



## **Overview of US Bond and Non Agency MBS Markets – 2014**

### **Section 1 from MBS Mantra, LLC's FAQ for Investors**

September, 2015

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# Section 1

**What is the size of the market that MBS Mantra will invest in?**

- **MBS Mantra invests in the US Bond Markets, primarily in Non Agency RMBS bonds.**
- **The following pages describe the size and components of the US Bond Markets, and describes in more detail the size and trading characteristics of the Non Agency RMBS market.**

## **Section 1, Part A**

# **Size and Components of the US Bond Market \***

\* As of various dates in 2014

# Size of US Bond Markets

- The US Bond markets are larger than the US Equity markets.

Listed Equities on US Exchanges	Outstanding US Bond Market Debt	US Bank Time and Saving Deposits
24.6T	38.1T	10.1T

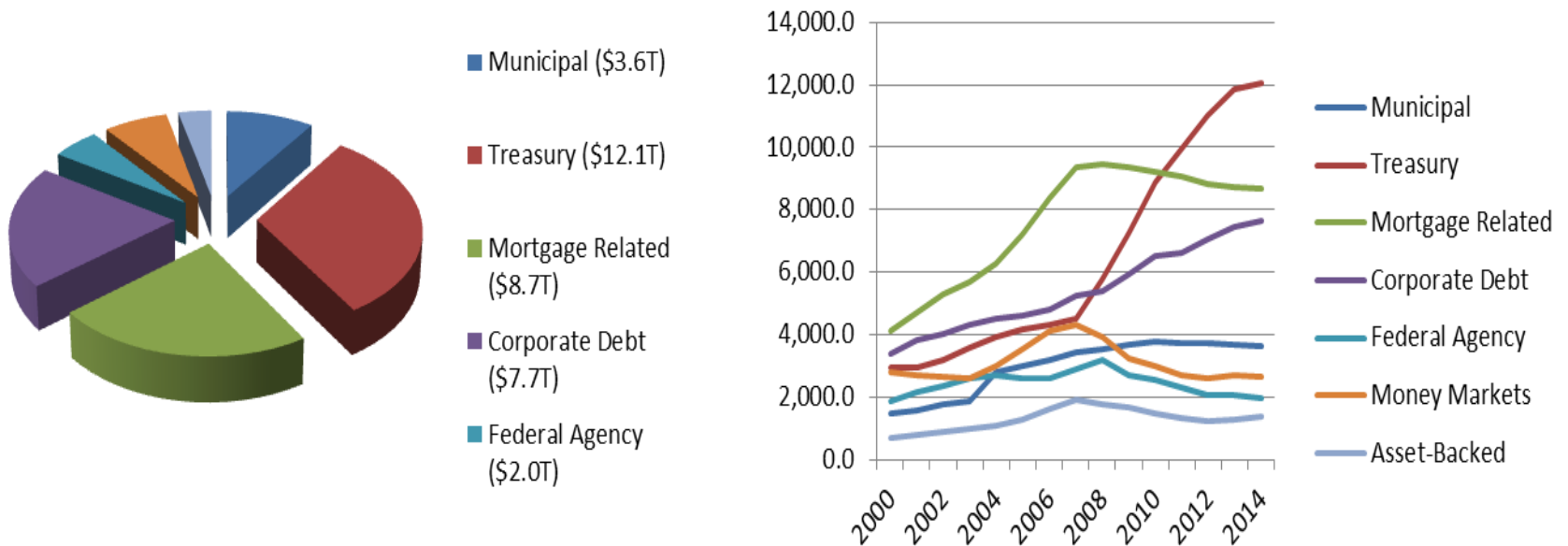
2013-2014 estimates. Sources: World Federation of Exchanges, Federal Reserve,

- Most bonds are traded in OTC (“Over-The-Counter”) market.
- Mostly traded by “Investment Banks” with large Institutional Money Managers, for their Institutional Investors, in large block sizes - an Institutional product. Not sold in sizes appropriate for Individual Investors.
- Not easily available to Individual (“Retail”) Investors.
- 2 sectors available for direct Retail investing: Municipal Bonds, and US Treasuries and Savings Bonds.
- Bank Term CDs are the only other direct fixed income alternatives for Retail investors.

