



Nov 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	1.88%	1.95%	-5.0%	+10.0%	-3.5%
Founder's Port	3.41%	3.48%	-2.2%	+10.1%	-0.2%
BB Barc Agg	3.81%		-12.3%	-1.8%	-12.6%
BB Barc MBS	3.94%		-11.3%	-1.0%	-11.4%
BB Barc HY	2.17%		-10.6%	5.3%	-9.0%
S&P 500	5.56%		-13.2%	28.7%	-9.2%

Nov 2022 MBS Income: +0.96%; Annualized: +12.2% (Aggregated SMAs @ month end marks)

Nov 2022 MBS Cashflow: +1.2% (~16.5% annualized rate)

Nov 2022 MBS Loss rate: -0.04%

Hello.

With the bond market rallying starting in the middle of November, many of our fixed rate bonds got marked up as well, a nice change from the recent past. Combined with the income, the resulting monthly total return was our highest for the year.

Aggregated Income was lower than in recent months, at +0.96%, ~12% annualized, reflecting lower cashflow. Returns from Price Change on average were +0.9%. Losses from credit, as usual, were negligible.

While fixed rate bonds were marked higher, floating rate bonds exhibited negative durations and were slightly lower. Inverse IOs, being levered fixed rate bonds, rallied significantly.

Most of the ETF benchmarks have longer durations than our aggregated MBS portfolio, and rallied quite nicely. However, YTD, we are still outperforming them significantly, thanks to the High Income of our portfolio which buffers our drawdowns.

With the 10yr UST now at 3.56% yield, it'll be interesting to see if this rally is a head fake. In the meantime, I'll be watching to see if any of the high-rate mortgages that got originated over the past few months get securitized. (Today's new issue is tomorrow's cheap bond, due to the inherent structural illiquidity in MBS and Fixed Income!)

Last month's newsletter incorporated 2 separate pieces of analysis. I've loaded them on our website as separate documents.

[Financial Economics Summarized](#)

[Bond and MBS Returns review and Opportunities](#)

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 construct

portfolios that generate total returns with low correlations to Fixed Income as well as with other assets. High Income MBS can be an Absolute Return component of a portfolio, or a diversifier. This is explained in detail in our white paper, [The MBS Income Factor](#).

Regards, Samir Shah

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