

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

Unsere Emerging Markets und Global Income Inhalte sind auf Deutsch verfügbar.

本ページには、翻訳が無く原文のみが掲載されているブログの投稿も含まれております

[INVESTMENT GRADE FIXED INCOME](#)

Two Things We Know about Agency MBS

By: Alexander Payne, CFA | October 17, 2022

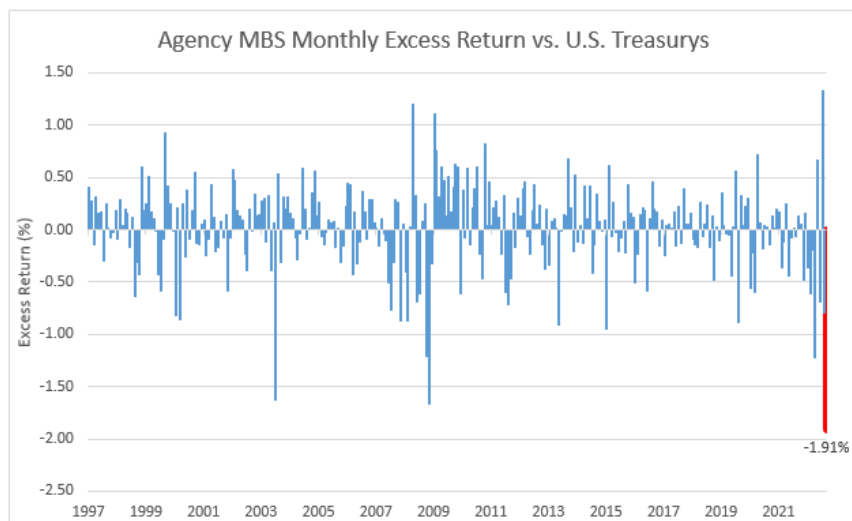
Boston - There are a lot of unknowns in markets these days. Has inflation peaked? Is the economy entering a recession? Will the Federal Reserve pivot to a more dovish stance? On the government bond desk we have strong opinions on all these macro topics, but in this piece prefer to focus on two things that we know for sure.

1. The agency mortgage-backed securities (MBS) market just experienced its worst month *ever* in September.
2. Government-guaranteed agency MBS have *never* posted a loss over the 12-month period following the start of a recession.

We believe those facts, taken together, suggest that an overweight to a historically cheap, government-guaranteed asset class might make sense as recession risks are priced in.

Agency MBS are historically cheap

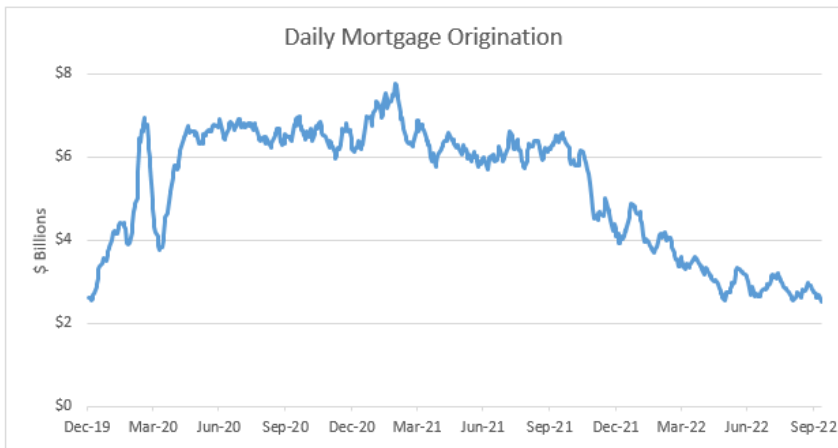
In September 2022, Agency MBS excess returns versus Treasuries experienced a move greater than five standard deviations — handily surpassing the depths of the financial crisis in 2008 and even the internet-driven refinancing wave of 2003.



Source: Bloomberg data as of 9/30/2022. Agency MBS represented by the ICE BofA U.S. MBS Index.

In this instance, there was not a single smoking gun, but rather numerous detractors that weighed on the market. Among them, we would highlight mortgage REIT deleveraging, quarter-end balance sheet constraints for banks, and originators flushing the last of the 6% mortgage rate loans through their pipelines.

