



June 2023 – MBS Mantra MBS High Income/Absolute Return Strategy returns

	% Net Return	% Gross Return	2023 YTD Net %	Trailing 1 year Net %	2022 YTD Net %	2021 YTD Net %
Aggregated SMAs	+0.31%	+0.38%	+2.7%	+0.1%	-3.8%	+10.0%
Founder's Port	+0.02%	+0.09%	+3.2%	+1.5%	-1.7%	+10.1%
BB Barc Agg	-0.37%		+2.3%	-1.0%	-13.0%	-1.8%
BB Barc MBS	-0.45%		+1.8%	-1.5%	-11.7%	-1.0%
BB Barc HY	+1.67%		+5.4%	+9.1%	-11.2%	5.3%
S&P 500	+6.48%		+16.8%	+19.4%	-18.2%	28.7%

June 2023 MBS Income: +1.53%; Annualized: +19.7% (Aggregated SMAs @ month end marks)

YTD 2023 MBS Income: +7.48%, 15.4% annualized

June 2023 MBS Cashflow: +1.7% (~20.9% annualized rate, implying a short weighted average life/duration)

June 2023 MBS Loss rate: 0.3% (a negative loss rate is a gain from subsequent recoveries)

Bond prices were down in June, but we still significantly outperformed our benchmarks, thanks to the high income of our portfolio (~ 20% annualized) buffering price change. The Income number can be thought of as “carry” or localized yield. MBS Income is not stable, and varies from month to month, which is why we call it a Variable Income Strategy – it is not fixed income (the “yield” depends on many more variables than simply being a function of price and coupon). YTD, which is like an average, the Income is still high, ~ 15%.

The portfolio cashflow and negative losses are in the range of what we have expected for years, implying a 2yr to 4yr WAL on the portfolio. With the housing market going back to its decades old model of seasonality driving housing turnover and prepayment, we expected, and got higher cashflows this month compared to earlier in the year.

We’ve started reinvesting our accumulated cashflows again. The risks we were concerned about have faded (for now). MBS have never been cheaper within the rates spectrum, with free positive convexity coming from deep discounts.

Within MBS, the Legacy Non-Agency sector, which has been orphaned and did not participate in the rally since 2020, is the cheapest sector. We especially like Non Agency MBS floaters – see the next section to understand why.

In general, at any duration point, there is an MBS or structured asset (ABS/CMBS etc) that offers greater value than any other comparable spread product.

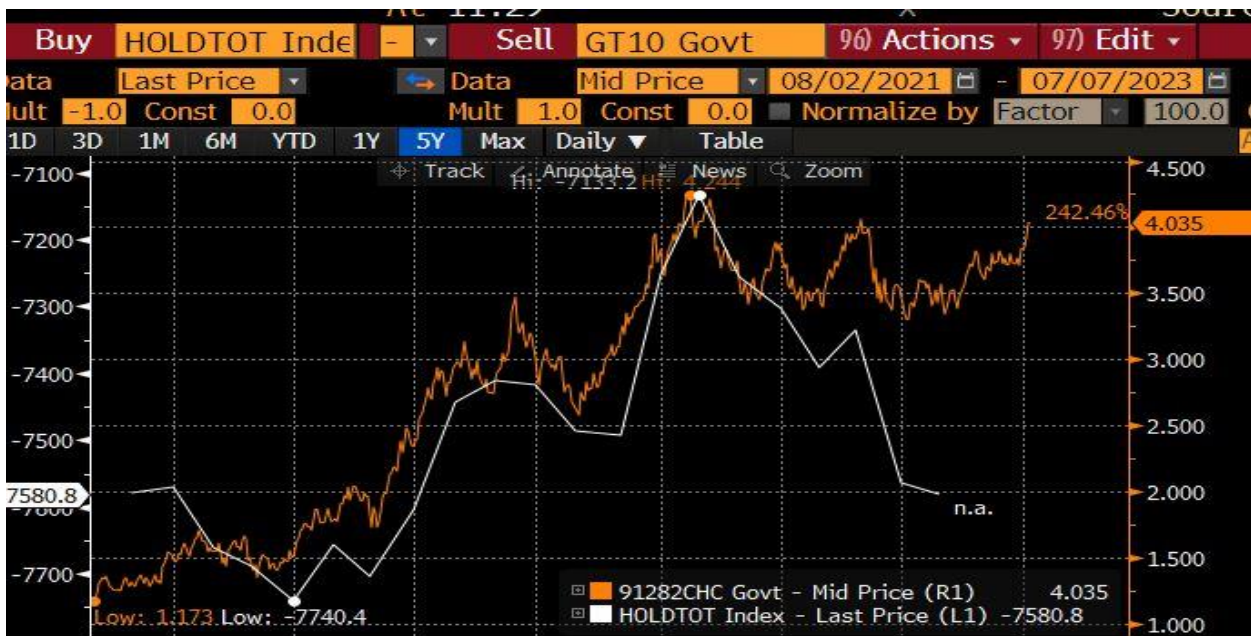
Rates - Higher for longer, or declining in the future?

