

Securitized Credit Market Update

The question we are asking ourselves at this moment (August 4th, in the PM) is this past Friday more indicative of the 'dog days' of summer (S&P 500 -160bps, VIX back over 20) or is today (S&P 500 +134bps, VIX safely under 20)?

I am thinking neither, but the day-to-day volatility on display raises fresh questions after a really pleasant summer for risk takers. How and when will tariffs impact the economy? Will it be a catalyst for a fresh bout of inflation or more of a disinflationary force by distorting growth? Does the startling drop in payroll growth reflect pending weakness or simply a labor market in better balance? How will this come together to impact monetary policy? In this latest installation of talking points, we will cover how things have come together in securitized markets.

Macro Inputs

- **Policy:** Increasing certainty! We may not have liked how everything came to pass, particularly in those dark early days of April. However, ~4 months later and we have a much better idea on the breadth and magnitude of inputs from policy.
 - On the trade side, with the expiration of the 'Great Reprieve', we see market estimates of weighted average tariff rate of 15-20% governing the countries that conduct the majority of foreign trade volume with the US.
 - On the fiscal side, we have 900+ pages of details in the OBBB with sweeping potentially stimulative tax provisions but sizeable budget deficit implications.
 - The deregulation agenda is now underway, with a potential relaxation of banking regs (SLR, stress tests) and evidenced by a summertime pick-up in M&A activity.
 - Feedback loops into securitized markets have been mainly indirect, particularly as it relates to trade policy. Fiscal policy and deregulation come closer to our markets via impacts to the consumer (tax policy) and banks (as a lending force and as a securitized market investor segment). Beyond the day-to-day gyrations in bond markets and steady drop in volatility, it is too early to expect these forces to appear in economic data nor securitized markets.
 - While not a securitized credit market, the agency RMBS market tends to be a more direct 'taker' of US policy, mainly through the banking channel. It has lagged credit risk markets, to be sure, but has exhibited lower volatility alongside other risk markets throughout the summer. Of note, privatization of the GSEs has re-entered the headlines, with major implications for this massive sector. This piece of the policy puzzle is sure to unfold in coming quarters and be one of the more interesting stories in markets.
- **Economic Data:** Words like 'resilient', 'supportive' and 'stable' were synonymous with US economic data throughout the summer, which certainly helped risk taking in markets. However, as we continue to process July reports, the narrative is turning on a dime with big implications for markets.
 - Most consequentially, the payroll report for July, which included massive downward revisions (-258K!) across May and June provided the first evidence of a slowdown in the US economy.
 - This partnered uncomfortably with higher inflation data from June (CPI, PCE), which showed some evidence of the upward pressure on prices from trade policy.

- In particular for the payroll report, the market reaction was predictably violent but very temporary (see opening note). Securitized markets, beyond the volatility in UST markets, were seemingly unphased with new issuance markets and secondary trading not skipping a beat.
- In addition to the potential for slowing economic growth, it brings the Fed back into play, raising longer term, strategic questions across securitized sectors, in particular for CLOs (feedback loops both lower economic growth and monetary policy) and non-agency RMBS (mainly via prepayments if/as mortgage rates push lower).

Securitized Credit Market Moves

	12/31/21	12/29/23	12/31/24	3/31/25	4/30/25	5/31/25	6/30/25	7/31/2025	Change (from 12/31/21)	Change (YTD)	Change (1M)
ABS											
Benchmark ABS											
2Y credit card AAA	24	50	32	36	50	44	44	34	10	2	-10
3Y prime auto AAA	27	70	50	50	80	66	54	42	15	-8	-12
3Y subprime auto BBB	106	225	115	122	150	138	134	115	9	0	-20
CMBS											
Conduit											
3Y AAA	42	115	67	80	88	78	77	76	34	9	-1
5Y AAA	60	175	110	121	120	110	109	108	48	-2	-1
10Y last cash flow AAA	72	125	74	96	96	88	87	84	12	10	-3
Junior AAA	96	195	112	140	140	115	118	114	18	2	-4
AA	116	233	137	170	193	160	160	142	26	5	-5
A	161	365	170	197	268	200	200	175	14	5	-12
BBB-	356	843	460	463	588	542	533	463	107	3	-19
XA IO (to UST)	113	225	119	156	150	112	110	150	37	31	15
RMS											
Jumbo 2.0											
Pass through	95	197	160	200	201	199	201	188	93	28	-13
Credit risk transfer											
M1	90	126	102	119	134	109	109	108	18	6	-1
M2	200	206	141	168	182	167	156	155	-45	15	-1
B1	337	344	189	200	240	195	187	180	-157	-9	-7
CLO											
AAA	132	175	129	137	144	139	134	134	2	5	1
AA	188	243	170	183	198	175	168	175	-13	6	8
A	235	283	195	210	228	199	195	208	-28	13	13
BBB	333	463	303	328	353	293	305	290	-43	-13	-15
BB	690	783	643	600	655	620	588	580	-110	-63	-8

