



# 2020 Sector Outlook: Mortgage and Structured Finance

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by Mortgage and Structured Finance Sector Team  
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Looking ahead, we believe the global economic environment will remain supportive for securitized sectors despite potentially slowing economic growth.

In the US, we believe strong fundamentals, including robust wage growth and healthy household balance sheets, will provide solid support for real estate and consumer-related credit. In our view, these factors should insulate securitized sectors from typical late-cycle volatility, underpin attractive risk-adjusted returns and provide diversification relative to corporate credit markets.

The liquidity and valuation profile of agency MBS continues to appear attractive, with spreads relative to Treasuries and corporate bonds at two-year wides. In credit markets, we have a slight preference for asset-backed securities versus those backed by residential and commercial real estate given their lower-volatility profile. However, we remain broadly constructive across all three segments.

We are cautious about collateralized loan obligations (CLO) given the sector's relatively stronger correlation to the corporate sector. However, from a spread perspective, the AAA rated tier appears attractive. Additionally, we are beginning to see potential in lower credit tiers after spread widening in the latter half of 2019.

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“ We believe that **securitized sectors** could generate **attractive risk-adjusted returns** in 2020, with potentially **lower volatility** than other fixed income sectors. ”