# US Bond Markets

(as of November 2014)

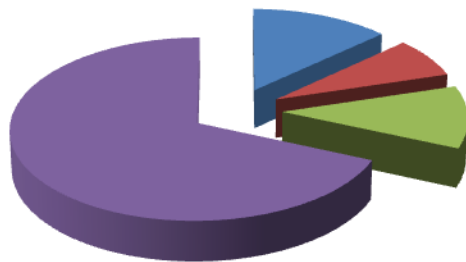
- US Treasury (“UST”) debt has become the largest bond sector, post QE.
- Mortgage Related debt is now the 2<sup>nd</sup> largest sector.



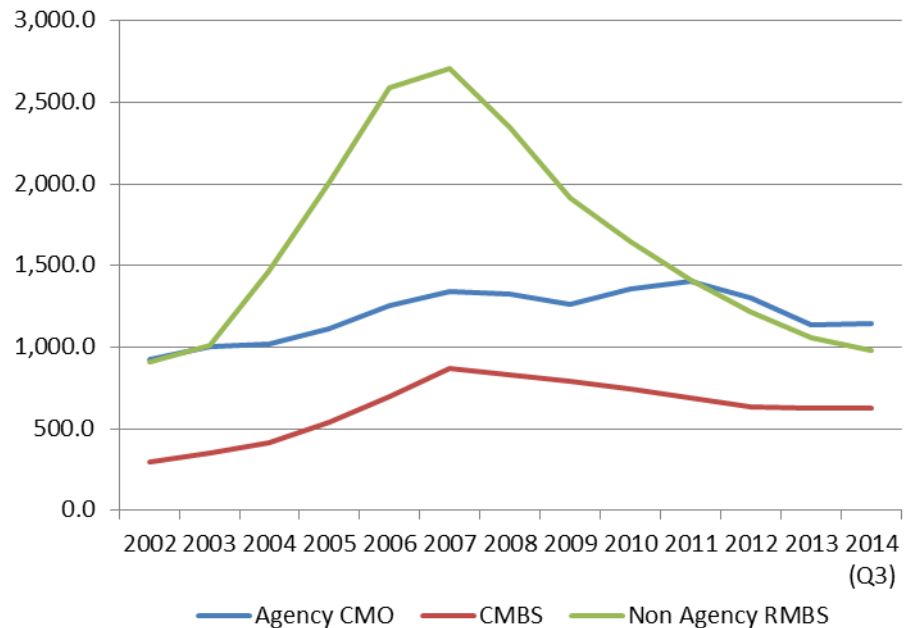
2014. Source: SIFMA

# Mortgage Backed Securities

- The \$8.7T Mortgage Market has multiple sectors.
- Agency MBS (“passthroughs”) is the largest and most liquid sector.
- Non Agency RMBS and CMBS are the most interesting as they have had great changes in their markets.
- The ballooning and subsequent collapse of these markets during the recent Financial Crisis has created numerous opportunities.