With an extremely inverted curve, the implication is that rates will decline in the future. This is quantified in the futures curves and the implied forward rates for rates of various tenors. For example, 3mo SOFR is expected to decline to 3.81% by 6/2025, the 2yr to 3.81% and the 5yr to 3.75%.

Start Date	Days	Ticker	Last	Rate	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr
10) 07/11/2023	71	SFRM3	94.7389	5.2611	5.391	5.382	4.861	4.508	4.179	4.062	4.009
11) 09/20/2023	91	SFRU3	94.5850	5.4150	5.434	5.288	4.719	4.403	4.114	4.019	
12) 12/20/2023	91	SFRZ3	94.6200	5.3800	5.300	5.028	4.507	4.250	4.025	3.958	
13) 03/20/2024	91	SFRH4	94.8500	5.1500	5.004	4.699	4.294	4.098	3.939	3.900	
14) 06/19/2024	91	SFRM4	95.2050	4.7950	4.632	4.380	4.106	3.966	3.865	3.850	
15) 09/18/2024	91	SFRU4	95.5850	4.4150	4.285	4.127	3.959	3.863	3.810	3.813	
16) 12/18/2024	91	SFRZ4	95.8900	4.1100	4.033	3.958	3.857	3.794	3.773	3.791	
17) 03/19/2025	91	SFRH5	96.0850	3.9150	3.884	3.858	3.792	3.753	3.753	3.780	
18) 06/18/2025	91	SFRM5	96.1850	3.8150	3.806	3.797	3.751	3.729	3.744	3.777	
19) 09/17/2025	91	SFRU5	96.2400	3.7600	3.758	3.754	3.723	3.714	3.741	3.777	
20) 12/17/2025	91	SFRZ5	96.2800	3.7200	3.717	3.718	3.703	3.707	3.740	3.781	
21) 03/18/2026	91	SFRH6	96.3200	3.6800	3.679	3.688	3.691	3.704	3.743	3.786	
22) 06/17/2026	91	SFRM6	96.3550	3.6450	3.649	3.666	3.685	3.705	3.748	3.793	
23) 09/16/2026	91	SFRU6	96.3800	3.6200	3.629	3.653	3.685	3.711	3.755		

I could not disagree with this more. The meaning of the yield curve started diminishing in 2002, once Japan started using US Treasuries to implement its QE. With other central banks holding USTs since, either from a trade surplus, or from monetary policy to weaken its own currency, the standard model (real rates + inflation + liquidity premium) of US Treasury ‘yields’ has become meaningless – it no longer reflects a view of the economy by market participants.

Instead, we have US Treasury yields that largely reflect the demand and supply of USTs from other central banks, in addition to supply from the US Treasury and QE/QT.



This can be seen in the graph above of the past 2 years of 10year yields and UST holdings of Foreign Central banks (inverted to match inverted relationship of yield to bond prices) (HOLDTOT Index on Bloomberg). When foreign central banks holdings of USTs decline, UST yields go up, and vice versa. (I have written about this numerous times in the past – please reach out for additional readings.)

