STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

A Deluge of Deals in September Sets New Highwater Mark

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WHAT WE'RE WATCHING

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In 2021, supply of new issue securitizations has been remarkably strong. Year-to-date volume now stands at $710 billion, surpassing the level reached for the entire year of 2019. Monthly issuance of non-agency RMBS in 2021 has averaged $16.6 billion, an increase of 48% over 2019's average monthly issuance level for the sector. Similarly, the monthly issuance volume for CLOs in 2021 has averaged $14.4 billion, an increase of 46% from 2019. Using the same measurements, CMBS is up 22% and ABS, 18%. Despite the deluge of new-issue supply, strong investor demand has kept bond prices, and bid-ask spreads, stable in the secondary market.

What's driving this level of issuance? Generally speaking, robust demand from investors looking for yield combined with issuers seeking to take advantage of historically low rates and issue LIBOR bonds prior to year-end. Securitization has been particularly attractive given its overall strong performance during the pandemic. Although the pandemic posed an unprecedented challenge for most corners of the economy, securitization, by and large, held up well. Consumer ABS and RMBS were supported by a proliferation of government stimulus and hardship assistance programs that kept delinquencies and defaults low despite a sharp rise in joblessness. For CLOs, solid structures and skilled management kept performance stable even as corporate credit deteriorated rapidly. The performance of commercial ABS and CMBS depended on the specific underlying collateral. For example, CMBS backed by hotels and retail properties were hard hit, but multifamily collateral performed well.

Additionally, while all of securitization has been impacted by the LIBOR transition, CLO issuers have felt a particular urgency to get ahead of transition guidance proposed by the Alternative Reference Rate Committee (ARRC). This guidance recommends that CLOs issued after December 31, 2021, cannot be tied to LIBOR. This may introduce basis risk to CLO transactions if the underlying leveraged loan collateral does not share the same benchmark. CLO issuance was particularly robust in the third quarter with $47 billion in new issuance, which represents an increase of 89% over the same period in 2019. August and September are reporting record levels, at $19 billion and $18 billion, respectively.

Issuers are also seizing the current market sentiment to lock in still low funding costs. As inflationary pressures continue to rise, and the Federal Reserve circles around the "tapering" of their bond-buying program sooner than expected, interest rates, and funding costs, could move higher by year end. That, along with the traditional year-end slow down experienced after Thanksgiving, may prove October to be even busier than September.

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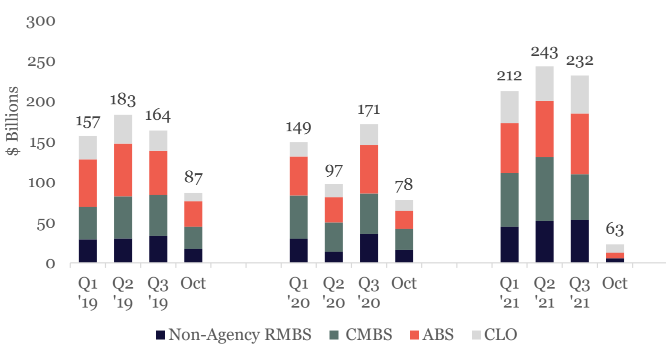
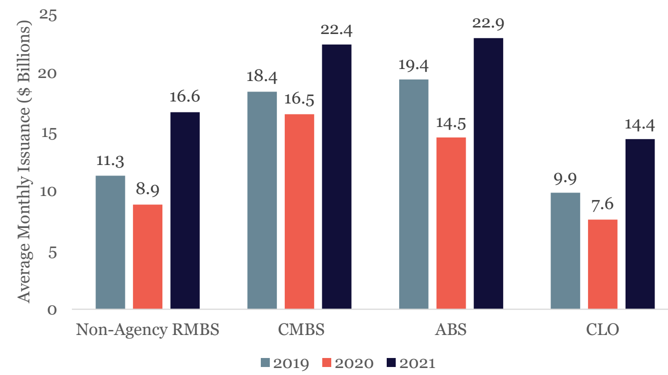
MARKET SUMMARY

Non-Agency RMBS, CMBS, ABS, and CLO Issuance 2021 ($710 Billion) Versus 2019, 2020



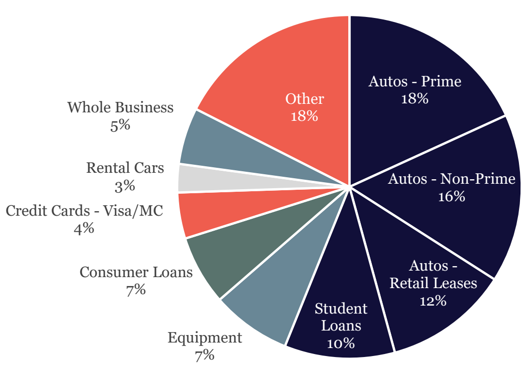
Source: Deutsche Bank, Market Compilation

Average Monthly Issuance in 2021 for Non-Agency RMBS, CMBS, ABS, and CLO Issuance Handily Exceeds 2019 and 2020 Levels



