



July 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	-0.05%	+0.02%	+2.7%	-0.4%	-3.8%	+10.0%
Founder's Port	+0.26%	+0.34%	+3.5%	+0.6%	-1.7%	+10.1%
BB Barc Agg	-0.02%		+2.2%	-3.5%	-13.0%	-1.8%
BB Barc MBS	-0.05%		+1.8%	-4.5%	-11.7%	-1.0%
BB Barc HY	+1.38%		+6.8%	+4.4%	-11.2%	5.3%
S&P 500	+3.27%		+20.6%	+12.9%	-18.2%	28.7%

July 2023 MBS Income: +1.2%; Annualized: +15.0% (Aggregated SMAs @ month end marks)
YTD 2023 MBS Income: +8.6%, 14.9% annualized (current portfolio, excluding bonds no longer in portfolio)

July 2023 MBS Cashflow: +1.3% (~15.9% annualized rate, implying a short weighted average life/duration)
July 2023 MBS Loss rate: +0.09% (a negative loss rate is a gain from subsequent recoveries)

Our legacy MBS prices were very mixed in June, with some down significantly, and others up significantly, netting out to slightly down. Our income was slightly lower, but at 15% annualized still much higher compared to our pre-2020 experience and target of around 8-10%. Cashflow was slightly lower. The net result was an almost flat month, in line with Agg and MBB benchmarks.

Most fixed income benchmark total returns were mostly unchanged for the month (very slightly lower). However, this does not reflect the volatility during the month – the 10yr UST yield had a high of 4.08% and a low of 3.73%, while the 2yr UST traded between 5% and 4.6%!!

Between the rates volatility and summer doldrums, this month was relatively illiquid, with not much trading in Non-Agency MBS, and a light BWIC calendar. The FDIC's sales of agency MBS from various banks that it resolved also reduced liquidity in other MBS sectors.

The slope of the UST curve has started getting less inverted (with the long end yield's rising). This should bode well for floaters as the implied forward curve will have risen.

However, this has triggered a bunch of news stories of investors being short the 30yr UST, etc.

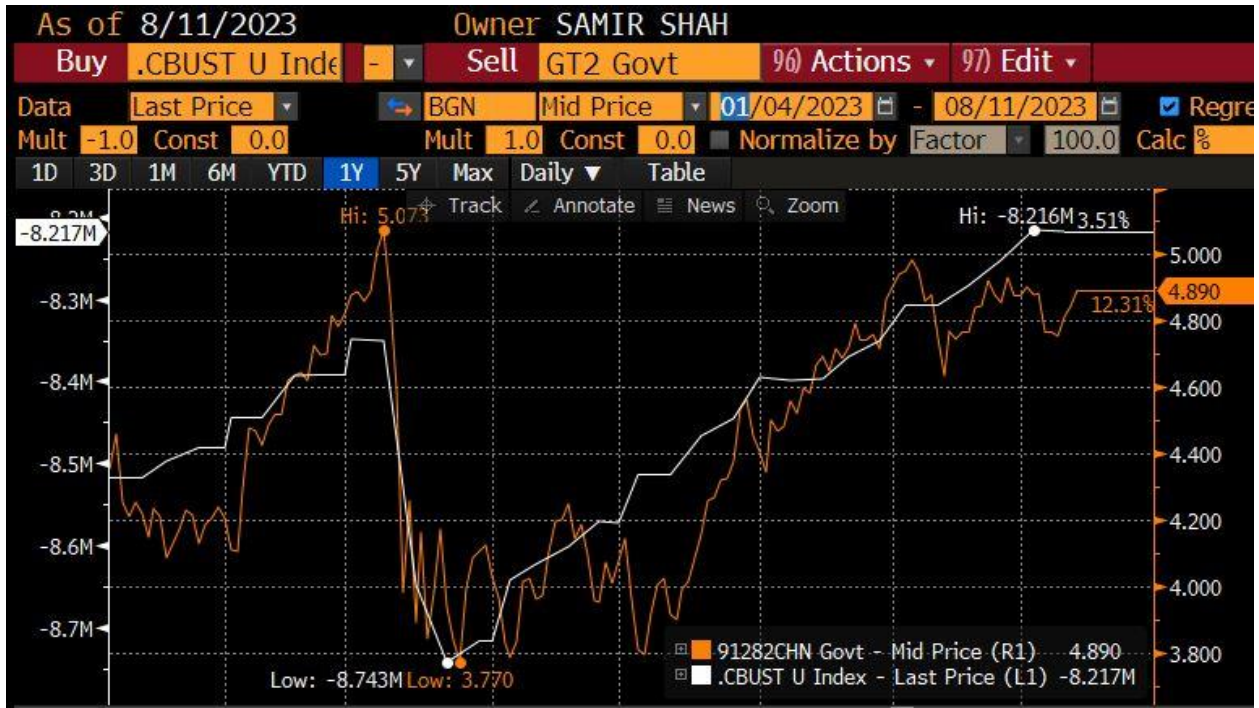
One needs to keep in mind that the transactions of domestic investors are of sizes that are manageable by dealers. The real market moves in rates come from sales by central banks, including the Fed, that are of sufficient magnitude to move the markets and cannot easily be absorbed by dealers. Banks, too, have been reducing their UST holdings.