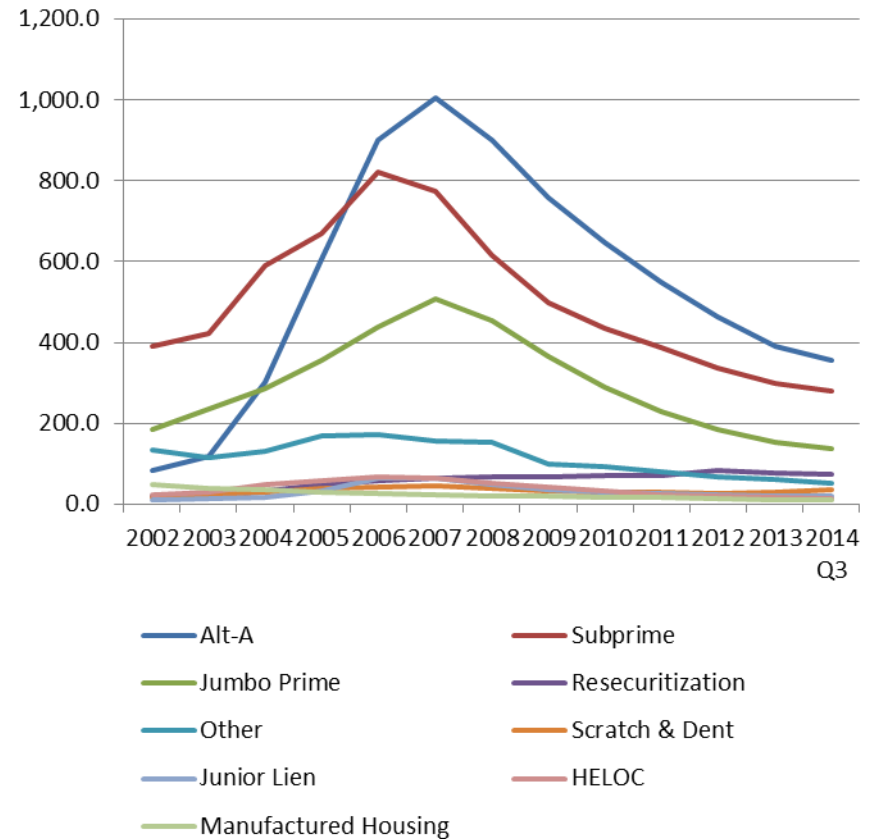
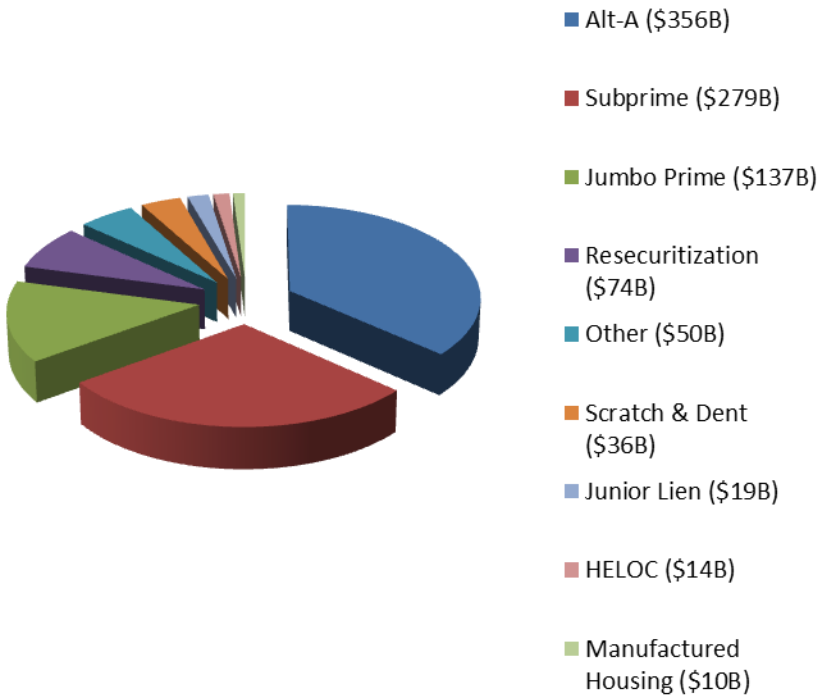


2014. Source: SIFMA



# Non Agency RMBS Market

- The \$976B Non Agency RMBS Market can be further stratified. It is shrinking, but is still sizable.



