



March 2022 – MBS Mantra MBS High Income/Absolute Return Strategy returns

	% Net Return	% Gross Return	2022 YTD Net %	2021 YTD Net %	Trailing 1 year Net %
Aggregated SMAs	+0.22%	+0.30%	+1.2%	+10.0%	+9.0%
Founder's Portfolio	+0.32%	+0.40%	+1.2%	+10.1%	+9.4%

Mar 2022 Income: +1.07%; Annualized: +15.4% (Aggregated SMAs @ recent marks)

Mar 2022 Cashflow: +1.6% (~20% annualized rate)

Mar 2022 Loss rate: -0.02%

Hello

We bucked the trend again, with slightly positive returns in a bond strategy, thanks to our positive MBS High Income, while most other asset classes, including our Fixed Income benchmarks, had negative returns.

Our Income was less than in prior months, and indeed the prior year, but at +1.07% (15% annualized) still higher than in the past, as our cashflows slowed and returns from prepayments declined. Marks on most bonds were lower, offsetting the positive Income. Credit losses were also negligible.

Some of our portfolios benefitted from the cashflows of some very old legacy bonds, which I do not think can be easily added to. Without these bonds, our returns would have been slightly negative, but still higher than the returns of benchmarks. We also sold some bonds last month to do some rebalancing, with some reduction in total return from bid-offer spreads.

Fixed income investments continued their decline in response to rising rates - Agg: -2.8%; MBS: -2.6%; HY: --1.15%; S&P: +3.76%. For the year, we are outperforming all of these benchmarks (YTD: Agg: -5.8%, MBS: -5.0%, HY -4.8%, S&P -4.6%).

US Rates continue their selloff, with the 10 year on its way to 3%, as the Fed reduces its QE. US Rates would be higher were it not for Japan's UST purchasing, which can be inferred from the weakening of the Yen to 125 and the widening of Swap Spreads. However, I am not expecting rate to remain high in the long run (say 2+ years), as QE is a Pandora's box that cannot be closed once opened. The resulting services demand destruction that will result from a QE driven asset deleveraging and unwind will inevitably result in more 'easing' from central banks – we last saw this reversal in FF rates in 2019, after QE reductions in 2018 and 2019, after rate hikes from 2015 to 2018. (I wrote about some of these relationships in "[Predictions – 2017](#)").

Our boilerplate: MBS is a Variable Income asset class and product, and not Fixed Income, as it is widely viewed and categorized. Unlike traditional managers that understand MBS as Fixed Income and do not differentiate between Low-Income and High-Income MBS, we systematically identify and harvest High-Income MBS to generate total

returns that have low correlations with Fixed Income as well as with other assets. High Income MBS can be an Absolute Return component of a portfolio, or a diversifier.

Regards, Samir Shah

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