

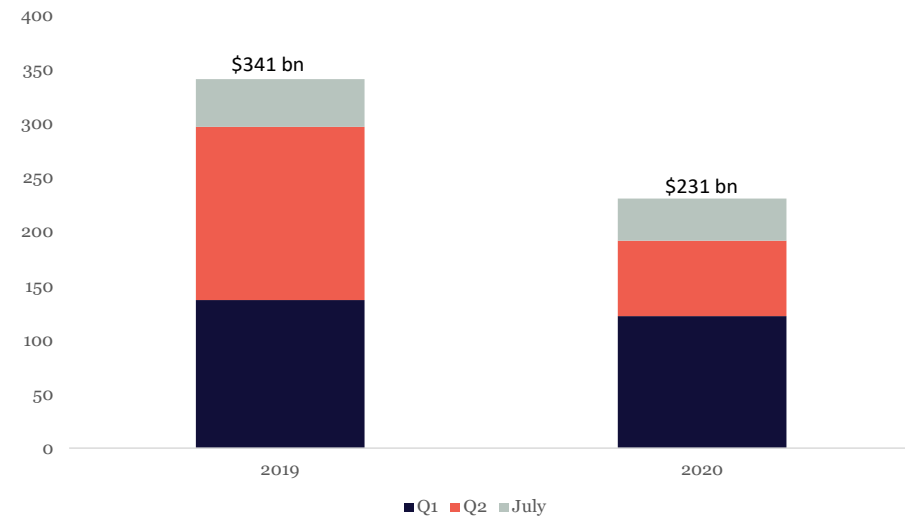
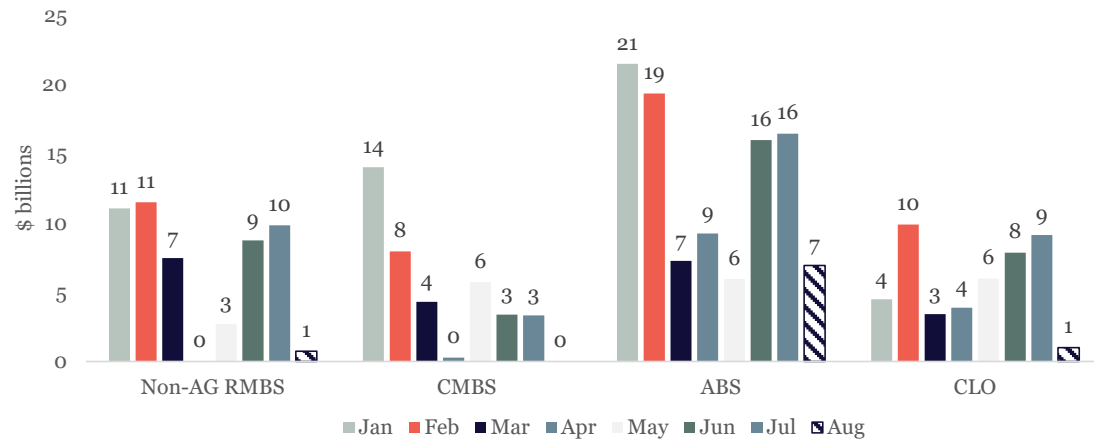


Research Corner  
August 31, 2020

## Research Corner - Market Signals

**Market summary** – Over \$39 billion of bonds backed by non-agency mortgages, commercial mortgages, consumer loans and corporate leveraged loans were offered in July. Relatively robust activity in the RMBS, ABS and CLO markets in June and July replaced some of the supply lost between March and May; nonetheless, year over year, new issue supply, which reached \$231 billion by July month end, trailed the same period in 2019 by 32%. Although activity in August will contribute to the total, even in normal years August is one of the historically slower months in the first week of August, \$9 billion of new bonds was added to the 2020 total.

