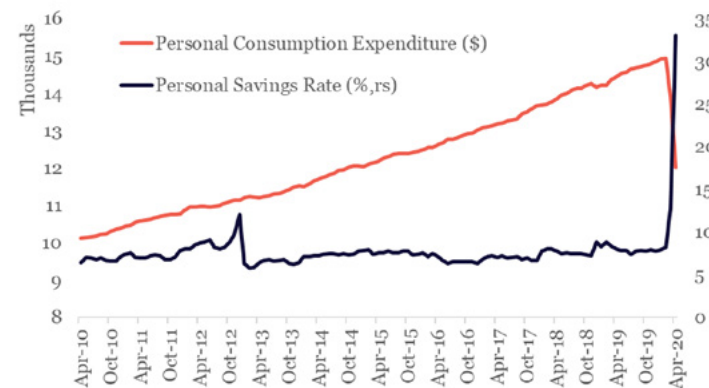
Source: [U.S. Employment and Training Administration, retrieved from FRED](#)

Unemployment vary greatly across regions



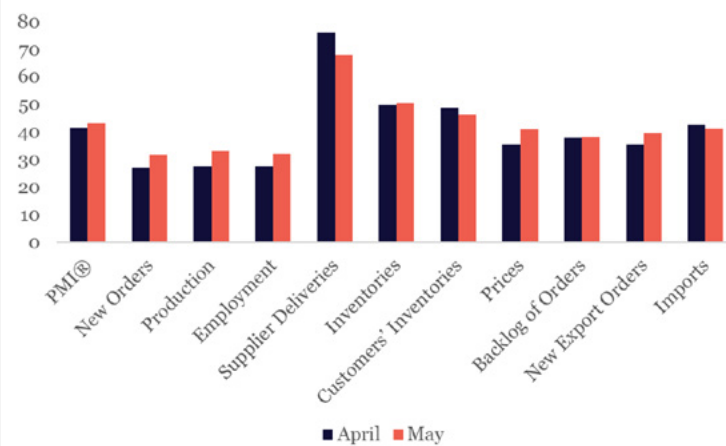
Source: [Brookings Metro analysis](#)

At 33%, personal savings rate hits 39-year high as personal spending falls to 6-year low



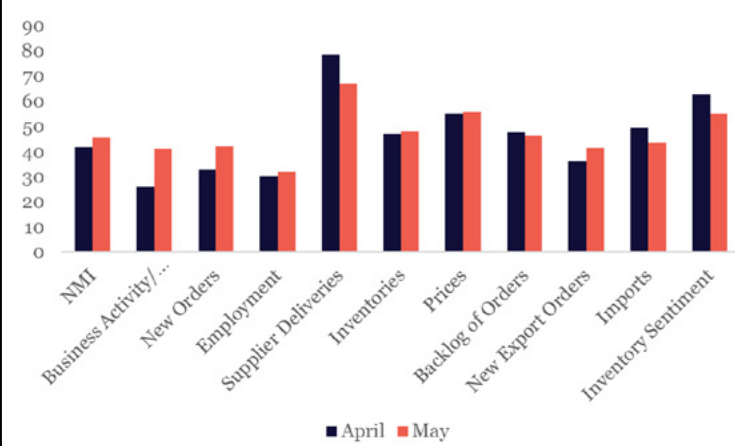
Source: [Bureau of Economic Analysis](#)

PMI Index sees 1.6% MoM gain led by New Orders, Production and Employment...



Source: [Manufacturing ISM® Report On Business®](#)