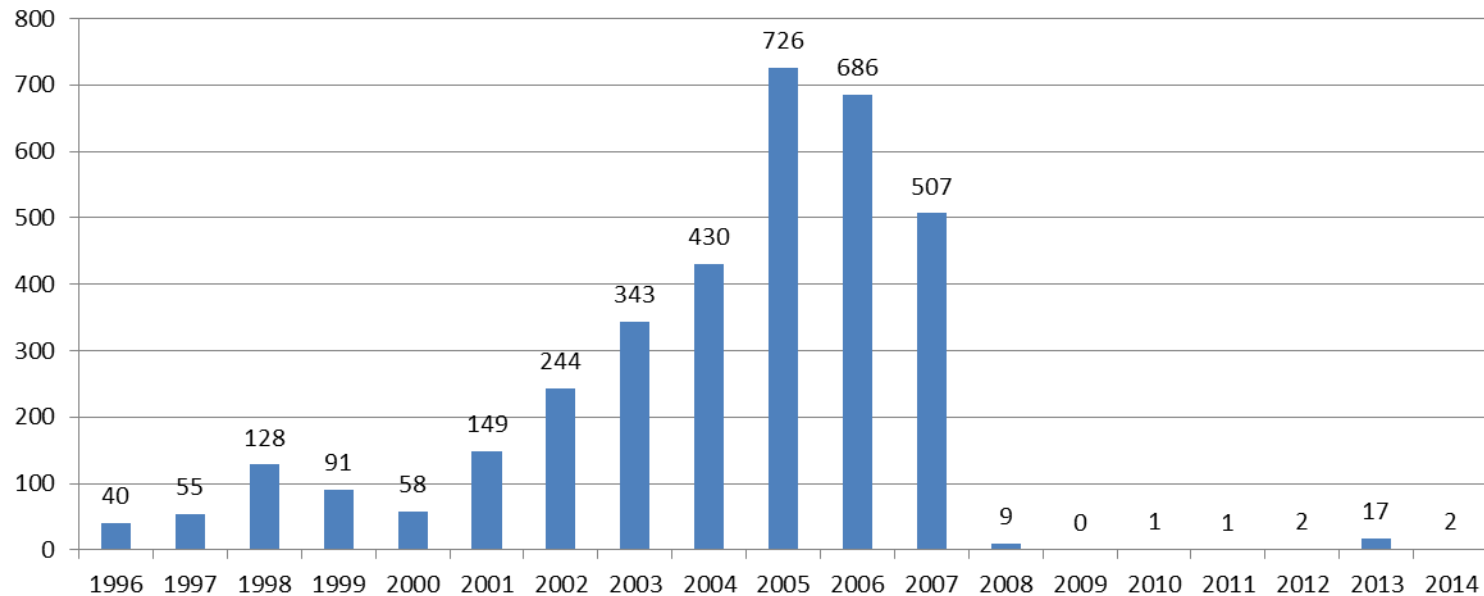
2014. Source: SIFMA



# Issuance of Non Agency RMBS

- Since 2009, Non Agency RMBS has almost ceased to be produced, however \$976+B remain outstanding.
- Most new mortgages are securitized into Agency MBS.

**Non Agency RMBS Issuance  
(\$ billions)**



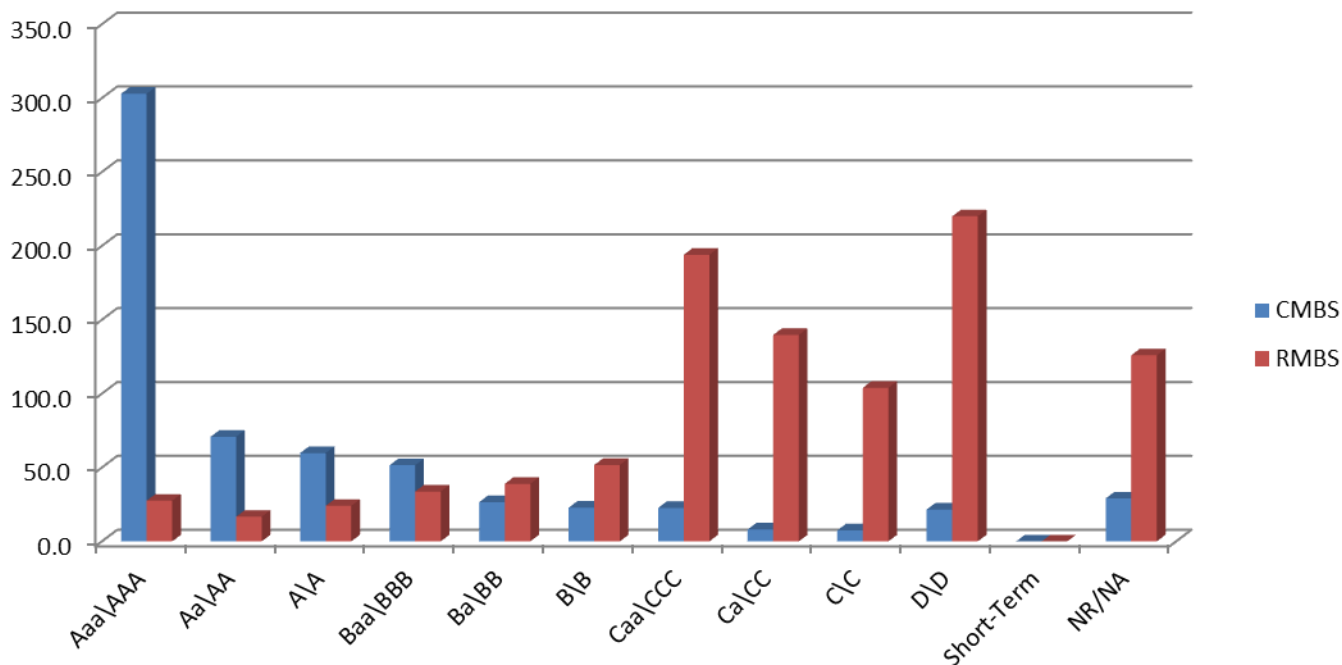
2014. Source: SIFMA



# Distribution by Ratings

## CMBS and Non Agency RMBS Universe

- The \$623B CMBS market is highly rated, and therefore very liquid.
- The \$976B Non Agency RMBS Market has mostly non-Investment Grade (“IG”) ratings, and is more prone to inefficiencies and mispricings.