Paying attention to Central Bank balance sheets, especially the Fed's, and their statements are necessary to understand rates.

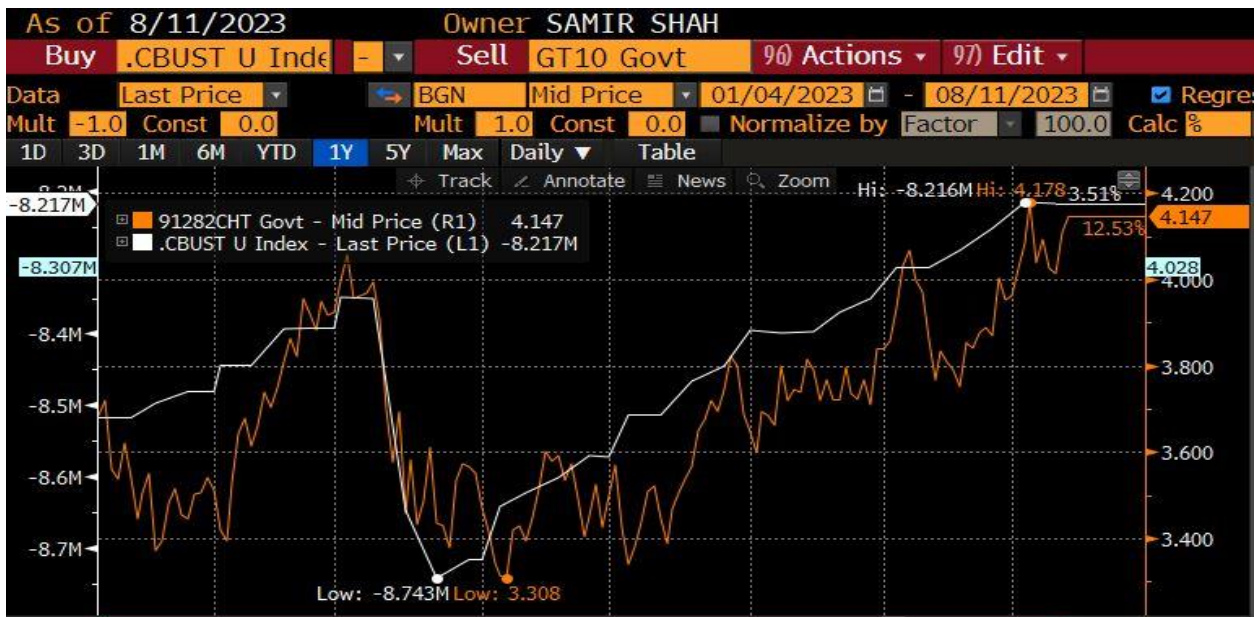
This relationship can be seen in the following graphs (from 12/31/22 to 8/11/23). **As the Fed executes QT, and other central banks sell USTs to weaken their currencies, US yields respond to the selling by rising.**

I've created a custom index on Bloomberg that adds the total holdings of the Fed to the UST holdings of commercial banks and foreign central banks (FARBAST Index + ALBNTANO Index + HOLDTOT Index). By inverting this Index, one can easily see the relationship to UST yields.

2yr UST vs banks ($R^2 = 0.32$)



10yr UST vs banks ($R^2 = 0.21$)



