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Global Fixed Income

EV Forward: Securitized Credit

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Boston - Mid-cycle adjustments by the U.S. Federal Reserve (Fed) have been supportive of consumers and businesses alike, who have benefited from declining financial obligation ratios and rising equity valuations, as well as taking advantage of lower rates to refinance mortgages and extend the terms of outstanding debt.

Along with stimulating new purchases of housing and durable goods by consumers, rate cuts have helped to sustain home price appreciation (HPA), which also supports the mortgage credit market where we invest.

Commercial mortgage-backed securities (CMBS) are another attractive asset to us, and lower interest rates have encouraged refinancing, boosted commercial property price appreciation and raised capitalization rates.

Steeper yield curves have also helped banks in the U.S. maintain capitalization, avoiding the situation in the European Union (EU) where banks have been lending at rates near 0%.

In our view, active management of idiosyncratic risks in the securitized credit space can offer the best opportunities to look for outperformance.

"Rate cuts have stimulated residential and commercial mortgage refinancing and property appreciation"

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