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# SFA Research Corner

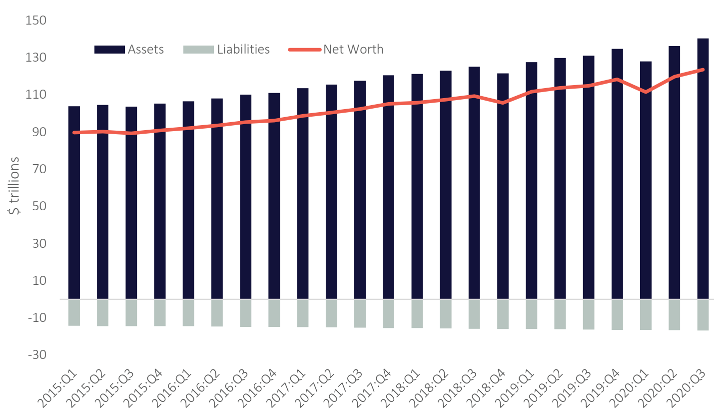
## Checking on Household Health After a Stressful Year

**January 13, 2021**

## WHAT WE'RE WATCHING

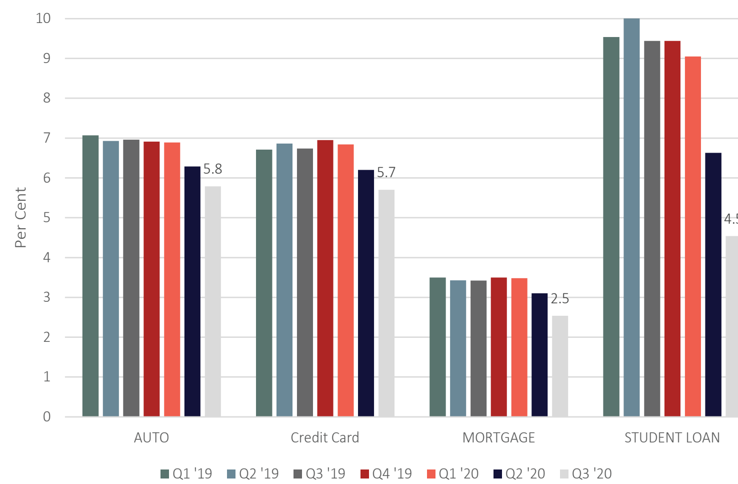
With a most extraordinary year behind us, we check on the credit health of U.S. households. Household's financial health drives demand for credit to make purchases and, along with employment, impacts a borrower's ability to repay debt. The securitization markets look to these metrics and others to better understand consumer demand for credit and changes to credit risk, a particular concern given the unevenness of the recovery.

### Record-High Stock Valuations, Increases in Home Prices and Savings Push Household Net Worth to $124 Trillion




*Source: [Financial Accounts of the United States Z.1, Board of Governors of the Federal Reserve System]*

### Early-stage Delinquency Rates Fell Meaningfully in 2020 for Consumer Accounts




*Source: [New York Fed Consumer Credit Panel/Equifax]*

At first glance, households look to be on strong footing entering 2021. Household net worth increased to $124 trillion as assets increased more than liabilities. The 4% year over year gain in households' bottom line was driven by increases in home prices and strong stock valuations—the Dow Jones Industrial Index was up 7.25% for the year, the S&P500 up 16.26% while the Nasdaq Composite returned 43.64%. Heightened economic uncertainty in 2020 encouraged households to save more and pay down debt. Supported by mortgage forbearance programs and other loan deferral initiatives, the share of newly delinquent consumer accounts fell steadily during the year. Although credit risk is expected to rise as forbearance programs end, the shift is expected to occur as the economy expands under the watchful eyes of the Federal Reserve, which remains committed to using the full range of tools available to them to support the U.S. economy.

