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SFA Research Corner

Sparked by Market Optimism Amidst FOMC Caution, January Sees Record-breaking Issuance

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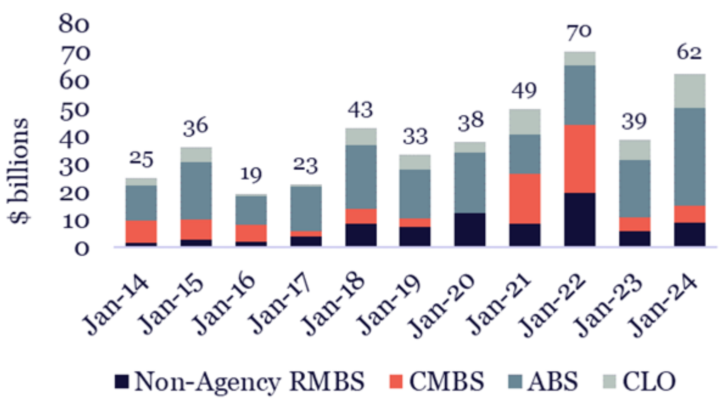
January issuance of non-agency RMBS, CMBS, ABS, and CLO reached $62 billion, marking the second most active January for the private structured finance market in the last 10 years. JP Morgan reports that this January also stands out as the strongest for ABS and CLOs since the Global Financial Crisis, with $35 billion and $12 billion of issuance, respectively. Total outstanding in the private structured finance market has reached $4 trillion, according to JP Morgan, **or 7%** of the $57 trillion total fixed income market.

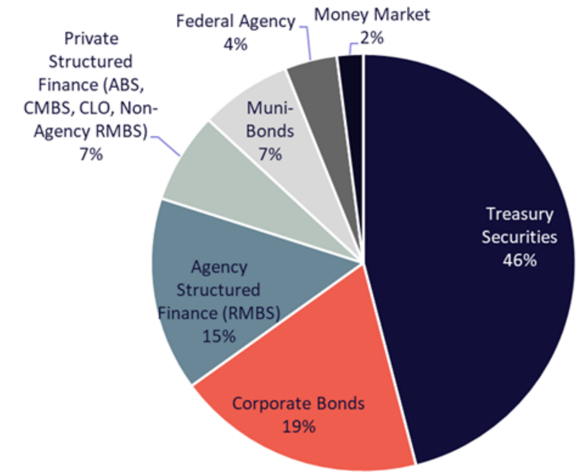
Against this backdrop of heightened market activity, the press conference following the January FOMC meeting took center stage. Chair Powell underscored the importance of gaining increased confidence in achieving a sustained decrease in inflation to 2 percent. Powell emphasized the need for positive economic data before considering any reduction in the Fed Funds target range. However, despite this cautious stance, the growing optimism for a soft landing and potential rate cuts in 2024 has spurred market activity, leading to increased issuance and higher prices, and tightening credit risk spreads.

Private Structured Finance Market Soars in January with $62 Billion Issuance



Source: SFA Market Compilation

Structured Finance Represents 22% of Fixed Income Market ($57 Trillion in Total Outstanding)



Source: SFA Market Compilation

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Despite a rise in supply, robust demand resulted in narrower credit spreads, leading to higher bond prices across different structured products, reflecting a resilient market. Credit spread refers to the difference in yield between a bond and a benchmark security, typically Treasury or SOFR, of similar maturity. For instance, triple-A credit card ABS narrowed by 10 bp by January month end and triple-A auto ABS by 4-13 bp, depending on tenor. ABS backed by unsecured consumer loans tightened by about 20 bp, while non-agency RMBS backed by non-QM loans tightened by up to 40 bp. Triple-A CLOs backed by broadly syndicated loans experienced a 15-17 bp tightening as CLOs backed by middle market loans contracted by 7-10 bp. Today's levels for certain securities mark a return to the narrowest spread levels observed in the past 12 months.

Examples of Private Structured Credit Risk Spread Over Benchmark (bp)

	Current (bp)	Change from One Month Ago (bp)	Change from 12 month Wides (bp)	Change from 12 month Tights (bp)
Triple-A				
2yr Card	40	-10	-35	10
2yr Auto	55	-2	-30	5
2yr Subprime Auto	81	-4	-49	13
2yr Equip	60	2	-21	5
2yr Private Credit SL	130	-10	-35	20
NonQM RMBS	130	-30	-80	-15
5yr CMBS	169	-23	-34	0
BSL CLO	160	-17	-60	0
MM CLO	228	-7	-52	0
Single-A				
Non-QM RMBS	180	-40	-95	0
3 yr Auto	135	-40	-75	5

Source: Deutsche Bank Research