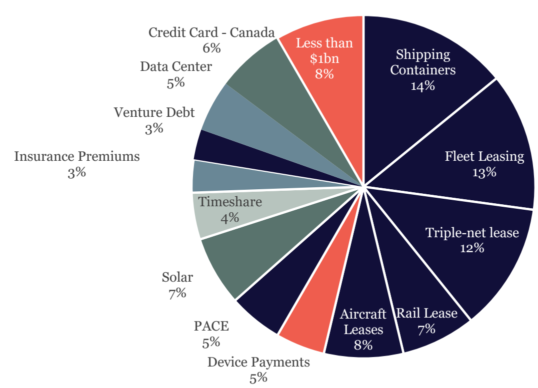
Source: Deutsche Bank, Market Compilation

ABS Only
2021 YTD: $210 billion



Source: Deutsche Bank, Market Compilation

Other ABS Only
2021 YTD: $37 billion



ABS with YTD volume that is less than $1 bn YTD include ABS backed by venture debt, data centers, auto dealer floorplan loans, small business loans, tax liens, commercial loans, secured fund fee, oil contracts, UK credit cards, litigation funding, retail credit cards.

Source: Deutsche Bank, Market Compilation

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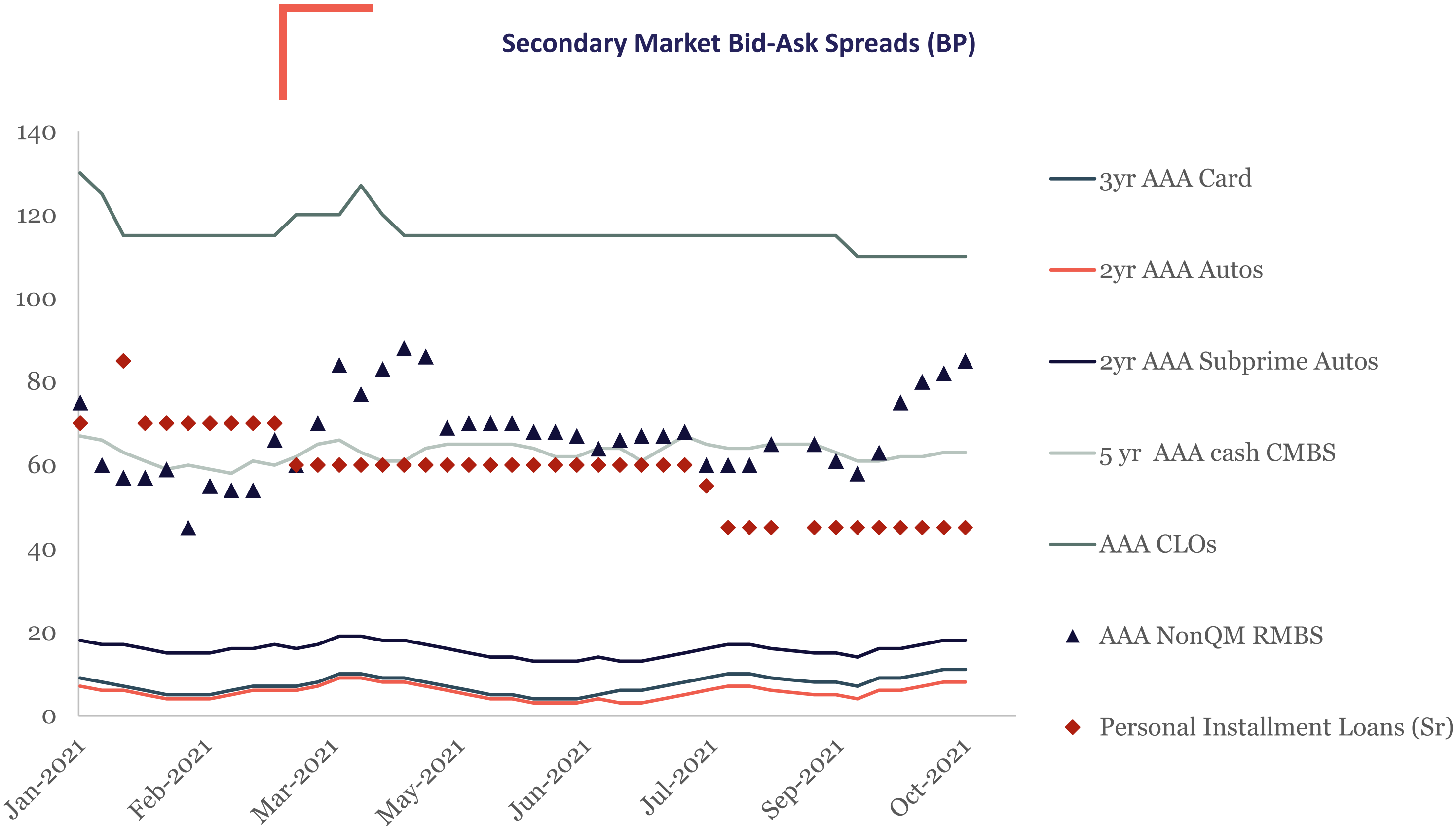

Secondary Market Bid-Ask Spreads		
(bps)	15-Oct	17-Sep
3yr AAA Card	11	9
2yr AAA Prime Autos	8	6
2yr AAA Subprime Autos	18	16
5yr AAA Cash CMBS	63	61
AAA CLOs	110	110

Source: Market Compilation