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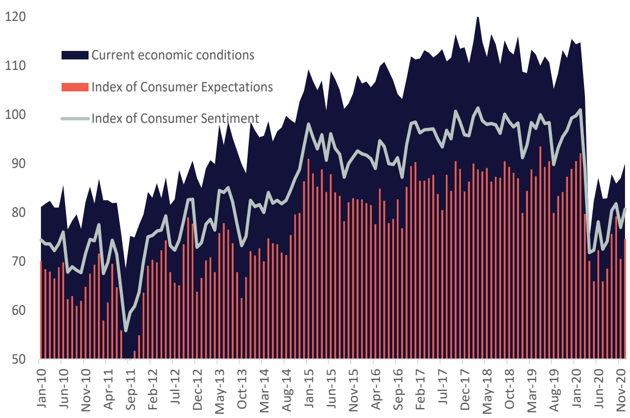
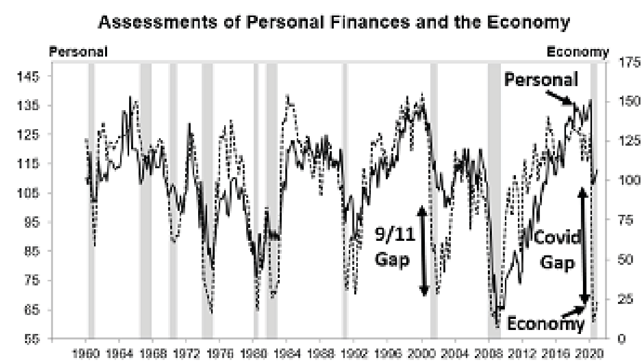
## At Year-End, Consumer Sentiment Down 19% from 10-year High




Source: [University of Michigan, Survey of Consumers]

## Consumers' Assessment of their Personal Finances Well Above their Assessment of the National Economic Conditions

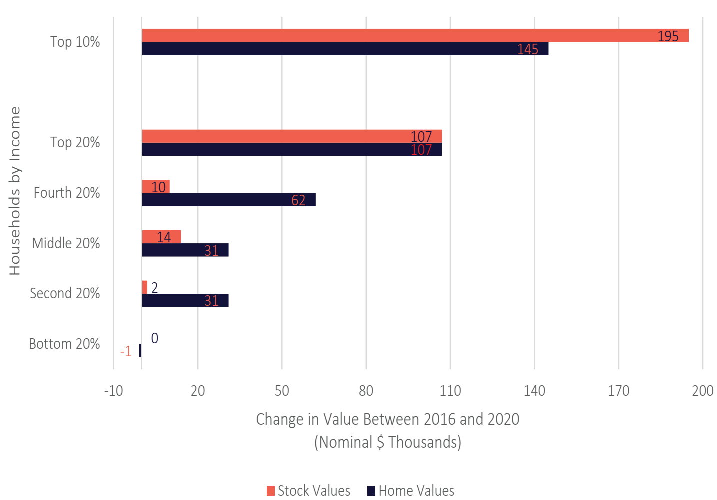



Source: [University of Michigan, Survey of Consumers]

From these metrics it would appear that households are in an even stronger position entering 2021 than they were entering 2020, which by most accounts was a solid foundation already. The difference, of course, is in the labor market and the unevenness in the recovery across income groups, which can have far-reaching effects on consumer spending and borrowing-- both key drivers of organic economic growth.

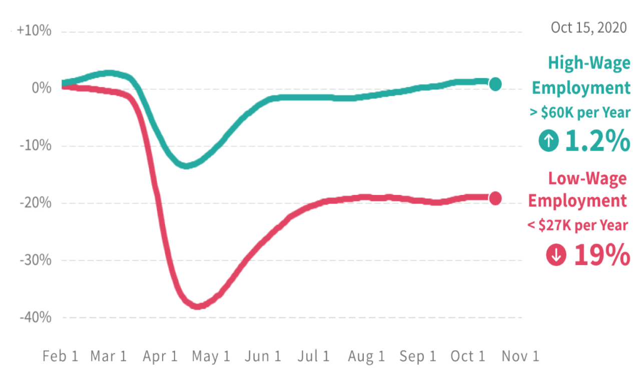
The unemployment rate ended 2020 at 6.7% versus 3.5% one year prior. The number of Americans who have permanently lost their jobs has reached 3.4 million, up by 2.1 million since February and the number of Americans who have been jobless for 27 weeks or more is at 4 million, up from 2.8 million in February. While employment has reverted to pre-pandemic levels for those those earning more than $60,000 a year, employment for those earning less than $27,000 a year remains [19%] below the level in January.