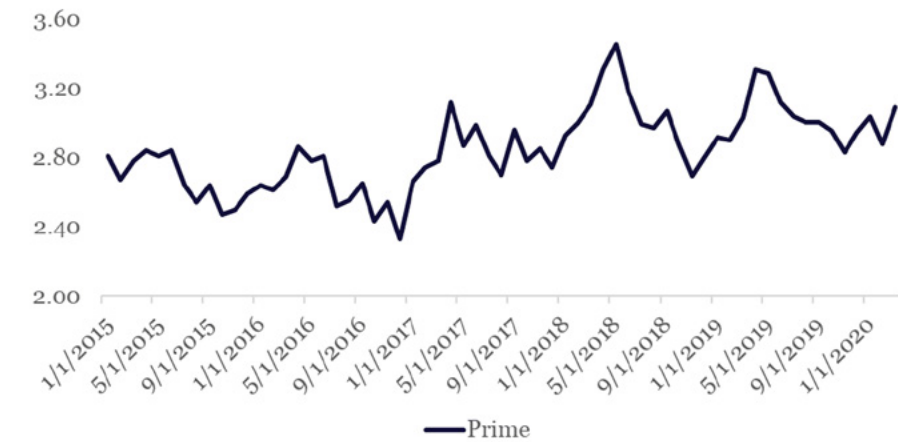
NMI Index gains 3.6% on the month led by Business Activity and New orders



Source: [Non-Manufacturing Report On Business®](#)

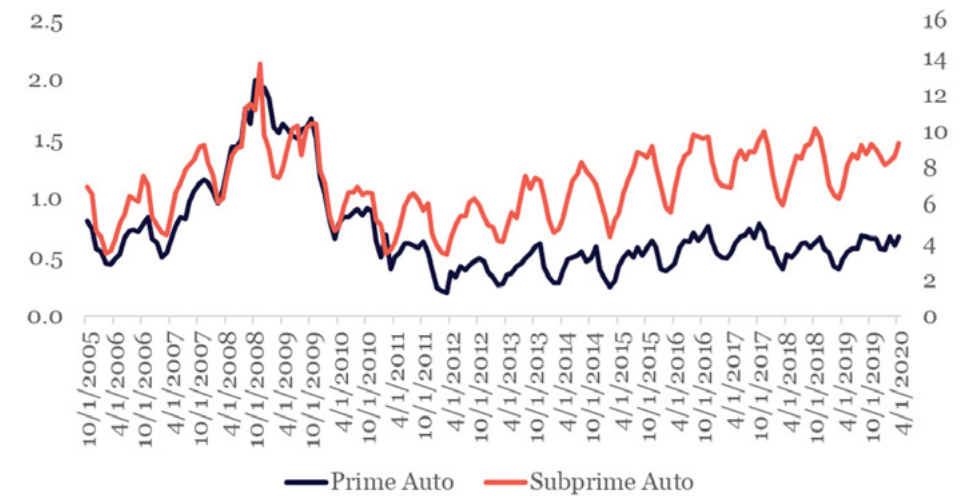
ABS Performance - Monthly Indices

Prime Credit Card Chargeoffs (%)



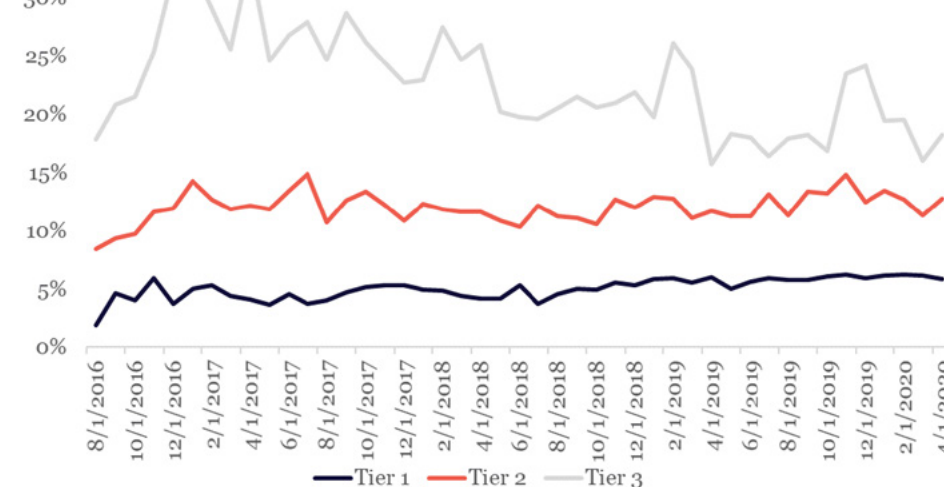
Source: [Fitch Ratings](#)

Auto ABS Net Loss Rate (%)



Source: [S&P Global](#)

Personal Installment Loans Annualized Net Loss Rate (%)



Source: [KBRA](#)