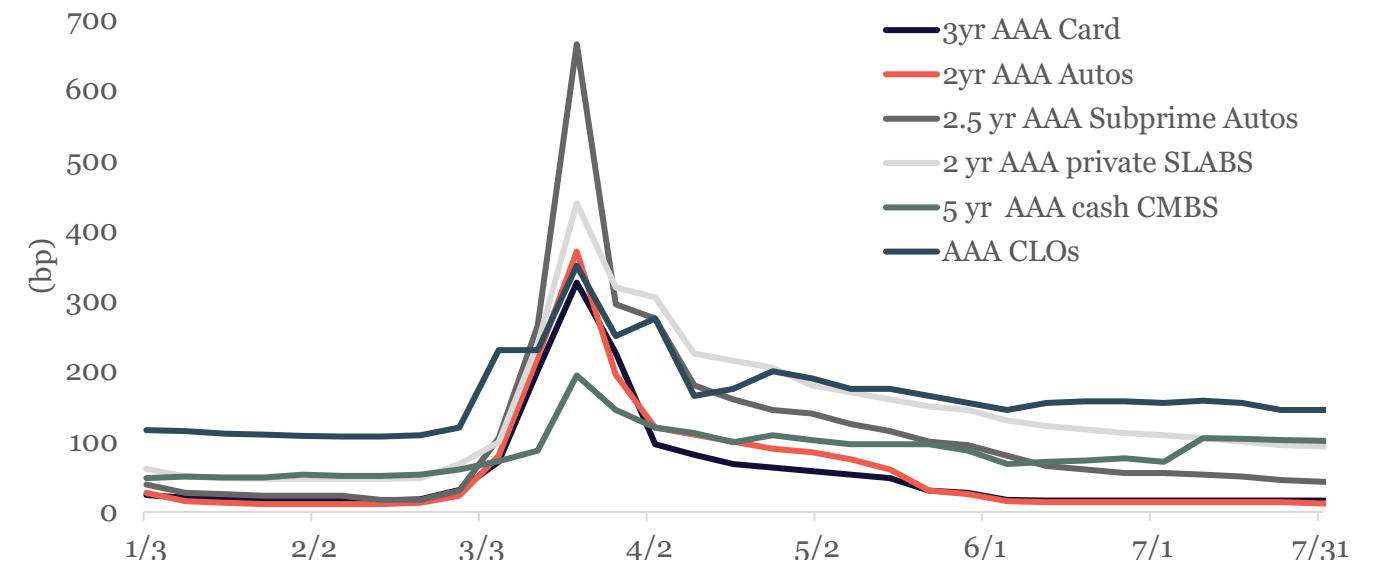
### New Issue Activity



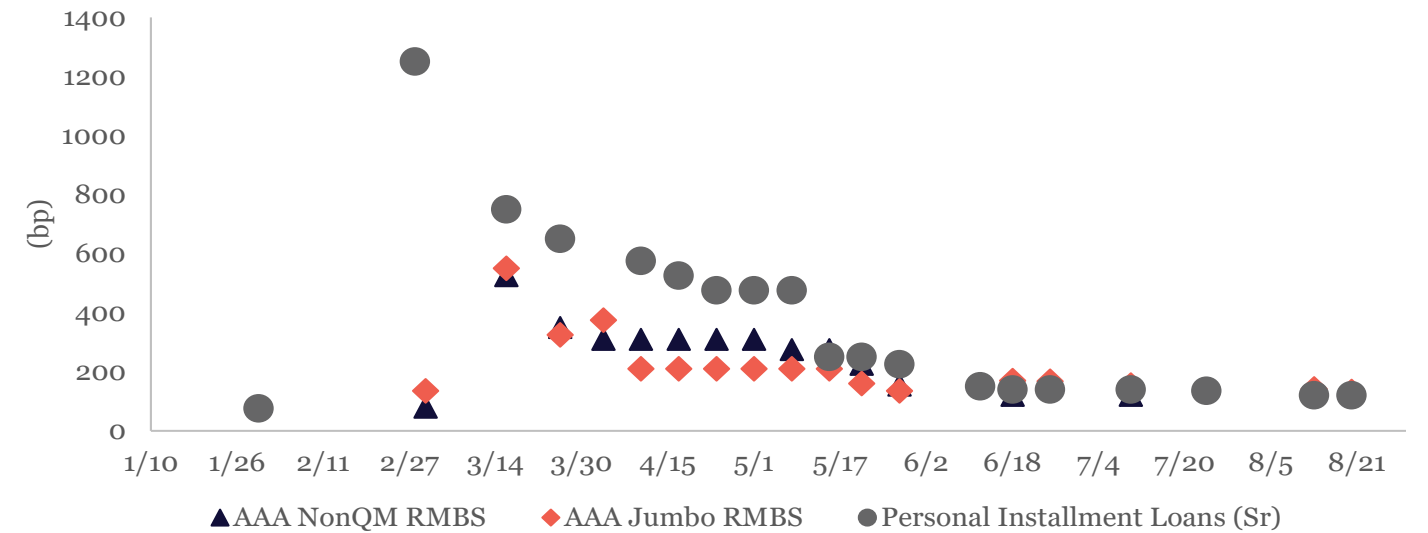
Source: Deutsche Bank Research

While demand for benchmark credit card and prime auto ABS was sufficient to absorb market supply without an increase in price in July, the first week of August saw demand for these products move prices slightly higher, pushing the bid-ask spread for cards and prime autos incrementally tighter. Strong demand for higher yielding products, such as ABS backed by subprime autos, private student loans, and personal installment loans as well as non-agency RMBS continued to push prices up, moving the bid-ask spreads for these products tighter by 5-10 bp in the first week of August.