## Rise in Household Assets Has Been Uneven (2016 vs 2020)




Source: [University of Michigan, Survey of Consumers]

## Recession has Nearly Ended for High-Wage Workers, But Job Losses Persist for Low-Wage Workers




Source: [Tracktherecovery.org]

The uneven employment recovery has contributed to a divergence in how households view their personal finances. The University of Michigan's Consumer Sentiment Index, which has recovered since falling to a 10-year low at 71.8 in April, closed the year at 80.7 – 19.1 points below the January 2020 level of 99.8. Behind this headline trend is a shift in how consumers view their personal finances relative to the economy and which consumers hold these views.
Overall, households are much more positive about their personal finances than they are about the national economy. This view, however, is not shared by all consumer groups equally. "Since the start of the pandemic…a huge divide has grown across households in how they assess their own personal finances: the finances of those that continue to be employed and working at home have remained positive while those who have lost jobs and incomes have been quite negative. Growing inequalities have also been due to rising home and stock prices." The rise in household assets has indeed been uneven. The Director and Chief Economist of the Survey explains that, "the demographic groups that benefitted the least from the overall rise in asset values were those under age 35, those with the least education, and households with the lowest incomes. Those who benefitted the most were the oldest households, the most educated, and those with the highest incomes." As spending and borrowing behaviors are impacted by assessments of personal wealth, these shifts will impact consumers' spending and borrowing decisions going forward.

## MARKET SUMMARY

During 2020 the private securitization market issued $404 billion of bonds backed by loans to consumers and businesses. This represents a drop of 30% year over year, led by a lower volume of commercial mortgage backed securities. This stands in contrast to the Agency RMBS market which funded $2.8 trillion of mortgage loans to households, an 87% increase over 2019, supporting one of the strongest housing markets on record. For 2021, supply is expected to revert to near 2019 levels, insofar as the labor market and broader economy continues to normalize.

Investor demand, which dried up in the first and second quarters, returned full force in the third quarters pushing bond prices in the secondary market higher, and bid-ask spreads tighter. By year-end, bid-ask spreads for benchmark highly liquid products such as triple-A card and auto ABS were tighter than January's pre-pandemic levels. Bid-ask spreads for higher-yielding asset classes, such as aircraft ABS, CMBS, and CLOs, also improved from their widest levels recorded at the height of the pandemic but remain slightly wider than their pre-pandemic levels reflecting higher levels of perceived risk for these asset classes. Demand for securitized products is expected to remain robust in 2021. For higher-yielding sectors of securitized products we expect this demand to push prices higher, and bid-ask spreads tighter, as investors become more comfortable with risk amidst the normalizing economy.

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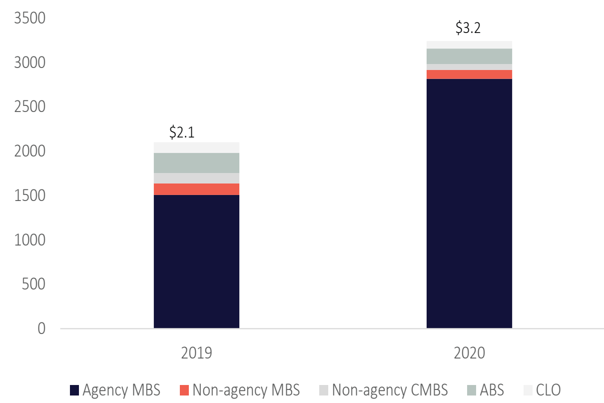
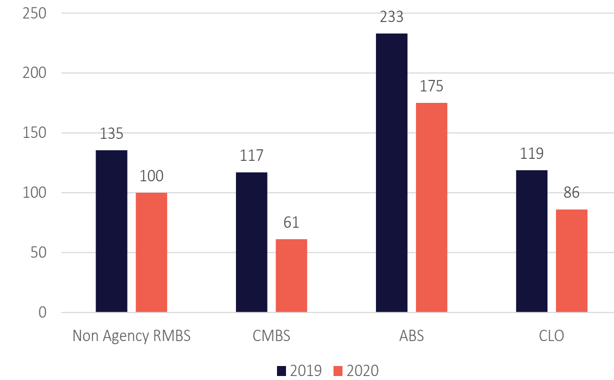
## NEW ISSUE ACTIVITY