2014. Source: SIFMA

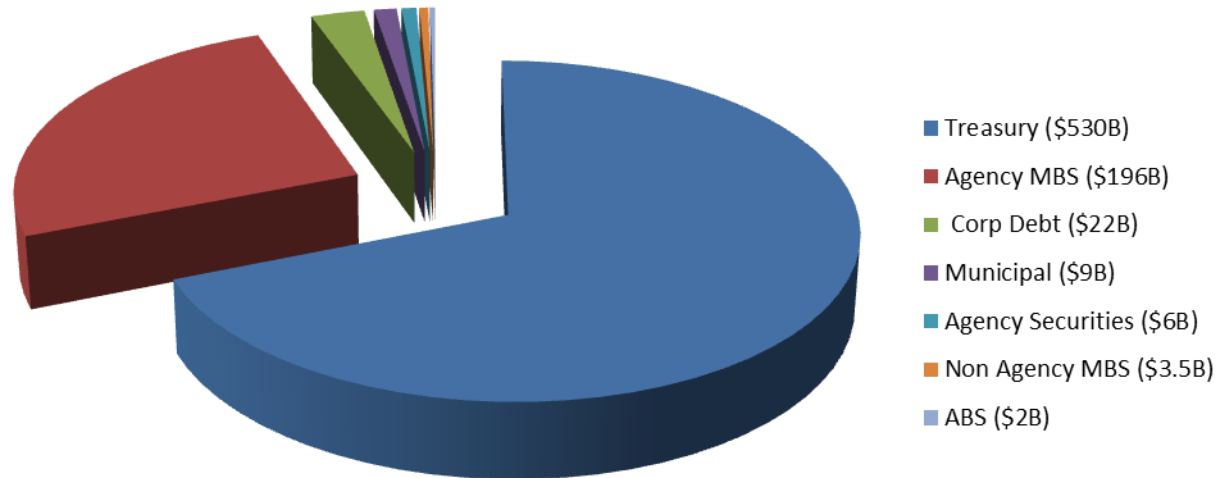
## **Section 1, Part B**

# **Non Agency (“NA”) RMBS – Trading and Flow Characteristics**

# Fixed Income Securities – Liquidity Statistics

## Average Daily Traded Volume by Sector - Oct 2014

- Average Daily Trading Volume for October 2014: \$768B
- Non Agency MBS (including CMBS) – a pretty healthy \$3.5B

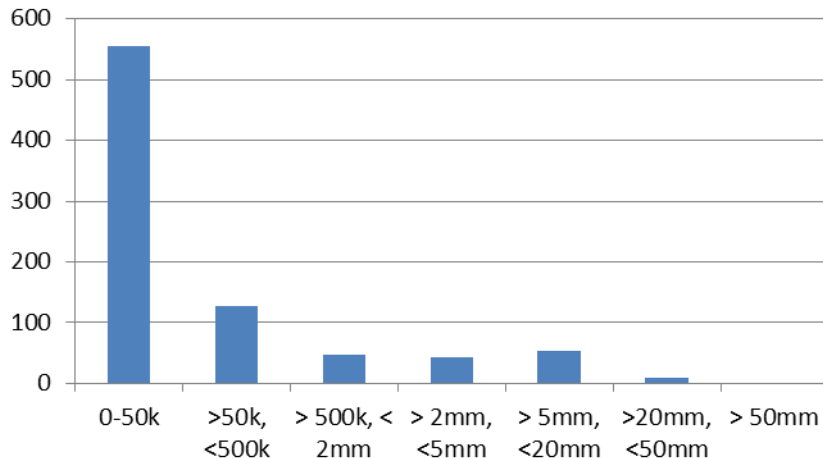


2014. Source: SIFMA

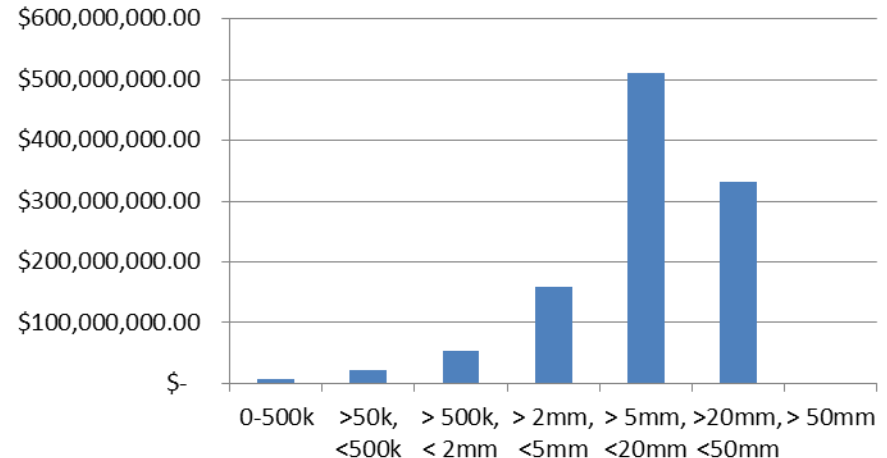
# Non Agency RMBS - Dealer Offerings as of November 10, 2014

