

SFA Research Corner

Securitization On Track for a Strong 2024

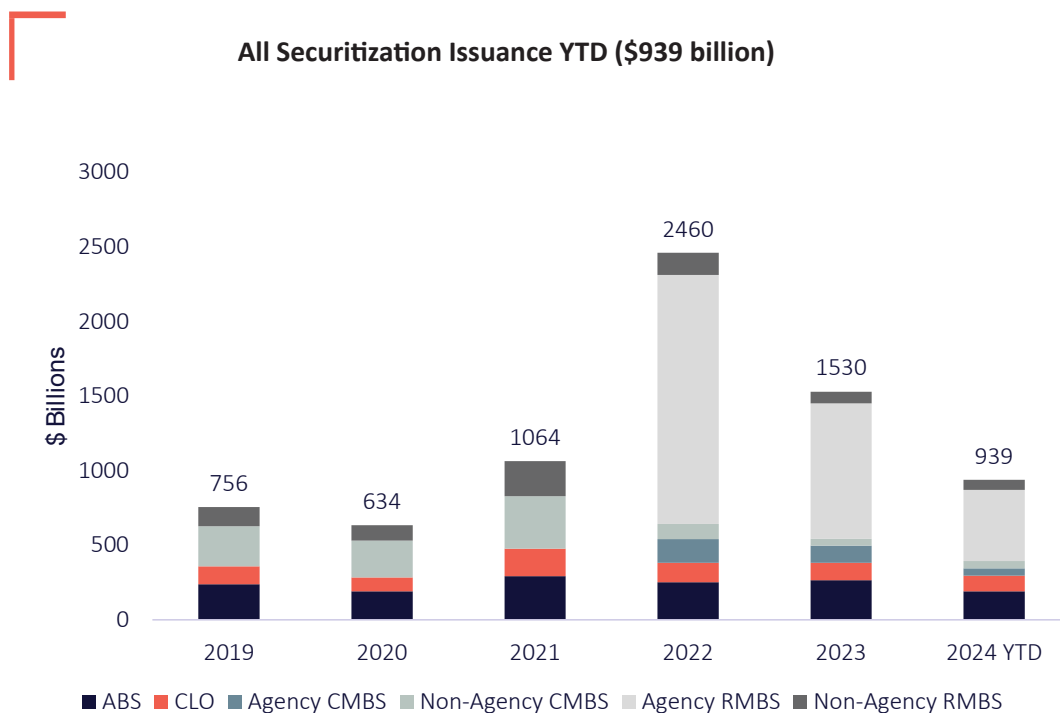
July 18, 2024



Securitization On Track for a Strong 2024

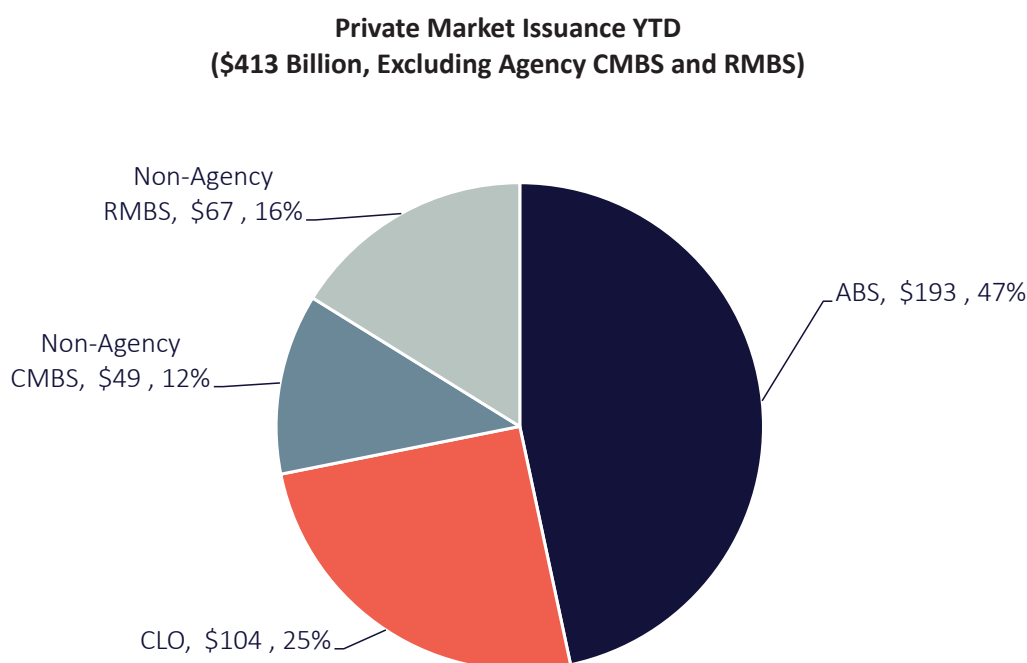
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By the end of the first half of the year, new issue activity in securitization markets reached \$939 billion. Excluding issuance by Government-Sponsored Enterprises (GSEs) in the Agency CMBS and RMBS sectors, private sector new issue activity hit \$413 billion, which is 66% higher than the year-to-date level in 2023 and just 20% short of the full-year total for last year.



Source: Finsight, J.P. Morgan, SFA Compilation

Growth has been observed across all sectors. Year-to-date ABS issuance, the largest contributor to private sector supply, surged to \$193 billion, representing a nearly 40% increase over the same period in 2023. CLO issuance showed even stronger activity, reaching \$104 billion, almost double the volume from the first half of 2023. Non-agency RMBS issuance, propelled by securitization of home equity related products, rose by 63% year-over-year to \$67 billion, while non-agency CMBS issuance grew to \$49 billion, more than 2.5 times the anemic level of supply seen in the same period last year.