### Overall market supply up 54% year over year ($ trillions, inclusive of Agency and Private ABS)




*Source: Market Compilation*

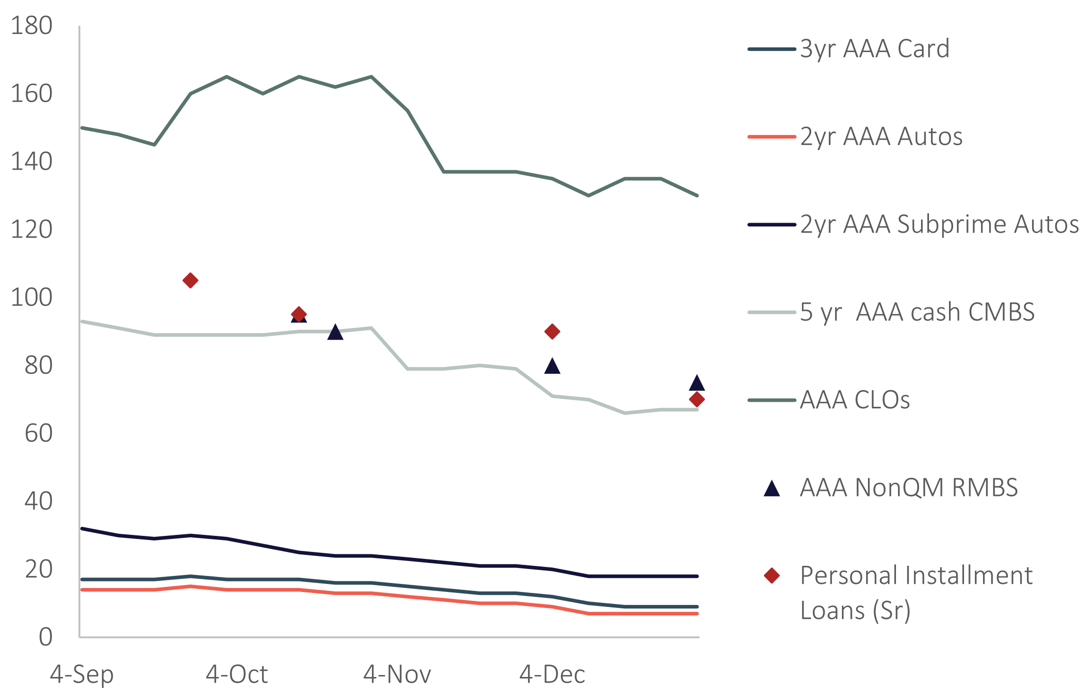
### Private Market Sees Drop in Supply across most sectors ($ billions)




*Source: Market Compilation*

## SECONDARY MARKET SPREADS

### In the Face of Constrained Supply, Robust Demand Pushed Secondary Market Prices HigherBid-ask Spreads Are At or Near 12-month Tights




*Source: Market Compilation*

| The Road Back: Secondary Credit Spreads | | |
|---|---|---|
| (bps) | Jan 3 '20 | Jan 1 '21 |
| 3yr AAA Card | 24 | 9 |
| 2yr AAA Prime Autos | 27 | 7 |
| 2 yr AAA Subprime Autos | 39 | 18 |
| 5 yr AAA cash CMBS | 48 | 67 |
| AAA CLOs | 125 | 130 |