- There were \$1.08+B in Non Agency RMBS offered by dealers.
- Of 837 items offered, 731 were smaller than \$2mm, totaling \$81mm.
- The majority of the bonds offered are oddlots and microlots!
- Only 10 bonds offered with greater than \$20mm in principal.

**Number of Bonds**



**Total Principal**



2014. Source: MBS Source

# Non Agency RMBS - FINRA Trading Statistics 2014 Totals

- 190,000+ trades in Non Agency RMBS in 2014, totaling approx. \$335+B.
- Majority of the trades (153,000+) were less than \$1mm, totaling \$14+B.
- Non-Investment Grade flow dominated Investment Grade bond flow.

	Non- Investment Grade	Investment Grade	Total
<b>Volume of Trades (\$B)</b>			
Total	\$329.31	\$23.59	\$352.89
Customer Buys	\$155.59	\$11.00	\$166.59
Customer Sells	\$152.98	\$10.37	\$163.35
Dealer to Dealer	\$152.98	\$2.22	\$155.20
<b>Number of Trades</b>			
Total	159,279	32,125	191,404
Customer Buys	69,056	9,856	78,912
Customer Sells	60,603	12,495	73,098
Dealer to Dealer	29,612	9,768	39,380

	Non- Investment Grade	Investment Grade	Total
<b>Volume of Trades (\$B) *</b>			
Total	\$317.5	\$17.8	\$335.32
<1mm	\$11.7	\$2.3	\$14.05
1mm-10mm	\$105.3	\$9.2	\$114.47
10mm-100mm	\$190.3	\$6.3	\$196.55
>100mm	\$10.2	\$0.0	\$10.25
<b>Number of Trades (BB) *</b>			
Total	159,188	31,764	190,952
<1mm	124,823	28,614	153,437
1mm-10mm	25,439	2,856	28,295
10mm-100mm	8,871	294	9,165
>100mm	55	-	55

\*FINRA trade size data does not total up correctly

2014. Source: FINRA - TRACE

# Non Agency RMBS - FINRA Trading Statistics

## Monthly Averages - 2014

- 15,000 trades on average every month, with average total principal of \$27.9B!
- Majority of the trades (12,000+) were less than \$1mm, totaling \$1+B per month.
- Non-Investment Grade flow dominated Investment Grade bonds.

	Non- Investment Grade	Investment Grade	Total
<b>Volume of Trades (\$B)</b>			
Total	\$27.44	\$1.97	\$29.41
Customer Buys	\$12.97	\$0.92	\$13.88
Customer Sells	\$12.75	\$0.86	\$13.61
Dealer to Dealer	\$1.70	\$0.18	\$1.89
<b>Number of Trades</b>			
Total	13,273	2,677	15,950
Customer Buys	5,755	821	6,576
Customer Sells	5,050	1,041	6,092
Dealer to Dealer	2,468	814	3,282

	Non- Investment Grade	Investment Grade	Total
<b>Volume of Trades (\$B) *</b>			
Total	\$26.5	\$1.5	\$27.94
<1mm	\$1.0	\$0.2	\$1.17
1mm-10mm	\$8.8	\$0.8	\$9.54
10mm-100mm	\$15.9	\$0.5	\$16.38
>100mm	\$0.9	\$0.0	\$0.85
<b>Number of Trades (BB) *</b>			
Total	13,266	2,647	15,913
<1mm	10,402	2,385	12,786
1mm-10mm	2,120	238	2,358
10mm-100mm	739	25	764
>100mm	5	-	5

\*FINRA trade size data does not total up correctly

2014. Source: FINRA - TRACE

# Non Agency RMBS - FINRA Trading Statistics

## Sample Month Summary - October 2014

- 15,000+ trades in Non Agency RMBS, totaling approx. \$30B!
- Majority of the trades (12,000+) were less than \$1mm, totaling \$1+B.
- The bulk of the volume was in the \$10+mm bucket, totaling \$17B.
- Volumes for other months in 2014 are similar.
- Non-Investment Grade flow dominated Investment Grade bond flows.
- Purchasing power resides with customers.