The implications for valuations are significant.

UST yields themselves, as benchmarks, have limited value in describing domestic economic conditions.

In addition, Fixed Income securities, including MBS, are often priced, valued, and traded using 'OAS' – Option Adjusted Spread – and OAS models that discount cashflows using the forward curve and forward rates. When forward curves are dependent on exogenous events, these valuations are suspect as well.

This leads to distortions in valuation, especially in levered strategies and securities (and probably equities), that are dependent on the implied declining funding rates.

In MBS, this means that Inverse IOs are significantly overpriced and rich, and floating rate MBS are mispriced way too cheap.

Another way to think about this flawed yield curve: purchasing MBS floaters is a way to bet against the forward curve.

Please call anytime with questions.

Regards, Samir Shah

July 7, 2023

**President and CIO
MBS Mantra, LLC (a CT Registered Investment Advisor)
(dba) Alpha Research and Management
Alpha Research and Consulting, LLC**

"Alpha Through Analysis"®

203-388-8356 P

203-273-0360 C

sshah@mbsmantrallc.com

<https://www.linkedin.com/in/samir-shah-6a9096a>

Please visit our website <https://www.mbsmantrallc.com> for important disclosures.

Important Notice - Disclaimer

This overview is being provided to you by MBS Mantra, LLC ("MBS Mantra" or the "Firm" or the "Adviser"), for informational purposes only, on a confidential basis and is intended solely for use by the company or individual to whom it is being delivered. Potential investors are advised to request and carefully read and review MBS Mantra's Firm Brochure (Form ADV Part 2), and other documents, if any, provided by MBS Mantra (the "Documents"). Under no circumstances should this overview be used or considered as an offer to sell, or a solicitation of any offer to buy, interests in any securities, funds, other financial products or investment strategies managed by MBS Mantra,

nor shall it or its distribution form the basis of, or be relied upon in connection with, any contract for advisory services or otherwise.

The information contained with this brochure has not been audited and is based upon estimates and assumptions. No reliance should be placed, for any purpose, on the information or opinions contained in this overview. The information contained in this brochure is based upon proprietary information of MBS Mantra and public information, but it may not be comprehensive, and it should not be interpreted as investment advice. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this overview by MBS Mantra or by its affiliates and any of their principals, members, managers, directors, officers, employees, contractors or representatives.

Investors must make their own investment decisions based on their specific investment objectives and financial position. Charts, tables and graphs contained in this overview or in the Documents are not intended to be used to assist an investor in determining which securities to buy or sell or when to buy or sell securities. While this overview may contain past performance data, **PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS, WHICH MAY VARY.** There can be no assurance that any investment strategy will achieve its investment objective or avoid substantial or total losses. Except as required by law, MBS Mantra assumes no responsibility for the accuracy and completeness of any forward-looking statements. Further, MBS Mantra does not provide legal and tax advice; MBS Mantra recommends that investors consult with their own independent tax and legal advisers.

Any example represents an actual trade made by Samir Shah, MBS Mantra's principal, and/or MBS Mantra; any hypothetical represents a possible trade. None of the examples, whether actual or hypothetical, contained in this overview and the Documents should be viewed as representative of all trades made by MBS Mantra, but only as examples of the types of trades MBS Mantra expects to complete for its customers. None of the examples provided can in and of themselves be used to determine which securities to buy or sell, or when to buy or sell them. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities used as examples in these Documents. To the extent that this document contains statements about the future, such statements are forward looking and subject to a number of risks and uncertainties, including, but not limited to, the impact of competitive products, product demand and market risks, fluctuations in operating results and other risks. (A complete list of trades made by Samir Shah and/or MBS Mantra is available upon request.)

This overview and all Documents provided by MBS Mantra should only be considered current as of the date of publication without regard to the date on which you may receive or access the information. MBS Mantra maintains the right to delete or modify the information without prior notice; MBS Mantra undertakes no obligation to update such information, including, but not limited to, any forward-looking statements, as of a more recent date, except as otherwise required by law.