## Secondary Market Spreads



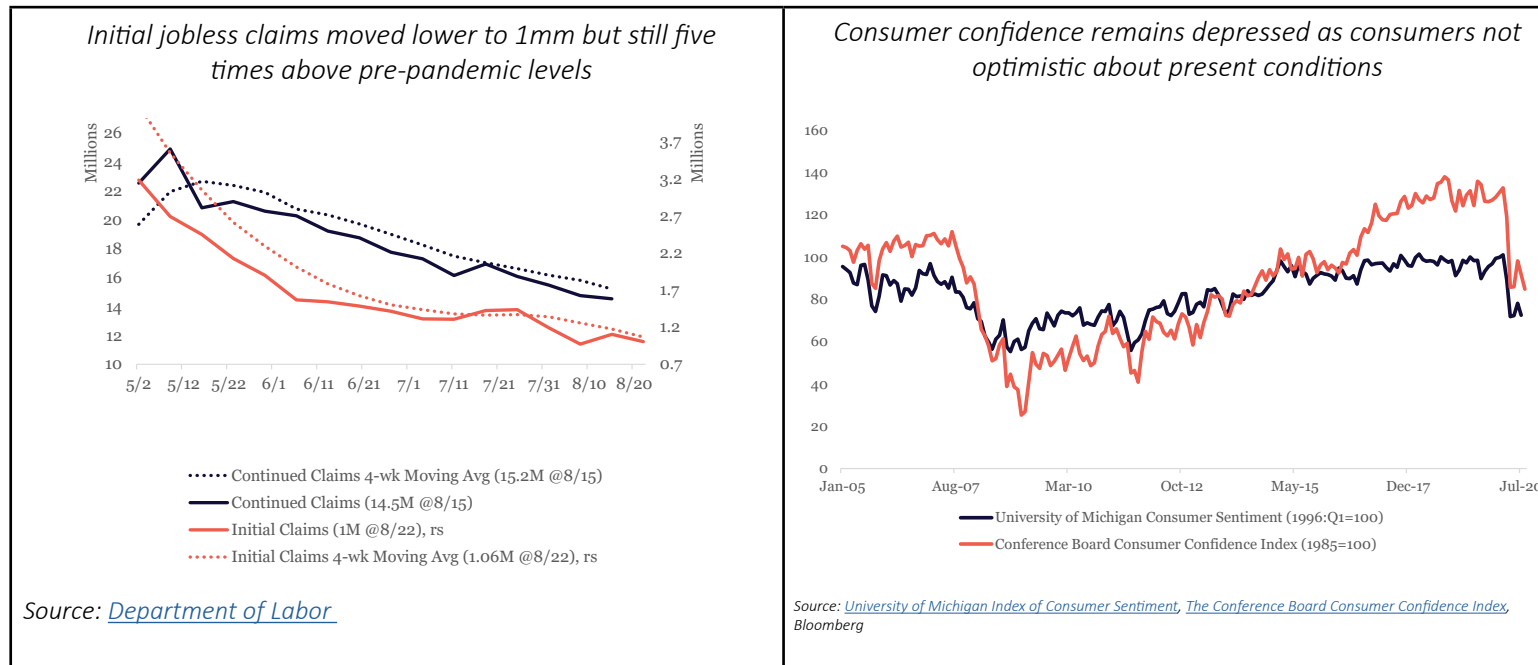
Source: Deutsche Bank Research



Source: Market Compilation

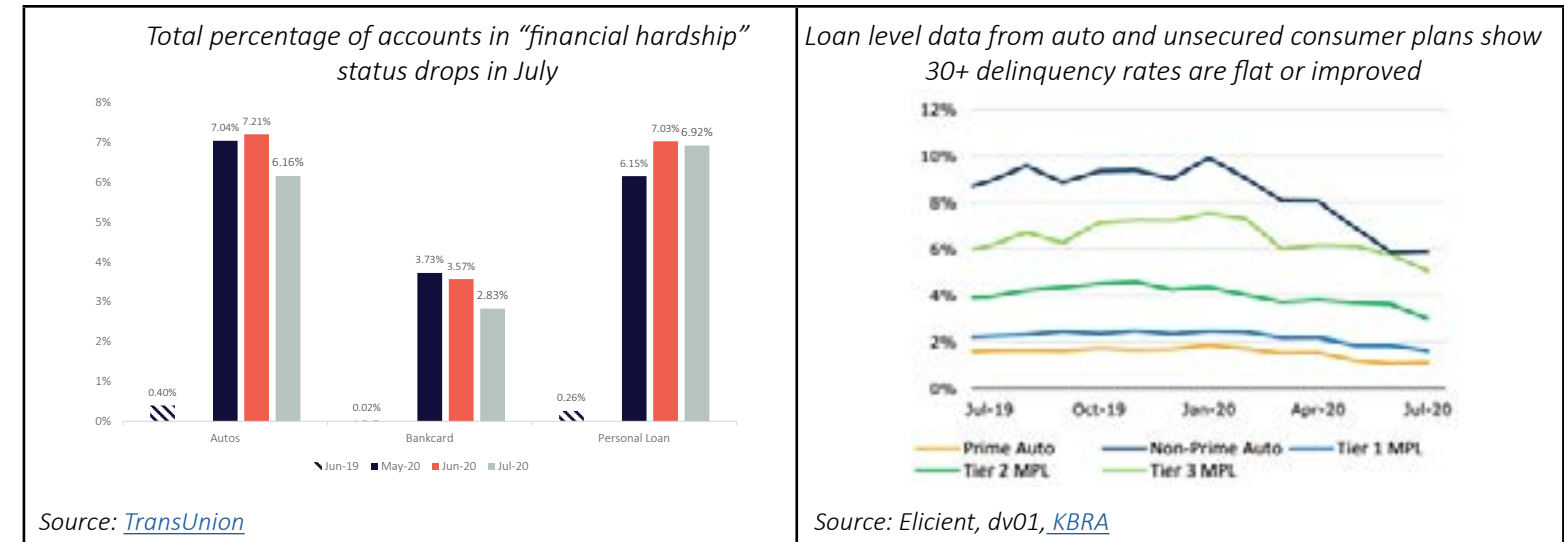
## What We're Watching

After rising for the week ending August 15, initial jobless claims moved lower but are still five times above the levels reached before the pandemic. For the week ending August 22, 1 million Americans newly filed for unemployment benefits, putting the 4-week average at 1.06 million. Continued claims, which lags initial metrics by one week and stood at 14 million for the week ending August 15, to show more improvements moving forward.



Consumer confidence remained depressed as reported by both the Conference Board Consumer Confidence Index® and the University of Michigan Index of Consumer Sentiment. The Conference Board Consumer Confidence Index® decreased in August to 84.5 from 91.7 in July led by a sharp decrease in The Present Situation Index which decreased sharply from 95.9 to 84.2. While the University of Michigan Index of Consumer Sentiment is down 17.5% year over year, from 89.8 to the current level of 74.1, the index of Current Conditions is down 21% on the year.

## What We're Watching (cont.)



TransUnion's Monthly Industry Snapshot shows the total percentage of accounts in "financial hardship" status dropped during the month of July, although remains well above pre-pandemic levels. Bankcards show the most decline, dropping 20%, and personal loans, the least, down 1.6%. A closer look at the auto data shows that decline did not occur across all credit tiers – subprime accounts in hardship actually increased from 13.85% from 14.40%.

New data is showing that while many borrowers are resuming payment, some of the borrowers moving out of hardship status are starting to become delinquent. A new report from KBRA notes an increase in very early stage delinquency (1-29 days) in ABS trusts backed by auto and unsecured consumer (or marketplace) loans, even though 30+ day delinquency rates remain flat or improve. The report, which analyzes auto and unsecured marketplace loan level data warns that "uncertainty around enhanced unemployment benefits and further stimulus checks, as well as fewer borrowers on payment holidays could push delinquency rates higher over the remainder of the year".