	Non- Investment Grade	Investment Grade	Total
<b>Volume of Trades (\$B)</b>			
Total	\$29.54	\$1.61	\$31.15
Customer Buys	\$13.28	\$0.71	\$13.99
Customer Sells	\$14.44	\$0.78	\$15.22
Dealer to Dealer	\$1.81	\$0.12	\$1.94
<b>Number of Trades</b>			
Total	13,099	2,644	15,743
Customer Buys	5,580	766	6,346
Customer Sells	5,121	1,079	6,200
Dealer to Dealer	2,398	799	3,197

	Non- Investment Grade	Investment Grade	Total
<b>Volume of Trades (\$B) *</b>			
Total	\$28.4	\$1.4	\$29.72
<1mm	\$1.1	\$0.2	\$1.33
1mm-10mm	\$10.1	\$1.0	\$11.12
10mm-100mm	\$17.1	\$0.1	\$17.27
>100mm	\$0.0	\$0.0	\$0.00
<b>Number of Trades (BB) *</b>			
Total	13,092	2,623	15,715
<1mm	9,794	2,281	12,075
1mm-10mm	2,450	332	2,782
10mm-100mm	848	10	858
>100mm	-	-	-

\*FINRA trade size data on 3 days in October does not total up correctly

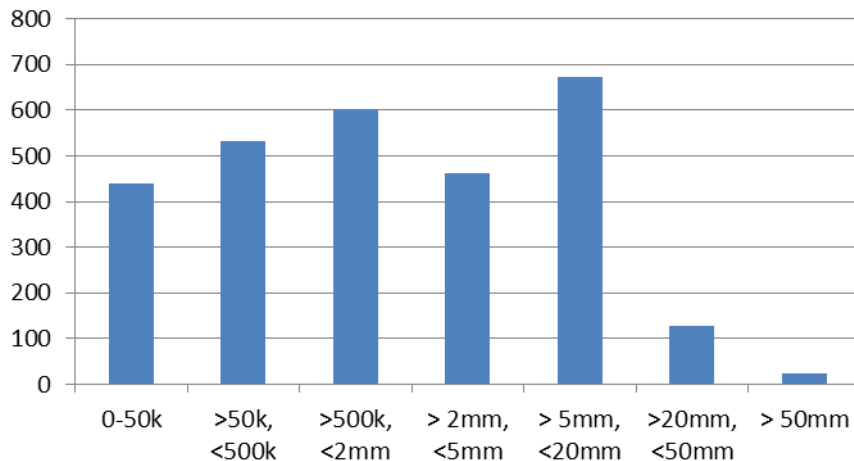
2014. Source: FINRA - TRACE



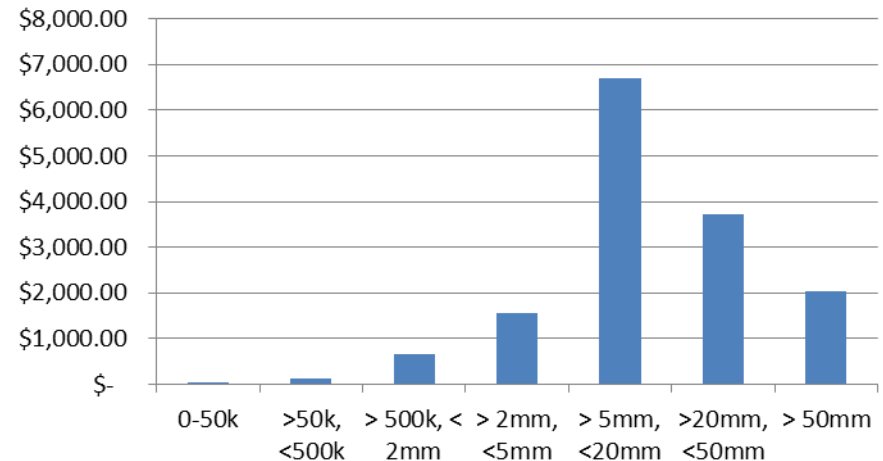
# Non Agency RMBS - Bid Wanted in Comp (“BWIC”) Supply October 2014 - Stratification by Size

- \$14.795BB in Non Agency RMBS were “BWIC-ed” in Oct 2014.
- 2858 different bonds.
- 573 of these were Oddlots or Microlots, smaller than 2mm principal each, totaling \$776mm.
- Only 151 were greater than \$20mm.

