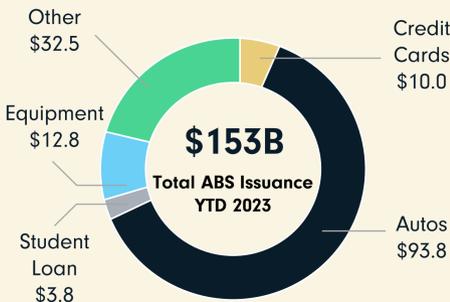


# Securitization in Focus

July 2023

## Asset-Backed Securities (ABS)

YTD new issue volume in 2023 has been dominated by autos (61.3%).



### Solar Panels Shine

Though 1H 2023 issuance has been flat year-over-year, an increase is expected through year end.

### Positives

- Potential savings for consumers in the form of lower utility bills
- Incentive to pay through continued savings on bills
- Borrowers tend to be higher FICO consumers
- Lenders have lien on the home

### Negatives

- Longer tenured loans (typically 25 years)
- Little performance on newer loan structures (interest only, zero-interest or no-payment promotional periods)
- Declining efficiency of solar panels over time, reducing savings

## Residential Mortgage-Backed Securities (RMBS)

### Housing Roller Coaster

National home prices have dropped from their 2022 peak but have recovered and remain up roughly 40% over the past three years, as the lack of supply continues driving prices higher.



### The Golden Handcuffs

Nine out of every ten US homeowners with mortgages have a rate below 6%. The current rate is 7.27%, per bankrate.com.

### Pending Home Sales (year-over-year)

↓ 15%

### New Listings

↓ 22%

### Total Number of Homes for Sale

↓ 17%

### FDIC Liquidation of Silicon Valley Bank and Signature Bank – Update

Passthrough MBS amount sold is approximately \$50 billion (81% of total); CMO amount sold is approximately \$12.7 billion (56% of total).

## Commercial Mortgage-Backed Securities (CMBS)

### Green shoots in office space?

San Francisco office owners are seeing more demand for office space, fueled by the growth from artificial intelligence (AI) companies.

### US Office Leasing Volume

There may still be some pain to come but possibly we've turned the corner.

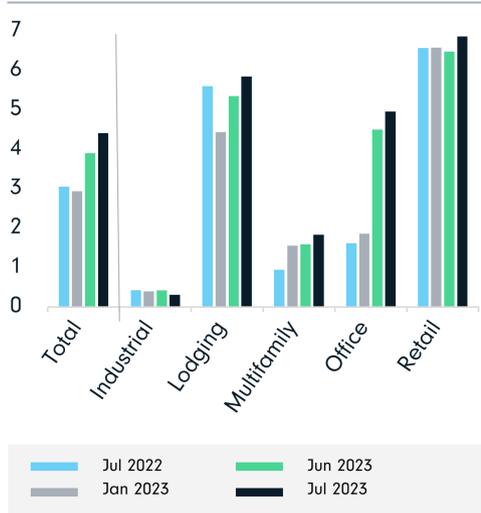
↑ 11.6%

2Q23 (quarter-over-quarter)

### Led by:

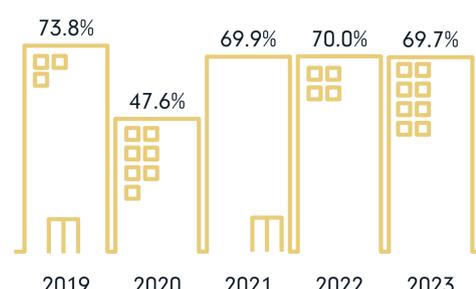
1. Bank and non-bank financial companies
2. Technology
3. Health care
4. Law

### Delinquency Rates by Property (30+ Days) (%)



### Hospitality Update

Occupancy levels have yet to return to pre-COVID levels but are on par with 2021 and 2022.



## Fed Balance Sheet & Quantitative Tightening II

### Historical Fluctuations

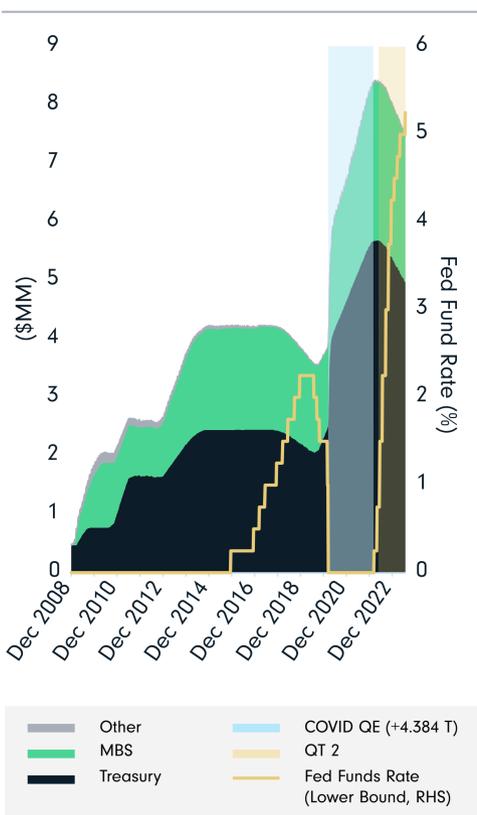
- Quantitative Easing cycles I, II and III/IV
- Tapering
- Quantitative Tightening I
- COVID Quantitative Easing (2020-2022)
- Operation Twist (2011-2012)

### Since the beginning of the balance sheet reduction process in June 2022

- Treasuries down 12.5%
- MBS allocation down 7.0%
- Total balance sheet down 10.7%

(as of 26 Jul 2023)

### Balance Sheet Reduction Progress



Legend: Other, MBS, Treasury, COVID QE (+4.384 T), QT 2, Fed Funds Rate (Lower Bound, RHS)

Sources: Barclays, Citi, Deutsche Bank, Bank of America, TREPP.com, New York Federal Reserve.

The views expressed are those of Diamond Hill as of August 2023 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal. Past performance is not a guarantee of future results.