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News

Credit Sector Insulated From Macro Volatility? Securitized Bonds

by **Adam Tempkin**
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- Structured finance bonds were virtually unscathed this week
- Muted volatility in this sector "when the world gets screwy"

Bonds backed by commercial mortgages, auto loans and credit card payments emerged virtually unscathed from this week's global equities markets rout.

"These sectors have muted volatility when the world gets screwy," said Greg Parsons, chief executive officer of Semper Capital Management, a structured-debt focused money manager. Their performance this week "validates the value proposition and attractiveness of securitized products."

Parsons said he was able to "move inventory in legacy non-agency RMBS and ABS at solid pricing over the last week."

New-issue ABS and CMBS continued to "get priced without difficulty and with little concession to ongoing rates volatility or shatter risk sentiment," saidChris Sullivan, Chief Investment Officer at the United Nations Federal Credit Union.

While spreads on an index tied to credit derivatives on CMBS, Markit's CMBX, widened as broader markets plunged earlier in the week, Credit Suisse analysts said Thursday that CMBS investors are "well positioned" during this period of volatility and "there has been no forced selling."

"If there is no discernible impact on broader fundamentals (and it will take a whole series of data to determine) then I think we get past this episode and life goes on - chastened somewhat perhaps - but still functioning," Sullivan said.

Securitized products typically enjoy limited duration exposure, low volatility, and low correlation to equity and macro volatility, while still generating attractive yield, Semper Capital's Parsons said.

"Of course, correlation is never zero," Parsons said. "If folks are getting whipsawed in other areas of their investments, or if there is prolonged technically-driven stress in the broader market, they may be forced to do things in structured credit." Spreads in structured credit may then get a bit softer, he added.

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