**Number of Bonds**



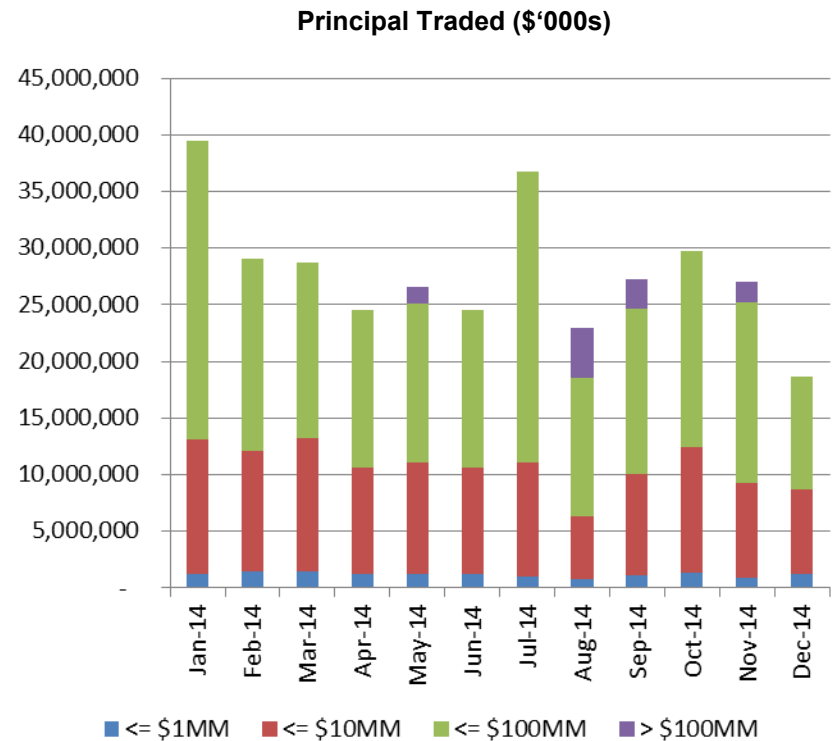
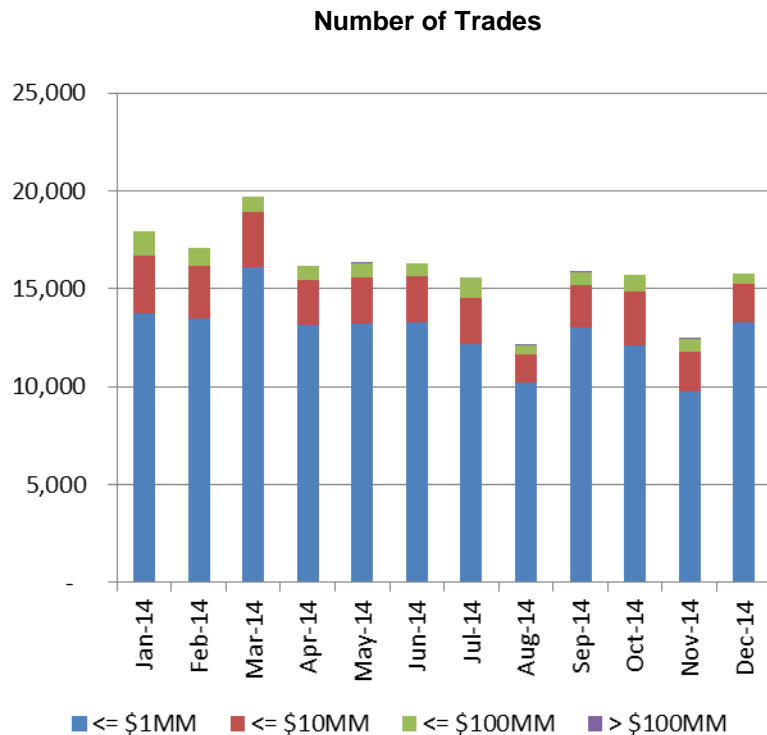
**Total Principal (\$mm)**



2014. Source: Bid lists from various dealers

# Non Agency – 2014 FINRA Trading Statistics

- The majority of the trades in Non Agency RMBS are Oddlots <\$1mm in size, with approximately \$1B traded per month.



2014. Source: FINRA

# Contact and Additional Information

For more information, please contact:

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