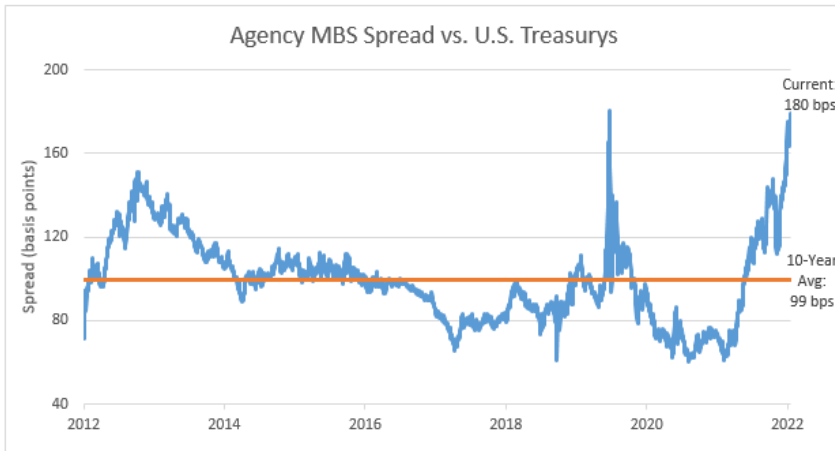
Now with mortgage rates above 7%, the supply outlook going forward could become much more favorable. Daily originations are expected to drop below \$2 billion per day, down from almost \$8 billion per day at the peak in 2021. This would help keep supply and demand balanced, as the Fed's balance sheet runoff is projected to be roughly \$20 billion per month, or \$1 billion per day.



Source: Citi Velocity data as of 10/11/2022. Daily origination shown as a 20-day moving average.

In addition, despite concerns regarding potential selling of agency MBS by the Fed, Chair Powell said at the most recent FOMC meeting in September that "the time for turning to it has not come and is not close." If there is one place in which the Fed has been successful in stemming out inflation, it's been the U.S. housing market via 7% mortgage rates.

Recent pain in the MBS market has left agency MBS spreads at levels not seen since the onset of the pandemic. Today's spreads are 180 basis points (bps) over Treasuries — nearly double the 10-year average. To put that into context, this time last year, BB-rated high-yield bonds had a spread over Treasuries of less than 190 bps. Today, government-guaranteed agency MBS can get you almost that much spread.



Source: Bloomberg data as of 10/11/2022. Agency MBS spread reflects the current coupon spread over a 5/10 year U.S. Treasury blend.

Add the MBS market's spread widening to the equally impressive move higher in Treasury yields this year, and you have a Ginnie Mae 6% bond trading at a discount — despite being guaranteed to mature at par.

Agency MBS have outperformed in recessions

Since the creation of the mortgage-backed security in the late 1970s, there have been six recessions. In every case, the Agency MBS Index had a positive total return over the 12-month period following the onset of the recession. Importantly, government-guaranteed Agency MBS have outperformed investment grade corporate bonds by 370 bps on average in these rough markets.

Recession Start Date	Agency MBS 12-Month Total Return
1/1/1980	0.47
7/1/1981	14.07
7/1/1990	12.32
3/1/2001	8.25
12/1/2007	6.75
2/1/2020	3.47

Source: Bloomberg. Agency MBS represented by the ICE BofA U.S. MBS Index.

Intuitively, we think this makes sense, as investors typically shed credit risk to buy higher quality, government bonds when default risk increases. We are well aware of the old saying that "economists have predicted nine of the last five recessions," but when you can also pick up spread as you go up in quality, it may pay to be cautious.

Bottom line: With all the uncertainty in markets today, we would argue for owning what you know. And that could be a 6% coupon, trading

at a discount, with a bald eagle on the prospectus.

All investing involves risk, including the risk of loss.

The value of investments may increase or decrease in response to economic, and financial events (whether real, expected or perceived) in the U.S. and global markets. Securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. As interest rates rise, the value of certain income investments is likely to decline. Mortgage- and asset-backed securities are subject to credit, interest rate, prepayment and extension risk. Investments in debt instruments may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. U.S. Treasury securities generally have a lower return than other obligations because of their higher credit quality and market liquidity. While certain U.S. government-sponsored agencies may be chartered or sponsored by acts of Congress, their securities are neither issued nor guaranteed by the U.S. Treasury.



Alexander Payne, CFA
Portfolio Manager
Agency MBS

"With all the uncertainty in markets today, we would argue for owning what you know. And that could be a 6% coupon, trading at a discount, with a bald eagle on the prospectus."



Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This site (www.eatonvance.io) is operated by Eaton Vance Management (International) Limited ("We"). We are a limited company, registered in England and Wales under company number 4228294 and have our registered office at 125 Old Broad Street, London, EC2N 1AR. Our VAT number is 762717416.

Eaton Vance Management (International) Limited is authorised and regulated by the Financial Conduct Authority ("FCA") and is entered on the FCA's register with register number 208634.

The information on this webpage is not intended for U.S. residents. To visit our U.S. website [please click here](#).

Eaton Vance Management (Registration No. 1121388) and Parametric Portfolio Associates (Registration No. 1217626) are the registered trade marks of Eaton Vance.