Source: Finsight, J.P. Morgan, SFA Compilation

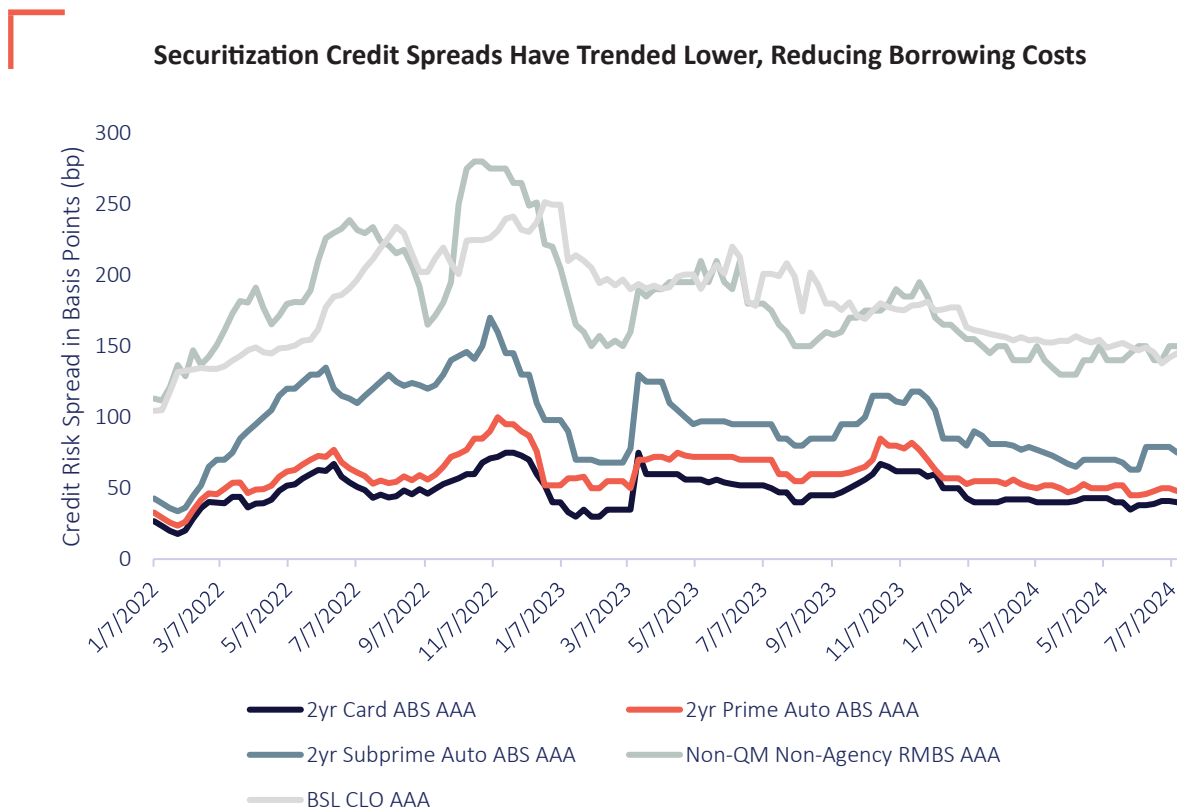
ABS Only – YTD Issuance by Asset Class

All ABS	\$ bn	Other ABS	\$ bn	Other ABS < \$1bn	\$ bn
All Autos	95	Other - Device Payment Plans	5	Other - Small Business Loans	0.8
Equipment	18	Other - Solar	3	Other - Container	0.8
All Credit Cards	13	Other - Speciality Finance	3	Other - Triple Net Lease	0.8
Digital Infrastructure	10	Other - Rental Car	3	Other - Railcar	0.6
Unsecured Consumer Loan	10	Other - Timeshare	2	Other - CPACE	0.4
Fleet Lease	8	Other - Rate Reduction Bonds	2	Other - Tax Liens	0.3
Student Loans	7	Other - Insurance Premiums	2	Other - IP Royalties	0.3
Whole Business	7	Other - Aircraft	2		
Other ABS	26	Other < \$1bn	4		
Total	193	Total	26	Total	4

Source: Finsight, J.P. Morgan, SFA Compilation

The securitization markets have enjoyed a boost from several positive influences. Evidence of a soft landing—marked by cooling inflation and moderate unemployment— and the Federal Reserve’s talk of lower interest rates have played a significant role in market sentiment. Recently, Chair Powell’s comments around “[modest progress](#)” towards the Federal Reserve Board’s 2% inflation target indicates an easing in monetary policy restraints is still within the possibilities in 2024, further supporting market momentum. The Chicago Fed’s National Financial Conditions Index (NFCI), which monitors financial stress and health through credit conditions, risk appetite, and funding conditions, indicates that financial conditions have continued to ease in 2024. As of July 2024, the NFCI stands at approximately -0.53, suggesting that financial conditions are more accommodative than the historical average (an NFCI value of 0), potentially leading to stronger economic growth ahead.

Additionally, tighter lending standards introduced over the past two years have confined credit issues to the weakest segments of corporate and consumer borrowers, further supporting market interest and protecting securitized portfolios.



Source: Deutsche Bank Research

Supported by these favorable conditions, securitization credit spreads have improved significantly since the fourth quarter of 2022. Over the past 12 months, spreads on triple-A rated bonds have declined by about 25%, lowering borrowing costs for issuers in the securitization markets.

Barring a significant shift in macroeconomic signals, the outlook for securitization markets in the second half remains promising. Market experts forecast a strong year-end, with private sector supply expected to exceed 2023 levels by 20-30% and credit spreads continuing to tighten. However, the upcoming Presidential election introduces heightened uncertainty, potentially leading to uptick in market activity ahead of the election. Overall, the securitization market appears poised for strong finish to 2024.