- Despite the recent pop in volatility last week, liquidity has remained strong and deep in securitized markets, dismissing the traditional summertime/'dog days' pullback to continue to support issuance and trading activity.
 - As has been noted in most recent market notes, this is particularly true in primary markets, where new issuance has been the dominant place to source risk, and execution remains extremely efficient. Secondary market trading volumes, measured month over month, were uneven across sectors: non-agency RMBS and CRT were lower month over month (reflecting minimal selling pressure), while ABS, CLO and CMBS volumes were higher, correlating with reasonably big months of new issuance (\$38B, \$16B and \$25B, respectively) that often necessitates selling to make room for fresh deals.
- Perhaps predictably, spreads have benefited, with ABS and CMBS leading the way. CLOs and non-Agency RMBS have participated, but the resulting spread tightening has been a little more muted.
 - We also noted some incidents of spread widening up the stack in CLOs, albeit modest in magnitude. We attribute this to persistently high levels of new issuance, as well as significant activity in refi/reset markets (\$31B). On the demand side, we'd be remiss to not point out that CLO ETF AUM reached another high at \$34B in July.

- As we highlighted the last 2 months, the spread moves have favored subordinate parts of the capital structure, a characteristic of risk-on markets with deep liquidity, and correlated with risk-on moves in other markets. However, also like last month, when we compare the overall magnitude of spread moves enjoyed in securitized markets, they have lagged other markets (HY -11bps, IG Corps -8bps in July).
 - This remains as ‘typical’ behavior in securitized markets, where lower volatility tends to manifest in both risk-on and risk-off markets as correlations tend to be positive but the magnitude of day-to-day moves decidedly less.
 - When we reflect on what catalyzed the moves and surrounding dynamics, we are increasingly constructive on rel-val in securitized credit markets.
- No new comments on the buyer base, as our primary segments remained locked in during July. Total return-oriented buyers (money managers, hedge funds) continued to drive the action, as did insurers, while we continue to monitor for bank buyers to return in earnest, at least outside of CLO AAAs.

Securitized Credit Issuance

	2016	2017	2018	2019	2020	2021	2022	2023	2024	YTD 2024	YTD 2025	%YTD
ABS	195	239	244	242	183	285	253	274	331	206	214	4%
CMBS	72	96	93	121	64	161	107	50	115	44	82	86%
CLO	75	119	130	123	84	187	130	117	184	101	114	13%
RMBS	34	90	126	130	105	204	127	66	119	56	92	64%
Total U.S. new issue	366	505	540	582	452	782	617	507	749	407	502	23%

Source: Voya IM, BofA Global Research as of 8/1/2025

- As highlighted above, primary market activity has been extremely active and efficient for issuers, across sectors. While some of the YTD comparisons are not particularly impressive (ABS, CLOs), volumes remain on pace for a top-5’ish result, historically speaking. Conversely, the mortgage sectors have absorbed a faster pace of issuance (CMBS +86% YoY, RMBS +64%), with each space shaking off higher rates to continue to source new loan supply.

Outlook

- Despite the ‘extended’ feel of valuations in equity and corporate credit markets, we remain comfortable seeking risk in securitized credit. After 3 months of lagging excess returns, relative value is more formidable from our perspective, particularly when risk-adjusting our return profiles in various sectors and sub-sectors.
- The potential for a regime shift in “hard” economic data presents challenges to risk taking and may influence shifting interest in our traditionally more cyclical sectors (CLO, parts of ABS and CMBS) a touch higher in structural quality. However, as fiscal and monetary policy looks to shifts more pro-growth, a risk-on lean in our markets is the proper path for now.

We hope everyone enjoys these dogdays of summer... speak to you around Labor Day!

Voya Securitized Team

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