Commercial Bank Securities Holdings

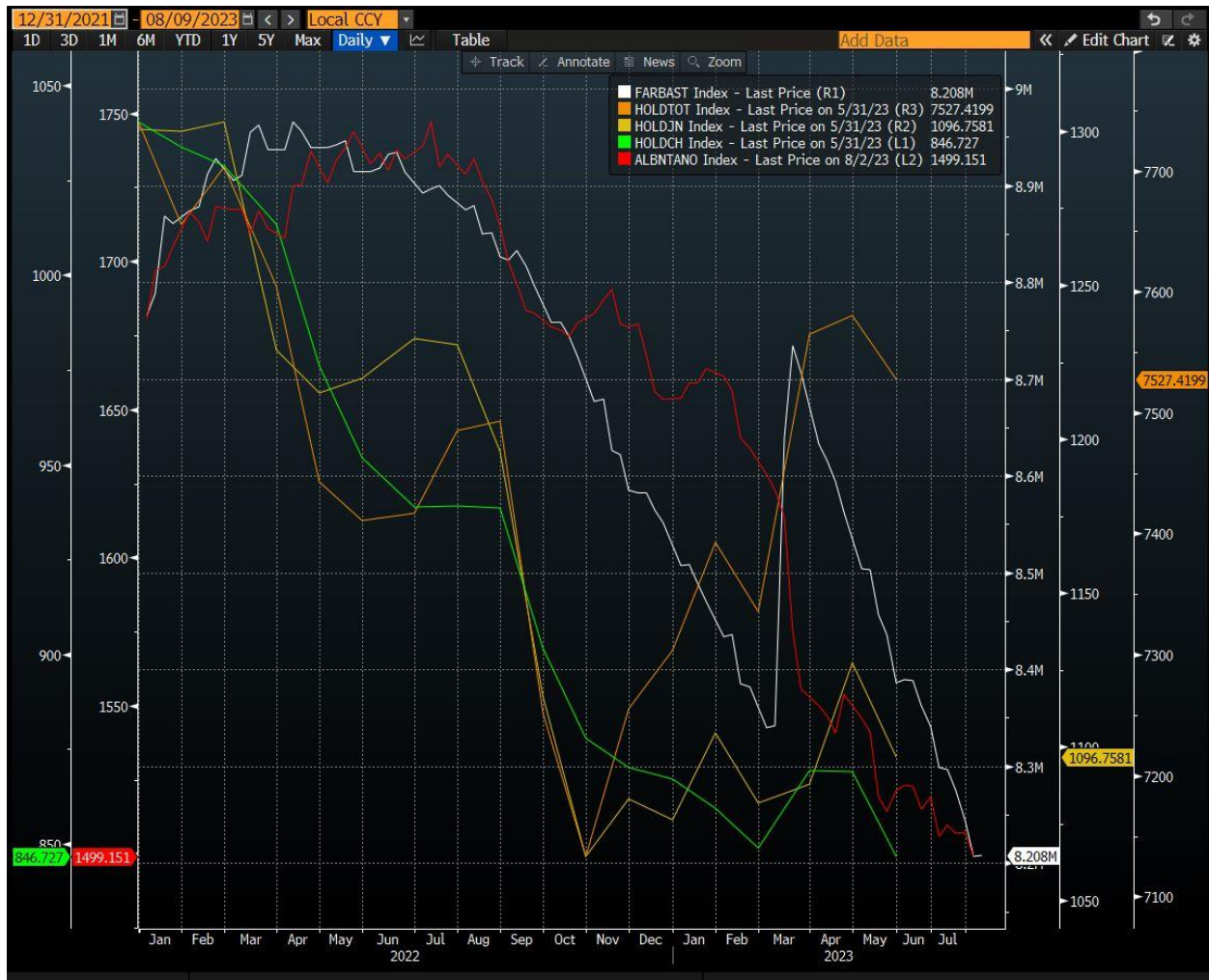
Table 2. Assets and Liabilities of Commercial Banks in the United States ¹

Seasonally adjusted, billions of dollars.

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Account		2022 Jun	2022 Dec	2023 Jan	2023 Feb	2023 Mar	2023 Apr	2023 May	2023 Jun	Week ending			
										Jul 05	Jul 12	Jul 19	Jul 26
Assets													
1	Bank credit	17,185.2	17,494.3	17,530.8	17,571.9	17,464.9	17,347.4	17,339.6	17,298.1	17,257.3	17,265.5	17,282.2	17,280.4
2	Securities in bank credit ²	5,795.9	5,513.3	5,505.7	5,491.4	5,366.2	5,250.7	5,216.8	5,193.3	5,168.2	5,172.3	5,172.2	5,157.8
3	Treasury and agency securities ³	4,654.6	4,424.1	4,384.1	4,379.8	4,275.5	4,175.3	4,152.0	4,140.3	4,113.4	4,115.1	4,119.8	4,112.8
4	Mortgage-backed securities (MBS) ⁴	2,899.3	2,780.5	2,743.3	2,747.6	2,683.2	2,615.5	2,610.2	2,605.6	2,591.3	2,594.6	2,599.0	2,592.8
5	Non-MBS ⁵	1,755.2	1,643.6	1,640.8	1,632.2	1,592.3	1,559.8	1,541.9	1,534.7	1,522.2	1,520.5	1,520.8	1,520.0
6	Other securities	1,141.4	1,089.3	1,121.6	1,111.6	1,090.7	1,075.4	1,064.8	1,053.0	1,054.8	1,057.2	1,052.4	1,045.0
7	Mortgage-backed securities (MBS) ⁶	116.2	111.7	112.5	110.9	109.1	107.3	106.4	105.5	104.3	105.0	105.6	105.2
8	Non-MBS ⁷	1,025.1	977.6	1,009.0	1,000.7	981.6	968.1	958.4	947.5	950.5	952.2	946.8	939.8
9	Loans and leases in bank credit ⁸	11,389.2	11,981.0	12,025.1	12,080.5	12,098.6	12,096.7	12,122.8	12,104.8	12,089.1	12,093.2	12,110.0	12,122.6

Fed Balance Sheet, UST holdings of Commercial Banks and foreign Central Banks



Please call anytime with questions.

Regards, Samir Shah

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