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Capital Markets Insights

Here's a snapshot of what's happening.

Rates

- This past week the **10-Year widened out**, breaching the 4.00% mark, reaching a high of 4.09% on Thursday, March 2. For the week, the 10-Year hovered in the mid to high 3.90% range. It seems **the market is awaiting the Fed meeting and rate decision which will take place on March 21-22**. The market was pricing in an additional rate hike in the range of 25 bps to a Target Rate of 4.75%-5.00%, however, after Powell's hawkish comments to Congress that the speed of the rate hikes might increase, the **market is baking in a more aggressive 50-75 bps rate hike**, as well as firmly putting May in play. The market is now postering for the Target Rate to go above the estimated consensus of 5.00%-5.30% as a stopping level for the Fed. All eyes will be on the movement in the DOT plot released after the meeting, currently sitting at an average of 5.125%.
- **Recent market prints have not been friendly**. When there is an indication that the Fed policy has affected a sector – a 16-year low in mortgage demand – another related print contradicts it: 7.7% week-over-week increase in mortgage applications. **Friday's U.S. Job Report will be an indicator of the Fed's next move**. What more would you expect with **March Madness** upon us?

In the ACMBS Arena

- **The MBS market has softened** after a steady tightening to begin the year. We are seeing some weakness as investor bidding seems *choppy*, meaning the range of bids once tightly packed now differs by as much as 5 to 10 bps. After falling into the low 90s late last week on the 10-Year spread-to-swap curve, spreads widened into the High 90s to start the week.
- **Freddie K Series** (10-year, fixed-rate A2) is 1 bp wider since the end of February.
- The Street's current inventory is estimated to be around $11 billion, so this is certain to impact most bond investors' appetite going forward. Pair abundant inventory with increasing speculation of a Fed increase of 50 bps on March 22, and **we have a bias towards widening as investors take a "wait and see" approach**.
- DUS volume has been steadily low, rarely topping $100MM per day over the last few weeks. **DUS issuances are down significantly this year**; Fannie Mae only originated $2.2B in DUS loans in January. Some suggested that was due to a lack of carry or delayed funding to start the year (like there was to start 2022); however, February followed with a lackluster $3.4B, a staggering $6.4B less than the first two months last year.
- **Freddie has followed suit with K Deal issuance of $2.05B** for January and $3.7B for February. Last year the end of February numbers Freddie had $11.6B in K Deal issuance, and 2023 started off $5.85B behind 2022.
- **Fannie credit fees continue to be driven by affordability** and they seem to lean in on deals with lower leverage coupled with high affordability. **Freddie has this same mission focus** and will have greater appetite for exceptions on deals with lower leverage and higher affordability.
- For **FHA/HUD Project and Construction Loans Spreads have dropped considerably**, with current HUD rates around 5.04% (given a 3.92% 10-year). Volume coming to market has not picked up, though these deals usually have a lagging effect to market movement.
- For the year, **CRE-CLO has all but dried up with only $1.12B in issuance to start the year**, spreads on the A1 tranche continue to be around the 230-245 range. In 2022 there was $29.03B issuance, with an average spread of 205 to 1-month term SOFR.

This Week in History

- **On March 8, 1817**, 24 brokers agreed on a "constitution" that formed the New York Stock & Exchange Board, the predecessor to the NYSE. **The constitution instituted a 6-cent fine for talking aloud about other subjects while stocks were being traded.** ("Wall Street," Walter Wener and Steven Smith, Columbia University Press, New York, 1991)

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